

South Texas Electric CO OP INC

NERC ID # Generator Owner (GO): NCR04125

Generator Operator (GOP): NCR04126

Audit Report

for Compliance with

NERC Reliability Standards

Public Version

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

Audit Date:	June 3 - 5, 2009
Audit Location:	Nursery, TX
Report Date:	August 12, 2009
Prepared By:	Kent Grammer, Audit Team Leader

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1.0 Executive Summary

The On-Site compliance audit of South Texas Electric CO OP INC (STEC) was conducted on June 3-5, 2009. The NERC Reliability Standards that are being actively monitored for 2009 were reviewed based on STEC's registration as a Generator Owner (GO) and a Generator Operator (GOP). The audit team consisted of five representatives from Texas Regional Entity (Texas RE). Based on the review of documentation provided by STEC and the interviews of STEC's personnel, STEC met all of the NERC Standard requirements.

2.0 Audit Process

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at www.nerc.com. The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

2.1 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 STEC's compliance with the requirements of the reliability standards that are applicable to STEC based on the STEC's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 CMEP 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 STEC's compliance culture.

2.2 Scope

The scope of this compliance audit is inclusive of all requirements of the NERC Reliability Standards that are being actively monitored in 2009 and any others that may be identified by the audit team at the time of the audit applicable to Generator Operator and Generator Owner. The audit was performed by five members of Texas RE.

Note: For the 2009 compliance program, the monitoring period for the compliance audit will generally be the last three years, the time since STEC's last audit as a GO or GOP or periods specified in individual reliability standards. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

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

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to STEC prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to STEC. STEC 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. STEC accepted the audit team member participants with no objections.

2.3 Methodology

Once an audit date was set by Texas RE, STEC was sent a pre-audit questionnaire and the Reliability Standard Audit Work Sheets (RSAWs) for the list of actively monitored NERC Standards. During the audit, Texas RE reviewed the responses to the RSAWs and pre-audit questions with STEC's management and supervisors. Texas RE audit team interviewed operations personnel and reviewed documents to substantiate those operations personnel were trained and capable of following the procedures to ensure reliable operations from that entity. The audit team also interviewed IT, Communications, and Planning personnel as necessary to get answers to questions and verify documentation.

The audit team conducted an exit briefing immediately following the audit with STEC. The audit team verbally shared its preliminary results with STEC's management.

2.4 Company Profile

South Texas Electric Cooperative (STEC) was formed in 1944 to provide wholesale electric power to member cooperatives. Presently STEC serves eight distribution cooperative members providing electric service to over 170,000 retail members in 42 south Texas counties.

STEC owns approximately 2,000 miles of energized transmission line and generates electric power utilizing primarily natural gas and diesel. The Cooperative holds a minority interest in a variety of generation resources including natural gas, hydro-electric, lignite, and renewable.

The Cooperative became a Registered Entity with the North American Electric Reliability Corporation on June 28, 2007 as a Generator Operator, Generator Operator, Transmission Owner and Transmission Planner.

2.5 Audit Specifics

Audit Date: June 3 - 5, 2009
Audit Location: Nursery, TX

Texas RE Audit Team:

Name	Company/Title
Kent Grammer	Texas RE/Audit Team Leader
David Bueche	Texas RE/Auditor
Rashida Caraway	Texas RE/Auditor
Lindley Ellisor	Texas RE/Auditor
Dan Kueker	Texas RE/Auditor

STEC Audit Participants:

Name	Company/Title
Richard McLeon	STEC/Compliance Coordinator
Cory Allen	STEC/Assistant General Manager
Michael Packard	STEC/General Manager
Dotty DiSanto	STEC/Manager of Engineering
John Packard	STEC/Manger of Generation
Clif Lange	STEC/Assistant Manager of Wholesale Marketing
Michael Troell	STEC/ Manager of Wholesale Marketing
Darrell Kluchek	STEC/Manager of Technical Services
Lee Martinez	STEC/SCADA Communication Lead
John Moore	STEC/Senior Transmission Planning Engineer
Doug Evans	STEC/ Transmission Planning Engineer
Phillip Blevins	STEC/Wholesale Marketing Specialist
Roger Bishop	STEC/Power Plant Manager

3.0 Audit Results

3.1 Findings

The Compliance Audit Team found that STEC was compliant with all 2009 actively monitored NERC Standards at the time of the audit.

The following table is a summary of the auditor's notes for those NERC standards reviewed during the audit:

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
EOP-009-0	R1.	Compliant
EOP-009-0	R2.	Compliant
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Not Applicable
FAC-008-1	R3.	Not Applicable
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant

Reliability Standard	Requirement	Finding
IRO-005-1	R9.	Compliant
IRO-005-1	R13.	Compliant
IRO-005-1	R17.	Compliant
PRC-001-1	R1.	Not Applicable
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R5.	Compliant
PRC-004-1	R1.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Not Applicable
PRC-017-0	R1.	Not Applicable
PRC-017-0	R2.	Not Applicable
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
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant

3.2 Conclusion

STEC was found in compliance with the standards that were audited.

3.3. Compliance Culture

STEC is off to a good start in developing a culture of compliance. They were cooperative with the audit team's needs throughout the audit process. The company has placed a Compliance Coordinator/Authorized Entity Office within its organizational structure to oversee compliance with the NERC Standards for all of its business processes. This position reports directly to the Assistant General Manager.