

Compliance Audit Report Public Version

South Texas Electric Cooperative, Inc.

NERC ID # NCR04124

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Critical Energy Infrastructure Information)
Has Been Removed**

Audit Date: October 5-7, 2010
Audit Location: South Texas Electric Cooperative, Inc. Office, Nursery, TX
Report Date: May 9, 2011
Prepared By: Jagan Mandavilli, Audit Team Leader

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1.0 EXECUTIVE SUMMARY

An On-Site compliance audit of South Texas Electric Cooperative, Inc. (STEC) was conducted on October 5-7, 2010. The audit team assessed STEC's compliance with the NERC Reliability Standards that are actively monitored for 2010, based on STEC's registration as a Transmission Owner and Transmission Planner.

The audit assessment period was from the date of STEC's registration as a Transmission Owner and Transmission Planner through the date of the audit (See Scope, below). The audit team consisted of four representatives from Texas Reliability Entity (Texas RE). The team reviewed evidence and documentation provided by STEC and conducted interviews with STEC's personnel.

A total of sixteen (16) reliability standards were included in the scope of this audit, consisting of fifty (50) requirements. The audit team found STEC to be compliant with twenty eight (28) applicable requirements and determined that twenty (20) requirements were not applicable to STEC.

Two possible violations¹ were identified during the audit. Detailed explanations of the audit results are in the Audit Results Findings section of this report. These explanations include information about applicability and compliance for each of the NERC Reliability Standards relevant to the scope of this audit. Additional information is included about the two possible violations. All of this information will be used in the determination of severity levels for any sanctions or penalties. The possible violations will be processed in accordance with Texas RE's application of the NERC Compliance Monitoring and Enforcement Program. Further actions related to possible alleged violations, if any, will follow the same process.

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.² The audit objectives were to:

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

¹ See Appendix 1 for explanation of possible alleged violations dismissal.

² North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- 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 STEC's compliance culture.

2.2 Scope

This compliance audit applied to all requirements for a Transmission Owner and/or Transmission Planner in the 2010 list of actively monitored NERC Reliability Standards, plus other TO/TP applicable NERC Standards and requirements identified by the audit team at the time of the audit (if any). The audit was performed by four members of Texas RE.

No open or recently closed mitigation plans for the STEC TO/TP functions were included in the scope of this audit, so none were reviewed by the audit team. Either no such mitigation plans existed, or those that did exist for South Texas Electric Cooperative, Inc. were previously validated by Texas RE's compliance staff.

The audit team evaluated STEC for compliance during the specific period from June 28, 2007 (STEC's registration data as a Transmission Owner and Transmission Planner) through October 5, 2010 (date of the audit).

The monitoring period for a Transmission Owner and Transmission Planner audit is six years, or the time since registration as a Transmission Owner and/or Transmission Planner, or periods specified by individual reliability standards.

2.2.1 Confidentiality and Conflict of Interest

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

2.3 Methodology

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

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

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 STEC 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 South Texas Electric Cooperative, Inc. and therefore none were reviewed by the audit team.

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

2.4 Company Profile

South Texas Electric Cooperative (STEC) was formed in 1944 to provide wholesale electric power to member cooperatives. Presently STEC serves eight distribution cooperative members providing electric service to over 170,000 retail members in 42 south Texas counties.

STEC owns and operates over 2,000 miles of energized transmission line predominantly 138Kv and 69Kv. STEC owns less than 100 miles of 345Kv transmission. The lines are located in an area that stretches from near Freeport Texas, South to near Brownsville, then North and West to near Del Rio Texas. These transmission facilities interconnect with facilities operated by other Local Control Centers registered in the ERCOT TOP JRO. STEC generates electric power utilizing primarily lignite and natural gas. The Cooperative holds interest in a variety of generation resources including natural gas, hydro-electric, lignite, and renewable.

The Cooperative became a Registered Entity with the North American Electric Reliability Corporation on June 28, 2007 as a Generator Owner, Generator Operator, Transmission Owner and Transmission Planner. STEC has since been directed to add the LSE and TOP registered entities:

- NCR04124 – TO, TP (6/28/2007) & TOP (5/4/2010)
- NCR04125 – GOP (6/28/2007) & LSE (2/10/2010)
- NCR04126 – GO (6/28/2007)

2.5 Audit Specifics

Audit Date: October 5-7, 2010
Audit Location: 2849 FM 447, Nursery, TX

Texas RE Audit Team:

Company/Title	Audit Team Role
Texas RE/Compliance Engineer, Sr.	Audit Team Leader
Texas RE/Compliance Engineer, II	Auditor
Texas RE/ Compliance Engineer, III	Auditor
Texas RE/ Compliance Engineer, III	Auditor

STEC's Audit Participants:

Company	Title
STEC	Relay Foreman
STEC	Construction Supervisor
STEC	Line Superintendent
STEC	Compliance Coordinator
STEC	Asst. General Manager
STEC	Manager of Engineering
STEC	Chief System Operator
STEC	Senior Transmission Planning Engineer
STEC	General Manager
STEC	Transmission Planning Engineer
STEC	Substation Design
STEC	Substation Engineer
STEC	Substation Technician
STEC	Substation Technician
STEC	SCADA/COMM Lead

3.0 AUDIT RESULTS

3.1 Audit Findings

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

Reliability Standard & Requirement
FAC-001 R1 ¹
FAC-001 R2 ¹

STEC 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-001-0	R1.	Possible Violation
FAC-001-0	R2.	Possible Violation
FAC-001-0	R3.	Compliant
FAC-002-0	R1.	Compliant
FAC-002-0	R2.	Compliant
FAC-003-1	R1.	Compliant
FAC-003-1	R2.	Compliant
FAC-003-1	R3.	Compliant
FAC-003-1	R4.	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
FAC-014-2	R4.	Compliant
FAC-014-2	R5.	Compliant
IRO-004-1	R4.	Compliant
PRC-004-1	R1.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Compliant
PRC-010-0	R1.	NA
PRC-010-0	R2.	NA
PRC-011-0	R1.	NA
PRC-011-0	R2.	NA
PRC-017-0	R1.	NA
PRC-017-0	R2.	NA
TPL-001-0.1	R1.	Compliant
TPL-001-0.1	R2.	Compliant
TPL-001-0.1	R3.	Compliant
TPL-002-0	R1.	Compliant
TPL-002-0	R2.	Compliant
TPL-002-0	R3.	Compliant
TPL-003-0	R1.	Compliant
TPL-003-0	R2.	Compliant
TPL-003-0	R3.	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 STEC was not compliant with the following standards and requirements:

Reliability Standard & Requirement
FAC-001-0 R1 ¹
FAC-001-0 R2 ¹

The possible violations and 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.

STEC 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

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

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

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

Appendix 1 Explanation of Possible Alleged Violations Dismissal

Texas RE has reviewed two possible violations resulting from an on-site compliance audit conducted October 5-7, 2010. The two possible violations were FAC-001-1, R1 and R2.

In addition, Texas RE reviewed supplemental evidence submitted by STEC on December 14, 2010.

Please be advised that after a review of the audit evidence and supplemental evidence, Texas RE concludes that STEC was compliant with FAC-001-1, R1 and R2 during the audited period, June 28, 2007 through October 7, 2010, based upon the following:

FAC-001-1, R1

The audit team's finding was that although STEC had compliant facility connection requirements for generation (R1.1), STEC did not have adequate facility connection requirements for transmission (R1.2) or end-user (R1.3) facilities. Based on Texas RE's review of the evidence submitted December 14, 2010, Texas RE concludes that STEC did have a compliant program for transmission facilities during the audited period. Regarding end-user facilities, it is STEC's contention that end-user facility connection requirements are not applicable to STEC because STEC is a generation and transmission electric cooperative providing wholesale service to member distribution cooperatives. STEC does not provide retail electric service to end-users. For the period audited, Texas RE agrees with this reasoning and finds end-user facilities connection requirements did not apply to STEC. Thus STEC is compliant with FAC-001-1, R1.

FAC-001-1, R2

The audit team's finding was that STEC's facility connection requirements were not compliant for certain subrequirements of R2. Based upon Texas RE's review of the supplemental evidence provided December 14, 2010, Texas RE finds that STEC's facility connection requirements met each subrequirement of R2 during the audited period. Thus STEC is compliant with FAC-001-1, R2.