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1.0 EXECUTIVE SUMMARY

The On-Site compliance audit of Brazos Electric Power Co Op, Inc. (Brazos Electric) was conducted on January 27-29, 2010. The NERC Reliability Standards that are being actively monitored for 2010 were reviewed based on Brazos Electric's registration as a Generator Owner and Generator Operator.

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 (4) representatives from Texas Regional Entity (Texas RE). The audit team reviewed the evidence and documentation provided by Brazos Electric and conducted interviews with Brazos Electric's personnel to assess compliance with standards applicable to Brazos Electric at this time.

There were a total of sixteen (16) reliability standards included in the scope of this audit consisting of ninety-five (95) requirements. Based on the information and documentation provided by Brazos Electric, the audit team found Brazos Electric to be compliant with thirty-eight (38) applicable requirements. The audit team determined that fifty-six (56) requirements were not applicable to Brazos Electric.

The audit team identified one (1) possible alleged violation during the 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. This audit report includes information regarding the possible alleged violation. This information will be used to help determine the severity level of sanctions and penalties. The possible alleged violations will be processed through the Texas RE's NERC Compliance Monitoring and Enforcement Program. Any further actions related to possible alleged violations will follow the same process. Any Possible Alleged Violations will be processed through the NERC and Texas RE CMEP.

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.

The NERC Notice of Penalty (NOP) is posted on the NERC website at the following URL:
http://www.nerc.com/filez/enforcement/FinalFiled_ACP_NOP_20110630.pdf

2.0 AUDIT PROCESS

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at www.nerc.com. The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally 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.¹ The audit objectives are:

¹ North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- Independently review Brazos Electric's compliance with the requirements of the reliability standards that are applicable to Brazos Electric based on the Brazos Electric 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 Brazos Electric's compliance culture.

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 Generator Owner and Generator Operator. The audit was performed by four (4) 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 Brazos Electric Power Co Op, Inc. 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 three years based the Brazos Electric's registration as a Generator Owner and Generator Operator, or periods specified in individual reliability standards.

At the time of the audit, Brazos Electric was registered as a Generator Owner and Generator Operator. The audit team evaluated Brazos Electric for compliance during the specific period of Brazos Electric's last audit on September 13, 2007 to January 27, 2010.

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to Brazos Electric prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to Brazos Electric. Brazos Electric 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. Brazos Electric had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants with no objections. There have been no denials of or access limitations placed upon this audit team by Brazos Electric.

2.3 Methodology

Once an audit date was set by Texas RE, Brazos Electric was sent a 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 Brazos Electric 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 Brazos Electric 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 Brazos Electric's management and supervisors. The audit team reviewed documentation provided by Brazos Electric 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 Brazos Electric 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 Brazos Electric Power Co Op, Inc. and therefore none were reviewed by the audit team.

The audit team conducted an exit briefing immediately following the audit with Brazos Electric. The audit team verbally shared its preliminary results with Brazos Electric's management.

2.4 Company Profile

Brazos Electric Power Cooperative is the largest generation and transmission cooperative in Texas providing wholesale power to its 16 member distribution cooperatives and one municipal customer, who serve over 496,000 customers in 66 Texas counties located in the ERCOT Interconnect. Organized in 1941, Brazos Electric was the first cooperative formed in the Lone Star State for the purpose of generating and supplying wholesale electrical power. Today, it is a 3,052 MW generation and transmission cooperative whose members' service territory extends from the Texas Panhandle to the Houston area.

2.5 Audit Specifics

Audit Date: January 27-29, 2010
Audit Location: Brazos Electric Office, Waco, TX

Texas RE Audit Team:

Company/Title
Texas RE/Audit Team Leader
Texas RE/Auditor
Texas RE/Auditor
Texas RE/Auditor

Brazos Electric's Audit Participants:

Company/Title
Brazos Electric
Brazos Electric
Brazos Electric
Brazos Electric
Segrest & Segrest
Brazos Electric
Brazos Electric
Brazos Electric
Brazos Electric
Brazos Electric
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Brazos Electric

3.0 AUDIT RESULTS

3.1 Audit Findings

The Compliance Audit Team found that Brazos Electric was non-compliant the following standards and requirements:

Reliability Standard & Requirement
VAR-002-1.1a, R3.1

Brazos Electric was found compliant with all other requirements and standards that were included in the scope of this audit.

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

Reliability Standard	Requirement	Finding
CIP-001-1	R1.	Compliant

Reliability Standard	Requirement	Finding
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-002-2	R1.	Compliant
COM-002-2	R2.	N/A
FAC-002-0	R1.	Compliant
FAC-002-0	R2.	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	R1.	N/A
IRO-001-1.1	R2.	N/A
IRO-001-1.1	R3.	N/A
IRO-001-1.1	R4.	N/A
IRO-001-1.1	R5.	N/A
IRO-001-1.1	R6.	N/A
IRO-001-1.1	R7.	N/A
IRO-001-1.1	R8.	Compliant
IRO-001-1.1	R9.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	Compliant
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
IRO-005-2	R1.	N/A
IRO-005-2	R2.	N/A
IRO-005-2	R3.	N/A
IRO-005-2	R4.	N/A
IRO-005-2	R5.	N/A
IRO-005-2	R6.	N/A
IRO-005-2	R7.	N/A
IRO-005-2	R8.	N/A
IRO-005-2	R9.	N/A
IRO-005-2	R10.	N/A
IRO-005-2	R11.	N/A

Reliability Standard	Requirement	Finding
IRO-005-2	R12.	N/A
IRO-005-2	R13.	Compliant
IRO-005-2	R14.	N/A
IRO-005-2	R15.	N/A
IRO-005-2	R16.	N/A
IRO-005-2	R17.	N/A
PRC-001-1	R1.	Compliant
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R4.	N/A
PRC-001-1	R5.	Compliant
PRC-001-1	R6.	N/A
PRC-004-1	R1.	N/A
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
TOP-001-1	R1.	N/A
TOP-001-1	R2.	N/A
TOP-001-1	R3.	Compliant
TOP-001-1	R4.	N/A
TOP-001-1	R5.	N/A
TOP-001-1	R6.	Compliant
TOP-001-1	R7.	Compliant
TOP-001-1	R8.	N/A
TOP-002-2	R1.	N/A
TOP-002-2	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R4.	N/A
TOP-002-2	R5.	N/A
TOP-002-2	R6.	N/A
TOP-002-2	R7.	N/A
TOP-002-2	R8.	N/A
TOP-002-2	R9.	N/A
TOP-002-2	R10.	N/A
TOP-002-2	R11.	N/A
TOP-002-2	R12.	N/A

Reliability Standard	Requirement	Finding
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	N/A
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
TOP-003-0	R4.	N/A
VAR-002-1.1a	R1.	Compliant
VAR-002-1.1a	R2.	Compliant
VAR-002-1.1a	R3.	PV
VAR-002-1.1a	R4.	Compliant
VAR-002-1.1a	R5.	Compliant

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

The compliance audit team found that Brazos Electric (GOP) was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
VAR-002-1.1a, R3.1

The possible alleged violation along with this compliance report will be provided to Texas RE's compliance staff for processing through the NERC CMEP. Any further actions related to possible alleged violations will be through that process.

Brazos Electric was found compliant with all other requirements and 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

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

Brazos Electric was cooperative with the audit team's needs and information requests throughout the entire audit process. The organizational structure of Brazos Electric, the extensive participation during the audit by Brazos Electric's personnel, the responses provided to the compliance culture survey, the detailed documentation of procedures and records, the demonstrated level of compliance and the direct observations made by the audit team confirmed a strong commitment by Brazos Electric to promote a healthy compliance culture within the organization. The Compliance Contacts' efforts for this audit were extremely helpful and were well supported by the other Brazos Electric managers and SME's who prepared and participated during the audit process.

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