



Compliance Audit Report Public Version

**Duquesne Power LLC
NERC ID# NCR00764**

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

Date of Audit: May 28 to June 4, 2008

Date of Audit Report: June 4, 2008

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Executive Summary

An off-site compliance audit of the Duquesne Power LLC (DP) was conducted from May 28 – June 4, 2008, at the offices of ReliabilityFirst Corporation (RFC) in Akron, OH. The audit team consisted of two ReliabilityFirst auditors and one ReliabilityFirst contract auditor.

The audit team evaluated Duquesne Power LLC for compliance with five (5) NERC reliability standards containing six (6) audited requirements for the period of June 18, 2007 to May 28, 2008. Duquesne Power LLC was registered as a Purchasing Selling Entity (PSE) at the time of the audit and submitted information and documentation to facilitate the audit team's evaluation of compliance with the standards applicable to this function. The audit team reviewed and evaluated the data provided by Duquesne Power LLC to determine compliance with the standards.

Of the six (6) audited requirements, four (4) were not applicable with the remaining two (2) found to be compliant.

This audit report includes information on Duquesne Power LLC's compliance with the NERC Reliability Standards. This information will be used to help determine the severity level of sanctions and penalties. Any possible violation will be processed through ReliabilityFirst's Compliance Monitoring and Enforcement Program (CMEP). Any further actions related to possible violations will be through that process.

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 Enforcement Programs (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 Registered Entity is registered.¹ The audit objectives are:

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

- Review Duquesne Power LLC's compliance with the requirements of the reliability standards that are applicable to Duquesne Power LLC based on the Duquesne Power LLC registered function.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.
- Validate compliance with additional NERC reliability standards selected by ReliabilityFirst.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standards, and review the status of associated mitigation plans.
- Document Duquesne Power LLC's compliance culture.

Scope

Duquesne Power LLC is subject to monitoring by ReliabilityFirst on a six-year basis. This audit was conducted on those standards, which were provided by NERC for monitoring in the 2008 CMEP Implementation Plan and those selected by ReliabilityFirst. ReliabilityFirst monitors all applicable ReliabilityFirst standards, self-certifications and mitigation plans as appropriate.

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 and Procedures. Duquesne Power LLC was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to the Duquesne Power LLC, which 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. Duquesne Power LLC 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.

Off-site Audit

Duquesne Power LLC is subject to an audit once every six years at the minimum as provided by the NERC Rules of Procedure. Duquesne Power LLC was provided a sixty (60) day notification of this scheduled audit and at that time, all necessary documents required by NERC and ReliabilityFirst audit process were provided. The following documents were provided to Duquesne Power LLC 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

Documents were provided to Duquesne Power LLC in both electronic and hardcopy format. Reliability*First* discussed with Duquesne Power LLC the usage of technical experts and welcomed the use of technical experts by Duquesne Power LLC as it deemed necessary to explain their compliance to the standards. An audit agenda was provided in advance to allow the necessary time to prepare for the audit.

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. 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

Reliability*First* conducted this audit via an off-site method. Sixty (60) days prior to this scheduled audit, Duquesne Power LLC had been provided with a pre-audit package, which included all the necessary documents and information, required by NERC and Reliability*First*, to complete the audit process. Upon return of the submitted information and receipt of evidence, the audit team conducted a review of the information and evidence for compliance to the applicable standards. After the reviews were completed on the applicable requirements, the audit team conducted an exit briefing to provide the entity with the team findings. A draft report was compiled for review by Reliability*First* and the audited entity in both a public and non-public version. After completion of this review, the final reports were submitted to the audited entity and NERC for posting. The off-site audit followed the following format:

Opening Briefing

An Opening Briefing was conducted as a conference call/WebEx 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 three Reliability*First* Compliance staff personnel, one being a Reliability*First* contractor. One individual was designated as the audit team lead responsible for facilitating the audit process, completion of the audit report, and serve as the primary contact person for the audit while another team member functioned to record findings as determined by evaluation of the submitted evidence with the team lead. The third was an observer as part of his training process. Audit team members substantiated findings to support a possible compliance violation utilizing the sufficiency, credibility and appropriateness of submitted evidence. Any clarifications and additional requests for evidence were communicated to Duquesne Power LLC's primary contact through phone conversations and/or e-mail.

The approach used by the Reliability*First* Audit team was to review each reliability standard and applicable requirements, and then evaluate and measure the evidence provided by the entity against the requirement within the standard. When there was concern that the supporting evidence did not meet the requirement, clarification calls and or clarification e-mails were sent to the entity for additional detail, clarification, and/or additional evidence in the form of examples. The entity was NOT permitted to create new documents and or edit existing material and or documents that were provided as evidence. Cooperation and flexibility with the agenda was appreciated by the audit team.

Exit Briefing

An exit briefing was conducted with a presentation via conference call/WebEx for the off-site audit of Duquesne Power LLC. The Reliability*First* audit team and the Duquesne Power LLC team participated. Status of the off-site audit process was explained, followed by audit scope, preliminary audit findings and basis, recommendations, compliance audit report process, and feedback forms. If possible violations were identified during the audit they would have been reviewed during the discussion of our preliminary results. Duquesne Power LLC was provided an opportunity to ask questions that the audit team addressed. In addition, the audit team identified recommendations on quality of evidence that were reviewed with Duquesne Power

LLC. These recommendations will be provided to Duquesne Power LLC in a separate document and not as part of the audit report. This is required as specified in section 3.1.6 of the Uniform Compliance Monitoring and Enforcement Program of NERC.

Company Profile

At the time of the audit, the Duquesne Power LLC was registered for the Purchasing Selling Entity (PSE) function. Duquesne Power LLC does not supply customers directly but rather supplies Duquesne Light Company (DLC) with energy and capacity. Duquesne Power LLC does not engage in Interchange Transactions, exclusively transacting energy only within the PJM Balancing Area and market footprint.

Audit Specifics

The compliance audit was conducted on May 28 – June 4, 2008, at the Reliability*First* office in Akron, Ohio.

Audit Team Participants

Audit Team Role	Title	Company
Lead	Senior Engineer	Reliability <i>First</i>
Member	Contractor	Reliability <i>First</i>
Observer	Senior Engineer	Reliability <i>First</i>

Duquesne Power LLC Audit Participants

Title	Organization
Chief Compliance Officer	Duquesne Power LLC
Compliance Supervisor	Duquesne Power LLC
Compliance Coordinator	Duquesne Power LLC
Wholesale Energy Supervisor	Duquesne Power LLC
Supervisor Retail Energy Supply	Duquesne Power LLC
Director of External Affairs	Duquesne Power LLC
Manager, Unregulated Energy Business	Duquesne Power LLC

Audit Results

The audit team evaluated Duquesne Power LLC for compliance with five (5) NERC reliability standards in which six (6) requirements were applicable for the period since June 18, 2007 using data provided by Duquesne Power LLC to determine compliance with the standards.

Of the six (6) NERC reliability requirements audited, four (4) were determined to be not applicable and two (2) were found to be compliant.

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 standard. 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. Duquesne Power LLC 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 Duquesne Power LLC's documentation in the form of one hardcopy manual at ReliabilityFirst's Akron office, electronic copies of the same information, and electronic copies of additional data requests.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2008 Implementation Plan and/or selected by ReliabilityFirst:

Audited Reliability Standards

Reliability Standard	Requirement	Finding
INT-001-2	R1.	Not Applicable (N/A)
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R8.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	N/A

Compliance Culture

The Duquesne Power LLC's compliance culture was reviewed by the audit team. Duquesne Power LLC provided a copy of their Compliance Program document which outlines their compliance organizational structure; communication standards; training, education and prevention; monitoring and obligations to report.

The organizational structure includes a Chief Compliance Officer who is a key member of the management team, and has full access to all officers and, if needed, the Board of Directors on any compliance issue. This position also has the resources to seek advice or assistance on compliance matters on a regular basis.

Duquesne Power LLC established a Compliance Section as a formal and dedicated resource group tasked with ensuring compliance with all applicable laws, regulations, policies, reporting requirements and ethical guidelines. Direct mention is made of NERC Reliability Standards.