



Compliance Audit Report Public Version

**Lighthouse Energy Trading Co., Inc.
(LETC)
NCR 06004
October 1, 2008**

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

October 2, 2008

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Executive Summary

The Midwest Reliability Organization (MRO) conducted a compliance audit of Lighthouse Energy Trading Co., Inc. (LETC) as a part of its normal six year cycle. Review of documentation submitted by LETC took place at the MRO offices on September 30, 2008. The audit team, consisting of two MRO staff members, conducted an audit conference call on October 1, 2008 at the MRO office. The agenda for the call included the presentation of audit expectations and the audit findings.

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

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

As a part of the audit process, LETC 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 requested no additional documentation. LETC was found to be compliant in all audited requirements.

During the audit, the LETC staff was found to be cordial, willing to clarify any answers 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 LETC Compliance Audit was conducted as a part of its normal six year cycle. The 2008 Compliance Program consists of 54 actively monitored Standards. Forty seven of these Standards were deemed not applicable since they are related to functions other than those for which LETC is registered. Documentation reviewed was dated from June 18, 2007 to the date of the audit.

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 (GAGAS) 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 LETC's compliance with the requirements of the reliability standards that are applicable to LETC based on the LETC'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 LETC 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 dated June 18, 2007 through September 18, 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. Work history and conflict of interest forms submitted by 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 participants with no objections.

¹ 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 were 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 scheduler logs, and correspondence.

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

Audit Overview

The MRO scheduled LETC to receive a compliance audit October 1, 2008 as a part of its normal six year cycle. On July 9, 2008 the MRO sent LETC 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*.

Upon completion of the document review, the MRO requested an audit conference call with LETC to be held on October 1, 2008.

Audit

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

After evaluation of the supporting documentation, the audit team discussed the supporting evidence supplied by LETC with the SMEs. The audit team did have difficulty opening wave files supplied by LETC. LETC promptly resubmitted these files in a format that could be opened and reviewed.

In the conference call, 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 audit team presented LETC with an exit briefing at the end of the conference call. This was presented to them as a power point presentation which was emailed to LETC during the conference call. LETC had no questions regarding the audit process or the compliance staff conclusions. The MRO staff noted that all documentation is stored at the MRO office in a fire-proof locked cabinet.

Company Profile

Lighthouse Energy Trading Company (LETC) is a wholesale power marketing company (PSE) offering wholesale power trading in MISO, NEPOOL, NYISO and PJM footprints and other services for Municipal Utilities, Electric Cooperatives and Investor-Owned Utilities. They offer a number of products and services, including power trading and marketing, particularly next day short-term and real-time markets, load forecasting, transmission (OASIS) and tagging, interchange energy accounting, credit and contract management, billing and consulting. Their staff consists of a CEO, six Energy Traders, one Quantitative Analyst/ Compliance Director, one Network Administrator, one Administrative Assistant, and two Data Entry Professionals. Their team has served the industry for more than 30 years, with a combined total of 85 years.

Lighthouse Energy Trading Company, as solely a Power Marketing Company, does not have a service territory, serve any customers or have peak load, voltage levels, interconnection points, generation or firm purchase agreements.

Audit Specifics

The compliance audit document review was conducted in the MRO office in Roseville, MN on September 30, 2008 and concluded with an audit conference call and exit briefing on October 1, 2008.

Audit Team

Audit Team Role	Title	Company
Lead	Compliance Audit Manager	MRO
Member	Principal Compliance Associate	MRO

LETC Audit Participants

Title	LETC Organization
CEO	Owner and Officer
Compliance Director/Quantitative Analyst	Reliability and Compliance Group

Audit Results

- LETC provided the audit team with supporting documentation for review prior to the conference call. The team received approximately 100% of the supporting documentation needed for evidence. The audit team spent two days prior to the conference call reviewing the supplied documentation. As a result of reviewing this evidence, the audit team found no need to develop questions for subject matter experts and no need for additional required documentation.
- The audit team had difficulty opening wave files supplied by LETC. LETC resubmitted these files so that the audit team could open and review them.
- The audit team utilized the Reliability Standard Auditor Worksheets (RSAW) to assess compliance of the Regulatory Approved reliability standards.

Findings

Compliance Audit

Conducted On: **Oct 01, 2008**

Entity: **Lighthouse Energy Trading Co, Inc. (LETC)**

Address: **119 Friberg Ave, Fergus Falls, Minnesota 56537, United States**

NERC Compliance Registry ID: **NCR06004**

Standard Requirement	Compliant
INT-001-2 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 LETC's compliance culture was not reviewed by the audit team. The Regional Entity compliance staff will review the LETC's compliance culture.