



Compliance Audit Report Public Version

**Primary Energy of
North Carolina (Southport) LLC
NCR09020
October 6-8, 2008**

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

December 12, 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.

Primary Energy of North Carolina (Southport) LLC (PENCS) was audited October 6-8, 2008 for compliance with the requirements contained in the currently mandatory and enforceable Planning Reliability Standards in the 2008 NERC Compliance Monitoring and Enforcement Program (CMEP) that are applicable to PENCS' registered functions. PENCS is registered with SERC Reliability Corporation (SERC) as a Generator Operator (GOP) and Generator Owner (GO). Seventeen standards were selected and identified to PENCS as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of PENCS, and also included evidence obtained through system observation and inspection. The findings of the audit are based on the state of compliance and current mitigation activity at the time of the audit, and do not reflect past compliance activities or activities that will be completed in the future. PENCS staff was also informally asked questions about their progress with implementation of Cyber Security Standards CIP-002-1 through CIP-009-1. The PENCS staff had no direct knowledge of the progress on these standards, but it was established by the audit team that they are handled by corporate staff.

PENCS staff was requested to provide valid evidence of meeting each and every applicable requirement and sub-requirement contained in each standard that had been previously identified by SERC Compliance staff to PENCS as subject to this audit. PENCS staff responded by providing evidence in the form of reports, procedures, studies and other documents. PENCS staff then cited specific portions of the evidence that demonstrated compliance. This evidence and the citations were documented and evaluated by the audit team to assess the level of compliance. If all of the requirements and sub-requirements of an audited standard were met, PENCS was judged to be compliant. Likewise, if any of the requirements or sub-requirements were not fully met, then PENCS was judged to have a possible violation of the standard. A score of 100% is required for compliance.

The audit team determined that PENCS does not own or operate Special Protection Systems and that PENCS does not own or operate any blackstart facilities as part of the SERC System Regional Restoration Plan. Therefore, 3 of the 17 standards were not applicable: EOP-009-0, PRC-016 and PRC -017.

PENCS was found to be in compliance with all but three of the standards that were audited. The audit team identified a possible violation of CIP-001-1 Sabotage Reporting, Requirements 1, 2, 3 & 4, FAC-008-1 Facility Ratings Methodology, Requirement 1 and PRC-005-1 Transmission and Generation Protection System Maintenance and Testing, Requirements 1 and 2.

This audit report includes information about how far PENCS missed the requirements for the possible compliance violations. This information will be used to help determine the severity level of sanctions and penalties. The possible compliance violations will be processed through the SERC CMEP. Any further actions related to possible compliance violations will be through that process.

The link to the CPI USA North Carolina LLC (Southport) NOP can be viewed [here](#).

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:

- Independently review PENCs' compliance with the requirements of the Reliability Standards that are applicable to PENCs based on the PENCs 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 the PENCs compliance culture.

Scope

The scope of the audit of PENCs included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of PENCs, the 17 Reliability Standards previously identified were the focus of the compliance audit. Of these 17 standards, 3 standards were not applicable (EOP-009-0, PRC-016-0 and PRC-017-0). This is detailed in the Audit Results section.

Note: For the 2008 compliance program, the monitoring period for the compliance audit will generally be the past 12 months or periods specified in individual Reliability Standards. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

Confidentiality and Conflict of Interest

Code of conduct documentation for the regional entity staff was provided to PENCs in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to PENCs upon request. PENCs 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. PENCs accepted the audit team with no objections.

On-site Audit

PENCs was contacted by letter on April 11, 2008 by SERC staff. The letter provided PENCs with their initial notification of their upcoming audit in 2008, and the desire to schedule audit dates that would be acceptable to both parties. SERC staff then provided formal acknowledgement of the scheduled audit dates and requested that PENCs both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

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

On July 25, 2008, SERC staff forwarded an Audit Detail Letter to PENCs, again confirming the scheduled audit dates and confirming PENCs' registered functions within SERC. The Audit Detail Letter also provided PENCs with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with industry affiliations), and requested that PENCs Subject Matter Experts (SMEs) responsible for and knowledgeable of compliance submittals be available for interview during the audit. In addition to the Audit Detail Letter, PENCs was provided with a Non-Disclosure Agreement Signature Verification for audit team members, a Pre-Audit Questionnaire, a list of Documents to be Provided or Have Available and Reliability Standard Auditor Worksheets (RSAWs) for each standard to be audited.

Interviews with SMEs were requested, in conjunction with documented evidence, to provide the audit team with additional information or clarification as a basis for professional judgment when validating compliance with Reliability Standards.

Methodology

A team of auditors was identified and conducted the audit of PENCs. The standards were grouped and scheduled for review to make the most efficient use of PENCs staff's time. The Audit Team Leader (ATL) initiated dialogue on each standard requirement and requested compliance evidence. This evidence and PENCs' staff response was documented. PENCs staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement contained in the 17 standards that had been previously identified by SERC to PENCs as subject to this audit. PENCs staff responded by providing evidence in the form of reports, procedures, studies and other documents. PENCs staff would then cite specific portions of the evidence that demonstrated compliance.

This evidence and the citations were documented by the scribe on the RSAWs and evaluated by the audit team for the level of compliance and agreement with the requirement. Discrepancies between the requirement and the evidence provided were the subject of dialogue among the team members and PENCs staff members until it was determined whether each requirement was met by the evidence offered.

Once all the evidence was presented and discussed, if PENCs did not provide sufficient evidence to support a finding of compliance, then a possible violation was identified by the team and PENCs staff was informed.

Audit Overview

The Audit Team Leader conducted a pre-audit briefing with PENCs staff on Friday, October 3, 2008 at 1:00 p.m. in Southport, NC to review the logistics of the audit and to respond to questions. A briefing presentation was made and discussed.

The audit team arrived at the PENCs offices at 3:24 p.m., October 6, 2008. Each member of the audit team was introduced, the staff of PENCs was introduced and general housekeeping matters explained. At 3:56 p.m., Sam Stryker, Compliance and Reliability Specialist and ATL, began the session with an opening presentation. He reviewed the NERC compliance plan for 2008 in general, and how it applied to PENCs specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of PENCs staff and the quality of evidence to be presented. He also covered the basic procedure for the audit, and the bounding rules of conduct. At the conclusion of the ATL's opening presentation, PENCs staff was unprepared and unable to make a presentation describing PENCs' corporate structure or compliance program. The audit team left the site at 4:45 p.m.

Audit

The audit team returned to the site at 7:40 a.m., October 7, 2008. The audit started at 8:06 a.m., at which time the audit team initially reviewed the registration status of PENCS with entity staff to verify applicability of each standard. Each standard's audit began with a recitation of each requirement. PENCS staff then presented evidence supporting requirement compliance, or cited evidence previously provided to the audit team. At that point, the evidence was reviewed and discussed until the team reached agreement on the evidence. By audit team consensus, a determination of compliance was reached for each of the requirements and communicated to PENCS staff before proceeding to the next requirement. At that point, the team scribe would record the evidence presented to satisfy the requirement and the team's recommendation on that requirement using the RSAW. During the course of interviews and standards review, the audit team also took tours to look at PENCS' control room, as well as some of their relays and batteries. The review of standards was stopped for the day at 4:45 p.m., and the team left the site at 5:45 p.m.

The team returned to the site at 8:53 a.m., October 8, 2008, and started reviewing additional evidence for two unfinished standards. When questioned by the audit staff regarding their progress toward implementation of the Cyber Security Standard requirements of CIP-002-1 through CIP-009-1, PENCS stated they had no knowledge of these standards. The review of all applicable evidence and standards was completed at 11:00 a.m., at which time the audit team met to review and discuss the findings. Following these discussions, the scribe collected all notes and evidence as needed and began to finalize the RSAWs.

Exit Briefing

The ATL gave an exit briefing to the assembled audit team and entity staff at 11:08 a.m., October 8, 2008. This was followed by an informal response to questions from the PENCS staff. The exit briefing summarized the team's preliminary conclusions, including any items of potential noncompliance or possible violation with supporting information, areas of concern, and the expected timeline for review and issuance of the audit report.

The ATL solicited informal comments from PENCS staff, and also requested they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the PENCS site at 11:45 a.m., October 8, 2008.

Company Profile

Purchased by EPCOR Power L.P. in 2006, the Primary Energy of North Carolina Southport Cogeneration facility is a combined steam and power facility in Southport, North Carolina. The coal and tire-derived fuel fired plant provides steam to the nearby Archer Daniels Midland Company. Electric output (110MWE) is sold to Carolina Power & Light, a wholly owned subsidiary of Progress Energy, under a power purchase agreement. The facility also provides critical electrical capacity and energy to Carolina Power and Light. The plant's six stoker boilers burn a combination of coal and tire-derived fuel. Tire-derived fuel is the product of chipping waste tires and removing the metal from the tread. Tires not used as fuel are most often disposed of in landfills.

Audit Specifics

The compliance audit was conducted October 6-8, 2008 at the Primary Energy of North Carolina (Southport) facility in Southport, NC.

Audit Team

Audit Team Role	Title	Company
Lead	Compliance and Reliability Specialist	SERC
Member	Compliance Auditor	SERC
Member	Compliance Auditor	SERC

PENCS Audit Participants Title and Organization

Title	EPCOR Organization
General Manager	Roxboro and Southport
Site Manager	Roxboro
Site Manager	Southport
Maintenance Manager	Roxboro
Shift Supervisor	Southport
Instruments and Controls Supervisor	Southport

AUDIT RESULTS

The audit team found PENCS to be in Possible Violation of numerous requirements. Please see Findings Table below.

Findings

Reliability Standard	Requirement	Finding
BAL-001-0	R1.	N/A
BAL-001-0	R2.	N/A
BAL-001-0	R3.	N/A
BAL-001-0	R4.	N/A
BAL-002-0	R1.	N/A
BAL-002-0	R2.	N/A
BAL-002-0	R3.	N/A
BAL-002-0	R4.	N/A
BAL-002-0	R5.	N/A
BAL-002-0	R6.	N/A
BAL-003-0	R1.	N/A
BAL-003-0	R2.	N/A
BAL-003-0	R3.	N/A
BAL-003-0	R4.	N/A
BAL-003-0	R5.	N/A
BAL-003-0	R6.	N/A
BAL-004-0	R1.	N/A
BAL-004-0	R2.	N/A
BAL-004-0	R3.	N/A

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Critical Energy Infrastructure Information) – Has Been Removed

Reliability Standard	Requirement	Finding
BAL-004-0	R4.	N/A
BAL-005-0	R1.	Compliant
BAL-005-0	R2.	N/A
BAL-005-0	R3.	N/A
BAL-005-0	R4.	N/A
BAL-005-0	R5.	N/A
BAL-005-0	R6.	N/A
BAL-005-0	R7.	N/A
BAL-005-0	R8.	N/A
BAL-005-0	R9.	N/A
BAL-005-0	R10.	N/A
BAL-005-0	R11.	N/A
BAL-005-0	R12.	N/A
BAL-005-0	R13.	N/A
BAL-005-0	R14.	N/A
BAL-005-0	R15.	N/A
BAL-005-0	R16.	N/A
BAL-005-0	R17.	N/A
BAL-006-1	R1.	N/A
BAL-006-1	R2.	N/A
BAL-006-1	R3.	N/A
BAL-006-1	R4.	N/A
BAL-006-1	R5.	N/A
CIP-001-1	R1.	Possible Violation
CIP-001-1	R2.	Possible Violation
CIP-001-1	R3.	Possible Violation
CIP-001-1	R4.	Possible Violation
CIP-002-1 through CIP-009-1	All	N/A
COM-001-1	R1.	N/A
COM-001-1	R2.	N/A
COM-001-1	R3.	N/A
COM-001-1	R4.	N/A
COM-001-1	R5.	N/A
COM-001-1	R6.	N/A
COM-002-2	R1.	Compliant
COM-002-2	R2.	N/A
EOP-001-0	R1.	N/A
EOP-001-0	R2.	N/A
EOP-001-0	R3.	N/A
EOP-001-0	R4.	N/A
EOP-001-0	R5.	N/A
EOP-001-0	R6.	N/A

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Reliability Standard	Requirement	Finding
EOP-001-0	R7.	N/A
EOP-002-2	R1.	N/A
EOP-002-2	R2.	N/A
EOP-002-2	R3.	N/A
EOP-002-2	R4.	N/A
EOP-002-2	R5.	N/A
EOP-002-2	R6.	N/A
EOP-002-2	R7.	N/A
EOP-002-2	R8.	N/A
EOP-002-2	R9.	N/A
EOP-003-1	R1.	N/A
EOP-003-1	R2.	N/A
EOP-003-1	R3.	N/A
EOP-003-1	R4.	N/A
EOP-003-1	R5.	N/A
EOP-003-1	R6.	N/A
EOP-003-1	R7.	N/A
EOP-003-1	R8.	N/A
EOP-004-1	R1.	N/A
EOP-004-1	R2.	Compliant
EOP-004-1	R3.	Compliant
EOP-004-1	R4.	N/A
EOP-004-1	R5.	N/A
EOP-005-1	R1.	N/A
EOP-005-1	R2.	N/A
EOP-005-1	R3.	N/A
EOP-005-1	R4.	N/A
EOP-005-1	R5.	N/A
EOP-005-1	R6.	N/A
EOP-005-1	R7.	N/A
EOP-005-1	R8.	N/A
EOP-005-1	R9.	N/A
EOP-005-1	R10.	N/A
EOP-005-1	R11.	N/A
EOP-006-1	R1.	N/A
EOP-006-1	R2.	N/A
EOP-006-1	R3.	N/A
EOP-006-1	R4.	N/A
EOP-006-1	R5.	N/A
EOP-006-1	R6.	N/A
EOP-008-0	R1.	N/A
EOP-009-0	R1.	N/A

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Reliability Standard	Requirement	Finding
EOP-009-0	R2.	N/A
FAC-003-1	R1.	N/A
FAC-003-1	R2.	N/A
FAC-003-1	R3.	N/A
FAC-003-1	R4.	N/A
FAC-008-1	R1.	Possible Violation
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
FAC-013-1	R1.	N/A
FAC-013-1	R2.	N/A
INT-001-2	R1.	N/A
INT-001-2	R2.	N/A
INT-003-2	R1.	N/A
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R1.	N/A
IRO-001-1	R2.	N/A
IRO-001-1	R3.	N/A
IRO-001-1	R4.	N/A
IRO-001-1	R5.	N/A
IRO-001-1	R6.	N/A
IRO-001-1	R7.	N/A
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	N/A
IRO-003-2	R1.	N/A
IRO-003-2	R2.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	Compliant
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
IRO-005-1	R1.	N/A
IRO-005-1	R2.	N/A
IRO-005-1	R3.	N/A
IRO-005-1	R4.	N/A
IRO-005-1	R5.	N/A
IRO-005-1	R6.	N/A
IRO-005-1	R7.	N/A

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Reliability Standard	Requirement	Finding
IRO-005-1	R8.	N/A
IRO-005-1	R9.	N/A
IRO-005-1	R10.	N/A
IRO-005-1	R11.	N/A
IRO-005-1	R12.	N/A
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	N/A
IRO-005-1	R15.	N/A
IRO-005-1	R16.	N/A
IRO-005-1	R17.	N/A
IRO-006-3	R1.	N/A
IRO-006-3	R2.	N/A
IRO-006-3	R3.	N/A
IRO-006-3	R4.	N/A
IRO-006-3	R5.	N/A
IRO-006-3	R6.	N/A
IRO-014-1	R1.	N/A
IRO-014-1	R2.	N/A
IRO-014-1	R3.	N/A
IRO-014-1	R4.	N/A
IRO-015-1	R1.	N/A
IRO-015-1	R2.	N/A
IRO-015-1	R3.	N/A
IRO-016-1	R1.	N/A
IRO-016-1	R2.	N/A
PER-002-0	R1.	N/A
PER-002-0	R2.	N/A
PER-002-0	R3.	N/A
PER-002-0	R4.	N/A
PER-003-0	R1.	N/A
PER-004-1	R1.	N/A
PER-004-1	R2.	N/A
PER-004-1	R3.	N/A
PER-004-1	R4.	N/A
PER-004-1	R5.	N/A
PRC-004-1	R1.	N/A
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Possible Violation
PRC-005-1	R2.	Possible Violation
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A

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Reliability Standard	Requirement	Finding
PRC-010-0	R1.	N/A
PRC-010-0	R2.	N/A
PRC-011-0	R1.	N/A
PRC-011-0	R2.	N/A
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
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R1.	N/A
TOP-002-2	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R4.	N/A
TOP-002-2	R5.	N/A
TOP-002-2	R6.	N/A
TOP-002-2	R7.	N/A
TOP-002-2	R8.	N/A
TOP-002-2	R9.	N/A
TOP-002-2	R10.	N/A
TOP-002-2	R11.	N/A
TOP-002-2	R12.	N/A
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	N/A
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
TOP-003-0	R4.	N/A
TOP-004-1	R1.	N/A
TOP-004-1	R2.	N/A
TOP-004-1	R3.	N/A
TOP-004-1	R4.	N/A
TOP-004-1	R5.	N/A
TOP-004-1	R6.	N/A
TOP-005-1	R1.	N/A
TOP-005-1	R2.	N/A

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Reliability Standard	Requirement	Finding
TOP-005-1	R3.	N/A
TOP-005-1	R4.	N/A
TOP-007-0	R1.	N/A
TOP-007-0	R2.	N/A
TOP-007-0	R3.	N/A
TOP-007-0	R4.	N/A
TPL-001-0	R1.	N/A
TPL-001-0	R2.	N/A
TPL-001-0	R3.	N/A
TPL-002-0	R1.	N/A
TPL-002-0	R2.	N/A
TPL-002-0	R3.	N/A
TPL-003-0	R1.	N/A
TPL-003-0	R2.	N/A
TPL-003-0	R3.	N/A
TPL-004-0	R1.	N/A
TPL-004-0	R2.	N/A
VAR-001-1	R1.	N/A
VAR-001-1	R2.	N/A
VAR-001-1	R3.	N/A
VAR-001-1	R4.	N/A
VAR-001-1	R5.	N/A
VAR-001-1	R6.	N/A
VAR-001-1	R7.	N/A
VAR-001-1	R8.	N/A
VAR-001-1	R9.	N/A
VAR-001-1	R10.	N/A
VAR-001-1	R11.	N/A
VAR-001-1	R12.	N/A
VAR-002-1	R1.	Compliant
VAR-002-1	R2.	Compliant
VAR-002-1	R3.	Compliant
VAR-002-1	R4.	Compliant
VAR-002-1	R5.	Compliant

Compliance Culture

Information regarding the compliance culture of PENCS was obtained from the Pre-Audit Compliance Survey, Compliance Program Survey, and Pre-Audit Questionnaires that were completed by PENCS prior to the audit.