

Compliance Spot Check Report Public Version

Luminant Energy Company LLC

NERC ID # NCR10133

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

Spot Check Date: May 10, 2011
Spot Check Location: Texas Reliability Entity Offices, Austin, TX
Report Date: November 14, 2011
Prepared By: Bill Lewis, Spot Check Team Leader

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1.0 EXECUTIVE SUMMARY

The Table Top Spot Check of Luminant Energy Company LLC (LUME) was conducted on May 10 - 11, 2011. The North American Electric Reliability Corporation (NERC) Reliability Standards that were included in the Spot Check were reviewed based on LUME's registration as a Generator Operator (GOP).

The Spot Check was based upon an event that impacted the Bulk Electric System. On October 2, 2010, Big Brown Units 1 and 2 tripped off-line as a result of a single phase-to-ground fault condition that occurred on the 345 kV Big Brown to Venus transmission line near the Big Brown SES power plant. During the event, Big Brown Units 1 and 2 tripped due to the interaction of internal equipment power supplies with the low voltage condition created by the transmission line fault. The event removed 1060 MW generation from the ERCOT system. System frequency dropped from 60.01 Hz to 59.886 Hz as a consequence of the loss of generation.

The Spot Check team reviewed the following NERC Reliability Standards: IRO-004-1 and TOP-002-2A for the period of time identified in the scope of the Spot Check. The Spot Check team consisted of four (4) representatives from Texas Reliability Entity, Inc. (Texas RE). The Spot Check team reviewed the evidence and documentation provided by LUME and corresponded with LUME's personnel to assess compliance with standards applicable to LUME at this time.

There were a total of two (2) reliability standards, IRO-004-1 and TOP-002-2A, included in the scope of this Spot Check consisting of two (2) requirements. Based on the information and documentation provided by LUME, the Spot Check team found LUME to have no findings of non-compliance with one (1) applicable requirement.

The Spot Check team identified one (1) Possible Violation¹ during the Spot Check. Based upon the information provided by LUME, the Spot Check team found LUME to be in possible non-compliance with IRO-004-1 R4. The non-compliance is based upon LUME's lack of communication of required information to be provided to ERCOT (RC) for system studies. The required information pertained to the risk associated with the interactive condition between a fault on the transmission line that could cause a subsequent trip of Big Brown unit 1.

These Spot Check results are further explained in the Spot Check Results Findings section of this report which includes detailed information of the Spot Check team's findings of applicability and compliance for the NERC Reliability Standards within the scope of the Spot Check. This Spot Check report includes information regarding the Possible Violation. This information will be used to help determine the severity level of sanctions and penalties. The Possible Violation will be processed through the Texas RE's Compliance Monitoring and Enforcement Program.

The Texas RE Spot Check team lead certifies that the Spot Check team adhered to all applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP).

2.0 SPOT CHECK PROCESS

¹ Texas RE Enforcement on 9/20/11 dismissed this possible violation and has determined a no finding of non-compliance for Luminant with IRO-004-1, R4. See Attachment A for details.

The compliance Spot Check process is detailed in the CMEP, available at www.nerc.com. The CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

2.1 Objectives

All registered entities are subject to Spot Check for compliance with all reliability standards applicable to the functions for which the registered entity is registered.² The Spot Check objectives are to independently review LUME's compliance with certain requirements of the reliability standards that are applicable to LUME based on the LUME's registered functions.

2.2 Scope

The scope of this compliance Spot Check is inclusive of the following NERC Reliability Standards: IRO-004-1 and TOP-002-2A and any others that were identified by the spot check team at the time of the spot check as applicable to a Generator Operator.

The Spot Check team evaluated LUME for compliance during the specific period of October 2, 2011 until May 11, 2011.

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to LUME prior to the Spot Check. Work history and conflict of interest forms submitted for each Spot Check team member were provided to LUME. LUME was given an opportunity to object to a Spot Check team member on the basis of a possible conflict of interest or the existence of other circumstances that could interfere with the Spot Check team member's impartial performance of duties. LUME had not submitted any objections by the stated five day objection due date and accepted the Spot Check team member participants with no objections. There have been no denials of or access limitations placed upon this Spot Check team by LUME.

2.3 Methodology

Once a Spot Check date was set by Texas RE, LUME was sent Reliability Standard Audit Work Sheets (RSAWs) for the applicable list of NERC Standards.

The Spot Check team reviewed the completed RSAWs, information, data, and evidence submitted by LUME and assessed compliance with requirements of the applicable reliability standards. Initial submittal of information and data were sent to Texas RE on or before the scheduled due date for the submittal. Additional information relevant to the Spot Check could be requested by Texas RE and submitted by LUME until the last day of the spot check.

During the Spot Check, Texas RE reviewed the responses to the RSAWs and auditor questions with LUME's personnel. The Spot Check team reviewed documentation provided by LUME that included 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.

² North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

Requirements which required a sampling to be conducted were developed based upon the significance of the sampling to the reliability of the Bulk Electrical System (BES). Findings were based on the Spot Check team’s knowledge of the BES, the NERC Reliability Standards and their professional judgment. All findings were developed based upon the consensus of the Spot Check team.

The Spot Check team conducted an exit briefing immediately following the Spot Check with LUME. The Spot Check team verbally shared its preliminary results with LUME’s management.

2.4 Company Profile

LUME is an electric power and natural gas marketer. LUME sells power at wholesale primarily in the Electric Reliability Council of Texas (ERCOT). LUME is also engaged in QSE activities in ERCOT. Additionally, LUME is authorized to sell power at wholesale in other parts of the United States pursuant to market-based rate authority granted by the Federal Energy Regulatory Commission (FERC). LUME operates as a natural gas marketer throughout the United States under a blanket marketing certificate from the Commission pursuant to Section 7 of the Natural Gas Act.

LUME is a Texas limited liability company and is a wholly owned subsidiary of Luminant Holding Company LLC, a Delaware limited liability company, which in turn is wholly owned by Texas Competitive Electric Holdings Company LLC, a Delaware limited liability company. Texas Competitive Electric Holdings Company LLC is wholly owned by Energy Future Competitive Holdings Company, a Texas corporation, which is wholly owned by Energy Future Holdings Corp (EFH) a Texas corporation.

2.5 Spot Check Specifics

Spot Check Date: May 10 - 11, 2011

Spot Check Location: Texas Reliability Entity, Inc. Office, Austin, TX

Texas RE Spot Check Team:

Company/Title	Spot Check Team Role
Texas RE/Compliance Analyst III	Spot Check Team Leader
Texas RE/Compliance Analyst III	Spot Check Team Member
Texas RE/Manager, Reliability Services	Spot Check Team Member
Texas RE/Senior Engineer	Spot Check Team Member

LUME’s Spot Check Participants:

Company	Title
LUME	VP Regulatory Law & Chief Compliance Officer
LUME	Director – Trade Floor Compliance Program
LUME	Lead Analyst Compliance
LUME	Lead Analyst Compliance
LUME	VP Asset Management
LUME	Director ERCOT Operations
LUME	Asset Management Training Coordinator
Luminant Power	Director Generation Compliance

Company	Title
Luminant Power	Generation Compliance Manager
Luminant	Sr. Project Manager –Regulatory Affairs

3.0 SPOT CHECK RESULTS

3.1 Spot Check Findings

The Spot Check team reviewed the following NERC Reliability Standards: IRO-004-1 and TOP-002-2a for the period of time identified in the scope of the Spot Check. LUME submitted information and documentation for the Spot Check team’s evaluation of compliance with requirements. The Spot Check team reviewed and evaluated all information provided by LUME to assess compliance with standards applicable to LUME at this time.

The Spot Check team found that LUME had a possible violation with the following standard and requirement:

Reliability Standard & Requirement
IRO-004-1; R4 ³

The Spot Check team found that LUME to have no findings of non-compliance with TOP-002-2a; R3 that was included in the scope of this Spot Check.

The following table is a summary of the auditor’s findings for those NERC standards reviewed during the Spot Check:

Reliability Standard	Req’t	Finding
IRO-004-1	R4.	Possible Violation
TOP-002-2a	R3.	No Finding of Non-compliance

3.2 Conclusion

The compliance Spot Check team found that LUME had a Possible Violation with the following standards and requirements:

Reliability Standard & Requirement
IRO-004-1; R4

³ Texas RE Enforcement on 9/20/11 dismissed this possible violation and has determined a no finding of non-compliance for Luminant with IRO-004-1, R4. See Attachment A for details.

This Possible Violation along with this spot check report will be provided to Texas RE's compliance staff for processing through the NERC CMEP. Any further actions related to possible alleged violations will be through that process.

LUME was found to have no findings of non-compliance with TOP-002-2a; R3 that was included in the scope of this Spot Check.

3.3 Compliance Culture

LUME's compliance culture survey was reviewed by the Spot Check team.

LUME was cooperative with the Spot Check team's needs and information requests throughout the entire Spot Check process. The organizational structure of LUME, the extensive participation during the Spot Check by LUME's personnel, the responses provided to the compliance culture survey, the detailed documentation of procedures and records, the demonstrated level of compliance and the direct observations made by the Spot Check team confirmed a strong commitment by LUME to promote a healthy compliance culture within the organization. The Director – Trade Floor Compliance Program's efforts for this Spot Check were extremely helpful and were well supported by the other LUME personnel's who prepared and participated during the Spot Check process.

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

ATTACHMENT A**Amended Notice of Dismissal**

November 7, 2011

Luminant Energy Company, LLC
Kevin Phillips
Director
500 North Akard, Ste 14-000
Dallas, Texas 75201

NERC Registry ID: NCR10133

Re: Dismissal of **TRE201100342**

Texas Reliability Entity, Inc. (Texas RE) provides this Amended Notice of Dismissal to amend and clarify the Notice of Dismissal Letter dated September 20, 2011 sent by Texas RE to Luminant Energy Company, LLC (Luminant) (Dismissal Letter), which dismissed the possible violation (TRE201100342) associated with NERC Reliability Standard IRO-004-1, R4.

IRO-004-1, R4 requires the following:

- R4.** Each Transmission Operator, Balancing Authority, Transmission Owner, Generator Owner, Generator Operator, and Load-Serving Entity in the Reliability Coordinator Area shall provide information required for system studies, such as critical facility status, Load, generation, operating reserve projections, and known Interchange Transactions. This information shall be available by 1200 Central Standard Time for the Eastern Interconnection and 1200 Pacific Standard Time for the Western Interconnection.

On May 11, 2011, Texas RE completed a spot check to review possible non-compliance with this Reliability Standard. The spot check team found that Luminant did not supply certain information required for system studies to the Reliability Coordinator (RC). The spot check team determined that the specific information not communicated to the RC included the risk for runback and trip due to an external transmission fault and low voltage to the baghouse programmable logic controller power supply at Big Brown Unit 1 for the time period between LUME's corrective action determination (repowering the baghouse PLC's) and the scheduled outage to implement the appropriate changes to prevent a future occurrence of a similar nature.

The spot check team determined that given the risk due to the two trips that had already occurred, this is the type of information required for studies to include steady state and dynamic modeling conducted by the RC. Without Luminant's notification of the interactive condition, the RC would be unlikely to consider or analyze this risk. Consequently, Texas RE initially determined Luminant should have notified the RC that this interactive condition would remain at Big Brown 1 for the period of time between Luminant's completion of root cause analysis and the implementation of those corrective actions and was possibly in violation with IRO-004-1, R4.

As indicated in the Spot-check Report and Dismissal Letter, Luminant had no knowledge of the root cause at the time of (the first) outage. Luminant did promptly provide the RC with some information

on its root cause analysis efforts, through its October 15, 2011 updated NERC Disturbance Report that disclosed the baghouse PLC low voltage issue. However, Luminant did not provide the RC with notice of continuing possibility of a runback and trip during the time period between Luminant's determination of the applicable corrective action and Luminant's scheduled outage to implement the corrective action. This Amended Dismissal letter is intended to provide additional clarifying information about a requirement on the part of Luminant to provide this potential risk information to the RC.

As part of the Enforcement Process, Texas RE reviewed the Regional rules (ERCOT Protocols and Operating Guides) and spot check evidence and concluded that Regional rules did not direct Luminant to provide the RC with notice of potential risk of a reoccurrence for system studies. The format and path for communicating such contingency risk information is not clearly identified in Regional rules. In addition to the lack of a specific Regional rule, the RC confirmed that it would only expect an entity to provide this type of information if the entity anticipated a significant probability that the interactive condition would repeat and reduce system reliability. Luminant's RFI response stated that it perceived no heightened risk of recurrence during the period before the corrective action could be implemented, Luminant stated that no similar trips related to this cause during approximately 15 years since equipment installation.

In the best interest of reliability, Luminant should have notified the RC of the risk for runback and trip thereby allowing the RC to determine whether modeling of interactive contingency risk for Big Brown 1 and nearby 345 kV lines was warranted, during the time period between Luminant's corrective action determination and the scheduled outage to implement the changes. Texas RE has conveyed this recommendation to Luminant for any future similar issues. Nonetheless, as explained above, Texas RE has determined that Luminant has no finding of non-compliance with IRO-004-1 R4. In accordance with NERC's Compliance Monitoring and Enforcement Program, Texas RE hereby releases all data retention directives as they apply to the previously mentioned violation(s).