



Compliance Audit Report Public Version

**Western Kentucky Energy Corp.
NCR09029
November 3-4, 2008**

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

December 2, 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.

Western Kentucky Energy Corporation (WKEC) was audited November 3-4, 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 WKEC's registered functions. WKEC is registered with SERC Reliability Corporation (SERC) as a Generator Operator (GOP) and Purchasing-Selling Entity (PSE). Fifteen standards were selected and identified to WKEC as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of WKEC, 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. WKEC staff was requested to provide an informational presentation on their progress with implementation of Cyber Security Standards CIP-002-1 through CIP-009-1.

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

The audit team found WKEC to be in compliance with all of the NERC 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:

- Independently review WKEC compliance with the requirements of the Reliability Standards that are applicable to WKEC based on the WKEC registered functions.
- Validate compliance with applicable Reliability Standards from the NERC 2008 Implementation Plan list of actively monitored standards.

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

- 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 WKEC compliance culture.

Scope

The scope of the audit of WKEC included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of WKEC, the 15 Reliability Standards previously indentified were the focus of the compliance audit. Of these 15 standards, one (EOP-009-0) was 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 regional entity staff were provided to WKEC in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to WKEC upon request. WKEC 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. WKEC accepted the audit team member participants with no objections.

On-site Audit

WKEC was contacted by letter May 9, 2008 by SERC staff. The letter provided WKEC 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 WKEC both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

On August 8, 2008, SERC staff forwarded an Audit Detail Letter to WKEC, again confirming the scheduled audit dates and confirming WKEC's registered functions within SERC. The Audit Detail Letter also provided WKEC with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with former industry affiliations), and requested that WKEC 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, WKEC 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 WKEC. The standards were grouped and scheduled for review to make the most efficient use of WKEC staff's time. The Audit Team Leader initiated dialogue on each standard requirement and requested compliance evidence. This evidence and WKEC's staff response was documented. WKEC staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement

contained in the 15 standards that had been previously identified by SERC to WKEC as subject to this audit. WKEC staff responded by providing evidence in the form of reports, procedures, studies and other documents. WKEC 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 WKEC 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 WKEC did not provide sufficient evidence to support a finding of compliance, then a possible violation was identified by the team and WKEC staff was informed.

Audit Overview

The audit team arrived at the WKEC offices in Louisville, KY at 12:48 p.m., November 3, 2008. Each member of the audit team was introduced and professional affiliation identified. The staff of WKEC was introduced, and general housekeeping matters explained. James Harrell, Senior Compliance Auditor and Audit Team Lead (ATL) began the session with an opening presentation. He reviewed the NERC compliance plan for 2008 in general, and how it applied to WKEC specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of WKEC 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. WKEC staff made a brief presentation describing WKEC'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.

Audit

The review of standards started at 1:41 p.m. The audit team initially reviewed the registration status of WKEC with entity staff to verify applicability of each standard. Each standard's audit began with a recitation of each requirement. WKEC 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 was communicated to WKEC 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 standards stopped at 6:06 p.m., and the team left the WKEC building at 6:12 p.m.

The audit team arrived at WKEC's Henderson, KY office at 7:49 a.m., November 4, 2008. The review of standards started at 8:10 a.m., and was completed at 1:33 p.m. 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 2:22 p.m., November 4, 2008. This was followed by an informal response and questions from the WKEC 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 WKEC staff, along with requesting that they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the WKEC meeting room at 2:57 p.m., November 4, 2008.

Company Profile

Western Kentucky Energy Corporation (WKEC) is a wholly-owned subsidiary of E.ON US LLC. WKEC was formed in connection with a 25-year lease agreement entered into in 1998 with Big Rivers Electric Corporation (BREC) regarding generation facilities in western Kentucky.

WKEC sells certain power amounts back to BREC. Excess power, after fulfilling existing obligations, is sold by WKEC to LG&E Energy Marketing, Inc., an E.ON US subsidiary, for resale into the wholesale market. Total generation is approximately 1770 MW.

Power plant operations are headquartered in Henderson, KY, and generation dispatch and power sales are performed in Louisville, KY.

Audit Specifics

The compliance audit was conducted November 3, 2008 at the WKEC offices in Louisville, KY, and on November 4, 2008 at the WKEC offices in Henderson, KY.

Audit Team

Audit Team Role	Name	Title	Company
Lead	James Harrell	Senior Compliance Auditor	SERC
Member	Sam Stryker	Compliance & Reliability Specialist	SERC
Member	Randy Haynes	Senior Compliance Auditor	SERC
Member	Kevin Berent	Compliance Auditor	SERC

WKEC Audit Participants Title and Organization

Title	Organization
Director, Compliance & Ethics	E.ON US
Contract Manager	E.ON US
Compliance Specialist	E.ON US
Manager, Corporate Security	E.ON US
Compliance Specialist	E.ON US
Director of Trading & Operations	E.ON US
Production Manager	E.ON US

AUDIT RESULTS

The audit team found WKEC 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	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
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

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

Reliability Standard	Requirement	Finding
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.	Compliant
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
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

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Reliability Standard	Requirement	Finding
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
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.	N/A
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

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Reliability Standard	Requirement	Finding
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
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

Confidential Information (including Privileged and
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Reliability Standard	Requirement	Finding
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.	N/A
PRC-004-1	R3.	N/A
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
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

Confidential Information (including Privileged and
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Reliability Standard	Requirement	Finding
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
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
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

Confidential Information (including Privileged and
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Reliability Standard	Requirement	Finding
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.	N/A
VAR-002-1	R5.	Compliant

Compliance Culture

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