



Compliance Audit Report Public

Arkansas Electric Cooperative Corporation

April 1-3, 2008

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

**Report:
April 21, 2008**

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
<i>Objectives</i>	3
<i>Scope</i>	4
<i>Confidentiality and Conflict of Interest</i>	5
<i>On-site Audit</i>	5
<i>Methodology</i>	6
<i>Audit Overview</i>	6
<i>Audit</i>	6
<i>Exit Briefing</i>	6
<i>Company Profile</i>	7
<i>Audit Specifics</i>	8
Audit Results	9
<i>Findings</i>	10
<i>Compliance Culture</i>	16

Executive Summary

This public version of the final compliance audit report will be posted on the Southwest Power Pool Regional Entity's (SPP RE) and NERC websites. Confidential information has been redacted from this report. The complete final compliance audit report was submitted to the Arkansas Electric Cooperative Corporation (AECC) and NERC.

Arkansas Electric Cooperative Corporation was scheduled for an on-site audit in 2008 as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). The CMEP requires all non-Balancing Authorities (BA) and Transmission Operators (TOP) to be audited once every six years. The Southwest Power Pool Regional Entity (SPP RE) assigned all non-BA/TOP entities to a six year cycle and randomly selected three entities to be audited on site each year. AECC was selected for an on-site audit in 2008. SPP RE's audit team arrived and reviewed 26 NERC Standards with the AECC staff. The audit team reviewed the company evidence for each requirement in the standards with AECC's subject matter experts. AECC provided evidence to support their compliance with the standards. SPP RE staff also reviewed 4 transmission planning (TPL) standards at their office. AECC is not the applicable entity for these standards but AECC does participate in the SPP model building and studies process for the SPP and SERC regions.

After reviewing all of the evidence presented, AECC was found to be compliant with all the NERC standards reviewed on-site and off-site.

Audit Process

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.¹ The audit objectives are:

- Independently review the company's compliance with the requirements of the reliability standards that are applicable to the company based on the company's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 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 standard, and review the status of associated mitigation plans.
- Validate coordination with neighboring Balancing Authorities, Transmission Operators, and the Reliability Coordinator.
- Document the company's compliance culture.

Scope

The compliance on-site audit include all reliability standards applicable to the Registered Entity monitored in the NERC Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity. Some periodically monitored standards were reviewed at the SPP RE office. The results of the off-site reviews are included in the audit report.

There are 62 NERC standards in the 2008 Monitored Compliance Program. The audit team reviewed 26 standards on site. SPP RE staff reviewed four standards at their office before the audit. Thirty six standards were determined not performed or non-applicable to AECC. Some of these were reviewed on-site and others deemed non-applicable before the audit through other documentation provided for the audit. Eight CIP standards will be reviewed during NERC self certification this summer.

The audit included questionnaires from the neighboring Balancing Authorities, Transmission Operators, and the Reliability Coordinator. Any indentified issues found in the neighboring and Reliability Coordinator questionnaires were addressed during the audit.

If a company has an outstanding mitigation plan or has just completed a mitigation plan, the progress or completion of the plan was validated on-site by the audit team. AECC did not have any outstanding mitigation plans.

This audit report includes the findings from the on-site and off-site review of the company's evidence.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff were provided to SPP RE and the audited entity in advance of the audit. The work history of each audit team member was provided to SPP RE and the company. The company 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. AECC accepted the final audit team member participants with no objections. SPP RE found no conflict of interest for any of the audit team members.

On-site Audit

The on-site audit is part of the NERC Compliance Monitoring and Enforcement Program (CMEP). Every TOP and BA registered in the NERC Functional Registration Data Base is required to have an on-site audit once every three years. The on-site audit covers the 2008 NERC monitored standards, any Regional standards identified and possible other NERC standards listed in the pre-audit information. Companies on the 2008 on-site audit list were notified in the Fall of 2007 about their upcoming audit and scheduled for the audit. Sixty days in advance, a letter explaining the audit was sent to the company. SPP RE sent the company a request for data and documents to complete. The pre-audit material included the audit team members, audit agenda, standards to be reviewed on-site, a pre-audit survey, the standards questionnaires, and the option to reject any audit team member. The pre-audit material received from the company provided the audit team an explanation of how the company operates for the functions they are registered.

The standards and supporting evidence to show compliance with the standards were reviewed with the company. The audit team received evidence supporting compliance with each requirement of the audited standards. Evidence included summary reports, company procedures, processes, work schedules, training schedules, on-line tools, data bases, and other sources. Information gathered from neighboring Balancing Authorities, Transmission Operators, and the Reliability Coordinator was considered during the review of evidence. The audit team reviewed the evidence for each standard and requirement with the company's subject matter experts. This process enabled the team to get immediate answers to questions that arose. This process also exposed other company staff to the audit process which helped solidify why a company follows certain procedures and processes. Any self-reported violations or open mitigation plans were reviewed by the audit team. The audit team used the evidence, the discussions with the company subject matter experts along with their professional judgment to decide on the recommended findings for the report.

On the final day, the lead auditor presented the findings of the audit to the company staff. AECC brought in several staff members for the presentation. The presentation covered the findings for the standards reviewed on on-site and off-site. The final report process was explained along with the security of the audit information. AECC was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. AECC was also notified that a post-audit questionnaire will be provided for them to make any comments about the audit or audit team. There was a question and answer session after the presentation. The lead auditor answered all the questions and thanked AECC for their hospitality.

Methodology

Arkansas Electric Cooperative Corporation supplied a conference room for audit. The audit team members had assignments to complete during the audit process. AECC brought in their subject matter experts as the team worked through the standards. The subject matter experts explained the evidence and answered all questions the team asked. AECC presented most of their evidence on an overhead projection screen. AECC provided other evidence as the audit team asked for more evidence to validate compliance. The overhead presentation was very useful for all of the team to review the evidence at one time.

The audit team had a private meeting after being presented the evidence from the company. The team went through each requirement and discussed the levels of compliance and addressed everyone's notes from the audit. The team decided on the findings to present to the company and the SPP RE. The closing presentation was put together using the findings of the audit. The lead auditor made the presentation to the AECC staff and answered all their questions.

Audit Overview

The audit team met with the AECC representative on the first morning of the audit. Facility and the audit process were discussed to verify if any changes to the agenda were warranted. There were no changes identified by either party.

Audit

The AECC audit was performed as planned. The agenda was followed without any adjustments.

Exit Briefing

The audit team gave an exit presentation for the AECC staff. The team lead explained the findings from the audit. The presentation was attended by AECC staff that participated in the audit and other staff. The presentation was open for comments and discussion about the findings. The exit presentation also covered any possible violations and mitigation requirements. AECC was informed that they will receive an audit evaluation to complete and return to NERC.

The audit team uses the exit presentation to help verify that the information presented is correct.

Company Profile

AECC performs the following NERC functions and is registered with NERC/SPP RE for these functions:

Transmission Owner (TO)

Generator Owner (GO)

Generator Operator (GOP)

Resource Planner (RP)

Purchasing Selling Entity (PSE)

Load Serving Entity (LSE)

Arkansas Electric Cooperative Corporation, based in Little Rock, is proud to provide power for about 460,000 members of Arkansas's 17 electric distribution cooperatives. Long considered one of the top generation and transmission cooperatives in the nation, AECC has assets of about \$1.1 billion and annual energy sales of about \$468 million. AECC provides power to its members - the 17 electric distribution cooperatives - through its diverse generation assets, which include three hydropower plants; three natural gas/oil-fired plants and two natural gas-fired-only plants. AECC also co-owns portions of three low-cost coal-fired plants. And when it is more economical to purchase power on the wholesale market than to run its plants, AECC's dispatchers do so to save its members money.

AECC was created in 1949 to provide Arkansas's electric cooperatives with a reliable and affordable power supply. At the time, the cooperatives were faced with rising electricity costs and shrinking power supplies. At the root of the problem was the cooperatives' dependence on investor-owned utilities for wholesale power. Although the cooperatives had built their own distribution systems - the lines and wires that transport electricity to their members - they had not built power plants and were prohibited by state law from doing so.

Audit Specifics

The compliance audit was conducted on April 1-3, 2008 at AECC's office in Little Rock, Arkansas.

Audit Team

Audit Team Role	Name	Title	Company
Lead	Kevin Goolsby, P.E.	SPP RE, Lead Engineer	SPP RE
Member	Shon Austin	SPP RE, Specialist II	SPP RE
Member	Paul Reber	SPP RE Contractor	SPP RE
Member	Tom Hess	SPP RE Contractor	SPP RE
Observer	Brian Monger	SPP RE Contractor	SPP RE
Observer	Roger Lampila	Regional Coordinator	NERC

AECC Audit Participants

Title	Organization
Principal Planning Engineer	AECC
IT Security Analyst	AECC
VP Information Technology	AECC
Principal Engineer, Transmission Operations	AECC
Principal Engineer, Power Supply Operations	AECC
Principal Dispatching Engineer	AECC
Planning Engineer	AECC
Senior Planning Engineer	AECC
VP Planning, Rates & Dispatching	AECC
Planning Analyst	AECC
Load Analyst	AECC

Audit Results

Arkansas Electric Cooperative Corporation did not have any violations or mitigation plans open for review during this audit. After reviewing the evidence presented to the audit team, AECC is found to be compliant with all applicable standards reviewed.

Arkansas Electric Cooperative Corporation was well prepared for the audit. They showed a commitment to be in compliance with the NERC standards and are continually working to improve their processes and documentation to meet the standards. AECC has started a document tracking process to help them manage the needed updates and coordination of the documents.

Findings

Arkansas Electric Cooperative Corp.

*N/A – Not Applicable

PAV – Possible Alleged Violation

Reliability Standard	Requirement	Finding
BAL-001-0	R1.	N/A
BAL-001-0	R2.	N/A
BAL-001-0	R3.	N/A
BAL-001-0	R4.	N/A
BAL-002-0	R1.	N/A
BAL-002-0	R2.	N/A
BAL-002-0	R3.	N/A
BAL-002-0	R4.	N/A
BAL-002-0	R5.	N/A
BAL-002-0	R6.	N/A
BAL-003-0	R1.	N/A
BAL-003-0	R2.	N/A
BAL-003-0	R3.	N/A
BAL-003-0	R4.	N/A
BAL-003-0	R5.	N/A
BAL-003-0	R6.	N/A
BAL-004-0	R1.	N/A
BAL-004-0	R2.	N/A
BAL-004-0	R3.	N/A
BAL-004-0	R4.	N/A
BAL-005-0	R1.	Compliant
BAL-005-0	R2.	N/A
BAL-005-0	R3.	N/A
BAL-005-0	R4.	N/A
BAL-005-0	R5.	N/A
BAL-005-0	R6.	N/A
BAL-005-0	R7.	N/A
BAL-005-0	R8.	N/A
BAL-005-0	R9.	N/A
BAL-005-0	R10.	N/A
BAL-005-0	R11.	N/A
BAL-005-0	R12.	N/A
BAL-005-0	R13.	N/A
BAL-005-0	R14.	N/A
BAL-005-0	R15.	N/A
BAL-005-0	R16.	N/A

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

Reliability Standard	Requirement	Finding
BAL-005-0	R17.	N/A
BAL-006-1	R1.	N/A
BAL-006-1	R2.	N/A
BAL-006-1	R3.	N/A
BAL-006-1	R4.	N/A
BAL-006-1	R5.	N/A
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
COM-001-1	R1.	N/A
COM-001-1	R2.	N/A
COM-001-1	R3.	N/A
COM-001-1	R4.	N/A
COM-001-1	R5.	N/A
COM-001-1	R6.	N/A
COM-002-2	R1.	Compliant
COM-002-2	R2.	N/A
EOP-001-0	R1.	N/A
EOP-001-0	R2.	N/A
EOP-001-0	R3.	N/A
EOP-001-0	R4.	N/A
EOP-001-0	R5.	N/A
EOP-001-0	R6.	N/A
EOP-001-0	R7.	N/A
EOP-002-2	R1.	N/A
EOP-002-2	R2.	N/A
EOP-002-2	R3.	N/A
EOP-002-2	R4.	N/A
EOP-002-2	R5.	N/A
EOP-002-2	R6.	N/A
EOP-002-2	R7.	N/A
EOP-002-2	R8.	N/A
EOP-002-2	R9.	N/A
EOP-003-1	R1.	N/A
EOP-003-1	R2.	N/A
EOP-003-1	R3.	N/A
EOP-003-1	R4.	N/A
EOP-003-1	R5.	N/A
EOP-003-1	R6.	N/A
EOP-003-1	R7.	N/A
EOP-003-1	R8.	N/A
EOP-004-1	R1.	N/A

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

Reliability Standard	Requirement	Finding
EOP-004-1	R2.	Compliant
EOP-004-1	R3.	Compliant
EOP-004-1	R4.	N/A
EOP-004-1	R5.	N/A
EOP-005-1	R1.	N/A
EOP-005-1	R2.	N/A
EOP-005-1	R3.	N/A
EOP-005-1	R4.	N/A
EOP-005-1	R5.	N/A
EOP-005-1	R6.	N/A
EOP-005-1	R7.	N/A
EOP-005-1	R8.	N/A
EOP-005-1	R9.	N/A
EOP-005-1	R10.	N/A
EOP-005-1	R11.	N/A
EOP-006-1	R1.	N/A
EOP-006-1	R2.	N/A
EOP-006-1	R3.	N/A
EOP-006-1	R4.	N/A
EOP-006-1	R5.	N/A
EOP-006-1	R6.	N/A
EOP-008-0	R1.	N/A
EOP-009-0	R1.	N/A
EOP-009-0	R2.	N/A
FAC-003-1	R1.	N/A
FAC-003-1	R2.	N/A
FAC-003-1	R3.	N/A
FAC-003-1	R4.	N/A
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	Compliant
FAC-008-1	R3.	Compliant
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
FAC-013-1	R1.	N/A
FAC-013-1	R2.	N/A
INT-001-2	R1.	N/A
INT-001-2	R2.	Compliant
INT-003-2	R1.	N/A
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R1.	N/A
IRO-001-1	R2.	N/A
IRO-001-1	R3.	Compliant

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

Reliability Standard	Requirement	Finding
IRO-001-1	R4.	N/A
IRO-001-1	R5.	N/A
IRO-001-1	R6.	N/A
IRO-001-1	R7.	N/A
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	N/A
IRO-003-2	R1.	N/A
IRO-003-2	R2.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	Compliant
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
IRO-005-1	R1.	N/A
IRO-005-1	R2.	N/A
IRO-005-1	R3.	N/A
IRO-005-1	R4.	Compliant
IRO-005-1	R5.	N/A
IRO-005-1	R6.	N/A
IRO-005-1	R7.	N/A
IRO-005-1	R8.	N/A
IRO-005-1	R9.	Compliant
IRO-005-1	R10.	N/A
IRO-005-1	R11.	N/A
IRO-005-1	R12.	N/A
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	N/A
IRO-005-1	R15.	N/A
IRO-005-1	R16.	N/A
IRO-005-1	R17.	Compliant
IRO-006-3	R1.	N/A
IRO-006-3	R2.	N/A
IRO-006-3	R3.	N/A
IRO-006-3	R4.	N/A
IRO-006-3	R5.	N/A
IRO-006-3	R6.	N/A
IRO-014-1	R1.	N/A
IRO-014-1	R2.	N/A
IRO-014-1	R3.	N/A
IRO-014-1	R4.	N/A
IRO-015-1	R1.	N/A

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

Reliability Standard	Requirement	Finding
IRO-015-1	R2.	N/A
IRO-015-1	R3.	N/A
IRO-016-1	R1.	N/A
IRO-016-1	R2.	N/A
PER-002-0	R1.	N/A
PER-002-0	R2.	N/A
PER-002-0	R3.	N/A
PER-002-0	R4.	N/A
PER-003-0	R1.	N/A
PER-004-1	R1.	N/A
PER-004-1	R2.	N/A
PER-004-1	R3.	N/A
PER-004-1	R4.	N/A
PER-004-1	R5.	N/A
PRC-004-1	R1.	Compliant
PRC-004-1	R2.	Compliant
PRC-004-1	R3.	Compliant
PRC-005-1	R1.	Compliant
PRC-005-1	R2.	Compliant
PRC-008-0	R1.	Compliant
PRC-008-0	R2.	Compliant
PRC-010-0	R1.	N/A
PRC-010-0	R2.	N/A
PRC-011-0	R1.	N/A
PRC-011-0	R2.	N/A
PRC-016-0	R1.	N/A
PRC-016-0	R2.	N/A
PRC-016-0	R3.	N/A
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R1.	N/A
TOP-002-2	R2.	N/A
TOP-002-2	R3.	Compliant
TOP-002-2	R4.	N/A
TOP-002-2	R5.	N/A
TOP-002-2	R6.	N/A
TOP-002-2	R7.	N/A
TOP-002-2	R8.	N/A
TOP-002-2	R9.	N/A
TOP-002-2	R10.	N/A
TOP-002-2	R11.	N/A

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

Reliability Standard	Requirement	Finding
TOP-002-2	R12.	N/A
TOP-002-2	R13.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	N/A
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
TOP-003-0	R4.	N/A
TOP-004-1	R1.	N/A
TOP-004-1	R2.	N/A
TOP-004-1	R3.	N/A
TOP-004-1	R4.	N/A
TOP-004-1	R5.	N/A
TOP-004-1	R6.	N/A
TOP-005-1	R1.	N/A
TOP-005-1	R2.	Compliant
TOP-005-1	R3.	N/A
TOP-005-1	R4.	Compliant
TOP-007-0	R1.	N/A
TOP-007-0	R2.	N/A
TOP-007-0	R3.	N/A
TOP-007-0	R4.	N/A
TPL-001-0	R1.	N/A
TPL-001-0	R2.	N/A
TPL-001-0	R3.	N/A
TPL-002-0	R1.	N/A
TPL-002-0	R2.	N/A
TPL-002-0	R3.	N/A
TPL-003-0	R1.	N/A
TPL-003-0	R2.	N/A
TPL-003-0	R3.	N/A
TPL-004-0	R1.	N/A
TPL-004-0	R2.	N/A
VAR-001-1	R1.	N/A
VAR-001-1	R2.	N/A
VAR-001-1	R3.	N/A
VAR-001-1	R4.	N/A
VAR-001-1	R5.	Compliant
VAR-001-1	R6.	N/A

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

Reliability Standard	Requirement	Finding
VAR-001-1	R7.	N/A
VAR-001-1	R8.	N/A
VAR-001-1	R9.	N/A
VAR-001-1	R10.	N/A
VAR-001-1	R11.	Compliant
VAR-001-1	R12.	N/A
VAR-002-1	R1.	Compliant
VAR-002-1	R2.	Compliant
VAR-002-1	R3.	Compliant
VAR-002-1	R4.	Compliant
VAR-002-1	R5.	Compliant

Compliance Culture

Arkansas Electric Cooperative Corp. completed a questionnaire describing their company compliance program and culture before the audit. From reviewing the questionnaire and observing the actions of AECC staff during the audit, AECC is building a culture about being compliant with the NERC standards. Their internal compliance program consists of three division vice presidents and upper management from seven departments. The Reliability Compliance Manager is a vice president with direct access to the Chief Executive Officer. The applicable standards and requirements are divided among the divisions. Each division is responsible for maintaining compliance and having the documentation and data retention to show compliance. The vice presidents then monitor and review their division's performance. This showed a strong commitment by upper management to maintain compliance within the company.

AECC has been part of the SPP compliance program since 2000. They have been responsive to all requests from the region. AECC has participated in the regional workshops, survey activities, self certification process, and spot checks. AECC conducts company meetings to educate the department management and other staff of the expectations for meeting compliance and any new developments concerning the NERC standards.

Overall, AECC verified that they have a company compliance program that is working to maintain compliance. There is strong leadership in place, the company continues to update and educate staff of changes, and they re-evaluate there progress. Their company program confirms that they are committed to complying with the NERC standards.