



NORTHEAST POWER COORDINATING COUNCIL, INC.
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Compliance Audit Report Public Version

**Central Hudson Gas & Electric
Corporation
NCR07028**

July 7 to August 7, 2008

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

August 7, 2008

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
<i>Objectives</i>	3
<i>Scope</i>	4
<i>Confidentiality and Conflict of Interest</i>	4
<i>Offsite Audit</i>	4
<i>Methodology</i>	4
<i>Audit Overview</i>	5
<i>Audit</i>	5
<i>Exit Briefing</i>	5
<i>Company Profile</i>	5
<i>Audit Specifics</i>	7
Audit Results.....	8
<i>Findings</i>	9
<i>Compliance Culture</i>	10

Executive Summary

This final compliance audit report is the public version. Confidential information (including privileged and critical energy infrastructure information) has been redacted from this report. The full final compliance audit report was submitted to the audited entity and NERC.

The offsite compliance audit of Central Hudson Gas & Electric Corporation (Central Hudson) was conducted between July 7th and August 7th, 2008. The audit was completed using data submitted by Central Hudson prior to the offsite audit being started, and data provided by way of follow-up emails and phone calls as a result of questions raised during the offsite audit.

The audit team evaluated Central Hudson's compliance with eighteen reliability standards and fifty-six requirements identified in the NERC 2008 Implementation Plan as it applies to their registered functions for the period of the last twelve months or monitoring timeframes specified in each, reliability standard. Of the eighteen standards and fifty-six requirements audited, six standards and their twenty-five requirements were judged to be not applicable and two standards and nine requirements from the remaining twelve standards were judged to be not applicable for this audit period for various reasons. Central Hudson was found to be compliant with ten standards and their twenty-two requirements for this audit period. Central Hudson provided subject matter experts as necessary resulting in a more clear understanding of the Central Hudson business model and accelerated the audit process. The evidence provided to demonstrate compliance was excellently presented and well organized. The audit team would like to thank the Central Hudson audit preparation team for the support offered through the audit.

Audit Process

The compliance audit process steps are detailed in the NERC 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.¹ The audit objectives are:

- Independently review Central Hudson's compliance with the requirements of the reliability standards that are applicable to Central Hudson based on Central Hudson's registered functions.

¹ North American Electric Reliability Corporation CMEP, paragraph 3.1, Compliance Audits

- Validate compliance with applicable reliability standards from the NERC 2008 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 standard, and review the status of associated mitigation plans.
- Document the IESO compliance culture.

Scope

The audit included all standards identified in the May 1st, 2008 audit letter for the previous year. The audit was a regularly scheduled audit and no self reported violations or compliance investigations were involved.

Confidentiality and Conflict of Interest

The audited entity was informed in advance of the audit that the independent contractors executed confidentiality agreements and code of conduct documentation was in place for the NERC representative and regional entity staff. Work history and conflict of interest forms submitted by each audit team member are on file in the NPCC corporate offices. 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.

Offsite Audit

Central Hudson was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to Central Hudson more than 60 days in advance of the scheduled audit. This is an offsite audit conducted every six years or as determined to be necessary by the region. Central Hudson had not self reported any violations

If necessary, the audit team leader would request interviews with Central Hudson employees representing subject matter expertise regarding all of registered functions of Central Hudson Gas & Electric Corporation. These interviews in conjunction with evidence would provide the audit team with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The audit team prepared reliability standards auditor worksheets (RSAWs) to evaluate each standard. The RSAW's are used to ensure consistency and to document evidence of compliance or non-compliance with the standards. All relevant documents are considered and to the extent they form portion of the audit trail are included in the RSAW's.

Audit Overview

The audit overview was conducted by way of a phone call by Kim Pitchell on July 14th, 2008. An explanation of the audit process was given and the timelines were discussed.

Audit

The audit was performed offsite by the auditor Kim Pitchell with Sal Buffamante of NPCC assisting and with Rosanna Jimenez of NERC observing and assisting as required. Additional questions were provided to Central Hudson by way of emails and phone calls and Central Hudson then took the time necessary to develop the answers and submitted them by way of email and phone calls to the auditor.

Exit Briefing

The exit briefing was conducted by Kim Pitchell on August 7th, 2008 by way of a conference call and was attended by the Central Hudson audit team. Rosanna Jimenez of NERC was not able to call in but will receive the draft reports and a synopsis of the exit briefing. Kim Pitchell reviewed the audit process and summarized the preliminary findings of the audit. The results of the audit were that of the eighteen standards and fifty-six requirements audited, six standards and their twenty-five requirements were judged to be not applicable and two standards and nine requirements from the remaining twelve standards were judged to be not applicable for this audit period for various reasons. Central Hudson was found to be compliant with ten standards and their twenty-two requirements for this audit period. Central Hudson was given an opportunity to question the audit findings and provide comment on the audit. Central Hudson accepted the preliminary findings and said they found the process to be very informative. They have a much better appreciation of how the audit process works and what it entails to be fully compliant to all standards.

Company Profile

CH Energy Group, Inc. is the holding company parent corporation of two principal, wholly owned subsidiaries, Central Hudson Gas & Electric Corp. (Central Hudson) and Central Hudson Enterprises Corp. (CHEC). Central Hudson, the regulated electric and natural gas subsidiary, has one wholly owned subsidiary, Phoenix Development Company, Inc. (Phoenix). CHEC, the parent company of CH Energy Group's unregulated businesses and investments, has two wholly owned subsidiaries, Griffith Energy Services, Inc. (Griffith), and CH-Auburn Energy, LLC (CH-Auburn).

Central Hudson transmission voltages are 345kV, 115kV and 69kV. The majority of Central Hudson's transmission system is located within its approximately 2,600 square mile service territory with the following exceptions:

1. The 115kV 'SL' Line between the franchise border and the Sugarloaf Substation
2. The 115 kV 'SD' and 'SJ' Lines between the Sugarloaf Substation and the New York State Border with New Jersey.

Central Hudson's service territory extends about 85 miles along the Hudson River and about 25 to 40 miles east and west of the Hudson River. The southern end of the territory is about 25 miles north of New York City and the northern end is about 10 miles south of the City of Albany.

Overhead Transmission

345 kV: 76.2 miles
115 kV: 216.4 miles
69 kV: 299.3 miles
Subtotal: 591.8 (pole miles)

Cable

115 kV: 4.1 miles

Common Tower

69kV and 115 kV: 26.8 miles

Total

622.6 (circuit miles)

The following are Central Hudson's interconnection points with other Areas:

Central Hudson interconnects with First Energy via the 115kV 'SD' and 'SJ' Lines between Central Hudson's Sugarloaf Substation and First Energy's Vernon Substation in New Jersey. The 'SD' and 'SJ' Lines are operated normally open at the Vernon Substation and do not normally carry load.

Central Hudson interconnects with Northeast Utilities via the 69kV 'FV' Line between Central Hudson's Smithfield Substation and Northeast Utilities Salisbury Substation in Connecticut.

The New York Independent System Operator is registered as a BA, TOP and RC for the New York Control Area that includes Central Hudson's service territory.

Central Hudson's average number of electric customers served for 2007 was 298,386.

Central Hudson's peak load was 1,295 MW on August 2, 2006. Central Hudson normally peaks in the summer.

Central Hudson's total generation capacity is 65.6 MWs as follows:

Sturgeon Pool Unit 1: 4.8 MW, Hydro
Sturgeon Pool Unit 2: 4.8 MW, Hydro
Sturgeon Pool Unit 3: 4.8 MW, Hydro
Dashville Unit 1: 2.4 MW, Hydro
Dashville Unit 2: 2.4 MW, Hydro
High Falls: 3.2 MW, Hydro
South Cairo GT: 21.6 MW, Kerosene
Coxsackie GT: 21.6 MW, Kerosene or Natural Gas

The following facilities operate in Central Hudson's area:

Roseton Unit 1: 621 MW, Oil, Natural Gas (Owned by Dynegey)
Roseton Unit 2: 621 MW, Oil, Natural Gas (Owned by Dynegey)
Danskammer Unit 1: 72 MW, Oil, Natural Gas (Owned by Dynegey)
Danskammer Unit 2: 73.5 MW, Oil, Natural Gas (Owned by Dynegey)
Danskammer Unit 3: 147.1 MW, Coal, Oil, Natural Gas (Owned by Dynegey)
Danskammer Unit 4: 239.4 MW, Coal, Oil, Natural Gas (Owned by Dynegey)
DCRRA: 9.2 MW, Trash (owned by Dutchess County)
Mill Pond: 0.9 MW, Hydro (owned by Rivers Electric Co.)
Groveville Mills: 1.0 MW, Hydro (owned by Lower Saranac Corp.)
Montgomery Worsted Mills: 0.2 MW, Hydro (owned by Montgomery Worsted Mills Co.)
Salisbury Mills: 0.5 MW, Hydro (owned by Salisbury Hydro Associates)
Wallkill: 0.5 MW, Hydro (owned by Hydro Technologies)
Wappingers Falls: 2.0 MW, Hydro (owned by Windsor Machinery)
West Delaware: 7.5 MW, Hydro (Owned by Brascan)
Ashokan Unit 1: 2.3 MW, Hydro (Owned by New York Power Authority)
Ashokan Unit 2: 2.3 MW, Hydro (Owned by New York Power Authority)
East Delaware (Grahamsville): 18 MW, Hydro (Owned by New York City Board of Water Supply, operated by New York Power Authority)
Neversink: 25 MW, Hydro (Owned by New York City Board of Water Supply, operated by New York Power Authority)

Central Hudson does not own any generating units located in another balancing area footprint.

Audit Specifics

The compliance audit was conducted offsite between July 7th and August 7th, 2008. The audit team members and the Central Hudson staff did an excellent job in completing the audit.

Audit Team Role	Title	Company
Lead	Contracted Consultant	NPCC-Compliance Audit Program
Regional staff	Manager Compliance	NPCC-Compliance

Audit Team Role	Title	Company
		Audit Program
Observer	Regional Coordinator	NERC Regional Compliance Program

Central Hudson

Name and Title	Audited Entity's Organization
Manager- Electric Engineering Services	Central Hudson
Associate Engineer Electric Transmission Planning	
Manager - System Operations	
Section Engineer - Transmission Planning & Design	
Section Engineer - Electric System Protection	
Director - Line Clearance	
Vice-President, Engineering & Environmental Services	
Manager, Internal Auditing	
Auditor	

Audit Results

The audit team evaluated Central Hudson's compliance with eighteen reliability standards and fifty-six requirements identified in the NERC 2008 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each, reliability standard. Of the eighteen standards and fifty-six requirements audited, six standards and their twenty-five requirements were judged to be not applicable and two standards and nine requirements from the remaining twelve standards were judged to be not applicable for this audit period for various reasons. Central Hudson was found to be compliant with ten standards and their twenty-two requirements

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Findings

The following table details the summarized auditor notes relating to evidence reviewed for compliance with the reliability standards listed in the NERC 2008 Implementation Plan. This table can also include details summarizing auditor notes relating to evidence reviewed for reliability standard requirements for self-reported violations, ongoing mitigation plans, and other discussions.

* beside Requirement indicates it is applicable for more than one registered function

Reliability Standard	Requirement	Finding
BAL-005-0	R1.	Compliant
CIP-001-1	R1.	Compliant
CIP-001-1	R2.	Compliant
CIP-001-1	R3.	Compliant
CIP-001-1	R4.	Compliant
EOP-002-2	R9.	NA
EOP-004-1	R2.	NA+
EOP-004-1	R3.	NA+
FAC-003-1	R1.	Compliant
FAC-003-1	R2.	Compliant
FAC-003-1	R3.	Compliant
FAC-008-1	R1.	Compliant
FAC-008-1	R2.	NA+
FAC-008-1	R3.	NA+
FAC-009-1	R1.	Compliant
FAC-009-1	R2.	Compliant
IRO-001-1	R8.	Compliant
IRO-004-1	R4.*	Compliant
PRC-004-1	R1.*	NA+
PRC-004-1	R3.*	NA+
PRC-005-1	R1.*	Compliant
PRC-005-1	R2.*	NA+
PRC-008-0	R1.*	Compliant

Reliability Standard	Requirement	Finding
PRC-008-0	R2.*	Compliant
PRC-010-0	R1.*	NA
PRC-010-0	R2.*	NA
PRC-011-0	R1.*	NA
PRC-011-0	R2.*	NA
PRC-016-0	R1.*	NA
PRC-016-0	R2.*	NA
PRC-016-0	R3.*	NA
PRC-017-0	R1.*	NA
PRC-017-0	R2.*	NA
PRC-021-1	R1.*	NA
PRC-021-1	R2.*	NA
TOP-002-2	R3.	Compliant
TOP-002-2	R18.	Compliant

Compliance Culture

The auditor reviewed Central Hudson Gas & Electric Corporation's compliance culture. The regional entity compliance staff may review additional aspects of Central Hudson Gas & Electric Corporation's compliance culture. During all contact, Central Hudson staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.