



# **Compliance Audit Report Public Version**

## **Tucson Electric Power Marketing (TEPM) NCR10166**

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

**Final – November 25, 2008**

## Audit Overview

The WECC Compliance Department conducted an off-site compliance audit of the Tucson Electric Power Marketing (TEPM) on October 16, 2008. The off-site audit was conducted at the WECC Compliance Department offices at 615 Arapeen Drive, Suite 210, Salt Lake City, Utah.

TEPM personnel were notified at the start of the off-site audit and kept informed as the audit progressed. TEPM did not have personnel available at the WECC Offices during but they participated by telephone at the closing presentation.

At the time of the off-site audit, TEPM was registered for the following functions: PSE.

The following functions were audited: PSE.

The TEPM Internal Compliance Program (ICP) was not reviewed during this audit.

The audit team used the Reliability Standard Audit Worksheets (RSAWs) during the compliance review of each reliability standard. The evidence provided was reviewed for the period June 18, 2007 through the off-site audit date of October 16, 2008. The June 18, 2007 date is when FERC made compliance to eighty-three (83) of the NERC Reliability Standards mandatory and enforceable in the United States. No violations were identified by the audit team during this audit.

### ***Confidentiality and Conflict of Interest***

Confidentiality agreements, executed by the WECC independent contractors (consultants) and code of conduct documentation for the NERC representative and WECC compliance staff, were available to TEPM in advance of the off-site audit, if requested. Work history and conflict of interest forms submitted by each audit team member were also provided. TEPM 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 that audit team member's impartial performance of duties. TEPM accepted the audit team member participants with no objections.

### ***Off-site Audit***

Off-site audits of Purchase Selling Entities (PSE) are conducted on a six-year cycle. If a Registered Entity is registered for other functions (such as GO, GOP, PA, TP, RP, etc.), it had the option of having these other functions audited during the off-site audit.

TEPM was officially notified of the off-site audit with a 60-day Notice of Compliance Audit letter. Accompanying this notification were attachments relating to the audit as listed below:

- Pre-audit introduction letter
- Audit team bios
- Pre-audit questionnaire
- Audit documentation matrix
- WECC 2008 Auditing, Monitoring and Reporting Requirements for NERC Standards

TEPM was notified in the Pre-Audit letter that 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.

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

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

TEPM was asked to submit the completed questionnaire, the audit documentation matrix and other requested documents back to the WECC Compliance Department.

A pre-audit conference call was held by WECC compliance staff with all the Registered Entities scheduled for an off-site audit.

Professional judgment was used by the audit team during the off-site audit. The audit team leader requested interviews with employees representing subject matter expertise regarding the registered functions being audited. These interviews in conjunction with the evidence, gave the audit team a factual 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 of reliability standards and best practices that are followed by compliance auditors in carrying out their work. The methodology is objective, measurable, complete and relevant to the audit objectives. The auditor identifies potential sources of audit evidence and considers the amount and type of evidence needed given the risk and significance when defining the audit methodology.

**Audit Specifics**

**Audit Team**

<b>Audit Team Role</b>	<b>Title</b>	<b>Company</b>
Lead	Sr. Compliance Engineer	WECC
Member	WECC Consultant	WECC

**Registered Entity Audit Participants (Attending/Interviewed/Listening)**

<b>Title</b>	<b>Audited Organization</b>
Director, Energy Trading	TEPM
Energy Trader	TEPM
Energy Trader	TEPM
Energy Trader	TEPM

**Findings**

The preliminary findings of the audit team were presented to TEPM at the closing presentation. These findings are indicated in Table A below. The “Finding” column contains one of the following: Compliant, Possible Violation (PV), New Possible Violation (NPV), Not Applicable (NA), Not Audited, Outstanding Alleged Violation (OV), Retraction requested (Retract), Self-reported Violation (Self-Report), or other appropriate description.

**Table A**

<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
INT-001-2	R1.	Compliant
INT-001-2	R2.	NA
INT-004-1	R1.	NA
INT-004-1	R2.	Compliant
IRO-001-1	R1.	NA
IRO-001-1	R2.	NA
IRO-001-1	R3.	Compliant
IRO-001-1	R4.	NA

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

<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
IRO-001-1	R5.	NA
IRO-001-1	R6.	NA
IRO-001-1	R7.	NA
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	NA
IRO-005-1	R1.	NA
IRO-005-1	R2.	NA
IRO-005-1	R3.	NA
IRO-005-1	R4.	NA
IRO-005-1	R5.	NA
IRO-005-1	R6.	NA
IRO-005-1	R7.	NA
IRO-005-1	R8.	NA
IRO-005-1	R9.	NA
IRO-005-1	R10.	NA
IRO-005-1	R11.	NA
IRO-005-1	R12.	NA
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	NA
IRO-005-1	R15.	NA
IRO-005-1	R16.	NA
IRO-005-1	R17.	NA
TOP-005-1	R1.	NA
TOP-005-1	R2.	NA
TOP-005-1	R3.	NA
TOP-005-1	R4.	Compliant
VAR-001-1	R1.	NA
VAR-001-1	R2.	NA
VAR-001-1	R3.	NA
VAR-001-1	R4.	NA
VAR-001-1	R5.	Compliant
VAR-001-1	R6.	NA
VAR-001-1	R7.	NA
VAR-001-1	R8.	NA
VAR-001-1	R9.	NA
VAR-001-1	R10.	NA
VAR-001-1	R11.	NA
VAR-001-1	R12.	NA