



Compliance Audit Report Public

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NAES Corporation - (Mustang)
NCR06055

**Audit
August 24 - 25, 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 the report. The report will be submitted to NAES Corporation - Mustang (NAESMUST) and to NERC after any Possible Violations have been processed through the Southwest Power Pool Regional Entity's (SPP RE) 2009 Compliance Monitoring and Enforcement Program.

NAESMUST was scheduled for an off-site audit in 2009 as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). NAESMUST 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 NAESMUST and additional information that was requested during the audit. After the SPP RE audit team reviewed the material, it developed the audit findings on NAESMUST's compliance to the standards.

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

NAESMUST did not have any outstanding mitigations plans.

After reviewing the evidence presented by NAESMUST, the audit team found NAESMUST 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:

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

- 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.
- 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 NAESMUST 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. NAESMUST 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. NAESMUST 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). NAESMUST 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. NAESMUST 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. NAESMUST was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. NAESMUST 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 NAESMUST 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. NAESMUST 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. NAESMUST 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 NAESMUST 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 NAESMUST 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 NAESMUST staff. The team lead explained the findings from the audit. The presentation included the NAESMUST 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. NAESMUST 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

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

- Generator Operator (GOP)

The Mustang Station is 50% owned by Denver City Energy Associates, L.P. (DCEA) and DCEA is registered as the GO. DCEA sell all of its energy and capacity to Golden Spread Electric Cooperative Inc. (GSEC). GSEC's affiliate, GS Electric Generating Cooperative Inc. (GSEGC)

is the other 50% owner of Mustang Station. DCEA handles all the day-to-day responsibilities of its ownership interest in Mustang Station through a Joint Operating Agreement with GSEC and GSEGC. DCEA also has an agreement with NAES Corporation (NAES) to provide operation and maintenance services for the plant. NAESMUST has day-to-day care, custody and control of the facility and is registered as the GOP.

Mustang Station is a 2-on-1 combined cycle facility located east of Denver City, Texas. Mustang Station consists of 2 natural gas fired turbine generators and a steam turbine generator in a combined cycle configuration. Mustang Station has a peak capacity 486 MW.

Mustang Station Unit #1 and Unit #2 are interconnected with SPS/Xcel (SPS) through a step up transformer at 115KV. The synchronization breakers for Unit #1 and #2 are owned by SPS and are located in the SPS switchyard located just west of the plant property. Unit #3 is interconnected with SPS through a step up transformer to 230KV.

Mustang Station Units 4 & 5 are two simple cycle natural gas fired turbine generators located a few hundred yards northwest of the combined cycle facility interconnected with SPS through a step up transformer to 230KV. Mustang Station Units 4 & 5 has a peak capacity of 173MW each.

NEAS Corporation operates both Mustang Station and Mustang Station Units 4 & 5. Mustang Station Generator Owner is Denver City Energy Associates (DCEA), while Mustang Station Units 4 & 5 Generator Owner is Yoakum Electric Generating Cooperative (YEGC).

Audit Specifics

The compliance audit was conducted on August 24 - 25, 2009 from the SPP RE office in Little Rock, AR with the NAESMUST staff in Denver City, TX and the audit and company staff in various offices. The NAESMUST audit was conducted concurrently with DCEA, the generator owner. Both audits involved the same personnel, the functions applicable for the GO and GOP was separated into individual audits for each entity.

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

NAESMUST Audit Participants

Title	Organization
General Manager	DCEA
VP, Operational Support & Overseas	NAES

Title	Organization
Operation	
Plant Manager	NAESMUST
O&M Manager	NAESMUST
Project Manager	NAES
Project Engineer	NAES
Operations Analyst II	NAES
Operations Supervisor	NAESMUST
Maintenance Supervisor	NAESMUST
EHS/IS Coordinator	NAESMUST
Plant Engineer	NAESMUST

Audit Results

NAESMUST did not have any violations or mitigation plans open for review during this audit. After reviewing the evidence presented to the audit team, NAESMUST 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. NAESMUST was prepared for the audit and presented its documentation in a concise manner. NAESMUST subject matter experts presented the material supporting its compliance to the standard requirements for their area.

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 NAESMUST, the content and accuracy of this report:

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

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 NAESMUST.

Findings

NAESMUST Off-site Audit Findings

*N/A – Not Applicable

AV – Alleged 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

NAESMUST completed a questionnaire prior to the compliance audit. NAESMUST stated that its compliance program is managed by the local site personnel with assistance from the corporate support group. The Plant Manager also holds the title of Compliance Manager for both DCEA and NAESMUST. The Plant Manager is also the Reliability Compliance Officer for NAESMUST. The Plant Manager has direct access to the Division Director and the Senior Vice President of Power Plant Operations who is also on the NAES Board of Directors. NAESMUST has an established Reliability Compliance Team consisting of the O&M Manager, EHS/IS Coordinator, the Plant Engineer and the NERC Reliability System Steward.

The compliance team at Mustang Station routinely updates the compliance program as updates are available. NAES has a corporate compliance officer who performs routine reviews of the plant compliance program. The corporate office regularly sends updates to the facilities to make modifications as applicable. The NAES NERC Assessment Program is designed to continually review and modify the compliance program.

The Plant Manager, O&M Manager and EHS/IS Coordinator attend workshops with Southwest Power Pool (SPP), participate in WebEx training with SPP and receive information via email from SPP in regard to NERC standards. The corporate office also sends alerts and emails that are applicable to our internal compliance program. All other plant personnel attend annual NERC training provided by the compliance personnel at the plant. Plant Manager's Standing Orders also provide guidance in the day to day operation of the generating facility as it pertains to NERC standards. All plant staff is involved with NERC Assessment Program.

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
October 29, 2009