

Compliance Audit Report Public Version

Nueces Electric Cooperative, Inc.

NERC ID # NCR10180

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Critical Energy Infrastructure Information)
Has Been Removed**

Audit Date: August 17-18, 2010
Audit Location: Texas Reliability Entity Office, Austin, TX
Report Date: September 10, 2010
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1.0 EXECUTIVE SUMMARY

The Table Top (Off-Site) compliance audit of Nueces Electric Cooperative, Inc. (Nueces) was conducted on August 17-19, 2010. The NERC Reliability Standards that are actively monitored for 2010 were reviewed based on Nueces's registration as a Distribution Provider.

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

There were a total of eight (8) reliability standards included in the scope of this audit consisting of fifteen (15) requirements applicable to the DP function. Based on the information and documentation provided by Nueces, the audit team found Nueces to be compliant with three (3) applicable requirements. The audit team determined that twelve (12) requirements that were applicable to DP registration were not applicable to Nueces for other reasons.

Nueces met all of the applicable 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. 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:

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

¹ 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 Distribution Provider. The audit was performed by three members of Texas RE.

There were no ongoing or recently completed mitigation plans for Nueces Electric Cooperative, Inc. Therefore none were reviewed by the audit team.

Note: The monitoring period for compliance audits, based on Nueces's registration as a Distribution Provider, is generally six years, or periods cited by specific reliability standards.

For this audit the monitoring period was from December 6, 2007 (date of Nueces' registration as a DP) to August 17, 2010.

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to Nueces prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to Nueces. Nueces 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. Nueces 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 Nueces.

2.3 Methodology

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

The audit team reviewed the completed RSAWs, information, data, and evidence submitted by Nueces 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 Nueces 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 Nueces's management and supervisors. The audit team reviewed documentation provided by Nueces 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).

The Texas RE audit team interviewed operations, IT, communications, and planning personnel as necessary to clarify or stack the evidence provided by Nueces 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 Nueces Electric Cooperative, Inc. and therefore none were reviewed by the audit team.

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

2.4 Company Profile

Nueces Electric Cooperative, Inc. (NEC) is one of 67 member-owned and governed electric distribution cooperatives in Texas. NEC was chartered in 1938 by its founding member-owners. Today, NEC continues to be governed by a board of directors elected by our member-owners. These member-owners also comprise our consumer base.

Location and service area: NEC's distribution services are located in South Texas and serve consumers' electric distribution needs in portions of eight (8) counties located along and near the Texas Coastal Bend. These counties include: Nueces, Kleberg, Jim Wells, Kenedy, Duval, Live Oak, Brooks, and McMullen. The NEC headquarters is located in Robstown, Texas. NEC has two satellite service centers located in Ricardo, Texas and Ben Bolt (Alice), Texas.

Distribution, transmission, generation facilities owned and operated: NEC is a member-owner of South Texas Electric Cooperative (STEC) and San Miguel Electric Cooperative (SMEC). STEC & SMEC are two of nine electric generation and transmission cooperatives in Texas. STEC owns and operates the transmission services, including substations, which bring power to the NEC distribution system. NEC does not own or operate any transmission or generation facilities. As a distribution provider, NEC owns and operates 3,174 miles of overhead distribution line and 139 miles of underground distribution line. NEC also has been contracted by the U.S. Navy to maintain the electric distribution facilities for Naval Air Stations Corpus Christi and Kingsville and their associated local air fields.

Number of customers served (residential and commercial): NEC provides distribution services to 14,918 residential services, 2,512 commercial services, 11 industrial services, and 4,739 lighting services as of June 15, 2010.

Independent System Operator relationship: NEC regularly works with the Electric Reliability Council of Texas (ERCOT) on retail competition and other issues. The NEC CEO is a member of ERCOT's Technical Advisory Committee (TAC) and NEC has representatives on ERCOT's Retail Market Subcommittee (RMS) and Texas Standard Electronic Transaction Working Group (Texas SET). NEC was the lead muni/co-op in developing Section 8 of the Retail Market Guide regarding Cooperatives and Municipal utilities who opted into electric choice. NEC worked with its ERCOT account manager (prior to our registration with NERC) on efforts to open the NEC delivery area to retail competition and to redefine delivery service territory boundaries with a neighboring investor-owned utility.

Relationship with a Joint Registration Organization such as a G&T Cooperative or Joint Action Agency under which responsibility for compliance may be coordinated with another entity: NEC has agreements with STEC that include a Market Participant Agency Agreement, executed in 2003, that directs STEC to handle all ERCOT protocol related communications and activities including those

related to scheduling, planning, operating, reliability, and settlement policies, rules, guidelines, procedures, standards, and criteria of ERCOT. NEC also executed an agreement in 2010 (approved by TRE) with STEC called the *Load Serving Entity (LSE) Coordinated Functional Registration (CFR) Agreement for the ERCOT Region, Sub-CFR for STEC and Distribution Providers*.

2.5 Audit Specifics

Audit Date: August 17-18, 2010
Audit Location: Texas Reliability Entity Office, Austin, TX

Texas RE Audit Team:

Company/Title	Audit Team Role
Texas RE/Compliance Engr III	Audit Team Leader
Texas RE/ Compliance Engr III	Auditor
Texas RE/ Compliance Engr I	Auditor

Nueces's Audit Participants:

Company	Title
Nueces Elec Coop	Manager Communications and Regulatory Affairs
Nueces Elec Coop	Project Manager

3.0 AUDIT RESULTS

3.1 Audit Findings

The Compliance Audit Team found that Nueces was compliant with all applicable 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
FAC-002-0	R1.	Compliant
FAC-002-0	R2.	Compliant
PRC-004-1	R1.	Not Applicable
PRC-004-1	R2.	Not Applicable
PRC-004-1	R3.	Not Applicable
PRC-005-1	R1.	Not Applicable

Reliability Standard	Requirement	Finding
PRC-005-1	R2.	Not Applicable
PRC-008-0	R1.	Not Applicable
PRC-008-0	R2.	Not Applicable
PRC-010-0	R1.	Not Applicable
PRC-010-0	R2.	Not Applicable
PRC-011-0	R1.	Not Applicable
PRC-011-0	R2.	Not Applicable
PRC-017-0	R1.	Not Applicable
PRC-017-0	R2.	Not Applicable
TOP-001-1	R1.	Not Applicable
TOP-001-1	R2.	Not Applicable
TOP-001-1	R3.	Not Applicable
TOP-001-1	R4.	Compliant
TOP-001-1	R5.	Not Applicable
TOP-001-1	R6.	Not Applicable
TOP-001-1	R7.	Not Applicable
TOP-001-1	R8.	Not Applicable

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

Nueces was found compliant with the all the applicable 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

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

Nueces Electric Cooperative (NEC) maintains a documented Compliance Plan for which the CEO is directly responsible. The objective of the plan is to implement and maintain pro-active compliance to NERC Standards and ERCOT Region protocols and guidelines.

The NEC Manager of Communications and Regulatory Affairs is the designated independent executive (compliance manager) who coordinates the compliance plan.

The purpose of the plan is to keep NEC abreast of NERC Standards and ERCOT regional requirements and to develop procedures for complying with them. The plan provides for maintaining compliance within agreements with other entities, for internal compliance auditing, for tracking compliance to individual standards and requirements, for training, for adequacy of staffing, for use of subject matter experts, for internal awareness, and for corrective action in response to findings.

There is an annual review of the budget and expectations for the compliance plan. Once per year there is a self-audit of the compliance plan implementation and results by the compliance manager. [It was not clear to the audit team from the audit evidence whether this is followed by formal executive management review.]

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