



Compliance Audit Report Public Version

**ArcLight Energy Marketing, LLC
(AEM)
NCR10081
May 21, 2008**

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

June 18, 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.

ArcLight Energy Marketing, LLC (AEM) was audited on May 21, 2008 for compliance with the requirements contained in the currently mandatory and enforceable Reliability Standards in the 2008 NERC Compliance Monitoring and Enforcement Program (CMEP) that are applicable to AEM's registered functions. AEM is registered with SERC Reliability Corporation (SERC) as a Purchasing-Selling Entity (PSE). Six standards were selected and identified to AEM as subject to review during this audit. The audit focused on documents and other evidence provided to SERC by the staff of AEM, and did not include any evidence obtained through system observation or inspection. The findings of the audit are based on the state of compliance and current mitigation activity at the time of the audit, and do not reflect past compliance activities or activities that will be completed in the future.

AEM staff was requested to provide valid evidence of meeting each and every applicable requirement and sub-requirement contained in each standard that had been previously identified by SERC Compliance staff to AEM as subject to this audit. AEM staff responded by providing evidence in the form of reports, procedures, studies, and other documents. AEM staff then cited specific portions of the evidence that demonstrated compliance. This evidence and the citations were documented and evaluated by the audit team to assess the level of compliance. If all of the requirements and sub-requirements of an audited standard were met, then AEM was judged to be compliant. Likewise, if any of the requirements or sub-requirements were not fully met, then AEM was judged to have a possible violation of the standard. A score of 100% is required for compliance.

The audit team found AEM to be in compliance with all of the NERC Reliability Standards in the audit scope.

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

Scope

The scope of the audit of AEM included all monitored standards that are in the NERC 2008 CMEP. Based on the confirmed registration of AEM, the six Reliability Standards previously identified were the focus of the compliance audit. This is detailed in the Audit Results section.

Note: For the 2008 compliance program, the monitoring period for the compliance audit will generally be the past 12 months or periods specified in individual reliability standards. The monitoring period is not limited to the time period for which penalties and sanctions are assessed.

Confidentiality and Conflict of Interest

Code of conduct documentation for the NERC representative and regional entity staff were provided to AEM in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were provided to AEM upon request. SERC has confirmed that confidentiality agreements have been executed by, and are on file for SERC Industry Volunteers. AEM 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. AEM accepted the audit team member participants with no objections.

On-site Audit

AEM was contacted by letter on December 17, 2007 by SERC staff. The letter provided AEM with their initial notification of their upcoming audit in 2008, and the desire to schedule audit dates that would be acceptable to both parties. SERC staff then provided formal acknowledgement of the scheduled audit dates and requested that AEM both verify their currently registered functions and complete and return an attached Pre-Audit Survey within 30 days.

On February 21, 2008, SERC staff forwarded an Audit Detail Letter to AEM, again confirming the scheduled audit dates and confirming AEM's registered functions within SERC. The Audit Detail Letter also provided AEM with notice of the Standards in Audit Scope, Proposed Audit Schedule, Audit Team Roster (with industry affiliations), and requested that AEM Subject Matter Experts (SMEs) responsible for and knowledgeable of compliance submittals be available for interview during the audit. In addition to the Audit Detail Letter, AEM was provided with a Non-Disclosure Agreement Signature Verification for audit team members, a Pre-Audit Questionnaire, a list of Documents to be Provided or Have Available, and Reliability Standard Auditor Worksheets (RSAWs) for each standard to be audited.

Interviews with SMEs were requested, in conjunction with documented evidence, to provide the audit team with additional information or clarification as a basis for professional judgment when validating compliance with reliability standards.

Methodology

A team of auditors were identified and conducted the audit of AEM. The standards were grouped and scheduled for review to make the most efficient use of AEM staff's time. The audit team moderator (ATL or designee) initiated dialogue on each standard requirement and requested compliance evidence. This evidence and AEM staff response was documented. AEM staff was requested to show valid evidence of meeting each applicable requirement and sub-requirement contained in the six standards that had been previously identified by SERC to AEM

as subject to this audit. AEM staff responded by providing evidence in the form of reports, procedures, studies, and other documents. AEM staff would then cite specific portions of the evidence that demonstrated compliance.

This evidence and the citations were documented by the scribe on the RSAWs and evaluated by the audit team for the level of compliance and agreement with the requirement. Discrepancies between the requirement and the evidence provided were the subject of dialogue among the team members and AEM staff members until it was determined that each requirement was met by the cited evidence or other evidence offered.

Once all the evidence was presented and discussed, if AEM did not provide sufficient evidence to support a finding of compliance, then a possible violation was identified by the team and AEM staff was informed.

Audit Overview

The audit team arrived at the AEM offices at 8:50 a.m., May 21, 2008. Each member of the audit team was introduced and professional affiliation identified. The staff of AEM was introduced, and general housekeeping matters explained. At 9:25 a.m., Steve Gibe, Senior Compliance Auditor and Audit Team Lead (ATL) began the session with an opening presentation. He reviewed the NERC compliance plan for 2008 in general, and how it applied to AEM specifically. The ATL introduced and reviewed the standards to be covered in the audit, and addressed both the expectations of AEM staff and the quality of evidence to be presented. The ATL also covered the basic procedure for the audit, and the bounding rules of conduct. A brief presentation covering the background of AEM and its compliance activities took place.

Audit

The audit team initially reviewed the registration status of AEM with entity staff to verify applicability of each standard. Each standard's audit began with a recitation of each requirement. AEM staff then presented evidence supporting requirement compliance, or cited evidence previously provided to the audit team. At that point, the evidence was reviewed and discussed until the team reached agreement on the evidence. By audit team consensus a determination of compliance was reached for each of the requirements, and communicated to AEM staff before proceeding to the next requirement. At that point the team scribe would record the evidence presented to satisfy the requirement and the team's recommendation on that requirement using the RSAW.

The review of all applicable standards was completed at 11:49 a.m., May 21, 2008 and the audit team met to review and discuss the findings. Following these discussions, the scribe collected all notes and evidence as needed and began to finalize the RSAW.

Exit Briefing

The ATL presented an exit briefing to the assembled audit team and entity staff at 12:35 p.m., May 21, 2008. This was followed by an informal response and questions from the AEM staff. The exit briefing summarized the team preliminary conclusions, including any items of potential noncompliance or possible violation with supporting information, areas of concern, any added information required and the expected timeline for review and issuance of the audit report.

The ATL solicited both informal comments from AEM staff, along with requesting that they fill out formal feedback forms for submission to NERC and SERC.

The audit team left the AEM meeting room at 1:02 p.m., May 21, 2008.

Company Profile

ArcLight Energy Marketing, LLC (AEM) was formed through the acquisition of the commodity trading and marketing platform of Progress Ventures Incorporated. AEM is indirectly owned by ArcLight Liquid Energy Opportunities Fund, L.P., a specialized energy investment fund managed by ArcLight Capital Partners, LLC. AEM's business premise consists of the management of physical assets and financial risks across the wholesale energy complex. AEM expects to provide producers and consumers with market reach and liquidity. Currently, AEM is involved in the management of power plants, gas storage facilities, gas transportation, and various other physical assets. AEM is a Delaware Limited Liability Company headquartered in Raleigh, NC. AEM operated under a transition agreement with Progress Ventures until September 28, 2007, at which time it registered as a PSE with SERC.

Audit Specifics

The compliance audit was conducted on May 21, 2008 at the AEM office in Raleigh, NC.

Audit Team

Audit Team Role	NAME	Title	Company
Lead	Steve Gibe	Senior Compliance Auditor	SERC
Member	Kevin Berent	Associate Compliance Auditor	SERC

AEM Audit Participants Title and Organization

Title	Organization
Power Trader	AEM
Director, Power Operations	AEM

AUDIT RESULTS

The audit team found AEM to be in compliance with all of the NERC Reliability Standards in the audit scope. Please see Findings Table below

Findings

Reliability Standard	Requirement	Finding
BAL-001-0	R1.	N/A
BAL-001-0	R2.	N/A
BAL-001-0	R3.	N/A
BAL-001-0	R4.	N/A
BAL-002-0	R1.	N/A
BAL-002-0	R2.	N/A
BAL-002-0	R3.	N/A
BAL-002-0	R4.	N/A
BAL-002-0	R5.	N/A
BAL-002-0	R6.	N/A

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

Reliability Standard	Requirement	Finding
BAL-003-0	R1.	N/A
BAL-003-0	R2.	N/A
BAL-003-0	R3.	N/A
BAL-003-0	R4.	N/A
BAL-003-0	R5.	N/A
BAL-003-0	R6.	N/A
BAL-004-0	R1.	N/A
BAL-004-0	R2.	N/A
BAL-004-0	R3.	N/A
BAL-004-0	R4.	N/A
BAL-005-0	R1.	N/A
BAL-005-0	R2.	N/A
BAL-005-0	R3.	N/A
BAL-005-0	R4.	N/A
BAL-005-0	R5.	N/A
BAL-005-0	R6.	N/A
BAL-005-0	R7.	N/A
BAL-005-0	R8.	N/A
BAL-005-0	R9.	N/A
BAL-005-0	R10.	N/A
BAL-005-0	R11.	N/A
BAL-005-0	R12.	N/A
BAL-005-0	R13.	N/A
BAL-005-0	R14.	N/A
BAL-005-0	R15.	N/A
BAL-005-0	R16.	N/A
BAL-005-0	R17.	N/A
BAL-006-1	R1.	N/A
BAL-006-1	R2.	N/A
BAL-006-1	R3.	N/A
BAL-006-1	R4.	N/A
BAL-006-1	R5.	N/A
CIP-001-1	R1.	N/A
CIP-001-1	R2.	N/A
CIP-001-1	R3.	N/A
CIP-001-1	R4.	N/A
CIP-002-1 through CIP-009-1		N/A
COM-001-1	R1.	N/A
COM-001-1	R2.	N/A
COM-001-1	R3.	N/A
COM-001-1	R4.	N/A
COM-001-1	R5.	N/A

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Reliability Standard	Requirement	Finding
COM-001-1	R6.	N/A
COM-002-2	R1.	N/A
COM-002-2	R2.	N/A
EOP-001-0	R1.	N/A
EOP-001-0	R2.	N/A
EOP-001-0	R3.	N/A
EOP-001-0	R4.	N/A
EOP-001-0	R5.	N/A
EOP-001-0	R6.	N/A
EOP-001-0	R7.	N/A
EOP-002-2	R1.	N/A
EOP-002-2	R2.	N/A
EOP-002-2	R3.	N/A
EOP-002-2	R4.	N/A
EOP-002-2	R5.	N/A
EOP-002-2	R6.	N/A
EOP-002-2	R7.	N/A
EOP-002-2	R8.	N/A
EOP-002-2	R9.	N/A
EOP-003-1	R1.	N/A
EOP-003-1	R2.	N/A
EOP-003-1	R3.	N/A
EOP-003-1	R4.	N/A
EOP-003-1	R5.	N/A
EOP-003-1	R6.	N/A
EOP-003-1	R7.	N/A
EOP-003-1	R8.	N/A
EOP-004-1	R1.	N/A
EOP-004-1	R2.	N/A
EOP-004-1	R3.	N/A
EOP-004-1	R4.	N/A
EOP-004-1	R5.	N/A
EOP-005-1	R1.	N/A
EOP-005-1	R2.	N/A
EOP-005-1	R3.	N/A
EOP-005-1	R4.	N/A
EOP-005-1	R5.	N/A
EOP-005-1	R6.	N/A
EOP-005-1	R7.	N/A
EOP-005-1	R8.	N/A
EOP-005-1	R9.	N/A
EOP-005-1	R10.	N/A

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Reliability Standard	Requirement	Finding
EOP-005-1	R11.	N/A
EOP-006-1	R1.	N/A
EOP-006-1	R2.	N/A
EOP-006-1	R3.	N/A
EOP-006-1	R4.	N/A
EOP-006-1	R5.	N/A
EOP-006-1	R6.	N/A
EOP-008-0	R1.	N/A
EOP-009-0	R1.	N/A
EOP-009-0	R2.	N/A
FAC-003-1	R1.	N/A
FAC-003-1	R2.	N/A
FAC-003-1	R3.	N/A
FAC-003-1	R4.	N/A
FAC-008-1	R1.	N/A
FAC-008-1	R2.	N/A
FAC-008-1	R3.	N/A
FAC-009-1	R1.	N/A
FAC-009-1	R2.	N/A
FAC-013-1	R1.	N/A
FAC-013-1	R2.	N/A
INT-001-2	R1.	Not assessed
INT-001-2	R2.	N/A
INT-003-2	R1.	N/A
INT-004-1	R1.	Not assessed.
INT-004-1	R2.	Not assessed.
IRO-001-1	R1.	N/A
IRO-001-1	R2.	N/A
IRO-001-1	R3.	N/A
IRO-001-1	R4.	N/A
IRO-001-1	R5.	N/A
IRO-001-1	R6.	N/A
IRO-001-1	R7.	N/A
IRO-001-1	R8.	Compliant
IRO-001-1	R9.	N/A
IRO-003-2	R1.	N/A
IRO-003-2	R2.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	N/A
IRO-004-1	R5.	N/A

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Reliability Standard	Requirement	Finding
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
IRO-005-1	R1.	N/A
IRO-005-1	R2.	N/A
IRO-005-1	R3.	N/A
IRO-005-1	R4.	N/A
IRO-005-1	R5.	N/A
IRO-005-1	R6.	N/A
IRO-005-1	R7.	N/A
IRO-005-1	R8.	N/A
IRO-005-1	R9.	N/A
IRO-005-1	R10.	N/A
IRO-005-1	R11.	N/A
IRO-005-1	R12.	N/A
IRO-005-1	R13.	Compliant
IRO-005-1	R14.	N/A
IRO-005-1	R15.	N/A
IRO-005-1	R16.	N/A
IRO-005-1	R17.	N/A
IRO-006-3	R1.	N/A
IRO-006-3	R2.	N/A
IRO-006-3	R3.	N/A
IRO-006-3	R4.	N/A
IRO-006-3	R5.	N/A
IRO-006-3	R6.	N/A
IRO-014-1	R1.	N/A
IRO-014-1	R2.	N/A
IRO-014-1	R3.	N/A
IRO-014-1	R4.	N/A
IRO-015-1	R1.	N/A
IRO-015-1	R2.	N/A
IRO-015-1	R3.	N/A
IRO-016-1	R1.	N/A
IRO-016-1	R2.	N/A
PER-002-0	R1.	N/A
PER-002-0	R2.	N/A
PER-002-0	R3.	N/A
PER-002-0	R4.	N/A
PER-003-0	R1.	N/A
PER-004-1	R1.	N/A
PER-004-1	R2.	N/A
PER-004-1	R3.	N/A

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Reliability Standard	Requirement	Finding
PER-004-1	R4.	N/A
PER-004-1	R5.	N/A
PRC-004-1	R1.	N/A
PRC-004-1	R2.	N/A
PRC-004-1	R3.	N/A
PRC-005-1	R1.	N/A
PRC-005-1	R2.	N/A
PRC-008-0	R1.	N/A
PRC-008-0	R2.	N/A
PRC-010-0	R1.	N/A
PRC-010-0	R2.	N/A
PRC-011-0	R1.	N/A
PRC-011-0	R2.	N/A
PRC-016-0	R1.	N/A
PRC-016-0	R2.	N/A
PRC-016-0	R3.	N/A
PRC-017-0	R1.	N/A
PRC-017-0	R2.	N/A
PRC-021-1	R1.	N/A
PRC-021-1	R2.	N/A
TOP-002-2	R1.	N/A
TOP-002-2	R2.	N/A
TOP-002-2	R3.	N/A
TOP-002-2	R4.	N/A
TOP-002-2	R5.	N/A
TOP-002-2	R6.	N/A
TOP-002-2	R7.	N/A
TOP-002-2	R8.	N/A
TOP-002-2	R9.	N/A
TOP-002-2	R10.	N/A
TOP-002-2	R11.	N/A
TOP-002-2	R12.	N/A
TOP-002-2	R13.	N/A
TOP-002-2	R14.	N/A
TOP-002-2	R15.	N/A
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	N/A
TOP-002-2	R19.	N/A
TOP-003-0	R1.	N/A
TOP-003-0	R2.	N/A
TOP-003-0	R3.	N/A

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Reliability Standard	Requirement	Finding
TOP-003-0	R4.	N/A
TOP-004-1	R1.	N/A
TOP-004-1	R2.	N/A
TOP-004-1	R3.	N/A
TOP-004-1	R4.	N/A
TOP-004-1	R5.	N/A
TOP-004-1	R6.	N/A
TOP-005-1	R1.	N/A
TOP-005-1	R2.	N/A
TOP-005-1	R3.	N/A
TOP-005-1	R4.	Compliant
TOP-007-0	R1.	N/A
TOP-007-0	R2.	N/A
TOP-007-0	R3.	N/A
TOP-007-0	R4.	N/A
TPL-001-0	R1.	N/A
TPL-001-0	R2.	N/A
TPL-001-0	R3.	N/A
TPL-002-0	R1.	N/A
TPL-002-0	R2.	N/A
TPL-002-0	R3.	N/A
TPL-003-0	R1.	N/A
TPL-003-0	R2.	N/A
TPL-003-0	R3.	N/A
TPL-004-0	R1.	N/A
TPL-004-0	R2.	N/A
VAR-001-1	R1.	N/A
VAR-001-1	R2.	N/A
VAR-001-1	R3.	N/A
VAR-001-1	R4.	N/A
VAR-001-1	R5.	Compliant
VAR-001-1	R6.	N/A
VAR-001-1	R7.	N/A
VAR-001-1	R8.	N/A
VAR-001-1	R9.	N/A
VAR-001-1	R10.	N/A
VAR-001-1	R11.	N/A
VAR-001-1	R12.	N/A
VAR-002-1	R1.	N/A
VAR-002-1	R2.	N/A
VAR-002-1	R3.	N/A
VAR-002-1	R4.	N/A

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Reliability Standard	Requirement	Finding
VAR-002-1	R5.	N/A

Compliance Culture

Information regarding the compliance culture of AEM was obtained from other sources and has been documented.