

MARKET PARTICIPANT AUDIT ADVISORY SUBCOMMITTEE (MPAAS) MEETING

August 16, 2006

LOCATION: NYISO, Rensselaer, NY

Meeting Minutes

Attendees' Names

Representing

MPAAS Members

| | |
|-----------------------------|---------------|
| Walter Werther (Chair) | KeySpan |
| Dan Zeppetello (Vice-Chair) | National Grid |
| Robert Farrell | LIPA |
| Les Pardo | NYPA |
| John Ventura | Con Edison |

MPAAS Guests

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|--------------------------|----------------|
| Bill Conner | Con Edison |
| Rich De Jong (telephone) | Energy East |
| Lora Gescheidle | Central Hudson |
| Dave Hall | Energy East |
| Diane Seitz | Central Hudson |

NYISO Staff

Marc Rubin
Ray Stalter (telephone)
Wayne Bailey
Nick Palas
Denise DeChiaro

(Prior to the meeting, Messrs. Rubin and Palas received comments from the MPAAS related to its recommendations for the 2007 IA Plan.)

I. Approval of Minutes from June 15, 2006

The minutes from the June 16, 2006 MPAAS meeting were approved and will be posted on the NYISO website.

II. Review of Action Items

- Mr. Rubin forwarded concerns to KPMG regarding work to re-examine their testing and identify additional controls to test. He discussed with KPMG in great length ways to identify issues to test more specifically. He also notified the Subcommittee that KPMG will be on site beginning August 21 for more fieldwork.

Mr. Rubin further noted that under SAS 70, operating errors are part of the normal process.

Members of the MPAAS suggested that because they want to have KPMG reach out to other Committees but MPAAS is the designated Committee to work audit issues through, representatives from other Committees should attend future MPAAS meetings that KPMG attends.

- Mr. Ventura informed the group that all parties had reviewed the TCC engagement by E&Y, and that work was completed.
- Mr. Rubin advised he had spoken with Mr. Stalter regarding the “chronic” TCC meeting issue and Mr. Stalter was aware of the specific example mentioned, but not any other examples.

Mr. Ventura stated that there had been an additional meeting since this issue was brought to the NYISO’s attention (a Billing & Price Corrections Task Force – BPCTF – meeting on the shortening of the billing cycle), and that it was unacceptable to be notified on Wednesday of an impromptu meeting on that Friday. Mr. Ventura also noted that it was important to consider vacations scheduled during that period.

Mr. Rubin agreed to advise relevant NYISO management of this further concern

III. General Business

a. Shortening of the Billing Cycle

Mr. Ventura spoke about his concerns regarding the control issue of shortening the billing cycle from 24 months to 12 months, and the new issue of moving from 12 months to 4 months in the billing cycle. He stated that he didn’t believe that the NYISO could provide everything promised for all of the steps, and that its credibility was being jeopardized because it couldn’t deliver what was promised.

Mr. Ventura said that the General Auditor should question management by asking “Where are the Internal Controls for this?,” should state that management was jeopardizing the view of the NYISO by going forward on something without controls being in place, and should inform management that the project should not move forward until all controls are in place.

Mr. Ventura stated the NYISO needed a “Control” person for projects, and that an auditor should be present at the various stages of a project and voice concerns on controls before any changes are allowed to be made. He felt that the people driving the projects didn’t have adequate control perspective or objective of projects.

Mr. Rubin stated he was aware of the risks and would evaluate the concerns but that Internal Audit was not structured to be part of the process.

Mr. Bailey confirmed that Internal Audit didn't have the resources in staffing to accommodate a "control" person to be able participate at all Committee, Task Force, and Working Group meetings.

Mr. Ventura suggested that the NYISO consider changing staffing for processes. He also said that the MPAAS wants to see evidence that something will work properly before changes are made.

Mr. Zeppetello stated shortening the billing cycle will create more risks, that there were codes that weren't completed yet but MPs have been informed of "workarounds." He believed that the codes should be in place before moving ahead.

A lengthy discussion took place regarding the overall business culture of the NYISO. To the MPAAS, it appeared that the accuracy of billing and the controls required to ensure an accurate bill were not given enough attention. They believed that IT solutions to billing problems did not have the necessary high priority (they cited a continuing failure of the Echo-Back control as evidence), and the emphasis was on completing projects/achieving milestones so that the NYISO staff could meet their incentive compensation goals (regardless of the risks). Examples given were:

- The last 11 final bill close-outs were processed in July with none in August (rather than processing a portion in July and the remainder in August). They stated that processing that type of volume in one month (in addition to the three regular bills normally processed every month) could have led to numerous errors and additional manual adjustments.
- A current emphasis on the Market providing resources to help complete the NYISO Billing Manual before year-end. After nearly 6 years, the development of the Manual was finally made a priority. However, the MPAAS was concerned that the deadlines imposed were artificial and will result in an incomplete/marginally useful product.
- The drive to shorten the billing cycle by year end.
- Routine software changes/maintenance were deployed on 5/30/06, during peak time of one of the hottest days of the year.

During the discussion, Messrs. Ventura and Hall (BAWG Chairman) described an erroneous tie-line meter value of 16 million MWh for one hour in a Con Ed sub zone that resulted in an advisory billing error of \$1.9 billion. The error was allowed to flow through at least three control points within the NYISO (Operator, PTS upload to the Billing System and the Billing System itself) to reach the posted advisory bill. The MPAAS expressed dismay that no one at the NYISO thought that an error with a magnitude of 1,000 should be investigated prior to posting as an advisory invoice. They asked how many additional lesser anomalies had and will be processed without being identified?

Mr. Bailey stressed that he would speak with Mr. Lynch regarding the MPAAS's concerns on the controls of shortening the billing cycle and that issues tend to be

waved off. He stated that he understood the needs mentioned by the MPAAS that the NYISO take control.

b. Reconcile Inadvertent Energy with other control areas

Mr. Rubin further discussed the subject (from the prior MPAAS meeting) to understand what was meant by reconciliation. Grid Operations confirmed that they did verify with internal control areas and reconcile daily. Mr. Rubin stated that the NYISO had always been monitoring and reconciling these transactions but during 2006 started a program to systematically pay back balances in-kind.

Mr. Rubin will continue to follow through on the process of the reconciliation of Inadvertent Energy.

c. Echo-Back Capability

Mr. Ventura stated that the Echo-Back was still a problem because of the ongoing timeout problems. He noted that there were definite pipeline issues that needed to be addressed. The MPs were deprived of a control feature that worked on their side but mechanically nothing worked on the NYISO's side. Further, this was a critical control for TOL data. Mr. Ventura stated that the suggestion of spot checking was not feasible because of the substantial sampling required.

Mr. Zeppetello didn't believe the onus should be on the marketplace to sample for the accuracy of input that the NYISO was failing on the design working. Further, under the 2004 FERC order, spot checks (sampling) couldn't be done by those that weren't allowed to access certain transmission information.

Mr. Ventura stated that this was a critical issue and they were unhappy with the NYISO's level of responsiveness, as the fix was delayed to 2007.

Mr. Rubin agreed to communicate to management the MPAAS's Echo-Back concerns.

IV. Update on 2006 Audit Plan

Mr. Rubin noted that modifications to the 2006 IA Plan included an enterprise risk assessment, utilizing the COSO framework, and following the PwC methodology. Adjustments would be made because of staffing losses during the first half of 2006.

V. Audit Briefings under the new briefing protocol and discussion of the briefing

Mr. Rubin provided verbal COSO-type briefings on the following audits performed by Internal Audit (IA):

- 6-13 – ICAP Manual Controls

VI. Audit Briefings for other completed audits

Mr. Rubin provided audit briefing overviews on other IA-completed audits:

- 5-51 – Credit
- 5-42 – Oracle Database
- 5-25 – System Penetration – DHS Reporting
- 5-46 – Operations & Reliability – Tariff, Agreements, Manuals, Policies and Procedures
- 6-17 – Compliance – External Affairs

VII. Other Business

Mr. Rubin would have the new members added to the Internet website and send an e-mail to members with contact information.

Mr. Ventura was congratulated on his service and forthcoming retirement.

VIII. Next Meeting

The next MPAAS meeting will be held on November 2, 2006. Mr. Rubin agreed to post the new date and arrange for a meeting location. This meeting will begin with a review of the preliminary 2007 Audit Plan. There will be no handouts, no notes, and no call-in allowed during the time that the plan is being reviewed.

IX. Open Items

- Mr. Bailey to speak with Mr. Lynch regarding MPAAS's concerns on the controls of shortening the billing cycle.
- Mr. Rubin will follow up on the process of the reconciliation of Inadvertent Energy
- Mr. Rubin will communicate to management the MPAAS's Echo-Back concerns that the workaround proposed is unrealistic, too onerous a burden for the Market, and that the priority for getting the Echo-Back fixed should be elevated.