

Compliance Audit Report Public Version

**Optim Energy Marketing, LLC
NERC ID # NCR10150**

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

Audit Date: June 8-11, 2010
Audit Location: Optim Energy Marketing, LLC Office, Irving, TX
Report Date: October 13, 2011
Prepared By: Frank Vick, Audit Team Leader

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1.0 EXECUTIVE SUMMARY

The On-Site compliance audit of Optim Energy Marketing, LLC (Optim Marketing) was conducted on June 8-11, 2010. The NERC Reliability Standards that are being actively monitored for 2010 were reviewed based on Optim Marketing's registration as a Generator Operator and Purchasing-Selling Entity.

The audit team reviewed the NERC Reliability Standards for the period of time identified in the scope of the audit. The audit team consisted of four (4) representatives from Texas Regional Entity (Texas RE). The audit team reviewed the evidence and documentation provided by Optim Marketing and conducted interviews with Optim Marketing's personnel to assess compliance with standards applicable to Optim Marketing at this time.

There was a total of Eleven (11) reliability standards included in the scope of this audit consisting of ninety three (93) requirements. Based on the information and documentation provided by Optim Marketing, the audit team found Optim Marketing to be compliant with twenty six (26) applicable requirements. The audit team determined that sixty six (66) requirements were not applicable to Optim Marketing.

The audit team identified one (1) possible alleged violation during the audit. 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 within the scope of the compliance audit. This audit report includes information regarding the possible alleged violation. This information will be used to help determine the severity level of sanctions and penalties. The possible alleged violations will be processed through the Texas RE's NERC Compliance Monitoring and Enforcement Program. Any further actions related to possible alleged violations will follow the same process. Any Possible Alleged Violations will be processed through the NERC and Texas RE CMEP.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit and therefore none were reviewed by the audit team.

The NERC Notice of Penalty (NOP) is posted on the NERC website at the following URL:
http://www.nerc.com/filez/enforcement/FinalFiled_ANOP_NOC-757.pdf .

2.0 AUDIT PROCESS

The compliance audit process is detailed in the NERC Compliance Monitoring and Enforcement Program (CMEP), available at www.nerc.com. The NERC CMEP generally conforms to the United States Government Accountability Office Government Auditing Standards and other generally accepted audit practices.

2.1 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:

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

- Independently review Optim Marketing's compliance with the requirements of the reliability standards that are applicable to Optim Marketing based on the Optim Marketing registered functions included in the scope of this audit.
- Validate compliance with applicable reliability standards from the NERC 2010 CMEP 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 standards, and review the status of associated mitigation plans.
- Document Optim Marketing's compliance culture.

2.2 Scope

The scope of this compliance audit is inclusive of all requirements of the NERC Reliability Standards that are being actively monitored in 2010 and any others that may be identified by the audit team at the time of the audit applicable to a Generator Operator and Purchasing-Selling Entity. The audit was performed by four (4) members of Texas RE.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff for Optim Energy Marketing, LLC and therefore none were reviewed by the audit team.

Note: For the 2010 compliance program, the monitoring period for the compliance audit will generally be the last six years based the Optim Marketing's registration as a Generator Operator and Purchasing-Selling Entity, or periods specified in individual reliability standards.

At the time of the audit, Optim Marketing was registered as a Generator Operator and Purchasing-Selling Entity. The audit team evaluated Optim Marketing for compliance during the specific period of June 18, 2007 to June 8, 2010.

2.2.1 Confidentiality and Conflict of Interest

Confidentiality agreements and code of conduct documentation for the regional entity staff were provided to Optim Marketing prior to the audit. Work history and conflict of interest forms submitted for each audit team member were provided to Optim Marketing. Optim Marketing 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. Optim Marketing did submit one objection by the stated fifteen day objection due date and the audit team member objected to, did not participate in the audit. There have been no denials of or access limitations placed upon this audit team by Optim Marketing.

2.3 Methodology

Once an audit date was set by Texas RE, Optim Marketing was sent a Reliability Standard Audit Work Sheets (RSAWs) for the list of actively monitored NERC Standards.

The audit team reviewed the completed RSAWs, information, data, and evidence submitted by Optim Marketing and assessed compliance with requirements of the applicable reliability standards. Initial submittal of information and data were sent to Texas RE on or before the scheduled due date for the submittal. Additional information relevant to the audit could be requested by Texas RE and submitted by Optim Marketing until the last day of the review at the audit site.

During the audit, Texas RE reviewed the responses to the RSAWs and auditor questions with Optim Marketing's management and supervisors. The audit team reviewed documentation provided by Optim Marketing that included data, information and evidence submitted in the form of policies, procedures, emails, 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 Electrical System (BES).

Texas RE audit team interviewed operations personnel and reviewed documents to substantiate that the operations personnel were trained and capable of following the procedures to ensure reliable operations from that entity. The audit team also interviewed IT, communications, and planning personnel as necessary to clarify or stack the evidence provided by Optim Energy and verify documentation.

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.

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff for Optim Energy Marketing, LLC and therefore none were reviewed by the audit team.

The audit team conducted an exit briefing immediately following the audit with Optim Marketing. The audit team verbally shared its preliminary results with Optim Marketing's management.

2.4 Company Profile

Optim Marketing operates as an ERCOT registered Level 4 Qualified Scheduling Entity ("QSE"), scheduling to ERCOT daily bilateral trades, real-time generation availability, generation outages, and Ancillary Services for the Optim Energy owned and co-owned generation facilities listed below:

- Altura Cogen (PSA)
- Cedar Bayou 4 (CBY4)
- Twin Oaks (TNP_One and TNP_Two)

2.5 Audit Specifics

Audit Date: June 8-11, 2010
Audit Location: Optim Marketing Office, Irving, TX

Texas RE Audit Team:

Company/Title	Audit Team Role
Texas RE/Compliance Analyst III	Audit Team Leader
Texas RE/Sr. Regional Planning Assessment Engineer	Auditor
Texas RE/Compliance Engineer II	Auditor
Texas RE/Compliance Engineer I	Auditor

Optim Marketing's Audit Participants:

Company	Title
Optim Energy	Compliance Manager
Optim Energy	Manager, Sys. Ops.
Optim Energy	Executive Director, R.T. Ops.
Optim Energy	Senior Vice President, Com. Ops.
Optim Energy	Director, Contracts
ICF International	Manager, Regulatory Compliance
Optim Energy	Senior R.T. Trader
Optim Energy	V.P., General Council & Chief Compliance Officer
Optim Energy	Senior R.T. Trader
Optim Energy	Senior Vice President, Ops.
Optim Energy	Director, Asset Management

3.0 AUDIT RESULTS

3.1 Audit Findings

The Compliance Audit Team found that Optim Marketing was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
VAR-002-1.1a, R3.1

Optim Marketing was found compliant with all other requirements and standards that were included in the scope of this audit.

The following table is a summary of the auditor's findings for those NERC standards reviewed during the audit:

Reliability Standard	Requirement	Finding
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Reliability Standard	Requirement	Finding
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
COM-002-2	R2.	N/A
IRO-001-1.1	R1.	N/A
IRO-001-1.1	R2.	N/A
IRO-001-1.1	R3.	N/A
IRO-001-1.1	R4.	N/A
IRO-001-1.1	R5.	N/A
IRO-001-1.1	R6.	N/A
IRO-001-1.1	R7.	N/A
IRO-001-1.1	R8.	Compliant
IRO-001-1.1	R9.	N/A
IRO-004-1	R1.	N/A
IRO-004-1	R2.	N/A
IRO-004-1	R3.	N/A
IRO-004-1	R4.	Compliant
IRO-004-1	R5.	N/A
IRO-004-1	R6.	N/A
IRO-004-1	R7.	N/A
IRO-005-2	R1.	N/A
IRO-005-2	R2.	N/A
IRO-005-2	R3.	N/A
IRO-005-2	R4.	N/A
IRO-005-2	R5.	N/A
IRO-005-2	R6.	N/A
IRO-005-2	R7.	N/A
IRO-005-2	R8.	N/A
IRO-005-2	R9.	N/A
IRO-005-2	R10.	N/A
IRO-005-2	R11.	N/A
IRO-005-2	R12.	N/A
IRO-005-2	R13.	N/A
IRO-005-2	R14.	N/A
IRO-005-2	R15.	N/A
IRO-005-2	R16.	N/A
IRO-005-2	R17.	N/A

Reliability Standard	Requirement	Finding
PRC-001-1	R1.	Compliant
PRC-001-1	R2.	Compliant
PRC-001-1	R3.	Compliant
PRC-001-1	R4.	N/A
PRC-001-1	R5.	Compliant
PRC-001-1	R6.	N/A
TOP-001-1	R1.	N/A
TOP-001-1	R2.	N/A
TOP-001-1	R3.	Compliant
TOP-001-1	R4.	N/A
TOP-001-1	R5.	N/A
TOP-001-1	R6.	Compliant
TOP-001-1	R7.	Compliant
TOP-001-1	R8.	N/A
TOP-002-2	R1.	N/A
TOP-002-2	R2.	N/A
TOP-002-2	R3.	Compliant
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.	Compliant
TOP-002-2	R14.	Compliant
TOP-002-2	R15.	Compliant
TOP-002-2	R16.	N/A
TOP-002-2	R17.	N/A
TOP-002-2	R18.	Compliant
TOP-002-2	R19.	N/A
TOP-003-0	R1.	Compliant
TOP-003-0	R2.	Compliant
TOP-003-0	R3.	Compliant
TOP-003-0	R4.	N/A
VAR-001-1	R1.	N/A
VAR-001-1	R2.	N/A

Reliability Standard	Requirement	Finding
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-002-1.1a	R1.	Compliant
VAR-002-1.1a	R2.	Compliant
VAR-002-1.1a	R3.	PV
VAR-002-1.1a	R4.	N/A
VAR-002-1.1a	R5.	Compliant

3.2 Mitigation Plan Findings

There were no ongoing or recently completed mitigation plans for the NERC registered functions included in the scope of this audit that had not been previously validated by Texas RE's compliance staff and therefore none were reviewed by the audit team.

3.3 Conclusion

The compliance audit team found that Optim Marketing was non-compliant with the following standards and requirements:

Reliability Standard & Requirement
VAR-002-1.1a, R3.1

The possible alleged violation along with this compliance report will be provided to Texas RE's compliance staff for processing through the NERC CMEP. Any further actions related to possible alleged violations will be through that process.

Optim Marketing was found compliant with all other requirements and standards that were included in the scope of this audit.

3.4. Compliance Culture

Optim Marketing's compliance culture survey was reviewed by the audit team.

Optim Marketing was cooperative with the audit team's needs and information requests throughout the entire audit process. The organizational structure of Optim Marketing, the extensive participation

during the audit by Optim Marketing's personnel, the responses provided to the compliance culture survey, the documentation of procedures and records, the demonstrated level of compliance and the direct observations made by the audit team confirmed a commitment by Optim Marketing to promote a compliance culture within organization. The Compliance Manager's efforts for this audit were extremely helpful and were well supported by the other Optim Marketing managers and SME's who prepared and participated during the audit process.

Additional detailed information pertaining to the compliance culture of Optim Marketing can be found in the Internal Compliance Survey.