



Compliance Audit Report Public Version

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

**Pennsylvania Electric Company
NCR00872**

**Date of Audit
October 28-29, 2008**

**Date of Report
February 2, 2009**

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>On-site Audit</i>	2
<i>Methodology</i>	3
<i>Audit Overview</i>	3
<i>Audit</i>	4
<i>Exit Briefing</i>	4
<i>Company Profile</i>	4
<i>Audit Specifics</i>	5
Audit Results	5
<i>Findings</i>	7
<i>Compliance Culture</i>	8

Executive Summary

This 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 Pennsylvania Electric Company (Penelec) for an onsite audit of its compliance to the NERC Reliability Standards and the ReliabilityFirst Regional Standards that apply to Penelec 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 Penelec 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 Penelec's compliance to the standards.

The audit team assessed compliance with 26 NERC Standards, which Penelec is registered to perform in the ReliabilityFirst area. The 26 NERC Standards include 48 requirements that apply to the functions of Distribution Provider (DP), Load Serving Entity (LSE), Purchasing Selling Entity (PSE), and Transmission Owner (TO). The audit team also assessed compliance with one ReliabilityFirst Regional Standard that applies to Penelec. Of the 26 standards, 5 standards and 9 associated requirements were determined to be not applicable to Penelec.

Penelec was prepared for the audit and presented its documentation in a complete and concise manner. The audit team did not find any violations as a result of this review. Penelec was found to be fully compliant with the 21 NERC standards and the 39 requirements that apply to Penelec for the functions for which it is registered in the ReliabilityFirst Region. It was also found to be compliant with the one Regional Standard.

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 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:

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

- Review Penelec's compliance with the requirements of the reliability standards that are applicable to Penelec based on Penelec'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 Penelec'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 Penelec

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 for the period of June 18, 2008 through the date of the audit.

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. A last minute replacement of one of the audit team members was also accepted by the audited entity. *ReliabilityFirst* found no conflict of interest for any of the audit team members.

On-site Audit

Penelec is subject to an audit once every three years as provided by the NERC Rules of Procedure. Penelec 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 Penelec in both electronic and hardcopy format.

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

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

This audit was conducted at the FirstEnergy Corp. (FE) Metropolitan Edison Company (Met-Ed) offices using material provided by Penelec. The audit team reviewed Penelec compliance processes for all applicable standards with Penelec 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 Penelec 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 reviewed each requirement to determine if Penelec was compliant to the requirement. The team discussed its findings to determine Penelec's compliance to each of the standards. Upon request, Penelec provided additional information or clarified existing information during the review of its material with their subject matter experts.

Cooperation and flexibility with the agenda was appreciated by the audit team.

Exit Briefing

The audit team presented its preliminary findings to the Penelec staff. The team lead explained the findings from the audit. The exit presentation also covered the reporting process going forward, and audit feedback forms that the region is using to improve their audit process. In addition, the audit team identified recommendations on quality of evidence that was reviewed. Penelec was provided an opportunity to ask questions that the audit team addressed.

Company Profile

Penelec performs the following NERC function in the Reliability*First* region and is registered with NERC/Reliability*First* for the following functions:

- Distribution Provider (DP)
- Load Serving Entity (LSE)
- Purchasing Selling Entity (PSE)
- Transmission Owner (TO)

Penelec is a subsidiary of FirstEnergy Corp. (FE), which is operated from a single control center along with two other subsidiaries, Jersey Central Power and Light Company (JCP&L) and Metropolitan Edison Company (Met-Ed). All three operating companies essentially function as one entity in the PJM footprint commonly referred to as FE East. Met-Ed and JCP&L have the same NERC functions as Penelec, but JCP&L is also a Generator Owner. Therefore, each company has a separate report written but some evidence identified later in this report will overlap these companies. The separate reports do cover common operations, procedures, documentation, equipment, and personnel.

FE East serves northern, western, south central, and eastern Pennsylvania (Met-Ed and Penelec), as well as northern and central New Jersey (JCP&L).

FE East operates an extensive Bulk Electric System consisting of the following transmission voltages:

BES Voltage	Line Mileage
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500 kV	566 miles
345 kV	148 miles
230 kV	1819 miles
138 kV	14 miles
115 kV	1971 miles

FE East has 57 synchronous Bulk Electric System transmission tie-lines to 10 neighboring transmission system entities. It also has 1 HVDC tie-line.

Peak load for FE East is 12,754 MW.

Penelec serves 589,481 customers.

Audit Specifics

The compliance audit was conducted on October 28 - 29, 2008 at the Met-Ed office in Reading, PA.

Audit Team

Audit Team Role	Title	Company
Lead	Manager of Compliance Program Implementation	ReliabilityFirst Corporation
Member	Senior Consultant	ReliabilityFirst Corporation
Member	Senior Engineer	ReliabilityFirst Corporation
Member	Senior Engineer	ReliabilityFirst Corporation
Member	Consultant	Scott Porteous & Associates

Penelec Audit Participants

Title	Co.
Director, Transmission Ops	FE
Supervisor, ED Planning and Protection	FE
Supervisor, Transmission	FE
Supervisor, ED Planning and Protection	FE
Manager, ED Substation Maintenance	FE
Director, Planning and Protection	FE
Supervisor, RCS	FE
Director, FERC Compliance	FE

Title	Co.
Manager Generation Support	FE
VP Energy Delivery	FE
Sr. Reg Sys Operator/RCS	FE
Senior Engineer	FE
Adv. Engineer, Transmission Ops	FE
Exec. VP and President, FE Utilities	FE
Manager Transmission System Dispatching	FE
Asst. Transmission Specialist	FE
Director, Transmission Initiatives	FE
Sr. Engineer, Transmission Planning and Protection	FE
Consultant, FERC Compliance	FE
Regional President, Met-Ed	FE
Supervisor, Power Network Analysis	FE
Manager, Planning and Protection	FE
Adv Security Representative	FE
Real Time Systems	FE
Transmission Ops Support	FE
Sr. Reg Sys Operator/RCS	FE
Supervisor, ED Planning and Protection	FE
RTO Policy Manager	FE
Transmission Shift Supervisor	FE
Manager, Corporate Forestry Services	FE
Manager, JCP&L Commodity Sourcing	FE
Manager, Transmission Planning and Protection	FE
Supervisor Compliance Procedure Training	FE
Administrative Asst	FE
Manager, PA Reg Commodity Sourcing	FE
Forestry Transmission Specialist	FE
Transmission Ops Support	FE
Director, ED Vegetation Management	FE
Supervisor, Substation Maintenance	FE
Director, RCS	FE
Reliability Compliance Manager	FE
Transmission Ops Support, Supervisor	FE
Vice President, FERC Policy and Chief FERC Compliance Officer	FE
Staff Analyst	FE

Audit Results

Penelec was prepared for the audit and presented its documentation in a complete and concise manner.

The audit team reviewed 26 NERC Standards that apply to the functions of Distribution Provider (DP), Load Serving Entity (LSE), Purchasing Selling Entity (PSE), and Transmission Owner (TO) which include 48 requirements that apply to those functions. One Reliability *First* Regional Standard applies to Penelec.

Of the 26 standards, 5 standards and 9 associated requirements were determined to be not applicable to Penelec. The audit team did not find any violations as a result of this review. Penelec was found to be fully compliant with the 21 NERC standards and the 39 requirements that apply to Penelec for the functions for which it is registered in the Reliability *First* Region. It was also found to be compliant with the one Regional Standard.

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.

Penelec 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
EOP-004-1	R2	Compliant
EOP-004-1	R3	Compliant
FAC-003-1	R1	Compliant
FAC-003-1	R2	Compliant
FAC-003-1	R3	Compliant
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-001-2	R1	NA
INT-004-1	R1	NA
INT-004-1	R2	NA
IRO-001-1	R8	Compliant

Reliability Standard	Requirement	Finding
IRO-004-1	R4	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-017-0	R1	Compliant
MOD-019-0	R1	Compliant
PRC-004-1	R1	Compliant
PRC-004-1	R3	Compliant
PRC-005-1	R1	Compliant
PRC-005-1	R2	Compliant
PRC-008-0	R1	Compliant
PRC-008-0	R2	Compliant
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	R3	Compliant
TOP-002-2	R18	Compliant
TOP-005-1	R4	Compliant
VAR-001-1	R5	Compliant
BAL-502-RFC-01		Compliant

Compliance Culture

Senior management attended the opening and exit briefing presentations. Penelec 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 Penelec compliance to the applicable requirements. Penelec provided additional

evidence and clarifications in a timely manner when requested by the audit team. Penelec completed the Compliance Audit Questionnaire, individual Pre-Audit Questionnaires for each applicable standard, and the documentation section of the NERC Reliability Standard Audit Worksheets.

The compliance program addresses all NERC Reliability Standards and all applicable Regional Standards including CIP standards. Responsibility to implement the compliance program extends to every employee of every business unit with responsibility to meet the standards.

FirstEnergy Corp. is working to build a strong compliance culture that drives for continuous improvement. The FE Reliability & Compliance Policy establishes the specific expectations for active management oversight and employee engagement in maintaining a compliance culture. FE management fosters and maintains a culture that ensures reliable and compliant operations at each of its facilities and encourages individuals to identify improvement opportunities.

A FERC Policy & Compliance Group was formed in late 2006 and is headed by the FERC Chief Compliance Officer who reports directly to the Executive VP and President, FE Utilities. The significance of establishing a broad group focused on developing and implementing strong reliability and regulatory compliance programs, with direct reporting responsibility to the Executive VP and President, FE Utilities signifies the overall priority and importance attached to these initiatives by senior management. This group provides an internally independent organization for corporate reliability and provides compliance oversight for all aspects of FE's compliance initiatives, self-assessments, and reporting requirements.

The guidance by corporate management and training provided strengthen the FE compliance program. There have been numerous communications to educate employees on Reliability Compliance and how it relates to their jobs.

Penelec's 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.