



NORTHEAST POWER COORDINATING COUNCIL, INC.
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Compliance Audit Report Public Version

Bayswater Peaking Facility NCR07014

September 3-October 16, 2008

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

October 24, 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.

The offsite compliance audit of **Bayswater Peaking Facility** was conducted between September 3 and October 16, 2008. Additional information was submitted by **Bayswater Peaking Facility** on September 27th and October 11th, 2008. The audit was completed using data submitted by **Bayswater Peaking Facility** email data exchanges. The audit team evaluated **Bayswater Peaking Facility** compliance with sixteen reliability standards identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. Of the sixteen standards audited, all were judged to be compliant or not applicable. BAYSWATER provided subject matter experts for each standard resulting in a more clear understanding of the BAYSWATER'S business model and accelerated the audit process. The audit team would like to thank the BAYSWATER'S audit preparation team for the support offered through the audit.

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. The following chart is a listing of the compliance requirements for a GO and GOP.

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	GO	GOP
Standard Number	Requirement Number	Requirement Number
BAL-005-0		R1.
CIP-001-1		R1, R2, R3, R4
COM-002-2		R1.
EOP-004-1		R2, R3.
EOP-009-0	R2.	R1, R2
FAC-008-1	R1, R2	
FAC-009-1	R1, R2	
IRO-001-1		R8.
IRO-004-1	R4.	R4.
PRC-004-1	R2, R3	
PRC-005-1	R1, R2	
PRC-016-0	R1, R2, R3	
PRC-017-0	R1, R2	
TOP-002-2		R3, R13, R14, R15, R18
TOP-003-0		R1, R2, R3
VAR-002-1	R4, R5	R1, R2, R3.R5

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 of **Bayswater Peaking Facility** compliance with the requirements of the reliability standards that are applicable to **Bayswater Peaking Facility** based on the **Bayswater Peaking Facility** registered functions as of April 30, 2008.

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

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- 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 **Bayswater Peaking Facility** compliance culture.

Scope

A compliance audit will generally include all reliability standards applicable to the Registered Entity monitored in the NERC Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity. The scope of a compliance audit is scheduled as part of a regular, periodic scheduled audit. 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.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff were provided to the audited entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to the audited entity. The audited entity 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. The audited entity accepted the audit team member participants with no objections.

Off-site Audit

The notice of the audit was sent on January 14th, 2008 to Benjamin Church, Director, Reliability and Compliance at FPL notifying him of the schedule for the Compliance Audit as a Generation Owner on August 26, 2008. Attached to the letter was the following information to assist Mr. Church in his preparation for the audit, a) request for information, b) Reliability Standards Audit Worksheets (RSAW), c) Pre-Audit Survey and d) Pre-Audit Questionnaire. The list of reliability standards are as follows:

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	GO	GOP
Standard Number	Requirement Number	Requirement Number
BAL-005-0		R1.
CIP-001-1		R1, R2, R3, R4
COM-002-2		R1.
EOP-004-1		R2, R3.
EOP-009-0	R2.	R1, R2
FAC-008-1	R1, R2	
FAC-009-1	R1, R2	
IRO-001-1		R8.
IRO-004-1	R4.	R4.
PRC-004-1	R2, R3	
PRC-005-1	R1, R2	
PRC-016-0	R1, R2, R3	
PRC-017-0	R1, R2	
TOP-002-2		R3, R13, R14, R15, R18
TOP-003-0		R1, R2, R3
VAR-002-1	R4, R5	R1, R2, R3, R5

Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results.

Each auditor and audit organization exercises 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. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. 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.

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Methodology

The auditing standards and best practices that are to be followed by compliance auditors in carrying out their work are described in the Compliance Auditor Manual. The criteria are objective, measurable, complete and relevant to the audit objectives. The auditor identified potential sources of audit evidence and considers the amount and type of evidence needed given the risk and significance when defining the audit methodology.

Audit Overview

The audit overview conference call was conducted on September 5, 2008 with Christopher Orzel, Manager of Reliability and Compliance and Michael Calimano the NPCC auditor assigned to this audit. This call was an opportunity for the lead auditor to specify audit expectations including expected behavior of Registered Entity management.

Audit

The audit team reviewed each of the Reliability Standard Audit Worksheet (RSAWs) submitted for each listed standard as well as each of the policies and procedures used by BAYSWATER in meeting the requirements of each standard. Some of these procedures were at the Company level, the Reliability Coordinator level and at the regional level. Additionally, the audit team contacted BAYSWATER'S on September 17 and October 7, 2008 seeking clarifications and additional documentation needed to complete the audit. Additional information was sent to NPCC via disk and e-mail on a timely basis by the company in response to the outstanding questions.

Exit Briefing

The exit briefing was conducted by conference call on October 23, 2008. The meeting was attended by Michael Calimano of NPCC, Rosanna Jimenez of NERC and Christopher Orzel of FPL. NPCC staff reviewed the audit process and summarized the findings of the audit. The results of the audit were that all sixteen standards were judged to be compliant or not applicable. BAYSWATER was given an opportunity to question the audit findings and provide comment on the audit.

Company Profile

The Bayswater Peaking Facility is a single power generation unit that runs only when requested to by LIPA. LIPA is the main external interfacing organization with Bayswater, and Bayswater connects to LIPA's system at 69kV.

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FPL Group is the parent company to both Florida Power & Light (Florida-based Utility) and FPL Energy (unregulated energy subsidiary).

FPL Group: FPL Group, with annual revenues of nearly \$16 billion and a growing presence in 26 states, is nationally recognized as one of the country's premier energy companies. FPL Group's two principal subsidiaries are Florida Power & Light Company and FPL Energy, LLC.

Florida Power & Light: FPL is the largest investor-owned electric utility in Florida, serving more than 4.4 million customer accounts. It is one of the largest and fastest-growing electric utilities in the United States and is the nation's leading utility in customer energy efficiency programs

FPL Energy: FPL Energy is a leader in producing electricity from clean and renewable fuels, a world leader in the development and operation of wind power, and the largest generator of solar power in the nation.

Audit Specifics

The compliance audit was conducted by Michael Calimano at NPCC offices at 1515 Broadway, New York, New York 10036

Audit Team

Audit Team Role	Title	Company
Lead	Contract Consultant	NPCC
Member	Manager – Compliance	NPCC

Bayswater Peaking Facility Audit Participants

Name	Title	Company
Benjamin Church	Director, Reliability and Compliance	FPL, LLC
Christopher Orzel	Manager, Reliability and Compliance	FPL, LLC
Tom Miller		FPL, LLC
Jim Doran		FPL, LLC
Mark Salter		FPL, LLC
Jack Kogan		FPL, LLC

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Audit Results

BAYSWATER'S has submitted responses to the pre-audit questionnaire as well as the page 4 of the appropriate RSAW on a CD. Additional evidence was included such as the procedures, maintenance and testing results of equipment and screen shots from data submitted to the TO. In response to questions raised by the auditor, an e-mail with associated responses to the questions was sent on September and October 12, 2008.

Findings

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

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-002-2	R1.	Compliant
EOP-004-1	R2.	N/A
EOP-004-1	R3.	N/A
EOP-009-0	R1.	N/A
EOP-009-0	R2.	N/A
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-016-0	R1.	N/A
PRC-016-0	R2.	N/A
PRC-016-0	R3.	N/A

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Reliability Standard	Requirement	Finding
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R18.	Compliant
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
VAR-002-1	R1.	Compliant
VAR-002-1	R2.	Compliant
VAR-002-1	R3.	Compliant
VAR-002-1	R4.	Compliant
VAR-002-1	R5.	Compliant

Compliance Culture

The audit team reviewed the Bayswater Peaking Facility compliance culture. FPL Energy has a comprehensive compliance program in place which is reviewed and approved by senior management on an annual basis. This document is the charter for the Reliability and Compliance Group (RCG) at FPL Energy. RCG is responsible for ensuring compliance to the NERC reliability standards at all FPL Energy sites and for interfacing directly with NERC and the Regional Reliability Organizations. Bayswater Peaking Facility submitted this document for reference during the audit.