



NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 TELEPHONE (212) 840-1070 FAX (212) 302-2782

Compliance Audit Report

Public Version

Covanta SEMASS, LLC

NCR10011

April 8 to May 27, 2009

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

5/27/2009

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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 audited entity and NERC.

An off-site compliance audit of Covanta SEMASS, LLC, NERC ID #NCR10011 was conducted from April 8 to May 27, 2009. At the time of the audit, Covanta SEMASS, LLC was registered for the Generator Owner (GO) and Generator Operator (GOP) functions.

The audit team evaluated Covanta SEMASS, LLC for compliance with thirty-one requirements in thirteen NERC Reliability Standards in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed reliability standards identified in the NERC 2009 Implementation Plan for the audit period of the current year and previous from June 18, 2007 unless a different retention period is specified in an individual reliability standard. Covanta SEMASS, LLC submitted information and documentation to aid the audit team's evaluation of compliance with requirements and provided a subject matter expert for the standards resulting in a more clear understanding of the Covanta SEMASS, LLC business model, which helped accelerate the audit process. When the evidence provided to demonstrate compliance or non-applicability required additional requests for information and evidence, the Covanta SEMASS, LLC team responded to these requests in an expeditious manner. The audit was conducted using the data submitted by Covanta SEMASS, LLC as well as telephone and email data exchanges. The audit team reviewed and evaluated all information provided by Covanta SEMASS, LLC to assess compliance with the standards applicable to the Generator Owner (GO) and Generator Operator (GOP) functions.

It should be noted that the four individual Covanta Facilities audits scheduled by NPCC for 2009; namely, Covanta Mid-Conn, Inc, Covanta Niagara, LP, Covanta Onondaga, LP, and Covanta SEMASS, LLC, were all conducted together as a team audit. This method was proposed by the Audit Team in order to provide better consistency and efficiency for the audit as well as to minimize contacts and inquiries to the four entities. Covanta agreed to the team audit, and Covanta submitted their data according to the NPCC audit schedule.

The Audit Team evaluated Covanta SEMASS, LLC on 60 requirements and sub-requirements in 13 Reliability Standards. Based on the information and documentation provided by Covanta SEMASS, LLC, the audit team found Covanta SEMASS, LLC to be compliant with 36 of 60 applicable requirements and sub-requirements and 11 of the 13 applicable NERC Reliability Standards. The audit team determined that 24 requirements and sub-requirements and 2 NERC Reliability Standards were not applicable to Covanta SEMASS, LLC.

The audit results are further explained in the Audit Results Findings Table section of this report which includes detailed information of the audit team's determination of applicability and compliance for the Reliability Standards within the scope of the compliance audit.

All additional information requested was provided promptly and comprehensively. The audit team would like to thank the Covanta SEMASS, LLC team for the support offered throughout the audit.

There were no ongoing or recently completed mitigation plans and, therefore, none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the NERC 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 to:

- Independently review Covanta SEMASS, LLC's compliance with the requirements of the reliability standards that are applicable to Covanta SEMASS, LLC based on Covanta SEMASS, LLC's registered functions.

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

- Validate compliance with applicable reliability standards from the NERC 2009 Implementation Plan list of actively monitored standards and additional NERC reliability standards selected by NERC.
- Validate compliance with applicable Regional Standards from the NPCC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications and confirm compliance with other requirements of the reliability standard.
- Review the status of associated mitigation plans.
- Observe and document Covanta SEMASS, LLC's compliance program and culture.

Scope

The audit included all standards identified in the February 2, 2009 audit letter for the previous year. The audit was a regularly scheduled audit and no self-reported violations, made pre or post June 18, 2007, mitigation plans, spot checks, previous audits, or compliance investigations were involved. There were no separate requests made by Compliance Enforcement to the entity to supply information as it pertains to compliance other than for this regularly scheduled audit.

At the time of the audit, Covanta SEMASS, LLC was registered for the functions GO and GOP. The audit team evaluated Covanta SEMASS, LLC for compliance during the period of June 18, 2007 to May 27, 2009.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure. Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and regional entity staff were provided to the audited entity in advance of the audit. 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.

Off-site Audit

Covanta SEMASS, LLC was provided with a pre-audit request letter identifying the standards and requirements subject to audit for the Generator Owner (GO) and Generator Operator (GOP) functions, which included CIP-001-1 R1, R2, R3, R4; COM-002-2 R1; FAC-008-1 R1, R2, R3; FAC-009-1 R1, R2; IRO-001-1 R8; IRO-004-1 R4; IRO-005-1 R13; PRC-001-1 R1, R2, R3, R5; PRC-004-1 R2, R3; PRC-005-1 R1, R2; PRC-017-0 R1, R2; TOP-001-1 R3, R6, R7; and TOP-002-2 R3, R13, R14, R15, R18. The audit letter was sent to Covanta SEMASS, LLC more than 60 days in advance of the scheduled audit.

This is an off-site audit conducted every six years or as determined to be necessary by the region. Covanta SEMASS, LLC had no self-reported violations, made pre or post June 18, 2007, no mitigation plans, spot checks, previous audits or compliance investigations, and there were no requests made to the entity to supply information as it pertains to compliance other than for this audit.

The audit team leader requested that Covanta SEMASS, LLC employees representing subject matter expertise regarding the registered functions of Covanta SEMASS, LLC be made available for interviews should the need arise. These interviews, in conjunction with evidence submitted, would then provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

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.

Generally accepted government auditing standard 3.39 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

The audit team prepared reliability standards audit worksheets (RSAWs) to evaluate each standard. The RSAWs are used to ensure consistency and to document evidence of

compliance, non-compliance or non-applicability with the standards. All relevant documents are considered and to the extent they form a portion of the audit trail are included in the RSAWs.

Audit Overview

The audit overview was conducted at 2:00 PM on March 16, 2009 via telephone call. The call was between the NPCC auditors and the NERC/Asset Compliance Specialist, Facility Manager, and Facility Chief Engineer of Covanta SEMASS, LLC. The auditors reviewed their careers and noted that they had signed confidentiality agreements. The Lead Auditor stated that the four individual Covanta audits; namely, Covanta Mid-Conn, Inc, Covanta Niagara, LP, Covanta Onondaga, LP, and Covanta SEMASS, LLC, would be conducted as a team audit as discussed with and subsequently requested by Covanta. A brief explanation of the audit process was given and the audit timelines were discussed. The auditors stated that the auditors have the ability and authority to expand the audit beyond the initial set of the standards and requirements identified in the audit notification letter should the need arise. The auditors also stated that corroborating evidence from other entities might be required to substantiate Covanta SEMASS, LLC's compliance.

Covanta SEMASS, LLC was given the opportunity to reject the auditors should they feel that there was a possible conflict of interest, any concerns regarding the auditors' background or if they thought that the auditors would not be impartial. Covanta SEMASS, LLC accepted the auditors.

Audit

The auditors performed the audit as a team audit off-site. The auditors reviewed the information submitted by Covanta SEMASS, LLC and developed a list of questions and requests for further information; the list was then sent to Covanta SEMASS, LLC for their review. Covanta SEMASS, LLC then took the time necessary to gather the required information and submitted their response back to the auditor via email.

Exit Briefing

The exit briefing was conducted via conference call at 10:00 AM on Wednesday, May 27, 2009. The teleconference was between the NPCC auditors and the NERC/Asset Compliance Specialist, VP Maintenance/Asset Reliability, and Chief Engineer of Covanta SEMASS, LLC. The NPCC staff reviewed the audit process and summarized the findings of the audit for each standard and requirement. After reviewing all the data, the audit team found Covanta SEMASS, LLC to be compliant with 36 of 60 applicable

requirements and sub-requirements and 11 of 13 applicable NERC Reliability Standards. The audit team determined that 24 requirements and sub-requirements and 2 NERC Reliability Standards were not applicable to Covanta SEMASS, LLC.

Covanta was presented an opportunity to question the audit findings and provide comments on the audit. Covanta asked if there are any ways to enhance their process for future audits. The auditors provided some ways to enhance their management of data evidence. Covanta also indicated that the audit process was an educational experience.

Company Profile

Covanta Energy Corporation's principal activities are to develop, own, and operate energy generating facilities, water and wastewater facilities. It develops, owns and operates independent power production projects utilizing a variety of fuels. Covanta operates through two segments: Domestic and International. Domestic segment designs, constructs, and operates key infrastructure for municipalities in waste-to-energy and independent power production. International segment operates independent power production facilities in Asia, South America and Europe. It has interests in international power projects with an aggregate generating capacity of approximately 1061 MW (gross) either operating or under construction.

Covanta Energy has a fairly traditional organizational structure with a corporate office located in Fairfield, NJ. This location provides technical, financial, and administrative support to all facilities. The Americas Operations are divided into 5 regions with each region being managed by a Vice President of Operations and Vice President of Business Management, all reporting through a Senior Vice President located at Fairfield.

Covanta SEMASS, LLC provides solutions for waste disposal through Energy from Waste (EfW) projects. It works in conjunction with participating municipalities to take in household and commercial non-hazardous waste and combusts the waste in boilers to produce steam, which drives turbines, which, in turn, produces clean and renewable power.

The site organization has a fairly flat hierarchy structure, which consists of the Facility Manager, Chief Engineer who manages all Operators, Maintenance Technicians, and other administrative staff.

The Covanta SEMASS facility operates two generators both with an operating voltage of 13.8KV. The base Plant generator is rated for 64,500 KVA. The Expansion generator is rated for 32,957 KVA. Each generating system utilizes its own step up transformer

raising export voltage to 115kv. Both independent supplies are connected in parallel supplying the utility's line designated as the 129 Line. The 129 Line travels approximately 2 miles to the Tremont St. switchyard. Covanta SEMASS does not own or maintain any transmission line beyond the disconnect switch located within the facility campus.

Audit Specifics

The compliance audit was conducted from April 8 to May 27, 2009 at the offices of the NPCC Audit Staff.

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Member	Contracted Consultant	NPCC-Compliance Audit Program
Member	Contracted Consultant	NPCC-Compliance Audit Program
Member	Contracted Consultant	NPCC-Compliance Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program

Covanta SEMASS, LLC

Title	Organization
NERC/Asset Compliance Specialist	Covanta SEMASS, LLC

Audit Results

Covanta SEMASS, LLC provided data used to demonstrate their compliance or non-applicability with the standards identified in the audit letter from NPCC. When the auditor had additional questions, emails were used to request additional documentation.

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

The audit team prepared reliability standards audit worksheets (RSAWs) to evaluate each standard. The RSAWs are used to ensure consistency and to document evidence of compliance, non-compliance or non-applicability with the standards. All relevant documents are considered and to the extent they form a portion of the audit trail are included in the RSAWs.

After reviewing all the data, the audit team found Covanta SEMASS, LLC to be compliant with 36 of 60 applicable requirements and sub-requirements and 11 of 13 applicable NERC Reliability Standards. The audit team determined that 24 requirements and sub-requirements and 2 NERC Reliability Standards were not applicable to Covanta SEMASS, LLC.

Findings Table

The following table details findings for compliance with the reliability standards listed in the NERC 2009 Implementation Plan.

Reliability Standard	Requirement	Finding
CIP-001-1	R1	Compliant
CIP-001-1	R2	Complaint
CIP-001-1	R3	Compliant
CIP-001-1	R4	Compliant
COM-002-2	R1	Compliant
FAC-008-1	R1	Compliant
FAC-008-1	R1.1	Compliant
FAC-008-1	R1.2	Compliant
FAC-008-1	R1.2.1	Compliant
FAC-008-1	R1.2.2	Compliant
FAC-008-1	R1.3	Lead In Statement
FAC-008-1	R1.3.1	Compliant
FAC-008-1	R1.3.2	Compliant
FAC-008-1	R1.3.3	Compliant
FAC-008-1	R1.3.4	Compliant
FAC-008-1	R1.3.5	Compliant
FAC-008-1	R2	Not Applicable
FAC-008-1	R3	Not Applicable
FAC-009-1	R1	Compliant
FAC-009-1	R2	Compliant
IRO-001-1	R8	Not Applicable
IRO-004-1	R4	Compliant
IRO-005-1	R13	Compliant
PRC-001-1	R1	Compliant

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PRC-001-1	R2	Compliant
PRC-001-1	R2.1	Not Applicable
PRC-001-1	R3	Not Applicable
PRC-001-1	R3.1	Not Applicable
PRC-001-1	R5	Not Applicable
PRC-001-1	R5.1	Not Applicable
PRC-004-1	R2	Not Applicable
PRC-004-1	R3	Not Applicable
PRC-005-1	R1	Compliant
PRC-005-1	R1.1	Compliant
PRC-005-1	R1.2	Compliant
PRC-005-1	R2	Compliant
PRC-005-1	R2.1	Compliant
PRC-005-1	R2.2	Compliant
PRC-017-0	R1	Not Applicable
PRC-017-0	R1.1	Not Applicable
PRC-017-0	R1.1.1	Not Applicable
PRC-017-0	R1.1.2	Not Applicable
PRC-017-0	R1.1.3	Not Applicable
PRC-017-0	R1.1.4	Not Applicable
PRC-017-0	R1.2	Not Applicable
PRC-017-0	R1.3	Not Applicable
PRC-017-0	R1.4	Not Applicable
PRC-017-0	R1.5	Not Applicable
PRC-017-0	R2	Not Applicable
TOP-001-1	R3	Not Applicable
TOP-001-1	R6	Not Applicable
TOP-001-1	R7	Compliant
TOP-001-1	R7.1	Compliant
TOP-001-1	R7.3	Compliant
TOP-002-2	R3	Compliant
TOP-002-2	R13	Compliant
TOP-002-2	R14	Compliant
TOP-002-2	R14.1	Compliant
TOP-002-2	R14.2	Not Applicable
TOP-002-2	R15	Compliant
TOP-002-2	R18	Compliant

Compliance Culture

The audit team reviewed the Covanta SEMASS, LLC compliance culture. During all contacts, the Covanta SEMASS, LLC representative was very professional and positive in his approach to compliance and understood the importance of the compliance and its role in maintaining reliability. All additional information requested was provided promptly and comprehensively.

The compliance department head is at an executive level and has unencumbered access to senior executives, the CEO and board of directors. In addition, it should be noted that Covanta procedures are aligned closely with the NERC reliability standards, which indicates an awareness of the standard and an understanding of the required compliance. It is clear that compliance is an important component of Covanta's operation.