

Compliance Audit Report Public Version

Sadow Power Company, LLC
NERC ID # NCR00502

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

Audit Date: August 9-11, 2011
Audit Location: Texas Reliability Entity Offices, Austin, TX
Report Date: October 20, 2011
Prepared By: Frank Vick, Audit Team Leader

TABLE OF CONTENTS

1.0	Executive Summary	3
2.0	Audit Process.....	3
2.1	Objectives	3
2.2	Scope.....	4
2.3	Methodology	4
2.4	Company Profile	5
2.5	Audit Specifics	5
3.0	Audit Results.....	6
3.1	Audit Findings	6
3.2	Other Findings	7
3.3	Conclusion	7
3.4.	Compliance Culture	7

1.0 EXECUTIVE SUMMARY

The Table Top compliance audit of Sandow Power Company, LLC (Sandow) was conducted on August 9-11, 2011. The NERC Reliability Standards that are being actively monitored for 2011 were reviewed based on Sandow's registration as a Generator Owner.

The audit team reviewed the NERC Reliability Standards for the period of time identified in the scope of the audit. The audit team consisted of two (2) representatives from Texas Reliability Entity (Texas RE). The audit team reviewed the evidence and documentation provided by Sandow and conducted interviews with Sandow's personnel to assess compliance with standards applicable to Sandow at this time.

There were a total of seven (7) NERC reliability standards included in the scope of this audit consisting of twenty-two (22) requirements. Based on the information and documentation provided by Sandow, the audit team found Sandow to have no findings of non-compliance with twelve (12) applicable requirements. The audit team determined that ten (10) requirements were not applicable to Sandow.

Sandow met all of the NERC Standard requirements that were within the scope of this audit. 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 within the scope of the compliance audit.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit and therefore none were reviewed by the audit team.

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

2.0 AUDIT PROCESS

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at www.nerc.com. The NERC 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 audit for compliance with all reliability standards applicable to the functions for which the registered entity is registered.¹ The audit objectives are:

- Independently review Sandow's compliance with the requirements of the NERC reliability standards that are applicable to Sandow based on the Sandow's registered functions included in the scope of this audit.
- Validate compliance with applicable NERC reliability standards from the NERC 2011 CMEP Implementation Plan list of actively monitored standards.

¹ North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standards, and review the status of associated mitigation plans.
- Document Sandow's compliance culture.

2.2 Scope

The scope of this NERC compliance audit is inclusive of all requirements of the NERC Reliability Standards that are being actively monitored in 2011 and any others that may be identified by the audit team at the time of the audit applicable to a Generator Owner. The audit was performed by two (2) members of Texas RE.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff for Sandow and therefore none were reviewed by the audit team.

Note: For the 2011 compliance program, the monitoring period for the compliance audit will generally be the last six years based the Sandow's registration as a Generator Owner, or periods specified in individual reliability standards. At the time of the audit, Sandow was registered as a Generator Owner. The audit team evaluated Sandow for compliance during the specific period of August 14, 2008 to August 9, 2011.

2.2.1 Confidentiality and Conflict of Interest

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

2.3 Methodology

Once an audit date was set by Texas RE, Sandow was sent the Reliability Standard Audit Work Sheets (RSAWs) for the list of actively monitored NERC Standards.

The audit team reviewed the completed RSAWs, information, data, and evidence submitted by Sandow 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 audit could be requested by Texas RE and submitted by Sandow until the last day of the review at the audit site.

The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

During the audit, Texas RE reviewed the responses to the RSAWs and auditor questions with Sandow's management and supervisors. The audit team reviewed documentation provided by Sandow 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. 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).

The Texas RE audit team interviewed Sandow's personnel as necessary to clarify or stack the evidence provided by Sandow and verify documentation.

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.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff for Sandow and therefore none were reviewed by the audit team.

The audit team conducted an exit briefing immediately following the audit with Sandow. The audit team verbally shared its preliminary results with Sandow's management.

2.4 Company Profile

Sandow, a Texas company, owns the lignite fired generating unit Sandow 5. The unit began service on July 3, 2009 and was released to ERCOT and made available for reliability dispatch on January 6, 2010. The Sandow 5 unit provides approximately 570 net megawatts (MW) of capacity to the ERCOT grid.

Sandow is a subsidiary of Luminant Holding Company LLC (LHC), a subsidiary of Energy Future Holdings Corp (EFH). EFH is a Dallas-based, privately held energy company with a portfolio of competitive and regulated energy subsidiaries. TXU Energy, Luminant and Oncor, EFH's primary businesses, serve the high-growth Texas electricity market, which is one of the world's largest and among the nation's most successful competitive markets.

Luminant Power refers to the subsidiaries of LHC, including Sandow Power Company LLC, engaged in electricity generation activities.

2.5 Audit Specifics

Audit Date: August 9-11, 2011
Audit Location: Texas Reliability Entity Office, Austin, TX

Texas RE Audit Team:

Company/Title	Audit Team Role
Texas RE/Compliance Team Lead	Audit Team Leader
Texas RE/Compliance Team Lead	Auditor

Sandow's Audit Participants:

Company	Title
(Sandow/Luminant Power)	Manager Regulatory and Market Support
(Sandow/Luminant Power)	Director Regulatory and Market Support
(Sandow/Luminant Power)	Lead Advocacy Support
(Sandow/Luminant Power)	Lead Regulatory and Market Support
(Sandow/Luminant Power)	Lead Regulatory and Market Support
(Sandow/Luminant Power)	Director Fossil Generation Planning
(Sandow/Luminant Power)	Director Sandow Generation
(Sandow/Luminant Power)	Production Manager Sandow
(Sandow/Luminant Power)	Vice President
(Luminant Energy)	Director Trade Floor Compliance

3.0 AUDIT RESULTS

3.1 Audit Findings

The audit team evaluated Sandow for compliance with all the requirements of the 2011 actively monitored NERC Standards identified in the NERC Compliance Monitoring and Enforcement Program (CMEP) appropriate to Sandow’s registration as a Generator Owner. Sandow submitted information and documentation for the audit team’s evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by Sandow to assess compliance with the NERC standards applicable to Sandow at this time.

The audit team found that Sandow to have no findings of non-compliance with all 2011 actively monitored NERC Standards reviewed at the time of the audit.

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

Reliability Standard	Requirement	Finding
FAC-008-1	R1.	No Finding of Non-compliance
FAC-008-1	R2.	No Finding of Non-compliance
FAC-008-1	R3.	No Finding of Non-compliance
FAC-009-1	R1.	No Finding of Non-compliance
FAC-009-1	R2.	No Finding of Non-compliance

Reliability Standard	Requirement	Finding
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	No Finding of Non-compliance
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
PRC-004-1	R1.	N/A
PRC-004-1	R2.	No Finding of Non-compliance
PRC-004-1	R3.	No Finding of Non-compliance
PRC-005-1	R1.	No Finding of Non-compliance
PRC-005-1	R2.	No Finding of Non-compliance
PRC-017-0	R1.	No Finding of Non-compliance
PRC-017-0	R2.	No Finding of Non-compliance
PRC-023-1	R1.	N/A
PRC-023-1	R2.	N/A
PRC-023-1	R3.	N/A

3.2 Other Findings

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff and therefore none were reviewed by the audit team.

3.3 Conclusion

Sandow was found to have no findings of non-compliance with the all the standards that were included in the scope of this audit.

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

3.4. Compliance Culture

Sandow was cooperative with the audit team's needs and information requests throughout the entire audit process. The organizational structure of Sandow, the extensive participation during the audit by Sandow'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 audit team confirmed a strong commitment by Sandow to promote a healthy compliance culture within organization. The Manager Regulatory and Market Support's efforts for this audit were extremely helpful and were well supported by the other Sandow managers and SME's who prepared and participated during the audit process.

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