



Compliance Audit Report Public Version

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

**ITC Transmission
NERC ID # - NCR00803**

**Date of Audit
September 16-18, 2008**

**Date of Report
November 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.

ReliabilityFirst scheduled ITC Transmission (ITCT) for an onsite audit of its compliance to the NERC Reliability Standards and the ReliabilityFirst Regional Standards that apply to ITCT for the functions that it performs within the ReliabilityFirst area as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team reviewed the material provided by ITCT in response to the 60 day notification ReliabilityFirst provided requesting data and information to develop its compliance findings. The ReliabilityFirst audit team reviewed the material and developed the preliminary results on ITCT's compliance to the standards.

The 38 NERC Standards that apply to ITCT for the functions of Transmission Operator (TOP), Transmission Owner (TO) and Transmission Planner (TP) functions for which ITCT is registered to perform in the ReliabilityFirst area include 131 requirements that apply to ITCT. No regional standard applies to ITCT. Of the 38 standards, 4 standards and their 8 associated requirements were determined to be not applicable to ITCT.

ITCT has one open mitigation plan for its Vegetation Management Program and one transition plan to bring into compliance all of its 100 to 200 kV facilities and has been working towards closure on each of them. NERC Standard FAC-003-1, *Vegetation Management Program* and its three requirements are included in a mitigation plan and as such were not included as part of this audit. ITCT also has a transition plan for NERC Standard PRC-005-1, *Transmission and Generation Protection System Maintenance and Testing*, to bring its relay maintenance and testing program up to schedule for the relays above 100 kV and below 200 kV that are now included as part of the NERC compliance program. As such, NERC Standard PRC-005-1 and a review of the progress on that transition plan for this standard were included as a part of this audit.

ITCT was prepared for the audit and presented its documentation in a complete and concise manner. The audit team did not find any violations for ITCT as a result of this review. ITCT was found to be fully compliant with the 120 requirements and the 33 NERC standards that apply to ITCT (excluding FAC-003-1) for the functions for which it is registered in the ReliabilityFirst Region. The Relay transition plan was found to be on schedule and ITCT was found to be in compliance with the requirements of PRC-005-1 other than the schedule covered by the transition plan.

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:

- Review ITCT's compliance with the requirements of the reliability standards that are applicable to ITCT based on ITCT's 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 ITCT's compliance culture
- Validate compliance with other NERC standards outside the 2008 implementation plan as selected by *ReliabilityFirst*
- Validate compliance with applicable *ReliabilityFirst* reliability standards that apply to ITCT

Scope

This audit was conducted on those standards which were provided by NERC for monitoring in the 2008 CMEP Implementation Plan. *ReliabilityFirst* also monitors all applicable *ReliabilityFirst* standards, self certifications, and mitigation plans as appropriate. This audit of ITCT did not include any regional standards.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the *ReliabilityFirst* Delegation Agreement with NERC and the NERC Rules of Procedure Section 1500. The audited entity 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 audited entity. 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 did not submit any objections by the stated fifteen day objection due date and by this action has accepted the audit team member participants without objections. *ReliabilityFirst* found no conflict of interest for any of the audit team members.

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

On-site Audit

ITCT is subject to an audit once every three years as provided by the NERC Rules of Procedure. Every RC, TOP and BA registered in the NERC Functional Registration Data Base is required to have an on-site audit once every three years. ITCT was provided 60 day notification of this scheduled audit and at that time all necessary documents required by the NERC and ReliabilityFirst audit process were provided. 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
- Internal Compliance Survey
- 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 ITCT in both electronic and hardcopy format.

ReliabilityFirst discussed the use of technical experts with the ITCT primary compliance contact and indicated that ReliabilityFirst would welcome the use of technical experts by ITCT as it deems necessary to explain their compliance to the standards. As such, ITCT has been notified to provide any technical experts or personnel that it deems necessary in order to provide the Audit Team an understanding of the evidence provided to meet compliance.

An audit agenda and/or schedule were provided to ITCT in advance to allow the necessary time to prepare for the audit. ITCT cooperation and flexibility with the agenda was appreciated by the audit team.

This audit was conducted in the ITC Holdings Corp (ITC) offices using material provided by ITCT. The audit team reviewed ITCT compliance processes for all applicable standards with ITCT technical experts and requested additional information to clarify information previously supplied to the team. These interviews in conjunction with evidence provided, supplied the audit team with a basis for using professional judgment when validating compliance to the reliability standards.

Methodology

The audit team reviewed the evidence provided by ITCT for each of the requirements that apply to the functions performed by the company to determine if the company complied with those standards and associated requirements. The team reviewed each requirement, discussed the levels of compliance and addressed each team member's observations from the audit to determine its findings from the review.

Audit Overview

An Opening Briefing was conducted 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 worked in two sub-groups. The applicable standards were divided between the two groups and each group reviewed each requirement assigned to it to determine if ITCT was compliant to the requirement. Each of the two groups shared its findings with the other to determine ITCT's compliance to each of the standards. The audit followed the agenda closely. The agenda was adjusted to remove FAC-003-1, Vegetation Management, which was to be reviewed by an enforcement team as part of its mitigation plan closure and confirmation proceedings. Upon request, ITCT provided additional information or clarified existing information during the review of its material with their subject matter experts.

Exit Briefing

The audit team presented its preliminary findings to the ITCT staff. The team lead explained the findings from the audit. The presentation was attended by the following ITCT staff:

Title	ITC
Supervisor – Control Area Operations	ITC
Director – Compliance & Training	ITC
Director – Operations Engineering	ITC
VP – IT & Facilities & CIO	ITC
VP – Operations	ITC
VP – General Counsel Utility Operations	ITC
Director – Real Time Operations	ITC
Principal System Analyst TMS – ATF	ITC
Manager – Control Area Operations	ITC
Operations Consultant	ITC
Compliance Manager	ITC
Director – Asset Management	ITC
VP – Planning	ITC

The exit presentation also covered the team findings on the mitigation and transition plans mentioned above, the reporting process going forward, and audit feedback forms that the region is using to improve their audit process.

Company Profile

ITCT performs the following NERC function in the ReliabilityFirst region and is registered with NERC/ReliabilityFirst for the following functions:

- Transmission Operator (TO)
- Transmission Owner (TOP)
- Transmission Planner (TP)

Together, the Michigan Electric Transmission Company, LLC (METC) and ITCT operate the electric transmission system in Michigan. ITCT and METC are both subsidiaries of ITC Holdings Corp (ITC). ITC operates ITCT and METC from the same control room. While the two areas for ITCT and METC are operated separately, the staff can operate either system and the operators use the same control systems and both system operations are closely coordinated. ITC acquired METC in October of 2006 and has functionally combined ITCT and METC operations. While separate operating companies, most of the procedures are shared by both systems. In addition, ITCT and METC jointly operate the Michigan Electric Coordinated Systems (MECS) which is the balancing authority for the two systems plus other systems embedded in the ITCT and METC transmission systems.

In this report when the acronym ITC is used, it refers to the operation of both systems (and MECS where appropriate) or processes and procedures common to both systems. The compliance audits of ITCT, METC, and MECS were conducted concurrently. Three reports were written, each covering the areas of responsibility for the organization in its individual audit report. ITCT, METC, and MECS operate as different divisions of the ITC organization. The separate reports often cover common operations, procedures, documentation, equipment, and personnel.

ITCT operates in Eastern Michigan including the Detroit area. It is interconnected with METC, HydroOne in Canada and FirstEnergy. MISO is its Reliability Coordinator and it operates in the MISO market area. It operates 950 miles of 345 kV, 120 miles of 230 kV and 1,700 miles of 120 kV transmission line. Other key ITC Statistics are given in the table below:

	METC	ITCT	Combined (ITC)
Service Territory (Square Miles)	18,800	7,600	26,200
Transmission (Line Miles)	5,400	2,700	9,100
Substations	81	155	236
Peak Load (MW)	9,607	12,762	22,369
Generation (MW)	11,300	13,070	24,370

Audit Specifics

The compliance audit was conducted on September 16 - 18, 2008 at the ITC office in Novi, MI.

Audit Team

Audit Team Role	Title	Company
Lead	Manager of Compliance Audits	ReliabilityFirst Corporation
Member	Manager of Compliance Program Implementation	ReliabilityFirst Corporation
Member	Senior Consultant	ReliabilityFirst Corporation
Member	Senior Engineer	ReliabilityFirst Corporation
Member	Consultant	Sander-Reber
Member	Consultant	Scott Porteous & Associates
Observer	Regional Compliance Program Coordinator	NERC
Observer	Manager of Organization Registration and Certification	NERC

ITCT Audit Participants

Title	ITC
Supervisor – Control Area Operations	ITC
Director – Compliance & Training	ITC
Director – Operations Engineering	ITC
Manager – Security	ITC
Manager – Operations	ITC
Sr. Engineer – Relay Performance	ITC
VP – IT & Facilities & CIO	ITC
Manager – Maintenance & Equipment	ITC
TMS Support Principal Engineer	ITC
Engineer – Sys & Interconnection Planning	ITC
VP – Operations	ITC
Principal Engineer – Telecom Support	ITC
Manager – Sys & Interconnection Planning	ITC
Sr. Transmission System Coordinator	ITC
VP – General Counsel Utility Operations	ITC

Title	ITC
Director – Real Time Operations	ITC
Principal Engineer	ITC
Principal System Analyst TMS – ATF	ITC
Manager – Control Area Operations	ITC
Sr. Staff Engineer – EMSYS Support SCADA	ITC
Manager – Information Security/IT Governance	ITC
Operations Consultant	ITC
Compliance Manager	ITC
Training Administrator	ITC
Principal Engineer – Relay Performance	ITC
Director – Asset Management	ITC
VP – Planning	ITC
Sr. Staff Engineer – Operations Engineering	ITC
Manager – Training	ITC
Principal Engineer – Relay Performance	ITC

Audit Results

ITCT had one mitigation plan for FAC-003-1 and one transition plan for PRC-005-1 that it is currently working towards closure at the time of this audit. After reviewing the evidence presented to the audit team, ITCT is found to be on schedule for the transition plan that is in place for NERC Standard PRC-005-1, Transmission and Generation Protection System Maintenance and Testing, and compliant with the remainder of all applicable requirements of the standards reviewed. FAC-003-1, Vegetation Management Program, was not included as a part of this on-site audit, as that Standard and the ITCT mitigation plan is currently being review by ReliabilityFirst Enforcement.

Senior management attended the opening and exit briefing presentations. ITCT was prepared for the audit and presented its documentation in a complete and concise manner.

Findings

The following table details the auditor findings relating to evidence reviewed for compliance with the reliability standards listed in the NERC 2008 Implementation Plan. The table includes details, section and page numbers noted by the auditor relating to the evidence reviewed for compliance to the reliability standard and associated requirements.

ITCT On-site Audit Findings Table

Reliability Standard	Requirement	Finding
BAL-005-0	R1	Compliant
CIP-001-1	R1	Compliant
CIP-001-1	R2	Compliant
CIP-001-1	R3	Compliant
CIP-001-1	R4	Compliant
COM-001-1	R1	Compliant
COM-001-1	R2	Compliant
COM-001-1	R3	Compliant
COM-001-1	R4	Compliant
COM-001-1	R5	Compliant
COM-002-2	R1	Compliant
COM-002-2	R2	Compliant
EOP-001-0	R1	Compliant
EOP-001-0	R2	Compliant
EOP-001-0	R3	Compliant
EOP-001-0	R4	Compliant
EOP-001-0	R5	Compliant
EOP-001-0	R6	Compliant
EOP-001-0	R7	Compliant
EOP-003-1	R1	Compliant
EOP-003-1	R2	Compliant
EOP-003-1	R3	Compliant
EOP-003-1	R4	Compliant
EOP-003-1	R5	Compliant
EOP-003-1	R6	Compliant
EOP-003-1	R7	Compliant
EOP-003-1	R8	Compliant
EOP-004-1	R2	Compliant
EOP-004-1	R3	Compliant
EOP-005-1	R1	Compliant
EOP-005-1	R2	Compliant
EOP-005-1	R3	Compliant

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Reliability Standard	Requirement	Finding
EOP-005-1	R4	Compliant
EOP-005-1	R5	Compliant
EOP-005-1	R6	Compliant
EOP-005-1	R7	Compliant
EOP-005-1	R8	Compliant
EOP-005-1	R9	Compliant
EOP-005-1	R10	Compliant
EOP-005-1	R11	Compliant
EOP-008-0	R1	Compliant
FAC-003-1	R1	Mitigation under review, not included
FAC-003-1	R2	Mitigation under review, not included
FAC-003-1	R3	Mitigation under review, not included
FAC-008-1	R1	Compliant
FAC-008-1	R2	Compliant
FAC-008-1	R3	Compliant
FAC-009-1	R1	Compliant
FAC-009-1	R2	Compliant
INT-004-1	R1	Compliant
IRO-001-1	R8	Compliant
IRO-004-1	R3	Compliant
IRO-004-1	R4	Compliant
IRO-004-1	R7	Compliant
IRO-005-1	R8	Compliant
IRO-005-1	R12	Compliant
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-019-0	R1	Compliant
PER-002-0	R1	Compliant
PER-002-0	R2	Compliant
PER-002-0	R3	Compliant
PER-002-0	R4	Compliant
PER-003-0	R1	Compliant
PRC-004-1	R1	Compliant
PRC-004-1	R3	Compliant
PRC-005-1	R1	Compliant
PRC-005-1	R2	ITCT is currently working under an approved ReliabilityFirst Transition Plan
PRC-008-0	R1	NA

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Reliability Standard	Requirement	Finding
PRC-008-0	R2	NA
PRC-010-0	R1	NA
PRC-010-0	R2	NA
PRC-011-0	R1	NA
PRC-011-0	R2	NA
PRC-016-0	R1	Compliant
PRC-016-0	R2	Compliant
PRC-016-0	R3	Compliant
PRC-017-0	R1	Compliant
PRC-017-0	R2	Compliant
PRC-021-1	R1	NA
PRC-021-1	R2	NA
TOP-002-2	R1	Compliant
TOP-002-2	R2	Compliant
TOP-002-2	R4	Compliant
TOP-002-2	R5	Compliant
TOP-002-2	R6	Compliant
TOP-002-2	R10	Compliant
TOP-002-2	R11	Compliant
TOP-002-2	R16	Compliant
TOP-002-2	R17	Compliant
TOP-002-2	R18	Compliant
TOP-002-2	R19	Compliant
TOP-003-0	R1	Compliant
TOP-003-0	R2	Compliant
TOP-003-0	R3	Compliant
TOP-004-1	R1	Compliant
TOP-004-1	R2	Compliant
TOP-004-1	R3	Compliant
TOP-004-1	R4	Compliant
TOP-004-1	R5	Compliant
TOP-004-1	R6	Compliant
TOP-005-1	R1	Compliant
TOP-005-1	R2	NA
TOP-005-1	R3	Compliant
TOP-007-0	R1	Compliant
TOP-007-0	R2	Compliant
TOP-007-0	R3	Compliant
TPL-001-0	R1	Compliant
TPL-001-0	R2	Compliant

Reliability Standard	Requirement	Finding
TPL-001-0	R3	Compliant
TPL-002-0	R1	Compliant
TPL-002-0	R2	Compliant
TPL-002-0	R3.	Compliant
TPL-003-0	R1	Compliant
TPL-003-0	R2	Compliant
TPL-003-0	R3	Compliant
TPL-004-0	R1	Compliant
TPL-004-0	R2	Compliant
VAR-001-1	R1	Compliant
VAR-001-1	R2	Compliant
VAR-001-1	R3	Compliant
VAR-001-1	R4	Complaint
VAR-001-1	R6	Complaint
VAR-001-1	R7	Compliant
VAR-001-1	R8	Compliant
VAR-001-1	R9	Compliant
VAR-001-1	R10	Compliant
VAR-001-1	R11	Compliant
VAR-001-1	R12	Compliant

Compliance Culture

ITCT provided documentation to demonstrate its compliance to the requirements of the applicable standards. The documentation was complete and in order such that the audit team could reasonably determine ITCT compliance to the applicable requirements. ITCT provided additional evidence and clarifications in a timely manner when requested by the audit team. ITCT completed the Compliance Audit Questionnaire, individual Pre-Audit Questionnaires for each applicable standard, and the documentation section of the NERC Reliability Standard Audit Worksheets.

ITC has appointed a Corporate Compliance Officer. The ITC Organizational chart indicated that the Corporate Compliance Officer has direct access to the CEO and the Board of Directors if needed. The board of Directors has appointed a committee that has monitoring and oversight of the ITC compliance program.

ITC hired an independent contractor to review and assess its compliance program in meeting compliance to every NERC Standard. ITC purchased a software product to track the documentation for its compliance program.

ITCT staff was able to supply additional evidence of compliance in a timely manner when requested by the audit team. Its quick response to additional questions is evidence of a comprehensive compliance program.

ITC also showed its in-house compliance training program that it conducts for its employees to the Audit Team.

The guidance by corporate management and training provided strengthen the ITCT compliance program.