

Table of Contents

SPP 2007 Compliance Program	Tab 1
2007 NERC Reliability Standards	Tab 2
SPP Bylaws	Tab 3
Compliance Appeal Process	Tab 4
SPP Criteria	Tab 5
SPP Criteria Exclusion Process	Tab 6
Future Field Reviews Schedule	Tab 7
NERC Standards Procedure Manual	Tab 8
NERC Functional Model	Tab 9
NER Disclosure Guideline	Tab 10
Miscellaneous Topics	Tab 11
Presentations	Tab 12

2007 Regional Compliance Plan

Version 1

February 13-14, 2007

2007 SPP Compliance Program (Tab 1)

Introduction to SPP Compliance Program	6
Compliance and SPP Working Groups	8
Working Group Organization [2007]	10
SPP Working Group Flowchart	10
SPP Compliance Process Flow Chart	12
Section 1 - NERC Compliance Program	13
Responsibilities.....	13
1. NERC.....	13
2. Region	13
3. Operators or Users of the Bulk Electric System	14
NERC Compliance Program Overview.....	15
1. Key Reliability Elements	15
2. Compliance Program Definition.....	15
3. Compliance Program Processes.....	15
4. Involved with Compliance.....	15
Section 2 – SPP Compliance Program	16
A. Introduction.....	16
B. Measure of compliance	16
Self-Certification	16
Assessment of Evidence.....	16
Self-Certification (SC) Procedures	17

C. Reviews	17
Planned Reviews.....	17
Team Member Qualifications	18
Review Process.....	18
Review Team Leader.....	18
Review Schedule.....	19
Review Report	19
D. Investigations.....	19
E. Periodic Monitoring	20
F. Year 2007 Program Reporting Schedule.....	21
G. Record Keeping	21
H. Communications	21
I. Non-compliance findings	22
J. Enforcement.....	22
Other NERC Compliance Standards.....	22
K. Definitions.....	25
L. Penalties and Sanctions	25
Factors That Can Impact the Final Sanction Calculation.....	26

Introduction to SPP Compliance Program

In response to the needs of wartime America, eleven companies formed the Southwest Power Pool (SPP) in 1941. In 1968, SPP and eleven other similar organizations formed the National Electric Reliability Council (NERC).

Among the primary purposes for the existence of SPP, as set forth in its Articles of Incorporation, is to serve as the reliability and compliance certification authority for its members' geographic region. This certification applies to the SPP Criteria and NERC Standards. These "Criteria and Standards" involve the planning and operations of the electric generation and transmission systems of the member companies (see Tab 6 for the SPP Criteria).

Electric system reliability begins with the planning process. The operations process implements these reliability plans. The SPP Planning Criteria and the NERC Standards contain the fundamental requirements for planning a reliable interconnected bulk electric system within the SPP region. The SPP Operating Criteria and the NERC Standards and Requirements contain the fundamental requirements for operating a reliable interconnected bulk electric system within the SPP region.

All electric industry participants that use the bulk electric system must accept the responsibility to observe and comply with NERC Standards, and are encouraged to contribute to their development and continued improvement. Compliance with NERC Standards is mandatory for SPP members, as well as all users, owners, and operators of the Bulk Electric System. SPP members, through their membership, have obligated themselves to follow the SPP Criteria and NERC Standards.

Consistent with the responsibility for mandatory compliance to the NERC Standards, SPP has established the procedures contained in this document to assess, review, and enforce the compliance of SPP system users with these standards.

This document describes the Regional Compliance Plan for Southwest Power Pool (SPP).

SPP will use this plan to meet the requirements of the North American Electric Reliability Council (NERC) Year 2007 Compliance and Enforcement Program until the Electric Reliability Organization (ERO) Compliance Enforcement Program is approved and delegated to the Regional Entities. The expected conversion date is June 1, 2007.

The Year 2007 Program is a continuation of the Compliance Program that began in 1999. **The 2007 NERC Plan contains 47 standards.**

Compliance and SPP Working Groups

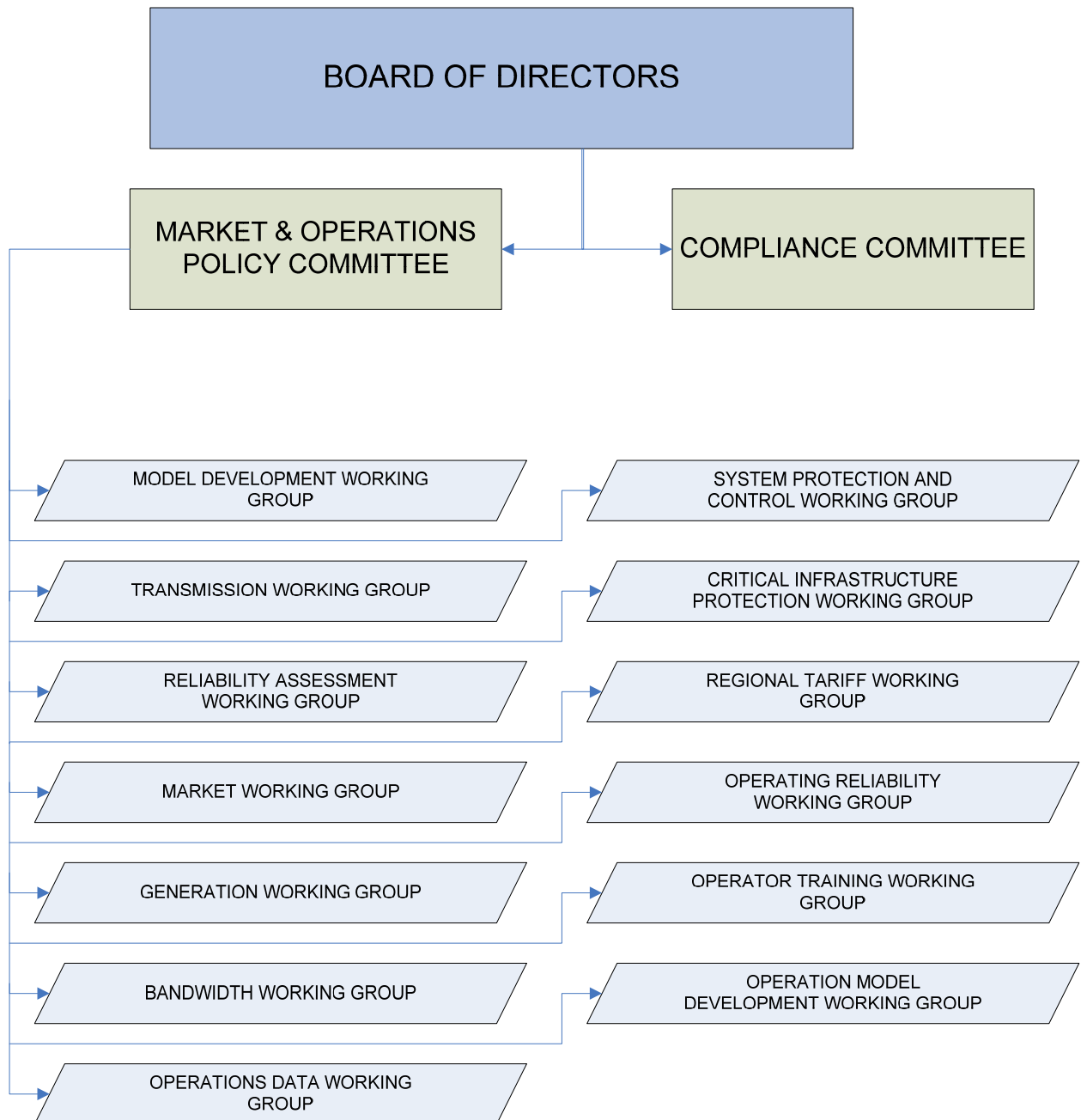
SPP utilizes a working group approach to analyze, document, and implement compliance with NERC standards. The formal document that guides SPP membership is the SPP Criteria. As each working group analyzes the requirements of the NERC Standards, it will make recommendations for changes and/or additions to existing SPP Criteria to bring the Criteria into compliance with the approved standards.

The assigned working group will present the Criteria for formal approval to both the SPP Market and Operations Policy Committee and the SPP Board of Directors, as required.

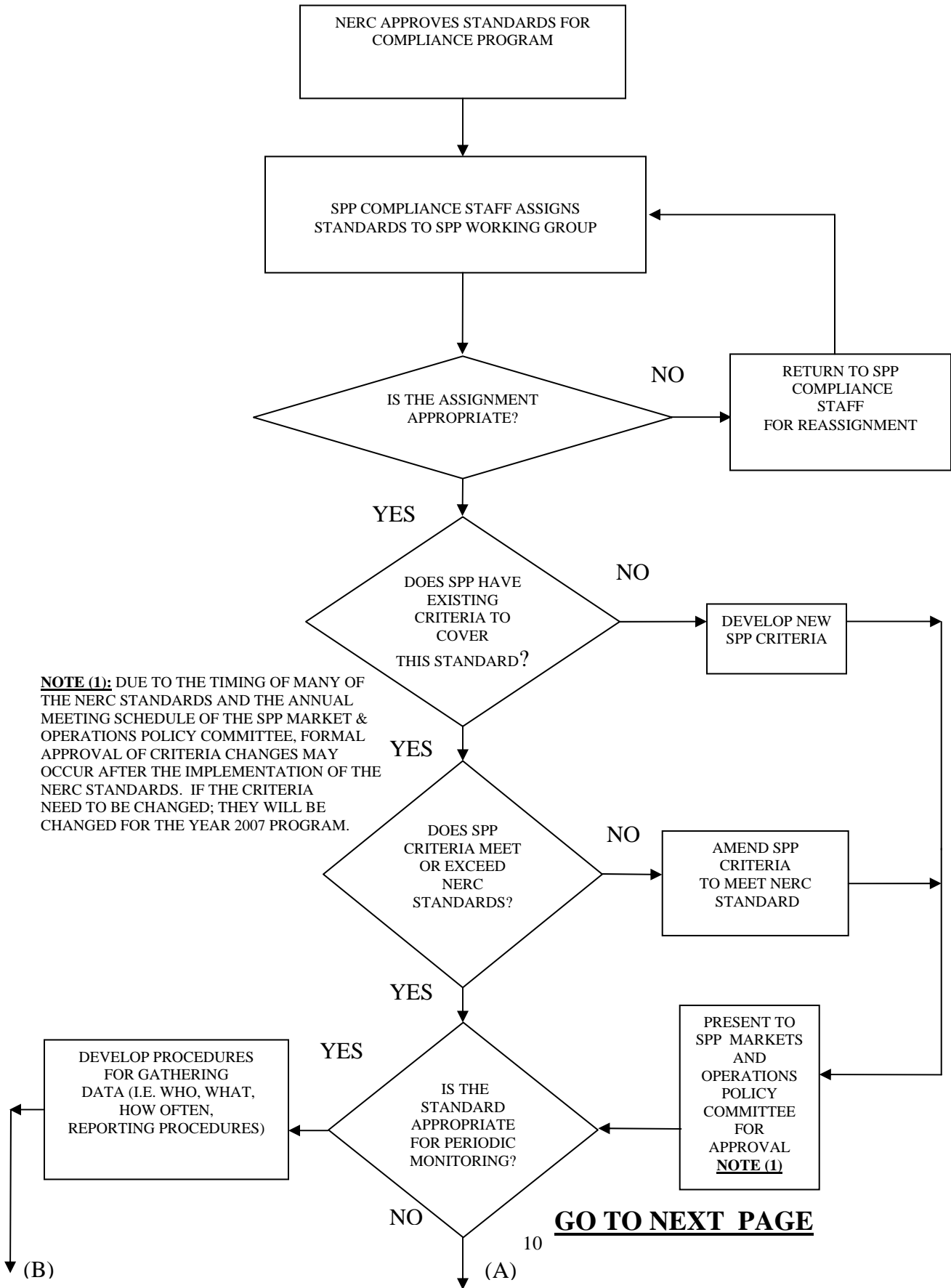
Once the Criteria has received the proper approvals, the working group and SPP Compliance staff will monitor membership compliance through periodic monitoring, self-certification, spot reviews, or full field reviews. SPP Compliance Staff will report the results of this monitoring to the SPP Market and Operations Policy Committee, the SPP Board of Directors, SPP Compliance Committee, and NERC / ERO.

The SPP Compliance Committee is responsible for general oversight of the SPP Compliance Program. The Compliance Committee also serves as the final level of appeal for a member that is challenging a finding of non-compliance.

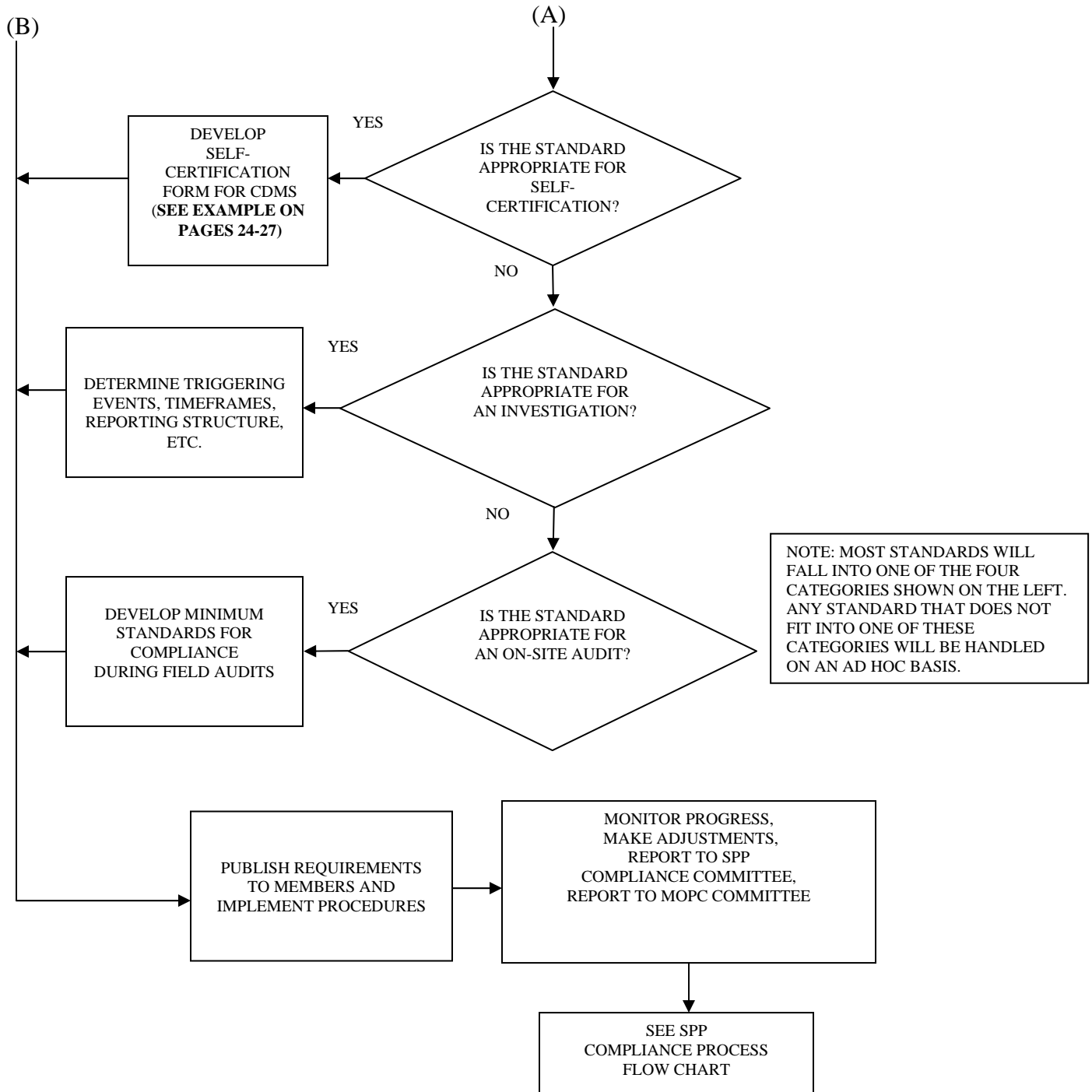
SPP Working Group Organization 2007



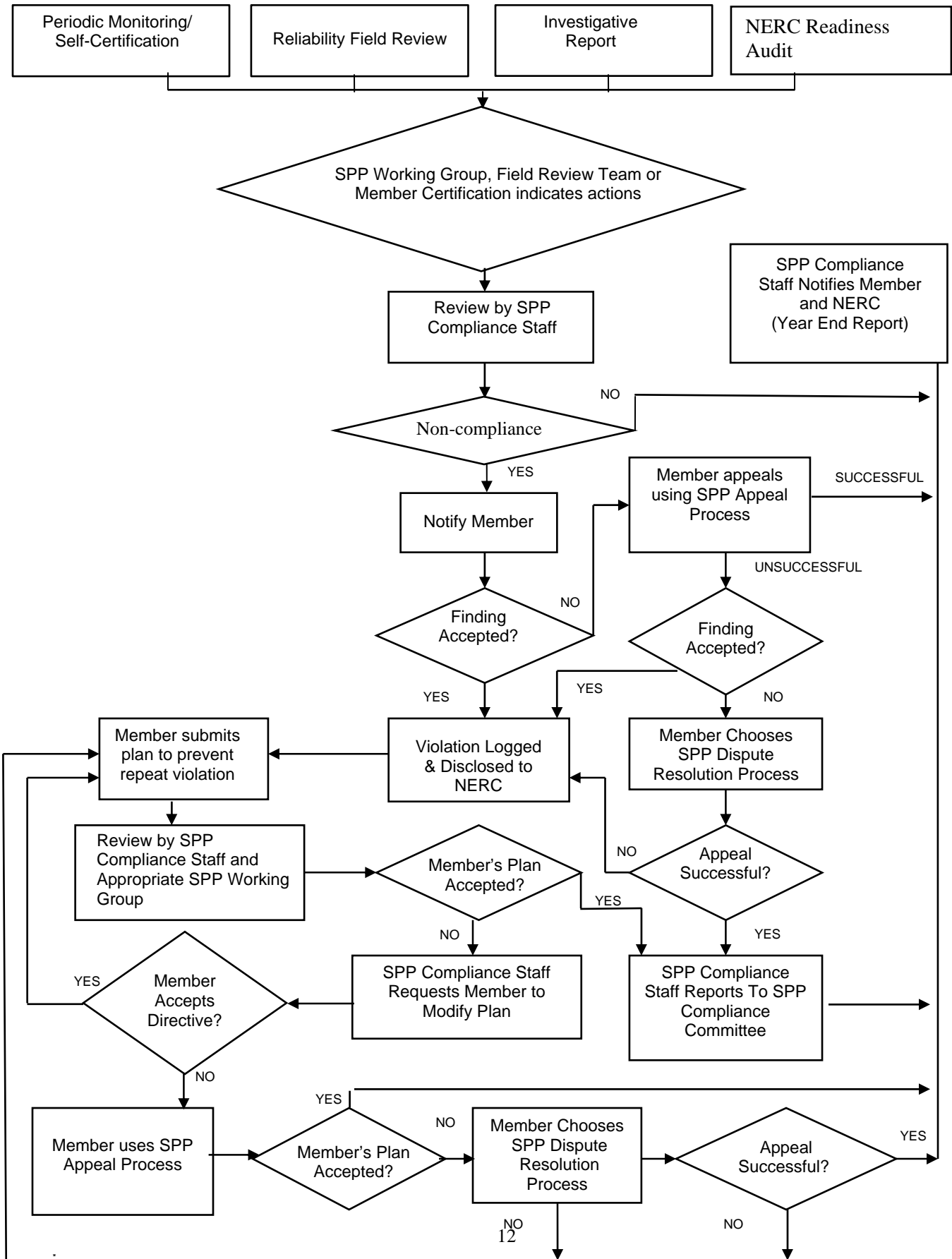
SPP Working Group Flowchart



SPP Working Group Flowchart (continued)



SPP Compliance Process Flow Chart



Section 1 - NERC Compliance Program

Responsibilities

1. NERC

It is NERC's responsibility to oversee reliability of the bulk electric system in North America. NERC ensures that there is a comparable and consistent plan for each Region to monitor compliance in that Region. The Region is free to establish additional policies or standards as it sees fit. However, this should be in addition to, not in-lieu-of, the NERC Compliance Program.

At its April 1995 meeting, the NERC Board of Trustees approved a definition for the **bulk electric system** as follows:

“The bulk electric system is a term commonly applied to that portion of an electric utility system, which encompasses the electrical generation resources, transmission lines, interconnections with neighboring systems, and associated equipment, generally operated at voltages of 100 kV or higher.”

Note: Some tariff and compliance activities at SPP include transmission facilities that operate at 60kv and above. Compliance findings for these facilities will not be reported to NERC as part of the annual program unless the facilities have been designated as 'critical facilities'.

2. Region

Each Region has the responsibility to comply with these NERC requirements. The Region is responsible for establishing and administering a process and procedures to monitor compliance with NERC and Regional Criteria by entities within the Region. This includes the administrative function of compiling the required data and adequately staffing to support this program.

The Region will be responsible for assembling a review team to perform comprehensive field reviews for each Balancing Authority/Transmission Operator [BA/TOP] on a 3-year rotational basis. The Region will schedule an independent compliance review of the SPP Reliability Coordinator each year, except for years in which a Readiness Audit is scheduled. The Region will also perform reviews of non-BA/TOP members on a periodic basis.

3. Operators or Users of the Bulk Electric System

Each entity is responsible for complying with the appropriate NERC Standards and SPP Criteria, including Balancing Authority Operators, Transmission Operators, Transmission Dependent Utilities, Reliability Coordinators, Independent Power Producers, Marketers, etc. These entities will be subject to the enforcement authorities granted under the program.

The approved enforcement procedure for the beginning of the 2007 Plan Year is public disclosure of confirmed compliance violations.

Future authorities include monetary and business incentives, monetary fines, and business sanctions.

NERC Compliance Program Overview

1. Key Reliability Elements

- Establishing Reliability Standards
- Measuring Performance Relative to Approved Standards
- Ensuring Compliance with Standards (enforcement)
- Providing process for Appeals and Alternative Dispute Resolution (ADR)

2. Compliance Program Definition

“Process, procedures and timeline to be followed for ensuring compliance with the NERC Reliability Standards by all electric industry participants.”

3. Compliance Program Processes

Compliance Review Process – Monitors or measures system quantities or performance to ensure compliance with the NERC Reliability Standards.

Enforcement Process – Evaluates compliance review results and administers an awards and sanctions program.

4. Involved with Compliance

- NERC and its subgroups
- Regions - members and non-members in their footprint
- Transmission owners and operators
- Transmission customers
- Generation owners and operators
- Power marketers
- Load-serving entities
- Balancing Authorities
- Reliability Authorities
- Independent System Operators (ISO)
- Regional Transmission Organizations (RTO)
- Other entities

Section 2 – SPP Compliance Program

A. Introduction

This document describes the SPP Regional Compliance processes that will be used to monitor compliance with the NERC 2007 Compliance and Enforcement Program. The 2007 approved NERC Standards will be monitored for compliance during the year. This process will determine if members have any non-compliance issues.

B. Measure of compliance

The entity responsible for monitoring compliance will assess compliance through two processes:

Self-Certification

The design of some standards lends themselves to a self-certification process. Each standard will include a set of questions, the answers to which will provide a measure of compliance to the standard.

In 2007, the self-certification process may be followed by randomly selecting a subset of members to provide actual “Assessment of Evidence” as indicated below.

Assessment of Evidence

SPP Compliance staff, an SPP Working Group/Taskforce, or an independent review team will evaluate actual documents or evidence of compliance submitted by the Member. The Member will be requested to either send the documents/evidence for an off-site review, or they will be asked to produce the documents/evidence during an on-site visit.

SPP Compliance staff will accept originals, copies, electronic copies, and facsimile versions of forms as evidence of submission. All information and submittals will be stored in the CDMS files.

Compliance Database Management System [CDMS]

SPP introduced the CDMS in 2003. The original rollout was focused on 18 control areas, the reliability coordinator, and several other members that attended the rollout workshop.

In 2005, all members were given access to the CDMS program. The program includes all self-certification forms used in the 2007 program, as well as data requests for the quarterly survey monitoring, misoperation reporting, and vegetation reporting forms. Required submittal dates are incorporated in the program with non-submittal compliance levels visible to the member.

Members and Non-members who need an initial login id and password should contact:

Kevin Goolsby, kgoolsby@spp.org, 501.614.3275 or
Ron Ciesiel, rciesiel@spp.org, 501.614.3265

C. Reviews

Each company will be reviewed for compliance of at least one standard to which it self-certifies compliance. The process will consist of periodic on-site reviews where a team of industry experts will assess the adherence of regional members to 47 NERC standards for the year 2007.

SPP will utilize an independent review team to conduct on-site reviews and will utilize a combination of the SPP Compliance Staff and independent reviewers to conduct spot reviews.

Planned Reviews

SPP will conduct six (6) Compliance Field Reviews during 2007. Five (5) members and the SPP RC will be reviewed. The Review Team will consist of a minimum of two independent members. The team must have both planning and operating expertise, and must have at least one member with a NERC System Operator Certification qualification. At the discretion of the SPP Compliance Director and with approval of the entity being reviewed, a regional employee from another region or a NERC staff member may participate, as an observer.

The entities under review will receive questionnaires and instructions from the review team well in advance of the planned review date.

The proposed three-year review schedule (2007 – 2009) is included in Tab 7.

Team Member Qualifications

- Familiar with NERC Standards and the 2007 Compliance Program standards
- A minimum of ten years experience in power system planning and/or operations independent of the entity being reviewed
- All team members must sign all appropriate confidentiality agreements with SPP
- NERC Certified Operator Certification at the Reliability Coordinator level is preferred of all team members. At a minimum, at least one team member of the review team must hold this credential

Review Process

- Deliver a summary of subjects to be reviewed to the Balancing Authority [BA]/Transmission Operator [TOP] and/or other applicable entities that may be reviewed, a minimum of one month before the review

Questionnaires will be sent to the BA/TOP's Reliability Coordinator and to neighboring entities requesting responses on specific compliance issues. The Review team will handle deliveries of the questionnaires directly.

- Provide the BA/TOP and/or other applicable entities with a brief description of the on-site review process

Review Team Leader

- Select team members for the reviews
- Finalize the visit preparations with the Host Entity
- Prepare the team for the on-site review
- Conduct the on-site review, ensuring that the review process schedule is maintained
- Conduct an exit interview with representative(s) of the Host Entity

- Prepare a draft report with input from the team members. Deliver the draft to team members and the Host entity for comments, within 10-15 working days of the completion of the review.
- Deliver comments from the Host Entity to the Review Team Leader within 10-15 working days of receiving the draft. No response within that time frame may be interpreted as agreement with the report.
- The Team Leader will prepare the final report and distribute to the Review Team, the Host Entity, and SPP Compliance Director no later than 30-45 working days after the completion of the on-site review.

Review Schedule

The dates of the 2007 reviews are established. All participants have received notice of the dates for the reviews.

Review Report

Each review will be designed to assess the 2007 NERC standards.

The results of each review will be confidential until all post-review processes and appeals are finished. Any non-compliance findings that exist at the end of the post-review processes and appeals will be disclosed to NERC using the approved disclosure guidelines.

SPP's Compliance Director will distribute information concerning the review to the company and to SPP Staff, when appropriate. SPP staff will use the review information to improve SPP processes, to increase overall SPP compliance, and to assess training requirements.

D. Investigations

An investigation may be triggered for specific events. These events may range from a widespread outage caused by nature, a system blackout, a “near miss” situation, or a very tight energy/capacity day. SPP may use an independent investigator to conduct investigations.

The SPP Compliance Director will review findings and use SPP specific compliance and enforcement process as applicable for non-compliance enforcement (see SPP Compliance Process Flow Chart on page 12).

E. Periodic Monitoring

During the Year 2007 Compliance program, the following standards will continue to be **measured through periodic monitoring**:

1. **BAL- 001** (CPS1 and CPS2-Control Performance Standard)
2. **BAL-002** (DCS-Disturbance Control Standard)
3. **TOP-007** (Reporting SOL and IROL Violations)
4. **PER-003** (NERC Certified System Operator on duty)
5. **PRC-004** (Mis-Operation of Protective Relaying)
6. **PRC-016** (Mis-Operation of Special Protection Systems)

CPS1 and CPS2 - Control Area reports are collected by the **10th** of each month by the SPP Operating Department. A Regional report is produced and sent to NERC on the **20th** of each month. The SPP Compliance Staff will use this report to make compliance findings for participating members.

DCS - ACE must return to zero or its pre-disturbance level within the Disturbance Recovery Period following the start of a disturbance. DCS, for the SPP Reserve Sharing Group, is being reported on a quarterly basis, with the reports delivered to NERC no later than the 20th day following the end of the quarter. SPP Compliance staff will use the reports prepared by the SPP Operating Department to make compliance findings for participating members.

Quarterly Compliance Surveys contain Compliance Standards PRC-004, PRC-009, PRC-016, TOP-007, PER-003, and FAC-003. Some of these standards are only included in the First Quarter Compliance Survey. The Quarterly Compliance Surveys are initiated through the CDMS. Some members may have only one part of the survey that applies to them. Please mark the other sections Not Applicable (N/A), complete the applicable sections, and submit the form in the CDMS.

F. Year 2007 Program Reporting Schedule

Reporting dates for the 2007 Program items are on the summary sheet in Tab 2.

The NERC Critical Infrastructure Protection Committee and the Compliance and Certification Managers Committee scheduled a compliance review date of **July 1, 2007** for Balance Areas, Transmission Operators, and Reliability Coordinators. They are to respond with their company's levels of progress with NERC CIP standards 002-009. The response is due **August 15, 2007**.

G. Record Keeping

SPP compliance staff will keep all documents collected throughout the year. These documents will be used for reviews, consultations with appropriate working groups, NERC, and SPP staff. All documents will be kept confidential, except for documents required by the approved NERC Disclosure Guidelines. Documents will be kept on a rolling five-year basis. Each company needs to keep data for the time period listed in each standard.

H. Communications

SPP will conduct a workshop to present Year 2006 results and to roll out the 2007 Compliance Program on February 13-14, 2006. The session will be held at the Marriott Southern Hills in Tulsa, Oklahoma.

SPP has introduced an updated Regional website that includes detailed information on the NERC/SPP Compliance Program. See SPP.org / SPP Documents & Filing (button) / SPP Compliance NERC and ERO Documents (file) for more information.

The progress and status of the NERC Compliance Program is reviewed at every SPP Market & Operating Policy Committee meeting and at ad hoc presentations at numerous working group meetings.

Please address questions and comments concerning the program to:
Ron Ciesiel, 501.614.3265, rciesiel@spp.org
Kevin Goolsby, 501.614.3275, kgoolsby@spp.org

I. Non-compliance findings

Non-compliance findings may arise out of one of numerous compliance monitoring techniques. SPP utilizes periodic monitoring, self-certification, investigations, compliance field reviews, and NERC Readiness Audits to monitor member's compliance to reliability standards.

A non-compliance finding will be listed as 'pending' during a Member appeal. A member may appeal the finding as described in Tab 4;

A member that does not appeal a non-compliance finding or is denied compliance through an appeal will have the finding 'confirmed' via correspondence to the appropriate personnel at the member company.

Confirmed non-compliance findings will be disclosed to NERC utilizing the approved NERC Disclosure Guidelines (Tab 10).

Certain non-compliance findings will be sent to NERC utilizing the NERC 48 hour reporting system. This submittal does not constitute a confirmation of a compliance violation, only that there is a likelihood of a violation.

A non-compliance finding of a standard that does not have Levels of Non-Compliance as part of the approved Standard will be shown and reported as 'Non-compliant – No Approved Levels'.

Special Note 1: PRC-007 (compliance with the Regional UFLS Standard) has a gap in the approved Levels of non-compliance. SPP has adopted the following additional conditions for Level 1:

1. A member that has achieved a total of 30% load shed but has not met one or more of the individual step requirements, and
2. A member that has achieved at least 95% of the goal for each step of the UFLS program but has not achieved full compliance with SPP Criteria.

Special Note 2: The 90 day cure period previously allowed in SPP has been rescinded effective January 1, 2007.

J. Enforcement

Other NERC Compliance Standards

In 1998, the SPP Board approved two changes to the SPP by-laws and to SPP's organizational structure. The Board established the position of Compliance Director to be the focal point for the implementation of the NERC Compliance Program that began on January 1, 1999.

In 2004, the SPP Board established a Compliance Committee (CC), comprised of three (3) SPP Board members, to provide oversight to the program and serve as the final level of appeal for impacted companies.

The Compliance Director is responsible for reviewing evidence of compliance and noncompliance and making a final determination of such compliance. The Compliance Director is responsible for assessing any penalties or rewards to entities based on their compliance record. Basically, this yields a three-step process:

- 1) Independent reviewers, NERC Readiness Audits, or Self-Certification reports gather data and evidence, and make a recommendation concerning levels of compliance,
- 2) The Compliance Director makes a ruling on the compliance recommendation, and
- 3) Assesses any reward or penalty.

In addition, there are procedural provisions for **appeal and dispute resolution**. The SPP Working Group responsible for the SPP Criteria that has been violated is the first level of appeal for companies that wish to contest a ruling by the Compliance Director.

The second level of appeal for a company is the SPP Market & Operating Reliability Committee [MOPC].

The third level of appeal is the SPP Compliance Committee [CC] (see Tab 4 for more details).

The last internal level of appeal is the SPP Dispute Resolution System. SPP's Bylaws §3.13, found on pages 13-15 of the May 2004 version of the Bylaws, describes the Dispute Resolution System. Tab 3 of this document reproduces the text of the Dispute Resolution found in the SPP Bylaws.

Mitigation plans must be submitted through the CDMS for all non-compliance findings. The company will be notified in the non-compliance letter when a mitigation plan is required. The Compliance staff and appropriate working groups will review the mitigation plans. The plans will then be monitored by the Compliance staff and appropriate working groups. The mitigation plans shall be submitted to the Compliance staff within the time-period specified in the letter

detailing the findings. Entities that fail to follow an approved mitigation plan are subject to a follow-up finding of non-compliance.

SPP Compliance Staff will monitor SPP, as a Regional Organization and Reliability Coordinator, in the same manner as all other members. The SPP RRO and RC will submit data, submit quarterly surveys, and be subject to compliance reviews on the same schedule as all other SPP members. Regional compliance is reported to NERC based on a time schedule outlined by NERC and its Working Groups.

For the Year 2007 NERC Compliance Program, the Compliance Director will receive and act on compliance evidence developed during the program. However, **SPP will process any non-compliance finding with the approved NERC Disclosure Guidelines.** This will continue to allow SPP the experience in development and implementation of its own internal compliance procedures.

K. Definitions

Occurrence Period is the time period that compliance is measured (example: CPS1/2 – Monthly, DCS – Quarterly).

Compliance Reset Period is the time a non-compliant entity must remain compliant in order to reset the non-compliance penalty matrix to neutral.

L. Penalties and Sanctions

NERC is transitioning to the ERO penalty procedures in 2007. Until full ERO implementation occurs, SPP will use the following penalty and sanction process:

Non-Compliance to a NERC standard will be confirmed, then reported and posted to NERC. The violation is posted on a public forum. Simulated penalties will be calculated using the current ERO Sanctions Calculator.

All violations require a mitigation plan to bring the company back into full compliance with the standard. Mitigation plans are to be entered into the CDMS and verified by SPP compliance staff.

When the full ERO penalty procedures become effective, the SPP compliance program will follow the approved procedures.

The base matrix for the NERC penalty calculations is listed below:

	Violation Severity Level							
Violation Risk Factor	Lower		Moderate		High		Severe	
	Range Limits		Range Limits		Range Limits		Range Limits	
	Low	High	Low	High	Low	High	Low	High
Lower	\$1,000	\$3,000	\$2,000	\$7,500	\$3,000	\$15,000	\$5,000	\$25,000
Medium	\$2,000	\$30,000	\$4,000	\$100,000	\$6,000	\$200,000	\$10,000	\$335,000
High	\$4,000	\$125,000	\$8,000	\$300,000	\$12,000	\$625,000	\$20,000	\$1,000,000

Factors That Can Impact the Final Sanction Calculation

1. Violation Timeframe [Real-time, intermediate term, long-range]
2. Repetitive Violations
3. Failure to Comply with Compliance Directives
4. Intentional violation
5. Concealment of violation
6. Cooperation with investigation
7. Self-disclosure and voluntary corrective actions
8. Presence and quality of internal compliance program
9. Extenuating circumstances

Please note more information on the matrix and the adjustment factors will be discussed at subsequent SPP Compliance Workshops.