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Compliance Audit Report Public Version

**Consolidated Edison Energy Inc.
NCR07048**

April 3 to April 14, 2009

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

April 14, 2009

TABLE OF CONTENTS

Executive Summary	3
Audit Process	3
Objectives	4
Scope.....	4
Confidentiality and Conflict of Interest.....	4
Off-site Audit	5
Methodology	5
Audit Overview.....	5
Audit.....	5
Exit Briefing.....	6
Company Profile.....	6
Audit Specifics.....	7
Audit Results.....	7
Findings.....	8
Compliance Culture	8

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 off-site compliance audit of Consolidated Edison Energy Inc. (CEE), NERC ID #NCR07048 was conducted between April 3 and April 14, 2009. At the time of the audit, CEE was registered for the PSE function. The audit was completed using data submitted by Consolidated Edison Energy Inc. prior to the off-site audit being started and data provided by way of follow-up emails and phone calls as a result of questions raised during the off-site audit.

The auditor evaluated Consolidated Edison Energy Inc.'s compliance with six reliability standards and eleven requirements/sub-requirements in the 2009 NERC Compliance Monitoring and Enforcement Program (CMEP). The audit reviewed reliability standards identified in the NERC 2009 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard. Of the six standards and eleven requirements and sub-requirements audited for the functions Consolidated Edison Energy Inc. is registered for, three standards and their three requirements were judged to be compliant. Three standards and their eight requirements and sub-requirements were judged to be not applicable.

Consolidated Edison Energy Inc. provided an overview resulting in a more clear understanding of their business model and accelerated the audit process. The evidence provided to demonstrate compliance was well presented and well organized. The audit team would like to thank the Consolidated Edison Energy Inc. audit preparation team for the support offered throughout the audit.

There were no ongoing or recently completed mitigation plans and, therefore, none were reviewed by the audit team.

This audit report depicts all activities performed by the audit team during the audit. Some information discussed during the course of the audit is non-public. Any non-public information included in this report is listed in the Findings section, specifically in the Auditors Notes Summary in the table. This portion of the table will be redacted from the public posting version of this report.

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 to:

- Independently review CEE's compliance with the requirements of the reliability standards that are applicable to CEE based on CEE's registered functions.
- Validate compliance with applicable reliability standards from the NERC 2009 Implementation Plan list of actively monitored standards and additional NERC reliability standards selected by NERC.
- Validate compliance with applicable Regional Standards from the NPCC 2009 Implementation Plan list of actively monitored standards.
- Validate evidence of self-reported violations and previous self-certifications and confirm compliance with other requirements of the reliability standard.
- Review the status of associated mitigation plans.
- Observe and document CEE's compliance program and culture.

Scope

The audit included all standards identified in the February 2, 2009 audit letter sent to CEE. The audit was a regularly scheduled audit and no self-reported violations or compliance investigations were involved.

At the time of the audit, CEE was registered for the function of PSE. The audit team evaluated CEE for compliance during the period of June 18, 2007 to April 14, 2009.

Confidentiality and Conflict of Interest

Confidentiality and Conflict of Interest of the audit team are governed under the Delegation Agreement with NERC and Section 1500 of the NERC Rules of Procedure.

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.

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

Off-site Audit

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

Consolidated Edison Energy Inc. was registered for PSE functions in NPCC and RFC. The assessment of compliance to the applicable standards and requirements will be for both regional entities.

If necessary, the auditor would have requested interviews with Consolidated Edison Energy Inc. employees representing subject matter expertise regarding all of the registered functions of Consolidated Edison Energy Inc. These interviews in conjunction with the submitted evidence would provide the auditor with a basis for professional judgment when validating compliance with reliability standards.

Methodology

The auditor prepared reliability standard audit worksheets (RSAWs) to evaluate each standard. The RSAWs 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 a portion of the audit trail are included in the RSAWs.

Audit Overview

The audit overview was conducted on April 8, 2009. The call was led by Garth Arnott and Kim Pitchell, the auditors for NPCC, and participating for Consolidated Edison Energy Inc. was the Manager for Regulatory Affairs. An explanation of the audit process was given and the timelines were discussed. Consolidated Edison Energy Inc. was given an opportunity to reject the auditors but accepted the auditors and their credentials for this audit.

Audit

The audit was performed off-site by the auditors - Garth Arnott and Kim Pitchell with Sal Buffamante of NPCC assisting. Additional questions were provided to Consolidated Edison Energy Inc. by way of emails and phone calls, and the Consolidated Edison Energy Inc. staff then took the time necessary to develop the answers and submitted them by way of email and phone calls to the auditors.

Exit Briefing

The exit briefing was led by Garth Arnott and Kim Pitchell by way of a conference call on April 14, 2009 and was attended by staff representing Consolidated Edison Energy Inc. The Auditors reviewed the audit process and summarized the preliminary findings of the audit.

The results of the audit were that of the six standards and eleven requirements and sub-requirements audited for the functions Consolidated Edison Energy Inc. is registered for, three standards and three requirements were judged to be compliant. Three standards and their eight requirements and sub-requirements were judged to be not applicable.

The exit briefing is also a forum for the auditors to offer informal recommendations for process improvement. These recommendations are not included in the audit report but would be captured in a separate document and sent to CEE. This was not necessary for this audit.

Company Profile

Consolidated Edison Energy Inc. (CEE) has two primary business segments - providing full requirements electricity supply to various utilities in the PJM, ISO-NE and NYISO regions; and Power Supply Management service to act as the interface for third-party generation owners bidding and scheduling their assets into the PJM and ISO-NE markets.

CEE's full requirements wholesale supply contracts result from various programs approved by State Commissions where the local utility enters into contracts with competitive suppliers to serve the electric needs of customers that remain with the utility for their competitive commodity service. These programs, which are typically called Basic Generation, Default and/or Standard Service, require the winning bidders to purchase the energy, capacity and ancillary services either bilaterally or through the ISO/RTO administered markets for a specified portion of the remaining utility commodity customers and for a specific period of time. Because of its role as wholesale supplier to these utility customers, CEE is registered as a Purchasing and Selling Entity (PSE) in the NPCC and RFC regions.

CEE currently provides Power Supply Management services to four generation owners that own and operate approximately 2,000 MW of generation assets at 10 locations in the PJM and ISO-NE regions. Under the terms of the Power Supply Management agreements, CEE bids the generation into the RTO market systems as agent for the generation owners and provides assistance with settlements and other administrative issues. In all instances, the individual asset owner retains operational control of the generating assets for determining market share under FERC's market power tests. In addition, the asset owners continue to serve as both the Generation Owner (GO) and Generation Operator (GOP) for the individual generating units.

Audit Specifics

The compliance audit was conducted off-site between April 3 and April 14, 2009. The audit team members and Consolidated Edison Energy Inc. staff did an excellent job in completing the audit.

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

Consolidated Edison Energy Inc.

Name and Title		Audited Entity's Organization	
	Manager Regulatory Affairs	Consolidated Edison	Competitive Shared Services
	Vice President Regulatory Affairs	Shared	

Audit Results

The auditors evaluated Consolidated Edison Energy Inc.'s compliance with six reliability standards and eleven requirements and sub-requirements identified in the NERC 2009 Implementation Plan for the period of the last twelve months or monitoring timeframes specified in each reliability standard.

Of the six standards and eleven requirements and sub-requirements audited for the functions Consolidated Edison Energy Inc. is registered for, three standards and their three requirements were judged to be compliant. Three standards and their eight requirements and sub-requirements were judged to be not applicable.

Consolidated Edison Energy Inc. provided an overview resulting in a more clear understanding of their business model and accelerated the audit process. The evidence provided to demonstrate compliance was well presented and well organized. The audit team would like to thank the Consolidated Edison Energy Inc. audit preparation team for the support offered through the audit.

Findings

The following table details the summarized auditor notes relating to evidence reviewed for compliance with the reliability standards listed in the NERC 2009 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
INT-001-3	R1.	N/A
INT-001-3	R1.1.	N/A
INT-004-2	R1.	N/A
INT-004-2	R2.	N/A
INT-004-2	R2.1	N/A
INT-004-2	R2.2	N/A
INT-004-2	R2.3	N/A
IRO-001-1	R8.	Compliant
IRO-005-1	R13.	NA
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

The audit team reviewed Consolidated Edison Energy Inc.'s compliance culture. The regional entity compliance staff may review additional aspects of Consolidated Edison Energy Inc.'s compliance culture. During all contact, Consolidated Edison Energy Inc. staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.