Occidental Chemical Corporation
A subsidiary of Occidental Petroleum Corporation

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September 26, 2008

James Harrell, Senior Compliance Auditor
SERC Reliability Corporation
2815 Coliseum Center Drive
Suite 500
Charlotte, NC 28217

Dear Mr. Harrell:

RE: Occidental Reply to SERC Compliance Audit Report for Taft Cogeneration Facility (NCR09019)

Occidental Chemical Corporation ("OCC") appreciates the work of the auditors in pointing out areas where OCC's Taft Facility can improve upon its compliance with NERC standards and, therefore, help to enhance reliability of the Bulk Electric System ("BES"). However, OCC believes that the auditors erred with respect to their finding of a possible violation under the PRC-005-1 standard ("the Standard").

As noted by the auditors,
"OCC was found to be in compliance with all but one of the standards that were audited. The audit team identified a possible violation of PRC-005-1. OCC had appropriate and complete program information and documentation for all elements of the protective system with the exception of Associated Communication Systems, which were not specifically mentioned or addressed as required. This Audit Team determined this to be a Possible Violation of Requirement 1. It was deemed to be a documentation-only omission."

OCC respectfully disagrees with this conclusion for the following reasons:

1. The Standard does not specifically require a separate line item in the OCC maintenance program documentation for testing "Associated Communication Systems." The Standard's stated purpose is, "To ensure that all transmission and generation protection systems affecting the BES are maintained and tested." OCC believes that it presented sufficient evidence that it met the requirements and purpose of this standard, including the summary of OCC's maintenance and testing program for relays and specific examples of relay test results.

2. The OCC subject matter expert attested verbally at the audit that the procedure for real time monitoring and testing of the "Associated Communication System" was part of the normal relay maintenance and testing procedure. OCC presented evidence at the audit that confirmed that the "Associated Communications Equipment" was tested as part of the relay testing program which has all the components of the maintenance and testing intervals as required by the Standard. Specifically, the plant produced a sample of the relay test report that confirmed that the communications equipment was tested as part of the maintenance and testing program for the relay equipment.

3. The NERC Technical Reference "Protection System Maintenance," dated September 13, 2007, states that "It is acceptable to use a single test procedure that covers multiple categories of equipment in a protection system." In OCC's case, the communications system is tested and maintained as an

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integral part of the associated relay system. OCC uses a combination of condition based maintenance and time based maintenance for its protective relay systems. In addition, these systems are continuously monitored by the plant control system.

4. The SERC Supplement "Maintenance & Testing—Protection Systems," May 29, 2008, does not indicate that the "Associated Communication Systems" have to appear as a separate line item apart from relay testing. In fact, in Section III. "Documentation", the Supplement recognizes that "many of the identified activities may be performed at the same time." OCC demonstrated and attested at the audit that these relay communications systems are maintained and tested as part of the relay system and that both are continuously monitored by alarm systems which are in turn integral to the generation control system.

5. Although the NERC Glossary and the RSAWs define the associated communication systems as part of the protective system components, neither indicates that communication systems that are an integral part of relays have to be listed separate and somehow would have separate maintenance and/or testing requirements. Once again, this appears to be counter to the purpose of the Standard.

6. The Standard refers to protective equipment that "affects the reliability of the BES." A risk-based analysis of OCC has shown that the facility is not a critical asset as defined by NERC and, therefore, OCC has an immaterial affect on the BES as contemplated in the Standard.

Although OCC appreciates the suggestions of the auditors and will revise the documentation of our protection system maintenance and testing program for clarity, we request that SERC list this as an opportunity for improvement rather than a possible violation and that the audit report (non-public version) reflect this.

Finally, we have attached a mark-up of the draft audit report which contains our suggestions for minor changes for accuracy.

Yours truly,

Joseph D. Matranga
Vice President, Power
Occidental Energy Ventures Corp.

Attachment

cc: Bob Goss, Manager of Compliance Audits - SERC