



Compliance Audit Report Public Version

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

**Macquarie Cook Power Inc.
NCR08061**

**Date of Audit
May 4-7, 2009**

**Date of Report
June 4, 2009**

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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 Macquarie Cook Power Inc. (MCP) was conducted from May 4-7, 2009. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, MCP, NERC ID NCR0806, was registered for the Purchasing Selling Entity (PSE) function that it performs in the ReliabilityFirst, NPCC, and WECC regions.

ReliabilityFirst provided a 60 day notification to MCP which requested data and information to provide evidence of compliance with NERC Reliability Standards within the scope of the audit. MCP submitted material that the audit team reviewed and used to assess MCP's compliance with the NERC Reliability Standards. The audit team developed findings based on this review and assessment.

The audit team assessed MCP's compliance with 3 NERC Reliability Standards, which are applicable to MCP for the function it is registered to perform in the ReliabilityFirst, NPCC, and WECC regions. 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 MCP's compliance review for each of the regions in which MCP is registered. All results of this compliance audit will be shared with the NPCC and WECC regions. The 3 NERC Reliability Standards include 3 requirements that are applicable to the PSE function. No ReliabilityFirst, NPCC, or WECC Regional Standards were included in the scope of the audit.

MCP 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. MCP was found to be fully compliant with the 3 NERC Reliability Standards and the 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 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:

- Review MCP's compliance with the requirements of the Reliability Standards that are applicable to MCP based on MCP'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 MCP's internal compliance culture
- Validate compliance with other NERC Reliability Standards outside the 2009 implementation plan as selected by *ReliabilityFirst*
- Validate compliance with applicable *ReliabilityFirst* reliability standards that are applicable to MCP

Scope

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

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. The audited entity was informed of the *ReliabilityFirst* obligations and responsibilities under the agreement and procedures. The work history of each audit team member was provided to the audited entity. 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 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.

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

Off-site Audit

MCP is subject to an audit once every six years as provided by the NERC Rules of Procedure. MCP was provided a 60 day notification of this scheduled audit and at that time all necessary documents required by the NERC and ReliabilityFirst audit process were provided. The following documents were provided as part of the notification:

- 60 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 with discussion of the objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Auditor Worksheets (RSAWs)
- Reliability Standard Questionnaires

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

ReliabilityFirst discussed the use of technical experts with the MCP primary compliance contact and indicated that ReliabilityFirst would welcome the use of technical experts by MCP as it deemed necessary to explain their compliance to the Reliability Standards. As such, MCP had been notified to provide any technical experts or personnel that it deemed necessary in order to provide the Audit Team an understanding of the evidence provided to demonstrate compliance with Reliability Standards.

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

The audit team reviewed MCP's compliance processes for all applicable standards with MCP technical experts and requested 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 professional judgment when validating compliance to the Reliability Standards.

Methodology

The audit team reviewed the evidence provided by MCP 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

An Opening Briefing was conducted to discuss the following:

- Introduction of audit team
- Audit Objective and Scope
- Audit Team Expectations
- Discussion on Clarification Calls
- Audit Process
- Exit Briefing and schedule

Audit

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

Exit Briefing

The audit team presented its preliminary findings to the MCP staff. The team lead explained the findings from the audit. The exit presentation also covered the reporting process going forward, and audit feedback forms that the region is using to improve the audit process. In addition, the audit team presented recommendations on quality of evidence that the team identified during the audit. MCP was provided an opportunity to ask questions which the audit team addressed.

Company Profile

MCP performs the following NERC function in the Reliability*First* region and is registered with NERC/Reliability*First* for the following function:

- Purchasing Selling Entity (PSE)

Macquarie Cook Power Inc. (MCP) is also registered in the Northeast Power Coordinating Council, Inc. (NPCC) and Western Electricity Coordinating Council (WECC) as a PSE. The RCs, BAs, and TOPs include Arizona Public Service Company, Bonneville Power Administration, California Independent System Operator, California Mexico Reliability Coordinator, ISO-NE, Midwest Independent Transmission System Operator, New York Independent System Operator (including Consolidated Edison Company of New York, National Grid, New York Power Authority, New York State Electric and Gas, and Orange and Rockland Utilities Inc.), PacifiCorp, Pacific Northwest Reliability Coordinator, PJM Interconnection, LLC, Rocky Desert Reliability Coordinator, and Salt River Project. MCP may utilize other transmission providers periodically in the aforementioned reliability regions.

A member of the Macquarie Group, MCP specializes in providing power trading, hedging solutions and structured transactions for customers.

Audit Specifics

The compliance audit was conducted from May 4 - 7, 2009 at the *ReliabilityFirst* office in Akron, OH.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Engineer, Compliance	<i>ReliabilityFirst</i> Corporation
Member	Consultant	Scott Porteous & Associates

MCP Audit Participants

Title	Organization.
Associate Director - (for RFC and NPCC)	MCP
Associate Director – (for WECC)	MCP
Associate Director – FERC Compliance	MCP
Business Head	MCP

Audit Results

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

After reviewing all of the evidence presented, MCP was found to be compliant with 3 NERC Reliability Standards and 3 requirements that apply to MCP for the function of Purchasing-Selling Entity that it is registered to perform in the *ReliabilityFirst*, NPCC, and WECC Regions.

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 MCP's compliance review for each of the regions in which MCP is registered. All results of this compliance audit will be shared with both the NPCC and WECC regions.

Findings

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

details, section and page numbers noted by the auditor relating to the evidence reviewed for compliance to the Reliability Standard and associated requirements.

MCP 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

MCP has a comprehensive compliance program addressing NERC Reliability Standards. First, the Macquarie companies promote compliance for all employees. New employee training includes information on adherence to regulations and acting with high ethical standards. In addition, the business head of MCP, Executive Director, and the two Primary Compliance Contacts set the tone at the top by supporting the internal compliance program, which includes a compliance specialist, the Associate Director FERC Compliance.

MCP has implemented “Internal Reliability Standards Compliance Procedures” (“MCP NERC Reliability Procedures”). These procedures as well as the currently applicable NERC Reliability standards for PSEs are posted on MCP’s internal website.

In addition, the compliance specialist monitors the information that is distributed by NERC, the Regional Reliability Organizations, and the ISOs, and shares the information with pertinent personnel. The compliance specialist also performs a monthly review of required information for Reliability *First*, WECC, and NPCC.

In addition to the posting of reliability procedures and standards referenced above, information is updated for pertinent personnel, which includes correspondence to the trading organization. This correspondence includes emails to new trading personnel with a requirement to confirm reading of the MCP NERC Reliability Procedures and the applicable PSE NERC Reliability standards.

The Legal Risk Management (LRM) group includes compliance/legal professionals. There are three attorneys assigned to MCP. The LRM group ultimately reports to the head of the LRM global group for Macquarie’s Treasury and Commodities group (MCP resides in this group).

The Associate Director FERC Compliance has independent access to the senior management of MCP, as well as access to the senior personnel of Macquarie’s Treasury and Commodities group, risk department and legal department.

While MCP has sufficient personnel to manage its NERC internal compliance program, LRM has recently hired an additional compliance professional who will assist MCP (starting this

summer) and has engaged a consultant to provide monthly updates on NERC information of interest to MCP for its compliance program. In addition, MCP personnel periodically consult with outside counsel.

Senior management, including in particular the business head of MCP, is extremely supportive of internal compliance programs, including MCP's NERC compliance program. Macquarie promotes compliance from the top levels of the organization. The new employee training explains that activities such as fraud are not tolerated. The head of MCP would be involved in disciplinary actions if violations of compliance policies were committed.

Macquarie Bank Limited periodically conducts a company-wide audit, which includes interviews with compliance personnel among other processes. In addition, the MCP compliance specialist reviews issues involving compliance with NERC Reliability Standards applicable to MCP prior to submitting required self-certifications and in regular monitoring of the company's compliance with the compliance program.

As part of regular job performance, the compliance specialist (in conjunction with the Primary Compliance contacts) establishes and reviews internal procedures to prevent violations of NERC Reliability Standards. If a violation was discovered, targeted training would be provided and additional controls would be established to prevent future violations as part of a mitigation plan.

Reviewed by:



Gary Campbell
Manager of Compliance Audits

June 10, 2009