

# **Compliance Audit Report Public Version**

**Optim Energy Twin Oaks, LP  
NERC ID # NCR04005**

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

Audit Date: June 8-11, 2010  
Audit Location: Optim Energy Twin Oaks, LP Office, Irving, TX  
Report Date: April 19, 2011  
Prepared By: Frank Vick, Audit Team Leader

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## 1.0 EXECUTIVE SUMMARY

The On-Site compliance audit of Optim Energy Twin Oaks, LP (Optim Twin Oaks) was conducted on June 8-11, 2010. The NERC Reliability Standards that are being actively monitored for 2010 were reviewed based on Optim Twin Oaks registration as a Generator Owner.

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 Reliability Entity (Texas RE). The audit team reviewed the evidence and documentation provided by Optim Twin Oaks and conducted interviews with Optim Twin Oaks personnel to assess compliance with standards applicable to Optim Twin Oaks at this time.

There was a total of eight (8) reliability standards included in the scope of this audit consisting of twenty six (26) requirements. Based on the information and documentation provided by Optim Twin Oaks, the audit team found Optim Twin Oaks to be compliant with thirteen (13) applicable requirements. The audit team determined that twelve (12) requirements were not applicable to Optim Twin Oaks.

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\\_20110228.pdf](http://www.nerc.com/filez/enforcement/FinalFiled_ACP_NOP_20110228.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](http://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.<sup>1</sup> The audit objectives are:

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

- Independently review Optim Twin Oaks compliance with the requirements of the reliability standards that are applicable to Optim Twin Oaks based on the Optim Twin Oaks 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 Optim Twin Oaks 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. 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 Optim Energy Twin Oaks, LP 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 Optim Twin Oaks registration as a Generator Owner, or periods specified in individual reliability standards.

At the time of the audit, Optim Twin Oaks was registered as a Generator Owner. The audit team evaluated Optim Twin Oaks for compliance during the specific period of June 18, 2007 to June 8, 2010.

### 2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to Optim Twin Oaks prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to Optim Twin Oaks. Optim Twin Oaks 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. Optim Twin Oaks did submit one objection by the stated fifteen day objection due date and the audit team member objected to, did not participate in the audit. There have been no denials of or access limitations placed upon this audit team by Optim Twin Oaks.

## 2.3 Methodology

Once an audit date was set by Texas RE, Optim Twin Oaks 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 Optim Twin Oaks 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 Optim Twin Oaks 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 Optim Twin Oaks management and supervisors. The audit team reviewed documentation provided by Optim Twin Oaks 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 Optim Twin Oaks 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 Optim Energy Twin Oaks, LP and therefore none were reviewed by the audit team

The audit team conducted an exit briefing immediately following the audit with Optim Twin Oaks. The audit team verbally shared its preliminary results with Optim Twin Oaks management.

## 2.4 Company Profile

Optim Energy, LLC (“Optim Energy”) acquired Optim Twin Oaks and related companies on June 1, 2007. Optim Twin Oaks owns a lignite-fueled plant that sells electricity, including Ancillary Services, to counterparties in the ERCOT wholesale market. Optim Energy, through its ownership of Optim Twin Oaks, continues to own 100% of this plant.

Additionally, Optim Energy, through various subsidiaries, owns and operates other owned and co-owned generation assets in ERCOT, and conducts wholesale marketing and trading services to optimize such assets.

## 2.5 Audit Specifics

Audit Date: June 8-11, 2010  
 Audit Location: Optim Twin Oaks Office, Irving, TX

Texas RE Audit Team:

<b>Company/Title</b>	<b>Audit Team Role</b>
Texas RE/Compliance Analyst III	Audit Team Leader
Texas RE/Sr. Regional Planning	Auditor

Company/Title	Audit Team Role
Assessment Engineer	
Texas RE/Compliance Engineer II	Auditor
Texas RE/Compliance Engineer I	Auditor

Optim Twin Oaks's Audit Participants:

Company	Title
Optim Energy	Compliance Manager
Optim Energy	Manager, Sys. Ops.
Optim Energy	Executive Director, R.T. Ops.
Optim Energy	Senior Vice President, Com. Ops.
Optim Energy	Director, Contracts
ICF International	Manager, Regulatory Compliance
Optim Energy	Senior R.T. Trader
Optim Energy	V.P., General Council & Chief Compliance Officer
Optim Energy	Senior R.T. Trader
Optim Energy	Senior Vice President, Ops.
Optim Energy	Director, Asset Management

### 3.0 AUDIT RESULTS

#### 3.1 Audit Findings

The Compliance Audit Team found that Optim Twin Oaks was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
PRC-005-1, R1.1

Optim Twin Oaks 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
FAC-002-0	R1.	Compliant
FAC-002-0	R2.	Compliant

Reliability Standard	Requirement	Finding
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-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
PRC-004-1	R1.	N/A
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	PV
PRC-005-1	R2.	Compliant
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
VAR-002-1.1a	R1.	N/A
VAR-002-1.1a	R2.	N/A
VAR-002-1.1a	R3.	N/A
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 Optim Twin Oaks was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
PRC-005-1, R1.1

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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.

Optim Twin Oaks 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**

Optim Twin Oaks's compliance culture survey was reviewed by the audit team.

Optim Twin Oaks was cooperative with the audit team's needs and information requests throughout the entire audit process. The organizational structure of Optim Twin Oaks, the extensive participation during the audit by Optim Twin Oaks 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 commitment by Optim Twin Oaks to promote a compliance culture within organization. The Compliance Manager's efforts for this audit were extremely helpful and were well supported by the other Optim Twin Oaks managers and SME's who prepared and participated during the audit process.

Additional detailed information pertaining to the compliance culture of Optim Twin Oaks can be found in the Internal Compliance Survey.