



# **Compliance Audit Report Public Version**

**Bluegrass Generation Company**  
NERC ID #NCR03033

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

**Date of Audit: June 28–29, 2010**

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## **Executive Summary**

An on-site, unscheduled compliance audit of Bluegrass Generation Company (Bluegrass), NERC ID - NCR03033 was conducted from June 28–29, 2010. At the time of the audit, Bluegrass was registered for the Generator Owner (GO) and Generator Operator (GOP) functions.

The audit team evaluated Bluegrass for compliance with 54 requirements and sub-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 December 8, 2009 to the date of audit. Bluegrass submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by Bluegrass to assess compliance with standards applicable to Bluegrass at this time.

Based on the information and documentation provided by Bluegrass, the audit team found Bluegrass to be compliant with 44 applicable requirements and sub-requirements.

The audit team determined that ten requirements and sub-requirements were not applicable to Bluegrass. Bluegrass does not own or operate an SPS; therefore, PRC-017-0 was not applicable.

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 SERC audit team lead certifies that the audit team adhered to all applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP).

## **Audit Process**

The unscheduled 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 Bluegrass, based on the functions that Bluegrass 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 Bluegrass'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 a review of 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, Bluegrass was registered for the Generator Owner and Generator Operator functions. The audit team evaluated Bluegrass 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. Bluegrass was informed of SERC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to Bluegrass. Bluegrass 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. Bluegrass objected to one audit team member and the Industry Subject Matter Expert was removed from the team. There have been no denials of or access limitations placed upon the other audit team members by Bluegrass.

### **Methodology**

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

Bluegrass Generation is an IPP facility located in LaGrange, KY. There are three simple-cycle CT’s at the facility with a combined output of approximately 555 MWs. Bluegrass generates at 18 kV and steps up to 345 kV on the high side and is connected to the Louisville Gas & Electric (LG&E) system at two interconnection points.

### **Audit Participants**

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

#### **Audit Team Participants**

<b>Title</b>	<b>Entity</b>
Senior Compliance Auditor/Audit Team Lead	SERC
Compliance Auditor	SERC
Compliance Auditor	SERC

#### **Bluegrass Audit Participants**

<b>Title</b>	<b>Entity</b>
Plant Manager	Bluegrass Generation
Division Director	NAES Corp.
Operations Analyst	NAES Corp.
Operations Analyst	NAES Corp.
Asset Manager	LS Power
Project Manager	NAES Corp.

## Audit Results

The audit team evaluated Bluegrass for compliance with 54 requirements and sub-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 December 8, 2009 to the date of audit. Bluegrass submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by Bluegrass to assess compliance with standards applicable to Bluegrass at this time.

Based on the information and documentation provided by Bluegrass, the audit team found Bluegrass to be compliant with 44 applicable requirements and sub-requirements.

The audit team determined that 10 requirements and sub-requirements were not applicable to Bluegrass. Bluegrass does not own or operate an SPS; therefore, PRC-017-0 was not applicable.

## 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
COM-002-2	R1.	Compliant
FAC-002-0	R1.	Compliant
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-001-1.1	R8.	Compliant
IRO-004-1	R4	Compliant
IRO-005-2	R13	Compliant
PRC-001-1	R1.	Compliant
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R5.	Compliant
PRC-004-1	R2.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-017-0	R1.	N/A
TOP-001-1	R3.	Compliant
TOP-001-1	R6.	Compliant
TOP-001-1	R7.	Compliant
TOP-002-2	R3.	Compliant

<b>Reliability Std.</b>	<b>Req.</b>	<b>Finding</b>
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
VAR-002-1.1a	R1.	Compliant
VAR-002-1.1a	R2.	Compliant
VAR-002-1.1a	R3.	Compliant
VAR-002-1.1a	R4.	Compliant
VAR-002-1.1a	R5.	Compliant

## **Compliance Culture**

The audit team assessed Bluegrass’s Internal Compliance Program in conjunction with the audit. Evidence reviewed in assessing the program included: Bluegrass’s Compliance Pre-Audit Survey, NAES Reliability Compliance Manual, compliance staff organizational charts, interviews with Bluegrass 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 Bluegrass’s Internal Compliance Program documents and their staff’s demonstrated compliance culture indicate a very effective compliance program.

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