



Compliance Audit Report Public Version

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

**Golden Spread Electric Cooperative,
Inc.
NCR01100**

**Audit
June 24-27, 2008**

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Executive Summary

This final compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been redacted from this report. The report will be submitted to the Golden Spread Electric Cooperative (GSEC) and to NERC after any Possible Alleged Violations have been processed through the Southwest Power Pool Regional Entity's (SPP RE) 2008 Compliance Monitoring and Enforcement Program.

GSEC was scheduled for an off-site audit in 2008 as part of the NERC Compliance Monitoring and Enforcement Program (CMEP). GSEC is subject to audits by SPP RE on a six year basis. The audit team reviewed the material provided by GSEC in response to the initial SPP RE data request and additional material requested by the audit team during their review as necessary to develop its findings. The SPP RE audit team reviewed the material and developed the audit findings on GSEC's compliance to the standards.

SPP RE audit team reviewed 18 standards that included 32 requirements that apply to GSEC for the functions it performs with the SPP RE Region. Of the 18 standards and applicable requirements, 10 were determined to not apply to GSEC since it does not own transmission protection equipment, underfrequency load shedding equipment, undervoltage load shedding equipment, or special protection systems. GSEC was prepared for the audit and presented its documentation in a complete and concise manner. GSEC did not have any violations or mitigation plans open for review during this audit.

After reviewing all of the evidence presented, the audit team found GSEC to be compliant with all 8 of the NERC standards reviewed and applicable to GSEC at this time.

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:

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

- Independently review the company's compliance with the requirements of the NERC and regional 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.
- Review 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 BAs, TOPs, and the Reliability Coordinator.
- Document the company's compliance culture.

Scope

The off-site compliance audit includes all reliability standards applicable to the Registered Entity monitored in the CEMP Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity.

There are 62 NERC standards in the 2008 Monitored Compliance Program. Twenty-six standards cover functions not performed by GSEC and are not applicable to the company. Eighteen standards were reviewed during the off-site compliance audit. Eight CIP standards will be reviewed by NERC CIP self certification this summer.

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

This audit report includes the findings from the 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 the SPP RE and available to 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. GSEC accepted the final audit team member participants with no objections. SPP RE found no conflict of interest with any of the audit team members.

Off-site Audit

The off-site audit is part of the NERC Compliance Monitoring and Enforcement Program (CMEP). GSEC is subject to a compliance audit once every six years at the minimum, as indicated in the NERC Rules and Procedures. The off-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 off-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, 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 for which they are registered.

The supporting evidence to show compliance with each requirement of the standards was reviewed by the audit team at the SPP RE office. Evidence included summary reports, company procedures, processes, data bases, logs, and other sources. Information gathered from Balancing Authorities, Transmission Operators, and the Reliability Coordinator was considered during the review of evidence. The audit team had teleconference interviews with company subject matter experts as necessary to provide additional information or to further explain the material the company provided. This process enabled the team to get answers to its questions. This process also exposed other company staff to the audit process which helped solidify to its employees 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 held a conference call to present the findings of the audit to the company staff. GSEC included several staff members and contract personnel for the call. The presentation covered the findings for the standards reviewed. The final report process was explained along with the security of the audit information. GSEC was informed that the public report will be posted on the NERC and SPP RE websites after all due processes are complete. GSEC 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.

Methodology

The audit team reviewed the evidence supplied by the company for each requirement of all NERC standards that apply to the functions performed by the company to determine if the company complied with that requirement. The company would be found to be noncompliant with requirements where compliance cannot be confirmed.

This audit was conducted in the SPP-RE offices using material provided by GSEC. The audit team made additional calls, as needed, to request additional information or to clarify information previously supplied to the team. The audit team leader requested telephone interviews with GSEC employees representing subject matter expertise regarding all registered functions of GSEC. These interviews in conjunction with evidence provided to the audit team formed the basis for professional judgment when validating compliance with reliability standards.

The team reviewed each requirement and discussed the levels of compliance and addressed each team member's notes from the audit. The audit team decided on the findings to present to the company and the SPP RE. The audit team developed the closing presentation for the audit findings. The lead auditor gave the presentation to the GSEC staff and answered all their questions.

Audit Overview

The audit team reviewed material supplied by GSEC and scheduled follow-up telephone discussions as needed. The audit team reviewed each applicable standard in numerical order.

Audit

The GSEC audit was performed as planned. The agenda was followed with only minor adjustments.

Exit Briefing

The audit team gave an exit presentation for the GSEC staff. The team lead explained the findings from the audit. The presentation was attended by GSEC 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. GSEC was informed that they will receive an audit evaluation to complete and return to NERC.

The audit team used the exit presentation to help verify that the information presented was correct.

Company Profile

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

- Distribution Provider
- Load Serving Entity
- Purchasing-selling Entity
- Resource Planner

GSEC is a consumer-owned public utility that is organized to provide low cost, reliable electric service for its rural distribution cooperative members. Its 16 member systems serve more than 205,000 retail consumers located in the Panhandle, South Plains and Edwards Plateau Regions of Texas, an area covering 24 percent of the state, and in the Panhandle of Oklahoma and in Southwestern Kansas.

GSEC does not serve any retail load but provides electrical energy to its 16 member cooperatives. GSEC has a 993 MW peak load in SPP in the summer of 2007. GSEC has additional load in ERCOT.

Golden Spread Electric Generating Cooperative, Inc. is a wholly owned affiliate that engages in exempt wholesale generating activities. GSEC is a 50 percent owner of the 480 megawatt Mustang Station, a gas-fueled, combined cycle generating plant located near Denver City, Texas. Yoakum Electric Generating Cooperative, Inc. is also a wholly-owned affiliate that owns Mustang Station Unit 4 and Mustang Station Unit 5, both 152 MW gas fired generation units.

Audit Specifics

The compliance audit was conducted on June 24-27, 2008 at the SPP RE office in Little Rock, Arkansas.

Audit Team

Audit Team Role	Name	Title	Company
Lead	Kevin Goolsby, P.E.	Lead Engineer	SPP RE
Member	Shon Austin	Specialist II	SPP RE
Member	James Williams	Lead Compliance Specialist	SPP RE
Member	Paul Reber	Contractor	SPP RE
Observer	Mark Vastano	Regional Coordinator	NERC

GSEC Audit Participants

Title	Organization
Vice President and Manager, Transmission & Operations	Golden Spread Electric Cooperative, Inc.
Manager, Engineering	Golden Spread Electric Cooperative, Inc.
Manager, Generation	Golden Spread Electric Cooperative, Inc.
Principal of Transmission Services	GDS Associates
Project Manager	GDS Associates
Project Manager	GDS Associates
Golden Spread General Counsel	Miller, Balis, & O'Neil, P.C.

Audit Results

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

The final presentation was sent to GSEC before the final conference call. Senior management attended the audit findings presentation. GSEC was prepared for the audit and presented its documentation in a complete and concise manner. GSEC expert personnel from each area of expertise were available to support the evidence provided or asked for during the audit. GSEC showed that they are in compliance with the NERC standards and are working to improve their processes and procedures to insure that they continue to remain compliant. GSEC staff is committed to compliance.

Findings

GSEC Off-site Audit Findings

*N/A – Not Applicable

PAV – Possible Alleged Violation

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-004-1	R2.	Compliant
INT-001-2	R1.	N/A
INT-004-1	R1.	N/A
INT-004-1	R2.	N/A
IRO-001-1	R8.	Compliant
IRO-004-1	R4.	Compliant
PRC-004-1	R1.	N/A
PRC-004-1	R3.	N/A
PRC-005-1	R1.	N/A
PRC-005-1	R2.	N/A
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A
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	R3.	Compliant
TOP-002-2	R18.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

Golden Spread Electric Coop. and Yoakum completed a combined questionnaire prior to the compliance audit. GSEC stated that it has a formal internal compliance program and provided a description of the internal compliance monitoring to the audit team. The compliance program is new and GSEC is in the process refining it. The vice president and manager, transmission and operations is designated as the compliance officer and is authorized to review and approve all compliance programs, and execute documents or certification necessary for compliance. As an officer of the company, the vice president and manager, transmission and operations has independent access to the president and general manager of GSEC and to the board of directors. The responsibilities for administrating compliance have been assigned to the manager, engineering.

GSEC has contracted with an engineering company to help develop its policy, guidelines, and procedures. The engineering company also assists the manager, engineering, in maintaining the compliance program. GSEC believes that the use of internal company personnel and external contract personnel provides internal knowledge to develop the program and external independent assessment of the program. GSEC has also purchased tracking software to monitor changes in the NERC standards and regional differences. The tracking software also correlates the GSEC documents with the NERC Standard requirements.

Overall, GSEC has a compliance program with staff involvement. The staff is aware of the importance of continual compliance. GSEC senior management is familiar with the standard requirements and involved in the compliance process. GSEC is refining a process to track and keep documentation up to date. They showed progress to make their compliance program stronger in the future.