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John B. Rhodes, Chair

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Commission Commences Audit of National Fuel Gas, Wraps Up Audit of NYSEG and RG&E

— PSC Selects Independent Auditor to Conduct Detailed Review of National Fuel Gas; Releases Independent Management and Operations Audit of NYSEG and RG&E—

ALBANY — The New York State Public Service Commission (Commission) today selected an independent auditor to perform a comprehensive management and operations audit of National Fuel Gas Distribution Corporation and it released an operations and management audit report of New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E), which is separate from the Commission’s ongoing investigation into NYSEG’s and RG&E’s storm readiness and storm outage response and restoration efforts.

“The auditing of a utility’s management and operations is an essential part of our regulatory oversight,” **said Commission Chair John B. Rhodes**. “These audits are thorough and focus on identifying improvements in the utility’s management and operational efficiencies for the benefit of its customers. Management and operations audits do not typically cover prior storm outage response as those are generally subject to separate Commission investigations.”

These audits are part of the Commission’s vigorous management and operations audit program of the state’s largest investor-owned electric and gas utilities, as well as requirements set forth by Governor Andrew M. Cuomo that strengthened the Commission’s regulatory oversight of utilities. Both of these audits examine functions, processes, systems, and organizations, as well as past performance, for the purpose of defining changes that will improve future performance.

In recent years, the Commission has completed two statewide operations audits of the large investor-owned utilities in New York. The first evaluated the completeness and accuracy of performance metrics reported by New York State’s large investor-owned utilities to the Commission. The second examined New York State’s large investor-owned utilities’ internal and contractor resources to determine whether sufficient staffing levels were maintained, while optimizing efficiency and cost effectiveness.

National Fuel Gas

The Commission today selected an independent auditor to conduct a comprehensive management and operations audit of National Fuel Gas. This audit will examine the company’s gas operations in New York State. The audit will focus on construction program planning and operational efficiency.

The audit is the second management and operations audit specifically of National Fuel Gas in recent years, and the scope has been refined to focus on areas that will provide the highest value to the company and its customers. The scope of the newest audit addresses issues from the previous management audit that require follow-up review, such as strategic planning, project and program management, and work management processes. The scope also includes an assessment of the company's customer operations, and enhancements to, and replacements of information technology systems. National Fuel Gas is a gas utility serving about 530,400 natural gas customers in Western New York.

NYSEG and RG&E

In April 2017, the Commission selected an independent auditor to perform a management and operations audit of NYSEG and RG&E. In November 2018, Overland Consulting submitted its final audit report. Today, the Commission directed the companies to file an implementation plan within 30 days detailing how the companies intend to implement the audit's recommendations.

The auditor found that NYSEG and RG&E were generally well-run, with effective processes in place to maintain their operations. Additionally, Overland found that the companies both have a strong governance structure supporting the Commission's Reforming the Energy Vision (REV) initiatives, although several significant improvement opportunities were identified. This audit is separate and apart from the Commission's investigation into the companies' March 2017 windstorm and 2018 Winter and Spring storms outage response. Because the audit was limited to a review of the companies' systematic processes and procedures in place and given that Overland was aware of staff's contemporaneous storm response investigations, Overland did not assess actual storm restoration performance. Overland did, however, identify several critical improvement opportunities to important functions including outage and emergency planning, resourcing, and event tracking.

In regard to the 2017 storm, based on staff's investigation, NYSEG and RG&E have agreed to fund \$3.9 million in improvements in western New York at no cost to the ratepayers in lieu of facing potential penalties for violating their Commission-approved emergency response plans; and the Commission is still weighing the proposal. Meanwhile, the investigation into the 2018 storm response remains pending.

Today's actions 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 16-M-0610 (NYSEG / RG&E) or 18-G-0394 (National Fuel Gas) in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission documents 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.