



Compliance Audit Report Public Version

Sharyland Utilities, L.P.
NERC ID# NCR04119

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

Date of Audit: February 16, 2011

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Executive Summary

A compliance audit of Sharyland Utilities, L.P. (SU), NERC ID # NCR04119 was conducted on February 16, 2011. At the time of the audit, SU was registered for the Distribution Provider (DP) and Load-Serving Entity (LSE) functions in the Southwest Power Pool Regional Entity (SPP RE) Region.

The audit team evaluated SU for compliance with eighteen (18) 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 February 15, 2011. SU submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by SU to assess compliance with standards applicable to SU at this time.

Based on the information and documentation provided by SU, the audit team found SU to have no findings of non-compliance with seven (7) applicable requirements. The audit team determined that eleven (11) requirements were not applicable to SU. The audit team identified no Possible Violations. 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 SPP RE CMEP.

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 SU, based on the functions that SU 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 SU'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 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, SU was registered for the functions of Distribution Provider (DP) and Load-Serving Entity (LSE). The audit team evaluated SU for compliance during the period of August 24, 2007 to February 15, 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. SU 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 SU. SU 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. SU 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 SU.

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

Methodology

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

SU is registered as a Distribution Provider and a Load-Serving Entity within the SPP RE area. SU is also registered in TRE for these and additional functions. This audit included only the portion of SU within the SPP RE area.

The SU system within the SPP RE area is located in west Texas. SU had a peak load of 157 MW in 2010 and varies between summer and winter depending on weather conditions. SU is a full requirements customer of Southwestern Public Service Company (SPS) for electric energy and is within the SPS Balancing Authority area. SU is connected to the transmission owned by SU FERC, L.L.C. (SU FERC) and operated by SPS at voltages ranging from 4.16 kV to 24.9 kV. The SU FERC transmission has two interconnections which are both to SPS. SPP is the Reliability Coordinator for SU.

On July 13, 2010 SU acquired control of the distribution assets of Cap Rock Energy Corporation. Also on July 13, 2010 SU FERC, a wholly owned subsidiary of SU, acquired control of the transmission assets owned by NewCorp Resources Electric Cooperative, Inc. SU FERC is registered separately as a Transmission Owner. The former Cap Rock Energy Corporation is now included in the SU registration and consists of the assets within the SPP RE area.

Audit Participants

The following is a listing of all personnel from the audit team and SU who were present during the meetings or interviews.

Audit Team Participants

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

SU Audit Participants

Title	Entity
Regulatory Analyst	SU
Manager, NERC Compliance	SU
Director, Regulatory Administration	SU
Systems Engineer	SU
Director of Power Systems and Engineering	SU
Operations Center Superintendent	SU
Technical Services Manager	SU
Vice President General Manager	SU

Audit Results

The audit team evaluated SU for compliance with eighteen (18) 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 February 15, 2011. SU submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by SU to assess compliance with standards applicable to SU at this time.

Based on the information and documentation provided by SU, the audit team found SU to have no findings of non-compliance with seven (7) applicable requirements. The audit team determined that eleven (11) requirements were not applicable to SU. The audit team identified no Possible Violation(s).

Findings

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

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
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	Not Applicable

Compliance Culture

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

In the Compliance Pre-Audit Survey, SU stated that it has an internal compliance program and provided its compliance policy. SU distributes its compliance policy to all employees, makes it available on its SharePoint site, and provides annual compliance training.

The NERC compliance program is the responsibility of the NERC Compliance Manager who reports to the Director, Resource & Regulatory Administration who in turn reports to the Vice President & General Manager. SU provided an organizational chart showing the staff relationships and demonstrating that the compliance program is independent from departments responsible for performance to the reliability standards.

The NERC Compliance Manager is a full time position whose primary responsibility is ensuring that SU operates in accordance with the reliability standards. The NERC Compliance Manager works with the managers of other areas to maintain compliance and directs annual compliance training which includes review of the compliance policy. SU provided training records to verify its training program.

The annual updates of the SU documentation and its policy along with annual training program records indicate SU's commitment to the reliability standards and its effort to detect problems that may occur. The audit team finds the SU compliance program appropriate for an organization performing Distribution Provider and Load-Serving Entity Functions.

Post Audit Activities

This report was reviewed and approved by:
Ronald W. Ciesiel
Executive Director of Compliance, SPP RE
April 7, 2011