



## **Compliance Audit Report Public Version**

**Conectiv Energy Supply, Inc**  
NERC ID# NCR00732

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

**Date of Audit: October 18 - October 22, 2010  
October 25 - October 28, 2010**

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## Executive Summary

A compliance audit of Conectiv Energy Supply, Inc (CESI), NERC ID # - NCR00732 was conducted from October 18, 2010 - October 28, 2010. At the time of the audit, CESI was registered for the Generator Operator (GOP), and Purchasing-Selling Entity (PSE) functions.

At the time of the audit, Conectiv Energy Supply, Inc. was registered as a PSE in Northeast Power Coordinating Council (NPCC) and a GOP and PSE in ReliabilityFirst. During a portion of the audit period CESI was registered as a PSE in Midwest Reliability Organization (MRO), by the start of the audit review week, CESI had deregistered as a PSE in MRO.

The audit team evaluated CESI for compliance with thirty-seven (37) requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team assessed compliance with the NERC Reliability Standards, and applicable Regional Reliability Standards, for the period of June 18, 2007 to October 28, 2010. CESI submitted information and documentation for the audit team's evaluation of compliance with the requirements. The audit team reviewed and evaluated all information provided by CESI to assess compliance with standards applicable to CESI at this time.

Based on the information and documentation provided by CESI, the audit team found CESI to be compliant with twenty-eight (28) applicable requirements. The audit team determined that nine (9) requirements were not applicable to CESI. The audit team identified no Possible Violations.

These audit results are further explained in the Audit Results/Findings section of this report which includes detailed information of the audit team's findings of applicability and compliance for the NERC Reliability Standards, and applicable Regional Reliability Standards, within the scope of the compliance audit.

The ReliabilityFirst Audit Team Lead certifies that the audit team adhered to all applicable requirements of the NERC Rules of Procedure (ROP) and Compliance Monitoring and Enforcement Program (CMEP).<sup>\*\*</sup>

## 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

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\* This statement replaces the Regional Entity Self-Certification process.

All Registered Entities are subject to an audit for compliance with all reliability standards applicable to the functions for which the Registered Entity is registered.<sup>†</sup> The audit objectives are to:

- Review compliance with the requirements of reliability standards that are applicable to CESI, based on the functions that CESI is registered to perform;
- Validate compliance with applicable reliability standards from the NERC 2010 Implementation Plan list of actively monitored standards, and additional NERC Reliability Standards selected by *ReliabilityFirst*;
- Validate compliance with applicable regional standards from the *ReliabilityFirst* 2010 Implementation Plan list of actively monitored standards;
- Validate evidence of self-reported violations and previous self-certifications;
- Observe and document CESI's compliance program and culture;
- Review the status of mitigation plans.

### ***Scope***

The scope of the compliance audit included the NERC Reliability Standards from the *ReliabilityFirst* 2010 Implementation Plan. In addition, this audit included a review of mitigation plans or remedial action directives which have been completed or pending in the year of the compliance audit.

At the time of the audit, Conectiv Energy Supply, Inc. was registered as a PSE in Northeast Power Coordinating Council (NPCC) and a GOP and PSE in *ReliabilityFirst*. During a portion of the audit period CESI was registered as a PSE in Midwest Reliability Organization (MRO), by the start of the audit review week, CESI had deregistered as a PSE in MRO.

### ***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. CESI was informed of *ReliabilityFirst*'s obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to CESI. CESI was given an opportunity to object to an audit team member's participation 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. CESI had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without objection. There have been no denials of or access limitations placed upon this audit team by CESI.

### ***Methodology***

The audit team reviewed the information, data, and evidence submitted by CESI and assessed compliance with requirements of the applicable reliability standards. Submittal of information

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<sup>†</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

and data was due forty (40) days before the scheduled date of the CESI review. Additional information relevant to the audit could be submitted until the conclusion of the exit briefing. After that date, only data or information which was relevant to the content of the report or its finding can be submitted upon agreement by the Audit Team Lead.

The audit team requested and received additional information and sought clarification from subject matter experts during the audit.

The audit team evaluated all evidence of compliance for sufficiency and appropriateness, according to the Generally Accepted Government Auditing Standards.

The audit team reviewed documentation provided by CESI. Data, information and evidence submitted in the form of policies, procedures, e-mails, logs, studies, data sheets, etc. which were validated, substantiated and cross-checked for accuracy as appropriate. Requirements which required a sampling to be conducted were developed based upon the significance of the sampling to the reliability of the Bulk Electric System (BES).

Findings were based on the audit team's knowledge of the BES, the NERC Reliability Standards and their professional judgment. All findings were developed based upon the consensus of the audit team.

### ***Company Profile***

Pepco Holdings, Inc. (PHI) is the parent company to Pepco, Delmarva Power, and Atlantic City Electric, three regulated electric transmission and distribution companies, and the unregulated energy subsidiaries, Conectiv Energy supply, Inc. (CESI) and Pepco Energy Service (PES).

CESI does not own any generation or transmission facilities. The CESI NERC Compliance Organization includes a Compliance Coordinator, Compliance Manager, Compliance Officer and a Compliance Executive.

At the time of the audit, Conectiv Energy Supply, Inc. was registered as a PSE in Northeast Power Coordinating Council (NPCC) and a GOP and PSE in ReliabilityFirst. During a portion of the audit period CESI was registered as a PSE in Midwest Reliability Organization (MRO), by the start of the audit review week, CESI had deregistered as a PSE in MRO.

### ***Audit Participants***

The following is a listing of all personnel from the Audit Team and CESI who were present during the meetings or interviews.

### Audit Team Participants

<b>Audit Team Role</b>	<b>Title</b>	<b>Entity</b>
Audit Team Lead	Sr. Consultant, Compliance	ReliabilityFirst
Audit Team Member	Engineer, Compliance	ReliabilityFirst
Audit Team Observer	Sr. Cyber Auditor	ReliabilityFirst

### CESI Audit Participants

<b>Title</b>	<b>Entity</b>
Director, PJM & Pricing	Conectiv Energy Supply, Inc.
Senior Engineer NERC	Pepco Holdings, Inc
Manager of Generation Controllers	Conectiv Energy Supply, Inc.
Sr. VP of Generation & Engineering	Conectiv Energy Supply, Inc.
Director of Strategy and Planning	Conectiv Energy Supply, Inc.

### Audit Results

The audit team evaluated CESI for compliance with thirty-seven (37) requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed NERC Reliability Standards for the period of June 18, 2007 to October 28, 2010. CESI submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CESI to assess compliance with standards applicable to CESI at this time.

Based on the information and documentation provided by CESI, the audit team found CESI to be compliant with twenty-eight (28) applicable requirements. The audit team determined that nine (9) requirements were not applicable to CESI. The audit team identified no Possible Violations.

### Findings

The following table details the findings for compliance for the scope identified for this audit.

<b>Reliability Std</b>	<b>Req.</b>	<b>Finding</b>
CIP-001-1	R1	Compliant
CIP-001-1	R2	Compliant
CIP-001-1	R3	Compliant
CIP-001-1	R4	Compliant
COM-002-2	R1	Compliant
IRO-001-1.1	R8	Compliant
IRO-004-1	R4	Compliant

IRO-005-2	R13	Compliant
NUC-001-2	R1	N/A
NUC-001-2	R2	N/A
NUC-001-2	R3	N/A
NUC-001-2	R4	N/A
NUC-001-2	R5	N/A
NUC-001-2	R6	N/A
NUC-001-2	R7	N/A
NUC-001-2	R8	N/A
NUC-001-2	R9	N/A
PRC-001-1	R1	Compliant
PRC-001-1	R2	Compliant
PRC-001-1	R3	Compliant
PRC-001-1	R5	Compliant
TOP-001-1	R3	Compliant
TOP-001-1	R6	Compliant
TOP-001-1	R7	Compliant
TOP-002-2a	R3	Compliant
TOP-002-2a	R13	Compliant
TOP-002-2a	R14	Compliant
TOP-002-2a	R15	Compliant
TOP-002-2a	R18	Compliant
TOP-003-0	R1	Compliant
TOP-003-0	R2	Compliant
TOP-003-0	R3	Compliant
VAR-001-1	R5	Compliant
VAR-002-1.1a	R1	Compliant
VAR-002-1.1a	R2	Compliant
VAR-002-1.1a	R3	Compliant
VAR-002-1.1a	R5	Compliant

### ***Compliance Culture***

CESI's compliance culture was reviewed by the audit team.

The Conectiv Energy Supply, Inc. (CESI) Compliance and Monitoring Program assigns accountabilities and monitors compliance for all applicable NERC and Regional Entity (RE) reliability standards, not only the standards that are actively monitored on the RE annual plan. The CESI program includes regular self-assessments and self-audits, as well as documentation and data review to ensure compliance. The President and CFO acts as Compliance Executive and the Vice President of Asset Development acts as the Compliance Officer, each providing oversight of the CESI program. The Compliance Manager oversees the implementation of the CESI program with a Compliance Coordinator administering the self-assessments, self audits, evidence compilation and reporting with support from Internal Auditing and Subject Matter Experts (SME).

CESI has developed processes that parallel the NERC and RE plans (e.g., self-certifications or data submittals) for consistency. Operating departments comprising the registration categories applicable to CESI (GOP, PSE) are responsible for reliability standards compliance and participates in the self-certification, data submittal, spot check and audit processes for applicable reliability standards as described in the NERC Functional Model. Specific positions within the operating departments are assigned accountability of specific reliability standards for compliance purposes. The Compliance Manager and Compliance Coordinator lead the compliance and monitoring processes across CESI.

Employees at all levels are encouraged through annual training and monthly NERC communications to proactively support the NERC compliance program and to report potential violations to the Compliance Executive, Compliance Officer, Compliance Manager, Compliance Coordinator, Subject Matter Experts, Pepco Holdings, Inc. (PHI – parent company) Internal Auditor or directly to the ethics hotline available through PHI's Ethics Center. PHI and CESI are committed to conducting business in accordance with PHI values and applicable laws and regulations including all NERC and RE Reliability Standards.

The Compliance Officer, Compliance Manager and Compliance Coordinator all have independence for direct reporting accessibility to the (CESI and PHI) Sr. Management and representatives of the Board of Directors by participation on the PHI - NERC / ERO Steering Committee, in addition to standard communication process with Corporate Internal Auditing and Company Ethics Hotline.

The CESI Compliance Program is distributed company wide. CESI expects all employees to be knowledgeable and aware of NERC Reliability purpose and standard requirements at a high level. CESI has conducted company wide NERC overview training to 100% of all personnel and Cyber Security training to NERC certified personnel including information on key reliability standards in 2009. This training is also included in the Human Resources new employee orientation process. CESI has completed procedure training for applicable operating departments; for example, Sabotage Recognition and Reporting training in 2009. CESI has designated a Compliance Executive, Compliance Officer, Compliance Manager, Compliance Coordinator, Subject Matter Experts, and Authorized Signatories as the core Compliance Committee for assessing and reporting NERC Compliance status. This committee meets monthly to review compliance status and delegate compliance action plans. Key representatives from the CESI Compliance Coordinating Committee meet monthly and report into the PHI NERC / ERO Compliance Steering Committee.

The audit team found CESI to be responsive to ReliabilityFirst's request for additional evidence and clarification of evidence.

Additional information pertaining to the compliance culture of CESI can found in the Internal Compliance Survey.