



Compliance Audit Report Public Version

**Dynegy Power Marketing, Inc.
NERC ID# NCR00201**

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Critical Energy Infrastructure Information)
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Date of Audit: October 15 - 17, 2008

Date of Audit Report: November 26, 2008

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Executive Summary

An off-site compliance audit of Dynegy Power Marketing, Inc. was conducted from October 15, 2008 to October 17, 2008. At the time of the audit, Dynegy Power Marketing, Inc. was registered for the Purchasing Selling Entity (PSE) function.

The audit team evaluated Dynegy Power Marketing, Inc. for compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to October 17, 2008. Dynegy Power Marketing, Inc. submitted information and documentation to aid the audit team's evaluation of compliance with standards. The audit team reviewed and evaluated all information provided by Dynegy Power Marketing, Inc. to assess compliance with standards applicable to the PSE function.

Based on the information and documentation provided by Dynegy Power Marketing, Inc., the audit team made the following determinations: three (3) requirements in two (2) NERC Reliability Standards were determined to be not applicable to Dynegy Power Marketing, Inc. Dynegy Power Marketing, Inc. was found to be compliant with four (4) requirements in four (4) applicable NERC Reliability Standards. The audit team did not identify any possible compliance violations of NERC Reliability Standards. These results are further explained in the Audit Results section of this report which includes detailed information of the audit team's determination of applicability and compliance for the Reliability Standards within the scope of the compliance audit.

There were no ongoing mitigation plans and therefore none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the NERC and ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). The NERC and ReliabilityFirst CMEP generally conform 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 entity is registered. The audit objectives are to:

- Review Dynegy Power Marketing, Inc.'s compliance with the requirements of Reliability Standards that are applicable to Dynegy Power Marketing, Inc. based on the functions that Dynegy Power Marketing, Inc. is registered to perform.
- Validate compliance with applicable Reliability Standards from the NERC 2008 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by ReliabilityFirst.
- Validate compliance with applicable Regional Standards from the ReliabilityFirst 2008 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications, confirm compliance with other applicable Reliability Standards, and review the status of associated mitigation plans.
- Document the compliance culture and the compliance program of Dynegy Power Marketing, Inc.

Scope

The scope of the compliance audit included applicable NERC Reliability Standards in the NERC 2008 Implementation Plan.

At the time of the audit, Dynegy Power Marketing, Inc. was registered for the Purchasing Selling Entity (PSE) function. The audit team evaluated Dynegy Power Marketing, Inc. for compliance with six (6) NERC Reliability Standards for the period of June 18, 2007 to October 17, 2008.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the ReliabilityFirst Delegation Agreement with NERC, and Section 1500 of the NERC Rules of Procedure. Dynegy Power Marketing, Inc. was informed of the ReliabilityFirst obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to Dynegy Power Marketing, Inc. Dynegy Power Marketing, Inc. 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 an audit team member's impartial performance of

duties. Dynegy Power Marketing, Inc. had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection.

Off-site Audit

Dynegy Power Marketing, Inc. is currently subject to a compliance audit at a minimum of once every six years. Dynegy Power Marketing, Inc. was provided with a sixty (60) day notification of this scheduled audit and at that time, all necessary documents required by the *ReliabilityFirst* audit process were provided. The following documents were provided to Dynegy Power Marketing, Inc. as part of the notification:

- 60-day Notification letter which contained a request for evidence, information and data submittals
- Compliance Audit Survey
- Internal Compliance Program Survey
- Audit Agenda as applicable
- Audit Team Work History with discussion of objection process
- General Instructions of Data or Information Submittals
- Reliability Standard Auditor Worksheets (RSAWs)
- Reliability Standard Questionnaires

Documents were provided to Dynegy Power Marketing, Inc. in both electronic and hardcopy format.

ReliabilityFirst discussed the usage of technical experts with Dynegy Power Marketing, Inc. and allowed their use as deemed necessary by Dynegy Power Marketing, Inc. to provide the audit team an understanding of the evidence provided to demonstrate their compliance to the standards.

An audit agenda was provided to Dynegy Power Marketing, Inc. in advance to allow the necessary time to prepare for the audit. Dynegy Power Marketing, Inc.'s cooperation and flexibility with the agenda was appreciated by the audit team.

At times, and according to the generally accepted government auditing standard 3.31, auditors are required to use professional judgment in planning, performing audits, attestation engagements and in reporting the results.

Additionally, and with the generally accepted government auditing standard 3.39, while this standard 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.

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

ReliabilityFirst staff conducted the audit off-site. The audit team reviewed the information, evidence and data submitted by Dynegy Power Marketing, Inc. and assessed compliance with requirements of applicable Reliability Standards. The audit team requested and received, via email and phone conversations, additional information and clarification when the audit team determined it was necessary.

Opening Briefing

An Opening Briefing was conducted on October 15, 2008 via a conference call/Webex utilizing a PowerPoint presentation to discuss the following:

- Introduction of audit team
- Audit Objective and Scope
- Team Audit Expectations
- Discussion on Clarification Calls
- Audit Process
- Exit Briefing and schedule

Audit

The Audit team consisted of one ReliabilityFirst Compliance staff member and one contract auditor. The ReliabilityFirst Compliance staff member was designated as the audit team lead responsible for facilitating the audit process, serving as the primary contact person for the audit team, and completing the audit report. The audit team worked together to review evidence provided by Dynegy Power Marketing, Inc. and assessed compliance with the requirements of the standards that were audited. Requests for additional information, verification and clarification were communicated to the Dynegy Power Marketing, Inc. primary contact through phone conversations and/or email. Dynegy Power Marketing, Inc. was NOT permitted to create new documents and or edit existing material and or documents that were previously provided as evidence.

Exit Briefing

The audit team conducted an exit briefing with Dynegy Power Marketing, Inc. on October 17, 2008 via a conference call/Webex utilizing a PowerPoint presentation. The primary and alternate compliance contacts for Dynegy Power Marketing, Inc. participated in the exit briefing. The status of the off-site audit process was discussed, followed by audit scope, preliminary audit findings and the compliance audit report process. No possible violations were identified during

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the audit and this was discussed with the preliminary results. Dynegy Power Marketing, Inc. was provided an opportunity to ask questions that the audit team addressed.

Company Profile

Dynegy Power Marketing, Inc. purchases and sells electric energy, capacity and ancillary services in four key regions across the U.S. Dynegy Power marketing does not own or operate any electrical Bulk Electric System (BES) assets.

Audit Specifics

The compliance audit was conducted from October 15, 2008 to October 17, 2008 at the ReliabilityFirst offices in Akron, Ohio.

Audit Team Participants

Audit Team Role	Title	Company
Team Lead	Senior Compliance Engineer	ReliabilityFirst
Team Member	Consultant	ReliabilityFirst

Dynegy Power Marketing, Inc. Audit Participants

Title	Organization
Director – Electric System Operations and Compliance	Dynegy Power Marketing, Inc.
Manager – NERC Compliance	Dynegy Power Marketing, Inc.
Electric Systems Manager	Dynegy Power Marketing, Inc.
Manager - NERC Regional Compliance	Dynegy Power Marketing, Inc.
Senior Director - Dispatch	Dynegy Power Marketing, Inc.

Audit Results

The audit team evaluated Dynegy Power Marketing, Inc.'s compliance with seven (7) requirements in six (6) NERC Reliability Standards for the period of June 18, 2007 to October 17, 2008. The audit team used data provided by Dynegy Power Marketing, Inc. to determine compliance with standards. Based on information provided by Dynegy Power Marketing, Inc., of the six (6) Reliability Standards audited, three (3) requirements in two (2) standards were determined to be not applicable. The audit team determined that Dynegy Power Marketing, Inc. was compliant with four (4) requirements in four (4) NERC Reliability Standards. The audit team found that Dynegy Power Marketing, Inc. did not have any possible violations of NERC Reliability Standards that were within the scope of the compliance audit.

The audit team carefully and methodically reviewed the submitted evidence and discussed findings as a team to determine if the evidence met the requirements of the Reliability Standards. If the evidence was inadequate or did not cover all of the requirements in the Reliability Standard, the audit team asked for additional evidence and/or clarification. Dynegy Power Marketing, Inc. provided a primary compliance contact for clarification through phone conversations and e-mail correspondence. Throughout the audit, the audit team members took notes on findings of evidence of compliance.

The audit team reviewed documentation in hardcopy and electronic forms provided by Dynegy Power Marketing, Inc.

Findings

The following table details the findings for compliance with the Reliability Standards listed in the NERC 2008 Implementation Plan and/or selected for this audit:

Reliability Standard	Requirement	Finding
INT-001-2	R1.	N/A
INT-004-1	R1. & R2	N/A
IRO-001-1	R8.	Compliant
IRO-005-1	R13.	Compliant
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

Dynegy has an internal compliance program that includes Dynegy Power Marketing Inc. as a registered PSE. This program is governed by Dynegy Procedure G9-04 and Dynegy's Code of Business Conduct and Ethics.

Dynegy Generation Procedure G9-04 augments Dynegy's Code of Business Conduct and Ethics which sets forth Dynegy's expectations regarding lawful and ethical business behavior. The Code outlines an overall culture of compliance that includes a specific commitment to excellence in compliance. The principles included in the Code and the details in Dynegy Generation Procedure G9-04 constitute Dynegy's Internal Compliance Program associated with the NERC Reliability Standards. The scope of this program as it relates to Dynegy Power Marketing Inc. is as follows:

- Requires all Dynegy personnel to complete an annual training module on the Code and formally acknowledge that they have read and understood the Code.
- Requires that the Code is reviewed at least annually.
- Includes provisions for disciplinary action of employees involved in violations if appropriate.
- Summarizes compliance responsibilities for the three organizational groups within Dynegy that are affected by the NERC Reliability Standards. This is further addressed in Dynegy Generation Procedure G9-03.
- Specifies responsibilities for complying with the applicable NERC Reliability Standards and associated Dynegy Generation Procedures. Dynegy's overall philosophy and commitment to NERC compliance is also addressed in Dynegy Policy RGC-G01.
- Specifies responsibilities for maintaining all documentation necessary to demonstrate compliance with all applicable NERC Reliability Standards.
- Specifies responsibilities for reporting any known or suspected violations of any applicable NERC Reliability Standard.
- Outlines the internal compliance audit process and associated responsibilities.
- Outlines NERC compliance training requirements and associated responsibilities.