



NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Compliance Audit Report Public Version

Bucksport Energy LLC
NCR07023

September 29 to October 8, 2008

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

October 8, 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 off-site compliance audit of Bucksport Energy LLC (Bucksport) was conducted between September 29 and October 8, 2008. The audit was completed using data submitted by Bucksport prior to the audit and data acquired through telephone calls and email responses to questions.

The audit team evaluated Bucksport'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, two were judged to be compliant and seven were judged to be not applicable. Bucksport provided subject matter experts for each standard resulting in a clearer understanding of the Bucksport business model and accelerated the audit process. The evidence provided to demonstrate compliance was complete and well organized. The audit team would like to thank the Bucksport 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 Bucksport compliance with the requirements of the reliability standards that are applicable to Bucksport based on the Bucksport 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 Bucksport compliance culture.

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

Scope

The audit included all standards identified in the May 30, 2008 audit letter for the previous year. The audit was a regularly scheduled audit; there were no self reported violations. No 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

Bucksport was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Bucksport 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.

The audit team leader requested interviews with Bucksport employees representing subject matter expertise regarding all of registered functions of Bucksport. 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 at 9:30 AM September 23, 2008 via conference call. The auditor reviewed his career and noted he had signed confidentially agreements. A brief explanation of the audit process was given and the timelines were discussed. Bucksport 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. Bucksport accepted the audit team.

Audit

Garth Arnott as the audit lead performed the audit off site. Prior to calls to Bucksport, the auditor developed a list of questions for Bucksport and asked the questions. Bucksport 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 October 8, 2008 between Garth Arnott of NPCC and Richard Lizotte and Gerald Herrick of Bucksport, Brian Evans-Mongeon of Utility Services and Mark Vastano of NERC. NPCC staff reviewed the audit process and summarized the findings of the audit. The results of the audit were that two standards were judged to be compliant and seven was judged to be not applicable. Bucksport was given an opportunity to question the audit findings and provide comment on the audit. Bucksport said they thought the process was very professional and although it had been a lot of work it was a beneficial process.

Company Profile

Verso Paper entered into an agreement with Bucksport Energy for the development of a 174 MW dual fuel gas turbine and heat recovery steam generator. The name of the new plant is “Bucksport Clean Energy Plant”. The plant has two owners (the Co-Owners): Verso Paper, which owns an undivided 28% interest and, and Bucksport Energy LLC, which owns an undivided 72% interest. Bucksport Energy is a special, single purpose entity formed solely to be the majority Co-Owner of the Bucksport Clean Energy Plant. The plant exists based upon several contractual relationships including a “Co-Owners Agreement”. The Co-Owners have contracted with Verso Paper to operate the plant for the entire term of the contract. As operator, Verso Paper is responsible for day to day staffing and supervision necessary to operate the plant, perform routine maintenance and report to the Co-Owners. This also includes the on-going monitoring of the plant operations for compliance with all permits, as well as all environmental management services required for plant operation.

Bucksport Energy LLC(BELLC), as majority Co-Owner and “Generator Owner” (GO), entered into contractual agreements with H.Q. Energy Services (U.S.) Inc. which include a “Power Purchase Agreement”, a “Natural Gas Agreement”, and a “Fuel Oil Supply Agreement”. A “Product Storage and Delivery Agreement” between BELLC and Webber Tanks, Inc., a “Natural Gas Contract” with Marketing d’Énergie H.Q. Inc. and a “Firm Gas Transportation Service Agreement” between H.Q. Energy Services(US), Inc. and Bangor Gas Company LLC are also managed by BELLC.

Audit Specifics

The compliance audit was conducted between September 29 and October 8, 2008 at the auditor’s offices

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program

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Title	[Audited Entity] Organization
President	Buckspport
Project Manager	Buckspport
Consultant	Utility Services

Audit Results

Buckspport provided electronic files and emails 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 auditors were convinced that the standards and requirements had been met and Buckspport had demonstrated compliance.

After reviewing all the data Buckspport was judged to be compliant with two standards and seven 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	N/A
FAC-008-1	R2	N/A
FAC-009-1	R1	N/A
FAC-009-1	R2	N/A

Reliability Standard	Requirement	Finding
IRO-004-1	R4	Compliant
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-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 Bucksport's compliance culture. The regional entity compliance staff may review additional aspects of Bucksport's compliance culture. During all contacts Bucksport staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.