



Compliance Audit Report Public Version

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

**Union Rural Electric Cooperative, Inc.
NERC ID # - NCR10036**

Date of Audit - March 16-24, 2009

Date of Report – May 20, 2009

TABLE OF CONTENTS

Executive Summary	1
Audit Process	1
<i>Objectives</i>	1
<i>Scope</i>	2
<i>Confidentiality and Conflict of Interest</i>	2
<i>Off-site Audit</i>	2
<i>Methodology</i>	3
<i>Audit Overview</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>	5
Audit Results.....	5
<i>Findings</i>	6
<i>Compliance Culture</i>	6

Executive Summary

This compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been removed. This public compliance audit report will be submitted to NERC and posted on the NERC website.

A compliance audit of Union Rural Electric Cooperative, Inc. (URE) was conducted from March 16-24, 2009, by an audit team from ReliabilityFirst. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, Union Rural Electric Cooperative, Inc., NERC ID # - NCR10036, was registered for the Distribution Provider (DP) function that it performs in the ReliabilityFirst region.

The Audit Team evaluated URE for compliance with seven (7) NERC Reliability Standards which consisted of twelve (12) requirements for the period of June 18, 2007 to March 24, 2009. URE provided information and documentation to aid the Audit Team's evaluation of compliance with the applicable standards. The Audit Team reviewed and evaluated all information provided by URE to assess compliance with requirements/standards applicable to the DP function.

Based on the information and documentation provided by URE, the Audit Team made the following determinations: six (6) NERC Reliability Standards consisting of eleven (11) requirements were determined to be not applicable to URE. URE was found to be compliant with one (1) of the twelve (12) applicable NERC Reliability requirements. The Audit Team did not identify any Possible Alleged Violations (PAVs). The basis for these findings is detailed in the Audit Result Findings section of this report.

There were no on-going 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 URE's compliance with the requirements of Reliability Standards that are applicable to URE based on URE's registered functions.
- Validate compliance with applicable Reliability Standards from the NERC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of outstanding self-reported violations and previous self-certifications, confirm compliance with other requirements of the Reliability Standards, and review the status of associated Mitigation Plans.
- Document URE's compliance program and culture.
- Validate compliance with additional NERC standards selected by ReliabilityFirst that are not in the NERC 2009 Implementation Plan.
- Validate compliance with applicable ReliabilityFirst reliability standards that apply to URE.

Scope

The scope of the compliance audit included applicable NERC Reliability Standards applicable to the Registered Entity being monitored in the 2009 ReliabilityFirst Implementation Plans, all applicable ReliabilityFirst standards, a review of self-certifications, and mitigation plans as appropriate. The scope of the audit covers the period June 18, 2007 to the date of the scheduled 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 the NERC Rules of Procedure Section 1500. URE was informed of the ReliabilityFirst obligations and responsibilities under this agreement and rules of procedure. The work history for each Audit Team member was provided to URE. URE 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. URE did not submit any objections by the stated fifteen day objection due date and by this action accepted the Audit Team member participants without objection.

Off-site Audit

URE is currently subject to a compliance audit at a minimum of once every six years as provided by the NERC Rules of Procedure. Every DP in the NERC Compliance Registry is required to have an audit once every six years. URE was provided with a 60 day notification of this scheduled audit and at that time was provided with all necessary documents required by the NERC and ReliabilityFirst audit process. The following documents were provided as part of the 60 day notification:

- 60 day Notification letter which contained request for evidence, information, and date submittals for each applicable requirement/standard
- Compliance Audit Survey

- Audit Agenda as applicable
- Confidentiality Agreements
- Internal Compliance Program Survey
- Audit Team Work History with discussion of the objection process
- General Instructions of Data and/or Information Submittals
- Pre-Audit Questionnaire/Reliability Standard Auditor Worksheets (RSAWs)

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

ReliabilityFirst discussed the use of technical experts with the URE primary compliance contact and indicated that ReliabilityFirst would welcome the use of technical experts by URE as deemed necessary to explain their compliance to the requirements/standards.

An audit agenda and/or schedule was provided to URE in advance to schedule the necessary time to demonstrate compliance for the applicable requirements/standards covered in the audit. URE's cooperation and flexibility with the agenda to address the requirements/standards was appreciated by the Audit Team.

This audit was conducted in the ReliabilityFirst offices in Akron, Ohio, using material provided by URE. The Audit Team reviewed URE's evidence of compliance for all applicable standards with URE technical experts and requested, as required, 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 their professional judgment when validating compliance to the Reliability Requirements/Standards.

Methodology

The Audit Team reviewed the evidence provided by URE for each of the Reliability Standards and requirements that apply to the functions performed by the company to assess URE's compliance with those NERC Reliability Standards and associated requirements, all applicable ReliabilityFirst standards, a review of self-certifications, and mitigation plans as appropriate. The Audit Team reviewed each requirement, discussed the levels of compliance and addressed each team member's observations during the audit to determine the team's compliance findings from the audit review.

Audit Overview

Opening Briefing

An Opening Briefing was conducted with URE 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 ReliabilityFirst Audit Team reviewed URE's applicable reliability standards/requirements and evaluated and measured the evidence provided for each to determine compliance. When there was concern that the supporting evidence did not meet the intent of the requirement, the Audit Team requested additional detail, clarification and or evidence in the form of examples.

Exit Briefing

The Audit Team conducted an exit briefing with a presentation to URE via web-ex/conference call on March 24, 2009. The presentation was attended by URE staff as well as the audit team. The status of the off-site audit process was discussed, followed by a review of the audit scope, the preliminary audit findings, the compliance audit report process, and feedback. URE was provided an opportunity to ask questions concerning the topics that the Audit Team addressed.

The presentation was attended by the following URE staff via conference call/web-ex.

Title	Company
Vice President, Engineering & Honda Affairs	URE
Manager of Engineering Services	URE

Company Profile

At the time of the audit, URE was registered for the NERC function of Distribution Provider (DP) in the ReliabilityFirst region.

Union Rural Electric Cooperative is registered as a Distribution Provider (DP), and has two Bulk Electric System (BES) substations, East Logan and Watkins Road. Both substations are in rural flat areas surrounded by farm land. Both sites are fed by very short radial taps from existing Dayton Power & Light 138 KV lines.

East Logan is fed from Dayton Power & Light's 138-29 feeder. It feeds a base 12 MVA 138kV/14.4kV/24940 step-down transformer which serves approximately 1,400 mostly residential customers. The peak load on this substation is 6,535 KW. There is a 138 KV SF6 breaker that provides transformer protection only. URE does not own or operate any through-path transmission facilities or relaying that may interrupt the BES at its East Logan substation. Watkins Road is fed from Dayton Power and Light's 138-12 circuit. It feeds two (2) base 15 MVA 138kV/14.4kV/24940 step-down transformers which serve approximately 2,400 mostly

residential customers and some retail on the edge of Marysville, Ohio. The peak load on this substation is 11,950 KW. There are 138 KV SF6 breakers that provide transformer protection only. URE does not own or operate any through-path transmission facilities or relaying that may interrupt the BES at its Watkins Road substation.

URE serves approximately 7,900 residential customers, 300 commercial customers, and 5 industrial customers. URE's peak load generally occurs in the summer and the 2008 summer peak of 95 MW occurred in July of 2008.

URE operates in a 24/7 environment within the PJM RTO area.

URE does not own any generators for use on the Bulk Electric System.

Audit Specifics

The compliance audit was conducted from March 16 - 24, 2009 at the ReliabilityFirst Office in Akron, Ohio.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Engineer	ReliabilityFirst Corporation
Member	Consultant	RNJ Energy

URE Audit Participants

Title	Company
Vice President, Engineering & Honda Affairs	URE
Manager of Engineering Services	URE

Audit Results

After reviewing all of the evidence presented, URE was found to be compliant with one (1) of the applicable NERC Reliability Standards consisting of one (1) requirement that applies to the functions it is registered to perform in the ReliabilityFirst Region. Six (6) NERC Reliability Standards consisting of eleven (11) requirements were found to be not applicable. The audit team did not find any Possible Alleged Violations (PAVs).

Findings

The following table details the Audit Team's findings and evidence reviewed for compliance with the seven (7) applicable NERC Reliability Standards for URE's registered function. The table includes details, document section, and page numbers noted by the Audit Team relating to the evidence reviewed for compliance to each Reliability Standard and the associated requirements.

URE Off-site Audit Findings Table

Reliability Standard	Requirement	Finding
PRC-004-1	R1	NA
PRC-004-1	R3	NA
PRC-005-1	R1 & Sub. Req.	NA
PRC-005-1	R2 & Sub. Req.	NA
PRC-008-0	R1	NA
PRC-008-0	R2	NA
PRC-010-0	R1 & Sub. Req.	NA
PRC-010-0	R2	NA
PRC-011-0	R1 & Sub. Req.	NA
PRC-011-0	R2	NA
PRC-017-0	R1 & Sub. Req.	NA
TOP-001-1	R4	Compliant

Compliance Culture

The President / CEO is the Primary Compliance Officer. The Vice President, Engineering and Honda Affairs is the Alternate Compliance Officer. The President/CEO is responsible for compliance and reports directly to the Board of Directors. To ensure compliance, URE has registered with *ReliabilityFirst* and attended a training session held by GDS and Associates and will continue to utilize training and outside expertise as necessary.

URE is a small forty-three (43) employee company. Both the Primary Compliance Manager and the Alternate have direct access to the Board of Directors and the President / CEO based on the proper chain of command. Both the Primary and Alternate Compliance Officers attend the regular monthly meetings of the Board of Directors.

Due to URE's small size, it cannot manage its compliance program completely independent of the Engineering and Operations departments which are responsible for performance of the standards. However, it can use independent consultants and training courses to ensure that it is maintaining compliance. URE previously attended, and will attend future additional training

from GDS Associates, NRECA, Buckeye Power, and applicable Reliability*First* local and web-based training sessions.

URE has and will continue to attend additional training from GDS Associates, NRECA, Buckeye Power, and applicable Reliability*First* local and web-based training sessions.