



# **Compliance Audit Report Public Version**

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

**J. Aron & Company  
(ARRON1)  
NCR 10021 MRO, NPCC, RFC, SERC, SPP, TRE,  
WECC  
November 3-5, 2009**

**November 6, 2009**

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## Executive Summary

The Midwest Reliability Organization (MRO) conducted a compliance audit of J. Aron & Company (J. Aron) as a part of its normal six year cycle and also on behalf of NPCC, RFC, SERC, SPP, TRE and WECC. The review of documentation submitted by J. Aron took place at the MRO office on November 3, 2009 and was followed up by a WebEx on November 5, 2009. The audit team consisted of two MRO employees.

The North American Electric Reliability Corporation (NERC) has designated a subset of Reliability Standards for active compliance monitoring and reporting by the Regional Entities in their 2009 Implementation Plan. NERC has identified 49 standards as “actively monitored” which contain 418 requirements.

J. Aron is registered in seven regions as responsible for one function, Purchasing and Selling Entity (PSE). As a result of this registration and for this audit, J. Aron is responsible for meeting compliance with 3 Reliability Standards which contains 3 requirements. The audit team did not identify any possible violations during the audit.

As a part of the audit process, J. Aron completed Compliance Questionnaires and provided the MRO with supporting documentation for their audit. Upon completion of the initial review of evidence, the audit team prepared questions and identified the subject matter experts to be interviewed.

During the conference call, the J. Aron staff was found to be cordial, willing to clarify any questions and, when needed, directed the audit team to the correct supporting documentation. The subject matter experts were open with their responses and were cooperative throughout the process.

## Audit Process

The compliance audit process steps are detailed in the NERC Compliance Monitoring and Enforcement Plan (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.<sup>1</sup> The audit objectives are:

- Independently review J. Aron's compliance with the requirements of the reliability standards that are applicable to J. Aron based on J. Aron's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 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.

### *Scope*

The J. Aron Compliance Audit was conducted as a part of its normal six year cycle. The audit was conducted under the guidelines of the 2009 CMEP. All applicable NERC and MRO standards were reviewed during this audit.

### *Confidentiality and Conflict of Interest*

Confidentiality agreements and code of conduct documentation for the NERC representative and regional entity staff were available to the audited entity in advance of the audit. Work history and conflict of interest forms submitted by each audit team member were available to the audited entity if requested. 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.

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<sup>1</sup> North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

### ***Audit Proceedings***

The MRO presented a high level overview of the compliance audit process.

The auditor code of conduct was reviewed. MRO staff must adhere to confidentiality as required through the NERC Delegation Agreement.

### ***Methodology***

Audit criteria included standards, measures, and expectations based on best practices. The criteria were objective, measurable, complete, and relevant to the objectives. The audit team accepted and was not limited to policies, procedures, screen-prints of EMS, copies of operator logs, audio clips, and correspondence. If needed, additional supporting documentation or clarification was requested.

The Audit team used the Compliance Questionnaire and Reliability Standards Auditor Worksheets (QRSAW) to review each reliability standard during the compliance audit. This is done to ensure consistency and fairness during each compliance audit.

### ***Audit Overview***

In February of 2008 the MRO scheduled J. Aron to receive a compliance audit the week of November 2, 2009 as a part of their normal six-year cycle. On August 27, 2009, the MRO sent J. Aron the audit package including *the Audit Notification, Audit Certification Letter, Internal Compliance Survey, Pre-Audit Survey, Procedures for Conducting an Audit, Subject Matter Experts Spreadsheet, Preparing for Compliance and Compliance Audit, MRO Biographies, and the 2009 QRSAWs.*

### ***Audit***

Two weeks prior to the audit, J. Aron supplied MRO with 100% of supporting documentation needed to demonstrate compliance. MRO staff reviewed this documentation. The compliance staff utilized the NERC Standards and the QRSAW while reviewing the supporting documents and responses to the Compliance Questionnaires provided by J. Aron.

After evaluation of the supporting documentation, a set of questions was developed to be posed to subject matter experts for J. Aron. During the audit, the team of auditors was able to review the necessary documents and conduct interviews of the subject matter experts. These interviews, in conjunction with supporting evidence, provided the audit team with a basis for professional judgment regarding J. Aron's compliance with applicable reliability standards.

All documentation is stored at the MRO office in a fire proof locked cabinet.

***Exit Briefing***

Upon completion of the subject matter expert interviews, the MRO audit team conducted an exit briefing on November 5, 2009. The audit team did not identify any possible violations.

### ***Company Profile***

J. Aron & Company (J. Aron) is a New York general partnership with its principal place of business in New York City. J. Aron is an international commodities dealer that is primarily engaged in the purchase, sale, processing, storage, and shipment of various commodities, including natural gas, precious metals, base metals, currencies, crude oil, and petroleum products. J. Aron also develops and provides products that assist suppliers and users of these commodities in managing risk associated with their business.

J. Aron operates as a power marketer and is authorized by the Federal Energy Regulatory Commission (FERC or Commission) to sell energy, capacity, and ancillary services at market based rates. J. Aron does not own or operate any electric generation, transmission, or distribution facilities and does not have a service territory or captive customers. J. Aron is registered as a Purchasing-Selling Entity (PSE) in each NERC region, except Florida Reliability Coordinating Council (FRCC). J. Aron is not registered for, and does not perform, any other reliability function. J. Aron is the parent company of Independence Power Marketing, LLC (Independence). Independence operates as a retail marketer in Maine and is not a “public utility” under the Federal Power Act (FPA). Independence does not own or operate any electric generation, transmission, or distribution facilities and does not have a service territory or captive customers. Independence is registered as a PSE in Northeast Power Coordinating Council (NPCC).

J. Aron is an indirect subsidiary of The Goldman Sachs Group, Inc. (GS Group), a Delaware corporation with its principal place of business in New York City. In addition to being the parent of J. Aron, GS Group is the parent of Goldman, Sachs & Co (GS&Co), a broker-dealer registered with the Securities and Exchange Commission. GS Group, through its subsidiaries, owns or controls interests in certain entities that own or operate electric generation, transmission, or distribution facilities (GS Group Energy Affiliates). J. Aron does not own or control interests in any of the GS Group Energy Affiliates, does not operate any of the GS Group Energy Affiliates’ electric facilities, and does not perform reliability functions for any of the GS Group Energy Affiliates.

J. Aron is a party to contracts with three independent power producer (IPP) generators for the purchase of some or all of their output. Each generator is separately registered as a Generator Owner (GO) and Generator Operator (GOP) with its respective regional entity.

### ***Audit Specifics***

The document review was conducted at the regional offices November 3, 2009. The offsite audit and exit briefing was conducted on November 5, 2009.

### **Audit Team**

<b>Audit Team Role</b>	<b>Title</b>	<b>Company</b>
Lead	Compliance Audit Manager	MRO
Member	Compliance Principal	MRO

### **J. Aron Audit Participants**

<b>Title</b>	<b>J. Aron Organization</b>
Vice President	Commodities Operations
Vice President	Commodities Operations
Managing Director	Commodities Operations
Associate	Commodities Operations
Vice President	Commodities Operations
Vice President	Legal
Associate	Compliance
Associate	Commodities Operations
Associate	Van Ness Feldman, P.C.
Vice President	Compliance
Analyst	Commodities Operations
Associate	Commodities Operations

## Audit Results

- J. Aron provided the audit team with supporting documentation for review prior to the conference call. The team received 100% of the supporting documentation needed for evidence. Each member of the audit team reviewed the documentation provided prior to a conference call to discuss the audit. Before the conference call the audit team developed questions for the subject matter experts. The MRO did not request any additional data from J. Aron beyond what was submitted with the original submittal.
- J. Aron personnel were allowed to speak freely without interruption from management during the subject matter expert interviews.
- The audit team utilized the Compliance Questionnaire and Reliability Standard Auditor Worksheets (QRSAW) in order to assess compliance of the reliability standards. The primary questions of the subject matters were documented.

*Findings*

## Compliance Audit

Conducted On: **Nov 05, 2009**

Entity: **J. Aron & Company (ARONN1)**

Address: **85 Broad Street, New York, New York 10004, United States**

NERC Compliance Registry ID: **NCR10021**

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

*Compliance Culture*

J. Aron completed the Internal Compliance Program Survey prior to the compliance audit.