



# **Compliance Audit Report Public Version**

**Northern Virginia Electric Cooperative  
NERC ID # NCR10281**

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

**Date of Audit: August 31–September 2, 2010**

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## **Executive Summary**

An on-site compliance audit of Northern Virginia Electric Cooperative (NOVEC), (NCR10281) was conducted from August 31-September 2, 2010. At the time of the audit, NOVEC was registered for the Purchasing-Selling Entity (PSE), Load-Serving Entity (LSE), and Distribution Provider (DP) functions.

The audit team evaluated NOVEC for compliance with 19 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team assessed compliance with the NERC Reliability Standards for the period of January 1, 2009 to current date for LSE and DP and August 28, 2009 to current date for PSE. NOVEC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by NOVEC to assess compliance with standards applicable to NOVEC at this time.

Based on the information and documentation provided by NOVEC, the audit team found NOVEC to be compliant with 15 applicable requirements.

The audit team determined that four requirements were not applicable to NOVEC.

The audit team identified no Possible Violation(s).

These audit results are further explained in the Audit Results Findings section of this report which includes detailed information of the audit team's findings of applicability and compliance for the NERC Reliability Standards, and Applicable Regional Reliability Standards, within the scope of the compliance audit. Any Possible Violations will be processed through the NERC and SERC Reliability Corporation (SERC) CMEP. There were no ongoing or recently completed mitigation plans to be reviewed by the audit team.

The SERC audit team did not adhere to the NERC Compliance Checklist or NERC Compliance Auditor Manual regarding Reliability Coordinator Questionnaires due to the fact that SERC Reliability Corporation only sends Reliability Coordinator Questionnaires when auditing entities registered as Balancing Authorities (BA) and Transmission Operators (TOP).

## **Audit Process**

The compliance audit process steps are detailed in the SERC CMEP. The SERC 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 an 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 to:

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits  
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- Review compliance with the requirements of reliability standards that are applicable to NOVEC, based on the functions that NOVEC is registered to perform;
- Validate compliance with applicable reliability standards from the NERC 2010 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by SERC;
- Validate compliance with applicable regional standards from the SERC 2010 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document NOVEC's compliance program and culture;
- Review the status of mitigation plans.

### **Scope**

The scope of the compliance audit included the NERC Reliability Standards from the SERC 2010 Implementation Plan.

At the time of the audit, NOVEC was registered for the PSE, LSE, and DP functions. The audit team evaluated NOVEC for the 2010 compliance program; the monitoring period for the compliance audit will generally be the lesser of: 1) Date of registration to current date; 2) Date of last audit or spot check to current date; or, 3) June 18, 2007 to current date. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

### **Confidentiality and Conflict of Interest**

Confidentiality and Conflict of Interest of the audit team are governed under the SERC Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. NOVEC was informed of SERC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to NOVEC. NOVEC was given an opportunity to object to an audit team member's participation on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with an audit team member's impartial performance of duties. NOVEC had not submitted any objections by the stated 15 day objection due date and accepted the audit team member participants without objection. There have been no denials of or access limitations placed upon this audit team by NOVEC.

### **Methodology**

The audit team reviewed the information, data, and evidence submitted by NOVEC and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data were sent to SERC 30 days before the scheduled date of the entity review. Additional information relevant to the audit could be submitted until the last day of the review at the audit site. After that date, only data or information which was relevant to the content of the report or its finding can be submitted upon agreement by the audit team lead.

The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

The audit team reviewed documentation provided by NOVEC data, information, and evidence submitted in the form of policies, procedures, emails, logs, studies, data sheets, etc. were validated, substantiated, and cross-checked for accuracy as appropriate. Requirements which required a sampling to be conducted were developed based upon the significance of the sampling to the reliability of the bulk electric system (BES).

Findings were based on the audit team's knowledge of the BES, the NERC Reliability Standards, and their professional judgment. All findings were developed based upon the consensus of the audit team.

### **Company Profile**

Northern Virginia Electric Cooperative (NOVEC) is a not for profit electric cooperative with headquarters located in Manassas, Virginia. NOVEC serves approximately 143,300 consumers in parts of six counties in northern Virginia. The counties include Fairfax, Prince William, Fauquier, Stafford, Loudoun, and Clark counties. The NOVEC service territory is 651 square miles with approximately 48 miles of 115 kV transmission lines, approximately 7,000 miles of distribution lines. NOVEC serves an annual load of 3.5 million MWHs with a year 2009 peak demand of 760 MWs. NOVEC is supplied through 26 delivery points from the Virginia Electric and Power Company and is not interconnected with any other third party.

In addition to supplying and delivering electric energy to its members, NOVEC owns and operates two subsidiary companies: NOVEC Energy Solutions, which sells natural gas to end use customers, and NOVEC Solutions which sells small generators, surge protectors, water heaters and provides energy electric construction services to commercial customers within the NOVEC service territory.

NOVEC has a nine member board of directors that are elected by the members served by the Cooperative.

### **Audit Participants**

The following is a listing of all personnel from the Audit Team and NOVEC who were present during the meetings or interviews.

#### **Audit Team Participants**

<b>Title</b>	<b>Entity</b>
Senior Compliance Auditor, Audit Team Leader	SERC
President and CEO	SERC
Senior Compliance Auditor	SERC
Assistant Supervisor of System Operations	SIPC

#### **NOVEC Audit Participants**

<b>Title</b>	<b>Entity</b>
Vice President, Electric System Development	NOVEC
Manager of Administrative Services	NOVEC
Senior Consultant	CES
VP, Wholesale Market Services	CES

Vice President of Finance	NOVEC
Supervisor of Technical Services	NOVEC
Substation Engineer	NOVEC
Manager of System Operations	NOVEC
Manager of Risk Management	NOVEC
President and CEO	NOVEC
VP of Business Development	NOVEC

## Audit Results

The audit team evaluated NOVEC for compliance with 19 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of January 1, 2009 to current date for LSE and DP and August 28, 2009 to current date for PSE. NOVEC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by NOVEC to assess compliance with standards applicable to NOVEC at this time.

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## Findings

The following table details the findings for compliance for the scope identified for this audit.

Reliability Std.	Req.	Finding
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
CIP-002 through CIP-009		Reviewed by a separate monitoring process
EOP-002-2	R9.	Compliant
FAC-002-0	R1.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
IRO-005-2	R13.	Compliant
PRC-004-1	R1.	N/A
PRC-005-1	R1.	N/A
PRC-005-1	R2.	N/A
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Compliant
PRC-017-0	R1.	N/A
TOP-001-1	R4.	Compliant
TOP-002-2	R3.	Compliant
TOP-002-2	R18.	Compliant

VAR-001-1	R5.	Compliant
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**Compliance Culture**

The audit team assessed NOVEC’s Internal Compliance Program in conjunction with the audit. Evidence reviewed in assessing the program included: NOVEC’s Compliance Pre-Audit Survey, NOVEC NERC Reliability Standards Compliance Program (Revision 2 dated May 11, 2010), compliance staff organizational charts, interviews with NOVEC staff, and observation of staff responses in preparation for and during the audit.

Four factors that characterize a vigorous and effective compliance program are: active engagement and leadership by a company’s senior management; preventive measures appropriate to the individual circumstances of the company; promptly detecting, stopping, and reporting a violation; and, ultimately fixing the problem and working to avoid future possible violations.

SERC recognizes that there isn’t one standard formula for an effective compliance program, and that there will be variations in each company’s program and culture based on countless factors, including the size and age of the company, as well as the nature and extent of its business. Ultimately what matters are the results and whether the compliance program worked as it should.

The audit team determined that NOVEC’s Internal Compliance Program documents and their staff’s demonstrated compliance culture indicate an effective compliance program.

Additional information pertaining to the compliance culture of NOVEC can be found in the Internal Compliance Survey.