



RELIABILITY *FIRST*



Compliance Audit Report Public Version

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Has Been Removed**

**Midwest Contingency Reserve Sharing Group
(MCRSG)
NCR 00825
October 29-November 2, 2009**

November 3, 2009

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Executive Summary

The Midwest Reliability Organization (MRO) led a compliance audit of the Midwest Contingency Reserve Sharing Group (MCRSG) as a part of its normal six year cycle in conjunction with Reliability First Corporation (RFC) and SERC Reliability Corporation (SERC). The review of documentation submitted by the MCRSG took place at each regional office and was followed up by a WebEx on October 29, 2009. The audit team conducted an onsite visit November 2, 2009. Each of the three regions provided representation on the audit team in addition to two NERC observers.

The North American Electric Reliability Corporation (NERC) has designated a subset of Reliability Standards for active compliance monitoring and reporting by the Regional Entities in their 2009 Implementation Plan. NERC has identified 49 standards as “actively monitored” which contain 418 requirements.

The MCRSG is registered with the MRO, RFC and SERC regions as responsible for one function. As a result of this registration and for this audit, the MCRSG is responsible for meeting compliance with 1 Reliability Standard which contains 3 requirements. During the course of the audit the audit team expanded the scope by one additional requirement. The audit team did not identify any possible violations during the audit.

As a part of the audit process, the MCRSG completed Compliance Questionnaires and provided the Regional Entities with supporting documentation for their audit. Upon completion of the initial review of evidence, the audit team requested additional documentation and identified the subject matter experts (SMEs) to be interviewed.

The MCRSG did not prepare the additionally requested documentation prior to the audit team arriving onsite. In response to one data request, the MCRSG had questions pertaining to responding to the request. In response to the second request, the MCRSG had the information available, but did not prepare it for the audit team in advance.

Audit Process

The compliance audit process steps are detailed in the NERC Compliance Monitoring and Enforcement Plan (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 MCRSG's compliance with the requirements of the reliability standards that are applicable to MCRSG based on MCRSG's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 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.

Scope

The MCRSG Compliance Audit was conducted as a part of its normal six year cycle. The audit was conducted under the guidelines of the 2009 CMEP. All applicable NERC standards were reviewed during this audit.

Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the NERC representative and regional entity staff were available to the audited entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were available to the audited entity if requested. The audited entity 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. The audited entity accepted the audit team member participants with no objections.

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

Audit Proceedings

The MRO presented a high level overview of the compliance audit process.

The auditor code of conduct was reviewed. Regional Entity staff must adhere to confidentiality as required through the NERC Delegation Agreement.

Methodology

Audit criteria included standards, measures, and expectations based on best practices. The criteria were objective, measurable, complete, and relevant to the objectives. The audit team accepted and was not limited to policies, procedures, screen-prints of EMS, copies of operator logs, audio clips, and correspondence. If needed, additional supporting documentation or clarification was requested.

The Audit team used the Compliance Questionnaire and Reliability Standards Auditor Worksheet (QRSAW) to review the one reliability standard during the compliance audit. This is done to ensure consistency and fairness during each compliance audit.

Audit Overview

In August of 2009 the MRO scheduled MCRSG to receive a compliance audit the week of November 2, 2009 as a part of their normal six-year cycle. On August 27, 2009, the MRO sent MCRSG the audit package including *the Audit Notification, Audit Certification Letter, Internal Compliance Survey, Pre-Audit Survey, Procedures for Conducting an Audit, Subject Matter Experts Spreadsheet, Preparing for Compliance and Compliance Audit, MRO, RFC and SERC Biographies*, and the *2009 QRSAWs*.

Audit

Two weeks prior to the audit, MCRSG supplied MRO with approximately 90% of supporting documentation needed to demonstrate compliance. Regional Entity staff members reviewed this documentation. The compliance staff utilized the NERC Standards and the QRSAW while reviewing the supporting documents and responses to the Compliance Questionnaires provided by MCRSG.

After evaluation of the supporting documentation, a set of questions was developed to be posed to subject matter experts for MCRSG, and any missing supporting evidence was identified. During the onsite visit, the team of auditors was able to review the necessary documents and conduct interviews of the subject matter experts. These interviews, in conjunction with supporting evidence, provided the audit team with a basis for professional judgment when with reliability standards.

All documentation is stored at the MRO office in a fire proof locked cabinet.

Exit Briefing

Upon completion of the subject matter expert interviews, the audit team conducted an exit briefing on November 2, 2009. The audit team did not identify any possible violations.

Company Profile

The Amended and Restated Midwest Contingency Reserve Sharing Group (MCRSG) Agreement (“MCR Agreement”) became effective January 6th, 2009 with the following Balancing Authorities as parties: Big River Electric Cooperative, East Kentucky Power Cooperative, Louisville Gas & Electric, Dairyland Power Cooperative, Manitoba Hydro, Western Area Power Administration, Midwest ISO, Lincoln Electric System, MidAmerican Energy Company, Muscatine Power and Water, Nebraska Public Power District, and Omaha Public Power District.

Currently, the following Balancing Authorities are parties to the MCR Agreement: Big Rivers Electric Cooperative, East Kentucky Power Cooperative, Louisville Gas & Electric, Dairyland Power Cooperative, Manitoba Hydro, Western Area Power Administration, and the Midwest ISO. The MCRSG’s historic peak load is 140,346 MW which is a summer peak. The MCRSG does not own generation resources. The Midwest ISO serves as the Group Administrator for the MCRSG.

Please note that the MCRSG is a separate and distinct entity from the Midwest ISO.

Audit Specifics

The document review was conducted at the regional offices October 29, 2009. The onsite audit was conducted at the offices of the Midwest ISO in Carmel, IN on November 2, 2009.

Audit Team

Audit Team Role	Title	Company
Lead	Compliance Audit Manager	MRO
Member	Senior Consultant	RFC
Member	Compliance Auditor	SERC
Observer	Regional Compliance Coordinator	NERC
Observer	Regional Compliance Coordinator	NERC

MCRSG Audit Participants

Title	MCRSG Organization
Deputy General Counsel	Legal
Technical Manager	RT Ops
Compliance Attorney	Legal
Senior Paralegal	Legal
Laptop Support	RT Ops
Manager System Wide Ops	RT Ops
Engineer II	RT Ops
Principal Engineer	RT Ops
Sr. Ops Specialist	RT Ops
Sr. Director	RT Ops

Audit Results

- MCRSG provided the audit team with supporting documentation for review prior to the conference call. The team received approximately 90% of the supporting documentation needed for evidence. Each member of the audit team reviewed the documentation provided prior to a conference call to discuss the audit. After the conference call, the audit team developed questions for the subject matter experts and a list of additional required documentation.
- MCRSG presented the additional requested information after the SME interview.
- In addition to the MCRSG SME, the Midwest ISO Deputy General Counsel was present at the SME interview.
- The audit team utilized the Compliance Questionnaire and Reliability Standard Auditor Worksheet (QRSAW) in order to assess compliance of the one reliability standard. The primary questions of the subject matters were documented in addition to the requests for additional evidence.

Findings

Compliance Audit

Conducted On: **Nov 02, 2009**

Entity: **Midwest Contingency Reserve Sharing Group (MCR)**

Address: **701 City Center Drive, Carmel, Indiana 46032, United States**

NERC Compliance Registry ID: **NCR00825**

Standard Requirement	Compliant
BAL-002-0 R1	Yes
BAL-002-0 R2	Yes
BAL-002-0 R3	Yes
BAL-002-0 R4	Yes

Compliance Culture

The Midwest CRSG completed the Internal Compliance Program Survey prior to the compliance audit.