



**Compliance Audit Report
Public Version**

**Leathers L.P. (LLP)
NCR# NCR05217**

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

Date of Audit: October 21, 2009

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
Objectives	3
Scope.....	4
Confidentiality and Conflicts of Interest	4
Off-Site Audit	4
Methodology	5
Audit	5
Exit Briefing	5
Company Profile	5
Audit Specifics	6
Audit Results	6
Findings	7

Executive Summary

The Western Electricity Coordinating Council (WECC) performed an off-site compliance audit of Leathers, L.P., (LLP) NERC ID NCR05217, on October 21, 2009. At the time of the audit, LLP was registered on the North American Electric Reliability Corporation (NERC) Compliance Registry for the following functions:

Generator Owner (GO)

Generator Operator (GOP)

The Audit Team evaluated LLP for compliance with thirteen NERC Reliability Standards for the period of June 18, 2007 – October 21, 2009 in accordance with the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The Audit Team also evaluated LLP for compliance with two WECC Regional Reliability Standards.

LLP provided information for the Audit Team's evaluation. The information provided by LLP is described below in the section titled "Off-Site Audit." Based on the evidence provided by LLP, the Audit Team determined that LLP complied with all of the applicable Reliability Standards. The Audit Team found zero new possible violations of those Reliability Standards. The section below titled "Audit Results" explains the Audit Team's findings in detail. LLP 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).

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

Registered Entities are subject to audit for compliance with all Reliability Standards applicable to their registered functions.

The objectives of the audit are to:

- Independently review LLP's compliance with the requirements of the Reliability Standards applicable to LLP.
- Validate LLP'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 Standards, and review the status of associated mitigation plans.

Scope

A compliance audit will include an evaluation of the Reliability Standards applicable to LLP. These Reliability Standards are listed in the 2009 NERC Actively-Monitored Standards. The scope of the audit is the current year plus the two previous years back to the date of the previous audit or approval of the Reliability Standard. The audit may also include other Reliability Standards applicable to LLP as determine by the Audit Team lead.

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 LLP 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 LLP. LLP 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. LLP did not submit any objections within the fifteen day objection period.

Off-Site Audit

WECC notified LLP of the audit on October 21, 2009. WECC informed LLP that the Audit Team would perform the audit in accordance with the CMEP and the 2009 NERC Compliance Questionnaire and Reliability Standard Audit Worksheets (RSAW). A pre-audit conference call was facilitated by WECC staff to give LLP staff an opportunity to finalize the audit logistics and address any concerns. WECC provided the following documents and information to LLP on August 14, 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 and Reliability Standard Audit 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 review and sign.)
- Attachment F: Confidentiality Agreements for the Audit Team members

WECC asked LLP to complete the NERC RSAWs and the WECC RSAWs and return them to WECC by October 7, 2009.

In response to WECC's request, LLP provided completed RSAWs and copies of the above-listed documents. LLP also provided copies of policies, procedures, plans, programs, emails, data sheets, reports, and other types of documents. In preparation for the off-site audit, the Audit Team reviewed the RSAWs and other documents submitted by LLP to evaluate 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

During the off-site audit, the Audit Team substantiated the documents and information provided by LLP prior to the audit. The Audit Team requested additional information from LLP during the off-site audit, and cross-checked that information as well to ensure accuracy. The Audit Team reviewed LLP's procedures, transactions and records. Additionally, the Audit Team interviewed LLP personnel during the off-site audit and consulted with LLP's subject matter experts to evaluate LLP's compliance with the applicable Reliability Standards. The Audit Team communicated with LLP's 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 LLP; (2) consultation with LLP's subject matter experts; (3) the Reliability Standards; (4) the Audit Team's expertise regarding the Bulk Power System; and (5) consensus of the Audit Team's members. The interviews and documents provided by LLP provided the Audit Team with a basis to use professional judgment when validating LLP's compliance with the Reliability Standards.

Exit Briefing

To conclude the off-site audit, the Audit Team leader gave a PowerPoint presentation over the telephone to LLP'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

LLP and its partners are owned directly or indirectly by CE Generation, LLC which is owned equally by MidAmerican Energy Holdings Company and TransAlta USA, Inc.

LLP's facility is operated by CalEnergy Operating Corporation pursuant to an operating agreement and produces electricity solely from naturally occurring geothermal steam. The generator is base-loaded year round with a net capacity of 42 MW. The interconnecting 92 kV transmission lines are owned and operated by Imperial Irrigation District (IID) in southern California which serves as the host Balancing Authority, Transmission Operator and Transmission Service Provider.

Audit Specifics

WECC conducted the compliance audit on October 21, 2009 at the WECC offices in Salt Lake City, UT.

Audit Team

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

Audit Team Members

Audit Team Role	Title	Company
Audit Team Lead	Senior Compliance Engineer	WECC
Member	Compliance Consultant	WECC

LLP Audit Participants

Title	Company
Compliance Manager	CalEnergy Operating Corporation
Operations Manager	CalEnergy Operating Corporation
Operations Site Manager	CalEnergy Operating Corporation
Operations Site Manager	CalEnergy Operating Corporation
Project Engineer	CalEnergy Operating Corporation

Audit Results

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

- The Audit Team spent significant time reviewing the evidence, findings and conclusions. The Audit Team conducted an extensive review of LLP's procedures, descriptions of processes, transactions and records.
- The Audit Team exercised its professional judgment during the overall assessment of the evidence, and determined whether LLP's evidence was sufficient to confirm compliance with the applicable Reliability Standards.

- The Audit Team had ongoing communications with LLP 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 LLP's 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, Not Applicable, Not Audited, Outstanding Violation, Retraction requested (Retract), Self-reported Violation (Self-Report), or other appropriate description.

Reliability Standard	Req.	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
COM-002-2	R2.	Not Audited
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R1.	Not Audited
IRO-001-1	R2.	Not Applicable
IRO-001-1	R3.	Not Applicable
IRO-001-1	R4.	Not Audited
IRO-001-1	R5.	Not Audited
IRO-001-1	R6.	Not Audited
IRO-001-1	R7.	Not Applicable
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	Not Applicable
IRO-004-1	R1.	Not Applicable
IRO-004-1	R2.	Not Applicable
IRO-004-1	R3.	Not Applicable
IRO-004-1	R4.	Compliant

IRO-004-1	R5.	Not Applicable
IRO-004-1	R6.	Not Applicable
IRO-004-1	R7.	Not Applicable
IRO-005-1	R1.	Not Applicable
IRO-005-1	R2.	Not Applicable
IRO-005-1	R3.	Not Applicable
IRO-005-1	R4.	Not Applicable
IRO-005-1	R5.	Not Applicable
IRO-005-1	R6.	Not Applicable
IRO-005-1	R7.	Not Applicable
IRO-005-1	R8.	Not Applicable
IRO-005-1	R9.	Compliant
IRO-005-1	R10.	Not Applicable
IRO-005-1	R11.	Not Applicable
IRO-005-1	R12.	Not Applicable
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	Not Audited
IRO-005-1	R15.	Not Applicable
IRO-005-1	R16.	Not Applicable
IRO-005-1	R17.	Not Applicable
PRC-001-1	R1.	Compliant
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R4.	Not Applicable
PRC-001-1	R5.	Compliant
PRC-001-1	R6.	Not Applicable
PRC-004-1	R1.	Not Applicable
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-017-0	R1.	Not Applicable
PRC-017-0	R2.	Not Applicable
TOP-001-1	R1.	Not Applicable
TOP-001-1	R2.	Not Applicable
TOP-001-1	R3.	Compliant
TOP-001-1	R4.	Not Applicable
TOP-001-1	R5.	Not Applicable
TOP-001-1	R6.	Compliant
TOP-001-1	R7.	Compliant
TOP-001-1	R8.	Not Applicable
TOP-002-2	R1.	Not Applicable

TOP-002-2	R2.	Not Audited
TOP-002-2	R3.	Compliant
TOP-002-2	R4.	Not Applicable
TOP-002-2	R5.	Not Audited
TOP-002-2	R6.	Not Audited
TOP-002-2	R7.	Not Audited
TOP-002-2	R8.	Not Audited
TOP-002-2	R9.	Not Applicable
TOP-002-2	R10.	Not Audited
TOP-002-2	R11.	Not Applicable
TOP-002-2	R12.	Not Audited
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	Not Applicable
TOP-002-2	R17.	Not Applicable
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	Compliant
VAR-STD-002a-1	WR1	Compliant
VAR-STD-002b-1	WR1	Not Applicable