

Magic Valley Electric Cooperative, Inc.

NERC ID # NCR04094

Audit Report

for Compliance with

NERC Reliability Standards

Public Version

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

Audit Date: November 4 – 6, 2009
Audit Location: Texas Regional Entity
Report Date: January 4, 2012
Prepared By: Kent Grammer, Audit Team Leader

TABLE OF CONTENTS

1.0	Executive Summary	3
2.0	Audit Process.....	3
2.1	Objectives	3
2.2	Scope.....	3
2.3	Methodology	4
2.4	Company Profile	4
2.5	Audit Specifics	4
3.0	Audit Results.....	5
3.1	Findings	5
3.2	Conclusion	6
3.3.	Compliance Culture	7

1.0 EXECUTIVE SUMMARY

The Table Top compliance audit of Magic Valley Electrical Cooperative, Inc. (MVEC) was conducted on November 4–6, 2009. The NERC Reliability Standards that are being actively monitored for 2009 were reviewed based on MVEC's registration as a TO, TP, and DP. The audit team consisted of four representatives from Texas Regional Entity (Texas RE).

This audit report includes information regarding the requirements that were missing for MVEC's possible compliance violations. This information will be used to help determine the severity level of sanctions and penalties. The possible compliance violations will be processed through the Texas RE's NERC Compliance Monitoring and Enforcement Program. Any further actions related to possible compliance violations will follow the same process.

The possible violations for PRC-008; R2 and PRC-011; R2 were dismissed¹. The NERC Notice of Penalty (NOP) for the PRC-005; R2 violation is posted on the NERC website at the following URL: http://www.nerc.com/filez/enforcement/FinalFiled_ACP_NOP_20110630.pdf.

2.0 AUDIT PROCESS

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at www.nerc.com. The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

2.1 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.² The audit objectives are:

- Independently review MVEC's compliance with the requirements of the reliability standards that are applicable to MVEC based on the MVEC's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 CMEP 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 MVEC's compliance culture.

2.2 Scope

The scope of this compliance audit is inclusive of all requirements of the NERC Reliability Standards that are being actively monitored in 2009 and any others that may be identified by the audit team at the time of the audit applicable to Transmission Owner, Transmission Planner, and Distribution Provider. The audit was performed by four members of Texas RE.

¹ The possible violations for PRC-008; R2 and PRC-011; R2 were dismissed on April 21, 2011.

² North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

Note: For the 2009 compliance program, the monitoring period for the compliance audit will generally be the last three years, the time since MVEC's last audit as a DP, TO, TP or periods specified in individual reliability standards. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to MVEC prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to MVEC. MVEC 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. MVEC accepted the audit team member participants with no objections.

2.3 Methodology

Once an audit date was set by Texas RE, MVEC was sent a pre-audit questionnaire and the Reliability Standard Audit Work Sheets (RSAWs) for the list of actively monitored NERC Standards. During the audit, Texas RE reviewed the responses to the RSAWs and pre-audit questions with MVEC's management and supervisors. Texas RE audit team interviewed operations personnel and reviewed documents to substantiate those operations personnel were trained and capable of following the procedures to ensure reliable operations from that entity. The audit team also interviewed IT, Communications, and Planning personnel as necessary to get answers to questions and verify documentation.

The audit team conducted an exit briefing immediately following the audit with MVEC. The audit team verbally shared its preliminary results with MVEC's management.

2.4 Company Profile

When private utility companies would not extend electric service to rural South Texas, a small band of farmers and ranchers joined together to form the Magic Valley Cooperative. They signed a note for \$200,000 and began construction of 75 miles of power lines. Eleven months later, the lights went on in the homes of Magic Valley's first 125 members.

Today, Magic Valley has over 4,373 miles of energized line serving more than 85,724 meters. From the beginning, Magic Valley has been a national leader in fiscal management and member service: first in the nation to make across the board capital credit refunds to members, and first in the state to use two-way radios in service trucks. Then and now, our members have relied on Magic Valley to provide affordable power and outstanding service. At Magic Valley Electric Cooperative, "heritage" means more than history. It means a past dedicated to building a future that shines brightly for all our members now, and those to come.

2.5 Audit Specifics

Audit Date: November 4 – 6, 2009
Audit Location: Texas Regional Entity

Texas RE Audit Team:

Company/Title
Texas RE/Audit Team Leader
Texas RE/Auditor
Texas RE/Auditor
Texas RE/Auditor

MVEC Audit Participants:

Company/Title
MVEC
MVEC

3.0 AUDIT RESULTS

3.1 Findings

The Compliance Audit Team found that MVEC was non-compliant the following standards and requirements:

Reliability Standard & Requirement
PRC-005-1, R2
PRC-008-0, R2 ³
PRC-011-0, R2 ³

The following table is a summary of the auditor's notes for those NERC standards reviewed during the audit:

Reliability Standard	Requirement	Finding
FAC-001-0	R1	Compliant
FAC-001-0	R2	Compliant
FAC-001-0	R3	Compliant
FAC-003-1	R1	N/A
FAC-003-1	R2	N/A
FAC-003-1	R3	N/A
FAC-003-1	R4	N/A
FAC-008-1	R1	Compliant
FAC-008-1	R2	Compliant
FAC-008-1	R3	Compliant

³ The possible violations for PRC-008; R2 and PRC-011; R2 were dismissed on April 21, 2011.

Reliability Standard	Requirement	Finding
FAC-009-1	R1	Compliant
FAC-009-1	R2	Compliant
FAC-014-1	R5	Compliant
IRO-004-1	R4	Compliant
PRC-004-1	R1	Compliant
PRC-004-1	R3	Compliant
PRC-005-1	R1	Compliant
PRC-005-1	R2	Possible Violation
PRC-008-0	R1	Compliant
PRC-008-0	R2	Possible Violation
PRC-010-0	R1	Compliant
PRC-010-0	R2	Compliant
PRC-011-0	R1	Compliant
PRC-011-0	R2	Possible Violation
PRC-017-0	R1	N/A
PRC-017-0	R1	N/A
TOP-001-1	R4	Compliant
TPL-001-0	R1	Compliant
TPL-002-0	R2	Compliant
TPL-003-0	R3	Compliant
TPL-002-0	R1.	Compliant
TPL-002-0	R2.	Compliant
TPL-002-0	R3.	Compliant
TPL-003-0	R1.	Compliant
TPL-003-0	R2.	Compliant
TPL-003-0	R3.	Compliant

3.2 Conclusion

The Compliance Audit Team found that MVEC was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
PRC-005-1, R2
PRC-008-0, R2 ⁴
PRC-011-0, R2 ⁴

⁴ The possible violations for PRC-008; R2 and PRC-011; R2 were dismissed on April 21, 2011.

The possible compliance violation along with this compliance report will be provided to the regional entity compliance staff for processing through the NERC CMEP. Any further actions related to possible compliance violations will be through that process.

3.3. Compliance Culture

MVEC was cooperative and made every effort to accommodate the audit team during the audit.