

Minutes
New York State Reliability Council, L.L.C. (“NYSRC”)
Executive Committee
Meeting No. 46 – February 14, 2003
Albany Country Club – Voorheesville, NY

Members and Alternates:

William H. Clagett	Unaffiliated Member – Chairman
Roger E. Clayton	Wholesale Seller's Sector; PG&E National Energy Group
Mark J. Cordeiro	Muni. & Elec. Cooperative Sector; PLM, Inc
Curt Dahl	KeySpan Energy – LIPA – Alternate
Thomas C. Duffy	Central Hudson Gas & Electric
Bruce B. Ellsworth	Unaffiliated Member – by phone*
Joseph C. Fleury	New York State Electric & Gas Corp. – Secretary
H. Kenneth Haase	New York Power Authority (“NYPA”) – Vice Chairman
George C. Loehr	Unaffiliated Member
Robert M. Loughney	Large Consumer’s Sector; Couch, White, LLP
Mayer Sasson	Consolidated Edison Co. of NY, Inc. – Alternate
Herbert Schrayshuen	National Grid, USA – Alternate
George E. Smith	Unaffiliated Member

Others:

John M. Adams	New York Independent Systems Operator (“NYISO”)
Alan M. Adamson	Consultant & Treasurer
Michael Calimano	NYISO*
Paul L. Gioia	LeBoeuf Lamb Greene & MacRae (“LLG&M”)
Edward C. Schrom, Jr.	NYS Department of Public Service (“NY DPS” or “PSC”)

Visitors – Open Session:

Erin P. Hogan, P.E.	New York State Energy Research Corp. (“NYSERDA”)
Daniel G. Zeppetello	National Grid, USA – by phone*

“*” – Denotes part time attendance at the meeting.

Agenda Items – (Item # from Meeting Agenda)

- I. Executive Session** – An Executive Session was requested and conducted following the Open Session.
- II. Open Session**
- 1.0 Introduction**
- 1.1 Meeting Attendees** – All thirteen (13) Members/Alternate Members of the NYSRC Executive Committee (“Committee”) were represented at the meeting, either in person or by telephone.
- 1.2 Requests for Additional Agenda Items** – The Committee approved the agenda with one (1) additional item added under Item 3.2 ii.

1.3 Executive Session Topics – The Committee conducted an Executive Session following the Open Session to discuss electric system security.

2.0 Meeting Minutes/Action Items List

2.1 Approval of Minutes for Meeting No. 45 (January 10, 2003) – After brief discussion by the Committee, it was moved (Mr. Clayton) and seconded (Mr. Schrayshuen) that the Committee approve the Revised Draft Minutes for Meeting No. 45 as modified. The motion was approved unanimously by the Committee Members in attendance (13 to 0). The Secretary shall issue the final minutes for Meeting No. 45 and post them on the NYSRC web site – **AI #46-1**.

2.2 Action Items List – The Committee reviewed the Outstanding Action Items List and discussed the items under their respective Agenda Items below.

3.0 Organizational Issues

3.1 NYSRC Treasurer’s Report – Mr. Adamson presented the Treasurer’s Report to the Committee.

i. Summary of Receipts & Disbursements – Mr. Adamson presented the January 2003 Summary of Receipts and Disbursements, noting that as of February 5, 2003, the NYSRC had a cash balance of approximately \$175,000. Mr. Adamson reported that all of the \$165,000 in 2003 Membership Fees and first quarter assessments has been submitted by the Affiliated Members in response to the Call for Funds sent out on December 15, 2002. Mr. Adamson also reported that all 1099 Forms were completed and issued as required for 2002. He also noted that letters from the NYSRC Chairman, Treasurer, and Counsel were sent to the UK&W auditor as required for the 2002 audit.

ii. Accounting Services Contract – Mr. Adamson reported that Urbach Kahn & Werlin LLP (“UK&W”) met with the Treasurer and Mr. Zeppetello of National Grid, USA on January 29, 2003, to discuss and review the processes used by UK&W for recognizing the separation of the accounting and auditing functions provided to the NYSRC by UK&W, along with the charges for these services. Mr. Zeppetello reviewed his draft letter dated February 6, 2003 (included as Attachment No. 1 to these minutes), summarizing the meeting with UK&W and his review of the auditing and accounting services. After discussing the issues, the Committee agreed that the accounting and auditing functions must be completed by separate entities. Mr. Loughney moved that the Committee proceed as follows: (1) the accounting and auditing services shall be contracted with separate entities starting in 2004; (2) Mr. Adamson shall inform UK&W of this separation of services; and (3) Mr. Adamson shall proceed to work with the Committee Members to identify candidates for auditing services, beginning with the audit for 2003. The motion was seconded by Mr. Clayton and unanimously approved by the Committee members in attendance (13 to 0). Mr. Adamson shall proceed with tasks 2 and 3 above – **AI #46-2**.

3.2 Other Organizational Issues

- i. Director's & Officer's ("D&O") Insurance Coverage** – Mr. Gioia reported that to date, Marsh, the insurance consultant, has not received a quote from AEGIS to renew the NYSRC's D&O insurance coverage which expires on March 6, 2003. Marsh also has not received quotes from other insurance providers. Mr. Schrayshuen requested that the Transmission Owners discuss the cost to renew the D&O policy. Since all Members, except for the Unaffiliated Members, the Municipals & Electric Cooperative Sector Representative and the Large Consumer Sector Representative, have D&O coverage under their respective company, the Committee agreed that Mr. Gioia shall request a quote for D&O coverage for only six (6) Members, as soon as Marsh provides the AEGIS quote.
- ii. NYSRC Openness Policy** – Mr. Clayton noted that several parties at the NYISO Operating Committee meeting criticized the NYSRC's Openness Policy and handling of draft documentation. After discussing the issue, the Committee agreed to revise the Openness Policy to include posting documentation prior to meetings. Mr. Clayton shall draft a revised Openness Policy for consideration by the Committee – **AI #46-3**.
- iii. Terrorist Insurance Coverage** – Mr. Gioia reported that the Secretary received a notice from AEGIS for an additional premium due for terrorism insurance coverage under the NYSRC's D&O policy. Since the D&O policy expires on March 6, 2003, Mr. Gioia was able to get Marsh to agree to waive the \$156 additional premium amount. However, if the D&O policy is renewed for another year, the terrorism insurance coverage will need to be purchased.
- iv. Future of NYISO & NYSRC** – Mr. Gioia reported that the NYISO is looking at its future, including the possibility of filing for RTO status at FERC. At a recent "All Sector" meeting, several parties mentioned the NYSRC and whether it should remain as an independent organization or be moved under the NYISO. The Committee discussed and agreed that a small subcommittee of Committee Members should be developed to participate in discussions at the NYISO.

4.0 Reliability Rules Subcommittee Status Report/Issues

4.1 Subcommittee Status Report & Discussion Items – Mr. Clayton reported that the Reliability Rules Subcommittee ("RRS") met on February 6, 2003. The next RRS meeting is scheduled for March 6, 2003.

4.2 Status of New/Revised Reliability Rules

- i. Proposed NYSRC Reliability Rule Revisions**
 - a. List of Potential Reliability Rule Changes** – Mr. Clayton reviewed the current List of Potential Reliability Rules Changes, briefly reviewing the status of PRRs #8, 46, 50, 52, 55, 56, 57 and 59.
 - b. Status of New/Modified Reliability Rules**
 - 1. PRRs for Final EC Approval:** Mr. Clayton discussed PRRs #29 and 58 (RR03-01 & 02), noting that no comments were received in the posting process which expired on January 31, 2003. Mr. Clayton moved that the Committee grant final approval for both rules. Both motions were seconded (Mr. Fleury) and unanimously approved by the

Committee Members in attendance (13 to 0). The Secretary shall post a notice of the final approval – **AI #46-4**.

2. Proposed Revisions to NYSRC Reliability Rules – Sections B&C – Mr. Adamson reviewed the proposed revisions to the introductory paragraphs of Sections B and C. The Committee agreed to remove the last sentence of the proposed addition to Section B and requested Mr. Loehr to draft a revised paragraph to be added to Section B – **AI #46-5**. Mr. Clayton then moved that the Committee approve the proposed addition to Section C, which was seconded by Mr. Smith and unanimously approved by the Committee Members in attendance (13 to 0). Mr. Adamson shall update the NYSRC Reliability Rules document to incorporate the addition of PRRs #29 and 58, along with the revision to Section C – **AI #46-6**.

3. PRRs for EC Approval to Post for Comments: – None.

c. NPCC & NERC Criteria Tracking Program – Nothing new to report.

4.3 Other RRS Issues

i. Action Item #45-11 – Messrs. Clayton, Dahl and Loehr requested further explanation of the action item from Mr. Sasson. Mr. Sasson explained that there has been improvements seen in the availability of generators in recent years, however, there is a concern that whether generator maintenance procedures are within the guidelines of “good utility practice.” Therefore, a request was made to the RRS to determine whether a reliability rule was needed to address generator maintenance procedures and whether any industry standards existed for generator maintenance. The Committee agreed that the RRS should investigate this first and involve the ICS and RCMS later, if required – continuation of **AI #45-11**.

5.0 Installed Capacity Subcommittee Status Report/Issues

5.1 ICS Status Report & Discussion Issues – Mr. Dahl reported that the Installed Capacity Subcommittee (“ICS”) last met on February 10, 2003. He noted that Mr. Bart Franey has joined the ICS as an Alternate Member for National Grid, USA. The ICS is scheduled to meet on March 5, 2003.

5.2 2003–04 NYCA Installed Capacity Requirement Technical Study Report – Mr. Gioia reported that the final 2003-2004 NYCA Installed Capacity Requirements (“ICR”) Study Report was filed at FERC, for informational purposes only, on January 28, 2003. Mr. Adams noted that the NYISO is working on the Committee’s request for actual data on emergency operating procedures implemented in 2002 – continuation of **AI #45-5**.

Mr. Dahl reported that the ICS is preparing a report on lessons learned during the completion of the 2003-2004 ICR Study. The ICS is considering ten (10) areas for process improvements and will present its recommendations to the Committee at the March 14, 2003 meeting. The ICS has also started looking at the assumptions to be used for the 2004-2005 ICR Study. The Committee requested that the ICS prepare a memo to the Committee noting the areas to be addressed for the 2004-2005 ICR Study – **AI #46-7**.

6.0 Reliability Compliance Monitoring Subcommittee Status/Issues

6.1 RCMS Status Report & Discussion Issues – Mr. Loehr reported that the Reliability Compliance Monitoring Subcommittee (“RCMS”) last met on February 13, 2003. He reviewed the RCMS discussion topics, including the presentation by Mr. Drake on the NYISO Locational ICR Study for 2003-2004. RCMS is scheduled to meet again on March 13, 2003.

6.2 Status of NYSRC Reliability Compliance Program (“NYRCP”)

- i. 2002 NYRCP Report** – Mr. Loehr noted that, with the exception of a couple minor revisions, the 2002 NYRCP Final Report is complete.
- ii. 2003 NYRCP** – Mr. Loehr moved that the Committee approve the 2003 NYRCP, which was seconded by Mr. Clayton and unanimously approved by the Committee Members in attendance (13 to 0). The Secretary shall post the document, along with the 2002 NYRCP Final Report, on the NYSRC web site.

6.3 Other RCMS Issues - No other issues.

7.0 NYISO Studies – Reports were presented by Mr. Adams on the following studies and issues:

7.1 NYISO Transmission Reliability Study – Mr. Adams reported that the NPCC Annual Transmission Study is being sent to the NPCC Reliability Coordinating Council (“RCC”) for consideration at its March meeting.

7.2 Reactive Resource Adequacy Study – Mr. Adams reported that this study is expected to be completed the second quarter of 2003.

7.3 NYSERDA/NYISO Gas Study – Mr. Adams reported that the study is complete and that there were no significant issues on the contingency study for the gas system up to the city gates. He also noted that the NPCC is completing a review of the interdependency between gas transportation and electric generation. The scope of this NPCC review was distributed to the Committee.

7.4 Other Studies – Mr. Adams reported that the NYISO’s Locational ICR Study for 2003-2004 was completed and approved by the NYISO Operating Committee. The Secretary distributed copies of the presentation made to the NYISO Operating Committee, along with the Draft Report dated February 12, 2003. RCMS is currently reviewing this report for compliance with the NYSRC Reliability Rules.

8.0 Other Items

8.1 Millennium Gas Pipeline Proceeding – Mr. Gioia noted that there was nothing new to report on the Proceeding.

8.2 Reliability Legislation Update – Mr. Gioia briefly summarized the January 30, 2003 letter to the Committee on LLG&M’s review of the draft legislation to discuss options for the NYSRC. LLG&M shall continue to monitor the reliability legislation activities.

8.3 NYISO Operations Report – The Secretary distributed and briefly discussed the updated summary through January 2003.

i. NYISO Response to NYSRC’s November 12, 2002 Letter - Mr. Calimano reported that, in response to the NYSRC’s letter, the NYISO can call upon all generation to respond in both the event of, or to prevent the occurrence of a Major Emergency State in the NYCA. Mr. Calimano noted that the NYISO’s Services Tariff is being revised to address this issue. He also noted that the NYISO will discuss the issue of the NYISO having the authority to call upon generators to prevent a Major Emergency State with their Counsel, Hunton & Williams. The NYISO is preparing a response to the NYSRC’s November 12, 2002 letter.

8.4 North American Energy Standards Board (NAESB) Report – No report was given on the latest NAESB activities.

8.5 FERC SMD NOPR – Mr. Gioia reported that the NYSRC filed comments on January 10, 2003 on the FERC Resource Adequacy proposal in the SMD NOPR proceeding. The NYSRC did not file Reply Comments at FERC based on Mr. Gioia’s recommendation dated February 5, 2003. Mr. Gioia noted that the FERC will be issuing a white paper in April 2003, to let parties know where FERC stands on various issues addressed in the SMD NOPR. The NYSRC will need to determine whether to file comments on the white paper.

8.6 NYSRC Executive Committee Report – Mr. Adamson reported that a revised draft NYSRC Executive Committee Report dated February 1, 2003, was submitted to the Committee for comments. The Committee discussed and agreed to modify the second paragraph on page 1. The Committee shall review the document and submit comments to Mr. Adamson by March 1, 2003 – continuation of **AI #44-6**.

9.0 Visitor Comments – No visitor comments were received.

10.0 Meeting Schedule

<u>Mtg. No.</u>	<u>Date</u>	<u>Location</u>	<u>Time</u>
#47	March 14, 2003	Albany Country Club, Voorheesville, NY	9:30 A.M.
#48	April 11, 2003	Albany Country Club, Voorheesville, NY	9:30 A.M.
#49	May 9, 2003	Albany Country Club, Voorheesville, NY	9:30 A.M.

The Open Session of Committee Meeting No. 46 was adjourned at 1:45 P.M.

Completed By: J.C. Fleury – Secretary
Final Issue Date: March 14, 2003

ATTACHMENT NO. 1



March 13, 2003

National Grid USA Service Company, Inc
Daniel G. Zeppetello

*Senior
Auditor*

Board of Directors,
New York State Reliability Council, LLC

**Re: Review of the Audit and Accounting Services Provided
for the New York State Reliability Council (NYSRC)**

Nature of the Review:

Herbert Schrayshuen, Vice President, Transmission Commercial Services, National Grid USA requested that the National Grid USA Internal Audit Department review the propriety of having Urbach, Kahn & Werlin (UK&W) perform accounting services for NYSRC and the annual audit of the NYSRC financial statements. Mr. Schrayshuen and other members of the NYSRC Board were concerned that there would be a lack of independence if the same accounting firm was engaged to do both. Specifically, we were asked to determine if the processes used by UK&W meet the current accounting and auditing independence standards for separation of the accounting and auditing functions when both are performed by the same organization.

Background:

The following paragraph is taken directly from the NYSRC Web site:

The New York State Reliability Council, L.L.C. ("NYSRC") is a not for profit entity, organized as a Delaware limited liability company, whose mission is to promote and preserve the reliability of electric service on the New York State Power System by developing, maintaining, and, from time to time, updating the Reliability Rules which shall be complied with by the New York Independent System Operator ("NYISO") and all entities engaging in electric transmission, ancillary services, energy and power transactions on the New York State Power System. The NYSRC shall carry out its mission with no intent to advantage or disadvantage any Market Participant's commercial interests.

UK&W has provided both accounting and auditing services to NYSRC since NYSRC was created in the fall of 1999.

There are no published professional standards for the separation of accounting and auditing functions when both are performed by the same organization. However, on January 22, 2003, the Securities and Exchange Commission (SEC) issued regulations interpreting the Sarbanes-Oxley Act of 2002. Section 201 of the Sarbanes-Oxley Act lists 9 non-audit services that, if

Review of the Audit and Accounting Services Provided for NYSRC

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provided by the accounting firm, impair the firm's independence. The very first non-audit service listed is "bookkeeping or other services related to the accounting records or financial statements of the audit client". "The rules will prohibit an accountant from auditing the bookkeeping work performed by his or her accounting firm." The Act does not directly effect NYSRC since it only applies to companies that are required to file periodic reports with the SEC under Section 12 or 15(d) of the Exchange Act or those who have submitted a registration statement under the Securities Act and are waiting for it to become effective.

Work Performed and Results Noted:

1. Internal Audit reviewed the following NYSRC policies, procedures and internal documents to obtain an understanding of the NYSRC structure and accounting transactions:
 - Policy No.1-3, Procedure for Reviewing, Developing, Modifying, and Disseminating NYSRC Reliability Rules
 - Policy No. 2-3, NYSRC Openness Policy
 - Policy No. 3-2, Accounting Procedure
 - Policy No. 4-1, Procedure for Monitoring Compliance with the NYSRC Reliability Rules
 - Functional Responsibilities of the New York State Reliability Council
 - Code of Conduct
 - NYSRC 2003 Budget – Final
 - UK&W Auditing Services Engagement Letter – signed by Marilyn Pendergast, Managing Director of UK&W and Partner in charge of the NYSRC engagement
 - UK&W Accounting and Tax Services Engagement Letter – signed by Marilyn Pendergast
2. Internal Audit met with Marilyn Pendergast, Sean Bergin, Audit Engagement Manager and Alan Adamson, Treasurer - NYSRC at the offices of UK&W on January 29, 2003.

From this meeting we noted the following accounting services provided by UK&W. The Engagement Partner, Marilyn Pendergast, or her staff perform all of these services.

- Receive requests for checks/supporting documentation (after they have been approved in accordance with NYSRC policy), prepare the checks and deliver them to the Treasurer for signature and distribution.
- Receive from the NYSRC Treasurer copies of checks remitted to NYSRC and the corresponding deposit slips.
- Receive and reconcile the monthly bank statement.
- Prepare the Monthly Disbursement Journal and the Monthly Summary of Receipts and Disbursements.
- Prepare and distribute (IRS form) 1099s.
- Prepare annual tax return, IRS form 990.

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We also noted the following related to the annual audit:

- The Engagement Manager, Sean Bergin or staff members assigned to the audit engagement perform all of the audit work.
 - The Engagement Manager, a Review Partner, the Quality Control Director and the Engagement Partner, Marilyn Pendergast review the audit work and related report.
 - Marilyn Pendergast signs the audit report.
 - All UK&W partners, including Marilyn Pendergast are the direct supervisors of the Engagement Manager.
 - The UK&W Managing Partner and the firm's Human Resources personnel perform the annual reviews of the staff.
 - Engagement Partners may perform staff performance evaluations for an individual engagement.
3. Public Accounting firms are required to have a peer review every 3 years to evaluate their system of quality control for their accounting and auditing practices. Internal Audit reviewed the UK&W peer review report for the year ended August 31, 1999. The report has numerous disclaimers/limitations, however, we noted that it did not indicate any concerns and is considered a "clean opinion". The peer review required for the year ended August 31, 2002 has been completed, but a formal report has not yet been issued. Marilyn Pendergast indicated that the current peer review report will also be issued with a "clean opinion".

Conclusion:

While the NYSRC is not required to comply with the SEC Regulations interpreting the Sarbanes-Oxley prohibitions and UK&W has taken steps to separate the audit and accounting engagements, there is still an appearance that a public accounting firm is auditing its own work, which results in a perceived lack of independence. This is further complicated by the fact that:

- the same partner signed both engagement letters;
- the audit report is signed by the same partner that performs and/or supervises the accounting services; and
- the partner that performs and/or supervises the accounting services has at least partial managerial control over the personnel performing the audit.

Internal Audit does not have the expertise to determine the reasonableness of the fees being charged or make recommendations regarding how to obtain these services at a lower cost. However, we can state that the approximate hourly rate for the audit of \$120 (based on a budget of 40 hours and the total fee of \$4,750 quoted in the Audit Engagement Letter) does not appear to be exorbitant for a multi-office regional public accounting firm the size of UK&W.

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Marilyn Pendergast indicated that NYSRC is receiving a 50% discount from the firm's regular fee for accounting services, but we could not determine an hourly rate since we were not provided with an established hourly budget for the accounting services. We are relatively certain that it is in excess of \$120 per hour since we were told that Ms. Pendergast is performing most of the accounting work. The nature, complexity and number of transactions performed by UK&W do not appear to require the expertise (and therefore the hourly rate) of the firm's Managing Director and Engagement Partner.

It is unclear that the audit rate would be effected if UK&W was not also providing the accounting service, but switching the accounting work to a third party full charge bookkeeping service or a junior partner in UK&W may alleviate the cost concerns expressed by the NYSRC Board and improve the appearance of UK&W's independence.

We wish to express our appreciation to the UK&W representatives and the NYSRC Treasurer for their help, cooperation and hospitality.

If you have any questions or wish to discuss the above, please contact me using the phone number or e-mail address below.

Daniel Zeppetello

cc: J. M. Way, Director - Internal Audit, National Grid USA
J. F. Sauro, Manager - Internal Audit, National Grid USA, New York