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Compliance Audit Report Public Version

Bethpage Energy Center 3, LLC
NCR07016

April 17 to April 22, 2008

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

April 22, 2008

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Executive Summary

This final compliance audit report is the public version. Confidential 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 Bethpage Energy Center 3, LLC (Bethpage 3) was conducted between April 17 and April 22, 2008. The audit was completed using data submitted by Bethpage 3 and telephone and email data exchanges. The audit team evaluated Bethpage 3's compliance with nine 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 nine standards audited, six were judged to be compliant and three were judged to be not applicable. Bethpage 3 provided a subject matter expert for each standard resulting in a more clear understanding of the Bethpage 3 business model and accelerated the audit process. The evidence provided to demonstrate compliance was complete, thorough and well organized. The audit team would like to thank the Bethpage 3 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.

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 Bethpage 3 compliance with the requirements of the reliability standards that are applicable to Bethpage 3 based on the Bethpage 3 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 Bethpage 3 compliance culture.

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

Scope

The audit included all standards identified in the January 23, 2008 audit letter for the previous year. The audit was a regularly scheduled audit and no self reported violations or compliance investigations were involved.

Confidentiality and Conflict of Interest

The audited entity was informed in advance of the audit that the independent contractors executed confidentiality agreements and code of conduct documentation was in place for the NERC representative and regional entity staff. Work history and conflict of interest forms submitted by each audit team member are on file in the NPCC corporate offices. 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

Bethpage 3 was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Bethpage 3 more than 60 days in advance of the scheduled audit. This is an off-site audit conducted every six years or as determined to be necessary by the region. Bethpage 3 had not self reported any violations

The audit team leader requested interviews with Bethpage 3 employees representing subject matter expertise regarding all of registered functions of Bethpage 3. These interviews in conjunction with evidence provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The audit team prepared reliability standards auditor worksheets (RSAWs) to evaluate each standard. The RSAW's are used to ensure consistency and to document evidence of compliance or non-compliance with the standards. All relevant documents are considered and to the extent they form portion of the audit trail are included in the RSAW's

Audit Overview

The audit overview was conducted on April 17, 2008 via conference call. The auditor reviewed his career, his previous involvement with Calpine, and noted he had signed confidentially agreements. A brief explanation of the audit process was given and the timelines were discussed. Bethpage 3 was given the opportunity to reject the auditor

should they feel that there was a possible conflict of interest or they thought the auditor would not be impartial. Bethpage 3 accepted the audit team.

Audit

Garth Arnott as the audit lead performed the audit off site. Prior to calls to Bethpage 3, the auditor developed a list of questions for Bethpage 3 and asked the questions. Bethpage 3 then took the time necessary to develop the answer and submitted them by email to the auditor.

Exit Briefing

The exit briefing was conducted by conference call on April 22, 2008 between Garth Arnott of NPCC and Alan Beckham of Bethpage 3. NPCC staff reviewed the audit process and summarized the findings of the audit. The results of the audit were six standards were judged to be compliant and three were judged to be not applicable. Bethpage 3 was given an opportunity to question the audit findings and provide comment on the audit. Bethpage 3 had no additional comments.

Company Profile

The Bethpage Energy Center -32, LLC (BP-3) facility is wholly owned and operated by Calpine Corporation. The combined cycle facility consists of a single GE LM6000 Combustion Turbine Generator (CTG) and a Siemens-Westinghouse Steam Turbine Generator. The combined facility rating is 80 MW (nom).

The BP-3 facility interconnects at single 69kV point, with the Long Island Power Authority (LIPA) system at the Bethpage Substation. The BP-3 facility output is wholly controlled by LIPA under the terms of a “Contract for the Sale and Purchase of Capacity, Energy, and Ancillary Services” (the Contract) between LIPA and BP-3.

BP-3 is registered with NPCC as Generator Owner (GO). The facility participates in the NY ISO market via dispatch decisions made by LIPA under the terms of “the Contract”.

Audit Specifics

The compliance audit was conducted on April 17 to April 22, 2008 at the Auditors offices.

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance

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Audit Team Role	Title	Company
		Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program

Bethpage 3

Title	[Audited Entity] Organization
Director, NERC Compliance	Calpine
Director, NERC Regulatory Compliance	Calpine

Audit Results

Bethpage 3 provided a CD containing data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions conference calls were used to request additional documentation until the auditor was convinced that the standards and requirements had been met and Bethpage 3 had demonstrated compliance.

After reviewing all the data Bethpage 3 was judged to be compliant with six standards and three were judged to be not applicable.

Findings

The following table details the summarized auditor notes relating to evidence reviewed for compliance with the reliability standards listed in the NERC 2008 Implementation Plan. This table can also include details summarizing auditor notes relating to evidence reviewed for reliability standard requirements for self-reported violations, ongoing mitigation plans, and other discussions.

Reliability Standard	Requirement	Finding
EOP-009-0	R2.	N/A
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-004-1	R4.	Compliant
PRC-004-1	R2.	Compliant

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Reliability Standard	Requirement	Finding
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
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
VAR-002-1	R4.	Compliant
VAR-002-1	R5.	Compliant

Compliance Culture

The audit team reviewed Bethpage 3's compliance culture. The regional entity compliance staff may review additional aspects of Bethpage 3's compliance culture. During all contacts Bethpage 3 staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability. The quality of the documentation and the national staff dedicated to compliance demonstrates a high level of commitment to the audit process and the company should be congratulated.