



Compliance Audit Report Public Version

**Citigroup Energy, Inc.
NCR10055**

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

Audit Date - April 2 – 4, 2008

Report Date – April 14, 2008

TABLE OF CONTENTS

Executive Summary	2
Audit Process	3
<i>Objectives</i>	3
<i>Scope</i>	3
<i>Confidentiality and Conflict of Interest</i>	3
<i>The Audit</i>	4
<i>Methodology</i>	5
<i>Opening Briefing/Audit Overview</i>	5
<i>Audit</i>	5
<i>Exit Briefing</i>	5
<i>Company Profile</i>	6
<i>Audit Specifics</i>	6
Audit Results.....	6
<i>Findings</i>	7
<i>Compliance Culture</i>	7

Executive Summary

Citigroup Energy, Inc. (Citigroup) is registered as a Purchase-Selling Entity (PSE) within the ReliabilityFirst region in the NERC Compliance Registry as of April 2, 2008. This compliance audit covered the period June 18, 2007 to April 2, 2008.

The off-site compliance audit of Citigroup Energy, Inc. was conducted, by ReliabilityFirst Corporation, on April 2-4, 2008 at the ReliabilityFirst offices located in Fairlawn, Ohio. I

In preparation for the audit, Citigroup Energy, Inc. supplied various materials as evidence of compliance with the applicable requirements in five (5) reliability standards. Citigroup Energy, Inc. was provided a sixty day notification of the upcoming audit. This notification contained a request for information and data to be submitted for the applicable NERC and ReliabilityFirst Reliability Standards and all the necessary documents related to the audit. The information was distributed via electronic and hardcopy format to Citigroup. Citigroup provided the requested information as prescribed in the notification letter on time and in an auditable manner. As a result of the audit team review of the material submitted by Citigroup Energy, Inc., the audit team determined that NO possible violation(s) were found and therefore Citigroup Energy Trading, Inc. was in compliance with the applicable requirements in the five (5) applicable reliability standards.

In addition, there were no ongoing mitigation plans and therefore none were reviewed by the audit team.

The audit team has made recommendations concerning compliance reporting which can be found in the document attached which Citigroup may utilize at its discretion. These recommendations will not be part of the report sent to NERC.

This compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been redacted from this report. The full compliance audit report containing the public and non-public versions has been submitted to the ReliabilityFirst Vice-President and Director of Compliance, Citigroup Energy, Inc. and NERC. NERC will submit the public version to FERC and post on their website.

Citigroup Energy, Inc. was provided a sixty day notification of the upcoming audit. This notification contained a request for information and data to be submitted for the applicable NERC and ReliabilityFirst Reliability Standards and all the necessary documents related to the audit. The information was distributed via electronic and hardcopy format to Citigroup. Citigroup provided the requested information as prescribed in the notification letter on time and in an auditable manner.

Audit Process

The compliance audit process steps are detailed in the NERC Compliance Monitoring and Enforcement Program (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:

- Review of Citigroup's evidence for compliance with the applicable reliability standards/requirements from the NERC 2008 Implementation Plan list of actively monitored standards for the Citigroup's registered functions.
- Validate evidence for compliance with applicable reliability standards
- Validate evidence of self-reported violations and previous self-certifications,
- Review the status of associated mitigation plans.

Scope

Citigroup's compliance audit included all reliability standards that are applicable to Citigroup and monitored in the 2008 NERC Implementation Plans for the period of June 18, 2007 through April 2, 2008. This compliance audit was part of their regularly scheduled 6 year cycle and was not due to or part of a compliance investigation.

Citigroup is subject to monitoring by ReliabilityFirst on a six year basis at the minimum. This audit was conducted on those standards which were provided by NERC for monitoring in the 2008 CMEP Implementation Plan. ReliabilityFirst monitors all applicable ReliabilityFirst standards, self certifications and mitigation plans as appropriate.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the ReliabilityFirst Delegation Agreement with NERC and the NERC Rules and Procedures Section 1500. The audited entity was informed of the ReliabilityFirst obligations and responsibilities under these agreements and procedures. The work history for each audit team member was 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 an audit team member's impartial performance of duties. The audited entity has

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

not submitted any objections by the stated fifteen day objection due date and by this action has accepted the audit team member participants without objections.

All members of the audit team, that audited Citigroup, are members of the ReliabilityFirst Staff and are bound by the NERC Rules of Procedure and the confidentiality that is within that FERC filed document

The Audit

Citigroup is subject to an audit once every six years, at the minimum, as provided by the NERC Rules and Procedures. Sixty (60) days prior to this scheduled audit, Citigroup had been provided with a pre-audit package which included all the necessary documents and information, required by NERC and ReliabilityFirst, to complete the audit process. This pre-audit package included the following:

- 60 day Notification letter which contained request for evidence, information and data submittals
- Audit Survey
- Audit Agenda as applicable
- Audit Team Work History with discussion of objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Auditor Worksheets (RSAWs)
- Reliability Standard Questionnaires

Documents were provided to Citigroup in both electronic and hardcopy format.

Citigroup had been notified to provide any technical experts or personnel it deemed necessary to provide an understanding of the evidence provided to meet compliance.

Due to the limited scope of this audit, the audit team leader did not request interviews with Citigroup employees representing subject matter expertise regarding the registered functions of Citigroup. Requests for technical experts were done as determined by the audit team while reviewing the submitted information.

At times, and according to the generally accepted government auditing standard 3.31, auditors were to use professional judgment in planning and performing audits and attestation engagements and in reporting the results.

Additionally, and with the generally accepted government auditing standard 3.39, while this standard places responsibility on each auditor and audit organization to exercise professional judgment in planning and performing an audit or attestation engagement, it does not imply unlimited responsibility, nor does it imply infallibility on the part of either the individual auditor or the audit organization. Absolute assurance is not attainable because of the nature of evidence and the characteristics of fraud. Professional judgment does not mean eliminating all possible

limitations or weaknesses associated with a specific audit, but rather identifying, considering, minimizing, mitigating, and explaining them.

An audit agenda and/or schedule had been provided to Citigroup in advance to allow the necessary time to prepare for the audit.

Methodology

The approach used by the Reliability*First* Audit team was to review each reliability standard and applicable requirement and then evaluate and measure the evidence provided, by the entity, against the requirement within the standard. The off-site audits followed the following format.

Opening Briefing/Audit Overview

An Opening Briefing was conducted as a conference call/Webex to discuss the following:

- Introduction of audit team
- Audit Objective and Scope
- Team Audit Expectations
- Discussion on Clarification Calls
- Audit Process
- Exit Briefing and schedule

Audit

When the audit team had concerns that the supporting evidence did not meet the intent of the requirement, clarification calls and or clarification e-mails were sent to the entity for additional detail, clarification and or additional evidence in the form of examples. The entity was NOT permitted to create new documents and/or edit existing material and/or documents that were provided as evidence.

Exit Briefing

An exit briefing was conducted with a presentation, via Webex, for the off-site audit of Citigroup Energy, Inc. The Reliability*First* audit team and the Citigroup team participated. The audit process was again reviewed. If alleged violations would have been identified during the audit they would have been reviewed during the discussion of our preliminary results however, Citigroup was provided an opportunity to ask questions that the audit team addressed. In addition, the audit team identified a few recommendations on quality of evidence that were reviewed with Citigroup. These recommendations will be provided to Citigroup in a separate document and not as part of the audit report. This is required as specified in section 3.1.6 of the

Uniform Compliance Monitoring and Enforcement Program of the North American Electric Reliability Corporation.

Company Profile

Citigroup Energy Inc. (CEI) is 100% owned by Citigroup Financial Products with the eventual ultimate ownership by Citigroup, Inc. CEI is registered with ReliabilityFirst as a Purchasing Selling Entity (PSE). CEI does not have any retail residential, industrial, commercial or other customers. CEI is a FERC approved power marketer that trades wholesale power. As a power marketer, CEI has counterparties but none that are the ultimate end-users.

Audit Specifics

The audit was conducted, by ReliabilityFirst Corporation, on April 2-4, 2008 at the ReliabilityFirst offices located in Fairlawn, Ohio.

Audit Team

Audit Team Role	Title	Company
Lead	Manager of Compliance Audits	ReliabilityFirst Corp.
Member	Regional Compliance Program Coordinator	NERC

Citigroup Energy Inc. Audit Participants

Title	Organization
Director	Citigroup Global Markets Inc.
Senior Vice President,	Citigroup Global Markets, Inc.
Director	Citigroup Energy Inc.

Audit Results

In general the evidence was reviewed and validated during the offsite audit for compliance to the standards or requirements. Where the evidence was not deemed sufficient or a clarification was required, the audited entity was contacted and asked to provide additional detail and/or examples of how compliance was met. No new documents were permitted or edits to existing documents allowed. Examples of adherence to compliance needed to be in the form of real-time applications and/or dated material to prove the entity's process and/or procedures were being followed.

Findings

The following table details the summarized auditor notes relating to evidence reviewed for compliance with the reliability standards listed in the NERC 2008 Implementation Plan. This table can also include details summarizing auditor notes relating to evidence reviewed for reliability standard requirements for self-reported violations, ongoing mitigation plans, and other discussions. In general, the CEI document entitled Purchasing-Selling Entity Compliance Procedures for NERC Reliability Standards dated October 1, 2007, as amended February 15, 2008 identifies the PSE applicable requirements and the responsibilities of the CEI employees for the NERC Reliability Standards and CEI Compliance.

Audit Findings Table

Reliability Standard	Requirement	Finding
INT-001-2	R1.	Compliant
INT-004-1	R1.	Compliant
INT-004-1	R2.	Compliant
IRO-001-1	R8.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

Citigroup Energy Inc. has been a registered PSE with Reliability First since September 5, 2007. CEI staff is aware of the various reliability standards that are associated with the PSE function. We have a desk procedure that outlines the reliability standards, as well as the required escalation procedures. Mary Beth Rooney is the Compliance Officer that supports the Business' activities.

CEI document entitled Purchasing-Selling Entity Compliance Procedures for NERC Reliability Standards dated October 1, 2007, as amended February 15, 2008 identifies the PSE applicable requirements and the responsibilities of the CEI employees for the NERC Reliability Standards and CEI Compliance. The Citi Escalation Guidelines supports the Citi Code of Conduct for exceptional high standard of business ethics. This document is intended to address escalation of the ethical or legal concerns, proprietary Citi transactions, client initiated transactions and system, operational or technology issues.