



NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Compliance Audit Report Public Version

**Constellation NewEnergy Inc.
NCR07052**

December 3 to December 12, 2008

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

December 12, 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 the Constellation NewEnergy Inc. (CNE) was conducted between December 3rd and December 12th, 2008. The audit was completed using data submitted by CNE prior to the offsite audit being started, and data provided by way of follow-up emails and phone calls as a result of questions raised during the offsite audit.

The auditor evaluated CNE's 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 for the functions CNE is registered for, one standard was judged to be not applicable and one standard was judged to be not applicable for this audit period. CNE was found to be compliant with one standard for this audit period. The CNE provided subject matter experts as necessary resulting in a more clear understanding of the CNE business model and accelerated the audit process. The evidence provided to demonstrate compliance was excellently presented and well organized. The audit team would like to thank the CNE audit preparation team for the support offered throughout 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.

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 CNE compliance with the requirements of the reliability standards that are applicable to CNE based on the CNE 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.

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

- Document the CNE compliance culture.

Scope

The audit included all standards identified in the September 16th, 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

The audited entity was informed in advance of the audit that the independent contractor executed confidentiality agreements and code of conduct documentation was in place for the NERC representative and regional entity staff. Work history and conflict of interest forms submitted by each audit team member are on file in the NPCC corporate offices. 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 with no objections.

Offsite Audit

CNE was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to CNE more than 60 days in advance of the scheduled audit. This is an offsite audit conducted every six years or as determined to be necessary by the region. CNE had not self reported any violations.

If necessary, the auditor would have requested interviews with CNE employees representing subject matter expertise regarding all of the registered functions of CNE. These interviews in conjunction with the submitted evidence would provide the auditor with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The auditor 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 by way of a conference call on December 8/08. It was led by Kim Pitchell (Auditor) and participating for CNE was Steve Knapp, and Donald Schopp. Rosanna Jimenez of NERC was not available. An explanation of the audit process was given and the timelines were discussed. CNE was given an opportunity to reject the auditor but accepted the auditor and his credentials for this audit.

Audit

The audit was performed offsite by the auditor Kim Pitchell with Sal Buffamante of NPCC assisting and with Rosanna Jimenez of NERC receiving all email correspondence. Additional questions were provided to the CNE by way of emails and phone calls and the CNE then took the time necessary to develop the answers and submitted them by way of email and phone calls to the auditor.

Exit Briefing

The exit briefing was led by Kim Pitchell by way of a conference call on December 12th, 2008 and was attended by Steve Knapp, and Donald Schopp for CNE. The Auditor reviewed the audit process and summarized the preliminary findings of the audit.

The results of the audit were that of the three standards audited for the functions CNE is registered for, one standard was judged to be not applicable and one standard was judged to be not applicable for this audit period. CNE was found to be compliant with one standard for this audit period. CNE was given an opportunity to question the audit findings and provide comment on the audit. CNE accepted the preliminary findings and said they found the process to be very informative. They have a much better appreciation of how the audit process works and what it entails to be fully compliant to all standards.

Company Profile

Constellation NewEnergy, Inc. ("CNE"), is a Delaware corporation with a principal place of business at 100 Constellation Way, Suite 500C, Baltimore, Maryland 21202. CNE, a subsidiary of Constellation Energy Group, Inc., an integrated energy company, is a leading competitive energy supplier to commercial and industrial customers throughout North America, providing products and services that enable businesses to effectively manage and control their energy costs. CNE is a registered Purchasing-Selling Entity in the Northeast Power Coordinating Council, Inc. ("NPCC") region.

CNE participates in wholesale market activities in the following Regional Transmission Organizations ("RTO"): the Independent Electricity System Operator ("IESO"), the ISO New England ("ISO-NE") and the New York Independent System Operator ("NYISO"). CNE submits interchange transactions to flow power within the NPCC footprint between the aforementioned RTOs. CNE also submits demand bids into the RTO market systems. These energy positions are managed by trading operations personnel for day-ahead and on a real-time basis. CNE's real-time trading activities are managed by a 24/7 operation.

CNE neither owns nor operates generation facilities but has contractual arrangements to bid generators into NYISO energy and capacity markets, whereby the RTO determines the dispatch schedule for the resource. Additionally, CNE may enter into agreements directly with retail customers. These retail agreements create financial obligations for CNE to provide energy services but physical delivery of electricity to end-use customers remains the responsibility of the transmission and distribution utilities.

Audit Specifics

The compliance audit was conducted off-site between December 3rd and December 12th, 2008.

Audit Results

The auditor evaluated CNE's compliance with three reliability standards 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 for the functions CNE is registered for, one standard was judged to be not applicable and one standard was judged to be not applicable for this audit period. CNE was found to be compliant with one standard for this audit period. The CNE provided subject matter experts as necessary resulting in a more clear understanding of the CNE business model and accelerated the audit process. The evidence provided to demonstrate compliance was excellently presented and well organized. The audit team would like to thank the CNE audit preparation team for the support offered through the audit.

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.

NA+ indicates not applicable for this monitored audit period

* indicates that requirement is applicable to more than one registered functions

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

Compliance Culture

The audit team reviewed CNE compliance culture. The regional entity compliance staff may review additional aspects of CNE compliance culture. During all contact, CNE staff was

professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.