

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



Compliance Audit Report Public Version

Calpine Energy Services
NERC ID# NCR00007

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

Date of Audit: July 19 - 20, 2011

TABLE OF CONTENTS

Executive Summary	1
Audit Process	1
<i>Objectives</i>	2
<i>Scope</i>	2
<i>Confidentiality and Conflict of Interest</i>	2
<i>Methodology</i>	3
<i>Company Profile</i>	3
<i>Audit Participants</i>	4
Audit Results.....	4
<i>Findings</i>	5
<i>Compliance Culture</i>	5

Executive Summary

A compliance audit of Calpine Energy Services (CES), NERC ID # - NCR00007 was conducted from July 19 - 20, 2011. At the time of the audit, CES was registered for the Generator Operator (GOP) and Purchasing Selling Entity (PSE) functions.

The Audit Team evaluated CES for compliance with sixteen (16) 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 June 18, 2007 to July 20, 2011. CES submitted information and documentation for the Audit Team's evaluation of compliance with requirements. The Audit Team reviewed and evaluated all information provided by CES to assess compliance with standards applicable to CES at this time.

Based on the information and documentation provided by CES, the Audit Team found CES to have no findings of non-compliance with sixteen (16) applicable requirements. The Audit Team determined that zero (0) requirements were not applicable to CES. The Audit Team identified zero (0) Possible Violation(s).

There were no ongoing or recently completed mitigation plans and therefore none were reviewed by the Audit Team.

Any Possible Violations were processed through the NERC and Southwest Power Pool Regional Entity (SPP RE) CMEP. The following is a link to the general NOP page located on the NERC public website: <http://www.nerc.com/filez/enforcement/index.html>.

The SPP RE 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).*

Audit Process

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

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

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 CES, based on the functions that CES 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 SPP RE;
- Validate compliance with applicable regional standards from the SPP RE 2011 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document CES's compliance program and culture; and
- Review the status of mitigation plans.

Scope

The scope of the compliance audit included the NERC Reliability Standards from the SPP RE 2011 Implementation Plan. In addition, this audit would have included a review of mitigation plans or remedial action directives which have been completed or pending in the year of the compliance audit; in this case none were completed in the past year or currently open.

At the time of the audit, CES was registered for the functions of Generator Operator (GOP) since August 23, 2007 and Purchasing Selling Entity (PSE) since May 31, 2007. The Audit Team evaluated CES for compliance during the period of June 18, 2007 to July 20, 2011 for the PSE function and August 23, 2007 through July 20, 2011 for the GOP function. CES is registered in multiple regions; this audit only reviewed assets in the SPP RE region.

Confidentiality and Conflict of Interest

Confidentiality and conflict of interest of the Audit Team are governed under the SPP RE Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. CES was informed of SPP RE's obligations and responsibilities under the agreement and procedures. The work history for each Audit Team member was provided to CES. CES 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. CES had not submitted any objections by the stated fifteen day objection due date and accepted the Audit Team member participants without

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

objection. There have been no denials of or access limitations placed upon this Audit Team by CES.

Methodology

The Audit Team reviewed the information, data, and evidence submitted by CES and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data were sent to SPP RE 30 days before the scheduled date of the entity review. The audit team reviewed the evidence two weeks prior to the audit interview and developed interview questions and developed additional evidence requests. 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 reviewed documentation provided by CES. Data, information and evidence submitted in the form of policies, procedures, e-mails, logs, studies, data sheets, etc. were validated, substantiated and cross-checked for accuracy as appropriate. Documentation of programs was reviewed to ensure the programs covered the audit period. 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) and followed the NERC Sampling Methodology.

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

Oneta Energy Center is a 4x2 combined cycle Facility with a nameplate Rating of 1250 MW that uses natural gas as its primary fuel. The Facility is located in Broken Arrow, Oklahoma and interconnects with American Electric Power (AEP) Service Corp. (as Agent for Public Svc. Co. of Oklahoma & SW Electric Power Co.) at 345 kV. Calpine Energy Services is the registered Generator Operator (GOP) & Purchasing-Selling Entity (PSE) while Calpine Corporation is the registered Generator Owner (GO).

Founded in 1984, Calpine Corporation (NYSE:CPN) owns 92 power plants that are capable of delivering approximately 28,000 megawatts of clean, reliable electricity to customers and communities in 20 U.S. states and Canada. AEP, NCR01056, is the TOP and BA for Oneta, and Southwest Power Pool, Inc. (SPP), NCR01143, is the RC for the Facility. Oneta is the only Calpine Facility in the SPP RE region.

Audit Participants

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

Audit Team Participants

Role	Title	Entity
Audit Team Lead	Senior Compliance Engineer	SPP RE
Team Member	Lead Compliance Specialist	SPP RE
Team Member	Senior Compliance Engineer	SPP RE
Team Member	SPP RE Consultant	Scott Porteous & Associates Inc.

CALP Audit Participants

Title	Entity
SVP Internal & Chief Compliance Officer	CES
East Regional VP of Operations	CES
Manager of East Real Time Operations	CES
Compliance Director	CES
Compliance Director	CES
Compliance Director	CES
Compliance Manager	CES
Senior Compliance Analyst	CES

Audit Results

The Audit Team evaluated CES for compliance with sixteen (16) requirements in the 2011 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of June 18, 2007 to July 20, 2011. CES submitted information and documentation for the Audit Team's evaluation of compliance with requirements. The Audit Team reviewed and evaluated all information provided by CES to assess compliance with standards applicable to CES at this time.

Based on the information and documentation provided by CES, the Audit Team found CES to have no findings of non-compliance with sixteen (16) applicable requirements. The Audit Team determined that zero (0) requirements were not applicable to CES. The Audit Team identified zero (0) Possible Violation(s).

Findings

Reliability Standard	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
COM-002-2	R1	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
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

CES's compliance culture was reviewed by the audit team.

CES's parent company, Calpine, has a strong and well developed compliance program. The Program includes Corporate Procedures and Policies to ensure compliance with all applicable NERC Reliability Standards. In addition, plant specific procedures address specific plant needs and operations and are supplemental to the Corporate Procedures and Policies.

Corporate regulatory compliance policies are signed by the CEO while operations-specific policies and procedures are approved by the Chief Compliance Officer. The core NERC Compliance Team consists of 3 Director-level personnel, and a Process Improvement Manager who is dedicated to improving compliance processes and procedures. Subject Matter Experts (SMEs) are also convened from various functional groups including: Operations, Commercial, Legal, Engineering, IS/IT and others as needed.

The NERC Compliance Team provides the generating facilities and the generation desk with NERC compliance procedures that include both site-specific and region-specific information. Generating Facility and Generation Desk Managers are responsible for implementing the NERC procedures and ensuring their staff members are adequately trained on their respective roles.

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

The Compliance Department conducts routine self-audits that require internal attestations and self-certifications by personnel responsible for implementing NERC Reliability Standards.

The Compliance Department reports potential non-compliance to the Legal Department, which then appropriately escalates the concern to the Chief Compliance Officer and the Chief Legal Officer. Self-reports to regulatory authorities are submitted when appropriate based upon executive review and analysis.

The program is designed to be autonomous of Calpine's Commercial and Operations functions by having the NERC Compliance Team report directly to the Chief Compliance Officer and SVP of Internal Audit. The Chief Compliance Officer reports directly to the Chief Legal Officer and the Audit Committee of the Board of Directors. The Chief Legal Officer reports directly to the CEO. Furthermore, Calpine has a documented Open Door Policy that welcomes the reporting to supervisors and any executive questions or concerns relating to ethics or compliance. In addition, the Chief Compliance Officer has independent access to the CEO and Board of Directors.

Although not mandatory, CES ensures that the East Desk is staffed by a NERC RC Certified operator at all times. Compliance personnel actively participate in Regional Entity workshops, seminars, committees, boards, and task forces. Lessons learned and guidance from the Compliance Department are shared via multiple avenues, but most notably through routine conference calls with representatives from the generating facilities and other company groups. Lastly, policies and procedures related to NERC are published on the Intranet for employee viewing.

Formal self-audits of compliance with NERC and Regional Reliability Standards are performed during frequent self-certifications by the various Regional Entities. Since Calpine is registered in all eight regions and the regions actively monitor different NERC Reliability Standards during their self-certification periods, Calpine reviews its program on a very regular basis.

Post Audit Activities

This report was reviewed and approved by:
Ronald W. Ciesiel
Executive Director of Compliance, SPP RE
November 30, 2011