SCOTTMADDEN
Management Consultants

March 13, 2008

Mr. Henry Leak
Project Manager
New York State Department of Public Service
3 Empire State Plaza
Albany, NY 12223-1350

Dear Mr. Leak:

ScottMadden is pleased to submit this proposal to assist the New York Public Service Commission ('the Commission") conduct a Management Audit of Consolidated Edison of New York, Inc.

This proposal is based on information contained within the Request for Proposal, and background information on Consolidated Edison, and our deep understanding of the utility industry and the issues faced by companies within it. We understand the Commission's requirements and have developed our proposal accordingly.

This proposal describes in detail the approach to and technical content of the management audit process. That said, there are four key points we hope you will consider as you review this audit proposal.

- Founded in 1983, ScottMadden is perhaps the preeminent general management consulting firm providing specialized business services to clients in the utility industry in the United States. The firm specializes in the energy industry and has served more than 200 energy companies across the country and around the world, including investor-owned utilities, competitive energy suppliers, retail energy suppliers, energy delivery specialists, trading and marketing firms, RTOs/ISOs/ITCs, gas pipelines, LDCs, global IPPs, ESCos, regulators, and government agencies.
- In the utility industry, the firm works in all functional areas, but a particular focus is assisting energy clients develop operating visions and strategies, plans to implement these strategies, and an understanding of the key process, organizational, and technological changes required for implementation. As such, we are uniquely qualified to assist the Commission in this comprehensive audit. We have substantial technical expertise in all functional areas of this scope.
- We have deep experience in conducting Management and Operations audits in this industry and have performed over 20. A selected few of these are highlighted in Section VII of this proposal.
- We are proposing to conduct this effort with a deep and experienced team. The leadership of our team possesses over a combined 100 years of utility and utility consulting experience.
- We are committed to developing recommendations that are not only practical and implementable, but supported by thorough, persuasive analyses and documentation. Furthermore, we maintain an excellent reputation with respect to our ability to work collaboratively with both our utility clients and Commission staff, and our approach to conducting this audit emphasizes this.

We confirm the accuracy of all information in this proposal. We also commit we have the ability to perform all work in this proposal, and we have complied with all Request for Proposal requirements.

We would be pleased to provide any additional information you need to fully evaluate our capabilities to perform this audit. Be assured that if we are selected, we will do everything possible to ensure your expectations are exceeded.

Sincerely,

Randolph T. McAdams.
Partner
rmcadams@scottmadden.com

Jere M. Jacobi
Partner
jjacobi@scottmadden.com

SCOTTMADDEN
Management Consultants

State of New York
Department of Public Service
New York Public Service Commission

Case 08-M-0152

Proposal to Conduct a
Comprehensive Management and Operations Audit of
Consolidated Edison of New York, Inc.

March 13, 2008

2626 Glenwood Avenue, Suite 480 • Raleigh, NC 27608 • 919-781-4191 • scottmadden.com

TABLE OF CONTENTS

I. INTRODUCTION

This introductory chapter sets forth our understanding of the purpose of this Management Audit of Consolidated Edison Company of New York, Inc. ("Con Ed").

Section 66, Subdivision 19 of the Public Service law states the Commission "shall have power to provide for management and operations audits of gas corporations and electric corporations. Such audits shall be performed at least once every five years for combinations of gas and electric companies." This law also states that the audit may include an "investigation of the Company's construction program planning in relation to the needs of its customers for reliable service and an evaluation of the efficiency of the Company's operations." We believe that these two aspects of Con Ed's performance represent the core focus of this audit.

A. SPECIFIC ISSUES RELATIVE TO THE AUDIT

Con Ed provides a wide range of energy-related products and services through its five subsidiaries:

- Consolidated Edison of New York, a regulated utility providing electricity, gas, and steam in New York City and Westchester County
- Orange and Rockland Utilities, serving customers in southeastern New York and adjacent New Jersey and Pennsylvania
- Con Edison Solutions, a retail energy supply and services company
- Con Edison Energy, a wholesale energy supply company, and
- Con Edison Development, which owns and operates generating plants and other infrastructure projects

In recent years, the Company has experienced strong growth largely due to retail sales growth (kWh), recent rate increases, and positive results from the competitive energy businesses. The recent strong performance also reflects the economic strength in its New York City and Westchester County service areas, as well as the favorable impacts of investments made in its electric, gas, and steam delivery businesses to support its growing customer demand.

Con Ed's kWh sales have grown by more than 20% over the past ten years, and this robust growth is expected to continue. In 2008, the Company is expected to spend over $2.5 billion to expand and upgrade its electric delivery infrastructure in New York City and Westchester County. Looking out to 2010, Con Ed will invest approximately $6 billion in infrastructure – significantly above historical levels. The need for new generating capacity, as well as potential environmental spending, exacerbates this need for new investment.

Con Ed has historically maintained its electric delivery system with excellent reliability. Nonetheless, the need for significant new investment increases the focus on the manner in which the company develops its assessment of need (load forecasting, system planning, etc.), determines how best to meet that need (supply procurement, capital and O&M budgeting, etc.), manages the execution of capital deployment (program planning and management, workforce management, etc.), and links the results of all of this back into the planning effort (performance and results management). As stated in the Request for Proposal (RFP), these functions comprise "a series of elements or functions that are generally sequential in nature (and) can be viewed as a flow diagram or feedback loop." These elements "require feedback from one or more of the latter elements to allow for revisions, adjustments, or other changes, over both the short and long term."

B. SPECIFIC ISSUES RELATIVE TO THE SCOPE AND OBJECTIVES

While hardly alone in the challenges presented above, Con Ed, in ScottMadden's view, faces significant challenges in managing these functions and ensuring its ratepayers receive optimal benefit from this significant investment. As a result, the Commission is soliciting proposals from independent consultants to perform a comprehensive audit of its key management processes, with a specific focus being on its construction program planning, and operational efficiency and performance, including reliability.

II. SCOPE AND OBJECTIVES

The Commission's scope and objectives are described in detail in the RFP, and are quite clear. In these times of increasing costs, increasing infrastructure investment needs, and strong upward pressures on rates, the Commission is looking for this audit to disclose opportunities to reduce operating costs through better allocation of capital, better operations management, and more efficient operations. It is expected that this study will not only quantify the potential for savings that can be achieved, but also make specific recommendations for improvement.

Specifically, the Commission has identified five general objectives for this audit:

- Identify specific opportunities for improved business processes, systems, organizational design planning, employee productivity, and customer service
- Determine whether operating and maintenance expenses can be reduced
- Develop recommendations for instituting changes or undertaking the studies necessary to achieve the savings or improvements
- Obtain a quantification of the savings resulting from any recommendations
- Receive a written report describing the management and operations of the utility for the information of the Commission, staff, and ratepayers

In addition to these objectives and as highlighted in the previous section, ScottMadden believes that a specific focus of this audit is on Con Ed's construction program planning and operational efficiency and performance, including reliability. For the reasons stated in the previous section, Con Ed's significant infrastructure investments in the coming years place an exacting emphasis on ensuring the management processes and oversight are in place to ensure efficient execution. That, we believe, is the core focus of this audit and is well-represented by the eight focus areas identified by the Commission in the RFP and addressed in Section IV of this proposal.

III. APPROACH, METHODS, PROCEDURES, AND AUDIT MANAGEMENT

This section of the proposal describes how ScottMadden will conduct the management audit. It consists of the following sections:

A. *Audit Principles* sets forth the basic guidelines for the project

B. *Work Steps* describes the major steps in the study

C. *Project Administration and Controls* describes forms, reports, procedures and systems, and the hardware/software configuration that we will use to administer and control the project

D. *End Products and Benefits* describes the specific deliverables during and following the audit and the benefits that will be derived

A. AUDIT PRINCIPLES

Based upon the cumulative experience gained by ScottMadden consultants while performing approximately 20 utility management audits, we have come to the conclusion that there are certain principles to which a consultant must adhere in order to deliver the highest quality service to a client. These basic tenets are described below:

- Client involvement – In order for the client Commission to understand fully the basis for recommendations, and to be satisfied that all pertinent issues have been addressed, the client must be involved to a high degree in the project. ScottMadden is pleased that the Commission's staff will play a significant role in this project. We have successfully worked with other regulatory bodies in this manner and have found that a high degree of participation most often leads to a superior work product.

- Staff expertise – The consultants performing the audit must have significant experience within the functional areas they are responsible for reviewing.

- On-site presence – Approximately 60% of the man-days dedicated to the study will be spent on site. We believe this degree of coverage is essential to understanding the basic nature of the utility. It helps avoid the development of conclusions drawn from limited exposure to utility personnel and facilities and provides improved opportunities for clear communication with both the Commission and the utility.

- Project management and control – The broad and complex scope of a management audit (vast pool of information, man participants, etc.) mandates a thoughtfully conceived and tightly executed organization. One of the first steps of an audit is the preparation of a detailed workplan listing tasks, consultant responsibilities, time estimates by task, and schedule completion dates by task. This workplan is the benchmark against which actual progress is periodically compared.

- Performance criteria – A professional evaluation of a utility's management and operations must be based upon measurable and practicable criteria. In this manner, audit results reflect pragmatic implementational considerations.

- Basis for findings – All findings must be based upon facts that are not only correct and true, but when aggregated, provide a complete perspective of the functional area under review. Moreover, each finding must be auditable in the sense that substantiation of a finding can be easily found in the project's working papers.

- Fair evaluation – The final report must be fair in pointing out efficient and effective management practices, as well as opportunities for improvement. Such an approach facilitates a commitment on the part of company management to expeditiously implement recommendations after the audit has been completed. We will devote the majority of the report to the discussion of constructive improvement.

- Improvement momentum – A management audit is successful only if it recommendations are implemented in a timely manner. Thus, it is essential that the final report be convincing in demonstrating the need to implement

necessary changes. The report should also be organized in a manner that easily supports the tracking of implementation progress by the Commission and the Company.

These preceding principles will guide the manner in which we would conduct Comprehensive Management and Operations Audit of Con Ed.

B. WORK STEPS

The study will proceed through six logically structured and sequential steps:

1. Orientation and planning
2. Functional area review
3. Task report preparation
4. Draft report preparation and review
5. Working paper review and organization
6. Final report preparation and presentation

Each of these steps is illustrated in Figure 1 and is explained in detail below.

Step 1 – Orientation and Planning

The ScottMadden project management team will spend the first four weeks of the audit in an orientation planning phase. There will be five primary components of this step: (a) project administration agreement, (b) general orientation, (c) statistical and comparative analysis, (d) overview analysis, and (e) detailed project planning.

a. Project administration agreement

The project administration agreement, in essence, confirms the working relationship between the management audit staff, the Company, and ScottMadden on matters such as interview scheduling and document request processing. We will confirm the forms, reports, procedures, computer-based systems, and the hardware/software configuration.

Also during this step of the project, we will reach agreement as to how the findings in the final report will refer to/be indexed by working papers and supporting documentation. This agreement will result in a clear and documented audit trail for Commission review of all findings and conclusions.

We believe that a formal understanding before beginning the audit is a necessary effort. However, we anticipate no difficulty in reaching full agreement in these areas.

b. General orientation

In our general orientation, we will conduct interviews with key company executives, Commission personnel, union representatives, and various members of the public (e.g., consumer group representatives selected by the Commission). In addition, we will visit major company facilities and gather various documents pertaining to Con Ed's organization and operations. The following are the types of documents we will request and review during the first step of the audit:

- Management goals and objectives
- Organizational charts – staffing complements for the past 10 years, listings of major responsibilities for each functional unit and subunit, and descriptions of recent organizational changes

- Financial statements – annual reports, 10Ks, prospectuses, budgets, etc.
- Planning information – past plans and flow chart of the planning processes for strategic planning, gas supply planning, and financial planning and budgeting
- Major contracts – engineering and construction, gas supply, equipment, service, etc.
- Operating information and statistics – Form 2, policies and procedures, performance reports, descriptions of system operations and dispatching configuration, etc.
- Management studies – recent evaluative studies conducted by outside consultants, performed internally by company personnel, or ordered by the Commission

c. Statistical and comparative analysis

The statistical and comparative analysis is performed to provide a quantitative and objective view of how the Company has performed (both relative to itself and to comparable utilities) over the past five years and of what the trendlines project for the Company's future performance. The statistical review will show historical results as well as forecasts in a number of key areas including sales and load growth, rates and cost of service by major components, customer growth, and financial performance.

The comparative analysis will provide performance comparisons with appropriately selected utilities in key functional areas. For example, in analyzing gas transmission and distribution performance, a panel of utilities with similar service area density and customer mist will be selected. These comparative analyses are not used to draw final conclusions about performance; rather they are used to identify issues for further study.

d. Overview analysis

In the overview analysis task, we will draw upon information obtained from interviews, data reviews, and the statistical and comparative analysis to develop a preliminary assessment of Con Ed's strengths, weaknesses, and most importantly, the issues to be addressed in the audit. For each functional area in the audit scope, a worksheet will be prepared to document this analysis. Project management and the lead consultants will evaluate these worksheets and establish priorities for the issues to be addressed. The priority determination will be consistent with Commission goals for the audit. The final product of the overview analysis will be a direct and critical input into the next task—detailed project planning.

e. Detailed project planning

In detailed project planning, we will further define the specific functional areas that will be studied. A workplan for each functional area will be established, based upon a logical sequence that defines specific milestones for key tasks and the points at which the project officers will evaluate the technical quality of work performed to that point (more about this sequence and the technical quality reviews is discussed in the following step – functional area review). Each functional area workplan will designate:

- Key issues/questions
- Preliminary assessment of strengths and weaknesses
- Additional data requests
- Specific evaluations or analyses to be performed
- Evaluative criteria
- Personnel to be interviewed and subjects to be discusses

- Facilities to be toured
- Schedule and man-day estimates
- Preliminary outline for its task report

Each functional area workplan will be programmed to fit into the overall project management scheme. The overall plan will describe:

- Tasks – listing of audit steps for the remainder of the project
- Responsibilities – designation of responsibilities for each task to the ScottMadden project team members
- Time requirements – estimation of man-days required to complete each task for each consultant
- Schedule – development of start and completion dates for each task based upon time estimates, sequential requirements, and any schedule constraints which may exist

The individual functional area plans and the overall project plan will be reviewed with the management audit staff prior to commencing subsequent steps in the study. We will notify Con Ed management of the project schedule in order to alert them when to expect to participate in the study. This will help the Company in scheduling interviews and preparing for the workload associated with data requests.

Once established, the detailed workplan becomes our benchmark for executing the project. Most often, it remains fixed; however, adjustments must occasionally be made and, if necessary, we will reallocate project team resources with the approval of the commission to ensure that each area receives appropriate attention.

Step 2 – Functional Area Review

Each functional area to be studied will be subject to an evaluation consisting of two primary tasks—data gathering and technical analysis. To a certain extent, these tasks are performed sequentially, though there is substantial overlap. Moreover, overlayed on this process is the technical quality review performed at key points in the study. These activities are discussed further below.

The data gathering process consists of interviews, document reviews, statistical development, field observations, and special studies, each of which is explained below:

- Interviews with company personnel – In-depth interviews will be conducted with Con Ed management and other personnel responsible for activities within all functional areas. Size, complexity, diversity, and perceived improvement potential will determine the number and level of persons interviewed. For example, four levels of management may be interviewed in Construction Program Planning, whereas only one person may be interviewed in Facilities Management.
- Document review – Throughout the interview process, various documents will be requested, reviewed, and discussed with company personnel. The nature of these documents will vary by functional area, but in every case, they will provide us with insights into the area's operations, management processes, and performance.
- Field observations – Appropriate project team members would visit company facilities such as:
  - Operation centers
  - Business and customer service offices
  - Corporate headquarters and other office facilities

While there, we will observe work activities and if warranted, follow and observe certain personnel as they perform their daily tasks (e.g., ride with a serviceman, listen in on customer calls, or attend a planning meeting).

- Statistical data development – We rely heavily on quantitative measure to evaluate the performance of certain functional areas of a utility. Many of these indicators will already exist; however, many will undoubtedly have to be created from various source data. At this time, we will request that the Company undertake the data gathering and compilation process necessary to provide us with all the quantitative measures we require.

- Special studies – In certain areas, we perform focused reviews that provide information necessary to assess the efficiency or effectiveness of a process or an operation. For example, in the area of Construction Program Planning, we will select several specific projects recently completed and follow these as they move from inception, through design and construction, to close out.

Once we have requested and obtained initial data requirements, we begin a process of review and assessment which will culminate in findings and recommendations for each functional area. Analysis activities can be separated into two categories:

- Data summary – Interview notes, highlights of document reviews and field observations, and quantitative data are organized and categorized within our workpapers.

- Assessment of performance measures – Quantitative and qualitative performance measures are reviewed to determine the efficiency and effectiveness of the Company's operations

The next activities, described below, involve the process of identifying and refining our findings and recommendations.

- Development of preliminary findings – Based on cumulative work to date, we develop an initial list of findings by functional area. In some cases, we will need to gather more information to further substantiate the validity of the findings. Each finding will be included in our analysis papers and will be supported by appropriate back-up data.

- Technical quality review – The lead consultant and appropriate support consultants will review the preliminary findings with the engagement director. A reconciliation of the current findings will be performed with the strength/weakness/issue worksheet prepared in Step 1. The review will conclude with agreement on the relevancy, supportability, and thoroughness of these preliminary findings, and will set forth requirements to bring the analysis to a satisfactory conclusion.

- Development of preliminary recommendations – The consultants will conclude the analysis and then specify the means by which to address improvement opportunities. For each recommendation, the cost of implementation and the cost of savings will be estimated to the extent possible. With some recommendations, a relatively accurate dollar value or range of values can be developed. With others, it will not be possible to precisely estimate savings or benefits without a much more detailed analysis. In these cases, we will specify in the final report what steps are required for the Company to perform the needed analysis and quantification.

Step 3 – Task Report Preparation

A task report will be prepared for each major area reviewed in the audit. For simplicity, each task report will probably represent a complete chapter (or major section of a chapter) of the final report. A preliminary outline of a typical report chapter is shown below:

- *Background and perspective* describes essential information such as organization structure, responsibilities, expenditure levels, performance measure trends, major management control programs, recent developments, and other pertinent data.

- *Findings and conclusions* present each finding, the facts and judgments supporting it, and the conclusion drawn from finding. For any improvement opportunities that surface, we will describe the task report benefits to be gained from acting upon these opportunities.

- *Recommendations* indicate the actions we believe Con Ed should initiate in order to act upon any improvement opportunities identified. These recommendations will be sufficiently detailed to describe the condition or situation that should be changed, the steps required to make that change, and the expected end results of implementing the recommendation.

We should point out that our definition of a task report extends well beyond merely a key-word outline. One of the most difficult factors to control in performing a management audit is the conversion of preliminary findings and conclusions into draft report form. If slippages in schedule or budget overruns occur, they generally happen at this stage.

To overcome this, we have required our consultants to produce a task report that is quite complete with respect to outline and content. It will be reviewed for technical quality logic by the engagement director. This review will focus upon the degree to which findings and conclusions are supported and recommendations are in keeping with the improvement opportunities identified.

We prepare the task report in dot/dash format to force logic and structure into its preparation. Very often, the task report will be readily convertible into narrative text by the editor and engagement director.

This approach also allows us to better match schedule and budget with the quality of end product.

Step 4 – Draft Report Preparation and Review

After each task report has been reviewed and all necessary revisions have been made, we will begin the draft report. The draft report will contain all task reports as well as an executive summary that presents an overall opinion and individual overview assessments of each area reviewed in the audit. The draft report will be formatted and written in a style acceptable to the Commission.

The entire draft report will be submitted to the commission for its review. We will make any necessary changes to the draft and then submit the draft simultaneously to the Commission and the Company. After approximately two weeks, the Commission staff, company representatives, and ScottMadden will meet to review the draft.

The verification process—that is, the validation of all facts supporting a finding—is an essential ingredient of a successful audit. This step in the audit will provide the Commission, the Company, and ScottMadden an opportunity to agree upon the facts supporting each finding. This is a key point—there should be no disagreement whatsoever upon the facts supporting findings and conclusions.

Though we hope to minimize the number of occurrences, there will undoubtedly be situations where additional information not previously communicated to the consultant will surface and the nature of the finding or the recommendation or both will change. Therefore, we reserve the right to make any changes created by the provision of additional information. By the same token, we reserve the right to request additional information that we may need to confirm or reject the analytical basis for conclusion or recommendation.

A final draft report will be prepared and submitted for final review by the Commission, the Company, and its bargaining unit. As appropriate, changes to the draft will be made. The company will be allowed to insert its comments at the conclusion of each chapter.

In the event there are material disagreements, we will take whatever steps are appropriate to clarify and explain the report. A master copy of the draft report will be maintained that will show all changes made.

Step 5 – Working Paper Review and Organization

During the course of the study, working papers will be maintained by each lead consultant in accordance with the project administration agree established during Step 1. While the draft report is being reviewed and put into final form, we will organize our working papers and prepare them for submittal to the commission. For each report chapter and/or major section, the engagement director will review the lead consultant's working papers and ensure they are in conformance with ScottMadden's and the Commission's requirements. In particular, we will ensure that the support for each finding is

traceable in the working papers. From a generic standpoint, each report chapter's and/or section's working papers will contain the most recent version of the task report completely annotated with backup data as well as the following sections:

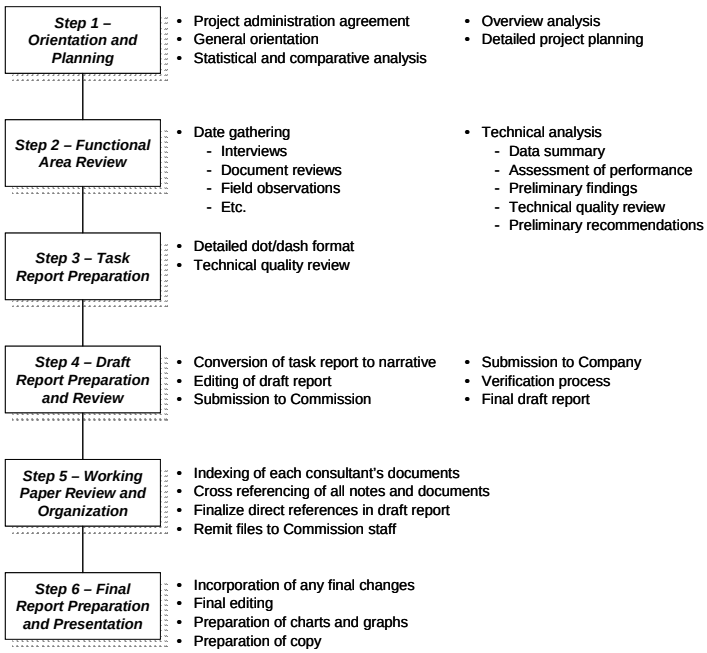
- Administration – containing the work plan, interview schedule, and data request log
- Data requests – containing each document (or a memo stating location if not in the file) received by number
- Special studies or analyses – containing write-ups of any studies or analyses we performed (each to be numbered)
- Interview summaries and notes – containing interview notes and a summary of the interview's results (each to be numbered)
- Analysis paper – containing the cover sheet and supporting documentation for each finding developed
- Key documents – containing copies of key documents (or portions thereof) used directly in arriving at findings, conclusions, or recommendations
- Miscellaneous – containing any other in formation pertinent to the study in this area

With the exceptions of interview notes, we will turn over to the Commission our working papers after the report final.

Step 6 – Final Report Preparation and Presentation

The final step in the audit process involves the completion of the report documenting the audit. As set forth in the proposal, a copy will be presented to the Commission. If requested, we will be prepared to make an oral presentation of the report to the Commission and/or the Company.

Figure 1: Summary of Audit Work Steps



C. PROJECT ADMINISTRATION AND CONTROL

A management audit is a complex and intensive study in which numerous individuals participate. Without strong project management and controls, consultant time may not be used effectively, thus resulting in inferior service to the client. We strongly believe the foremost means by which to ensure a successful consulting project is by staffing it with talented and experienced individuals.

A quality end product is also dependent on these mature, experienced professionals working on an agreed-to plan, with high levels of interaction with project management, the Commission and the company, and their peers working in other areas of the study.

A quality end product also is due to the application of and adherence to a set of well-understood project control mechanisms, forms and reports, and computer-based systems. These are discussed generally below along with the hardware/software configuration that we propose to use.

Project Control Mechanisms

- Project work plan – The foundation for project control is a detailed work plan listing tasks, man-day estimates, completion dates, consultant responsibilities, and project milestones.

- Ongoing project team discussions – The consultant team members regularly spend time at the end of the day discussing major findings among themselves and with the project manager. This informal process ensures everyone is aware of the project's status and focuses attention on important issues.

- Informal client discussions – The project manager and team members regularly communicate with the client personnel on an informal basis. Major issues, project status, and upcoming work are primary subject matters in these discussions.

- Project management systems – We utilize a formal project management system. Budget information comes from the original project work plan, whereas actual information is developed from staff reports. The system generates a project status report which will be used in our formal status meetings with the Commission.

- Technical quality reviews – The engagement director rigorously scrutinizes team member work including analysis techniques, preliminary findings and conclusions, recommendation justifications, task reports, and draft and final reports.

- Working papers – On previous projects, we have been called upon to retrieve information from our working papers after a study's completion. We have a workpaper control technique which will facilitate organized access and retrieval.

Figure 2: Preliminary List of Project Administration Forms, Reports, and Procedures

Form/Report	Distribution		
	Commission	Company	ScottMadden
Detailed project work plan	X	X	X
Functional area work plans	X		X
Two week interviews/site visit schedule	X	X	X
Data request	X	X	X
Interview request	X	X	X
Interview analysis and summary			X
Document analysis and summary			X
Strengths/weaknesses survey			X
Monthly progress report from lead consultant	X	X	X
Time and expense reports	X	X	X
Monthly progress reports	X	X	X
Monthly invoice	X	X	X
Weekly progress report from engagement director	X		X

D. END PRODUCTS AND BENEFITS

The end products that will result from this management audit are summarized as follows:

- The primary end products of *Step 1 – Orientation and Planning*, will include an overall detailed project workplan as well as specific work plans and schedules covering each functional area.

- As the management audit proceeds, we will produce a series of interim reports, such as:

  – Two week interview/site visit schedule
  – Weekly summary of prior week's interviews, site visits, and project status
  – Monthly written summary of man-days expended by task and subtask and overall status of the project in relation to both schedule and budget. These reports will have status sheets showing actual and planned man-hours and costs by consultant by functional area

- As analysis of each functional area is completed, a task report covering that area will be documented. Most often, a task report will correspond to a chapter in the final report and will include:

  – Background – general information, statistical data covering each particular function to facilitate greater understanding of the area. It also will serve as a basis for subsequent findings and conclusions. Significant, recent developments will also be included
  – Findings and conclusions – description of strengths and improvement opportunities for each functional area of Con Ed. Where applicable, statistical data will be included to support each finding
  – Recommendations – changes that Con Ed should implement to improve the efficiency and effectiveness of its operation or to enhance its level of service. Justification for each recommendation, including an estimate of cost savings and implementation costs, would be thoroughly described within the report

- Written draft and final reports will document the results of the management audit. They will consist of task reports converted to narrative text.

- The final report will include:
  - An introductory chapter highlighting objectives, scope, and approach to the audit
  - An overview chapter that will present important, general information and statistics about the Company. This chapter will assist in the general understanding of the report and prevent repetition of basic information in each of the succeeding chapters
  - An executive summary chapter that will serve as a condensed version of the report as a whole. This chapter will be written to be used as a free-standing document
  - Chapters for each major function of the management audit, including recommendations for changes that management can institute which involve potential cost savings
  - A financial and operating statistics chapter that will present comparative data for various financial and operating parameters. The comparisons will be historical, within the gas utility industry, and across other industries where such comparisons are meaningful
  - A preliminary outline of the final report

- A final presentation will be made to the Commission and to its staff summarizing the results of the audit and explaining the written report.

Our experience has shown that management audits, when conducted by consultants with an extensive background in and knowledge of utilities, can have a major impact on the efficiency and service levels of the subject Company. We are fully confident that our audit methodology and technical skills enable us to carry out a study that will produce significant benefits for the Commission and the Company. Those benefits include realization of the project's objectives and resolution of important issues of concern to the Commission.

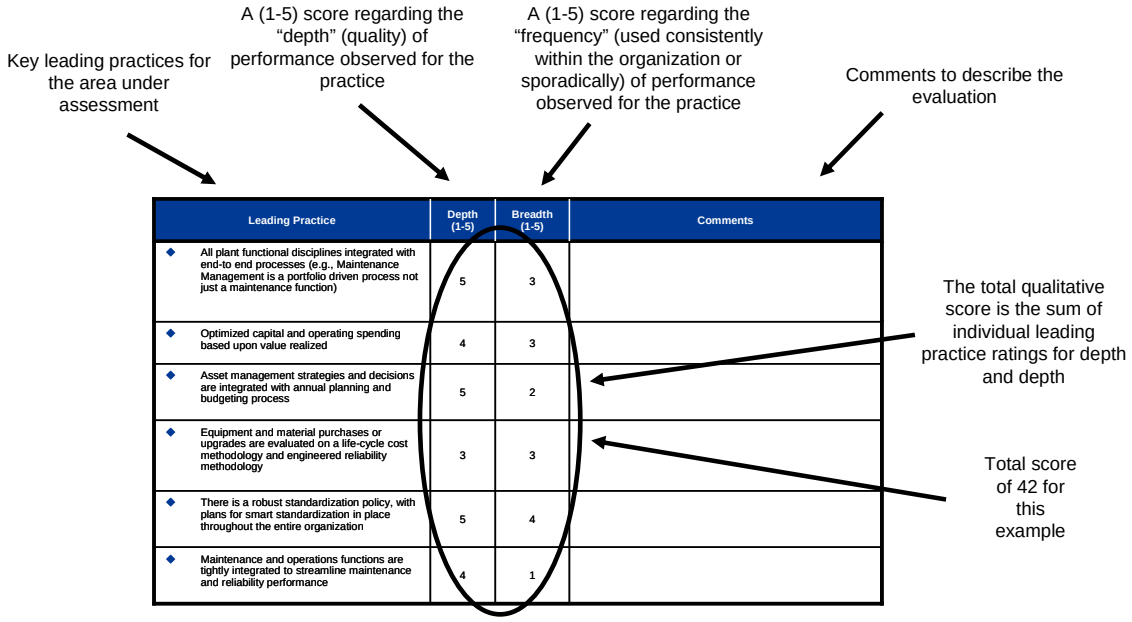
IV. AREAS AND ISSUES FOR REVIEW

A. KEY FOCUS AREAS OF THE AUDIT

ScottMadden has significant experience in performing management audits, benchmarking, best practices identification, and process improvement projects in all areas of the utility industry. As such, we have developed a methodology for conducting performance assessments that includes leading practice comparisons, organizational analysis, and benchmarking at a functional level. This enables us to evaluate major cost drivers across an organization and incorporates both qualitative and quantitative elements.

ScottMadden has developed leading practice assessment tools and surveys in most functional areas to help identify opportunities. The graphic below illustrates an example of our leading practice assessment tool, which we have developed for all major functional areas. We have leading practice documentation for project management, capital project management, energy portfolio risk management processes and procedures and most areas of utility operations.

Figure 3: ScottMadden Leading Practice Assessment Template



Corporate Mission, Objectives, Goals, and Planning

In our review of the Con Ed's mission, objectives, goals and planning, ScottMadden will evaluate Con Ed's key governance and management processes and review the appropriateness of the company's prioritization processes across its electric, gas, and steam businesses. As part of this assessment, the team will evaluate the role of the Board of Directors and senior management in establishing budgeting guidelines and priorities, the establishment of goals and objectives to ensure the company's mission is being achieved, the alignment of compensation with corporate performance, and the effectiveness of auditing controls (including compliance with Sarbanes-Oxley requirements).

This aspect of the audit will have three fundamental focal areas. First, the team will focus upon the means by which Con Ed's leadership affects priorities and budgeting across its electric, gas, and steam businesses, and its two utilities. A key part will be an examination of the roles of the Board of Directors and executive and senior management in affecting these priorities. This will include:

- Review of the prioritization/budgeting processes for the various businesses
- Review of the budgets (and actual expenses) for each of the businesses over the past five years

- Review of the goal setting process for senior management

Following this, the second key aspect of this part of the audit will be ScottMadden's assessment of the degree to which Con Ed's rates are factored into its budgeting process and the degree to which management aligns its goal setting process and metrics to corporate objectives. Typically, these goals should cascade down through the organization in a manner that creates "line of sight" alignment with corporate goals, and this will be a key part of our assessment.

Lastly, the third key element of this aspect of the audit is an assessment of the robustness of the financial auditing process, and various supporting internal auditing processes. Included in these assessments will be a review of the procedures and practices related to all auditing functions, as well as the history of compliance with Sarbanes-Oxley requirements.

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining a company's mission, objectives, goals, and planning processes.

Long-Term Load Forecasting

In our examination of long-term forecasting, ScottMadden will first assess Con Ed's forecasting organization and functional capabilities, with a focus on tools, data sources, models, and modeling capabilities.

Typically, system load forecasts will have the following information sources and uses that we will examine for completeness:

- Sales records: Records of energy sales (electricity, gas, and steam) for the number of historical years considered. Sales records by geographical area and by customer class (for example, household, commercial, and industrial classes) are typically used, along with the number of customers by class and by area.

- Demand records: Data on energy demand that chart the MW, MMBTU, or Therm requirements on the utility over days, weeks, months, and years to determine the relationship between energy sales and the amount of generation energy required.

- Economic and demographic data: Forecasting uses of historical data on economic performance, and population or the number of households.

- Economic and demographic projections: sources of economic and demographic projections for the CECONY service territory.

- Energy end-use data: Types of end-use data include the number/fraction of households using specific appliances, the number/fraction of commercial, institutional, or industrial consumers using different types of electric and gas equipment, and the amount energy used per customer per end use. These data are referred to as penetration or saturation data.

In addition, methods used to forecast demand include trending, econometric analysis, end-use simulation, and combinations will be examined:

- Trend forecasting assumes that past rates of change in energy use, or in energy use per customer, will continue into the future. A growth rate calculated from historical data (sales or peak demand data) may be applied to estimate future consumption and demand.

- Econometric forecasting assumes that past relationships between energy use or peak demand and various economic or demographic variables continue to hold into the future, but econometric forecasts are generally more detailed than trending forecasts.

- End-use forecasting differs from trending and econometric forecasting in that it builds up estimates of energy needs starting with an analysis of the specific energy component for which it is used.

Lastly, the use of Demand Side Management, energy efficiency, and other initiatives in the forecasting process will be examined across the following dimensions

- The consideration of information and/or incentives to encourage energy efficiency usage
- The consideration of higher efficiency technologies that reduce energy usage
- The use of fuel switching technologies
- The application of load management programs

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining long-term load forecasting.

Supply Procurement

To examine the supply procurement function, ScottMadden will review the Con Ed supply procurement strategies, policies, processes, and methods by comparing them to our best practices documentation on portfolio management. We will examine the objectives for the planning process by comparing to the following criteria at a minimum:

- Reliability
- Minimization of cost (cost to consumers, capital costs, etc.)
- Minimization of environmental impacts
- Provision of energy security
- Use of local resources
- Diversification of supply
- Management of emergent technology
- Development of plans that are flexible enough to be modified when costs, political situations, economic outlook, or other conditions change

Furthermore, ScottMadden will review the Con Ed approach to portfolio oversight, controls, risk management, and hedging strategies by examining:

- Portfolio composition risk (generation and fuel diversity)
- Fuel supply risk (supplier diversity, contract structure diversity, etc.
- Fuel transportation risk
- Examination of energy transaction oversight, guidelines, policies, and procedures
- Supply portfolio functional structure and portfolio management infrastructure

ScottMadden believes key enablers of success in supply procurement are the existence of clear hedging strategies, and performance metrics which support those strategies. The graphic below presents a construct which illustrates this:

Figure 4: Hedging Strategy Approach

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining supply procurement.

Long Term System Planning

In evaluating Con Ed's long-term system planning, ScottMadden will review the Company's long-term system planning infrastructure planning processes and procedures by first comparing existing practices to the ScottMadden Capital Project Management collection of leading practices.

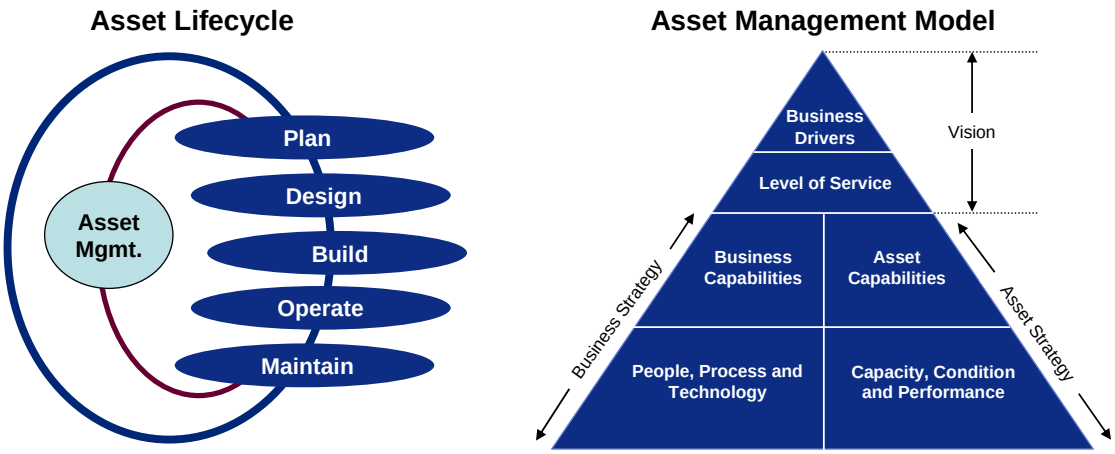
The infrastructure planning and engineering functions, as well as prioritization, evaluation criteria examination, and decision making, will be evaluated through comparisons of Con Ed's practices with ScottMadden asset management best practices.

Asset management practices will be evaluated along the following dimensions:

- Vision, including the existence of a clear mission and strategy, key service levels and performance goals, and defined levels of acceptable risk
- Asset strategy, including the identification of most critical assets, with consequence determination of failure on service levels, cost and liability, development of the most cost effective long-term maintenance and investment strategy, and optimization of expenditures through asset management process optimization
- Business strategy, including organizational structure along with culture and change management, end-to-end business processes based on internal and industry best practices, and integrated technology and data management framework

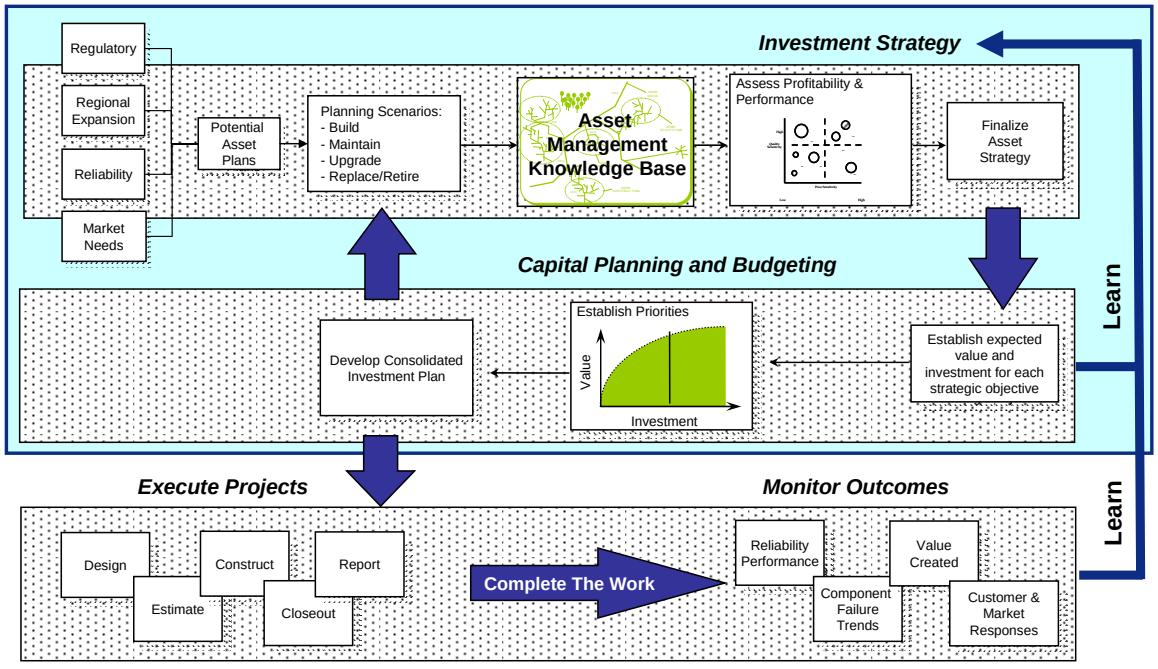
The graphic below illustrates the ScottMadden view of the key elements of the asset lifecycle, and our asset management model.

Figure 5: ScottMadden Asset Lifecycle Framework



As illustrated in Figures 5 and 6, major asset decisions (e.g., substations, breakers, switches, transmission feeders, secondary system, etc.), replace versus repair decisions, system configurations (network versus radial systems), System tradeoffs (underground versus overhead systems), and regional versus central planning dynamics are all considered within the asset management framework that will be used as the ScottMadden comparative framework.

Figure 6: ScottMadden Asset Management Framework



Alternative resources such as distributed generation and demand response initiatives and other load and infrastructure factors, such as advanced metering, smart grid, and energy efficiency initiatives will also be evaluated. To perform this evaluation, we will employee ScottMadden's "Utility of the Future" model in which Smart Grid technology implementation options are outlined.

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining long-term system planning.

Capital and O&M Budgeting

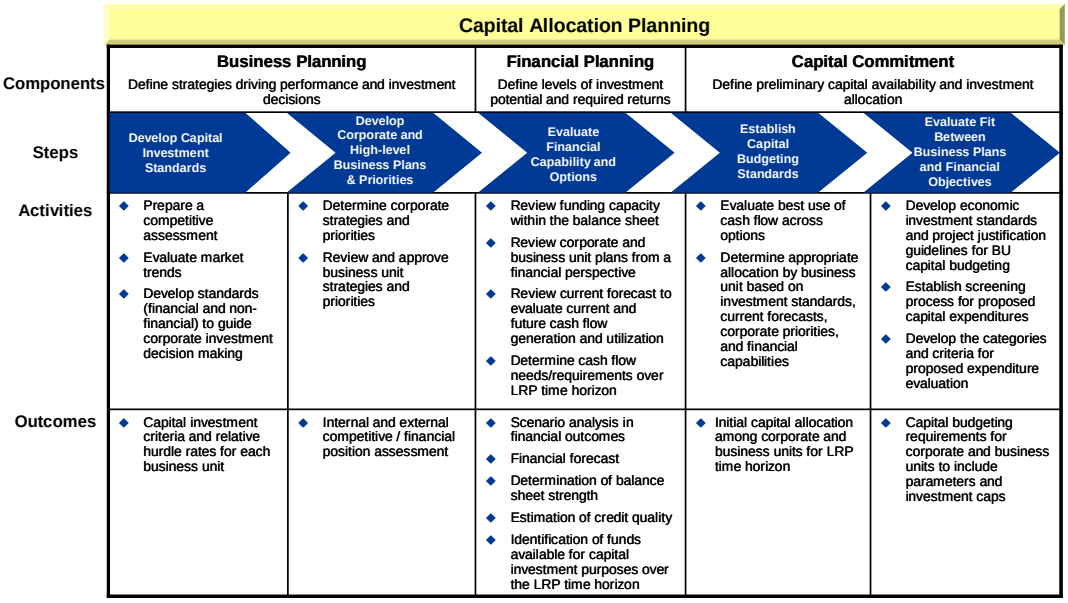
In evaluating Con Ed's capital and O&M budgeting, ScottMadden will review the Company's budgeting process and compare it to best practices in the industry. The evaluation will include both capital and O&M budgets and will focus on the budgeting process itself, consistency across different areas of the organization, the capital projects approval process, and how expenditures are managed and controlled.

In this stage of the audit, ScottMadden will focus on three fundamental issues. First, the integrity of the budgeting process will be examined for both O&M and capital assessments. This will include:

- Review capital and O&M budgets for the previous five years
- Assess and ensure proper documentation of assumptions
- Evaluate standards for project prioritization

Second, ScottMadden understands the budgeting process should be tightly integrated across the company and will conduct a review to ensure consistency across the organization. The graphic below shows how capital allocation should begin with business and financial planning and further illustrates this point:

Figure 7: Capital Allocation Leading Practices



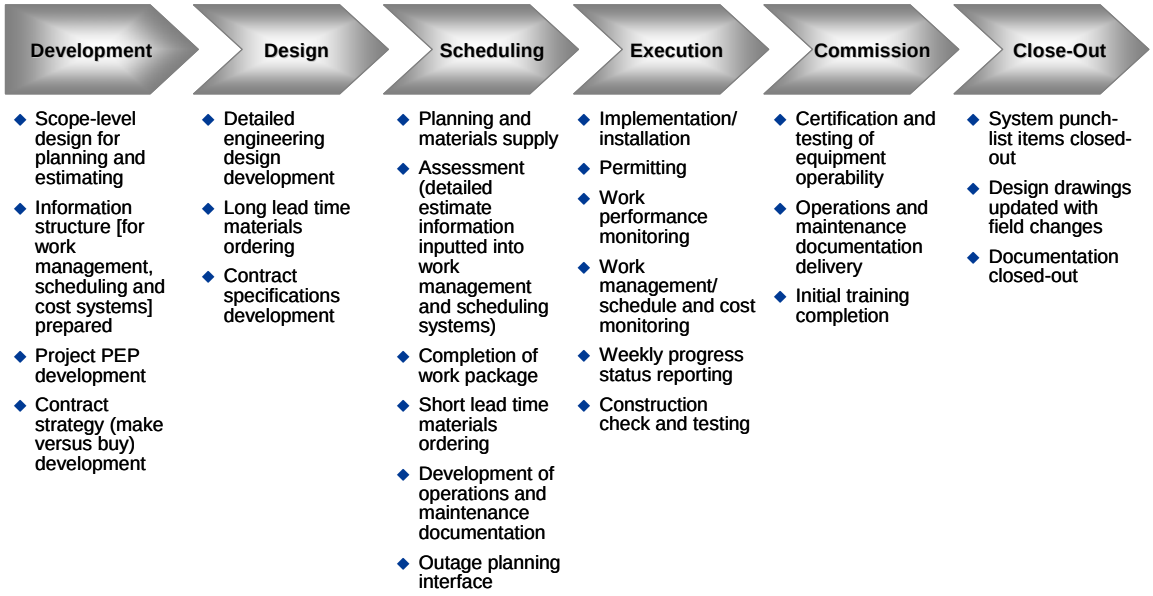
Finally, ScottMadden will review Con Ed's budgeting process to ensure feedback is incorporated into future budgeting efforts, including an evaluation of mechanisms designed to track the actual costs of budgeted projects. Cost control metrics are essential in determining budgeting accuracy, and it is imperative that any substantial deviation from plan be integrated into future revisions.

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining capital and O&M budgeting.

Program and Project Planning and Management

To accomplish this assessment, ScottMadden will review the Con Ed's program and project planning and management processes against the ScottMadden Construction and Project management methodology, illustrated below:

Figure 8: ScottMadden's Construction and Project Management Methodology



Typically, projects are assessed against a "development-to-close-out" perspective or "cradle-to-grave" management as referred to in industry. The conversion of capital and O&M plans and budgets to specific programs and projects, the project prioritization and approval process, and design, estimating, engineering, costing, scheduling and execution are all performed within the project "cradle-to-grave" process.

Figure 9: ScottMadden's Project Execution Framework

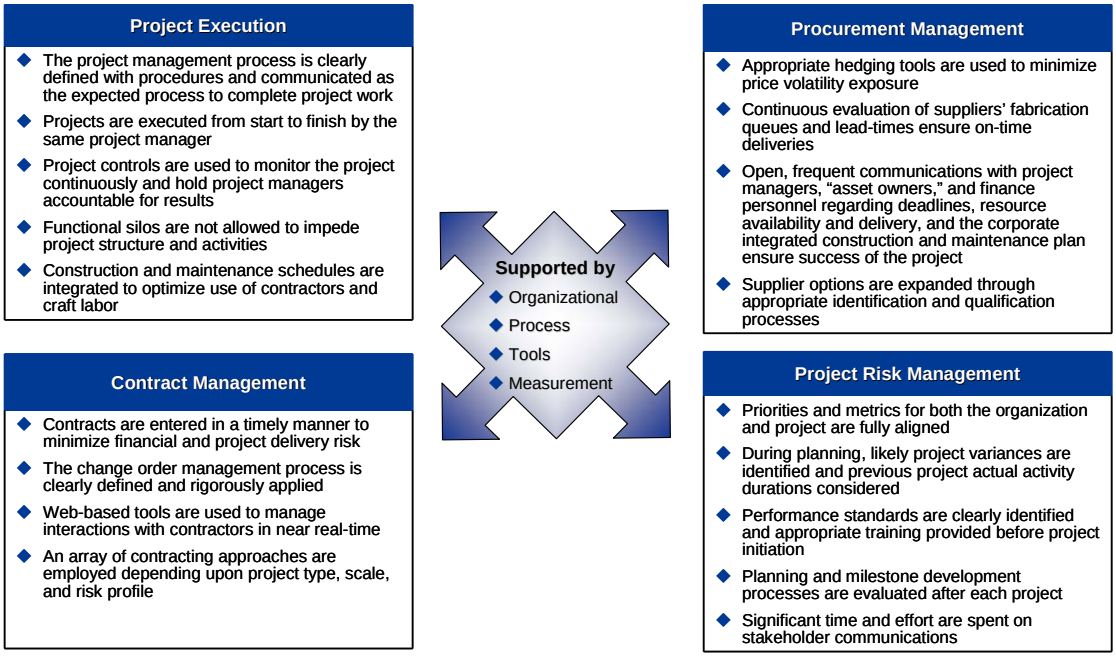


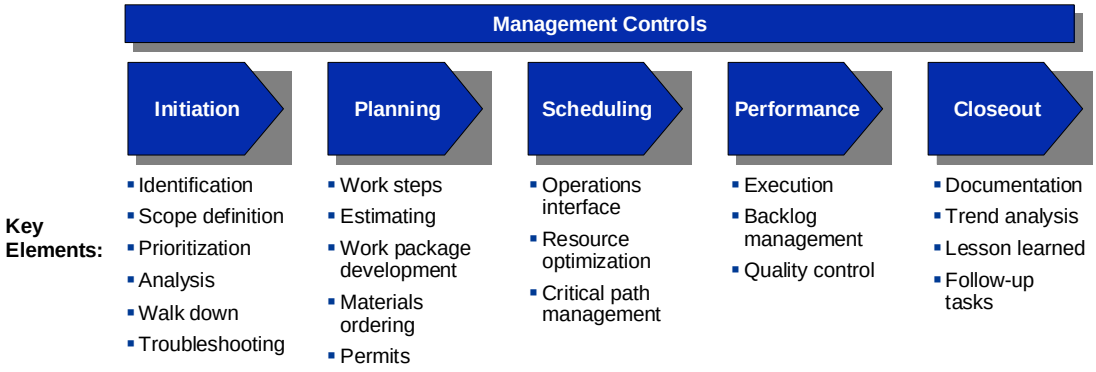
Exhibit A illustrates the key issues and questions upon which the team will be focused, as well as our anticipated initial data requests, the typical analyses we perform in such assessments, as well as issues or problems we have encountered in other engagements examining program and project planning and management.

Workforce Management

In evaluating Con Ed's workforce management, ScottMadden will review the company's workforce management processes and procedures against ScottMadden work management best practices. The objective of the work management model is to increase production output and lower operating and maintenance costs. Results are accomplished through the use of a disciplined process and the management of people that contribute to the process. The organization's culture is the key driver in implementation of the process.

The standard workforce management process that against which we assess is illustrated below.

Figure 10: ScottMadden's Workforce Management Framework



As part of this assessment, we will compare the current work management system to leading practices and examine metrics such as backlog size, work package quality, average time work requests are in the backlog, average time to complete a work request, percentage of work requests that are immediate, urgent, and scheduled, percentage reworks, etc. In addition, we will examine work management trends as well as current year data to help determine if improvement programs are being implemented.

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining workforce management.

Performance and Results Management

To perform this assessment, ScottMadden will review performance metrics that are used to provide "line of sight" oversight and control from the Board and executive level down to the line operations personnel. As such, we will examine the performance metrics in terms of the following attributes:

- Complexity
- Frequency of reporting
- Method of metric data collection
- Ability of line management to affect changes in performance
- The linkage of performance metrics to stated corporate vision, mission, and values

We will also examine the linkage of metrics to operating cost and levels of reliability (the degree to which metrics are specific and focused), as well as examine the degree to which operating metrics are reported at the senior executive and Board level.

As part of this review, ScottMadden will assess whether performance metrics are lagging or leading and determine if there is evidence that leading metrics have been utilized to change line operations performance. We will determine the level of perceived versus actual impediments to performance and provide comment on the effectiveness of the current performance metrics in alleviating actual performance impediments.

Exhibit A illustrates the key issues and questions upon which the team will focus, our anticipated initial data requests, the typical analyses we perform in such assessments, and issues or problems we have encountered in other engagements examining performance and results management.

B. WORKSHOP TRAINING

As specified in the Request for Proposal (RFP), ScottMadden will develop and conduct training workshops for the Department of Public Service Staff to be scheduled during the audit. As discussed in the RFP, these workshops will be conducted during the course of the audit and may focus on the following areas (or others as requested by the Commission):

- Utility corporate planning and budgeting best practices
- Utility best practices and processes for managing commodity delivery operational risks
- Utility best practices and processes for project planning and prioritization, and project management
- Utility best practices for risk assessments of construction and O&M management
- Utility best practices and processes for workforce management

The workshops will take approximately one week to assemble, and will be facilitated by two ScottMadden subject matter experts. The professional fees to develop and facilitate each workshop will be $16,500 per workshop, plus out of pocket travel expenses.

V. CONSULTING STAFF ORGANIZATION

This section of this proposal presents ScottMadden's understanding of the role of the Commission staff, describes the organization structure and staffing, allocates man-days to each area of the audit, and presents resumes for each consultant to be assigned.

A. ROLE OF THE COMMISSION STAFF

The client for this audit is the Commission. The Commission will select the consultant and, through its management audit staff, exercise such monitoring and controls which are appropriate and necessary to achieve the desired and agreed upon product. Staff from other Public Service Commission (PSC) operating divisions also will participate with the management audit section in managing the study. Their involvement will be coordinated by the utility management audit section who will maintain ultimate project management responsibility. Monitoring of the study will include adherence to scope, contractual agreement, defined procedures, work plans, schedules, and budgets.

Management audit's responsibilities encompass virtually all aspects of the engagement of consultants for the performance of these studies including:

- Preparing the RFP, guide, and mailing list for proposal requests (all subject to approval by the PSC)
- Receiving and responding to inquiries from consultants regarding the RFP, guide, and other questions relating to the management studies
- Coordinating all aspects of the management study with the subject utility and management consultants
- Receiving and evaluating all proposals
- Recommending to the Commission which consultant should be awarded the contract and the reasons therefore
- Drafting an agreement to be signed by the consultant, the utility, and the Department of Public Service
- Reviewing and approving detailed work plans prepared by the consultant
- Continuous monitoring of process and results of management studies through (1) direct contacts between consultants and staff members, (2) monthly progress meetings, (3) review of various interim reports, and (4) use of automated project management systems with electronic data communications with consultant
- Participating in the management study process in the ways described in the guide
- Reviewing draft reports and making comments directly to the consultant with respect to those reports
- Auditing all invoices submitted by the consultant and approving them for payment by the utility
- Arranging for the printing and distribution of final audit reports
- Preparing a summary and critique of the final report for the Commission
- Performing similar tasks to those above in connection with possible second phase studies at the utility

The Commission will rely upon the management audit staff to answer various questions from time to time about project status, the content of the final report, and the management and operations of the subject utility. It will be necessary, therefore, that the staff be closely involved in the work of the consultants. It will be appropriate for a management audit staff member to accompany the consultant on most site visits and some interviews. In some task areas, it may be possible and desirable for management audit staff to conduct its own parallel interviews and site visits in a region or organizational unit that won't be visited by the consultant. In any event, it is expected that the individual consultant assigned to each task area will discuss his/her progress informally and directly with the management audit staff person assigned to that same task at least once per week. Informal reporting can usually be accomplished by telephone.

In addition to management audit staff, several members of other Commission departments may be asked to participate, based on joint discussions between ScottMadden and the Commission staff. Their primary responsibilities will entail providing insight into the workings of the Company and thus helping to guide the audit staff in their search for meaningful information. In addition, they will serve as a sounding board in the development of preliminary findings.

ScottMadden is eager to work with the management audit staff in the aforementioned manner. We encourage extensive staff involvement.

B. ROLE OF THE SCOTTMADDEN TEAM

Mr. Randy McAdams will serve as Engagement Director of the audit, closely assisted by Mr. Jere ("Jake") Jacobi. Mr. McAdams will have responsibility for project management and for day-to-day communication with Commission staff. Mr. McAdams and Mr. Jacobi will perform technical quality reviews of all work products and direct the overview analysis conducted in the orientation and planning phase.

The proposed project organization and an indication of areas to be covered are shown below. The orientation, overview analysis, and planning step will be staffed only by the engagement directors. For the balance of the study, each functional area will have a project lead that is responsible for data gathering, analysis, identification and presentation of preliminary findings and recommendations, and preparation of draft reports. The project leads for each functional area will be supported by an additional ScottMadden consultant.

Particular functional assignments will be as follows:

- Mr. Randy McAdams will serve as Engagement Director, and project lead for Corporate Mission, Objectives, Goals and Planning, and Capital and O&M Budgeting
- Mr. Jere Jacobi will serve as assistant Engagement Director, and as Project Lead for the areas of Long-Term System Planning and Performance and Results Management
- Mr. C. Scott Wilson will serve as Project Lead for Long-term Load Forecasting and Supply Procurement
- Mr. Roger McCall will serve as Project Lead for Program and Project Planning and Management, and Workforce Management
- Mr. Stu Pearman will serve as Technical Advisor to the engagement
- Mr. John Pang will serve as Project Manager for the engagement

Mr. Randy McAdams is a partner with ScottMadden and has over 21 years of utility consulting experience with a focus on developing the plans, processes, and organization to help clients execute their strategies. He has led numerous engagements throughout his career, including investor-owned, state-owned, and cooperative utility operations in the United States, Canada, and Europe. Mr. McAdams has significant experience in strategic planning, investment risk management, financial management, and organization development, business process design. Additionally, Mr. McAdams has participated in numerous management audits.

Mr. Jere ("Jake") Jacobi is a partner with ScottMadden and has more than 30 years of energy industry experience that encompasses a number of local and global companies in the public and private sector. He has provided consulting and management services to LDC operations, nuclear operations and fossil plant operations, and he has led engagements in strategic assessment and planning, enterprise asset management, benchmarking, process reengineering, corporate governance and business model assessment. In addition, Mr. Jacobi has experience in transmission/RTO management, construction and project management, work force management, and labor union negotiations.

Mr. Stu Pearman is a partner with ScottMadden and will serve as a technical adviser on this engagement, with particular focus on load forecasting, supply procurement, and system planning. Mr. Pearman has assisted numerous utility clients develop strategic plans, has assisted in utility mergers, and in implementing best practices across generation fleets. Other core competencies of Mr. Pearman include developing balanced scorecards for utilities and developing growth strategies.

Mr. Roger McCall has extensive experience in the utility industry, and has served over 25 utility clients in his career. His areas of expertise include utility operations, workforce management, the management of information technology organizations, process improvement, and organization design

Mr. C. Scott Wilson is a director with ScottMadden, Inc. and has more than 17 years of business strategy and management consulting experience. He has provided management counsel to numerous utilities across multiple business disciplines including strategic planning, competitive market development, operations, finance, marketing, sales, regulatory, and organizational design.

Mr. John Pang will serve as project manager for the project. Mr. Pang has over 10 years of consulting experience and focuses in developing and implementing strategic and business plans for nuclear and fossil generation fleets. Mr. Pang will have responsibility for directing interview scheduling, document control, working paper administration, and monthly reporting to the Commission.

In addition to the consultants mentioned above, five other junior consultants will assist in the effort. Their resumes are presented in Exhibit II.

The organization chart below shows the ScottMadden team organization, with roles and responsibilities designated.

Figure 11: ScottMadden Project Organization

VI. SCHEDULES AND BUDGETS

A. PROJECT SCHEDULE

As can be seen from the schedule presented here, we anticipate being able to conduct this audit in nine months, shorter than the time suggested in the Commission's RFP. Our schedule reflects our proposed workplan.

However, if there are certain milestone events in May (the end-date designated in the RFP) in which the Commission requires consultant participation, we are happy to comply with that. That said, our proposed schedule is below.

Project Objectives and Task Summaries	2008														2009	
	5/15	6/1	6/15	7/1	7/15	8/1	8/15	9/1	10/1	10/15	11/1	11/15	12/1	12/15	1/1	1/15
Step 1: Orientation and Planning																
Conduct general orientation interviews																
Define standards for final working paper																
Conduct statistical and comparative analysis																
Conduct overview analysis																
Develop detailed work plan																
Confirm and finalize work plan																
Step 2: Functional Area Review																
Interview company personnel and review documents																
Conduct field observations																
Perform data analysis																
Develop preliminary findings																
Review for technical quality																
Develop preliminary recommendations																
Step 3: Task Report Preparation																
Prepare background and perspectives																
Identify findings and conclusions																
Establish recommendations																
Review task reports with the Engagement Director																
Finalize task reports																
Step 4: Draft Report Preparation and Review																
Prepare draft reports																
Develop executive summary																
Submit final report to the Commission																
Verify findings at third-party meeting with the Commission and the Company																
Step 5: Working Paper Review and Organization																
Analyze working papers from each functional area																
Cross-reference all notes and documents																
Index documents from each functional area																
Review for technical quality																
Finalize working papers																
Step 6: Final Report Preparation and Presentation																
Incorporate final changes to the report																
Prepare additional charts and graphs																
Review for technical quality																
Submit final report																

B. PROJECT COSTS

To conduct this engagement, we estimate professional fees to be $1,957,000 as represented by the schedule of consultant participation below:

Figure 12: ScottMadden Staffing Matrix
Consultant-days and Fee Estimates

Steps/Tasks	Individual Personel										Orientation	Discovery	Analysis	Report Writing	Total
	McAdams	Jacobi	McCall	Wilson	Pang	Anckner	Eades	Cagle	Conrad	Neill					
I. Orientation	5	5									2	3	2	3	**10**
II. Technical Review															
A. Corporate Mission and Goals	20	5			20		21				5	29	27	5	**66**
B. Long-term Load Forecasting	5	7		20	20	21			31		4	50	46	4	**104**
C. Supply Procurement		5		20	20	20			30		6	43	41	5	**95**
D. Long-term System Planning	5	20			20	20		31			3	44	44	5	**96**
E. Capital & O&M Budgeting	20				20	21	40				4	52	39	6	**101**
F. Program and Project Planning	5	5	20		20	20				31	5	47	45	4	**101**
G. Workforce Management	7		20		20	20				30	6	49	39	3	**97**
H. Performance and Results Measurement		20			20	20		30			5	38	40	7	**90**
Sub-total	67	67	40	40	160	142	61	61	61	61	38	352	321	39	**760**
III. Report Preparation	15	15													**30**
IV. Project Management	10	10			25										**45**
TOTAL DAYS	92	92	40	40	185	142	61	61	61	61					**835**
BILLING RATE ($/DAY)	$3,040	$3,040	$3,040	$2,320	$2,610	$2,070	$1,665	$1,665	$1,665	$1,665					
TOTAL FEES	**$279,680**	**$279,680**	**$121,600**	**$92,800**	**$482,850**	**$293,940**	**$101,565**	**$101,565**	**$101,565**	**$101,565**					**$1,956,810**

In addition, our support costs are approximately 2% of fees. For this engagement, we anticipate support costs of $40,000.

Out-of-pocket travel expenses typically average 20% of fees. For this engagement, we anticipate travel and living expenses to be $390,000.

ScottMadden's consultant billing rates and billing practices are presented as Exhibit E.

VII. QUALIFICATIONS OF THE FIRM

A. QUALIFICATIONS OF THE CONSULTING FIRM

Founded in 1983, ScottMadden, Inc. is a general management consulting firm providing independent and objective counsel and specialized business services to clients in the energy industry in the U.S. and Europe. We trace the source of our success to our size, culture and values, and our deep understanding of the energy industry gained from nearly a quarter century of providing management counsel to our energy clients.

ScottMadden specializes in the energy industry and has served energy companies worldwide. Our clients include traditional utilities, competitive energy suppliers, retail energy suppliers, trading and marketing firms, RTOs/ISOs/ITCs, gas pipelines, and LDCs. Several keys aspects of our approach and qualifications are highlighted below:

Several keys aspects of our approach and qualifications are highlighted below:

Energy Industry Skills and Competencies

As mentioned above, the utility industry has been our core focus for a quarter century. While our expertise in energy consulting covers a range of relevant competencies and skills, listed below are several practice areas specifically relevant to this engagement.

Management Auditing
Staff of the firm have deep experience in performing experience in performing management audits, having performed over 20 in our long history. A representative listing of our management audits is presented on page 29. We are very familiar with the audit process, and have a long and successful history of supporting Commission mandated management audits.

Business Unit Performance Management
We help build the infrastructure for sound planning and management processes by establishing goals, targets, and the accountabilities fundamental to driving outstanding performance. We work with our utility clients to institute programs and tools that allow managers to be effective, including operational cost frameworks and cost management practices, and capital project prioritization and approval processes

Organization Design and Development
A particular strength of the firm is our ability to work with senior utility managers to develop strategies for adapting the structure of the organization to a changing environment. Performance of confidential work of this nature requires industry knowledge, sensitivity to the specific situation of the client, and an ability to incorporate general management processes into an organizational design. The staff of the firm possesses this knowledge and capability. In addition, the firm can provide assistance in implementing the organizational changes through techniques such as development of specific charters of responsibility, interface agreements, and mission and functions statements.

Market/Load Planning Analysis and Marketing Planning Assistance
ScottMadden has completed and participated in numerous power supply market/load planning analyses, market pricing studies, competitive market assessments, market segmentation analyses, C&I segment marketing plans, and retail energy products and services plans.

System Planning, Load Forecasting, and Supply Procurement
Load forecasting and supply procurement represents a strength of the firm. We have extensive experience working with generating organizations in developing long range capacity plans, integrated resource plans, and the load forecasts that support them. Furthermore, we also have a long history of working with clients to procure supply, both in the near-term and long-term (bulk power) markets.

Management and Staff Development
ScottMadden has developed numerous formal management and staff development programs that can be provided off-the-shelf or can be customized to suit a TVA's particular needs. ScottMadden's management development programs include

sales force management, change management, Work Management, Achieving Excellence through Project Management, or similar management development offerings.

Demand Response and Energy Efficiency
We provide both analytical and strategic assessments of energy efficiency and demand response initiatives that create value for our clients and their customers. Our comprehensive approach uses broader national data in conjunction with local understanding of service areas, customer segments, and energy operations. This ensures that our clients can appropriately assess and select energy efficiency/demand response programs that can provide measurable impacts to their operations and markets.

Energy Industry Update

As a firm, we are known for our extensive knowledge of the industry. Twice each year, ScottMadden publishes its *Energy Industry Update*. The *Energy Industry Update* is a compendium of breaking news, emerging issues, and recent developments in the energy industry and is the foremost industry publication of its kind. Our clients find the *Update* to be to be informative, concise, and an indispensible way to keep abreast of key industry trends.

Relevant Experience

ScottMadden has assisted more than 150 energy companies (including 75 percent of the top 20 U.S. gas and electric companies) on a variety of strategic and operational issues. For these clients, we have performed *over 1,000 engagements* focused on corporate goals and planning, load forecasting and supply procurement, capital and O&M budgeting, program planning and management, work force management, and performance and results management.

As stated earlier, conducting management audits for Public Service Commissions represents a strength of the firm. The partial list below illustrates 20 such audits the firm has conducted, with a brief summary of each. In all cases, these audits were performed for the respective Public Utility Commission with jurisdictional responsibility for this utility, and in close coordination with Commission staff.

Company	*Audit Summary*
• Arkansas Public Service Company	• Focused audit of the management and operation of Entergy's nuclear units
• Atlantic Electric Company	• Comprehensive management audit of Atlantic Electric Company
• Big Rivers Electric Corporation	• Comprehensive management audit of Big Rivers Electric Corporation
• Central Illinois Light Company	• Comprehensive management audit of Central Illinois Light Company
• Columbia Gas of Pennsylvania	• Management and operations study of Columbia Gas of Pennsylvania
• GTE South	• Focused management audit of the repair and maintenance practices of GTE South in West Virginia
• Kentucky Public Service Commission	• Comprehensive management and operations audit of Kentucky Power Company
• Kentucky Utilities Company	• Management and operations audit of Kentucky Utilities Company
• Louisville Gas & Electric Company	• Management and operations audit of Louisville Gas & Electric
• Mountaineer Gas Company	• Management and operations audit of Mountaineer Gas Company
• Nashville Gas Company	• Management and operations audit of Nashville Gas Company
• New York State Electric and Gas Corporation	• Management and operations study of New York State Electric and Gas Corporation
• Niagara Mohawk Power	• Management and operations study of Niagara Mohawk Power Corporation
• North Pittsburgh Telephone Company	• Management and operations study of North Pittsburgh Telephone Company
• United Telephone Company of Missouri	• Management audit of United Telephone Company of Missouri
• United Telephone Company of Pennsylvania	• Comprehensive management and operations audit of United Telephone Company of Pennsylvania
• West Ohio Gas Company	• Management/performance audit of the gas purchasing and policies of West Ohio Gas Company

B. QUALIFICATIONS OF INDIVIDUAL CONSULTANTS

As stated in section V-B of this proposal, our key staff has very deep experience in utility consulting. To restate their key qualifications:

Mr. Randy McAdams is a partner with ScottMadden and has over 21 years of utility consulting experience with a focus on developing the plans, processes, and organization to help clients execute their strategies. He has led numerous engagements throughout his career, including investor-owned, state-owned, and cooperative utility operations in the United States, Canada, and Europe. Mr. McAdams has significant experience in strategic planning, investment risk management, financial management, and organization development, business process design. Additionally, Mr. McAdams has participated in numerous management audits.

Mr. Jere ("Jake") Jacobi is a partner with ScottMadden and has more than 30 years of energy industry experience that encompasses a number of local and global companies in the public and private sector. He has provided consulting and management services to LDC operations, nuclear operations and fossil plant operations, and he has led engagements in strategic assessment and planning, enterprise asset management, benchmarking, process reengineering, corporate governance and business model assessment. In addition, Mr. Jacobi has experience in transmission/RTO management, construction and project management, work force management, and labor union negotiations.

Mr. Stu Pearman is a partner with ScottMadden and will serve as a technical adviser on this engagement, with particular focus on load forecasting, supply procurement, and system planning. Mr. Pearman has assisted numerous utility clients develop strategic plans, has assisted in utility mergers, and in implementing best practices across generation fleets. Other core competencies of Mr. Pearman include developing balanced scorecards for utilities and developing growth strategies.

Mr. Roger McCall has extensive experience in the utility industry, and has served over 25 utility clients in his career. His areas of expertise include utility operations, workforce management, the management of information technology organizations, process improvement, and organization design

Mr. C. Scott Wilson is a director with ScottMadden, Inc. and has more than 17 years of business strategy and management consulting experience. He has provided management counsel to numerous utilities across multiple business disciplines including strategic planning, competitive market development, operations, finance, marketing, sales, regulatory, and organizational design.

Mr. John Pang will serve as project manager for the project. Mr. Pang has over 10 years of consulting experience and focuses in developing and implementing strategic and business plans for nuclear and fossil generation fleets. Mr. Pang will have responsibility for directing interview scheduling, document control, working paper administration, and monthly reporting to the Commission.

Resumes for these consultants, and other staff consultants, appear in exhibit B of this proposal.

VIII. EXHIBITS

EXHIBIT A: KEY ASPECTS OF THE MANAGEMENT AUDIT

Corporate Mission, Objectives, Goals, and Planning

Key Tasks/Questions

- Review how Con Edison, Inc. (CEI), the parent, affects budgeting priorities and allocations among the electric, gas, and steam business
- Examine CEI budgeting priorities and allocations for CECONY and Orange and Rockland
- Examine the role of the Boards of Directors and executive and senior management in the development of budgeting guidelines and periodic budget reviews and approvals
- Examine if or how CECONY's financial position and the level of its rates are factored into the budgeting process
- Examine how CECONY executive management use measurable goals to achieve the corporate mission and objectives, and how performance process is handled by successive levels of management
- Evaluate how CECONY ensures compliance with procedures and practices related to the scope of this audit, e.g., internal controls, internal audit function and Sarbanes Oxley Act
- Evaluate how management performance and compensation are aligned with the corporate mission, objectives and goals at all levels within the corporation

Initial Data Request

- Corporate organizational chart
- Listing of Board of Directors members with biographies
- Copy of corporate mission statement
- Corporate budget for the previous 5 years
- Divisional (electric, gas, steam) budgets for the previous 5 years
- Description/process map of the budgeting process
- Documentation of audit practices
- Documentation of key practices to ensure Sarbanes-Oxley compliance
- Summary of compensation packages for officers and key management

Typical Analysis

- Review budgeting process for the corporate office and supporting businesses
- Identify the role of senior management in the budgeting process
- Interview key management personnel to obtain their views on any issues
- Establish any gaps in budgeting priorities and allocations across the business
- Review goal-setting process for executive management
- Review compensation plans and compare to corporate goals and objectives

Problems/Issues in Previous Audits

- Differences in budgeting process between the corporate office and supporting businesses
- Poor demand and revenue forecasting
- Ambiguity in budgeting and financial controls processes
- Lack of understanding of Sarbanes-Oxley regulations
- Non-compliance with Sarbanes-Oxley regulations
- Compensation packages not aligned with corporate goals and objectives

Long-term Load Forecasting

Key Tasks/Questions

- Assess the models used by CECONY to forecast local and system-wide load requirements
- How are demand side management (demand response, etc.) and energy efficiency, and other initiatives considered in the forecasting process?
- What types of models, inputs, and assumptions does CECONY use to forecast load requirements?
- How are CECONY's forecasting functions organized? Centralized, decentralized?
- How is planning for electric load integrated with gas and steam planning and CECONY's overall business strategy?
- Does CECONY have region-specific planning processes?
- How is forecasted load incorporated into rate cases?
- Consider the New York Independent System Operator's (NYISO) role in the State's electric forecasting

Initial Data Request

- Copies of the current forecasting models for local and system-wide load requirements
- Description of the inputs for each model
- Organization chart of the forecasting group with job descriptions
- Description of the forecasting process, including interaction between businesses and interactions with other utilities in New York
- Copies of most recent rate cases
- Listing of existing Con Ed Demand Side Management programs
- NYISO/Con Ed interfacing protocols and copies of correspondences within the last three years
- Examples of Con Ed cost of service calculations
- Allocation methodologies between Electric, Gas and Steam

Typical Analysis

- Examine the organizational structure of the forecasting function
- Review current load forecasting process for local and system-wide load requirements
- Review the involvement and timing of involvement with the ISO
- Evaluate inputs and assumptions for the models
- Interview key management personnel to obtain their views on any issues
- Compare electric load forecasting to steam and gas
- Review previous rate cases to ensure the most accurate forecasting data is being used
- Review cost of service methodologies

Problems/Issues in Previous Audits

- Inputs and/or assumptions to forecasting models are inaccurate
- Forecasting models do not properly consider energy efficiency and other demand side initiatives
- Forecasting process does not properly integrate all business areas
- Rate cases do not contain the most up-to-date load forecasts
- The Independent System Operator (ISO) is involved too late in the forecasting process
- Inadequate linkage to projections to commission assumptions of DSM options

Supply Procurement

Key Tasks/Questions	***Initial Data Request***	***Typical Analysis***	***Problems/Issues in Previous Audits***
• Identify and evaluate supply portfolio principles, goals, and objectives for mass market default customers • Identify and evaluate risk management strategies and practices • Review supply procurement strategies, policies, processes, and methods • What are CECONY's financial and physical hedging practices? • Examine CECONY use of performance benchmarking with other utilities • Review portfolio oversight and controls • What is the role of demand management/response, energy efficiency, and migration of retail customers to competitive suppliers in the portfolio and procurement processes?	• Organizational chart for the supply procurement area with job descriptions • Outline of risk management strategies • List of metrics used to measure hedging performance, including a description of how each benchmark was derived • Description of financial and physical hedging strategies • List of financial and physical hedging policies • Description of the integration with load forecasting • Explanation of the portfolio oversight process and controls	• Evaluate risk management strategies and supply portfolio principles • Review previous five years of hedges to determine performance • Review key performance metrics and benchmarks to establish validity • Interview management personnel to gain an understanding of any issues • Evaluate portfolio control mechanisms	• Hedging strategies are not properly aligned with corporate objectives • Inadequate controls for portfolio financial transactions • Inappropriate benchmarks are used to measure performance • Lack of integration with demand forecasting • Inappropriate portfolio control mechanisms

Long-term System Planning

Key Tasks/Questions

- Assess infrastructure planning and engineering functions
- Examine the priorities, guidance, and other instructions for evaluations, tradeoffs, and decision making
- Examine the development of forecasts for local area networks and infrastructure requirements
- How are alternative resources such as distributed generation and demand response initiatives considered in the planning process?
- How are other load infrastructure factors, such as advanced metering, smart grid, and energy efficiency initiatives considered in the planning process?
- How are the needs developed for major projects (e.g., substations, breakers, switches, transmission feeders, secondary system, etc.)?
- What is the process and criteria for making decisions regarding replace versus repair, including how the overall construction program planning (CPP) process is affected?
- What are the effects on the planning process of: (a) network versus radial systems, (b) underground versus overhead systems, (c) reliability versus new business tradeoff, and (d) regional (e.g., Bronx/Westchester) versus central planning dynamics?
- To what extent are benefit/cost analyses and risk analysis considered in the decision-making process including whether the level of consideration is appropriate and effective? Include an examination of the specific types of benefit/cost and risk analysis methodology being used
- How are trade-offs being optimized with respect to the replacement of older technology with newer technology and the resulting impact on the useful lives and depreciation assumptions of the existing infrastructure, cash flow, and system reliability?

Initial Data Request

- Copies of the long-term system planning model for the last 5 years
- Description of the system planning process
- Description of each input used for the planning models
- Five and ten year forecasts for local area and infrastructure requirements
- Description of any demand response initiatives underway
- Organizational chart for the planning function with job descriptions
- Decision criteria used for replace vs. repair analysis
- Previous analyses of underground vs. overhead systems
- Previous analyses of regional vs. central planning dynamics
- Project measurement metrics and description of the feedback loop into long-term system planning
- Project performance history for cost, schedule, safety, and quality
- Project management QA/QC program documentation
- Project management documentation for internal and contract labor
- Project controls methodology (e.g., earned value, or other methodology)
- Project management systems/software/data (e.g., Primavera, Passport, Maximo, etc.)
- Cash flow assumptions for all planned projects

Typical Analysis

- Review inputs to system planning models
- Review documentation of assumptions in the long-term planning process
- Analyze planning models to ensure accuracy
- Assess the needs for major projects, including replace vs. repair estimates
- Assess historic project management statistics (cost, schedule, safety, etc.)
- Analyze the criteria for replace vs. repair estimates
- Analyze the criteria for underground vs. overhead systems
- Analyze the criteria for network vs. radial systems
- Assess cash flow assumptions for future projects to determine if appropriate tradeoffs were made for new technologies

Problems/Issues in Previous Audits

- Lack of integration between business units
- Poor forecasting of infrastructure requirements
- Inadequate documentation of assumptions
- Demand response initiatives are not considered in the planning process
- Criteria for major decisions are not aligned with corporate goals and objectives
- Weak project control mechanisms and little feedback to the planning process
- Incomplete or inadequate project management process
- Inadequate project controls
- Inadequate project engineering design

Capital and O&M Budgeting

Key Tasks/Questions

- What are the roles of Consolidated Edison, Inc. and CECONY Boards of Directors and executive and senior management? At what point and to what extend to they get involved in the capital and operation and maintenance budgets? What level of detail do the Boards see? What are the Boards responsibilities? What is the relationship between CECONY and O&R regarding budget priorities?
- Evaluate the construction/capital priority setting process
- How does optimization of repair versus replace decisions impact infrastructure/capital expenditures?
- How is incremental O&M associated with new construction factored into the budgeting process?
- How do allowed revenues/rates and financing opportunities or constraints affect budget levels and priorities?
- Compare planned/budgeting expenditures, rate case proposed expenditures, and actual expenditures
- Define and evaluate the capital budgeting process, including project authorization, project appropriation, increase, decrease of authorization/appropriation, capital budget status reporting, validation in advance of appropriation, funding control, etc.
- Evaluate CECONY's use of budgeting guidelines, practices and procedures, including "zero-based" and other alternative methods
- Examine the roles of and relationships between regional and centralized planning and budgeting functions
- What is CECONY's methodology for prioritizing and determining which capital projects get approved? Include an examination of CECONY's modeling software for capital and operation maintenance budgeting
- How are expenditures managed and controlled? What methodologies are used to control and manage total

Initial Data Request

- Corporate capital and O&M budgets for the past 5 years, with actuals
- Business/divisional capital & O&M budgets for the last 5 years, with actuals
- Copies of the current O&M and capital budgeting models
- Description of the capital budgeting process
- Description of the O&M budgeting process
- Organizational structure of the finance department with job descriptions
- Description of the project authorization process, including cost control mechanisms
- Copies of most recent rate cases
- Explanation of how capital and O&M budgets are incorporated into rate cases

Typical Analysis

- Identify responsibility assignments in the organizational structure
- Assess the extent to which senior management and the Board of Directors is involved in the approval process
- Analyze capital budgeting process for corporate and each business unit, including the standard for prioritizing projects
- Analyze O&M budgeting process for corporate and each business unit
- Review operating assumptions in the budgeting process and determine if inputs are valid
- Review means used to integrate the budgeting functions performed by various groups
- Assess the status of significant changes in the planning process
- Review software used for budgeting
- Evaluate tracking mechanisms for determining actual costs of capital and O&M projects
- Analyze cost control measures used in project authorizations to determine appropriateness
- Review most recent rate cases to ensure budgeting estimates are used correctly

Problems/Issues in Previous Audits

- Lack of integration between corporate and business unit budgeting
- Insufficient documentation in the budgeting process
- Inputs for capital and O&M cost estimates are not accurate
- Lack of market analysis to support the budgeting process
- Prioritization of capital projects is not based on the most appropriate measures
- Actual expenditures exceed budgets and cost control mechanisms are not in place
- Inadequate development of performance measures
- Rate cases do not contain the most appropriate budget forecasts

Key Tasks/Questions	***Initial Data Request***	***Typical Analysis***	***Problems/Issues in Previous Audits***
company, program, and project capital costs in the near and long term? • What is the annual process for reviewing and determining whether total capital and O&M planned expenditures are adequate? Evaluate cost control systems and processes from both a top-down and bottom-up perspective. Are there sufficient controls in place to ensure that increases and decreases to the construction budget/expenditures are justified and appropriately approved? • Examine the bottom-up and top-down processes for developing the budgets for capital/construction classifications and categories • How are budget forecasts incorporated into rate case revenue requirements?			

Program and Project Planning and Management

Key Tasks/Questions	***Initial Data Request***	***Typical Analysis***	***Problems/Issues in Previous Audits***
• How do capital and O&M plans and budgets convert to specific programs and projects?	• Description of the program/project planning process	• Identify responsibility assignments in the organizational structure	• Documented/stated procedures are not followed during the planning or execution of a program/project
• How are programs and projects prioritized and approved over various time horizons?	• Corporate capital and O&M budgets for the past 5 years with program/project line items, with actuals	• Analyze capital and O&M budgeting process for programs/projects in corporate and each business unit, including the standard for prioritizing projects	• Lack of integration between planning and management functions
• Define and review program and project planning, design, estimating, engineering, costing, scheduling, and execution	• Documents and procedural guidelines related to the program/project planning or management processes	• Assess the status and impact of significant changes in the planning process	• Insufficient documentation in the budgeting process
• How are materials, equipment, transportation, and other logistical support planned and managed for programs and projects?	• Description of the program/project evaluation process	• Review software, if any, used for program/project planning and management	• Insufficient documentation in the bidding/contracting process
• How are tradeoffs analyzed and decisions made in order to optimize the use of in-house workforce versus contractor labor?	• Description of the contract/bid planning and evaluation process	• Evaluate tracking mechanisms for project budget and timelines	• Inputs for capital and O&M cost estimates are not accurate
• Examine contractor and engineering bidding practices	• Description of each metric used to measure contractor performance	• Analyze cost control measures used in project authorizations to determine appropriateness	• Prioritization of projects is not based on the most appropriate measures
• Evaluate how construction contractor projects are planned and managed	• Explanation of the benchmarking process for each metric	• Evaluate QA/QC strategies	• Initial program/project definition not adequately reviewed
• Evaluate quality assurance and quality control at the program and project level	• Program/project team organizational structure with job descriptions	• Review key performance metrics and benchmarks to establish validity	• Scope control mechanisms not in place
• Examine contractor management, project/program management, including accountability, goals, objectives, and performance measurement	• Description of the project authorization process, including cost control mechanisms	• Interview program/project management personnel to gain an understanding of any issues	• Inadequate development of performance measures
• Examine CECONY methodology for tracking costs, work units, and work quality for specific programs and projects. What are the typical variances between original budgeted and actual capital expenditures and work units? How does CECONY track and minimize the variances in order to improve the cost control, efficiency/productivity, and work quality?	• Explanation of the budget management process for programs/projects	• Interview key executives to gain an understanding of any issues	• QA/QC measures not in place for all aspects/phases of the program/project
	• Description of the scope definition process	• Review the benchmarking process for each metric	
	• Description of QA/QC mechanisms in place for programs/projects	• Examine the programs/project planning process and identify any gaps	
		• Identify any further metrics that should be considered to measure performance	

Workforce Management

Key Tasks/Questions

- Examine how planning and execution of programs and projects are converted into short-term and day-to-day work planning and management
- Evaluate work management systems that are used to schedule and manage field crews, including transportation, equipment, and materials
- Review the roles and responsibilities to project managers, supervisors, inspectors, etc.
- How does CECONY manage quality assurance and quality control?
- How does CECONY measure and manage employee availability, utilization, efficiency, productivity, and effectiveness?
- How are work program and project schedules managed on a day-to-day basis?
- How does information about rework, failures, repair history, etc. get translated into corrective actions, infrastructure aging analysis, repair versus replace decisions, etc.?
- How do workforce and work management systems feed back into performance improvement opportunities?

Initial Data Request

- Description of workforce management software
- Description of the project scheduling process for internal resources and outside contractors
- List of approved outside contractors
- Copies of project schedules for 10 projects, including personnel assigned and reporting structure
- Explanation of quality assurance measures used for projects staffed by internal resources
- Explanation of quality assurance measures used for projects staffed by outside contractors
- Description of the feedback process for quality assurance to workforce management personnel
- Current performance improvement initiatives for internal resources and outside contractors
- Backlog reports and trend data

Typical Analysis

- Review work scheduling systems and software
- Interview key personnel in workforce management to gain an understanding of any current issues
- Interview project managers to understand any issues with quality assurance
- Interview outside contractors to understand any issues
- Review scheduling assumptions used for project timelines
- Review project schedules
- Assess measurements use for quality assurance
- Analyze the feedback process for quality assurance from project managers to workforce management
- Analysis of work management data

Problems/Issues in Previous Audits

- Communication issues between workforce scheduling and project management
- Roles and responsibilities not clearly defined for each project
- Approved contractors list not updated regularly
- Workforce tracking system not up to date
- Inadequate quality assurance measures
- Lack of feedback from project managers into performance improvement initiatives
- Inadequate work management systems and processes

Performance and Results Measurement

Key Tasks/Questions	***Initial Data Request***	***Typical Analysis***	***Problems/Issues in Previous Audits***
• How does CECONY's performance (reliability, productivity, etc.) feed back to its corporate mission, objectives, and goals so that CECONY can improve its processes, redirect resources, and change priorities? At what point and to what extent are the Boards involved in this feedback loop? • Are managers held accountable for performance improvements, e.g., cost savings and productivity gains anticipated from specific capital and O&M programs and projects, specific corporate goals, etc. • Are there impediments that tend to constrain performance improvements and necessary changes? • Are there additional performance measures or indicators that are needed to facilitate the corporate mission, objectives, and goals? For example, in addition to lagging indicators, are there appropriate leading indicators, metrics, and measures that will help improve performance?	• Description of the corporate planning process • Previous five years of corporate goals and objectives (business plans) • Description of each metric used to measure performance • Explanation of the benchmarking process for each metric • Compensation structure for key managers with specific ties to each metric	• Interview key executives to gain an understanding of any issues • Evaluate the corporate business plan, specifically financial and operational metrics used to measure performance • Review the benchmarking process for each metric • Examine the corporate planning process and identify any gaps • Review management compensation structure for accountability incentives • Identify any further metrics that should be considered to measure performance	• Planning process does not provide adequate time to incorporate feedback from the previous year • Management compensation is not aligned with corporate goals and objectives • Metrics do not provide a balanced view of financial and operational performance • Benchmarks are not appropriate for specific metrics

EXHIBIT B: CONSULTANT RESUMES

Summary

Randy McAdams has more than 25 years of management consulting experience. For the past 21 years, he has specialized in the energy industry, with a focus on developing the plans, processes and organization to help clients execute their strategies. Mr. McAdams has led numerous engagements throughout his career, including investor-owned, state-owned and cooperative utility operations in the United States, Canada and Europe. He has significant experience in strategic planning, wholesale strategy development, investment risk management, organization development, business process design, information system design and implementation, change management and cost reduction. He is also deeply experienced in productivity/quality improvement programs, financial management, activity-based costing, materials management and work management. Mr. McAdams received a B.S. in management science from Duke University and an M.B.A. from the University of North Carolina at Chapel Hill. Prior to joining ScottMadden, he was employed by Kurt Salmon Associates and Price Waterhouse.

Areas of Specialization

- Strategy development
- Business planning
- Financial analysis
- Operations improvement
- Organizational design and staffing

Recent Articles and Speeches

- *Opportunities for Investment in Generation*, Infocast Power Forum, Washington DC, May 2005
- *Enterprise Risk Management: Concepts for Managing and Mitigating Energy Industry Risks*, Edison Electric Institute Risk Management Conference, Boca Raton, Florida, October 2004
- *The Future of Energy Trading*, 2003 Infocast Energy Forum, Washington, DC, May 2003
- *Opportunities and Challenges of Cross-Border Investing*, 2002 Infocast Energy Forum, New York, NY, June 2002
- *Preparing for the New Paradigm: What to Expect When Retail Choice Happens*, Infocast Conference: The New Rules of the Texas Power Game, Houston, Texas, June 21-23, 2000
- *The New Rules of the Mid-Atlantic Power Game*, Served as Chair of the Infocast Conference, Washington, DC, April 26-28, 2000

Recent Assignments

- Assisted the CEO of a 1.4-million customer energy delivery company with a comprehensive strategic assessment and reorganization
- Assisted the CEO of a $2 billion unregulated energy subsidiary with commercial strategy development and comprehensive reorganization
- Directed a comprehensive effort to help a $7 billion northeast combination utility prepare for deregulation
- Assisted the CEO of a $6 billion merchant generation and trading company with a comprehensive reorganization
- Directed a comprehensive effort to help a $3 billion mid-Atlantic utility in prepare for deregulation
- Helped the CEO of a nationwide merchant generation construction program identify cost targets/improvement opportunities

Summary

Jake Jacobi has more than 30 years of energy industry experience that encompasses a number of local and global companies in the public and private sector. He has provided consulting and management services to LDC operations, nuclear operations and fossil plant operations, and he has led engagements in strategic assessment and planning, enterprise asset management, benchmarking, process reengineering, corporate governance and business model assessment. In addition, Mr. Jacobi has experience in transmission/RTO management, workforce management and labor union negotiations. He also has led multiple process designs, from current state documentation to redesigned process development.

Mr. Jacobi earned a B.A. in economics and a B.S. in mechanical engineering from the University of Wisconsin–Milwaukee. Prior to joining ScottMadden, he was employed by Booz Allen Hamilton, Deloitte Consulting, Wisconsin Energy Corporation, Stone & Webster Engineering and the United States Navy.

Areas of Specialization

- Operations – nuclear, fossil, power marketing and distribution
- Transmission/RTO management and operations
- Mergers, acquisitions and divestitures
- Construction, maintenance, work management and asset management

Recent Assignments

- Led a team that developed a transmission strategy for a large multi-region utility, which included documenting and developing processes for a capital funding plan, agency approvals, construction project execution plans and overall project management and reporting
- Managed a process re-engineering engagement with a large utility nuclear project with functional focus on engineering, work planning and management, construction and materials management
- As team lead in a major corporate reengineering effort, developed detailed process design plans for multiple areas of the generation, distribution and customer service businesses
- Led a project team to assist in developing a large RTO business model, organization structure, operating processes and market management processes
- Managed the development of a business model and an asset management strategy for two major independent power producers
- As project manager of integrations in multiple industries, developed synergy estimates, documented stand alone company processes, developed integrated company "to-be" processes and assisted in synergy capture and tracking

Summary

Stu Pearman has been a management consultant for more than ten years, with expertise in energy and related services, outsourcing, telecommunications, and the technology sector. He is also an experienced practitioner, having 19 years of general industry experience in both line and staff management roles. Prior to joining ScottMadden, he worked at the National Broadcasting Company, a division of GE. He earned a B.A. in psychology from Williams College and an M.B.A. from the Kenan-Flagler Business School at the University of North Carolina, where he graduated at the top of his class and won the Best Industry Analysis Award.

Areas of Specialization

- Strategy development
- Generation and wholesale
- Mergers and acquisition integration
- Outsourcing advisory services
- Organizational design and staffing

Recent Articles and Speeches

- "The Leadership March," *Electric Perspectives*, January/February 2004
- "The Team Playbook," *Electric Perspectives*, September/October 2004
- *Balanced Scorecard*, presented to the United States State Department A-Bureau, which was subsequently televised to all State Department bureaus worldwide. Provided practical information on balanced scorecard fundamentals, application, and getting results, November 18, 2002

Recent Assignments

- Developed a strategic plan for a mid-size gas delivery company, focusing on growth initiatives and core business improvement. Designed and implemented a goal structure and business planning process to ensure the plan was successfully implemented. The client has since reported significant improvements in earnings and earnings quality
- Supported merger integration for one of the most significant mergers of this decade, assisting both the fossil fleet and Genco finance areas in selecting best practices, capturing synergies and planning implementation
- Facilitated the implementation of best practices – or "playbook" – for a very large generation business unit. The project included organization design, goal structure, generation management practices, market-to-generation linkages, planning processes, activity-based costing, information, business systems and more. Targeted annual benefits from improvements were in the $25 to $50 million range
- Provided outsourcing advisory services to three national credit reporting agencies after they were required by law to provide free credit reports to the United States population. Despite a tight time frame and the unprecedented nature of this undertaking (three competitors required to collaborate), the outsourcing program was implemented on time with tremendous success
- Developed a balanced scorecard for multi-state utility service business. The assignment included identifying operational drivers behind scorecard measures and developing a root cause analytics model to quantitatively link operational drivers to scorecard results. The model supported variance analysis and predictive, "what if" analysis of operational and customer strategies. The final product was a successful, change management-based, behavioral training program to deploy the new scorecard, model, and associated operating process improvements
- Devised an innovative customer relationship-based corporate growth strategy for an electric utility and developed the specifics required for implementation that will add 5 to 10 percent to EPS. Specifics included customer-based operations, infrastructure, enablers, segment plans, new products and innovative pricing
- Designed ScottMadden methodology for corporate market planning and worked with a gas LDC to implement the methodology by creating its first corporate marketing plan
- Piloted customer-aligned process improvement for a regional Bell operating company. Increased revenue by more than 20 percent, improved cross-functional teamwork, reduced various process defect rates by 12 to 70 percent, improved large order field cycle time by 50 percent, and reduced annual process cost by $400 thousand
- Translated the growth strategy of a diversifying Canadian energy concern into marketing and sales initiatives, including new organization structure

Summary

Roger McCall was a partner and management consultant with ScottMadden, Inc. for more than 20 years. He is currently an affiliate and continues to perform senior level work for the firm. His areas of expertise include utility operations, workforce management, the management of information technology organizations, process improvement, and organization design. He is a frequent speaker on the topics of shared services for information technology (IT). Mr. McCall has extensive experience in the energy and energy utilities business sectors, telecommunications and the federal government. Mr. McCall performed work for these clients in the U.S., Canada, the Caribbean, the United Kingdom and Europe. Mr. McCall has a B.S. in electrical engineering from Carnegie Mellon University and an M.B.A. from the University of North Carolina at Chapel Hill.

Areas of Specialization

- Workforce management
- Work management
- Customer service operations
- Technology organization and management

Recent Assignments

- Led the process redesign for a gas utility construction and maintenance improvement and cost reduction effort
- Led an enterprise wide process improvement effort at a Fortune 500 natural gas distribution company
- Led a customer focused operations transformation at a large electric utility. Results included new measurement frameworks, better understanding of customer expectations by segment and several new practices in the field and call centers.
- Served as project manager, operations lead or corporate function lead on over 10 management audit and management audit preparation engagements
- Led service level agreement definition and implementation projects for a large RTO
- Provided project management and technical advice for a large federal agency shared services implementation encompassing IT, HR, Procurement and Finance
- Led a management review of the production function at a Caribbean electric utility, resulting in a renewed focus on preventative maintenance and significantly improved reliability.
- Reengineered the billing, collection and customer services processes at a large electric company.
- Developed and implemented a reliability based budgeting approach for a large electric distribution organization
- Developed a process improvement baseline analysis for a utility IT organization, including infrastructure and applications. .
- Analyzed interface process and relationships between the customer service application operations and maintenance organization and the IT infrastructure organization at a large electric utility.
- Managed new market entry efforts for a northeastern energy provider for two electricity market openings.

Recent Articles and Speeches

- "Utilizing Shared Services as an Alignment Tool," *Business-IT Strategies Advisory Service Executive Update*, Vol. 7, No. 9, Cutter Consortium, May 2004
- "Implementing Shared Services to Achieve IT Alignment" (with David Essary of Kerr McGee), Shared Services News. Vol. 5, Issue 5, July/August 2003
- *Aligning Your Business and IT Strategies*, IQPC IT Financial Management Week, Las Vegas, April 2003, and several other speeches on managing and improving performance of shared services

Résumé of
C. Scott Wilson
Director

Summary

C. Scott Wilson is a Director with ScottMadden, Inc. and has over 17 years of business strategy and management consulting experience. Mr. Wilson has provided management counsel across multiple business disciplines including strategic planning, competitive market development, operations, finance, marketing, sales, regulatory, and organizational design. Mr. Wilson founded NorthStar Concepts, Inc. in 1996 as an independent management consulting practice serving energy, utilities, telecom, media, and technology clients for 10 years. Prior to founding NorthStar in 1996, Mr. Wilson was a core member of ScottMadden's strategic planning practice for six years and served as an officer in the U.S Army. While stationed in Europe, he served with nuclear weapons and both US and German engineer units where he earned several commendations. Mr. Wilson received a B.S. in Civil Engineering from the Virginia Military Institute (VMI) and an M.B.A. from the University of North Carolina – Chapel Hill. As a cadet at VMI, Mr. Wilson earned the Engineer in Training (EIT) registration and the U.S. Army Airborne qualification.

Areas of Specialization

- Strategy development and business planning
- Generation, wholesale, and energy delivery
- Marketing, product development, and sales planning
- Finance and economic analysis
- Business technology application and intellectual property management

Articles and Speeches

- *Value of the Intelligent Grid in the Utility of the Future,* EEI Strategic Issues Roundtable, October 2007
- *Demand Response: Enabling the "5th Fuel",* G&T Resource Planning Association, October 2007
- *Technology Trends for Co-ops – What's Down the Road?,* EMCT 2007 Technology Conference, August 2007
- "Begin Load Shaping Today – Utility of the Future," World-Generation's *World-Gen,* May/June 2007
- "Services Procurement & Contract Management (SPCM): Building the ROI Case for an SPCM Solution," Energy Central's *Energy Pulse,* June 2004
- "The 2003 US Northeast Blackout: An Opportunity for Energy Companies to Regain Customer, Investor and Market Confidence," Energy Central's *Energy Pulse*, September 2003
- "Tap the Internet for Your E-Business Solutions," *RadioInk,* May 2003

Recent Assignments

- Assessed feasibility of AMI and other "intelligent grid" technologies. Included integration of emerging market-side options and C&I segment services with future energy supply planning/IRP. Developed strategic, business, market, operational and infrastructure plans/business cases reflecting value to grid ops, customer service, peak/energy management, demand-side controls, and other advanced supply and energy service benefits
- Completed business/energy market "fit" assessments and facilitated strategic planning off-sites for utility executive and senior management teams. Results supported integrated business, market, operational, and organizational strategies/planning and state legislative/commission directed market structuring initiatives
- Developed business, operational, and market strategies for distribution-level utilities and service entities positioning as Energy Supply/Distribution Services "Integrators" between wholesale and retail energy markets
- Developed C&I retail segment energy supply, delivery, and service offerings. Included business and financial impact assessments and regional, customer, and asset-based (supply) 8,760 hourly pricing/profitability models
- Developed "customer needs-based" C&I segment marketing and sales programs for electric end-use and process loads. Included customer segment/economics knowledge, key decision-maker/influencer profiles and drivers, product/service offerings, earnings impacts, "best practices," sales/business case analytical tools, and a 1st generation, web-based enterprise marketing and sales support e-Platform
- Designed and implemented a corporate group "commercializing" utility Intellectual Property (IP). Conducted IP contract negotiations. Resulting IP portfolio value under management is approximately $6.0+ million

Summary

John Pang has over 10 years of consulting experience in North America and Asia working in the energy, pharmaceuticals, telecommunications, and financial industries. Prior to joining ScottMadden, Mr. Pang was a consultant and country manager for AsiaWorks Corporate Division in Hong Kong, where he consulted with organizations to develop change management strategies and implement strategic training solutions. Mr. Pang received a B.S. from the University of Guelph, an M.A. in experimental psychology from York University, and an M.B.A. from Duke University.

Areas of Specialization

- Project and change management
- Facilities and project management
- Transmission
- Strategic and business planning

Recent Assignments

- Developed and implemented a gap-based business planning program for a fleet of 11 fossil generating plants in the southeastern United States
- Designed, developed and implemented the strategic and business planning program for a Canadian nuclear generating fleet. Assessed, redesigned, and implemented a new capital project review and prioritization process to be used in the business planning process
- Developed the process maps for a real estate group managing a worldwide portfolio of office, warehouse, and research space
- Managed the design, construction, and occupation of a new $17 million, 40,000 sq. ft. operations control center for an electric utility. Developed the overall facilities strategy and additional head office building requirements
- Served as the project controller for a $40 million project to transition control of transmission assets from the incumbent utility to an independent transmission company. Designed and implemented project controls and documentation necessary for budgeting, variance analysis, project cash flow projections, and management reporting
- Consulted with a major pharmaceuticals company to design and implement processes and practices to ensure the integrity of their data. Created the structure and processes for accurately and effectively updating its campus facilities data
- Performed the quantitative analysis to support a benchmarking study of the capital and operations and maintenance performance of over twenty transmission organizations located in the eastern half of the United States
- Consulted with a large forest products company on the optimum support model for a company-wide implementation of a SAP backbone
- Evaluated the effectiveness of the billing department for the subsidiary of a major utility. Analyzed and documented their billing process, determined the cause of manual work and exceptions, and implemented cost effectiveness initiatives that reduced the department's required costs and staff by more than 50 percent
- Performed a strategic market assessment and evaluated the long term potential for a large industrial company to enter the U.S. wind market
- Conducted competitive market analysis and evaluated entry strategies for an international remittance company. Focused on business development for international money transfers from Canada to the Philippines, China, and Vietnam
- Implemented a global change management and personal leadership initiative for a large telecommunications vendor. Facilitated and conducted workshops in six different countries

Résumé of
Michael Anckner
Senior Associate

Summary

Michael Anckner joined ScottMadden in January 2006 after receiving his M.B.A. in corporate finance from Kenan-Flagler Business School at the University of North Carolina - Chapel Hill. While pursuing his degree, Mr. Anckner interned at Harrods, Ltd. in London, serving as an internal consultant and working on projects ranging from cash flow improvements to customer profitability studies. Prior to business school, he managed sales and marketing support for various international regions at Bombardier Aerospace, a leading commercial and business jet manufacturer. In addition to an M.B.A., Mr. Anckner holds a B.B.A. in international business from the University of Georgia.

Areas of Specialization

- Strategy development
- Financial analysis
- Fossil generation
- International business

Recent Assignments

- Developed a 3-year, gap-based business plan for the fossil power group of a diversified utility. Benchmarked key metrics and led integrated teams to create initiatives aimed at achieving top quartile performance
- Managed the technical analysis of a new IGCC technology for a southeastern utility
- Analyzed scrubber construction costs for a peer group of utilities and provided key insights to improve cash flow forecasting for future projects
- Served as controller for the asset management division of a start-up, electric transmission company. Designed and built a budgeting model to track capitalized costs and expenses and forecast future cash flows
- Evaluated high-level business processes at an independent transmission company and facilitated the redesign of those processes to account for changes in the company's business model
- Managed the implementation of an HR shared services center to support a new manager self-service tool at a large, global manufacturer
- Developed the business case and supporting financial analysis for implementation of an HR shared services center at an auto parts manufacturer
- Led the site selection study for a new global headquarters at a multinational logistics company. Analyzed the cost, infrastructure, and stability of numerous locations and recommended two options for the new facility
- Reengineered the payroll process at an automotive parts manufacturer to reduce workload and improve reliability
- Led the valuation of a privately-held restaurant and retail operation for potential acquisition by a small group of investors
- Improved cash flow nearly £1 million at a major department store by creating a customer incentive program to encourage accelerated spend of outstanding gift cards
- Determined customer profitability by demographic and nationality at a global retail institution and recommended changes in the marketing plan to incorporate the results
- Worked with senior management at a global business jet manufacturer to develop and implement a strategic sales and marketing plan for Latin America

Summary

Jason Eades joined ScottMadden in August 2007 after earning his M.B.A. in strategy and consulting from the Goizueta Business School at Emory University. Prior to attending Emory University, Mr. Eades worked as a senior associate and project manager at PricewaterhouseCoopers LLP, a multinational professional services firm. During his three years there, he focused on the technical research and development activities of clientele throughout the San Francisco Bay Area. He earned his Bachelor of Arts degree from the University of Texas at Austin where he studied business and economics.

Areas of Specialization

- Finance and accounting management
- Performance management
- Operations improvement and process redesign
- Strategy development
- Internal customer surveys

Recent Assignments

- Proactively managed the project economics of multiple client deliverables, including San Francisco's largest research and development engagement involving 20+ site visits and 250+ interviews, resulting in over $40 million in profit (after federal taxes, additional amounts in state taxes notwithstanding)
- Created internal project development initiatives such as project scoping, feasibility analysis, industry research, targeting, and resource budgeting for a variety of clients in various industries
- Performed detailed calculations and prepared technical documentation of research and development activities for manufacturing, software, and agricultural firms, exercising extensive process review, organization of collected materials, and interviewing
- Coordinated the activities of five associates and two interns, training each and performing written performance reviews and pre-engagement discussions of objectives
- Coached 140+ international assignees on tax preparation, savings, and equalization issues
- Managed five-member team in the preparation and review of quarterly hypothetical and actual tax modeling for approximately 1,200 expatriate assignees working for a multi-billion dollar global energy company

Summary

Katy Cagle joined ScottMadden in 2007 after receiving her M.B.A. from the Fuqua School of Business at Duke University. While pursuing her degree, Ms. Cagle interned in market analysis and strategy development at General Electric Energy. Prior to attending Duke University, Ms. Cagle worked as an accounting associate for Prudential Financial. During her time there she was selected to a cross-functional team tasked with developing a new internal tool to track investment performance. Ms. Cagle also holds a Master of Environmental Management from the Nicholas School at Duke University and earned her B.A. in Economics from Bucknell University, where she graduated magna cum laude.

Areas of Specialization

- Strategy development
- Marketing analysis and modeling
- Business planning
- Energy issues

Recent Assignments

- Assisted in strategic sourcing effort at a $10 billion electric utility to achieve savings targets across multiple supply chain categories. Scope included spend analysis, market analysis and RFP process
- Conducted an assessment of corporate services contracts for large electric utility, which resulted in identification of significant savings opportunities. Assisted in developing plan for achieving identified cost savings
- Analyzed regulatory environment, demand trends and technological development to assess long-term growth potential of US wind market and guide strategic decisions of $4 billion business. Established critical criteria and process for comparing state-level market potential in order to allocate sales force efforts to high value regions
- Initiated business development strategy for a specialty oil and gas research firm to expand into a new market space. Conducted primary research, assessed current products and services, created a plan, and recommended a strategy for expansion
- Developed a strategy for a nonprofit energy association to engage the private sector on energy issues and communicate the impacts of different policy initiatives on the private sector. Interviewed potential stakeholders to assess current viewpoints on energy issues and presented findings to the board of directors

Summary

D.J. Conrad joined ScottMadden in 2007 after receiving his M.B.A. in consulting and general management from the Babcock Graduate School of Management at Wake Forest University. While pursuing his degree, Mr. Conrad interned with McNeilus Companies, a leading manufacturer of concrete mixer trucks in North America. In this role, he worked on an international project focused around expansion of manufacturing operations. Prior to attending business school, Mr. Conrad worked as a project engineer for Bovis Lend Lease, one of the world's leading construction management companies. He earned his B.S. degree in civil engineering from North Carolina State University.

Areas of Specialization

- Organization design and restructuring
- Project and change management
- Strategy development
- Cost reduction analysis
- Supply chain management

Recent Assignments

- Conducted an organization assessment for the travel services group of a global pharmaceutical company, which is responsible for $1 billion in annual spend. Aligned future-state organization with the company's growth model of creating a single platform for global service offerings. Coordinated interests between internal business partners and the travel services group. Created detailed job descriptions for each new and redefined position
- Assisted the fleet services group for a global pharmaceutical company, which is responsible for $400 million in annual spend, in realigning its operational processes with a new service delivery model. Assisted with planning for outsourcing additional operational tasks
- Developed business case supporting the addition of a manufacturing facility in Mexico. Upon receiving executive approval, assisted with site selection, sales, marketing, quality assurance, material supplier, distribution channel, and human resource strategies
- Managed the construction of an 180,000 sq. ft. addition and renovation of a healthcare facility, including the coordination of subcontractor schedules, performance feedback practices, applications for payment, change orders, submittals, and requests for information

Summary

Bob Neill joined ScottMadden in 2007 after receiving his M.B.A from Vanderbilt, where he concentrated in Operations and Strategy. Mr. Neill interned with Deloitte Consulting where he helped design and implement a predictive staffing model for a multi-hospital health system. During the school year, Mr. Neill worked on a business strategy project with Emdeon (formally WebMD), led two strategy projects with Healthways, and led a cost accounting study for the Vanderbilt University Medical Center. Prior to business school, Mr. Neill worked as an account executive and circulation manager for the *Rowing News*, the nation's largest source for news on collegiate, professional, and Olympic rowing. Bob received his B.A. with a major in mechanical engineering from Dartmouth. He was on the varsity sailing team and worked for the college as a part-time Spanish language instructor.

Areas of Specialization

- Operations improvement and process redesign
- RFP design and vendor selection
- Organization design and benchmarking

Recent Assignments

- Worked with ScottMadden team to help a top-20 utility prepare the RFP for a $38 million over 5-years care center outsourcing project
- Helped a large utility perform a position-to-position benchmarking study of their nuclear organization against industry best practices
- Designed and implemented a real-time staffing process with interactive monitoring tools for over 40 hospital units. Led training for over 100 administrators and unit managers
- Led two business strategy projects with the nation's largest disease management company. Studied opportunities for service line growth and integrating new mobile monitoring technologies
- Helped to survey and interview over 200 physician office managers. Analyzed customer demographics, unmet needs, and the competitive landscape for physician office management systems. Presented findings and strategic recommendations to the CEO and executives at Emdeon

EXHIBIT C: SCOTTMADDEN EXCEPTIONS TO TERMS AND CONDITIONS

New York Public Service Commission
Case 08-M-0152

If our firm is selected for Case 08-M-0152, ScottMadden asks that the Commission allow us to incorporate modifications, including provisions like those in the table below which we consider reasonable and applicable for the nature of our work, into the standard Commission contract. We will be glad to submit a redline document for Commission review

Type of provision	ScottMadden preferred language
Indemnification	Anything contained in this *Agreement* to the contrary notwithstanding, *Consultant's* indemnity shall be applicable only to the extent that the proximate cause for the claim(s) is the intentional misconduct, negligence, fault, or acts of omission of the *Consultant*, its employees, or its agents. Also, *Consultant's* obligations to indemnify hereunder shall: 1) **Be limited in the aggregate to the amount paid for such claims by insurance, which the *Consultant* maintains or is required to maintain under this Agreement** 2) **Be limited to such claims submitted within two years of the earlier of the date upon which the cause of action occurs, or the date upon which *Consultant* completes work under the *Statement of Work* under which the cause of action occurs** 3) **Be limited to claims relating to causes of action that were within *Consultant's* reasonable control.**
Limitation of Liability	Same terms as above, except adapted to cover all types of claims.
Intellectual Property	Anything contained in this *Agreement* to the contrary notwithstanding, *Consultant*, NYPSC, and Consolidated Edison shall each retain ownership of their respective pre-existing intellectual property. To the extent that such pre-existing intellectual property is included in the products of the *Services*, *Consultant* hereby grants to NYPSC and Consolidated Edison a non-exclusive, non-transferable, royalty-free license to use such intellectual property for Owner's internal business purposes only. Also, nothing in this *Agreement* shall prevent *Consultant* from utilizing any general know-how, ideas, techniques, concepts, methods, processes, or other knowledge applied in performing the *Services*, on behalf of itself or its future customers. *Consultant* may perform the same or similar services for others, provided that any of NYPSC or Consolidated Edison confidential information is treated in accordance with the confidentiality requirements of this *Agreement*.
Document retention	*Consultant* shall be allowed to retain one copy of deliverables to document the conduct of its work and its exercise of due professional care with respect to the execution of the work.
Insurance	Insurance limits and requirements should conform to ScottMadden's current policies, which are summarized in the attached sample certificate.
Termination	Where replacement services are to be purchased by NYPSC to complete the *Work* due to *Consultant's* breach of warranty or failure to deliver according to the *Agreement*, the cost of such replacement services paid by Consultant shall be limited to 1.15 times the cost of such remaining services under the Task Order or Agreement covering such

EXHIBIT D: SAMPLE INSURANCE CERTIFICATE

ACORD CERTIFICATE OF LIABILITY INSURANCE

OP ID BG
SCOTT-3

DATE (MM/DD/YYYY)
10/23/07

PRODUCER

First Insurance Services, Inc.
P. O. Box 13687
RTP NC 27709
Phone: 919-941-0549 Fax: 919-941-0135

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

INSURED

ScottMadden, Inc
2626 Glenwood Ave Suite 480
Raleigh NC 27608

INSURERS AFFORDING COVERAGE		NAIC #
INSURER A:	Hartford Underwriters Ins. Co.	30104
INSURER B:	Hartford Casualty Insurance Co	29424
INSURER C:		
INSURER D:		
INSURER E:		

COVERAGES

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. AGGREGATE LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	ADD'L INSRD	TYPE OF INSURANCE	POLICY NUMBER	POLICY EFFECTIVE DATE (MM/DD/YY)	POLICY EXPIRATION DATE (MM/DD/YY)	LIMITS	
B		GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS MADE X OCCUR X Business Owners GEN'L AGGREGATE LIMIT APPLIES PER: POLICY X PRO-JECT LOC	22SBABB3028	08/10/07	08/10/08	EACH OCCURRENCE DAMAGE TO RENTED PREMISES (Ea occurence) MED EXP (Any one person) PERSONAL & ADV INJURY GENERAL AGGREGATE PRODUCTS - COMP/OP AGG	$ 2000000 $ 300000 $ 10000 $ 2000000 $ 4000000 $ 4000000
A		AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS	22UECUB5113	08/10/07	08/10/08	COMBINED SINGLE LIMIT (Ea accident) BODILY INJURY (Per person) BODILY INJURY (Per accident) PROPERTY DAMAGE (Per accident)	$ 2000000 $ $ $
		GARAGE LIABILITY ANY AUTO				AUTO ONLY - EA ACCIDENT OTHER THAN AUTO ONLY: EA ACC AGG	$ $ $
A		EXCESS/UMBRELLA LIABILITY X OCCUR CLAIMS MADE DEDUCTIBLE RETENTION $	22SBABB3028	08/10/07	08/10/08	EACH OCCURRENCE AGGREGATE	$ 4000000 $ 4000000
B		WORKERS COMPENSATION AND EMPLOYERS' LIABILITY ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? If yes, describe under SPECIAL PROVISIONS below	22WBCKI3128	08/10/07	08/10/08	X WC STATU-TORY LIMITS OTH-ER E.L. EACH ACCIDENT E.L. DISEASE - EA EMPLOYEE E.L. DISEASE - POLICY LIMIT	$ 1000000 $ 1000000 $ 1000000
P		OTHER Professional	PHSD096872	07/16/07	07/16/08	Per Occur Aggregate	2000000 2000000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES / EXCLUSIONS ADDED BY ENDORSEMENT / SPECIAL PROVISIONS

CERTIFICATE HOLDER

SAMPLE1

SAMPLE CERTIFICATE

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, THE ISSUING INSURER WILL ENDEAVOR TO MAIL 30 DAYS WRITTEN NOTICE TO THE CERTIFICATE HOLDER NAMED TO THE LEFT, BUT FAILURE TO DO SO SHALL IMPOSE NO OBLIGATION OR LIABILITY OF ANY KIND UPON THE INSURER, ITS AGENTS OR REPRESENTATIVES.

AUTHORIZED REPRESENTATIVE

ACORD 25 (2001/08)

EXHIBIT E: SCOTTMADDEN ENGAGEMENT COSTS AND BILLING PRACTICES

SCOTTMADDEN, INC. ENGAGEMENT COSTS AND BILLING PRACTICES

ENGAGEMENT COSTS

ScottMadden invoices clients for three categories of engagement costs: professional fees, travel and living, and support. Each of these is described below.

- ***Professional Fees*** – Professional fees are determined by multiplying consultants' time worked on projects by their professional billing rates. ScottMadden's hourly billing rates are listed below.

Officer	$ 400	Associate	$185
Partner	380	Director of Research	185
Director	290	Senior Research Associate	110
Managing Associate	260	Survey Manager	200/100
Senior Associate	230	Research Associate	85

  Professional fees may include fees for research work. The Survey Manager rate for design and analysis work is $200 per hour, while it is $100 for survey administration.

- ***Travel and Living*** – Travel and living costs are incurred and reported according to ScottMadden's standard policies and procedures, subject to client policies. Travel and living costs typically range from 20 to 30 percent of professional fees.

- ***Support Costs*** – Support costs include direct secretarial costs at $55 per hour and charges to cover project-related administrative costs such as telecommunications, printing/copying, overnight delivery, and postage. To cover the administrative costs, which often do not warrant tracking and billing on an actual basis, we charge two percent of professional fees; however, unusually large administrative costs may be invoiced additionally at actual or standard costs.

Overhead costs and other business costs that are not project-related are covered by professional fees. There is no overhead charge.

BILLING PRACTICES

ScottMadden's normal practice is to invoice monthly, with payment to be remitted either by check or wire in US dollars. For any international work where payment is in foreign currency or subject to foreign taxes or other fees, ScottMadden will adjust fees and expenses in order to net the United States dollar amount invoiced.

Note: ScottMadden, Inc. is a C-corp. incorporated in North Carolina.