



Compliance Audit Report Public Version

**Atlantic City Electric
NERC ID# 00688**

Dates of Audit – May 20 to May 22, 2008

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

Date of Report - June 3, 2008

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Executive Summary

The on-site compliance audit of Atlantic City Electric (ACE), registered as a Transmission Owner (TO), Distribution Provider (DP), Load Serving Entity (LSE) and Purchase Selling Entity (PSE) was conducted on May 20 - 22, 2008.

The audit team evaluated ACE for compliance with twenty-seven (27) NERC reliability standards which consisted of fifty (50) requirements and one (1) *ReliabilityFirst* standard consisting of two (2) requirements for the period of June 18, 2007 to May 22, 2008. ACE submitted information and documentation supporting compliance with the standards. The audit team reviewed and evaluated this documentation to determine compliance with the referenced standards.

Of the fifty (50) NERC requirements audited, eleven (11) were not applicable. ACE was found compliant to the remaining thirty-nine (39). ACE was found compliant to the two (2) *ReliabilityFirst* requirements. The basis for these findings is detailed in the Audit Result Findings.

Possible compliance violations, if found, will be processed through *ReliabilityFirst's* Compliance Monitoring and Enforcement Program (CMEP). This report will be used to determine the severity level of the sanctions and penalties.

The mitigation plan for a pre-June 18, 2007 self-reported potential violation of PRC-005-1 was reviewed by the audit team and verified completed.

ACE's transition plan to become compliant in accordance with the new Bulk Electric System (BES) definition, adding 138 kV and 230 kV facilities, was reviewed. ACE is implementing their respective plans for this transition and expects to be fully completed by 2011. Most impacted standards were PRC-004, Analysis and Mitigation of Transmission Protection System Misoperations; and PRC-005, Transmission Protection System Maintenance and Testing. ACE has developed an internal procedure to track and analyze all protection system operations and mitigate protection system misoperations for all BES facilities. ACE has included all existing BES relays into its maintenance schedule as all other BES facilities. ACE's plan is a multi-year plan to transition all BES relays into the 4-year maintenance interval cycle.

Audit Process

The compliance audit process steps are detailed in the NERC and Reliability*First* Compliance Monitoring Enforcement Programs (CMEP). The NERC and Reliability*First* CMEPs generally conform to the United States Government Accountability Office Government Auditing Standards (GAOGAS) 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 they are registered. The audit objectives were to:

- Review ACE compliance with the applicable requirements of the reliability standards to ACE based on their functional registration.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.
- Validate compliance with applicable regional standards from the Reliability*First* 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.
- Review ACE transition plan to satisfy compliance to the reliability standards based on the new BES definition.

Scope

The scope of the compliance audit included applicable NERC reliability standards in the NERC 2008 Implementation Plan and applicable Reliability*First* standards.

At the time of the audit, ACE was registered for the Transmission Owner (TO), Distribution Provider (DP), Load Serving Entity (LSE) and Purchase Selling Entity (PSE) functions. The audit team evaluated ACE for compliance with twenty-seven (27) NERC reliability standards which included fifty (50) requirements and one (1) Reliability*First* standard which included two (2) requirements for the period of June 18, 2007 to May 22, 2008. ACE submitted information and documentation to aid the audit team's evaluation of compliance with the requirements. ACE's transition plan for transitioning their facilities to the new Bulk Electric System (BES) definition was also reviewed.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the Reliability*First* Delegation Agreement with NERC and Section 1500 of the NERC Rules and Procedures. ACE was informed of the Reliability*First* obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to ACE. ACE 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. ACE had not submitted any objections by the stated fifteen day objection due date and by this action, has accepted the audit team member participants without objections.

On-site Audit

ACE is subject to an audit once every three years as dictated by the NERC Rules of Procedure. ACE was given a sixty (60) day advanced notification of this audit and provided all documents required by the NERC and Reliability*First* audit process. The following documents were provided as part of the notification:

- 60-day Notification letter which contained request for evidence, information and date submittals
- Audit 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

The documents were provided in both electronic and hardcopy form. Reliability*First* discussed with ACE the usage of technical or subject matter experts (SMEs) and welcomed the usage of these experts by ACE as it deemed necessary to explain their compliance to the standards.

An audit agenda was provided to ACE in advance to assist in their preparation for the audit. ACE's cooperation and flexibility with the agenda was appreciated by the audit team.

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. 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

Sixty (60) days prior to this scheduled audit, ACE had been provided with a pre-audit package which included all the necessary documents and information, required by NERC and ReliabilityFirst. ReliabilityFirst conducted this audit on-site at the Newark, Delaware office. The audit team conducted a review of the information and evidence for compliance to the applicable standards. With reviews completed on the applicable requirements, the audit team conducted an exit briefing to provide the entity with the team findings. Draft reports of both a public and non-public version, were compiled for review by ReliabilityFirst and the audited entity. After completion of this review, the final reports will be submitted to the audited entity and NERC for posting. The on-site audit followed the following format:

Opening Briefing

An Opening Briefing was conducted at the Delmarva Power and Light (ACE) facility in Newark, Delaware 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 four (4) ReliabilityFirst Compliance (RFC) staff personnel, three (3) Federal Energy Regulatory Commission (FERC) personnel, and one (1) North American Electric Reliability Corporation (NERC) person. One RFC individual was designated as the audit team lead responsible for facilitating the audit process and serving as the primary contact person for the audit. One RFC team member functioned to record information and findings as determined by evaluation of the submitted evidence with the team lead. The remaining two (2) RFC audit team members assisted the audit team leader in substantiating findings to support possible compliance violations; and to confirm the sufficiency, credibility and appropriateness of submitted evidence. NERC and FERC personnel functioned as active participants to the audit process. Any clarifications and additional requests for evidence were verbally communicated to ACE's primary contact person.

The approach used by the ReliabilityFirst Audit team was to review and evaluate the evidence provided by ACE supporting compliance of each applicable requirement within the reliability standard. When there was concern that the supporting evidence did not satisfy compliance for a requirement, the audit team requested ACE's primary contact person or subject matter experts to provide clarification and/or submit additional evidence in the form of examples. ACE was NOT permitted to create new documents and or edit existing material and or documents that were provided as evidence.

Exit Briefing

An Exit Briefing was conducted with the ReliabilityFirst audit team and the ACE team present. The remaining schedule of the on-site audit process was explained, followed by the audit scope, preliminary audit findings, recommendations, compliance audit report process, and feedback forms. If possible violations were found, they would have been reviewed during this briefing. ACE was provided an opportunity to ask questions concerning this audit and any findings. The audit team did have recommendations concerning the quality of evidence which were reviewed with ACE. These recommendations will be presented to ACE in a separate document, not part of the audit report. This is required as specified in section 3.1.6 of the Uniform Compliance Monitoring and Enforcement Program of the North American Electric Reliability Corporation.

Company Profile

At the time of the audit, ACE was registered for the Transmission Owner (TO), Distribution Provider (DP), Load Serving Entity (LSE) and Purchase Selling Entity (PSE) functions.

Pepco Holdings, Inc.(PHI) is a holding company formed as a result of the merger between Pepco and Conectiv. The combined company serves 1.9 million customers in Delaware, the District of Columbia, Maryland, and New Jersey. The PHI subsidiaries which include Pepco, Delmarva Power (DPL) and Atlantic City Electric (ACE), deliver regulated electricity and natural gas service. ACE is a transmission owner with approximately 500 circuit miles of transmission facilities and provides distribution services to approximately 540,000 customers in southern New Jersey. ACE does not own or operate any generation. The scheduling and dispatching of generation within their service territory is coordinated by generation owners/operators through PJM, the independent regional system operator and market operator.

Audit Specifics

The compliance audit was conducted on May 20 - 22 at the Delmarva Power and Light (ACE) facility in Newark, Delaware.

RFC Audit Team Participants

Audit Team Role	Title	Company
Lead	Compliance Manager	ReliabilityFirst
Member	Senior Engineer	ReliabilityFirst
Member	Senior Engineer	ReliabilityFirst
Member	Contractor	ReliabilityFirst
Member	Electrical Engineer	FERC
Member	Engineer	FERC
Member	Senior Economist	FERC
Member	Regional Compliance Program Coordinator	NERC

Atlantic City Electric Audit Participants

Title	Organization
Manager Transmission Compliance	Pepco Holdings Inc. (PHI)
Manager Operations Planning	PHI
Transmission Policy Manager	PHI
Vice President, Transmission	PHI
Senior Supervisor of Engineering Operations Planning	PHI
Senior Auditor	PHI
Senior Transmission Compliance Analyst	PHI
Manager Transmission Services	PHI
Manager Engineering Projects	PHI
Group Manager, SP & TE	PHI
Senior Supervisor Engineering	PHI
Relay Supervisor	ACE
Manager Electric Maintenance	ACE
Transmission Forester	ACE/DPL
Manager Vegetation Management	PHI
System Forester	PHI
Manager Transmission Engineering	ACE
Senior Supervising Engineer	ACE
Manager Operations Engineer	PHI
Manager of Security	PHI
Group Manager Corporate Security	PHI
Manager Emergency Management	PHI

Audit Results

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The audit team carefully and methodically reviewed the submitted evidence and discussed findings as a team to determine if the evidence satisfied compliance to 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. When needed, ACE provided a primary compliance contact and Subject Matter Experts for clarification. Throughout the audit, the audit team members took notes on findings of evidence of compliance.

The audit team reviewed ACE's documentation in the form of eight (8) sets of five (5) hardcopy manuals at Atlantic City Electric/Delmarva Power's facility. This submitted evidence was very

well organized and supported by electronic versions and additional collaborating evidence as needed to support the findings.

Findings

The following table details findings for compliance with the reliability standards as identified in the scope of this report:

Atlantic City Electric Audited Reliability Standards

Reliability Standard	Requirement	Finding
BAL-005-0	R1.3	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-002-2	R9.	Not Applicable (N/A)
EOP-002-2	R9.1.	N/A
EOP-004-1	R2.	Compliant
EOP-004-1	R3. & sub Reqs	Compliant
FAC-003-1	R1. & Sub Reqs	Compliant
FAC-003-1	R2.	Compliant
FAC-003-1	R3. & sub Reqs	Compliant
FAC-008-1	R1. & sub Reqs	Compliant
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
INT-001-2	R1. & sub Reqs	Compliant
INT-004-1	R1.	Compliant
INT-004-1	R2. & sub Reqs	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Complaint
IRO-005-1	R13	Compliant
MOD-010-0	R1.	Compliant
MOD-010-0	R2.	Compliant
MOD-012-0	R1.	Compliant
MOD-012-0	R2.	Compliant
MOD-017-0	R1. & sub Reqs	Compliant
MOD-019-0	R1.	Compliant
PRC-004-1	R1.	Compliant
PRC-004-1	R3.	Compliant

Reliability Standard	Requirement	Finding
PRC-005-1	R1. & sub Reqs	Compliant
PRC-005-1	R2. & sub Reqs	Compliant
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Compliant
PRC-010-0	R1. & Sub	N/A
PRC-010-0	R2	N/A
PRC-011-0	R1. & sub	N/A
PRC-011-0	R2.	N/A
PRC-016.0	R1.	Compliant
PRC-016-0	R2.	Compliant
PRC-016-0	R3.	Compliant
PRC-017-0	R1. & sub Reqs	Compliant
PRC-017-0	R2.	N/A
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R18.	N/A
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	N/A
BAL-502- RFC-01	R2	Compliant
B AL-502- RFC-01	R5.	Compliant

Compliance Culture

ACE made available, personnel responsible for compliance and presented a brief description outlining ACE's compliance program. ACE has implemented three (3) major sets of internal processes to ensure compliance with NERC and regional reliability standards. The major processes are: (1) Compliance Assurance, (2) Compliance Monitoring, and (3) Compliance Assessments.

For Compliance Assurance, each applicable NERC standard is assigned to a Pepco Holdings Inc (PHI) executive based on the area of responsibility. This individual provides awareness training for those responsible for a standard and is overseen by an executive-level steering committee.

Compliance Monitoring involves day-to-day monitoring of compliance activities which collects the annual compliance plan and status reports, reviews and develops related documentation, provides management reports, and oversees the Monitoring/Tracking tool (AssurX).

Compliance Assessments ensures that an independent assessment of compliance is conducted with applicable standards while encouraging self-reporting of any potential violations for immediate action. In the event of a violation, Reliability*First* will review additional aspects of ACE's compliance program and culture.