



Compliance Audit Report Public Version

**Southwestern Electric Cooperative, Inc
NCR01324
September 17-18, 2008**

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

October 23, 2008

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
<i>Objectives</i>	4
<i>Scope</i>	4
<i>Confidentiality and Conflict of Interest</i>	4
<i>On-site Audit</i>	4
<i>Methodology</i>	5
<i>Audit Overview</i>	5
<i>Audit</i>	5
<i>Exit Briefing</i>	6
<i>Company Profile</i>	6
<i>Audit Specifics</i>	6
Audit Result.....	7
<i>Findings</i>	7
<i>Compliance Culture</i>	13

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.

Southwestern Electric Cooperative, Inc. (SWECI) was audited on September 17-18, 2008 for compliance with the requirements contained in the currently mandatory and enforceable Reliability Standards in the 2008 NERC Compliance Monitoring and Enforcement Program (CMEP) that are applicable to SWECI's registered functions. SWECI is registered with SERC Reliability Corporation (SERC) as a Distribution Provider (DP), Purchasing-Selling Entity (PSE) and Load-Serving Entity (LSE). Nineteen standards were selected and identified to SWECI as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of SWECI, 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.

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

The audit team determined that SWECI does not own or operate Under Voltage Load Shedding (UVLS), Under Frequency Load Shedding (UFLS) or Special Protection Systems (SPS) and therefore, six of the standards applicable to SWECI were not applicable. These standards are PRC-008-0, PRC-010-0, PRC-011-0, PRC-016-0, PRC -017-0 and PRC-021-1.

SWECI was found to be in compliance with all but one of the standards that were audited. The audit team identified a possible violation of CIP-001-1, Requirement 4 "Sabotage Reporting".

This audit report includes information about how far SWECI 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.

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 SWECI compliance with the requirements of the Reliability Standards that are applicable to SWECI based on the SWECI 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 SWECI compliance culture.

Scope

The scope of the audit of SWECI included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of SWECI, the 19 Reliability Standards previously identified were the focus of the compliance audit. Of these six standards; PRC-008-0, 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 SWECI in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to SWECI upon request. SERC has confirmed that confidentiality agreements have been executed by, and are on file for SERC Industry Volunteers. SWECI 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. SWECI accepted the audit team member participants with no objections.

On-site Audit

SWECI was contacted by letter on April 4, 2008 by SERC staff. The letter provided SWECI 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 SWECI both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

On June 20, 2008, SERC staff forwarded an Audit Detail Letter to SWECI, again confirming the scheduled audit dates and confirming SWECI's registered functions within SERC. The Audit Detail Letter also provided SWECI with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with industry affiliations), and requested that SWECI 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, SWECI was

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

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 SWECI. The standards were grouped and scheduled for review to make the most efficient use of SWECI staff’s time. The audit team moderator (ATL or designee) initiated dialogue on each standard requirement and requested compliance evidence. This evidence and SWECI’s staff response was documented. SWECI staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement contained in the 19 standards that had been previously identified by SERC to SWECI as subject to this audit. SWECI staff responded by providing evidence in the form of reports, procedures, studies and other documents. SWECI 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 SWECI 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 SWECI did not provide sufficient evidence to support a finding of compliance, then a possible violation was identified by the team and SWECI staff was informed.

Audit Overview

The audit team arrived at the SWECI offices at 2:40 p.m., September 17, 2008. At 2:50 p.m., September 18, 2008 the Audit Team Lead (ATL) began the session with an opening presentation. Each member of the audit team was introduced and professional affiliation identified. He reviewed the NERC compliance plan for 2008 in general, and how it applied to SWECI specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of SWECI 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. SWECI staff made a brief presentation describing SWECI’s corporate structure, compliance program. The staff of SWECI was introduced, and general housekeeping matters explained. The staff of SWECI was excused and the audit team reviewed team assignments and a general overview for preparation of the audit activities starting on the next day.

The audit team arrived at the SWECI offices at 7:40 a.m., September 18, 2008. The audit of the NERC Reliability Standards that were the focused scope started at 8:00 a.m., September 18, 2008

Audit

The audit team initially reviewed the registration status of SWECI with entity staff to verify applicability of each standard. Each standard’s audit began with a recitation of each requirement. SWECI 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 SWECI 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 around 11:35 a.m., September 18, 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 RSAW.

Exit Briefing

The ATL presented an exit briefing to the assembled audit team and entity staff at 12:10 p.m., September 18, 2008. This was followed by an informal response and questions from the SWECI 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 SWECI staff, along with requesting that they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the SWECI meeting room at 12:55 p.m., September 18, 2008.

Company Profile

Southwestern Electric Cooperative, Inc. was formed in 1939 with a loan from the Rural Electrification Administration (REA), Southwestern Electric is a not-for-profit, member-owned cooperative located in southwestern Illinois. Southwestern Electric Cooperative serves more than 18,000 residential, commercial, agricultural and municipal members in parts of Bond, Clinton, Fayette, Effingham, Macoupin, Madison, Marion, Montgomery, Shelby and St. Clair Counties.

The cooperative, headquartered in Greenville, Ill., maintains nearly 3,500 miles of power line, employs more than 80 people and owns two subsidiary companies—New Illinois Cooperative Energy (NICE) and Propane Plus.

Audit Specifics

The compliance audit was conducted on September 17-18, 2008 at the SWECI office in Greenville, Illinois.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Compliance Auditor	SERC
Member	Compliance Auditor	SERC

SWECI Audit Participants Title and Organization

Title	SWECI Organization
Director of Engineering	SWECI
Director of Safety, Loss Control and Environmental Compliance	SWECI
Director Information Technology	SWECI
Director of Finance and Transmission	SWECI
General Manager Freedom Station	SWECI

AUDIT RESULT.

The audit team found SWECI to be in compliance with all of the NERC Reliability Standards in the audit scope, with the exception of a possible violation of CIP-001-1, Requirement 4. 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
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

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

Reliability Standard	Requirement	Finding
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.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Possible Violation
CIP-002-1 through CIP-009-1		
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.	N/A
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
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

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

Reliability Standard	Requirement	Finding
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
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.	N/A
FAC-008-1	R2.	N/A

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

Reliability Standard	Requirement	Finding
FAC-008-1	R3.	N/A
FAC-009-1	R1.	N/A
FAC-009-1	R2.	N/A
FAC-013-1	R1.	N/A
FAC-013-1	R2.	N/A
INT-001-2	R1.	Compliant
INT-001-2	R2.	Compliant
INT-003-2	R1.	N/A
INT-004-1	R1.	Compliant
INT-004-1	R2.	Compliant
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
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

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

Reliability Standard	Requirement	Finding
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.	Compliant
PRC-004-1	R2.	N/A
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	N/A
PRC-005-1	R2.	N/A
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A
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

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

Reliability Standard	Requirement	Finding
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.	N/A
TOP-002-2	R14.	N/A
TOP-002-2	R15.	N/A
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	N/A
TOP-002-2	R19.	N/A
TOP-003-0	R1.	N/A
TOP-003-0	R2.	N/A
TOP-003-0	R3.	N/A
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
TOP-005-1	R3.	N/A
TOP-005-1	R4.	Compliant
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

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

Reliability Standard	Requirement	Finding
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.	Compliant
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.	N/A
VAR-002-1	R2.	N/A
VAR-002-1	R3.	N/A
VAR-002-1	R4.	N/A
VAR-002-1	R5.	N/A

Compliance Culture

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

Determination Summary for Possible Violations Identified in an Audit

Regional Tracking Number 08-118
Entity Southwestern Electric Cooperative, Inc.
Audit Date 9/18/2008
Standard CIP-001-1
Requirement 4

Sufficient Basis for Violation

Factual Basis During the audit Entity produced a July 28, 2008 memo from the FBI which verified that they had contact information from that date. Entity staff was asked if they had contact information prior to this date back to June 18 2007, and they stated they did not. Entity's documentation concerning R4 provided contact information for the local sheriff and other law enforcement agencies, but no information could be furnished concerning FBI contact information prior to the FBI memo. Entity had not considered the FBI prior to July 28, 2008 until they began preparation for the audit.

Conclusion Violation Summary Entity's reporting procedures for Sabotage events contained the local sheriff and other law enforcement agencies but not the applicable local FBI official. The Entity could not provide evidence that its procedures contained correct and working contact information for the applicable local FBI officials from June 18, 2007 through July 28, 2008. A Violation Severity Level (VSL) of SEVERE is assessed for failing to establish communications contacts, as applicable with local FBI officials, consistent with the VSL Matrix approved by the Commission on June 19, 2008. A violation Risk Factor (VRF) of medium is assigned per the FERC approved complete violation risk factor matrix. The violation duration is from June 18, 2007 when the CIP-001-1 standard became enforceable until July 28, 2008 which is the date Entity completed its established local FBI contact.

NERC BOTCC Determination Taking into consideration the Commission's directions in Order No. 693, the NERC Sanction Guidelines, and the Commission's July 3, 2008 Guidance Order, the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on May 4, 2009. The NERC BOTCC approved the Settlement Agreement, including SERC's imposition of a financial penalty of \$3,000 against SWECI, in addition to other actions to promote prospective compliance required under the terms and conditions of the Settlement Agreement. In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission approved Reliability Standards and the underlying facts and circumstances of the alleged violation at issue.

NERC Violation Number SERC200800202
NOC Number NOC-157
NOP Number NOP-157
FERC Docket Number NP-10-28-000