



Compliance Audit Report Public Version

PECO Energy Company
NERC ID# NCR08026

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

Date of Audit: October 25-28, 2010

Date of Audit Report: November 30, 2010

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Executive Summary

A compliance audit of PECO Energy Company (PECO), NERC ID # - NCR08026 was conducted from October 25-28, 2010. At the time of the audit, PECO was registered for the Distribution Provider (DP), Load-Serving Entity (LSE), Purchasing-Selling Entity (PSE) and Transmission Owner (TO) functions.

The audit team evaluated PECO for compliance with thirty-six (36) requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team assessed compliance with the NERC Reliability Standards, and applicable Regional Reliability Standards, for the period of September 13, 2007 to October 28, 2010 or per data retention requirements specified in the reliability standards. PECO submitted information and documentation for the audit team's evaluation of compliance with the requirements. The audit team reviewed and evaluated all information provided by PECO to assess compliance with standards applicable to PECO at this time.

Based on the information and documentation provided by PECO, the audit team found PECO to be compliant with thirty-five (35) applicable requirements. The audit team determined that one (1) requirement was not applicable to PECO. The Audit Team did not identify any violations as a result of this review.

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, and applicable Regional Reliability Standards, within the scope of the compliance audit. Any Possible Violations will be processed through the NERC and ReliabilityFirst CMEP. There was one Mitigation Plan that was successfully completed on April 13, 2010 that was reviewed by the Audit Team.

The ReliabilityFirst audit team lead certifies that the audit team adhered to all applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP).^{**}

* This statement replaces the Regional Entity Self-Certification process.

Audit Process

The compliance audit process steps are detailed in the Reliability*First* CMEP. The Reliability*First* CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

Objectives

All Registered Entities are subject to an audit for compliance with all reliability standards applicable to the functions for which the Registered Entity is registered.[†] The audit objectives are to:

- Review compliance with the requirements of reliability standards that are applicable to PECO, based on the functions that PECO is registered to perform;
- Validate compliance with applicable reliability standards from the NERC 2010 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by Reliability*First*;
- Validate compliance with applicable regional standards from the Reliability*First* 2010 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document PECO's compliance program and culture;
- Review the status of mitigation plans.

Scope

The scope of the compliance audit included the NERC Reliability Standards from the Reliability*First* 2010 Implementation Plan. In addition, this audit included mitigation plans or remedial action directives which have been completed or pending in the year of the compliance audit.

At the time of the audit, PECO was registered for the functions Distribution Provider (DP), Load-Serving Entity (LSE), Purchasing-Selling Entity (PSE) and Transmission Owner (TO) functions. The audit team evaluated PECO for compliance during the period of September 13, 2007 to October 28, 2010.

Confidentiality and Conflict of Interest

Confidentiality and conflict of interest of the audit team are governed under the Reliability*First* Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. PECO was informed of Reliability*First*'s obligations and responsibilities under the agreement and

[†] North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

procedures. The work history for each audit team member was provided to PECO. PECO was given an opportunity to object to an audit team member's participation on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with an audit team member's impartial performance of duties. PECO had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection. There have been no denials of or access limitations placed upon this audit team by PECO.

Methodology

The audit team reviewed the information, data, and evidence submitted by PECO and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data was due forty (40) days before the scheduled date of the entity review. Additional information relevant to the audit could be submitted until the conclusion of the exit briefing. After that date, only data or information which was relevant to the content of the report or its finding can be submitted upon agreement by the audit team lead.

The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

The audit team evaluated all evidence of compliance for sufficiency and appropriateness, according to the Generally Accepted Government Auditing Standards.

The audit team reviewed documentation provided by PECO, conducted operator interviews and toured the control center. Data, information and evidence submitted in the form of policies, procedures, e-mails, 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 Electric System (BES).

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.

Company Profile

PECO, an energy delivery subsidiary of Exelon Corporation, is headquartered in Philadelphia. PECO is the largest electric and natural gas utility in Pennsylvania, serving approximately 1.6 million electric customers and 486,000 natural gas customers in southeastern Pennsylvania over a 2100 square mile service territory. Approximately 90% of PECO's customers are residential and the remaining 10% are commercial and industrial. PECO owns 1179 miles of transmission lines at 138 kV, 230 kV and 500 kV serving the city of Philadelphia and surrounding counties with a summer peak load of 8932 MW in 2006. PECO does not own or operate any generation assets.

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PJM Interconnection (PJM) is the Reliability Coordinator, Balancing Authority, Transmission Service Provider, Transmission Operator, Transmission Planner, Planning Authority and Interchange Authority for PECO. The PECO transmission system and all interconnections are inside the PJM territory.

Audit Participants

The following is a listing of all personnel from the Audit Team and PECO who were present during the meetings or interviews.

Audit Team Participants

Title	Entity
Senior Engineer Compliance	ReliabilityFirst
Senior Engineer Compliance	ReliabilityFirst
Compliance Consultant	Scott Porteous & Associates Inc.
Compliance Enforcement Specialist	ReliabilityFirst
Senior Cyber Auditor	ReliabilityFirst
Senior Engineer Compliance	ReliabilityFirst

PECO Audit Participants

Title	Entity
NERC Compliance Contact (Primary Contact)	PECO
Transmission Strategy & Compliance	Exelon
VP, Technical Services	PECO
VP, Transmission Operations and Planning	PECO
VP, Energy Acquisitions	PECO
Director, Technical Services	PECO
Director, Energy Acquisitions	PECO
Director, Projects and Contracts/Vegetation Management	PECO
Director, Transmission Strategy and Compliance	Exelon
Manager, Transmission Substation Engineering	PECO
Operations Coordinator	PECO
Senior Business Analyst	PECO
Director, Transmission Ops. & Planning	PECO
Manager, Transmission System Operations	PECO

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Shift Manager, Transmission System Operations	PECO
Reliability Dispatcher, Trans. System Operations	PECO
Principal Operations Support Specialist	PECO
Manager, PECO Security	PECO
Manager, Transmission Planning	PECO
Principal Contract Specialist	PECO
Manager, T&S Engineering	PECO
TSO Operations & Support	PECO
Sr. Engineer	PECO
Manager, Vegetation Management	PECO
Project Manager, Vegetation Management	PECO
Sr. Engineer	PECO
Engineer	PECO
Sr. Engineer	PECO
Pr. Engineer	PECO
Sr. Engineer	PECO
Lead Analyst	PECO
T&S Engineering Manager	PECO
T&S Work Mgmt. Manager	PECO
TS&C Principal Contract Specialist	Exelon
Transmission Strategy & Compliance	Exelon
SVP Exelon, Pres. & CEO PECO	Exelon

Audit Results

The audit team evaluated PECO for compliance with thirty-six (36) requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of September 13, 2007 to October 28, 2010 or per data retention requirements specified in the reliability standards. PECO submitted information and documentation for the audit team's evaluation of compliance with the requirements. The audit team reviewed and evaluated all information provided by PECO to assess compliance with standards applicable to PECO at this time.

Based on the information and documentation provided by PECO, the audit team found PECO to be compliant with thirty-five (35) applicable requirements. The audit team determined that one (1) requirement was not applicable to PECO. The Audit Team did not identify any violations as a result of this review.

Findings

The following table details the findings for compliance for the scope identified for this audit.

Reliability Std	Req.	Finding
CIP-001-1	R1	Compliant
CIP-001-1	R2	Compliant

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CIP-001-1	R3	Compliant
CIP-001-1	R4	Compliant
EOP-002-2.1	R9	Compliant
FAC-001-0	R1	Compliant
FAC-001-0	R2	Compliant
FAC-001-0	R3	Compliant
FAC-002-0	R1	Compliant
FAC-003-1	R1	Compliant
FAC-003-1	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	R8	Compliant
IRO-004-1	R4	Compliant
IRO-005-2	R13	Compliant
NUC-001-2	R2	Compliant
NUC-001-2	R3	Compliant
NUC-001-2	R4	Compliant
NUC-001-2	R6	Compliant
NUC-001-2	R7	Not Applicable
NUC-001-2	R8	Compliant
NUC-001-2	R9	Compliant
PRC-004-1	R1	Compliant
PRC-005-1	R1	Compliant
PRC-005-1	R2	Compliant
PRC-008-0	R1	Compliant
PRC-008-0	R2	Compliant
PRC-017-0	R1	Compliant
TOP-001-1	R4	Compliant
TOP-002-2a	R3	Compliant
TOP-002-2a	R18	Compliant
VAR-001-1	R5	Compliant

Compliance Culture

PECO Energy Company's compliance culture was reviewed by the audit team.

Exelon/PECO has an internal Compliance Program. Exelon has an Exelon NERC Compliance Officer (Vice President Technical Services) and a NERC Steering Committee comprised of

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executive/senior management representatives from each business unit (e.g., Legal, Ethics, and Compliance, Operations, Engineering and Information Technology personnel).

PECO has a NERC Compliance Forum that was established in June 2010 and is comprised of senior management from Technical Services, HR, Transmission Operations and Planning, Support Services, IT, Energy Acquisition, Regulatory Affairs, Operations and Corporate Security.

The Exelon NERC Reliability Standards Compliance Program (NRSCP) requires training for all Exelon personnel impacted by NERC standards. Exelon provides NERC General Awareness training to all operating personnel on an annual basis. All PECO employees receive NERC General Awareness Training on a two year cycle. Targeted training is scheduled annually for all employees with Cyber Security roles.

Exelon has a NERC Reliability Compliance Policy that addresses the expectation that all employees will meet the requirements specified in the Exelon Code of Business Conduct. The Exelon Code of Business Conduct covers expectations and disciplinary actions for all personnel involved in any compliance violation. This procedure also includes whistleblower protection provisions to encourage the highest level of ethical conduct.

The Corporate program is designed to assure continuous improvement to prevent reoccurrence of any actual or potential violations. PECO also employs a rigorous Corrective Action Program (CAP) to investigate, track and mitigate violations or “near misses”. Apparent Cause Evaluation (ACE) and Root Cause Investigation (RCI) are components of the CAP process and are designed to determine cause(s) and develop corrective actions to prevent or mitigate consequences of recurrence. On completion of all action items resulting from one of these formal evaluations, an effectiveness review is also completed to assure all action items were completed correctly, timely and to determine whether any additional items for improvement were identified for implementation.

The audit team found PECO to be cooperative and responsive to all requests for clarification and additional evidence through the entire course of the audit.

Additional information pertaining to the compliance culture of PECO can be found in the Compliance Pre-Audit Survey.