



Compliance Audit Report Public Version

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**Edison Sault Electric Company
NERC ID# - NCR00770**

Date of Audit: October 13 – 23, 2008

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TABLE OF CONTENTS

Executive Summary	1
Audit Process	1
<i>Objectives</i>	1
<i>Scope</i>	1
<i>Confidentiality and Conflict of Interest</i>	2
<i>Off-site Audit</i>	2
<i>Methodology</i>	3
<i>Opening Briefing</i>	3
<i>Audit</i>	4
<i>Exit Briefing</i>	4
<i>Company Profile</i>	4
<i>Audit Specifics</i>	5
Audit Results.....	6
<i>Compliance Culture</i>	7

Executive Summary

The off-site compliance audit of Edison Sault Electric Company (ESE) registered as a Load Serving Entity (LSE) and Distribution Provider (DP) was conducted from October 13 – October 23, 2008 at the offices of ReliabilityFirst Corporation (RFC) in Akron, OH. The audit team consisted of one ReliabilityFirst auditor and one contract auditor.

The audit team evaluated ESE for compliance with thirty-two (32) requirements in eighteen (18) NERC reliability standards for the period of June 18, 2007 to October 23, 2008. ESE submitted information and documentation to facilitate the audit team's evaluation of compliance with these standards applicable to the registered functions. The audit team reviewed and evaluated the documentation provided by ESE to determine compliance with the referenced standards.

Of the thirty-two (32) NERC requirements audited, eighteen (18) were not applicable with the remaining fourteen (14) found to be compliant. The basis for these findings is detailed in the Audit Result Findings.

There were no on-going 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 Enforcement Programs (CMEP). The NERC and ReliabilityFirst CMEPs generally conform to the United States Government Accountability Office Government Auditing Standards (GAOGAS) 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. The audit objectives are:

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

Scope

ESE is subject to monitoring by ReliabilityFirst on a six year basis. This audit was conducted on those standards, which were provided by NERC for monitoring in the 2008 CMEP Implementation Plan and those selected by ReliabilityFirst. ReliabilityFirst monitors all applicable ReliabilityFirst standards, self-certifications and mitigation plans as appropriate.

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 and Procedures. ESE was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to ESE. ESE 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. ESE had not submitted any objections by the stated fifteen day objection due date and by this action, had accepted the audit team member participants without objections.

Off-site Audit

ESE is subject to an audit once every six years at the minimum as provided by the NERC Rules of Procedure. ESE was provided with a sixty (60) day notification of this scheduled audit and at that time, all necessary documents required by the NERC and ReliabilityFirst audit process were provided. The following documents were provided to ESE as part of the notification:

- 60-day Notification letter which contained request for evidence, information and date submittals
- Audit Survey
- Internal Compliance 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 ESE in both electronic and hardcopy format. ReliabilityFirst discussed with ESE the usage of technical experts and welcomed the use of technical experts by ESE as it deemed necessary to explain their compliance to the standards.

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

ReliabilityFirst conducted this compliance audit using the off-site method. Sixty (60) days prior to this scheduled audit, ESE 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 and review of the submitted information and evidence, 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 to provide the entity with the team findings. A draft report was compiled for review by ReliabilityFirst and the audited entity in both a public and non-public version. After completion of this review, the final reports are submitted to the audited entity and NERC for posting. This off-site audit followed the following format:

Opening Briefing

An Opening Briefing was conducted as a conference call 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 ReliabilityFirst Compliance person, and a contractor working for ReliabilityFirst. The ReliabilityFirst Compliance staff individual was designated as the audit team lead responsible for facilitating the audit process and serving as the primary contact person for the audit, while the ReliabilityFirst contract person participated and recorded findings as determined by evaluation of the submitted evidence with the team lead. Audit team members substantiated findings to evaluate whether a possible compliance violation exists, utilizing the sufficiency, credibility and appropriateness of submitted evidence. Any clarifications and additional requests for evidence were communicated to ESE's primary contact through phone conversations and/or email.

The ReliabilityFirst Audit team reviewed each reliability standard and applicable requirements, then evaluated and measured the evidence provided by the entity against the requirement within the standard. When there was concern that the supporting evidence did not meet the requirement, clarification calls and/or clarification emails were sent to the entity for additional detail, and/or additional evidence in the form of examples. ESE was NOT permitted to create new documents or edit existing material and documents that were provided as evidence.

Exit Briefing

An Exit Briefing was conducted via a conference call with a Power Point Presentation for the off-site audit of ESE. The ReliabilityFirst audit team and the ESE team participated. Status of the off-site audit process was explained, followed by audit scope, preliminary audit findings and basis, recommendations, compliance audit report process, and feedback forms. If possible violations were identified during the audit they would have been reviewed during the discussion of our preliminary results. ESE was provided an opportunity to ask questions that the audit team addressed. In addition, the audit team made positive recommendations as to the quality of evidence that were reviewed with ESE.

Company Profile

At the time of the audit, Edison Sault Electric Company was registered for the NERC functions of Load Serving Entity (LSE) and Distribution Provider (DP) in the ReliabilityFirst region.

ESE does not own transmission assets and the majority of ESE's system is connected at 69kV and located in the upper peninsula of Michigan. The two distribution substations, Lakehead Naubinway (owned by Edison Sault) and Brevort SS (owned by a wholesale customer) are connected at the 138 kV level with the low side voltage below 100 kV. All other load substations and all generators are connected at 69 kV which does not meet the definition of the NERC Bulk Electric System.

ESE's distribution system is connected to the transmission facilities bounded by the following interconnection points:

- 1.) International Transmission Company (ITC) at McGulpin SS with 138kV lines 9901 and 9903 owned by the American Transmission Company (ATC).
- 2.) Upper Peninsula Power Company at Blaney Park SS with 69kV line "Inland Line" owned by ATC.
- 3.) Wisconsin Electric Power Company at Perkins SS with 138kV lines 39561 and 39581 which are owned by ATC.

The following generators are located within the ESE system boundaries. None are connected to the BES (All are connected via the 69 kV distribution system).

Edison Sault Hydro located at the Portage Street Substation (SS)
US Army Corp of Engineer's US Hydro located at the Magazine SS
Cloverland Electric Cooperative's Dafter located at the Dafter SS
Manistique located at the Manistique SS
Village of Newberry generation located at the Newberry Village SS
Cloverland Electric Cooperative's Detour generation located at the Detour Diesel Plant
Substation

ESE has a peak load of approximately 145 mw which normally peaks in the winter and operates in a 24/7 environment. The control center operations are conducted from either ESE's hydro plant location or off-site at the Wisconsin Electric's Iron Mountain Control Center which is under contract with ESE to perform control center functions on the weekends, holidays and midnight shifts.

Audit Specifics

The compliance audit was conducted on October 13 - 23 at the ReliabilityFirst office in Akron, Ohio.

ReliabilityFirst Audit Team Participants

Audit Team Role	Title	Company
Lead	Senior Consultant Operations	ReliabilityFirst
Member	Contractor	ReliabilityFirst Contractor

ESE Audit Participants

Title	Organization
Project Manager	Wisconsin Electric

Audit Results

The audit team evaluated compliance with thirty two (32) requirements in eighteen (18) NERC reliability standards for the period June 18, 2007 to October 23, 2008. The audit team used data provided by ESE to determine compliance with standards.

Of the thirty-two (32) NERC requirements audited, eighteen (18) were not applicable and fourteen (14) were found to be compliant.

The audit team reviewed ESE's documentation in the form of two (2) hardcopy manuals submitted by ESE. This evidence was very well organized and supported by electronic versions. Additional corroborating evidence was presented as required.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2008 Implementation Plan for this audit:

ESE Audited Reliability Standards	Requirement	Finding
BAL-005-0	R1.1	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-002-2	R9	Compliant
EOP-004-1	R2.	Compliant
EOP-004-1	R3. & sub Reqs	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
IRO-005-1	R13.	N/A
MOD-017-0	R1. & sub Reqs.	Compliant
MOD-019-0	R1.	Compliant
PRC-004-1	R2.	N/A
PRC-004-1	R3.	N/A
PRC-005-1	R1. & Sub Reqs	N/A
PRC-005-1	R2. & Sub Reqs	N/A
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A

ESE Audited Reliability Standards	Requirement	Finding
PRC-010-0	R1. & Sub Reqs	N/A
PRC-010-0	R2.	N/A
PRC-011-0	R1. & Subs Reqs	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. & Sub Reqs	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R18.	Compliant

Compliance Culture

The Edison Sault Electric and Wisconsin Electric Power Company compliance cultures are woven together under the umbrella of Wisconsin Energy Corporation. Culture is fostered by upper management and transmitted across the company to the base operational level personnel. The processes and procedures enumerated below by the companies acting as one exhibits the thoroughness of a well planned and inclusive companies' wide compliance culture.

The Federal Regulatory Affairs & Policy (FRAP) group, under the leadership of senior management, is responsible for the coordination of the compliance efforts for FERC/NERC/ReliabilityFirst regional regulations applicable to Wisconsin Electric Power Company and Edison Sault Electric Company.

FRAP internally developed a program, called the Federal Energy Regulatory Compliance Program, for both companies. The program is designed to demonstrate compliance with FERC regulations including the NERC Electric Reliability and Critical Infrastructure Protection Standards.

The compliance program includes a Compliance Database (database) to aid in evidence gathering, documentation, archiving documentation and reporting compliance activities to Certifying Executives. The database tracks control activities related to all applicable regulations and standards in order to demonstrate the company's compliance with those requirements on a periodic basis. The compliance program also includes formal procedures to review and report suspected non-compliance and to manage and respond to FERC/NERC/ReliabilityFirst regional audits and/or investigations.

The internal compliance program includes self-assessment and self-enforcement of internal controls to prevent reoccurrence of violations. Self-assessment is an integral part of the Compliance Program. The structure of the Compliance Program designates the Certifying Executive ultimately responsible for ensuring that all employees within his/her area of responsibility understand and comply with all applicable federal energy standards and requirements. Within the database structure, various roles of employees are designed to include a checks and balances system so that layers of approval are present for

all compliance activities. The Standard/Requirement and Control Activity Owners are the identified “experts” on their assigned standards and requirements and they certify compliance.

The Control Activity Owner provides documentation of compliance or reports perceived inconsistencies in compliance to the Standard/Regulation Owner. The Standard/Regulation Owner is responsible for understanding the standards and requirements and reviewing the results of all control activities related to the standard and requirement. The Standard Owner determines the level of compliance and may provide further documentation. The Compliance Coordinator reviews reports within the database to ensure the control activities are performed in accordance with appropriate compliance reporting. The Compliance Coordinator writes a memo quarterly to report the status of compliance to the Certifying Executive. The Certifying Executives file a compliance report to the Compliance Officer who reports on the corporation’s level of compliance to the Audit and Oversight Committee of the Board of Directors.

The FRAP group monitors changing regulations, assisting in the development and documentation of the necessary compliance processes, and helps to educate individuals responsible for executing the compliance process. FRAP personnel, in consultation with the Internal Audit Department and the Manager Compliance and Training, identified the appropriate responsible employees for the various compliance reporting and review roles. The Compliance Database has the capability to furnish individuals identified with selected roles with real-time reports on compliance activities with which they are associated. To increase the level of awareness and to reaffirm the corporation’s commitment to high ethical standards, the corporation requires that all employees complete computer-based training on the Code of Business Conduct within 30 days of employment. All management employees are required to annually certify their personal commitment to compliance. This certification process also encourages employees to seek guidance from the Compliance Officer in questionable or doubtful situations and to report concerns or suspected compliance violations.

Self-enforcement is covered in the Compliance Program under the process “Guidelines for Assessing and Reporting FERC Standard/Requirement or Control Activity Non-Compliance” that is available on the companies’ internal web site for all employees. The training program includes a discussion of this process.

A department newsletter, “The Chronicle,” routinely includes articles on the Compliance Program. This newsletter is available to all employees on the company’s intranet site. Various department meetings have included discussion and updates on the compliance program. FRAP sponsors a monthly NERC issues meeting and employees with responsibilities associated with NERC and RFC requirements attend. At this multi-department meeting, employees discuss standard development, review committee progress, assign responsibility of requirements to individuals or teams of the organization and track progress to maintain compliance. New or changing NERC requirements are actively reviewed as they make their way through the Standards process. Employees often directly participate on the NERC and Regional standards drafting teams which further enhance the ability to keep the understanding of the requirements up to date. Wisconsin Electric also stays abreast of changing requirements through its participation on various RFC and NERC committees.