

**AGREEMENT BETWEEN
SERC RELIABILITY CORPORATION AND
SOUTHWEST POWER POOL REGIONAL ENTITY
CONCERNING COMPLIANCE MONITORING AND ENFORCEMENT
OF SOUTHWEST POWER POOL, INC. REGISTERED FUNCTIONS**

THIS AGREEMENT (“Agreement”) made effective as of January 1, 2013 (the “Effective Date”), between the SERC Reliability Corporation (“SERC”), an organization established to develop and enforce Reliability Standards, and Southwest Power Pool Regional Entity (“SPP RE”) a division of Southwest Power Pool, Inc. (“SPP”), an organization established to develop and enforce Reliability Standards within the geographic boundaries identified on Exhibit A (referred to herein as the “SPP RE Region”) to the “Amended and Restated Delegation Agreement between the North American Electric Reliability Corporation (“NERC”) and “SPP”, and for other purposes. SERC and the SPP RE may be individually referred to herein as “Party” or collectively as “Parties”.

RECITALS

I. SERC is a party to a certain “Amended and Restated Delegation Agreement between NERC and SERC” (the “NERC-SERC Delegation Agreement”), which has been approved by the Federal Energy Regulatory Commission (“Commission”) and which states in Section 6 thereof, in pertinent part, that SERC shall enforce Reliability Standards (including Regional Reliability Standards) through a compliance monitoring and enforcement program set forth in Exhibit D to the NERC-SERC Delegation Agreement.

II. SPP is a party to a certain “Amended and Restated Delegation Agreement between NERC and SPP (the “NERC-SPP Delegation Agreement”), which has been approved by the Commission and which states in Section 6 thereof, in pertinent part, that the SPP RE shall enforce Reliability Standards (including Regional Reliability Standards) within the geographic boundaries set forth in Exhibit A to the NERC-SPP Delegation Agreement through a

compliance monitoring and enforcement program set forth in Exhibit D to the NERC-SPP Delegation Agreement.

III. SPP serves as a Regional Transmission Organization and is currently registered as an Interchange Authority (“IA”), Planning Authority (“PA”), Reliability Coordinator (“RC”), Reserve Sharing Group (“RSG”), Transmission Planner (“TP”), and Transmission Service Provider (“TSP”) in the SPP RE Region. In this Agreement, the IA, PA, RC, RSG, TP and TSP functions are sometimes referred to as the “SPP Registered Functions”, and SPP is referred to as the “Registered Entity” with respect to its performance of the SPP Registered Functions.

IV. To avoid any appearance of a lack of independence in compliance monitoring and enforcement for SPP Registered Functions, SERC and the SPP RE hereby agree, subject to approval by NERC and by the Commission, that SERC should assume responsibility for the Compliance Monitoring and Enforcement Program (“CMEP”) with respect to the SPP Registered Functions within the SPP RE Region, and that the terms on which responsibility for the CMEP with respect to the SPP Registered Functions within the SPP RE Region shall be performed by SERC should be memorialized in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, the Parties, intending to be bound, agree as follows:

1. Responsibilities of SERC.

(a) Beginning on the Effective Date, SERC will perform all responsibilities of the Compliance Enforcement Authority (“CEA”) as specified in the NERC uniform CMEP, Appendix 4C to the NERC Rules of Procedure (“ROP”), as amended from time to time (the “NERC Uniform CMEP”), within the SPP RE Region with respect to the SPP Registered Functions.

(b) Without limiting the scope of SERC’s responsibilities as stated in subsection 1(a) of this Agreement, SERC agrees to perform the following activities within the SPP RE Region:

(1) Administer all compliance processes in Section 3.0 of the NERC Uniform CMEP with respect to the SPP Registered Functions, in accordance with the NERC

Annual CMEP Implementation Plan required by Section 4.1 of the NERC Uniform CMEP for each year. If at any time SPP Registered Functions change, SERC will monitor the Registered Functions in effect at that time.

(2) Lead all compliance audits and compliance investigations (“CI”) of the SPP Registered Functions.

(i) SERC shall conduct a scheduled compliance audit of the SPP Registered Functions in accordance with the frequency established by NERC in the CMEP. As SPP is currently registered, SERC will audit the RC function at least once every three (3) years and shall conduct a scheduled compliance audit of the remaining functions at least once every six (6) years.

(ii) Scheduled compliance audits of the SPP Registered Functions shall be in accordance with the NERC Annual CMEP Implementation Plan.

(iii) As required by the NERC ROP, all compliance audits of the SPP RC function shall be conducted on site. Spot checks or other compliance monitoring methods may be completed off site.

(3) Determine if Notices of Possible Violations and Notices of Alleged Violations, as those terms are defined in the CMEP, and proposed penalties or sanctions should be issued to SPP with respect to the SPP Registered Functions, and calculate or determine any proposed penalties or sanctions in accordance with the NERC *Sanction Guidelines*.

(4) Administer processes as specified in Section 5.0 of the NERC Uniform CMEP with respect to any Alleged Violations, as that term is defined in the CMEP, and proposed penalties or sanctions issued with respect to the SPP Registered Functions.

(5) Review and approve proposed Mitigation Plans submitted by an SPP Registered Function, and monitor implementation and completion of approved Mitigation Plans, in accordance with Section 6.0 of the NERC Uniform CMEP.

(6) Determine if Remedial Action Directives should be issued to SPP with respect to an SPP Registered Function, and issue such Remedial Action Directives if determined to be necessary, in accordance with Section 7.0 of the NERC Uniform CMEP.

(7) Conduct settlement negotiations for any violations of Reliability Standards discovered by SERC per this agreement, if requested by SPP, in accordance with Section 5.4 of the NERC Uniform CMEP.

(8) Provide due process hearings for the SPP Registered Functions with respect to notices of Alleged Violations, proposed penalties and sanctions, disputed Mitigation Plans, and disputed Remedial Action Directives, as requested by SPP, in accordance with Attachment 2, Hearing Procedures, to the NERC Uniform CMEP.

(c) Compliance audit teams, CI teams, and review teams for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports and complaints submitted by or relating to an SPP Registered Function shall not include any employees of SPP, but may include employees of other Regional Entities, NERC and Commission staff members. Provided, that in accordance with Section 2(c) of this Agreement, SERC may request and obtain technical advice and assistance from SPP employees, acting in a consulting or advisory capacity, who are not employed in an SPP Registered Function.

2. Responsibilities of SPP.

(a) SPP shall establish and designate to SERC a primary compliance contact for each SPP Registered Function, in accordance with Section 2.0 of the NERC Uniform CMEP.

(b) SPP shall timely respond to and comply with all notices, requests for information and schedules issued by SERC as the CEA pursuant to the NERC Uniform CMEP.

(c) The SPP RE shall provide subject-matter experts (“SMEs”) as requested by SERC to provide technical advice and assistance to SERC, in SERC’s discretion, in carrying out

the CMEP with respect to the SPP Registered Functions. A SME provided by the SPP RE may be an employee of SPP or an industry volunteer, provided, that no SME provided by the SPP RE may be employed by SPP in an SPP Registered Function. The Parties agree that SMEs provided by the SPP RE shall only be used by SERC in a consulting or advisory capacity to provide expertise and advice on technical matters pertaining to the SPP Registered Functions, shall have no decision-making responsibilities with respect to any compliance processes or compliance enforcement matters, and shall not be a member of any compliance audit team, CI team, or review team for self-certifications, spot check responses, periodic data submittals, self-reports, exception reports or complaints submitted by or relating to an SPP Registered Function.

(d) The SPP RE shall reimburse SERC the actual costs of SERC's performance of the CMEP with respect to the SPP Registered Functions, including an appropriate allocation of SERC's general and administrative costs, in accordance with Section 4 of this Agreement.

(e) Except as provided in this Agreement, the SPP RE shall continue to perform all CMEP responsibilities in the SPP RE Region in accordance with the NERC-SPP Delegation Agreement.

3. Disposition of Penalties Paid by SPP with respect to an SPP Registered Function.

Any penalties to be paid by SPP for violations of Reliability Standards by an SPP Registered Function shall be transmitted to NERC, to be used by NERC as a general offset to NERC's budget for its activities as the Electric Reliability Organization under the Federal Power Act for the following year, in accordance with the *NERC Accounting, Financial Statement and Budgetary Treatment of Penalties Imposed and Received for Violations of Reliability Standards*.

4. Compensation to SERC for Performance of CMEP With Respect to the SPP Registered Functions.

(a) Compensation.

In its annual Business Plans and Budgets submitted to NERC and the Commission for years within the term of this Agreement, SERC shall identify a portion of its CMEP budget (the

“SPP Registered Functions CMEP Budget”), including an appropriate allocation of SERC’s general and administrative costs that is attributable to the performance of the CMEP with respect to the SPP Registered Functions. SERC’s allocation of resources to the performance of its obligations under this Agreement and the corresponding budgeted amount shall be subject to approval by NERC and by the Commission as part of their overall approval of SERC’s business plan and budget. The amount of SERC’s SPP Registered Functions CMEP Budget shall also be included in the SPP RE’s business plan and budget that is submitted to NERC and to the Commission for approval. The amount of the SPP Registered Functions CMEP Budget for each year, as approved by the Commission, shall (i) be excluded from the calculation of SERC’s assessments to Load-Serving Entities (“LSEs”) in the SERC region for each such year, and (ii) be included in the calculation of the SPP RE’s assessments to LSEs in the SPP RE Region for each such year.

(b) Billing

SERC will submit an itemized invoice to the SPP RE, on or before the twentieth (20th) day of each month, for actual costs (including an appropriate allocation of SERC’s general and administrative costs) incurred during the previous month for work undertaken pursuant to this Agreement. The SPP RE shall pay SERC within sixty (60) days for the expenses SERC has incurred and for which it has submitted an invoice. SERC shall track the actual costs of the work as it is performed, and should actual costs be on track to exceed budgeted amounts, SERC shall notify the SPP RE of this at the next billing cycle.

(c) True-up Reports

The Parties shall record their costs and revenues associated with the performance of this Agreement at the same level of line-item detail as is used for their budgets that are submitted to NERC for approval by NERC and by the Commission. Each Party shall include in its annual true-up report submitted to NERC a separate section showing the

Party's actual and budgeted amounts of costs and revenues associated with performance of this Agreement for the year with explanations of variances.

5. Term, Renewal Term, Termination and Early Termination.

(a) Term. The Term of this Agreement shall be from the Effective Date through December 31, 2017.

(b) Renewal Terms. This Agreement shall automatically renew without notice or other action by either Party, at the end of the Term specified in (a) or any Renewal Term for a Renewal Term of five (5) years; provided, however, that either Party may give written notice to the other Party at least twelve (12) months prior to the end of the Term specified in (a) of an intent not to renew this Agreement; and provided, further, that during a Renewal Term either Party may terminate this Agreement by providing a written notice to the other Party at least twelve (12) months prior to the desired termination date. Additionally, this Agreement shall not automatically renew if NERC gives written notice to the Parties, at least twelve (12) months prior to the end of the Term or any Renewal Term, that the Parties should request NERC's approval to renew the Agreement, in which case the Parties shall submit a request to renew the Agreement to NERC at least nine (9) months prior to the end of such Term or Renewal Term. In the event of a termination of this Agreement, SERC shall continue to perform the CMEP role with respect to the SPP Registered Functions within the SPP RE Region, in accordance with the terms of this Agreement and the NERC Uniform CMEP until another entity acceptable to the Commission is selected to take, and takes, responsibility for performance of the CMEP with respect to the SPP Registered Functions.

(c) Early Termination. Notwithstanding the provisions of subsections 5(a) and 5(b) of this Agreement, Early Termination of this Agreement shall occur in the following events:

(i) If SPP or SERC ceases to be a Regional Entity, this Agreement shall terminate as of the end of the calendar year that SPP ceases to be a Regional Entity.

(ii) If SPP or SERC ceases to be a Registered Entity in the SPP RE Region, this Agreement shall terminate as of the last date that SPP or SERC ceases to be a Registered Entity for any SPP Registered Function.

(iii) If both parties agree in writing to terminate this Agreement at any time.

(iv) If any provision of this Agreement, or the application thereof to any person, entity or circumstance, is held by a court or regulatory authority of competent jurisdiction to be invalid, void, or unenforceable, or if a modification or condition to this Agreement is imposed by the Commission, the Parties shall endeavor in good faith to negotiate such amendment or amendments to this Agreement as will restore the relative benefits and obligations of the signatories under this Agreement immediately prior to such holding, modification or condition. If either Party finds such holding, modification or condition unacceptable and the Parties are unable to renegotiate a mutually acceptable resolution, either Party may unilaterally terminate this Agreement. Such termination shall be effective as of one (1) year following written notice by either Party to the other Party, or at such other time as may be mutually agreed by SERC and the SPP RE.

(v) In the event of the Early Termination of this Agreement, SERC will transfer responsibility for completion of all CMEP processes that are in progress as of the date of Early Termination, or within a reasonable time thereafter as mutually agreed to by the Parties, to the entity that will be the CEA for SPP.

(d) In the event of termination or Early Termination of this Agreement, the costs associated with the wind-down of this Agreement and transfer of any compliance processes in progress to the new CEA are payable by the SPP RE to SERC in accordance with Section 4 of this Agreement.

6. Representations of the Parties.

(a) Representations of the SPP RE. The SPP RE represents and warrants to SERC that: (i) the SPP RE is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents the SPP RE from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by the SPP RE is duly authorized under its governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of the SPP RE are duly authorized to do so.

(b) Representations of SERC. SERC represents and warrants to SPP that: (i) SERC is and shall remain during the term of this Agreement validly existing and in good standing pursuant to all applicable laws relative to this Agreement, (ii) no applicable law, contract or other legal obligation prevents SERC from executing this Agreement and fulfilling its obligations hereunder, (iii) entry into this Agreement by SERC is duly authorized under its governing corporate documents, and (iv) the person or persons executing this Agreement on behalf of SERC are duly authorized to do so.

7. Limitation of Liability.

SERC and the SPP RE agree not to sue each other or their directors, trustees, officers, employees, and persons serving on their committees and subgroups based on any act or omission of any of the foregoing in the performance of duties pursuant to this Agreement or in conducting activities under the authority of Section 215 of the Federal Power Act, other than seeking a review of such action or inaction by the Commission. SERC and the SPP RE shall not be liable to one another for any damages whatsoever, other than for non-payment of or failure to remit compensation due pursuant to Section 4 of this Agreement, including without limitation, direct, indirect, incidental, special, multiple, consequential (including attorneys' fees and litigation costs), exemplary, or punitive damages arising out of or resulting from any act or omission associated with the performance of SERC's or the SPP RE's responsibilities under this Agreement or in conducting activities under the authority of Section 215 of the Federal Power Act, except to the extent that SERC or the SPP RE is found liable for gross negligence or intentional misconduct, in which case SERC or SPP RE shall not be liable for any indirect, incidental, special, multiple, consequential (including without limitation attorneys' fees and litigation costs), exemplary, or punitive damages.

8. No Third Party Beneficiaries.

Nothing in this Agreement shall be construed to create any duty to, any standard of care with reference to, or any liability to any third party.

9. Confidentiality.

During the course of the Parties' performance under this Agreement, a Party may receive Confidential Information, as defined in Section 1500 of the NERC ROP. Except as set forth herein, the Parties agree to keep in confidence and not to copy, disclose, or distribute any Confidential Information or any part thereof, without the prior written permission of the issuing Party, unless disclosure is required by subpoena, law, or other directive of a court,

administrative agency, or arbitration panel, in which event the recipient hereby agrees to provide the Party that provided the Confidential Information with prompt notice of such request or requirement in order to enable such issuing Party to (a) seek an appropriate protective order or other remedy, (b) consult with the recipient with respect to taking steps to resist or narrow the scope of such request or legal process, or (c) waive compliance, in whole or in part, with the terms of this Section 9. In the event a protective order or other remedy is not obtained or the issuing Party waives compliance with the provisions, the recipient agrees to furnish only that portion of the Confidential Information which the recipient's counsel advises is legally required and to exercise best efforts to obtain assurance that confidential treatment will be accorded to such Confidential Information. In addition, each Party shall ensure that its officers, trustees, directors, employees, subcontractors and subcontractors' employees, and agents to whom Confidential Information is exposed are under obligations of confidentiality that are at least as restrictive as those contained herein. This confidentiality provision does not prohibit reporting and disclosure by SERC, as the CEA with respect to the SPP Registered Functions, in accordance with Section 8.0 and other provisions of the NERC Uniform CMEP.

10. Amendment.

Neither this Agreement nor any of the terms hereof, may be amended unless such amendment is made in writing and signed by the Parties.

11. Dispute Resolution.

In the event a dispute arises under this Agreement between SERC and the SPP RE, representatives of the Parties with authority to settle the dispute shall meet and confer in good faith in an effort to resolve the dispute in a timely manner. In the event the designated representatives are unable to resolve the dispute within thirty (30) days or such other period as the Parties may agree upon, each Party shall have all rights to pursue all remedies, except as expressly limited by the terms of this Agreement. Neither Party shall have the right to pursue

other remedies until the Dispute Resolution procedures of this Section 11 have been exhausted. This Section 11 shall not apply to enforcement actions or Remedial Action Directives by SERC, as the CEA, against an SPP Registered Function, or hearings conducted at the request of SPP as the Registered Entity for an SPP Registered Function, pursuant to the NERC Uniform CMEP.

12. Notices.

Whether expressly so stated or not, all notices, demands, requests, and other communications required or permitted by or provided for in this Agreement shall be given in writing to a Party at the address set forth below, or at such other address as a Party shall designate for itself in writing in accordance with this Section, and shall be delivered by hand or reputable overnight courier:

If to SERC:

SERC Reliability Corporation
2815 Coliseum Centre Drive
Suite 500
Charlotte, NC 28217
Attn: Marisa Sifontes
Facsimile: 704-357-7914

If to the SPP RE:

Southwest Power Pool Regional Entity
415 North McKinley,
Suite 140
Little Rock, AR 72205
Attn: Stacy Dochoda
Facsimile: 501-821-8726

Provided, that the foregoing notice provision shall not be applicable to notices and other communications between SERC, as the CEA, and SPP as the Registered Entity for an SPP Registered Function, which notices and other communications shall instead be provided or transmitted in accordance with the NERC Uniform CMEP.

13. Governing Law.

When not in conflict with or preempted by federal law, this Agreement will be governed by and construed in accordance with the laws of Delaware without giving effect to the conflict of law principles thereof. The Parties recognize and agree not to contest the exclusive or primary jurisdiction of the Commission to interpret and apply this Agreement; provided, however, that if the Commission declines to exercise or is precluded from exercising jurisdiction of any action arising out of or concerning this Agreement, such action shall be brought in any state or federal

court of competent jurisdiction in Delaware. All Parties hereby consent to the jurisdiction of any state or federal court of competent jurisdiction in Delaware for the purpose of hearing and determining any action not heard and determined by the Commission.

14. Headings.

The headings and captions in this Agreement are for convenience of reference only and shall not define, limit, or otherwise affect any of the terms or provisions hereof.

15. Entire Agreement.

This Agreement constitutes the entire agreement, and supersedes all prior agreements and understandings, both written and oral, among the Parties with respect to the subject matter of this Agreement.

16. Execution of Counterparts.

This Agreement may be executed in counterparts and each counterpart shall have the same force and effect as the original.

NOW, THEREFORE, the Parties have caused this Agreement to be executed by their duly authorized representatives, to be effective as of the Effective Date.

SERC RELIABILITY CORPORATION

SOUTHWEST POWER POOL, INC.

By: _____

By: _____

Name: R. Scott Henry

Name: Stacy Dochoda

Title: President and CEO

Title: General Manager
SPP Regional Entity

Date: _____

Date: _____