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Compliance Audit Report Public Version

**Constellation Energy Commodities Group,
Inc.
NCR07051**

December 1-5, 2008

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

December 13, 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 Constellation Energy Commodities Group, Inc. (“CCG”) was conducted between December 1 and December 5, 2008. The audit was completed using data submitted by Constellation Energy Commodities Group email data exchanges. The audit team evaluated Constellation Energy Commodities Group compliance with three reliability standards identified in the NERC 2008 Implementation Plan for the period of June 18, 2007 to present or monitoring timeframes specified in each reliability standard. Of the three standards audited, all were judged to be compliant or not applicable. CCG provided subject matter experts for each standard resulting in a more clear understanding of the CCG business model and accelerated the audit process. The audit team would like to thank the CCG audit preparation team for the support offered through the audit.

Audit Process

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. The following chart is a listing of the compliance requirements for a PSE.

Standard Number	Requirement Number
INT-004-1	R1
INT-004-1	R2
INT-004-1	R2.1
INT-004-1	R2.2
INT-004-1	R2.3
IRO-001-1	R8
VAR-001-1	R5

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:

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

- Independently review of Constellation Energy Commodities Group compliance with the requirements of the reliability standards that are applicable to Constellation Energy Commodities Group based on the Constellation Energy Commodities Group 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 Constellation Energy Commodities Group compliance culture.

Scope

A compliance audit will generally include all reliability standards applicable to the Registered Entity monitored in the NERC Implementation Plans in the current and two previous years, and may include other reliability standards applicable to the Registered Entity. The scope of a compliance audit is scheduled as part of a regular, periodic scheduled audit. For the 2008 compliance program, the monitoring period for the compliance audit will generally be from June 18, 2007 to present or periods specified in individual reliability standards.

Confidentiality and Conflict of Interest

Confidentiality agreements executed by the independent contractors and code of conduct documentation for the NERC representative and Regional Entity staff 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

The notice of the audit was sent on September 16, 2008 to Donald W. Schopp Director, Asset Operations notifying him of the schedule for the Compliance Audit as a Purchasing/Selling Entity on December 1, 2008. Attached to the letter was the following information to assist Mr. Schopp in his preparation for the audit, a) request for information, b) Reliability Standards Audit Worksheets (RSAW), c) Pre-Audit Survey and d) Pre-Audit Questionnaire. The list of reliability standards are as follows:

Standard Number	Requirement Number
INT-004-1	R1
INT-004-1	R2
INT-004-1	R2.1
INT-004-1	R2.2
INT-004-1	R2.3
IRO-001-1	R8
VAR-001-1	R5

Auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results. Each auditor and audit organization exercises 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 auditing standards and best practices that are to be followed by compliance auditors in carrying out their work are described in the Compliance Auditor Manual. The criteria are objective, measurable, complete and relevant to the audit objectives. The auditor identified potential sources of audit evidence and considers the amount and type of evidence needed given the risk and significance when defining the audit methodology.

Audit Overview

The audit overview conference call was conducted on December 3, 2008 with Donald Schopp, Director, Asset Operations and Michael Calimano the NPCC auditor assigned to this audit. This call was an opportunity for the lead auditor to specify audit expectations including expected behavior of Registered Entity management.

Audit

The audit team reviewed each of the Reliability Standard Audit Worksheet (RSAWs) submitted for each listed standard as well as each of the policies and procedures used by CCG in meeting the requirements of each standard. All of these procedures were at the Company level.

Exit Briefing

The exit briefing was conducted by conference call on December 12, 2008. The meeting was attended by Michael Calimano of NPCC and Donald Schopp and Stephen Knapp of CCG. NPCC staff reviewed the audit process and summarized the findings of the audit. The results of the audit were that all three standards were judged to be compliant or not applicable. CCG was given an opportunity to question the audit findings and provide comment on the audit.

Company Profile

Constellation Energy Commodities Group (CCG) is a subsidiary of Constellation Energy Group, Inc., an integrated energy company, is North America's largest supplier of wholesale power. Since 1997, CCG's competitive supply business has been serving the full-requirement power needs of distribution utilities, co-operatives and municipalities that competitively source their load requirements. CCG provides customized products to merchant generators and utilities that help facilitate the buying and/or selling of supplemental energy and energy-related products. CCG neither owns nor operates generation facilities but has contractual arrangements to bid generators in both ISO-NE and NYISO energy and capacity markets, whereby the RTO determines the dispatch schedule for the resource. Additionally, CCG has an agreement in place with Constellation Energy Commodities Group Maine, LLC (CCG-Maine), its affiliate, whereby CCG agrees to provide all products and services necessary for CCG-Maine to satisfy CCG-Maine's obligations in the State of Maine.

Audit Specifics

The compliance audit was conducted by Michael Calimano during the week of December 1 -5, 2008.

Audit Results

CCG submitted detailed responses to the pre-audit questionnaire as well as page 4 of the appropriate RSAW. Additional evidence was provided by CCG such as procedures, attestations and relevant excerpts from tariffs or similar documentation to assist the audit team.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2008 Implementation Plan.

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

Compliance Culture

The audit team reviewed the Constellation Energy Commodities Group compliance culture. There is a formal compliance program in place. CCG follows written procedures that comply with the applicable NERC reliability standards. The procedures are periodically reviewed and updated as necessary. The regional entity compliance staff may review additional aspects of CCG's compliance culture. During all contacts, CCG's staff was professional in their approach to compliance and understood the importance of compliance and its role in maintaining reliability.