



Compliance Audit Report Public Version

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

**Iberdrola Renewables
(Elk River Wind Farm)
NCR10259**

**Audit
July 30-31, 2008**

TABLE OF CONTENTS

Executive Summary	3
Audit Process.....	3
<i>Objectives</i>	3
<i>Scope</i>	4
<i>Confidentiality and Conflict of Interest</i>	4
<i>Off-site Audit</i>	5
<i>Methodology</i>	6
<i>Audit Overview</i>	6
<i>Audit</i>	6
<i>Exit Briefing</i>	6
<i>Audit Specifics</i>	7
Audit Results.....	8
<i>Findings</i>	9
<i>Compliance Culture</i>	11

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 report will be sent to Iberdrola Renewables (IR) and to NERC after any Possible Alleged Violations have been processed through the Southwest Power Pool Regional Entity's (SPP RE) 2008 Compliance Monitoring and Enforcement Program.

IR was scheduled for an off-site audit in 2008 as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). IR is subject to audits by SPP RE on a six year basis. The audit team reviewed the material provided by IR in response to the initial SPP RE data request and additional material requested by the audit team during their review as necessary to develop its findings. The SPP RE audit team reviewed the material and developed the audit findings on IR's compliance to the standards.

SPP RE audit team reviewed 21 standards which included 51 requirements that apply to IR for the functions it performs with the SPP RE Region. Of the 21 standards and applicable requirements, 4 standards were determined to not apply to IR since it does not have any designated black start generators nor own special protection systems. IR was prepared for the audit and presented its documentation in a complete and concise manner. The audit team reviewed 5 additional standards during the audit. These standards were self-reported by IR as non-compliant in 2007. IR submitted mitigation plans and completed them in December 2007. Therefore the audit team reviewed the evidence for verify that IR is now compliant with these standards.

After reviewing all of the evidence presented, the audit team found IR to be compliant with all 17 of the NERC standards reviewed and applicable to IR at this time.

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 the company's compliance with the requirements of the NERC and regional reliability standards that are applicable to the company based on the company's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.
- Review self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standard, and review the status of associated mitigation plans.
- Validate coordination with neighboring BAs, TOPs, and the Reliability Coordinator.
- Document the company's compliance culture.

Scope

The off-site compliance audit includes all reliability standards applicable to the Registered Entity monitored in the CEMP Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity.

There are 62 NERC standards in the 2008 Monitored Compliance Program. Thirty-seven standards cover functions not performed by IR and are not applicable to the company. Eight CIP standards were reviewed with NERC CIP self certification this summer.

If a company has an outstanding mitigation plan or has just completed a mitigation plan, the progress or completion of the plan was validated off-site by the audit team. IRs completed mitigation plans were validated during the audit.

This audit report includes the findings from the off-site review of the company's evidence.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff were provided to the SPP RE and available to the audited entity in advance of the audit. The work history of each audit team member was provided to SPP RE and the company. The company 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. IR accepted the final audit team member participants with no objections. SPP RE found no conflict of interest for any of the audit team members.

Off-site Audit

The off-site audit is part of the NERC Compliance Monitoring and Enforcement Program (CMEP). IR is subject to a compliance audit once every six years at the minimum, as indicated in the NERC Rules and Procedures. The off-site audit covers the 2008 NERC monitored standards, any Regional standards identified and possible other NERC standards listed in the pre-audit information. Companies on the 2008 off-site audit list were notified in the Fall of 2007 about their upcoming audit and scheduled for the audit. Sixty days in advance, a letter explaining the audit was sent to the company. SPP RE sent the company a request for data and documents to complete. The pre-audit material included the audit team members, audit agenda, standards to be reviewed, a pre-audit survey, the standards questionnaires, and the option to reject any audit team member. The pre-audit material received from the company provided the audit team an explanation of how the company operates for the functions for which they are registered.

The supporting evidence to show compliance with each requirement of the standards was reviewed by the audit team at the SPP RE office. Evidence included summary reports, company procedures, processes, data bases, logs, and other sources. Information gathered from Balancing Authorities, Transmission Operators, and the Reliability Coordinator was considered during the review of evidence. The audit team had teleconference interviews and WebEx with company subject matter experts as necessary to provide additional information or to further explain the material the company provided. This process enabled the team to get answers to its questions. This process also exposed other company staff to the audit process which helped solidify to its employees why a company follows certain procedures and processes. Any self-reported violations or open mitigation plans were reviewed by the audit team. The audit team used the evidence, the discussions with the company subject matter experts along with their professional judgment to decide on the recommended findings for the report.

On the final day, the lead auditor held a conference call and WebEx to present the findings of the audit to the company staff. IR included several staff members for the call. The presentation covered the findings for the standards reviewed. The final report process was explained along with the security of the audit information. IR was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. IR was also notified that a post-audit questionnaire will be provided for them to make any comments about the audit or audit team. There was a question and answer session after the presentation.

Methodology

The audit team reviewed the evidence supplied by the company for each requirement of all NERC standards that apply to the functions performed by the company to determine if the company complied with that requirement. The company would be found to be noncompliant with requirements where compliance cannot be confirmed.

This audit was conducted in the SPP-RE offices using material provided by IR. The audit team decided to conduct the audit live with company participants including those with subject matter expertise regarding all registered functions of IR via teleconference and WebEx. These discussions in conjunction with evidence provided the audit team were a basis for professional judgment when validating compliance with reliability standards.

The team reviewed each requirement and discussed the levels of compliance and addressed each team member's notes from the audit. The audit team decided on the findings presented to the company and the SPP RE. The audit team developed the closing presentation of the audit findings. The lead auditor gave the presentation to the IR staff and answered all their questions.

Audit Overview

The audit team reviewed material supplied by IR and requested follow-up and/or additional documentation as needed. The audit team reviewed each applicable standard in numerical order.

Audit

The IR audit was performed as planned. The agenda was followed with only minor adjustments. IR's cooperation and flexibility with the agenda was appreciated by the audit team.

Exit Briefing

The audit team gave an exit presentation for the IR staff. The team lead explained the findings from the audit. The presentation was attended by IR staff that participated in the audit and other staff. The presentation was open for comments and discussion about the findings. The exit presentation also covered any possible violations and mitigation requirements. IR was informed that they will receive an audit evaluation to complete and return to NERC.

The audit team used the exit presentation to help verify that the information presented was correct.

Company Profile

IR performs the following NERC functions and is registered with NERC/SPP RE for these functions:

- Generator Operator
- Generator Owner

IR is one of the largest developers, constructors, and operators of wind power projects in North America with 1882 MW of wind power and 584 MW of thermal generation throughout the United States. IR's corporate parent company is Iberdrola Renovables, S.A., a publicly traded Spanish company on the Madrid stock exchange.

IR has one interconnection point with Westar Energy at 345 kV connecting their 158 MW Elk River wind facility to SPP. It has an operations control center which is staffed 24/7.

SPP is the Reliability Coordinator for IR. IR is in the Empire District Balancing Authority and the Westar Energy Transmission Operator area.

Audit Specifics

The compliance audit was conducted on July 30-31, 2008 at the SPP RE office in Little Rock, Arkansas.

Audit Team

Audit Team Role	Name	Title	Company
Lead	Kevin Goolsby, P.E.	Lead Engineer	SPP RE
Member	Shon Austin	Specialist II	SPP RE
Member	James Williams	Lead Compliance Specialist	SPP RE
Member	Tom Hess	Contractor	SPP RE
Observer	Mark Vastano	Regional Coordinator	NERC

IR Audit Participants

Title	Organization
Manager, Market Structure	IR
Regulatory Compliance Analyst	IR

Audit Results

IR's completed mitigation plans from 2007 were reviewed during this audit. After reviewing the evidence presented to the audit team, the audit team found IR to be compliant with all 17 applicable standards reviewed.

IR was prepared for the audit and presented its documentation in a complete and concise manner. IR expert personnel from each area of expertise were available to support the evidence provided or asked for during the audit. IR showed that they are in compliance with the NERC standards and have processes and procedures in place to insure that they continue to remain compliant. IR staff is committed to compliance.

Findings

IR Off-site Audit Findings

*N/A – Not Applicable

PAV – Possible Alleged Violation

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-002-2	R1.	Compliant
EOP-004-1	R2.	Compliant
EOP-004-1	R3.	Compliant
EOP-009-0	R1.	N/A
EOP-009-0	R2.	N/A
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
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
TOP-002-2	R3.	Compliant
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R18.	Compliant
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant

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

Reliability Standard	Requirement	Finding
TOP-003-0	R3.	Compliant
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

Iberdrola Renewables completed a questionnaire prior to the compliance audit. IR stated that it has a formal internal compliance program and provided a description of the internal compliance monitoring to the audit team.

Iberdrola Renewables has a reliability team which ensures their compliance program is managed independently from the staff that is responsible for applying compliance requirements on a day to day basis. The Senior Vice President of Regulation and Government Affairs serves as IR's NERC Compliance Officer of Authority.

Iberdrola Renewables' NERC Compliance Officer of Authority reports directly to its Chief Executive Officer which facilitates frequent communication regarding the company's internal compliance program at the highest levels of the organization.

The status of the company's internal compliance program and any updates are included as a standing agenda item at IR's senior management team semi-annual business update meetings. This ensures that the senior management team is aware of compliance activities and can address any issues specific to their individual areas of business.

In addition to general awareness training, specific detailed training is provided to individuals directly responsible for carrying out actions required to meet compliance requirements. Training is performed through face-to-face meetings, conference calls, web casts, and distribution of training materials to impacted staff.

Iberdrola Renewables' internal compliance program is audited on an annual basis. Internal audit staff completes this annual full audit to assess whether all components are appropriately implemented and to identify areas of improvement.

Overall, IR has a compliance program with staff involvement. The staff is aware of the importance of continual compliance. IR's compliance program appears strong based on the concise and complete nature of the compliance documentation and evidence provided for this audit.