



# **Compliance Audit Report Public Version**

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

**Paulding Putnam Electric Cooperative,  
Inc.  
NCR08068**

**Date of Audit  
November 9, 2009**

**Date of Report  
November 18, 2009**

## TABLE OF CONTENTS

Executive Summary .....	1
Audit Process .....	1
<i>Objectives</i> .....	2
<i>Scope</i> .....	2
<i>Confidentiality and Conflict of Interest</i> .....	2
<i>Off-site Audit</i> .....	3
<i>Methodology</i> .....	3
<i>Opening Briefing</i> .....	3
<i>Audit</i> .....	4
<i>Exit Briefing</i> .....	4
<i>Company Profile</i> .....	4
<i>Audit Specifics</i> .....	4
Audit Results .....	5
<i>Findings</i> .....	5
<i>Compliance Culture</i> .....	6

## Executive Summary

This compliance audit report is 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 the Paulding Putnam Electric Cooperative, Inc. (PPEC) - NCR08068 was conducted on November 9, 2009. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, PPEC was registered for the Distribution Provider (DP) function that it performs in the ReliabilityFirst region.

ReliabilityFirst provided a 90 day notification to PPEC which requested data and information to provide evidence of compliance with NERC Reliability Standards within the scope of the audit. PPEC submitted material that the Audit Team reviewed and used to assess PPEC's compliance with the NERC Reliability Standards. The Audit Team developed findings based on this review and assessment.

The Audit Team assessed PPEC's compliance with five (5) NERC Reliability Standards, which are applicable to PPEC as a registered Distribution Provider (DP) in the ReliabilityFirst region. The five (5) NERC Reliability Standards include eight (8) requirements that were applicable to the DP function. No ReliabilityFirst regional standards were included in the scope of the audit.

PPEC was prepared for the audit and provided documentation in a complete and concise manner. Based on the information and documentation provided by PPEC, the Audit Team made the following determinations: four (4) Reliability Standards and seven (7) requirements were determined to be not-applicable; PPEC was found to be compliant with the one remaining applicable Reliability Standard and requirement.

## 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.<sup>1</sup> The audit objectives are to

- Review compliance with the requirements of the Reliability Standards that are applicable to PPEC based on PPEC's registered function
- 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 PPEC'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 PPEC

## **Scope**

The scope of the audit included Reliability Standards which were selected by NERC for monitoring by 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 time from 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. PPEC was informed of the *ReliabilityFirst* obligations and responsibilities under the agreement and procedures. The work history of each Audit Team member was provided to PPEC. PPEC 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. PPEC 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 objection. *ReliabilityFirst* found no conflict of interest for any of the Audit Team members.

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

## ***Off-site Audit***

PPEC is subject to an audit once every six years as provided by the NERC Rules of Procedure. PPEC was provided a 90 day notification of this scheduled audit and at that time, all of the necessary documents required by the NERC and Reliability*First* audit process were provided to the entity. 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 with discussion of the objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Questionnaire/Reliability Standard Auditor Worksheets (QRSAWs)

The documents listed above were provided to PPEC in electronic format.

The Audit Team reviewed PPEC's compliance processes for all applicable standards with PPEC 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 PPEC for each of the requirements that are applicable to the function performed by the company and 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 clarification provided by PPEC 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 PPEC was compliant with the requirement. The team discussed its findings to determine PPEC's compliance to each of the standards and requested PPEC to provide clarification on existing information during the review of its material.

## **Exit Briefing**

The Audit Team presented its preliminary findings to the PPEC staff. The team lead explained the findings from the audit. The exit presentation also covered the audit report process moving forward, and audit feedback forms that the region is using to improve the audit process. PPEC was provided an opportunity to ask questions which the Audit Team answered.

## **Company Profile**

PPEC is a not-for-profit electric distribution cooperative formed in 1936 and serving approximately 12,800 member/owners' homes and businesses in Ohio and Indiana. PPEC's 2008 non-coincidental system peak was 72.4 MW and occurred in the winter.

PPEC owns and operates various substations and delivery points to serve members in seven counties in Ohio and Indiana. While PPEC does not own or operate bulk transmission lines, the interconnection of these radial delivery points are provided by American Electric Power (AEP) at voltages varying from 12 kV to 138 kV. The output voltage level of each substation is 12 kV. AEP functions as the Transmission Operator (TOP), and PJM Interconnection, LLC performs the functions of Balancing Authority (BA) and Reliability Coordinator (RC) for PPEC.

## **Audit Specifics**

The compliance audit was conducted on November 9, 2009 at the ReliabilityFirst office in Akron, Ohio.

## **Audit Team**

<b>Audit Team Role</b>	<b>Title</b>	<b>Company</b>
Lead	Manager, Compliance Program Implementation	ReliabilityFirst Corporation
Member	Senior Consultant	ReliabilityFirst Corporation

## PPEC Audit Participants

Title	Organization
Engineering & Operations Manager	Paulding Putnum Electric Cooperative, Inc. (PPEC)
CEO/General Manager	PPEC
Safety & Compliance Manager	PPEC

## Audit Results

The Audit Team assessed PPEC's compliance with five (5) NERC Reliability Standards, including eight (8) requirements that are applicable to the DP function.

After reviewing all of the evidence presented, PPEC was found to be compliant with one (1) Reliability Standard and one (1) requirement that is applicable to PPEC for the function that it is registered to perform in the Reliability *First* Region. The Audit Team determined that four (4) NERC Reliability Standards and seven (7) corresponding requirements were not-applicable to PPEC for the time period of the audit.

There were no mitigation plans, self certifications, or applicable regional standards that were in need of review by the Audit Team.

### 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.

### PPEC Off-Site Audit Findings Table

Reliability Standard	Requirement	Finding
PRC-004-1	R1	N/A
PRC-004-1	R3	N/A
PRC-005-1	R1 and Sub Requirements	N/A
PRC-005-1	R2 and sub Requirements	N/A
PRC-008-0	R1	NA
PRC-008-0	R2	N/A
PRC-017-0	R1 and sub Requirements	N/A
TOP-001-1	R4	Compliant

## **Compliance Culture**

Paulding Putnam Electric Cooperative's compliance program consists of a written NERC Compliance Plan available to all personnel electronically via their internal web portal. This NERC Compliance Plan addresses operational responsibilities, annual internal audits, communication of non-conformance, and employee training.

The objective of Paulding Putnam Electric Cooperative's Compliance Program is to ensure Paulding Putnam Electric Cooperative complies with all applicable NERC and RFC Reliability Standards, which supports the goal of reliable and secure power production and supply. This objective is achieved by developing, implementing, and improving processes, policies, and procedures to meet reliability standards.

The internal compliance program is managed by the Engineering and Operations Manager; therefore, it is not independent from departments responsible for performance to the DP Reliability Standards. As a small employer, it is necessary for many employees to be responsible for many different areas. The Engineering and Operations Manager has the capacity to respond quickly to non-conformance of Reliability Standards if needed. The addition of an annual internal audit conducted with support from Wabash Valley Power Association and Buckeye Power assures a level of checks and balance. This annual internal audit is an example of a process change recently enacted to improve the level of compliance with NERC and RFC Reliability Standards.

Paulding Putnam Electric Cooperative's senior management and Board of Directors lead, support and are ultimately responsible for the compliance program. While the Engineering and Operations Manager is the Compliance Manager, the CEO/General Manager and Board of Directors stay informed of compliance related issues.

As stated earlier, Paulding Putnam Electric Cooperative recently enacted a process change to improve the level of compliance with NERC and RFC Reliability Standards by jointly reviewing the compliance program with Wabash Valley Power and Buckeye Power. This internal audit included use of the NERC/RFC Reliability Standards Audits Worksheets. Additionally, all changes to the Compliance Plan are tracked in a revision tracking matrix.

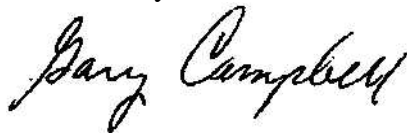
Paulding Putnam Electric Cooperative employees receive NERC/RFC overview training. The training includes an overview of NERC reliability standards, Paulding Putnam Electric Cooperative registration (DP), reporting requirements, and processes/procedures for sabotage reporting and for reporting a potential non-conformance. This information is also contained within the Paulding Putnam EC NERC Compliance Plan and accessible from the internal web portal. In addition, employees have completed NERC Training in September, 2009.

If a violation is identified, either through the annual internal audit of the compliance program or by NERC/RFC Compliance Audits, the Engineering and Operations Manager will immediately coordinate the development and implementation of mitigation plans. Any program changes

and/or corrective actions implemented will be immediately communicated to the appropriate personnel who would include the CEO/General Manager.

This document has been reviewed by Gary Campbell, Manager of Compliance Audits on November 18, 2009. Upon addressing of the above comments the lead auditor can proceed with the completion of the draft non-public and public versions of the report and move forward according to the audit checklist. Final reports can be issued without further review if the entity has not raised any objections or issues through its comments on the draft report. Objections or concerns by an entity should be reviewed with the Manager of Compliance Audits before issuance of a final report, as appropriate.

Reviewed by:



Gary Campbell  
Manager of Compliance Audits  
November 18, 2009