



Compliance Audit Report Public Version

French Broad Electric Membership Corporation (NCR01244)

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

Date of Audit: March 1-2, 2010

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Executive Summary

An onsite compliance audit of French Broad Electric Membership Corporation (FBEMC), NCR01244, was conducted from March 1-2, 2010. At the time of the audit, FBEMC was registered for the Distribution Provider (DP) and Load-Serving Entity (LSE) functions.

The audit team evaluated FBEMC for compliance with 18 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team reviewed the NERC Reliability Standards for the period of June 18, 2007 to present. FBEMC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by FBEMC to assess compliance with standards applicable to FBEMC at this time.

Based on the information and documentation provided by FBEMC, the audit team found FBEMC to be compliant with 12 applicable requirements.

The audit team determined that two requirements were not applicable to FBEMC.

The audit team identified four Possible Violations. A Possible Violation was identified for CIP-001-1, R1 Sabotage Reporting; PRC-005-1, R1 and R2 Transmission and Generation Protection System Maintenance and Testing; and PRC-008-0, R2 Underfrequency Load Shedding Equipment Maintenance Programs.

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 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 and therefore none were reviewed by the audit team.

The link to the French Broad Electric Membership Corporation NOP, addressing the CIP-001-1 R1 violation (SERC201000495), can be viewed [here](#).

The PRC-008-0 R2 violation, SERC201000495, was addressed via the Find, Fix and Track Report.

The PRC-005-1 R1 and R2 violations (SERC201000497 and SERC2010000498) have been dismissed by SERC Enforcement.

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.^{*} The audit objectives are to:

- Review compliance with the requirements of reliability standards that are applicable to FBEMC, based on the functions that FBEMC 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 Reliability 2010 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document FBEMC'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. In addition, this audit included any self-reports, self-certifications, outstanding mitigation plans, or remedial action directives which have been completed or pending in the year of the compliance audit.

At the time of the audit, FBEMC was registered for the functions of Distribution Provider (DP) and Load-Serving Entity (LSE). The audit team evaluated FBEMC 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. FBEMC was informed of SERC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to FBEMC. FBEMC 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. FBEMC had not submitted any objections by the stated 15 day objection due date and accepted the audit team member participants without

^{*} North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

objection. There have been no denials of or access limitations placed upon this audit team by FBEMC.

Methodology

The audit team reviewed the information, data, and evidence submitted by FBEMC 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.

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 FBEMC. 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 Electrical 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

French Broad EMC was formed in 1939 and throughout its 71 year history; French Broad EMC's highest priority has been to provide high quality electrical service at a reasonable rate. From the beginning until now, French Broad EMC has grown into a modern-day cooperative, with 21 substations, monitored via fiber optic cable and wireless communications, serving over 37,000 Western North Carolina members in Madison County, Buncombe County, Yancey County, and Mitchell County in North Carolina, as well as members in Unicoi County and Cocke County in Tennessee. Within this mountainous terrain, French Broad EMC also serves the towns of Bakersville, Burnsville, Marshall, and Mars Hill, North Carolina.

Audit Participants

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

Audit Team Participants

Title	Entity
Senior Compliance Auditor	SERC Reliability Corporation
Senior Compliance Auditor	SERC Reliability Corporation
Compliance Auditor	SERC Reliability Corporation
ISME	Piedmont EMC

FBEMC Audit Participants

Title	Entity
General Manager	French Broad EMC
Member Services Manager	French Broad EMC
Engineering Manager	French Broad EMC
Safety Coordinator	French Broad EMC

Audit Results

The audit team evaluated FBEMC for compliance with 18 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of June 18, 2007 to present. FBEMC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by FBEMC to assess compliance with standards applicable to FBEMC at this time.

Based on the information and documentation provided by FBEMC, the audit team found FBEMC to be compliant with 12 applicable requirements.

The audit team determined that two requirements were not applicable to FBEMC.

The audit team identified four Possible Violations. A Possible Violation was identified for CIP-001-1, R1 Sabotage Reporting; PRC-005-1, R1 and R2 Transmission and Generation Protection System Maintenance and Testing; and PRC-008-0, R2, Underfrequency Load Shedding Equipment Maintenance Programs.

Findings

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

Reliability Std	Req.	Finding
CIP-001-1	R1.	Possible Violation
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-002-2.1	R9.	Compliant
FAC-002-0	R1.	Compliant
IRO-001-1.1	R8.	Compliant
IRO-004-1	R4.	Compliant
IRO-005-2	R13.	Compliant
PRC-004-1	R1.	N/A
PRC-005-1	R1.	Possible Violation
PRC-005-1	R2.	Possible Violation
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Possible Violation
PRC-017-0	R1.	N/A
TOP-001-1	R4.	Compliant
TOP-002-2	R3.	Compliant

Reliability Std	Req.	Finding
TOP-002-2	R18.	Compliant

Compliance Culture

The audit team assessed FBEMC's Internal Compliance Program in conjunction with the audit. Evidence reviewed in assessing the program included: FBEMC Compliance Pre-Audit Survey, compliance staff organizational charts, interviews with FBEMC 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 FBEMC's Internal Compliance Program documents and their staff's demonstrated compliance culture indicate a need to improve their compliance program.