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October 26, 2010

Mr. Frank J. Houston  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street – 21<sup>st</sup> Floor  
New York, NY 10038

Re: OSC Report 2009-S-9

Dear Mr. Houston:

As outlined in the letter from Kevin Law dated July 2, 2010 (copy attached hereto) in response to your audit on the Long Island Power Authority's Oversight of Contracts with National Grid (Report 2009-S-9), LIPA took swift action and has completed remediation of the one minor deficiency noted in the report related to the timeliness of LIPA's receipt of payment for certain emission credits from National Grid.

As we reported to you, LIPA took action to ensure receipt of the balance of the 2008 and 2009 EPA emission credit monies from National Grid. In addition, LIPA has enhanced its internal procedures to ensure that all future EPA auction proceeds are received from National Grid in a timely manner. LIPA has also instructed National Grid to improve its internal procedures surrounding the EPA emissions credit auctions to ensure that National Grid promptly notifies LIPA that the cash proceeds have been received and that LIPA's entire share is promptly remitted to LIPA. National Grid has informed LIPA that they have enhanced their internal procedures accordingly.

As previously noted, LIPA received its share of the 2010 EPA auctions in a prompt and timely fashion on April 16, 2010 demonstrating that the enhancements to the controls both at LIPA and National Grid are working effectively.

I want to personally thank you and the members of the audit team that worked here at LIPA for the professionalism and courtesy that was extended to the staff here at LIPA. Your review, coupled with our own internal measures, provide further assurance to our customers that LIPA's management and oversight of its agreements with National Grid is beneficial to the ratepayers of Long Island.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael D. Hervey", is written over a horizontal line.

Michael D. Hervey

Cc: Governor David A. Patterson  
Comptroller Thomas P. DiNapoli  
Hon. Malcolm A. Smith, President NYS Senate  
Hon. Sheldon Silver, Speaker NYS Assembly  
Hon. Carl Kruger, Chair, Senate Finance Committee  
Hon. Herman D. Farrell, Jr., Chair, Assembly Ways and Means Committee  
Office of the State Comptroller, Division of State Government Accountability



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Kevin S. Law  
President & Chief Executive Officer

July 2, 2010

Mr. Frank J. Houston  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
123 William Street – 21<sup>st</sup> Floor  
New York, NY 10038

Re: OSC Report 2009-S-9

Dear Mr. Houston:

The attached document details our response to your audit on the Long Island Power Authority's Oversight of Contracts with National Grid (Report 2009-S-9). I am pleased that the results of your audit determined that LIPA's oversight of its contracts with National Grid is meaningful and appropriate. Rest assured that I have taken swift action to remediate the one area in which you reported the need for improvement.

Since your team identified the issue regarding the untimely payment of a portion of EPA emissions credit cash receipts due to LIPA from 2008 and 2009, LIPA has acted to ensure receipt of those monies from National Grid. In addition, LIPA has enhanced its internal procedures to ensure that all future EPA auction proceeds are received from National Grid in a timely manner. LIPA has also instructed National Grid to improve its internal procedures surrounding the EPA emissions credit auctions to ensure that National Grid promptly notifies LIPA that the cash proceeds have been received and that all of LIPA's share is promptly remitted to LIPA.

I note that LIPA's share of the 2010 EPA emissions auctions proceeds were received by LIPA in a prompt and timely fashion on April 16, 2010 demonstrating that the enhancements to the controls at both LIPA and National Grid are working effectively.

I want to personally thank you and the members of the audit team that worked here at LIPA for the professionalism and courtesy that was extended to the staff here at LIPA. Your review, coupled with our own internal measures, serve to benefit the ratepayers of Long Island.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin S. Law", is written over a large, stylized, circular flourish.

Kevin S. Law



**Response of the Long Island Power Authority ("LIPA")**

to

**Oversight of Contracts with National Grid**

**Report 2009-S-9**

**(the "Report")**

**Office of the State Comptroller ("OSC")**

**June 2010**

**General Observations/Comments**

LIPA has carefully reviewed the Report, and notes that the Report does not identify any significant flaws in LIPA's Oversight of Contracts with National Grid. Instead, the Report reflects that LIPA has fulfilled its oversight role with respect to the contracts with National Grid in a proper and meaningful manner, to the benefit of LIPA's customers. The Report provides one specific recommendation to enhance LIPA's oversight practices, which LIPA has specifically commented on below. LIPA will, as always, continue to meet its obligations with respect to the oversight of National Grid's performance under its contracts to ensure the continuation of high quality service to LIPA's customers.

**OSC Recommendation**

Improve the monitoring of National Grid's emission credit sales to ensure that LIPA receives its full share of the proceeds from these sales.

***LIPA Response:***

LIPA makes every effort to ensure full and timely receipt of its share of proceeds from National Grid's sale of emissions credits, including through EPA auctions. From 2007 through 2009, National Grid sold emission credits totaling \$29.4 million, two-thirds of which was to be remitted to LIPA from National Grid upon receipt. By the end of 2009, LIPA received \$19.0 million of its \$19.3 million share of these sales; however, the remaining amount, \$309,878, resulting from EPA auction sales in 2008 and 2009, had not been forwarded by National Grid to LIPA in a timely manner, as required. LIPA did not receive these monies due to an oversight by National Grid and lack of adequate communication and follow-up internally at LIPA. Subsequent to identification of this issue, LIPA contacted National Grid and on March 18, 2010, LIPA secured full payment of the \$309,878.

To further ensure that LIPA receives its full share of the proceeds from the sales of emissions credits in a more timely manner going forward, LIPA has enhanced its procedures to facilitate better coordination and communication between its internal departments and with National Grid. LIPA has also instructed National Grid to enhance its internal procedures to ensure that they promptly remit to LIPA its share of all emission credit sales, including EPA auctions.

Concerning the current year, LIPA notes that its share of the 2010 EPA auction sales proceeds was received from National Grid on April 16, 2010. This provides some early indication that the improvements are working.