



Compliance Audit Report Public Version

(Multi Regional – SERC, NPCC, RFC)

**Confidential Information (including
Privileged and Critical Energy
Infrastructure Information) – Has been
removed**

**Direct Energy Business, LLC
NERC ID # - NCR00443**

Date of Audit - August 24- September 4, 2009

Date of Report – October 26, 2009

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Executive Summary

This compliance audit report is the non-public version which contains confidential information (including privileged and critical energy infrastructure information). This non-public compliance audit report will be submitted to NERC.

A compliance audit of Direct Energy Business, LLC (Direct Energy) was conducted from August 24, 2009 to September 4, 2009 by an audit team led by ReliabilityFirst. ReliabilityFirst conducts compliance audits as part of the ReliabilityFirst Compliance Monitoring and Enforcement Program (CMEP). At the time of the audit, Direct Energy, NERC ID # - NCR00443; was registered for the Purchasing-Selling Entity (PSE) function that it performs in the ReliabilityFirst, NPCC and SERC regions. This audit was conducted with the consultation of all identified regions to assure that all specific regional compliance concerns were addressed. This audit report marks the completion of Direct Energy's compliance review for each of the regions in which Direct Energy is registered.

The Audit Team evaluated Direct Energy for compliance with three (3) NERC Reliability Standards consisting of three (3) requirements [one (1) requirement per standard] for the period of June 18, 2007 to September 4, 2009. Direct Energy provided information and documentation to aid the Audit Team's evaluation of compliance with the applicable Standards. The Audit Team reviewed and evaluated all information provided by Direct Energy to assess compliance with requirements/standards applicable to the PSE function.

Direct Energy was found compliant to all three (3) of the applicable NERC Reliability Standards consisting of one requirement each. The Audit Team did not identify any Possible Violations (PVs). The basis for these findings is detailed in the Audit Result Findings section of this report.

There were no on-going mitigation plans and therefore none were reviewed by the audit team.

Audit Process

The compliance audit process steps are detailed in the ReliabilityFirst CMEP. The ReliabilityFirst 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:

- Review Direct Energy's compliance with the requirements of Reliability Standards that are applicable to Direct Energy based on Direct Energy's registered function.
- Validate compliance with applicable Reliability Standards from the NERC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of outstanding self-reported violations and previous self-certifications, confirm compliance with other requirements of the Reliability Standards, and review the status of associated Mitigation Plans.
- Document Direct Energy's compliance program and culture.
- Validate compliance with additional NERC standards selected by the regions that are not in the NERC 2009 Implementation Plan.
- Validate compliance with applicable Reliability*First* and other regional reliability standards that apply to Direct Energy.

Scope

The scope of the compliance audit included applicable NERC Reliability Standards applicable to Direct Energy in the 2009 Reliability*First* Implementation Plan for the current and two previous years to June 18, 2007. Reliability*First* also included a review of appropriate mitigation plans and self-certifications.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the Audit Team are governed under the Reliability*First* Delegation Agreement with NERC and the NERC Rules of Procedure Section 1500. Direct Energy was informed of the Reliability*First* obligations and responsibilities under this agreement and procedure. The work history for each Audit Team member was provided to Direct Energy. Direct Energy 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. Direct Energy did not submit any objections by the stated fifteen day objection due date and by this action accepted the Audit Team member participants without objection.

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

Off-site Audit

Direct Energy is currently subject to a compliance audit at a minimum of once every six years as provided by the NERC Rules of Procedure. Direct Energy was provided with a 90 day notification of this scheduled audit and at that time was provided with all necessary documents required by the NERC and ReliabilityFirst audit process. The following documents were provided as part of the 90 day notification:

- 90 day Notification letter which contained request for evidence , information, and date submittals for each applicable requirement/standard
- Compliance Audit Survey
- Audit Agenda as applicable
- Internal Compliance Program Survey
- Audit Team Work History with discussion of the objection process
- General Instructions of Data and/or Information Submittals
- Compliance Questionnaire and Reliability Standard Auditor Worksheets (QRSAWs)
-

Documents were provided to Direct Energy in electronic format.

ReliabilityFirst discussed the use of technical experts with the Direct Energy primary compliance contact and indicated that ReliabilityFirst would welcome the use of technical experts by Direct Energy as deemed necessary to explain their compliance to the requirements/standards.

Direct Energy's cooperation and flexibility with the agenda to address the requirements/standards was appreciated by the Audit Team.

This audit was conducted in the ReliabilityFirst offices in Akron, Ohio, using material provided by Direct Energy. The Audit Team reviewed Direct Energy's evidence of compliance for all applicable standards with Direct Energy technical experts, and requested, as required, additional information to clarify information previously supplied to the team. These interviews, in conjunction with evidence provided, supplied the Audit Team with a basis for using their professional judgment when validating compliance to the Reliability Requirements/Standards.

Methodology

The Audit Team reviewed the evidence provided by Direct Energy for each of the Reliability Standards and requirements that apply to the PSE function performed by the company to assess Direct Energy compliance with those NERC Reliability Standards and

associated requirements. The Audit Team reviewed each requirement, discussed the levels of compliance and addressed each team member's observations during the audit to determine the team's compliance findings from the audit review.

Opening Briefing

An Opening Briefing was conducted with Direct Energy to discuss the following:

- Introduction of Audit Team
- Audit Objective and Scope
- Confidentiality of data and information
- Audit Team Expectations
- Discussion on Clarification Calls
- Audit Process
- Exit Briefing and schedule

Audit

The ReliabilityFirst Audit Team reviewed Direct Energy applicable reliability standards/requirements and evaluated and measured the evidence provided for each to determine compliance. When there was concern that the supporting evidence was not adequate or did not meet the intent of the requirement, the Audit Team requested additional or a clarification of existing information or a signed and dated attestations by an authorized officer responsible for compliance.

Exit Briefing

The Audit Team conducted an exit briefing with a presentation to Direct Energy via web-ex/conference call on September 4, 2009. The presentation was attended by Direct Energy staff as well as the audit team. The status of the off-site audit process was discussed, followed by a review of the audit scope, the preliminary audit findings, and the compliance audit report process and entity feedback. Direct Energy was provided an opportunity to ask questions concerning the topics that the Audit Team addressed.

Company Profile

At the time of the audit, Direct Energy was registered for the PSE function in the ReliabilityFirst, NPCC, and SERC regions.

As a PSE, Direct Energy does not own or operate any assets. Direct Energy serves 21 residential, 364 industrial and 14,019 commercial customers.

Direct Energy does not operate in a 24/7 environment within the ReliabilityFirst, NPCC, and SERC regions

Audit Specifics

The compliance audit was conducted from August 24 – September 4, 2009 at the ReliabilityFirst Office in Akron, Ohio.

Audit Team

Audit Team Role	Title	Company
Lead	Senior Consultant	ReliabilityFirst Corporation
Member	Consultant	RNJ-Energy

Direct Energy Audit Participants

Title	Company
Manager, Government & Regulatory Affairs	Direct Energy

Audit Results

After reviewing all of the evidence presented, Direct Energy was found to be compliant with all three (3) of the applicable NERC Reliability Standards, consisting of one (1) requirement each that applies to the PSE function. Direct Energy is registered for in the ReliabilityFirst, NPCC, and SERC regions. The audit team did not find any Possible Violations (PVs) nor were any possible violations (PVs) brought forward by SERC and/or NPCC. There were no mitigation plans, self certifications, or applicable regional standards that were in need of review by the audit team.

Findings

The following table details the Audit Team's findings and evidence reviewed for compliance with the one (1) requirement in each of three (3) applicable NERC Reliability Standards for Direct Energy Business's registered PSE function. The table includes details, document section, and page numbers noted by the Audit Team relating to the evidence reviewed for compliance to each Reliability Standard and the associated requirements.

Direct Energy Off-site Audit Findings Table

Reliability Standard	Requirement	Finding
IRO-001-1	R8	Compliant
IRO-005-2	R13	Compliant
VAR-001-1	R5	Compliant

Compliance Culture

Direct Energy, LP has implemented a standalone internal wholesale compliance group (Compliance Group) which provides oversight of the NERC compliance program, training to appropriate company personnel and facilitates all NERC related correspondence. The team currently has five members, including the head of its compliance department, Bray Dohrwardt.

The NERC compliance program is managed by the Compliance Group and applicable to all business units performing functions inside of the applicable regional registration functions. It is supported by all Direct Energy, LP executives and employees from a top down implementation which focuses on zero tolerance standards driven by a corporate culture of compliance. The Compliance Group has one full time employee dedicated to reliability compliance functions and serves to ensure all business functions are performed inside the boundaries defined by the NERC compliance standards. There is constant interaction and discussions to refine procedures, processes and communication/reporting requirements. In the event any issues are identified, the situational information is used by the Compliance Group staff to evaluate a necessity to self report, determine the root cause and create any necessary mitigation programs required to solve and prevent and issues that may arise. Senior management receives monthly compliance reports and regularly distributes “tone from the top” emails to all employees.

The head of the Compliance Group reports to the Chief Legal Officer of Direct Energy LP. As such he has unobstructed access to the Direct Energy CEO and/or Board of Directors as necessary. This corporate structure ensures redundant, but separate reporting structures.

The wholesale compliance organization is separate and independent from the business corporate structure to ensure Direct Energy can be objective but responsive to activities which could represent a need for correction or possible self reporting. Also, the wholesale compliance organization’s budget is not set or controlled in any way by the lines of business.

It is Direct Energy’s position that the Compliance Group size will be evaluated annually through the corporate budgetary process and that the current five person staff is sufficient to administer Direct Energy’s compliance program.

Regular review and modification is focused on capturing lessons learned, appropriate industry benchmarking and recommendations developed from internal audits and applying those findings to the compliance program. Consequently, as required by the wholesale compliance policy, the compliance group must review and revise its compliance policy and program as needed or annually at a minimum.

Direct Energy’s Compliance Group has contracted with an outside organization to develop and manage Direct Energy’s specialized web-based training environment. The

training program provides a centralized facility for communicating Direct Energy's compliance program. Direct Energy believes the training provided to date has been appropriate and sufficient but is expanding the training to provide an automated platform to communicate detailed information and standardized processes. The training program will further solidify the culture of compliance within the organization

Direct Energy's Compliance Group was audited by the internal audit team from Centrica, Direct Energy's parent company in January 2009. Centrica conducted the audit over three weeks and presented a favorable report which the Compliance Group is utilizing to strengthen the program and proactively prepare for future audits. Furthermore, the Compliance Group conducts four self audits (not necessarily NERC related as Direct Energy oversees other functions) a year.

Pursuant to the wholesale compliance policy, Direct Energy has created a structure to ensure employees can not face disciplinary action for self reporting/identifying NERC reliability standard compliance problems or events. Direct Energy's intent is to maintain a constructive communication pathway between our business units and Compliance. This is further supported by the separate reporting structures to the Chief Executive for the Compliance Group and each of the business units. If employees have engaged in non-compliant behavior, the wholesale compliance policy allows for all disciplinary actions up to and including termination.