



Mystic Cost of Service – Description of controls over the administration of the Agreement

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About

This document describes the various controls utilized by ISO New England (ISO-NE) and its auditors to ensure the Mystic Cost of Service Agreement (COSA or Agreement) implementation adheres to the requirements defined in the Agreement. The Agreement gives the ISO the right to audit as needed. The document also summarizes the reports that the ISO provides to stakeholders regarding the ongoing auditing, as well as additional information that will be included in those reports going forward with respect to the audit process.

Section 6.2 of the Agreement provides that: ISO shall have the right, at any time upon reasonable notice, to examine at reasonable times the books and records of Owner, Lead Market Participant, Constellation LNG, LLC and Distrigas of Massachusetts LLC to the extent necessary to audit and verify the accuracy of all reports, statements, invoices, charges, or computations pursuant to this Agreement.

The ISO's intent in fulfilling its responsibilities under Section 6.2 is to comprehensively review the actions and billing of Constellation to ensure that both are consistent with the terms of the Agreement. Specifically, this includes the fixed and variable costs billed under the Agreement, LNG purchase and natural gas sales decisions, and the operation and market behavior of Mystic 8&9. To support this, the ISO has initiated two ongoing external auditor reviews: A financial audit to review expenses and billing, including both fixed and variable costs by an external auditor managed by ISO, and a fuel supply audit of the tank management execution and fuel invoice line items, also by an external auditor managed by ISO. These audits are in addition to the Internal Market Monitor (IMM) review of energy offers and plant behavior, and the ISO settlements function and its error checking and oversight.

ISO-NE has contracted KPMG for the financial audit to perform an Agreed Upon Procedures analysis. For the fuel supply audit, ISO-NE has contracted Levitan and Associates Inc. (LAI) to audit the Monthly Fuel Supply Cost in the monthly fuel invoices that Constellation LNG, LLC (CLNG) issues to Constellation Mystic Power, LLC (Mystic) under the Fuel Supply Agreement (FSA), as well as the tank management decisions made by Constellation. The main areas of the COSA that are reviewed to ensure correct implementation include the Annual Fixed Revenue Requirement (AFRR), inputs and outputs for the Revenue Credit, and the Fuel Supply Agreement.

Summaries of control audits

Annual Fixed Revenue Requirement (AFRR)

KPMG – Agreed Upon Procedures audit

ISO-NE has engaged KPMG to perform an Agreed Upon Procedures analysis of the Actual Costs as filed with the Federal Energy Regulatory Commission (FERC) by Constellation, to include the revenue requirements for both Mystic and the Everett LNG Terminal Facility presented in Schedules A-I of Schedule 3A of the Mystic COS Agreement. The Agreed Upon Procedures analysis entails reviewing all significant line items included on Schedule A and the supporting schedules that support the FERC filed Actual Revenue Requirement amounts (as submitted by Constellation) and confirms that the supporting schedules tie back to Schedule A.

The Agreed Upon Procedures includes Capital Expenditure (CAPEX) Schedules and follows a similar process described below. ISO-NE notes that the settlement that resolves challenges to 2022 CapEx remains pending before FERC.

KPMG will confirm samples of the detailed costs to the detailed support. For example, the detailed support may include journal entries, monthly accruals to actual expense, invoices, contracts, hourly rates contained in contracts to the charges, payroll registers for wages and burden verification, allocations of overheads, and reviewing mathematical accuracy of selected calculations, etc.

KPMG will periodically inform ISO-NE staff of any issues or findings throughout the process. Once KPMG has completed the Agreed Upon Procedures analysis, KPMG will provide a written, independent accountants' agreed-upon procedures report that includes a list of the procedures performed and the related findings.

ISO-NE will be unable to share the detailed report prepared by KPMG with any outside entities. However, ISO-NE will provide the summary results of the Agreed Upon Procedures audit to communicate to NEPOOL and other interested Stakeholders.

KPMG – Monthly Review of Non-Fuel related Variable Operating and Maintenance portion of the Monthly Fuel Supply Agreement

KPMG will perform a monthly review of the Non-Fuel related Variable Operating and Maintenance (O&M) portion of the Monthly Fuel Supply Agreement Settlement Invoice as submitted to ISO-NE by Constellation.

KPMG's Agreed Upon Procedures analysis will include obtaining supporting schedules — such as invoices and contracts — and reviewing the mathematical accuracy of the expenses in the spreadsheet(s) submitted by Constellation for the Non-Fuel related variable O&M costs.

KPMG will provide a monthly report of the review results to ISO-NE staff for internal use, including any unresolved discrepancies. If there are any, ISO-NE will process any needed corrections to the monthly settlement.

ISO-NE has performed this review through the month of March 2023 (the most recent invoice submitted for reimbursement). The ISO has determined that to-date the reviewed costs included are appropriate and materially accurate.

Market Activity and Revenue Credit

Internal Market Monitoring (IMM)

The IMM uses existing processes and procedures to administer the Stipulated Variable Cost (SVC), referred to as Reference Levels, in accordance with sections III.A.3 and III.A.7 of the *ISO New England Inc. Transmission, Markets, and Services Tariff (the Tariff)*. Per section 3.4.1.3 of the Agreement, the IMM establishes the “Fuel Index Price” used in the SVCs by approving the weighted average cost of gas through the Fuel Price Adjustment process under section III.A.3.4 of the Tariff.

To implement section 5.2 of the COSA, the IMM changed its software so that the Day-Ahead and Real-Time supply offers that exceed the SVCs are adjusted automatically. The software applies a strict conduct test such that any offer component (start-up, no-load or incremental) exceeding the SVC by even a \$0.01 adjusts the entire offer to the SVCs. Replacing the whole offer with the SVCs is consistent with existing mitigation processes to preserve monotonically increasing prices. When an offer adjustment occurs, a notification email goes to the IMM and Constellation with details, including the impacted hours’ original and adjusted prices.

KPMG SOC-1 Audit

ISO-NE administers the initial settlement, resettlement, and true-up settlement for the COSA and all other monthly market settlements. ISO-NE internally audits its processes, and KPMG externally audits the processes through System and Organization Controls (SOC 1) Audits.

As a part of the SOC 1 Audit, KPMG reviews Control Activities of the settlement process related to the administration of the COSA. These controls validate the data related to the AFRR, the monthly fuel supply costs, fuel management indicators, and other revenues included in the pertinent systems. KPMG also reviews Control Activities related to the reconciliation process, which ensures the ISO correctly calculates the values based on ISO-NE’s business requirements and resolves discrepancies before processing the invoice. Items reviewed are:

- Validation of successful upload of annual AFRR file
- Validation of successful upload of fuel supply costs file
- Validation of successful upload of fuel management indicator file
- Validation of successful upload of other revenues file
- Verification of Mystic COS credits and charges by comparing SMS system-generated values with calculated settlement business tools values.

Summary of Fuel Security Agreement (FSA) audit

Levitan and Associates Inc. (LAI)’s Monthly Fuel Supply Cost Audits

ISO-NE has contracted LAI to audit the Monthly Fuel Supply Cost found in the monthly fuel invoices CLNG issues to Mystic under the FSA. The FSA charges are identified in Schedule 3 of the Amended and Restated COSA.

CLNG issues the monthly fuel invoices as Excel spreadsheets, with separate worksheets covering each of the Monthly Fuel Supply Cost items listed in Schedule 3. LAI receives the monthly fuel invoice by the 20th of the month following the invoiced month, concurrent with CLNG's submission to ISO-NE.

With each invoice, CLNG provides specific backup information that LAI has requested. This information includes:

- Daily vapor send out data
- Calculation of Weighted Average Cost of Gas (WACOG) for months when cargo arrives
- Weekly projections of daily Everett Marine Terminal (EMT) tank inventory
- Narrative summary of discussions between CLNG and its LNG supplier regarding opportunities for cancellation or diversion of cargoes
- Copies of invoices for utilities and other variable charges assessed to the Everett Marine Terminal
- Copies of invoices from the LNG supplier to divert or cancel a cargo, if applicable, for a month
- Copies of option contracts executed during the month between CLNG and third parties for LNG

LAI also receives monthly settlement data from ISO-NE, including daily MWh and revenues for Mystic 8 and 9, corresponding to the month of the fuel invoice. Upon receipt of each monthly fuel invoice, LAI conducts the following review and analysis:

- Verifies the Fixed O&M/Return on Investment component is consistent with the amount in the September 15, 2022, FERC Informational Filing in ER18-1639 for the applicable Capacity Year
- Checks the variable O&M charges against the backup invoices provided
- Verifies the WACOG calculation based on the initial LNG quantity in the tank, the contract price of the LNG cargo, and the volume delivered
- Verifies the variable pipeline charges based on National Grid, Algonquin, and Tennessee volumetric rates and the reported daily vapor flow quantities
- Checks the price paid for daily sales under option contracts based on the terms of the option contract and values of applicable indices based on Platts Gas Daily
- Checks that the invoice properly credits Mystic for firm transportation charges associated with capacity used for CLNG's non-EMT transactions
- Checks that the invoice properly credits Mystic for demand charges paid by holders of peaking option contracts
- Compares the cash price for daily spot vapor sales to the high, average, and low prices on Algonquin Citygates and Tennessee Zone 6 surveys reported by Platts Gas Daily

For months with a scheduled LNG cargo delivery, LAI evaluates CLNG's decision with respect to accommodating the contracted cargo if the EMT tank has insufficient capacity to accept the full cargo volume. LAI's analysis is based on market information that would have been available to CLNG at the time that the decision was made. LAI compares revenues that CLNG could have earned to offset the cost of the cargo under the alternatives available to CLNG: (1) revenues

from self-scheduling Mystic 8 and 9; (2) avoided cost of LNG volumes that the supplier agrees not to deliver; and (3) revenues from selling vapor into the spot market.

Following an initial review, LAI issues questions to CLNG to clarify the invoice information and to request additional backup information if needed. Mystic and CLNG have been timely in responding to these questions.

LAI provides monthly audit reports to ISO-NE summarizing the monthly quantities of vapor scheduled, reporting monthly fixed and variable O&M, identifying under or over-billings, if any, in the invoice, and reporting its conclusions with respect to CLNG's tank management decisions.

LAI receives CLNG's resettlement invoice approximately two weeks prior to when it must be submitted to ISO-NE. This allows LAI to compare and reconcile differences in the over- or under-billings previously identified. LAI submits a brief memo to ISO-NE that summarizes corrections, if any, in the resettlement invoice.

Additional Transparency Related to the LAI Monthly Fuel Supply Cost Audits

ISO-NE posts a number of documents to the Mystic Project Page on the ISO-NE website¹ to provide transparency to stakeholders about total costs related to the COSA and the FSA audit process. Two of these are:

- A monthly "Preliminary Report" providing aggregated data showing the Supplemental Capacity Payment for the prior month and providing relevant operating conditions (e.g., whether the unit operated in merit or for tank congestion reasons).²
- A quarterly audit report based on LAI's findings for the applicable quarter (Fuel Supply Audit Report).³ The Fuel Supply Audit Report describes the Levitan audit process at a high level and provides Levitan's conclusion on whether Constellation LNG made reasonable decisions regarding tank management in the subject month.

Based on stakeholder feedback, ISO-NE will work with Mystic to expand the information provided in the Fuel Supply Audit Report to contain the following additional information:

- Without revealing confidential information, an overview of the scope of LAI questions and data requests that Constellation responded to during the applicable quarter, including a tally of the responses Constellation provided and a description of the major topics covered by LAI's inquiries; and
- Identification of any resettlements stemming from the LAI audit that were processed during the applicable quarter, including a brief description of the reason for that resettlement.

¹ See <https://www.iso-ne.com/committees/key-projects/implemented/forward-capacity-market--retain-resources-for-fuel>.

² The Preliminary Report for the month of March was posted on April 24, 2023. See https://www.iso-ne.com/static-assets/documents/2023/04/mystic_cos_prelim_03_2023.pdf.

³ The Fuel Supply Audit Report, as updated for Q2 2022 was posted on March 16, 2023. See, e.g., [cosa_audit_summary_q1_q2_2022_2023.pdf \(iso-ne.com\)](https://www.iso-ne.com/static-assets/documents/2023/04/cosa_audit_summary_q1_q2_2022_2023.pdf).

Conclusion

Each aspect of the audited components of the COSA is designed to ensure the administration of the COSA is performed according to the agreement. CLNG, ISO-NE, and external audit and legal partners, along with LAI, are continually communicating to ensure this is occurring as intended.