



Compliance Audit Report Public Version

**PECO Energy Company
NCR08025, NCR08026, NCR08027**

September 11-12, 2007

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Executive Summary

The on-site compliance audit of PECO Energy was conducted on September 11-12, 2007, at the PECO offices located at 2301 Market Street, Philadelphia, Pennsylvania, by ReliabilityFirst Corporation. The audit team evaluated PECO compliance with the applicable requirements in twenty-five (25) reliability standards. Twenty-two (22) of these standards are FERC approved standards (sixteen (16) of which are in the 2007 implementation plan). One (1) standard was a ReliabilityFirst regional standard. Of the twenty-five (25) standards that were reviewed, eighteen (18) are actively monitored standards from the NERC 2007 implementation plan. The audit team interviewed twenty-one PECO employees and two PJM employees representing subject matter expertise and reviewed accompanying documentation PECO presented as evidence of compliance.

A number of the reliability standards were not applicable to PECO. PECO is registered as a Transmission Owner (TO), Distribution Provider (DP), Load Serving Entity (LSE), and Purchase-Selling Entity (PSE). There were no ongoing mitigation plans; and therefore, none was reviewed by the audit team. PECO did provide confirmation of completion of a mitigation plan (completion date of 5/16/07) regarding a self-reported violation (NERC Violation ID # RFC200704171) of PRC-008 Requirement 2. No possible compliance violations were uncovered during this audit.

PECO provided evidence of compliance with all of the applicable monitored reliability standards and applicable requirements in twenty-five (25) reliability standards.

Audit Process

The compliance audit process steps are detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP). The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

Objectives

All registered entities are subject to an audit for compliance with all reliability standards applicable to the functions for which the registered entity is registered.¹ The audit objectives are:

- Review PECO's compliance with the requirements of the NERC and regional reliability standards that are applicable to PECO, based on the PECO registered functions.

¹ North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- Validate compliance with the applicable reliability standards from the NERC 2007 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standard, and review the status of associated mitigation plans.
- Document the PECO compliance culture.

Scope

PECO is subject to monitoring by *ReliabilityFirst* on a “three-year” basis. This audit was conducted on those standards which were provided by NERC for monitoring in the 2007 CMEP Implementation Plan. *ReliabilityFirst* monitors all applicable *ReliabilityFirst* standards, self-certifications, and mitigation plans as appropriate.

The compliance audit was performed by an audit team consisting of the *ReliabilityFirst* regional entity compliance staff and two NERC representatives. The reliability standards reviewed in the PECO audit included twenty-five (25) standards and their applicable requirements. Twenty-two (22) of these standards are FERC approved standards (sixteen (16) of which are in the 2007 implementation plan). One standard was a *ReliabilityFirst* regional standard. Of the twenty-five (25) standards that were reviewed, eighteen (18) are actively monitored standards from the NERC 2007 implementation plan. For the 2007 program, reliability standards are monitored based on the last twelve months or the retention periods and monitoring timeframes specified in each reliability standard. The list of reliability standards along with their corresponding monitoring timeframes and PECO applicability are listed in the “Findings” section of this report.

Confidentiality and Conflict of Interest

The Reliability*First* staff with financial ties to PECO or Exelon Corporation recused themselves from the Audit. Work history and conflict of interest forms submitted by each audit team member were provided to PECO. PECO was given an opportunity to object to an audit team member on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with the audit team member's impartial performance of duties. PECO accepted the audit team member participants with no objections.

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff were provided to the entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to the entity.

On-site Audit

PECO was notified sixty (60) days in advance of the scheduled on-site audit. This notification gave the registered entity adequate notice of a request for evidence to validate compliance during the on-site audit. Discussions regarding self-reported violations, complaints, mitigation plan status, and ongoing investigations were also included in the scope of the on-site audit as applicable and as required.

The audit team leader provided a list of the applicable reliability standards and an audit agenda to PECO before the audit. The adjacent transmission operators, balancing authorities, generating operators, and the reliability coordinator for PECO were asked to complete questionnaires relating to the standards to be reviewed prior to the PECO audit. PECO was asked to submit a reference list of evidence for each requirement in the standards and provide the evidence to the audit team for review during the on-site audit.

The audit team interviewed the PECO employees representing subject matter expertise regarding all of the applicable registered functions of PECO. These interviews in conjunction with evidence provided to the audit team along with professional judgment when validating compliance with reliability standards form the basis for a decision on any potential or possible violation.

Approximately one month prior to the on-site audit, the audit agenda was supplemented with additional standards and applicable requirements. Reliability*First* staff, while reviewing the initial agenda, noticed that some of the standards were inadvertently omitted, and these were added back to the agenda. These additions to the initial scope of the audit were again reviewed and addressed by the audit team leader during the audit overview meeting between the audit team and PECO, prior to the subject matter expert (SME) interviews.

Methodology

Sixty (60) days prior to this scheduled audit, PECO had been provided with a pre-audit package, which included all the necessary documents and information required by NERC and ReliabilityFirst to complete the audit process. Upon receipt of the pre-audit package, the audit team conducted a review of the information and evidence for compliance to the applicable standards. With reviews completed on the applicable requirements, the audit team conducted an exit briefing with PECO to provide the entity with the team findings. An audit report summarizing the audit activities and results is compiled in a public and non-public version. PECO has been provided an opportunity for review, comment, and acceptance. Once finalized, the audit report was submitted to NERC for posting. The PECO compliance audit followed the following format.

Audit Overview

The audit team conducted an audit overview meeting with the PECO compliance audit participants before the audit process began. During the audit overview meeting, the audit team leader explained the scope of the audit including the list of applicable standards in the NERC 2007 Implementation Plan, any standards that were FERC approved but not included in the NERC 2007 Plan that would be reviewed, any known open issues. PECO was informed that only the evidence presented during the portion of the on-site visit during which a particular standard was being audited would be the evidence accepted. The audit team leader also explained that any evidence related to possible compliance violations would be retained and/or submitted to ReliabilityFirst via overnight mail, if a possible violation was uncovered. PECO stated that material retained needed to be approved outside the audit room, and if required would follow up on the issue. The audit team leader also explained that PECO must provide evidence of compliance with the reliability standards and associated requirements and that the leader would not allow much digression and would stop the discussion as applicable in an effort to make the best use of the audit team's on-site time. It was also noted that any failure to provide evidence of compliance by PECO would result in a possible compliance violation finding.

Audit

The audit team generally followed the agenda that was provided in advance to PECO. The audit team was flexible with the availability of the PECO audit participants when conducting the audit. The audit team worked in one group for the entire audit process. During the second day, all but one of the audit team members toured the PECO system operations control room and was provided an overview of the PECO transmission system.

The audit team conducted interviews for each applicable reliability standard with PECO subject matter experts (SMEs) and reviewed the documented evidence. When the audit team had additional questions, after reviewing the submitted evidence, the PECO SME was asked back into the audit room to respond to the additional questions and/or provide clarifications to the questions.

The audit team took time to review the submitted evidence as it was presented and discussed findings in private as a team to determine if the evidence met the requirements of the reliability standard. If the evidence was inadequate or did not cover all of the requirements in the reliability standard, the audit team asked for additional evidence, clarification, and/or documentation that PECO SMEs had available. At no time were documents allowed to be modified. PECO was responsive to all inquiries and requests of the audit team and, when requested, submitted additional evidence to the audit team. The audit team reviewed PECO's documentation at the PECO facilities. Throughout the audit, the audit team members took notes on the findings of evidence of compliance and captured document dates, document titles, and document page number references where standard requirements evidence was located. The documented evidence, along with the interviews with the SMEs, enabled the audit team to apply professional judgment in determining its findings.

Exit Briefing

The audit team conducted an exit briefing immediately following the audit with the PECO compliance audit participants and with the higher level PECO management. The audit team shared its preliminary results verbally. The PECO audit participants asked a few questions and requested the audit team to comment on the PECO documentation reviewed during the audit team's review. PECO expressed their culture of "continuous improvement," especially in terms of documentation and was looking to the audit team for additional guidance on how to effectuate such improvement.

The audit team leader indicated that the informal guidance could be done, but needed to be completed outside the audit process. A separate informal listing of recommendations could accompany the draft report but would not be included as a part of the audit report. These recommendations will not be included in the audit report, but will be documented in a separate document and sent to PECO.

Confidential Information (including Privileged and
Critical Energy Infrastructure Information) Has Been Removed

No specific evidence relating to a possible violation was requested because none were identified.

Company Profile

PECO is registered as a transmission owner (TO), load serving entity (LSE), distribution provider (DP), and purchasing-selling entity (PSE).

Audit Specifics

The compliance audit was conducted on September 11-12, 2007, at the PECO offices located at 2301 Market Street, Philadelphia, Pennsylvania.

Audit Team

Audit Team Role	Title	Company
Lead	Manager, Compliance Support	ReliabilityFirst
Co-Lead	Sr. Engineer	ReliabilityFirst
Member	Sr. Consultant	ReliabilityFirst
Member	Regional Compliance Program Coordinator	NERC
Observer	Regional Compliance Program Coordinator	NERC
Observer	Sr. Consultant	ReliabilityFirst

PECO Audit Participants

Title	Organization
VP Transmission Operations and Planning	PECO
Manager, Transmission Operation Support	PECO
Manager, Transmission Control	PECO
Director, Energy Acquisition	PECO
Regulatory Specialist	PECO
Compliance Manager	PECO
Manager, NERC Cyber Security	PECO
Senior Analyst, Energy Acquisition	PECO
T&S Engineering	PECO
T&S Engineering	PECO
Sr. Engineer	PECO
Project Leader, Vegetation Management	PECO
T&S Engineering, Sr. Engineer	PECO
T&S Engineering	PECO
T&S Engineering	PECO
T&S Engineering	PECO
T&S Testing	PECO
Project Manager	PECO
Manager Corporate Security	PECO
Sr. Engineer	PJM
Sr. Analyst	PJM

Audit Results

The audit team documented the evidence reviewed and interviews conducted to determine compliance with the applicable reliability standard. All of the evidence including titles, dates, and page references were recorded. When appropriate, database information and references were also noted. The audit team leader presented the standard and requirement being audited and asked the PECO SME to provide the audit team evidence of compliance. The audit team members took the opportunity, during the SME interviews, to ask further related questions on the material and data that was presented as evidence. The control room tour confirmed aspects of the evidence presented and demonstrated that the company policy and other procedures that were presented as evidence are readily available to the system operators.

Completed questionnaires received from neighboring entities were all favorable with respect to PECO including the information received from the reliability coordinator responsible for the PECO reliability area.

Findings

The following table details the auditor notes relating to evidence reviewed by the audit team during the compliance audit. The team reviewed reliability standards for PECO, as it is registered with ReliabilityFirst, for those applicable requirements in twenty-five (25) reliability standards. Twenty-two (22) of these standards are FERC approved standards (sixteen (16) of which are in the 2007 implementation plan), one (1) standard was a ReliabilityFirst regional standard. Of the twenty-five (25) standards that were reviewed, eighteen (18) are actively monitored standards from the NERC 2007 implementation plan,

Reliability Standard	Requirement	Finding
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-004-1	R2.	Compliant
EOP-004-1	R3.	Compliant
FAC-003-1	R1.	Compliant
FAC-003-1	R2.	Compliant
FAC-003-1	R3.	Compliant
FAC-003-1	R4.	Compliant
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant

Confidential Information (including Privileged and
Critical Energy Infrastructure Information) Has Been Removed

Reliability Standard	Requirement	Finding
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
MOD-017-0	R1.	Compliant
MOD-018-0	R1.	Compliant
MOD-018-0	R2.	Compliant
MOD-019-0	R1.	Compliant
MOD-020-0	R1.	Compliant
PRC-004-1	R1.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Compliant
PRC-010-0	R1.	N/A
PRC-010-0	R2.	N/A
PRC-011-0	R1.	N/A
PRC-011-0	R2.	N/A
PRC-016-0	R1.	Compliant
PRC-016-0	R2.	Compliant
PRC-016-0	R3.	Compliant
PRC-017-0	R1.	Compliant
PRC-017-0	R2.	Compliant
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
PRC-022-1	R1.	N/A
PRC-022-1	R2.	N/A
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant
BAL-502-RFC-01	R2.	Compliant
BAL-502-RFC-01	R5.	Compliant

Compliance Culture

Susan Ivey, PECO Vice-President Transmission Operations and Planning, during the introduction portion of the Audit, provided the Audit Team a description of the PECO internal compliance program as it is being developed and as it matures. All compliance dates are tracked through a single group within PECO and is assisted by an in-house document management system at PECO. All documented evidence presented during the course of the on-site audit contained revision tracking, effective dates, approval signatures, and was made available to the PECO staff via the corporate intranet. PECO personnel stay actively involved in the development of aspects of the compliance program, internal to PECO as well as support NERC and Regional activities. Dedicated personnel monitor the NERC and Regional reliability standard to stay abreast and up to date on compliance requirements. PECO employees actively participate on NERC and regional standard drafting teams. PECO is currently well along the way to developing an internal audit process to become proactive in its goal of compliance with the reliability standards.