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Compliance Audit Report Public Version

Dominion Energy Marketing Inc.
NCR00756

October 24 to November 10, 2008

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

11/10/2008

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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.

Northeast Power Coordinating Council (NPCC) conducted a compliance audit of Dominion Energy Marketing as a part of its normal six year cycle on the behalf of the Northeast Power Coordinating Council (NPCC), Midwest Reliability Organization (MRO), and Reliability First Corporation (RFC). The offsite compliance audit was conducted between October 24 and November 10, 2008.

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

The audit was completed using data submitted by Dominion Energy Marketing and telephone and email data exchanges. The audit team evaluated Dominion Energy Marketing’s compliance with three reliability standards identified in the NERC 2008 Implementation Plan. Of the three standards audited, only one was deemed to be applicable and it was judged to be compliant.

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

Audit Process

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Critical Energy Infrastructure Information) Has Been Removed

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 Dominion Energy Marketing's compliance with the requirements of the reliability standards that are applicable to them based on their 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 Dominion Energy Marketing and information via email data exchanges. The audit team evaluated Dominion Energy Marketing'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 (two of the standards were deemed to be not applicable to Dominion Energy Marketing), 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 Dominion Energy Marketing's compliance with the requirements of the reliability standards that are applicable to them based on their 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 Dominion Energy Marketing's compliance culture.

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

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

Scope

The audit included all standards identified in the August 13, 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 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

Dominion Energy Marketing was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Dominion Energy Marketing 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. Dominion Energy Marketing had not self reported any violations.

The audit team leader requested that Dominion Energy Marketing employees representing subject matter expertise regarding all of registered functions of Dominion Energy Marketing be made available for interviews should the need arise. These interviews, in conjunction with evidence submitted, 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 11:00 AM October 24, 2008 via conference call. The teleconference was between representatives of NPCC, Dominion Energy Marketing and NERC. The auditors reviewed their careers and noted that they had signed a confidentially agreement. The Dominion Energy Marketing Audit Staff also shared their background with the NPCC auditors. A brief explanation of the audit process was given and the timelines were discussed. Dominion Energy Marketing was given the opportunity to reject any of the auditors should they feel that there was a possible conflict of interest or they thought that the auditors would not be impartial. Dominion Energy Marketing accepted the audit team.

Audit

The audit was performed off site by the auditors. The auditors reviewed the information submitted by Dominion Energy Marketing and then developed a list of questions and requests for further information; the list was then sent to Dominion Energy Marketing for their review. Dominion Energy Marketing then took the time necessary to gather the necessary information and submitted them by email to the auditor.

Exit Briefing

The exit briefing was conducted via conference call at 10:00 Monday, November 10, 2008. The teleconference was between the assigned auditors of NPCC, representatives of Dominion Energy Marketing and NERC. The NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, Dominion Energy Marketing was judged to be compliant with one of the three standards, however two of the standards were deemed to be not applicable to Dominion Energy Marketing.

Dominion Energy Marketing was presented an opportunity to question the audit findings and provide comment on the audit. Dominion Energy Marketing representatives commented they found the audit process to be a learning experience that will enable them to continue and grow with their compliance culture.

Company Profile

Dominion Energy Marketing, Inc., (“DEMI”), a Delaware corporation, is an indirect subsidiary of Dominion Resources, Inc. a registered public utility holding company. DEMI’s primary function is to manage the sale of power from a number of affiliated generation facilities into diverse energy markets, including those managed by ISO-NE, PJM and MISO. Accordingly, DEMI is registered as a PSE in the reliability regions of NPCC, RFC and MRO. For its activities as a registered PSE within NPCC, ISO-NE is the Reliability Coordinator (RC), Balancing Authority (BA), and Transmission Operator, (TOP).

DEMI operates in a 24x7 environment to conduct short-term purchase and sales transactions in the day-ahead and real-time markets. As a registered PSE, DEMI purchases and sells energy, capacity and necessary reliability-related services as required, and arranges for transmission service that is required by the ISO-NE tariff. DEMI does not control or operate any elements of the bulk power system, and its activities do not have an impact on transmission system operations.

Audit Specifics

The compliance audit was conducted from October 24 and November 10, 2008 at the offices of the NPCC Audit Staff.

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

Dominion Energy Marketing

Title	Organization
Manager, Electric Trading Operations	Dominion Energy Marketing Inc.

Audit Results

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Dominion Energy Marketing 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 Dominion Energy Marketing 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 Dominion Energy Marketing compliance culture. The regional entity compliance staff may review additional aspects of the Dominion Energy Marketing compliance culture. During all contacts, the Dominion Energy Marketing representatives were very professional and positive in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability. All additional information requested was provided promptly and comprehensively.