



Compliance Audit Report Public Version^{*}

Central Valley Electric Cooperative, Inc.
NERC ID# NCR06043

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

Date of Audit: June 6, 2011

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Executive Summary

A compliance audit of Central Valley Electric Cooperative, Inc. (CVEC), NERC ID # - NCR06043 was conducted on June 6, 2011. At the time of the audit, CVEC was registered for the Distribution Provider (DP) and Load-Serving Entity (LSE) functions.

The audit team evaluated CVEC for compliance with 19 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 August 24, 2007 to June 6, 2011. CVEC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CVEC to assess compliance with standards applicable to CVEC at this time.

Based on the information and documentation provided by CVEC, the audit team found CVEC to have no findings of non-compliance with 9 applicable requirements. The audit team determined that 10 requirements were not applicable to CVEC. The audit team identified no 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 Southwest Power Pool Regional Entity (SPP RE) CMEP.

As a result of the findings, no 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.

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 CVEC, based on the functions that CVEC is registered to perform;

[†] This statement replaces the Regional Entity Self-Certification process.

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

- 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 CVEC'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, SPPRE audits include a review of mitigation plans or remedial action directives which have been completed or pending in the year of the compliance audit. CVEC had not completed any mitigation plans in the year prior to the compliance audit; consequently no mitigation plans were reviewed by the team.

At the time of the audit, CVEC was registered for the functions of Distribution Provider (DP) and Load-Serving Entity (LSE) functions. The audit team evaluated CVEC for compliance during the period of August 24, 2007 (CVEC's registration date) to June 6, 2011.

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. CVEC 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 CVEC. CVEC 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. CVEC 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 CVEC.

Methodology

The audit team reviewed the information, data, and evidence submitted by CVEC 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 before the audit and developed questions and 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 findings 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. These interviews were conducted using an internet conferencing tool.

The audit team reviewed documentation provided by CVEC. 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 it began before the registration date of August 24, 2007. Requirements which required 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

CVEC is a not-for-profit rural electric cooperative in the state of New Mexico that is governed by a seven member Board of Trustees. CVEC headquarters are located in Artesia, New Mexico.

CVEC's service area is located in southeastern New Mexico and serves primarily the rural areas of Eddy and Chaves counties and small portions of Lea and Otero counties. CVEC has a summer peak Load of 110.1 MW (2010) and winter peak load of 82.7 MW (2010).

CVEC is a full requirements customer of Southwestern Public Service Co. (Xcel Energy), NCR01145(SPS).

CVEC owns and maintains 14 miles of radial 115kV transmission line south of Artesia that connects to SPS. SPS owns and operates the breaker upstream from this connection point. CVEC also owns and maintains two additional 115kV radial lines; a 2.75-mile line serving CVEC's Irish Hills Substation and a 1.5-mile line serving CVEC's Dayton Substation. These three 115kv facilities are radial and are not Transmission Facilities of the Bulk Electric System.

Southwest Power Pool (SPP), NCR01143 is the Reliability Coordinator (RC), Planning Coordinator (PC), and Transmission Service Provider (TSP) for CVEC.

Xcel Energy (SPS), NCR01145 is the Balancing Authority (BA) and the interconnected Transmission Owner (TO) and Transmission Operator (TOP) for CVEC.

Audit Participants

The following is a listing of all personnel from the audit team and CVEC 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.

CVEC Audit Participants

Title	Entity
Executive Vice President /General Manager	CVEC
Assistant Manager	CVEC
Distribution Engineer	CVEC
Operations Engineer	CVEC
Line Superintendent	CVEC
IT Coordinator	CVEC

Audit Results

The audit team evaluated CVEC for compliance with 19 requirements in the 2011 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of August 24, 2007 to June 6, 2011. CVEC submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CVEC to assess compliance with standards applicable to CVEC at this time.

Based on the information and documentation provided by CVEC, the audit team found CVEC to have no findings of non-compliance with 9 applicable requirements. The audit team determined that 10 requirements were not applicable to CVEC. The audit team identified no Possible Violations.

Findings

Details of the findings for compliance for the scope identified for this audit are outlined below:

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
IRO-004-1	R4	No Finding
IRO-005-2	R13	No Finding
MOD-004-1	R3	No Finding
MOD-004-1	R10	Not Applicable
PRC-004-1	R1	Not Applicable
PRC-005-1	R1	Not Applicable
PRC-005-1	R2	Not Applicable
PRC-008-0	R1	Not Applicable
PRC-008-0	R2	Not Applicable
PRC-011-0	R1	Not Applicable
PRC-017-0	R1	Not Applicable
PRC-017-0	R2	Not Applicable
PRC-023-1	R1	Not Applicable
PRC-023-1	R2	Not Applicable
TOP-002-2a	R3	No Finding
TOP-002-2a	R18	No Finding

Compliance Culture

CVEC's compliance culture was reviewed by the audit team. CVEC had correctly self-certified in the previous years on all requirements that were reviewed during the audit that were also part of the self-certification process. This shows that they have been taking a proactive approach to both developing procedures and conducting a robust self-review.

CVEC's Compliance Organization is led by the Reliability Compliance Manager that reports to the General Manager and Executive Vice President, who reports to the CVEC Board of Trustees.

CVEC's Internal Compliance currently does not operate nor is managed in a manner that is completely independent from departments responsible for performance to the Reliability Standards because CVEC is a small organization with staff assuming multiple rolls within the organization. However, the Reliability Compliance Manager has independent access to the Board of Trustees.

CVEC Senior Management has been actively involved in planning and implementing necessary compliance efforts including determining company policies regarding compensation, promotion, and disciplinary action, taking into account the relevant employees' compliance to regulations and the reporting of any violations.

All CVEC personnel with specific responsibilities related to compliance with NERC and SPP Reliability Standards have access to the CVEC's Compliance Plan. CVEC's compliance plan states that it will perform a self-assessment and review of the CVEC NERC/SPP Compliance Plan at least once each year with respect to any revisions. CVEC has been proactive in developing procedures well before they were required by registration. In particular, CVEC has considered several possible problems and developed contingency plans in its *Emergency Operations Plan*. This shows that they are proactive in planning for contingencies and emergencies.

CVEC has indicated they have sufficient budget and training for its current staff. CVEC's compliance training efforts relies on the SPP Regional Entity's guidance and training resources available to develop and administer a compliance program to include appropriate and sufficient compliance adherence training for all relevant staff.

CVEC has hired an outside Compliance Consultant to audit its Compliance Program. CVEC requires personnel to become aware of a potential compliance violation either through internal audit or discovery, or through the SPP compliance monitoring process. The CVEC plan defines reporting procedures for any person that violates a NERC/SPP Reliability Standard, or is a violator of compliance procedures to the appropriate responsible manager for disciplinary action to ensure that violators or persistent violators of compliance procedures may receive appropriate disciplinary action.

Additional information pertaining to the compliance culture of CVEC can found in the Internal Compliance Survey

Post Audit Activities

This report was reviewed and approved by:

Ronald W. Ciesiel

Executive Director of Compliance, SPP RE

June 28, 2011