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Compliance Audit Report Public Version

Calpine Energy Services NCR07025

September 2 to September 30, 2008

September - 30/2008

Confidential Information
(Including Privileged and Critical Energy Infrastructure Information)
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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 Calpine Energy Services was conducted between September 2 and September 30, 2008. The audit was completed using data submitted by Calpine Energy Services and telephone and email data exchanges. The audit team evaluated Calpine Energy Services' compliance with twelve 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 twelve standards audited, ten were judged to be compliant; however, two standards were found to be non-applicable to CES.

Calpine Energy Services provided a subject matter expert for each standard resulting in a more clear understanding of the Calpine Energy Services business model and accelerated the audit process. The evidence provided to demonstrate compliance required requests for additional information and evidence.

The Calpine Energy Services audit was temporarily interrupted on September 11th due to the imminent arrival of hurricane Ike in the Houston area, which resulted in the evacuation of all but non-essential personnel from the city. The Calpine Energy Services audit team was allowed to return to their offices in Houston on September 22nd and the audit was resumed on September 23rd. Prior to the hurricane the audit did not progress as expected, information was presented in a manner which resulted in many further requests for clarification and for additional information. The auditor feels that this was due to the approach of the hurricane and the apprehension and stress that was placed on the CES staff because of it. When the audit resumed, after the hurricane had passed, the audit process went much smoother.

The Calpine Energy Services audit team responded to requests for further information in an expeditious manner. The audit team would like to thank the Calpine Energy Services team for the support offered throughout the audit, particularly in light of the impending hurricane and the ensuing evacuation of Houston.

Audit Process

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 Calpine Energy Services' compliance with the requirements of the reliability standards that are applicable to Calpine Energy Services based on the Calpine Energy Services registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.

The audit was completed using data submitted by Calpine Energy Services and information via email data exchanges. The audit team evaluated Calpine Energy Services' compliance with twelve 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 twelve standards audited (two of the standards were deemed to be not applicable to Calpine Energy Services), ten were judged to be compliant based on the data submitted in response to the audit request and further data provided as a result of follow up questions.

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.² The audit objectives are:

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

² North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- Independently review Calpine Energy Services' compliance with the requirements of the reliability standards that are applicable to Calpine Energy Services based on the 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 Calpine Energy Services' compliance culture.

Scope

The audit included all standards identified in the February 25, 2008 audit letter for the previous year. The audit was a regularly scheduled audit and there were no self reported violations or compliance investigations involved.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and regional entity staffs were available to the audited entity in advance of the audit. 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

Calpine Energy Services was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Calpine Energy Services 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. Calpine Energy Services had self reported no violations during the audit period.

The audit team leader requested that Calpine Energy Services employees representing subject matter expertise regarding all of registered functions of Calpine Energy Services be made available for interviews should the need arise. These interviews in conjunction with evidence provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Generally accepted government auditing standard 3.39 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. 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.

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 11:00 AM September 2nd, 2008 via conference call. The auditor reviewed his career and noted that he had signed a confidentially agreement. The audit process was discussed along with a time line of the audit's duration. As a registered GOP and PSE, Calpine Energy Services would be audited on twelve standards. The Audit Staff also shared their background with the NPCC auditor. A brief explanation of the audit process was given and the timelines were discussed. Calpine Energy Services 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. Calpine Energy Services accepted the audit team.

Audit

The audit was performed off site by the auditor. The auditor developed a list of questions for Calpine Energy Services to answer; the list was then sent to Calpine Energy Services for their review. Calpine Energy Services then took the time necessary to develop the answers and submitted them by email and Fed Ex to the auditor.

Exit Briefing

The exit briefing was conducted via conference call at 11:00 AM, 9/30/2008. The teleconference was between the NPCC staff, Calpine Energy Services audit team and a representative from NERC. NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, Calpine Energy Services was judged to

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be compliant with ten of the standards, however, two of the standards were deemed to be not applicable to Calpine Energy Services.

Calpine Energy Services was presented an opportunity to question the audit findings and provide comment on the audit. Calpine Energy Services representatives commented that the audit was a educational experience and they would utilize the lessons learned for future audits. They also commented on how the standard's questionnaire format could be improved by addressing more of the requirements addressed in the RSAWs. This would assist the entity in preparing material and evidence prior to the audit.

Company Profile

Calpine Energy Services Energy Inc. is an independent power producer committed to producing clean, efficient, cost-competitive electricity. Our primary business is the generation and sale of electricity and electricity related products and services to wholesale and industrial customers through the operation of our owned and leased power generation assets with approximately 24, 000 MW of generating capacity. Because Calpine is committed to providing customers with clean, fuel-efficient, reliable electricity, the company focuses on two key technologies: combined-cycle natural gas fired and geothermal power generation. At December 31, 2007, Calpine owned or leased a portfolio of 60 active, clean burning, natural gas-fired power plants throughout the U.S. and 17 active geothermal power plants in the Geysers region of northern California.

Audit Specifics

The compliance audit was conducted from September 2 and September 30, 2008 at the offices of the NPCC Audit Staff.

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

Calpine Energy Services

Title	Organization
Corporate Director, Government & Regulatory Affairs – NERC	Calpine Energy Services Energy Inc.
Director, NERC Regulatory Compliance	Calpine Energy Services Energy Inc.
Director, Calpine Energy Services Compliance	Calpine Energy Services Energy Inc.

Audit Results

Calpine Energy Services provided data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions, emails were used to request additional documentation until the auditor was convinced that the standards and requirements had been met and Calpine Energy Services had demonstrated compliance.

Findings

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1	Compliant
	R2	Compliant
	R3	Compliant
	R4	Compliant
COM-002-2	R1	Compliant
EOP-004-1	R2	Compliant
	R3	Compliant
EOP-009-0	R1	Not Applicable
	R2	Not Applicable
INT-004-1	R1	Not Applicable
	R2	Not Applicable

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Reliability Standard	Requirement	Finding
IRO-001-1	R8	Compliant
IRO-004-1	R4	Compliant
TOP-002-2	R3	Compliant
	R13	Compliant
	R14	Compliant
	R15	Compliant
	R18	Compliant
TOP-003-0	R1	Compliant
	R2	Compliant
	R3	Compliant
VAR-001-1	R5	Compliant
VAR-002-1	R1	Compliant
	R2	Compliant
	R3	Compliant
	R5	Compliant

Compliance Culture

The audit team reviewed the Calpine Energy Services compliance culture. The regional entity compliance staff may review additional aspects of the Calpine Energy Services compliance culture. During all contacts with the Calpine Energy Services staff they acted professionally in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.