

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on May 15, 2025

COMMISSIONERS PRESENT:

Rory M. Christian, Chair
James S. Alesi
David J. Valesky
John B. Maggiore
Uchenna S. Bright
Denise M. Sheehan
Radina R. Valova

CASE 23-M-0103 - Proceeding on Motion of the Commission to
Conduct a Comprehensive Management and
Operations Audit of New York State Electric &
Gas Corporation and Rochester Gas and Electric
Corporation.

ORDER RELEASING AUDIT REPORT

(Issued and Effective May 19, 2025)

BY THE COMMISSION:

INTRODUCTION

Pursuant to Public Service Law (PSL) §66(19), the
Commission previously initiated a comprehensive management and
operations audit of New York State Electric & Gas Corporation
(NYSEG) and Rochester Gas and Electric Corporation (RG&E)
(collectively, the Companies).¹ On September 15, 2023, the
Commission selected NorthStar Consulting Group (NorthStar or the

¹ Case 23-M-0103, Order Initiating a Management and Operations
Audit (issued May 18, 2023); Case 23-M-0103, Erratum Notice
(issued May 23, 2023).

Consultant) to perform the audit.² NorthStar submitted its report entitled, "A Comprehensive Management and Operations Audit of New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation" (Final Report) to the Department of Public Service staff (Staff) on February 4, 2025.

By this Order, the Commission authorizes the issuance of the Final Report, summarizes NorthStar's key findings and recommendations from the Final Report, and summarizes and responds to the Companies' comments on the Final Report. The Commission also directs the Companies to file a plan within 30 days to implement the Final Report's recommendations.

BACKGROUND

The Commission established the following areas for review in this audit:

1. Governance and Management;
2. Physical and Cyber Security;
3. Information Systems;
4. Electric Operations;
5. Gas Operations;
6. Budget and Finance;
7. Procurement;
8. Project Management;
9. Work Management;
10. Performance Management; and
11. Customer Operations.

The scope of this audit was consistent with the statutory directive to review the Companies' construction

² Case 23-M-0103, Order Directing Utilities to Enter into Contract with Selected Independent Auditor (issued September 15, 2023).

program planning, operational efficiency, and the protection of customer and critical infrastructure data. The audit included a follow-up review of certain issues raised in the previous management and operations audit of the Companies, such as system planning, project and program management, and work management processes.³ Due to ongoing performance concerns regarding two gas planning recommendations from a prior audit related to implementing new geographic information and gas work management systems, these systems were reviewed further in this audit.⁴ The audit also included a review of information systems planning and implementation, elements of customer operations, pipeline safety, and an assessment of cyber and physical security programs. Furthermore, the audit reviewed how the Companies perform electric load forecasting activities to support grid modernization. The audit also reviewed how the Companies consider grid modernization, New York State's Climate Leadership and Community Protection Act (CLCPA), and other regulatory objectives in their performance management and construction program planning processes.⁵

Audit fieldwork began in November 2023 and continued through October 2024. NorthStar submitted its draft report to Staff on September 30, 2024. On November 1, 2024, NorthStar provided its draft report to the Companies for factual accuracy

³ Case 16-M-0610, In the Matter of Comprehensive Management and Operations Audits of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation.

⁴ Case 23-M-0103, Order Initiating a Management and Operations Audit (issued May 18, 2023), pp. 2-3; Case 16-M-0610, supra, Avangrid Material Change Approval and Closeout Letter (issued March 3, 2023).

⁵ Case 23-M-0103, Order Initiating a Management and Operations Audit (issued May 18, 2023) and Erratum Notice (issued May 23, 2023).

verification and review for confidential information. NorthStar submitted the Final Report to Staff on February 4, 2025.

FINAL REPORT SUMMARY

NorthStar states that the Companies' position within the corporate structure of their parent corporation, Avangrid, Inc. (Avangrid), presented several governance, organizational, and management issues throughout the audit review process. It is NorthStar's opinion that the organizational structures of NYSEG, RG&E, Avangrid, and Avangrid's parent corporation, Iberdrola, S.A. (Iberdrola), have evolved considerably since Iberdrola first acquired the Companies, becoming a complex web of holding companies and regulated and unregulated entities.⁶

Avangrid is a United States subsidiary of Iberdrola, a Spanish corporation with operations primarily in Spain, the United Kingdom, the United States of America, Brazil, and Mexico. Avangrid itself has three primary subsidiaries - Avangrid Networks, Inc. (Networks), Avangrid Renewables Holdings, LLC (Renewables), and Avangrid Management Company, LLC (AMC). Networks owns RGS Energy Group, Inc., which is the holding company for the Companies. Networks also owns holding companies that own regulated electric and gas distribution utilities in Connecticut and Maine. A Networks subsidiary, Avangrid Service Company (ASC), provides technical services to all Networks' regulated utilities in a centralized fashion. Renewables is engaged in electricity generation and owns wind and solar power assets in 22 states. AMC provides corporate services to all regulated and unregulated Avangrid companies.

⁶ Case 07-M-0906, Iberdrola, S.A., Order Authorizing Acquisition Subject to Conditions (issued January 6, 2009).

Based upon its audit review, it is NorthStar's view that this corporate structure provides little transparency, does not account for the Companies' unique regulatory environment in New York State, and does not protect the Companies' ratepayers' interests. NYSEG and RG&E's core utility functions, such as electric operations, gas engineering and operations, and customer service, are performed by ASC, while corporate functions, such as finance, legal, human resources, purchasing, and information technology, are performed by AMC. NorthStar notes that the Commission does not directly regulate ASC and AMC. In many cases, this structure caused NorthStar to evaluate services provided by Avangrid's unregulated affiliates to the Companies. Further, NorthStar contends that the NYSEG and RG&E Chief Executive Officer (CEO) has very few direct reports and little demonstrable and tangible oversight of core utility functions, resource allocation decisions, strategic planning, compliance, or risk management.

NorthStar characterizes many of Avangrid's responses to its audit inquiries as "contradictory, lacking specificity, and misleading." The Final Report identifies that Avangrid's resource assignments do not align with cost allocations to NYSEG and RG&E. It notes that 30 employees of an unregulated affiliate and one Maine-regulated affiliate employee all received laptop computers designated for NYSEG and RG&E. It states that Avangrid initially represented that New York regulatory matters, including CLCPA considerations, are discussed by a committee that does not exist, but later clarified that these topics are discussed in "the New York President's Leadership Meeting," for which no documentation was provided.

NorthStar identified significant opportunities for operational improvement at the Companies, which is common and

expected in a management and operations audit. Unique to this audit, however, NorthStar also found areas where Avangrid did not follow many of its own policies and did not exercise proper oversight of the core NYSEG and RG&E functions for which it is responsible. NorthStar further raised concerns that Avangrid may have misrepresented several programs in the most recent NYSEG and RG&E rate proceedings.⁷ NorthStar added that it believes the Companies' current governance structure does not comply with the requirements the Commission instituted in Case 12-M-0066.⁸

In the Final Report, NorthStar makes 128 recommendations to the Companies. These recommendations include both process improvements and remedial actions to correct observed deficiencies and compliance concerns. The most important findings and recommendations are discussed below, followed by a summary of the Companies' comments on the Final Report.

Corporate Governance

NorthStar found that the NYSEG and RG&E Boards of Directors membership may not comply with the 2013 Merger Order, which required a majority of the Utility Board of Directors to

⁷ Cases 22-E-0317 et al., NYSEG and RG&E - Electric and Gas Rates.

⁸ Cases 12-M-0066 et al., Petition of New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, RGS Energy Group, Inc., Iberdrola USA Networks, Iberdrola USA, Inc., and Iberdrola Finance UK Limited for Approval of an Internal Reorganization Pursuant to Section 70 of the Public Service Law, Order Adopting Staff Report and Approving Reorganization, Subject to Conditions as Modified and Clarified, and Making Findings on Management Audit Compliance (issued, November 5, 2013) (2013 Merger Order).

be Eligible Directors.⁹ The 2013 Merger Order restricted Eligible Directors to individuals who are not an officer or director of a holding company (other than Networks), any of Iberdrola's non-utility affiliates, or any competitive energy or unregulated affiliate.¹⁰ NorthStar observed that all four members of the NYSEG and RG&E Boards of Directors (both Boards share the same four individuals) are officers or directors of other Avangrid unregulated affiliates. The Consultant recommends that Avangrid revise NYSEG and RG&E's corporate organization and governance to comply with the 2013 Merger Order.

Cost Allocations and Service Level Agreements

NorthStar found that Avangrid's complex corporate structure makes it difficult to determine if the charges it allocates to NYSEG and RG&E are based on cost causation. The Companies receive goods and services from 13 affiliates. Some of those affiliates are holding companies for multiple utilities, thereby limiting the transparency of the allocations and making it difficult to ascertain whether costs are being allocated appropriately. The Consultant recommends that the Companies revise and update the Cost Allocation Manual and simplify the cost allocation process.

Service Level Agreements (SLAs) govern the provision of services between Avangrid affiliates and NYSEG or RG&E. Those services underlie the charges that Avangrid allocates to

⁹ Cases 12-M-0066 et al., supra, Order Adopting Staff Report and Approving Reorganization, Subject to Conditions as Modified and Clarified, and Making Findings on Management Audit Compliance (issued, November 5, 2013), Appendix I, Section 7(d).

¹⁰ Id.

NYSEG and RG&E. However, NorthStar found that the Companies' SLAs are determined and executed solely by Avangrid without input from NYSEG or RG&E. It is NorthStar's view that the Companies' SLAs are not specific or comprehensive, do not provide a basis to determine value, do not include key performance indicators or quality measures, and do not reconcile to actual volumes or quality of services provided. After a review of the Companies' SLAs, NorthStar concluded that Avangrid did not fully implement the improvements to the SLAs that the Commission directed the Companies to implement in the prior audit.¹¹ NorthStar recommends numerous improvements to the Companies' SLAs, including adding measures of cost competitiveness, performance metrics, reconciliations, incentives, and penalties.

Procurement

NorthStar determined that procurement is performed at the Avangrid level. NYSEG and RG&E do not independently procure any goods or services. The cost of materials and services is allocated among the eight Avangrid subsidiaries and is primarily based on a general allocation formula. Charges based on allocations far exceed direct charges. The Consultant recommends that Avangrid develop auditable procurement reports for NYSEG and RG&E individually.

In addition, NorthStar found that supplier diversity analysis is retrospective and only performed at the Avangrid level. Rather than proactively pursuing and certifying diverse suppliers itself, Avangrid relies on a third party to review historical spending across the Avangrid portfolio for diverse

¹¹ Case 16-M-0610, supra, Order Approving an Implementation Plan (issued August 8, 2019), Recommendation 8.2.

suppliers. The Consultant questioned the veracity of the diversity certifications, as many appeared to be based on dubious or outdated information. NorthStar recommends that Avangrid formalize the Supplier Diversity Program's documentation, develop performance metrics, and conduct semi-annual reporting on supplier diversity.

Enterprise Risk Management and Strategic Planning

NorthStar determined that Enterprise Risk Management (ERM) only occurs at the Avangrid level and, moreover, does not reflect a robust program. According to NorthStar, Avangrid's ERM program has only two dedicated personnel for Avangrid's numerous regulated utilities, transmission companies, and other affiliates. NorthStar describes many aspects of the program as informal and indicates that typical risk identification and mitigation processes are not consistently performed or well documented. NorthStar found that identified risks are not clearly linked to internal controls and that the ERM function does not provide input into the Strategic Planning or Capital Planning processes. The Consultant recommends that Avangrid obtain an independent assessment of the ERM program and then develop an improved program.

NorthStar discovered that NYSEG and RG&E do not have strategic plans themselves. Rather, strategic planning happens above NYSEG and RG&E at the Avangrid level. The Avangrid strategic plan identifies issues specific to NYSEG and RG&E, but is not developed by or for NYSEG or RG&E. The Consultant recommends that Avangrid develop strategic plans distinct to NYSEG and RG&E that address New York State-specific initiatives, such as CLCPA.

Performance Management and Incentive Compensation

According to NorthStar, all performance management activities occur at the Avangrid level. Avangrid does not develop operational plans to achieve goals related to NYSEG and RG&E. NorthStar found that incentive payouts for executives are highly subjective and are not based on attaining goals specific to NYSEG and RG&E. NorthStar noted that the executive incentive compensation plans including discretionary assessments are unusual within the utility industry, thus, raising, in NorthStar's view, concerns about transparency, fairness, and goal alignment.¹² The NYSEG and RG&E CEO's goals do not align with or cascade down to NYSEG and RG&E employees, and the NYSEG and RG&E CEO has very few direct reports. The Consultant recommends that Avangrid conduct a third-party review of the NYSEG and RG&E CEO's individual metrics and discontinue discretionary assessments.

As a result of its audit, NorthStar determined that NYSEG and RG&E do not have their own utility-level management incentive compensation programs. The management incentive compensation program is designed and executed by Avangrid. Incentives are primarily based on Avangrid's financial goals, and Avangrid exercises significant discretion in the administration of its incentive compensation plans. The Consultant stated that Avangrid modified its management incentive compensation program in 2023 to be more heavily weighted toward financial outcomes instead of operational objectives. NorthStar found that Avangrid Renewables' goals are intermingled with Avangrid utility goals. Operational goals in the management incentive compensation plan are aggregated across

¹² The incentive-based variable portion of executive compensation is not being collected from customers under the Companies' current rate plans.

multiple Avangrid utilities, thereby diluting consideration of NYSEG and RG&E's performance in determining incentive payouts. NorthStar concluded that NYSEG and RG&E ratepayers thus pay for performance not achieved in their respective service territories. NorthStar observed that incentive payouts were awarded for 2022 despite NYSEG underperforming and failing to meet its System Average Interruption Frequency Index (SAIFI) targets. Further, NorthStar observed that the Companies' 2022 rate filing did not clarify whether criteria regarding goal setting or achievement were based on Avangrid's performance, and did not discuss recovery needs for ASC and AMC employees.¹³ The Consultant recommends that Avangrid develop NYSEG and RG&E-specific performance management incentive compensation programs and credit ratepayers for payouts made when NYSEG and RG&E missed performance targets.

Physical and Cyber Security

The Physical and Cyber Security Programs are administered at the Avangrid level. It is NorthStar's opinion that the Cyber Security program is not maturing as it should, despite cost increases, and that Avangrid does not ensure remediation of issues identified by third-party tests. The Consultant recommends that Avangrid strengthen its cybersecurity planning documents and metrics used to track performance and improve reporting to Staff.

NorthStar noted that Avangrid's Comprehensive Security Plan does not meet all security measure requirements in New York State's Critical Energy Generating and Transmission Facilities. The Consultant recommends that Avangrid update the Comprehensive

¹³ See Cases 22-E-0317 et al., supra.

Security Plan to meet these requirements and to ensure better protection of company-identified critical facilities and assets.

Capital Project Oversight

As part of the audit process, NorthStar also concluded that Avangrid is responsible for the oversight of capital projects. Avangrid uses multiple capital prioritization processes, but ultimately none of those determine the projects that are executed. Avangrid's Investment Planning, Electric Operations, and Gas Operations all employ multiple prioritization methods that do not analytically relate to each other. Avangrid developed a prioritization process for Electric Operations specifically for NYSEG and RG&E's 2022 rate proceedings. NorthStar observed that actual project selection by Investment Planning is highly subjective and not based on quantitative criteria. NorthStar observed further that Investment Planning's prioritized list is not executed. NorthStar concluded that Avangrid manages to an annual capital budget and earnings target rather than a project priority. Further, NorthStar states that Avangrid does not consider the CLCPA in its capital project prioritization process. The Consultant recommends that Avangrid standardize prioritization processes across all Avangrid departments that provide services to NYSEG and RG&E. NorthStar also recommends that Avangrid integrate CLCPA requirements in the prioritization processes.

NorthStar discovered that cost-estimating takes place at the Avangrid level. Avangrid does not follow its own cost-estimating policies, produce detailed cost estimates for NYSEG and RG&E capital projects, or analyze estimating accuracy. NorthStar found that Avangrid's records management is deficient. NorthStar observed that plant accounting records contain inaccurate cost information, which prohibits the analysis of

capital projects. Without these project management artifacts, the Consultant states there is no assurance that capital funds were expended appropriately. The Consultant recommends that Avangrid engage an independent monitor to oversee NYSEG and RG&E electric and gas projects. NorthStar also recommends independent audits of large projects, information technology project delivery, and records management practices. NorthStar further recommends various process improvements.

NorthStar found that Avangrid does not utilize an industry-standard Work Breakdown Structure (WBS). A WBS is a deliverable-oriented breakdown of a project's total scope of work into smaller components with identified deliverables. It creates a structured approach for project execution that objectively demonstrates earned value for project elements and their respective expenditures. The Consultant recommends that Avangrid develop and implement a WBS for the Companies.

Advanced Metering Infrastructure (AMI) Implementation

NorthStar noted that Avangrid's project management issues also affect its information system planning, including AMI implementation. NorthStar observed that Avangrid relied heavily on single-source contracts for AMI deployment without documented justification. According to NorthStar, its document review led it to conclude that AMI system performance reports lack sufficient detail to evaluate system performance. The Consultant recommends that Avangrid formally disclose all AMI expenses and plan deviations not captured in the Companies' testimony in Cases 19-E-0378, et al. NorthStar also recommends that NYSEG and RG&E obtain an independent review of AMI projects to quantify the cost of unreasonable management.

Electric Operations

NorthStar discovered that asset management is also handled at the Avangrid level. Avangrid relies on spreadsheets for asset management and has not implemented a formalized and integrated asset management software platform. Avangrid underspends on asset management, contributing to NYSEG's poor SAIFI performance. The Consultant recommends that Avangrid implement an asset management system for NYSEG and RG&E.

Vegetation management plays an important role in utilities' distribution of electric service. NorthStar concluded that NYSEG's vegetation management program is deficient and that NYSEG will continue to have difficulty meeting its SAIFI performance goals if it does not prioritize vegetation management. NorthStar recommends that NYSEG implement a trim cycle of five to six years, as provided for in the rate plan the Commission adopted in its 2023 Order Adopting Joint Proposal.¹⁴ The Consultant was unable to determine whether NYSEG charged labor costs associated with vegetation management to the major storm costs account or the distribution vegetation management account. NorthStar recommends an independent audit of storm costs to ensure that NYSEG allocates these costs to the correct accounts.

Gas Operations

NorthStar noted that Avangrid manages the Companies' leak-prone pipe replacement program. According to NorthStar, Avangrid's leak-prone pipe data is inconsistent and unreliable, and it relies on spreadsheets for its replacement programs, given that it did not implement an automated main replacement-

¹⁴ Cases 22-E-0317 et al., supra, Order Adopting Joint Proposal (issued October 12, 2023) (2023 Order).

prioritization platform. NorthStar notes that Avangrid differentiates pipe materials as traditional or non-traditional, but the Joint Proposal the Commission adopted in the 2023 Order does not make such a distinction.

NorthStar also found that Avangrid may not systematically replace the highest-risk leak-prone pipe in NYSEG and RG&E's gas distribution system. NorthStar determined that Avangrid may not follow the requirements of its Distribution Integrity Management Program regarding risk analysis. Further, NorthStar opines that Avangrid does not effectively apply risk factors or update the risk values of the Companies' gas distribution system. NorthStar contends that Avangrid is not using the information at hand to update risk values and that NYSEG and RG&E are therefore not in compliance with Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations. NorthStar further contends that Avangrid does not comply with PHMSA regulations because it treats its entire New York service territory as one region, whereas NorthStar states that PHMSA allows a pipeline operator to subdivide its pipeline into contiguous areas with common materials, environmental factors, and risk-reduction actions.

NorthStar recommends that Avangrid prioritize, plan, and address risks of greatest concern first. According to NorthStar, Avangrid should also develop a plan to collect relevant risk information as part of normal pipeline activities, improve threat identification, and subdivide the system into multiple regions based on pipeline characteristics.

Additionally, NorthStar identified that Avangrid may not comply with New York State regulations related to emergency response time. According to NorthStar, Avangrid calculates gas leak response times incorrectly, using the time when a "trouble" ticket is created rather than when the gas leak is reported.

The Consultant recommends that Avangrid change its calculation methodology to comply with New York State regulations.

Customer Operations

NorthStar found that Avangrid does not have appropriate controls for customer service outsourcing, augmented staffing invoice review and approval, or contract management. The Consultant recommends that Avangrid determine drivers of call center cost increases and verify they are attributable to NYSEG and RG&E. NorthStar also found that the customer service performance indicator (CSPI) metric reports are inaccurate. The Consultant stated it discovered that underlying models and work papers featured modeling errors, unsubstantiated adjustments, and ineffective quality control. The Consultant recommends that Avangrid improve communications with Staff and provide Staff with supplemental data. NorthStar also recommends that Avangrid update its CSPI process documentation, create a formal override process, and enhance quality control.

NorthStar discovered that Avangrid does not fully follow its bill estimation procedures. Further, NorthStar states that Avangrid does not effectively manage shared meter investigations because its processes are paper-based and suffer from record retention problems. The Consultant recommends that Avangrid eliminate bi-monthly meter reads for NYSEG and RG&E. Further, the Consultant indicates Avangrid should also develop a database and quarterly reports for shared meter investigations and maintain this information for five years.

NorthStar's review of Avangrid's controls regarding the requirements of 16 NYCRR Parts 11 and 13 shows substantial deficiencies, including processes associated with the Timing of Service, Service Termination Notice, Security Deposits, Deferred Payment Agreements, and Annual Notification of Rights. The

Consultant recommends that Avangrid cross-reference NYCRR regulations with its system controls.

NorthStar found that Avangrid's administration and management of the Companies' Low-Income Program are deficient and that its Low-Income Program reporting capabilities are limited. The Consultant recommends that Avangrid create a comprehensive Low-Income Program manual that includes end-to-end program management and implement a monthly quality review process.

NYSEG AND RG&E'S COMMENTS

NYSEG and RG&E submitted comments on the audit to Staff on April 4, 2025. The Companies generally express disagreement with NorthStar's findings and methodology. The Companies do not believe NorthStar conducted a sufficient number of interviews and relied too heavily on data requests that the Companies considered overly broad and vague. The Companies assert that the tone of the Final Report is negative and that some recommendations do not align with audit findings. The Companies further state that NorthStar incorporated very little of their feedback on the draft audit report into the Final Report and that several requests to speak with NorthStar were denied.

The Companies emphasize that they may realize and receive several benefits as part of Avangrid, the key benefits being shared cost efficiencies, procurement leverage, and best practices and innovation. The Companies disagree with NorthStar's characterization of AMC and ASC as unregulated, citing Public Service Law Section 110 and the fact that Staff has access to all books and records of service companies as controlled affiliates. The Companies state that the shared services model enhances efficiency while maintaining local

decision-making. The Companies support this assertion by claiming improvements to customer service, cybersecurity, storm hardening, grid modernization, gas safety, employee training, and by noting that they have installed over one million advanced meters to date.

NYSEG and RG&E dispute NorthStar's compliance concerns regarding governance structure and gas safety regulations. Finally, the Companies state they will respond to each recommendation in their implementation plan. The Companies state they will adopt, modify, or reject recommendations based on cost-benefit, rate recovery alignment, overlap with existing initiatives, and practicality.

LEGAL AUTHORITY

Public Service Law §66(19) requires that the Commission regularly conduct management and operations audits of the major gas and electric corporations under its jurisdiction. The PSL empowers the Commission to select an independent auditor to conduct these audits or direct Staff to perform the audits. PSL §66(19)(b) requires that audited utilities file an implementation plan within 30 days of the issuance of the audit's Final Report.

DISCUSSION AND CONCLUSION

At this preliminary juncture, we note that NorthStar has prepared and delivered audit findings that report several concerns about the operations of the subject corporations. We also acknowledge that the Companies and Avangrid dispute NorthStar's observations, conclusions, and recommendations. NorthStar identified instances where it believes Avangrid has not adhered to legal requirements, including regulations and the Commission's Orders that pertain to NYSEG and RG&E. NorthStar

believes that Avangrid misrepresented capital project prioritization and compensation programs in NYSEG and RG&E's rate proceedings. NorthStar's representation of Avangrid's corporate structure and management approach suggests that NYSEG and RG&E do not control the costs allocated to them by Avangrid, and Avangrid does not maintain records that contain sufficient detail to support those allocations. At this time, the Commission does not make any specific findings regarding NorthStar's observations, beyond acknowledging that the audit report could be read to raise concerns about Avangrid's approach to managing NYSEG and RG&E. NYSEG and RG&E will need to carefully craft an implementation plan to respond to the audit's observations and recommendations.

Turning to the Companies' comments, we need not resolve the substantive contentions at this stage. We do, however, provide the following observations on the various procedural issues presented by the Companies.

Number of Interviews

We recognize that NorthStar conducted fewer interviews in this audit than it did in the recent audit of Consolidated Edison Company of New York, Inc., and Orange and Rockland Utilities, Inc. We also acknowledge that Northstar conducted fewer interviews in this audit than Overland Consulting did in the prior audit of the Companies.¹⁵ The Commission establishes unique scopes of review for each management and operations audit, and we observe that consulting firms employ different

¹⁵ See Case 21-M-0193, In the Matter of a Comprehensive Management and Operations Audit of Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc.; Case 16-M-0610, In the Matter of Comprehensive Management and Operations Audits of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation.

approaches to meet the needs of each audit's scope. We have further observed that the number of audit interviews in management and operations audits has generally declined in recent years. Audits are conducted more remotely than they were previously, as many businesses, including utilities and consulting firms, have shifted to accommodate remote work in the years following the COVID-19 pandemic. Indeed, in the most recent audit of Central Hudson Gas & Electric Corporation, Inc., Overland Consulting conducted 42 interviews.¹⁶ We disagree with the Companies that the 41 interviews conducted by NorthStar in this audit diminished NorthStar's understanding of Avangrid's and the Companies' management and operations. Further, Staff attended all 41 interviews and observed that many Avangrid personnel did not have a sufficient understanding of NYSEG and RG&E operations to answer NorthStar's questions.

We also disagree that NorthStar was overly reliant on written information request responses. NorthStar issued 1,326 information requests in this audit. In the prior audit of the Companies, Overland Consulting issued 1,280 information requests. The Companies further opine that NorthStar's information requests were overly broad or not specific, but fail to cite any specific instances or examples. In this audit, Staff reviewed NorthStar's information requests and Avangrid's responses to them. Staff observed that NorthStar's information requests were typical, but that many of Avangrid's responses lacked detail, were misleading, or did not answer the question posed. Many of Avangrid's supplemental responses to follow-up requests were similarly incomplete or vague.

¹⁶ Case 21-M-0541, Proceeding on Motion of the Commission to Conduct a Comprehensive Management and Operations Audit of Central Hudson Gas & Electric Corporation.

Incorporation of Companies' Feedback

The Companies further assert that NorthStar did not adequately incorporate Avangrid's feedback on the draft report and that several requests to meet with NorthStar were denied. We disagree with this assertion. NorthStar, Staff, and Avangrid met numerous times throughout the audit to discuss preliminary findings, factual accuracy, and confidentiality. After meetings with Avangrid, NorthStar incorporated supplemental information into the draft report. After reviewing the draft report for factual accuracy in November 2024, Avangrid raised 312 concerns that it characterized as factual accuracy concerns and identified 36 instances where the draft report included confidential information. After meeting with Staff and Avangrid to discuss those concerns in January 2025, NorthStar revised the draft report to address 193 of the factual accuracy concerns and all of the confidentiality concerns. Staff reviewed the changes made by NorthStar and agreed they were reasonable and properly incorporated the information provided by Avangrid. Staff reviewed the changes proposed by Avangrid that NorthStar did not accept and considered those to be largely unsupported or editorial in nature. Avangrid requested to meet again to discuss the proposed changes that NorthStar did not accept. Staff and NorthStar agreed that an additional meeting with Avangrid to discuss previously rejected proposed changes would not be an efficient or necessary use of time or resources. We believe that NorthStar provided Avangrid with sufficient opportunity to correct errors or omissions and properly incorporated Avangrid's feedback into the Final Report.

Audit's Discussion of Shared Services Concepts

Though we conceptually agree with the Companies that a shared services model can provide many benefits, those benefits

are not a given. NorthStar's findings in this audit run counter to the Companies' claims of purported benefits of the shared services model and indicate that the Avangrid model does not provide sufficient transparency, efficiency, or accountability to protect the interests of NYSEG and RG&E's ratepayers. Though the Companies state in their comments that the Avangrid structure maintains local decision-making, NorthStar found no evidence of NYSEG, RG&E, their Boards, or their CEO exercising this. NorthStar found that Avangrid makes decisions for NYSEG and RG&E and then allocates the cost of those decisions to the Companies. NorthStar found that the Companies have no voice in the development and approval of the SLAs that govern the provision of these services.

Audit Recommendations

Contrary to the statements in the Companies' comments that they will identify which recommendations to implement, the Companies are not authorized by the PSL or the Commission to pick and choose which aspects to address. As required by PSL §66(19)(b), the Companies must file a plan to implement the audit recommendations. We direct that the Companies present the steps they will take to address each and every recommendation contained in the Final Report in their Implementation Plan. For each and every recommendation, the Companies must provide a unique plan and identify the deliverables they will submit to the Commission to demonstrate compliance. We will review the Implementation Plan submitted by the Companies and, following a public comment period, identify any necessary modifications. If the Companies believe that any recommendation, in whole or in part, should not be implemented, they may identify those recommendations and explain their concerns. We will consider

those requests, but the Companies must file a plan to implement all recommendations, even if they disagree with them.

NorthStar was directed to assess potential costs, risks, and benefits associated with implementing any recommendations made. The Commission directs NYSEG and RG&E to submit their own benefit-cost analyses as part of the Implementation Plan. NYSEG and RG&E's benefit-cost analyses must include an assessment of the anticipated cost of implementing each recommendation, the risks of not implementing each recommendation, and the expected quantitative and qualitative benefits expected to be achieved from implementing each recommendation. The Commission will consider the costs, risks, and benefits identified in both sets of analyses when determining the appropriateness of the Implementation Plan. Finally, the Companies shall state in their Implementation Plan how they will identify and monitor the actual financial and operational effects of implementing the recommendations. We encourage NYSEG and RG&E to consult with Staff while developing their Implementation Plan.

The Commission orders:

1. The "A Comprehensive Management and Operations Audit of New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation" prepared by NorthStar Consulting, shall be made public.

2. New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation shall file with the Secretary, within 30 days of the release of the "A Comprehensive Management and Operations Audit of New York State Electric & Gas Corporation and Rochester Gas & Electric Corporation" a plan to implement the recommendations in the report as required by Public Service Law §66(19)(b).

3. For each recommendation, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation shall provide specific implementation steps, an implementation schedule with start and end dates, significant interim milestones (if applicable), a description of the deliverable(s) that will demonstrate that the recommendation was implemented.

4. For each recommendation, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation shall provide the anticipated benefits, risks, and costs; and a methodology to track actual costs and savings (as applicable).

5. For each recommendation, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation shall provide the designation of the executive officer(s) accountable for implementation.

6. This proceeding is continued.

By the Commission,

(SIGNED)

MICHELLE L. PHILLIPS
Secretary