



Compliance Audit Report Public Version

Constellation New Energy, Inc.
NERC ID# NCR00180

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

Date of Audit: April 6-April 16, 2010

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Executive Summary

A compliance audit of Constellation New Energy, Inc. (CNE), NERC ID NCR00180 was conducted from April 6-April 16,2010. At the time of the audit, CNE was registered for the Purchasing-Selling Entity (PSE) function.

The audit team evaluated CNE for compliance with 3 requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit team reviewed the NERC Reliability Standards for the period of June 18, 2007- April 16, 2010. At the time of the audit CNE, NERC ID NCR00180 was registered as a Purchasing-Selling Entity (PSE) in the SERC and Reliability*First* Regions. The audit was conducted following Reliability*First* audit processes and procedures and with the consultation of all the identified regions to assure that all regional compliance concerns were addressed. This audit report marks the completion of CNE's compliance review for each of the regions in which CNE is registered under NERC ID NCR00180. CNE submitted information and documentation for the audit team's evaluation of compliance with requirements. The audit team reviewed and evaluated all information provided by CNE to assess compliance with standards applicable to CNE at this time.

Based on the information and documentation provided by CNE, the audit team found CNE to be compliant with three (3)applicable requirements. The audit team determined that three (3)requirements were applicable to CNE. The audit team did not identify any violations as a result of this review.

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.

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 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 an audit for compliance with all reliability standards applicable to the functions for which the Registered Entity is registered.* The audit objectives are to:

- Review compliance with the requirements of reliability standards that are applicable to CNE, based on the functions that CNE 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 CNE'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 any self-reports, self-certifications, outstanding 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, CNE was registered for the Purchasing-Selling Entity (PSE) function. The audit team evaluated CNE compliance during the period of June

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. CNE was informed of ReliabilityFirst's obligations and responsibilities under the agreement and procedures. The work history for each audit team member was provided to CNE. CNE 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. CNE had not submitted any objections by the stated fifteen day objection due date and accepted the audit team member participants without

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

objection. There have been no denials of or access limitations placed upon this audit team by CNE.

Methodology

The audit team reviewed the information, data, and evidence submitted by CNE and assessed compliance with requirements of the applicable reliability standards. Submittal of information and data was due forty (40) days before the scheduled date of the entity 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 CNE. 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.

Audit Participants

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

Audit Team Participants

Audit Team Role	Title	Entity
Team Lead	Sr. Consultant	ReliabilityFirst Compliance
Member	Sr. Engineer	ReliabilityFirst Compliance

CNE Audit Participants

Title	Entity
Director, Asset Operations	Constellation Energy
Director, Operations	Constellation Energy

Audit Results

The audit team evaluated CNE for compliance with three (3) requirements in the 2010 NERC Compliance Monitoring and Enforcement Program (CMEP). CNE 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 CNE to assess compliance from June 18, 2007- April 16, 2010 with standards applicable to CNE at this time. Based on the information and documentation provided by CNE, the audit team found CNE to be compliant with three (3) applicable requirements. The audit team determined that three (3) requirements were applicable to CNE. The Audit Team did not identify any violations as a result of this review.

Findings

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

Reliability Std	Req.	Finding
IRO-001-1.1	R8	Compliant
IRO-005-2	R13	Compliant
VAR-001-1	R5	Compliant

Compliance Culture

CNE’s compliance culture was reviewed by the audit team and found to be adequate for supporting compliance.

Constellation Energy Commodities Group, Inc. (“CCG”) centrally performs all NERC compliance programs for CNE and its registered Purchasing-Selling Entity (“PSE”) affiliates including Constellation NewEnergy.

A single primary CCG compliance contact oversees all of CNE’s NERC compliance activities. The primary compliance contact is assisted by a secondary compliance contact, a dedicated compliance attorney and any other staff members deemed necessary to meet CCG’s and CNE’s compliance objectives. Both the primary and secondary compliance contacts have direct and immediate access to CCG’s Chief Operating Officer, who is the officer signatory for CCG and its registered PSE affiliates including CNE.

CEG, Constellation Energy Group, is CCG’s and CNE’s parent company and it has established a dedicated unit, Corporate NERC Compliance (“CNC”), within its Corporate Risk Management

department that oversees and supports the NERC compliance activities of each of its registered affiliates, including CCG & CNE.

Led by a Corporate Director of NERC Compliance, the CNC holds regular (monthly) meetings that is attended by CCG's primary and secondary compliance contacts. These meetings are a forum to discuss NERC and regional regulatory and compliance updates. CNC facilitates information sharing and general awareness through these meetings and email exchanges. In addition, in conjunction with CNC, the CEG Legal department oversees internal audits of each registered affiliate's NERC compliance programs, including CCG and CNE. CEG's internal audit program evaluates supporting documentation using expert consultants, internal corporate subject matter experts, and legal counsel. CNC reports directly to CEG's Chief Risk Officer, who is the Chair of CEG's NERC Compliance Executive Steering Committee. The CEG NERC Compliance Executive Steering Committee is a forum for CEG's senior leadership which discusses and resolves issues relating to corporate-wide compliance with reliability standards, and is a conduit for strategic leadership and guidance to corporate and affiliate compliance programs.

The Chief Operating Officer of CCG is a sitting member of the CEG NERC Compliance Executive Steering Committee.

Additional information pertaining to the compliance culture of CNE its parent CCG who reports their parent CEG can be found in the Internal Compliance Survey.