

STATE OF NEW YORK

Public Service Commission

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INDEPENDENT AUDIT REPORT OF CENTRAL HUDSON ACCEPTED — PSC Requires Company to File Plan, Implement Audit Recommendations —

Albany, NY—05/19/11—The New York State Public Service Commission (Commission) today accepted an independent audit report of Central Hudson Gas & Electric Corporation’s (Central Hudson) management and operation of its electric, natural gas, and steam services focusing on the company’s construction program planning processes and operational efficiency. The Commission is also requiring Central Hudson to file within 45 days an implementation plan to fully address the findings and recommendations of the management and operations audit report.

The audit report contains 161 findings and conclusions resulting in 20 recommendations. Additionally, the audit consultant worked with the company in a collaborative effort to more fully explore improvement opportunities in the areas of: strategic planning and performance management; supply planning; system planning; project management; and work management.

“Management Audits are but one tool in the regulator’s tool box, but an important one in that it can produce a “win win” for the companies and customers,” said Commission Chairman Garry Brown. “Utilities benefit in gaining better tools to manage their operations in these challenging financial times, and customer benefit by having lower rates and better service.”

The audit report provides a summary of findings and recommendations as to Central Hudson’s: 1) corporate mission, objectives, goals and planning; 2) long-term load forecasting; 3) supply procurement; 4) long-term systems planning; 5) capital and operating and maintenance

budgeting; 6) program and project planning and management; 7) workforce management; and 8) performance and results measurements.

The primary goal of the audit was to identify opportunities to improve Central Hudson's construction program planning processes and operation efficiency. The approach of the audit was to examine existing functions, processes, systems, organizations, and staffing, as well as past performance, for the purpose of defining prospective changes that will improve future performance.

The audit's forward-looking approach is intended to evaluate root causes of problems and to point the way for Central Hudson to move to a more effective level of construction program planning and spending levels, consistent with its responsibility to provide safe, adequate and reliable service.

In general the audit consultant found a company that is justifiably proud of its position as a cost-conscious provider. However, while the company does many things well, its failure to document or codify its practices leaves it vulnerable to "brain drain" as more senior employees retire or leave the company. Further, the failure of the company to adequately measure its progress makes it more difficult to plan improvements and measure the success of any implemented improvement efforts.

The Commission, therefore, directed Central Hudson to develop and file an implementation plan within 45 days of the issuance of its written order that carefully considers the audit report's recommendations. Central Hudson should consult with staff of the Department of Public Service during the development of this Plan.

The Commission's decision, 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 09-M-0764 in the input box labeled "Search for Case/Matter Number." Many libraries offer free Internet access. The Commission's decision may also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).

