

STATE OF NEW YORK

Public Service Commission

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PSC MOVES AHEAD WITH NATIONAL GRID AFFILIATE AUDIT — Top-Ranked Consultant Selected to Conduct In-Depth Management Audit of Utility —

Albany, NY—2/17/11—The New York State Public Service Commission (Commission) today selected a nationally recognized management consulting firm to perform a management audit of National Grid’s affiliate cost allocations, policies and procedures.

“Our action is an essential component of the investigation process that we began in September,” said Chairman Garry Brown. “This thorough and complete investigation and review is designed to ensure National Grid customers will not pay for costs deemed inappropriate and it will set the stage for possible future rate recovery for those customers.”

On November 18, 2010, the Commission authorized the issuance of a Request for Proposal (RFP) for an independent third-party consultant to conduct an audit of the affiliate cost allocations, policies and procedures of National Grid USA as they apply to New York utilities (Niagara Mohawk Power Corporation, Brooklyn Union Gas Company, d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation, d/b/a KeySpan Energy Delivery Long Island) and specifically those with the following National Grid USA service companies: National Grid USA Service Company, Inc.; National Grid Corporate Services, LLC; National Grid Utilities Services, LLC; and National Grid Engineering and Survey, Inc.

Six management consulting firms submitted proposals to be considered. These proposals were reviewed on the basis of: (1) qualifications and past experience of personnel to be assigned; (2) firm’s expertise and/or experience; (3) presentation of approach, methods, evaluative criteria, project objectives and project management; (4) consultant’s demonstrated understanding of the Commission’s objectives, scope, issues and clarity of proposal; and (5) cost.

Upon review and evaluation, Overland Consulting of Kansas was selected as the top-ranked consultant to conduct the first phase of a potential two-part investigation into accounting practices at National Grid. Although the utility will pay for the audit, the management consulting firm will report directly to Commission staff. The total potential cost of the audit is approximately \$1.76 million, depending on the extent of the audit.

There were two primary reasons for the Commission's desire to conduct a management audit of National Grid's service company affiliates. First, an earlier PSC-mandated audit of National Grid's electric business determined that the company had no effective means of managing and controlling the level and costs of services provided by its service companies. Subsequently, in the National Grid recently concluded electric rate case, Department of Public Service staff presented testimony detailing alleged internal control deficiencies, misallocation of costs and questionable transactions included in service company charges to the New York company. These inaccurate cost allocations were reflected in the rates that the company had proposed, and, if no other adjustment had been made, would have been reflected in the 2011 revenue requirement.

Instead of simply putting the costs into the rates customers would pay, the Commission seeks to determine if any service company transactions have resulted or, if not corrected, would result in unreasonable costs for the provision of delivery service. The examination will cover these issues and, if necessary, provide the Commission with an independent report, evidence and testimony to be considered.

If potentially material levels of misallocated or inappropriate service company costs are discovered then, at the direction of the Department, the investigation will be expanded and the consultant will determine whether and the extent to which, if in the past a material amount of misallocated or inappropriate costs under these service company contracts have been charged to the New York utilities. Earlier this year the Commission made \$50 million of National Grid's approved rates temporary subject to the results of this audit of service company expenses.

The Commission's decision today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.state.ny.us and entering Case Number 10-M-0451 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).