

STATE OF NEW YORK

Public Service Commission

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PSC TO EXAMINE NATIONAL GRID'S MANAGEMENT AND OPERATIONS -Proposals Sought From Independent Consultants for Examination of Utility-

Albany, NY—07/16/08—The New York State Public Service Commission (Commission) today authorized the issuance of a Request for Proposal (RFP) for an independent third-party consultant to conduct a comprehensive management and operations audit of Niagara Mohawk Power Corporation d/b/a National Grid's (National Grid) electric business.

“The comprehensive management and operations audit of National Grid will be the second audit in our reinvigorated management audit program of the State's largest gas and electric utilities,” said Commission Chairman Garry Brown. “This management and operations audit will be thorough and it will focus on identifying improvements in National Grid's construction program planning processes and operational efficiency.”

The independent third-party consultant to conduct the comprehensive management and operations audit will be selected by the Commission and report to and be under the direction of Staff of the Department of Public Service.

The examination process will emphasize an assessment of National Grid's effectiveness in meeting its mission, goal and objectives, particularly with respect to performance goals and will identify any opportunities for improvement. Included within the audit scope will be an examination of several critically important elements of the company's construction program and planning process related to day-to-day and long-term operational efficiencies and other performance goals; these elements and some examples of scope details are shown below:

- **Corporate Mission, Goals, Objectives and Planning:** This element centers on understanding the roles and responsibilities of the corporation's leadership (including boards of directors) in providing coherent and measureable goals and objectives, setting priorities, allocating resources, and evaluating the performance of its electric business in terms of its construction program planning process and operational efficiency.
- **Load Forecasting:** This element focuses on understanding the models, assumptions, key drivers, and other inputs used to forecast local and system-wide load requirements. The review will examine inputs, including demand side management, energy efficiency and other initiatives that are factored into the forecasting process. The audit will also include an understanding of how the planning for electric load is integrated into National Grid's overall business strategy, including the policies and procedures that guide the forecast development. The audit will also evaluate the effectiveness of the models.
- **Supply Procurement:** The consultant will examine National Grid's supply portfolio principles, goals and objectives, including risk management strategies and practices. The audit will include supply procurement strategies, policies and practices, including financial and physical hedging arrangements. The consultant will look at performance benchmarking with other utilities, and portfolio oversight and controls, among other issues.
- **System Planning:** This element will focus on understanding the system planning parameters for maintaining, repairing, replacing or expanding the electric system. The audit will examine the priorities, guidance and other instructions for evaluations, tradeoffs and decision making. The consultant will examine the development of electric system forecasts, and how that is coordinated with demand response initiatives and energy efficiency.
- **Capital and O&M Budgeting:** This element focuses on understanding the roles and responsibilities of all involved in the capital and operations and maintenance (O&M) budgeting process, including the Board of Directors, executive officers and other managers. This will include an evaluation of the processes for initiating, approving, authorizing, and revising the budgets.
- **Program and Project Planning and Management:** This element focuses on understanding the conversion and flow of authorized capital and O&M spending into specific programs and projects. This includes a review of programs and project planning, estimating, engineering, design, costing, scheduling, and execution. The consultant will examine how decisions are made for using contractor labor versus the in-house workforce. The audit will include a review of quality assurance and quality control at the program and project level, as well as a review of the methodology for tracking costs and work units for specific programs and projects. It also includes a review of how materials and transportation support are managed within the context of program and project management.

- **Work Management:** This element focuses on understanding the systems and processes used to manage and evaluate the performance of National Grid's day-to-day work (conducted by both in-house employees and contractors). It includes a review of the policies and procedures for planning, scheduling, supervision, quality assurance and quality control, cost control and evaluating and improving performance.
- **Performance and Results Management:** This element focuses on understanding how National Grid's performance (reliability, productivity, etc.) is evaluated by its corporate leadership (including the Board of Directors) and translates into revised goals and objectives to enable National Grid to improve its processes, redirect resources, and change priorities. As part of this scope area, the consultant will look at benchmarking for identifying and developing performance targets; change management and continuous improvement processes; and compensation and performance metrics.

A final report of the consultant's findings and recommendations is expected in the fourth quarter of 2009. Staff will review the final report, report the results to the Commission, and recommend an implementation process.

The RFP, when issued, will be available on the Commission's www.dps.state.ny.us Web site by accessing the File Room. Many libraries offer free Internet access. Commission decisions can also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).