

# **Compliance Audit Report Public Version**

**American Electric Power Energy Partners  
NERC ID # NCR10130**

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

Audit Date: March 16 – 18, 2010  
Audit Location: 1 Riverside Plaza, Columbus, Ohio 43215  
Report Date: May 5, 2010  
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## 1.0 EXECUTIVE SUMMARY

The On-Site compliance audit of American Electric Power Energy Partners (AEP) was conducted on March 16 - 18, 2010. The NERC Reliability Standards that are being actively monitored for 2010 were reviewed based on AEP's registration as a PSE.

The audit team reviewed the NERC Reliability Standards for the period of time identified in the scope of the audit. The audit team consisted of four representatives from Texas Regional Entity (Texas RE). The audit team reviewed the evidence and documentation provided by AEP and conducted interviews with AEP's personnel to assess compliance with standards applicable to AEP at this time.

There were a total of three (3) reliability standards included in the scope of this audit consisting of three (3) actively monitored requirements applicable to the registered function (PSE). Based on the information and documentation provided by AEP, the audit team found AEP to be compliant with all three (3) applicable requirements.

AEP met all of the NERC Standard requirements that were within the scope of this audit. 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.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit and therefore none were reviewed by the audit team.

## 2.0 AUDIT PROCESS

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at [www.nerc.com](http://www.nerc.com). The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other accepted audit practices.

### 2.1 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.<sup>1</sup> The audit objectives are:

- Independently review AEP's compliance with the requirements of the reliability standards that are applicable to AEP based on the AEP registered functions included in the scope of this audit.
- Validate compliance with applicable reliability standards from the NERC 2010 CMEP Implementation Plan list of actively monitored standards.
- 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.
- Document AEP's compliance culture.

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

## 2.2 Scope

The scope of this compliance audit is inclusive of all requirements of the NERC Reliability Standards that are being actively monitored in 2010 and any others that may be identified by the audit team at the time of the audit applicable to a PSE. The audit was performed by four members of Texas RE.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff for American Electric Power Energy Partners and therefore none were reviewed by the audit team.

Note: For the 2010 compliance program, the monitoring period for the compliance audit will generally be the last six years based the AEP's registration as a PSE, or periods specified in individual reliability standards.

At the time of the audit, AEP was registered as a PSE. The audit team evaluated AEP for compliance as a PSE during the period from November 8, 2007 (registration date) through March 18, 2010.

### 2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to AEP prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to AEP. AEP was given an opportunity to object to an audit team member on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with the audit team member's impartial performance of duties. AEP had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants with no objections. There were no denials of or access limitations placed upon this audit team by AEP.

## 2.3 Methodology

Once an audit date was set by Texas RE, AEP was sent Reliability Standard Audit Work Sheets (RSAWs) for the list of actively monitored NERC Standards.

The audit team reviewed the completed RSAWs, information, data, and evidence submitted by AEP and assessed compliance with requirements of the applicable reliability standards. Initial submittal of information and data were sent to Texas RE on or before the scheduled due date for the submittal. Additional information relevant to the audit could be requested by Texas RE and submitted by AEP until the last day of the review at the audit site.

During the audit, Texas RE reviewed the responses to the RSAWs and auditor questions with AEP's management and supervisors. The audit team reviewed documentation provided by AEP that included data, information and evidence submitted in the form of policies, procedures, emails, logs, studies, data sheets, etc. which 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).

Texas RE audit team interviewed operations personnel and reviewed documents to substantiate that the operations personnel were trained and capable of following the procedures to ensure reliable operations from that entity. The audit team also interviewed IT, communications, and planning personnel as necessary to clarify or stack the evidence provided by AEP and verify documentation.

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.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE’s compliance staff for American Electric Power Energy Partners and therefore none were reviewed by the audit team.

The audit team conducted an exit briefing immediately following the audit with AEP. The audit team verbally shared its preliminary results with AEP’s management.

## 2.4 Company Profile

American Electric Power is a large electric utility, delivering electricity to more than 5 million customers in 11 states through both generation and transmission. AEP’s transmission system directly or indirectly serves about 11 percent of the electricity demand in the ERCOT region in Texas. AEP generation in the ERCOT region consists of the Oklaunion generation facility only.

AEP Energy Partners, an affiliate of American Electric Power, sells power in the deregulated Electric Reliability Council of Texas (ERCOT) market, primarily to municipal electric systems and rural electric cooperatives.

## 2.5 Audit Specifics

Audit Date: March 16 - 18, 2010  
Audit Location: AEP Office, Columbus, Ohio

### Texas RE Audit Team:

Company/Title	Audit Team Role
Texas RE/Compliance Engineer	Audit Team Leader
Texas RE/Sr Compliance Engineer	Auditor
Texas RE/Sr Compliance Engineer	Auditor
Texas RE/Compliance Engineer	Auditor

### AEP’s Audit Participants:

Company	Title
AEP	Reliability Compliance Mgr
AEP	Market Analyst
AEP	Market Ops Support
AEP	Market Ops Support

<b>Company</b>	<b>Title</b>
AEP	Supervisor Fossil & Hydro
AEP	Director Plant Engineering
AEP	Sr. Engr/General Engr Services
AEP	Production Optimization
AEP	Generation Dispatch
AEP	Production Optimization
AEP	Training
AEP	Generation
AEP	Pr. Engr/General Engr Services
AEP	Transformation Services
AEP	Operational Risk Mgmt
AEP	Mgr. Plant Engineering Program
AEP	Generation Dispatch
AEP	Generation Plant Engr
AEP	Generation Dispatch/QSE
AEP	Generation Dispatch/QSE
AEP	Internal Audits
AEP	Generation NERC Compliance
AEP	Regulatory Services
AEP	Engineer Generation
AEP	Mgr Gen & Internal Planning
AEP	Senior Engineer
AEP	Generation – EES
AEP	Market Operation Support
AEP	Eng II
AEP	Director Elec & Controls Engr
AEP	Internal Audits
AEP	Mgr RTO Policy
AEP	OP & D
AEP	Dispatcher
AEP	Generation Dispatch
AEP	Regulatory
AEP	IT Network Engineering
AEP	IT Network Consultant
AEP	Mgr IT Command Center
AEP	Generation – ESEE
AEP	Training
AEP	Scheduler
AEP	Director FOP
AEP	VP Market Ops
AEP	Project Mgr
AEP	Project Mgr
AEP	Regulatory Services
AEP	ESEE

### 3.0 AUDIT RESULTS

#### 3.1 Audit Findings

The Compliance Audit Team found that AEP was compliant with all 2010 actively monitored NERC Standards reviewed at the time of the audit.

The following table is a summary of the auditor's findings for those NERC standards reviewed during the audit:

Reliability Standard	Requirement	Finding
IRO-001-1.1	R1.	NA
IRO-001-1.1	R2.	NA
IRO-001-1.1	R3.	NA
IRO-001-1.1	R4.	NA
IRO-001-1.1	R5.	NA
IRO-001-1.1	R6.	NA
IRO-001-1.1	R7.	NA
IRO-001-1.1	R8.	Compliance
IRO-001-1.1	R9.	NA
IRO-005-2	R1.	NA
IRO-005-2	R2.	NA
IRO-005-2	R3.	NA
IRO-005-2	R4.	NA
IRO-005-2	R5.	NA
IRO-005-2	R6.	NA
IRO-005-2	R7.	NA
IRO-005-2	R8.	NA
IRO-005-2	R9.	NA
IRO-005-2	R10.	NA
IRO-005-2	R11.	NA
IRO-005-2	R12.	NA
IRO-005-2	R13.	Compliance
IRO-005-2	R14.	NA
IRO-005-2	R15.	NA
IRO-005-2	R16.	NA
IRO-005-2	R17.	NA
VAR-001-1	R1.	NA
VAR-001-1	R2.	NA
VAR-001-1	R3.	NA
VAR-001-1	R4.	NA
VAR-001-1	R5.	Compliance
VAR-001-1	R6.	NA

Reliability Standard	Requirement	Finding
VAR-001-1	R7.	NA
VAR-001-1	R8.	NA
VAR-001-1	R9.	NA
VAR-001-1	R10.	NA
VAR-001-1	R11.	NA
VAR-001-1	R12.	NA

### 3.2 Mitigation Plan Findings

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff and therefore none were reviewed by the audit team.

### 3.3 Conclusion

AEP was found compliant with the all the standards that were included in the scope of this audit.

There were no ongoing or recently completed mitigation plans and therefore none were reviewed by the audit team.

### 3.4. Compliance Culture

AEP's compliance culture survey was reviewed by the audit team.

AEP was cooperative with the audit team's needs and information requests throughout the audit process.

AEP's top management demonstrated their commitment to be compliant with the NERC Reliability Standards by establishing a Reliability Compliance Committee in 2006. The Reliability Compliance Committee is a cross-functional team of executives representing the following Business Units: Transmission, Commercial Operations, Generation, Distribution, Legal, Regulatory Services, Shared Services (IT, HR, and Physical Security) and Finance. A representative each from Audit Services and Ethics & Compliance serves on the committee in an oversight role. The Committee is chaired by the Senior VP of Regulatory Services, who is independent of affected Business Units that are responsible for compliance.

The Reliability Compliance Committee is responsible for ensuring the implementation and oversight of AEP's program to comply with the NERC/regional reliability standards. The committee oversees the development of approval of companywide compliance plans, policies and procedures, and ensures that adequate resources are available to support the reliability compliance program.

AEP's Reliability Compliance Program is administered by a central corporate group within the Regulatory Services department which is independent of all Business Units responsible for NERC Compliance. Specifically, the Reliability Standards Compliance Manager is a part of the Regulatory

Services department and does not report to any of the functional Business Units involved in the planning, operation, maintenance of the Bulk Electric System.

AEP has developed a reliability compliance intranet site providing key background, news and process-related documents. The intranet site is available to all employees in the AEP system.

The company conducts awareness building and training targeted toward key subject matter experts.

AEP internal auditors perform spot checks on a random basis. The Reliability Compliance Program at AEP includes self-assessments and self-enforcement of internal controls.