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Compliance Audit Report Public Version

**Direct Energy Marketing Inc. (DEMI)
NCR07059**

June 1 to June 19, 2009

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

June 19, 2009

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
<i>Objectives</i>	4
<i>Scope</i>	4
<i>Confidentiality and Conflict of Interest</i>	4
<i>Off-site Audit</i>	5
<i>Methodology</i>	5
<i>Audit Overview</i>	5
<i>Audit</i>	6
<i>Exit Briefing</i>	6
<i>Audit Specifics</i>	6
Audit Results	7
<i>Findings</i>	7
<i>Compliance Culture</i>	8

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 off-site compliance audit of Direct Energy Marketing Inc. (DEMI), NERC ID #NCR07059 was conducted from June 1 to June 19, 2009. At the time of the audit, DEMI was registered for the PSE function. As part of this NPCC audit, DEMI was audited for its registered function of PSE in the NPCC and the RFC area. The audit team evaluated DEMI's compliance with six reliability standards in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed reliability standards identified in the NERC 2009 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. The audit was completed using data submitted by DEMI and telephone and email data exchanges. Of the six standards audited, all were found to be non-applicable to DEMI. The six standards contained a total of eleven requirements; all were non-applicable to DEMI.

DEMI provided a subject matter expert for each standard resulting in a more clear understanding of the DEMI business model and accelerated the audit process. The evidence provided to demonstrate compliance required requests for additional information and evidence.

The DEMI audit team responded to requests for further information in an expeditious manner. The audit team would like to thank the DEMI team for the support offered throughout the audit.

There were no ongoing or recently completed mitigation plans and, therefore, none were reviewed by the audit team.

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 to:

- Independently review DEMI's compliance with the requirements of the reliability standards that are applicable to DEMI based on DEMI's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 Implementation Plan list of actively monitored standards and additional NERC reliability standards selected by NERC.
- Validate compliance with applicable Regional Standards from the NPCC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications and confirm compliance with other requirements of the reliability standard.
- Review the status of associated mitigation plans.
- Observe and document DEMI's compliance program and culture.

Scope

The audit included all standards identified in the February 26, 2009 audit letter for the previous year. The audit was a regularly scheduled audit and there were no self-reported violations or compliance investigations involved.

At the time of the audit, DEMI was registered for the function of PSE. The audit team evaluated DEMI for compliance during the period of June 18, 2007 to June 19, 2009.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure. 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. 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

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

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

DEMI was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to DEMI more than 60 days in advance of the scheduled audit. This is an off-site audit conducted every six years or as determined to be necessary by the region. DEMI had no self-reported violations during the audit period.

The audit team leader requested that DEMI employees representing subject matter expertise regarding all registered functions of DEMI be made available for interviews via conference calls should the need arise. These interviews in conjunction with evidence 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 audit worksheets (RSAWs) to evaluate each standard. The RSAWs 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 a portion of the audit trail are included in the RSAWs.

Audit Overview

The audit overview was conducted at 1:00 PM on June 1, 2009 via conference call. The auditor noted that he had signed a confidentiality agreement with NPCC. As a registered PSE, DEMI would be audited on six reliability standards. It was noted that the auditor does have the authority to expand the audit beyond the initial set of identified standards and requirements should the need arise. A brief explanation of the audit process was

given and the timelines were discussed. DEMI was given the opportunity to reject the auditor should they feel that there was a possible conflict of interest or they thought the auditor would not be impartial. DEMI accepted the audit team.

Audit

The audit was performed off-site by NPCC staff. The auditor developed a list of questions for DEMI to answer; the list was then sent to DEMI for their review. DEMI then took the time necessary to develop the answers and submitted them by email to the auditor.

Exit Briefing

The exit briefing was conducted via conference call at 4:00 PM on June 19, 2009. The teleconference was between NPCC staff and representatives of DEMI. NPCC staff reviewed the audit process and summarized the findings of the audit. After reviewing all the data, it was judged that the six reliability standards and eleven requirements and sub-requirements being evaluated were not applicable to DEMI.

DEMI was presented an opportunity to question the audit findings and provide comment on the audit. DEMI representatives thanked the audit team for their efforts in providing clarity and guidance during the audit process.

Company Profile

Direct Energy Marketing Inc. is part of Centrica US Holdings Inc, an affiliate of Centrica PLC in the UK.

Audit Specifics

The compliance audit was conducted between June 1 and June 19, 2009 at the offices of the NPCC Audit Staff.

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

DEMI Associates

Title	Organization
Manager, Government and Regulatory Affairs	DEMI
Sr. Director, Government and Regulatory Affairs	DEMI

Audit Results

DEMI 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 DEMI had demonstrated compliance.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2009 Implementation Plan.

Reliability Standard	Requirement	Finding
INT-001-3	R1	Not Applicable
	R1.1	Not Applicable
INT-004-2	R1	Not Applicable
	R2	Not Applicable
	R2.1	Not Applicable
	R2.2	Not Applicable
	R2.3	Not Applicable
IRO-001-1	R8	Not Applicable
IRO-005-1	R13	Not Applicable
TOP-005-1	R4	Not Applicable
VAR-001-1	R5	Not Applicable

Compliance Culture

The audit team reviewed DEMI's compliance culture. DEMI exhibited a serious approach to compliance. DEMI was found to be responsive to follow up requests and questions. The involvement and support of upper management, as evidenced by the emails presented, exhibits a positive commitment by the corporation to the compliance of the NERC Standards and the reliable operation of the BES.