



Compliance Audit Report Public Version

**Ontario Power Generation Inc.
NERC ID# NCR00861**

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

Date of Audit: October 14 - 20, 2008

Date of Audit Report: November 13, 2008

TABLE OF CONTENTS

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

Executive Summary

An off-site compliance audit of Ontario Power Generation Inc. was conducted from October 14, 2008 to October 20, 2008. At the time of the audit, Ontario Power Generation Inc. was registered for the Purchasing Selling Entity (PSE) function.

The audit team evaluated Ontario Power Generation Inc. for compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to October 20, 2008. Ontario Power Generation Inc. submitted information and documentation to aid the audit team's evaluation of compliance with standards. The audit team reviewed and evaluated all information provided by Ontario Power Generation Inc. to assess compliance with standards applicable to the PSE function.

Based on the information and documentation provided by Ontario Power Generation Inc., the audit team made the following determinations: three (3) requirements and two (2) NERC Reliability Standards were determined to be not applicable to Ontario Power Generation Inc. Ontario Power Generation Inc. was found to be compliant with four (4) requirements in four (4) applicable NERC Reliability Standards. The audit team did not identify any possible compliance violations of NERC Reliability Standards. These results are further explained in the Audit Results section of this report which includes detailed information of the audit team's determination of applicability and compliance for the Reliability Standards within the scope of the compliance audit.

There were no ongoing 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 and Enforcement Program (CMEP). The NERC and ReliabilityFirst CMEP generally conform 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 entity is registered. The audit objectives are to:

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

Scope

The scope of the compliance audit included applicable NERC Reliability Standards in the NERC 2008 Implementation Plan.

At the time of the audit, Ontario Power Generation Inc. was registered for the Purchasing Selling Entity (PSE) function. The audit team evaluated Ontario Power Generation Inc. for compliance with six (6) NERC Reliability Standards for the period of June 18, 2007 to October 20, 2008.

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 of Procedure. Ontario Power Generation Inc. was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to Ontario Power Generation Inc. Ontario Power Generation Inc. 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. Ontario Power Generation Inc. had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection.

Off-site Audit

Ontario Power Generation Inc. is currently subject to a compliance audit at a minimum of once every six years. Ontario Power Generation Inc. was provided with a sixty (60) day notification of this scheduled audit and at that time, all necessary documents required by the *ReliabilityFirst* audit process were provided. The following documents were provided to Ontario Power Generation Inc. as part of the notification:

- 60-day Notification letter which contained a request for evidence, information and data submittals
- Compliance Audit Survey
- Internal Compliance Program 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 Ontario Power Generation Inc. in both electronic and hardcopy format.

ReliabilityFirst discussed the usage of technical experts with Ontario Power Generation Inc. and allowed their use as deemed necessary by Ontario Power Generation Inc. to provide the audit team an understanding of the evidence provided to demonstrate their compliance to the standards.

An audit agenda was provided to Ontario Power Generation Inc. in advance to allow the necessary time to prepare for the audit. Ontario Power Generation Inc.'s cooperation and flexibility with the agenda was appreciated by the audit team.

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 staff conducted the audit off-site. The audit team reviewed the information, evidence and data submitted by Ontario Power Generation Inc. and assessed compliance with requirements of applicable Reliability Standards. The audit team requested and received, via email and phone conversations, additional information and clarification when the audit team determined it was necessary.

Opening Briefing

An Opening Briefing was conducted on October 14, 2008 via a conference call/Webex utilizing a PowerPoint presentation 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 staff member and one contract auditor. The ReliabilityFirst Compliance staff member was designated as the audit team lead responsible for facilitating the audit process, serving as the primary contact person for the audit team, and completing the audit report. The audit team worked together to review evidence provided by Ontario Power Generation Inc. and assessed compliance with the requirements of the standards that were audited. Requests for additional information, verification and clarification were communicated to the Ontario Power Generation Inc. primary contact through phone conversations and/or email. Ontario Power Generation Inc. was NOT permitted to create new documents and or edit existing material and or documents that were previously provided as evidence.

Exit Briefing

The audit team conducted an exit briefing with Ontario Power Generation Inc. on October 20, 2008 via a conference call/Webex utilizing a PowerPoint presentation. The primary and alternate compliance contacts for Ontario Power Generation Inc. participated in the exit briefing. The

status of the off-site audit process was discussed, followed by audit scope, preliminary audit findings, compliance audit report process. No possible violations were identified during the audit and this was discussed with the preliminary results. Ontario Power Generation Inc. was provided an opportunity to ask questions that the audit team addressed.

Company Profile

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Ontario Power Generation Inc.'s focus is on the efficient production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. Ontario Power Generation Inc. was established under the Business Corporations Act (Ontario) and is wholly owned by the Province of Ontario.

Audit Specifics

The compliance audit was conducted from October 14, 2008 to October 20, 2008 at the ReliabilityFirst offices in Akron, Ohio.

Audit Team Participants

Audit Team Role	Title	Company
Team Lead	Senior Compliance Engineer	ReliabilityFirst
Team Member	Consultant	ReliabilityFirst

Ontario Power Generation Inc. Audit Participants

Title	Organization
Director, Ontario Regulatory Affairs	Ontario Power Generation Inc.
Manager, Short Term Trading	Ontario Power Generation Inc.

Audit Results

The audit team evaluated Ontario Power Generation Inc.'s compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to October 20, 2008. The audit team used data provided by Ontario Power Generation Inc. to determine compliance with standards. Based on information provided by Ontario Power Generation Inc., of the six (6) Reliability Standards audited, three (3) requirements and two (2) standards were determined to be not applicable. The audit team determined that Ontario Power Generation Inc. was compliant with four (4) requirements in four (4) NERC Reliability Standards. The audit team found that Ontario Power Generation Inc. did not have any possible violations of NERC Reliability Standards that were within the scope of the compliance audit.

The audit team carefully and methodically reviewed the submitted evidence and discussed findings as a team to determine if the evidence met the requirements of the Reliability Standards. If the evidence was inadequate or did not cover all of the requirements in the Reliability Standard, the audit team asked for additional evidence and/or clarification. Ontario Power Generation Inc. provided a primary compliance contact for clarification through phone conversations and e-mail correspondence. Throughout the audit, the audit team members took notes on findings of evidence of compliance.

The audit team reviewed documentation in hardcopy and electronic forms provided by Ontario Power Generation Inc.

Findings

The following table details the findings for compliance with the Reliability Standards listed in the NERC 2008 Implementation Plan and/or selected for this audit:

Reliability Standard	Requirement	Finding
INT-001-2	R1.	N/A
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R8.	Compliant
IRO-005-1	R13.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

Ontario Power Generation Inc. has a comprehensive internal compliance program dealing primarily with the Ontario market. The Ontario Independent Electricity System Operator (IESO) is Ontario Power Generation Inc.'s sole interface with respect to NERC Standards in Ontario. Activities associated with Ontario Power Generation Inc.'s PSE function in other jurisdictions are handled in a similar manner.

Ontario Power Generation Inc. has a draft governing document (RAD-PRO-RS-001) that sets out Ontario Power Generation Inc.'s process for maintaining compliance with reliability standards. It is currently a draft, pending some additions in terms of supporting information. The scope of the program is as follows:

The Ontario Power Generation Reliability Compliance Reporting Program ("RCRP") is applicable to all Ontario Power Generation Inc. employees and agents (i.e., temporary staff and contractors). This program establishes a set of processes and procedures to manage the information required for Ontario Power Generation Inc. to meet the reliability compliance requirements of the North American Electric Reliability Corporation ("NERC"), Northeast Power Coordinating Council ("NPCC"), ReliabilityFirst Corporation ("RFC") and the Independent Electricity System Operator ("IESO"). Ontario Power Generation Inc.'s Electricity Generating Licence (EG-2003-0104) obligates all Ontario Power Generation Inc. business units to comply with all applicable Ontario Market Rules. For those jurisdictions outside Ontario, local tariffs generally obligate Ontario Power Generation Inc. to comply with NERC Standards.

The Regulatory Affairs Department Reporting Procedure covers the reporting requirements, processes and accountabilities of the Regulatory Affairs Department to ensure that it meets its obligation to coordinate and facilitate Ontario Power Generation Inc.'s reliability compliance reporting with the IESO and other jurisdictions, as appropriate. This procedure does not cover the operational actions required by each business unit to comply with the reliability standards

and criteria that are applicable to Ontario Power Generation Inc. Each business unit is responsible for developing its own specific business procedures and operating guidelines to meet the IESO Reliability Compliance Program requirements. The implementation of Ontario Power Generation Inc.'s RCRP requires the participation of all affected business units. Each business unit needs to evaluate its processes to certify that an effective and efficient process is in place to meet all IESO Reliability Compliance Program requirements as well as all other standards and criteria that are applicable to Ontario Power Generation Inc.