



Compliance Audit Report Public Version

**Associated Electric Cooperative, Inc
NCR01177
September 22-25, 2008**

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

October 27, 2008

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EXECUTIVE SUMMARY

This final compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been redacted from this report. The full final compliance audit report was submitted to the audited entity and NERC.

Associated Electric Cooperative, Inc (AECI) was audited September 22-25, 2008 for compliance with the requirements contained in the currently mandatory and enforceable Reliability Standards in the 2008 NERC Compliance Monitoring and Enforcement Program (CMEP) that are applicable to AECI's registered functions. AECI is registered with SERC Reliability Corporation (SERC) as a Balancing Authority (BA), Transmission Owner (TO), Transmission Service Provider (TSP), Transmission Operator (TOP), Transmission Planner (TP), Resource Planner (RP), Distribution Provider (DP), Generator Owner (GO), Generator Operator (GOP), Load-Serving Entity (LSE), Purchasing-Selling Entity (PSE), Interchange Authority (IA) and Planning Authority (PA). Thirty operating standards were selected and identified to AECI as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of AECI, and did not include any evidence obtained through system observation or inspection. The findings of the audit are based on the state of compliance and current mitigation activity at the time of the audit, and do not reflect past compliance activities or activities that will be completed in the future.

AECI staff was requested to provide valid evidence of meeting each and every applicable requirement and sub-requirement contained in each standard that had been previously identified by SERC Compliance staff to AECI as subject to this audit. AECI staff responded by providing evidence in the form of reports, procedures, studies, and other documents. AECI staff then cited specific portions of the evidence that demonstrated compliance. This evidence and the citations were documented and evaluated by the audit team to assess the level of compliance. If all of the requirements and sub-requirements of an audited standard were met, then AECI was judged to be compliant. Likewise, if any of the requirements or sub-requirements were not fully met, then AECI was judged to have a possible violation of the standard. A score of 100% is required for compliance.

AECI has an open mitigation plan regarding NERC Reliability Standards BAL-005-1 Requirement 8.1, and MOD-025-1 Requirement 6 that are currently in process. The audit team reviewed the current status of the mitigation plans. Additionally, AECI recently closed a mitigation plan regarding NERC Reliability Standard FAC-003-1, Requirement 2. The audit team reviewed the mitigation plan completion documentation to ensure compliance.

The audit team found AECI to be in compliance with all of the NERC Reliability Standards in the audit scope.

AUDIT PROCESS

The compliance audit process steps are detailed in the NERC 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 audit for compliance with all Reliability Standards applicable to the functions for which the registered entity is registered.¹ The audit objectives are:

- Independently review AECI compliance with the requirements of the Reliability Standards that are applicable to AECI based on the AECI registered functions.
- Validate compliance with applicable Reliability Standards from the NERC 2008 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 AECI compliance culture.

Scope

The scope of the audit of AECI included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of AECI, the 30 operating Reliability Standards previously identified were the focus of the compliance audit.

Note: For the 2008 compliance program, the monitoring period for the compliance audit will generally be the past 12 months or periods specified in individual Reliability Standards. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

Confidentiality and Conflict of Interest

Code of conduct documentation for the regional entity staff were provided to AECI in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to AECI upon request. SERC has confirmed that confidentiality agreements have been executed by, and are on file for SERC Industry Volunteers. AECI 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. AECI accepted the audit team member participants with no objections.

On-site Audit

AECI was contacted by letter on April 3, 2008 by SERC staff. The letter provided AECI with their initial notification of their upcoming audit in 2008, and the desire to schedule audit dates that would be acceptable to both parties. SERC staff then provided formal acknowledgement of the scheduled audit dates and requested that AECI both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

On June 25, 2008, SERC staff forwarded an Audit Detail Letter to AECI, again confirming the scheduled audit dates and confirming AECI's registered functions within SERC. The Audit Detail Letter also provided AECI with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with industry affiliations), and requested that AECI Subject Matter Experts (SMEs) responsible for and knowledgeable of compliance submittals be available for interview during the audit. In addition to the Audit Detail Letter, AECI was provided with a Non-Disclosure Agreement Signature Verification for audit team members, a Pre-Audit Questionnaire, a list of "Documents to be Provided or Have Available", and Reliability Standard Auditor Worksheets (RSAWs) for each standard to be audited.

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

Interviews with SMEs were requested, in conjunction with documented evidence, to provide the audit team with additional information or clarification as a basis for professional judgment when validating compliance with Reliability Standards.

Methodology

A team of auditors and SMEs were identified and conducted the audit of AECI. The standards were grouped and scheduled for review to make the most efficient use of AECI staff's time. The audit team moderator (ATL or designee) initiated dialogue on each standard requirement and requested compliance evidence. This evidence and AECI's staff response was documented. AECI staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement contained in the 30 standards that had been previously identified by SERC to AECI as subject to this audit. AECI staff responded by providing evidence in the form of reports, procedures, studies and other documents. AECI staff would then cite specific portions of the evidence that demonstrated compliance.

This evidence and the citations were documented by the scribe on the RSAWs and evaluated by the audit team for the level of compliance and agreement with the requirement. Discrepancies between the requirement and the evidence provided were the subject of dialogue among the team members and AECI staff members until it was determined that each requirement was met by the cited evidence or other evidence offered.

Once all the evidence was presented and discussed, if AECI did not provide sufficient evidence to support a finding of compliance, then a possible violation was identified by the team and AECI staff was informed.

Audit Overview

The audit team arrived at the AECI offices at 2:49 p.m. CDT, September 22, 2008. Each member of the audit team was introduced and professional affiliation identified. The staff of AECI was introduced, and general housekeeping matters explained. At 2:58 p.m. CDT, September 22, 2008 Steve Gibe, Senior Compliance Auditor and Audit Team Lead (ATL) began the session with an opening presentation. He reviewed the NERC compliance plan for 2008 in general, and how it applied to AECI specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of AECI staff and the quality of evidence to be presented. The ATL also covered the basic procedure for the audit, and the bounding rules of conduct. AECI staff made a brief presentation describing AECI's corporate structure and their compliance program. The staff of AECI was then excused and the audit team reviewed team assignments and a general overview for preparation of the audit activities starting on the next day.

The audit team arrived at the AECI offices at 7:45 a.m. CDT, September 23, 2008. The audit of the NERC Reliability Standards that were the focused scope started at 8:03 a.m. CDT, September 23, 2008.

Audit

The audit team initially reviewed the registration status of AECI with entity staff to verify applicability of each standard. Each standard's audit began with a recitation of each requirement. AECI staff then presented evidence supporting requirement compliance, or cited evidence previously provided to the audit team. At that point, the evidence was reviewed and discussed until the team reached agreement on the evidence. By audit team consensus a determination of compliance was reached for each of the requirements, and communicated to

AECI staff before proceeding to the next requirement. At that point the team scribe would record the evidence presented to satisfy the requirement and the team's recommendation on that requirement using the RSAW.

The review of all applicable standards was completed at 4:10pm CDT on September 24, 2008, and the audit team met to review and discuss the findings. Following these discussions, the scribe collected all notes and evidence as needed and began to finalize the RSAW.

Exit Briefing

The ATL presented an exit briefing to the assembled audit team and entity staff at 8:40 a.m. CDT, September 24, 2008. This was followed by an informal response to any questions from the AECI staff. The exit briefing summarized the team preliminary conclusions, including any items of potential noncompliance or possible violation with supporting information, areas of concern, any added information required and the expected timeline for review and issuance of the audit report.

The ATL solicited both informal comments from AECI staff, along with requesting that they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the AECI meeting room at 9:30 a.m. CDT, September 24, 2008.

Company Profile

Associated Electric Cooperative, Inc. operates an electric utility covering most rural areas of Missouri, parts of southeast Iowa, and Northeast Oklahoma all within the footprint of SERC. AECI is a cooperative of six G&T Cooperatives. These six are: KAMO Electric Cooperative, M&A Electric Power Cooperative, ShoMe Power Electric Cooperative, Northeast Electric Power Cooperative, NW Electric Power Cooperative and Central Electric Power Cooperative. AECI acts as a single Balancing Authority (BA) that incorporates all six G&T Cooperatives. The aggregate control area is forecasting a 4159 MW peak with aggregate generation capacity of 5355 MW's. AECI services over 830,000 customers from 51 member distribution cooperatives. The utility has over 152 interconnections with other entities.

AECI holds membership on numerous SERC committees, including the Engineering committee, Operations committee, Cyber Security committee, Engineering Compliance Advisory Group, Operating Compliance Advisory Group, ATCWG, SERC Generation subcommittee and various planning groups. In addition, AECI participates in the following SERC regional planning groups: NTSG – OASIS and Reliability (former VASTE), LTSG – DBU and Long Term Reliability (former VSTE), SCDWG – Short Circuit, DSG – Dynamics and Stability and MRO-RFC-SERC West-SPP, MRSWS. Additionally, AECI is also a liaison member of SPP's TWG.

Audit Specifics

The compliance audit was conducted September 22-25, 2008 at the AECI office in Springfield, Missouri.

Audit Team

Audit Team Role	Name	Title	Company
Lead	Steve Gibe	Senior Compliance Auditor	SERC
Member	Mike Vastano	Compliance Auditor	SERC

Audit Team Role	Name	Title	Company
Member	Kevin Berent	Compliance Auditor	SERC
Member	Randy Haynes	SERC Industry Subject Matter Expert	TVA
Member	Timmy Lejeune	SERC Industry Subject Matter Expert	LAGen
Member	Robert Thomasson	SERC Industry Subject Matter Expert	Big Rivers

AECI Audit Participants Title and Organization

Title	AECI Organization
Director, E&O	Headquarters
CIO, Information Services	Headquarters
General Council and Chief Compliance Officer	Headquarters
I.T. Compliance Coordinator	Headquarters
Manager, System Operations	Headquarters
Manager, Information Technologies	Headquarters
Manager, EMS	Headquarters
Manager, Reliability Compliance	Headquarters
Supervisor System Operations	Headquarters
Senior Operations Engineer	Headquarters
Senior Operations Engineer	Headquarters
Ops. Energy Analyst	Headquarters
System Operator	Headquarters

AUDIT RESULTS

The audit team found AECI to be in compliance with all of the NERC Reliability Standards in the audit scope. Please see Findings Table below.

Findings

Reliability Standard	Requirement	Finding
BAL-001-0	R1.	Compliant
BAL-001-0	R2.	Compliant
BAL-001-0	R3.	Compliant
BAL-001-0	R4.	Compliant
BAL-002-0	R1.	Compliant
BAL-002-0	R2.	Compliant
BAL-002-0	R3.	Compliant
BAL-002-0	R4.	Compliant
BAL-002-0	R5.	Compliant
BAL-002-0	R6.	Compliant
BAL-003-0	R1.	Compliant
BAL-003-0	R2.	Compliant
BAL-003-0	R3.	Compliant
BAL-003-0	R4.	Compliant
BAL-003-0	R5.	Compliant
BAL-003-0	R6.	Compliant
BAL-004-0	R1.	N/A
BAL-004-0	R2.	N/A
BAL-004-0	R3.	Compliant
BAL-004-0	R4.	N/A
BAL-005-0	R1.	Compliant
BAL-005-0	R2.	Compliant
BAL-005-0	R3.	Compliant
BAL-005-0	R4.	Compliant
BAL-005-0	R5.	Compliant
BAL-005-0	R6.	Compliant
BAL-005-0	R7.	Compliant
BAL-005-0	R8.	Compliant
BAL-005-0	R9.	Compliant
BAL-005-0	R10.	Compliant
BAL-005-0	R11.	Compliant
BAL-005-0	R12.	Compliant
BAL-005-0	R13.	Compliant
BAL-005-0	R14.	Compliant
BAL-005-0	R15.	Compliant
BAL-005-0	R16.	Compliant
BAL-005-0	R17.	Compliant
BAL-006-1	R1.	Compliant
BAL-006-1	R2.	Compliant
BAL-006-1	R3.	Compliant
BAL-006-1	R4.	Compliant

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Critical Energy Infrastructure Information) – Has Been Removed

Reliability Standard	Requirement	Finding
BAL-006-1	R5.	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
CIP-002-1 through CIP-009-1		
COM-001-1	R1.	Compliant
COM-001-1	R2.	Compliant
COM-001-1	R3.	Compliant
COM-001-1	R4.	Compliant
COM-001-1	R5.	Compliant
COM-001-1	R6.	Compliant
COM-002-2	R1.	Compliant
COM-002-2	R2.	Compliant
EOP-001-0	R1.	Compliant
EOP-001-0	R2.	Compliant
EOP-001-0	R3.	Compliant
EOP-001-0	R4.	Compliant
EOP-001-0	R5.	Compliant
EOP-001-0	R6.	Compliant
EOP-001-0	R7.	Compliant
EOP-002-2	R1.	Compliant
EOP-002-2	R2.	Compliant
EOP-002-2	R3.	Compliant
EOP-002-2	R4.	Compliant
EOP-002-2	R5.	Compliant
EOP-002-2	R6.	Compliant
EOP-002-2	R7.	Compliant
EOP-002-2	R8.	N/A
EOP-002-2	R9.	Compliant
EOP-003-1	R1.	Compliant
EOP-003-1	R2.	Compliant
EOP-003-1	R3.	Compliant
EOP-003-1	R4.	Compliant
EOP-003-1	R5.	Compliant
EOP-003-1	R6.	Compliant
EOP-003-1	R7.	Compliant
EOP-003-1	R8.	Compliant
EOP-004-1	R1.	N/A
EOP-004-1	R2.	Compliant
EOP-004-1	R3.	Compliant
EOP-004-1	R4.	N/A

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Reliability Standard	Requirement	Finding
EOP-004-1	R5.	N/A
EOP-005-1	R1.	Compliant
EOP-005-1	R2.	Compliant
EOP-005-1	R3.	Compliant
EOP-005-1	R4.	Compliant
EOP-005-1	R5.	Compliant
EOP-005-1	R6.	Compliant
EOP-005-1	R7.	Compliant
EOP-005-1	R8.	Compliant
EOP-005-1	R9.	Compliant
EOP-005-1	R10.	Compliant
EOP-005-1	R11.	Compliant
EOP-006-1	R1.	N/A
EOP-006-1	R2.	N/A
EOP-006-1	R3.	N/A
EOP-006-1	R4.	N/A
EOP-006-1	R5.	N/A
EOP-006-1	R6.	N/A
EOP-008-0	R1.	Compliant
EOP-009-0	R1.	N/A
EOP-009-0	R2.	N/A
FAC-003-1	R1.	N/A
FAC-003-1	R2.	N/A
FAC-003-1	R3.	N/A
FAC-003-1	R4.	N/A
FAC-008-1	R1.	N/A
FAC-008-1	R2.	N/A
FAC-008-1	R3.	N/A
FAC-009-1	R1.	N/A
FAC-009-1	R2.	N/A
FAC-013-1	R1.	N/A
FAC-013-1	R2.	N/A
INT-001-2	R1.	Compliant
INT-001-2	R2.	Compliant
INT-003-2	R1.	Compliant
INT-004-1	R1.	Compliant
INT-004-1	R2.	Compliant
IRO-001-1	R1.	N/A
IRO-001-1	R2.	N/A
IRO-001-1	R3.	N/A
IRO-001-1	R4.	N/A
IRO-001-1	R5.	N/A

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Reliability Standard	Requirement	Finding
IRO-001-1	R6.	N/A
IRO-001-1	R7.	N/A
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	N/A
IRO-003-2	R1.	N/A
IRO-003-2	R2.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	Compliant
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	Compliant
IRO-005-1	R1.	N/A
IRO-005-1	R2.	N/A
IRO-005-1	R3.	N/A
IRO-005-1	R4.	N/A
IRO-005-1	R5.	N/A
IRO-005-1	R6.	N/A
IRO-005-1	R7.	N/A
IRO-005-1	R8.	Compliant
IRO-005-1	R9.	N/A
IRO-005-1	R10.	N/A
IRO-005-1	R11.	N/A
IRO-005-1	R12.	N/A
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	Compliant
IRO-005-1	R15.	N/A
IRO-005-1	R16.	N/A
IRO-005-1	R17.	N/A
IRO-006-3	R1.	N/A
IRO-006-3	R2.	N/A
IRO-006-3	R3.	N/A
IRO-006-3	R4.	N/A
IRO-006-3	R5.	N/A
IRO-006-3	R6.	Compliant
IRO-014-1	R1.	N/A
IRO-014-1	R2.	N/A
IRO-014-1	R3.	N/A
IRO-014-1	R4.	N/A
IRO-015-1	R1.	N/A
IRO-015-1	R2.	N/A

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Reliability Standard	Requirement	Finding
IRO-015-1	R3.	N/A
IRO-016-1	R1.	N/A
IRO-016-1	R2.	N/A
PER-002-0	R1.	Compliant
PER-002-0	R2.	Compliant
PER-002-0	R3.	Compliant
PER-002-0	R4.	Compliant
PER-003-0	R1.	Compliant
PER-004-1	R1.	N/A
PER-004-1	R2.	N/A
PER-004-1	R3.	N/A
PER-004-1	R4.	N/A
PER-004-1	R5.	N/A
PRC-004-1	R1.	N/A
PRC-004-1	R2.	N/A
PRC-004-1	R3.	N/A
PRC-005-1	R1.	N/A
PRC-005-1	R2.	N/A
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A
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.	N/A
PRC-016-0	R2.	N/A
PRC-016-0	R3.	N/A
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R1.	Compliant
TOP-002-2	R2.	Compliant
TOP-002-2	R3.	Compliant
TOP-002-2	R4.	Compliant
TOP-002-2	R5.	Compliant
TOP-002-2	R6.	Compliant
TOP-002-2	R7.	Compliant
TOP-002-2	R8.	Compliant
TOP-002-2	R9.	Compliant
TOP-002-2	R10.	Compliant
TOP-002-2	R11.	Compliant

Confidential Information (including Privileged and
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Reliability Standard	Requirement	Finding
TOP-002-2	R12.	Compliant
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	Compliant
TOP-002-2	R17.	Compliant
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	Compliant
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
TOP-003-0	R4.	N/A
TOP-004-1	R1.	Compliant
TOP-004-1	R2.	Compliant
TOP-004-1	R3.	Compliant
TOP-004-1	R4.	Compliant
TOP-004-1	R5.	Compliant
TOP-004-1	R6.	Compliant
TOP-005-1	R1.	Compliant
TOP-005-1	R2.	Compliant
TOP-005-1	R3.	Compliant
TOP-005-1	R4.	Compliant
TOP-007-0	R1.	Compliant
TOP-007-0	R2.	Compliant
TOP-007-0	R3.	Compliant
TOP-007-0	R4.	N/A
TPL-001-0	R1.	N/A
TPL-001-0	R2.	N/A
TPL-001-0	R3.	N/A
TPL-002-0	R1.	N/A
TPL-002-0	R2.	N/A
TPL-002-0	R3.	N/A
TPL-003-0	R1.	N/A
TPL-003-0	R2.	N/A
TPL-003-0	R3.	N/A
TPL-004-0	R1.	N/A
TPL-004-0	R2.	N/A
VAR-001-1	R1.	Compliant
VAR-001-1	R2.	Compliant
VAR-001-1	R3.	Compliant
VAR-001-1	R4.	Compliant
VAR-001-1	R5.	Compliant

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Reliability Standard	Requirement	Finding
VAR-001-1	R6.	Compliant
VAR-001-1	R7.	Compliant
VAR-001-1	R8.	Compliant
VAR-001-1	R9.	Compliant
VAR-001-1	R10.	Compliant
VAR-001-1	R11.	Compliant
VAR-001-1	R12.	Compliant
VAR-002-1	R1.	N/A
VAR-002-1	R2.	N/A
VAR-002-1	R3.	N/A
VAR-002-1	R4.	N/A
VAR-002-1	R5.	N/A

Compliance Culture

Information regarding the compliance culture of AECI was obtained from the Pre-Audit Compliance Survey, Compliance Program Survey, and Pre-Audit Questionnaires that were completed by AECI prior to the audit.