



NORTHEAST POWER COORDINATING COUNCIL, INC.
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Compliance Audit Report Public Version

**Integrys Energy Services, Inc
NCR00255**

July 13 to July 27, 2009

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

July 27, 2009

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
Objectives	4
Scope.....	4
Confidentiality and Conflict of Interest	4
Off-site Audit	5
Methodology	5
Audit Overview.....	5
Audit	5
Exit Briefing.....	5
Company Profile	6
Audit Specifics.....	6
Audit Results.....	6
Findings.....	7
Compliance Culture	7

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.

The off-site compliance audit of Integrys Energy Services, Inc (Integrys), NERC ID # NCR00255 was conducted between July 13 and July 27, 2009. At the time of the audit, Integrys was registered for the PSE function. The audit was completed using data submitted by Integrys prior to the start of the off-site audit and data provided as a result of questions that arose during the audit. The audit was performed by NPCC to demonstrate compliance not only within the NPCC footprint but also to show compliance in SERC, RFC, TRE and WECC. By auditing for all regions at the same time, it will allow PSEs registered in multiple regions to undergo only one regularly scheduled audit every six years.

The auditor evaluated Integrys' compliance with 6 reliability standards and 11 requirements/sub-requirements in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed reliability standards identified in the NERC 2009 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard.

Of the 6 standards and 11 requirements and sub-requirements audited for the functions Integrys is registered, all standards, requirements and sub-requirements were judged to be compliant or not applicable.

Integrys staff provided overviews of each standard, resulting in a more clear understanding of their business model and accelerating the audit process. The evidence provided to demonstrate compliance was well presented and well organized. The audit team would like to thank the Integrys staff for their 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 Integrys Energy Services, Inc's compliance with the requirements of the reliability standards that are applicable to Integrys based on Integrys' registered functions.
- 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 Integrys Energy Services, Inc's compliance program and culture.

Scope

The audit included all standards identified in the May 4, 2009 audit letter. The audit was a regularly scheduled audit and no self-reported violations or compliance investigations were involved in the audit. The audit was performed by NPCC to demonstrate compliance not only within the NPCC footprint but also to show compliance in SERC, RFC, TRE and WECC.

At the time of the audit, Integrys was registered for the function of PSE. The audit team evaluated Integrys for compliance during the period of June 18, 2007 to July 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.

The audited entity was informed in advance of the audit that the independent contractors executed confidentiality agreements and code of conduct documentation was in place for the NERC representative and regional entity staff. Work history and conflict of interest forms submitted by each audit team member are on file in the NPCC corporate offices. 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 members with no objections.

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

Off-site Audit

Integrys was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Integrys more than 60 days in advance of the scheduled audit. This was an off-site audit conducted every six years or as determined to be necessary by the region. Integrys had not self-reported any violations. Integrys was registered as a PSE in NPCC, SERC, RFC, TRE and WECC.

In all cases, the auditors requested interviews with Integrys employees representing subject matter expertise regarding all the registered functions of Integrys. These interviews resulted in data requests that in conjunction with the submitted evidence would provide the auditor with a basis for professional judgment when validating compliance with reliability standards.

Methodology

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

Audit Overview

The audit overview was provided to Integrys via conference call on July 13, 2009. The audit leader member reviewed his career and noted they had signed confidentiality agreements. A brief explanation of the audit process was given and the timelines were discussed. Integrys was given an opportunity to reject the auditors but accepted the auditors and their credentials for this audit.

Audit

The audit lead performed the audit off-site. Prior to calls to Integrys, the auditor developed a list of questions for Integrys and provided the questions via email. Integrys then took the time necessary to develop the answers and submitted them by email to the auditor.

Exit Briefing

The exit briefing was conducted by conference call on July 27, 2009 between the auditor and Integrys. The auditor reviewed the audit process and summarized the findings of the audit. The results of the audit were that of the 6 standards and 11 requirements and sub-requirements audited for the functions Integrys is registered, all standards, requirements and sub-requirements were judged to be compliant or not applicable. Integrys was given an opportunity to question the audit findings and provide comment on the audit. Integrys said they thought the process was very professional and that it had been a beneficial process.

Company Profile

Integrys Energy Services, Inc is a subsidiary of Integrys Energy Group. Integrys Energy Services, Inc offers retail and wholesale products, primarily natural gas and electric power in non-regulated energy markets in the United States and Canada, concentrating its operations in the northeast quadrant of the United States and adjacent portions of Canada, as well as Texas and Alberta, Canada. Integrys Energy Services, Inc's operations in the wholesale market focus on the execution and optimization of structured transactions with large end-users, regulated local distribution companies, pipelines, storage companies and other non-regulated energy marketing and trading companies. Integrys Energy Services, Inc utilizes derivative instruments, including forwards, futures, options, and swaps, to manage its exposure within defined risk limits. Integrys Energy Services, Inc does not own or operate any electrical Bulk Electric System assets.

Audit Specifics

The compliance audit was conducted between July 13 and July 27, 2009 at the auditor's offices.

NPCC Audit Team Role	Title	Company
Regional staff	Manager Compliance	NPCC-Compliance Audit Program
Overall Lead Auditor	Contracted Consultant	NPCC-Compliance Audit Program

Integrys Energy Services, Inc.

Title	Organization
Regulatory Compliance Coordinator	Integrys Energy Services, Inc.

Audit Results

Integrys provided hard copies, electronic files and emails containing data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions, conference calls were used to request additional documentation until the auditors were convinced that the standards and requirements had been met and Integrys had demonstrated compliance.

After reviewing all the data, Integrys was judged to be compliant with four standards and two standards were not applicable.

Findings

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

Reliability Standard	Requirement	Finding
INT-001-3	R1	N/A
INT-001-3	R1.1	N/A
INT-004-2	R1	N/A
INT-004-2	R2	N/A
INT-004-2	R2.1	N/A
INT-004-2	R2.2	N/A
INT-004-2	R2.3	N/A
IRO-001-1	R8	Compliant
IRO-005-1	R13	Compliant
TOP-005-1	R4	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

The audit team reviewed Integrys Energy Services, Inc's compliance culture. Integrys has an Internal Compliance Program that includes Integrys Energy Services, Inc registered as a PSE. During all contacts, the Integrys staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.