



Compliance Audit Report Public

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Critical Energy Infrastructure Information)
Has Been Removed**

North American Energy Services - (Blackhawk)

NCR06053

**Audit
July 20-24, 2009**

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Executive Summary

This public version of the final compliance audit report will be posted on the Southwest Power Pool Regional Entity's (SPP RE) and NERC websites. Confidential information has been redacted from this report. The report will be submitted to North American Energy Services - (Blackhawk) (NAESBLACKH) and to NERC upon approval at the SPP RE level.

NAESBLACKH was scheduled for an off-site audit in 2009 as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). NAESBLACKH is subject to an audit at least once every six years as provided by the NERC Rules of Procedure. The audit team reviewed the material provided by NAESBLACKH and additional information that was requested during the audit. After the SPP RE audit team reviewed the material, it developed the audit findings on NAESBLACKH's compliance to the standards.

SPP RE audit team reviewed 7 NERC Standards with the NAESBLACKH staff. The audit team reviewed the company evidence for each requirement in the standards with NAESBLACKH subject matter experts. NAESBLACKH provided evidence to support its compliance with the standards.

NAESBLACKH did not have any outstanding mitigations plans.

After reviewing the evidence presented by NAESBLACKH, the audit team found NAESBLACKH to be compliant with all 19 applicable requirements in 7 applicable NERC Reliability Standards.

Audit Process

The compliance audit process steps are detailed in the NERC CMEP. The NERC 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:

- Independently review the company's compliance with the requirements of the NERC and regional reliability standards that are applicable to the company based on the company's registered functions.

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

- Validate compliance with applicable reliability standards from the NERC 2009 Implementation Plan list of actively monitored standards.
- Review self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standard, and review the status of associated mitigation plans.
- Validate coordination with neighboring BAs, TOPs, and the Reliability Coordinator.
- Document the company's compliance culture.

Scope

The compliance off-site audit includes all reliability standards applicable to the Registered Entity monitored in the NERC Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity.

The Monitored Compliance Program includes 49 NERC Standards for audit in 2009. Forty-two of the Standards are not applicable to the NAESBLACKH registered functions. The audit team reviewed seven standards off-site.

The audit included questionnaires from the neighboring Balancing Authorities, Transmission Operators, and the Reliability Coordinator. Any identified issues found in the neighboring and Reliability Coordinator questionnaires were addressed during the audit.

If a company has an outstanding mitigation plan or has just completed a mitigation plan, the progress or completion of the plan was validated by the audit team. NAESBLACKH did not have any outstanding mitigations plans.

This audit report includes the findings from the off-site review of the company's evidence.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff were provided to the SPP RE and the audited entity in advance of the audit. The work history of each audit team member was provided to SPP RE and the company. The company 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. NAESBLACKH accepted the audit team member participants with no objections. SPP RE found no conflict of interest for any of the audit team members.

Off-site Audit

The off-site audit is part of the NERC Compliance Monitoring and Enforcement Program (CMEP). NAESBLACKH is subject to an audit once at least every six years as provided by the

NERC Rules of Procedure. The off-site audit covers the 2009 NERC monitored standards, any Regional standards identified and possible other NERC standards listed in the pre-audit information. Companies on the 2009 off-site audit list were notified in the fall of 2008 about its upcoming audit and scheduled for the audit. Sixty days in advance, a letter explaining the audit was sent to the company. SPP RE sent the company a request for data and documents to complete. The pre-audit material included the audit team members, audit agenda, standards to be reviewed off-site, a pre-audit survey, the standards questionnaires, and the option to reject any audit team member. The pre-audit material received from the company provided the audit team an explanation on how the company operates for the functions for which it is registered.

The standards and supporting evidence to show compliance with the standards were reviewed with the company. The audit team received evidence supporting compliance with each requirement of the audited standards. Evidence included summary reports, company procedures, processes, work schedules, training schedules, on-line tools, data bases, and other sources. The audit team reviewed the evidence for each standard and requirement with the company's subject matter experts. This process enabled the team to get immediate answers to questions that arose. This process also exposed other company staff to the audit process which helped solidify why a company follows certain procedures and processes. Any self-reported violations or open mitigation plans were reviewed by the audit team. The audit team used the evidence, the discussions with the company subject matter experts along with their professional judgment to decide on the recommended findings for the report.

The lead auditor presented the findings of the audit to the company staff. NAESBLACKH included several staff members for the presentation. The presentation covered the findings for the standards reviewed. The final report process was explained along with the security of the audit information. NAESBLACKH was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. NAESBLACKH was also notified that a post-audit questionnaire will be provided for them to make any comments about the audit or audit team. There was a question and answer session after the presentation. The lead auditor answered all the questions and thanked NAESBLACKH for its effort.

Methodology

The audit team reviewed the evidence supplied by the company for each requirement of all NERC standards that apply to the functions performed by the company to determine if the company complied with that requirement. The company would be found to be noncompliant with requirements where compliance cannot be confirmed.

The audit was conducted using a teleconference with a WebEx for document review by the audit team. The audit team members completed individual assignments during the audit process. NAESBLACKH provided subject matter experts as the audit team reviewed the standards with them. The subject matter experts explained the evidence and answered all questions the team asked. NAESBLACKH shared most of its evidence on the WebEx. The WebEx presentation was very useful since all of the team could simultaneously review the evidence.

The audit team held a separate conference call after the company presented evidence. The team reviewed each requirement and discussed the levels of compliance and addressed each team

member's notes from the audit. The audit team decided on the findings to present to the company and the SPP RE. The audit team developed the closing presentation of audit findings. The lead auditor gave the presentation to the NAESBLACKH staff and answered their questions.

Audit Overview

At the beginning of the audit, the audit process was discussed with the company personnel to verify if any changes to the agenda were warranted. There were no changes identified by either party.

Audit

The NAESBLACKH audit was performed as planned. The agenda was followed with only minor staff adjustments.

Exit Briefing

The audit team gave an exit presentation for the NAESBLACKH staff. The team lead explained the findings from the audit. The presentation included the NAESBLACKH staff that participated in the audit and other staff. The presentation was open for comments and discussion about the findings. The exit presentation also covered any possible violations and mitigation requirements. NAESBLACKH was informed that it will receive an audit evaluation to complete and return to NERC.

The audit team used the exit presentation to help verify that the information presented is correct.

Company Profile

NAESBLACKH performs the following NERC functions and is registered with NERC/SPP RE for the following function:

- Generator Operator

The Blackhawk Station is owned by Borger Energy Associates, L.P. (BOEA) and BOEA is registered as the GO. BOEA has an Agreement with Power Plant Management Services, LLC (PPMS) to provide general asset management for BOEA and PPMS represents BOEA as the GO. BOEA also has an agreement with NAES Corporation (NAES) to provide operation and maintenance services for the plant. NAESBLACKH has day-to-day care, custody and control of the facility and is registered as the GOP.

The Blackhawk Station, located in Borger, Texas, is a natural gas fired cogeneration steam plant that supplies steam to a local refinery and electricity to Xcel – Southwestern Public Service (Xcel/SPS). The plant consists of two units each with a peak capacity of 115 MW for a total

plant capacity of 230 MW. The plant is base loaded with generation largely determined by the steam customer requirements but can run at a somewhat elevated or reduced generation at the request of Xcel Energy (a division of Xcel). The plant is connected to the transmission system at 115 kV. Xcel (SPS) is the Balancing Authority and Transmission Operator of the transmission system at the Blackhawk connection. SPP is the Reliability Coordinator for Blackhawk.

Audit Specifics

The compliance audit was conducted on July 20-24, 2009 from the SPP RE offices office in Little Rock, AR with the NAESBLACKH staff in Borger, TX and the audit and company staff in various offices. The NAESBLACKH audit was conducted concurrently with the BOEA, the generator owner. Both audits involved the same personnel but the GO and GOP functions were separated into individual audits and reports.

Audit Team

Title	Company
Lead Compliance Specialist	SPP RE
SPP RE, Lead Engineer	SPP RE
SPP RE Contractor	SPP RE
SPP RE Contractor	SPP RE

NAESBLACKH Audit Participants

Title	Organization
Projects General Manager	PPMS
Plant Manager	NAESBLACKH
EHS Coordinator	NAESBLACKH
Operations Supervisor	NAESBLACKH
Maintenance Supervisor	NAESBLACKH
Project Engineer	NAES
Operational Analyst	NAES
Project Manager	NAES

Audit Results

NAESBLACKH did not have any violations or mitigation plans open for review during this audit. After reviewing the evidence presented to the audit team, NAESBLACKH was found to be compliant with all 19 applicable requirements in 7 applicable NERC Reliability Standards that apply to the functions it is registered to perform in the SPP Region.

Senior management attended both the opening and closing presentations. NAESBLACKH was prepared for the audit and presented its documentation in a concise manner. NAESBLACKH subject matter experts presented the material supporting its compliance to the standard requirements for their area. They demonstrated that NAESBLACKH is striving to improve its compliance program.

Prior to being forwarded to SPP RE Executive Director of Compliance for review and approval as SPP RE's Final confidential Non-Public audit Report for NAESBLACKH, the content and accuracy of this report:

- Is reviewed and commented on by all audit team members
- Is reviewed by NAESBLACKH's management for correction and comment, and
- Is reviewed and approved by the Audit Team Lead

Upon final disposition of any possible violations determined by the audit team, if any, and redaction of appropriate information contained herein, this report will be reviewed and approved by SPP RE's Executive Director of Compliance before being issued as SPP RE's Final Public Audit Report of NAESBLACKH.

Findings

NAESBLACKH Off-site Audit Findings

*N/A – Not Applicable

PPV – Possible Possible Violation

Reliability Standard	Requirement	Finding
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-002-2	R1.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
PRC-001-1	R1.	Compliant
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R5.	Compliant
TOP-001-1	R3.	Compliant
TOP-001-1	R6.	Compliant
TOP-001-1	R7.	Compliant
TOP-002-2	R3.	Compliant
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R18.	Compliant

Compliance Culture

NAESBLACKH completed a questionnaire prior to the compliance audit. NAESBLACKH stated that its compliance program is managed by the local site personnel with assistance from the corporate support. The Plant Manager also holds the title of Compliance Manager for both BOEA and NAESBLACKH. The Plant Manager is also the Reliability Compliance Officer for NAESBLACKH. The Plant Manager has direct access to the Division Director and the Senior Vice President of Power Plant Operations and Technical Services who is also on the NAES Board of Directors. NAESBLACKH has an established Reliability Compliance Team consisting of the EHS Coordinator, the Operations Supervisor, and the Maintenance Supervisor.

With the Plant Manager also performing the Compliance Manager duties, the compliance program is not independent from the departments responsible for performance to the reliability standards; however NAES has a corporate compliance officer who performs routine reviews of the plant compliance program. NAESBLACKH does not have a formal procedure for self-assessment and self-enforcement of internal controls but the NAES corporate compliance officer visits the plant and reviews the Blackhawk compliance program to ensure that it is meeting the requirements.

They have participated in the regional workshops, survey activities, self certification process, and spot checks. The NAESBLACKH Reliability Compliance Team members conduct annual training for compliance in which each standard and the Plant Managers Standing Orders are reviewed and discussed. Additional training is provided for the Reliability Compliance Team through attendance of SPP regional compliance workshops and other training opportunities. Each Control Room Operator must review the standards and sign the qualification card verifying that the standards have been reviewed and are understood.

Overall, the staff is aware of the importance of continual compliance.

Post Audit Activities

This report was reviewed:

Approved by Ronald W. Ciesiel, Executive Director of Compliance, SPP RE

Date: November 7, 2009