



**MIDWEST RELIABILITY ORGANIZATION**

# OPERATIONS AND PLANNING COMPLIANCE AUDIT REPORT

## **Cottage Grove Operating Services**

9525 105<sup>th</sup> Street Court S

Cottage Grove, MN 55016

NERC Compliance Registry ID: NCR10160

### PUBLIC VERSION

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

*Report Date: February 28, 2011*





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## EXECUTIVE SUMMARY

The MRO conducted a compliance audit of Cottage Grove Operating Services, LLC (CGOS) NCR10022 - NERC ID Number January 19, 2011 for the audit period of June 18, 2007 through January 19, 2010. At the time of the audit, CGOS was registered for the Generator Operator (GOP) Function.

The Cottage Grove Operating Services, LLC was provided notice of the compliance audit on October 20, 2010.

The subject matter expert interviews for the compliance audit were conducted on January 18-19, 2011.

The audit team evaluated 16 requirements in the 2011 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team reviewed the NERC Reliability Standards for the period of June 18, 2007 through January 19, 2011. CGOS submitted information and documentation for the audit team's evaluation of applicable requirements. The audit team reviewed and evaluated all information provided by CGOS to assess compliance with standards applicable to CGOS at this time.

Based on the information and documentation provided by CGOS, the audit team had no findings with sixteen (16) applicable requirements.

These audit results are further explained in the Audit Results section of this report. Any possible violations will be processed through the NERC and the Midwest Reliability Organization CMEP.

MRO staff followed the applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP) in the conduct of the compliance audit.

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



## AUDIT PROCESS

The compliance audit process steps can be found in the MRO CMEP. The Conduct of the compliance audit generally conforms to the current version of the Compliance Monitoring and Enforcement Program (“CMEP”), the applicable United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices applicable to the conduct of the work.

The intent of the compliance audit is to review evidence that provides reasonable assurance of any findings related to compliance with the applicable Reliability Standards. The compliance audit is conducted in accordance with the Compliance Monitoring and Enforcement Program (CMEP) and applicable NERC Rules of Procedures approved by the Federal Energy Regulatory Commission (for United States entities). The compliance audit includes data requests, tests of compliance records or other related records, and other procedures considered necessary to provide reasonable assurance of any findings.

Audit procedures include tests of documentary evidence supporting compliance, tests of the assertions made regarding compliance, and direct confirmations of actions taken as part of compliance with the Reliability Standards.

If a finding is made of a possible violation, MRO enforcement staff will be provided the details and contact CGOS. After further evaluation, if the possible violation is validated by enforcement staff, CGOS will be provided a written notice of the alleged violation within a reasonable time that shall include the due process protections under the CMEP after the audit report is finalized.

CGOS is responsible for maintaining an adequate internal compliance program to protect the reliability of the Bulk Electric System (BES). The internal compliance program should be designed to ensure compliance with Reliability Standards and that the necessary corrective actions are taken to assure compliance with Reliability Standards on an on-going basis. CGOS is responsible for the design and implementation of programs and compliance controls to prevent and detect violations of Reliability Standards, and for informing MRO about all known or suspected applicable violations according to the CMEP and Rules of Procedure. CGOS is responsible for ensuring that a risk-based, technically sufficient assessment methodology is applied to protect its critical assets.



The Primary Compliance Officer was provided notice of the compliance audit and the initial request for information was provided to the Primary Compliance Contact on October 20, 2010.

The subject matter expert interviews for the compliance audit were conducted on January 18-19, 2011.

### *Objectives*

All Registered Entities are subject to an audit of all Reliability Standards applicable to the functions for which the Registered Entity is registered.<sup>1</sup> The primary audit objectives are to review the original data to determine the level of procedural compliance, review the procedures themselves, and develop a determination based upon on the sufficiency, accuracy of the data and level of compliance. Specific compliance audit objectives are to:

- Review compliance with the requirements of Reliability Standards, including Critical Infrastructure Protection Reliability Standards, that are applicable to CGOS, based on the functions that CGOS is registered to perform;
- Review compliance with applicable Reliability Standards from the NERC 2011 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by MRO;
- Review compliance with applicable Regional Standards from the MRO 2011 Implementation Plan list of actively monitored standards;
- Review evidence of past self-certifications for accuracy and completeness;
- Evaluate and document CGOS' internal compliance program and controls;
- Review the status of open mitigation plans or relevant remedies from settlements.

### *Audit Scope*

The scope of the compliance audit included the NERC Reliability Standards from the MRO 2011 Implementation Plan. In addition, this audit included any self- reports, self-

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits



certifications, outstanding mitigation plans, open remedies from settlements or remedial action directives which have been completed or pending in the year of the compliance audit.

At the time of the audit, CGOS was registered for the Generator Operator function. The audit period was June 18, 2007 through January 19, 2011.

### ***Confidentiality and Conflict of Interest***

Confidentiality and Conflict of Interest of MRO audit staff are governed under the MRO Delegation Agreement with NERC, Section 1500 of the NERC Rules of Procedure, and MRO employee handbook. CGOS was informed of MRO's obligations and responsibilities under the Delegation Agreement and Rules of Procedures and was provided with a list of MRO audit staff and corresponding work histories. There have been no denials of or access limitations placed upon this audit team by CGOS, and CGOS expressed no objections to MRO staff assignments on the compliance audit.

### ***Methodology***

The audit team reviewed the information, data, and evidence submitted by CGOS and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data was provided to MRO ~thirty days before the scheduled date of the entity review.

Based on an initial evaluation of initial information provided to the audit team, supplemental information was requested and clarifications were sought from subject matter experts during the audit.

CGOS provided the necessary information and access to subject matter experts without impediment.

The audit team reviewed documentation and evidence provided by CGOS in the form of policies, procedures, emails, logs, studies, data sheets, and other relevant information. Requirements which called for a sampling to be conducted were developed based upon the significance of the sampling to the reliability of the bulk electric system (BES). MRO audit staff obtains sufficient, appropriate evidence to provide a reasonable basis for any findings and conclusions.



The audit report is subject to a review by the Vice President-Compliance from MRO and all findings are subject to an independent review by MRO Mitigation and Enforcement staff. If there are findings, enforcement and mitigation staff from MRO will contact you.

### *Company Profile*

Cottage Grove Operating Services operates the facility owned by LSP-Cottage Grove, LP which is a cyclic 245 MW combined cycle cogeneration facility located in Cottage Grove, MN capable of providing clean and efficient electricity to approximately 245,000 homes. The facility began commercial operation in 1997 under a long term power purchase agreement with Xcel Energy and a long term steam supply agreement with a neighboring manufacturing facility, both agreements end in 2027. The facility is an Independent Power Producer owned by multiple investment firms and operated by NAES Inc. located in Issaquah, WA. The plant consists of one dual fuel (natural gas with low sulfur fuel oil backup) combustion turbine/generator with a maximum rating of 185 MW, one heat recovery steam generator to reclaim the combustion turbine exhaust to produce high pressure steam, and one steam turbine/generator with a maximum rating of 100 MW. Both generators produce 13.8 kV which is stepped up to 115 kV and delivered to the NSP Chemolite Substation via a single interconnection point uniformly known as "Chemolite-LS Power 115kV Line" located within the eastern interconnection.

### **AUDIT RESULTS**

The audit team evaluated the applicability of 16 requirements in the 2011 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team reviewed NERC Reliability Standards for the period of June 18, 2007 through January 19, 2011. CGOS provided information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated the information provided by CGOS to reasonably evaluate compliance with standards applicable to CGOS at this time.

Based on the information and documentation provided by CGOS, the audit team had no findings with sixteen (16) applicable requirements.



### *Findings*

The following table outlines the findings discovered by the MRO audit team related to compliance of the requirements defined in the scope of this audit, and provides supporting documentation for each.

<b>Reliability Standard and Requirement</b>	<b>Finding</b>
COM-002-2 R1	No
IRO-004-1 R4	No
IRO-005-2 R13	No
PRC-001-1 R1	No
PRC-001-1 R2	No
PRC-001-1 R3	No
PRC-001-1 R5	No
TOP-002-2a R3	No
TOP-002-2a R18	No
VAR-002-1.b R1	No
VAR-002-1.b R2	No
VAR-002-1.b R3	No



***Internal Compliance Program and Controls***

CGOS compliance program and applicable controls were reviewed during the audit based on a survey; however, a written review is not included as part of the report. For enforcement purposes, CGOS’ internal compliance program and other pertinent information are reviewed by the MRO Enforcement staff and will be factored into any enforcement proceedings resulting from a finding of a possible violation.

***Notable Observations and/or recommendations***

CGOS provided all versions of program documentation in the initial document submittal which provided for an efficient audit process.

***Registered Entity Staff and Observers***

The following is a list of Registered Entity staff and observers present during the audit meetings and/or interviews.

<b>Title</b>	<b>Entity</b>
Compliance Technician	NAES
Plant Manager	NAES
O&M Manager	NAES
Project Engineer	NAES
Project Manager	NAES
NERC Manager	PPMS
Operations Analyst	NAES



### *MRO Audit Staff*

Title	Entity
Compliance Audit Manager	MRO
Compliance Principal	MRO

*This report has been prepared and reviewed on behalf of MRO by:*

Audit Manager	Signature	Date
Russel Mountjoy		2/28/2011
Vice President of Compliance	Signature	Date
Wayne VanOsdol		2/28/2011