



# **Compliance Audit Report Public Version**

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

**DC Energy LLC**

**NCR 07057**

**NCR 08015**

**NCR 09005**

**NCR 10014**

**DC Energy Midwest**

**NCR 08018**

**NCR 09004**

**NCR 10013**

**DC Energy Mid-Atlantic**

**NCR 08017**

**NCR 09003**

**NCR 10012**

**October 21, 2008**

**October 23, 2008**

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## Executive Summary

The Midwest Reliability Organization (MRO) conducted a compliance audit of DC Energy, LLC; DC Energy Midwest; DC Energy Mid-Atlantic; hereafter referred to as DC Energy, as a part of its normal six year cycle on the behalf of the MRO, Northeast Power Coordinating Council (NPCC), Reliability First Corporation (RFC) and SERC Reliability Council (SERC). Review of documentation submitted by DC Energy took place at the MRO offices on October 21, 2008. The team conducted an audit conference call on October 22, 2008 at the MRO office. The audit team consisted of two MRO staff members.

The North American Electric Reliability Corporation (NERC) has designated a subset of Reliability Standards for active compliance monitoring and reporting by the Regional Entities in their 2008 implementation plan. NERC has identified 62 standards as “actively monitored” which contain 294 requirements. These compliance audits focus on the period from June 18, 2007 to the audit date.

DC Energy is registered with the MRO as responsible for one function – Purchasing-Selling Entity (PSE). As a result of this registration and for this audit, DC Energy is responsible for meeting compliance with six Reliability Standards which contain seven requirements. DC Energy is found to be in full compliance with seven requirements.

As a part of the audit process, DC Energy completed an Audit Questionnaire and provided the MRO with supporting documentation for its audit. Upon completion of the initial review of evidence, the audit team then contacted DC Energy to discuss the findings of the audit.

During the conference call, the DC Energy staff was found to be cordial, willing to clarify any questions and, when needed, directed the audit team to the correct supporting documentation. The subject matter experts were open with their responses and were cooperative throughout the process.

## Audit Process

The DC Energy Compliance Audit was conducted as a part of its normal six year cycle. The 2008 Compliance Program consists of 54 actively monitored Standards. Forty-eight of these Standards were deemed not applicable, which are related to functions other than PSE. Documentation was viewed from June 18, 2007 to the date of the audit.

The compliance audit process steps are detailed in the NERC Compliance Monitoring and Enforcement Plan (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.<sup>1</sup> The audit objectives are:

- Independently review DC Energy's compliance with the requirements of the reliability standards that are applicable to DC Energy based on the DC Energy's registered function.
- 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 standards, and review the status of associated mitigation plans.

### *Scope*

The DC Energy Compliance Audit was conducted as a part of its normal six year cycle. The audit was conducted under the guidelines of the 2008 CMEP. All applicable Regulatory Approved and MRO Regional standards were reviewed during this audit. The audit team reviewed supporting documentation starting June 18<sup>th</sup>, 2007 through October 7<sup>th</sup>, 2008.

### *Confidentiality and Conflict of Interest*

Confidentiality agreements and code of conduct documentation for the regional entity staff were available to the audited entity in advance of the audit. Biographies of each audit team member were available to the audited entity if requested. 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.

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

### ***Methodology***

Audit criteria included standards, measures, and expectations based on best practices. The criteria is objective, measurable, complete and relevant to the objectives. The audit team accepted and was not limited to policies, procedures, screen-prints of EMS, copies of operator logs, audio clips, and correspondence. If needed, additional supporting documentation or clarification was requested.

The Audit team used the Reliability Standards Auditor Worksheets (RSAW) to review each reliability standard during the compliance audit. This is done to ensure consistency and fairness during each compliance audit.

### ***Audit Overview***

The MRO scheduled DC Energy to receive a compliance audit October 22, 2008 as a part of its normal six year cycle. On August 8, 2008 the MRO sent DC Energy the audit package which included *the On-Site Notification, Pre-Audit Survey, Procedures for Conducting an Audit, Subject Matter Experts Spreadsheet, Preparing for Compliance and Compliance Audit* and the *2008 MRO Audit Questionnaire*.

### ***Audit***

Two weeks prior to the audit, DC Energy supplied MRO with all of the supporting documentation needed to demonstrate compliance. MRO staff reviewed this documentation. The compliance staff utilized the NERC Standards and the RSAW while reviewing the supporting documents and the Audit Questionnaire response provided by DC Energy.

The WebEx conference, in conjunction with supporting evidence, provided the audit team with a basis for professional judgment when validating compliance with reliability standards.

### ***Audit Proceedings***

The MRO presented a high level overview of the compliance audit process.

The auditor code of conduct was reviewed. MRO staff must adhere to confidentiality as required through the NERC Delegation Agreement.

### ***Exit Briefing***

The DC Energy documentation and evidence was judged to be compliant, and there were no further questions or open issues. Upon completion of the audit portion of the conference call, the MRO conducted an exit briefing with the DC Energy staff. DC Energy was found to be in compliance to the Reliability Standards and Requirements for which they are responsible.

All documentation is stored at the MRO office in a fire proof locked cabinet.

### ***Company Profile***

DC Energy is a proprietary trading firm which seeks and transacts on financial opportunities in electric and other commodity markets, including those administered by the various RTO/ISOs in the United States and exchange markets such as ICE and NYMEX. The firm was founded in 2002 and since then has grown to a team of around 70 investment professionals who undertake a range of activities including trading financial transmission rights (FTRs), virtual bidding in day-ahead energy markets, cross-border interchange transactions, and trading of financially settled swaps and futures pertaining to electricity and natural gas.

Each of the registered entities covered by this audit (DC Energy, LLC; DC Energy Mid-Atlantic, LLC; and DC Energy Midwest, LLC) is party to certain of the abovementioned cross-control-area interchange transactions, and each operates under FERC-approved market-based rate tariffs. All are wholly-owned subsidiaries of DC Energy Holdings, LLC, which also has a number of other subsidiaries not transacting within the MRO footprint. Controlling interest in DC Energy Holdings, LLC, is ultimately held by several individuals. Neither DC Energy nor its stakeholders owns or operates any generation or transmission facilities or serves load.

The members of the scheduling desk at DC Energy are responsible for coordinating the bidding and tagging of cross-border transactions for all of its geographic subsidiaries, and therefore the policy and compliance information discussed during this audit process is generally applicable across all three registered entities. In this document we refer to all three registered entities as simply "DC Energy."

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***Audit Specifics***

The compliance audit document review was conducted in the MRO offices in Roseville, MN on October 21, 2008 which was followed up by a conference call on October 22, 2008.

**Audit Team**

<b>Audit Team Role</b>	<b>Title</b>	<b>Company</b>
Lead	Compliance Audit Manager	MRO
Member	Compliance Program Principle	MRO

**DC Energy Audit Participants**

<b>Title</b>	<b>DC Energy Organization</b>
Director	DC Energy
Managing Director	DC Energy
Associate	DC Energy

## Audit Results

- DC Energy provided the audit team with supporting documentation for review prior to the conference call. The team received all of the supporting documentation needed for evidence. The audit team reviewed the supplied documentation prior to the conference call.
- The audit team utilized the Reliability Standard Auditor Worksheets (RSAW) in order to assess compliance of the reliability standards. The primary questions of the subject matters were documented in addition to the requests for additional evidence.

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Has Been Removed

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Conducted On: **Oct 21, 2008**

Entity: **DC Energy Midwest, DC Energy Mid-Atlantic, DC Energy LLC**

Address: **8065 Leesburg Pike, Suite 500, Vienna, Virginia 22182, United States**

NERC Compliance Registry ID: **NCR07057, NCR08015, NCR08017, NCR08018, NCR09003, NCR09004, NCR09005, NCR 10012, NCR10013, NCR10014**

<b>Standard Requirement</b>	<b>Compliant</b>
INT-001-3 R1	Yes
INT-004-2 R1	Yes
INT-004-2 R2	Yes
IRO-001-1 R8	Yes
IRO-005-1 R13	Yes
TOP-005-1 R4	Yes
VAR-001-1 R5	Yes

### *Compliance Culture*

The DC Energy compliance culture was not reviewed by the audit team.