



Compliance Audit Report Public Version

**PowerSouth Energy Cooperative
NCR10203
July 14-16, 2008**

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

August 8, 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.

PowerSouth Energy Cooperative (PowerSouth) was audited on July 14-16, 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 PowerSouth's registered functions. PowerSouth is registered with SERC Reliability Corporation (SERC) as a Balancing Authority (BA), Transmission Owner (TO), Transmission Service Provider (TSP), Transmission Operator (TOP), Transmission Planner (TP), Resource Planner (RP), Generator Owner (GO), Generator Operator (GOP), Load-Serving Entity (LSE), Purchasing-Selling Entity (PSE), Planning Authority (PA) and Interchange Authority (IA). Sixteen standards were selected and identified to PowerSouth as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of PowerSouth, and did not include any evidence obtained through system observation or 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. PowerSouth staff provided an informational presentation on their progress with implementation of Cyber Security Standards CIP-002-1 through CIP-009-1.

PowerSouth 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 PowerSouth as subject to this audit. PowerSouth staff responded by providing evidence in the form of reports, procedures, studies, and other documents. PowerSouth 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, then PowerSouth was judged to be compliant. Likewise, if any of the requirements or sub-requirements were not fully met, then PowerSouth was judged to have a possible violation of the standard. A score of 100% is required for compliance.

The audit team found PowerSouth to be in compliance with all of the NERC Planning Reliability Standards in the audit scope.

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

- Independently review PowerSouth's compliance with the requirements of the reliability standards that are applicable to PowerSouth based on the PowerSouth 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 PowerSouth compliance culture.

Scope

The scope of the audit of PowerSouth included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of PowerSouth, the 16 Planning Reliability Standards previously identified were the focus of the compliance audit. Of these 16 standards, 5 standards; PRC-010-0, PRC-011-0, PRC-016-0, PRC-017-0 and PRC-021-1 were not applicable. 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 NERC representative and regional entity staff were provided to PowerSouth in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to PowerSouth upon request. SERC has confirmed that confidentiality agreements have been executed by, and are on file for SERC Industry Volunteers. PowerSouth 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. PowerSouth accepted the audit team member participants with no objections.

On-site Audit

PowerSouth was contacted by letter on January 21, 2008 by SERC staff. The letter provided PowerSouth 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 PowerSouth both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

On April 18, 2008, SERC staff forwarded an Audit Detail Letter to PowerSouth, again confirming the scheduled audit dates and confirming PowerSouth's registered functions within SERC. The Audit Detail Letter also provided PowerSouth with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with industry affiliations), and requested that PowerSouth 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, PowerSouth 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 and SMEs were identified and conducted the audit of PowerSouth. The standards were grouped and scheduled for review to make the most efficient use of PowerSouth staff's time. The audit team moderator (ATL or designee) initiated dialogue on each standard requirement and requested compliance evidence. This evidence and PowerSouth's staff response was documented. PowerSouth staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement contained in the 16 standards that had been previously identified by SERC to PowerSouth as subject to this audit. PowerSouth staff responded by providing evidence in the form of reports, procedures, studies, and other documents. PowerSouth 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 PowerSouth staff members until it was determined that each requirement was met by the cited evidence or other evidence offered.

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

Audit Overview

The audit team arrived at the PowerSouth offices at 2:50 p.m., July 14, 2008. Each member of the audit team was introduced and professional affiliation identified. The staff of PowerSouth was introduced, and general housekeeping matters explained. The staff of PowerSouth was excused and the audit team reviewed team assignments and a general overview for preparation of the audit activities starting on the next day.

After the audit team meeting; Steve Gibe, Senior Compliance Auditor and Audit Team Lead (ATL) then gave an opening presentation. He reviewed the NERC compliance plan for 2008 in general, and how it applied to PowerSouth specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of PowerSouth staff and the quality of evidence to be presented. The ATL also covered the basic procedure for the audit, and the bounding rules of conduct. PowerSouth staff made a brief presentation describing PowerSouth's corporate structure, compliance program and an informational overview of progress made toward implementation of the Cyber Security Standard requirements of CIP-002-1 through CIP-009-1. The audit team left at 4:48 p.m.

Audit

The audit team arrived at the PowerSouth at 7:50 a.m., July 15, 2008. The audit began at 8:07 a.m. The audit team initially reviewed the registration status of PowerSouth with entity staff to verify applicability of each standard. Each standard's audit began with a recitation of each requirement. PowerSouth 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

PowerSouth 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.

The review of all applicable standards was completed at 4:06 p.m., July 15, 2008 and 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 presented an exit briefing to the assembled audit team and entity staff at 8:30 a.m., July 16, 2008. This was followed by an informal response and questions from the PowerSouth 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, any added information required and the expected timeline for review and issuance of the audit report.

The ATL solicited both informal comments from PowerSouth staff, along with requesting that they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the PowerSouth meeting room at 8:53 a.m., July 16, 2008.

Company Profile

PowerSouth Energy Cooperative, formerly Alabama Electric Cooperative, Inc. (AEC), serves the wholesale energy needs of 16 electric cooperatives and 4 municipal electric systems in Alabama and northwest Florida. A member-owned generation and transmission organization, PowerSouth's service territory spans 39 Alabama counties and 10 Florida counties, with nearly 800,000 consumers. PowerSouth is the 16th largest privately owned business in Alabama, employs more than 550 people at 9 sites in Alabama and Florida, and has assets in excess of \$1.3 billion. With a combined generating capacity of more than 1,600 megawatts, PowerSouth utilizes a diverse generating mix of natural gas, coal and hydroelectricity. PowerSouth's expansive network of transmission assets consists of approximately 180 miles of 230 kV transmission lines, 1400 miles of 115 kV transmission lines and 600 miles of 46 kV transmission lines, and nearly 300 substations.

Audit Specifics

The compliance audit was conducted on July 14-16, 2008 at the PowerSouth office in Andalusia, AL.

Audit Team

Audit Team Role	Name	Title	Company
Lead	Steve Gibe	Senior Compliance Auditor	SERC
Member	Mike Vastano	Compliance Auditor	SERC
Member	Kevin Berent	Associate Compliance Auditor	SERC
Member	Paul Nauert	SERC Industry Subject Matter Expert	Ameren
Member	Robert Pierce	SERC Industry Subject Matter Expert	Duke Energy Carolinas
Member	Shih-Min Hsu	SERC Industry Subject Matter Expert	Southern Company

PowerSouth Audit Participants Title and Organization

Title	PowerSouth Organization
President and CEO	PowerSouth
Vice President Power Supply	PowerSouth
Manager, T&D Planning	PowerSouth
Supervisor, Transmission Planning & Engineering	PowerSouth
Energy Control Manager	PowerSouth
Manager, Bulk Power Services	PowerSouth
Manager, Communications	PowerSouth
Information Systems Manager	PowerSouth
Manager, T&D Operations and Maintenance	PowerSouth
Transmission Planning Engineer	PowerSouth
Substation O&M Superintendent	PowerSouth
System Protection Engineer	PowerSouth
Transmission Planning Analyst	PowerSouth

AUDIT RESULTS

The audit team found PowerSouth to be in compliance with all of the NERC Reliability Standards in the audit scope. Please see Findings Table below.

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

Findings

Reliability Standard	Requirement	Finding
BAL-001-0	All	N/A
BAL-002-0	All	N/A
BAL-003-0	All	N/A
BAL-004-0	All	N/A
BAL-005-0	All	N/A
BAL-006-1	All	N/A
CIP-001-1	All	N/A
CIP-002-1 through CIP-009-1		N/A
COM-001-1	All	N/A
COM-002-2	All	N/A
EOP-001-0	All	N/A
EOP-002-2	All	N/A
EOP-003-1	All	N/A
EOP-004-1	All	N/A
EOP-005-1	All	N/A
EOP-006-1	All	N/A
EOP-008-0	All	N/A
EOP-009-0	All	N/A
FAC-003-1	R1.	Compliant
FAC-003-1	R2.	Compliant
FAC-003-1	R3.	Compliant
FAC-003-1	R4.	N/A
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
FAC-013-1	R1.	Compliant
FAC-013-1	R2.	Compliant
INT-001-2	All	N/A
INT-003-2	All	N/A
INT-004-1	All	N/A
IRO-001-1	All	N/A
IRO-003-2	All	N/A
IRO-004-1	All	N/A
IRO-005-1	All	N/A
IRO-006-3	All	N/A
IRO-014-1	All	N/A
IRO-015-1	All	N/A
IRO-016-1	All	N/A

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Reliability Standard	Requirement	Finding
PER-002-0	All	N/A
PER-003-0	All	N/A
PER-004-1	All	N/A
PRC-004-1	R1.	Compliant
PRC-004-1	R2.	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	All	N/A
PRC-011-0	All	N/A
PRC-016-0	All	N/A
PRC-017-0	All	N/A
PRC-021-1	All	N/A
TOP-002-2	All	N/A
TOP-003-0	All	N/A
TOP-004-1	All	N/A
TOP-005-1	All	N/A
TOP-007-0	All	N/A
TPL-001-0	R1.	Compliant
TPL-001-0	R2.	Compliant
TPL-001-0	R3.	Compliant
TPL-002-0	R1.	Compliant
TPL-002-0	R2.	Compliant
TPL-002-0	R3.	Compliant
TPL-003-0	R1.	Compliant
TPL-003-0	R2.	Compliant
TPL-003-0	R3.	Compliant
TPL-004-0	R1.	Compliant
TPL-004-0	R2.	Compliant
VAR-001-1	All	N/A
VAR-002-1	All	N/A

Compliance Culture

Information regarding the compliance culture of PowerSouth was obtained from other sources and has been documented.