



Compliance Audit Report Public Version

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

**TransAlta Energy Marketing (U.S.) Inc.
NCR08074**

**Date of Audit
December 7-8, 2009**

**Date of Report
January 20, 2010**

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Executive Summary

This 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 audited entity and NERC.

An off-site compliance audit of TransAlta Energy Marketing (U.S.) Inc. (TEMUS) was conducted on December 7-8, 2009. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, TEMUS was registered under NERC ID NCR08074, for the Purchasing Selling Entity (PSE) function that it performs in ReliabilityFirst (RFC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), Southeast Reliability Corporation (SERC), Southwest Power Pool (SPP), and Western Electricity Coordinating Council (WECC) reliability regions.

On August 11, 2009, ReliabilityFirst provided a 90 day notification to TEMUS which requested data and information to provide evidence of compliance with NERC Reliability Standards within the scope of the audit. For unknown reasons, TEMUS did not receive this 90-day notification and alerted ReliabilityFirst of the problem on October 9, 2009.

On October 12, 2009, TEMUS requested assistance from ReliabilityFirst to resolve the delivery issue and their inability to open many of the attachments that were sent. Although this issue appeared to be corrected on October 13, 2009, TEMUS requested at least a 60-day extension to prepare the audit materials for submittal. TEMUS followed-up with ReliabilityFirst with a phone call on October 19 and email on October 20 in a further attempt to seek confirmation if an extension would be granted based on a revised notification date of October 13, 2009. TEMUS also wanted to confirm that with the pre-audit survey 30 working days after this date, the audit will be performed at least two months after October 13th as per the CMEP, and not during the original audit date of November 9 – 20 per the notification letter sent on August 11, 2009.

After ReliabilityFirst considered the events leading up to the delivery issue associated with the August 11th, 90-day notification, and the minimal impact of providing the evidence for three (3) NERC standard requirements, ReliabilityFirst granted an extension to November 20, 2009.

TEMUS submitted material that the audit team reviewed and used to assess TEMUS's compliance with the NERC Reliability Standards. The audit team developed findings based on this review and assessment.

The audit team assessed TEMUS's compliance with three (3) NERC Reliability Standards and three (3) requirements which are applicable to TEMUS for the PSE function. No ReliabilityFirst Regional Standards were included in the scope of the audit.

TEMUS was prepared for the audit and provided documentation in a complete and concise manner. The audit team did not identify any violations as a result of this review. TEMUS was

found to be fully compliant with the three (3) NERC Reliability Standards and the three (3) requirements.

There were no ongoing mitigation plans and therefore none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the Reliability*First* CMEP. The Reliability*First* 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:

- Review TEMUS's compliance with the requirements of the Reliability Standards that are applicable to TEMUS based on TEMUS's registered function(s)
- 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 Standard, and review the status of associated mitigation plans
- Document TEMUS's internal compliance culture
- Validate compliance with other NERC Reliability Standards outside the 2009 implementation plan as selected by Reliability*First*, or other regional entities.
- Validate compliance with applicable Reliability*First* or other regional reliability standards that are applicable to TEMUS

Scope

The scope of the audit included Reliability Standards which were selected by NERC for monitoring via audit in the 2009 CMEP Implementation Plan. Reliability*First* also monitored all applicable Reliability*First* standards, self certifications, and mitigation plans as appropriate for the period of June 18, 2007 through the date of the audit.

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

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the ReliabilityFirst Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure. TEMUS was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history of each audit team member was provided to TEMUS. TEMUS 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. TEMUS did not submit any objections by the stated fifteen day objection due date and by this action has accepted the audit team member participants without objections. ReliabilityFirst found no conflict of interest for any of the audit team members.

Off-site Audit

TEMUS is subject to an audit once every six years as provided by the NERC Rules of Procedure. TEMUS was provided a 90 day notification of this scheduled audit and all necessary documents required by the NERC and ReliabilityFirst audit process were provided. The following documents were provided as part of the notification:

- 90 day Notification letter which contained a request for evidence, information, and data submittals
- Compliance Audit Survey
- Audit Agenda as applicable
- Internal Compliance Survey
- Audit Team Work History and Confidentiality documents
- General Instructions of Data or Information Submittals
- Compliance Questionnaire and Reliability Standard Auditor Worksheets (QRSAs)

Documents were provided to TEMUS in electronic format.

An audit agenda and/or schedule were provided to TEMUS in advance to allow the necessary time to prepare for the audit. TEMUS's cooperation and flexibility with the agenda was appreciated by the audit team.

The audit team reviewed TEMUS's compliance processes for all applicable standards with TEMUS and requested additional information to clarify information previously supplied to the team. These discussions in conjunction with evidence provided, supplied the audit team with a basis for using professional judgment when validating compliance to the Reliability Standards.

Methodology

The audit team reviewed the evidence provided by TEMUS for each of the requirements that are applicable to the function performed by the company to determine if the company complied with those Reliability Standards and associated requirements. The team reviewed each requirement, discussed the levels of compliance and addressed each team member's observations from the audit to determine its findings from the review.

Opening Briefing

Due to the narrow scope of the audit, the preliminary review of the submitted evidence by the audit team, and the additional evidence, clarification and attestations provided by TEMUS prior to the audit period, the audit team included the opening remarks in the exit briefing.

Audit

The audit team reviewed each requirement and the evidence provided to determine if TEMUS was compliant with the requirement. The team discussed its findings to determine TEMUS's compliance to each of the standards. Upon request, TEMUS provided additional information or clarified existing information during the review of its material.

Exit Briefing

The audit team presented its preliminary findings to the TEMUS staff. The team lead explained the findings from the audit. The exit presentation also covered the reporting process going forward, confidentiality of information, and audit feedback forms that the region is using to improve the audit process. TEMUS was provided an opportunity to ask questions which the audit team addressed.

Company Profile

TransAlta Corporation is a wholesale generator and marketer of energy with operations in Canada, the United States and Australia. TransAlta Energy Marketing (U.S.) Inc. is a wholly owned subsidiary of TransAlta Corporation, and is responsible for all of TransAlta's trading, marketing and transmission activities in the United States. TransAlta Corporation, is Canada's largest investor-owned power producer and wholesale marketer. Through its subsidiaries, TA Generation Ltd., TA Cogeneration Ltd., and TA Centralia Generation, TransAlta owns and operates coal-fired, gas fired, hydroelectric and wind powered power plants across Canada and the United States.

TransAlta Energy Marketing Corp. ("TEMCO") and its US affiliate, TransAlta Energy Marketing (U.S.) Inc. ("TEMUS"), are responsible for optimizing the value of TransAlta's assets and for proprietary trading of energy products all over North America. TEMCO and TEMUS conduct

physical and financial trading of power in Alberta, PacNW, California, Desert SW, PJM, MISO, NEPOOL, Ontario RFC, MRO, NPCC, SERC, SPP, and WECC. In addition, they also trade other products including Coal, Gas and Emissions.

Audit Specifics

The compliance audit was conducted on December 7-8, 2009.

Audit Team

Audit Team Role	Title	Company
Lead	Manager, Compliance Program Implementation & CVI's	ReliabilityFirst
Member	Senior Consultant	ReliabilityFirst

TEMUS Audit Participant

Title	Organization
Senior Regulatory & Compliance Analyst	TEMUS
Manager Reliability Regulations	TEMUS
Vice President, Internal Audit	TEMUS
Senior Risk Analyst	TEMUS
Manager Risk Oversight	TEMUS

Audit Results

The audit team assessed TEMUS's compliance with three (3) NERC Reliability Standards, including three (3) requirements that are applicable to the PSE function.

After reviewing all of the evidence presented, TEMUS was found to be compliant with three (3) NERC Reliability Standards and three (3) requirements that apply to TEMUS for the function of Purchasing-Selling Entity that it is registered to perform in ReliabilityFirst (RFC), Midwest Reliability Organization (MRO), Northeast Power Coordinating Council (NPCC), Southeast Reliability Corporation (SERC), Southwest Power Pool (SPP), and Western Electricity Coordinating Council (WECC) reliability regions.

Findings

The following table lists the auditor findings relating to evidence reviewed for compliance with the Reliability Standards within the scope of the compliance audit.

TEMUS Off-Site Audit Findings Table

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

FINAL

Compliance Culture

TransAlta's internal compliance program in regards to the NERC Reliability Standards is administered by their Regulatory & Legal Affairs group and supported by their NERC Reliability Standards Steering Committee who ensures the necessary resources and tools are in place to sustain compliance.

TransAlta's internal compliance program includes appropriate and sufficient compliance adherence training for all relevant staff. For Purchase Selling Entity (PSE) related compliance, all staff associated with the Energy Trading business (including Trading Operations, Risk Management, Financial Operations, Treasury, etc) annually sign off on the Commodity Exposure Management Policy (CEMP) and the associated CEMP Procedures. The same staff are expected to complete Electric Edison Institute Anti-Manipulation training annually.

At TransAlta compliance is every employee's responsibility and is captured in the Corporate Code of Conduct where employees have a responsibility to comply with all laws, rules, and regulations in all jurisdictions in which they do business. Leaders of employees have the additional obligations to lead by example, using their own behavior as a model for all employees, and to enforce the policies that enact the Corporate Code of Conduct by providing education, legal counseling and a business environment that promotes policy compliance.

TransAlta Internal Audit has provided resource assistance in 2007-2008 with the validation of site specific NERC activity. Since Program inception, Internal Audit has acted in an advisory capacity relating to program activity and development, as well as providing guidance on audit documentation standards. In 2010, the Internal Audit mandate will be expanded and a dedicated resource will be assigned to conduct a review of all operational compliance programs, including NERC, throughout TransAlta. Consistent with other Internal Audit activity, all reports and memos will be communicated to senior management, and where applicable, findings and issues raised will require a response and action plan from management. Quarterly the results of these efforts will be communicated to the Audit and Risk Committee.

TransAlta is currently finalizing a more formal TransAlta NERC Reliability Standards Compliance Program (anticipated completion date late 2009), with supporting documentation more specific to NERC Reliability Standards and which will be supported by more extensive employee education and training.