

October 7, 2014

Ms. Melissa Jurgens
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

VIA EMAIL: Secretary@cftc.gov

Re: Southwest Power Pool, Inc.’s Clarifying Information in Support of Amended Application for Exemptive Order Pursuant to Section 4(c)(6) of the Commodity Exchange Act

Dear Ms. Jurgens:

Southwest Power Pool, Inc. (“SPP”), a Regional Transmission Organization (“RTO”) approved by the Federal Energy Regulatory Commission (“FERC”) hereby provides clarifying information in response to questions from Commission Staff regarding SPP’s Amended Application for Exemptive Order pursuant to Section 4(c)(6) of the Commodity Exchange Act (“Amended Application”) submitted to the Commission on August 1, 2014. SPP requests the Commission consider this clarifying information in conjunction with SPP’s Amended Application.

A. SCOPE OF ENERGY TRANSACTIONS DEFINITION

In its Amended Application, SPP seeks exemptive relief substantively similar to the relief previously granted by the Commission to other FERC-approved RTOs and Independent System Operators and the Electric Reliability Council of Texas.¹ In reviewing the Amended Application to address questions raised by Commission Staff, SPP observed that the definition of “Energy Transactions” in the Amended Application inadvertently omitted the words “Day-Ahead Market” from the definition. Specifically, Section b(ii) of the definition of “Energy Transaction,” as

¹ See Final Order in Response to a Petition From Certain Independent System Operators and Regional Transmission Organizations to Exempt Specified Transactions Authorized by a Tariff or Protocol Approved by the Federal Energy Regulatory Commission or the Public Utility Commission of Texas from Certain Provisions of the Commodity Exchange Act Pursuant to the Authority Provided in the Act, 78 Fed. Reg. 19,880, at 19,912 (Apr. 2, 2013) (“Final Order”).

reflected on page 14 of 25 of SPP's Amended Application, should read: "A cash payment or receipt at the price established in the Day-Ahead Market or Real-Time Balancing Market."²

B. SCOPE OF OPERATING RESERVE TRANSACTION

In its Amended Application, SPP included a definition of "Operating Reserve Transactions" that is substantially similar to the definition of "Reserve or Regulation Transactions" provided in the Final Order.³ However, in reviewing the Amended Application to address Commission Staff questions, SPP observed that the words "including Demand Response, as defined in paragraph 5(c)(2) of the Final Order" were not included in the Amended Application's definition. SPP permits demand response resources to provide Operating Reserves, provided that they have satisfied the Operating Reserve Certification requirements set forth in Attachment AE Section 2.10 of SPP's Open Access Transmission Tariff ("Tariff"). Therefore, the definition of Operating Reserve Transactions should include demand response. Specifically, section b(i) of SPP's definition of "Operating Reserve Transactions," as reflected on page 15 of 25 of the Amended Application, should read: "Payment at the price established in SPP's Day-Ahead Market or Real-Time Balancing Market for electric energy applicable whenever SPP exercises its right that electric energy be delivered (including Demand Response, as defined in paragraph 5(c)(2) of the Final Order)."⁴

C. ATTACHMENT B

With respect to SPP's discussion of DCO Core Principle B in Attachment B to its Amended Application, Staff has asked whether SPP collects an uplift payment for both Unpaid Obligations and Uncollectible Obligations as those terms are defined in SPP's Tariff.

Response: Per Attachment L to SPP's Tariff, when SPP identifies an Unpaid Obligation, SPP first recovers the Unpaid Obligation pro-rata from a subset of Non-Defaulting Market

² See, e.g., SPP Tariff, Attachment AE § 8.6 ("Settlement calculations for the RTBM are performed on a Dispatch Interval basis for each Operating Day and are based upon the difference between the results of the RTBM and the Day-Ahead Market clearing for that Operating Day.").

³ Final Order at 19,913-14.

⁴ The Final Order defines "Demand Response" as "the right of a Requesting Party to require that certain sellers of such rights curtail consumption of electric energy from the electric energy transmission system operating by a Requesting Party during a future period of time as specified in the Requesting Party's Tariff." Final Order at 19,913. While this definition is included in the Commission's discussion of Forward Capacity Transactions, which the SPP Integrated Marketplace currently does not offer, the Final Order's definition of Demand Response is similar to SPP's definition in that SPP's definition of Demand Response Load is "A registered measurable load that is capable of being reduced at the instruction of the Transmission Provider and subsequently may be increased at the instruction of the Transmission Provider." See SPP Tariff, Attachment AE § 1.1 (Definitions D).

Participants: Market Participants who conducted business during the time period covered by the relevant unpaid invoice *and* who were owed revenues by SPP. SPP withholds a pro-rata portion from any revenues owing to such Market Participants. *See* SPP's Tariff at Attachment L, Section V.C.1. Ninety days after a balance has been declared an Unpaid Obligation, SPP will deem that balance an "Uncollectible Obligation." Having reached Uncollectible Obligation status, the obligation will be socialized more broadly by assessing an Uplift Payment against *all* Non-Defaulting Market Participants who conducted business in the market during the relevant timeframe, and this population would now include the Market Participants who had not been owed revenues for the relevant time-frame. At that point, the subset of revenue-receiving Market Participants who previously had covered the Unpaid Obligation will receive appropriate credit against their pro-rata share of this Uplift Payment. *Id.* at Section V.C.3.

D. ATTACHMENT K

Staff has asked whether SPP's statements regarding DCO Core Principle K in Attachment K to its Amended Application are also applicable to SPP's discussion of SEF Core Principle 10 in Attachment BB to its Amended Application.

Response: Yes. SPP's reference to Attachments J and M in Footnote 502 in Attachment BB should also include a reference to DCO Core Principle K. SPP's statements regarding DCO Core Principle K in Attachment K to its Amended Application are also applicable to SPP's discussion of SEF Core Principle 10 in Attachment BB to its Amended Application.

E. ATTACHMENT AA

With respect to SPP's discussion of SEF Core Principle 9 in Attachment AA to its Amended Application, Staff has asked whether the timely information SPP publishes includes trading volume.

Response: SPP communicates timely volume information to Market Participants for the Day Ahead and Real Time Balancing Markets pursuant to the SPP Tariff, Attachment AE §§ 5.1, 5.1.3, and 6.2.3. SPP also posts timely volume information for the Day Ahead, Real-Time, and TCR Markets in the publicly accessible portal via SPP's marketplace website. *See, e.g., <https://marketplace.spp.org/web/guest/public-information>.*

F. ATTACHMENT DD

1. FERC Order No. 2000

With respect to SPP's discussion of SEF Core Principle 12 in Attachment DD to its Amended Application, Staff has asked whether SPP meets the requirements of FERC's Order No. 2000, which SPP cited based on its requirements, *inter alia*, for an RTO to remain independent of any market participant.

Response: SPP meets the requirements of FERC's Order No. 2000, which sets forth FERC's requirements an organization must meet in order to be classified as an RTO. FERC certified SPP as an RTO in 2004, and SPP retains RTO status today.

2. "As demonstrated above"

With respect to SPP's discussion of SEF Core Principle 12 in Attachment DD to its Amended Application, Staff has asked whether the phrase "as demonstrated above" employed on page 117 at the end of the attachment is intended to refer to DCO Core Principles O and P.

Response: The words "as demonstrated above" in the final line of Attachment DD were intended to refer to the discussion of SEF Core Principle 12 in that same attachment. While the subject of that discussion overlaps with the discussions of DCO Core Principles O and P contained in Attachments O and P, those discussions were not the specific subject of the "as demonstrated above" reference in Attachment DD. In any event, SPP's discussion of DCO Core Principles O and P also supports SPP's discussion of SEF Core Principle 12.

3. Conflicts of Interest Standards

With respect to SPP's discussion of SEF Core Principle 12 in Attachment DD to its Amended Application, Staff has asked whether SPP Directors are subject to conflict of interest standards.

Response: Yes. Members of the SPP Board of Directors are subject to Conflict of Interest and Independence standards set forth in the SPP Bylaws. Section 4.1 of the Bylaws requires that "[t]he Board of Directors shall at all times act in the best interest of SPP in its management, control and direction of the general business of SPP." Section 4.2.1 requires that the directors be independent of any Member." Section 4.2.3 sets forth additional conflict of interest requirements for directors as follows:

Directors shall not be a director, officer, or employee of, and shall have no direct business relationship, financial interest in, or other affiliation with, a Member or customer of services provided by SPP. Directors may invest in accordance with SPP's Standards of Conduct. Participation in a pension plan of a Member or customer shall not be deemed to be a direct financial benefit if the Member's or customer's financial performance has no material effect on such pension plan.

SPP Bylaws at Section 4.2.3, entitled "Conflicts of Interest." Finally, a Director's failure to disclose or resolve a conflict of interest is cause for removal pursuant to the procedures set forth in Sections 3.9 and 4.4 of the SPP Bylaws.

Conflict of interest requirements for SPP staff are set forth in the SPP Standards of Conduct, a copy of which is attached hereto. SPP Officers are required to execute the Standards

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of Conduct upon employment. SPP staff members are required to execute the Standards of Conduct upon employment and annually thereafter. *See* SPP Bylaws at Sections 3.4 and 3.11.

SPP appreciates the opportunity to provide the requested clarifications. If you or the Commission have any questions or need further information, please contact me at (501) 614-3368 or jghormley@spp.org.

Respectfully submitted,

/s/ Joseph W. Ghormley

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SOUTHWEST POWER POOL, INC.

STANDARDS OF CONDUCT

These Standards of Conduct ("Standards") apply to all current Southwest Power Pool, Inc. ("SPP") employees ("SPP Employees"). For purposes of these Standards, "Third Party" means an entity including its representatives, agents, and employees (i) that is an owner, operator or user of the bulk power system in the SPP region, as defined in the Delegation Agreement between the North American Electric Reliability Corporation and SPP; (ii) that is a Transmission Customer as defined in the SPP Open Access Transmission Tariff ("Tariff") or any other tariff that SPP administers; or, (iii) for which SPP provides services under contract, including, but not limited to, tariff administration services; or (iv) that engages in purchases or sales of wholesale or retail electric energy in the SPP Region.

As a Regional Transmission Organization, SPP is not subject to the Federal Energy Regulatory Commission's ("FERC") published standards of conduct set forth in 18 C.F.R. Part 358. Instead, SPP Employees shall be subject to the standards set forth herein.

1. NO INVOLVEMENT IN MARKETING

- 1.1 No SPP Employee shall have any involvement in the purchase or sale of electric energy at wholesale or retail except for the provision of services by SPP under the SPP Tariff or other tariff administered by SPP.

2. CONFIDENTIALITY OF INFORMATION

- 2.1 SPP Employees shall treat all information supplied by a Third Party as confidential to the extent required by the Tariff, the SPP Membership Agreement or other governing document, and shall not disclose that information, unless the information is required to be placed on an Open Access Same-Time Information System ("OASIS"), or is otherwise explicitly approved for disclosure.
- 2.2 Notwithstanding the restrictions in Sections 2.1, SPP Employees may share confidential information obtained from a Third Party as expressly permitted by the Tariff, including, but not limited to (a) sharing the information with FERC when required by the Tariff, and (b) sharing the information with NERC or NERC Regional Entities where SPP determines such disclosure is required to enhance and/or maintain reliability within the SPP Region or neighboring regions or to comply with NERC Reliability Standards. Before any such information is disclosed other than to FERC, the receiving party shall execute a written agreement to maintain the information as confidential and SPP shall make any required notification to the affected Third Party.
- 2.3 Only SPP Employees providing support to the Regional Entity function shall have access to confidential information associated with the Regional Entity function. Access to confidential Regional Entity information shall be limited to the information required to perform the specific support function. Confidential Regional Entity information shall be maintained as confidential by the SPP Employee providing support and shall not be shared with any SPP employees other than Regional Entity employees or SPP employees

designated by Regional Entity employees to receive such information.

3. DISCLOSURE OF TRANSMISSION SYSTEM INFORMATION

- 3.1 SPP Employees may not disclose to any entity, its employees, representatives or agents, engaged in wholesale or retail purchases or sales of electric energy any information concerning the transmission system unless that information is (i) posted on the appropriate OASIS or Internet website or (ii) otherwise contemporaneously available to the general public without restriction.
- 3.2 SPP Employees shall not give preferential access to any other information concerning the transmission system to any Third Party.
- 3.3 Any disclosures of transmission system information not in compliance with Sections 3.1 and 3.2 shall be posted immediately on the appropriate OASIS or Internet website.
- 3.4 SPP Employees may disclose transmission information to appropriate other parties if required (a) to comply with NERC Reliability Standards, or (b) to maintain or restore operation of the transmission system or generating units, or that may affect the dispatch of generating units.
- 3.5 SPP Employees may discuss with a Third Party a specific request for transmission service submitted by such Third Party. SPP Employees are not required to contemporaneously publicly disclose information provided in such discussions if the information relates solely to the Third Party's specific request for transmission service.

4. ACCESS TO FACILITIES

- 4.1 No employee, agent, or contractor engaged in wholesale or retail purchases or sales of electric energy shall have access to the SPP control center or backup control center except for educational tours. Such access must be approved in advance by an SPP Officer. Notification of such tours must be posted on the SPP OASIS.

5. IMPLEMENTATION OF TARIFFS

- 5.1 SPP Employees must strictly enforce all provisions of the SPP Tariff or any other tariff administered by SPP, if the tariff provisions do not permit the use of discretion.
- 5.2 Where a provision of the SPP Tariff or any other tariff administered by SPP permits the use of discretion, SPP Employees shall exercise that discretion in a fair and impartial manner that treats all customers in a nondiscriminatory manner.
- 5.3 SPP Employees shall not give any undue preference to any person in implementing the SPP Tariff or any other tariff administered by SPP.

6. RECORDKEEPING

- 6.1 SPP shall maintain records showing the transactions under the SPP Tariff or any other tariff administered by it for a period of five (5) years unless otherwise provided for in the tariff or by law or regulation. Records will be available for inspection by FERC.
- 6.2 SPP shall maintain a written log detailing the circumstances and manner in which SPP Employees exercise permitted discretion under the terms of any tariff. The information contained in this log is to be posted on the appropriate OASIS or Internet website within 24 hours of when an SPP Employee exercises discretion under the terms of any tariff.

7. GENERAL RULES GOVERNING SPP EMPLOYEES

- 7.1 No SPP Employee may be an employee, director, consultant or contractor to any Third Party.
- 7.2 (a) No SPP Employee shall have a financial interest in any Third Party.
- (b) No SPP Employee, or his/her immediate family members, may own securities^[1] issued by any Third Party. For purposes of this section, “immediate family members” include: spouses; minor children; or any person for whom the Employee has power of attorney or guardianship rights.
- (c) If an SPP Employee owns such securities, he/she must dispose of them within four months of:
- (i) the commencement of employment at SPP;
 - (ii) the time a new Third Party begins to conduct business with SPP; or
 - (iii) the date of receipt of a gift or inheritance or other taking of legal control of those securities.
- (d) SPP Employees may indirectly own securities issued by a Third Party through a mutual fund or similar arrangement under which the SPP Employee does not control the purchase or sale of such securities, except for any fund or arrangement specifically targeted towards the electric industry or the electric utility industry, or any segments thereof.
- (e) SPP will maintain a listing of Third Party entities for Employees’ reference.
- (f) Exceptions to Section 7.2 may be considered on a case-by-case basis per the provisions of Section 9.5 of these Standards.
- 7.3 SPP Employees shall not put themselves in a position in which their personal interests might conflict with SPP’s interests, SPP’s ability to administer the SPP Tariff or any other tariff administered by SPP, or to perform its other obligations on a fair and impartial basis. A “conflict of interest” arises if an Employee is offered a gift by another party, where such gift is being made to influence the proposed recipient’s actions in their position with SPP, or where acceptance of the gift would reasonably create that impression. Non-cash nominal gifts and entertainment customarily provided in the ordinary course of business will generally not give rise to a conflict of interest. Nominal gifts are gifts or entertainment of any form with token or modest value that will not place SPP Employees under any real or perceived personal obligation to the donor. Should a conflict of interest arise, the SPP Employee is required to notify his/her supervisor and the Office of the General Counsel.
- 7.4 SPP Employees shall not personally accept any form of cash from other parties, or current and potential members, vendors and customers; or from any persons or entities with which SPP does or might do business.
- 7.5 SPP Employees shall not use company resources, including work time, SPP’s email, or its facilities, to support a political campaign. Endorsements or work on a political campaign in a person’s capacity as an SPP Employee is strictly prohibited.

8. RELATIONSHIPS WITH OTHER PARTIES

- 8.1 Any payments made by SPP to another party, including members, vendors and customers,

must be made only for identifiable, business-related purposes in relation to services or products that were provided to SPP. Payments must be reasonable and in relation to the services or products provided and must be provided in accordance with SPP policies and procedures.

- 8.2 Employees are not permitted to give, offer or promise payments or gifts to another party with the intent to improperly influence (or which may appear to improperly influence) the party or to place such party under obligation to the employee or SPP.

9. IMPLEMENTATION AND ENFORCEMENT

- 9.1 SPP will inform and train SPP Employees with regard to these Standards of Conduct.
- 9.2 SPP will require that each SPP Employee receive training and execute the Standards of Conduct within 30 days of his/her employment and annually thereafter.
- 9.3 All Employees must follow these Standards and are obligated to report, in a timely fashion, any possible violations they may witness or of which they become aware. Reporting a violation demonstrates a sense of responsibility and fairness to fellow Employees, Third Parties, contractors, vendors and other parties with which the company engages. Reporting violations in good faith will not subject an Employee to reprisal or retaliation. If an Employee believes he/she or another Employee may have violated the Standards of Conduct, it is the Employee's responsibility to immediately report the violation to his/her supervisor and/or the Office of General Counsel. Reports and inquiries will be handled confidentially to the greatest extent possible.
- 9.4 Any Employee failing to comply with these standards may be subject to disciplinary action, which may include reprimand, suspension without pay, limitation in the scope of responsibilities, monetary fines, termination of employment, or other action determined appropriate by SPP.

Violations of these Standards of Conduct include but are not limited to:

- a) Actions that directly violate these Standards
 - b) Requesting another employee to violate these Standards
 - c) Failure to promptly report a known or suspected violation of these Standards
 - d) Failure to cooperate in an SPP investigation of possible violations of these Standards
 - e) Retaliation against another employee for reporting a violation or ethical concern
- 9.5 Only the SPP Board of Directors may authorize a waiver of these Standards for officers, and any such waiver must be promptly disclosed to the SPP Membership. Only the Office of General Counsel, in consultation with the President/Chief Executive Officer, may authorize a waiver of these Standards for other SPP Employees.

^[1] Securities include any equity or debt instruments issued by an entity, as well as any derivative instruments whose value is derived based on the value of any equity or debt instrument issued by an entity (e.g. option contracts).