



Compliance Audit Report Public Version

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

**UGI Development Company
NCR00933**

**Date of Audit
August 25, 2009**

**Date of Report
November 13, 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 UGI Development Company (UGID) was conducted on August 25, 2009. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, UGID, NERC ID NCR00933, was registered for the Purchasing Selling Entity (PSE) function that it performs in the ReliabilityFirst region.

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

The audit team assessed UGID's compliance with 3 NERC Reliability Standards, which are applicable to UGID for the function it is registered to perform in the ReliabilityFirst region. The 3 NERC Reliability Standards include 3 requirements that are applicable to the PSE function. No ReliabilityFirst Regional Standards were included in the scope of the audit.

UGID 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. UGID 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:

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

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

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

Off-site Audit

UGID is subject to an audit once every six years as provided by the NERC Rules of Procedure. UGID was provided a 90 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:

- 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 documentation
- General Instructions of Data or Information Submittals
- Compliance Questionnaire and Reliability Standard Auditor Worksheets (QRSAs)

Documents were provided to UGID in electronic format.

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

The audit team reviewed UGID's compliance processes for all applicable standards with UGID 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 UGID 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

Due to the narrow scope of the audit, the preliminary review of the submitted evidence by the audit team, and the additional evidence, clarification and attestations provided by UGID prior to the audit period, the audit team deemed it was not necessary to conduct an opening presentation.

Audit

The audit team reviewed each requirement and the evidence provided to determine if UGID was compliant with the requirement. The team discussed its findings to determine UGID's

compliance to each of the standards. Upon request, UGID provided additional information or clarified existing information during the review of its material.

Exit Briefing

The audit team presented its preliminary findings to the UGID staff. The team lead explained the findings from the audit. The exit presentation also covered the reporting process going forward, confidentiality of information, and audit feedback forms that the region is using to improve the audit process. UGID was provided an opportunity to ask questions which the audit team addressed.

Company Profile

UGID performs the following NERC function in the ReliabilityFirst region and is registered with NERC/ReliabilityFirst for the following function:

- Purchasing Selling Entity (PSE)

UGI Corporation owns 100% of UGI Enterprises, Inc., which owns 100% of UGI Energy Services, Inc., which owns 100% of UGID.

UGID owns 5.97%, or 101.49 MW of the 1,700 MW Conemaugh Steam Electric Station located in Indiana County, PA. It is connected to the First Energy transmission system at 500 kV.

Reliant Energy Northeast Management Company (RENMC) is the designated Joint Registration Organization (JRO) responsible for compliance with all Reliability Standards applicable to Generator Owner (GO) and Generation Operator (GOP) functions and obligations relating to the Conemaugh Steam Electric Station

UGID does not directly serve end use customers. All generation is sold in the wholesale bilateral market or the PJM spot energy market.

Audit Specifics

The compliance audit was conducted on August 25, 2009 at the ReliabilityFirst office in Akron, OH.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Compliance Consultant	ReliabilityFirst
Member	Consultant	ReliabilityFirst

UGID Audit Participants

Title	Organization
Director of Power Marketing	UGID
Power Business Coordinator	UGID

Audit Results

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

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

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.

UGID 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

UGI Development sells approximately 150 MW of capacity and 1,000,000 MWh of energy per year through a combination of direct bilateral counterparty transactions and participation in the PJM energy and capacity markets. Because of the relatively small size of UGI Development's energy and capacity market activity, all market functions are handled by the limited staff. The Director of Power Marketing is responsible for UGI Development's internal compliance program

UGI Development's internal compliance program is reviewed periodically in discussion between the Vice President, Director of Power Marketing, Council, and Plant Production Manager. UGI Development's Reliability Compliance Manager has independent access to the President and the Board of Directors. The internal compliance program has the full support of senior management.

Due to limited number of individuals involved in UGI Development's PSE activities, the compliance program is operated and managed by the same department responsible for performance to the Reliability Standards. In order to accomplish an independent review of its compliance program, external consulting services are utilized.

The Director of Power Marketing regularly reviews UGI Development's internal compliance program. This review is accomplished during the monthly process of reviewing the applicable reliability standards and monthly compliance certification within the Reliability*First* compliance portal. Any need for modification to the program is implemented as necessary.

UGI Development's internal compliance program includes appropriate training for relevant staff. The training procedures include quarterly review of the NERC website, monthly review of the Reliability*First* website, and engagement of external subject matter experts if required.

UGI Development's internal compliance program controls consist of monitoring the Reliability *First* compliance reporting portal and identifying any potential violation of compliance. If any violations are identified, an internal remediation plan will be developed to prevent reoccurrence of the violation.