

## ADDENDUM B

**FERC ORDER NO. 741 IMPLEMENTATION  
SOUTHWEST POWER POOL, INC.  
OCTOBER 1, 2013 (UPDATED COPY, AS OF AUGUST 1, 2014)**

FERC ORDER NO. 741 MANDATES	SPP
	<p>On February 29, 2012, SPP filed with the Federal Energy Regulatory Commission (“FERC”) its proposed tariff revisions to implement its Integrated Marketplace, with a proposed implementation date of March 1, 2014. The Integrated Marketplace will consist of Day-Ahead and Real-Time markets for Energy and Operating Reserve, and Transmission Congestion Rights (“TCRs”) and Auction Revenue Rights (“ARRs”). The filing included revisions to SPP’s credit policy set forth in Attachment X to revise credit requirements associated with the Integrated Marketplace including revisions to comply with Order No. 741 that had not been previously required.</p> <p>On October 18, 2012, FERC conditionally accepted SPP’s Integrated Marketplace filing, subject to several additional compliance requirements.<sup>1</sup> FERC accepted SPP’s overall market design and the products offered in the Integrated Marketplace but directed SPP to make several changes to various aspects of its Integrated Marketplace proposal, including certain modifications of provisions governing ARR and TCRs and additional market monitoring and mitigation provisions. FERC did not require any additional revisions to SPP’s credit policy set forth in Attachment X, which includes SPP’s tariff provisions that comply with Order No. 741.</p> <p>SPP submitted additional Tariff revisions to comply with the majority of FERC’s compliance directives on February 15, 2013. On March 28, 2013, SPP submitted additional Tariff revisions to modify aspects of its Integrated Marketplace</p>

<sup>1</sup> *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,048 (2012) (“Integrated Marketplace Order”), *order on reh’g and clarification*, 142 FERC ¶ 61,205 (2013).

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	<p>provisions. On September 20, 2013, FERC issued an order accepting in part and rejecting in part SPP's February 15, 2013 and March 28, 2013 Tariff filings, and directed SPP to submit additional revisions to its Tariff by November 19, 2013.<sup>2</sup> SPP submitted a filing in response to FERC's September 20 Order on November 11, 2013 (which was reflected in FERC's eFiling system on November 12, 2013 because FERC was closed on November 11 for a federal holiday). On January 29, 2014, FERC issued an order conditionally accepting SPP's November 11, 2013 compliance filing, subject to SPP making additional revisions to its Tariff.<sup>3</sup> SPP filed Tariff revisions to comply with the January 29 Order on February 26, 2014. On June 19, 2014, FERC issued an order conditionally accepting SPP's February 26, 2014 compliance filing, subject to SPP submitting an additional compliance filing within 30 days.<sup>4</sup> SPP filed Tariff revisions to comply with the June 19 Order on July 17, 2014. This filing is pending at FERC.</p>
<p>Limit the amount of unsecured credit extended to any market participant or aggregate corporate family to no more than \$50 million.</p>	<p>a) <u>Current SPP Tariff for EIS Market</u>  The current SPP Tariff limits unsecured credit to no more than \$25 million<sup>5</sup> and limits the unsecured credit of multiple, affiliated market participants to an aggregate total of \$25 million.<sup>6</sup></p> <p>The FERC found that SPP's current unsecured credit limit complies with the FERC's directives of Order No. 741.<sup>7</sup></p> <p>b) <u>SPP Integrated Marketplace Tariff</u></p>

<sup>2</sup> *Sw. Power Pool, Inc.*, 144 FERC ¶ 61,224 (2013).

<sup>3</sup> *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,050 (2014) ("January 29 Order").

<sup>4</sup> *Sw. Power Pool, Inc.*, 147 FERC ¶ 61,212 (2014) ("June 19 Order").

<sup>5</sup> See SPP's Open Access Transmission Tariff ("Tariff"), Attachment X § 4.3.2.1.

<sup>6</sup> *Id.* at § 4.3.4.1.

<sup>7</sup> See *Sw. Power Pool, Inc.*, 136 FERC ¶ 61,189 at P 14 (2011) ("September Order") (accepting SPP's filing to comply with Order No. 741 subject to a further compliance filing regarding the risk management attestation and verification), reh'g denied, 138 FERC ¶ 61,182 (2012) (final order, not subject to rehearing or appeal).

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	<p>The language from the current SPP Tariff is carried over into the SPP Integrated Marketplace Tariff,<sup>8</sup> effective March 1, 2014.<sup>9</sup></p> <p>SPP is in compliance with Order No. 741.</p>
<p>Adopt a settlement period of no more than seven days with an additional seven days to receive payment.</p>	<p>a) <u>Current SPP Tariff for EIS Market</u>  The current SPP Tariff is compliant with this requirement of Order No. 741. Under the current SPP Tariff, SPP shall issue an invoice detailing all charges and credits on a weekly basis.<sup>10</sup> Market participants shall make payment to SPP equal to the net charge shown the invoice by no later than 5 pm Central Prevailing Time on the 3<sup>rd</sup> business day following the issuance of the invoice.<sup>11</sup></p> <p>The FERC found that SPP’s current EIS Market billing and settlement practices are consistent with Order No. 741 directive to shorten billing and payment cycles to seven days or less to reduce the risk of default, socialization of default costs, and market disruptions.<sup>12</sup></p> <p>b) <u>SPP Integrated Marketplace Tariff</u>  The language from the current SPP Tariff is carried over into the SPP Integrated Marketplace Tariff<sup>13</sup> to be effective March 1, 2014.<sup>14</sup></p> <p>SPP is in compliance with Order No. 741.</p>

<sup>8</sup> See Integrated Marketplace Tariff, §§ 4.3.2.1, 4.3.4.1.

<sup>9</sup> See *Sw. Power Pool, Inc.*, 141 FERC ¶ 61,048 (2012) (“October 2012 Order”).

<sup>10</sup> See Tariff, Attachment AE § 7.2(a).

<sup>11</sup> *Id.* at § 7.2(c).

<sup>12</sup> September Order at P 10.

<sup>13</sup> See Integrated Marketplace Tariff, Attachment AE at §§ 10.2(1) and 10.2(3).

<sup>14</sup> See October 2012 Order.

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Eliminate unsecured credit in the financial transmission rights market.	<p>This requirement is only applicable to the SPP Integrated Marketplace Tariff. Under the SPP Integrated Marketplace Tariff, market participants are required to post secured credit for bidding or holding TCRs.<sup>15</sup> Unsecured Credit is not available to support a Credit Customer's holding of TCRs or activity in TCR Auctions.<sup>16</sup></p> <p>The FERC conditionally approved this provision in its October 2012 Order to be effective March 1, 2014.<sup>17</sup> SPP is in compliance with Order No. 741.</p>
Reinforce the ability of the ISO/RTO to offset market obligations owed to market participants against market obligations owed by market participants.	<p>This requirement is only applicable to the SPP Integrated Marketplace Tariff. Under the SPP Integrated Marketplace Tariff, SPP is a central counterparty ("Integrated Marketplace Counterparty") to all Integrated Marketplace transactions (excluding market participants' bilateral transactions with other market participants, self-commit and self-scheduled, or self-supply power and energy to the loads they serve), which creates legal standing to enable the set-off of amounts owed to and from a market participant.<sup>18</sup> Under the Integrated Marketplace Tariff, the Integrated Marketplace Counterparty will have the right to net market obligations and provide for the mutual discharge of debts and payments for multiple market transactions through a netting mechanism.<sup>19</sup> SPP's capacity as the Integrated Marketplace Counterparty does not include agreements and transactions for Transmission Service, Network Integrated Transmission Service, or Ancillary Services under</p>

<sup>15</sup> See Integrated Marketplace Tariff, Attachment X at § 5A.1.1. Recently, in FERC Docket No. ER14-1204-000, FERC accepted revisions to Attachment X of the Integrated Marketplace Tariff necessary to permit the Western Area Power Authority to participate in the Integrated Marketplace. The changes permit federal power marketing agencies to provide a federal power marketing agency letter as financial security in lieu of cash and letters of credit. *Sw. Power Pool, Inc.*, FERC Docket No. ER14-1204-000, Letter Order (Mar. 14, 2014). FERC also recently accepted revisions to Article 5A of Attachment X of the Integrated Marketplace Tariff to permit the netting of credit positions associated with TCRs self-converted from ARR during the time frame between the requested conversion and the subsequent publication of TCR Auction clearing results. *Sw. Power Pool, Inc.*, FERC Docket No. ER14-1357-000, Letter Order (Apr. 11, 2014).

<sup>16</sup> Integrated Marketplace Tariff, Attachment X at § 5A.1.1.

<sup>17</sup> See October 2012 Order at ¶ 477.

<sup>18</sup> See generally SPP Integrated Marketplace Tariff at Attachment AE §§ 1.1, 3.1, 3.8.

<sup>19</sup> *Id.* at § 10.6.

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	<p>Schedules 1 and 2 and provided pursuant to Parts II, III, and IV, and related rate Schedules contained in the Tariff.<sup>20</sup></p> <p>The FERC accepted SPP's proposal to become the central counterparty to market transactions as compliant with Order No. 741's netting requirements.<sup>21</sup> The FERC granted an effective date of March 1, 2014, consistent with SPP's implementation of the Integrated Marketplace.<sup>22</sup> SPP is in compliance with Order No. 741.</p>
<p>Limit the time period by which a market participant must cure a collateral call to no more than two days.</p>	<p>a) <u>Current SPP Tariff for EIS Market</u>  SPP's credit policy contained in the current SPP Tariff requires market participants to post additional financial security within two days from receipt of notice from SPP to provide the required financial security.<sup>23</sup> The current SPP Tariff also requires market participants to cure a "Total Potential Exposure Violation" within two days of receipt of notice from SPP to cure the violation.<sup>24</sup></p> <p>The FERC accepted these provisions as compliant with Order No. 741 and to be effective October 1, 2011 in the September Order.<sup>25</sup></p> <p>b) <u>SPP Integrated Marketplace Tariff</u>  The language from the current SPP Tariff is carried over into the SPP Integrated Marketplace Tariff,<sup>26</sup> effective March 1, 2014.<sup>27</sup></p>

<sup>20</sup> *Id.* at § 3.8.3.1.

<sup>21</sup> *See Sw. Power Pool, Inc.*, 143 FERC ¶ 61,262 (2013) (final order, not subject to rehearing or appeal).

<sup>22</sup> *Id.*

<sup>23</sup> Tariff, Attachment X § 3.2.2.

<sup>24</sup> *Id.* at § 5.3.2.

<sup>25</sup> *See* September Order at P 59 and Ordering Paragraph (A). On March 25, 2014, SPP filed with FERC in Docket No ER14-1580-000, clean-up revisions to the Guaranty Agreement set forth as Appendix D to Attachment X of the Tariff, which among other things, corrected the cure period to two business days consistent with the requirement of Order No. 741 that each RTO adopt a two-day grace period for "curing" collateral calls. On May 12, 2014, FERC accepted for filing the March 25, 2014 filing. *Sw. Power Pool, Inc.*, FERC Docket No. ER14-1580-000, Letter Order (May 12, 2014).

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	SPP is in compliance with Order No. 741.
Provide minimum participation criteria that apply equally to all market participants.	<p>a) <u>Current SPP Tariff for EIS Market</u> SPP is in full compliance with Order 741 and requires market participants to meet the minimum criteria, including capitalization requirements, in order to remain eligible to transact in the market.<sup>28</sup> SPP's minimum participation criteria apply to all market participants and require an attestation of risk management capabilities.<sup>29</sup></p> <p>The FERC affirmed SPP's compliance with these Order No. 741 requirements with an effective date of October 1, 2011. The FERC further required SPP to submit a standardized risk management attestation form for market participants, impose a two-day cure period for deficient attestations, and make such attestation part of the minimum criteria to engage in market transactions.<sup>30</sup> SPP submitted its required compliance filing which the FERC approved with an effective date of October 1, 2011.<sup>31</sup></p> <p>b) <u>SPP Integrated Marketplace Tariff</u> The FERC has conditionally approved SPP's Integrated Marketplace Tariff provisions related to these requirements. The substance of the above criteria has been retained from the current Tariff. The granted effective date for the Integrated Marketplace Tariff is March 1, 2014.</p> <p>On August 1, 2013, SPP filed with FERC revisions to the Integrated Marketplace</p>

<sup>26</sup> See Integrated Marketplace Tariff, Attachment X at §§ 3.2.2 and 5.3.2.

<sup>27</sup> See October 2012 Order.

<sup>28</sup> See Tariff, Attachment X § 3.1.1.8.

<sup>29</sup> *Id.* at § 3.1.1.6.

<sup>30</sup> See September Order at P. 38-39, 42.

<sup>31</sup> See *Sw. Power Pool, Inc.*, 138 FERC ¶ 61,187 (2012) (“March Order”) (final order, not subject to rehearing or appeal).

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	<p>Tariff necessary to comply with the CFTC’s directives regarding minimum eligibility criteria.<sup>32</sup> The FERC accepted these revisions, effective March 1, 2014, and found the revisions to be compliant with Order No. 741.<sup>33</sup></p> <p>SPP is in compliance with Order No. 741.</p>
<p>Provide examples of when a market administrator may invoke the “material adverse change” to justify requiring additional collateral.</p>	<p>a) <u>Current SPP Tariff for EIS Market</u>  The current SPP Tariff contains an illustrative list of “material changes”<sup>34</sup> which allow SPP the right to invoke the requirement for the market participant to post additional financial security, cease one or more transactions, or take other measures to restore confidence in market participant’s ability to transact.<sup>35</sup></p> <p>The FERC accepted SPP’s proposal and compliance with Order No. 741 with regard to invocation of “Material Adverse Change.”<sup>36</sup></p> <p>b) <u>SPP Integrated Marketplace Tariff</u>  The FERC has conditionally approved the SPP Integrated Marketplace Tariff which</p>

<sup>32</sup> See SPP’s filing dated August 1, 2013, in FERC Docket No. ER13-2091, which includes a proposed Tariff Section 3.1.1.8.1, entitled “Minimum Eligibility Requirements.” This proposed tariff section operates in conjunction with the existing language previously approved as compliant with Order 741, and that existing language will be found in proposed Tariff Section 3.1.1.8.2, entitled “Minimum Capitalization Requirements.”

<sup>33</sup> See *Sw. Power Pool, Inc.*, 144 FERC ¶ 61,251, at P 14 (2013) (“September 2013 Order”) (FERC order conditionally accepting revisions to Attachments X and AE of the SPP Tariff, effective March 1, 2014, subject to a compliance filing regarding information sharing provisions in Attachment AE to the SPP Tariff, and accepting the revisions to Attachment X regarding the minimum participation criteria without further modification). On October 25, 2013, SPP submitted the required compliance filing with a change to the information sharing provisions in Attachment AE of the SPP Tariff, which FERC accepted effective March 1, 2014. *Sw. Power Pool, Inc.*, FERC Docket No. ER13-2091-001, Letter Order (Nov. 22, 2013).

<sup>34</sup> See Tariff, Attachment X § 3.2.7.

<sup>35</sup> *Id.* at § 3.2.2.

<sup>36</sup> See September Order at P 49.

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	<p>contains the same substantive terms of the current Tariff.<sup>37</sup></p> <p>SPP is in compliance with Order No. 741.</p>
<p>Engage in periodic verification of market participants risk management policies and procedures.</p>	<p>a) <u>Current SPP Tariff for EIS Market</u></p> <p>Under the current SPP Tariff, a risk management verification process has been established. SPP may select up to 20% of market participants annually for review on a random basis or based on identified risk factors.<sup>38</sup> Upon notification of selection by SPP, the market participant must provide to SPP within 14 days a copy of its current governing risk management policies, procedures, and controls applicable to the market participant's market activities and such information or documentation that SPP may reasonably request.<sup>39</sup> Participation in the market is conditioned on SPP's successful completion of the market participant's verification.<sup>40</sup> The SPP Tariff also provides an option, under certain conditions, for additional time for compliance with the verification process. The SPP Tariff includes a process for appeal to the FERC of SPP's determination, and the process permits retention of transaction rights during the appeal.<sup>41</sup> SPP will provide written explanations for any noted deficiencies in a market participant's risk management policies and procedures.<sup>42</sup></p> <p>The FERC found SPP's risk management verification to be just and reasonable and not unduly discriminatory and accepted the proposal to be effective October 1, 2011.<sup>43</sup></p>

<sup>37</sup> See October 2012 Order.

<sup>38</sup> See Tariff, Attachment X § 3.1.1.9.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> See March Order at P 18.

<sup>43</sup> *Id.* at P 14.



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	<p data-bbox="871 267 1365 300">b) <u>SPP Integrated Marketplace Tariff</u></p> <p data-bbox="823 305 1900 521">The substance of the verification procedures for Order 741 capitalization and participation criteria has been retained from the current Tariff.<sup>44</sup> As discussed <i>supra</i>, the FERC recently accepted revisions to the SPP Integrated Marketplace Tariff necessary to incorporate the CFTC’s directives regarding minimum eligibility criteria, including proposed revisions that would add the review of CFTC-required eligibility criteria to the existing verification process.<sup>45</sup></p> <p data-bbox="823 560 1360 592">SPP is in compliance with Order No. 741.</p>

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<sup>44</sup> See Integrated Marketplace Tariff, Attachment X § 3.1.1.9.

<sup>45</sup> See SPP’s filing dated August 1, 2013, in FERC Docket No. ER13-2091, and its proposed revisions to Attachment X § 3.1.1.9, accepted by FERC as compliant with Order No. 741 in the September 2013 Order at P 14.