

STATE OF NEW YORK

Public Service Commission

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14060/13-G-0009

PSC COMPLETES AUDIT OF NATIONAL GRID GAS COMPANIES

— Audit Details Changes to Improve Future Performance —

Albany, NY—10/02/14—The New York State Public Service Commission (Commission) today finalized its comprehensive management and operations audit of National Grid USA’s three natural gas companies with the release of the final audit report. The approach of the audit was to examine existing functions, processes, systems, and organizations, as well as past performance, for the purpose of defining prospective changes that will improve future performance. The audit is part of the Commission’s vigorous management audit program of the state’s largest electric and gas utilities, as well as requirements set forth in Governor Andrew M. Cuomo’s 2013-2014 Budget that strengthened the Commission’s regulatory oversight of utilities.

“The audit’s primary goal was to identify opportunities to improve National Grid’s New York gas companies’ construction program planning processes and operational efficiency,” said Commission Chair Audrey Zibelman. “This forward-looking approach was intended to identify areas of operations where the companies’ were under-performing and to point the way for the New York gas companies to move forward, consistent with their responsibility to provide safe, adequate, and reliable service.”

The audit covered three National Grid gas subsidiary companies in New York: Niagara Mohawk, Brooklyn Union Gas, and KeySpan Gas East. The gas companies are regulated transmission and distribution utilities serving approximately 1.9 million natural gas customers in three defined service territories that include parts or all of 19 New York counties. The final report contains 31

recommendations designed to improve the efficiency, accountability and effectiveness of National Grid in general and the gas companies in particular, including:

- Reconstituting the boards of directors of National Grid USA and the gas companies in New York to include at least one independent director on each company's board to provide more objective oversight.
- Establishing direct reporting authority between the New York jurisdictional president and operational organizations.
- Preparing a true strategic plan for the company's New York operations to serve as a road map for investments, programs and operations in the State. The plan should build upon the state energy plan and incorporate State energy initiatives.
- Developing an integrated natural gas system-wide plan that includes all reliability work, mandated replacements, growth projects and system planning work over a five-year period.
- Enhancing intercompany service agreements to better emulate arms-length commercial contracts and promote accountability for performance and costs.

With the release of the final audit report, pursuant to statute, National Grid's gas companies must file an audit implementation plan within 30 days. Implementation plans should include an overall characterization of the relative priorities for each of the recommendations, implementation action steps, schedules with specific interim milestones, risk/cost/benefit analyses, and the designation of executive officer accountable for carrying out the implementation plan.

Throughout the report, extensive findings and references are made to the challenges National Grid encountered in the rollout of its finance/accounting and human resource-information technology system, known as SAP. The auditor found that National Grid's SAP implementation was flawed. The company's efforts to remediate and stabilize the software system have been extensive and costly, the costs for which the company shareholders will pay.

For instance, the original cost of the software system was expected to be \$384 million; however, due to problems that occurred, the costs ballooned and are expected to reach \$945 million among all of National Grid's U.S. companies. National Grid's parent company, National Grid plc, accepted responsibility and agrees to absorb amounts related in excess of the costs approved by

the Commission in rate cases. Nonetheless, the final audit report recommends National Grid fully document the costs related to stabilizing the software system so ratepayers are protected from inappropriately excessive costs.

The final audit report may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Number 13-G-0009 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.