



Compliance Audit Report Public Version

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**KeyTex Energy, LLC
NERC ID# NCR08056**

Date of Audit: September 2-9, 2008

Date of Audit Report: November 6, 2008

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Executive Summary

An off-site compliance audit of KeyTex Energy, LLC was conducted from September 2, 2008 to September 9, 2008. At the time of the audit, KeyTex Energy, LLC was registered for the Purchasing Selling Entity (PSE) function.

The audit team evaluated KeyTex Energy, LLC for compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to September 9, 2008. KeyTex Energy, LLC submitted information and documentation to aid the audit team's evaluation of compliance with standards. The audit team reviewed and evaluated all information provided by KeyTex Energy, LLC to assess compliance with standards applicable to the PSE function.

Based on the information and documentation provided by KeyTex Energy, LLC, the audit team made the following determinations: three (3) requirements in two (2) NERC Reliability Standards were determined to be not applicable to KeyTex Energy, LLC. KeyTex Energy, LLC was found to be compliant with four (4) requirements in four (4) applicable NERC Reliability Standards. The audit team did not identify any possible compliance violations of NERC Reliability Standards. These results are further explained in the Audit Results section of this report which includes detailed information of the audit team's determination of applicability and compliance for the Reliability Standards within the scope of the compliance audit.

There were no ongoing mitigation plans and therefore none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the NERC and ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). The NERC and ReliabilityFirst CMEP generally conform 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 entity is registered. The audit objectives are to:

- Review KeyTex Energy, LLC's compliance with the requirements of Reliability Standards that are applicable to KeyTex Energy, LLC, based on the functions that KeyTex Energy, LLC is registered to perform.
- Validate compliance with applicable Reliability Standards from the NERC 2008 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by ReliabilityFirst.
- Validate compliance with applicable Regional Standards from the ReliabilityFirst 2008 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other applicable Reliability Standards, and review the status of associated mitigation plans.
- Document the compliance culture and the compliance program of KeyTex Energy, LLC.

Scope

The scope of the compliance audit included applicable NERC Reliability Standards in the NERC 2008 Implementation Plan.

At the time of the audit, KeyTex Energy, LLC was registered for the Purchasing Selling Entity (PSE) function. The audit team evaluated KeyTex Energy, LLC for compliance with six (6) NERC Reliability Standards for the period of June 18, 2007 to September 9, 2008.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the ReliabilityFirst Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. KeyTex Energy, LLC was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to KeyTex Energy, LLC. KeyTex Energy, LLC 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 an audit team member's impartial performance of duties. KeyTex Energy, LLC had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection.

Off-site Audit

KeyTex Energy, LLC is currently subject to a compliance audit at a minimum of once every six years. KeyTex Energy, LLC was provided with a sixty (60) day notification of this scheduled audit and at that time, all necessary documents required by the Reliability*First* audit process were provided. The following documents were provided to KeyTex Energy, LLC as part of the notification:

- 60-day Notification letter which contained a request for evidence, information and data submittals
- Compliance Audit Survey
- Internal Compliance Program Survey
- Audit Agenda as applicable
- Audit Team Work History with discussion of objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Auditor Worksheets (RSAWs)
- Reliability Standard Questionnaires

Documents were provided to KeyTex Energy, LLC in both electronic and hardcopy format.

Reliability*First* discussed the usage of technical experts with KeyTex Energy, LLC and allowed their use as deemed necessary by KeyTex Energy, LLC to provide the audit team an understanding of the evidence provided to demonstrate their compliance to the standards.

An audit agenda was provided to KeyTex Energy, LLC in advance to allow the necessary time to prepare for the audit. KeyTex Energy, LLC's cooperation and flexibility with the agenda was appreciated by the audit team.

At times, and according to the generally accepted government auditing standard 3.31, auditors are required to use professional judgment in planning, performing audits, attestation engagements and in reporting the results.

Additionally, and with the generally accepted government auditing standard 3.39, while this standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an audit or attestation engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization.

Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit, but rather identifying, considering, minimizing, mitigating, and explaining them.

Methodology

Reliability*First* staff conducted the audit off-site. The audit team reviewed the information, evidence and data submitted by KeyTex Energy, LLC and assessed compliance with requirements of applicable Reliability Standards. The audit team requested and received, via email and phone conversations, additional information and clarification when the audit team determined it was necessary.

Opening Briefing

An Opening Briefing was conducted on September 2, 2008 via a conference call/Webex utilizing a PowerPoint presentation to discuss the following:

- Introduction of audit team
- Audit Objective and Scope
- Team Audit Expectations
- Discussion on Clarification Calls
- Audit Process
- Exit Briefing and schedule

Audit

The Audit team consisted of one Reliability*First* Compliance staff member and one contract auditor. The Reliability*First* Compliance staff member was designated as the audit team lead responsible for facilitating the audit process, serving as the primary contact person for the audit team, and completing the audit report. The audit team worked together to review evidence provided by KeyTex Energy, LLC and assessed compliance with the requirements of the standards that were audited. Requests for additional information, verification and clarification were communicated to the KeyTex Energy, LLC primary contact through phone conversations and/or email. KeyTex Energy, LLC was NOT permitted to create new documents and or edit existing material and or documents that were previously provided as evidence.

Exit Briefing

The audit team conducted an exit briefing with KeyTex Energy, LLC on September 9, 2008 via a conference call/Webex utilizing a PowerPoint presentation. The primary and alternate compliance contacts for KeyTex Energy, LLC participated in the exit briefing. The status of the off-site audit process was discussed, followed by audit scope, preliminary audit findings, compliance audit report process, and feedback forms. No possible violations were identified

during the audit and this was discussed with the preliminary results. KeyTex Energy, LLC was provided an opportunity to ask questions that the audit team addressed.

Company Profile

At the time of the audit, KeyTex Energy, LLC was registered for the Purchasing Selling Entity (PSE) function. KeyTex Energy, LLC is based in Greensburg Pennsylvania and trades in PJM, NYISO and ISO-NE.

Audit Specifics

The compliance audit was conducted from September 2, 2008 to September 9, 2008 at the ReliabilityFirst offices in Akron, Ohio.

Audit Team Participants

Audit Team Role	Title	Company
Team Lead	Senior Consultant	ReliabilityFirst
Team Member	Consultant	Scott Porteous and Associates

KeyTex Energy, LLC Audit Participants

Title	Organization
Vice President Business Development	KeyTex Energy, LLC
Vice President	KeyTex Energy, LLC

Audit Results

The audit team evaluated KeyTex Energy, LLC's compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to September 9, 2008. The audit team used data provided by KeyTex Energy, LLC to determine compliance with standards. Based on information provided by KeyTex Energy, LLC, of the six (6) Reliability Standards audited, three (3) requirements in two (2) standards were determined to be not applicable. The audit team determined that KeyTex Energy, LLC was compliant with four (4) requirements in four (4) NERC Reliability Standards. The audit team found that KeyTex Energy, LLC did not have any possible violations of NERC Reliability Standards that were within the scope of the compliance audit.

The audit team carefully and methodically reviewed the submitted evidence and discussed findings as a team to determine if the evidence met the requirements of the Reliability Standards. If the evidence was inadequate or did not cover all of the requirements in the Reliability Standard, the audit team asked for additional evidence and/or clarification. KeyTex Energy, LLC provided a primary compliance contact for clarification through phone conversations and e-mail correspondence. Throughout the audit, the audit team members took notes on findings of evidence of compliance.

The audit team reviewed documentation in hardcopy and electronic forms provided by KeyTex Energy, LLC.

Findings

The following table details the findings for compliance with the Reliability Standards listed in the NERC 2008 Implementation Plan and/or selected for this audit:

Reliability Standard	Req.	Finding
INT-001-2	R1.	N/A
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R8.	Compliant
IRO-005-1	R13.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

In response to the Compliance Audit Questionnaire KeyTex Energy, LLC indicated that they have a compliance culture as exhibited via their compliance policy. This policy places the responsibility to comply with Reliability Standards on all employees and senior management. Failure to adhere to the policy can result in disciplinary action for employees, including possible dismissal.

The policy includes the following:

- Complying with any and all directives received from Regional Reliability Organizations, Balancing Authorities, Reliability Coordinators, Transmission Operators, NERC or any other entity having jurisdiction over system reliability;
- Performing timely and accurate submission of all necessary certifications, documentation, etc. to the appropriate authority;
- Promptly reporting any violations or suspected violations of NERC requirements or guidelines to management and/or NERC;
- Regularly reviewing NERC regulations to assure understanding and compliance, and annually signing acknowledgment of such requirements.