



Compliance Audit Report Public Version

**State Line Energy, LLC
NERC ID# NCR00920**

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

Date of Audit: September 2 – 11, 2008

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Executive Summary

The off-site compliance audit of State Line Energy, LLC (SLE) registered as a Generator Owner (GO) and Generator Operator (GOP), was conducted from September 2 – September 11, 2008 at the offices of ReliabilityFirst Corporation (RFC) in Akron, OH. The audit team consisted of one ReliabilityFirst auditor and contract auditor.

The audit team evaluated SLE for compliance with seventeen (17) NERC reliability standards which consisted of forty-one (41) requirements for the period of June 18, 2007 to September 11, 2008. SLE submitted information and documentation to facilitate the audit team's evaluation of compliance with these standards applicable to the registered functions. The audit team reviewed and evaluated the documentation provided by SLE to determine compliance with the referenced standards.

Of the forty-one (41) NERC requirements audited, seven (7) were not applicable with the remaining thirty-four (34) found to be compliant. The basis for these findings is detailed in the Audit Result Findings.

There were no on-going 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 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 the Registered Entity is registered. The audit objectives are:

- Review SLE's compliance with the requirements of the reliability standards that are applicable to SLE based on the SLE registered functions.
- 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 SLE's compliance culture.

Scope

SLE 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. SLE was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to SLE. SLE 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. SLE had not submitted any objections by the stated fifteen day objection due date and by this action, had accepted the audit team member participants without objections.

Off-site Audit

SLE is subject to an audit once every six years at the minimum as provided by the NERC Rules of Procedure. SLE was provided with a sixty (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 to SLE as part of the notification:

- 60-day Notification letter which contained request for evidence, information and date submittals
- Audit Survey
- Internal Compliance 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 SLE in both electronic and hardcopy format. ReliabilityFirst discussed with SLE the usage of technical experts and welcomed the use of technical experts by SLE as it deemed necessary to explain their compliance to the standards.

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.

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 compliance audit on-site method. Sixty (60) days prior to this scheduled audit, SLE 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 receipt and review 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. With reviews 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 are submitted to the audited entity and NERC for posting. This on-site audit followed the following format:

Opening Briefing

An Opening Briefing was conducted as a conference call 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 ReliabilityFirst Compliance person, and a contractor working for ReliabilityFirst. The ReliabilityFirst Compliance staff individual was designated as the audit team lead responsible for facilitating the audit process and serving as the primary contact person for the audit, while the ReliabilityFirst participated and recorded findings as determined by evaluation of the submitted evidence with the team lead. 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 SLE's primary contact through phone conversations and/or email.

The ReliabilityFirst Audit team reviewed each reliability standard and applicable requirements, then evaluated and measured 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 emails were sent to the entity for additional detail, and/or additional evidence in the form of examples. SLE was NOT permitted to create new documents or edit existing material and documents that were provided as evidence.

Exit Briefing

An Exit Briefing was conducted with a presentation via conference call for the off-site audit of SLE. The ReliabilityFirst audit team and the SLE 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. SLE 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 SLE.

Company Profile

At the time of the audit, State Line Energy, LLC was registered for the NERC functions of Generation Owner (GO) and Generation Operator (GOP) in the ReliabilityFirst region.

SLE owns and operates two coal generating units, each with two generators. Unit 3 has a nameplate rating of 117 MVA (HP) and 100 MVA (LP); Unit 4 3 has a nameplate rating of 224 MVA (HP) and 192 MVA (LP). The station is located in Illinois and connects to the Bulk Electric System through its interconnection with Commonwealth Edison Company (ComEd), the transmission owner. The station is within the PJM Balancing Authority. PJM is also the Transmission Operator and Reliability Coordinator for SLE. The units do not have black start capability and the station is manned for 24/7 operation.

SLE has a formalized Delegation Agreement in Place with Dominion Energy Marketing, INC. (DEMI) to allocate and delegate responsibility for communications required by the NERC Standards with respect to SLE. Communications with PJM are executed by DEMI utilizing voice and data link communications.

Audit Specifics

The compliance audit was conducted on September 2 - 11 at the ReliabilityFirst office in Akron, Ohio.

ReliabilityFirst Audit Team Participants

Audit Team Role	Title	Company
Lead	Senior Compliance Engineer	ReliabilityFirst
Member	Contractor	ReliabilityFirst Contractor

SLE Audit Participants

Title	Organization
NERC Compliance Manager	State Line Energy, LLC

Audit Results

The audit team evaluated SLE's compliance with seventeen (17) NERC reliability standards for the period June 18, 2007 to September 11, 2008. The audit team used data provided by SLE to determine compliance with standards.

Of the forty-one (41) NERC requirements audited, seven (7) were not applicable and thirty-four (34) were found to be compliant.

The audit team reviewed SLE's documentation in the form of two (2) hardcopy manuals submitted by SLE. This submitted evidence was very well organized and supported by electronic versions and additional collaborating evidence as required.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2008 Implementation Plan for this audit:

SLE Audited Reliability Standards

Reliability Standard	Req	Finding
BAL-005-0	R1.1	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-002-2	R1	Compliant
EOP-004-1	R2.	Compliant
EOP-004-1	R3. & sub Reqs	Compliant
EOP-009-0	R1	N/A
EOP-009-0	R2	N/A
FAC-008-1	R1. & sub Reqs	Compliant
FAC-008-1	R2.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Complaint
MOD-010-0	R1.	Compliant
MOD-010-0	R2.	Compliant
MOD-012-0	R1.	Compliant
MOD-012-0	R2.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-016-0	R1.	N/A
PRC-016-0	R2.	N/A
PRC-016-0	R3.	N/A
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R13.	Compliant
TOP-002-2	R14. & sub Reqs	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R18.	Compliant

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Reliability Standard	Req	Finding
TOP-003-1	R1.	Compliant
TOP-003-1	R2.	Compliant
TOP-003-1	R3. & sub Reqs	Compliant
VAR-002-1	R1.	N/A
VAR-002-1	R2. & sub Reqs	Compliant
VAR-002-1	R3. & sub Reqs	Compliant
VAR-002-1	R4. & sub Reqs	Compliant
VAR-002-1	R5. & sub Req	Compliant

Compliance Culture

As part of the audit, SLE provided a brief description outlining SLE's compliance program. Compliance responsibility for SLE's NERC compliance is managed within its business unit as well as at the station. It is also administered as part of the Dominion Resources Services, Inc. Ethics and Compliance program. Within the business unit there is a compliance officer who is appointed by Dominion's Chief Compliance Officer. The NERC Compliance Officer within the business unit is a member of Dominion's senior management team and is responsible for oversight of and ensuring the overall compliance of the station. The compliance Officer appoints a NERC Compliance Manager who is directly involved in the day-to-day NERC compliance issues. Within Dominion's Ethics and Compliance Program there is an Ethics and Compliance Specialist and a Compliance Attorney specifically tasked with Corporate NERC compliance.

One-on-one meetings are held on an on-going basis between NERC Compliance Officers, NERC Compliance Managers and compliance program staff to continue the dialogue on NERC compliance issues. Monthly meetings are held between NERC Compliance Managers, Dominion's Electric Policy Group, IT and the NERC focused Ethics and Compliance Program employees to discuss and update them on NERC issues. Specific training is held to train employees within the business unit when needed.

The Chief Compliance Officer (CCO) reports directly to the Audit Committee of the Dominion's Board of Directors. The CCO also has a direct line of communication to the CEO as he directly reports to the Chairman and CEO of Dominion Resources.

The Ethics and Compliance Specialist dedicated to NERC Compliance and the NERC Compliance Attorney act as part of the corporate Ethics and Compliance program that reports to the Board of Directors, through the CCO. This organization and reporting relationship is wholly separate from the NERC Compliance efforts that take place within the business units. The corporate Ethics and Compliance program coordinates and manages NERC Compliance for all of Dominion's registered entities. In addition the Ethics and Compliance Program provides through a third-party vendor a Compliance Line, via telephone or internet that operates independently of the business units. All employees have access to the Compliance Line where they can make anonymous reports of compliance issues.

Dominion frequently reviews its staffing needs to determine whether it has sufficient resources to carry out the work that needs to be done. At this time Dominion is looking at hiring an additional employee to augment the resources tasked to NERC Compliance. There have been no issues with regard to having a sufficient budget to carry out NERC Compliance work.

The internal Compliance Program has the support and participation of senior management. Senior Management from across the company is aware and involved with the company's NERC compliance efforts. State Line has a NERC Compliance Officer from the company's senior management within its chain of command. The responsible Compliance Officer is familiar with and has taken an active role in ensuring State Line's compliance with the applicable NERC Reliability Standards. Through the Ethics and Compliance Program, the Deputy General Counsel who has day-to-day oversight of the Ethics and Compliance Program and the General Counsel and Chief Compliance Officer both participate in and are fully supportive of Dominion's NERC Compliance program.

Dominion's Ethics and Compliance Program is regularly reviewed to determine whether it is meeting its stated objectives and to determine whether modifications are necessary. In 2007, given the implementation of the mandatory reliability standards, the Chief Compliance Officer appointed NERC Compliance Officers for each registered entity. In addition, the Ethics and Compliance program added additional resources dedicated to NERC Compliance. The Company continues to review, evaluate and enhance its compliance program.

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An essential piece of the Ethics and Compliance Program is the delivery of training to employees on their compliance obligations. Through periodic training on the Dominion Code of Ethics (which applies to all of Dominion's businesses), employees are educated on their compliance responsibilities, including the duty to report concerns or raise questions about compliance issues as well as the various methods available for raising concerns. Concerns may be reported anonymously. The training also targets various groups of employees for specific, focused training on regulatory compliance issues that attend their specific jobs. To enhance Dominion's NERC-specific knowledge, employees involved in the NERC Compliance program develop their understanding of the Reliability Standards and the Company's compliance therewith through a number of opportunities. Employees from the business units as well as from the Corporate Ethics and Compliance program attend a number of NERC-related seminars and conferences each year.

The Ethics and Compliance Program is audited annually by Dominion's Audit Services as part of the company's SOX audit. Additionally, an external accounting firm conducts an annual SOX audit including the Ethics and Compliance Program. Audit Services is also actively involved reviewing the NERC documentation provided by the business units to demonstrate compliance with NERC standards. Audit Services is moving towards auditing each of Dominion's registered entities on a cyclical basis.

Dominion investigates all violations or suspected violations of laws and regulations and its Code of Ethics policy, including failing to report a violation or willfully withholding relevant and material information concerning a violation, as well as retaliating against individuals who report or assist in investigations of suspected violations of applicable laws, regulations or company policies. In case of a violation, the Company can take appropriate corrective action, including termination, if warranted.

Dominion's Audit Services is an active participant in the Company's NERC compliance program. Dedicated auditors from Audit Services work with the business units and the Ethics and Compliance Program to perform assessments of management's internal controls. To date, Dominion has not had any violations in *ReliabilityFirst*; however, if one were found, after reporting the violation and working with the region, the Ethics and Compliance Program and the business unit, with the assistance of Audit Services, would work together to prevent a reoccurrence of the violation.