

Market Participant Audit Advisory Subcommittee

Report to the Management Committee

John Ventura
October 2003

Report Items:

- Membership and Objectives
- Status of July 2002 Motions:
 - Audit of ENRON Credit Exposure
 - Audit of Billing Process

MPAAS – Current Members

Generation Owners:

Walter Werther

KeySpan Energy

Other Suppliers:

Kathleen Logan

Reliant Energy

Transmission Owners:

Curt Ashman

NYSE&G

John J. Ventura (Chair)

Con Edison

Public Power/Environmental Parties:

Arthur Brennan

NYPA

Robert W. Farrell (Vice-Chair)

LIPA

End Use Consumers:

Michael Delaney

City of New York

Jesse Samberg

MTA

MPAAS Objectives:

- Provide input and guidance to the NYISO on matters of auditing and control.
- Provide a forum for the coordination of market participant audit interests.
- Assure market participants that NYISO auditing activities are objective, comprehensive and meet market needs.

ENRON Credit Exposure Audit

MC Motion Requests NYISO, MPAAS and KPMG meet to review:

1. **KPMG's scope of work;**
2. **Specific elements of ENRON's transactions to be included;**
3. **Additional processes or milestones for the project; and**
4. **A report to MC at the August 2002 Meeting.**

more.....

Results:

- NYISO managed the audit without MPAAS input.
- Some of the desired content was included.
- KPMG report was released to Market Participants.
- NYISO President briefed the MC on the report at the September 2002 meeting.
- MPAAS continues to follow-up NYISO's actions in response to the KPMG recommendations and observations.

MPAAS/Billing Audit Motion

Establish procedures concerning:

- 1. The scope of audits;**
- 2. The frequency of audits;**
- 3. The manner in which the results will be reported;**
- 4. Appropriate treatment of confidential data; and**
- 5. Procedures for conducting third party independent audits.**

Conduct specific billing audits.

MPAAS Proposal:

- NYISO Audit Risk Assessment
- NYISO Annual Audit Plan Development
- Input to specific audits
- Recommend additional audits
- Input to SAS 70 reviews
- Access to completed audits
- Process feedback

Board's Response:

Beginning in August 2002 and Continuing:

1. MPAAS participated in Risk Assessment activities. (2002 & 2003)
2. MPAAS met with SAS 70 Auditors to provide input. (2002)
3. MPAAS provided input to NYISO's 2003 Audit Plan. (2002)
4. NYISO solicits MPAAS input to specific audits.
5. MPAAS recommended additional audits and NYISO added some to Audit Plan. (2003)

Board's Response (cont.):

August 2002:

- No decision on access to completed audits. Board continued consideration.

January 2003:

- Rejects access to completed audits.
- Oral briefings on completed reports to continue.

MPAAS – Oral Briefing Proposal

Structure Oral Briefings:

- Scope and Objectives
- Procedures and Tests completed
- Control Assessment
- Recommendation Summary

Proposal delivered at the May 2003 Board Liaison Committee to the Audit and Compliance Committee Chair.

Board's Response

June 2003

- Accepts certain proposal elements related to Scope and Objectives, with qualification.
- Rejects (in most cases):
 - Discussion of findings using a common internal control framework.
 - Summary of Recommendations in NYISO's system of classification.

Audit Motion Status

Specific objectives related to the audit process have been achieved:

- Risk Analysis participation,
- Annual Audit Plan participation,
- Input for specific audits,
- Input for SAS 70 review, and
- Suggestions for additional audits accepted.

Status of the Audit Motion

MPAAS Objective:

“Assure market participants that NYISO auditing activities are objective, comprehensive and meet market needs.”

Assessment:

Absent sufficient information as to the outcome of the audit process improvements, i.e. summary audit results; this objective may not be fully achievable.

Some Market Participants may seek assurance through individual independent audits.

What's Next

- **MPAAS will continue to work closely with NYISO's Auditors and Staff within the process currently in place.**
- **MPAAS will continue to seek process improvements but, clearly, only those changes the Board will allow will occur.**

Market Participant Audit Advisory Subcommittee

Report to the Management Committee

John Ventura
October 2003