

Management Audit Proposal

Performance of a Comprehensive Management Audit at the NYISO

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Three Questions to Answer:

Question 1

- What is a comprehensive management audit?

Question 2

- How does a comprehensive management audit differ from other independent audits in which the NYISO already participates?

Question 3

- What are the benefits to performing a comprehensive management audit at the NYISO?

What is a Management Audit?

- In pertinent part, the New York State Public Service Law defines a management audit as an “an evaluation of the efficiency of the company’s operations, recommendations with respect to same, and the timing with respect to the implementation of such recommendations.” PSL § 66(19)
- More broadly speaking, a comprehensive management audit examines how a particular business is run, how efficiently and cost-effectively resources are being deployed, and how work/projects are being assigned and completed

Selection of Auditor

- An independent consultant is selected to perform the audit via a competitive bidding process
- The audit scope is defined in a Request for Proposals (“RFP”) issued by the entity that is to have the audit performed
- The RFP is typically prepared in consultation with DPS Staff; here, market participants should have some input into the scope
- In this case, if there is no DPS involvement, the process presumably could be overseen by the NYISO Board

Example of Audit Scope

Consolidated Edison Company of New York, Inc. conducted a management audit in 2009. The scope of that audit concentrated on eight basic elements:

- Corporate Mission, Objectives, Goals and Planning
- Long-term Load Forecasting
- Supply Procurement
- Long-term System Planning
- Capital and O&M Budgeting
- Program and Project Planning and Management
- Work Management
- Performance and Results Measurement

NB: The audit scope for the NYISO would be tailored to conform to the NYISO's functions and responsibilities

Audit Plan and Information Collection

- Once an independent consultant has been selected, the consultant must then develop an audit plan.
 - This plan will describe the scope, objectives, project definition, project requirements, budget, resource plan and schedule, evaluation criteria, etc.
- Following the development of the audit plan, the consultant will employ a discovery process to obtain information from the company; discovery devices include:
 - Written questions
 - Review of documents and procedures
 - Interviews with company personnel
 - On-site observations and inspections

Confidentiality

- In order to adequately evaluate the practices of the company, the consultant will need full access to the company's records, documents, and staff
- Before any work commences on the audit, the company and consultant should execute a confidentiality agreement
 - This will ensure that confidential and proprietary information is not revealed as a result of the consultant's knowledge of intimate business practices
 - This also allows the consultant to freely and effectively evaluate all aspects of the company and develop more accurate recommendations for improvement

Final Report and Recommendations

- Once the consultant has concluded its research, analysis, and evaluation of the company, a final report is issued
 - The final report should be very detailed and document the findings and conclusions associated with each aspect of the audit scope
 - The final report should include a list of recommendations to the company for improvements in the areas that formed the audit scope
- Following issuance of the final report, the company would develop and issue an implementation plan outlining how it intends to address the final report's recommendations
 - To the extent the company disagrees with any recommendations, the concerns should be set forth in the implementation plan

Examples of Conclusions and Recommendations

Con Edison's 2009 Management Audit Final Report contained 119 conclusions, resulting in 92 recommendations. Below are a couple of examples of corresponding conclusions and recommendations.

- **Conclusion**: Con Edison has minimal guidelines for its annual planning process, and it has many disjointed and separate but overlapping plans
 - **Recommendation**: Develop one integrated, coherent, comprehensive annual plan and use it as a working process to manage the company
- **Conclusion**: Assessments of productivity and cost impacts due to the replenishment of retired workers by trainees are not being performed
 - **Recommendations**: (1) Perform comprehensive resource analysis for all business units on a quarterly or semi-annual basis; and (2) Assess and monitor the productivity and cost impacts of carrying an extra trainee on some work crews on a continuous basis to achieve more efficient resource management

Management Audit vs. FERC/NERC Audits

- A comprehensive management audit is broader in scope than other NYISO audits and evaluates the company's performance of its duties and responsibilities
 - The management audit looks at how the company operates, generally, and whether it does so efficiently and cost-effectively
 - To our knowledge, there has never been a comprehensive review of the NYISO's operations
- This differs from focused audits
 - North American Electric Reliability Corporation ("NERC")
 - Federal Energy Regulatory Commission ("FERC")

NERC Audit

- NERC compliance monitoring is the procedure used to assess, investigate, evaluate, and audit as a means measuring compliance with NERC Reliability Standards
- NERC compliance monitoring does not look at the company's management practices comprehensively, it is focused only on narrow questions related to reliability and compliance with NERC standards

FERC Audit

- FERC audits are focused on specific matters regarding compliance with regulatory requirements and issues
- FERC audits provide the Commission with an assessment of compliance with several aspects of the Commission's rules, regulations, and statutory requirements
- FERC audits vary in type, scope, and objectives, but chiefly focus on relevant compliance issues associated with significant Commission initiatives
- This differs from a management audit because the company's overall business practices are not being evaluated and the audit scope is limited to compliance issues

The Benefits of a Management Audit

- A management audit is an essential tool that allows for a thorough and focused review of a company's management and operations by a qualified and independent third-party
- Using an independent consultant allows for an objective and un-biased assessment of the strengths and potential areas of improvement in a company's business practices
- Identifies possible business inefficiencies (and changes) over a wide spectrum of areas
- Offers conclusions and recommendations which will assist the company in achieving efficiencies and potential fiscal savings
- The purpose of a management audit is not to criticize or embarrass a company; it is to reinforce existing strengths and identify areas for improvement

Citations to Recent Management Audits

Central Hudson: Case 09-M-0764, NorthStar Consulting Group, Final Report dated February 28, 2011; Order Directing Submission of an Implementation Plan (issued May 20, 2011)

Con Edison: Case 08-M-0152, The Liberty Consulting Group, Final Report dated June 16, 2009; Order Directing Submission of an Implementation Plan (issued August 21, 2009)

Iberdrola: 10-M-0551, The Liberty Consulting Group, Final Report dated June 4, 2012; Order Directing The Submission Of A Management Audit Implementation Plan And Establishing Further Procedures On Corporate Structure And Governance Issues (issued August 28, 2012)

LIPA: Case 12-00314, NorthStar Consulting Group, Final Report dated September 13, 2013

National Fuel Gas: 11-G-0580, Schumaker & Company, Final Report dated July 12, 2013; Order Directing Submission of an Implementation Plan (issued August 21, 2013)

National Grid: Case 08-E-0827, NorthStar Consulting Group, Final Report dated December 4, 2009; Order Directing Submission of an Implementation Plan (issued December 18, 2009)

Management Audit Costs

Utility	Case Number	Not to Exceed Cost
Central Hudson	09-M-0764	\$717,900
Con Edison	08-M-0152	\$1,360,500
Iberdrola	10-M-0551	\$1,543,400
LIPA	12-00314	\$1,401,800
National Fuel Gas	11-G-0580	\$838,000
National Grid	08-E-0827	\$1,154,900

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QUESTIONS?

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