NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

November 13, 2009

Ms. Kimberly Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: NERC Notice of Penalty regarding AES Cayuga, LLC
FERC Docket No. NP010-_-000

Dear Ms. Bose:

The North American Electric Reliability Corporation (NERC) hereby provides this Notice of Penalty[1] regarding AES Cayuga, LLC (AES Cayuga),[2] NERC Registry ID NCR07001,[3] in accordance with the Federal Energy Regulatory Commission's (Commission or FERC) rules, regulations and orders, as well as NERC Rules of Procedure including Appendix 4C (NERC Compliance Monitoring and Enforcement Program (CMEP)).[4]

As a result of an off-site Compliance Audit conducted between March 17, 2008 and April 7 , 2008 (Audit), Northeast Power Coordinating Council, Inc. (NPCC) identified potential violations of CIP-001-1 Requirement (R) 1 and R2 for AES Cayuga's failure to have a written procedure for dealing with sabotage events that included: (1) the recognition of, and making operating personnel aware of, possible sabotage events; (2) communicating information on sabotage events to appropriate parties in the Interconnection; and (3) directions on how to handle a bomb threat called directly into the plant. This Notice of Penalty is being filed with the Commission because, based on information from NPCC, NPCC and AES Cayuga have entered into a Settlement Agreement to resolve all outstanding issues arising from a preliminary and non-public assessment resulting in NPCC's determination and findings of the enforceable alleged violations of CIP-001-1 R1 and R2. Pursuant to the Settlement Agreement, AES Cayuga neither admits nor denies the alleged violations of CIP-001-1 R1 and R2, but has agreed to the proposed penalty of ten thousand dollars ($10,000) to be assessed to AES Cayuga, in addition to other remedies

[1] *Rules Concerning Certification of the Electric Reliability Organization; and Procedures for the Establishment, Approval, and Enforcement of Electric Reliability Standards* (Order No. 672), III FERC Stats. & Regs. ¶ 31,204 (2006); *Notice of New Docket Prefix "NP" for Notices of Penalty Filed by the North American Electric Reliability Corporation*, Docket No. RM05-30-000 (February 7, 2008). *See also* 18 C.F.R. Part 39 (2008). *Mandatory Reliability Standards for the Bulk-Power System*, FERC Stats. & Regs. ¶ 31,242 (2007) (Order No. 693), *reh'g denied*, 120 FERC ¶ 61,053 (2007) (Order No. 693-A). *See* 18 C.F.R § 39.7(c)(2).

[2] NERC notes that, concurrently with the filing of this Notice of Penalty filing, NERC is submitting seven Notices of Penalty regarding other AES entities in the Northeast Power Coordinating Council (NPCC) and Reliability*First* Corporation (RFC) Regions.

[3] Northeast Power Coordinating Council, Inc. confirmed that AES Cayuga was included on the NERC Compliance Registry on June 21, 2007 as a Generator Owner and Generator Operator. As a Generator Operator AES Cayuga is subject to the requirements of NERC Reliability Standard CIP-001-1.

[4] *See* 18 C.F.R § 39.7(c)(2).

and mitigation actions to mitigate the instant violations and ensure future compliance under the terms and conditions of the Settlement Agreement. Accordingly, the alleged violations identified as NERC Violation Tracking Identification Numbers NPCC200800027 and NPC200800028[5] are being filed in accordance with the NERC Rules of Procedure and the CMEP.

Statement of Findings Underlying the Alleged Violation

This Notice of Penalty incorporates the findings and justifications set forth in the Settlement Agreement executed on September 9, 2009 by and between NPCC and AES Cayuga, which is included as Attachment b. The details of the findings and basis for the penalty are set forth in the Settlement Agreement and herein. This Notice of Penalty filing contains the basis for approval of the Settlement Agreement by the NERC Board of Trustees Compliance Committee (NERC BOTCC). In accordance with Section 39.7 of the Commission's regulations, 18 C.F.R. § 39.7 (2007), NERC provides the following summary table identifying each alleged violation of a Reliability Standard resolved by the Settlement Agreement, as discussed in greater detail below.

Region	Registered Entity	NOC ID	NERC Violation ID	Reliability Std.	Req. (R)	VRF	Total Penalty ($)
NPCC	AES Cayuga	NOC-115	NPCC200800027	CIP-001-1	1	Medium	10,000
NPCC	AES Cayuga	NOC-115	NPCC200800028	CIP-001-1	2	Medium	

The purpose of Reliability Standard CIP-001-1 is to ensure that disturbances or unusual occurrences, suspected or determined to be caused by sabotage, shall be reported to the appropriate systems, governmental agencies and regulatory bodies.

> CIP-001-1 R1 requires a Generator Operator, such as AES Cayuga, to have procedures for the recognition of and for making its operating personnel aware of sabotage events on its facilities and multi-site sabotage affecting larger portions of the Interconnection. CIP-001-1 R1 has a "Medium" Violation Risk Factor (VRF).
>
> CIP-001-1 R2 requires a Generator Operator, such as AES Cayuga, to have procedures for the communication of information concerning sabotage events to appropriate parties in the Interconnection. CIP-001-1 R2 has a "Medium" VRF.

<u>CIP-001-1 R1 and R2</u>
According to the Settlement Agreement, during the Audit NPCC auditors identified potential violations of NERC Reliability Standard CIP-001-1 R1 and R2 because AES Cayuga did not have a documented procedure. The NPCC auditors found that AES Cayuga's *Sabotage Reporting Procedure* document, provided to demonstrate AES Cayuga's compliance with NERC

[5] NPCC's Verification document incorrectly references these violations as NPCC200700027 and NPCC200700028.

Reliability Standard CIP-001-1 R1 and R2, was dated March 3**,** 2008[6] and therefore was not in place at the time AES Cayuga became a Registered Entity on June 21, 2007.

For CIP-001-1 R1, NPCC Compliance Staff concurred with the findings of the NPPC auditors and determined the duration of the alleged violation to be from June 21, 2007, when AES Cayuga was included on the NERC Compliance Registry, until March 3, 2008, when AES Cayuga mitigated the instant alleged violation. The violation duration for R2 was extended as discussed below.

CIP-001-1 R2

According to the Settlement Agreement, an additional potential violation of NERC Reliability Standard CIP-001-1 R2 was also identified during the Audit. The NPCC auditors found that AES Cayuga's *Sabotage Reporting Procedure* document, dated March 3, 2008 and provided to demonstrate compliance with NERC Reliability Standard CIP-001-1 R2, did not contain instructions on how to handle a bomb threat called directly into the plant.

During the Audit, AES Cayuga revised the *Sabotage Reporting Procedure*, which was approved and effective on April 4, 2008,[7] to include instructions on how to handle a bomb threat called directly into the plant, thereby bringing AES Cayuga into compliance with R2.

For CIP-001-1 R2, NPCC Compliance Staff concurred with the findings of the NPPC auditors and determined the duration of the alleged violation to be from June 21, 2008, when AES Cayuga was included on the NERC Compliance Registry, until April 4, 2008, when AES Cayuga mitigated the instant alleged violation.

According to the Settlement Agreement, NPCC assessed a ten thousand dollar ($10,000) monetary penalty for the alleged violations of NERC Reliability Standard CIP-001-1 R1 and R2 for the following reasons: (1) the alleged violations were first time alleged violations of AES Cayuga; (2) AES Cayuga cooperated with NPCC Staff during the investigation and no misrepresentation or concealment of facts was evident; (3) AES Cayuga agreed to expeditiously resolve this issue via settlement subsequent to receiving a Preliminary Notice of Alleged Violation but before receiving a Notice of Alleged Violation and Proposed Penalty or Sanction from NPCC; and (4) AES Cayuga is implementing additional measures to protect against future violations of the same or similar requirements as noted in the Settlement Agreement and listed below. In addition, NPCC concluded that the actual or foreseeable impact of the alleged violation on the reliability of the bulk power system was minimal because the violations were predominantly a documentation issue, and not a failure to perform, because AES Cayuga had an *Emergency Action Plan* in place on June 21, 2007. However, NPCC Staff concluded that the potential for not communicating a bomb threat at the facility to the appropriate parties in the Interconnection existed and therefore a penalty of ten thousand dollars ($10,000) was appropriate.

[6] The Settlement Agreement incorrectly references this document as being dated on February 13, 2008 (page 2, paragraph 6 and page 3 paragraph 8).
[7] The Settlement Agreement incorrectly states on page 2, paragraph 6 and on page 3, paragraph 8 that AES Cayuga's Sabotage Reporting Procedure was revised on March 28, 2009.

Status of Mitigation Plan[8]

On June 23, 2008 NPCC requested that AES Cayuga submit a Mitigation Plan to address the alleged violations of CIP-001-1 R1 and. R2. AES Cayuga submitted its Mitigation Plan to NPCC on June 27, 2008; it was accepted by NPCC on July 31, 2008 and approved by NERC on June 30, 2009. The Mitigation Plan was designated as MIT-08-1800 and was submitted as non-public information to FERC on June 30, 2009 in accordance with FERC orders.

AES Cayuga's Mitigation Plan submitted on June 27, 2008 included its *Sabotage Reporting* Procedure as evidence of AES Cayuga's compliance with CIP-001-1 R1 as of March 3, 2008 and CIP-001-1 R2 as of April 4, 2008. On May 12, 2009,[9] AES Cayuga formally certified completion of its Mitigation Plan.

NPCC Compliance Staff reviewed the *Sabotage Reporting Procedure* document submitted by AES Cayuga as evidence of compliance with CIP-001-1 R1 and R2. NPCC Compliance Staff verified AES Cayuga's completion of mitigating the violations on July 31, 2008 and formally notified AES Cayuga of its verification of completion on May 22, 2009.

As part of the Settlement Agreement, AES Cayuga initiated efforts beyond the actions required by its Mitigation Plan in order to enhance its compliance program and to prevent recurrence of the instant violations. Specifically, AES Cayuga committed to the following actions and completion dates:

> **Compliance Program Enhancement Content:** Develop and implement a "Compliance Program Enhancement Outline" ("Compliance Program Enhancement"), a copy of which is attached to the Settlement Agreement as Attachment A. The Compliance Program Enhancement, put together as a result of the alleged violations, addresses program documentation, program dissemination, an enhanced training program, and a self-auditing program. This Compliance Program Enhancement will supplement the AES Ethics and Compliance Program currently in place.

[8] *See* 18 C.F.R § 39.7(d)(7).
[9] The Certification document was submitted on May 12, 2009, but incorrectly indicates that the Mitigation Plan was completed on June 26, 2008, which is the actual date the Mitigation Plan form was completed. The Mitigation Plan was completed on April 4, 2008, when the actions required by the Mitigation Plan were complete.

Compliance Program Enhancement Milestones: According to the Settlement Agreement, AES Cayuga has taken the following actions at an initial cost for the first year of $103,000:

Item	Completion Date	Status[10]
Project Kickoff Meeting with Consultant and AES Cayuga	September 16, 2008	Complete
Completion of Online Repository for Program Documentation	October. 31, 2008	Complete
Internal Audit	Week of July 27, 2009	Complete
Initial Review of Job Task Analysis	Week of December 1, 2008	Complete
Establish Online Training	January 30, 2009	Complete
Semi-Annual Status Report	June 30, 2009	Complete
Semi-Annual Status Report	Due by December 15, 2009	

Compliance Program Enhancement Reporting: To facilitate NPCC's need to communicate the implementation status of the activities agreed to in the Settlement Agreement and provide accountability to NERC, AES Cayuga, upon request by NPCC, will provide updates using the forms and format in Attachment B to the Settlement Agreement semi-annually for one year.

Statement Describing the Proposed Penalty, Sanction or Enforcement Action Imposed[11]

Basis for Determination

Taking into consideration the Commission's direction in Order No. 693, the NERC Sanction Guidelines and the Commission's July 3, 2008 Guidance Order,[12] the NERC BOTCC reviewed the Settlement Agreement and supporting documentation on October 13, 2009. The NERC BOTCC approved the Settlement Agreement, including NPCC's imposition of a financial penalty of ten thousand dollars ($10,000) against AES Cayuga, in addition to other actions to promote prospective compliance required under the terms and conditions of the Settlement Agreement.[13] In approving the Settlement Agreement, the NERC BOTCC reviewed the applicable requirements of the Commission-approved Reliability Standards and the underlying facts and circumstances of the alleged violations at issue.

In reaching this determination, NERC BOTCC considered the following factors:

1. the alleged violation of CIP-001-1 R1 was mitigated by AES Cayuga prior to the commencement of the Audit;

[10] Verified by NPCC Staff.
[11] *See* 18 C.F.R § 39.7(d)(4).
[12] *North American Electric Reliability Corporation*, "Guidance Order on Reliability Notices of Penalty," 124 FERC ¶ 61,015 (2008).
[13] The NERC BOTCC notes that the registered entity does not receive direct or offset credit for money spent for actions to mitigate the violation or for any additional money spent above and beyond what is required to mitigate the violation.

2. the alleged violation of CIP-001-1 R2 was mitigated by AES Cayuga prior to the completion of the Audit;
3. AES Cayuga is implementing additional measures (detailed above) to protect against future violations of the same or similar requirements;
4. AES Cayuga had no prior violation of CIP-001-1 or any other Reliability Standards;
5. no misrepresentation or concealment of facts was evident;
6. the violation did not constitute a serious or substantial risk to the bulk power system for the reasons discussed above; and
7. AES Cayuga cooperated fully in the investigation.

For the foregoing reasons, the NERC BOTCC approved the Settlement Agreement and found that the proposed ten thousand dollar ($10,000) financial penalty is appropriate for the violations and circumstances in question, and is consistent with NERC's goal to promote and ensure the reliability of the bulk power system.

Pursuant to Order No. 693, the penalty will be effective upon expiration of the 30 day period following the filing of this Notice of Penalty with FERC, or, if FERC decides to review the penalty, upon final determination by FERC.

Attachments to be Included as Part of this Notice of Penalty

The attachments to be included as part of this Notice of Penalty are the following documents and material:

a) NPCC Compliance Audit Report (Public Version) dated April 7, 2008, included as Attachment a;

b) Settlement Agreement by and between AES Cayuga and NPCC, executed on September 9, 2009, included as Attachment b;

c) Mitigation Plan designated as MIT-08-1800 submitted June 27, 2008, included as Attachment c;

d) AES Cayuga's Certification of Completion of the Mitigation Plan dated May 12, 2009, included as Attachment d; and

e) NPCC's Verification of Completion of the Mitigation Plan dated May 22, 2009, included as Attachment e.

A Form of Notice Suitable for Publication[14]

A copy of a notice suitable for publication is included in Attachment f.

[14] *See* 18 C.F.R § 39.7(d)(6).

Notices and Communications

Notices and communications with respect to this filing may be addressed to the following:

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Conclusion

NERC respectfully requests that the Commission accept this Notice of Penalty as compliant with its rules, regulations and orders.

Respectfully submitted,

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Northeast Power Coordinating Council, Inc.

Attachments

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NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment a

NPCC Compliance Audit Report (Public Version) dated April 7, 2008

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Compliance Audit Report
Public Version

AES Cayuga
NCR07001

March 17 to April 7, 2008

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

April 7, 2008

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Executive Summary

This final compliance audit report is the public version. Confidential information has been redacted from this report. The full final compliance audit report was submitted to the audited entity and NERC.

The offsite compliance audit of Cayuga was conducted between March 17 and April 7, 2008. The audit was completed using data submitted by Cayuga and telephone and email data exchanges. The audit team evaluated Cayuga's compliance with sixteen reliability standards identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. Of the sixteen standards audited, fourteen were deemed to be applicable; of the remaining standards, thirteen were judged to be compliant and one was found to be non-compliant.

Cayuga provided subject matter experts for each standard resulting in a more clear understanding of the Cayuga business model and accelerated the audit process. The evidence provided to demonstrate compliance was incomplete and required extensive requests for additional information and evidence. Cayuga audit team was aggressively responsive once they understood the scope of the information required. The audit team would like to thank the Cayuga team for the support offered through the audit.

Audit Process

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 Cayuga's compliance with the requirements of the reliability standards that are applicable to Cayuga based on the Cayuga registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.

The audit was completed using data submitted by Cayuga and telephone and email data exchanges. The audit team evaluated Cayuga's compliance with sixteen reliability standards identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard.

Of the sixteen standards audited (two of the standards were deemed to be not applicable to Cayuga), thirteen were judged to be compliant while one was found to be non-compliant based on the data submitted in response to the audit request and further data provided as a result of follow up questions.

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

The compliance audit process steps are detailed in the NERC CMEP. The NERC 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 audit for compliance with all reliability standards applicable to the functions for which the registered entity is registered.[2] The audit objectives are:

- Independently review Cayuga's compliance with the requirements of the reliability standards that are applicable to Cayuga based on the registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other requirements of the reliability standard, and review the status of associated mitigation plans.
- Document the Cayuga's compliance culture.

Scope

The audit included all standards identified in the December 14, 2007 audit letter for the previous year. The audit was a regularly scheduled audit and no self reported violations or compliance investigations were involved.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and regional entity staffs were provided to the audited entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to the audited entity. The audited entity 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. The audited entity accepted the audit team member participants with no objections.

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

Off-site Audit

Cayuga was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Cayuga more than 60 days in advance of the scheduled audit. This is an off site audit conducted every six years or as determined to be necessary by the region. Cayuga had not self reported any violations

The audit team leader requested interviews with Cayuga employees representing subject matter expertise regarding all of registered functions of Cayuga. These interviews in conjunction with evidence provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The audit team prepared reliability standards auditor worksheets (RSAWs) to evaluate each standard. The RSAW's are used to ensure consistency and to document evidence of compliance or non-compliance with the standards. All relevant documents are considered and to the extent they form portion of the audit trail are included in the RSAW's.

Audit Overview

The audit overview was conducted at 9:00 AM March 18, 2008 via conference call. The auditor reviewed his career and noted that he had signed a confidentially agreement. A brief explanation of the audit process was given and the timelines were discussed. Cayuga was given the opportunity to reject either auditor should they feel that there was a possible conflict of interest or they thought the auditors would not be impartial. Cayuga accepted the audit team.

Audit

The audit was performed off site by John Brannan as the auditor. Prior to calls to Cayuga the auditor developed a list of questions for them to answer. Cayuga then took the time necessary to develop the answer and submitted them by email to the auditors.

Exit Briefing

The exit briefing was conducted via conference call on 4/07/08. The teleconference was between John Brannan of NPCC and Dave Evanoski and Ed Thomas of Cayuga. NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, Cayuga was judged to be compliant with thirteen of the sixteen

standards, however two of the standards were deemed to be not applicable to Cayuga. They were judged non-compliant with one of the standards.

Cayuga was presented an opportunity to question the audit findings and provide comment on the audit. Cayuga asked several questions regarding standard requirements and they were satisfied with the responses that they received; they also reported that the audit process was informative.

Company Profile

AES Cayuga is one of four coal-fired generating facilities which make up AES Eastern Energy ("AEE"). The parent company, AES, currently owns 100% of AEE, which was acquired from New York State Electric & Gas in May of1999 as part of New York's deregulation of the electric industry. The AES Corporation, through its subsidiaries, engages in the generation and distribution of electricity. It operates electric utilities, and sells power to customers in the retail, commercial, industrial, and governmental sectors. The company also generates and sells power to wholesale customers, such as utilities or other intermediaries. In addition, it develops alternative energy, including wind generation, supply of liquefied natural gas, greenhouse gas emission reduction projects, and new energy technologies. The company operates in Latin America, North America Generation, Europe, Africa, and Asia.
AES was founded in 1981 and is headquartered in Arlington, Virginia.

Audit Specifics

The compliance audit was conducted from March 17 to April 7, 2008 at the office of John Brannan Consulting LLC in Hicksville, New York.

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program
Observer	Regional Coordinator	NERC

Cayuga

Title	[Audited Entity] Organization
Analyst	Cayuga
Control Room Team Leader	Cayuga

Audit Results

Cayuga provided a CD containing data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions, conference calls were used to request additional documentation until the auditor was convinced that the standards and requirements had been met and Cayuga had demonstrated compliance.

The following procedures were found to be incomplete:

1. Sabotage Reporting CIP-001 required additional information if a sabotage threat were to be called into the plant directly. This procedure was revised prior to the end of the audit to include the necessary information.
2. Generator Operations for Maintaining Network Voltage Schedules VAR-002 required additional information on maintaining voltage levels. This procedure was revised prior to the end of the audit.

Findings

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1	Non-compliant
	R2	Non-compliant[3]
	R3	Compliant
	R4	Compliant
COM-002-2	R1	Compliant
EOP-004-1	R2	Compliant
	R3	Compliant
EOP-009-0	R1	Not Applicable
	R2	Not Applicable
FAC-008-1	R1	Compliant

[3] Sabotage Reporting CIP-001 did not contain information if a sabotage threat were to be called into the plant directly. This procedure was revised prior to the end of the audit to include the necessary information.

Reliability Standard	Requirement	Finding
	R2	Compliant
	R3	Compliant
IRO-001-1	R8	Compliant
IRO-004-1	R4	Compliant
FAC-009-1	R1	Compliant
	R2	Compliant
PRC-004-1	R2	Compliant
	R3	Compliant
PRC-005-1	R1	Compliant
	R2	Compliant
PRC-016	R1 – R3	Not Applicable
PRC-017	R1 – R3	Not Applicable
TOP-002-2	R3	Compliant
	R13	Compliant
	R14	Compliant
	R15	Compliant
	R18	Compliant
TOP-003-0	R1	Compliant
	R2	Compliant
	R3	Compliant
VAR-002-1	R1	Compliant
	R2	Compliant
	R3	Compliant
	R4	Not Applicable
	R5	Not Applicable

Compliance Culture

The audit team reviewed the Cayuga compliance culture. The regional entity compliance staff may review additional aspects of the Cayuga compliance culture. During all contacts with the Cayuga staff they acted professionally in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment b

Settlement Agreement by and between AES Cayuga and NPCC, executed on September 9, 2009

SETTLEMENT AGREEMENT
OF
AES CAYUGA, L.L.C.
AND
NORTHEAST POWER COORDINATING COUNCIL, INC.

I. INTRODUCTION

1. AES Cayuga, L.L.C. ("AES CAYUGA") and Northeast Power Coordinating Council, Inc. ("NPCC") enter into this Settlement Agreement ("Agreement") to resolve all outstanding issues arising from a preliminary and non-public assessment resulting in NPCC's determination and findings, pursuant to the North American Electric Reliability Corporation ("NERC") Rules of Procedure, of an alleged violation by AES CAYUGA of the NERC Reliability Standard CIP-001-1.

II. STIPULATION

2. The facts stipulated herein are stipulated solely for the purpose of resolving between AES CAYUGA and NPCC the matters discussed herein and do not constitute stipulations or admissions for any other purpose. AES CAYUGA and NPCC hereby stipulate and agree to the following:

A Background

3. AES CAYUGA is a registered Generator Owner and Generator Operator in New York. AES CAYUGA owns and operates a 309 MW coal-fired generating facility located at 228 Cayuga Drive, Lansing NY 14882.

B. Alleged Violation(s)

4. CIP-001-1 Reliability Standard and Requirements 1 and 2 each have a "MEDIUM" Violation Risk Factor ("VRF")

5. NERC Reliability Standard CIP-001-1 Sabotage Reporting was written with the purpose of communicating to the appropriate systems, governmental agencies and regulatory bodies' disturbances or unusual occurrences, suspected or determined to be caused by sabotage. The standard requires that:

- Each Generator Operator shall have procedures for the recognition of and for making their operating personnel aware of sabotage events in its facilities and multi-site sabotage affecting larger portions of the Interconnections;

- Each Generator Operator shall have procedures for the communication of information concerning sabotage events to appropriate parties in the Interconnection;

R1. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall have procedures for the recognition of and for making their operating personnel aware of sabotage events on its facilities and multi-site sabotage affecting larger portions of the Interconnection.

R2. Each Reliability Coordinator, Balancing Authority, Transmission Operator, Generator Operator, and Load Serving Entity shall have procedures for the communication of information concerning sabotage events to appropriate parties in the Interconnection.

C. Summary of Findings

6. Originally, AES CAYUGA self-certified compliance with NERC Reliability Standard CIP-001-1 on October 30, 2007. NPCC subsequently scheduled an offsite audit of AES CAYUGA as part of the 2008 NPCC Audit Program. During the NPCC offsite audit of AES CAYUGA conducted between March 17, 2008 and April 7, 2008, NPCC auditors identified potential violations with NERC Reliability Standard CIP-001-1, Requirements 1 and 2. Requirement 1 was identified as a potential violation because the AES CAYUGA Sabotage Reporting Procedure reflected the date of March 3, 2008, instead of June 21, 2007. Requirement 2 was also identified as a potential violation because the procedure needed a revision to satisfy the requirement. The auditors found that AES CAYUGA was in compliance with Requirements 3 and 4 because the AES CAYUGA Sabotage Reporting Procedure satisfied each requirement. Therefore the NPCC Compliance Staff determined that AES CAYUGA was not in compliance with Requirement 1 from June 21, 2007, the date AES CAYUGA was registered on the NERC Compliance Registry until March 3, 2008, when the AES CAYUGA Sabotage Reporting Procedure was revised to comply with Requirement 1. In addition, the auditor and subsequently NPCC Compliance Staff determined that although AES CAYUGA did have documented processes[1] and procedures addressing bomb threats, AES CAYUGA was not in compliance with Requirement 2 from June 21, 2007, until March 28, 2008, when the Sabotage Reporting Procedure dated February 13, 2008, was revised to comply with Requirement 2.

[1] AES CAYUGA Emergency Action Plan

7. NPCC Compliance Staff confirmed on June 21, 2007, AES CAYUGA's NERC Registration Status as a Generator Owner and Generator Operator and that AES CAYUGA therefore, was subject to NERC Reliability Standard CIP-001-1, Requirements 1, 2, 3, and 4. NPCC Compliance Staff reviewed the AES CAYUGA Sabotage Reporting Procedures supplied by AES CAYUGA and found AES CAYUGA non-compliant with Requirements 1 and 2 but otherwise compliant with Requirements 3 and 4. Therefore NPCC Compliance Staff issued a Preliminary Notice of Alleged Violation on May 28, 2008, identifying Requirements 1 and 2 of CIP-001-1 as the alleged violations.

8. On June 23, 2008, NPCC Compliance Staff requested that AES CAYUGA submit a Mitigation Plan ("Mitigation Plan") to address the violations of Requirements 1 and 2 that had already been mitigated at the time of the audit. AES CAYUGA submitted the Mitigation Plan to NPCC on June 27, 2008, which required AES CAYUGA to identify the violation, identify the cause of the violation and the steps taken to prevent the violation from reoccurring in the future. The Mitigation plan was certified complete on May 12, 2009. NPCC Compliance Staff verified the Mitigation Plan complete on May 22, 2009 by reviewing the AES CAYUGA Sabotage Reporting Procedure which demonstrated AES CAYUGA's compliance with NERC Reliability Standard CIP-001-1 Requirements 1 and 2 as of February 13, 2008, and March 28, 2008, respectively.

9. On June 30, 2008, AES CAYUGA requested settlement discussions with NPCC to address the alleged violation of NERC Reliability Standard CIP-001-1 Requirements 1 and 2. A preliminary discussion was conducted on July 1, 2008. The first settlement discussion was conducted on July 23, 2008, with subsequent discussions conducted in August, September, and October 2008.

10. Throughout the audit process and settlement process, AES CAYUGA has cooperated fully with NPCC.

III. PARTIES' SEPARATE REPRESENTATIONS

A. Statement of NPCC

11. AES CAYUGA was audited for the applicable Requirements outlined in the NERC 2008 Implementation Plan. The NPCC audit team reviewed the AES CAYUGA Sabotage Reporting Procedure between March 17, 2008 and April 7, 2008, which was provided by AES CAYUGA during the audit. The NPCC audit team identified potential violations of CIP-001-1 Requirements 1 and 2 but otherwise found AES CAYUGA compliant with Requirements 3 and 4. NPCC Compliance Staff reviewed the findings by the NPCC audit team and determined that AES CAYUGA was not in compliance with CIP-001-1 Requirements 1 and 2. NPCC Compliance Staff requested that AES CAYUGA submit a Mitigation

Plan that identified the actions taken to correct the violations and to prevent reoccurrence, even though the violations were corrected by the time the audit was finished. AES CAYUGA submitted the Mitigation Plan on June 27, 2008, that included the revised compliant Sabotage Reporting Procedure which NPCC accepted on July 31, 2008. The Mitigation Plan was certified complete on May 12, 2009. NPCC Compliance Staff verified completion of the Mitigation Plan on May 22, 2009 by reviewing AES CAYUGA's revised Sabotage Reporting Procedure, which included documented processes and other procedures addressing bomb threats.[2]

12. NPCC agrees that this Agreement is in the best interest of the parties and in the best interest of bulk power system reliability.

B. Statement of AES CAYUGA

13. AES CAYUGA stipulates to the facts set forth in this Settlement Agreement. Additionally, as AES CAYUGA indicated in response to the determination of the auditors, while the NERC Reliability Standard CIP-001-1 procedure was signed and approved on March 3, 2008, AES CAYUGA had in place an Emergency Action Plan on June 21, 2007 that addressed AES CAYUGA making its operational personnel aware of sabotage events on its facilities.

14. AES CAYUGA has agreed to enter into this Agreement with NPCC to avoid extended litigation with respect to the matters described or referred to herein, to avoid uncertainly, and to effectuate a complete and final resolution of the issues set forth herein. AES CAYUGA agrees that this Agreement is in the best interest of the parties and is in the best interest of bulk power system reliability.

IV. MITIGATING ACTIONS, REMEDIES AND SANCTIONS

15. On June 27, 2008, AES CAYUGA submitted a Mitigation Plan demonstrating compliance with NERC Reliability Standard CIP-001-1 Requirements 1 and 2, having already corrected the violations during the NPCC audit. For purposes of settling any and all disputes arising from NPCC's investigation into the matters reported in the audit of AES CAYUGA, AES CAYUGA and NPCC agree that, on and after the effective date of this Agreement through December 31, 2009, AES CAYUGA shall take the following actions:

[2] NPCC Compliance Staff verified completion of the plan with AES CAYUGA on July 31, 2008 although the signed documents for certification and verification were done in May, 2009.

i **Compliance Program Enhancement Content**

Develop and implement a "Compliance Program Enhancement Outline" ("Compliance Program Enhancement"), a copy of which is attached as Attachment A. The Compliance Program Enhancement developed as a result of the alleged violation, addresses program documentation, program dissemination, an enhanced training program, and a self-auditing program for AES CAYUGA. This Program will supplement the AES Ethics and Compliance program currently in place.

ii **Compliance Program Enhancement Milestones**

For the purpose of settling any and all disputes arising from NPCC's Compliance Staff's review and assessment with respect to the alleged violation of NERC Reliability Standard CIP-001-1 Requirements 1 and 2, AES CAYUGA and NPCC agree that, on and after the effective date of this Agreement, AES CAYUGA has taken or shall take the following actions:

Initial Activity	Milestone Dates	Status [3]
i. Project Kickoff Meeting with Consultant and AES CAYUGA	Sept. 16, 2008	Completed
ii.Completion of On-line Repository for Program Documentation	Oct. 31, 2008	Completed
iii. Internal Audit	Week of July 27, 2009	
iv. Initial Review of Job Task Analysis	Week of Dec. 1, 2008	Completed
v. Establish On-Line Training	Jan. 30, 2009	Completed
vi. Semi-Annual Status Report	By June 30, 2009	Completed
vii.Semi-Annual Status Report	By Dec. 15, 2009	

iii **Compliance Program Enhancement Costs**

The estimated cost to AES CAYUGA during the first year of the Compliance Program Enhancement is $103,000 ("Initial Cost"). The annual cost after the first year, while estimated to be approximately the same as the Initial Cost, can vary depending on the level of NPCC and NERC reliability-related activities that are relevant to AES CAYUGA ("Ongoing Cost").

iv **Compliance Program Enhancement Reporting**

To facilitate NPCC's need to communicate the implementation status of this Agreement and provide accountability to NERC, AES CAYUGA upon request by

[3] Evidence was verified by NPCC Compliance Staff

NPCC, will provide updates using the forms and format in Attachment B semi-annually for one year.

v **Payment to NPCC**

Based on AES CAYUGA's mitigation of the alleged violation together with the Compliance Program Enhancement, the above actions taken or to be taken by AES CAYUGA, AES CAYUGA agrees to pay to NPCC a total aggregate financial penalty of $10,000 ("the Payment") for the violations. In determining the Payment, NPCC has taken into consideration AES CAYUGA's cooperation exhibited during the audit and in providing the information necessary to conform to the NERC Rules of Procedure, as well as its cooperation and commitment in this settlement process. NPCC also considered that AES CAYUGA did have documents setting forth processes and procedures addressing bomb threats with respect to its facilities.[4] NPCC recognizes that AES CAYUGA's preparation of the Compliance Program Enhancement indicates its desire to be a leader in maintaining and monitoring its generating asset to promote the reliability of the bulk power system.

vi **Timing of Payment**

AES CAYUGA shall remit the Payment to NPCC, via wire transfer to an account to be identified by NPCC ("NPCC Account"). By the later of (i) twenty days after this Agreement is either approved by the Commission or by operation of law and (ii) twenty days after NPCC provides AES CAYUGA the NPCC Account, AES CAYUGA shall remit the Payment. NPCC shall notify NERC if the payment is not timely received. If AES CAYUGA does not remit the Payment by the required date, interest payable to NPCC will begin to accrue pursuant to FERC's regulations at 18 C.F.R. § 35.19a(a)(2)(iii) from the date that payment is due, and shall be payable in addition to the Payment.

vii **Failure to Comply with this Agreement**

16. Failure to make a timely penalty payment or to comply with any of the terms and conditions agreed to herein, or any other conditions of this Agreement shall be deemed to be either the same alleged violations that initiated this Settlement and/or additional violation(s) and may subject AES CAYUGA to new or additional enforcement, penalty or sanction actions in accordance with the NERC Rules of Procedure.

17. It is understood that NPCC staff shall track the progress of mitigation plans and any other remedies of this Agreement, including, but not limited to site inspection, interviews, and request other documentation to validate progress

[4] AES CAYUGA Emergency Action Plan

and/or completion of the mitigation plans and any other remedies of this Agreement. NPCC shall reasonably coordinate its review and information requests with AES CAYUGA related to this Agreement.

18. The estimated costs to AES CAYUGA to implement the agreed to actions in Section IV is $103,000. NPCC may audit and inspect financial records to validate actual expenditures with estimates in this Agreement. Funding and programs associated with this Agreement will be above the original planned budget and programs for the year 2009 from what they would have otherwise been in the absence of the Compliance Program Enhancement.

V. ADDITIONAL TERMS

19. The signatories to the Agreement agree that they enter into the Agreement voluntarily and that, other than the recitations set forth herein, no tender, offer or promise of any kind by any member, employee, officer, director, agent or representative of NPCC or AES CAYUGA has been made to induce the signatories or any other party to enter into the Agreement.

20. NPCC shall report the terms of all settlements of compliance matters to NERC. NERC will review the settlement for the purpose of evaluating its consistency with other settlements entered into for similar violations or under other, similar circumstances. Based on this review, NERC will either approve the settlement or reject the settlement and notify the Regional Entity and the Registered Entity of changes to the settlement that would result in approval. If NERC rejects the settlement, NERC will provide specific written reasons for such rejection and the NPCC will attempt to negotiate a revised settlement agreement with AES CAYUGA including any changes to the settlement specified by NERC. If a settlement cannot be reached, the enforcement process shall continue to conclusion. If NERC approves the settlement, NERC will (i) report the approved settlement to the Commission for the Commission's review and approval by order or operation of law and (ii) publicly post the alleged violation and the terms provided for in the settlement.

21. This Agreement shall become effective upon the Commission's approval of the Agreement by order or operation of law as submitted to it or as modified in a manner acceptable to the parties.

22. AES CAYUGA agrees that this Agreement, when approved by NERC and the Commission, shall represent a final settlement of all matters set forth herein and AES CAYUGA waives its right to further hearings and appeal, unless and only to the extent that AES CAYUGA contends that any NERC or Commission action on the Agreement contains one or more material modifications to the Agreement NPCC reserves all rights to initiate enforcement, penalty or sanction actions against AES CAYUGA in accordance with the NERC Rules of Procedure in the event that AES CAYUGA fails to comply with the mitigation

plan and compliance program agreed to in this Agreement. In the event AES CAYUGA fails to comply with any of the stipulations, remedies, sanctions or additional terms, as set forth in this Agreement, NPCC will initiate enforcement, penalty, or sanction actions against AES CAYUGA to the maximum extent allowed by the NERC Rules of Procedure, up to the maximum statutorily allowed penalty. AES CAYUGA shall retain all rights to defend against such enforcement actions, according to the NERC Rules of Procedure.

23. Each of the undersigned warrants that he or she is an authorized representative of the entity designated, is authorized to bind such entity and accepts the Agreement on the entity's behalf.

24. The undersigned representative of each party affirms that he or she has read the Agreement, that all of the matters set forth in the Agreement are true and correct to the best of his or her knowledge, information and belief, and that he or she understands that the Agreement is entered into by such party in express reliance on those representations, provided, however, that such affirmation by each party's representative shall not apply to the other party's statements of position set forth in Section III of this Agreement.

25. The Agreement may be signed in counterparts.

26. This Agreement is executed in duplicate, each of which so executed shall be deemed to be an original.

Remainder of page intentionally blank.
Signatures to be affixed to the following page.

Agreed to and accepted:

9/9/09

Edward A. Schwerdt
President & CEO
NPCC

Date

9/2/09

Gerald S. Goodenough
Plant Manager
AES CAYUGA, L.L.C.

Date

ATTACHMENT A

Compliance Program Enhancement Outline

1. Program Documentation

AES Cayuga will utilize a document management system ("DMS") for records management. The use of the DMS will improve compliance by creating a single repository of all documentation in support of compliance with NERC and regional reliability standards and increasing access to the documentation. This will improve the ability of AES Cayuga personnel to locate and identify proper operating procedures and data, determine the origin of documents, the level of approval, and whether a document is the latest, most up to date version.

Additional improvements include increasing knowledge of what documents exist and where, improved availability and security of critical documents, improved capture, preservation, and sharing of information and knowledge, enhanced accountability, increased awareness of NERC and regional reliability standards, and increased responsiveness to audit requests. Document indexing and cross-referencing will also provide an additional level of document management. Procedures will be developed and implemented to ensure timely review and approval of NERC and Regional Reliability Standards as required to maintain compliance.

2. Program Dissemination

The focus of the NERC compliance program is to improve the reliability of the bulk power system in North America by fairly and consistently enforcing compliance with NERC standards. Specifically, the program is designed to ensure that the right practices are in place so that the likelihood and severity of future system disturbances are substantially reduced, while recognizing that no standards or enforcement process can fully prevent all such disturbances from occurring.

Culture is a fundamental aspect of system reliability. In successful corporate cultures, management elevates reliability to a top priority by establishing and modeling high standards of performance, valuing employee contributions, and aligning the organization to achieve safe and reliable operations. An integrated approach to leadership, interactive communication, professional development, and ongoing improvement translates to trust, respect, and a sense of worth amongst co-workers. AES Cayuga's proposal to display its commitment to reliability by promoting a positive working environment focused on event-free operation and in using implementing programs to support its culture of reliability.

The first step in support of this effort will be the documentation of the culture and its salient points along with enforcement procedures that will be implemented. The second step is General Awareness Training for all affected employees.

a. **General Awareness Campaign**

AES Cayuga is in the process of establishing a formal Compliance Program with assistance from a consultant. When complete, the Compliance Program and its components will be communicated to all affected employees through the General Awareness Training on the Compliance Program. The program will consist of dissemination of the Compliance Program documents to affected employees. On-site, instructor lead training to review AES Cayuga's commitment to compliance, the compliance program components, and the NERC and regional standards applicable to the AES Businesses will follow the dissemination of the Compliance Program.

This process will also be incorporated into the orientation procedure for new employees impacted by the Compliance Program. A representative from AES Cayuga will be available for questions regarding the Compliance Program during the seminars, and ongoing to ensure the program comprehension by all employees. Relevant upper level management representatives will also provide routine communications to employees as appropriate to indicate high-level support for this program.

3. **AES Business Training Program**

FERC Order No. 693 at P 1332 states in relevant part:

In the NOPR, the Commission proposed to approve Reliability Standard PER-002-0 as mandatory and enforceable. In addition, the Commission proposed to direct that NERC submit a modification to PER-002-0 that: (1) identifies the expectations of the training for each job function; (2) develops training programs tailored to each job function with consideration of the individual training needs of the personnel; (3) expands the applicability to include reliability coordinators, generator operators, and operations planning and operations support staff with a direct impact on the reliable operation of the Bulk-Power System; (4) uses the Systematic Approach to Training (SAT) methodology in its development of new training programs and (5) includes performance metrics associated with the effectiveness of the training program. In addition, the Commission requested comments on the benefits and appropriateness of required "hands-on" training using simulators in dealing with system emergencies.

The Commission explained in the NOPR that transmission operators and balancing authorities

are not the only entities that have operating personnel in positions that directly impact the reliable operation of the Bulk-Power System; and included generator operators among those that have such an impact ... it is essential that generator operator personnel have appropriate training to understand those instructions, particularly in an emergency situation in which instructions may be succinct and require immediate action. Further, if communication is lost, the generator operator personnel should have had sufficient training to take appropriate action to ensure reliability of the Bulk-Power System. Thus, we direct the ERO to develop a modification to make PER-002-0 applicable to generator operators.

...the Commission approves Reliability Standard PER-002-0. In addition ... the Commission directs the ERO to develop a modification to PER-002-0 through the Reliability Standards development process that: (1) identifies the expectations of the training for each job function; (2) develops training programs tailored to each job function with consideration of the individual training needs of the personnel; (3) expands the Applicability section to include (a) reliability coordinators, (b) local transmission control center operator personnel (as specified in the above discussion), (c) generator operators centrally-located at a generation control center with a direct impact on the reliable operation of the Bulk-Power System and (d) operations planning and operations support staff who carry out outage planning and assessments and those who develop SOLs, IROLs or operating nomograms for real-time operations; (4) uses the Systematic Approach to Training (SAT) methodology in its development of new training programs and (5) includes the use of simulators by reliability coordinators, transmission operators and balancing authorities that have operational control over a significant portion of load and generation.

In response to the training guidance given by FERC in Order No. 693, and consistent with FERC's direction to expand the applicability of NERC Reliability Standard PER-002-0 to generator operators and NERC Reliability Training Standard PER-005, AES Cayuga propose to develop and implement the AES Cayuga Training Program ("Training Program"). The Training Program will be developed with assistance from a consultant, will use the Systematic Approach to Training methodology, will identify the expectations of the training for each affected job function, and will be tailored to each applicable job function with consideration of the individual training needs of the personnel.

For those designated employees directly responsible for complying with NERC and Regional Reliability Standards, successful completion of the Training Program will be mandatory. The Training Program will include specific training on NERC and Regional Reliability Standards applicable to the GO/GOP functions. This training will be designed to promote proper interpretation and application of the applicable standards and will include "real world" examples as well as prohibited activities. Training will consistent of on-line material and instructor led presentations as appropriate.

The Training Program will be ongoing to address the needs of new employees as well as changes in position for existing employees. In summary, training will include an initial operator training program, continuing training and refresher training. Training under normal and emergency conditions will also be identified. The training learning objectives will reference reliability-related tasks to ensure all reliability tasks are encompassed with the training program. The Training Program is expected to also include the proper execution of operating procedures developed by AES Businesses to assure compliance with NERC and Regional Reliability Standards.

4. Formal, Internal Self-Auditing for Compliance with Applicable Reliability Standards

To ensure its policies and procedures are aligned with NERC and regional standards, AES Cayuga propose to implement a program of formal, internal audit to verify compliance with applicable NERC and Regional Reliability Standards.

NPCC Settlement Activity Reporting Form

June 30, 2009

To: Walter Cintron,
Manager, Compliance Enforcement

In accordance with the settlement agreement between AES Cayuga, LLC and NPCC, AES Cayuga agreed to provide semi-annual updates to NPCC regarding the activities agreed upon within the settlement agreement.

AES Cayuga is submitting this status update to NPCC in accordance with the confidentiality provisions of Section 1500 of the NERC Rules of Procedure.

AES Cayuga provides this update with regard to the following activities:

Activity	Dates Completed
i. Project Kickoff Meeting with Consultant and AES Cayuga	Sept. 16, 2008
ii. Completion of On-line Repository for Program Documentation	Oct. 31, 2008
iii. Internal Audit	Initiated on Mar 12, 2009, Scheduled for completion the week of Jul 27, 2009
iv. Initial Review of Job Task Analysis	Week of Dec. 1, 2008
v. Establish On-Line Training	Jan. 30, 2009

Activity i – Project kickoff meeting with consultant and AES Cayuga:

This meeting included an agenda with the following subjects:

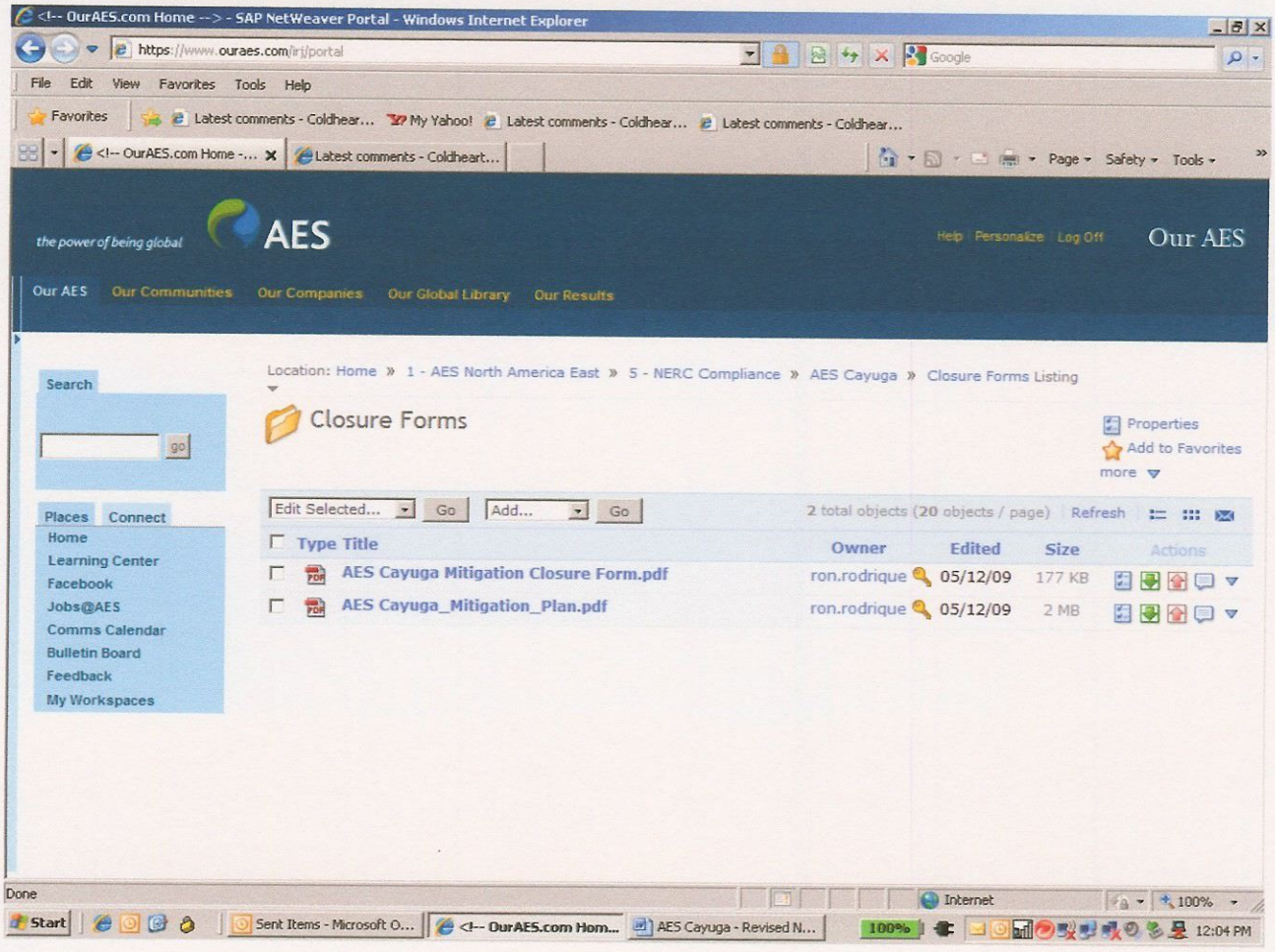
- History of NERC
- Energy Policy Act of 2005
- NERC Functional Model
- NERC Compliance Monitoring & Enforcement Program
- NERC Reliability Standards Overview
- NERC Reliability Standards for AES Cayuga

The kickoff meeting objectives included:

- Identify why things have changed for the GO and GOP
- Understand the NERC requirements associated with Cayuga

Activity ii – On-line Repository for Program Documentation:

October 31, 2008 was the date the on line repository was ready to receive documents for on line viewing. This repository has continued to have new documents added. Below is a screenshot of documents recently added.



Activity iii – Internal Audit:

The audit included certain NERC standards that are applicable to AES Cayuga excluding CIP 002 – CIP 009. The audit was based on previous power system planning and operating experience, previous audit experience, NERC audit templates, and instructions to NERC auditors. The information was gathered in a manner similar to the NERC audit process including interviews with management and review of documentation (procedures and other evidence) provided by AES Cayuga personnel to support a position of compliance. The consultant's team met with AES Cayuga at AES Cayuga. This review included 22 NERC Reliability Standards that had been identified and agreed by the Review Team and AES Cayuga as currently applicable to AES Cayuga.

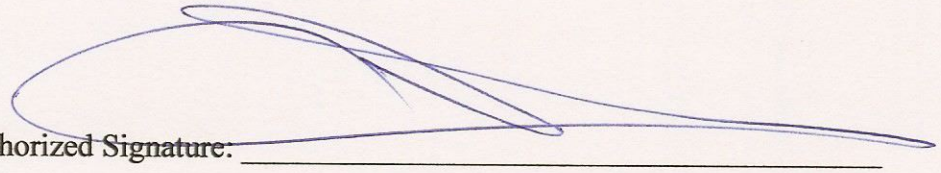
The Review Team evaluated the current documentation, procedures, and Compliance Templates with respect to the selected standards with the AES Cayuga Participants. AES Cayuga has a Compliance Management Framework in place to enable AES Cayuga to successfully prepare for the Northeast Power Coordinating Council, Inc. (NPCC) Compliance Audit.

Activity iv – Initial Review of Job Task Analysis:
The JTA of compliance tasks was completed and provided to the AES Cayuga people who reviewed and validated it.

Activity v – Establish On-Line Training:

On line training was established on January 20, 2009. The people at Cayuga have complete Compliance Awareness Orientation and sixteen people have completed training on seven NERC standards. The training is an on going effort.

I certify the update(s) being provided above, with the expectation of meeting the completion dates agreed to in the settlement agreement, are in accordance with the proposed scope and intent of the agreement.



Authorized Signature: _____

D. WARDEN.

P.P. JERRY GOODENOUGH.

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment c

Mitigation Plan designated as MIT-08-1800 submitted June 27, 2008

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Mitigation Plan Submittal Form

Date this Mitigation Plan is being submitted: 6/27/2008

Section A: Compliance Notices & Mitigation Plan Requirements

A.1 Notices and requirements applicable to Mitigation Plans and this Submittal Form are set forth in "Attachment A - Compliance Notices & Mitigation Plan Requirements" to this form.

A.2 ☒ I have reviewed Attachment A and understand that this Mitigation Plan Submittal Form will not be accepted unless this box is checked.

Section B: Registered Entity Information

B.1 Identify your organization:

Company Name: AES Cayuga
Company Address: 228 Cayuga Street, Lansing NY 14882
NERC Compliance Registry ID: NRC07001

B.2 Identify the individual in your organization who will be the Entity Contact regarding this Mitigation Plan.

Name: David Evanoski
Title: Analyst
Email: dave.evanoski@aes.com
Phone: 703-682-6455

Section C: Identification of Alleged or Confirmed Violation(s) Associated with this Mitigation Plan

C.1 This Mitigation Plan is associated with the following Alleged or Confirmed violation(s) of the reliability standard listed below.

Applicable Standard, Requirement(s) and dates:

NERC Violation ID #	Reliability Standard	Requirement Number	Violation Risk Factor	Alleged or Confirmed Violation Date(*)	Method of Detection (*e.g.*, Audit, Self-report, Investigation)
NPCC200800027	CIP-001-1	R1		3/3/08	Audit

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.
NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

NPCC200800028	CIP-001-1	R2		4/4/08	Audit

(*) Note: The Alleged or Confirmed Violation Date shall be expressly specified by Registered Entity, and subject to modification by [RE acronym], as: (i) the date the Alleged or Confirmed violation occurred; (ii) the date that the Alleged or Confirmed violation was self-reported; or (iii) the date that the Alleged or Confirmed violation has been deemed to have occurred on by [RE acronym]. Questions regarding the date to use should be directed to the [RE acronym] contact identified in Section G of this form.

C.2 Identify the cause of the Alleged or Confirmed violation(s) identified above. Additional detailed information may be provided as an attachment:

R1 - Sabotage Reporting for AES Cayuga Procedure was not signed before 3/3/08.

R2 – Procedure did not include instructions for the plant operators if a sabotage threat were to be called into the plant directly.

C.3 Provide any additional relevant information regarding the Alleged or Confirmed violations associated with this Mitigation Plan. Additional detailed information may be provided as an attachment:

Section D: Details of Proposed Mitigation Plan

Mitigation Plan Contents

D.1 Identify and describe the action plan, including specific tasks and actions that your organization is proposing to undertake, or which it undertook if this Mitigation Plan has been completed, to correct the Alleged or Confirmed violations identified above in Part C.1 of this form. Additional detailed information may be provided as an attachment:

R1 - No additional mitigating actions are required as the procedure was signed on 3/3/08.

R2 - No additional mitigating actions are required as the procedure was revised and re-approved on 4/4/08.

Mitigation Plan Timeline and Milestones

D.2 Provide the date by which full implementation of the Mitigation Plan will be, or has been, completed with respect to the Alleged or Confirmed violations identified above. State whether the Mitigation Plan has been fully implemented:

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

R1 - The mitigation plan was fully implemented on 3/3/08 when the procedure became effective.

R2 - The mitigation plan was fully implemented on 4/4/08 when the procedure was revised and re-approved.

D.3 Enter Milestone Activities, with due dates, that your organization is proposing, or has completed, for this Mitigation Plan:

Milestone Activity	Proposed/Actual Completion Date* (shall not be more than 3 months apart)
R1	3/3/08
R2	4/4/08

(*) Note: Implementation milestones no more than three (3) months apart are permissible only for Mitigation Plans with expected completion dates more than three (3) months from the date of submission. Additional violations could be determined for not completing work associated with accepted milestones.

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.
NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Section E: Interim and Future Reliability Risk

Abatement of Interim BPS Reliability Risk

E.1 While your organization is implementing this Mitigation Plan the reliability of the Bulk Power System (BPS) may remain at higher risk or be otherwise negatively impacted until the plan is successfully completed. To the extent they are, or may be, known or anticipated: (i) identify any such risks or impacts; and (ii) discuss any actions that your organization is planning to take to mitigate this increased risk to the reliability of the BPS. Additional detailed information may be provided as an attachment:

The Bulk Power System is not at risk because the preliminary alleged violations of requirements R1 and R2 have been mitigated, and AES Cayuga is in full compliance with both requirements.

Prevention of Future BPS Reliability Risk

E.2 Describe how successful completion of this Mitigation Plan will prevent or minimize the probability that your organization incurs further risk or Alleged violations of the same or similar reliability standards requirements in the future. Additional detailed information may be provided as an attachment:

Monitoring of NERC's CIP-001-1 reliability standard and updating of the procedure should ensure compliance with the reliability standard in the future.

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.
NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Section F: Authorization

An authorized individual must sign and date this Mitigation Plan Submittal Form. By doing so, this individual, on behalf of your organization:

a) Submits this Mitigation Plan for acceptance by [RE acronym] and approval by NERC, and

b) If applicable, certifies that this Mitigation Plan was completed on or before the date provided as the 'Date of Completion of the Mitigation Plan' on this form, and

c) Acknowledges:

1. I am the plant manager of AES Cayuga.

2. I am qualified to sign this Mitigation Plan on behalf of AES Cayuga.

3. I understand AES Cayuga's obligations to comply with Mitigation Plan requirements and ERO remedial action directives as well as ERO documents, including, but not limited to, the NERC Rules of Procedure, including Appendix 4(C) (Compliance Monitoring and Enforcement Program of the North American Electric Reliability Corporation" (NERC CMEP)).

3. I have read and am familiar with the contents of this Mitigation Plan.

4. AES Cayuga agrees to comply with, this Mitigation Plan, including the timetable completion date, as accepted by NPCC and approved by NERC.

Authorized Individual Signature Gerald S Goodenough

Name (Print): Gerald S. Goodenough
Title: Plant Manager
Date: 6/26/08

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.
NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Section G: Regional Entity Contact

Please direct any questions regarding completion of this form to:

Walter Cintron
Manager, Compliance Enforcement
1515Broadway, 43rd Floor
New York, NY 10036
Phone: 212-840-1070
Email: wcintron@npcc.org

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Attachment A – Compliance Notices & Mitigation Plan Requirements

I. Section 6.2 of the CMEP[1] sets forth the information that must be included in a Mitigation Plan. The Mitigation Plan must include:

(1) The Registered Entity's point of contact for the Mitigation Plan, who shall be a person (i) responsible for filing the Mitigation Plan, (ii) technically knowledgeable regarding the Mitigation Plan, and (iii) authorized and competent to respond to questions regarding the status of the Mitigation Plan. This person may be the Registered Entity's point of contact described in Section 2.0.

(2) The Alleged or Confirmed Violation(s) of Reliability Standard(s) the Mitigation Plan will correct.

(3) The cause of the Alleged or Confirmed Violation(s).

(4) The Registered Entity's action plan to correct the Alleged or Confirmed Violation(s).

(5) The Registered Entity's action plan to prevent recurrence of the Alleged or Confirmed violation(s).

(6) The anticipated impact of the Mitigation Plan on the bulk power system reliability and an action plan to mitigate any increased risk to the reliability of the bulk power-system while the Mitigation Plan is being implemented.

(7) A timetable for completion of the Mitigation Plan including the completion date by which the Mitigation Plan will be fully implemented and the Alleged or Confirmed Violation(s) corrected.

(8) Implementation milestones no more than three (3) months apart for Mitigation Plans with expected completion dates more than three (3) months from the date of submission. Additional violations could be determined for not completing work associated with accepted milestones.

(9) Any other information deemed necessary or appropriate.

(10) The Mitigation Plan shall be signed by an officer, employee, attorney or other authorized representative of the Registered Entity, which if applicable, shall be the person that signed the Self-Certification or Self Reporting submittals.

II. This submittal form must be used to provide a required Mitigation Plan for review and acceptance by [Regional Entity acronym] and approval by NERC.

III. This Mitigation Plan is submitted to the regional entity(ies) and NERC as confidential information in accordance with Section 1500 of the NERC Rules of Procedure.

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[1] "*Uniform Compliance Monitoring and Enforcement Program of the North American Electric Reliability Corporation*;" a copy of the current version approved by the Federal Energy Regulatory Commission is posted on NERC's website.

FOR PUBLIC RELEASE - NOVEMBER 13, 2009

NPCC, Inc.
NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

IV. This Mitigation Plan Submittal Form may be used to address one or more related Alleged or Confirmed violations of one Reliability Standard. A separate mitigation plan is required to address Alleged or Confirmed violations with respect to each additional Reliability Standard, as applicable.

V. If the Mitigation Plan is accepted by [Regional Entity acronym] and approved by NERC, a copy of this Mitigation Plan will be provided to the Federal Energy Regulatory Commission in accordance with applicable Commission rules, regulations and orders.

VI. [Regional Entity acronym] or NERC may reject Mitigation Plans that they determine to be incomplete or inadequate.

VII. Remedial action directives also may be issued as necessary to ensure reliability of the BPS.

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment d

AES Cayuga's Certification of Completion of the Mitigation Plan dated May 12, 2009

AES Cayuga

Certification of a Completed Mitigation Plan

NPCC
Violation Mitigation Plan Closure Form

Name of registered entity submitting certification: AES Cayuga LLC

Date of Certification: May 12, 2009

Name of Standard and the Requirement of which a violation was mitigated:

CIP-001-1: R1
CIP-001-1: R2

Date of completion of the mitigation plan: 6/26/08

I certify that the mitigation plan for the above named violation has been completed on the date shown above and that all submitted information is complete and correct to the best of my knowledge.

Name: Gerald S Goodenough
Title: Plant Manager
Entity: AES Cayuga LLC
Email: jerry.goodenough@aes.com
Phone: 607-533-7913

Executive Signature Gerald S Goodenough Date 5/12/09

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment e

NPCC's Verification of Completion of the Mitigation Plan dated May 22, 2009

For Public Release - November 13, 2009

NPCC, Inc.

NORTHEAST POWER COORDINATING COUNCIL, INC.
1040 AVE OF THE AMERICAS, NEW YORK, NY 10018 TELEPHONE (212) 840-1070 FAX (212) 302-2782

Confidential

May 22, 2009

Mr. Gerald S. Goodenough
President
AES Cayuga, L.L.C.

Re: AES Cayuga Mitigation Plan, Violation # NPCC200700027, 28

This letter is to notify you that NPCC has verified the completion of the mitigation plan AES Cayuga submitted on June 27, 2008.

NPCC thanks you for your cooperation in this matter and for improving the reliability of the bulk electric system.

Please do not hesitate to call if you have any questions regarding this issue.

Sincerely,

Walter Cintron

Walter Cintron
Manager, Compliance Enforcement
Tel: 212 840-1070
Fax: 212 302-2782
wcintron@npcc.org

NERC
NORTH AMERICAN ELECTRIC RELIABILITY CORPORATION

Attachment f

Notice of Filing

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

AES Cayuga, LLC Docket No. NP10-___-000

NOTICE OF FILING
November 13, 2009

Take notice that on November 13, 2009, the North American Electric Reliability Corporation (NERC) filed a Notice of Penalty regarding AES Cayuga, LLC in the Northeast Power Coordinating Council, Inc. region.

Any person desiring to intervene or to protest this filing must file in accordance with Rules 211 and 214 of the Commission's Rules of Practice and Procedure (18 CFR 385.211, 385.214). Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party must file a notice of intervention or motion to intervene, as appropriate. Such notices, motions, or protests must be filed on or before the comment date. On or before the comment date, it is not necessary to serve motions to intervene or protests on persons other than the Applicant.

The Commission encourages electronic submission of protests and interventions in lieu of paper using the "eFiling" link at http://www.ferc.gov. Persons unable to file electronically should submit an original and 14 copies of the protest or intervention to the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426.

This filing is accessible on-line at http://www.ferc.gov, using the "eLibrary" link and is available for review in the Commission's Public Reference Room in Washington, D.C. There is an "eSubscription" link on the web site that enables subscribers to receive email notification when a document is added to a subscribed docket(s). For assistance with any FERC Online service, please email FERCOnlineSupport@ferc.gov, or call (866) 208-3676 (toll free). For TTY, call (202) 502-8659.

Comment Date: [BLANK]

Kimberly D. Bose,
Secretary