A PROPOSAL TO CONDUCT A

COMPREHENSIVE MANAGEMENT AUDIT

IBERDROLA, S.A., IBERDROLA USA
NEW YORK STATE ELECTRIC & GAS
ROCHESTER GAS & ELECTRIC
(Case no. 10-M-0551)

Submitted to the

New York State Public Service Commission

Three Empire State Plaza
Albany, NY 12223-1350

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Table of Contents

LIST OF EXHIBITS

APPENDICES

Chapter I

INTRODUCTION

River Consulting Group (RCG) is pleased to respond to the New York State Public Service Commission's (the "Commission") Request for Proposal for a Management Audit of Iberdrola, S.A. (IBE), Iberdrola USA (IUSA), New York State Electric and Gas (NYSEG) and Rochester Gas and Electric (RG&E) (together, the "Company") (Case 10-M-0551) dated December 16, 2010 (the "RFP"). RCG, will act as Engagement Director and contract manager for this proposal, and has extensive experience with the planning and implementation of utility management and operations audits, as evidences in Chapter VII of this proposal.

As recommended in the RFP, RCG has engaged and is prepared to manage an elite team of top industry firms and highly-experienced industry professionals capable of providing the Commission, New York State Department of Public Service staff (DPS Staff) and the Company with valuable insights into Company operations and management that will eventually produce real and measureable benefits for New York State ratepayers. These firms include the KHCG Consulting Group (KHCG) and Energy Tactics & Services, Inc. (ET&S).

By teaming with KHCG and ET&S, RCG provides an interdisciplinary team with in-depth expertise that addresses all areas required to complete a comprehensive audited of NYSEG and RG&E. Together, the three firms and their chief executives bring unique and valuable skill sets to this audit:

- Through its president, Bob Grant, RCG offers nearly four decades of expertise in the utility sector serving over 100 utility clients globally and, most notably, with the types of large and complex management audits that are the subject of this proposal;

- KHCG has been in business for more than 25 years, served more than 200 clients in 25 states and 7 foreign countries, and has extensive experience in conducting management audits and working on strategic planning, governance, organizational structure and change management initiatives. KHCG is also a certified woman-owned business enterprise.

- ET&S principal, Howard Solganick, and has been working in the utility sector for more than 35 years as a senior manager of a public utility, an independent power producer and consultant, whose specializations span a wide variety of utility functions that include rate design and cost allocation, load forecasting, performance and process management, power supply procurement, environmental and regulatory compliance, and strategic planning – including the preparation of expert testimony addressing all of these areas.

RCG's overriding goals in adopting this approach are to:

- Provide the highest-quality, balanced assessment possible of the Company's management and operations;
- Develop the assessment through a positive process that captures the perspectives and needs of all parties with an interest in outcomes; and
- Deliver a final report that provides a clear, independent and objective evaluation of the Company, demonstrates and promotes a clear understanding of Company's strengths, and offers concise, cost-effective recommendations that assist the Company in improving the manner in which it delivers safe, reliable and cost-competitive energy services to its New York State customers.

The audit scope presented in the RFP includes eight interconnected elements[1] that, in essence, form a closed-loop process that leads sequentially from strategy through implementation and the monitoring of results. The loop has both short- and long-term implications for the operation of the business and the safe, reliable and cost-effective delivery of Commission-regulated services to customers.

In fulfilling the scope of work for this project, the RCG team will focus on NYSEG and RG&E's electric and gas construction program planning, operational efficiency and performance, including reliability, as required by New York State Public Service Law. In so doing, RCG will work to build confidence that:

- Corporate strategy, missions, objectives, goals and planning are aligned with the needs of NYSEG and RG&E's New York State customer, and with policy directives and orders adopted by the Commission;
- The Company is focused on maintaining or improving the reliability and quality of services delivered to its New York State customers;
- The Company's approach to managing two large and different utilities is cost-effective and consistent with respect to all New York State customers;
- The Company is maintaining a reasonable balance between maintenance and construction expenditures so as to promote the lowest rates possible for its services

[1] The eight interconnected elements that will be evaluated and included in an audit feedback loop include: corporate mission, objectives, goals and planning; load forecasting; supply procurement; system planning; capital and O&M budgeting; program and project planning and management; workforce management; and performance and results measurement. These elements as presented, which are considered to be essentially sequential in nature, will form the foundation of the audit report.

while managing and maintaining the safety and integrity of its transmission and distribution (T&D) systems;

- The Company's 'plan-design-build' and 'operate-maintain' processes are prudent and integrated relative to its customer base and the age of its supporting T&D infrastructure;

- The Company is making appropriate use of new technology to support its strategic objectives for managing costs and improving customer service;

- The Company's customer service philosophy and practices are consistent with Commission policy and promote consumer equity; and

- The final management audit report provides reasonable and practical recommendations that address the strategic and operational needs of the Company and its New York customers, and offers a clear and well-informed roadmap for improving Company operations.

RCG has designed its team and approach to promote an in-depth, balanced analysis of each of the eight elements included in the scope of work by a highly-experienced professional. This approach allows for the development of high-quality recommendations that meet quantitative and qualitative cost-benefit measures approved by DPS Staff as a component of the audit work plan.

Further, because it is critical to the overall quality of the audit, continuously to consider the impact an individual element may have on the others, team members have been cross-assigned to form sub-teams that are managed by the element's assigned lead consultant (the "Lead Consultant".) Moving through the process, this approach will ensure that opportunities for critical communication through a feedback loop are captured between sub-teams, and that element-specific objectives and plans are being modified as new information emerges.

RCG's review will evaluate the efficiency and effectiveness of each element and will offer opportunities for improving them. In reviewing each of the loop's elements, the RCG team also will be evaluating the value that each of these elements brings to the project stakeholders, which include the Commission and DPS Staff as well as the Company and the customers of NYSEG and RG&E. Throughout the management audit, RCG will comply with the standards contained in the *Government Auditing Standards* (GAGAS)[2], commonly known as the "Yellow Book", and the

[2] To help ensure that the standards continue to meet the needs of the audit community and the public it serves, the Comptroller General of the United States appointed the Advisory Council on Government Auditing Standards to review the standards and recommend necessary changes. The Advisory released an exposure draft in August 2010 presenting recommended changes to the previously revised standards established in July 2007. The RCG audit will take the revisions set forth in the August 2010 exposure draft into account anticipating that revisions to the 2007 GAGAS will be adopted in 2011.

"Consultant Standards and Ethics for Performance of Management Analysis" published by the National Association of Regulatory Utility Commissioners and dated November 15, 1989.[3]

The remaining chapters of this proposal describe RCG's approach, preliminary work plan, firm and individual consultant experience, schedule and budget estimates. These chapters are organized consistent with the requirements of set forth in the RFP[4] and are as follows:

- ***Chapter II – Scope and Objectives***, which provides RCG's understanding of the scope and objectives for this audit.

- ***Chapter III – Approach, Methods and Project Management***, which discusses RCG's approach to this audit and its management, including a description of project deliverables.

- ***Chapter IV – Audit Areas and Issues***, which provides RCG's preliminary work plan, including the list of element areas to be reviewed with evaluative criteria and a list of work tasks to be performed for each element.

- ***Chapter V – Project Team and Responsibilities***, which provides the structure of the RCG team's consulting assignments and the background of assigned personnel.

- ***Chapter VI – Schedule and Budgets***, which itemizes professional staff fees and out-of pocket expenses, and provides RCG's total "not-to exceed" cost to perform the audit. It also provides a complete work schedule and an elapsed time estimate for each task in the work plan.

- ***Chapter VII – Experience and Qualifications***, which describes RCG experience and provides a list of relevant projects with client names and references for RCG and for the key team members.

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[3] It is worth noting that KH Consulting Group has undergone multiple peer reviews, as per the Yellow Book standards, has been certified, and has had multiple master agreements for conducting management audits and performance reviews for the City of Los Angeles (Office of the City Controller) and County of Los Angeles (Office of the Auditor-Controller) for more than 15 years.

[4] State of New York Department of Public Service, *The Guide: A Guide for Consultants Submitting Proposals for Management and Operations Audits*. November 5, 2010 (the "Audit Guide").

Chapter II

SCOPE AND OBJECTIVES

In this chapter, RCG provides an abbreviated background on the Company, and confirms the scope and objectives for the management audit, as defined in the RFP and the Audit Guide.

A. Introduction

The subject of the proposed management audit is IUSA's New York State operating transmission and distribution utilities, NYSEG and RG&E. NYSEG and RG&E, which formerly served as stand-alone public utilities, became wholly-owned subsidiaries of RGS Energy Group, Inc. (RGS) in 2002. RGS was a wholly-owned subsidiary of Energy East Corporation (Energy East).

On August 1, 2007, a joint petition was filed under Public Service Law (PSL) §70 by petitioners IBE, NYSEG, RG&E, Energy East, RGS and Green Acquisition Capital, Inc.,[5] in which the parties sought approval from the Commission of IBE's acquisition of Energy East. On September 9, 2008, the Commission granted that petition, subject to conditions, in an abbreviated order.[6] The long order was subsequently issued on January 6, 2009.[7]

Over the past decade, NYSEG and RG&E have endured dramatic changes in ownership and organizational structure that promise to generate significant benefits for electric and gas customers. These structural changes also have created new challenges that argue for prudent, balanced and insightful review of the management and operations of both utilities with the goal of ensuring that each company's construction programming plans and operations continue to provide customers with safe, reliable and cost-efficient utility service. Therefore, the importance of clearly articulated strategic plans for how NYSEG and RG&E will exploit these new opportunities, given these changes, is paramount.

IBE's international corporate structure differs materially from those of other electric and gas utilities operating in New York State. IBE's executive management, including its Board of Directors, is located in Spain and operates according to Spanish law and European Union

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[5] CASE 07-M-0906 - Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.. Green Acquisition Capital, Inc. was a wholly-owned subsidiary of IBE formed for the purpose of the proposed acquisition.

[6] Case 07-M-0906, Abbreviated Order Authorizing Acquisition Subject to Conditions (issued September 9, 2008).

[7] Case 07-M-0906, Order Authorizing Acquisition Subject to Conditions (issued and effective January 6, 2009.)

requirements. IBE's U.S. affiliate, IUSA, also operates from a headquarters building in New Gloucester, Maine, which is remote from the location of the New York State utilities that it is charged to manage.

NYSEG and RG&E are two companies among several that currently operate under IUSA's management. An even larger number of corporate entities operate under IBE's umbrella. Although most of NYSEG and RG&E's officers operate from a common office in Rochester, New York, many members of each individual board of directors are located in Spain. Others share a common membership on both the NYSEG and RG&E boards, and on the IUSA Board of Directors. The Commission and DPS Staff are right to be concerned about the overall effectiveness of the management and operation of IBE's New York State utilities, and how these resources and customers are viewed from the perspective of IBE and IUSA, particularly in light of the size and complexity of IBE's worldwide operations.

It is also prudent for the Commission and DPS Staff to ask why the Company's New York State customers do not appear to be receiving the benefit of the same low rates that are enjoyed by other New York State utility customers. This management audit provides a platform for ensuring that international accounting practices are not having an adverse impact on the New York ratemaking process, and that the Company's New York State customers are receiving the full benefits available from efficient management and operation.

To that end, RCG has developed an audit proposal that incorporates a project scope and objectives that are intended to:

- Provide the highest-quality, balanced assessment possible of the Company's management and operations;
- Develop that assessment through a positive process that captures the perspectives and needs of all parties with an interest in outcomes; and
- Deliver a final report that provides a clear, independent and objective evaluation of the Company's operations, and demonstrates and promotes a clear understanding of Company's strengths, and offers concise, cost-effective recommendations that assist the Company in improving the manner in which it delivers safe, reliable and cost-competitive energy services to its New York State customers.

B. Scope

RCG's management audit will provide a comprehensive analysis of NYSEG and RG&E's electric and gas operations, focusing on the eight elements of the planning-execution process defined in the RFP, and any additional concerns that DPS Staff deem to be appropriate. The eight audit elements of the planning-execution process, as defined in the RFP, are: (1) corporate mission, objectives, goals and planning; (2) load forecasting; (3) supply procurement; (4) system

planning; (5) capital and O&M budgeting; (6) program and project planning and management; (7) work force management; and (8) performance and results measurement.

Within the context of each of these eight elements, RCG's work scope includes an analysis of the following generic components:

- Purpose, mission, planning, goals and strategies;
- Functions, processes (including inputs and outputs), policies, practices and systems;
- Organizational design;
- Staffing, responsibilities and accountabilities;
- Cost control, cost oversight and cost analysis;
- Efficiency and effectiveness;
- Impacts to other elements and Company operations are minimized to prevent sub optimization elsewhere:
- Results and performance measurements, including how the results are used;
- Opportunities for improvements, including "leading practices" based on the experience and research of the RCG team, that are appropriate to IUSA's New York State operating environment; and
- Recommendations for implementing the improvements, described in greater detail later in this proposal.

The audit scope also includes an assessment of IBE's effectiveness in meeting its mission, particularly with respect to meeting its performance goals and the extent to which there are opportunities for improvement.

The eight elements described above, form the core of a successful electric and gas business model. Without formal business and technical planning processes it is extremely difficult for utility management to navigate their rapidly evolving environment, and take full advantage of new technology and management tools. Specifically, new technology allows management to address some of the most pressing industry issues, such as knowledge management in an ever increasingly complex delivery system and managing an increasingly diverse customer base with widely varying needs.

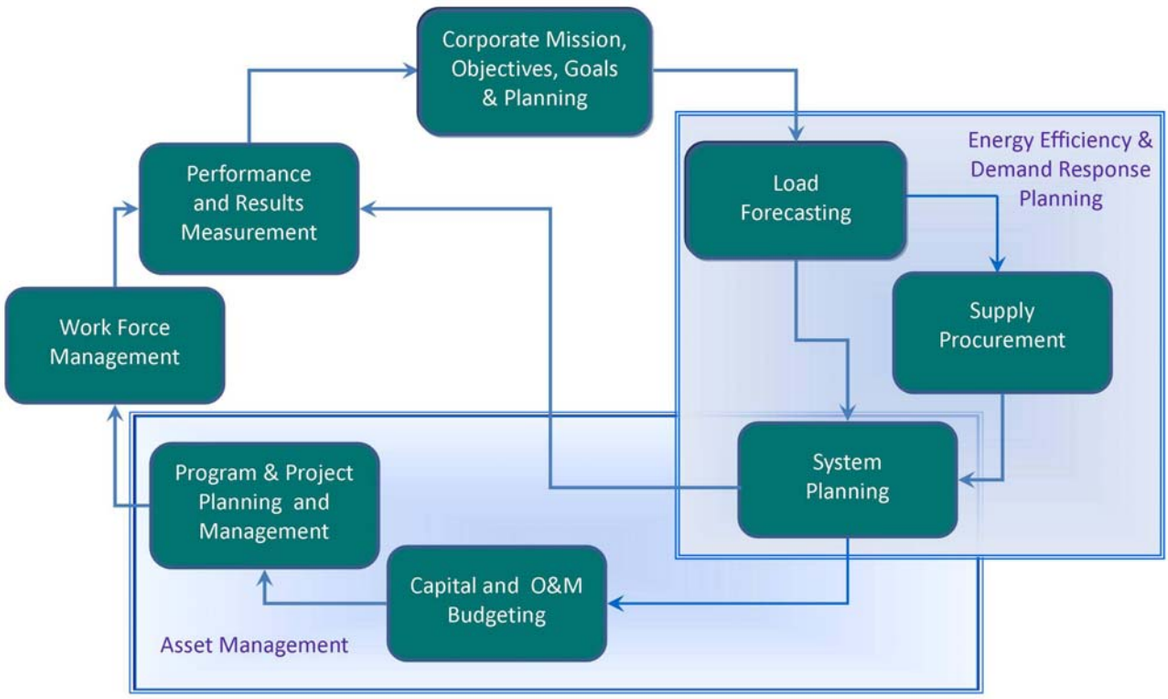
Enhanced management processes and systems allow the Company's leadership to ensure the right resources are employed to perform business in a cost-effective manner. Without formal feedback mechanisms, it is difficult to evaluate progress against goals that are set during the planning process. Further, these mechanisms allow management to finely tune their cost models with a full understanding of implications to reliability, safety and cost.

Compounding the above issues is the unique situation the Company finds itself in with respect to executive management, which has broad responsibilities well beyond that of the New York customer. The DPS is rightly concerned that IBE and IUSA executive management is paying adequate attention to the needs of the New York customer. The audit scope includes an assessment of the entire Company's effectiveness in meeting mission and planning goals, particularly with respect to the identification of opportunities for improvement.

Finally, RCG's audit scope includes an evaluation of NYSEG and RG&E's construction program feedback system. The eight elements that form the foundation for RCG's audit are integrated, and generally support strategic planning efforts by providing needed inputs to the planning process and information to adjust plan objectives over time. This process loop begins with the element of "corporate mission, objectives, goals and planning" and completes the cycle with "performance and results measurement," as illustrated in Exhibit II-1.

EXHIBIT II-1

Construction Feedback System



When executed properly, the results will yield continuous performance improvements by allowing management to modify objectives based on the information gathered as it cycles through the process.

C. Objectives

RCG's objectives for this management and operations audit are those that have been specifically set forth in the Audit Guide. Those objectives are to:

- Identify specific opportunities, as needed, for improving planning, organizational design, business processes, management practices, systems and operations. This would apply to work elements inside the eight audit element areas and those that are tangent to them.

- Identify specific opportunities, as needed, to improve performance, including operational productivity, operational reliability, organizational effectiveness, cost controls and savings, work quality, customer service, safety, and other measurable elements. Included in this objective is the impact of new technology on effectiveness and efficiency.

- Develop recommendations, as needed, for implementing changes or undertaking the studies necessary to achieve performance improvements. Where feasible, recommendations will be supported by risk/benefit and cost/benefit analyses. Where possible, the consumer should benefit from recommended performance improvements.

In addition to the above objectives, RCG contends that it is a key objective of this engagement to deliver a balanced final report, which is clear, concise and accurately portrays both the strengths and major opportunities for improvement. In addition, RCG has established the objective of producing a road map of high-quality, mutually agreed to recommendations that include a cost/benefit discussion and timetable that is developed by RCG in collaboration, where appropriate, with the Company, and meets the approval of DPS Staff.

Chapter III.

APPROACH, METHODS AND PROJECT MANAGEMENT

This chapter provides a discussion of RCG's approach and philosophy to management audits. It includes an in-depth description of the process used by RCG to show its compliance with the required scope of work, including how the audit will be planned, implemented, supervised and managed by RCG personnel, and the philosophy behind RCG's approach to each step.

A. Introduction

As a rule, RCG's approach is designed to complete a comprehensive management audit of the Company in the most efficient and effective manner, and with the least amount of disruption to Company operations. RCG's consistent ability to meet the commitments of its audit schedules and to produce effective results relies on the following approach:

- Development of a formal work plan with clearly defined deliverables;
- Use of *only* experienced, senior professionals, who possess the appropriate combination of professional maturity, utility knowledge, audit work experience and, whenever possible, a previous working relationship with the assigned project manager (Project Manager) or Lead Consultants;
- Use of both quantitative and qualitative data to evaluate actual performance;
- Development of conclusions that are consistent with generally-accepted auditing standards, which require thorough documentation of the facts that support the findings relied on for those conclusions;
- Continuously reviewing how conclusions reached in one area of an audit framework may impact other areas, and to determine how overall performance may be improved through a clearer understanding of those connections;
- Employment of a formal, interlocking, quality control process to ensure accurate results;
- Proper maintenance of work papers in a manner that supports the documentation of findings,
- Use of one senior editor to ensure that draft and final reports are clear and consistent; and

- Ensuring that the concerns of commission staff are being addressed.

The philosophy behind RCG's audit approach is simple. It rests on a conviction that open and constructive communication between audit parties produces the strongest conclusions and, as a result, the most effective recommendations. Although RCG will perform an independent and objective management audit of the Company, communication rests at the heart of the project. As a result, RCG will conduct an audit as follows:

- Maintain open and positive communications with all parties to the audit, which improves results by minimizing factual, logical and process errors, and ensuring that there are no surprises;
- Discuss any concerns the DPS Staff may have and incorporate those into the work plan as appropriate;
- Work jointly with the DPS project manager to develop a clear and concise work plan embodying the DPS Staff objectives;
- Coordinate schedules with the DPS Staff and the Company's Audit Team for interviewing personnel;
- Hold regular bi-weekly briefings with the DPS staff to ensure they are informed of RCG's activities and preliminary observations; and
- Ensure RCG's approach integrates the ethics and practices contained in both the Federal "Yellow Book" and National Association of Regulatory Utility Commissioner's "Consultant Standards and Ethics for Performance of Management Audits;"

B. Audit Approach

RCG's approach embraces a five stage process that includes: planning and orientation; fact-finding and analysis; conclusion and report development; recommendation development; and the development of a final report. These stages are outlined in more detail below.

Stage I - Planning and Orientation

The objectives of Stage I are as follows:

- Understand the audit objectives and scope;
- Incorporate DPS Staff's expectations into the audit;
- Finalize contractual, project reporting and other administrative processes;
- Understand the current operations, organization and key management processes of Company; and

- Develop and gain approval of an initial detailed work plan (the "Work Plan").

The RCG engagement director (Engagement Director) and Project Manager will meet with DPS Staff and Company project managers to complete logistical and contractual arrangements. Those arrangements will include, but not necessarily be limited to, policies and processes for:

- Requesting and tracking interviews and data;
- Setting and meeting agreed-to response times;
- Managing confidential information;
- Adhering to auditing standards;
- Managing working papers and documentation requirements;
- Identifying additional DPS Staff issues or concerns; and
- Managing quality control and reporting processes.

A positive audit atmosphere is fostered and understandings are advanced if the Company commits to the delivery of critical information on its businesses, processes, organization and operations as early as possible in the Stage I process. To further this objective, RCG will perform the following activities during the orientation stage:

- Present an initial set of data requests to the Company to be delivered prior to the beginning of on-site interviews, which will be immediately reviewed;
- Attend the Company's audit kick-off presentation and, where practical, conduct initial executive interviews;
- Schedule and conduct additional interviews;
- Issue a follow-up request for additional documents;
- Review and analyze all the initial data and information received;
- Meet with DPS Staff to understand emerging issues and concerns;
- Refine the initial work plan to reflect this new information;
- Refine initial analyses of audit requirements with respect to the eight audit elements and determine how the revised work plan applies to the process for completing work related to each element; and
- Obtain the approval of DPS Staff to proceed with the refined work plan.

Because the development and delivery of an initial data request is a critical element of launching RCG's Stage I approach, a preliminary draft of these documents has been completed by the RCG team and included in ***Appendix A*** to this proposal. RCG has already identified the individuals or positions within that will be interviewed initially. Final initial interview guides and schedules will be prepared once an orientation meeting has been scheduled by the Company. RCG stands ready to provide a working session to present its approach and work methods in the event that DPS Staff wishes to become more familiar with this approach. This exercise would be conducted by RCG's Engagement Director and Project Manager.

The RFP identified a reasonable time schedule for the consultant to issue a draft report to Staff in February, 2012. *Chapter VI – Schedules and Budgets* contains RCG's proposed schedule, which is consistent with that shown in the RFP.[8] The RCG project team is committed to meeting the milestones set by this initial schedule.

To aid in schedule adherence and to allow the RCG team to refine the work plan more quickly we will provide the Company with an initial data request, which will give the individual RCG team members a deeper understanding of the Company's approach to the target elements. As stated previously, drafts of that data requests, subject to DPS Staff approval, are included in ***Appendix A*** to this proposal. RCG's ability to meet the proposed schedule will require the Company to be responsive to data and interview requests on a timely basis.

To that end, RCG recommends that a turnaround schedule of three working days be accepted as the standard for the return of Company reports and existing data. RCG will negotiate delivery times for specially-requested analysis, reports and data. This approach has been proven to result in on-time delivery of high-quality work products by RCG.

Stage II - Fact Finding and Analysis

During Stage II, the primary data gathering and analysis will be performed for each of the eight audit elements. This process will incorporate the following activities:

- Develop a task report outline of the potential issues to be addressed for each of the eight audit elements and other areas identified by the DPS Staff or RCG during Stage I activities;
- Review and enhance the criteria for each audit element (See, *Chapter IV: Audit Areas and Issues* for a list of initial criteria developed for each of the eight audit elements);

[8] Case 10-M-0551 – The RFP, IV. Schedule

- Develop a set of questions and data requirements to support the formation of findings and conclusions addressing each of the potential issue area's criteria;
- Identify and request individuals or positions for interviews that will allow RCG to better understand the strategic deployment, policies and processes used by the Company to conduct business;
- Prepare interview guides to be distributed to intended interviewees, allowing adequate preparation time to facilitate a smooth and accurate transfer of information;
- Determine if the DPS Staff wishes to attend specific interviews or participate in the details of the analysis process;
- Document all interviews in standardized, accessible, summary format using Microsoft Word;
- Issue additional data requests required to support further analyses;
- Perform and document field observations;
- Perform data sampling to quantitatively evaluate criteria;
- Arrange for additional or follow-on interviews;
- Review all assembled data against criteria for each issue and form a set of initial findings applying known industry best practices and comparisons;
- Reference all findings against data responses and interview summaries;
- Draft initial conclusions;
- Subject conclusions to the RCG quality verification process;
- Conduct three-party, fact verification sessions;
- Review results with DPS Staff; and
- Prepare and forward task reports.

Depending on the subject area, some of the above steps may be combined or rearranged to facilitate a more complete understanding of a process or issue. It is important to understand that the task report outline is critical to managing both the schedule and the budget. This outline permits the Lead Consultants and their teams to focus on what is most important for the specific element's analysis. In this manner, only

the required data is gathered and the interviews remain focused. This process allows the leads to identify other opportunities as they emerge during the discovery effort.

Unless the Company has made significant progress in integrating its two New York State operating companies, this management audit will be somewhat unique in that the RCG team will be required to perform audit tasks for each separate utility in order to yield a clear picture of the Company's overall New York operation. RCG currently is anticipating that it will be required to review RG&E and NYSEG's operations individually, then compare and contrast the data to identify opportunities for driving significant expense out of the Company's overall New York business. This is why the Company's orientation and RCG's initial data requests are so important to refining the work plan and, as a result, managing costs. This management audit can also identify potential areas where the two companies can form strategic alliances; collaborate to reduce costs, share expertise and resources, and improve efficiencies; and be environmentally attuned to best practices.

Further, the RCG team will need to carefully evaluate the Company's business model to determine if out-of-state and foreign senior management teams benefit the New York customer. As a function of this audit, RCG specifically expects to identify:

- Opportunities to combine functions to reduce expenses;
- Asset management strategies and programs that are consistent across both service territories;
- Opportunities to use technology to drive cost from the business and improve reliability;
- Opportunities to appropriately integrate capital and O&M planning to more efficiently manage costs and optimize reliability; and
- Opportunities to adjust Company management practices to improve senior and board level attention to the tasks of delivering safe and reliable service to the Company's New York gas and electric customers at a reasonable cost.

It is RCG's policy to focus team attention on critical and substantive issues. In this manner Company management can focus post-audit efforts on the implementation of recommendations that will yield the greatest returns for their New York customers.

Stage III - Conclusion and Report Development

Although this is normally part of the Stage II process, it is called out here as a separate stage to accommodate an additional review of the conclusions by RCG's Quality Committee. This committee, which is comprised of the team's most senior consultants, is charged with ensuring that the quality of each conclusion and recommendation meets the audit standards expected by the DPS Staff. The Engagement Director will also rely on this

committee's feedback when analyzing the overall continuity of all audit conclusions relative to the DPS Staff's stated objectives.

During Stage III, RCG also will perform the following activities:

- Complete task report outlines that contain findings and preliminary conclusions;
- Convert the completed outlines into task reports that contain the following information:
  - Description of the task and the audit element or area;
  - Description of industry leading practices;
  - Evaluation criteria and metrics used, if applicable;
  - Description of the Company's performance in the element or area; and
  - Findings and conclusions, including detailed supporting annotations.
- Performance of a quality verification review on each task report by key senior members of the RCG team, including identification of items that require further analysis be conducted;
- Edit the completed task report for clarity and consistency; and
- Forward completed task reports to the DPS Staff for review, comment and release when Staff concurs with the report.

Task reports that are approved by the DPS Staff will be assembled into an overall report framework by the RCG editor without recommendations. RCG will provide a general health statement for each chapter of the draft audit report. A "general health statement" is a concise and frank condition summary after a thorough examination has been completed.

As a matter of course, RCG will apply the "reasonable person" test to all its conclusions to ensure that the ensuing recommendations are sound, fair, cost-effective, and consistent with leading practices and existing regulation. RCG also uses a defined "quality control and verification" process to ensure that its work products will meet the requirements of clients.

To foster the desired results, RCG has formed a Quality Committee comprised of the most senior consultants on the project to review and discuss findings, conclusions and recommendations as necessary. The use of a three-person body to perform this set of tasks helps ensure objectivity.

The RCG quality control and verification process includes:

- Formal team meetings upon start-up of the project;
- Attendance by all team members at the Company's orientation session, either in person or remotely;
- Preparation of a draft and final work plan for each audit element by that element's Lead Consultant with the assistance of the supporting consultants engaged for that area, including formal written signoffs;
- Development of a detailed style sheet for the draft and final report by the audit editor;
- Approval of the draft and final work plan for each audit element by the Project Manager, Engagement Director and editor, including formal written signoffs;
- Ongoing document tracking and reporting by the editor and the Project Manager;
- Approval of each interview summary by the Lead Consultant for that audit element and by the Project Manager, including a formal written signoff;
- Formal cross-cutting team meetings led by the Project Manager;
- Approval of each task report by the Project Manager, Engagement Director and editor, including formal written signoffs;
- Approval of the draft report by the quality committee and editor, including formal written signoffs;
- Approval of each "straw" recommendation by the Project Manager and Engagement Director including formal written signoffs,
- Approval of the final report by the quality committee and editor, including formal written signoffs; and
- All documents supporting signoffs will be maintained by the editor.

Stage IV - Recommendation Development

During Stage IV, the RCG team will develop recommendations that satisfy conclusions that are approved by the DPS Staff. RCG recognizes its responsibility to develop independent recommendations; however, there may be several areas of focus where collaboration with the DPS Staff and the Company may accelerate acceptance and

implementation. It is important to obtain Company support of these recommendations so that the benefits may be expeditiously delivered to customers.

The RCG team will meet with the DPS Staff and the Company to forge workable recommendations that the Company can begin to implement as soon as practical. This will be achieved through collaboration with the parties to develop acceptable recommendations with achievable timetables. To facilitate this outcome, RCG will perform the following activities:

- Reach consensus on conclusions and order of value;
- Develop recommendation options for each conclusion or group of conclusions, including the performance of an initial cost-benefit analysis of the options;
- Present this information to the DPS Staff and the Company as a starting point for discussion;
- Conduct frank and open discussions with Company management and, if necessary, with IBE directly as to how to best achieve the desired results;
- Refine the recommendations and cost-benefit analyses, where applicable; and
- Develop a clear implementation schedule that may be reasonably achieved by the Company and monitored by the DPS Staff upon receipt of a Commission order.

RCG's key outcome measures for its internal evaluation of this audit task are: (1) each delivered recommendation must be founded on solid conclusions that are data-driven; (2) each delivered recommendation must serve, at a minimum, the best interest of the Company's New York State customers; and (3) no recommended solution will cost the Company's customers more to implement than it can deliver in measurable and meaningful results. These are the only criteria that RCG believes that the Commission will accept when presented with the final audit report for this project.

Stage V - Develop Final Report

During Stage V, RCG will assemble a draft of the final report in a form that is consistent with the eight defined audit elements presented in the RFP, and any additional areas of review that are requested or approved by DPS Staff. The draft report will be reviewed by DPS Staff first and, subsequently, by the Company for the verification of facts.

Each element or area will be presented in the following chapter format:

- *Introduction*, which includes a description of the subject area and its importance to the strategic planning loop, a graph representation of the manner in which

this element or subject area impacts the construction feedback model, and a concise list of recommendations that will be presented in detail in that chapter.

- *General Health Statement*, which is RCG's overall opinion of the current status of the element or area being presented compared to leading practices or other accepted performance measures.

- *Chapter by Chapter Discussion of Individual Recommendations* (as agreed to by all parties), which will include an introductory description of the recommendation; properly annotate discussion of the supporting conclusions, findings and facts; a cost-benefit discussion and analysis, as appropriate; and an implementation timeline. Where it makes sense, RCG may outline several options for consideration and will evaluate each option, citing the advantages and disadvantages of each. On the basis of the current capabilities of NYSEG or RG&E, we can then outline the best option. In some instances, audited clients may disagree with the recommended option and, through further exploration, RCG may incorporate their concerns and refine the recommended options so that they are viable for implementation.

In addition to the element and area chapters, an executive summary and a recommendation roadmap chapter will be included in the final report.

C. Methods

The RCG team prides itself on its ability to present an accurate portrait of the management audit in the final report, regardless of the type of work that is being performed. The rigor that allows RCG to produce such a high-quality audit is the same approach that will be applied to the management audit of NYSEG and RG&E.

The methodology behind RCG's management audit proposal is built on five essential elements:

- ***Facts.*** Facts are data or other information that can be reasonably proved as an actual depiction of some characteristic of the Company. Generally these are gleaned from one or more of the following sources:

  - Hard financial, reliability, staffing or other performance data that is non-disputable;

  - Interview results that are captured and are verifiable by data, observations or other interviews; and

  - Physical observation of field or process related activities.

- ***Findings.*** A finding is reached after reviewing a summary of the facts and depicts the auditor's best judgment based on a reasonable analysis.

- ***Conclusions.*** A conclusion is a determination reached after reviewing a summary of findings, which requires the auditor to form an overall opinion about a specific topic based on analysis against relevant criteria and industry leading practices, and suggests some form of action.

- ***Recommendations.*** A recommendation is an actionable and prescriptive statement based on a number of conclusions and some level of cost/benefit analysis, and is generally time-bound.

- ***Communication***. Communication speaks to the overall quality of the facts, findings, conclusions and recommendations that are the outcome of a properly executed audit.

The accurate retrieval of facts serves as the basis for developing findings, conclusions, recommendations and measurable results, RCG requires its consultants to have multiple sources for fact verification. It is the responsibility of the Project Manager and Lead Consultants to ensure that reasonable support exists for all the facts presented in the audit report. The Engagement Director will participate in any and all reviews to promote consistent results that align with the DPS Staff's objectives.

RCG embeds its factual references within the draft report (generally as footnotes) to allow for efficient verification of facts. This is an essential quality verification tool used by RCG to ensure report accuracy, minimize errors and, ultimately, to help to create confidence in the recommendations that are presented due to the ability to expeditiously respond to questions and concerns. Depending on DPS Staff practices or requirements, the footnotes may be removed or retained in the final report.

RCG will be responsible for developing its findings and conclusions, and will take the lead on developing reasonable recommendations. All recommendations remain subject to the approval of DPS Staff and may be developed in a collaborative fashion with the Company to craft workable solutions and timetables. Should the Company be restricted or unwilling to collaborate on a specific recommendation, RCG will independently develop appropriate and reasonable recommendations for review by the DPS Staff first and will bring those that the DPS Staff believe are most promising to the Company at that point.

Another critical component of conducting an effective management audit is the approach used to conduct interviews, data sampling, cost/benefit analyses and the organization of data elements. The methodologies used by RCG in this regard are presented below.

Interview Technique

With a task report outline in hand, RCG team members will develop a list of questions necessary to gain insights into each of the audit element being evaluated by that

consultant. These questions will be assembled into interview guides, which will be used to manage the individual interviews, further these questions are used to identify additional data requests before the interview.

Interviewees will be provided with an *interview guide summary* one week in advance of the interview so they may adequately prepare complete and accurate responses. Interviewees will be advised that additional topics may be covered during the interview process as issues unfold.

Further, RCG encourages the individuals being interviewed to present samples, flowcharts and other documentation to support their answers. The goal of RCG's interview approach is to gain a fair, accurate and complete picture of the facts in order to produce high-quality findings. DPS Staff is also encouraged to attend and observe interviews, either in person or by telephone, that they believe may promote a better understanding of the Company's operations at a more granular level, including interviews involving IBE and IUSA employees.

Interview guides will be tailored to the level and special duties of the individual who will be interviewed to ensure a productive session. As an example, the RCG team would discuss strategy and policy with senior level managers while focusing on process at the supervisory and line levels. In this manner, it is possible to test the validity and effective implementation of management strategies or policies all the way through the organizational chain to determine the true value and effectiveness to the Company.

As stated earlier, RCG will be asking many of the same questions to RG&E and NYSEG employees to determine the level of integration and consistency across both organizational units. The resulting analysis will yield significant insights into the commitment of the Company to deliver consistent services at the lowest possible cost.

Interviews of IBE's Spanish management staff and board will follow the same process as those of NYSEG, RG&E and IUSA employees with the following enhancements. Once the *interview guide summaries* have been crafted in English, RCG will arrange for the guides to be translated into Castilian Spanish using the services of V&L International, LLC (V&L), which is a highly-reputable firm in this field.

All V&L linguists are native speakers of the target language that they are engaged to translate. V&L also ensures that the translator is an expert in the specified field. RCG team members have engaged the services of a V&L Spanish-speaking translator for past assignments with great success, including specialists in the utility, finance and audit sectors.

V&L will also be engaged to translate reports and data that are submitted by IBE in Spanish. All translations will be reviewed by the RCG team interviewer before they are sent to RCG's Project Manager for distribution to the project's Lead Consultants, who will

review the responses in English as part of the team's process for evaluating information with the context of a feedback loop.

For the purposes of budgeting for this audit, RCG is assuming that a representative sample of IBE's Board of Directors and executive management team, particularly those that are most heavily involved in U.S. operations, will be available in the USA for interviews that can be conducted in Spanish at the request of the interviewee. When working on overseas projects, we have had our clients assign one of their own support staff to review and ensure that the translations use terminology that is consistent with their own operations and corporate culture. This step may be particularly applicable to this management audit because of the technical terminology and innuendos that can occur with different vocabulary usage in Spanish. When interviewing IBE executives and managers in Spain, some interviews may readily be conducted in English whereas others will require a Spanish-English translator. In such instances, we will ensure the translator is familiar with the Interview Guide and the topics being explored.

If RCG is required to conduct these interviews in Spain, a small team of consultants will travel with a local translator to IBE's corporate headquarters to conduct interviews that may be completed in English. All interview reports will include side-by-side notes in English and in Spanish that will be reviewed by all parties to verify that the information presented is accurate.

Sampling Techniques

Sampling of data will be done to quantify impacts to the business and validate what RCG is being told by Company personnel. Sampling methodology depends on the topics under analysis but, in all cases, the sample will follow the following approach:

- Identify data sources required to address and test the criteria stated in the task report outline;
- Determine if the sampling will be by past performance data, process review or physical observation;
- Determine sampling techniques and representative sample populations using the population that best reflects the full range of available data;
- Obtain approval from both the Lead Consultant and Project Manager as part of RCG's quality verification process;
- Request the data from the Company or arrange for physical observations;
- Analyze the sample data and develop findings; and

- Validate the findings by comparing and contrasting those findings with other information sources, such as interview notes.

Sampling data may:

- Represent a range of capital projects or maintenance programs by both type and dollar value;
- Represent capital projects at different stages in the life cycle;
- Cover a specific period of time, e.g., five years of historical budget and actual data;
- Represent of electric T&D and/or gas operations;
- Back-cast load and supply forecasting to verify accuracy of the tools, methodologies or strategies used;
- Depict major capital spent on vendors; and
- Represent staffing and retirement trends.

Cost/Benefit Analyses

The Audit Guide provided with the RFP defines DPS Staff expectations for performing cost/benefit analyses. RCG concurs with this approach and will apply it relative to the purposes and standards set forth in this proposal.

RCG will apply a SMART methodology to the development of recommendations. Each recommendation must be ***S****pecific*, so that the intent and purpose is clear to all concerned; where appropriate, the results must be ***M****easureable* to demonstrate a change that produces a benefit to customers; the recommendation must be ***A****chievable* by the Company, otherwise the costs will not be offset by benefits; the recommendation must be ***R****elevant*, so that one or more of the benefit component considerations[9] will be positively changed; and, the recommendation must be ***T****raceable* to ensure that a specific Company executive or organization will be responsible for successful execution.

To enhance "buy-in," RCG will request, review and test the Company's cost/benefit template (or model) for reasonableness and completeness, including standard assumptions for inflation, overhead costs and other non-specific inputs. The cost/benefit analysis will be computed using the Company's template for ease of communication. The RCG consultants

[9] State of New York, Department of Public Service, A Guide for Consultants Submitting Proposals for Management and Operations Audits, November 5, 2010, page 15.

will apply their specific utility experience to apply the benefit component considerations to the individual recommendations. In the event the Company doesn't have a formal template, RCG will use its own methodology.

Deliverables

The audit process will generate a large number of documents and work plans through the delivery of the final audit report. Those documents and plans will need to be available to the DPS Staff during and after completion of the audit. The RFP defines a range of deliverable products related to this project. RCG's technique to approaching these documents and the documentation of an audit is provided below.

- ***Work Plan***. RCG will work closely with DPS Staff during the creation of an initial audit work plan. During the process of developing that plan, DPS Staff comments, suggestions and concerns will be integrated into the document. RCG's project manager will be responsible for submitting initial and final draft work plans to the project manager for the DPS Staff. In addition to the items included in the RFP scope for the work plan RCG will include the tools it proposes to use to analyze data and findings, and a detailed schedule of with objectives and milestones associates with each audit element. DPS Staff approval of the work plan will signal the RCG team to begin Stage II work. Because no successful plan is ever static, but rather a dynamic tool which adapts to circumstances, the audit work plan may be modified during the course of the audit if RCG finds a significant issue with ramifications to customers that was not covered in the work plan, and DPS Staff agrees that the issue merits a modification to the original plan.

- ***Briefings.*** RCG will provide regular briefings to DPS Staff on the progress of the audit and will identify emerging issues. It is possible that, as the audit progresses, RCG may be required to provide preliminary assessments of findings to the Commission or senior members of the Commission's DPS staff or other government offices. These briefings can be conducted in person, by telephone or with written reports, as requested by the project manager for the DPS Staff. In all cases, the briefings will be documented and become part of the audit work papers.

- ***Progress Reports*****.** The final work plan will define a schedule for RCG to provide formal report briefs to the DPS Staff and others identified by the project manager for the DPS Staff. These formal progress reports will be become part of the audit work papers.

- ***Draft Reports***. The preliminary schedule for delivery of the initial draft audit report is February 2012 as set forth in *Chapter VI* of this proposal. This initial draft report, which is intended to be representative of the final audit report, will be reviewed by DPS Staff, who will comment on the draft. RCG will edit the initial draft and present a revised initial audit report to DPS Staff, who will authorize RCG to send the

revised draft report to the Company for review when the DPS Staff is satisfied with the product. It is expected that there will be two passes at the draft report to address DPS Staff and Company concerns.

- ***Final Report.*** A final report is scheduled to be delivered to the DPS Staff by May 2012. DPS Staff will document RCG's evaluation of each aspect of the audit work scope, as outlined in the RFP and in this proposal. All audit work papers will be made available for DPS Staff review on DVDs. The costs for printing and delivery of draft and final reports have been included in RCG's not-to-exceed cost. Staff will release the final report.

In addition to the deliverables set forth in the RFP, RCG will be preparing and maintaining the following documents:

- ***Data Requests***. RCG will generate *written* requests for documents and other data that will be distributed by the RCG project manager. These document requests will clearly identify the data, analysis or documents being requested, and the individual or department that has been requested to provide it. Data requests, as with interview requests, will be assigned a unique number for document tracking purposes and will be maintained as audit work papers.

- ***Data Request Report***. This metric report will identify data and documents that have been requested; the date of the request; the Company individual or department responsible for responding to the request; the agreed delivery date; and the date of delivery. RCG will use the Company's own document tracking system or its own Microsoft Access-based tool. RCG will accommodate the Company's preference in this regard but strongly recommends that *only* one system be used for tracking audit requests.

- ***Interview Requests & Summaries.*** RCG uses a formal interview request form that acts as a record of the request. All interview requests will be assigned a unique number, either by the Company or by RCG. This approach supports an organizational system that permits RCG to track the Company's responsiveness, and provides a formal reference that will be used to track the task, and to document RCG's findings in the draft and final reports. RCG also will prepare a formal interview summary that includes: a unique document reference number, the name of the individual interviewed, that individual's title and affiliation, the interviewer, the interview date and time, interview facts and observations; potential issues; and any follow-up required, including the preparation of subsequent data requests resulting from the interview. Typed summaries will become a permanent part of the audit work papers. As a general rule, RCG does not include findings or conclusions in interview summaries.

- ***Interview Schedules***. A weekly document presenting a schedule of upcoming interviews and observation visits will be provided to the DPS Staff and Company program managers. The notice will contain the name of the individual to be interviewed, the name of the interviewer, the area of focus, and the date, time and location of the interview. RCG reserves the right to conduct observation visits without specifying the date or time determined for that visit. This potent tool allows RCG consultants to form clear opinions about actual management practices that may not be observable during planned visits.

- ***Task Reports***. RCG will complete regular task reports for each of the eight audit element areas. The task reports will be provided to the DPS Staff project manager and will form the basis for the draft reports to follow. Task reports give the DPS Staff an early and informal look at the issues and conclusions that are being developed by members of the RCG team.

- ***Project Management Reports.*** A monthly progress report that includes person-days expended during the past month and any audit-related expenses will be provided to the DPS Staff project manager by the 10th day of the following month. This report will record this information by activity and individual team member. It will be presented alongside the approved work plan and budget, and will calculate the percentage of completed at that point in time. Any deviations, delays or remediation needs will be captured in this monthly report.

All of the above documents, together with analyses and any other information gathered as part of this management audit will be considered to comprise the engagement working papers. Consistent with the requirements set forth in the Audit Guide, these documents will be organized into a neat and concise electronic package, and will be provided to the DPS Staff at the time that RCG delivers the final audit report.

D. Project Management

Effective project management begins with a logical, effective and efficient work plan that is clearly understood and accepted by the parties. The Engagement Director and Project Manager will be responsible for crafting and managing the overall work plan. In engagements of this magnitude, the Project Manager will be assigned to devote reasonable effort to managing both the audit costs and schedule using acceptable project management tools.

RCG's Project Manager is responsible for the day-to-day execution of the work plan and schedule, while the Engagement Director focuses on the development of the central issues, budget management and the management of key relationships. Both the Project Manager and Engagement Director have a long and productive working relationship relative to management audits assignments.

A key aspect of RCG's approach to process control is to limit contact for audit process decisions to the Project Managers assigned by RCG and its client, which in the case of this audit is

a representative assigned by DPS Staff, who is RCG's primary client, and an additional representative assigned by the Company. RCG welcomes DPS Staff and Company personnel as active participants in the audit review process, and will work through its Project Manager to accommodate requests throughout the course of the audit.

The Project Manager will also make any or all RCG team members available to DPS Staff to discuss emerging issues, as needed. Using quality audit tools and experienced consultants, together with maintaining open and honest communication between project managers, will lead to a positive audit experience for all parties involved in the process. Again, RCG understands the travel limitations of the DPS Staff and, therefore, will make use of structured conference calls as much as possible.

A significant benefit to this approach is that it prevents surprises by encouraging an open, ongoing, informal dialogue. RCG also has pulled together an experienced team of professionals who understand how to minimize the disruption of a client's normal activities and when it is important to reach out with information or for advice.

Nevertheless, RCG will rely heavily on the knowledgeable and experienced of RCG's Engagement Director and Project Manager, whose responsibilities, in part, are outlined below:

- Clearly defining the tasks to be performed for each audit element and assign those tasks to the most experienced team member where that experience is necessary to outcome quality;
- Determine, with the aid of the Lead Consultants, what must be studied, what facts must be gathered to support credible and verifiable findings; and how those facts should be gathered;
- Determine dependencies, and implementing the plans and discipline that will underscore the successful operating of an efficient construction program feedback loop in order to ensure that a comprehensive audit is completed;
- Identify any duplication of tasks across areas of study before they take place, and assign single responsibility for the performance of related analytical tasks;
- Determine the level of effort required to gather, analyze and report on each element under study, and to manage the process in conformance with the work plan and audit budget;
- Conduct regular sessions with the RCG team to cross-cut issues, and to report findings to the DPS Staff;
- Manage the schedule aggressively to ensure milestones are met and the momentum is maintained;

- Discover and report any budget variances of time and expenses in order to expedite and implement corrective action;
- Review all findings and conclusions for completeness and proper documentation;
- Ensure working papers are managed and identified according to established outcome standards, which will require, at a minimum, that they be clear and neat; complete and accurate; assigned a control number; identifiable by source; and digitally backed up.
- Ensure that an audit trail is maintained at all times;
- Prepare and submit recommended adjustments to the work plan should developments warrant the need to do so; and
- Conduct ongoing discussions and meetings with the RCG team and DPS Staff to minimize surprises.

The Project Manager will be responsible for conducting bi-weekly briefings, in person or by conference call, with the project manager selected to represent DPS Staff and his assigned audit team. At a minimum, these briefings will follow the following agenda:

- Summary of the team's progress, including audit metrics;
- Discussion of emerging issues, observations, preliminary findings and potential conclusions, when appropriate;[10]
- Discussion of open data or interview requests;
- Review of process issues encountered; and
- Discussion of budget versus earned progress status.

In conducting this audit, the RCG team will perform all work in a professional manner and in accordance with accepted government accounting standards.

[10] RCG recommends that discussions involving highly-sensitive issues take place as independent conference calls that would be scheduled pursuant to the directions of the project manager for the DPS Staff.

Chapter IV.

AUDIT AREAS AND ISSUES

This chapter provides a detailed description of audit elements and issues that have been assigned to individual members of the RCG team. This information includes name of the individual(s) assigned to each task and RCG's estimate of the level of effort that will required to complete each audit element identified in the RFP.

A. Introduction

As set forth in the RFP, RCG's management audit will focus on the following eight elements related to NYSEG and RG&E's electric and gas transmission and distribution operations:

- Corporate Mission, Objectives, Goals and Planning
- Load forecasting
- Supply Procurement
- System planning
- Capital and O&M Budgeting
- Program and Project Planning and Management
- Work Force Management
- Performance and results measurement

These series of elements or functions will be evaluated according to the construction program feedback system recommended by the DPS Staff in the RFP. RCG's portrayal of how each of the eight audit elements occur in a feedback loop is included with each element work plan below**.**

This audit will assess the Company's effectiveness in meeting its mission, particularly with respect to meeting its performance goals and the extent to which there are opportunities for improvement that would benefit the Company's New York State customers. In this regard, RCG's audit will focus on the Company's construction program planning, operational efficiency and performance, including reliability.

RCG believes that a significant portion of any utility's T&D capital program can be greatly impacted by its maintenance program. When the capital and O&M programs are reviewed

holistically, the review takes on the character of a formal asset management strategy, which not only impacts capital spending, but O&M expenses and overall system reliability.

RCG contends that, by optimizing these two areas of spending within its New York State operations, the Company will produce the best results for customers. As the RCG team reviews each of the eight audit element areas, it will be a primary objective of RCG to incorporate "leading practices" identified in past assignments. It should be noted that RCG is deliberately choosing to define these practices as "leading" because the use of the term "best practices" tends to portray an approach that only one company has achieved rather than an industry benchmark. it is RCG's experience that there are a number of variables that prevent true "best practices" from producing effective results in certain situations. Therefore, RCG uses "leading practices" as its benchmark term, suggesting that a number of utilities have achieved positive results with this practice independent of a unique environment.

To attempt to provide a complete and understandable picture of RCG's evaluation of each audit area and the issues presented within the context of the proposed audit of NYSEG and RG&E, RCG has provided a description of each of the eight audit element areas that includes the following information, which make up the draft work plan for this audit:

- RCG's perspective on the audit element;
- RCG's staffing assignments and estimated hours required to complete assigned audit tasks for each element;
- Evaluation criteria that RCG recommends in addition to that set forth in the RFP; and
- A list of initial work tasks to be included in the draft work plan.

Additionally, RCG has included initial data requests in ***Appendix A*** to this proposal. These data requests address each audit element and should be considered part of RCG's draft initial work plan for this audit.

B. Audit Element Area Work Plans

RCG proposes the following preliminary work plans for each of the eight audit element areas. As noted above, initial data requests are included in ***Appendix A***. In all cases, the term "NYISO" is intended to refer to the New York Independent System Operator.

Element No. 1: Corporate Mission, Objectives, Goals and Planning

IBE faces a challenge to having an effective and cohesive corporate mission, and objectives that address the uniqueness of the New York State ratepayers since most of senior management is out of state and the corporate Board of Directors is located in Spain. This task area covers the corporate structure and function of the utility's executive

management and both boards of directors, and management's ability to anticipate and respond to opportunities and problems.

RCG contends that an effective board of directors, executive management and governance approach should have the following attributes:

- An experienced and knowledgeable board of directors with appropriate committees to provide effective oversight and direction that benefit New York State customers;
- At least one board member who has specific knowledge of the history and environment that New York State utilities operate within;
- An executive management structure with the right people focusing on the needs of New York State customers;
- A management team and strategic planning process properly focused on delivering the best service at a reasonable cost to New York State customers;
- A set of strategic plans and objectives grounded in delivering safe and reliable services at competitive prices to New York State customers;
- An effective corporate management processes for addressing operational, legal and regulatory issues with formal performance reporting;
- A process for developing management talent and filling key positions with highly-qualified individuals; and
- A uniform process for managing and operating two distinctly different service territories.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Corporate Mission, Objectives, Goals and Planning	
Lead Consultant	Gayla Kraetsch Hartsough
Consultant(s)	Joe DeVirgilio; Peggy Edwards; Gary Ferenz; Bob Grant
Total Hours	820

RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[11]

- Is there an integrated strategy with Strategic Plans for its execution for RG&E and NYSEG?
- Is the strategy documented? Is it forward thinking – visionary?
- Is the external environmental scan complete, considering potential changes in legislation, stakeholders' viewpoints, environmental issues, etc.? Are the external opportunities and threats well defined and complete?
- Is the internal environmental scan complete, documenting the strengths and weaknesses at RG&E and NYSEG? What are the barriers for addressing the internal weaknesses? Are the plans in place to address them?

[11] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Corporate Mission, Objectives, Goal and Planning audit element: *governance, organizational structure, missions and relationships within IBE, IUSA, RG&E and NYSEG; review and evaluate the corporate structure and decision-making processes at the IBE, including the Board of Directors and the holding company structures, down to and including the president and vice presidents of the US subsidiaries all boards of directors as well as the resulting impact on NYS customers; determine whether structural or process changes are necessary to ensure that NYS ratepayers concerns are properly, effectively, and efficiently addressed; review and evaluate how NYS customer interests are represented in the corporate structure, including all boards of directors, in contrast to the other corporate profit centers; review and evaluate the way in which the company ensures compliance with NYS policies, laws, rules, regulations, opinions and orders; review and evaluate IBE's strategy and objectives concerning its corporate organizational and rate structure (what is the long-term strategy for each business unit); evaluate and determine whether it is more operationally efficient and cost advantageous for NYS ratepayers to have the same rate structures for both companies; organizational responsibilities for planning priorities and budgeting allocations for the gas and electric businesses; role of the all Boards of Directors and executive and senior management in the development of budgeting guidelines and managing execution that are in the interest of NYS ratepayers; evaluate the adequacy of controls in place to prevent affiliate transaction abuses; determine whether the companies are permitted to utilize the most cost effective means to procure goods and services or whether they held captive customers of the affiliates; long-term strategy for each business unit; IBE's use of measurable goals, metrics, key performance indicators, etc. to achieve the corporate mission and objectives, and the performance improvement process at successive levels of management; performance and compliance with procedures and practices related to the scope of this audit; management performance and compensation programs and alignment with the corporate mission, objectives and goals at all organizational levels; identification of goals for modernization and implementation of its transmission and distribution systems and consideration of smart grid technologies; review of the decision-making processes and practices relating to the purchase and sale of significant operating segments; review of NYSEG's and RG&E's processes and controls over cash management to ensure that funds are available at least cost rates from affiliates as compared to the open market; and ensure that money pool arrangements and cash management are insulated from IBE and non-regulated operations usage as required by the merger order.*

- Are the planning assumptions defined? Do they consider multiple scenarios – potential best, most likely, or worst scenarios for the future?

- Is the strategy articulated throughout the organization?

- How is the strategy communicated externally – to the investment community, ratepayers, the boards of directors, the Commission and others?

- Is the mission clear? Understood and embraced by employees?

- Are the values defined? Do employees understand what these values mean and what behaviors they should emulate to be consistent with these values?

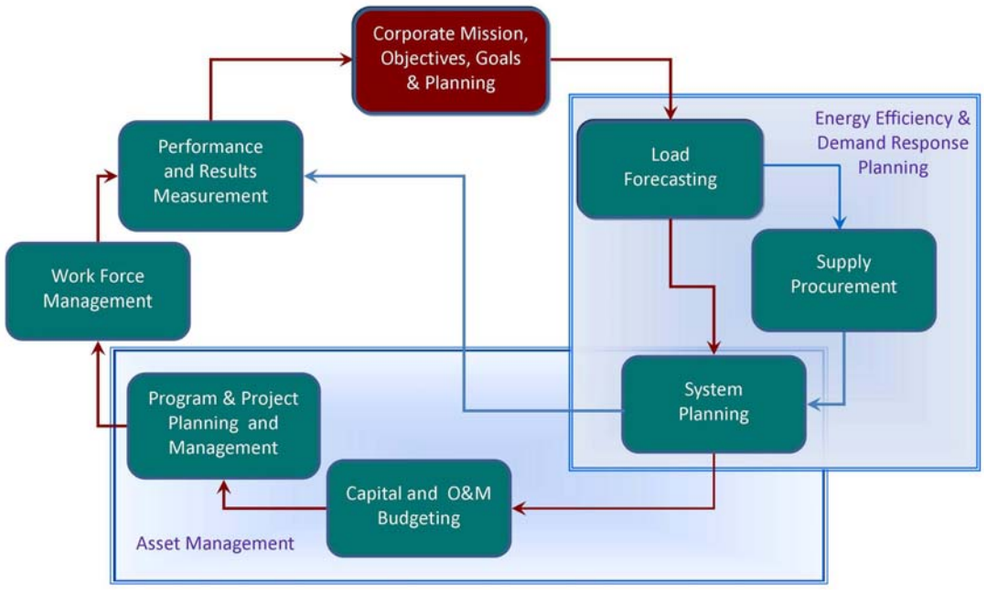
- Have the major strategic priorities been defined? Do the strategic priorities address such areas as fiscal viability and profitability, public trust, customer service, process improvements, organizational change, economic development for the region, environment, and initiatives to sustain continuous improvement and learning within the workforce? Are there developed strategies to address these priorities?

- Are there action plans in place for implementing change? Are the action plans being implemented? Monitored? Evaluated?

- Are performance measurements aligned with the overall strategy? What strategic measurement tools do the utilities use, e.g., a Balanced Scorecard?

- Is the strategic planning process an ongoing process where the plans are routinely reviewed and monitored? Are the plans updated to reflect changes, accomplishments, and lessons learned?

- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?



- Does the Company maintain formal and effective cost allocation policies, procedures, and related manuals that apply approved costing principles for transactions?
- Are methods of allocating overhead costs appropriate and reasonable?
- Are management time distributions used by the utilities and their affiliates to charge for services to and from affiliates validated regularly?
- Do overhead charges align with the business unit's use of the service function?
- Are controls regarding cost allocation and assignment, and other affiliate transactions effective?
- What is the policy regarding the use of direct charges versus allocation for services obtained or provided to affiliates?
- Are the books and records for the IUSA and New York entities maintained in accordance with Uniform System of Accounts (USOA) and Generally Accepted Accounting Procedures (GAAP)?

- Is there clear executive responsibility for monitoring and controlling affiliate transaction policies and procedures?

- Has the Company demonstrated that services obtained from and provided to affiliates are comparable to qualified providers and when obtained are at favorable terms and conditions on a service-by-service basis?

- What is the impact of applying international accounting practices to the rate making process, particularly in light of the Commission requirement to use U.S. accounting standards?

Work Tasks:

1. Revise Corporate Mission, Objectives, Goals and Planning tasks and initial data requests based on feedback from DPS Staff review of proposal.

2. Review initial data request responses related to Corporate Mission, Objectives, Goals and Planning. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the Corporate Mission, Objectives, Goals and Planning process in IUSA and the New York utilities.

4. Develop Corporate Mission, Objectives, Goals and Planning chapter outline, next level of interview guides and data requests.

5. Review charging processes to understand documentation and process flows between and within business units.

6. Track a sample of transactions of costs allocated between regulated and non-regulated entities, including payroll transactions.

7. Determine if all applicable transactions are being captured.

8. Determine if shared resources and charges are consistent and reasonable.

9. Examine the transfer-pricing methodology to ensure that transactions between the Company and its affiliates are accurate and reasonable.

10. Determine records accuracy, the nature of the transaction, and if the transaction is in compliance with policies, procedures and regulatory requirements.

11. Determine whether the costs of shared services, facilities and equipment are allocated appropriately.

12. Determine if services obtained from and provided to affiliates are comparable to qualified providers, and are at favorable terms and conditions on a service-by-service basis

13. Coordinate with audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution of a corporate mission, objectives, goals and planning.

14. Determine how the Company assesses the success of its corporate mission, objectives, goals and planning process. Review key performance indicators (KPI) for corporate mission, objectives, goals and planning.

15. Review how the Company benchmarks its corporate mission, objectives, goals, and planning practices and results compare with industry and other New York State utility performance.

16. Compare the overall corporate mission, objectives, goals and planning process to leading practices.

17. Complete analysis of the overall corporate mission, objectives, goals and planning process, including cost implication, where possible.

18. Perform fact verification.

19. Prepare the Corporate Mission, Objectives , Goals and Planning task report.

20. Submit the Corporate Mission, Objectives , Goals and Planning task report for RCG quality review.

Element No. 2: Load Forecasting

The utility load forecast is the foundation for all tactical aspects of its planning process. As RCG has diagrammed above, the forecast should support supply procurement, system planning and financial planning and recognize strategic planning issues and concerns. The utility needs to ensure that its electric and gas load forecasting provides accurate and timely commodity and demand requirements so management can make prudent "downstream" operational decisions regarding supply procurement options, T&D system requirements, risk management, financial and regulatory strategies.

Key factors for developing accurate load forecasts include tested models, relevant inputs, the incorporation of energy efficiency, demand-side management and distributed generation supported by a strong approval process. A high-level measure of the effectiveness of the load forecasting function can be ascertained by comparing forecasts with weather adjusted actual consumption, however the forecasting process must be broad enough to recognize emerging trends and/or rapid discontinuities ("Black Swan" events) and therefore customer research, sensitivity studies and para-analytical techniques should be part of the forecasting process.

Evolving challenges in forecasting include the estimation of retail choice and distributed generation along with volatile prices for competitive fuels and rapid changes in economic conditions.

Staffing Assignment:

The staffing plan for this area appears below:

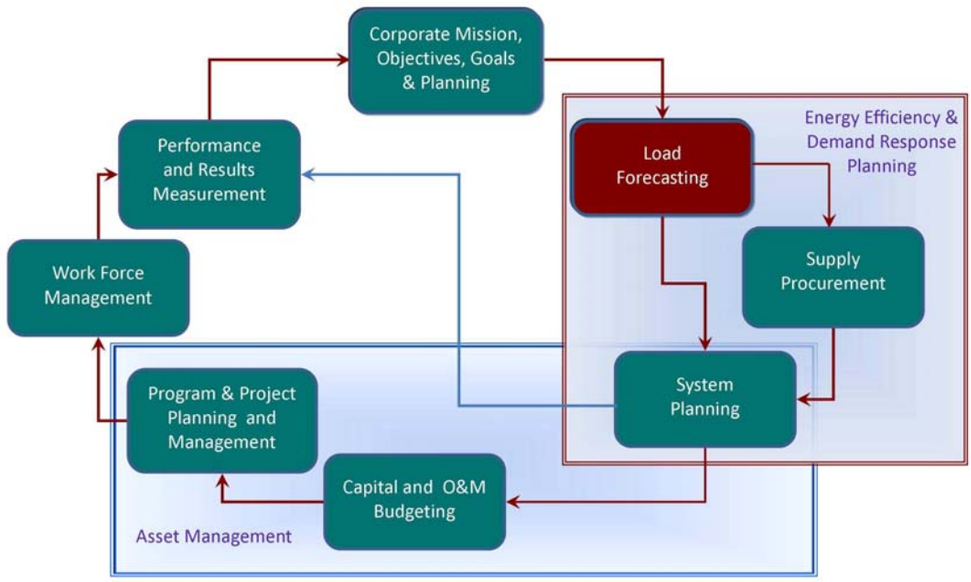
Audit Area Staff Assignment – Load Forecasting	
Lead Consultant	Howard Solganick
Consultant(s)	Gary Ferenz; Tom Langley; Philip Phillips, Jr.
Total Hours	285

RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[12]

- Does the Company have a documented forecast process including formal approvals?
- Does the Company have a process to obtain and/or develop the needed inputs for the forecast process?
- Does the Company perform customer research?
- How is customer choice estimated and integrated into the forecast?
- How are energy efficiency and demand response programs integrated into the forecast?
- Does the Company statistically test and backcast its forecasting models and routinely compare its forecast to actual sales and peak?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?

[12] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Load Forecasting audit element: *models, assumptions, key drivers, and other inputs used to forecast local and system-wide load requirements; inputs, including demand side management, energy efficiency and other initiatives that are factors in the forecasting process; organization and staffing of forecasting functions; extent to which the planning for electric load, as well as region-specific factors, is integrated into the overall business processes and strategies, including gas planning; and the effect of the NYISO on Iberdrola's forecasting.*



Work Tasks:

1. Revise load forecasting tasks and initial data requests based on feedback from the DPS Staff review of the proposal.

2. Review initial data request responses related to the load forecasting process. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the load forecasting process within IUSA, NYSEG and RG&E.

4. Develop a load forecasting task report outline, the next level of interview guides and data requests.

5. Assess the overall planning process including recent changes. Consider whether the process is centralized across Iberdrola, particularly the New York utilities, well documented and tested appropriately and updated as needed.

6. Assess the models used to forecast commodity and peak. Consider whether the forecast does (and should) consider geography and customer classes appropriately.

7. Assess how non-traditional forecasting techniques such as sensitivity studies, para-analytics, environmental scanning and emerging trends are considered in the forecasting process.

8. Determine how demand response, energy efficiency, distributed generation and other customer facing programs are integrated into the forecast.

9. Assess the inputs, assumptions and key drivers, and other inputs to forecast local and system-wide load requirements that the Company uses within its forecast process. Consider whether customer research is used (or needed).Assess how customer choice is estimated and integrated into the forecasting process.

10. Assess the forecast review and approval process.

11. Assess the organization structure, costs and staffing that provides the inputs, supports the modeling and reviews the forecast.

12. Determine whether the forecast is used for supply procurement, system planning and financial (revenue) planning.

13. Determine if the forecast is used within the regulatory process including rate cases.

14. Assess the effect of the NYSISO on Company forecasting. Assess if the electric forecast is provided to and reviewed by the NYISO.

15. Assess the Company's comparisons of each forecast (2006 through 2010) to weather adjusted consumption. Review the post-forecast analysis process.

16. Coordinate with the Corporate Mission, Objectives, Goals and Planning , Supply Procurement, System planning, and the Performance and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution.

17. Determine how the Company and load forecasting process management group assesses the success of the load forecasting process. Review the KPI for the load forecasting process.

18. Review how the Company benchmarks load forecasting practices and results with industry and other New York State utility performance.

19. Compare the overall load forecasting process to leading practices.

20. Complete an analysis of the load forecasting process, including cost implications, where possible.

21. Perform fact verification.

22. Prepare the load forecasting task report.

23. Submit the load forecasting task report for RCG quality review.

Element No.3: Supply Procurement

Supply procurement is generally the single largest expense a New York State utility faces. Therefore, errors in the strategy or its execution can have significant financial implications. Securing competitive and reliable electric power, i.e., energy, congestion, capacity, ancillaries and transmission, to serve mass market default supply option ("DSO") customers in a deregulated competitive marketplace has become an increasingly challenging activity in the face of many inter-dependent risk factors. A utility's DSO customer peak usage and load volumes are subject to fluctuations as energy users respond to regulatory and competitive market changes.

Contract terms and credit issues may decrease the availability of suitable wholesale suppliers. Regulatory initiatives, from demand response, emissions, and renewable energy to smart grid and energy efficiency technologies, can affect the generation type and fuel mix, transmission constraints and congestion prices. Wholesale market price volatility, largely driven by swings in the price of natural gas (30% of New York generation is produced using natural gas fuel)[13] and weather, can be significant. And regardless of the utilities supply costs, customers are typically sensitive to any upward price swings (or the perception that market price decreases are not promptly reflected in retail pricing) and may be expected to register significant concern in either case.

Consequently, for DSO customers, the Commission's supply portfolio order (Case 06-M-1017) required electric utilities to set standards for measuring volatility and goals for constraining price volatility to levels that are acceptable.[14] Traditionally, utilities measure volatility using standard deviation and co-efficient of variation or CoV calculations between market and customer pricing.

To constrain price volatility, utilities usually hedge a portion of their energy obligations with a combination of fixed and floating (indexed) supply purchase contracts, both physical and financial and with varying terms, and with the balance purchased on

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[13] NYISO White Paper, "Fuel Diversity in the New York Electric Market", Oct., 2008, Tierney et al.; http://www.nyiso.com/public/webdocs/documents/white_papers/fuel_diversity_11202008.pdf

[14] Case 06-M-1017, Proceeding on Motion of the Commission as to the Policies. Practices and Procedures for Utility Commodity Supply Service to Residential and Small Commercial and Industrial Customers, Order Requiring Development of Utility-Specific Guidelines for Electric Commodity Supply Portfolios and Instituting a Phase II to Address Longer-Tern Issues, at 12-13 (Apr. 19, 2007).

NYISO spot markets. In some cases, utilities also own generation resources and other legacy power purchases that can be included in the supply portfolio under various pricing and term structures.

While there is a bilateral market for longer-term capacity and certain transmission and congestion products, many ancillary products do not offer the liquidity required to effectively hedge their volatility, and they represent a small portion of the overall price to consumers. This increasingly sophisticated and complex process requires coordinated planning and execution with senior management attention, clear goals and objectives, and effective risk management and controls, all with an eye toward future developments and trends.

The process of procuring natural gas supplies faces similar challenges with the additional complexity of coordinating supply sources, pipeline transportation, and gas storage contracts. A successful gas supply strategy also includes executing the contracts on a daily basis, outside the structure of a combined external independent system operator. Depending on the mix of customer load profiles (residential, residential heating, commercial, manufacturing, weather sensitivity, interruptible, critical use, etc), and the resultant seasonal, daily and hourly diversity, the gas supply procurement strategy can vary considerably from one local gas distribution company to another. Even within the same state, different hedging or customer tariff approaches may be designed to deal with specific supply procurement concerns and mandates. The pursuit of price stability may certainly be in conflict with a desire for “market driven” customer price signals. A demonstrated ability to foresee and test a much larger variety of possible market conditions and or events will be necessary to navigate both today’s and future markets.

The need for management of risk across a corporate structure has received much attention and. nowhere more so than in energy supply procurement. A robust risk management policy directly related to the energy supply procurement process is a basic expectation. Such a policy must set clear precise expectations around policy development, governance, oversight, execution, record keeping and retention, role clarity and separation, accountability, periodic evaluation and auditing,

Moreover there must be clear evidence that the policy is communicated, understood, reviewed, adjusted and executed consistently and effectively through the organization. A system of key controls and systems supported and championed by senior management is essential to an effective risk management approach.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Supply Procurement	
Lead Consultant	Howard Solganick
Consultant(s)	Gary Ferenz; Tom Langley; Philip Phillips, Jr.
Total Hours	460

RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[15]

- Review the Companies' management and reporting structures, staffing, accountability, and experience to determine if they are is consistent with the goals and objectives of the procurement process.
- Examine external (non-utility) IBE and IUSA involvement in the utility procurement process and transactions and interaction with affiliated companies.
- Examine whether the Company has identified and considered NYISO current and contemplated programs and initiatives, and bordering ISO initiatives impacting NYISO.
- Examine whether the Company has adequately considered the pace of the economic recovery on wholesale prices and their power procurement process.
- Examine whether the Company has adequately considered the impact of intermittent and other renewable generation and related balancing and storage developments in their procurement process.

[15] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Supply Planning audit element addressing wholesale markets: *evaluate the reasonableness and efficiency of the Companies' generator interconnection process for both wholesale and distributed generation; review companies' strategic plan with formalized goals and objectives for the wholesale market and generation operation practices; evaluate the extent to which the companies protect the short and long term interests of their retail customers; and evaluate the effectiveness of the companies' participation in NYISO and FERC.* RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Supply Planning audit element addressing supply procurement: *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; review NYSEG's and RG&E's financial and physical hedging practices; examine NYSEG's and RG&E's use of performance benchmarking with other utilities; review portfolio performance goals; evaluate the adequacy and effectiveness of the decision making process with the management structure of the companies' including portfolio oversight and controls; review performance monitoring/evaluation mechanisms; examine whether the company has adequately considered the role of demand management/response, energy efficiency, and migration of retail customers to competitive suppliers in the portfolio and procurement processes; examine whether the company has adequately considered the impacts of increased local and regional natural ga*s production on supply and capacity procurement.

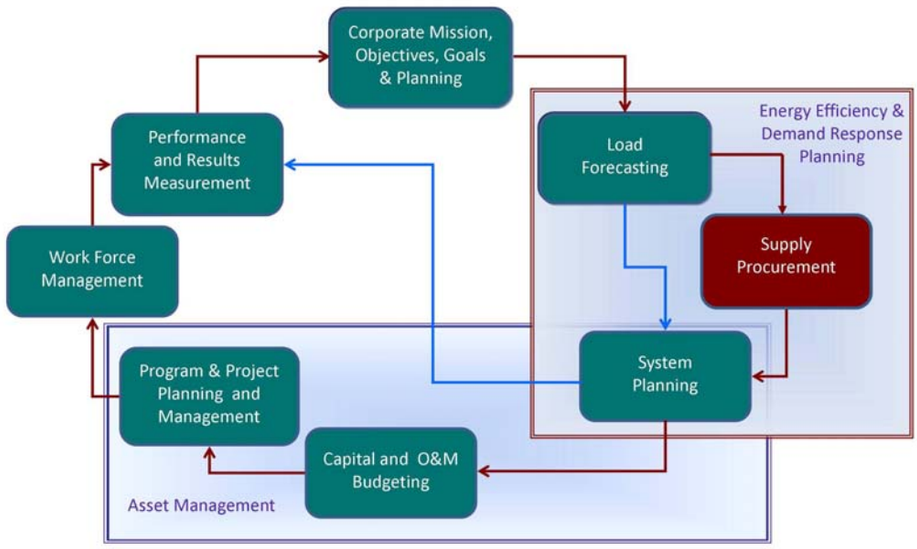
- Examine whether the Company has identified and adequately considered the potential impact of current and future environmental regulations in their procurement process.

- Examine whether the Company has identified and adequately considered emerging wholesale power market technology and trends such as advanced storage, Smart Grid, electric vehicles, and transmission efficiency in their procurement process.

- Examine how the Company evaluates the performance and reliability of company-owned generation and how it is integrated into the procurement process.

- Examine the Company efforts to coordinate supply procurement strategy with system planning and load estimation related strategies.

- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?



Work Tasks:

1. Revise Supply Procurement tasks and initial data requests based on feedback from the DPS Staff review of the proposal.

2. Review initial data request responses related to the Company's supply procurement process. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the supply procurement process in IUSA and the New York utilities.

4. Develop the supply procurement task report outline, the next level of interview guides and data requests.

5. Determine effectiveness and impact of the generator interconnection process for wholesale and distributed generation on new resource development with respect to coordination with NYISO, ability to meet regulatory goals and mandates, quality of interaction with generation developers and their perspective, comparability to other NY utility processes, and issues regarding affiliate development and competition.

6. Review and evaluate the Companies' strategic plan with formalized goals and objectives, and the process and procedures utilized to communicate, execute, and control wholesale market transactions and generation operation practices. Determine if proper counterparty, execution platform, and market contacts are identified and effectively used to provide appropriate transaction options and information feedback. Evaluate the extent to which the Companies protect the short- and long-term interests of their retail customers.

7. Review wholesale transactions and hedging execution, including legacy procurement contracts and owned generation, and assess consistency with hedging goals and objectives, risk management, SOx, and credit and legal requirements.

8. Review participation in NYISO/ NERC/ FERC committees, meetings, regulatory filings with state and federal authorities, and other activities. Evaluate efforts to proactively engage in NYISO initiatives. Determine involvement of senior management inside and outside of the utility, processes to produce and control responses, and contact points and dissemination of information from those activities and efforts.

9. Review the supply procurement process, strategies, policies, processes and methods. Assess consistency with Company goals and objectives, risk management, and other internal and external requirements, including customer benefits and New York Commission regulations. Review modeling, related calculations, and key drivers utilized by the Company Identify and evaluate documentation and performance of the required inputs.

10. Evaluate the organization structure and management roles, responsibilities and accountability with respect to the supply

procurement process. Identify the effectiveness of the communication and feedback processes involved.

11. Identify and evaluate the adequacy and effectiveness of the Company's decision-making process, and the organizational location of key decision-makers and the criteria used to reach them.

12. Determine the adequacy and timeliness of the supply procurement process in identifying, prioritizing and developing alternative strategies in response to emerging market issues and regulatory requirement changes within the current process.

13. Review and evaluate supply portfolio principles, goals and objectives for mass market default customers. Determine if the Company has considered alternative DSO supply approaches. Review evaluation process, decisions and execution of accepted recommendations.

14. Review back, mid and front office organization, processes, and procedures. Determine if transactions are properly captured, audited, and reported, and any changes are identified, processed, and reported. Evaluate documentation and performance including ability to respond to data requests and meet internal and external requirements in a timely and efficient manner.

15. Evaluate the effectiveness and integration of risk management strategies and practices in the supply procurement process.

16. Coordinate with the Corporate Mission, Objectives, Goals and Planning, Load Forecasting, System Planning, and Performance and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution.

17. Determine how the Company and the supply procurement process management team assesses the success of the supply procurement process. Review the KPI for the supply procurement process.

18. Review how the Company benchmarks supply procurement practices and results with industry and other New York State utility performance.

19. Compare the overall supply procurement process to leading practices.

20. Complete the analysis of the supply procurement process, including cost implications, where possible.

21. Perform fact verification.

22. Prepare the Supply Procurement task report

23. Submit the Supply Procurement task report for RCG quality review

Element No. 4: System Planning

System planning is the cornerstone of the utility's efforts to ensure adequate, safe and reliable gas and electric energy delivery. It must be consistent with the Company's strategic plan and will impact the customer satisfaction. The resulting planning efforts drive a utility's capital and O&M budgeting process. Specifically, the system planning process will have the following impacts:

- Plans the company's capital construction program which,
  - Minimizes failures of key equipment,
  - Addresses the replacement of aging infrastructure,
  - Ensures adequate supply to new and existing customers, and
  - Minimizes the need for excessive corrective maintenance actions,
- Supports the development of a formal asset management strategy and plan,
- Encourages a proactive maintenance plan which optimizes O&M spend,
- Minimizes overlapping spend caused by poor capital and maintenance efforts,
- Allows management to identify the appropriate staffing levels for maintaining the system,
- Permits management to determine the most cost effective means for executing its capital build, and
- Provides a formal integration with the New York Independent System Operator's (NYISO) for electric transmission.

RCG has seen a number of companies which have chosen to outsource this critical function with less than desirable results. RCG will closely evaluate the Company's approach to system planning.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – System Planning	
Lead Consultant	Bob Grant
Consultant(s)	Tom Langley; Emily O'Brien; Philip Phillips, Jr.
Total Hours	470

RCG Additional Evaluation Criteria:

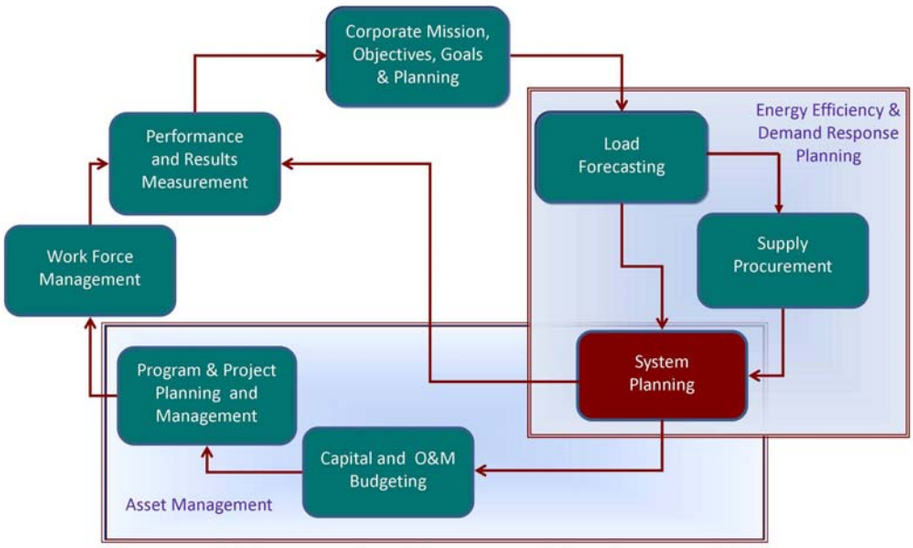
RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[16]

- Is the system planning process aligned with the Company's strategic plan?
- Is the system planning process efficient and effective to support timely decisions?
- How are New York State and Commission program impacts included in the system planning process?
- How is input from Governmental Relations/Affairs, Public Relations/Affairs and Rates & Regulatory included in the system planning process?
- How is operations involved in the system planning process?
- Is there a formal asset management strategy, and plan embedded in the process?

[16] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the System Planning audit element: *infrastructure planning and engineering functions; priorities, guidance and other instructions for evaluations, tradeoffs and decision making, including an asset condition and management process, using input from the asset health review process, and linking asset management decisions to improved reliability and performance; Development of system forecasts and infrastructure requirements; consideration of alternative resources such as distributed generation and demand response initiatives in the planning process; consideration of other load and infrastructure factors, such as advanced metering, smart grid, energy efficiency initiatives, and electric and gas convergence issues in the planning process; processes for identifying, developing, and justifying the need for major projects; process and criteria for making decisions regarding replace versus repair, including how the overall construction program planning process is affected; planning processes for network versus radial systems, underground versus overhead systems, reliability versus new business tradeoffs and regional versus central planning dynamics; extent to which benefit/cost analyses and risk analyses are considered in the decision-making process, and an assessment of the specific types of benefit/cost and risk analysis methodologies; optimization of trade-offs 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; review NYSEG's and RG&E's System Operation and Planning procedures and practices pertaining to normal and emergency strategies/conditions; evaluate the adequacy of companies' integrated long range plans; evaluate the extent to which public policy initiatives are incorporated in the planning processes; and evaluate NYSEG's and RG&E's ability to adequately identify reliability benefits for its customers versus short and long-term rate impacts.*

- How are distribution problem areas included in the system planning process?
- How is new technology incorporated into the system planning process?
- How is risk management integrated into the process? Where is the responsibility for risk management?
- Are planning results adequately back-casted for accuracy and model manipulation?
- What long range capital projects have been cancelled or deferred as a result of system growth or reliability projects not coming to pass?
- Is Supply Chain included early enough to ensure the best pricing for equipment?
- What percent of system planning is performed in-house?
- Are models used in the process? If yes, how is their accuracy verified?
- How are renewable generation interconnection requests incorporated into the system planning process? Are their infrastructure requirements and investments adequately identified?
- How is Company transmission capital planning impacted by the NYISO?
- What is cost sharing mechanism for interconnection and other projects which may not fully support Company customers?
- How are project transmission constraints incorporated into the system planning process?
- Who reviews the proposed capital projects?
- Who makes the final decision on capital projects?
- What is the impact to maintenance planning in terms of programs and spend?
- How has the Company's gas main and service line replacement plan changed over the last five years? What is the projected capital spending for the next five years?
- What tools and models are used to project gas main replacement? How are the results verified?

- Does the Company plan to increase gas storage over the next five years? What drive storage decisions?
- How is feedback from normal and emergency operations of the system included in the system planning process?
- How has (or will) the system planning process changed with IBE's ownership?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?



Work Tasks:

1. Revise System Planning tasks and initial data requests based on feedback from the DPS Staff review of the proposal.
2. Review initial data request responses related to system planning. Identify missing data, evaluate quality and completeness, and engage management as needed.
3. Develop initial high-level interviews to clarify and verify understanding of the system planning process within IUSA, NYSEG and RG&E.
4. Develop a System Planning task report outline, the next level of interview guides and data requests.

5. Assess the system planning process and how it integrates, planning, forecasting, engineering, operations, standards, construction and supply chain.

6. Identify the key drivers, e.g., reliability, safety, operability and new business, to identifying new capital projects and the section process.

7. Determine the adequacy of the system planning process for identifying, prioritizing and developing corrective projects for chronic system problem areas.

8. Understand how risk management is formally integrated in the process.

9. Review the project ranking tools and processes for reasonableness.

10. Determine how the Company allocates the capital budget between the New York properties, electric and gas, then between transmission and distribution.

11. Determine where system planning is begun and managed from (New York properties, IUSA or IBE).

12. Review Company use of standards for equipment and system design, particularly in light of the two unique New York service territories. Determine the impact of replacing old technology on spend, staffing and reliability where possible.

13. Determine where and who sets the annual budget within the Company's organization? Determine IBE's role in the process.

14. Assess the assumptions and accuracy of the planning models used.

15. Determine if demand response, energy efficiency, smart grid and alternative resources are adequately incorporated into the system planning process.

16. Assess the reasonableness of equipment repair vs. replace decision process.

17. Review the asset management strategy and supporting organization to ensure safe and reliable energy delivery systems.

18. Identify where the ultimate decisions are made on the system planning and the criteria used to reach them.

19. Determine the frequency of the validation process.

20. Determine if the interconnection request process is reasonable and supports New York's renewable policy and goals.

21. Review the Company's interface and working relationship with NYISO.

22. Coordinate with the Corporate Mission. Objectives, Goals and Planning, Load Forecasting, Supply Procurement, Capital and O&M Budgeting, and Performance and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution.

23. Determine how the Company and system planning management assesses the success of the system planning process. Review the KPI for system planning.

24. Review how the Company benchmarks its system planning practices and results with industry and other New York State utility performance.

25. Compare the overall system planning process to leading practices.

26. Complete analysis of the system planning process, including cost implications, where possible.

27. Perform fact verification.

28. Prepare the System Planning task report

29. Submit the System Planning task report for RCG quality review

Element No. 5: Capital and O&M Budgeting

Core to managing any business is the importance of having a sound budgeting process in place. Good budgets allow managers to manage, in part, to the numbers. This limits surprises as the fiscal year comes to a close. Successful capital and O&M budgeting have the following traits:

- A clear and defined process to budgeting, with a formal timetable and criteria;
- Built-in bottom-up input and top-down limits;
- Formal time-based targets;
- A clear understanding of the budget by managers and recognition that the they will be judged on budget performance;
- A formal performance reporting and monitoring mechanism;

- Regular executive and Board level visibility of capital budgets;
- Clearly defined accountability for delivering results relative to budgets;
- Formal capital committee oversight and regular evaluation of the rate of spending, and budget adjustments for unforeseen events;
- A system planning process tied to capital budgets, as well as expected new business growth predicted by load forecasting;
- Clearly articulated budgets reflecting the O&M needs of the T&D systems, generally expressed in formal programs, e.g., tree trimming, pole inspection and repair, right-of-way maintenance, cathodic protection, gas leak survey, etc.;
- Integrated capital and O&M budgets that are based on business needs and not focused on labor utilization; and
- Indirect linkage to work management systems and processes to provide granular information on spending.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Capital and O&M Budgeting	
Lead Consultant	Bob Grant
Consultant(s)	Joe DeVirgilio, Emily O'Brien
Total Hours	465

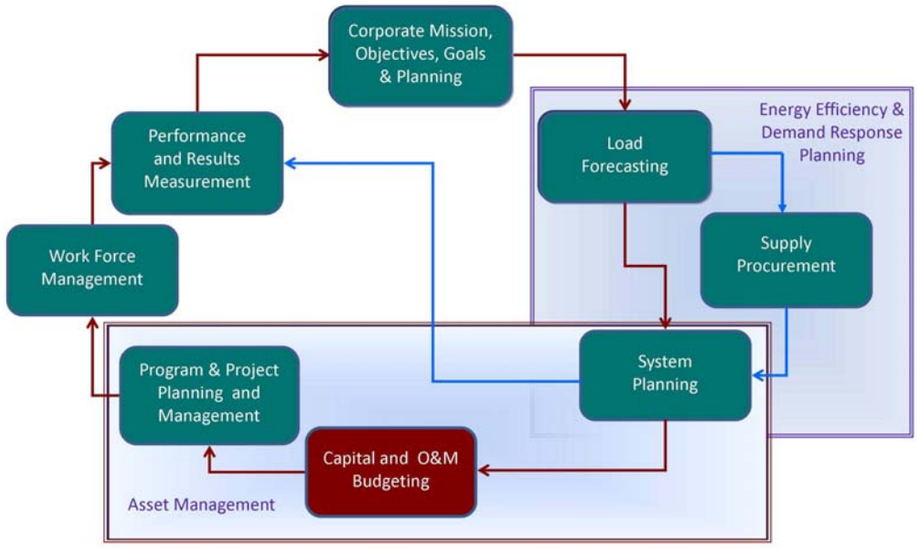
RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[17]

[17] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Capital and O&M Budgeting audit element: *roles and responsibilities associated with capital and O&M budgets from the International Board of Directors down to and including IUSA and New York operating companies' officers; balancing of capital investments with safety and reliability; processes by which the Board gets involved in the capital and O&M budgets, and identifying and evaluating the appropriateness of the level of budget detail the Board sees relative to their budgetary responsibilities; construction/capital priority setting process among IBE, IUSA, and the NY utilities; Incremental O&M expenses associated with new construction that are factored into the budgeting process; the effects of allowed revenues/rates and financing opportunities or constraints on budget levels and priorities; relationships among planned/budgeted expenditures, rate case proposed expenditures, and actual expenditures; capital budgeting process, including project authorization, project appropriation,*

- Is budgeting formally linked to strategic initiatives?
- Is budgeting formally tied to system planning process?
- Are the capital and O&M budgets for the NYSEG and RG&E developed within the New York management infrastructure or is it managed and controlled through IUSA or IBE?
- Where are the limits set for both the capital and O&M budgets?
- How are the capital and O&M budgets integrated into the development of a rate case?
- Is there clear and independent oversight of both the capital and O&M budgets all the way up to and including the board of directors?
- Is there a formal process for handling emergency spend and integrating results into existing capital or O&M budgets?
- How does IBE's capital and O&M spending compare with other New York Utilities?
- How are variances managed and by whom?
- Is there a solid linkage between system planning and capital budgeting?
- How will new technology impact the O&M budgeting numbers?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?

increase/decrease of authorization/appropriation, capital budget status reporting, validation in advance of appropriation, funding controls, and other elements of the capital budgeting process; budgeting guidelines, practices and procedures, including "zero–based" and other alternative methods; roles of and relationships between regional and centralized planning and budgeting functions including how well the planning function is linked to capital expenditures; methodology for prioritizing and determining which capital projects get approved, including an examination of modeling software for capital and O&M budgeting; management and control of capital budgeting. Include the methodologies used to control and manage program and project capital costs in the near and long term, the annual process for reviewing and determining whether total capital and O&M planned expenditures are adequate, cost control systems and processes from both a top-down and bottom-up perspective, and controls to ensure that increases and decreases to the construction budget/expenditures are justified and appropriately approved; and bottom-up and top-down processes for developing the budgets for capital/construction classifications and categories.



Work Tasks:

1. Revise Capital and O&M Budgeting tasks and initial data requests based on feedback from DPS Staff review of the proposal.

2. Review responses to the initial data requests related to capital and O&M budgeting. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the capital and O&M budgeting processes in IUSA, NYSEG and RG&E.

4. Develop the capital and O&M budgeting task report outline, the next level of interview guides and data requests.

5. Determine if the Company's approaches to developing and controlling budgets are effective.

6. Evaluate the various boards of directors roles and responsibilities with respect to the capital and O&M budgeting processes.

7. Determine if the various boards of directors are exposed to the right level of detail to make informed decisions on budgets.

8. Understand where both the initial and final decisions on budgets are made within the IBE organization, including the level of autonomy of the New York entities ability to set appropriate budgets to meet growth, reliability and safety needs of the T&D systems.

9. Understand adequacy management oversight of budgets over the course of a year.

10. Determine the role and responsibilities of the capital project manager.

11. Identify adjustments to annual maintenance program budgets and the reasons.

12. Determine the annual variances in budgets and the associated reasons.

13. Evaluate sample capital projects which fall into the following three categories: New proposed projects, projects underway and completed projects.

14. Determine if the Company uses models to plan budgets.

15. Understand how management deals with run rates which project exceeding annual budget targets during the course of the year.

16. Evaluate the capital budget priority setting process and its reasonableness.

17. Determine how management balances capital and O&M budgets when one deviates widely from its plan.

18. Determine if allowances for capital projects are integrated into the O&M budgets.

19. Understand if rate making or allowed revenues impact the capital budgeting process.

20. Coordinate with the Corporate Mission, Objectives, Goals and Planning, Supply Procurement, System Planning, Program and Project Planning and Management, and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution.

21. Determine how the Company and its capital and O&M budgeting management assesses the success of the capital and O&M budgeting process. Review the KPI for capital and O&M budgeting.

22. Review how the Company benchmarks the capital and O&M budgeting practices and results with industry and other New York State utility performance.

23. Compare the overall capital and O&M budgeting process to leading practices.

24. Complete an analysis of capital and O&M budgeting process, including cost implications, where possible.

25. Perform fact verification.

26. Prepare the Capital and O&M Budgeting task report

27. Submit the Capital and O&M Budgeting task report for RCG quality review

Element No. 6: Program and Project Planning and Management

Program and project planning and management (P&PPM) provide significant benefits to senior management, customers and other key stakeholders, such as shareholders and regulators. P&PPM addresses both capital projects as well as O&M programs (e.g., tree trimming, pole inspection and replacement, DOT pipeline safety, etc.) These benefits include:

- *Integrated Strategic View:* P&PPM is designed to take a larger and more comprehensive view of the organization's activities to ensure that the multiplicity of capital projects and O&M programs are working across an organization toward common strategic goals and objectives while avoiding conflict and duplicity of effort.

- *Consistency:* In many projects, the project leader must take time at the beginning to outline the process, rules and methods of communication. With a well-developed P&PPM infrastructure, these are defined for all projects in advance and are consistent from project to project. This means that employees can move right into team-forming and not have to spend initial meetings discussing how the process is going to work. The end result is that there are fewer communication mix-ups.

- *Cost Savings:* The program management office evaluates all new requests and groups them so that efficiencies of scale can be achieved when allocating limited budgetary and staffing resources. Strong project management fundamentals ensure that projects stay on track and that variances are addressed quickly and economically.

- *Risk Mitigation:* Proactive risk management anticipates potential project risks so they may be avoided entirely or mitigated by minimizing consequences early.

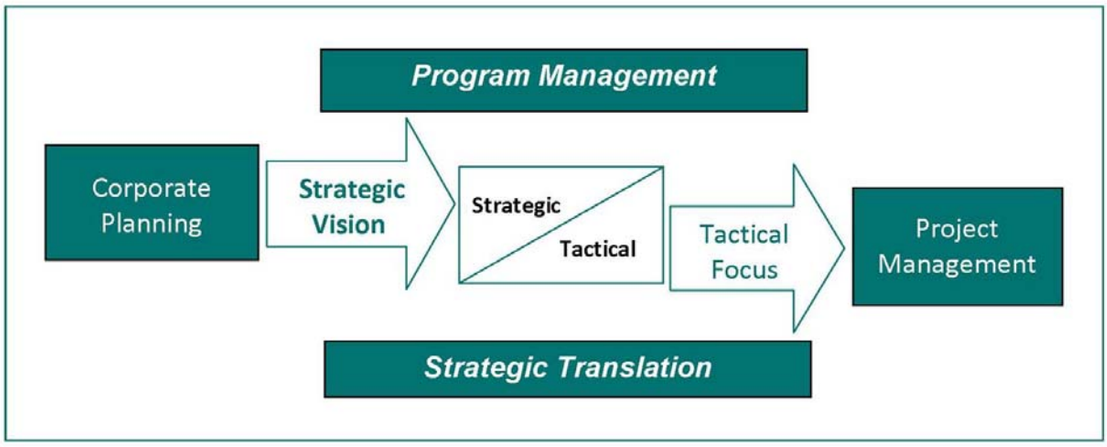
- *Stakeholder Value:* Through effective P&PPM approaches, senior management have more cohesive information to provide to key stakeholders regarding the Company's general processes, growth, customer service, strategic initiatives, compliance and other relevant facts requested by stakeholders. This focus on communication ensures that management stays informed on key issues and events.

Program Planning and Management

Program planning and management has two distinct missions within an organization: strategic and tactical. The strategic role is essential in ensuring that strategic goals and initiatives promulgated by senior management are translated into discrete, tangible projects, and that final deliverables are in line with management's strategic vision and objectives. As projects progress, the program planning and management function continues to monitor compliance with strategic objectives, including mid-course corrections that may arise from shifts in strategic focus or tactical drift.

EXHIBIT IV-1

Dual Program Management Missions



The tactical program management mission aligns budgetary and resource allocation decisions with management's strategic objectives and values. A key aspect of this is the development of realistic budgets and schedules for capital projects to maintain the integrity and safety of existing infrastructure, and to expand system capacity and capabilities. These budgets and schedules become the basis for planning and coordination of requisite engineering, procurement, contracting, quality control and construction activities.

Program management also provides a common framework of tools, policies and procedures, and services that help to ensure that various teams assigned to a project or projects are effectively working together. Day-to-day responsibility and decision-making for projects remain with project managers within the overall program management framework.

Project Planning and Management

Project planning focuses on the specific requirements needed to successfully complete individual projects within the scope, schedule and resources allocated through the program planning process. The initial step in the project planning task is to define and document the project scope and requirements for an individual project. Assumptions and resource allocations adopted during the program planning phase are reviewed and revised as necessary. The final project scope, schedule and budget are documented prior to the initiation of an individual project.

EXHIBIT IV-2

Tactical Project Approach

Project management involves several key activities if a project is to be managed to its completion within the planned scope, schedule and resource constraints. These key activities are presented below.

- *Scope Management* - Throughout the duration of a project, scope management should include the following tasks:
  - Track completion and quality of deliverables and milestones against a project success metrics;
  - Identify and plan for any necessary scope changes addressing corresponding financial impacts;
  - Monitor, record and report scope issues; and
  - Ensure coordination and sharing of information with other ongoing initiatives, as necessary, to produce real cost savings.
- *Budget Tracking and Forecasting* - Project expenditures are tracked against budgeted amounts, and updated forecasts are compiled using standardized templates and formats. Significant variances may require revisiting the program planning process to resolve issues such as resource contention between projects.
- *Issue Tracking and Resolution* - As project issues inevitably arise, there needs to be an Issue Log maintained to track open issues and associated action plans through resolution during the course of a project.
- *Risk Management* - Project managers should proactively identify, monitor, and evaluate project issues and risks, and develop preventative and/or mitigating measures, as appropriate. A Risk Register should be developed to include the following information:
  - A description of the risk;
  - The impact should this event occur;
  - The probability of its occurrence;
  - A summary of the planned response should the event occur; and
  - A summary of mitigating actions (the actions taken in advance to reduce the probability and/or impact of the event).

  As the project progresses, the project manager should monitor the Risk Register and aggressively manage the Issue Log, working with the project staff and senior management, as required, to assign and resolve issues, and implement contingency plans. The Risk Register provides an important learning tool for future project managers as well.

- *Reporting & Compliance* - Routine project reporting requirements typically include the following information, which is provided on a frequent and regular basis:

    - Status reports, with master program schedule reporting and maintenance;
    - Milestone summaries;
    - Burn rate/hours expended by company and contractor resources;
    - Project risk and risk status reports;
    - Late tasks and possible remediation plans; and
    - Pending or new change requests.

  A document repository and collaboration tool is useful to provide a document-management platform that facilitates access to key project documents, materials and reporting for all project participants.

- *Communications Management* - An effective communications framework is key to the success of any project. The importance of a communications framework also increases in proportion to the scale and complexity of the project. A formal communication plan should be developed for each project and be circulated to executive managers, general managers, section heads and project managers that will be impacted by the project. The communication plan should include the following:

    - The audiences targeted by all communications;
    - The media used for each communication;
    - Communications roles and responsibilities (i.e., for developing and delivering the communications);
    - Performance measurement and review criteria, as noted above, including reporting and measurement timelines and procedures; and
    - The timing and format of all future scheduled communications.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Program and Project Planning and Management	
Lead Consultant	Tom Hurley
Consultant(s)	Suzanne Daycock; Joe DeVirgilio; Philip Phillips, Jr.
Total Hours	430

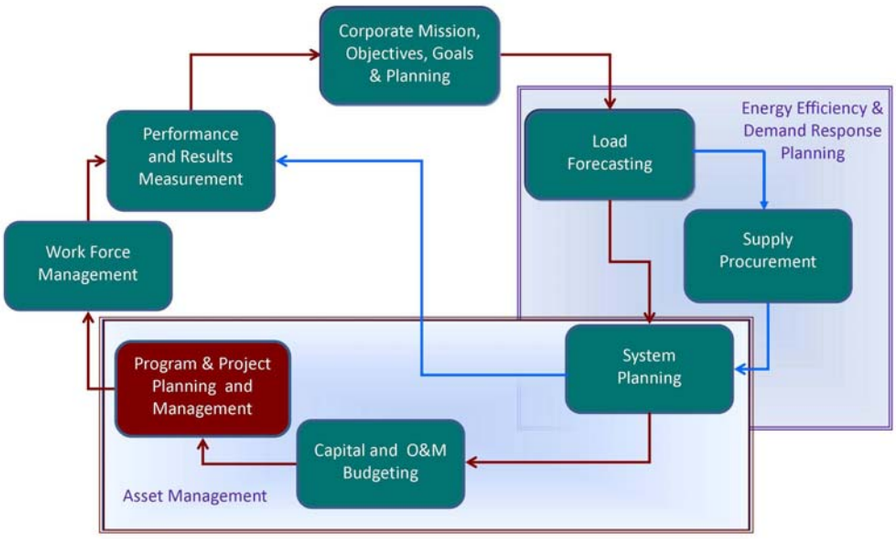
RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[18]

- Does the Company use a formal Program Management Office (PMO) for program management or an *ad hoc* approach?
- Has the Company developed a standardized program and project management infrastructure, including standardized policies and procedures, budget and reporting templates, project and collaborations tools, etc.?
- How are related projects on the same infrastructure coordinated to control costs and minimize the need for additional clearances on transmission projects?
- Is there an effective issue resolution process in place?
- Is there a formal training program in place for project managers?
- How are issue resolutions incorporated into project manager training and future project designs?

[18] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Program and Project Planning and Management audit element: *conversion of capital and O&M plans and budgets into specific programs and projects; process for prioritization and approvals over various time horizons; program and project planning, design, estimating, engineering, costing, scheduling and execution; planning and management of materials, equipment, transportation and other logistical support for programs and projects; analysis and decision-making for tradeoffs to optimize the use of in-house workforce versus contractor labor; contractor and engineering bidding practices; planning and management of construction contractor projects; quality assurance and quality control at the program and project level; contractor management, project/program management, including accountability, goals, objectives, and performance measurement; review the administrative and risk management processes, procedures and controls for using, selecting, and managing contractors, and for choosing among contractors, affiliates or employees in performing gas or electric operations functions. In addition, examine in particular detail the vegetation management and energy efficiency program functions, including an evaluation of prior contractor selection and performance in these two areas; methodology for tracking costs, work units and work quality for specific programs and projects; and identifying the typical variances between original budgeted and actual capital expenditures and work units. Determine how variances are tracked and minimized in order to improve the cost control, efficiency/productivity and work quality.*

- How is quality maintained on individual projects?
- Are there formal project reports regularly scheduled?
- Is there a formal project review committee?
- Is there a formal and consistent process for coordinating with state and municipal highway agencies to coordinate projects?
- At the program level, how are canceled or delay projects managed?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?



Work Tasks:

RCG will develop a profile of planned, in progress, and recently completed construction projects in the Company's service area. RCG will then select a representative sample of these projects for detailed review of the Company's program and project management performance, including:

1. Revise P&PPM tasks and initial data requests based on feedback from the DPS Staff review of the proposal.
2. Review initial data request responses related to the P&PPM process. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the P&PPM process in IUSA and the New York utilities.

4. Develop the P&PPM process task report outline, the next level of interview guides and data requests.

5. Coordinate with the Corporate Mission, and Capital and O&M Budgeting audit teams to determine process coordination handoffs, and consistency of assumptions, areas of focus and execution.

6. Review how capital and O&M plans and budgets convert to specific programs and projects.

7. Assess how programs and projects are prioritized and approved over various time horizons.

8. Define and review program and project planning, design, estimating, engineering, costing, scheduling and execution.

9. Evaluate how materials and equipment, transportation, and other logistical support are planned and managed for programs and projects.

10. Evaluate how projects for the same infrastructure are coordinated.

11. Review project management training materials for completeness.

12. Determine how tradeoffs are analyzed and decisions made in order to optimize the use of in-house workforce versus contractor labor.

13. Examine contractor and engineering bidding processes.

14. Evaluate how construction contractor projects are planned and managed.

15. Examine quality assurance and quality control at the program and project level.

16. Examine contractor management, and project program management, including accountability, goals, objectives and performance measurement.

17. Examine methodologies for tracking costs, work units and work quality for specific programs and projects.

18. Determine if the typical variances between original, budgeted and actual capital expenditures and work units are justified.

19. Assess how the Company tracks and minimizes variances in order to improve cost control, efficiency, productivity and work quality.

20. Determine how issues are managed from a knowledge management perspective and converted into future learning tools.

21. Determine how the Company and P&PPM management assesses the success of the P&PPM process. Review the KPI for P&PPM.

22. Review how the Company benchmarks P&PPM practices and results with industry and other New York State utility performance.

23. Coordinate with the Corporate Mission Objectives, Goals and Planning, Capital and O&M Budgeting, Work Force Management, and Performance and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution. Complete analysis of P&PPM, including cost implication where possible.

24. Determine how the Company and P&PPM managers assess the success of the P&PPM process. Review the KPI for P&PPM.

25. Review how the Company benchmarks its P&PPM practices and results with industry and other New York State utility performance.

26. Compare the overall P&PPM process to leading practices.

27. Complete analysis of P&PPM, including cost implications, where possible.

28. Perform fact verification.

29. Prepare the P&PPM task report

30. Submit the P&PPM task report for RCG quality review.

Element No. 7: Workforce Management

Most utility companies aspire to achieve operational excellence in such areas as system reliability and customer service, but many have fallen short of identifying and implementing industry leading practices in the management of workers and work processes required to realize those goals. Excellence in workforce management requires well-planned, properly scheduled, and effectively executed work tasks using the proper resources and skill sets, and a formal means to monitor progress.

Work properly prepared and managed in this fashion enhances operational efficiency and is accomplished more effectively with higher quality, lower cost, greater safety, and greater job satisfaction than work performed without proper preparation. Successful application of these leading practices in workforce management ultimately leads to better system reliability, customer service and cost effective utilization of resources.

An organization trending toward excellence is one that has transitioned from a reactive to a proactive approach to the assignment and execution of work. It has effectively integrated planning, coordination, and scheduling into day-to-day work activities. It is one that has developed a culture of quality, continuous improvement, and pride in its performance.

Specifically, the Work Force Management processes will have the following impacts:

- Assures that work required for long term system performance is completed in a timely manner and is not deferred due to emergency and emergent work;
- Improves the efficiency and effectiveness of human resources thereby reducing overall costs;
- Processes track rework, failures, repair history and corrective actions, and tracks productivity, quality, schedule adherence and identifying areas for performance improvement;
- Provides an annual review of workforce staffing and skills requirements to assure that sufficient human resources, with the proper skills, are available for day-to-day operations and for emergencies to meet customer service, service quality, safety and reliability standards;
- Integrates the annual work plan with emergent work, and with monthly, weekly and daily work schedules allowing for determination of the optimum work force for each work area, and coordination capital jobs with maintenance jobs to reduce duplicative work;
- Promotes monthly work schedules that are resource-constrained to identify the tasks that cannot be accomplished with in-house resources, including a rational decision methodology for determining tasks that will be outsourced, contracted, or deferred, allowing for improved utilization and efficiency of the in-house work force;
- Uses aggressive backlog management process with a priority system that differentiates urgent from important work tasks, assuring that emergency work

does not distract from the longer term programs that improve overall system performance;

- Continuous improvement in work force efficiency and effectiveness by upgrading tools and methods with new technology;

- Promotes a robust work management information system that supports leading practice work processes, and proactively plans work, manages backlogs and monitors performance;

- Uses a work management information system that creates schedules, develops resource requirements and produces metrics to track key performance areas, such as schedule attainment, planned versus unplanned work, labor productivity, actual costs versus budgets, and non-productive time caused by work delays;

- Uses the work management system to manage on-site contractors and track outsourced work, allowing improved oversight and supervision of contractors;

- Uses data from the work force management system to benchmark against other utility companies.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Work Force Management	
Lead Consultant	Ed Titus
Consultant(s)	Tom Hurley; Philip Phillips, Jr.
Total Hours	465

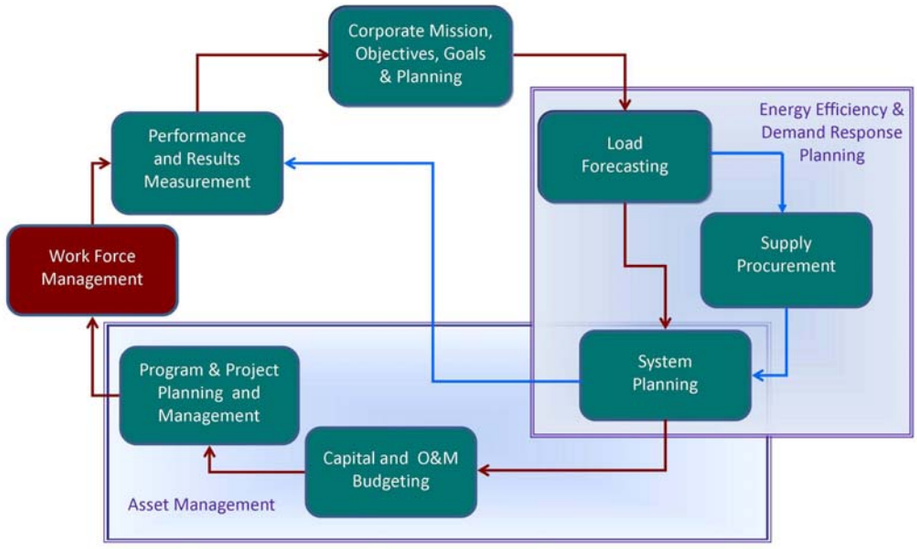
RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[19]

[19] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Workforce Management audit element: *planning, conversion and execution of programs and projects into short-term and day-to-day work; work management systems that are used to schedule and manage field crews, including transportation, equipment, and materials; roles and responsibilities of project managers, supervisors, and inspectors; quality assurance and quality control; management of employee availability, utilization, efficiency,*

- Do work management processes include management of on-site contractors and tracking of out-sourced work?
- Are highly visible metrics used to track progress toward organization goals? Do goals include such topics as: safety, productivity, quality, budget, schedule adherence, and backlog?
- Do Asset Management programs drive long range work schedules and consider such factors as: infrastructure aging analysis; failure history, repair history, and preventive or predictive maintenance (PM/PdM) programs?
- Do aggressive backlog management processes incorporate a priority system that differentiates among urgent (emergency) work, important (corrective, replacement, and upgrade) work, and routine (PM/PdM) tasks.
- Is there a logical linkage among asset management, long range work planning, capital vs. O&M work schedules, budget development, and day-to-day work schedules?
- Do annual workload forecasts identify planned tasks and resources required?
- Are work force management metrics being used to benchmark against other utility companies?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?

productivity and effectiveness; management of program and project schedules on a day-to-day basis; translation of information about rework, failures, repair history, etc. into corrective actions, infrastructure aging analysis, and repair versus replace decisions; feedback of work management systems into performance improvement opportunities; and review the decision-making processes and controls in place to assure that staffing levels are adequate (both in numbers and skills) for day to day operations and emergencies to meet customer service, service quality, safety and reliability standards.



Work Tasks:

1. Revise Work Force Management tasks and initial data requests based on feedback from the DPS Staff review of the proposal.

2. Review responses to the initial data requests related to work force management. Identify missing data, evaluate quality and completeness, and engage management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the work force management process within IUSA, NYSEG and RG&E.

4. Develop the Work Force Management task report outline, the next level of interview guides and data requests.

5. Assess work force management processes and how they integrate with, system planning, asset management, maintenance planning, construction planning, customer service and supply chain.

6. Examine how planning and execution of programs and projects are converted into short-term and day-to-day work planning and management.

7. Determine how work force management systems are used to schedule and manage field crews, including transportation, equipment, and materials.

8. Review the roles and responsibilities of project managers, supervisors and inspectors.

9. Determine how Iberdrola measures and manages employee availability, utilization, efficiency, productivity and effectiveness.

10. Evaluate how work program and project schedules are managed on a day-to-day basis.

11. Determine if information about rework, failures and repair history gets translated into corrective actions, infrastructure aging analysis, and repair versus replace decisions.

12. Determine if workforce and work management systems feed back into performance improvement opportunities?

13. Analyze staffing trends for the past five years by functional area.

14. Analyze workforce planning and management information system tools.

15. Assess key work backlogs by functional area.

16. Review the work prioritization tools and processes for reasonableness.

17. Coordinate with the Corporate Mission Objectives, Goals and Planning, Program and Project Planning and Management, and Performance and Results Management audit teams to determine the extent of Company coordination and consistency of assumptions, strategies and execution.

18. Determine how the Company and work force managers assess the success of the work force management process. Review the KPI for work force management.

19. Review how the Company benchmarks its work force management practices and results with industry and other New York State utility performance.

20. Compare the overall work force management process to leading practices.

21. Complete an analysis of work force management, including cost implications, where possible.

22. Perform fact verification.

23. Prepare the Work Force Management task report

24. Submit the Work Force Management task report for RCG quality review

Element No. 8: Performance and Results Measurement

Performance and results management is an ongoing process of identifying and achieving targeted strategic and operational performance improvements. This structured approach includes critical activities meant to evaluate gaps in current operational performance, define key objectives and targeted improvement opportunities, identify and implement improvement initiatives, and institutionalize a formal framework for continuous improvement. This process, as illustrated in Exhibit IV-3, answers the central questions of: where are we now, where do we want to be, how do we get there, and how do we stay there and further improve.

The development of a cascading performance measure blueprint is a key tool for effective performance management. RCG contends that a select few key performance indicators (KPIs) must drive the overall performance of the organization, and all operational and supporting metrics must link back to these KPIs, as shown in Exhibit IV-4.

One of the most important aspects of results measurement is the linkage between results and personal performance objectives. Targets for personal performance objectives must be realistic and attainable, and they must be in alignment with the corporation's real challenges. IBE's management personnel should have a clear understanding of how corporate objectives and KPIs relate to their personal performance objectives. RCG would expect to see IBE have corporate and business unit objectives with targets and metrics in all areas, for example: earnings per share; free cash flow; safety, e.g., no more than X incident rate; recruitment, e.g., hiring X percent of planned vital hires; leak management targets for type 1, 2 and 3 leaks; transmission reliability – distribution SAIDI and CADI goals; and customer service, e.g., speed of answer of X seconds.

Staffing Assignment:

The staffing plan for this area appears below:

Audit Area Staff Assignment – Performance and Results Management	
Lead Consultant	Tom Hurley
Consultant(s)	Joe DeVirgilio; Gayla Kraetsch Hartsough; Ed Titus
Total Hours	335

EXHIBIT IV-3

Performance & Results Management

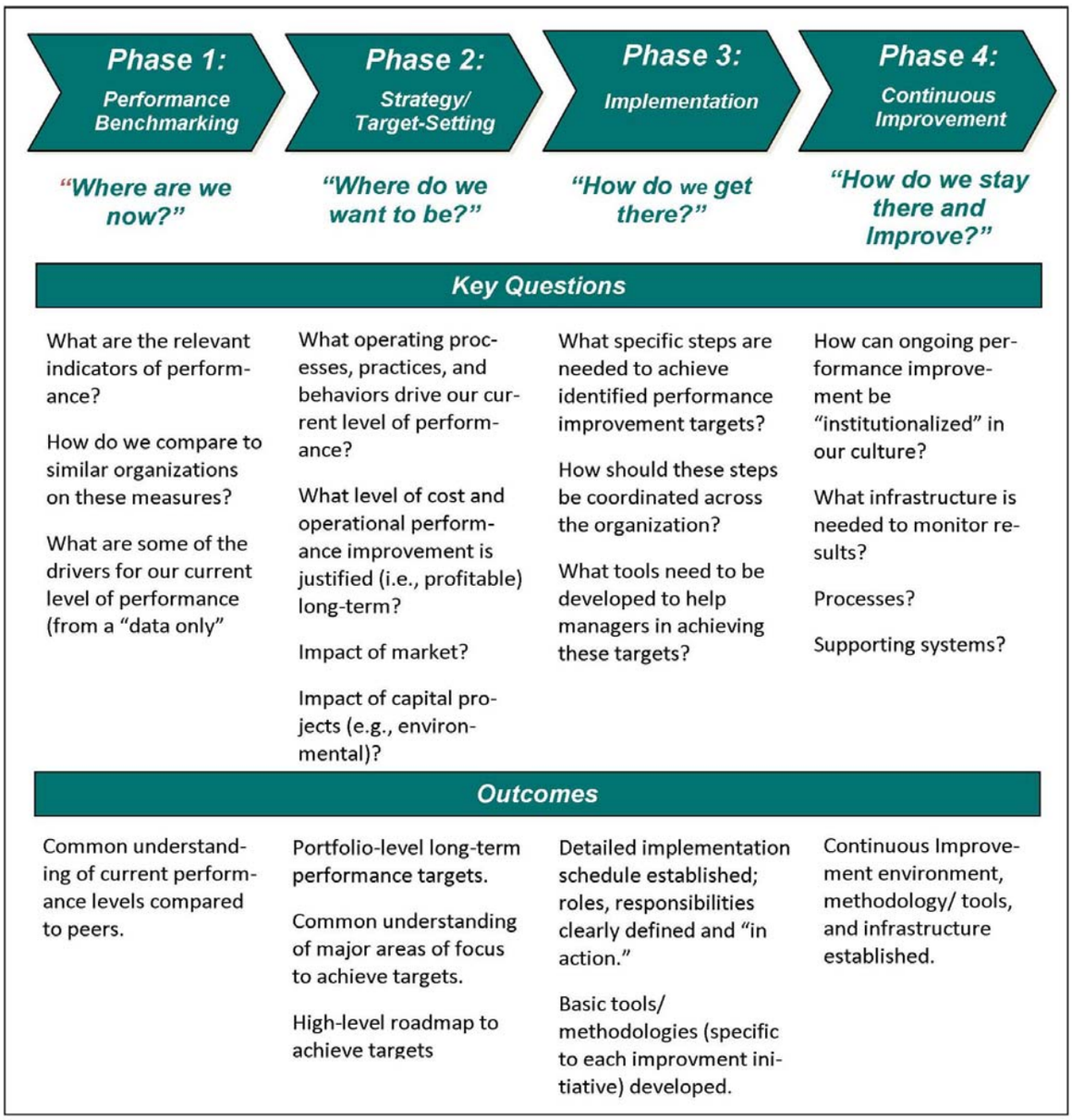
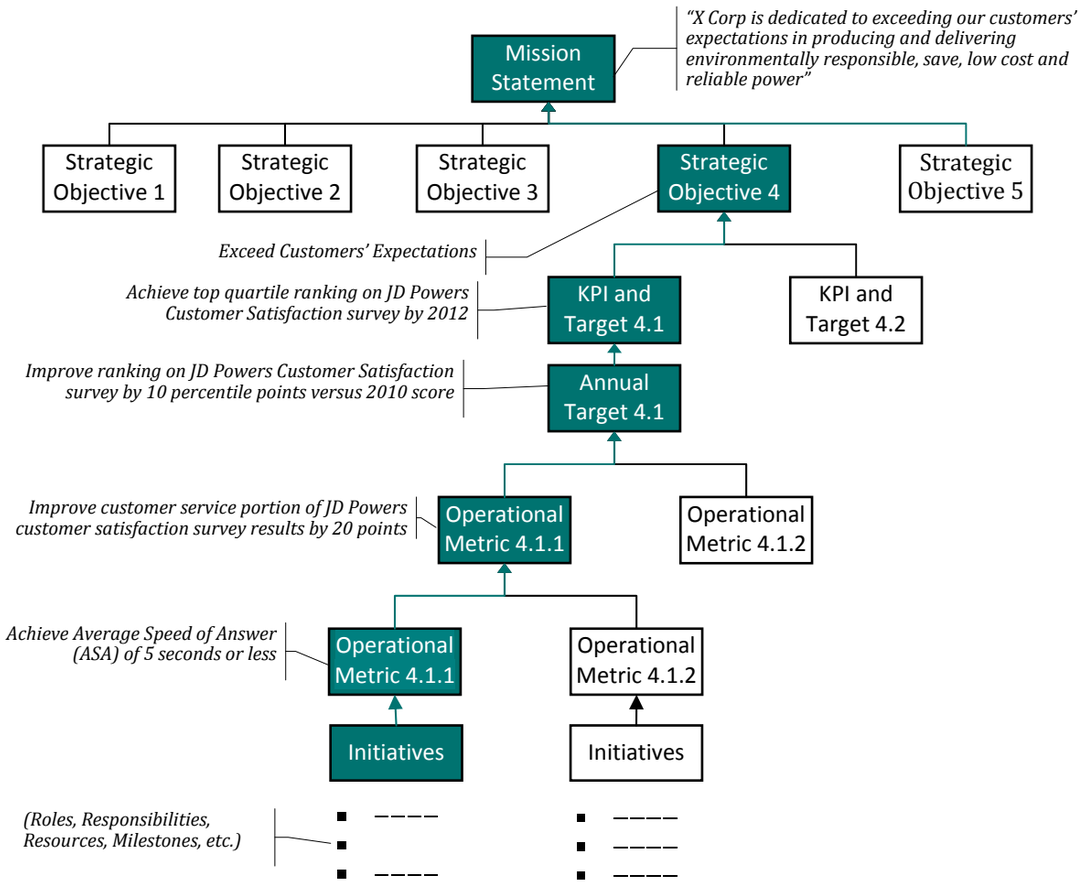


EXHIBIT IV-4

Illustrative KPI and Metric "Blueprint"



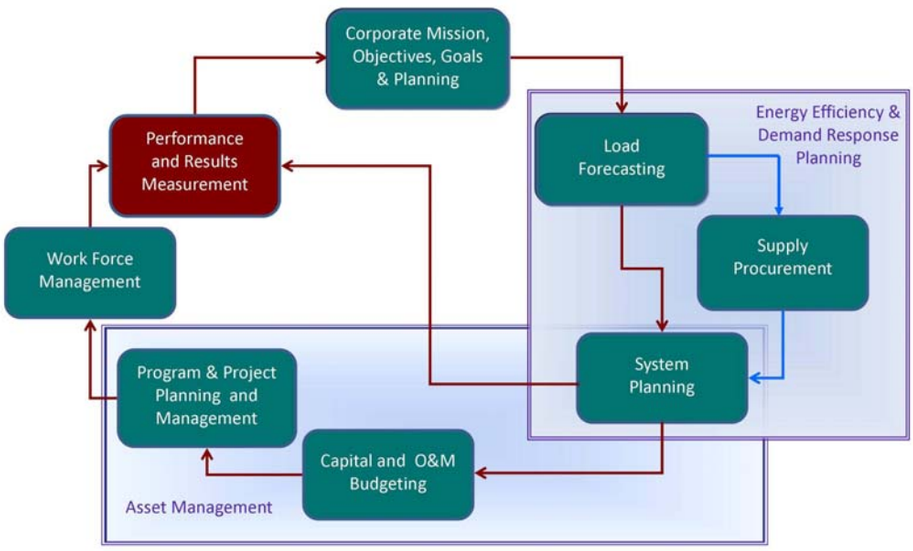
RCG Additional Evaluation Criteria:

RCG recommends that the following evaluation criteria be included in the work plan adopted for this audit element in addition to the criteria set forth in the RFP:[20]

- Are the mission, vision and values of the Company defined, communicated and reinforced on a consistent basis to employees? (The answer to these criteria is critical to this element but will be integrated with the corporate planning element.)
- Are KPIs defined based on purpose, data source and owner?
- Are KPI targets set based on meaningful and accurate benchmarks?
- Is the number of KPIs consistent with the overall set of strategic objectives?
- Is current information maintained and continually updated for appropriate benchmarking analysis?
- Is benchmarking conducted against "leading performers" in key performance benchmarking areas?
- Is current performance benchmarked against historical performance?
- Are goals set based on benchmarking results, competitive analyses and performance gaps?
- Are the plans developed for functional and business units designed to help close the gaps detected in the gap analyses?
- Are lower-level plans rolled-up to help support/create higher level plans and plans are integrated across the organization?
- Is business plan progress tracked on a timely basis, e.g., monthly, quarterly, annual?

[20] RCG acknowledges that the following evaluation criteria, as presented in the RFP, will be included in the work plan for the Performance and Results Measurements audit element:. *processes for feedback of performance (reliability, productivity, etc.) to the corporate mission, objectives and goals for the purpose of improving processes, redirecting resources, and changing priorities; role and responsibility of the Board of Directors in this feedback loop; management accountability for performance improvements anticipated from specific capital and O&M programs and projects, and specific corporate goals; review companies distribution vegetation management program practices and performance; goals, key performance indicators and metrics; benchmarking for identifying and developing performance targets; change management and continuous improvement processes, and any impediments that might constrain performance improvements and necessary changes; compensation and performance metrics; and any additional performance measures or indicators that are needed to facilitate the corporate mission, objectives and goals, including leading indicators, metrics, key performance indicators and other measures that will help improve performance.*

- Are performance targets for employees or business units established with specific metrics and outcomes determined for each target?
- Is employee performance tracked on a regular basis and are periodic performance reports generated?
- Are all levels of management closely involved in performance management and oversight?
- Are management reports routinely provided to select personnel to assist them in managing their respective processes?
- Does management act in a timely manner to ensure that deficiencies and discrepancies are corrected?
- Are roles, responsibilities, and accountabilities for each business unit consistently defined in terms of governance, oversight, support and performance?
- Does the executive management team set the direction for the organization?
- Is line management principally accountable for results?
- What does the information gleaned from audit work tasks tell us about how this audit element is enhancing or deterring from the effective operation of the construction feedback loop?



Work Tasks:

1. Revise Performance and Results Management process tasks and initial data requests based on feedback from DPS Staff review of proposal.

2. Review initial data request responses related to the Performance and Results Management. Identify missing data, evaluate quality and completeness, and engage Management as needed.

3. Develop initial high-level interviews to clarify and verify understanding of the Performance and Results Management process in IUSA and the New York utilities.

4. Develop Performance and Results Management process chapter outline, next level of interview guides and data requests.

5. Coordinate with all audit teams to determine extent of Company coordination and consistency of assumptions, strategies and execution of Performance and Results Management.

6. Review initial related data request items and develop outline and high-level initial interviews to better understand performance and results management processes within the Company.

7. Assess linkage of corporate KPI's and performance measurement efforts with the mission, objectives and goals of the Company and the extent to which the Company's senior management and board reviews performance results and makes adjustments to strategic objectives, processes, resources and priorities.

8. Determine if employees at all levels understand their performance objectives, and are held accountable for performance results.

9. Assess the adequacy, appropriateness, and timeliness of the performance reporting structure and its ability to provide relevant and actionable information across all levels within the Company.

10. Evaluate the use of performance and results data to ensure that deficiencies and discrepancies are corrected.

11. Determine if there are impediments that tend to constrain performance improvements and necessary changes.

12. Determine if additional performance measures or indicators are required to support the corporate mission, objectives and goals being met.

13. Assess if additional appropriate indicators, metrics or measures will improve performance.

14. Determine how the Company and Performance and Results Management management assesses the success of the Performance and Results Management process. Review the KPI's for Performance and Results Management.

15. Review how the Company benchmarks the Performance and Results Management process practices and results with industry and other NY State utilities performance.

16. Compare the overall Performance and Results Management process to leading practices.

17. Complete analysis of the Performance and Results Management including cost implications where possible.

18. Perform fact verification.

19. Prepare the Performance and Results Management task report.

20. Submit the Performance and Results Management task report for RCG quality review.

21. Prepare a Task Report for this area.

Chapter V.

PROJECT TEAM AND RESPONSIBILITIES

This chapter describes the organizational structure, assignments, personnel and relationships that will underscore the performance of the RCG audit team and the quality of audit outcomes.

A. Introduction

RCG understands the complexity associated with the NYSEG and RG&E management audit assignment. As a result, RCG has selected a team of highly-qualified, senior, industry professionals to identify the issues and capture the opportunities that should be the end-product of this audit assignment. The RCG Engagement Director, Project Manager and Lead Consultants offer significant direct experience conducting and leading utility management audits as individuals and as teammates.

RCG contends that the successful execution of the Company management audit requires a project team that can offer the unique blend of capabilities that the RCG team has been specifically designed to provide. Team strengths include:

- In-depth knowledge of the emerging utility industry, and the experience to identify and address those issues that affect the Company's ability to provide the highest-quality, lowest-cost service to customers;
- Technical and functional expertise and skills acquired while serving as senior managers in the electric and gas industries; and
- Direct experience with utility management audits that combine the skill-sets and knowledge necessary to produce balanced, cost-effective recommendations with the industry experience required assist with implement recommendations.

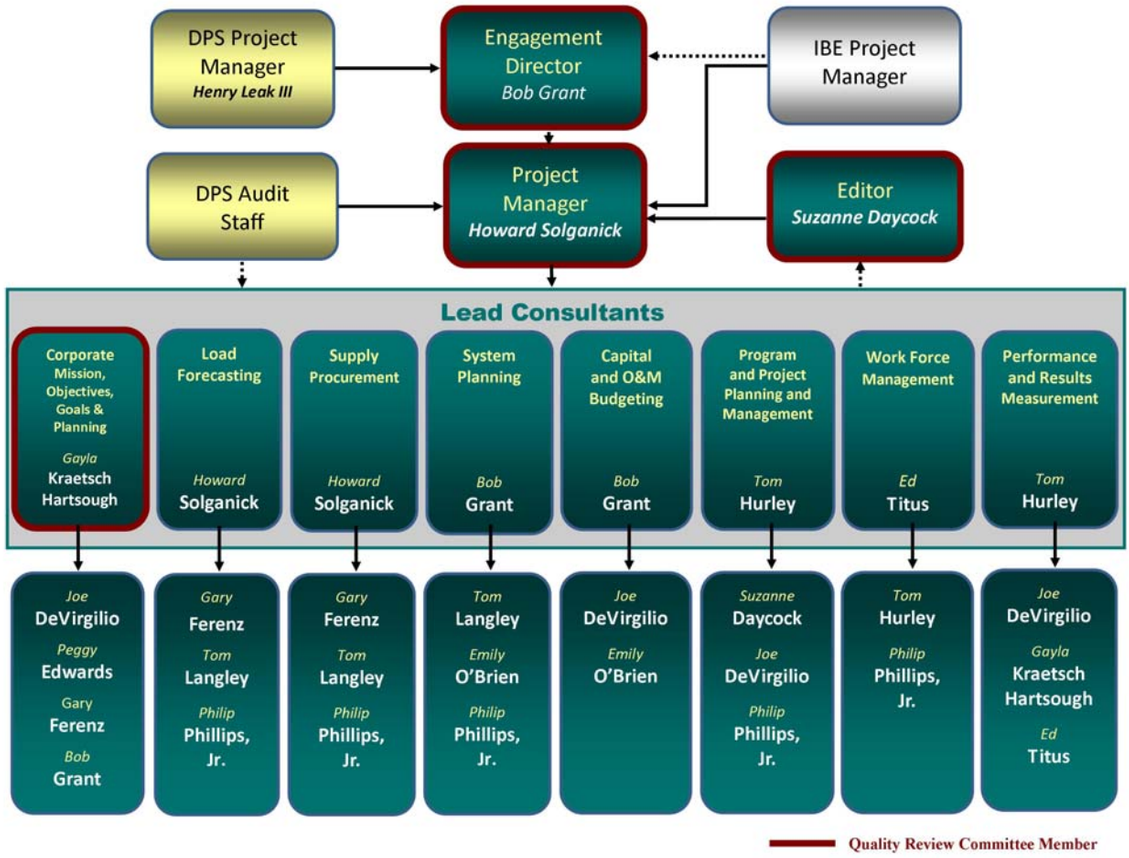
All RCG team members have been strategically selected for their deep understanding of each of the audit elements that they have been assigned to evaluate and many are performing leading-edge work in that field. Together, the RCG team provides the DPS Staff with the strongest and most experienced team available at a cost that eliminates the overhead burden associated with larger, experienced firms.

B. Organizational Structure

Exhibit V-1 provides an organization chart for the RCG team that illustrates how each of RCG's inter-disciplinary team members has been assigned to ensure the successful execution of the NYSEG and RG&E management audit.

EXHIBIT V-1

RCG Organizational Chart



A Quality Review Committee has been assembled and given responsibility for reviewing all work products with the sole objective of verifying the accuracy and appropriateness of conclusions and recommendations that will be produced by team members. The Quality Review Committee and Project Manager are also responsible for ensuring that the construction feedback loops is being carefully evaluated throughout the duration of the audit.

As noted in Exhibit V-1 above, the Engagement Director and the Project Manager will be undertaking lead and supporting consultant roles within some contexts due to their considerable experience in those areas. In particular, Engagement Director Bob Grant will act as Lead Consultant for the System Planning, and Capital and O&M Budgeting audit elements, and will support Gayla Kraetsch Hartsough's team, where requested, with conclusions and recommendations related to Corporate mission, objectives, goals and planning. Likewise, Project Manager Howard Solganick will act as Lead Consultant for the Load Forecasting and Supply Procurement audit elements.

The other key consultant who has been assigned to more than one audit element as a Lead Consultant is Tom Hurley, who will manage the evaluation of the Program and Project Planning and Management, and the Performance and Results Measurement elements. In limited cases, supporting consultants have been assigned to more than one task area, as clearly identified in Exhibit V-1. This has been done in order to eliminate duplicative tasks. In all cases, work plan elements will be assigned so that only once consultant is requesting and reviewing data, and/or interviews for that element of each work plan, and submitting a report to all Lead Consultants who must relying on these findings in the preparation of their recommendations.

C. Team Member Qualifications

The following paragraphs present information on each of the RCG team members assigned to each audit element task area, as reflected in Exhibit V-I above. Detailed information on hours that have been allocated to each team member with respect to each of the eight audit elements and the final reporting tasks is included in Exhibit VI-1, which appears in Chapter VI.

RCG Audit Managers

Robert M. Grant is president of RCG and will serve as Engagement Director for the RCG audit team. He also has been assigned Lead Consultant responsibility for the System Planning, and Capital and O&M Budgeting audit elements, and serves on RCG's four-person Quality Review Committee for this audit. Over the past two decades, Bob has preformed eight comprehensive management audits of utilities and ten company pre-audits, including two companies that have engaged him for pre-audit services multiple times. He is highly-qualified to act in the role of Engagement Director for this audit and will lend that significant experience to all parties throughout the audit effort. In addition, Bob began his career with Boston Edison (NStar), where he gained valuable insights into utility operations, system planning, marketing and the complex requirements of T&D assignments. Since leaving Boston Edison, Bob has managed the North American utility practice for two large consulting firms, and has served as an officer and/or senior executive consultant for KEMA, Inc., AT&T Solutions, Stone & Webster and Booz Allen Hamilton.

Howard Solganick, P.E. is the principal of Energy Tactics & Services, Inc. and has been working in the utility industry for over 35 years. He will serve as Project Manager for this audit assignment as well as Lead Consultant responsible for the Load Forecasting and Supply Procurement elements of the audit scope. During the past decade, Howard has participated as Project Manager or a Lead Consultant in conducting management or regulatory audits in Connecticut, New Jersey, Ohio and Oregon, and provided pre-audit support in New Jersey, New York and Pennsylvania. He has also been an officer, senior manager and/or senior management consultant for Atlantic Electric, Cogeneration Partners of America, and AT&T Solutions. His areas of expertise as a utility executive and consultant include: load forecasting, load research, supply procurement for utilities and industry, rate design and cost allocation, and performance management and process improvement, among others.

Suzanne Daycock will be undertaking the role of assembling and preparing all key reports that will be provided to the DPS Staff and the Commission, including the draft and final audit reports. She will also be assisting the Program and Project Planning and Management audit team, as well as the Engagement Director and Project Manager in the organization and cataloging of all audit work projects, quality review and with the on-going task of evaluating the performance of the RCG team in relation to the audit schedule and internal outcome measures. Suzanne, who moonlights as a professional journalist, has nearly 30 years of experience with project and document management, most of that during her 25-year tenure in the non-utility electric industry, where she is perhaps best known for her leadership with the government and regulatory policy as executive director of a prominent regional electric industry trade association. Suzanne specializes in strategic business planning and policy development, and process strategies and evaluation.

RCG Lead Consultants

In addition to Bob Grant and Howard Solganick, whose Lead Consultant roles are described above, the following professionals have been selected to lead teams charged with the evaluation of each of the eight audit elements.

Gayla Kraetsch Hartsough, Ph.D. is assigned the role of Lead Consultant for the Corporation Mission, Objectives, Goals and Planning element of this audit. Dr. Kraetsch Hartsough has been president of KHCG Consulting Group, a certified woman-owned enterprise, since 1986, which specializes in strategic planning, organizational design and restructuring, marketing and customer service, human resources, and business process reengineering. She has consulted with hundreds of clients throughout the United States, and in Europe and Australia. Much of her work involves utilities such as Illinois Power Company, Los Angeles Department of Water & Power, Southern California Edison, Southern California Gas Company (The Gas Company) and Texas Utilities. She also has performed strategic planning studies for more than one-third of the departments in the County of Los Angeles, as well as for quasi-governmental entities and private sector companies.

Thomas Hurley is assigned the role of Lead Consultant for the Program and Project Planning and Management, and Performance and Results Measurements audit elements. Tom has over 25 years of consulting and management experience with a range of domestic and international utility companies and has completed many assignments as part of an RCG team. His areas of expertise include program and project management, business planning, performance metrics and measurement, organizational and process design, customer care, supply chain management, operational and process improvement, and outsourcing strategy and implementation support.

W. Edward Titus is Lead Consultant for the Work Force Management element of the NYSEG and RG&E audit. Ed has over 30 years experience in organization assessments, process audits, and the coordination and integration of business processes improvement.

He specializes, in particular, in work management processes, and in the integration of maintenance planning, construction planning and materials' planning,

RCG Supporting Consultants

Joseph J. DeVirgilio, Jr., P.E. recently retired as a senior utility executive with a New York State public utility after a career in the utility industry that spanned 37 years. Because of his instate knowledge and wide experience in a variety of executive positions, Joe has been recruited to support a number of audit teams, including: Corporate Mission, Objectives, Goals and Planning; Capital and O&M Budgeting; Program and Project Planning and Management; and Performance and Results Measurement. He has been responsible for preparation, management and response to several focused management audits ordered by the Commission, and has extensive experience with the operation of both T&D and unregulated energy assets.

Peggy Edwards is an experienced project manager in areas of strategic planning, organization development, community and employee engagement, board training and development, and leadership development. As a member of KHCG's strategic planning and change-management team, Peggy will support Dr. Kraetsch Hartsough's Corporate Mission, Objectives, Goals and Planning team. Peggy's in-depth knowledge of planning and management methodologies includes strategic planning, team-based problem-solving, employee satisfaction assessments, performance measures, process mapping, and adult learning approaches. She is currently working on the strategic planning project for the Los Angeles Department of Water & Power, focusing on the action planning segment for implementation.

Gary W. Ferenz has been assigned to consult on the Corporate Mission, Objectives, Goals and Planning, Load Forecasting, and Supply Procurement audit elements. Gary is the former Renewable Power Manager for Conectiv Energy, where his duties included wholesale load-serving purchases and sales, deal pricing, municipal contract management, state regulatory initiatives, and renewable power portfolio management. Gary also managed Connectiv's wholesale municipal customers and administered the company's New Jersey wholesale load bid process.

Tom Langley, who will participate on the Load Forecasting and Supply Procurement audit teams, offers more than three decades of electric and gas utility experience, including over 20 years as a corporate director and manager with Atlantic Electric, Conectiv and Pepco Holdings Inc., where his duties included electric system operations, system planning and business improvement. Tom is also highly-experienced in regulatory affairs, marketing and the use of information technology.

Emily O'Brien who will support the System Planning, and Capital and O&M Budgeting audit teams, is an experienced management consultant with 15 years experience helping energy and process industry clients build strong and flexible supply chain operations. Emily has assisted utility clients to establish enterprise-wide procurement and planning programs that integrate capital and asset management plans between business units to create a comprehensive view of spending. She is also a member of the Testing and Certification Committee (TCC) of the Smart Grid Interoperability Panel (SGIP), a public/private partnership created by the National Institute of Standards and Technology (NIST).

Philip L. Phillips Jr. will support the Load Forecasting, Supply Procurement, System Planning, Program and Project Planning and Management, and Work Force Management audit teams, Phil**'s** 40 year of experience in the gas and electric utility industries spans a wide variety of operating and engineering positions, including program and project management, process redesign, consolidation of functions, emergency restoration plan development and execution, capital and O&M budgeting, load and energy supply forecasting, cost control and reduction programs, work force and asset management programs, new technology impact assessment, and strategic planning and implementation.

Exhibit V-2 provides a list of key team members and the management audit assignments they have participated in together with other members of the RCG team.

EXHIBIT V-2

Audit Assignments Shared by Key Team Members

PROJECT	CONSULTANT										
	Grant	Solganick	Kraetsch Hartsough	Hurley	Titus	Daycock	DeVirgilio	Ferenz	Langley	O'Brien	Phillips
CH Energy Audit Prep	ED	PM					PC			LC	
CNP Post IKE Restoration Audit	ED	PM			LC					C	
Ameren Emergency Restoration Audit	ED	LC			C						
NVE Equipment Vendor Procurement Audit	ED				LC					PM	
PSE Emergency Restoration Audit	ED	LC									
ENCO Customer Service Review	ED			PM							
BPA Efficiency Improvement Program	PM				LC					LC	
Hydro Quebec Call Center Optimization	ED	PM		LC							
Rate Design/AMI Regulatory Technical Conf.		LC									TR
Projects over 10 years old	♦	♦	♦	♦	♦	♦	♦	♦	♦	♦	
Customer Retention		LC									
Organization Redesign		PC				LC					
Customer Systems Review Project		LC						TR			
Regulatory Project		TR				LC			TR		
Generation, Energy and Fuel Mgt & Procurement		TR				C			TR		
	Legend:	C -Consultant					PC - Principal Client				
		ED - Engagement Director					PM - Project Manager				
		LC - Lead Consultant					TR- Technical Resource				

Chapter VI.

SCHEDULES AND BUDGETS

This chapter provides a schedule for implementation and completion of the NYSEG and RG&E management audit. It also includes a discussion of the factors that underscore RCG's proposed not-to-exceed cost for completing the management audit in conformance with the requirements outlined in the RFP.

A. Introduction

In addition to providing a first-class team of highly-effective consulting professions, RCG is proud of its reputation for completing projects on schedule and within budget. The company consistently completes its assignments ahead of the client's requested schedule, and is absolutely confident that it has assembled a team with the appropriate expertise and experience to perform the highest quality job possible in the time frame allotted by the Commission. The DPS Staff can rely on the same competent delivery standards that RCG routinely provides to clients.

RCG is also pleased that it can provide the unique and comprehensive level of expertise embodied in its proposed audit team to this complex management audit at a not-to-exceed price that is highly-competitive. In so doing, RCG can deliver real benefits to the Company's customers by producing what RCG contends will be extremely high-quality recommendations at the lowest reasonable cost.

B. Schedule

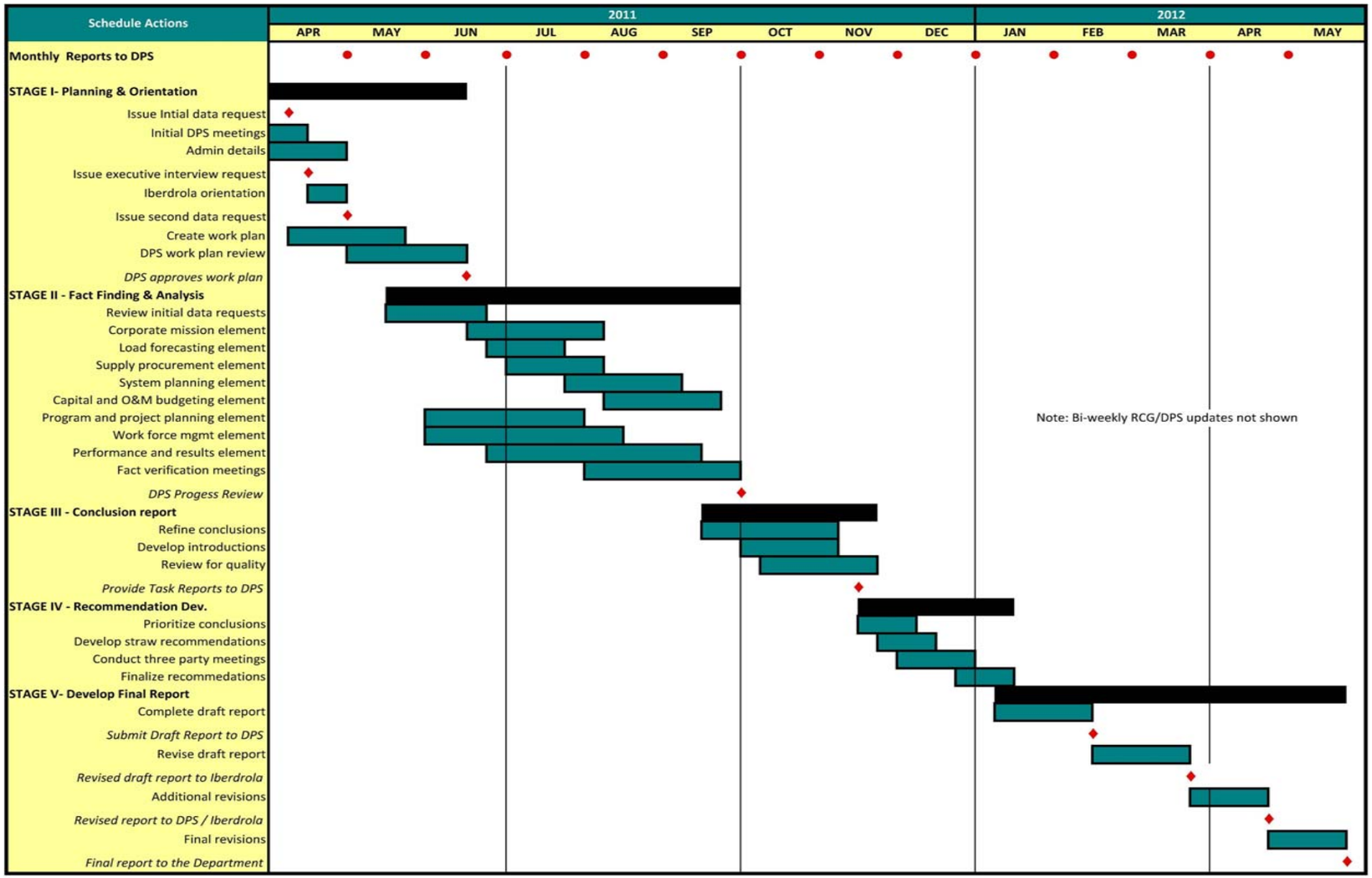
The anticipated start date for this management audit would be April 2011 based on information contained in the RFP. RCG's proposed schedule is to deliver the requested draft work plan in May 2011, and draft report and final reports to the DPS Staff February 2012 and May 2012. In order to achieve an efficient transfer of information between audit stakeholders and the RCG team, a staggered schedule for the commencement of audit activities for each of the eight audit elements is being strongly recommended.

By adopting the recommended staggered approach, RCG is able to achieve its information transfer goals while, at the same time, providing the DPS Staff with adequate time to digest and discuss RCG's observations thoroughly. This approach also minimizes any disruptions that may accompany the audit work relative to the Company and its normal operations.

Exhibit VI-1 provides RCG's initial, recommended schedule for the completion of a comprehensive management audit that comports with the DPS Staff's overall schedule objectives, as set forth in the RFP.

EXHIBIT VI-1

NYSEG and RG&E Management Audit Schedule



The schedule presented in Exhibit VI-1 is intended to provide the DPS Staff with a comprehensive overview of RCG's proposed approach and does not contain the level of detail that will accompany the audit work schedules produced for this project.

C. Budget

RCG's proposed *not-to-exceed* cost for performing a comprehensive management audit of NYSEG and RG&E's management and operations, including tasks related to the evaluation of audit elements that directly relate to IBE and IUSA's ownership and management of NYSEG and RG&E, $1,384,975. This price includes professional fees of $1,164,300 and expenses totaling $220,675 that are associated with performing the assignment and creating the deliverables described in Chapters III and IV. Details of RCG's proposed project budget, including estimated hours assigned to each consultant by task, are provided in Exhibit VI-2.

The cost for printing and delivery associated with all draft audit reports, and the cost of printing the required number of hardcopies of the final audit report, are included in our price. The proposed price also includes expenses required for two RCG team members to travel to Spain to interview senior members of IBE's management and Board of Directors.

In preparing the proposed budget, RCG has made every effort to develop reasonable travel cost estimates recognizing that airline fees are subject to wide swings over a period the length of the one prescribed for the NYSEG and RG&E audit. All communications, mailing, copying and miscellaneous expenses have been budgeted at their estimated costs, and will be invoiced with appropriate documentation.

Generally, all initial interviews are expected to be conducted by RCG team members in person to facilitate the greatest transfer of information possible while allowing RCG to observe the Company's operations first hand.

Costs associated with the preparation and presentation of testimony, or any additional post-audit meetings requested by the DPS Staff or the Commission, will be billed at the individual hourly rates provided in Exhibit VI-2. RCG's fees are based on standard hourly rates associated with assignments of this type despite the level of professional experience that will be provided by the RCG team members. The travel, lodging and other expenses are estimated and will be billed at their cost.

Details of RCG's proposed project expenses are provided in Exhibit VI-2.

EXHIBIT VI-2

RCG's Project Hours, Fees and Expenses

Project Activity	Consultants														
	Grant	Solganick	Kraetsch Hartsough	Hurley	Titus	Daycock	Edwards	Accounting	O'Brien	DeVirgilio	Langley	Phillips	Ferenz	Admin	
Consulting Hourly Rate	$ 250	$ 250	$ 250	$ 225	$ 225	$ 180	$ 225	$ 250	$ 225	$ 180	$ 180	$ 180	$ 180	$ 100	Totals
Stage I. Planning and Orientation	80	80	60	40	40	30	30	30	30	30	30	30	30	40	580
Corporate Mission	40		300	20		80	100	160							700
Load Forecasting	10	120									100				230
Supply Procurement	10	160									50	50	120		390
System Planning	100		20	20					100		100	60			400
Capital and O & M Budgeting	120								120	100	60				400
Program Planning	10			160		100				40		60			370
Work Force Management	10				160					60	60	120			410
Performance and Results Management	10		20	120	40	100									290
Stage V. Develop Report	120	120	100	100	100	40				40	40	40	40	100	840
Stage II, III & IV Fact Finding , Analysis & Recommendations Subtotals	310	280	340	320	200	280	100	160	220	200	370	290	120	0	3,190
Project Management	220	220	80											450	970
Consultant Totals	730	700	580	460	340	350	130	190	250	270	440	360	190	590	5580
Total Fees	$ 182,500	$ 175,000	$ 145,000	$ 103,500	$ 76,500	$ 63,000	$ 29,250	$ 47,500	$ 56,250	$ 48,600	$ 79,200	$ 64,800	$ 34,200	$ 59,000	$ 1,164,300
														Estimated Expense Total	$ 220,675
														Not-to-exceed Total	$ 1,384,975

Expense Major Category	$
Hotel (estimated hotel nights -340)	68,650
Air Transportation (estimated round trips -89)	46,616
Per Diems	34,025
Ground Transportation	19,384
Translation	24,000
Printing	9,000
Telephone	5,000
Office supplies	5,000
Miscellaneous	9,000
TOTAL ESTIMATED EXPENSES	$ 220,675

Project Activity	Orientation	Discovery	Analysis	Report Writing	Totals
Corporate Mission	120	231	238	231	820
Load Forecasting	55	76	78	76	285
Supply Procurement	70	129	133	129	460
System Planning	70	132	136	132	470
Capital and O & M Budgeting	65	132	136	132	465
Program Planning	60	122	126	122	430
Work Force Management	55	135	139	135	465
Performance and Results Manageme	45	96	99	96	335
Stage V. Develop Report					840
Project Management & Admin	40	324	323	323	1,010
Totals	580	1,053	1,085	1,053	5,580

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D. Invoices

It is RCG's policy to invoice monthly for services and expenses rendered during the previous month, and invoices are due within 15 calendar days of delivery. Invoices will include professional fees for hours worked, and expenses that have actually been incurred by RCG and its team members. These fees and expenses will not exceed the limits shown in Exhibit VI-2.

Invoices will include backup information, as set forth below:

- Expenses for personnel will be presented in a report that lists those expenses and hours by audit element or another major category, such as project management or editor work;

- Personal mileage to/from home and audit work sites, or to/from home and local airports, will be charged at the rate allowed by the Internal Revenue Service; and

- Copies of all receipts for expenses that exceed $25.

Chapter VII.

EXPERIENCE AND QUALIFICATIONS

This chapter provides an introduction to RCG and its team partners, along with summaries of relevant engagements performed that are consistent with the scope of work presented in the RFP. Client reference information has also been included.

A. Introduction

The RCG team is no ordinary team of management auditors. Recognizing that the overall quality of audit results is inextricably tied to the overall quality of the auditors assigned to the team, RCG has strategically recruited and selected team members who are widely known for their expertise and understanding of the areas that they will be assigned to evaluate.

All RCG team members have been guiding utility professionals through the rapidly evolving markets and environment of the modern U.S. utility industry for many years now. As a result, the RCG team brings proven and unprecedented skill sets to this audit that align specifically with the audit element areas defined in the RFP. In fact, many RCG team members are performing leading-edge work in their specific specialties. RCG's role is to provide its extensive experience in the performance of management audits to the team, the Company and DPS Staff in order to cost-effectively capture all the benefits that can be gleaned from such an experienced team of professionals.

B. Experience and Qualifications of Individual Consultants

RCG strives to produce the highest quality work product possible; one that accurately and concisely reflects the Company's current work environment, and provides clear direction for moving forward. Management audits, in general, and this audit in particular, are extremely complex with many interrelated and moving parts. Managing an engagement of this magnitude takes a highly-experienced Engagement Director, Project Manager and Lead Consultants; all of whom share a strong record of delivering quality, complex projects on schedule and on budget to the satisfaction of the client.

RCG's team has been specifically structured to meet the requirements of this audit in a manner that embraces audit goals for an evaluation of the eight audit elements identified in the RFP. This team is comprised of firms and individuals that are highly-qualified to achieve the outcomes set forth in this proposal, and possess the knowledge and tools required to support a superior outcome.

A summary of the experience and qualifications of all proposed consultants, including the specific areas to which each will be assigned, is presented below in alphabetical order. More detailed professional résumés are provided for each RCG team member in ***Appendix B***.

- ***Suzanne Daycock, proposed editor/consultant***, has spent nearly three decades in the electric power industry managing the development of assigned power generating stations, and more recently as a proposal strategic planning specialist, writer and performance evaluator for electric and not-for-profit clients. Suzanne has worked extensively within the states and regions served by PJM and New England power pools during the first two decades of her career in the non-utility generating sector, including more than a decade working within New York State's emerging independent generation market during the years following the passage of the Public Utility Regulatory Policy Act as project and program developer for Long Lake Energy Corporation. In that capacity, she managed state and federal permitting, regulatory and community affairs, engineering, and project financing tasks for a number of hydroelectric, cogeneration and simple-cycle generating facilities. Upon the sale of Long Lake, Suzanne served as manager of regulatory affairs for the northeast U.S. with Destec Energy until, in 1994, she left the company to establish Odyssey Strategies – an independent consulting company that assists utility-related businesses and, more recently, not-for-profit clients, with strategic business planning, regulatory and public affairs, corporate and program evaluation, marketing and communications strategies, budgeting and fundraising plans, policy development and evaluation, and board development, among others. She also pursues her passion for writing as a journalist covering state and local educational policy for a regional newspaper. Electric industry clients have included the Mid-Atlantic Power Supply Association, where she also served as executive director for six years, the Center for Energy & Economic Development, Air Products & Chemicals, Amerada Hess Corporation, Atlantic Generation, Chevron Energy Solutions, CNG Power Company, DTE Edison, DuPont, PG&E National Energy Group and Shell Energy Services.

- ***Joseph J. DeVirgilio, Jr., P.E., proposed consultant***, is a retired senior utility executive and has been working in the utility industry for over 37 years. His experience spans a wide variety of executive responsibilities in both the regulated electric and natural gas, and the unregulated energy sector. Joe's extensive management background includes T&D operations and construction, human resources, IT planning and management, strategic planning, capital and O&M budgeting, process re-engineering, workforce management, emergency response, security, purchasing, stores and transportation, and executive compensation, and has been responsible for the preparation, management and response to several focused management audits by the Commission. Joe holds a Professional Engineering license in New York State and holds a Masters degree in Electric Power Engineering.

- ***Peggy Edwards, proposed consultant***, is an experienced project manager in areas of strategic planning, organization development, community and employee engagement, board training and development, and leadership development. During KHCG's strategic planning and change-management engagements, she has designed and led numerous organizational planning and development projects and training programs for clients and stakeholders including community, executive teams, cross-functional work groups, and boards of directors. Her in-depth knowledge of planning and management methodologies includes strategic planning, team-based problem-solving, employee satisfaction assessments, performance measures, process mapping, and adult learning approaches. Ms. Edwards has worked with many organizations, including in the areas of manufacturing, hospitality, and healthcare groups. Her local and regional government work is broad-based, with specific experience in juvenile justice, children's services, population-based healthcare, and emergency management planning. She is currently working on the strategic planning project for the Los Angeles Department of Water & Power (LADWP), focusing on the action planning segment for implementation.

- ***Gary W. Ferenz, proposed consultant,*** is the former Renewable Power Manager for Conectiv Energy – the merchant generation subsidiary recently sold to Calpine by the Washington, DC-based Pepco Holdings, Inc. (PHI). Conectiv owned or controlled over 4,000 MWs of generation and served over 2,000 MWs of wholesale load in the Mid-Atlantic and Northeast regions. Gary served as a specialist in the electric power market at Conectiv for 11 years, and has served in a variety of roles on Conectiv's Power Origination team, including responses to wholesale load-serving RFPs, electric pricing, state regulatory initiatives, and renewable power portfolio management. Gary also managed Conectiv's wholesale municipal customers and administered the company's New Jersey wholesale bidding process. He was recognized as the subject expert at Conectiv and PHI for renewable regulations and markets, and worked closely with the State of Delaware in helping to craft initial laws addressing renewable portfolio standards. He also was responsible for creating and managing Conectiv's profitable renewable portfolio, and is widely recognized for his expertise in the renewable power markets. Gary was a member of the initial PJM GATS working group, has presented at several conferences, and has been involved with renewable initiatives and interpretations with regulators in several states. Prior to joining Conectiv, Gary previously for 14 years at CoreStates Bank, NA and First Pennsylvania Bank in a variety of roles including accounting management and as vice president in the Treasury group responsible for the internal transfer pricing administration for the bank's asset and liability products.

- ***Robert M. Grant, proposed engagement director and lead consultant,*** is the president of RCG and has been working in the utility industry for over 40 years. His experience spans a wide variety of consulting engagements across the globe, including; process redesign, comprehensive and focused management audits, consolidation of functions, emergency restoration plan development, capital expenditure reduction programs, asset management, new technology impact assessments and strategic planning. He just completed preparing CH Energy for their current 2010 management audit as he did twice before. Recently, he led three major focused audit projects (Ameren, Puget Sound Energy and CenterPoint Energy), which led to the redesign of major emergency processes and plans for three major electric utilities and reports to their respective state commissions. Bob conducted a comprehensive audit of a major western transmission utility's plan –design –build function and as a result eliminated in $47M in the engineering and construction sides of the business. In addition, he has preformed eight comprehensive management audits of utilities and 10 companies' pre-audit support efforts, including two companies multiple times. In addition, he has been responsible for managing the North American utility practice for two large consulting firms. He has also been an officer and/or senior executive consultant for KEMA, Inc., AT&T Solutions, Stone & Webster and Booz Allen Hamilton. Bob's career started at Boston Edison (NStar) where he gained valuable insights to the utility operations and the business in general.

- ***Thomas Hurley, proposed lead consultant,*** is an associate with RCG and has over 25 years of consulting and management experience with a range of domestic and international utility & energy companies. His areas of expertise include program and project management, business planning, performance metrics and measurement, organizational and process design, customer care, supply chain management, customer care, operational and process improvement, and outsourcing strategy and implementation support. Mr. Hurley is a frequent speaker at industry conferences, including numerous presentations for the American Gas Association, Edison Electric Institute, Electric Power Research Institute, the American Council on Renewable Energy, and the Solar Energy Industries Association. He authored the "Activity-Based Accounting" chapter for Introduction to Public Utility Accounting, published jointly by the Edison Electric Institute/ American Gas Association.

- ***Gayla Kraetsch Hartsough, Ph.D., proposed lead consultant*** has been President of KH Consulting Group since 1986. KHCG specializes in strategic planning, organizational design and restructuring, marketing and customer service, human resources, and business process reengineering. She has consulted with hundreds of clients

throughout the United States and in Europe and Australia. Much of her work involves utilities; local, state, and federal governmental agencies; higher education and K-12 educational systems; non-profit organizations; transportation systems; and health care providers. She specializes in quasi-governmental entities – PUC-regulated utilities, municipal utilities, ports, telecommunications, and airports – that have to operate at a revenue surplus but are highly regulated and must garner the public trust. Among her utility clients are Illinois Power Company, Los Angeles Department of Water & Power, Southern California Edison, Southern California Gas Company (The Gas Company), and Texas Utilities. She has performed strategic planning studies for more than one-third of the departments in the County of Los Angeles, as well as for quasi-governmental entities and private sector companies.

- ***Thomas W. Langley, P.E., proposed consultant,*** has 33 years experience with electric and gas utilities, including over 20 years as a corporate director and manager with Atlantic Electric, Conectiv, and Pepco Holdings. Corporate director duties included electric system operations, system planning, engineering, field operations, business improvement, business renewal, change management and emergency preparedness. Management experience includes regulatory, marketing and information technology. Since January 2005, Tom has worked as an independent consultant for Emergency Preparedness Partnerships, reviewing multiple utility emergency plans and organizations, and designed and run restoration exercises. He has prepared procedures for various departments at ISO-New England and, in 2006, worked as an independent consultant for Greentree Energy Services at ISO-New England. Tom was responsible for drafting ISO-New England Facilities Emergency Action Plan. Other accomplishments include: directing cross functional teams to deliver business process improvements of over $7-million in one year; managing over 400 engineers, union line personnel and customer service personnel responsible for designing, constructing, and maintaining the electric system for customers in New Jersey; managing the rate design department and presented extensive testimony in company rate cases over eight years; leading a change management team that prepared organization and individuals for a new enterprise-wide business system; reviewing and recommending improvements to emergency response plans, organizations, training, and systems for multiple utilities; and managing the information technology department responsible for company engineering programs (design, development, and operation). Tome is a register Professional Engineer, and a prior member of PJM Operating and EEI Rate Research Committees. He holds a B.S. in Mechanical Engineering from Villanova University, and has pursued graduate studies at Duke University and University of Michigan.

- ***Emily O'Brien, proposed consultant,*** has spent the last 12 years in supply chain operations. Early in her career, Emily worked for FreeMarkets (now Ariba), which is the company that pioneered the use of business-to-business reverse auctions for procurement. Using technology to improve supply chain operations, she has assisted clients to establish enterprise-wide procurement planning programs integrating capital plans and asset management plans from business units to create a comprehensive view of spending that can then be managed more strategically. Emily has helped clients to successfully launch strategic sourcing programs that take a "total cost of ownership" approach to sourcing decisions and mitigate risk by implementing supplier audit performance management capabilities. She has conducted warehouse Improvement, logistics management and inventory right-sizing programs in utilities around the world. Emily has also recently participated in successfully preparing utilities for management audits.

- ***Philip L. Phillips Jr., proposed consultant,*** has worked in the gas and electric utility industry for over 40 years. His experience spans a wide variety of operating and engineering positions with audit related experience including; program and project management, process redesign, consolidation of functions, emergency restoration plan development and execution, capital and O&M budgeting, load and energy supply forecasting, cost control and reduction programs, work force and asset management programs, new technology impact assessment, strategic planning and implementation.

- ***Howard Solganick P.E., proposed project manager,*** is the principal of Energy Tactics & Services, Inc. and has been working in the utility industry for over 35 years. His experience spans a wide variety of utility operating positions and consulting engagements, including; power generation (fuels and operational efficiency); rates (rate design and cost allocation); load research; load forecasting; performance management and process improvement; generation facility siting, development and permitting (environmental and certificate of need); power purchase, sale and IPP development; the management of, preparation for and execution of comprehensive and focused management audits at both a utility and as a consultant; regulatory audits (rate case); business development activities for new technology companies and the government of Ireland; procurement of electricity, gas and cogeneration for a number of commercial entities; arbitration and dispute resolution for commercial companies. He has also been an officer, senior manager and/or senior manager consultant for Atlantic Electric, Cogeneration Partners, and AT&T Solutions. Howard's career started at Univac, Bickley Furnaces and DeLaval Turbine, where he gained valuable experience

with product development, marketing, customer relations, rapid technology developments and cost pressures on unregulated businesses.

- ***W. Edward Titus, proposed Lead Consultant,*** has over 30 years experience in organization assessments, process audits, and the coordination and integration of business processes improvement. Ed specializes in work management processes and in the integration of maintenance planning, construction planning and materials' planning, which is the primary key to improved performance, reduced costs, and greater reliability in generation, transmission, and distribution assets. His accomplishments include: an enterprise-wide quality management audit for a large southwestern utility; evaluating storm restoration response for a large Southwestern utility after hurricane Rita; performing a capability and quality audit of major transmission system equipment manufacturers for a large western utility; developing a work management system for transmission construction, including revised work crew sizing, work assignment, and material acquisition processes; performing an assessment of work management and supply system processes for a large Midwestern generating company; and organizing and designing processes, and implementing a new maintenance planning and scheduling organization for a two-unit nuclear generating plant. This organization received recognition as an INPO Best Practice.

C. Experience and Qualification of the Partner Firms

As discussed earlier in Chapter V, RCG has assemble a world-class set of partners who are dedicated to delivering a high-quality product that will encourage IBE to better position itself for the future and for the benefit of the Company's New York customers. RCG's team of individual, professional consulting firms is pleased to be able to collaborate once again – this time to meet the objectives of the NYSEG and RG&E management audit RFP, and those of the Commission and DPS Staff on behalf of the consumers.

RCG team firms are also proud of their independent and collective reputations for professionalism and excellence, and on our joint and practiced ability to deliver on the promises we make to our clients. A description of each of the three partner firms, and our combined statement of conflict and ethical conduct, are presented below.

➢ River Consulting Group, Inc.

RCG's principals assist electric, gas and water companies to address the challenges of operating a utility business in today's competitive environment. Our principals' cover a broad spectrum that ranges from strategic planning to tactical

operations with a clear focus on tomorrow. Over the years, RCG principals have helped clients identify and eliminate waste in their organizations, and prepare for the future by taking advantage of technological enhancements to their physical T&D systems and IT solutions. Recent work preparing a storm restoration analysis has aided both the utilities and their regulators to better understand emergency restoration planning and execution during major system outage events.

The company, which is incorporated in the State of Georgia, was founded in 1999 by the firm's principal consultant, Bob Grant. Since that time, RCG has provided a broad range of consulting services to over 100 utilities, commissions and municipal utilities. RCG's consultants have a combined work experience of nearly a century assisting regulated electric utilities, and state and municipal government agencies to better understand the complexities of the changing landscape and capture the efficiencies that allow our utility clients to remain competitive. Today, RCG's focus rests primarily on:

- *Management Audits* - Comprehensive audits of electric and water utilities designed to improve the overall operational efficiency and effectiveness of the business. These evaluations included in-depth reviews of areas such as executive management, financial management, customer services, engineering, system planning, construction, T&D operations, and supply chain and support services.

- *Work Force Management*- Designed to improve the effectiveness, safety and efficiency of the work force, RCG's approach looks not only at supervisory tools, policies, processes, performance reporting, training and systems to identify cost reductions, but also at the impact of new technology. New technology is impacting how the crafts perform their routine and diagnostic work.

- *Planning and Design* – As the core building blocks of a successful capital program, RCG is guiding companies through a process of streamlining their planning process by ensuring that the right business functions are integrated into the process at an early enough stage to accurately plan and control costs. We also work to help our clients enhance the prioritization process to allow all projects an equal and fair level of attention during the selection process. We also promoting the use of equipment and construction standards to facilitate improved cost control, scheduling and construction.

- *Construction Management* - RCG identifies proven methods for controlling construction costs and schedules through a series of tools that include incentivized contracting, enhanced project management, focused supervision, and sound industrial engineering practices designed to identify and eliminate waste.

- *Supply Chain Management* – RCG helps clients lower inventory costs while improving material availability. Our supplier valuation services (SVS) helps clients control costs on major equipment purchases while addressing quality control issues throughout the suppliers value chain.

- *Operations Management* – Aside from the traditional operating improvement activities embraced by many utilities, RCG focuses on helping clients to understand and plan for the impacts of new technology on their T&D systems and resource requirements.

RCG representative engagements include:

- *Centerpoint Energy (CNP)* – Led an in-depth review of CNP's post Ike restoration activities. As a result of our review, a number of recommendations were made to improve emergency restoration planning and processes. While the Company did an outstanding job of restoring 1.9-million of its 2.1-million customer outages in 18 days, there were a number of suggestions that could aid the restoration process. In addition, the RCG team evaluated CNP's distribution design and maintenance practices to confirm they complied with generally-accepted industry practices. Our team prepared formal testimony that was included in a commission hearing. Neither our report nor our testimony was challenged.

- *AmerenUE/Missouri Commission* – Ameren experienced back to back major wind events that required the utility to pursue restoration activities. As a result of an RCG review, a number of recommendations were made to improve the emergency restoration planning and processes. The RCG team also evaluated Ameren's distribution design and maintenance practices to confirm they complied with generally-accepted industry practices. As part of this review, the Missouri commission's staff participated in an ongoing progress review of the

project and commended the work of the RCG team. After the final report was submitted to the commission and its staff, RCG provided an oral review of the conclusions and recommendations to the commissioners and answered questions.

- Bonneville Power Administration (BPA) – RCG led an in-depth review of BPA's transmission plan-design-build process. The net result was a $47-million reduction in overall costs. It led to the formation of a standards group and the complete redesign of the BPA's planning function. Further, the engineering function was redesigned to produce higher quality designs using more standard equipment and designs.

- *For a major Midwestern combination utility* – RCG led an evaluation of a major utility's $800-million environmental generation construction program at six of its coal-fired plants. After an extensive review of practices, a number of recommendations were made that, when taken holistically, produced a savings of $81-million, which was fully agreed to and adopted by management. Recommendations included enhanced contracting tools, focused project management with strong feedback processes, enhanced supervision, and the application of industrial engineering techniques to eliminate waste and improve safety.

Management audits conducted by RCG principals include:

- Bermuda Electric Light Company, Ltd. - Confidential
- Public Utility District No. 1 of Chelan County - Confidential
- Groton Department of Public Utilities - Confidential
- Electricity Authority of Cypress - Confidential
- Central Electric Generating Board, Great Britain - Confidential
- Louisville Gas & Electric Company - Public
- Orange & Rockland Utilities – Public
- Kansas –Nebraska Natural Gas - Confidential

➢ KHCG Consulting Group

KHCG Consulting Group is a full-service management consulting firm offering services in strategic planning, governance, facilitation, team-building and coaching; program and performance reviews; performance measurements and balanced scorecards; process improvements and reengineering; and human resources. Founded in 1986, KHCG has served more than 200 clients in 25 states and seven foreign countries. KHCG is a certified as Woman-owned Business Enterprise (WBE) with the California Public Utilities Commission (CPUC), County of Los Angeles, City of Los Angeles, and the Metropolitan Transportation Authority; and as a Small Business Enterprise (SBE) in the City of Los Angeles and County of Los Angeles. KHCG is a certified SBE with the State of California and U.S. Federal Government.

Over the years, KHCG has worked with numerous public agencies, engineering-driven organizations, telecommunications firms and utilities. Our list of utility clients includes, among others:

- Los Angeles Department of Water & Power (LADWP);
- Metropolitan Water District of Southern California;
- The Gas Company/Southern California Gas Company;
- Illinois Power Company;
- Texas Utilities Electric (TU);
- Southern California Edison/Edison International (California);
- Arizona Nuclear Power Project (ANPP) of Arizona Power Company; and
- Telstra (Australia)

In the area of strategic planning, KHCG assists clients with the development of long-term strategies, innovation, and short-term tactics; defining policies, objectives, and goals; marketing and planning strategies; evaluation of available options, such as acquisitions or divestitures; market and competitive assessments; assessments of resources, e.g., staffing, capital and facilities; competencies to achieve desired strategic directions; market research and opinion surveys; and mergers and acquisitions.

Nearly from the time of its inception, KHCG has performed many third-party management audits and performance reviews for clients that include the federal government. KHCG currently has master agreements in this regard with the

- *Office of the Auditor-Controller, County of Los Angeles* – A master agreement since 1994 to perform management audits, performance reviews and special studies;
- *Office of the City Controller, City of Los Angeles* – A master agreement since 2001 to perform management audits, performance reviews and special studies;
- *Office of the Chief Executive Officer, County of Los Angeles* – A master agreement for 2001 through 2016 to perform strategic planning, customer service, performance measurement and special studies;
- *Office of the Chief Executive Officer, County of Los Angeles* – A master agreement from 2011 through 2016 to perform process improvement projects;
- *Public Utilities Commission (PUC) of Pennsylvania* – A master agreement, as one of a pre-approved list of consultants, to perform management audits;
- *State of California, Department of General Services (DGS)* – A master agreement to perform business management consulting services;
- *Los Angeles World Airports (LAWA)* - A master agreement to perform audit services;
- *Community Redevelopment Agency of the City of Los Angeles (CRA/LA)* – A master agreement to perform general audit and review services; and
- *Salt Lake City, Utah* – A master agreement to perform management studies

➢ Energy Tactics & Services, Inc.

Energy Tactics & Services, Inc. has been supporting its regulatory commission, utility clients and their customers since 1994. ET&S's clients span the gamut of the utility industry, including electric, gas, water, sewer and thermal energy. By serving a range of industry sectors, ET&S has been able to assist its clients to understand the positions, wants and needs of the other parties engaged in regulatory processes,

contract negotiations or operational situations that have an impact upon their interests. It is ET&S's philosophy that our primary goal should be to pursue the repeat business that is generated by satisfied clients. Our ability to meet that objective is represented by the fact that over 80% of ET&S' work now originates from past clients or referrals.

RCG representative engagements include:

- *Central Hudson Energy Pre-Audit Review* – ET&S recently assisted RCG with the completion of a pre-audit review for Central Hudson Energy in preparation for their current 2010 management audit.

- *Management Audits of Ameren, Puget Sound Energy and CenterPoint Energy* – ET&S recently partnered with RCG to complete three major, focused audit projects for Ameren, Puget Sound Energy and CenterPoint Energy. Final recommendations led to the redesign of major emergency processes and plans for all three major electric utilities, and to reports for their respective state commissions.

- *Presentation of Expert Testimony* – ET&S prepared testimony supporting emergency rate relief for storm damages for CenterPoint Energy and Jamaica Public Service (West Indies). ET&S principal consultant Howard Solganick has also provided testimony for electric, gas, water, sewer and district heating rate cases for clients that include utilities, commission staff, consumer advocates, municipalities, public entities and commercial customers. Topics have included load forecasting, load research, capacity planning, construction, emergency restoration, cost allocation, rate design and other issues.

- *Understanding Deregulation* – ET&S has led or participated in a number of deregulation proceedings or other related assignments for clients in the financial, petroleum marketing and other industries.

- *Management or Regulatory Audits* – ET&S has managed or participated in management or regulatory audits in the states of Connecticut, New Jersey, Ohio and Oregon, and has provided pre-audit support to utilities located in New Jersey, New York and Pennsylvania.

D. Conflicts of Interest and Ethical Conduct

RCG does not have a conflict of interest or the appearance of a conflict of interest with respect to performing a management audit of the Company. RCG, its principals, partners, or subcontractors, has not previously performed any work for IBE or its affiliates, and does not have any existing contracts or agreements with them.

RCG, its principals, partners or subcontractors have not performed work for other tangential organizations of NYSEG or RG&E, such as the Energy Association of New York State and New York State Independent System Operator during the five-year period preceding the date of this proposal. In addition, RCG, its partners and subcontractors have no contracts with organizations representing the Company's workforce.

It is the policy of RCG, its partners and subcontractors to adhere to the highest business, professional and ethical standards. Further, RCG, its partners and subcontractors shall not offer any gift, favor or gratuity of any value, or make any offer of employment to any officer or employee of IBE, or to any Commissioner or DPS Staff member either during the audit or within two years following its completion. We understand that violation of this restriction may result in immediate termination of services, and may ban RCG, its principals, partners or subcontractors from future consideration by the Commission.

Finally, RCG, on behalf of its partners and any subcontractors engaged by it on this project, will enter into a three-party contract (RCG, IBE and the DPS). RCG, its partners and subcontractors agree that neither it nor any of its affiliates, or any of its principals or employees, will perform any work for IBE or its affiliates during the course of the audit, and for two years after completion of the audit, without the written authorization of the Commission.

E. Sample Audit Work Product

As a sample work product, RCG will produce a document entitled *Windstorm of December 14-15, 2006,* which was produced under the KEMA banner and submitted as part of Commission testimony in a rate case proceeding. The work was designed, sold and led by RCG's proposed Engagement Director Bob Grant. He was responsible for all aspects of the engagement from project planning analyses to report design and presentation. Because of the size of this document, however, we are mailing it to the DPS Staff Program Manager under separate cover.

The general format of the report was dictated by KEMA standards. RCG's standards will meet or exceed those of KEMA. It should also be noted here that Bob Grant worked on the completion of this audit with RCG's proposed Project Manager Howard Solganick and proposed Lead Consultant Ed Titus. Both are clearly key members of RCG's proposed team for the Company audit. As a function of this engagement, Bob developed KEMA's no surprises approach, which allowed the client to adjust to and collaborate through a series of frank and open discussions during the development of the recommendations. As a result, significant changes were made to the emergency restoration plan and the overall management process.

APPENDIX A

INITIAL DATA REQUEST

INITIAL DATA REQUEST

Data Request Number	Data Request Description
	General Background
1	Provide list of Iberdrola USA office locations including; headquarters, service centers, control centers, call centers.
2	Provide all audited financial reports for past five years (2006-2010) for both Iberdrola S.A. and Iberdrola USA.
3	Provide listing of the Internal Audit plan and actual audits completed for 2006 through 2010.
4	Provide External Auditor's communications for 2006 through 2010.
5	Provide copies of Iberdrola USA's New York electric, gas, work stoppage and business continuity emergency plans (both strategic and tactical).
	Element No. 1: Corporate Mission, Objectives, Goals & Planning
6	Provide most recent Strategic Plan for both Iberdrola S.A. and Iberdrola USA.
7	Provide a narrative describing in detail the strategic planning process and committee charter.
8	Provide strategic plan progress reports and committee minutes for the last three years (2008-2010).
9	Provide list of the strategic planning committee members.
10	Provide list of members of the BODs for Iberdrola S.A. and Iberdrola USA including board committee assignments, contact information and capsule resumes.
11	Provide detailed organization charts for Iberdrola SA, Iberdrola USA and the NY entities.
12	Provide list and description of major Iberdrola USA (or Energy East) organizational changes in the since 1/1/2006.
13	Provide list of key Iberdrola S.A. executives responsible for USA operations with contact information and capsule resumes.
14	Provide list of key Iberdrola USA executives with contact information and capsule resumes.
15	Provide list of key management personnel for NYS operations with contact information and capsule resumes.
16	Provide mission and objectives for each department or division within Iberdrola USA and NY entities.
17	Provide the mission statement for the strategic planning function.
18	Provide the Key Performance Indicators (KPI) and goals (and results) for the Strategic Planning department/function.

19	Provide the budget versus actual for the Strategic Planning department/function for the years 2006 through 2011.
20	Provide a history (manning table) for the Strategic Planning department/function for 2006 through 2011.
21	Provide job descriptions for all employees involved in strategic planning.
22	Company and affiliate organizational structure (to include Iberdrola S.A. charging business units, if any)
23	Policy and procedure manuals regarding sharing or allocation of costs (labor and resources) between business unit entities at both the Iberdrola S.A. and Iberdrola USA organizations and only if they materially impact the New York entities
24	The Company's time allocation policies, guidelines, procedures and training materials particularly between Iberdrola USA and the New York business units
25	Documentation and accounting records for all transactions in past three years (2008 -2010) where costs were allocated between business unit entities, This includes payroll records
26	Regulatory filings related to affiliate transaction cost allocation policy and methods
27	Internal audit reports and annual audit plans
28	SOX documentation of the processes by which expenses associated with affiliate transactions are identified, accumulated, and assigned
	Element No. 2: Load Forecasting
	Electric Data Request – Load Forecasting
29	Provide a narrative that describes the electric energy and peak forecasting process and any changes made since 1/1/2006. Include process flow diagrams and organizations involved.
30	Provide a narrative describing how non-traditional forecasting techniques such as sensitivity studies, para-analytics, environmental scanning and emerging trends are considered in the electric forecasting process.
31	Provide a narrative that describes the NYISO forecast requirements for electric energy and peak and Iberdrola's response. Also indicate any NYISO information used within the forecast.
32	Provide a narrative that describes all models used for electric energy and peak forecasting and any changes made since 1/1/2006.
33	Provide a narrative that describes all data/information inputs used in the electric

	forecasting process.
34	Provide a narrative that describes how customer choice is estimated and integrated into the electric forecasting process.
35	Provide a narrative that describes customer research such as load research and/or appliance saturation for each electric customer class.
36	Provide a narrative that describes how energy efficiency and demand measures are integrated within the electric energy and peak forecast.
37	Provide a narrative that describes how distributed generation and other customer measures are integrated within the electric energy and peak forecast.
38	Provide a narrative that describes the electric demand side management programs (including distributed generation) since 1/1/2006.
39	Provide a narrative that describes the electric energy efficiency programs since 1/1/2006.
40	Provide a narrative that describes the review and approval process (including titles or positions involved) for electric energy and peak forecasting and any changes made since 1/1/2006.
41	Provide a narrative that describes all statistical testing and validation of the models used for electric energy and peak forecasting.
42	Provide a narrative that describes any backcasting or other validation of the models used for electrical energy and peak forecasting.
43	Provide a narrative that describes the weather normalization process for the electric energy and peak forecast.
44	Provide a monthly comparison by forecast class (rate, customer, region or other) of the electric forecast to weather adjusted consumption. This should be provided for each forecast starting 1/1/2006.
45	Provide the mission statement for the electric forecasting function.
46	Provide the KPI and goals (and results) for the Electric Forecasting department/function.
47	Provide the budget versus actual for the Electric Forecasting department/function for the years 2006 through 2011.
48	Provide a history (manning table) for the Electric Forecasting department/function for 2006 through 2011.
49	Provide job descriptions for all employees involved in electric energy and load forecast.
	Gas Data Request – Load Forecasting
50	Provide a narrative that describes the gas supply and peak day forecasting process and any changes made since 1/1/2006. Include process flow diagrams and organizations involved.
51	Provide a narrative that describes any pipeline and/or storage forecast requirements for gas supply and peak day forecast.
52	Provide a narrative describing how non-traditional forecasting techniques such as

	sensitivity studies, para-analytics, environmental scanning and emerging trends are considered in the gas forecasting process.
53	Provide a narrative that describes all models used for gas supply and peak day forecasting and any changes made since 1/1/2006.
54	Provide a narrative that describes all data/information inputs used in the gas forecasting process.
55	Provide a narrative that describes how customer choice and fuel switching is estimated and integrated into the gas forecasting process.
56	Provide a narrative that describes customer research such as load research and/or appliance saturation for each gas customer class.
57	Provide a narrative that describes how energy efficiency and demand measures are integrated within the gas supply and peak day forecast.
58	Provide a narrative that describes how distributed generation and other customer measures are integrated within the gas supply and peak day forecast.
59	Provide a narrative that describes the gas demand side management programs (including distributed generation) since 1/1/2006.
60	Provide a narrative that describes the gas energy efficiency programs since 1/1/2006.
61	Provide a narrative that describes the review and approval process (including titles or positions involved) for gas supply and peak day forecasting and any changes made since 1/1/2006.
62	Provide a narrative that describes all statistical testing and validation of the models used for gas supply and peak day forecasting.
63	Provide a narrative that describes any backcasting or other validation of the models used for gas supply and peak day forecast.
64	Provide a narrative that describes the weather normalization process for the gas supply and peak day forecast.
65	Provide a monthly comparison by forecast class (rate, customer, region or other) of the gas supply and peak day forecast to actual. This should be provided for each forecast starting 1/1/2006.
66	Provide the mission statement for the gas forecasting function.
67	Provide the KPI and goals (and results) for the Gas Forecasting department/function.
68	Provide the budget versus actual for the Gas Forecasting department/function for the years 2006 through 2011.
69	Provide a history (manning table) for the Gas Forecasting department/function for 2006 through 2011.
70	Provide job descriptions for all employees involved in gas supply and peak day forecast.

	Element No. 3: Supply Procurement
	Electric Data Request – Supply Procurement
71	Provide a narrative that describes the electric supply procurement process and any changes made since 1/1/2006. Include process flow diagrams and organizations involved.
72	Provide a narrative that describes the electric supply procurement environment which impacts the Iberdrola Companies operating in New York. Specifically address Federal and State regulatory (utility, environmental, FERC, NERC, etc) constricts as well as physical aspects.
73	Provide a narrative that describes the Company involvement and interactions with NYISO, NERC and FERC (committee memberships etc.).
74	Provide the Company Risk policy governing electric supply procurement. Describe any changes since 1/1/2006.
75	Provide a narrative that describes all data/information inputs used in the electric supply procurement process.
76	Provide a narrative that describes the current and expected impact of energy efficiency and demand measures on electric supply procurement.
77	Provide a narrative that describes the current and expected impact of distributed generation and other customer measures including demand side management on electric supply procurement.
78	Provide a narrative that describes electric energy procurement process for day ahead and current day.
79	Provide a narrative that describes the review and approval process (including titles or positions involved) for electric supply procurement and any changes made since 1/1/2006.
80	Provide a narrative that describes the process by which customers may migrate from and or return to Iberdrola as their provider of electric energy including the current and expected impact on supply procurement.
81	Provide the annual number (2008-2010) of electric customers, their load and peak

	demand by class migrating to or from Company electric energy supply in Excel.
82	Provide electric customer counts and sales (by month) from 1/1/2006 to present and as forecast through 2015 in Excel.
83	Provide a narrative that describes any electric supply procurement functions performed by outside contractors or firms. Note any changes since 1/1/2006.
84	Provide the Company electric supply hedging guidelines and regulatory requirements. Note any changes since 1/1/2006.
85	Provide monthly average electric hedge cost vs average NYMEX for period 2006 to present. If the Company uses a different index for comparison please provide that also.
86	Provide list of all electric hedge positions, including date executed period covered, supply quantity and cost for period 1/1/2006 through current.
87	Provide any benchmarking or electric supply procurement comparisons performed from 1/1/2006 through present.
88	Provide Service territory maps for each Utility showing major electric supply points and facilities.
89	Provide a list of curtailments, load reduction orders or interruptions issued to each utility by NYISO or other operational authority from 2005 through 2011 ytd. Provide date, cause and duration.
90	Provide a list of curtailments, load reduction orders or interruptions issued by each Company to electric customers from 2005 through 2011ytd. Provide date, cause and duration.
91	Provide a narrative that describes the Companies generator interconnection process for both wholesale and distributed generation.
92	Provide a narrative that describes the Company goals and objectives for the wholesale market and generation operation practices.
93	Provide a list of Company owned generation facilities. Include descriptions, technology, fuels, location, energy output, capacity, ancillary products, and related operating performance statistics for the last 5 years. Also include dispatch methodology and related data, all bi-lateral contracts any evaluations for capital improvements or divestiture.

94	Provide the mission statement for the electric supply procurement function.
95	Provide the KPI and goals (and results) for the Electric Supply Procurement department/function.
96	Provide the budget versus actual for the Electric Supply Procurement department/function for the years 2006 through 2011.
97	Provide a history (manning table) for the Electric Supply Procurement department/function for 2006 through 2011.
98	Provide job descriptions for all employees involved in electric supply procurement.
	Gas Data Request – Supply Procurement
99	Provide a narrative that describes the gas supply procurement process and any changes made since 1/1/2006. Include process flow diagrams and organizations involved.
100	Provide a narrative that describes the gas supply procurement environment which impacts the Iberdrola Companies operating in New York. Specifically address Federal and State regulatory (utility, environmental, FERC, etc) constricts as well as physical aspects.
101	Provide a narrative that describes the Company involvement and interactions with FERC, AGA, and Interstate pipeline companies (committee memberships etc.).
102	Provide the Company Risk policy governing gas supply procurement. Describe any changes since 1/1/2006.
103	Provide a narrative that describes all data/information inputs used in the gas supply procurement process.
104	Provide a narrative that describes the current and expected impact of energy efficiency and demand measures on gas supply procurement.
105	Provide a narrative that describes the current and expected impact of distributed generation and other customer measures including demand side management on gas supply procurement.
106	Provide a narrative that describes the gas procurement process for day ahead and current day.
107	Provide a narrative that describes the review and approval process (including titles or positions involved) for gas supply procurement and any changes made since 1/1/2006.
108	Provide a narrative that describes the process by which customers may migrate from and or return to Iberdrola as their provider of natural gas y including the

	current and expected impact on supply procurement.
109	Provide the annual number (2008-2010) of gas customers, their load and demand by class migrating to or from Company natural gas supply in Excel.
110	Provide gas customer counts and sales (by month) from 1/1/2006 to present and as forecast through 2015 in Excel.
111	Provide a description of any gas supply procurement functions performed by outside contractors or firms. Note any changes since 1/1/2006.
112	Provide the Company gas supply hedging guidelines and regulatory requirements. Note any changes since 1/1/2006.
113	Provide monthly average gas hedge cost vs. average NYMEX or period 2006 to present. If the Company uses a different index for comparison please provide that also.
114	Provide list of all gas hedge positions, including date executed, period covered, supply quantity and cost for period 1/1/2006 through current.
115	Provide any benchmarking or gas supply procurement comparisons performed from 1/1/2006 through present.
116	Provide Service territory maps for each Utility showing major gas supply points and facilities.
117	Provide a list of gas pipeline, and storage contracts including volumes, delivery point, rates and contract expiration dates. Provide 2005 through 2010 history of actual annual volumes and cost paid for each contract with fixed and variable costs identified.
118	Provide a list of gas Operational Flow Orders and or Curtailments issued to each Utility from 2005 thought 2011ytd. Provide date, cause and duration.
119	Provide a list of gas Operational Flow Orders, Curtailments or supply interruptions, issued by the Company to gas customers from 2005 thought 2011ytd. Provide date, cause and duration.
120	Provide 2005 though 2010 monthly history of gas storage utilization (injection and withdrawal) by contract in Excel.
121	Provide a list of all pipeline open season notices (2006 through current) and

	describe the Company's evaluation, response and participation in each.
122	Provide details of any gas pipeline penalties assessed.
123	Provide the mission statement for the gas supply procurement function.
124	Provide the KPI and goals (and results) for the Gas Supply Procurement department/function.
125	Provide the budget versus actual for the Gas Supply Procurement department/function for the years 2006 through 2011.
126	Provide a history (manning table) for the Gas Supply Procurement department/function for 2006 through 2011.
127	Provide job descriptions for all employees involved in gas supply procurement.
	Element No. 4: System Planning
128	Provide five years (2006-2010) of systems planning studies for the electric business and provide a narrative that describes how they have been integrated with the capital plans.
129	Provide five years (2006-2010) of systems planning studies for the gas business and provide a narrative that describes how they have been integrated with the capital plans.
130	Provide a narrative that describes the asset management strategy and process for NY electric properties.
131	Provide three years (2008-2010) of electric asset management plans and results.
132	Provide a narrative that describes the electric equipment repair-replace decision process.
133	Provide a narrative that describes the asset management strategy and process for NY gas properties.
134	Provide three years (2008-2010) of gas asset management plans and results.
135	Provide a narrative that describes the gas equipment repair-replace decision process.
136	Provide a narrative that describes Iberdrola USA's policy, plan and process for electric system knowledge management.
137	Provide a narrative that describes Iberdrola USA's policy, plan and process for gas system knowledge management.
138	Provide 5 year (2006-2010) history of any gas pipeline operating penalties assessed.

139	Provide 5 year (2006-2010) history of filed pipeline incident or safety related condition reports.
140	Provide 5 year (2006-2010) history of Safety Performance Measures including infrastructure enhancement, leak management, damage prevention, and emergency response.
141	Provide Service territory maps for each NY Company showing major facilities.
142	Provide a system map showing all NY transmission lines and related out of state and/or jointly owned transmission facilities.
145	Provide a listing of all transmission lines with; in services dates, voltage, and average and peak loadings.
146	Provide a listing of all T&D substations, with; in service dates, voltages (primary and secondary) and locations.
147	Provide the mission statement for the System Planning function.
148	Provide the KPI and goals (and results) for the System Planning department/function.
149	Provide the budget versus actual for the System Planning department/function for the years 2006 through 2011.
150	Provide a history (manning table) for the System Planning department/function for 2006 through 2011.
151	Provide job descriptions for all employees involved in system planning.
	Element No. 5: Capital and O&M Budgeting
152	Provide five years (2006-2010) history of Iberdrola USA annual capital budgets w/assumptions (in Excel).
153	Provide five years (2006-2010) history of Iberdrola USA annual O&M budgets w/assumptions (in Excel).
154	Provide five years (2006-2010) history of Iberdrola USA annual capital actuals w/ variance & description (in Excel).
155	Provide five years (2006-2010) history of Iberdrola USA annual O&M actuals w/ variance & description (in Excel).
156	Provide a narrative that describes the capital budgeting variance management process.
157	Provide a three year (2008-2010) history of capital budgeting variance driven corrective actions.
158	Provide description of financial planning models currently used.

159	Provide a narrative that describes both the Iberdrola S.A. and Iberdrola USA capital planning processes.
160	Provide copies of Board approvals of the last five years (2006-2010) capital expenditures for Iberdrola USA.
161	Provide list of capital planning process participants and a description of their role and the "committee's" charter.
162	Provide three year (2008-2010) history of the capital planning "committee" minutes.
163	Provide list of capital projects by year, value (original estimate and as built cost) and whether contracted or built with Company labor for 2006 through 2010 above $100,000.
164	Provide a narrative that describes the outsourced capital work broken down by planning, engineering and construction.
165	Provide a narrative that describes the capital project management process.
166	Provide the mission statement for the capital budgeting function.
167	Provide the mission statement for the O&M budgeting function.
168	Provide the KPI and goals (and results) for the capital Budgeting department/function.
169	Provide the KPI and goals (and results) for the O&M Budgeting department/function.
170	Provide the budget versus actual for the capital Budgeting department/function for the years 2006 through 2011.
171	Provide the budget versus actual for the O&M Budgeting department/function for the years 2006 through 2011.
172	Provide a history (manning table) for the capital Budgeting department/function for 2006 through 2011.
173	Provide a history (manning table) for the O&M Budgeting department/function for 2006 through 2011.
174	Provide job descriptions for all employees involved in capital budgeting.
175	Provide job descriptions for all employees involved in O&M budgeting.
176	Provide a three year history (2008-2010) of total spend by supplier
177	Provide a list of orders which were placed under the stipulated lead time for the last three years (2008-2010)

178	Provide total value by year for the last three years (2008-2010) for expedited orders
179	Provide a list of inventory turns by spend category
	Element No. 6: Program and Project Planning and Management
180	Provide a narrative that describes Iberdrola USA's management process for outsourced engineering and build services.
181	Provide a narrative that describes the decision-making process for determining outsourced work.
182	Provide a narrative that describes the capital project close-out process.
183	Provide list of all electric O&M programs by Company for the last three years (2008-2010) with annual budget and spend (breakout pole inspection/treatment and tree trimming) and whether contracted or own labor.
184	Provide list of all gas O&M programs by Company for the last three years (2008-2010) with annual budget and spend trimming (Gas leak survey, gas emergency response and repair, cathodic protection, regulator and gate station,) and whether contracted or own labor.
185	Provide a narrative that describes all electric and gas O&M quality control or assurance programs.
186	Provide five year (2006-2010) history and forecast (2011-2015) of gas main replacement projects cast iron and other with budgeted and actuals cost in Excel. Provide projection of remaining cast iron pipe, by size, after forecast period.
187	Provide the mission statement for the program and project planning and management function.
188	Provide the KPI and goals (and results) for the Program and Project Planning and Management department/function.
189	Provide the budget versus actual for the Program and Project Planning and Management department/function for the years 2006 through 2011.
190	Provide a history (manning table) for the Program and Project Planning and Management department/function for 2006 through 2011.
191	Provide job descriptions for all employees involved in program and project planning and management.
	Element No. 7: Work Force Management
192	Provide a narrative that describes the O&M contracting and contractor management process.
193	Provide a narrative that describes the work force management process for both capital and O&M work.

194	Provide a narrative that describes the reporting requirements for work force management.
195	Provide one year's (2010) copies of all work force management reports.
196	Provide a narrative that describes how work force management is integrated with the overall performance management process.
197	Provide list the recipients of the work force management reports.
198	Provide a list of all organizations with "field crews" assigned. Include the number of employees in each organization. Provide current payroll budget (both capital and O&M) for each organization.
199	Provide list of all information systems used for work force management. Provide contact information for a person responsible for administration of each system.
200	Provide a service territory map with the location of each facility where "field crews" are assigned.
201	Provide a narrative description of all work shifts by department or entity (day, evening, graveyard, 24 X 7 coverage, and weekend coverage) and whether they vary by headquarters.
202	Provide the mission statement for the work force management function.
203	Provide the KPI and goals (and results) for the work force management department/function.
204	Provide the budget versus actual for the work force management department/function for the years 2006 through 2011.
205	Provide a history (manning table) for the work force management department/function for 2006 through 2011.
206	Provide job descriptions for all employees involved in work force management budgeting.
	Element No. 8: Performance and Results Measurement
207	Provide a narrative that describes the overall corporate performance management process as it pertains to the audit elements.
208	Provide list of Key Performance Indicators (KPIs) for Iberdrola S.A., Iberdrola USA, RG&E, NYSE&G, and each department.
209	Provide the trend in KPI targets over five years (2006 -2010) in Excel.
210	Provide five year (2006 -2010) history of KPIs (actual versus target) in Excel for each entity.
211	Provide list and description of information and/or support systems used in conjunction with performance management process.
212	Provide three years (2008 – 2010) sample of other management performance reports for Iberdrola USA.
213	Provide KPI variance reports submitted (2006 through 2010).
214	Provide a narrative description of the process improvement initiatives over the

	last five years (2006-2010).
215	Provide five year (2006-2010) history of annual electric reliability data (SAIDI, SAIFI and CAIDI) in Excel.
216	Provide five year (2006-2010) history of gas leak management by types 1, 2, 3 by main and service.
217	Provide copy of last 5 years (2006-2010) of Federal DOT annual gas transmission and distribution reports and pipeline integrity related reports.
218	Provide the mission statement for the performance and results measurement function.
219	Provide the KPI and goals (and results) for the Performance and Results Measurement department/function.
220	Provide the budget versus actual for the Work Force Management department/function for the years 2006 through 2011.
221	Provide a history (manning table) for the Work Force Management department/function for 2006 through 2011.
222	Provide job descriptions for all employees involved in performance and results measurement.
	Miscellaneous
223	Provide a narrative history of any major personnel and/or staffing initiatives for the NY utilities and Iberdrola USA.
224	Provide a five year (2006-2010) history employee count for the two NY utilities and the Iberdrola USA, break each down by department and union and non-union in Excel.
225	Provide a five year (2006-2010) history of employee safety performance: OSHA severity, OSHA incident, auto accident rates, and any other employee safety data that is used to measure safety performance.
226	Provide a narrative description of the supply chain process, including bidding and sole source policies.
227	Provide five years history (2006-2010) of spend by major category (in Excel).
228	Provide five years spend analysis (2006-2010) by vendor (in Excel).
229	Provide a narrative description of the engineering computer systems (GIS, AM/FM, CAD) in use.
230	Provide a narrative description of the operating systems used for the business and system control computers, such as, SCADA, distribution management, meter reading, cathodic protection monitoring, system planning, leak tracking, PIE, AMI/AMR, outage management, crew scheduling or other computer aided dispatch.
231	Provide a list of common services between RG&E and NYSE&G.
232	Provide a narrative that describes how RG&E/NYSE&G services are allocated and

	charged back.
233	Provide a list of common services between IUSA and the New York Companies.
234	Provide a narrative on how IUSA services are allocated and charged back to the NY Companies.
235	Provide list common services between Iberdrola, S.A. and the New York Companies.
236	Provide a narrative on how Iberdrola, S.A services are allocated and charged back to the NY Companies.

APPENDIX B

RCG Team Résumés

Peggy Edwards

Position:	Senior KH Consultant Engagement Position
Years of Experience:	30
Education:	B.A., Purdue University Master of Public Administration, The Consortium of the California State Colleges and Universities – Ms. Edwards' masters thesis evaluated a job and workload restructuring program at the Internal Revenue Service that resulted in developing subject matter specialists in the Taxpayer Service Division.

Key Qualifications:

Peggy Edwards is an experienced project manager in areas of strategic planning, organization development, community and employee engagement, board training and development, and leadership development.

She has designed and led numerous organizational planning and development projects and training programs for clients and stakeholders including community, executive teams, cross-functional work groups, and boards of directors. Her in-depth knowledge of planning and management methodologies includes strategic planning, team-based problem-solving, employee satisfaction assessments, performance measures, process mapping, and adult learning approaches.

Ms. Edwards has worked with many organizations, including manufacturer, hospitality, and healthcare groups. Her local and regional government work is broad-based, with specific experience in juvenile justice, children's services, population-based healthcare, and emergency management planning.

In addition to project management, Ms. Edwards applies the expertise she has gained in more than 25 years working in government, business, and consulting practice to leadership development and facilitator training programs conducted for business and industry, government agencies, and not-for-profit organizations.

Selected Professional Experience:

Management and Performance Audits

- **City of Los Angeles Office of the Controller, 2008 Industrial, Economic, and Administrative (IEA) Survey of Los Angeles World Airports (LAWA)** – Team member focusing on Concessions Services

Planning

- **Los Angeles Department of Water & Power (LADWP)** – Team member on the PA Consulting strategic planning project for LADWP, focusing on the action planning segment for implementation
- **Juvenile Justice and Child Welfare Projects** – Projects included facilitation of strategic and project planning and project management for West Michigan Child & Family Council, Clark County (NV) Department of Family & Youth Services, Sacramento County Child & Family Commission, Los Angeles County Office of Child Advocates, Arizona Governor's Division for Children, Lorain

County (OH) Juvenile Justice Task Force, Providence House (Cleveland, OH), Youth Councils - Workforce Investment Boards in Madera County and City of Los Angeles, One Voice Volusia (FL), State of Florida Department of Education, and Fresno County Babies First Consortium

- **County of Los Angeles, Department of Health Services Public Health** – Project Manager in the development and implementation of a three year strategic plan, including establishing and funding a regional organization of homeless healthcare providers and advocates
- **County of Los Angeles, Unincorporated Area Services** – Project Manager facilitating a community-county joint planning project to develop emergency preparedness and response procedures for residents of Topanga Canyon
- **County of Los Angeles Public Library** – Facilitator/instructor providing an action-learning based leadership development program that includes workshops, individual coaching, and application of learning to taskforces addressing projects identified by the organization's strategic plan
- **Community College Districts** – Team member providing strategic planning support for Ventura County Community College District, El Camino College, Los Angeles Trade Tech College, and Long Beach City College/Small Business Development Network

Professional Experience:

Ellis/Edwards: Current
Principal

The McNellis Company
Principal, Western Planning Institute

Marriott Corporation
Director, Organization Development - During her time with Marriott Corporation, Ms. Edwards led workload studies and planning projects in support of two major restaurant chain expansions and the opening of food and beverage operations at Terminal 4 at Heathrow International Airport in London.

Professional Affiliations:

Sam Dixon Family Health Center, Board Member and Treasurer

Los Angeles Superior Court, Voluntary Mediator

Zonta International, Area Director, former Club President, and Foundation Trustee

Santa Clarita Child & Family Center, Board Member

2005 Citizenship Award, Purdue University Alumni Association

Gary W. Ferenz

Position: Independent Consultant
Years of Experience: 30
Education: B.S./1978/Accounting/University Of Delaware, Newark, DE
MBA/1998/Finance/Drexel University, Philadelphia, PA

Key Qualifications:

Gary Ferenz has been working in the electric industry for over 11 years. He is an experienced energy professional with extensive working knowledge of renewable compliance markets in the eastern U.S. and a proven track record in successfully analyzing, negotiating and executing complex transactions in the renewable power field. He directed or consulted in the development of contracts, deal capture and tracking systems, and accounting treatment of renewable wholesale transactions for Conectiv. Gary has also managed municipal customer supply accounts and provided pricing and leadership in a variety of wholesale load and supply transactions.

Selected Professional Experience:

Wholesale Supply Transactions

- Member of internal Conectiv team responsible for evaluation, pricing, and execution of wholesale load supply bids and structured power contracts.
- Established key controls, invoicing and reporting for structured wholesale power market contracts.
- Led administration of New Jersey Basic Generation Service (BGS) Default Load Supply bid responses and execution.
- Managed municipal supply contracts and relationships for The City of Lewes (DE), Berlin (MD), DEMEC and ODEC (DE and MD municipal aggregations).

Renewable Power Procurement

- Developed and managed a 90 MW diversified renewable supply portfolio.
- Negotiated several large renewable fuel and bundled power supply contracts, including long-term wind and long-term renewable pipeline landfill gas and related generation arrangements.
- Developed and executed hedging strategies for Conectiv's renewable energy requirements associated with wholesale default supply contracts.

- Originated and co-developed renewable power projects including completed 4 MW solar project in Vineland, NJ and aborted 70 MW wind development in Eastern PA.
- Responsible for keeping company's load serving business in compliance with renewable portfolio standards in seven states
- Supported Conectiv parent company Pepco Holdings, Inc. (PHI) and other PHI subsidiaries as subject expert in renewable power markets
- Led contract, regulatory, accounting and risk personnel in the development and utilization of deal capture and reporting systems for renewable transactions and positions

Professional Experience:

Conectiv Energy, Inc.: 2007 - 2010
Renewable Power Manager

Conectiv Energy, Inc.: 2001 to 2007
Power Origination Specialist

Delmarva Power: 1999 to 2001
Financial Consultant

CoreStates Bank, NA: 1994 to 1998
Vice President, Asset & Liability Specialist

CoreStates Bank, NA: 1990 to 1994
Assistant Vice President, Financial Accounting and Management Reporting

Industry Recognition:

Panel Participant – North East NECA's Annual Renewable Energy Conference: Reconciling Renewable Energy Momentum with New Challenges March 2009. *Panel II – Offtake Deals, Equipment Procurement and Financing*

Presenter – EUCI Planning & Implementation In An RPS Environment – Eastern Region, Boston MA, July 2008. *RPS Eastern Region Overview*

Presenter – EUCI Planning & Implementation In An RPS Environment – Eastern Region, Boston, MA, July 2008. *Internal Renewal Energy Tracking (REC) Tracking Issues*

Robert M. Grant

Position:	President Engagement Director
Years of Experience:	40
Education:	B.S./1970/Electrical Engineering/Lowell Technological Institute, Lowell, MA American Management Association for Marketing and Planning, Finance, and Strategic Planning

Key Qualifications:

Bob Grant has been working in the utility industry for over 40 years. His experience spans a wide variety of consulting engagements, audit, business management and strategy development. He has also helped numerous major utilities redesign their business organizations to reflect the changing regulatory environment. He just completed preparing CH Energy for their 2010 management audit as he did twice before. Mr. Grant has led or participated in a number of full management audits and led numerous more focused management engagements. Between 2008 and 2009 led three major audits of utility performance during major storm events. These audits were all submitted to commissions for review. In one case answered questions posed by the Commissioners. He has also been an officer and/or senior executive consultant for KEMA, Inc., AT&T Solutions, Stone & Webster and Booz, Allen, & Hamilton.

Selected Professional Experience:

Management Audits

Management audits provide a window into the business and operations of a utility. Some audits are required by State Commissions or other government agencies, while others are at the request of executive management as a matter of understanding how to improve its business model.

- Bermuda Electric Light Company, Ltd. - Confidential
- Public Utility District No. 1 of Chelan County - Confidential
- Groton Department of Public Utilities - Confidential
- Electricity Authority of Cypress - Confidential
- Central Electric Generating Board, Great Britain - Confidential
- Louisville Gas & Electric Company - Public
- Orange & Rockland Utilities – Public
- Kansas –Nebraska Natural Gas - Confidential

Pre-Management Audit Counsel

This value-added work typically consists of audit training sessions, high spot reviews, formulating needed audit policies and procedures, developing audit strategies. Managed pre-management audit engagements with the following companies:

- United Illuminating Company
- Pennsylvania Power & Light Company
- Columbia Gas Company
- Gulf States Utilities
- Central Hudson Gas & Electric Company (Three times)
- National Fuel Gas Company
- Central Illinois Public Service Company
- Philadelphia Gas Works (Twice)
- Los Angeles Department of Water & Power
- Atlantic Electric Company
- South Jersey Gas Company

Major Emergency Restoration Planning Comprehensive Audits

- For a major Northwestern combination utility, performed an in-depth review of its restoration activities as a result of a major winter storm event which impacted a significant portion of its customers for over 11 days. The final report offered recommendations to improve the plan and enhance transmission right of way maintenance. Some of the technology enhancements around metering proved to be problematic at the onset of the restoration effort. The report was used in the very next rate case.
- For a major mid-Western combination utility performed an in-depth review of its restoration activities as a result of a unique set of summer wind events which caused significant outages to a major portion of their system. Working in conjunction with the Commission Staff and the utility, it was determined that the overall strategy was reasonable but there were a number of tactical improvements necessary. Further, it was determined that ARM solutions were less practical during the onset of the restoration effort, but beneficial during the final stage. An oral presentation was made to the PSC Commissioners. The Commission staff and company executives were appreciative of the presentation.
- For a major Texas combination utility led the comprehensive review of the Company's post Ike hurricane restoration efforts. Ike had caused 98% of the Company's customers to be without power for up to 18 days. The final report was used as

evidence in the Commission approval of $650M in capital expense recovery. In addition the report addressed design and maintenance standards.

Planning

- Directed an island utility in developing its first strategic plan. The plan evolved out of our previously conducted management audit, which I managed. As a result, the plan focused the management team on improving quality and making major improvements in the way it does its business. In addition, the planning efforts led to the formation of two new entities -- an energy services company (ESCO) and a local telephone company. Led their planning efforts for four years.
- Directed the development of an aggressive strategic plan for a major New England municipal electric and water utility. While the plan dealt with improving certain internal processes, its major focus was expansion of its service territory and finding customers for its services. As a result, the Company purchased the last independent electric utility in the state, effectively increasing its revenue by a factor of 1.5. Current planning efforts are directed at creating new sources of revenue. As a result of planning, management has purchased a bottled water business. A key initiative underway is to enter the broadband business. Have led their strategic planning for over ten years.
- Directed the development of a strategic plan for a western combination electric and gas utility. This was an aggressive plan designed to pre-position the utility for open access. In addition, the plan addressed moving into related non-utility businesses.
- Designed a successful strategic plan to aid in reducing the need for additional new generation capacity. This plan enabled the utility to redirect access loads that aggravated its peak load.
- Prepared several energy management plans (EMP) to permit clients to respond appropriately to the changing energy supply situation. For a national retail chain, the EMP permitted the selection of the most effective energy opportunities for reducing operating costs.
- Led a team that evaluated the impact of distribution design and maintenance practice to determine the impact on the level of storm damage. As a result the Company is making changes to their maintenance practices.
- Determined for a major secondary network utility the cause of insufficient response to a major outage restoration. Recommended significant changes to their ERP to promote quicker management restoration decisions. Redesigned the entire underground restoration analysis process.

Business Transformation & Reengineering

- Managed an engagement to develop a comprehensive set of policies and procedures for a medium sized water and electric utility. As part of this engagement, the team

related all policies and procedures to corporate goals and regulations. Developed and built a format database of related policies and procedures to specific regulations at the local, state and federal level. The system also provides a means for tracking proposed legislation and all permitting processes.

- Reengineered a medium-sized municipal utility's entire organization. The company provides natural gas, electric and water service to its customers. As a result, management has been able to reduce its management complement by 35%.
- Managed the reengineering of the operations organization for a major mid-western, combination gas and electric utility. Reduced the number of district offices by 45% while improving overall response time to the customer and eliminating 30% of the management positions. Several customer processes were also reengineered leading to a 30% reduction in clerical personnel.
- Managed an organization redesign of a major island utility's engineering function to be more customer/project driven. The final organization was delivered and now has a wider more effective span of control. In addition, we redesigned the process for estimating generation and T&D projects.
- Managed an in-depth audit of a major Southeastern utility's Environmental Department. This review included the legal function, since the environmental group was part of their legal department.
- Designed a functional organization structure to combine 20 utilities into a single company in Western Saudi Arabia and is now known as SECO in the Western Region.

Operational Engagements

- Completed an assessment of a major first PWR nuclear construction program for Great Britain’s government-owned nuclear power generation business.
- Managed a PSC-mandated phase-two management audit for a major combination utility. We focused on the potential economic savings and improved service created by centralizing the customer service function.
- Managed an industrial engineering study to improve a transmission and distribution department’s trouble and dispatching operations. Results included consolidation of five dispatching centers into one with more efficient trouble crew operations.
- Managed engagements to identify opportunities for several major gas distribution companies to improve their customer service and marketing activities, resulting in more efficient and cost-effective operations.
- Designed and implemented a reliability-based budgeting system for two large urban electric utilities, one in California and the other in Texas, to improve T&D maintenance and system reinforcement project planning.

Transmission & Distribution

- Managed the development of a major storm restoration plan for a large east-coast utility. The plan focused on storms, which would cause loss of power to 50% of the company's customers for more than 72 hours. It also allows the utility to handle up to 300 foreign crews.
- Led the review of the T&D business unit a major Midwestern combination utility that had been cutting costs for eight years. As a result of this $500,000 engagement we were able to identify an additional $13M in savings by restructuring non-core activities of the 740 plus line organization.
- Directed the development of a multi-level storm plan for a major southwestern electric utility. The emergency restoration plan was designed to handle any level of storm that might be experienced by the company. Every role and key decision process was clearly defined. All three divisions and upper management accepted the resulting plan.
- Provided technical and strategic advice for the emergency plan developed for a combination gas and electric utility located in the Mid-West.
- Managed a benchmarking effort for a Canadian utility's transmission maintenance function. Resulted in a reduction of its maintenance costs by $15M annually.
- Developed a transportation model to estimate the appropriate fleet size for a major utility in Saudi Arabia, which was incorporated into their annual planning exercise.

Work Management

- Managed the development of a uniform work management process for an island utility. The process is now being used in both T&D and generation. It allows for the formal planning and scheduling of work, as well as the monitoring of the work performed.
- For a major Midwestern combination utility, identified business practice improvements to the generation capital budget yielding an eighty-one million dollar savings in construction costs on an eight hundred million dollar construction plan.
- Developed and implemented a simple work management system for a generation department. The system was built in Microsoft Access and designed to be extremely user friendly so that non-technical foremen and management can easily use the system.

Supply Chain

- Directed the first global supplier evaluation effort to help a major utility client select the transformer vendor with the lowest qualified price equipment. The evaluation looked at 18 international vendors and recommended the two that offered the least

risk to the utility. This evaluation prepared the utility to address its vendor selections for a new 500kV transmission line in front of the state commission.

- Directed a $100,000 engagement to assist a medium sized gas LDC on the East Coast to gain control over its supply chain operations. In this engagement we identified a 33% reduction in inventory levels. The second work stream helped management better align with its major suppliers and form alliance programs.
- Managed a review of the material management function for a major Fortune 100 energy company. The results of the study identified savings approaching $44M annually.
- Designed a Materials organization for a major Western Saudi Arabia utility. As part of this assignment, designed the material forecasting process and inventory management methodology.
- Directed an engagement to install a mainframe (D&B) materials system in Saudi Arabia. Directed the set-up and implementation of a full-scale training program for all aspects of the system. In addition, we developed all the policies and procedures necessary for using the system.
- Directed an inventory reduction engagement for a major Northeast generation and transmission company that led to recommending a 17% reduction in a $68M inventory. We developed a custom software-modeling tool to identify slow and obsolete material. In addition, provided direction on how to minimize excess inventory.
- Managed an engagement for a mid-western combination utility that identified a 27% inventory reduction in T&D related materials. As part of this effort, provided the tools needed to reduce the inventory through aggressive inventory practices.

Customer Care & Multimedia Call Centers

- Supported the installation of a new CIS/CRM solution for the deregulated environment for a major Texas utility. Reviewed and modified procedures and processes to reflect the significant changes due to the new software. Developed policies consistent with the regulations and the needs of the business as defined by marketing and customer service functions.
- Directed the transformation of a combination gas and electric Northeast utility's traditional call center into a multimedia contact center for the coming deregulated environment. The company wanted to be more customer-centric while ensuring appropriate controls over cost and quality. Designed high-level architecture for a fully integrated operation using computer telephony integration (CTI) and interactive voice response (IVR) technologies to more efficiently serve the customer. Recommended significant changes to supervisory and agent training efforts and a strategy for web enabling the call center.

- Directed a significant effort to create the first multi-media call center for a Dutch combination distribution utility. This utility had scattered walk-in and small call centers located throughout their service territory and were trying to adequately serve 2,000,000 customers. Our efforts helped them define the future of customer care and provided them with a plan to achieve the desired results using a virtual- multi-media contact center, while saving $1M annually. The system is now designed to yield a level of customer service, which will become the cornerstone of their differentiation strategy.
- Directed an engagement to help a major Canadian electric utility consolidate 54 call center operations into 6 centers. As part of this effort, we developed a transition plan to move the existing call center operation from a cost centered, inbound operation to a strategic asset providing both inbound and telemarketing services. We identified the most appropriate staffing levels to ensure that customer-driven metrics can be met with a well-managed small work force. The project saved $2.5M.
- Managed the preparation of a detailed plan for converting a traditional customer service operation into a 21st century, customer-centric operation for a major mid-western gas and electric utility. The plan includes operational and process changes as well as a detailed Change Management program. The Company implemented all the recommendations. According to the CFO, the resulting savings are estimated to improve earnings per share by 20%.
- Managed a centralization of a customer phone contact function for a major western electric utility. The company had 55 phone centers located throughout the state. This consolidation resulted in a 55% reduction in staff with more efficient and effective phone coverage.
- Developed a long-range plan for the Consumer Business Function of a major Northeastern natural gas LDC. The plan detailed the mission, objectives, and goals to be achieved which included the consolidation of several remote offices. The resulting savings exceeded $20M annually.

Professional Experience:

River Consulting Group, Inc.: Present
President

KEMA, Roswell, Georgia: 2005 to 2010
Vice President Operational Excellence 2008 to Present
Director Field Force Effectiveness & Global Supply Chain 2005 to 2008

River Consulting Group, Inc.: 1999 to 2005
President

James Martin & Company: 1998 to 1999
Vice President, North American Utilities Practice

AT&T Solutions, Utility and Energy Practice: 1996 to 1998
Client Partner, North American Utilities Practice Leader

EDS Management Consulting Services: 1995 to 1996
Principal

Stone & Webster Management Consultants, Inc.: 1980 to 1995
Vice President

Booz, Allen & Hamilton, Inc.: 1978 to 1980
Senior Consultant

Boston Edison Company: 1970 to 1978
Senior Engineer

Professional Affiliations:

Editorial Advisory Board of Hart's Energy Markets Magazine

Institute of Electrical and Electronic Engineers

American Management Association for Marketing and Planning

North American Society for Corporate Planning, Inc.

Professional Publications:

"From Brick & Mortar To Technology Enabled Strategy," presented at the EEI Annual Convention, June 15, 1999, in Long Beach.

"Using Technology as a Strategy Driver," presented at the EEI Semi-annual Strategic Planning Conference, March 1999, in Tampa.

"Competitive Marketing Strategies for Utility Companies," presented at the International Quality & Productivity Center conference, May 1997, in Chicago.

"Performance Audits As An Improvement Tool," presented at the Tenth Annual Regulatory Educational Conference, April 1996, in Canada.

"The Future of Customer Service" Presented at the Reengineering Utility Call Centers Conference, August 1995 in Chicago.

"Benchmarking- The Second Generation" - Stone & Webster Management Consultants, Utility Executive Course, 1994.

"Benchmarking Purchasing Case Study" - Stone & Webster Management Consultants, Utility Executive Course, 1994.

"Planning for Resource Allocation," Stone & Webster Management Consultants, Utility Executive Course, 1993-4

"AMI' Role in Emergency Restoration," Automation 2008 Conference, Atlanta, GA

"Incorporating Public Communications into your Business Continuity Plan," EUCI, St. Louis, October 2008

"Why Forensic Analysis?" 2008 Energy Connections Conference, Florida Municipal Electric Association, Orlando, November 2008

"Utility Experience Shows AMR Could Support Outage Management," KEMA publication, April 2008

Industry Expert – Quotes:

Public Utilities Fortnightly (1999) Subject area Customer Information And Data Warehousing

Electric Light & Power (1999) Subject Summer of 1999 blackouts and brownouts and how e-commerce solutions can help manage the publics better.

Chicago Daily Herald (August 14, 1999) Subject on the ComEd Blackout and what utilities should be doing to man

Gayla Kraetsch Hartsough, Ph.D.

Position:	President, KH Consulting Group Engagement Position
Years of Experience:	33
Education:	B.S., Northwestern University, School of Communications Ed.M., Tufts University Ph.D. and M.Ed., University of Virginia Post-doctorate, Woodrow Wilson National Fellowship, Princeton, NJ

Key Qualifications:

Dr. Gayla Kraetsch Hartsough has been President of KH Consulting Group (KH) since 1986. KH specializes in strategic planning, organizational design and restructuring, marketing and customer service, human resources, and business process reengineering.

She has consulted with hundreds of clients throughout the United States and in Europe and Australia. Much of her work involves utilities; local, state, and federal governmental agencies; higher education and K-12 educational systems; non-profit organizations; transportation systems; and health care providers. She specializes in quasi-governmental entities – PUC-regulated utilities, municipal utilities, ports, telecommunications, and airports – that have to operate at a revenue surplus but are highly regulated and must garner the public trust.

Selected Professional Experience:

Strategic Planning

City of Los Angeles

- Land Development Process – Building & Safety, Planning, and Engineering
- City Facility Strategy/Vision

County of Los Angeles – Project Director or Account Executive for more than 15 separate strategic planning initiatives for different departments, including:

- Community Development Commission (Project Director)
- Department of Human Resources (Account Executive)
- Department of Public Works (DPW) (Project Director)
- Department of Regional Planning (DRP) (Project Director)

- Internal Services Department (Project Director)
- Office of Unincorporated Area Services (UAS) in the Office of the Chief Administrative Officer (CAO) (Project Director)
- Public Health (Project Director)
- Public Library (Project Director for Phase I) – five-year project with four phases, involving implementation work, change management, and leadership development
- Small Business Commission (Team Leader)
- Treasurer/Tax Collector (Account Executive)

Utility Clients

- Edison International (California)
- Arizona Nuclear Power Project (ANPP) of Arizona Power Company
- Illinois Power Company
- Los Angeles Department of Water & Power (DWP)
- Metropolitan Water District of Southern California
- Texas Utilities Electric (TU)
- The Gas Company/Southern California Gas Company
- Colorado Public Utilities Commission, Public Service Company of Colorado
- Telstra Enterprise & Government, division of Telstra International (Australia)

Alternative Energy Projects and Work

- **Los Angeles World Airports (LAWA, Environmental Services Division** – Developed a new organizational structure and assisted division in establishing priorities and shifting work culture to work collaboratively with other LAWA divisions to garner buy-in to environmental initiatives
- **Arizona Nuclear Power Project (ANPP)** – as part of a jurisprudence review, prepared the research to justify the need for power and the decision in the 1970s to opt for the alternative energy source of nuclear; research was so complete that the justification was accepted without rebuttal

Management and Performance Audits

Utilities

- Colorado Public Utilities Commission, Public Service Company of Colorado
- Arizona Nuclear Power Project (ANPP)
- Los Angeles Department of Water & Power (DWP) (pre-audit)

County of Los Angeles Management Audits and Performance Reviews

- Auditor-Controller
- Civil Grand Jury, starting with the 1999-2000 Civil Grand Jury and involving a total of 15 Performance Audits since then, including:
- Los Angeles Police Department
- County of Los Angeles, Sheriff's Department
- Department of Children and Family Services
- Department of Health Services
- Community & Senior Services
- Los Angeles Unified School District

City of Los Angeles Management Audits and Performance Reviews

- Los Angeles World Airports (LAWA), 1999 and 2008 Industrial, Economic, and Administrative (IEA) Surveys
- Port of Los Angeles
- General Services Department, conducted on behalf of the Office of the City Controller
- Personnel Department

Education Management Audits and Performance Reviews

- Los Angeles Unified School District (LAUSD)
- Kern Community College District (KCCD)
- San Francisco Community College District (SFCCD)
- San Jose/Evergreen Community College District (SJECCD)
- Edutrain Charter School
- Glendale (California) Unified School District, Board of Education
- Port of Oakland, including OAK

- Ventura County National Bank
- Arizona Nuclear Power Project (ANPP) of Arizona Power Company
- LA★Vets
- U.S. Department of Health and Human Services (DHHS), Health Resources and Services Administration (HRSA)
- U.S. Veterans Administration, Sepulveda VA Medical Center

Other Clients

- **Telstra Enterprise & Government, Sydney, Australia**, 2007 – Member of team that conducted activity analysis and organizational change review for the major Australian telecommunications corporation
- City of Los Angeles, Los Angeles World Airports (LAWA): 2008 and 1999 Industrial, Economic, and Administrative (IEA) Surveys – Senior member of team that conducted 2008 and 1999 IEA Surveys of LAWA, including an activity analysis of 3,000 employees.
- Other regulated clients:
  - Port Authority of New York-New Jersey
  - Port of Los Angeles
  - Port of Oakland

Professional Experience:

KH Consulting Group: 1986-Present
President

Towers Perrin (now Towers Watson): 1980-1986
Managing Consultant, Washington, D.C., and Los Angeles

Professional Affiliations:

Earth Protect, Inc., Advisory Council Member

Northwestern University, Council of One Hundred, Member

National Association of Women Business Owners Los Angeles (NAWBO-LA), Executive Board Member

Women's Leadership Council, Member

Organization of Women Executives (OWE), Member/former President

Relevant Professional Publications and Speaking Engagements:

Authored chapter in a book on alternative energy uses in higher education in "New Directions"

Global Commerce Forum, the International Conference on Energy and the Environment, "How businesses can save the world in small ways" panel, received Distinguished Speaker Award, Las Vegas, October 2009.

Global Commerce Forum, the International Conference on Energy and the Environment, "Green is Gold" panel, Las Vegas, October 2008

Thomas S. Hurley

Profession:	Consultant
Years of Experience:	27
Education:	M.B.A. Finance / Saint Louis University
	B.S. Finance / Saint Louis University, *Magna Cum Laude*

Key Qualifications:

Tom Hurley has over 27 years of consulting and management experience working with domestic and international utility and energy companies. Tom has significant expertise in the areas of program and project management, strategic and business planning, performance metrics and measurement, organizational and process design, customer care, supply chain management, operational and process improvement, and outsourcing strategy and implementation support.

Key Areas of Expertise:

Program and Project Management:

- Served as Program Manager overseeing over thirty Cisco Intelligent Call Management (ICM) software deployment engagements and ongoing hosting and support over a two-year period. The ICM software managed the routing of all inbound "1-800" phone numbers for our client companies. Hired and developed three internal implementation teams and managed a host of third-party software, hardware, and communications vendors. Developed a standardized implementation framework and methodology, including standardized project scheduling and budget tools, risk management process, communications plan, issue tracking, and a dashboard reporting system. Also responsible for providing ongoing post-deployment support for our clients including a help desk operation and hosting client servers in our data management facility. My Program Office was responsible for managing inbound call traffic for the following corporations:

Access Health	American Century	Amer. Home Shield	Apple Computers
AT&T	Blue Cross/Shield	Chase Manhattan	Cheap Tickets
Citigroup	FedEx	Franklin Resources	Geico Insurance
Hilton	Japan Telecom	Marriott	MBNA Bank
NTT Japan	Norwest	Protection One	Rosenbluth Travel
Staples	Starwood Hotels	T. Rowe Price	TIAA-CREF
United Airlines	United Healthcare	West Telemarketing	Worldnet

- Led over twenty business process reengineering (BPR) and outsourcing reviews for a wide range of functions ranging from hydropower operation and maintenance to Information Technology. These projects involved working with executive management to identify candidate functions with the greatest potential for outsourcing and then facilitating the "make or buy" decision process. This included the development of a detailed Statement of Work and Quality Assurance Plan to be included in a Request for Proposal to solicit third-party bids. These engagements also involved reengineering the in-house performance of the selected functions to develop and cost a streamlined in-house organization for comparison against external bidders. Staffing requirements were typically reduced in excess of 30 percent on average.
- Served as Program Manager for a two-year initiative to reengineer the budget development, execution, and monitoring methodology for the $1.7 billion U.S. Army Corps of Engineers (CoE) Civil Works

Operations and Maintenance appropriation. A critical component of this new budgetary process was a methodology to level-set the funding of detailed O&M project requirements at disparate CoE projects including hydropower operations, flood control and recreation projects, and navigation operations. Wrote the budget development guidance for the program, developed a communication and implementation plan, and provided extensive field training to assist in the implementation and acceptance of the new guidance.

- Managed an outsourcing study of the 261 position Information Resource Management organization for the Bonneville Power Administration; developed streamlined in-house organizational design, staffing requirements and operating procedures; wrote a statement of work for a request for proposal for the data center operations, applications management, customer service, and communications functions.

Supply Chain Management:

- Performed numerous Supply Chain Management engagements to identify specific opportunities for the clients' supply chain management programs to improve their ability to meet the procurement and material handling needs of internal customers at the lowest cost, highest quality, and minimum risk. These engagements provided an external perspective on "best practice" supply chain management in the power industry and other industries. A key aspect of these engagements was an assessment of the degree to which existing supply chain performance metrics, data sources for these metrics, and performance levels effectively support the overall goals of the utility. Recommendations for improvements were developed along with a cost/benefit estimates to assist in the prioritization for implementation for the following areas:
  - Purchase Order Transaction Support: Work Management / Supply Chain Interface
  - Strategic Sourcing: Supplier Qualification, Selection, and Contracting
  - Contract Administration and Management: Technical and Commercial
  - Inventory Management and Control
  - Performance Monitoring and Metrics
  - Policy, Process and Procedure Development
  - Staff Development and Training
- Performed an audit of the supply chain operations for a major utility in support of their fossil and nuclear generation, and transmission organizations. The assessment identified gaps in their current practices and identified specific actionable recommendations for improvements. Estimates as to the expected costs and benefits of each recommendation were developed to facilitate the evaluation and prioritization process.
- Performed an assessment of supply chain processes and activities in support of the fossil and wind generation operations for a large multi-state utility. The particular focus was to identify standard supply chain processes and activities that were not being performed and identify the resources required to support a fully-functioning supply chain function. Additional requirements included the development of an organizational structure to best support the supply chain requirements of the company's various operating groups. Key concerns included a lack of standardized supply chain practices and staffing levels across their fossil fleet as a result of piecemeal acquisitions over time. In addition a new supply chain organization and procedures needed to be developed to support wind generation operations as the warranty support period from the initial vendor/installer expired.

Customer Care:

- Lead a Customer Care Research Consortium (CCRC) engagement to define the role of core customer service operations in successfully developing and delivering energy management and environmental programs. The CCRC is an executive forum consisting of fifteen leading utilities for discussing strategy,

co-funding research and acting collectively on select issues. Members include AEP, APS, ComEd, Dominion, Duke, Entergy, First Energy, PECO, Pepco Holdings, PSE, and Xcel Energy. This engagement identified a framework for customer operations, marketing/Energy Efficiency/product development, and IT services to collaborate on new service offerings. This study made the case that the new generation of EE/DR/Smart Grid programs will transform the utility customer service model and necessitate difficult decisions regarding the acquisition of back-office systems that can handle production-scale delivery of the new programs. High-level "process maps" were developed which showcased the role of—and impacts on—customer operations in the development and delivery of these new services. This effort also highlighted the role of third-party solutions providers and the need to determine their role in a production-scale delivery environment for new EE/DSM service offerings.

- Led a customer service center consolidation and customer management strategy engagement for a 2 million customer Dutch electric and gas utility. Developed and modeled various consolidation alternatives to drastically reduce the number of service centers. The result was a recommended reduction from 54 contact centers to 3 operating in a virtual fashion. Not only did this generate a considerable reduction in operating cost, but it allowed the company to build a differentiated competitive brand based upon the ability to deliver a consistent high level of customer service across all of its geographic regions.
- Developed the customer segmentation and call routing strategy for a major U.S long distance carrier. High value customer segments were targeted for improved call handling and customer service to protect revenue through reduced customer churn. In addition, customer segments with high repeat call propensities were identified and recommendations were implemented to reduce repeat and transferred call volumes through improved call handling, agent empowerment, and root cause analysis. As a result many non-value-added calls were eliminated entirely resulting in improved customer satisfaction and significant cost savings.
- Managed a U.K. call center integration engagement for Lloyds TSB Bank Card Services following the merger of the two banks. Developed recommendations for operational efficiencies, and developed and implemented high level functional requirements to support infrastructure improvements, including ACDs, IVR, and desktop integration to support future CTI initiatives.
- Launched an offshore Contact Center offering for a leading knowledge processing outsourcing provider seeking to leverage their extensive offshore outsourcing expertise and facilities both in the US and in India. Served as primary subject matter expert in developing all aspects of the new Contact Center business unit, including facilities requirements, operations, staffing and marketing. Lead the successful proposal development team for the firm's first Contact Center customer. Sourced key contact center management staff to manage the new business unit.
- Developed the requirements and deployment plan for a greenfield customer service/contact center operation to support an online eCommerce trading portal being developed by the Hong Kong branch of a major UK bank. Worked extensively with client to develop their customer contact strategy, the infrastructure requirements to support it, and sourced a local third-party contact center operation for initial turn-up.

General:

- Recently led several American Recovery and Reinvestment Act (ARRA) funding application initiatives for a range of Smart Grid and renewable energy projects. The rigorous ARRA application process required developing detailed project scope narratives detailing the technical requirements, proposed infrastructure, and implementation plan, budgets, and metric and data reporting and compliance plans for each initiative.
- Developed a methodology to integrate the customer satisfaction impact into the capital budgeting process for a large utility client. The resulting capital project ranking process allowed the client to

maximize the potential to increase customer satisfaction ratings in addition to the traditional reliability and ROI metrics used in the annual capital budgeting process.

- Developed a Compensation Benchmark Analysis for a major municipal utility. The CEO felt that his pay scale was inflated in comparison to similar functions performed for other like utilities in the region. Functional requirements and compensation comparisons for several positions under study were performed across several similar regional utilities. The study resulted in a mix of recommendations for modifications to the compensation structure for several of the functional positions, including both increases and decreases depending upon the analysis. Served as an expert witness to present the methodology and results of the study during a subsequent hearing before a union dispute board which upheld the results of the analysis.
- Served as President and General Manager for a home services firm with an emphasis on residential and light commercial energy efficiency and maintenance programs. The programmatic approach focused on reducing energy consumption and related costs, while increasing client comfort and safety. Service features included routine inspections and repairs of weather stripping, insulation, doors and windows, filters, ducts, and HVAC equipment, balancing HVAC systems, humidity management, and installing programmable thermostats and compact fluorescent light bulbs. The firm also served as a market aggregator and intermediary between homeowners and preferred contractors for HVAC repairs and equipment upgrades/replacement, window and door replacement, and insulation upgrades.

Professional Experience:

River Consulting Group, Inc.: 2010 to Present
Associate

Navigant Consulting, Inc., Atlanta, Georgia: 2007 to 2010
Associate Director, Utilities and Energy Practice

Home Management Services, LLP: 2003 to 2007
President

KPMG Consulting, Inc.: 2000 to 2003
Director, Customer Management Practice

AT&T Solutions, Utility and Energy Practice: 1996 to 2000
Director

EDS Management Consulting Services: 1995 to 1996
Senior Manager, Utilities and Energy Practice

Professional Presentations and Publications:

- Mr. Hurley is a frequent speaker at industry conferences, including numerous presentations for the American Gas Association, Edison Electric Institute, and the Electric Power Research Institute, the American Council on Renewable Energy, and the Solar Energy Industries Association.
- Authored the "Activity-Based Accounting" chapter for Introduction to Public Utility Accounting, published jointly by the Edison Electric Institute/ American Gas Association.

Thomas W. Langley

Profession:	Consultant
Years of Experience:	33
Education:	B.S. Mechanical Engineering/Villanova University
	Graduate Studies/University of Michigan and Duke University

Key Qualifications:

- 20 hears experience working at Atlantic Electric, Conectiv, and Pepco Holdings Inc., as a Corporate Director and Manager.
- Worked as Independent Consultant for Emergency Preparedness Partnerships and Greentree Energy Services since January 2005
- For ISO New England reviewed NERC Cyber Security Standards CIP-002-009 and drafted response requirements. Drafted Facilities Emergency Action Plan. Drafted numerous procedures for Market Monitoring, Market Services, Market Development and Reliability & Operations Compliance.
- For numerous electric and gas utilities reviewed Emergency Operations Plans, prepared recommendations and performed exercises.
- For governmental and health care agencies reviewed Emergency Operations Plans, prepared recommendations and performed exercises.
- Provided extensive testimony on company positions before multiple state and federal agencies / task forces and rating agencies.
- Lead process improvement efforts resulting in over $7 million cash in a year.
- Lead multiple project management / change management efforts.
- Directed System Planning, System Operations, Engineering, Rate Design, Marketing, Substation, Field Operations, Field Customer Service, Change Management, Process Improvement, and Training.
- Lead System and Regional Operations during multiple crisis events.
- Initiated Emergency Preparedness Training and Drill process.
- Lead Information Technology department responsible for all company engineering programs – design, development, and operation.

Key Areas of Expertise:

Power Delivery

- Lead System Operations during normal operations, emergency / crisis operations, and transition of PJM to an Independent System Operator. Previous a member of the PJM Operating Committee.

- Responsible for Electric System Planning including a five year transmission and distribution plan and the construction budget.
- Responsible for Transmission, Substation and Distribution Engineering.
- Lead Regional Operations and Customer Care including Regional Customer Service and Community Relations, plus construction and maintenance of Electric Facilities.

Regulatory

- Responsible for Rate Design and provided expert testimonies in company Rate Cases over 8 years.
- Proposed innovative rate designs including Time of Use and Direct Load Management.
- Designed final rates within an hour of regulator's revenue decision to maximize cash flow.

Business Renewal

- Directed Process Improvement including Cross Functional Teams which delivered over $7 million cash in first year, while establishing a continual improvement process.
- Responsible for Information Technology budget and new system implementation.
- Lead 2nd Loop / Course Adjustment of three year Strategic Plan.
- Lead Team that renewed Vision and Mission.
- Presented to rating agencies in securitization of bonds for deregulation transition to protect corporate income.
- Responsible for Long Range Business Plan with focus on alternate energy sources, energy technology, and sales.

Marketing

- Initiated Marketing Department that developed and administered new programs, which added over $1 million in revenue in less than 3 years.
- Kicked off Economic Development by coordinating and executing a New Market Conference that showcased South Jersey businesses and business opportunities to over 300 attendees from 5 countries.
- Organized and implemented an Electric Utility Cultural Exchange Tour with the Republic of Russia and presented at Russian Utility Conference.

- Initiated Major Accounts Sales Department that built solid relationships, added customer load, and partnered with customers to operate their generation during high cost periods.
- Started Residential / Builder Sales Team to work with contractors to build efficient electric homes.
- Directed Market Research including Focus Groups.

Information Technology

- Lead Team that specified, evaluated, and negotiated two new Energy Management Systems.
- Managed department responsible for all engineering systems including planning, specifications, design, implementation and operation.
- Lead the design and implementation of multiple information technology projects.

Emergency Preparedness

- Initiated Training and Drill program to prepare leadership and employees for crisis events.
- Coordinated training of Incident Command System and new Incident Response Plans to over 400 employees in first year.
- Assisted in development and implementation of new Crisis Management Plan and Crisis Communication Plan.
- For ISO New England, drafted NERC Cyber Security Standard for CIP-006 and layout of the Cyber Security Plan for CIP-002-009.
- For ISO New England, drafted the Facilities Emergency Action Plan, Market Monitoring procedures, Market Services procedures, Market Development procedures and Reliability & Operations Compliance procedures.
- Reviewed multiple utility Emergency Organization and Response Plans. Recommended organizational changes and improvements.
- Designed and executed Emergency Response Exercises for multiple utilities, governmental agencies and health care agency.
- Assisted in setting up a Special Needs Registry in Atlantic County, New Jersey.

Power Production

- Developed and tracked fuel, operations, and maintenance budget including during the Arab Oil Embargo.

- Responsible for power plant testing and initial acceptance testing of steam and combustion turbine generating units.

SAP / WMIS Project – Change Management

- Implemented Business and Individual Readiness.
- Executed extensive communications at all levels of organization.
- Identified training needs for all impacted employees.
- Provided Go Live Support for over 2000 users on four new systems.

Professional Activities

- Registered Professional Engineer (PE) in the State of New Jersey
- Active member of American Society of Professional Engineers (ASME)
- Member of the National Society of Professional Engineers.
- Previous member of PJM Operating Committee and EEI Rate Research Committee.

Emily L. O'Brien

Profession:	Consultant
Years of Experience:	12
Education:	M.B.A./Tuck School Business at Dartmouth
	B.A. History/Georgetown University
	English as a Second Language Teaching Training Certificate/ Pontifica Universidad Catolica Madre y Maestra/Dominican Republic

Key Qualifications:

Supply Chain Lead- Emily has spent the last 12 years in Supply Chain Operations. Early in her career, Ms. O'Brien worked for FreeMarkets (now Ariba), the company that pioneered the use of business-to-business reverse auctions for procurement. Using technology to improve Supply Chain Operations is a central theme in her approach to solving problems. Combining a technically savvy and commercially prudent approach to supplier relationships is increasingly important as clients layer new technologies into their existing assets. Ms. O'Brien has helped clients establish enterprise wide procurement planning programs, integrating capital plans and asset management plans from business units to create a comprehensive view of spend that can then be managed more strategically. She has successfully helped clients launch strategic sourcing programs that take a "total cost of ownership" approach to sourcing decisions and mitigate risk by implementing Supplier Audit Performance Management capabilities. She has conducted Warehouse Improvement, Logistics Management, and Inventory Right-Sizing programs in utilities around the world. Recently, many utilities have been looking to their supply chain operations to help reduce overall operating cost. Emily understands the balance between maintaining reliability and investing in infrastructure with the need to achieve cost savings. She has also recently participated in successfully preparing utilities for management audits.

Key Areas of Experience:

- **Sourcing Program Leadership:** Developed and implemented Strategic Sourcing programs at multiple clients, ranging from large utilities to Fortune 500 basic materials companies including DuPont, FMC Corporation, and Celanese. Activities in these engagements included: conducting a spend visibility exercise, determining sourcing priorities, creating cross-functional category teams, training teams on Strategic Sourcing curriculum and leading teams through each step of the sourcing process. Additional client services included: communicating project progress to client executive sponsors and stakeholders, facilitating supplier management, from supplier discovery to supplier workshops through contract negotiation, and tracking savings achieved.

- **Strategic Sourcing Program at a Northwest utility.** After making extensive organization and cultural changes within the supply chain group, they saved an estimated $9 million in the first two years of the Strategic Sourcing program. Full implementation was projected to result agency wide savings of approximately $20 million.
- **Spend Management and Spend Visibility:** Conducted multiple spend visibility efforts to help utility and Fortune 500 clients quantify how much money they spend externally, with what suppliers, and on what products and services. With multiple ERP systems, business units operating as "silos", discrepancies between ERP, accounts payable and procurement card data, and gaps between capital planning processes and maintenance and repair schedules, an integrated view of procurement requirements is not always easy to achieve. Clients recognize tremendous value in seeing a comprehensive and detailed view of organizational spending and determining how to prioritize projects to reduce spend and increase efficiency.
- **Should Cost Analysis:** Worked with utility clients to validate that they are receiving the most favorable commercial terms in the marketplace for what they are buying. Insightful results are achieved by executing a price tear down of the actual items purchased as well as a comparative look at similar purchases by competitors, utilizing a database of over $300 billion of utility spend.
- **Supplier Due Diligence:** Conducted supplier technical reviews, benchmarking them against their peers and walking their lines with ISO 9000 auditors. Audits identify areas to improve performance and mitigate risk to the buyer. A recent audit of a top tier transformer supplier revealed that outsourced bushing components were experiencing field failures for other clients. Client was able to implement a QA program to terminate this failure risk. Audits have proven to be equally valuable when clients are selecting new suppliers for emerging Smart Grid technologies.
- **Standardization:** Facilitated the implementation of an organization-wide standards strategy to reduce the total cost of ownership in multiple commodity categories. Part of Supplier Due Diligence is conducting a technical specification review that allows executives to have visibility into their system requirements. Often these reviews uncover instances of engineers "gold-plating" a system in an attempt to reduce risk. Through careful review of equipment specifications and a deep understanding of the operational context for the equipment, Rivers Consulting Group can help clients identify ways to cut costs without sacrificing reliability. These analyses, followed by adherence to RCG strategic sourcing practices, helped clients reduce their operating costs by 20-40%.

- **Supplemental Labor Management**: Assisted utility client in establishing a vision for the management of supplemental labor across its organization. Led efforts to analyze supplemental labor contracts, benchmark labor rates, and establish a Supplemental Labor Management Office within existing Supply Chain organization. Staffed function and implemented software-as-a-service solution for managing supplemental labor. Sourced supplemental labor contracts, resulting in over $3M in annual savings. Craft, IT, architectural and engineering supplemental labor service providers and employees are now successfully tracked, ordered, invoiced, and paid through this system.
- **Supply Chain Organizational Design:** Designed and implemented a new Supply Chain organization at multiple western utilities. Led development of management tools to monitor on time delivery to clients, including vendor delivery performance, material availability, and cycle time and other key operating metrics. Streamlined processes, including creating a consistent Supply Chain approach for interacting with internal customers.
- **eSourcing Events:** Involved in over 100 eSourcing events for a wide variety of clients for direct (plastics, stampings, fasteners), indirect (MRO, services), logistics (truckload, rail, ocean freight) and capex (equipment and engineering services) spend categories. Assisted clients in every step of strategic sourcing process, from data collection to award implementation. Developed deep expertise in structuring eSourcing events to maximize savings and meet client's goals. Assisted clients shopping for eCommerce platform for managing suppliers, automating RFP creation, and conducting procurement online.
- **Supplier Research and Management:** Assisted clients in identifying and evaluating suppliers for direct spend categories, including low cost country suppliers. Used supplier workshops to create commodity category expertise and deeply understand marketplace dynamics. Worked across client divisions to standardize "Key Performance Indicators" for measuring supplier performance.
- **Inventory Management:** Helped clients optimize inventory levels, conducting a deep investigation into procurement and asset management strategies. Typically, inventories must be reduced but done so in an orderly manner that ensures critical material will be available as needed. Introduced leading class method for asset recovery that enables clients to maximize return on assets. Helped clients navigate the decision between RFID and bar-coding technology. Set up business case for technology use, supported implementation and tracked outcome.
- **Logistics Assessment and Redesign:** Member of team responsible for analyzing the entire network flow for a Fortune 500 chemical company that had grown through acquisition. This investigation marked the first time the company had holistically reviewed network

flows. Based on this analysis, client began a cross-divisional effort to consolidate warehouses and re-negotiate FTL, LTL, and liquid bulk freight contracts across North America. Personally led cross-functional client commodity team responsible for negotiating all liquid bulk contracts in U.S. and Mexico. In previous engagements, worked alongside global logistics commodity leaders to source marine, truckload, air, and rail movements.

- **Make Buy Analysis:** Assisted clients in conducting a make/buy analysis for a metal stamping line in a Mexican manufacturing facility. After completing the analysis, helped the clients build consensus among various plant-level and corporate-office stakeholders to outsource the line. Assisted the client team in identifying, evaluating and selecting potential suppliers, preparing RFQ documents, and conducting two eSourcing events to complete the project: (1) a reverse auction for the stamping contract and (2) an upward auction to sell the machinery formerly used to manufacture in house.

Professional Experience:

Rivers Consulting Group, Venice California: 2011- current
Supply Chain Consultant

KEMA, Venice, California: 2007- 2010
Senior Consultant

San Juan Partners, San Francisco and Los Angeles, CA 2004-2007
Co-founder, Principal

Ariba (formerly FreeMarkets) Pittsburgh, Pennsylvania, Brussels Belgium 1998-2002
Global Accounts Manager (2000–2002)
Associate Market Maker (1998-2000)

Languages:

	Speaking	***Reading***	***Writing***
English:	Excellent	Excellent	Excellent
Spanish	Good	Good	Good

Professional Affiliations:

- Member of the Smart Grid Interoperability Testing and Certification Committee, 2010
- Member of the Western Energy Institute, 2010

Professional Publications:

"Platt's Supply Chain Conference, Miami, FL, January 2010, Speech and Panel moderation on Storm Restoration Best Practices for Utility Supply Chains. Panelists included John Harper, VP Business Logistics, American Electric Power, Mindy Holden, Strategic Sourcing Manager, Tennessee Valley Authority, David Hess, Manager Purchasing and Logistics, Centerpoint Energy Houston Electric, and Frank Leyritz, CPM, Supplier Development, Process Leader, Puget Sound Energy.

Philip L. Phillips, Jr.

Position:	Consultant
Years of Experience:	40
Education:	Bachelor Engineering Administration (BEA) 1970 University of Delaware, Newark Delaware

Key Qualifications:

Mr. Phillips worked in the Utility industry for over 40 years of utility industry for over 40 years. His experience spans a wide variety of responsible operating and engineering positions. His experience involves such utility areas as Propane Air Plants, a Liquefied Natural Gas Plant; Gate and Regulator Stations, Electric Substations, Gas and Electric Measurement and Billing, Electric and Gas System Operations, Gas Engineering, Damage Prevention, Load Forecasting, System and Supply Planning, Standards and Code Compliance. He has experience in process redesign, consolidation of functions, emergency restoration planning, incident investigation, development and execution, Capital and O&M budgeting, load and energy supply forecasting, cost control and reduction programs, work force and asset management programs, new technology impact assessments and strategic planning and implementation.

Selected Professional Experience:

System Planning and Load Forecasting

- Experience managing gas utility system planning function including day to day new load request analysis, next season, 3 year and 10 year planning studies, peak hour forecasting, as well as reliability contingency planning and highway relocation analysis. Combined load driven infrastructure requirements with asset management parameters and analysis to optimize synergies. Evaluation of operational options to infrastructure investment.
- Experience managing gas utility main and service line renewal and relocation planning process including reliability analysis, prioritization, repair replace analysis, risk analysis, code compliance applicability and impact of new technologies.
- Experience managing gas utility load forecasting process incorporating corporate and external econometric data and analysis, new load applications and trends, analysis of individual large customers and assessment of other external drivers including energy conservation for example.

- Managed a gas utility energy supply planning function including incorporation of load forecasts and system planning options.
- Experience reviewing electric system plans from an operational perspective. Provided recommendations to accelerate future system substation modification thus eliminating several intermediate transmission line and substation expenditures resulting in substantial both capital and O&M savings.
- Responsible for development and implementation of both electric and gas utility normal and emergency operating plans and procedures.
- Participated with state and local public agencies in the development of policies and initiatives with the potential to impact gas and electric utility operations and costs.
- Experienced in evaluating, planning and implementing advanced gas and electric metering technologies.
- Experienced in evaluating, planning and implementing plant additions, construction projects, and performance improvement initiatives.

Program and Project Planning and Management

- Experience planning and managing gas utility O&M programs related to Gas Leak survey, Asset inspection (LNG, valves, gate and regulator stations, casings, SCADA, meters, etc.), leak repair, and damage prevention including policy development, prioritization, backlog management, budgeting, cost management, quality control and benchmarking.
- Experience planning and managing electric utility O&M programs related to metering, substations, and damage prevention, including policy development, prioritization, backlog management, budgeting, cost management, quality control and benchmarking.
- Experience planning and managing capital projects related to infrastructure system replacement, improvement or relocation, new load additions, plant additions and modifications including the associated aspects of planning, estimating, design, engineering, budgeting, scheduling and execution.
- Experience balancing and optimizing the use of contractors including managing bidding specifications, bid award process, contractor management and evaluation and contract administration. Successfully implemented on-line bidding for multiple year units based construction contract.

- Experience presenting testimony at evidentiary hearings before the Delaware Public Service Commission in cases related to the gas utility Manufactured Gas Plant remediation projects.

Workforce Management

- Experience successfully executing both basic and complex gas and electric utility programs and projects. Experience supervising and managing small and large groups of bargaining unit and professional field and shop crews performing high volume O&M tasks such as inspections and calibrations, emergency response, scheduled and unscheduled repairs, construction projects ranging from single service line installations to LNG plant, substation and gate station construction.
- Experienced use of work force related technology such as work force management systems, remote computer aided dispatch, distributed information; hand held route management systems, bar code and GPS enabled tracking and automated time keeping systems.
- Experience using work force metrics in benchmarking, performance target setting, task consolidation, process redesign, and performance coaching.
- Experience establishing position responsibilities using various formal methodologies including "Responsible, Accountable, Consulted, Informed (RACI) diagrams, "Early Start" and individual performance management systems.

Supply Procurement

- Experience managing a gas utility energy supply planning function including incorporation of load forecasts and system planning data.
- Experience managing the day to day execution of a gas utility energy supply procurement process including daily load forecasting, company electronic bulletin board operation, pipeline and transportation customer interface including contract confirmation and hourly gate station flow control and contract balancing.
- Experience presenting testimony before the Delaware Public Service Commission related to Gas Load Forecasting, Gas Supply Planning and Gas System Planning. Additional experience participating in workshops and providing periodic reports related to gas supply contracts and hedging programs.

Capital and O&M Budgeting

- Experience developing Revenue, O&M and Capital budgets from a department level up to and including the gas line of business level for a joint electric gas utility. This experience includes balancing of top-down and bottom-up processes, examination of

prior performance and risk analysis, analysis of safety, reliability and customer service implications, regulatory constraints, and interrelationships between programs.

- Experience in the development and execution of budgeting guidelines, processes, reporting, variance analysis, and ongoing performance forecasting.
- Experience in executing programs and projects within budget and on time.

Professional Experience:

Delmarva Power: 1970 to 2010

Manager Gas Operations and Planning 2008 to 2010
Manager Gas Engineering 1990 to 2008
Superintendent Substation and Meter 1984 to 1990
Supervisor Electric System Operations North 1979 to 1984
Gas Supply Jr. Engineer, Engineer, Project Engineer 1970 to 1979

Professional License:

Registered Professional Engineer, State of Delaware.

Professional Affiliations:

American Society of Civil Engineers

National Society of Professional Engineers

Howard Solganick P.E.

Position:	Project Manager
Years of Experience:	Utility Industry 35; Design and Manufacturing 5
Education:	M. S./1978/Engineering Management (minor Law)/Drexel University, Philadelphia, PA B.S./1971/Mechanical Engineering (minor Economics)/Carnegie Mellon University, Pittsburgh, PA Essentials of Emergency Preparedness—PA AWWA Planning, Zoning and Land Use Courses Rutgers University, PA Governor's Center for Local Government Services Lorman Education Services Arbitration and Mediation Training Courses—American Arbitration Association
Professional Licenses	Professional Engineer – Pennsylvania (active) & New Jersey (inactive) Professional Planner – New Jersey (inactive)

Key Qualifications:

Howard Solganick has been actively engaged in the utility industry for over 35 years. His experience spans consulting engagements, business development and significant utility operating positions. As a Principal at Energy Tactics & Services, Inc. he is responsible for business development, engagement management, and execution. He has led and/or participated in consulting projects to develop, design, optimize and implement both traditional utility operations and e-commerce businesses. Mr. Solganick has structured operating elements and business ventures, negotiated high value medium and long-term contracts, and implemented business systems, operating functions and profit centers. He has assisted new entrants to develop products and services for introduction to the utility and energy marketplace. He has also acted as an expert witness and arbitrator in a number of utility and regulatory areas and has extensive experience in regulatory relations.

Areas of Expertise

- Operating responsibility and expert testimony in utility planning and operations including generation, transmission, distribution and customer service operations, capacity and system planning, and regulatory issues such as rate design and cost of service, revenue decoupling, tariff administration
- Operational reviews and expert testimony for outage management and preparation, customer communications, material and support logistics, restoration effectiveness and associated costs
- Regulatory and media relations and management for high profile situations – transmission line siting and approvals, powerplant siting and certificate of need processes and potential mass outages
- Pre-audit counseling, management audit planning and implementation and post audit tracking and regulatory relations
- Arbitration and mediation for high dollar value energy dispute resolution

Selected Professional Experience:

Management Audits

Management audits provide a window into the business and operations of a utility. Some audits are required by State Commissions or other government agencies, while others are at the request of executive management as a matter of understanding how to improve its business model.

- CT - Connecticut Light & Power Company (2008)
- OR - Northwest Natural Gas (2005)
- OH – Columbia Natural Gas (2008)
- OH – Duke Energy (2008)

Pre-Management Audit Counsel

This value-added work typically consists of audit training sessions, high spot reviews, formulating needed audit policies and procedures, developing audit strategies. Managed pre-management audit engagements with the following companies:

- Atlantic Electric Company (1985) ***Project Manager***
- PA - Philadelphia Gas Works (2000)
- NY - Central Hudson Gas & Electric (2009)

Major Emergency Restoration Planning Comprehensive Audits

- For a major Northwestern combination utility, performed an in-depth review of its restoration activities as a result of a major winter storm event which impacted a significant portion of its customers for over 11 days. The final report offered recommendations to improve the plan and enhance transmission right of way maintenance. Some of the technology enhancements around metering proved to be problematic at the onset of the restoration effort. The report was used in the next rate case.
- For a major mid-Western combination utility performed an in-depth review of its restoration activities as a result of a unique set of summer wind events which caused significant outages to a major portion of their system. Working in conjunction with the Commission Staff and the utility, it was determined that the overall strategy was reasonable but there were a number of tactical improvements necessary. Further, it was determined that ARM solutions were less practical during the onset of the restoration effort, but beneficial during the final stage. Made an oral presentation to the PSC Commissioners. The Commission staff and company executives were appreciative of the presentation.
- For a major Texas utility managed and participated in the comprehensive review of the Company's post Ike hurricane restoration efforts. Ike had caused 98% of the Company's customers to be without power for up to 18 days. Provided testimony supporting the final report that was used as evidence in the Commission approval of $650M in capital expense recovery. In addition the report addressed design and maintenance standards. ***Project Manager***

Emergency Restoration & Response

- As a consultant for a Southwestern electric utility impacted by a major huricane that affected over 90% of the utility's customers, provided expert testimony and a reasonableness opinion to the Public Utilities Commission covering the utility's emergency response plan and restoration operations, which was derived from a full operational audit of the restoration event. ***Project Manager***
- As a consultant for a Northwestern electric utility performed an operational audit of the emergency restoration after a large windstorm that affected 70% of the utility's customers. Covered corporate, internal and external communications; materials management and support services; planning and training; customer service; service contract management; system operations and dispatch; and other operational areas.
- As a consultant for a Midwestern electric utility performed an operational audit of the emergency restoration after three large storms affected most of the utility's customers. Covered corporate, internal and external communications; materials management and support services; planning and training; customer service; service contract management; system operations and dispatch; and other operational areas.

- On special assignment structured and performed distribution operations analyses including an evaluation of emergency operating and response capabilities.
- As an emergency assignment acted as special liason between system operations and customer communications to avert significant customer disruptions due to a potential system failure.
- For an electric utility developed and justified the conversion of emergency operations from a decentralized to a centralized model that funded a company-wide digital communications system entirely from operating savings and efficiency.

Rates & Regulatory

- As a consultant for a New England Public Utilities Commission performed regulatory audits of an electric utility and a focused audit of a new customer service and billing installation. Covered system operations, engineering, capital budgeting, construction management, demand side management programs, marketing and community relations.
- As a consultant for a Midwestern Public Utilities Commission performed regulatory audits related to a filed ratecase for three investor owned gas utilities. Covered load and revenue forecasting, capital budgeting and construction management.
- As a consultant for a Caribbean utility examined the utility's performance and costs and provided expert testimony for a regulatory appeal of the costs and rate recovery for a major hurricane under a performance based ratemaking environment. ***Project Manager***
- As an electric utility's special projects manager created the utility's process for responding to the state's first legislatively mandated management audit. Developed a series of processes to coordinate, track, document, and respond to sensitive issues on an expedited basis. Coordinated the pre-audit process throughout the utility. ***Project Manager***
- For a major electric and gas utility assisted senior and operating management to prepare for a mandated management audit. Provided a confidential assessment of the major focus areas, interview training and other support.
- For a major municipal gas utility assisted senior and operating management to prepare for a mandated management audit. Provided interview training and other support.
- As an operating manager for a Eastern utility obtained regulatory approvals for a 230 kV transmission line and three major substations during a period of high public concern over EMF. ***Project Manager***
- As a utility's operational planner coordinated and had significant impact on load forecasting, demand side management, customer generation and its application to utility operations, utility owned and independent generation, transmission and distribution planning, and customer service performance levels. Consulted and provided expert testimony on these interrelated areas.

- As a consultant to the Comissioners and Staff of the Public Service Commission provided analysis, and support covering cost of service, revenue allocation, rate design, the impact of a revenue decoupling mechanism, and considerations needed when equalizing rate of return between classes and other issues for an electric utility. [Three engagements]
- As a consultant to the Staff of the Public Service Commission of an Eastern state provided analysis, rate case testimony and settlement negotiation support covering cost of service, revenue allocation, rate design, the impact of a revenue decoupling mechanism, and considerations needed when equalizing rate of return between classes and other issues for a gas/electric utility. [Three engagements]
- As a consultant to the People's Counsel of an Eastern state provided analysis, rate case testimony and settlement negotiation support covering cost of service, miscellaneous revenue, the impact on risk of revenue normalization, considerations needed when equalizing rate of return between classes and other issues for a gas utility.
- As a consultant to the Office of Consumer Advocate of an Eastern state provided analysis, rate case testimony and settlement negotiation support covering cost of service, demand analysis, considerations needed when equalizing rate of return between classes and other issues for a water utility.
- As a consultant to the Public Advocate of a New England state analyzed the economic impact and operational aspects of a cast iron gas main replacement program including the development of an economic model and participation in a technical conference proceeding.
- As a consultant to the Attorney General of a Midwestern state provided analysis and testimony addressing the proposed sale of a utility owned cogeneration facility and the long term implications of the sale on customers.
- As a consultant to the Attorney General of a Midwestern state provided analysis and rate case testimony covering cost of service modeling, considerations needed when equalizing rate of return between classes and other issues.
- As regulatory manager for a New Jersey utility was responsible for regulatory liaison and rate design for all customer classes including cost of service and tariff design. Provided expert testimony on rate design, load research, economic impacts, and all PURPA issues. ***Project Manager***
- As a consultant to the Staff of the Public Service Commission of an Eastern state provided analysis and support covering a sales adjustment for price elasticity and the impact of a revenue decoupling mechanism for an electric utility.
- As a consultant to the Attorney General of a Midwestern state provided support in a Commission ordered collaborative addressing cost of service modeling and filing requirements.
- As a utility's project manager led the filing of New Jersey's first Notice of Intent for a Certificate of Need for a combined cycle powerplant. Working with the regulatory

commission, the utility developed its filing as the commission was simultaneously developing its procedures and processes. ***Project Manager***

Operations and Customer Service

- For a million+ customer North American public power company managed (and acted as a subject matter expert) a call center performance review leading to a major consolidation of 28 sites into 4 physical call centers. A follow-on engagement developed the implementation plan covering emergency response issues, human resources, customer care, new infrastructure, and network integration. ***Project Manager***
- As a lead consultant for an Eastern electric utility supported a two year effort to maintain and grow large key commercial and industrial accounts. Allied responsibilities included the development of business models, negotiating positions, operations and support services for field forces, and regulatory support. This project resulted in the long-term retention of a significant majority of the client's top 20 customers for periods of from 5 to 12 years.

Energy Supply

- For four years performed a process review and developed and executed a procurement process for electric supply in a deregulated environment for a residential real estate holding company. ***Project Manager***
- For a commercial real estate management company performed an evaluation of a distributed generation proposal including a site survey, cost benefit analysis and detailed operational and contract review.
- For an independent power producer developed new projects and acquisitions, negotiated power purchase agreements, energy services agreements, fuel supply issues, site leases and analyzed project financial positions. Successfully negotiated one of the first competitively bid power sales agreements with a public power entity and obtained the first IRS private letter ruling for a tax-exempt independent power financing. ***Project Manager***
- As operating manager for a New Jersey utility negotiated over 800 MW of power purchase agreements with an aggregate value of over $9 billion, including developing significant dispatchability provisions. Obtained required regulatory approvals in record time. ***Project Manager***
- As an operating manager for a utility managed PJM Interconnection power purchase (interchange) pricing, performance testing of power plants and contract management of the company's unregulated cogeneration contract with the DuPont Company.
- Working in conjunction with a major energy producer and refiner acted as project manager for a cogeneration facility study for a major refinery, which led to the construction of a 60 MW facility. ***Project Manager***

- For a public power utility consortium examined forward looking marketing and financial plans, confirmed direction with the Board of Directors, assisted senior management to revise its strategic and operational plans and presented a recommendation for the future actions of the enterprise for consideration by the Board of Directors. Specific results included the revitalization of the existing management team, the Board of Directors' adoption of that team's strategic plan with a commitment to move forward and the immediate authorization of bonuses for the management team for its efforts.

Arbitration

- As the sole arbitrator presided over an issue of energy price escalation with a value of over $1,000,000 annually. The arbitration included case management, discovery, depositions, extensive document exchange, six witnesses and a full briefing process. As defined in the parties' initial power purchase agreement, the arbitrator had to render a fully detailed decision in order for the parties to continue their business relationship for the eight years remaining under the agreement.
- As chairman of a panel of three arbitrators was instrumental in the parties resolving a landlord tenant dispute over electrical submetering. The amount in question exceeded $750,000.

Business Planning and Implementation

- For two utility clients acted as project manager and subject matter expert on a joint client-consultant team comprised of 40 people. The engagement included customer management systems, contact (call) centers, new products and services, technology planning, and financial modeling of the venture. This project resulted in the creation of a new business entity for the energy industry. ***Project Manager***
- For an energy conservation company assisted the internal staff in defining their business model, implementing their Internet based marketing and service delivery platform, defining the relationship with key allies, negotiating performance contracts and performing design reviews as needed. Key issues included a timely implementation plan.

Vendor Services

- For the export development agency of a European government developed and presented a symposium on the North American utility industry and means and methods to approach and succeed in the marketplace. ***Project Manager***
- For an Asian utility developed and presented a symposium on the valuation and acquisition of North American generation assets and means and methods to approach and succeed in the marketplace.
- For a high technology transmission and distribution equipment supplier supported an effort to accelerate market acceptance of the product. Analyzed the technology, application and marketing approach. Results included an in-depth analysis of a key stumbling block inhibiting early entry into a key candidate utility. ***Project Manager***

- For a major financial institution acted as project manager and subject matter expert to refine and implement a new inclusive consumer billing medium for energy retailers. The engagement included the definition of the value chain, regulatory impacts, and the development of a marketing strategy and marketing implementation plan. ***Project Manager***
- For a major call center provider acted as the liaison with energy retailers seeking to outsource their call and contact center function. Also established business models, performance standards, fulfillment arrangements, pricing, emergency operating response and contractual arrangements.

Professional Activities:

- Past member of New Jersey Board of Regulatory Commissioners Advisory Council on Electricity Planning and Procurement
- Past member of the Electric Power Research Institute's Planning Methods Committee
- Commercial Arbitrator - American Arbitration Association
- Past President of the Mid Atlantic Independent Power Producers, a trade organization
- Chairman (past) Middletown Township (PA) Planning Commission
- Chairman (past), Egg Harbor Township (NJ) Zoning Board of Adjustment
- Member (past), Raritan Township (NJ) Zoning Board of Adjustment
- Author, Energy Pulse Article – Why Won't You Listen to the Actresses?

Professional Experience:

Energy Tactics & Services, Inc: 1994 to Present
President/Principal

James Martin & Company: 1998 to 1999
Consultant, North American Utilities Practice

AT&T Solutions, Utility and Energy Practice: 1996 to 1998
Managing Consultant, North American Utilities Practice

Cogeneration Partners of America: 1990 to 1994
Vice President Business Development

Atlantic City Electric Company: 1978 to 1990
Manager Contract Capacity
Manager Corporate Planning and Performance
Manager Corporate Performance
Manager Rates Design
Supervisor Production Technical and Economic Services
Senior Engineer

DeLaval Turbine: 1975 to 1978
Senior Engineer

Bickley Furnaces: 1974 to 1975
Senior Engineer

Soabar: 1973
Engineer

Univac: 1971 to 1973
Engineer

Testimony:

Public Service Commission of Delaware
Case - Delmarva Power & Light Company Docket No. 09-414 (February 2010)
Client - Staff of the Delaware Public Service Commission
Scope - Testimony covered cost of service, revenue allocation, rate design and other related issues including revenue stabilization and weather normalization.

Case - Delmarva Power & Light Company Docket No. 09-277T (November 2009)
Client - Staff of the Delaware Public Service Commission
Scope - Testimony covered an analysis of a straight fixed variable rate design for small gas customers and implementation issues.

Case - Delmarva Power & Light Company Docket No. 06-284 (January 2007)
Client - Staff of the Delaware Public Service Commission
Scope - Testimony covered cost of service, revenue allocation, rate design and other related issues including revenue stabilization or normalization.

Georgia Public Service Commission
Case – Atlanta Gas Light Company Docket No. 31647 (August 2010)
Client – Public Interest Advocacy Staff of the Georgia Public Service Commission

Scope - Testimony covered revenue forecast, cost of service, revenue allocation, rate design and other related issues.

Case – Atmos Energy Corporation Docket No. 27163 (July 2008)
Client – Public Interest Advocacy Staff of the Georgia Public Service Commission
Scope - Testimony covered rate design and other related issues.

Jamaica (West Indies) Office of Utility Regulation
Case - Electricity Appeals Tribunal (August 2007)
Client - Jamaica public Service Company, Ltd.
Scope - "Witness Statement" on behalf of the Jamaica Public Service Company Limited. This Statement covered issues relating to recovery of expenses incurred due to Hurricane Ivan.

Maine Public Utilities Commission
Case - Northern Utilities, Accelerated Cast Iron Replacement Program Docket No. 2005-813 (2005)
Client - Public Advocate of the State of Maine
Scope - Testimony covered an analysis of the program's economics and implementation.

Public Service Commission of Maryland
Case - Chesapeake Utilities Corporation Case No. 9062 (August 2006)
Client - Office of the Maryland People's Counsel
Scope - Testimony covered cost of service, rate design and other related issues.

Case - Baltimore Gas & Electric's (1993)
Client - As president of the Mid Atlantic Independent Power Producers
Scope - Testimony covered BG&E's capacity procurement plans.

Michigan Public Service Commission
Case - Consumers Energy Company Case No. U-15245 (November 2007)
Client - Attorney General Michael A. Cox (Don Erickson, Esq.)
Scope - Testimony covered cost of service, rate design and revenue allocation.

Case - Consumers Energy Company Case No. U-15190 (July 2007)
Client - Attorney General Michael A. Cox (Don Erickson, Esq.)
Scope - Testimony covered issues related to Consumers Energy's gas revenue decoupling proposal.

Case - Consumers Energy Company Case No. U-15001 (June 2007)
Client - Attorney General Michael A. Cox (Don Erickson, Esq.)
Scope - Testimony covered issues related to Consumers Energy and the MCV Partnership.

Case - Consumers Energy Company Case No. U-14981 (September 2006)

Client - Attorney General Michael A. Cox (Don Erickson, Esq.)
Scope - Testimony covered issues relating to the sale of Consumers interest in the Midland Cogeneration Venture.

Case - Consumers Energy Company Case No. U-14347 (June 2005)
Client - Attorney General Michael A. Cox (Don Erickson, Esq.)
Scope – Testimony covered cost of service and revenue allocation.

Missouri Public Service Commission
Case – AmerenUE Storm Adequacy Review (July 2008)
Client – KEMA/AmerenUE
Scope – Oral testimony covered KEMA's review of AmerenUE's system major storm restoration efforts.

New Jersey Board of Public Utilities
Case - Cogeneration and Alternate Energy Docket # 8010-687 (1981)
Case - PURPA Rate Design and Lifeline Docket # 8010-687 (1981)
Case - Atlantic Electric Rate Case - Phases I & II Docket # 822-116 (1982)
Case - Power Supply Contract Litigation – Wilmington Thermal Systems Docket # 2755-89 (1989)
Case - NJBPU Atlantic Electric Rate Case - Phase II (1980-81) Docket # 7911-951 (Before the Commissioners of the New Jersey Board of Public Utilities)
Client - Employer was Atlantic City Electric Company.
Scope - The cases listed above covered load forecasting, capacity planning, load research, cost of service, rate design and power procurement.

Public Utilities Commission of Ohio
Case - The Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company Case 07-551-EL-AIR (January 2008)
Client - Ohio Schools Council
Scope - Testimony covers issues related to rate treatment of schools.

Case - The Application of the Columbus Southern Power Company 08-917-EL-SSO and the Ohio Power Company Case 08-918-EL-SSO (October 2008)
Client - Ohio Hospital Association
Scope - Testimony covers issues related to rates for net metering and alternate feed service and related treatment of hospitals.

Pennsylvania Public Utilities Commission
Case - York Water Company Docket No. R-00061322 (July 2006)
Client - Pennsylvania Office of Consumer Advocate
Subject - Testimony covered cost of service, rate design and other related issues, also supported the settlement process.

Case – Pennsylvania- American Water Company Docket No. R-2008-232689 (August 2010)
Client – Municipal Sewer Group
Subject - Testimony covered capacity planning, construction, treatment of future load and associated revenue, cost of service, rate design, capacity fee and other related issues.

Case – Pennsylvania- American Water Company Docket No. R-2008-232689 (August 2008)
Client – Municipal Sewer Group
Subject - Testimony covered cost of service, rate design, capacity fee and other related issues, also supported the settlement process.

Public Utilities Commission of Texas
Case – Determination of Hurricane Restoration Costs Docket No. 36918 (April 2009)
Client – CenterPoint Energy Houston Electric, LLC
Subject – Testimony covered the reasonableness of the client's Hurricane Ike restoration process for an outage covering over two million customers and a restoration period of 18 days.

W. Edward Titus

Profession:	Senior Consultant
Years of Experience:	30+
Education:	Master of Business Administration from the University of Arkansas Bachelor of Science from the University of Arkansas

Key Qualifications:

W. Edward (Ed) Titus has over 30 years experience with electric utility, manufacturing, and distribution companies. He specializes in organization assessments, process audits, and the coordination and integration of business processes improvement. Before launching his consulting practice in 1995, Mr. Titus led performance improvement initiatives from the corporate level as a senior manager for Entergy Arkansas, and for Duquesne Light Co

Selected Professional Experience:

- **Corporate Performance Improvement**: An experienced Industrial Engineer, Mr. Titus has spent most of his career in performance measurement, management, and improvement. He managed performance improvement initiatives for the entire enterprise at Entergy Arkansas and at Duquesne Light.
- **Work Management, Supply Chain, and Logistics**: Mr. Titus has specializes in the integration of maintenance planning, construction planning and materials' planning which is the primary key to improved performance, reduced costs, and greater reliability in Generation, Transmission, and Distribution assets.
- **A few of his accomplishments include:**
  - Performed an enterprise-wide quality management audit for a large Southwestern utility. Audited existing quality management processes to the ISO9001:2008 international quality standard.
  - Evaluated storm restoration response at CenterPoint Energy after hurricane Rita. Reviewed their emergency response plan, reviewed actual response activities and their results, and developed an evaluation report in the areas of Supply Chain and Logistics. The report served as an internal improvement document and as the basis for a report to the Texas PUC.
  - Performed a capability and quality audit of major transmission system equipment manufacturers for Nevada Energy. The audit was presented to the Nevada PUC in support of their selection process for strategic supplier alliances.
  - Developed a work management system for Entergy's transmission construction department. Revised work crew sizing, work assignment, and material acquisition processes.
  - Performed an assessment of work management and supply system processes for a large Midwestern generating company. Designed and implemented improvements in key processes. Performed monthly audits of new processes to assure compliance.

- Organized, designed processes, and implemented a new maintenance planning and scheduling organization at Entergy's Arkansas Nuclear One. This organization received recognition as an INPO Best Practice.

Professional Experience:

KEMA, Burlington, Massachusetts: 2006 to 2010
Senior Principal Consultant

- Performed an enterprise-wide quality management audit for Lower Colorado River Authority (LCRA). Audited existing quality management processes to the ISO9001:2008 international quality standard. Documented observations and gaps between as-is processes and the standard. Developed an overall assessment and made recommendations for improvement.
- Served as full time resource to the Chief Supply Chain Officer at Bonneville Power Administration (BPA) to plan and implement an organization transition project. Duties included planning and implementing organization design, revised policies, redesigned processes, new procedures (in the form of a playbook), and the application of process metrics. The transition involved writing an organization strategy document, creating an employee skills development plan, developing and deploying a change management plan, and designing process interfaces between Supply Chain and its internal and external stakeholders. Redesigned process implementation required reconfiguration of the agency's ERP (PeopleSoft / Passport) with associated procedure revision, re-training, and a rollout plan incorporating sound change management principles.
- Evaluated storm restoration response at CenterPoint Energy after hurricane Rita. Reviewed their emergency response plan, reviewed actual response activities and their results, and developed an evaluation report in the areas of Supply Chain and Logistics. The report served as an internal improvement document and as the basis for a report to the Texas PUC.

W E TITUS Inc., Management Consultants: 1995 to 2006
President

- Completed a Supply Chain assessment for Midwest Generating Company (an Edison International company). The objective was to improve Supply Chain responsiveness to plant maintenance. Developed prioritized list of opportunities for improvement with high-level implementation plans. Lead a team to deploy revised processes across the fleet of plants.
- Facilitated business transition to a new MRPII system for GE Nuclear Energy Division. The effort included developing business process documentation, modifying the system user's guide, training development and training delivery
- Reengineered processes for the Power Production Division of Kansas City Power & Light, which consisted of 4 coal fired electric generating stations. Used Indus EMPAC work management system as an enabler for the redesigned processes. The three teams concentrated on Outage Management (using a central maintenance organization to support 4 plants), Work Planning, and Work Control.
- Conducted Lean Manufacturing workshop (Kaizen Event) for Celanese Chemical Corporation, which reduced cost of logistics in handling and storage of acetate product and transportation from the manufacturing facility to import/export logistics center in Canada.
- Provided implementation support for the distribution modules of J. D. Edwards ERP for Baxter Healthcare Canada, a global pharmaceutical and medical equipment supplier. Worked with the software implementation team to validate the material tracking and accountability functionality of the JDE Distribution and Warehousing modules. Worked with the team to correct discrepancies between the system, FDA and Health Canada regulations.

Specific Clients:

- Bonneville Power Administration
- Midwest Generating Company
- Kansas City Power & Light
- Carolina Power & Light
- PSE&G New Jersey
- Colorado Springs Utilities
- Texas Utilities
- Lower Colorado River Authority
- GE Nuclear Energy
- GE Power Systems
- Celanese Corporation
- Baxter Healthcare Canada
- Sumitomo Electric
- Ashland Specialty Chemical Company

Duquesne Light Company, Pittsburgh, Pennsylvania: 1987 to 1995
Director, Nuclear Procurement

- Managed supply chain functions for a two unit nuclear power station. Responsibilities included purchasing, contract administration, warehousing, receiving quality inspection, and procurement engineering.

Senior Corporate Performance Consultant

- Developed corporate level critical success factors and measures of performance, which were distributed to executives and displayed in boardroom.
- Conducted executive workshops on performance improvement principles and strategies.
- Developed business plan and performance improvement strategies for Major Accounts and Economic Development Departments of Marketing Division.
- Led team to improve customer satisfaction for large records management center.
- Conducted workshops on improving quality of work and customer satisfaction.

Entergy Arkansas, Little Rock, Arkansas: 1977 to 1987
Corporate Manager, Industrial Engineering

- Developed work management system for transmission construction department. Revised work crew sizing, work assignment, and material acquisition processes.
- Organized, designed processes, and implemented power plant maintenance planning and scheduling department at a 2 unit nuclear facility.
- Project manager for design and installation of statewide communications system serving 72 locations. Telephone systems were linked by microwave and fiber optics.
- Developed staffing guidelines for distribution service centers and recommended relocation of personnel to match workload and customer growth patterns.
- Redesigned customer service processes and measures of performance.
- Planned, selected site, and monitored construction of a distribution service center.

Timex Corporation, Little Rock, Arkansas: 1975 to 1977
Manager, Materials

- Managed shipping, receiving, warehousing, and inventory control for a manufacturing facility employing 3,200 persons.

Timex Corporation, Hot Springs, Arkansas: 1972 to 1975
Assistant Manufacturing Manager

- Coordinated manufacturing operations for a manufacturer of Polaroid Cameras employing 1100 employees.

Professional Affiliations:

Senior Member – Institute of Industrial Engineers

Member – Institute of Supply Management

Other Background Information:

Mr. Titus retired from the US Air Force Reserve with the rank of Lieutenant Colonel. He spent his career in the Communications / Computer Systems career field with his last assignment as Staff Communications Officer at Pennsylvania Air National Guard headquarters in Harrisburg, PA. He also served additional duty as Liaison Officer to the Air Force Academy in the Pittsburgh area.