



NORTHEAST POWER COORDINATING COUNCIL, INC.
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Compliance Audit Report

Public Version

Dynegy, Inc
NCR00200

June 8 to July 10, 2009

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

7/10/2009

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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.

An off-site compliance audit of Dynegy, Inc, NERC ID #NCR00200 was conducted from June 8 to July 10, 2009. At the time of the audit, Dynegy, Inc was registered for the Generator Owner (GO) and Generator Operator (GOP) functions.

The audit team evaluated Dynegy, Inc for compliance with 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 audit period of the current year and previous from June 18, 2007, unless a different retention period is specified in an individual reliability standard. Dynegy, Inc submitted information and documentation to aid the audit team's evaluation of compliance with requirements and provided subject matter experts for the standards resulting in a more clear understanding of the Dynegy, Inc business model, which helped accelerate the audit process. When the evidence provided to demonstrate compliance or non-applicability required additional requests for information and evidence, the Dynegy, Inc team responded to these requests in an expeditious manner. The audit was conducted using the data submitted by Dynegy, Inc, as well as telephone and email data exchanges. The audit team reviewed and evaluated all information provided by Dynegy, Inc to assess compliance with the standards applicable to the Generator Owner (GO) and Generator Operator (GOP) functions.

The Audit Team evaluated Dynegy, Inc on 60 requirements and sub-requirements in 13 Reliability Standards. Based on the information and documentation provided by Dynegy, Inc, the audit team found Dynegy, Inc to be compliant with 45 of 60 applicable requirements and sub-requirements and 12 of the 13 applicable NERC Reliability Standards. The audit team determined a possible non-compliant finding for CIP-001-1 requirement R2. The audit team further determined that 13 requirements and sub-requirements and 1 NERC Reliability Standard were not applicable to Dynegy, Inc.

All additional information requested was provided promptly and comprehensively. The audit team would like to thank the Dynegy, Inc 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 Dynegy, Inc's compliance with the requirements of the reliability standards that are applicable to Dynegy, Inc based on Dynegy, Inc'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 Dynegy, Inc's compliance program and culture.

Scope

The audit included all standards identified in the March 5, 2009 audit letter. The audit was a regularly scheduled audit and no self-reported violations, made pre or post June 18, 2007, mitigation plans, previous audits, or compliance investigations were involved. There were no separate requests made by Compliance Enforcement to the entity to supply information as it pertains to compliance other than for this regularly scheduled audit.

At the time of the audit, Dynegy, Inc was registered for the functions GO and GOP. The audit team evaluated Dynegy, Inc for compliance during the period of June 18, 2007 to June 8, 2009.

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

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 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

Dynegy, Inc was provided with a pre-audit request letter identifying the standards and requirements subject to audit for the Generator Owner (GO) and Generator Operator (GOP) functions, which included CIP-001-1 R1, R2, R3, R4; COM-002-2 R1; FAC-008-1 R1, R2, R3; FAC-009-1 R1, R2; IRO-001-1 R8; IRO-004-1 R4; IRO-005 R13; PRC-001-1 R1, R2, R3, R5; PRC-004-1 R2, R3; PRC-005-1 R1, R2; PRC-017 R1; TOP-001-1 R3, R6, R7; and TOP-002-2 R3, R13, R14, R15, R18. The audit letter was sent to Dynegy, Inc 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. Dynegy, Inc had no self-reported violations, made pre or post June 18, 2007, no mitigation plans, previous audits or compliance investigations; and there were no requests made to the entity to supply information as it pertains to compliance other than for this audit.

The audit team leader requested that Dynegy, Inc employees representing subject matter expertise regarding the registered functions of Dynegy, Inc be made available for interviews should the need arise. These interviews, in conjunction with evidence submitted, would then provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Generally accepted government auditing standard 3.31 states auditors must use professional judgment in planning and performing audits and attestation engagements and in reporting the results.

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, non-compliance or non-applicability 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 initial audit briefing call was conducted on June 8, 2009 at 10:00 am EDT. The auditors reviewed their careers and noted that they had signed a confidentiality agreement. A brief explanation of the audit process was given and the audit timelines were discussed. The auditor stated that the auditors have the ability and authority to expand the audit beyond the initial set of the standards and requirements identified in the audit notification letter should the need arise. The auditors also stated that corroborating evidence from other entities might be required to substantiate Dynegey, Inc's compliance. It was also stated by the auditors that the audit commenced on June 8, 2009, once the auditors received Dynegey, Inc's hard copy evidence files from NPCC.

Dynegey, Inc was given the opportunity to reject the auditor should they feel that there was a possible conflict of interest, any concerns regarding the auditors' background or if they thought that the auditor would not be impartial. Dynegey Inc accepted the auditor.

Audit

The auditors performed the audit as an off-site audit. The auditors reviewed the information submitted by Dynegey, Inc and then developed a list of questions and requests for further information; the list was then sent to Dynegey, Inc for their review. Dynegey, Inc then took the time necessary to gather the necessary information and submitted the information back to the auditors via email.

Exit Briefing

The exit briefing was conducted via conference call at 10:00 am on Tuesday, July 14, 2009. The teleconference was between the NPCC auditor and Dynege, Inc. The NPCC staff reviewed the audit process and summarized the findings of the audit for each standard and requirement. The audit team evaluated Dynege, Inc on 59 requirements and sub-requirements in 13 Reliability Standards. Based on the information and documentation provided by Dynege, Inc, the audit team found Dynege, Inc to be compliant with 45 of 59 applicable requirements and sub-requirements and 12 of the 13 applicable NERC Reliability Standards. The audit team determined a possible non-compliant finding for CIP-001-1 requirement R2. The audit team further determined that 13 requirements and sub-requirements and 1 NERC Reliability Standard were not applicable to Dynege, Inc.

Dynege, Inc. was presented an opportunity to question the audit findings and provide comments on the audit. The auditors provided some ways to enhance their management of data evidence.

Company Profile

Dynege, Inc. produces and sells electric energy, capacity, and ancillary services in key U.S. markets. The company's power generation portfolio has approximately 17,000 megawatts (summer net) of baseload, intermediate, and peaking power plants operating in four regions across the U.S.

The five Plants that are owned and operated by Dynege Inc. in the NPCC Region are as follows: Bridgeport, Casco Bay, Danskammer, Roseton and Independence.

Audit Specifics

The compliance audit was conducted from June 8, to July 10, 2009.

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

Dynegy, Inc

| Title | Organization |
|--|---------------------|
| Director Electric System Operations and Compliance | Dynegy Inc |
| Manager, NERC Compliance | Dynegy Inc |
| Manager-Electric Systems | Dynegy Inc |

Audit Results

Dynegy, Inc provided data used to demonstrate their compliance or non-applicability with the standards identified in the audit letter from NPCC. When the auditor had additional questions, emails were used to request additional documentation.

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, non-compliance or non-applicability with the standards. All relevant documents are considered and to the extent they form portion of the audit trail are included in the RSAWs.

The audit team evaluated Dynegy, Inc on 59 requirements and sub-requirements in 13 Reliability Standards. Based on the information and documentation provided by Dynegy, Inc, the audit team found Dynegy, Inc to be compliant with 45 of 59 applicable requirements and sub-requirements and 12 of the 13 applicable NERC Reliability Standards. The audit team determined a possible non-compliant finding for CIP-001-1 requirement R2. The audit team further determined that 13 requirements and sub-requirements and 1 NERC Reliability Standard were not applicable to Dynegy, Inc.

Findings Table

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

| Reliability Standard | Requirement | Finding |
|-----------------------------|--------------------|--------------------|
| CIP-001-1 | R1 | Compliant |
| CIP-001-1 | R2 | Possible Violation |
| CIP-001-1 | R3 | Compliant |
| CIP-001-1 | R4 | Compliant |
| COM-002-2 | R1 | Compliant |
| FAC-008-1 | R1 | Compliant |
| FAC-008-1 | R1.1 | Compliant |

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| | | |
|-----------|--------|-------------------|
| FAC-008-1 | R1.2 | Compliant |
| FAC-008-1 | R1.2.1 | Compliant |
| FAC-008-1 | R1.2.2 | Compliant |
| FAC-008-1 | R1.3 | Lead In Statement |
| FAC-008-1 | R1.3.1 | Compliant |
| FAC-008-1 | R1.3.2 | Compliant |
| FAC-008-1 | R1.3.3 | Compliant |
| FAC-008-1 | R1.3.4 | Not Applicable |
| FAC-008-1 | R1.3.5 | Compliant |
| FAC-008-1 | R2 | Compliant |
| FAC-008-1 | R3 | Compliant |
| FAC-009-1 | R1 | Compliant |
| FAC-009-1 | R2 | Compliant |
| IRO-001-1 | R8 | Compliant |
| IRO-004-1 | R4 | Compliant |
| IRO-005-1 | R13 | Compliant |
| PRC-001-1 | R1 | Compliant |
| PRC-001-1 | R2 | Compliant |
| PRC-001-1 | R2.1 | Compliant |
| PRC-001-1 | R3 | Lead In Statement |
| PRC-001-1 | R3.1 | Compliant |
| PRC-001-1 | R5 | Compliant |
| PRC-001-1 | R5.1 | Not Applicable |
| PRC-004-1 | R2 | Compliant |
| PRC-004-1 | R3 | Compliant |
| PRC-005-1 | R1 | Compliant |
| PRC-005-1 | R1.1 | Compliant |
| PRC-005-1 | R1.2 | Compliant |
| PRC-005-1 | R2 | Compliant |
| PRC-005-1 | R2.1 | Compliant |
| PRC-005-1 | R2.2 | Compliant |
| PRC-017-0 | R1 | Not Applicable |
| PRC-017-0 | R1.1 | Not Applicable |
| PRC-017-0 | R1.1.1 | Not Applicable |
| PRC-017-0 | R1.1.2 | Not Applicable |
| PRC-017-0 | R1.1.3 | Not Applicable |
| PRC-017-0 | R1.1.4 | Not Applicable |
| PRC-017-0 | R1.2 | Not Applicable |
| PRC-017-0 | R1.3 | Not Applicable |
| PRC-017-0 | R1.4 | Not Applicable |
| PRC-017-0 | R1.5 | Not Applicable |
| PRC-017-0 | R1.6 | Not Applicable |
| PRC-017-0 | R2 | Not Applicable |
| TOP-001-1 | R3 | Compliant |
| TOP-001-1 | R6 | Compliant |
| TOP-001-1 | R7 | Compliant |
| TOP-001-1 | R7.1 | Compliant |

| | | |
|-----------|-------|-----------|
| TOP-001-1 | R7.3 | Compliant |
| TOP-002-2 | R3 | Compliant |
| TOP-002-2 | R13 | Compliant |
| TOP-002-2 | R14 | Compliant |
| TOP-002-2 | R14.1 | Compliant |
| TOP-002-2 | R14.2 | Compliant |
| TOP-002-2 | R15 | Compliant |
| TOP-002-2 | R18 | Compliant |

Compliance Culture

The audit team reviewed Dynegy, Inc's compliance culture. During all contacts, Dynegy, Inc's representative was very professional and positive in his 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.