



Compliance Audit Report Public Version

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

**South Jersey Energy
NCR00916**

**Date of Audit
August 31, 2009**

**Date of Report
September 10, 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 South Jersey Energy (SJE) - NCR00916, was conducted on August 31, 2009. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, SJE was registered for the Purchasing Selling Entity (PSE) function that it performs in the ReliabilityFirst region.

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

The Audit Team assessed compliance with three (3) NERC Reliability Standards, which are applicable to SJE for the function it is registered to perform in the ReliabilityFirst region. The three (3) NERC Reliability Standards include three (3) requirements that are applicable to the PSE function. There were no applicable ReliabilityFirst regional standards and, accordingly, none were included in the scope of the audit.

SJE 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. SJE was found to be fully compliant with the three (3) NERC Reliability Standards and the three (3) corresponding 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 compliance with the requirements of the Reliability Standards that are applicable to SJE based on SJE'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 SJE'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 SJE

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 March 3, 2008 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. SJE 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. SJE 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. SJE 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.

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

Off-Site Audit

SJE is subject to an audit once every six years as provided by the NERC Rules of Procedure. SJE 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 with discussion of the objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Questionnaire/Reliability Standard Auditor Worksheets (RSAWs)

Documents were provided to SJE in electronic format.

Reliability*First* discussed the use of technical experts with the SJE primary compliance contact and indicated that Reliability*First* would welcome the use of technical experts by SJE, as it deemed necessary, to explain their compliance to the Reliability Standards. As such, SJE 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 SJE in advance to allow the necessary time to prepare for the audit. SJE's cooperation and flexibility with the agenda was appreciated by the Audit Team.

The Audit Team reviewed SJE's compliance processes for all applicable standards with SJE 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 SJE 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
- Confidentiality of Information
- 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 SJE was compliant with the requirement. The team discussed its findings to determine SJE's compliance to each of the standards. Upon request, SJE 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 SJE 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. SJE was provided an opportunity to ask questions which the Audit Team addressed.

Company Profile

South Jersey Energy (SJE) is registered with NERC/Reliability*First* and performs the function as a Purchasing Selling Entity (PSE), in the Reliability*First* region.

SJE is a registered retail electric supplier and currently operates in the PJM Interconnection. PJM performs the functions of Reliability Coordinator, Balancing Authority, and Transmission Operator for SJE.

Organizationally, SJE is a wholly owned subsidiary of South Jersey Energy Solutions, LLC, which is a wholly owned subsidiary of South Jersey Industries, Inc. (SJI). SJE does not control, own or operate any Bulk Electric System assets. SJE supplies electric power to retail customers which is delivered to the customer by the local utility company. SJE's customer base consists of approximately 500 customers made up of school districts and commercial/industrial accounts.

SJE does not supply electricity to residential customers at this time. SJE supplies electric power for a peak load of 450 MW and peak loads usually occur during the summer.

SJE does not operate in a 24/7 environment and operations are staffed during normal business hours. Emergencies or issues that arise after-hours are directed to the local utilities that provide distribution service rather than to SJE.

Audit Specifics

The compliance audit was conducted on August 31, 2009 at the ReliabilityFirst office in Akron, Ohio.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Consultant, Compliance	ReliabilityFirst Corporation
Member	Associate Compliance Specialist	ReliabilityFirst Corporation

SJE Audit Participants

Title	Organization
General Manager of SJE	SJE
Corporate Counsel and Secretary of SJI	SJI
Outside Counsel to SJE	SUTHERLAND
Outside Counsel to SJE	SUTHERLAND

Audit Results

The Audit Team assessed SJE's compliance with three (3) NERC Reliability Standards, including three (3) corresponding requirements that are applicable to the PSE function.

After reviewing all of the evidence presented, SJE was found to be compliant with three (3) NERC Reliability Standards and three (3) requirements that apply to the function that SJE is registered to perform in the ReliabilityFirst Region. 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 provides the auditor findings relating to evidence reviewed for compliance with the Reliability Standards within the scope of the compliance audit.

SJE 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

South Jersey Energy Company (SJE) has an internal compliance program tailored to meet the functionality of a registered Purchasing Selling Entity (PSE). SJE's compliance program consists of three (3) components: (1) monitoring of industry developments; (2) preparation of a compliance procedures manual; and (3) the use of outside counsel.

SJE personnel monitor industry developments to ensure that they are up-to-date with NERC Reliability Standards and requirements. Such monitoring includes reviewing NERC and RFC communications and discussing NERC and RFC developments with industry peers.

As part of a comprehensive internal compliance review and update, SJE is in the process of preparing a compliance procedures manual applicable to the power supply business of SJE and its affiliates. SJE anticipates that the compliance procedures manual will be finalized in the near future, and that the NERC compliance component will not materially change from the current draft.

SJE retains outside counsel to provide advice and guidance concerning NERC compliance matters. Outside counsel conducted training on NERC matters on January 13, 2009 (attended by in-house counsel, the lead internal auditor, and the general manager of SJE). Additional training will be provided as warranted and not less frequently than annually.

Due to SJE's relatively small size and limited personnel, SJE is not able to operate and manage its internal compliance program completely independent from the performance of the Reliability Standards. SJE's compliance program is directed by the General Manager. The General Manager also serves as the Compliance Officer at SJE, and is responsible for overall compliance by SJE with the Reliability Standards. The SJE General Manager has front-line responsibility for implementing the internal compliance program and reports to the Chief Operating Officer of its parent company, South Jersey Energy Solutions, LLC, who has oversight responsibility with

respect to compliance by SJE with all applicable laws, regulations and rules (including the Reliability Standards). SJE's compliance program is distributed to relevant personnel within the appropriate departments.

The General Manager/Compliance Officer of SJE has independent access to the Corporate Counsel of SJI. Both the Chief Operating Officer of South Jersey Energy Solutions, LLC and the Corporate Counsel of SJI have direct access to the CEO and the Board of Directors of SJI.

Senior management fully supports the internal compliance program. SJI and its subsidiaries (including SJE) have undertaken a comprehensive internal compliance review over the past year, and are in the process of updating their compliance programs, including preparation of compliance procedures manuals and numerous training sessions. This compliance review and the measures taken to ensure compliance would not be possible without the support of and direction from senior management (including the Chairman and CEO of the parent organization).

Relevant personnel within the organization (in-house counsel, SJE business personnel, etc.) regularly monitor industry developments, including NERC and RFC developments. The internal compliance program is updated as needed and sufficient resources are devoted to ensuring compliance by SJE with applicable NERC and RFC requirements.

Relevant staff is trained on an as-needed basis. The Corporate Counsel of SJI, in consultation with the General Manager of SJE, the Audit Department, other relevant personnel, and outside counsel, determines the timing and scope of NERC-related training, as well as who will receive such training.

SJE's internal compliance program is subject to audit by the SJI Audit Department periodically. Additionally, as noted above, the internal compliance program is updated as needed based on industry developments, guidance from outside counsel, and other considerations.

The disciplinary policies of SJE's parent organization (SJI) are sufficient to prevent reoccurrence of violations. Additional remedial training on NERC requirements also would be provided to the extent necessary (*i.e.*, depending on the nature of the violation).