



# **Compliance Audit Report Public**

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Information) – Has Been Removed**

**Salt River Project Agricultural  
Improvement and Power District (SRP)  
NCR05372**

**Audit Dates: January 7 – 11, 2008**

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## EXECUTIVE SUMMARY

The Western Electricity Coordinating Council (WECC) Compliance Department conducted an On-site Compliance Audit of Salt River Project Agricultural and Power District (SRP) on January 7 through 11, 2008. The audit was conducted at the SRP Power Operations Building in Scottsdale, Arizona. The eight member audit team consisted of four WECC Compliance Staff, two WECC Consultants (Independent Contractors), and two NERC Staff members. Federal Energy Regulatory Commission (FERC) staff did not observe this audit.

The audit began at approximately 1:00 PM on Monday, January 7 with introductions and a short presentation by the WECC audit team about the audit process. SRP leadership then presented an overview of SRP. The audit then proceeded each day thereafter, concluding in the early afternoon on Friday, January 11 with an exit briefing on the preliminary audit findings to SRP personnel.

The audit scope involved the review of forty-eight (48) National Electric Reliability Corporation (NERC) Reliability Standards. In addition, two NERC Regional Reliability Standards applicable to WECC were reviewed during this audit.

Prior to the start of the audit, SRP self-reported eight outstanding compliance violations and submitted Mitigation Plans for each one. The audit team reviewed SRP's Mitigation Plans and Mitigation Plan Completion Forms to determine compliance for these outstanding violations.

This audit report includes information for SRP regarding the possible compliance violations. This information will be used to help determine the severity level of sanctions and penalties.

The audit team found possible violations with six Requirements in five of the fifty total Reliability Standards reviewed during the audit. One initial possible violation of standard PRC-005-1 was investigated after the completion of the audit and was found to be in error. These possible violations, along with the on-site Compliance Audit Report, will be sent to the WECC Compliance Department for processing through the WECC Compliance Monitoring and Enforcement Program (CMEP). If the WECC Compliance Department confirms the findings of the audit team, possible compliance violations will become Alleged Violations, and SRP and NERC will be notified via a Notice of Alleged Violation Letter.

The audit team used the Reliability Standard Audit Worksheets (RSAW) during the compliance review of each Reliability Standard. Note: Some Reliability Standards do not have a developed RSAW. For these standards the Requirements for each standard were relied on for compliance review. The audit team used the evidence (documentation provided and interviews) as the factual basis to support audit findings and conclusions.

The audit period for this on-site audit was June 18, 2007 through the last date of the on-site audit.

Overall, the audit team found that SRP has a reliable and well run operation.

SRP has made a good effort to identify NERC Reliability Standard deficiencies and implement corrective mitigation plans.

SRP has developed and implemented an Internal Compliance Program that is supported at all management levels.

The audit team appreciated SRP's preparation and exemplary effort to streamline the documentation for each of the Standards. The guide sheet was very helpful.

SRP made an outstanding effort to provide interviews and additional evidence during the audit.

As background, FERC Order 693 was issued on March 16, 2007, and made compliance to eighty three (83) of the NERC Reliability Standards mandatory and enforceable in the United States beginning June 18, 2007. Each of these standards is subject to the sanctions guidelines effective on this date. It should be noted that the SRP On-Site Compliance Audit was completed after June 18, 2007.

<http://www.nerc.com/filez/enforcement/index.html>

## AUDIT PROCESS

The compliance audit process steps are detailed in both the WECC and NERC Compliance Monitoring and Enforcement Programs (CMEP).

### 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.<sup>1</sup> The audit objectives are:

- Independently review SRP's compliance with the requirements of the reliability standards that are applicable to SRP based on the SRP 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 standards, and review the status of associated mitigation plans.
- Document SRP's compliance culture.
- Validate compliance with standards in addition to the NERC 2008 Implementation Plan list of actively monitored standards. SRP only submitted

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

self-reported non-compliance and Mitigation Plans for standards on the NERC 2008 Implementation Plan list of actively monitored standards.

- Validate compliance to regional standards; two WECC Regional Reliability Standards were reviewed during this audit.

## Scope

A compliance audit includes all reliability standards applicable to the registered entity monitored in the NERC Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the registered entity. The scope of an on-site compliance audit will vary depending on whether it is scheduled as part of a regular, periodic scheduled audit or as part of a compliance investigation.

Note: For the 2008 compliance program, the monitoring period for the compliance audit will be the past twenty-four (24) 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.

The SRP audit scope involved the review of forty eight (48) NERC Reliability Standards and two (2) WECC Regional Reliability Standards.

## Confidentiality and Conflict of Interest

Confidentiality agreements executed by the NERC representatives and WECC staff were available to SRP upon request. Audit team biographies were provided to SRP. SRP was given an opportunity to object to any audit team member on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with that member's impartial performance of duties. SRP did not object to any members of the audit team.

## On-site Audit

On-site audits of Reliability Coordinators (RCs), Balancing Authorities (BAs), and Transmission Operators (TOPs) are conducted on a three-year cycle. SRP is registered as a BA, TOP, and multiple other functions, and is therefore subject to an on-site audit every three years.

SRP was officially notified of the January 7-11, 2008 on-site audit (60 day notice of audit). Accompanying this notification were several documents relating to the audit (pre-audit survey, audit scope, list of reliability standards, audit agenda overview, and request for evidence list):

- Pre-Audit Introduction Letter
- Notice of Compliance Audit (An explanation of Compliance Monitoring Authority and Registered Entity Obligations regarding collection of data and information necessary to assess compliance with approved reliability standards)
- WECC Compliance Audit Team Biographies
- NERC 2008 Actively Monitored Standards
- Pre-Audit Questionnaire

- 2008 Audit Documentation Matrix.

SRP was notified in the Pre-Audit letter that SRP personnel (subject matter experts representing all the registered functions) would need to be available to answer questions (interviews) the audit team might have regarding the documentation.

The audit team had the flexibility to expand the scope of the audit by notifying SRP in advance via the agenda that additions to the initial scope of the audit would be requested by the audit team leader the audit overview meeting between the audit team and SRP.

SRP was asked to submit the completed questionnaire and certain requested documents back to WECC. These requested documents included:

- Sabotage Reporting Procedure (CIP-001-1)
- Capacity and Energy Emergency Plan (EOP-002-2)
- Manual Load Shed Plan or Procedure (EOP-003-1)
- System Restoration Plan (EOP-005-1)
- Loss of Primary Control Center Plan (EOP-008-0)
- Vegetation Management Plan (FAC-003-1)
- Operator Training Program (PER-002-0)
- Planning Studies and Assessment (TPL Standards)
- List of NERC Certified Operators and Certification Numbers.

SRP also received the audit folders and Reliability Standard Audit Worksheets (RSAWs) approximately 30 days ahead of the on-site audit.

The Audit Documentation Matrix was completed by SRP and sent to WECC approximately 5 days ahead of the on-site audit. This matrix provided guidance to the audit team on applicable sections in the SRP documentation relevant for demonstration of compliance to each of the standards.

SRP was also informed that the on-site compliance audit would be conducted consistent with the following Regional and NERC documents:

- WECC Compliance Monitoring and Enforcement Program
- NERC Compliance Auditor Manual
- NERC Reliability Standard Audit Worksheets.

Professional judgment was used by the audit team during the on-site audit. The audit team leader requested interviews with SRP employees representing subject matter expertise regarding all of the registered functions of SRP. These interviews, in conjunction with SRP evidence, provided the audit team a basis for determining compliance with the NERC Reliability Standards.

Reference - Generally accepted government auditing standard 3.31 - Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results.

Reference - Generally accepted government auditing standard 3.39 - While this standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an audit or attestation engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Professional judgment does not mean eliminating all possible limitations or weaknesses associated with a specific audit, but rather identifying, considering, minimizing, mitigating, and explaining them.

## **Methodology**

Methodology: the auditing standards and best practices that are to be followed by compliance auditors in carrying out their work. The methodology should be objective, measurable, complete and relevant to the audit objectives. The auditors should identify potential sources of audit evidence and consider the amount and type of evidence needed.

## **Audit Overview**

Depending on the size of the entity being audited, the on-site audits typically begin at 1:00 PM on a Monday and conclude with an exit briefing around 3:00 PM on Friday.

The audit overview meeting in the afternoon of the first day was the initial meeting between the audit team and SRP personnel.

This overview meeting provided the opportunity for the lead auditor, WECC Senior Compliance Engineer, to specify audit expectations.

The meeting also provided the audit team with a good overview of SRP's operation and organization prior to actually beginning the audit process.

## **Audit**

The audit began at approximately 1:00 PM on January 7 with short presentations from SRP and the WECC.

The Audit Team Leader (ATL) provided an overview of the on-site audit process and how compliance with each standard would be validated using SRP's submitted documentation. The ATL also explained that interviews would be necessary if the audit team required more information along with additional documentation on any standard. SRP had submitted several self-reported violations and Mitigation Plans prior to the June 18, 2007 mandatory date and it was explained that the audit team would be evaluating these self-reported violations, Mitigation Plans and Mitigation Plan Completion Forms as necessary to complete the on-site audit.

The audit then proceeded each day thereafter with adjustments to the agenda to accommodate interviews and to receive additional documentation. The audit team broke into sub-teams of two auditors each in order to complete the auditing of each Reliability Standard. At least twice a day, the audit team recapped the preliminary findings to ensure the whole audit team concurred with each sub-team's preliminary findings.

SRP was very flexible in having subject matter experts available for interviews and several subject matter experts were interviewed during the audit.

The audit team's process for determining compliance was as follows:

- Evidence submitted prior to the on-site audit by SRP
- Additional evidence submitted during the on-site audit
- Interviews of SRP personnel conducted by the audit team during the audit.

After reviewing all the above evidence, the audit team determined compliance with each Reliability Standard and the existence of possible violations.

On January 11, the audit concluded in the early afternoon with the preliminary audit findings presented to SRP personnel in an exit briefing.

Overall, the audit team found that SRP has a reliable and well run operation.

SRP has made a good effort to identify deficiencies and implement mitigation plans.

SRP has developed and implemented an Internal Compliance Program that is supported at all management levels.

The audit team appreciated SRP's effort to streamline the documentation. The guide sheet was very helpful.

SRP made an outstanding effort to provide additional information and have subject matter experts available for interviews during the audit.

## **Exit Briefing**

The exit briefing with SRP personnel was conducted during the mid-afternoon on January 11. The closing presentation of preliminary findings was given by the audit team leader using Power Point slides. The presentation included a summary of the preliminary audit findings and audit team comments on the evidence provided. Each Reliability Standard was then reviewed and the audit team's preliminary findings were shared with SRP. At the end of the presentation, a summary of the audit process was explained. SRP was advised that possible violations could become alleged violations if confirmed by the WECC Compliance Department. SRP's appeal options were discussed, and the development and timing of the draft and final audit reports was shared.

## **Company Profile**

Salt River Project is two companies: the Salt River Project Agricultural Improvement and Power District, a political subdivision of the state of Arizona; and the Salt River Valley Water Users' Association, a private corporation. The Salt River Project Agricultural Improvement and Power District hereafter referred to generically as SRP, is a non-profit company that provides electric power to over two million customers within a 2,900 square mile territory that includes portions of the Phoenix Arizona metropolitan area.

The SRP peak load occurs normally in summer and on July 18, 2007 was 6,578 MW.

SRP currently operates or participates in 11 major power plants and numerous other generating stations, including thermal, nuclear, natural gas and hydroelectric sources with an installed generation capacity of 5,689 MW.

SRP is currently registered with NERC for the following functions:

<i>Balancing Authority</i>	<i>Transmission Operator</i>
<i>Transmission Owner</i>	<i>Transmission Planner</i>
<i>Transmission Service Provider</i>	<i>Planning Authority</i>
<i>Generator Operator</i>	<i>Generator Owner</i>
<i>Resource Planner</i>	<i>Purchase Selling Entity</i>
<i>Load Serving Entity</i>	<i>Distribution Provider</i>

### Audit Specifics

The compliance audit was conducted on January 7-11, 2008 at SRP's Power Operations Building in Scottsdale, Arizona.

### Audit Team

Audit Team Role	Title	Company
Audit Team Lead	Senior Compliance Engineer	WECC
Member	Senior Compliance Engineer	WECC
Member	Compliance Program Coordinator	WECC
Member	Regional Compliance Program Coordinator	NERC
Member	Regional Compliance Program Coordinator	NERC
Member	Consultant	WECC
Member	Consultant	WECC
Observer	Senior Compliance Engineer	WECC

### SRP Audit Participants

Title	SRP Organization
Manager, Electric Reliability Compliance Group	SRP
Senior Engineer, Electric Reliability Compliance Group	SRP
Manager Transmission Operations	SRP
Manager Maintenance Services	SRP
Engineering Technician Sr., Line Clearing	SRP
Utility Forester, Line Clearing	SRP
Senior Engineer	SRP

<b>Title</b>	<b>SRP Organization</b>
Supervisor of Training	SRP
Lead Relay Tech	SRP
Relay Maintenance Supervisor	SRP
Senior Principal Engineer, System Protection	SRP
Manager Transmission System Planning	SRP
Manager Transmission Planning	SRP

## AUDIT RESULTS

The audit team reviewed and validated all the SRP evidence, including additional evidence requested during the audit and also considered information obtained through interviews with SRP subject matter experts.

- The audit team spent significant time reviewing the evidence, findings, and conclusions. An extensive review of SRP procedures, descriptions of processes, transactions and records was also conducted.
- Professional judgments were made by the audit team during the overall assessment of the evidence, and included a determination of whether the evidence was sufficient and appropriate to confirm compliance with the NERC Reliability Standards.
- The audit team found no major Bulk Electric System (BES) reliability concerns during the audit.
- Communications with SRP management was ongoing during the audit.
- The status of mitigation plans in progress, self-reported violations, and completed mitigation plans were all evaluated during the audit.
- SRP had self-reported eight outstanding compliance violations and submitted Mitigation Plans for each one prior to the start of this audit.
- Reliability Standard Auditor Worksheets (RSAW), mitigation plans & completions, and summaries of auditor notes from interviews were used to validate compliance with each standard and to complete the Findings for the audit.
- This audit report includes information for SRP regarding the possible compliance violations. This information will be used to help determine the severity level of sanctions and penalties.

## Findings

### Findings Table for SRP Audit

The Finding column in the table below contains one or more of the following: Compliant, NA, Possible Violation, Self-reported Violation (“Self-Report”), or other appropriate description.

Reliability Standard	Requirement	Finding
BAL-001-0	R1.	Compliant
	R2.	Compliant
	R3.	NA
	R4.	NA
BAL-002-0	R1.	Compliant
	R2.	NA
	R3.	Compliant
	R4.	Compliant
	R5.	NA
	R6.	Compliant
BAL-STD-002-0	R1.	Compliant
BAL-003-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	NA
BAL-004-0	R1.	NA
	R2.	NA
	R3.	Compliant
	R4.	NA
BAL-005-1	R1.	Compliant
	R2.	Compliant
	R3.	NA
	R4.	NA
	R5.	NA
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
BAL-005-1	R9.	Compliant
	R10.	Compliant
	R11.	Compliant
	R12.	Compliant
	R13.	Compliant
	R14.	Compliant

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	R15.	Compliant
	R16.	Compliant
	R17.	Compliant
BAL-006-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
CIP-001-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Possible Violation
CIP-002-1 through CIP-009-1	Not Audited at SRP	Not Audited
COM-001-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	NA
COM-002-2	R1.	Compliant
	R2.	Possible Violation
EOP-001-0	R1.	Possible Violation
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
EOP-002-2	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	NA
	R9.	NA
EOP-003-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant

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	R7.	Compliant
	R8.	Compliant
EOP-004-1	R1.	NA
	R2.	Compliant
	R3.	Compliant
	R4.	NA
	R5.	NA
EOP-005-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
	R9.	Compliant
	R10.	Compliant
	R11.	Compliant
EOP-008-0	R1.	Compliant
EOP-009-0	R1.	Compliant
	R2.	Compliant
FAC-003-1	R1	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	NA
FAC-008-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
FAC-009-1	R1.	Compliant
	R2.	Compliant
FAC-013-1	R1.	Compliant
	R2.	Compliant
INT-001-2	R1.	Self-Report: Compliant
	R2.	Compliant
INT-003-2	R1.	Compliant
INT-004-1	R1.	Compliant
	R2.	Self-Report: Compliant
	R1.	NA
	R2.	NA
	R3.	NA
	R4.	NA

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IRO-001-1	R5.	NA
	R6.	NA
	R7.	NA
	R8.	Compliant
	R9.	NA
IRO-004-1	R1.	NA
	R2.	NA
	R3.	NA
	R4.	Compliant
	R5.	NA
	R6.	NA
	R7.	Compliant
IRO-005-2	R1.	NA
	R2.	NA
	R3.	NA
	R4.	NA
	R5.	NA
	R6.	NA
	R7.	NA
	R8.	Compliant
	R9.	NA
	R10.	NA
	R11.	NA
	R12.	Compliant
	R13.	Compliant
	R14.	Compliant
IRO-005-2	R15.	NA
	R16.	NA
	R17.	NA
	R1.	NA
IRO-006-3	R2.	NA
	R3.	NA
	R4.	NA
	R5.	NA
	R6.	Compliant
	WR1.	Compliant
PER-002-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
PER-003-0	R1.	Compliant
PRC-004-1	R1.	Compliant
	R2.	Compliant
	R3.	NA
	R1.	Compliant

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PRC-005-1	R2.	Compliant
PRC-008-0	R1.	Compliant
	R2.	Possible Violation
PRC-010-0	R1.	Self-Report: Complaint
	R2.	Self-Report: Complaint
PRC-011-0	R1.	Compliant
	R2.	Compliant
PRC-016-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
PRC-017-0	R1.	Compliant
	R2.	Compliant
PRC-021-1	R1.	Compliant
	R2.	Compliant
TOP-002-2	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
	R9.	Compliant
	R10.	Compliant
	R11.	Compliant
	R12.	Compliant
	R13.	Compliant
	R14.	Compliant
	R15.	Compliant
	R16.	Compliant
	R17.	Compliant
	R18.	Compliant
	R19.	Compliant
TOP-003-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	NA
TOP-004-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Self-Report: Compliant
	R5.	Compliant
	R6.	Compliant
	R1.	Compliant

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TOP-005-1	R2.	NA
	R3.	Compliant
	R4.	Compliant
TOP-007-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	NA
TPL-001-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
TPL-002-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
TPL-003-0	R1.	Self-Report: Compliant
	R2.	Compliant
	R3.	Compliant
TPL-004-0	R1.	Compliant
	R2.	Compliant
VAR-001-1	R1.	Compliant
	R2.	Compliant
	R3.	Possible Violation
	R4.	Possible Violation
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
	R9.	Compliant
	R10.	Compliant
	R11.	Compliant
	R12.	Compliant
VAR-002-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
VAR-002-1	R4.	Compliant
	R5.	Compliant

## **COMPLIANCE CULTURE**

SRP has developed and implemented an Internal Compliance Program that is supported at all management levels.