



Compliance Audit Report Public Version

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

**The Energy Authority, Inc.
NERC ID # - NCR00076**

Date of Audit - March 16-24, 2009

Date of Report – May 6, 2009

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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 Energy Authority, Inc. and NERC.

A compliance audit of The Energy Authority, Inc. (TEA) was conducted from March 16-24, 2009 by an audit team lead by *ReliabilityFirst* with the participation of FRCC. *ReliabilityFirst* conducts compliance audits as part of the *ReliabilityFirst* Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, TEA, NERC ID # - NCR00076; was registered for the Purchasing-Selling Entity (PSE) function that it performs in the *ReliabilityFirst* region. This audit was conducted with the consultation of all identified regions to assure that all specific regional compliance concerns were addressed. This audit report marks the completion of TEAs compliance review for each of the regions in which TEA is registered. At the time of the audit TEA was registered as a PSE in the FRCC, *ReliabilityFirst*, SERC, SPP, MRO, and WECC reliability regions

The Audit Team evaluated TEA for compliance with three (3) NERC Reliability Standards which consisted of three (3) requirements for the period of June 18, 2007 to March 24, 2009. TEA provided information and documentation to aid the Audit Team's evaluation of compliance with the applicable standards. The Audit Team reviewed and evaluated all information provided by TEA to assess compliance with requirements/standards applicable to the PSE function.

TEA was found to be compliant with all three of the applicable NERC Reliability requirements. The Audit Team did not identify any Possible Alleged Violations (PAVs). The basis for these findings is detailed in the Audit Result Findings section of this report.

There were no on-going mitigation plans and therefore none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the *ReliabilityFirst* CMEP. The *ReliabilityFirst* 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 to:

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

- Review TEA's compliance with the requirements of Reliability Standards that are applicable to TEA based on TEA's registered functions.
- Validate compliance with applicable Reliability Standards from the NERC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of outstanding 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 TEA's compliance program and culture.
- Validate compliance with additional NERC standards selected by the regions that are not in the NERC 2009 Implementation Plan.
- Validate compliance with applicable Reliability *First* and other regional reliability standards that apply to TEA.

Scope

The scope of the compliance audit included applicable NERC Reliability Standards applicable to the Registered Entity being monitored in the 2009 Reliability *First* Implementation Plan for the current and two previous years to June 18, 2007, all applicable regional standards, a review of self-certifications, and mitigation plans as appropriate. The scope of the audit covers the period June 18, 2007 to the date of the scheduled audit.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the Audit Team are governed under the Reliability *First* Delegation Agreement with NERC and the NERC Rules of Procedure Section 1500. TEA was informed of the Reliability *First* obligations and responsibilities under this agreement and rules of procedure. The work history for each Audit Team member was provided to TEA. TEA 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. TEA did not submit any objections by the stated fifteen day objection due date and by this action accepted the Audit Team member participants without objection.

Off-site Audit

TEA is currently subject to a compliance audit at a minimum of once every six years as provided by the NERC Rules of Procedure. Every PSE in the NERC Compliance Registry is required to have an audit once every six years. TEA was provided with a 60 day notification of this scheduled audit and at that time was provided with all necessary documents required by the NERC and Reliability *First* audit process. The following documents were provided as part of the 60 day notification:

- 60 day Notification letter which contained request for evidence, information, and date submittals for each applicable requirement/standard
- Compliance Audit Survey

- Audit Agenda as applicable
- Confidentiality Agreements
- Internal Compliance Program Survey
- Audit Team Work History with discussion of the objection process
- General Instructions of Data and/or Information Submittals
- Pre-Audit Questionnaires/Reliability Standard Auditor Worksheets (RSAWs)

Documents were provided to TEA in both electronic and hardcopy format.

ReliabilityFirst discussed the use of technical experts with the TEA primary compliance contact and indicated that ReliabilityFirst would welcome the use of technical experts by TEA as deemed necessary to explain their compliance to the requirements/standards.

TEA's cooperation and flexibility with the agenda to address the requirements/standards was appreciated by the Audit Team.

This audit was conducted in the ReliabilityFirst offices in Akron, Ohio, using material provided by TEA. The Audit Team reviewed TEA's evidence of compliance for all applicable standards with TEA technical experts, and requested, as required, additional information to clarify information previously supplied to the team. These interviews, in conjunction with evidence provided, supplied the Audit Team with a basis for using their professional judgment when validating compliance to the Reliability Requirements/Standards.

Methodology

The Audit Team reviewed the evidence provided by TEA for each of the Reliability Standards and requirements that apply to the functions performed by the company to assess TEA's compliance with those NERC Reliability Standards and associated requirements, all applicable ReliabilityFirst standards, a review of self-certifications, and mitigation plans as appropriate for all regions a part of this compliance audit. The Audit Team reviewed each requirement, discussed the levels of compliance and addressed each team member's observations during the audit to determine the team's compliance findings from the audit review.

Opening Briefing

An Opening Briefing was conducted with TEA to discuss the following:

- Introduction of Audit Team
- Audit Objective and Scope
- Team Audit Expectations
- Discussion on Clarification Calls
- Audit Process

- Exit Briefing and schedule

Audit

The ReliabilityFirst Audit Team reviewed TEA's applicable reliability standards/requirements and evaluated and measured the evidence provided for each to determine compliance. When there was concern that the supporting evidence did not meet the intent of the requirement, the Audit Team requested additional detail, clarification, and or evidence in the form of examples.

Exit Briefing

The Audit Team conducted an exit briefing with a presentation to TEA via web-ex/conference call on March 24, 2009. The presentation was attended by TEA staff as well as the audit team. The status of the off-site audit process was discussed, followed by a review of the audit scope, the preliminary audit findings, and the compliance audit report process and entity feedback. TEA was provided an opportunity to ask questions concerning the topics that the Audit Team addressed.

The presentation was attended by the following TEA staff via conference call/web-ex.

Title	Company
Compliance Director	TEA

Company Profile

At the time of the audit, TEA was registered for the NERC function of Purchasing Selling Entity (PSE) in the ReliabilityFirst, FRCC, SERC, SPP, MRO, and WECC reliability regions.

TEA operates in a 24/7 environment within the FRCC, ReliabilityFirst, SERC, SPP, MRO, and WECC reliability regions from their 24/7 trading desk, located in Jacksonville, Florida. As a PSE, TEA does not own or operate any assets.

TEA has not been issued any reliability directives from any of the RC jurisdictions under which it operates.

Audit Specifics

The compliance audit was conducted from March 16 - 24, 2009 at the ReliabilityFirst Office in Akron, Ohio.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Engineer	ReliabilityFirst Corporation
Member	Consultant	RNJ Energy
Observer	Compliance Engineer	FRCC

TEA Audit Participants

Title	Company
Compliance Director	TEA

Audit Results

After reviewing all of the evidence presented, TEA was found to be compliant with three (3) of the applicable NERC Reliability Standards, consisting of three (3) requirements that apply to the function TEA is registered to perform in the identified regions. The audit team did not find any Possible Alleged Violations (PAVs). There were no mitigation plans, self certifications, or applicable regional standards that were in need of review by the audit team.

Findings

The following table details the Audit Team's findings and evidence reviewed for compliance with the three (3) applicable NERC Reliability Standards for TEA's registered function. The table includes details, document section, and page numbers noted by the Audit Team relating to the evidence reviewed for compliance to each Reliability Standard and the associated requirements.

TEA Off-site Audit Findings Table

Reliability Standard	Requirement	Finding
IRO-001-1	R8	Compliant
IRO-005-2	R13	Compliant
VAR-001-1	R5	Compliant

Compliance Culture

TEA has a Compliance Program. The TEA compliance program consists of training for all employees involved with transactions that are governed by the NERC standards, as well as a written examination following each training session. In addition to the training, the Compliance Director periodically addresses NERC standards with the trading management to ensure the standards remain fresh within the organization. The Compliance Director publishes a monthly newsletter summarizing regulatory and legislative updates that affect the company. The intent of this newsletter is to include any new or updated regulations that affect The Energy Authority. This newsletter is electronically posted and available to all employees.

The Compliance Director reports directly to the VP – Risk Control, who in turn reports to the President/CEO. The Compliance Director presently has the ability to direct half of the time of one full time employee at The Energy Authority. The VP – Risk Control is able to report directly to the Board of Directors, if such a need arises, and the Compliance Director has independent access to the President/CEO, if such a need arises. The VP – Risk Control makes reports directly to the Board of Directors, as required, and the Compliance Director may report any irregular activity directly to the President/CEO, if required.

The Compliance Director operates and manages the compliance program. He works in the mid-office, which is separate from the trading function. The trading department is responsible for the organization's performance with regard to the reliability standards applicable to TEA. The Compliance Director and the compliance program operate independently from the trading department.

The compliance program has the support and participation of senior management. Senior management attends an annual condensed compliance training session to maintain proficiency with the industry standards. Other department heads, including the CIO and CFO, have agreed to requests made by the Compliance Director for data retention requirements necessary for the effective functioning of the TEA compliance program.

If a violation occurs, the responsible staff is required to immediately repeat the compliance training. The Energy Authority has a strict policy of adherence and will discipline any employee found to have violated NERC standards. From its Code of Marketing and Trading Practices: "Any failure to abide by this Code, including the Duty to Report Violations, will result in disciplinary action. All potential violations are handled on a case-by-case basis and will result in a full review by, at minimum, the following individuals: the employee's immediate supervisor, the VP of Trading, the Compliance Director, and the Vice President of Risk Control. Factors that are considered in setting the disciplinary action plan include, but are not limited to: source of violation discovery (self-reported, peer-reported, reported by a third party, via internal procedures, or the result of an audit), intent (accidental or intentional), type and magnitude of risk that the employee exposed TEA to (financial, reputation, etc), and frequency of the violation (first offense or history of multiple offenses). Historically, the disciplinary actions taken have involved demotion, loss of compensation (suspension without pay), and termination of employment."