



NORTHEAST POWER COORDINATING COUNCIL, INC.
1515 BROADWAY, NEW YORK, NY 10036-8901 TELEPHONE: (212) 840-1070 FAX: (212) 302-2782

Compliance Audit Report Public Version

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

New England Power Company

NCR07159

New England Electric Transmission Corp

NCR07156

New England Hydro Transmission Corp

NCR07157

**New England Hydro Transmission Electric
Company**

NCR07158

September 8 to September 11, 2008

October 8, 2008

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Companies Overview

New England Power Company (NEP), New England Electric Transmission Corporation (NEET), New England Hydro Transmission Corporation (NHH) and New England Hydro Transmission Electric Company (NEH) are all companies operated by National Grid.

NEET, NHH and NEH were organized to develop a DC transmission line that runs from Comerford to Sandy Pond and is used to transact power with Hydro Quebec. There are three entities due to state boundaries and joint ownership agreements. The three companies have no staff and depend on National Grid through a service agreement to provide all services.

REMVEC is a central dispatch office and satellite dispatching center providing security services in support of ISO-NE and on behalf of National Grid affiliates, with operations in Massachusetts and Rhode Island, twenty-nine municipals and Fitchburg Gas & Electric (FG&E). REMVEC is provided both staff and facilities by National Grid Service Company, performing services on behalf of NEP, under the Remvec II agreement

Each registered entity was judged for compliance with all standards and requirements but the report was consolidated into a single document due to the interrelationships between the parties.

Executive Summary

The onsite compliance audit of NEP, NEET, NHH and NEH were conducted between September 8 and September 11, 2008. The audit was completed using data submitted by National Grid prior to the audit team arriving at the site, material provided at the National Grid offices and data provided as a result of questions raised during the audit.

The audit team evaluated NEP, NEET, NHH and NEH's compliance with thirty four reliability standards identified in the NERC 2008 Implementation Plan for the period of June 17, 2007 through September 2008 or monitoring timeframes specified in each, reliability standard. Of the thirty four standards audited, thirty one were judged to be compliant and three were judged to be not applicable. NEP, NEET, NHH and NEH provided subject matter experts for each standard resulting in a more clear understanding of the NEP, NEET, NHH and NEH business model and accelerated the audit process. The evidence provided to demonstrate compliance was complete and well organized. The audit team would like to thank the NEP, NEET, NHH and NEH 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 NEP, NEET, NHH and NEH compliance with the requirements of the reliability standards that are applicable to NEP, NEET, NHH and NEH based on the NEP, NEET, NHH AND NEH registered functions.
- 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 NEP, NEET, NHH and NEH compliance culture.

Scope

The audit included all standards identified in the June 11, 2008 audit notification letter. 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.

On-site Audit

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

NEP, NEET, NHH and NEH were provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to NEP, NEET, NHH and NEH more than 60 days in advance of the scheduled audit. This is an on-site audit conducted every three years or as determined to be necessary by the region. NEP, NEET, NHH and NEH had not self reported any violations

The audit team leader requested interviews with NEP, NEET, NHH and NEH employees representing subject matter expertise regarding all of registered functions of NEP, NEET, NHH and NEH. These interviews in conjunction with evidence 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 at 9:00 AM September 8, 2008 at the National Grid offices. The audit team reviewed the proposed audit schedule to insure appropriate NEP, NEET, NHH and NEH staff was available to resolve questions as they arose. There were no changes to the schedule. Each audit team member reviewed his or her career and noted they had signed confidentially agreements. A brief explanation of the audit process was given and the timelines were discussed. NEP, NEET, NHH and NEH were given the opportunity to reject any auditor should they feel that there was a possible conflict of interest or they thought the auditor would not be impartial. NEP, NEET, NHH and NEH accepted the audit team. The FERC and NERC observers were introduced and provided brief comment on their role. National Grid also presented an overview of each entity being audited to NPCC staff and the NERC and FERC observers.

Audit

In advance of the on-site portion of the audit the lead auditor held several conference calls with the audited entity to review material provided prior to the audit and to clarify expectations for the on-site portion of the audit. The early receipt of the data helped the audit staff become familiar with the data and to more precisely focus their questions to make the audit more efficient.

Prior to arrival at the site Garth Arnott as the lead auditor, assigned standards to each of the audit team members. Each member, prior to arriving at the site, reviewed all data submitted for the standards assigned to them and produced a set of questions that required subject matter experts responses. That team member then lead the on-site questioning and produced the RSAW for the standard. All other team members participated in the question process. At times the audit team was split up into sub groups to more effectively utilize the team. Some questions were resolved using the data provided and others were answered by follow up emails and data submittals.

Exit Briefing

The exit briefing was conducted at the National Grid offices on September 11/08. The entire team of NPCC auditors, FERC and NERC observers, and NEP, NEET, NHH and NEH staff attended. An audit presentation summarized the results of the audit, NEP, NEET, NHH and NEH was given an opportunity to provide feedback on the audit and commented it was a positive experience.

Company Profile

New England Power Company (NEP) is a wholly owned subsidiary of National Grid plc, headquartered in London, United Kingdom. National Grid owns the high-voltage electricity transmission system in England and Wales and operates the system across Great Britain. National Grid also owns and operates the high-pressure gas transmission in Britain. In addition, National Grid has electricity systems in the Northeastern United States. The local distribution networks deliver gas to approximately 11 million homes and businesses in England.

In the US, National Grid distributes electricity to nearly five million customers in Massachusetts, New Hampshire, New York and Rhode Island. Owing 6,650 megawatts of electricity generation, it is, as of the date of this report, the largest power producer in New York State – carrying power to over one million customers on Long Island and supplying around a quarter of New York City’s electricity needs. It is also the largest distributor of natural gas in the northeastern U.S., delivering gas to 3.4 million customers in New York, Massachusetts, New Hampshire and Rhode Island. National Grid also has a number of related businesses such as LNG importation and storage, land remediation and metering.

Audit Specifics

The compliance audit was conducted on September 8 to September 11, 2008 at National Grid’s offices in Westborough Massachusetts.

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

Auditor	Contracted Consultant	NPCC-Compliance Audit Program
Auditor	Contracted Consultant	NPCC-Compliance Audit Program
Auditor	Contracted Consultant	NPCC-Compliance Audit Program
Observer	Regional Compliance Program Coordinator	NERC
Observer	Enforcement Div.	FERC
Observer	Compliance Div.	FERC
Observer	Enforcement Div.	FERC
Observer	Compliance Div.	FERC

NEP

Title	Organization
Manager, System Operations – LI	National Grid
Manager, Operations Planning and Review	National Grid
Lead Senior Engineer- Transmission Investment Mgmt	National Grid
Principal Trainer-NE Control Center	National Grid
Project Mgr – EMS	National Grid
Director, Security – NE	National Grid
VP Transmission Network Operations (as of 9/01/08) formerly Director, Reliability Compliance	National Grid
Manager, Control Center NE	National Grid
Manager, Transmission Planning	National Grid
Manager, Protection Standards & Support	National Grid
Principal Analyst, Reliability Compliance	National Grid
Principal Engineer, Transmission Commercial Services	National Grid
VP Transmission Network Operations (retiring as of 9/30/08)	National Grid
VP Construction & Services	National Grid
Manager, Transmission Commercial Services	National Grid
VP Security	National Grid
Acting Director, Reliability Compliance	National Grid
VP Transmission Regulation & Commercial	National Grid
Senior Engineer, Reliability Compliance	National Grid
VP Transmission Asset Mgmt	National Grid
Senior VP, Customer Operations	National Grid

Title	Organization
Exec. VP & COO US Transmission	National Grid
Director, Transmission Planning	National Grid
Auditor, Reliability Compliance	National Grid
Manager, HVDC Operations/Maintenance	National Grid
Director, Transmission Investment Mgt	National Grid
Manager, Forestry Strategy	National Grid
Project Mgr., Security – NE	National Grid
Coordinator System Control Center	National Grid
Coordinator Relay & Telecom	National Grid
Director - Wholesale Market Relations	National Grid
Manager Transmission Planning	National Grid

Audit Results

Prior to arrival at the site Garth Arnott as the lead auditor, assigned standards to each of the audit team members. Each member, prior to arriving at the site, reviewed all data submitted for the standards assigned to them and produced a set of questions that required subject matter experts responses. That team member then lead the on-site questioning and produced the RSAW for the standard. All other team members participated in the question process. At times the documentation initially provided did not provide sufficient detail and some additional evidence was requested. Evidence was provided using the data provided and others were answered by follow up emails and data submittals.

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.

Reliability Standard	Requirement	Finding
BAL-005-0	R1	Compliant
CIP-001-1	R1	Compliant

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Reliability Standard	Requirement	Finding
CIP-001-1	R2	Compliant
CIP-001-1	R3	Compliant
CIP-001-1	R4	Compliant
COM-001-1	R1	Compliant
COM-001-1	R2	Compliant
COM-001-1	R3	Compliant
COM-001-1	R4	Compliant
COM-001-1	R5	Compliant
COM-002-2	R1	Compliant
COM-002-2	R2	Compliant
EOP-001-0	R2	Compliant
EOP-001-0	R3	Compliant
EOP-001-0	R4	Compliant
EOP-001-0	R5	Compliant
EOP-001-0	R6	Compliant
EOP-001-0	R7	Compliant
EOP-003-1	R1	Compliant
EOP-003-1	R2	N/A
EOP-003-1	R3	N/A
EOP-003-1	R4	Compliant
EOP-003-1	R5	Compliant
EOP-003-1	R6	Compliant
EOP-003-1	R7	N/A
EOP-003-1	R8	Compliant
EOP-004-1	R2	Compliant
EOP-004-1	R3	Compliant
EOP-005-1	R1	Compliant
EOP-005-1	R2	Compliant
EOP-005-1	R3	Compliant
EOP-005-1	R4	Compliant
EOP-005-1	R5	Compliant
EOP-005-1	R6	Compliant
EOP-005-1	R7	Compliant
EOP-005-1	R8	N/A
EOP-005-1	R9	Compliant
EOP-005-1	R10	N/A
EOP-005-1	R11	Compliant
EOP-008-0	R1	Compliant
FAC-003-1	R1	Compliant

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Reliability Standard	Requirement	Finding
FAC-003-1	R2	Compliant
FAC-003-1	R3	Compliant
FAC-008-1	R1	Compliant
FAC-008-1	R2	N/A
FAC-008-1	R3	N/A
FAC-009-1	R1	Compliant
FAC-009-1	R2	Compliant
INT-004-1	R1	Compliant
INT-004-1	R2	Compliant
IRO-001-1	R8	Compliant
IRO-004-1	R3	Compliant
IRO-004-1	R4	Compliant
IRO-004-1	R7	Compliant
PER-003-0	R1	Compliant
PRC-004-1	R1	Compliant
PRC-004-1	R3	Compliant
PRC-005-1	R1	Compliant
PRC-005-1	R2	Compliant
PRC-008-0	R1	Compliant
PRC-008-0	R2	Compliant
PRC-010-0	R1	N/A
PRC-010-0	R2	N/A
PRC-011-0	R1	N/A
PRC-011-0	R2	N/A
PRC-016-0	R1	Compliant
PRC-016-0	R2	Compliant
PRC-016-0	R3	Compliant
PRC-017-0	R1	Compliant
PRC-017-0	R2	Compliant
PRC-021-1	R1	N/A
PRC-021-1	R2	N/A
TOP-002-2	R1	Compliant
TOP-002-2	R2	Compliant
TOP-002-2	R3	N/A
TOP-002-2	R4	Compliant
TOP-002-2	R5	Compliant
TOP-002-2	R6	Compliant
TOP-002-2	R10	Compliant
TOP-002-2	R11	Compliant

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Reliability Standard	Requirement	Finding
TOP-002-2	R16	Compliant
TOP-002-2	R17	Compliant
TOP-002-2	R18	Compliant
TOP-002-2	R19	Compliant
TOP-003-0	R1	Compliant
TOP-003-0	R2	Compliant
TOP-003-0	R3	Compliant
TOP-004-1	R1	Compliant
TOP-004-1	R2	Compliant
TOP-004-1	R3	Compliant
TOP-004-1	R4	Compliant
TOP-004-1	R5	Compliant
TOP-004-1	R6	Compliant
TOP-005-1	R1	Compliant
TOP-005-1	R2	N/A
TOP-005-1	R3	N/A
TOP-005-1	R4	Compliant
TOP-007-0	R1	Compliant
TOP-007-0	R2	Compliant
TOP-007-0	R3	Compliant
TPL-001-0	R1	Compliant
TPL-001-0	R2	Compliant
TPL-001-0	R3	Compliant
TPL-002-0	R1	Compliant
TPL-002-0	R2	Compliant
TPL-002-0	R3	Compliant
TPL-003-0	R1	Compliant
TPL-003-0	R2	Compliant
TPL-003-0	R3	Compliant
TPL-004-0	R1	Compliant
TPL-004-0	R2	Compliant
VAR-001-1	R1	Compliant
VAR-001-1	R2	N/A
VAR-001-1	R3	N/A
VAR-001-1	R4	N/A
VAR-001-1	R5	N/A
VAR-001-1	R6	Compliant
VAR-001-1	R7	Compliant
VAR-001-1	R8	Compliant

Reliability Standard	Requirement	Finding
VAR-001-1	R9	Compliant
VAR-001-1	R10	N/A
VAR-001-1	R11	N/A
VAR-001-1	R12	N/A

Compliance Culture

The audit team reviewed NEP, NEET, NHH and NEH's compliance culture. The regional entity compliance staff may review additional aspects of NEP, NEET, NHH and NEH's compliance culture. During all contacts NEP, NEET, NHH and NEH staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability. The Reliability Compliance group with a staff of 5 and National Grid's EVP expressed a strong commitment to compliance which was echoed through the companies.