



# **Compliance Audit Report Public Version**

**CER Generation LLC  
(NCR10390)**

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

**Date of Audit: October 26-27, 2011**

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## **Executive Summary**

An on-site compliance audit of CER Generation LLC (CER) (NCR10390) was conducted from October 26-27, 2011. At the time of the audit, CER was registered for the Generator Owner (GO) and Generator Operator (GOP) functions.

The audit team evaluated CER for compliance with 26 requirements in the 2011 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 October 16, 2009 through October 27, 2011. CER submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CER to assess compliance with standards applicable to CER at this time.

Based on the information and documentation provided by CER, the audit team found CER to have no findings of non-compliance with 23 applicable requirements.

The audit team determined that three (3) requirements were not applicable to CER.

The audit team did not identify any Possible Violations.

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 SERC Reliability Corporation (SERC) CMEP. There were no ongoing or recently completed mitigation plans and therefore none were reviewed by the audit team.

The SERC 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) with the following exceptions. The SERC audit team did not adhere to the NERC Compliance Checklist or NERC Compliance Auditor Manual regarding Reliability Coordinator Questionnaires due to the fact that SERC Reliability Corporation only sends Reliability Coordinator Questionnaires when auditing entities registered as Balancing Authorities (BA) and Transmission Operators (TOP).

## **Audit Process**

The compliance audit process steps are detailed in the SERC CMEP. The SERC 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.<sup>1</sup> The audit objectives are to:

- Review compliance with the requirements of reliability standards that are applicable to CER, based on the functions that CER is registered to perform;
- Validate compliance with applicable reliability standards from the NERC 2011 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by SERC;
- Validate compliance with applicable regional standards from the SERC 2011 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document CER'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 SERC 2011 Implementation Plan. In addition, this audit included a review of 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, CER was registered for the Generator Owner (GO) and Generator Operator (GOP) functions. The audit team evaluated CER for compliance during the period of the lesser of: 1) date of registration to date of audit exit presentation; 2) date of last audit or spot check to date of audit exit presentation; or, 3) June 18, 2007 to date of audit exit presentation.

## **Confidentiality and Conflict of Interest**

Confidentiality and Conflict of Interest of the audit team are governed under the SERC Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. CER was informed of SERC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to CER. CER 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. CER had not submitted any objections by the stated 15 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 CER.

## **Methodology**

The audit team reviewed the information, data, and evidence submitted by CER and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data were sent to SERC 30 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.

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits  
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The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

The audit team reviewed documentation provided by CER. 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 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***

Hillabee Energy Center is owned and operated by Constellation Energy. Hillabee is an 823 MW merchant generating station located in Alexander City, Alabama southeast of Birmingham, Alabama. Hillabee resides in the SERC region and is connected to the Alabama Power Company’s transmission system. Power is generated by a natural gas-fired combined cycle “2 by 1” configuration. Hillabee began commercial operation in June of 2010.

### ***Audit Participants***

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

#### **Audit Team Participants**

<b>Role</b>	<b>Title</b>	<b>Entity</b>
Audit Team Lead	Senior Compliance Auditor	SERC
Team Member	Senior Compliance Auditor	SERC
Team Member	Senior Compliance Auditor	SERC
Team Member	Senior Compliance Auditor	SERC

#### **CER Audit Participants**

<b>Title</b>	<b>Entity</b>
Manager – Regulatory Affairs	Constellation Energy
Manager – NERC Compliance	Constellation Energy
Plant General Manager	CER Generation LLC
Plant Operations and Maintenance Manager	CER Generation LLC

## Audit Results

The audit team evaluated CER for compliance with 26 requirements in the 2011 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of October 16, 2009 through October 27, 2011. CER submitted information and documentation for the audit team’s evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CER to assess compliance with standards applicable to CER at this time.

Based on the information and documentation provided by CER, the audit team found CER to have no findings of non-compliance with 23 applicable requirements.

The audit team determined that three (3) requirements were not applicable to CER.

The audit team identified no Possible Violations.

## Findings

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

Reliability Std.	Req.	Finding
CIP-001-1	R1.	No Finding
CIP-001-1	R2.	No Finding
CIP-001-1	R3.	No Finding
CIP-001-1	R4.	No Finding
CIP-002 through CIP-009		Reviewed by a separate Monitoring Process
COM-002-2	R1.	No Finding
FAC-008-1	R1.	No Finding
FAC-008-1	R2.	No Finding
FAC-009-1	R1.	No Finding
FAC-009-1	R2.	No Finding
IRO-004-1	R4.	No Finding
IRO-005-2	R13.	No Finding
PRC-001-1	R1.	No Finding
PRC-001-1	R2.	No Finding
PRC-001-1	R3.	No Finding
PRC-001-1	R5.	No Finding
PRC-004-1	R2.	No Finding
PRC-005-1	R1.	No Finding
PRC-005-1	R2.	No Finding
PRC-017-0	R1.	Not Applicable
PRC-017-0	R2.	Not Applicable
PRC-023-1	R1.	Not Applicable
TOP-002-2a	R3.	No Finding
TOP-002-2a	R18.	No Finding
VAR-002-1.1b	R1.	No Finding
VAR-002-1.1b	R2.	No Finding
VAR-002-1.1b	R3.	No Finding

## Compliance Culture

The audit team assessed CER's Internal Compliance Program in conjunction with the audit. Evidence reviewed in assessing the program included: CER's Compliance Pre-Audit Survey, CER Compliance document "Standard For NERC Compliance STD-NRS-201", compliance staff organizational charts, interviews with CER staff, and observation of staff responses in preparation for and during the audit.

Four factors that characterize a vigorous and effective compliance program are: active engagement and leadership by a company's senior management; preventive measures appropriate to the individual circumstances of the company; promptly detecting, stopping, and reporting a violation; and, ultimately fixing the problem and working to avoid future possible violations.

SERC recognizes that there isn't one standard formula for an effective compliance program, and that there will be variations in each company's program and culture based on countless factors, including the size and age of the company, as well as the nature and extent of its business. Ultimately what matters are the results and whether the compliance program worked as it should.

The audit team determined that CER's Internal Compliance Program documents and their staff's demonstrated compliance culture indicate an effective compliance program.

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

## Areas of Concerns

*FERC Guidance Order on compliance Audits Conducted by the Electric Reliability Organization and Regional Entities*, dated January 15, 2009,<sup>2</sup> states that "if an audit team learns about a situation that does not appear to involve a current or ongoing violation of a Reliability Standard requirement, but instead represents an area of concern that could become a violation, we expect the team to notify the registered entity of the situation, discuss it with the entity, and document such discussions in the compliance audit report. We remind audit teams that they are expected to fully test compliance with any non-actively monitored standard if the teams find evidence during the audit of non-compliance with such a standard."

The audit team notified CER Generation LLC that no Areas of Concern were identified.

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<sup>2</sup> <http://www.nerc.com/files/GuidanceOrderOnComplianceAudits-01152009.pdf>  
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