

STATE OF NEW YORK

Public Service Commission

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MANAGEMENT AUDIT OF NYSEG, RG&E REVIEWED — Findings Include Series of Recommendations to Improve Operations of Utilities —

Albany, NY—08/16/12—The New York State Public Service Commission (Commission) today, upon acceptance of an independent management audit, ordered Iberdrola, S.A. and its New York affiliates, New York State Electric and Gas Corporation and Rochester Gas and Electric Corporation, to file an implementation plan to address the audit’s findings.

“The auditing of a utility company’s management and processes is an essential tool in our regulatory tool box,” said Chairman Garry Brown. “This management and operations audit has been thorough and focuses on identifying improvements in these utilities’ construction program planning processes and operational efficiencies.”

The Commission directed NYSEG and RG&E to submit a management audit implementation plan on all of management audit recommendations outside of the corporate structure and governance areas, and establishes further procedures on the corporate structure and governance issues. The audit was conducted by Liberty Consulting Group.

The primary goal of the audit was to identify opportunities to improve NYSEG and RG&E's construction program planning processes and operational efficiency. The approach of the audit was to examine existing functions, processes, systems, organizations, and staffing, as well as past performance, for the purposes of defining prospective changes that will improve future performance.

Liberty put forth 75 recommendations. Iberdrola, in its audit implementation plan to be filed within 60 days, will explain whether it will reject or modify recommendations made by the auditor. The company will work with Department staff on the final recommendations. The most notable recommendations made by the independent auditor include the following:

- Suspend indefinitely the provision of services by affiliate Iberdrola Energy Projects, the parent company's construction subsidiary, to the New York utilities.
- Consolidate the gas business under a single executive reporting to the chief operating officer.
- Move to a five-year vegetation management trim cycle on all circuits. Currently, the company does not have a set vegetation management trim-cycle program.
- Evaluate the most cost-effective size of the overall internal work force, taking into account such factors as future planned workload, worker versus contractor efficiency and productivity, and work rules; strive to achieve a balanced and cost-effective workforce level.
- Complete a major overhaul of capital budgeting processes and activities, in order to produce a more structured, realistic, and supported approach to capital budget development and monitoring.

Since Iberdrola filed a reorganization petition in February during the conduct of the Liberty audit, the further procedures would include supplementing the petition to address the corporate structure and governance concerns raised by Liberty and engaging in collaborative discussions with Staff and any other interested parties to fashion appropriate remedies to those concerns.

In the reorganization petition, Iberdrola proposes to create a new holding company, IUSA Networks, Inc., upstream from the New York utilities and place IUSA Networks below the IUSA holding company. That holding company would then own both IUSA Networks and Iberdrola's renewables holding company, which holds ISA's U.S. renewables businesses.

The reorganization petition is the appropriate forum for considering these corporate structure and governance concerns because it is intertwined with, and modifies the basis for, the findings made

by Liberty in these areas. The reorganization petition provides an opportunity to fully analyze the corporate structure and corporate governance concerns and vet them properly.

Iberdrola will be given the opportunity to address corporate structure and governance weaknesses by supplementing its petition seeking approval of an internal reorganization which is currently under consideration, and following that to collaborate with staff and any other interested parties to discuss these matters and address them to the extent possible in that proceeding.

The Commission's decisions today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Numbers 10-M-0551 and 12-M-0066 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).