

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



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Compliance Audit Report Public Version

Citigroup
NCR07032

July 25 to August 27, 2008

Confidential Information
(Including Privileged and Critical Energy Infrastructure Information)
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August 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 full final compliance audit report was submitted to the audited entity and NERC.

The offsite compliance audit of Citigroup was conducted between July 25 and August 27, 2008. The audit was completed using data submitted by Citigroup and telephone and email data exchanges. The audit team evaluated Citigroup's compliance with three reliability standards 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 audited, only one was deemed to be applicable and it was judged to be compliant.

Citigroup provided a subject matter expert for each standard resulting in a more clear understanding of the Citigroup business model and accelerated the audit process. The evidence provided to demonstrate compliance required requests for additional information and evidence. The Citigroup audit team responded to requests for further information in an expeditious manner. The audit team would like to thank the Citigroup team for the support offered throughout the audit.

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 Citigroup's compliance with the requirements of the reliability standards that are applicable to Citigroup based on the Citigroup 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 Citigroup and information via Fed Ex and email data exchanges. The audit team evaluated Citigroup's compliance with three reliability standards identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard.

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

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Of the three standards audited (two of the standards were deemed to be not applicable to Citigroup), one was judged to be compliant 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.

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 Citigroup's compliance with the requirements of the reliability standards that are applicable to Citigroup based on the 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 Citigroup's compliance culture.

Scope

The audit included all standards identified in the May 20, 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. The audited entity was given an opportunity to

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

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

Citigroup was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Citigroup more than 60 days 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. Citigroup had not self reported any violations

The audit team leader requested that Citigroup employees representing subject matter expertise regarding all of registered functions of Citigroup be made available for interviews should the need arise. These interviews in conjunction with evidence provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Generally accepted government auditing standard 3.39 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.

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 at 10:00 AM July 29, 2008 via conference call. The auditor reviewed his career and noted that he had signed a confidentially agreement. The Citigroup Audit Staff also shared their background with the NPCC auditor. A brief explanation of the audit process was given and the timelines were discussed. Citigroup

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. Citigroup accepted the audit team.

Audit

The audit was performed off site by the auditor. The auditor developed a list of questions for Citigroup to answer; the list was then sent to Citigroup for their review. Citigroup then took the time necessary to develop the answers and submitted them by email and Fed Ex to the auditor.

Exit Briefing

The exit briefing was conducted via conference call at 10:00 AM, 8/27/2008. The teleconference was between the NPCC staff, Citigroup audit team and a representative from NERC. NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, Citigroup was judged to be compliant with one of the three standards, however two of the standards were deemed to be not applicable to Citigroup.

Citigroup was presented an opportunity to question the audit findings and provide comment on the audit. Citigroup representatives commented that the method used by the ISO NE to respond to requests for corroborative evidence was most helpful and should be used by other Entities. The auditor noted that a process to standardize responses was currently being undertaken and that the ISO NE responses would be looked at as a possible model.

Company Profile

Citigroup Energy Inc. (“CEI”), an indirect wholly-owned subsidiary of Citigroup Inc. (“Citi”), is a Delaware corporation that maintains its principal place of business in Houston, TX. CEI is a power marketer authorized by the Commission to sell energy, capacity and ancillary services at market-based rates pursuant to its Rate Schedules FERC No. 1. CEI is an active participant in the various organized electricity markets administered by independent system operators (“ISOs”) and regional transmission organizations (“RTOs”) in North America.

CEI’s parent company Citi is today’s pre-eminent financial services company, with some 200 million customer accounts in more than 100 countries. Citi’s history dates back to the founding of Citibank in 1812, Bank Handlowy in 1870, Smith Barney in 1873, Banamex in 1884, and Salomon Brothers in 1910. Other major brand names in Citi’s diverse portfolio include Citi Cards,

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CitiFinancial, CitiMortgage, CitiInsurance, Primerica, Diners Club, Citi Private Bank, and CitiCapital.

CEI is registered only as a Purchasing-Selling Entity in all regions where it operates which include the Northeast Power Coordinating Council, Western Electric Coordinating Council, the Midwest Reliability Organization, ReliabilityFirst Corporation, and the SERC Reliability Corporation. CEI does not have a service territory nor does it have a reliability coordinator footprint. With respect to the Northeast Power Coordinating Council, CEI interacts with the New York Independent System Operator and the ISO New England as the function as balancing authorities and transmission operators in order to meet the NERC reliability standards. CEI as a purchasing-selling entity does not maintain interconnections with the bulk power system and therefore does not maintain a system, have a system peak load, nor does it own or operate generation resources. CEI does not own or operate transmission so it does not have circuit miles of line at any transmission voltage level.

Audit Specifics

The compliance audit was conducted from July 25 and August 27, 2008 at the offices of the NPCC Audit Staff.

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Member	Manager Compliance Audit Program	NPCC-Compliance Audit Program

Citigroup

Title	Organization
Director, Compliance Officer	Citigroup Energy Inc.
Director, Real Time Operations and Power Trading	Citigroup Energy Inc.
Sr. VP, Compliance	Citigroup Energy Inc.
Director, Citigroup Compliance	Citigroup Energy Inc.

Audit Results

Citigroup provided data used to demonstrate their compliance with the standards identified in the audit letter from NPCC. When the auditor had additional questions, emails were used to request additional documentation until the auditor was convinced that the standards and requirements had been met and Citigroup had demonstrated compliance.

Findings

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

Compliance Culture

The audit team reviewed the Citigroup compliance culture. The regional entity compliance staff may review additional aspects of the Citigroup compliance culture. During all contacts with the Citigroup staff they acted professionally in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.