



**Compliance Audit Report
Public Version**

**Black Hills Power, Inc. (BHP)
NERC ID: NCR05030**

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

Date of Audit: June 22 - 26, 2009

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Executive Summary

The Western Electricity Coordinating Council (WECC) performed an on-site compliance audit of Black Hills Power, Inc., BHP NCR05030, on June 22, 2009. At the time of the audit, BHP was registered on the North American Electric Reliability Corporation (NERC) Compliance Registry for the following functions:

Transmission Operator (TOP)	Transmission Owner (TO)
Transmission Planner (TP)	Transmission Service provider (TSP),
Generator Operator (GOP)	Generator Owner (GO),
Resource Planner (RP)	Purchasing Selling Entity (PSE),
Load Serving Entity (LSE)	Distribution Provider (DP)

The Audit Team evaluated BHP for compliance with 39 Reliability Standards for the period of June 18, 2007 through June 22, 2009 in accordance with the 2009 NERC and WECC Compliance Monitoring and Enforcement Programs. This included 34 NERC Reliability Standards and 5 WECC Regional Standards. BHP provided information for the Audit Team's evaluation. The information provided by BHP is described below in the section titled "On-Site Audit".

Based on the information provided by BHP, the Audit Team determined that BHP was compliant with all of the applicable Reliability Standards except CIP-001-1, Requirement 3 and PER-002-0, Requirement 4. The Audit Team found two new possible violations of those Reliability Standards. The section below titled "Audit Results" explains the Audit Team's findings in detail. BHP had not submitted any mitigation plans at the time of the audit.

This audit report includes information that will be used to help WECC determine the severity level of sanctions and penalties, if applicable. Any possible violations of the Reliability Standards will be processed by WECC in accordance with the WECC Compliance Monitoring and Enforcement Program (CMEP).

<http://www.nerc.com/filez/enforcement/index.html>

Audit Process

The CMEP details the compliance audit process. The CMEP conforms generally to United States Government Accountability Office Government Auditing Standards (GAGAS) and to 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. The audit objectives are to:

- Independently review BHP's compliance with the requirements of the Reliability Standards that apply to BHP based on BHP's registered functions.

- Validate the Registered Entity's compliance with the applicable NERC Reliability Standards from the NERC 2009 Implementation Plan list of actively-monitored Reliability Standards and as selected by WECC.
- 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 BHP's compliance culture.

Scope

A compliance audit will include an evaluation of all of the Reliability Standards that apply to BHP monitored by WECC in accordance with the NERC Implementation Plans in the current year, and may include other Reliability Standards applicable to BHP. The scope of an on-site compliance audit can vary depending on whether it is part of a regular, periodic scheduled audit, or as part of a compliance investigation. The Audit Team evaluated BHP for compliance during the period of June 18, 2007 to June 22, 2009.

Confidentiality and Conflicts of Interest

The WECC Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure, govern issues of confidentiality and conflicts of interest that may arise as the result of an audit. WECC informed BHP of WECC's obligations and responsibilities under the Delegation Agreement and Rules of Procedure. WECC provided the work history for each Audit Team member to BHP. BHP had the opportunity to object to an Audit Team member's participation in the audit on the basis of a possible conflict of interest or because of other circumstances that could interfere with an Audit Team member's impartiality. BHP did not submit any objections within the fifteen day deadline.

On-Site Audit

WECC notified BHP of the audit on April 20, 2009. WECC informed BHP that the Audit Team would perform the audit in accordance with the CMEP and the 2009 NERC Compliance Questionnaire and Reliability Standard Audit Worksheet (QRSAW). WECC provided the following documents and information to BHP on April 20, 2009:

Notice of Compliance Audit

Attachment A: Compliance Monitoring Authority Letter

Attachment B: Audit Team Biographies

Attachment C: Off-Site Pre-Audit Survey

Attachment D: 2009 NERC Questionnaire Reliability Standard Worksheets and WECC Reliability Standard Audit Worksheets

Attachment E: Compliance Audit Certification Letter

(This certification letter is a form document that NERC requires Registered Entities to sign.)

In response to WECC's request, BHP provided completed QRSAWs and copies of the above-listed documents as requested for review by the Audit Team prior to the audit. It

also provided copies of policies, procedures, plans, programs, emails, logs, studies, data sheets, sampling, reports, and other types of documents. In preparation for the on-site audit, the Audit Team reviewed the QRSAs and other documents submitted by BHP to evaluate BHP's compliance with each applicable Reliability Standard.

Methodology

As referenced above in the Audit Process section, WECC generally follows the GAGAS and conducts compliance audits as described in the NERC Compliance Auditor Manual.

Audit Overview

The on-site audit began on Monday, June 22, 2009. The Audit Team leader provided an overview of the audit process. BHP personnel presented an overview of the company's organization and operations. After the introductory meeting, the Audit Team separated into sub-groups of two to three auditors each to review and investigate each applicable Reliability Standard. During the progress of the audit, the entire Audit Team met to recount preliminary findings and to ensure the entire Audit Team concurred with each sub-group's conclusions.

Audit

During the on-site audit, the Audit Team substantiated the documents and information that BHP provided before the on-site audit commenced. The Audit Team requested additional information from BHP during the on-site audit, and cross-checked that information as well to ensure accuracy. The Audit Team spent a significant amount of time reviewing BHP's procedures, transactions and records. Additionally, the Audit Team interviewed BHP personnel during the on-site audit. It also consulted with BHP's subject matter experts to evaluate BHP's compliance with the applicable Reliability Standards. The Audit Team communicated with BHP's compliance management personnel throughout the course of the audit.

To reach its conclusions during the audit process, the Audit Team relied upon the following: (1) documentation provided by BHP; (2) interviews with BHP personnel; (3) consultation with BHP's subject matter experts; (4) observations made by the Audit Team during the on-site audit; (5) the Reliability Standards; (6) the Audit Team's expertise regarding the Bulk Power System; and (7) consensus of the Audit Team's members. The interviews and documents provided by BHP provided the Audit Team with a basis for professional judgment when validating BHP's compliance with the Reliability Standards.

Exit Briefing

To conclude the on-site audit, the Audit Team leader gave a presentation to BHP's personnel summarizing the Audit Team's preliminary findings regarding each applicable Reliability Standard. The Audit Team leader also explained the next steps in the audit process and how WECC handles possible violations under the CMEP.

Company Profile

Black Hills Corporation is a diversified energy company based in Rapid City, South Dakota with corporate offices in Golden, Colorado and Omaha, Nebraska. Black Hills

Corporation's utility companies serve 759,000 natural gas and electricity customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota and Wyoming. In addition, Black Hills Corporation's electric utilities sell excess power to other utilities and marketing companies, including affiliates.

Black Hills Corporation's non-regulated energy businesses engage in the mining and processing of low-sulfur coal, natural gas and crude oil primarily in the Rocky Mountain region; the production of electric power through ownership of a portfolio of generation plants; the sale of electric power and capacity primarily under long-term contracts; and the marketing of natural gas, crude oil and a variety of additional services.

Audit Specifics

WECC conducted the compliance audit on June 22 – 26, 2009 at the BHP's offices in Rapid City, South Dakota.

Audit Team

The following is a list of Audit Team members and BHP personnel who participated in the audit.

Audit Team Members

Audit Team Role	Title	Company
Team Lead and Auditor	Sr. Compliance Engineer	WECC
Auditor	WECC Consultant	WECC
Auditor	WECC Consultant	WECC
Auditor	WECC Consultant	WECC
Auditor	WECC Consultant	WECC
Auditor	WECC Consultant	WECC
Documentation	WECC Compliance Program Coordinator	WECC

BHP Audit Participants

Title	Organization
NERC Compliance Manager	BHP
Director of Corporate Compliance	BHP
Manager BHP/CLFP Reliability Center	BHP
Manager NERC Training and Technical support	BHP
Communications Engineer	BHP
Director of Engineering	BHP
Manager System Protection Substation Engineering	BHP
Manager of Transmission Planning	BHP
Line Maintenance	BHP
Manager of Electric Distribution Operation	BHP
Director, Retail Electric Distribution	BHP
BHC Manager Generation Dispatch & Power Marketing USA	BHP
BHC Supervisor Generation Dispatch & Power Marketing	BHP
Manager, Electrical Services	BHP
Operations and Maintenance Manager	BHP
Operations and Maintenance Supervisor	BHP
Operations and Maintenance Supervisor	BHP

Title	Organization
O&M Manager	BHP
Generation compliance Coordinator	BHP
Director	BHP
Transmission Planning Engineer	BHP

Audit Results

The Audit Team reviewed and validated all of the evidence presented by BHP for the audit, including additional information requested by the Audit Team during the audit and information provided during interviews with BHP’s subject matter experts.

--The Audit Team spent significant time reviewing the evidence, findings and conclusions. The Audit Team conducted an extensive review of BHP procedures, descriptions of processes, transactions and records.

--The Audit Team exercised its professional judgment during the overall assessment of the evidence, and determined whether BHP evidence was sufficient to confirm compliance with the applicable Reliability Standards.

--The Audit Team had ongoing communications with BHP during the audit.

--The Audit Team used RSAWS and summaries of auditor notes from interviews to validate compliance with each applicable Reliability Standard and to complete the findings for the audit.

--The Audit Team reviewed BHP evidence concerning appropriate supervisory reviews, communications about any deficiencies in internal control and instances of possible violations, and the current status of any mitigation plans pending completion.

Findings

The “Finding” column may contain any one of the following: Compliant, New Possible Violation (NPV), Not Applicable (N/A), Not Audited, Outstanding Violation (OV), Retraction requested (Retract), Self-reported Violation (Self-Report), or other appropriate description.

Standard	Req.	Finding
COM-001-1	R1.	Compliant
	R2.	Not Audited
	R3.	Not Audited
	R4.	Not Audited
	R5.	Not Audited
	R6.	Not Audited
COM-002-2	R1.	Compliant
	R2.	Not Audited
CIP-001-1	R1.	Compliant
	R2.	Compliant

Standard	Req.	Finding
	R3.	NPV
	R4.	Compliant
EOP-001-0	R1.	Not Applicable
	R2.	Not Applicable
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
EOP-002-2	R1.	Not Applicable
	R2.	Not Applicable
	R3.	Not Applicable
	R4.	Not Applicable
	R5.	Not Applicable
	R6.	Not Applicable
	R7.	Not Applicable
	R8.	Not Applicable
	R9.	Not Applicable
EOP-003-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
EOP-005-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
	R9.	Compliant
	R10.	Compliant
	R11.	Compliant
EOP-008-0	R1.	Compliant
FAC-001-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
FAC-003-1	R1.	Compliant
	R2.	Compliant
	R3.	Not Audited
	R4.	Not Audited
FAC-008-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
FAC-009-1	R1.	Compliant
	R2.	Compliant
FAC-014-1	R1.	Not Audited
	R2.	Not Audited
	R3.	Not Audited

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Standard	Req.	Finding
	R4.	Not Audited
	R5.	Compliant
	R6.	Not Audited
IRO-001-1	R1.	Not Audited
	R2.	Not Applicable
	R3.	Not Applicable
	R4.	Not Audited
	R5.	Not Audited
	R6.	Not Audited
	R7.	Not Applicable
	R8.	Compliant
	R9.	Not Applicable
IRO-004-1	R1.	Not Applicable
	R2.	Not Applicable
	R3.	Not Applicable
	R4.	Compliant
	R5.	Not Applicable
	R6.	Not Applicable
	R7.	Compliant
IRO-005-1	R1.	Not Applicable
	R2.	Not Applicable
	R3.	Not Applicable
	R4.	Not Applicable
	R5.	Not Applicable
	R6.	Not Applicable
	R7.	Not Applicable
	R8.	Compliant
	R9.	Not Applicable
	R10.	Not Applicable
	R11.	Not Applicable
	R12.	Compliant
	R13.	Compliant
	R14.	Not Audited
	R15.	Not Applicable
	R16.	Not Applicable
	R17.	Not Applicable
IRO-STD-006-0	WR1	OV
PER-001-0	R1.	Compliant
PER-002-0	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	NPV
PER-003-0	R1.	Compliant
PRC-001-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
PRC-004-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
PRC-005-1	R1.	Compliant

Standard	Req.	Finding
	R2.	Compliant
PRC-008-0	R1.	Compliant
	R2.	Compliant
PRC-017-0	R1.	Compliant
	R2.	Not Audited
PRC-STD-005-1	WR1	NA
TOP-001-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant
	R4.	Compliant
	R5.	Compliant
	R6.	Compliant
	R7.	Compliant
	R8.	Compliant
TOP-002-2	R1.	Compliant
	R2.	Not Audited
	R3.	Compliant
	R4.	Compliant
	R5.	Not Audited
	R6.	Not Audited
	R7.	Not Audited
	R8.	Not Audited
	R9.	Not Applicable
	R10.	Not Audited
	R11.	Compliant
	R12.	Not Audited
	R13.	Compliant
	R14.	Compliant
	R15.	Compliant
	R16.	Compliant
	R17.	Compliant
	R18.	Compliant
	R19.	Compliant
TOP-004-1	R1.	Complaint
	R2.	Complaint
	R3.	Complaint
	R4.	Complaint
	R5.	Complaint
	R6.	Not Audited
TOP-006-1	R1.	Not Audited
	R2.	Compliant
	R3.	Not Audited
	R4.	Not Audited
	R5.	Not Audited
	R6.	Compliant
	R7.	Compliant
TOP-007-0	R1.	Compliant
	R2.	Not Applicable
	R3.	Not Applicable
	R4.	Not Applicable
TOP-008-1	R1.	Compliant
	R2.	Compliant
	R3.	Compliant

Standard	Req.	Finding
	R4.	Not Audited
TOP-STD-007-0	WR1	Not Applicable
TPL-001-0	R1.	Compliant
	R2.	Not Audited
	R3.	Not Audited
TPL-002-0	R1.	Compliant
	R2.	Not Audited
	R3.	Not Audited
TPL-003-0	R1.	Compliant
	R2.	Not Audited
	R3.	Not Audited
VAR-001-1	R1.	Compliant
	R2.	Complaint
	R3.	Not Audited
	R4.	Not Audited
	R5.	Compliant
	R6.	Not Audited
VAR-001-1	R7.	Compliant
	R8.	Compliant
	R9.	Compliant
	R10.	Compliant
	R11.	Not Audited
	R12.	Compliant
VAR-STD-002a-1	WR1	Compliant
VAR-STD-002b-1	WR1	Compliant

Compliance Culture

The Audit Team evaluated BHP's compliance culture.

The Audit Team conducted an interview to review BHP's Internal Compliance Program.