



# **Compliance Audit Report Public**

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

**NAES Corporation - Dogwood**  
NCR06054

**Audit  
July 22-24, 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 NAES Corporation - Dogwood (NAES-Dogwood) and to NERC upon approval by the SPP RE.

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

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

NAES-Dogwood did not have any outstanding mitigations plans.

After reviewing the evidence presented by NAES-Dogwood, the audit team found NAES-Dogwood 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.<sup>1</sup> 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.

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<sup>1</sup> 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 NAES-Dogwood 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. No issues were found in the neighboring and Reliability Coordinator questionnaires 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. NAES-Dogwood 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. NAES-Dogwood 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). NAES-Dogwood 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. NAES-Dogwood 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. NAES-Dogwood was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. NAES-Dogwood 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 NAES-Dogwood 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. NAES-Dogwood 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. NAES-Dogwood 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 the 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 NAES-Dogwood 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 NAES-Dogwood 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 NAES-Dogwood staff. The team lead explained the findings from the audit. The presentation included the NAES-Dogwood 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. NAES-Dogwood 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***

NAES-Dogwood performs the following NERC functions and is registered with NERC/SPP RE for the following function:

- Generator Operator

The Dogwood Station is owned by Dogwood Energy, LLC (Dogwood) which is registered as the GO. Dogwood's indirect parent company is Kelson Energy Inc, which is in turn held by Kelson Holdings LLC. Kelson Energy Inc owns and manages two other natural gas-fired generating facilities in addition to Dogwood. Kelson Energy out-sources certain services for its plants, including operations to NAES Corporation (NAES) for all three plants. Westar Energy functions

as the energy manager for Dogwood. Within Kelson Energy, each plant, including Dogwood, has a President that is ultimately responsible for the profit and loss of the plant. NAES-Dogwood has day-to-day care, custody and control of the facility and is registered as the GOP.

Dogwood Energy is a natural gas fired, combined cycle electricity generating facility located in Pleasant Hill, Missouri in the suburbs of southeast Kansas City. The plant is nominally rated to produce 625 MW and provides power to Kansas City Power & Light –Greater Missouri Operating Company’s (KCPL-GMOC) Pleasant Hill substation through three (3) 161 kV lines. Kansas City Power & Light –Greater Missouri Operating Company’s (KCPL-GMOC) is the Balancing Authority and Transmission Operator of the transmission system at the Dogwood connection. SPP is the reliability coordinator for Dogwood.

### **Audit Specifics**

The compliance audit was conducted on July 22-24, 2009 from the SPP RE office in Little Rock, AR with the NAES-Dogwood staff, Kelson Corporate and NAES senior management in Pleasant Hill, Missouri, and the audit and company staff in various offices. The NAES-Dogwood audit was conducted concurrently with the Dogwood (Generator Owner) audit. Both audits involved the same personnel but the GO and GOP functions were separated into individual audits and reports.

### **Audit Team**

<b>Title</b>	<b>Company</b>
Lead Compliance Specialist	SPP RE
SPP RE, Lead Engineer	SPP RE
SPP RE Contractor	SPP RE
SPP RE Contractor	SPP RE
NERC	NERC

### **NAES-Dogwood Audit Participants**

<b>Title</b>	<b>Organization</b>
Vice President of Compliance	Kelson
President	Dogwood
Director of Power Plant Operations	NAES
Project Manager	NAES
Project Engineer	NAES
Plant Manager	NAES-Dogwood
Operations and Maintenance Manager	NAES-Dogwood
Plant Engineer	NAES-Dogwood
Operations Coordinator	NAES-Dogwood
Maintenance Coordinator	NAES-Dogwood

<b>Title</b>	<b>Organization</b>
Operation Analyst	NAES

## Audit Results

NAES-Dogwood did not have any violations or mitigation plans open for review during this audit. After reviewing the evidence presented to the audit team, NAES-Dogwood 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. NAES-Dogwood was prepared for the audit and presented its documentation in a concise manner. NAES-Dogwood subject matter experts presented the material supporting its compliance to the standard requirements for their area. They demonstrated that NAES-Dogwood 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 NAES-Dogwood, the content and accuracy of this report:

- Is reviewed and commented on by all audit team members
- Is reviewed by NAES-Dogwood'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 NAES-Dogwood.

### ***Findings***

#### **NAES-Dogwood Off-site Audit Findings**

\*N/A – Not Applicable  
PV – Possible Violation

<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
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

<b>Reliability Standard</b>	<b>Requirement</b>	<b>Finding</b>
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**

NAES-Dogwood completed a questionnaire prior to the compliance audit. NAES-Dogwood stated that its compliance program is managed by the local site personnel with assistance and support from corporate. There is a NERC compliance procedure manual for the Facility that indicates how NAES-Dogwood will comply with the applicable Reliability Standards. All personnel responsible for the Reliability Standards have undergone training relative to compliance with the NERC Reliability Standards and are required to receive annual refresher training. Adherence to the Compliance Program is supervised by the NAES Vice President of Power Plant Operations and managed by his agents.

NAES employees utilize the NERC compliance procedures manual that documents the specific procedures on how to meet compliance with each Reliability Standard. NAES also, on a regular basis, coordinates and updates reliability standard notes and updates to all the facilities for which it provides O&M. NAES employees at the Dogwood Facility are responsible for developing, updating and maintaining reliability compliance program documents at the facility with corporate support from the corporate Technical Services Department in Issaquah, WA.

NAES' Division Director for the Dogwood Facility oversees that internal reliability program and coordinates with personnel that are responsible for ensuring the applicable Reliability Standards are met. NAES' Reliability Compliance Manager/Officer has independent access to NAES's CEO and the Vice President of Operations. The internal compliance program is operated and managed independent from departments responsible for performance to the Reliability Program. NAES's Technical Service Group is independent of the Power Plant Operations group that is responsible for compliance to the Reliability Standards.

NAES utilizes an Assessment Program to ensure compliance with Reliability Standards and shares findings of previous audits with the power plants it operates to help educate and ensure violations and findings of previous NERC audits are not repeated either at the facility or any NAES operated facility. The Technical Services Group also reviews NERC postings to obtain those frequent violations noted and then share this information at NAES operated plants.

## Post Audit Activities

This report was reviewed:

Approved by Ronald W. Ciesiel, Executive Director of Compliance, SPP RE  
November 23, 2009