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Compliance Audit Report Public Version

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

Black Oak Energy, LLC
NCR07018

April 28 to May 30, 2008

May 30, 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 full final compliance audit report was submitted to the audited entity and NERC.

The offsite compliance audit of Black Oak Energy, LLC was conducted between April 28 and May 30, 2008. The audit was completed using data submitted by Black Oak Energy and telephone and email data exchanges. The audit team evaluated Black Oak Energy compliance with three reliability standards applicable to registered Purchasing Selling Entity (PSE) as identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each, reliability standard. Of the three standards and four requirements audited, one requirement was judged to be compliant and three requirements were judged to be not applicable. Black Oak Energy provided a subject matter expert for the standards resulting in a more clear understanding of the Black Oak Energy business model and accelerated the audit process. The evidence provided to demonstrate compliance was incomplete at submission but follow-up emails and conference calls provided the additional information required to determine compliance. The audit team would like to thank the Black Oak Energy audit preparation team for the support offered throughout the audit process.

Audit Process

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 Black Oak Energy compliance with the requirements of the reliability standards that are applicable to Black Oak Energy based on the Black Oak Energy registered functions.
- Validate compliance with applicable reliability standards from the NERC 2008 Implementation Plan list of actively monitored standards.

The audit was completed using data submitted by Black Oak Energy and telephone and email data exchanges. The audit team evaluated Black Oak Energy compliance with three reliability standards and four requirements identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. Of the three standards and four requirements audited, one requirement was judged to be compliant and three requirements were judged to be not applicable, based on the data submitted in response to the audit request and further data provided as a result of follow up questions.

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.

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

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.² The audit objectives are:

- Independently review Black Oak Energy compliance with the requirements of the reliability standards that are applicable to Black Oak Energy based on the Black Oak Energy registered functions.
- 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 standard, and review the status of associated mitigation plans.
- Document the Black Oak Energy compliance culture.

Scope

The audit included all standards identified in the February 4, 2008 audit letter for the previous year. The audit was a regularly scheduled audit and no self reported violations or compliance investigations were involved.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and regional entity staffs were provided to the audited entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were 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 the audit team member's impartial performance of duties. The audited entity accepted the audit team member participants with no objections.

Off-site Audit

Black Oak Energy was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Black Oak Energy more than 60 days

² North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

in advance of the scheduled audit. This is an off site audit conducted every six years or as determined to be necessary by the region. Black Oak Energy had not self reported any violations.

The audit team leader requested conference calls with the Black Oak Energy Chief Financial officer who was subject matter expert regarding all of registered functions of Black Oak Energy. These conference calls in conjunction with documentation and email correspondence provided the audit team with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The audit team prepared reliability standards auditor worksheets (RSAWs) to evaluate each standard. The RSAW's are used to ensure consistency and to document evidence of compliance or non-compliance with the standards. All relevant documents are considered and to the extent they form portion of the audit trail are included in the RSAW's.

Audit Overview

The audit overview was conducted on May 5, 2008 via conference call. The auditor reviewed his career and noted that he had signed a confidentially agreement. A brief explanation of the audit process was given and the timelines were discussed. Black Oak Energy was given the opportunity to reject the auditor should they feel that there was a possible conflict of interest or they thought the auditor would not be impartial. Black Oak Energy accepted the auditor.

Audit

The audit was performed off site by Anthony M. Giasi. Prior to calls to Black Oak Energy the auditor developed and provided a list of questions for Black Oak Energy and then asked the questions. Black Oak Energy then took the time necessary to develop the answer and submitted them by email to the auditor. Additional audit time was needed due to responses required from the NYISO and ISO-NE to provide corroborating evidence for Black Oak Energy responses to INT-004-1 R1 and R2, and IRO-001-1 R8.

Exit Briefing

The exit briefing was conducted by conference call on May 30, 2008. On the call was Anthony M. Giasi of NPCC and Rene Francoeur of Black Oak Energy, LLC. NPCC staff reviewed the audit process and summarized the findings of the audit. Of the three standards and four requirements audited, one requirement was judged to be compliant and three requirements were judged to be not applicable. Black Oak Energy was given an opportunity to question the audit

findings and provide comment on the audit. Black Oak Energy said that they found the audit to be a good collaborative experience.

Company Profile

Black Oak Energy, LLC (a Delaware Limited Liability Company) is a power marketer based out of Princeton New Jersey. Black Oak Energy, LLC was formed in early 2003 and some of its managers and traders have been involved in the electricity markets since the early deregulation. The company employs professional traders that operate in the eastern energy markets, both in physical power and financial power. The experience of its team will help the company to growth rapidly as new markets are adopting the structure of the ones that Black Oak Energy is familiar with. These changes will help Black Oak Energy, LLC provide opportunities for its employees and investors as it provides its services to the energy stakeholders.

Audit Specifics

The compliance audit was conducted from April 28, to May 30, 2008 at the NPCC offices in New York, New York.

Audit Team Role	Name	Title	Company
Lead	Anthony M. Giasi	Contracted Consultant	NPCC-Compliance Audit Program
Member	Sal Buffamante	Manager, Compliance	NPCC-Compliance Audit Program

Black Oak Energy Audit Participants

[Please use proper names if known.]

Name	Title	Company
Rene Francoeur	Chief Financial Officer	Black Oak Energy

Audit Results

Black Oak Energy provided a CD containing data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions conference calls and emails were used to request additional documentation.

After reviewing all the data including several responses from the NYISO and ISO-NE, of the three standards and four requirements audited, one requirement was judged to be compliant and three requirements were judged to be not applicable. Black Oak Energy has had no self-reported violations or mitigation plans for the audit period.

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.

The Reliability Standards and Requirements identified in the table below are applicable to the PSE – Purchasing Selling Entity function.

Reliability Standard	Requirement	Finding
INT-004-1	R1	Not Applicable.
INT-004-1	R2, R2.1, R2.2, R2.3	Not Applicable.
IRO-001-1	R8	Not Applicable.
VAR-001-1	R5	Compliant.

Compliance Culture

The audit team reviewed the Black Oak Energy compliance culture. The regional entity compliance staff may review additional aspects of the BSPC compliance culture. During all contacts, the Black Oak Energy representative was very professional and positive in his approach to compliance and understood the importance of the compliance and its role in maintaining reliability. All additional information submitted by Black Oak Energy was comprehensive and well organized.