



Compliance Audit Report Public Version

**Occidental Power Services, Inc.
NERC ID# NCR00330**

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

Date of Audit: June 3-13, 2008

Date of Audit Report: July 2, 2008

TABLE OF CONTENTS

Executive Summary	1
Audit Process	1
<i>Objectives</i>	1
<i>Scope</i>	2
<i>Confidentiality and Conflict of Interest</i>	2
<i>Off-site Audit</i>	2
<i>Methodology</i>	3
<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>	6
<i>Compliance Culture</i>	6

Executive Summary

An off-site compliance audit of Occidental Power Services, Inc. was conducted from June 3, 2008 to June 13, 2008. At the time of the audit, Occidental Power Services, Inc. was registered for the Purchasing Selling Entity (PSE) function.

The audit team evaluated Occidental Power Services, Inc. for compliance with five (5) NERC Reliability Standards for the period of June 18, 2007 to June 13, 2008. Occidental Power Services, 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 Occidental Power Services, Inc. to assess compliance with standards applicable to the PSE function.

Based on the information and documentation provided by Occidental Power Services, Inc., the audit team made the following determinations: two (2) NERC Reliability Standards were determined to be not applicable to Occidental Power Services, Inc.. Occidental Power Services, Inc. was found to be compliant with three (3) applicable NERC Reliability Standards. The audit team did not identify any possible compliance violations of NERC Reliability Standards. These results are listed in the Findings in the Audit Results section of this report.

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 Reliability*First* Compliance Monitoring and Enforcement Program (CMEP). The NERC and Reliability*First* 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 Occidental Power Services, Inc. compliance with the requirements of Reliability Standards that are applicable to Occidental Power Services, Inc. based on the functions that Occidental Power Services, 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 Reliability*First*.

- 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.
- Document the compliance program and culture of Occidental Power Services, 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, Occidental Power Services, Inc. was registered for the Purchasing Selling Entity (PSE) function. The audit team evaluated Occidental Power Services, Inc. for compliance with five (5) NERC Reliability Standards for the period of June 18, 2007 to June 13, 2008.

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 of Procedure. Occidental Power Services, Inc. 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 Occidental Power Services, Inc.. Occidental Power Services, 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. The work history for one of the audit team members was provided one week prior to the Opening Briefing. Occidental Power Services, Inc. had not submitted any objections by the stated fifteen day objection due date and did not object to the audit team member introduced during the Opening Briefing. Occidental Power Services, Inc. accepted the audit team member participants without objection.

Off-site Audit

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

- 60-day Notification letter which contained a request for evidence, information and data 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 Occidental Power Services, Inc. in both electronic and hardcopy format.

Reliability*First* discussed the usage of technical experts with Occidental Power Services, Inc. and allowed the usage of technical experts by Occidental Power Services, Inc. as it deemed necessary to provide the audit team an understanding of the evidence provided to demonstrate their compliance to the standards.

An audit agenda was provided to Occidental Power Services, Inc. in advance to allow the necessary time to prepare for the audit. Occidental Power Services, 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. 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 the audit off-site. The audit team reviewed the information, evidence and data submitted by Occidental Power Services, 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 June 3, 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 Reliability*First* Compliance staff member and one contract auditor. The Reliability*First* 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 Occidental Power Services, Inc. and assessed compliance with the requirements of the standards that were audited. Requests for additional information, verification and clarification were communicated to the Occidental Power Services, Inc. primary contact through phone conversations and/or email. Occidental Power Services, Inc. was NOT permitted to create new documents and or edit existing material and or documents that were previously provided as evidence.

The audit team identified a possible compliance violation if or when evidence was not provided by Occidental Power Services, Inc. to demonstrate compliance with a requirement of an applicable standard.

Exit Briefing

The audit team conducted an exit briefing with Occidental Power Services, Inc. on June 13, 2008 via a conference call/Webex utilizing a PowerPoint presentation. The primary and alternate compliance contacts for Occidental Power Services, Inc. participated in the exit briefing. The status of the off-site audit process was discussed, followed by audit scope, preliminary audit findings addressing possible violations and their basis, recommendations, compliance audit report process, and feedback forms. No possible violations were identified during the audit and this was discussed with the preliminary results. Occidental Power Services, Inc. was provided an opportunity to ask questions that the audit team addressed.

Company Profile

At the time of the audit, Occidental Power Services, Inc. was registered for the Purchasing Selling Entity (PSE) function. Occidental Power Services, Inc. operates a comprehensive trading desk that encompasses a 24 hour real-time group, forward trading division, asset management group and a structured product desk to handle electricity supply and demand-related issues for clients in the North American market. Occidental Power Services, Inc. provides wholesale energy risk management and energy asset management services to help customers reduce both commodity and operational risk.

Audit Specifics

The compliance audit was conducted from June 3, 2008 to June 5, 2008 at the *ReliabilityFirst* offices in Akron, Ohio and from June 6, 2008 to June 13, 2008 via conference call and email.

Audit Team Participants

Audit Team Role	Title	Company
Team Lead	Senior Consultant	<i>ReliabilityFirst</i>
Team Member	Consultant	Scott Porteous and Associates

Occidental Power Services, Inc. Audit Participants

Title	Organization
Vice President	Occidental Power Services, Inc.
Senior Counsel	Occidental Power Services, Inc.

Audit Results

The audit team evaluated Occidental Power Services, Inc.'s compliance with five (5) NERC Reliability Standards for the period since June 18, 2007. The audit team used data provided by Occidental Power Services, Inc. to determine compliance with standards. Based on information provided by Occidental Power Services, Inc., of the five (5) Reliability Standards audited, two (2) were determined to be not applicable. The audit team determined that Occidental Power Services, Inc. was compliant with three (3) NERC Reliability Standards. The audit team found that Occidental Power Services, 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. Occidental Power Services, 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 Occidental Power Services, Inc.

Findings

The following table summarizes 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
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

As part of the Compliance Audit Questionnaire, Occidental Power Services, Inc., indicated that they have established: "OPSI NERC Compliance Policy and Procedures". This policy includes NERC standards applicable to Occidental Power Services, Inc. and procedures to ensure staff

comply with the NERC standards. The policy includes procedures for review of standards and the provision of training for staff.

In the event of a violation, Reliability*First* will review additional aspects of Occidental Power Services, Inc.'s compliance program and culture.