



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

**HQ Energy Services US Inc.
(HQ US)
NCR07104**

August 28 to September 21, 2009

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

September 21, 2009

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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 HQ Energy Services US Inc. (HQ US), NERC ID #NCR07104 was conducted between August 28 and September 21, 2009. At the time of the audit, HQ US was registered for the PSE function. The audit was completed using data submitted by HQ US 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 HQ Energy Services US Inc.'s compliance with five reliability standards and eight requirements and 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 five standards and eight requirements and sub-requirements audited for the functions HQ US is registered for, three standards and their three requirements were judged to be compliant. Two standards and their five requirements and sub-requirements were judged to be not applicable. HQ Energy Services US 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 auditor would like to thank the HQ US 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.

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:

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

- Independently review HQ US's compliance with the requirements of the reliability standards that are applicable to HQ US based on the functions HQ US is registered for.
- 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 HQ Energy Services US Inc.'s compliance program and culture.

Scope

The audit included all standards identified in the June 24, 2009 audit letter. The audit was a regularly scheduled audit and no self-reported violations or compliance investigations were involved.

At the time of the audit, HQ US was registered for the PSE function. The audit team evaluated for compliance during the period of June 18, 2007 to September 21, 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.

Off-site Audit

HQ Energy Services US Inc. was provided with a pre-audit request letter identifying the standards and requirements subject to audit. The audit letter was sent to HQ Energy Services US 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. HQ US had not self reported any violations. HQ Energy Services US Inc. is registered for the PSE function in NPCC.

If necessary, the auditor would have requested interviews with HQ Energy Services US Inc. employees representing subject matter expertise regarding the registered function of HQ US.

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 standards 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 initial audit overview was conducted on August 31, 2009, led by the auditor for NPCC and a representative for HQ Energy Services US Inc. participated. An explanation of the audit process was given and the timelines were discussed. HQ US was given an opportunity to reject the auditor but accepted the auditor and his credentials for this audit.

Audit

The audit was performed off-site by the auditor with the NPCC Manager of Compliance assisting. Additional questions were provided to HQ Energy Services US Inc. by way of emails and phone calls, and the HQ US staff 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 led by the NPCC auditor by way of a conference call on September 21, 2009 and was attended by a representative for HQ Energy Services US Inc. The auditor reviewed the audit process and summarized the preliminary findings of the audit.

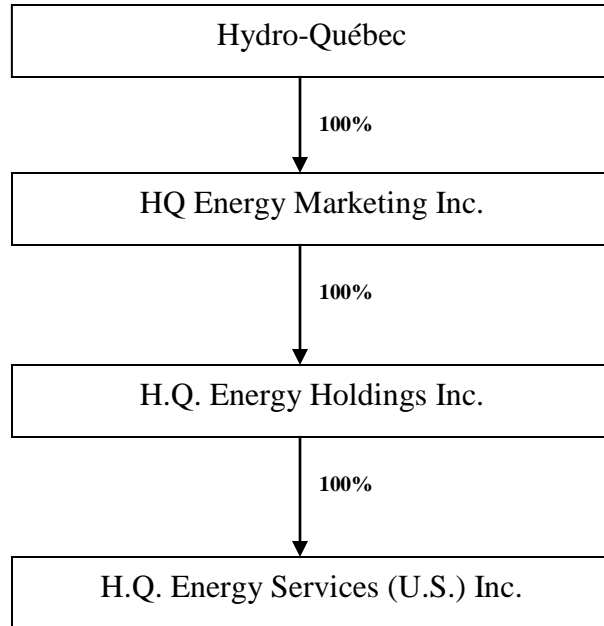
The results of the audit were that of the five standards and eight requirements and sub-requirements audited for the function HQ US is registered for, three standards and their three requirements were judged to be compliant. Two standards and their five requirements and sub-requirements were judged to be not applicable.

The exit briefing is also a forum for the auditor 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 HQ US. This was not necessary for this audit.

Company Profile

HQ US is a 100% owned subsidiary of H.Q. Energy Holdings Inc., itself a 100% owned subsidiary of HQ Energy Marketing Inc. (HQEM), itself a 100% owned subsidiary of Hydro-Québec, a corporation 100% owned by the Government of Québec. HQ US operates exclusively

in the United States as a Purchasing-Selling Entity. The markets of operation are: New York, New England, PJM and Midwest ISO. HQEM operates exclusively in Canada, outside the Province of Québec (in Ontario and New Brunswick).



HQ US, as the U.S. power-marketing subsidiary of Hydro-Québec, is the vehicle through which transactions in U.S. power markets are undertaken. HQ US employs few people directly, as most of its traders and senior managers are directly employed by Hydro-Québec or by HQEM but are authorized to operate on behalf of and represent HQ US from the Montreal offices of the Wholesale Markets Vice Presidency of Hydro-Québec.

Audit Specifics

The compliance audit was conducted off-site between August 28 and September 21, 2009. The audit team members and HQ US 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

HQ Energy Services US Inc.

Title	Audited Entity's Organization
Manager, U.S. Regulatory Affairs	HQ Energy Services US Inc.

Audit Results

The auditor evaluated HQ US's compliance with five reliability standards and eight 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.

The results of the audit were that of the five standards and eight requirements and sub-requirements audited for the function HQ US is registered for, three standards and their three requirements were judged to be compliant. Two standards and their five requirements and sub-requirements were judged to be not applicable.

HQ US 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 auditor would like to thank the HQ US audit preparation team for the support offered through the audit.

Findings

The following table details findings for compliance with the reliability standards listed in the NERC 2009 Implementation Plan.

HQ Energy Services US Inc.

Reliability Standard	Requirement	Finding
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.	N/A
TOP-005-1	R4.	Compliant
VAR-001-1	R5.	Compliant

Compliance Culture

The audit team reviewed HQ US's compliance culture. During all contacts, HQ US staff was professional in their approach to compliance and understood the importance of the compliance and its role in maintaining reliability.