



# **Compliance Audit Report Public Version**

**Kentucky Municipal Power Agency  
(NCR11015)**

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

**Date of Audit: August 30-31, 2011**

## TABLE OF CONTENTS

Executive Summary .....	3
Audit Process .....	3
Objectives .....	3
Scope.....	4
Confidentiality and Conflict of Interest.....	4
Methodology .....	4
Company Profile .....	5
Audit Participants.....	5
Findings .....	6
Compliance Culture.....	7

## **Executive Summary**

An on-site compliance audit of Kentucky Municipal Power Agency (KMPA) (NCR11015) was conducted from August 30-31, 2011. At the time of the audit, KMPA was registered for the Load-Serving Entity (LSE) and Coordinated Functional Registration (CFR) functions.

The audit team evaluated KMPA for compliance with 10 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 December 21, 2009 through the audit exit presentation. KMPA submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by KMPA to assess compliance with standards applicable to KMPA at this time.

Based on the information and documentation provided by KMPA, the audit team found KMPA to have no findings of non-compliance with 10 applicable requirements. The audit team determined that all requirements were applicable to KMPA. The audit team identified no Possible Violations.

The 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 Operations & Planning 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:

---

<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits  
Kentucky Municipal Power Agency Compliance Audit Report

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

- Review compliance with the requirements of reliability standards that are applicable to KMPA, based on the functions that KMPA 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 KMPA'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, KMPA was registered for the LSE and CFR functions. The audit team evaluated KMPA 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. KMPA was informed of SERC's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to KMPA. KMPA 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. KMPA 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 KMPA.

### **Methodology**

The audit team reviewed the information, data, and evidence submitted by KMPA 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.

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 KMPA. 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***

KMPA, headquartered in Paducah, Kentucky, was created in 2005 by a group of forward thinking municipally-owned electric systems in Kentucky to deliver affordable and reliable electric power to customers while keeping in mind a responsibility to the environment.

KMPA is a “Joint Public Agency”. This means that KMPA is a not-for-profit organization owned and governed by its members, who are all representatives of Public Power. These members work together to maximize the benefit to the communities which they serve, communities which own the electric utility.

KMPA helps its members in the coordination of planning, construction, and operation of new energy facilities, and joint purchases, sales, and exchanges of electric power.

### ***Audit Participants***

The following is a listing of all personnel from the Audit Team and KMPA 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	Compliance Auditor	SERC

#### **KMPA Audit Participants**

<b>Title</b>	<b>Entity</b>
Director of Reliability	American Municipal Power Inc.
Director of Marketing	American Municipal Power Inc.
Director of Engineering & Operations	Paducah Power System

## Audit Results

The audit team evaluated KMPA for compliance with 10 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 December 21, 2009 through audit exit presentation. KMPA submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by KMPA to assess compliance with standards applicable to KMPA at this time.

Based on the information and documentation provided by KMPA, the audit team found KMPA to have no findings of non-compliance with 10 applicable requirements. The audit team determined that all requirements were applicable to KMPA. The audit team identified no Possible Violations.

## Findings

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

<b>Reliability Std.</b>	<b>Req.</b>	<b>Finding</b>
CIP-001-1	R1.	No Findings
CIP-001-1	R2.	No Findings
CIP-001-1	R3.	No Findings
CIP-001-1	R4.	No Findings
CIP-002 through CIP-009		Reviewed by a separate Monitoring Process
IRO-004-1	R4.	No Findings
IRO-005-2	R13.	No Findings
MOD-004-1	R3.	No Findings
MOD-004-1	R10.	No Findings
TOP-002-2a	R3.	No Findings
TOP-002-2a	R18.	No Findings

## **Compliance Culture**

The audit team assessed KMPA's Internal Compliance Program in conjunction with the audit. Evidence reviewed in assessing the program included: KMPA's Compliance Pre-Audit Survey, compliance staff organizational charts, interviews with KMPA 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 KMPA's Internal Compliance Program documents and their staff's demonstrated compliance culture indicate a relatively effective compliance program.

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