

**Minutes of the Market Participant Audit Advisory Subcommittee Meeting  
(MPAAS)**

**June 13, 2003**

**NYISO – Washington Ave Ext. Albany, NY**

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**Attendees Names**

**Representing**

MPAAS Members

John Ventura	Con Edison, Chair
Robert Farrell	KeySpan for LIPA, Vice-Chair
Curt Ashman	NYSEG
Art Brennan	NYPA
Kathy Logan	Reliant

Guests

Richard De Jong	NYSEG
Dan Zeppetello	National Grid

NYISO Staff

Andy Ragona	NYISO
Elaine Robinson	NYISO
Marc Rubin	NYISO
Leigh Bullock	NYISO

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**Note:** Discussion items are numbered to correspond to the previously distributed agenda. The order of discussion was adjusted for the availability of the CFO)

Mr. Ventura, Chairman of MPAAS, called the meeting to order and announced that Mr. Farrell will be the new acting Vice-Chair for MPAAS.

**1. Approval of minutes from March 4, 2003 Meeting**

The group discussed modifications to the March 4, 2003 meeting minutes that had been incorrectly listed as March 3, 2003 on the agenda.

It was agreed that additional comments should be included under Section III, Audit Process Proposal, to reflect the group's dissatisfaction with the NYISO Board's Audit and Compliance (A&C) Committee decision to restrict MPAAS access to audit reports. A sentence will be added by Mr. Ventura to reflect the overall feeling that the decision will significantly inhibit the MPAAS from accomplishing their mission. Mr. Ventura added that MPAAS may need to be disbanded or the Charter rewritten under the existing conditions.

Open items will also be added to the March 4<sup>th</sup> minutes, including details on Local Reliability Rues. Mr. Rubin stated that this issue is currently under review. Mr. Ventura will follow up with Mr. Rubin on all open action items as well as anticipated dates and distribute the status to the group.

The issue of TCC settlements review was raised and Mr. Rubin stated that the TCC payments review was performed and settlement information was included.

## **2. Audit Process Proposals**

Mr. Ventura provided details on the MPAAS proposal that was presented to Mr. Scherer at the May 20<sup>th</sup> Board Liaison meeting. This document, which was prepared by Mr. Ventura, included:

- Briefings that the MPAAS would like to have
- Board decision review
- Concerns regarding SAS 70 Type 2 Audit, including implications for Market Participants if the audit is not completed on time, and material changes in function or controls.

Mr. Ventura informed the group that Mr. Scherer had stated that the SAS 70 Type 2 audit report would be distributed to Market Participants once the Board has reviewed it.

Mr. Ventura added that he and Mr. Scherer went through every element of the proposal and looked at what procedures are in place, tests, recommendations, and completion dates. Mr. Scherer promised to review it with the Audit & Compliance Committee (A&C) after discussing it with Messrs. Rubin and Ragogna. The proposal will be considered at the A&C meeting to be held on July 11, and MPAAS will have an answer subsequent to this (possibly by next Friday) so the group can determine its next steps.

The MPAAS discussed the specifics that they have requested be included in the report. Mr. Ventura said the oral report should include the following:

- Audit Scope and Objectives
- Procedures – the audit procedures undertaken to achieve the audit objectives.
- Tests and Measures: information that leads to a judgment about the sufficiency of the testing to achieve the audit objectives.
- Control Assessment: the auditor's assessment of the controls and their effectiveness based on the audit. This would include a discussion of the deficiencies from a COSO perspective.
- Recommendations: How many were made and their classification according to the NYISO rating system. A description of management's responses and a discussion of the responses sufficiency to correct the deficiency.

Mr. Rubin will meet with the A&C on Monday and get an answer from them on the level of specifics. The group expressed concern on timing, Mr. Rubin replied that he did not anticipate this stretching out and should not span more than one meeting.

There was a discussion of who has the ultimate responsibility for the integrity of the market: the MPAAS or the A&C. Mr. Rubin listed the independent sources that the A&C relies on and that SAS 70 is used to verify the controls that should provide assurance to the Market Participants' auditors.

Mr. Ventura said the issue is the ability of MPAAS to meet its obligations to the market and that the MPAAS owes a report to the MC. He acknowledged that there has been substantial progress but that there is still one big stumbling block.

Mr. Ashman reported that day-to-day participants in the markets are concerned about where the controls are when they see big swings in prices. Also, MPs are finding billing errors and find that when new systems are deployed another system has problems.

### **3. SAS 70 Type 2**

Mr. Rubin reported that KPMG has apparently completed their fieldwork (the scope for period ended on May 14) and the report is currently at the senior management review point. KPMG met with the NYISO staff and put together testing on every sector of the report but did not meet with MPs. In response to a question as to whether the Type 2 confirms changes since the Type 1 audit, Mr. Rubin reported that the Type 2 stands on its own.

Partner and Concurring Partner Reviews are still to be performed before the report will be issued. As of this meeting, no issues have been identified by KPMG and the NYISO has not seen a draft of the report.

Mr. Rubin informed the group that once the report is received and reviewed by the A&C Committee, it will be released to the MPs. He added that Mr. Scherer is sensitive to the needs of the MPs' auditors.

Mr. Rubin will discuss at the A&C meeting on Monday (06/16/2003) when to start the next SAS 70. There will be a small gap this time but in the future it will be a rolling process. There will be an attestation letter to cover the gap for those companies that are covered by Sarbanes-Oxley or are not on a calendar year basis.

Mr. Ventura posed the question of meeting with KPMG. Mr. Rubin suggested that the MPAAS take a look at the report first, and then determine what questions remained.

## **6. 2003 Risk Assessment**

The risk assessment will take place from approximately mid-August to mid-September. KPMG will be the contractor because they are independent of co-sourcing and therefore do not benefit from any potential recommendations. Mr. Brennan asked if the process would work the same as last year's, as that session had worked well. Mr. Rubin said that a three-hour meeting with MPAAS will be worked into the schedule again this year. Mr. Rubin asked the members to give him three possible dates to work with in developing the schedule.

## **4. Billing Issues (Enron) Status**

Prior to Mr. Ragogna joining the meeting, Mr. Rubin reported on staffing. He currently has four auditors on staff with relevant experience and assigns audits to PwC to the approximate equivalent of an additional two FTEs. This discussion was resumed with Mr. Ragogna later in the meeting.

## **5. NYISO 2003 Internal Audit Plan**

Mr. Rubin discussed the overall plan and reported that there was contingency time in the plan to deal with emergent issues. There is almost one FTE dedicated to the SMD process. He explained that Internal Audit issues scorecards that are reviewed all the way up to the Board for those reviews identified as Project Process reviews.

Mr. Rubin next reviewed the reports that have been issued, including PTS, Uplift, ICAP, TCC Auction Payments, Accounts Payable/Purchasing, Voting (IV), and Contingency Planning.

The group then raised areas where they have concerns they would like to see addressed:

Allocation of 85/15 – concerned about the accuracy of the retroactive adjustment with what will be a manual adjustment to the bills and they would like to see the results audited.

The number of manual billing adjustments – there are questions about what criteria are used to determine if adjustments are appropriate, and how strictly are they adhered to, because the policy is that adjustments should be done at the next re-bill. There was a request for additional communication on the reason for a manual adjustment.

New loss calculation – there should be an audit of how losses are calculated and applied to bills.

Creditworthiness – is on the schedule for this year.

#### **4. Billing Issues (Enron) Status cont.**

There was a request from the group that the minutes note that MPAAS had wanted to be included in the KPMG review of the Enron issue. The members expressed a need for the status of responses to the KPMG recommendations because they feel obligated to report to the MC on the actions taken by the NYISO. Mr. Ragogna informed them that almost all recommendations have been completely addressed and that open billing issues are down to 19 from 61. Mr. Ragogna answered specific questions from the KPMG report.

#### **7. Other Business**

On other issues, Mr. Ragogna reported that there is now a formal Enterprise Risk Management process with an internal NYISO ERM committee of key officers and managers that reports monthly to the CEO and quarterly to the A&C. He added that the new credit policy has been filed and the NYISO is awaiting FERC action.

#### **8. Next Meeting**

The next meeting will be held prior to the August 28 MC meeting on either August 26 or 27.

#### **9. Meeting Adjourned**

Meeting was adjourned.