

**Request for Proposal
for a Management Audit
of Consolidated Edison Company of New York, Inc.
Case 08-M-0152**

I. OVERVIEW

The New York Public Service Commission (the Commission) is seeking an independent consultant to perform a comprehensive management audit of Consolidated Edison Company of New York, Inc. (CECONY). The audit will be performed in accordance with Public Service Law, Section 66(19) which states that the “commission shall have power to provide for management and operations audits of gas corporations and electric corporations. Such audits shall be performed at least once every five years for combination gas and electric companies...” The Public Service Law also states that “the audit shall include, but not be limited to, an investigation of the company’s construction program planning in relation to the needs of its customers for reliable service and an evaluation of the efficiency of the company’s operations.”

The Law further requires that the cost of the audit be paid by the utility, but the consultant will be selected by the Commission. The management audit and the work of the consultant will be managed by Department of Public Service Staff (Staff).

Many previous management audits looked at all major functions that typically appear on a utility’s organization chart, including distribution operations, customer service, human resources, gas supply, and environmental issues, among others. This management audit of CECONY will be comprehensive but will not be performed using the organizational unit (silo) approach. The audit will be both comprehensive and thorough, but will focus on the construction program planning, operational efficiency and performance, including reliability, as required by the Public Service Law.

II. SCOPE

The scope of this audit is based on the framework of a series of elements or functions that are generally sequential in nature that can be viewed as a flow diagram or feedback loop. The elements, although generally sequential, require feedback from one or more of the latter elements to allow for revisions, adjustments and other changes, over both the short and long term. This frame work will begin with the element of “corporate mission, objectives, goals and planning” and end with the element of “performance and results measurement.” The “end” is actually the means by which the flow of the elements is connected to the first element. This feedback typically facilitates the changes and improvements that will then result in better performance.

The management audit should therefore focus on the following elements:

- Corporate mission, objectives, goals and planning

- Long-term load forecasting
- Supply Procurement
- Long-term system planning
- Capital and O&M budgeting
- Program and project planning and management
- Work force management
- Performance and results measurement

The audit should emphasize an assessment of CECONY's effectiveness in meeting its mission, particularly with respect to meeting its performance goals and the extent to which there are opportunities for improvement.

The audit scope will include CECONY's electric, gas and steam businesses. As you prepare your proposal, please be guided by the ratio of these business revenues when proposing how to examine non-common functions, systems or programs. The ratio of CECONY's recent operating revenues for electric, gas and steam is approximately 76%, 17% and 7%, respectively. For example, if these businesses were completely separate and did not share common services, resources or other inputs, then your proposed allocation of consultant hours would reflect or approximate the revenue ratio. We do know that there are common services and, to that extent, you should be able to examine all three businesses without duplicating consultant hours. We emphasize that this is only a guide to serve as technique for allocating consultant hours.

Finally, your proposal should include a discussion of how you will identify, select and assess a representative sample of construction programs and projects that are completed and/or in progress, for the purpose of identifying opportunities to improve performance.

The scope is described specifically, below. The scope elements and their components are the major elements of the construction program feedback loop. Included within each element of the construction program planning feedback loop are components, issues, parameters, and questions. We encourage you to include in your proposal any additional components that are relevant and important.

Additionally, within the context of each element, you should be prepared to address the generic questions and issues, e.g., What is the purpose?, What is the process?, What are the inputs and outputs?, Are there appropriate policies and procedures and how are they implemented?, Who has responsibilities and accountabilities?, Is the process efficient and effective?, Also, you should compare these elements and the components to industry "best practices," appropriate to CECONY's operating environment, based on your past experience.

Corporate Mission, Objectives, Goals and Planning

- Review how Con Edison, Inc. (CEI), the parent, affects budgeting priorities and allocations among the electric, gas and steam businesses.
- Examine CEI budgeting priorities and allocations for CECONY and Orange and Rockland.
- Examine the role of the Boards of Directors and executive and senior management in the development of budgeting guidelines and periodic budget reviews and approvals.

- Examine if or how CECONY's financial position and the level of its rates are factored into the budgeting process.
- Examine how CECONY executive management use measurable goals to achieve the corporate mission and objectives, and how performance process is handled by successive levels of management.
- Evaluate how CECONY ensures compliance with procedures and practices related to the scope of this audit, e.g., internal controls, Internal Audit function and Sarbanes Oxley Act.
- Evaluate how management performance and compensation are aligned with the corporate mission, objectives and goals at all levels within the corporation.

Long-term Load Forecasting

- Assess the models used by CECONY to forecast local and system-wide load requirements.
- How are demand side management (demand response, etc.) and energy efficiency, and other initiatives considered in the forecasting process.
- What types of models, inputs and assumptions does CECONY use to forecast load requirements?
- How are CECONY's forecasting functions organized? Centralized, decentralized?
- How is planning for electric load integrated with gas and steam planning and CECONY's overall business strategy?
- Does CECONY have region-specific planning processes?
- How is forecasted load incorporated into rate cases?
- Consider the New York Independent System Operator's (NYISO) role in the State's electric forecasting.

Supply Procurement

- Identify and evaluate supply portfolio principles, goals and objectives for mass market default customers.
- Identify and evaluate risk management strategies and practices.
- Review supply procurement strategies, policies, processes, and methods.
- What are CECONY's financial and physical hedging practices?
- Examine CECONY use of performance benchmarking with other utilities.
- Review portfolio performance goals.
- Evaluate portfolio oversight and controls
- What is the role of demand management/response, energy efficiency, and migration of retail customers to competitive suppliers in the portfolio and procurement processes?

Long-term System Planning

- Assess infrastructure planning and engineering functions.
- Examine the priorities, guidance and other instructions for evaluations, tradeoffs and decision making.
- Examine the development of forecasts for local area networks and infrastructure requirements.

- How are alternative resources such as distributed generation and demand response initiatives considered in the planning process?
- How are other load and infrastructure factors, such as advanced metering, smart grid, and energy efficiency initiatives considered in the planning process?
- How are the needs developed for major projects (e.g., substations, breakers, switches, transmission feeders, secondary system, etc.)?
- What is the process and criteria for making decisions regarding replace versus repair, including how the overall construction program planning (CPP) process is affected?
- What are the effects on the planning process of: (a) network versus radial systems, (b) underground versus overhead systems, (c) reliability versus new business tradeoffs, and (d) regional (e.g., Bronx/Westchester) versus central planning dynamics?
- To what extent are benefit/cost analyses and risk analysis considered in the decision-making process including whether the level of consideration is appropriate and effective? Include an examination of the specific types of benefit/cost and risk analysis methodology being used.
- How are trade-offs being optimized with respect to the replacement of older technology with newer technology and the resulting impact on the useful lives and depreciation assumptions of the existing infrastructure, cash flow and system reliability?

Capital and O&M Budgeting

- What are the roles of Consolidated Edison, Inc. and CECONY Boards of Directors and executive and senior management? At what point and to what extent do they get involved in the capital and operation and maintenance budgets? What level of detail do the Boards see? What are the Boards responsibilities? What is the relationship between CECONY and O&R regarding budget priorities?
- Evaluate the construction/capital priority setting process.
- How does optimization of repair versus replace decisions impact infrastructure/capital expenditures?
- How is incremental O&M associated with new construction factored into the budgeting process?
- How do allowed revenues/rates and financing opportunities or constraints affect budget levels and priorities?
- Compare planned/budgeting expenditures, rate case proposed expenditures, and actual expenditures.
- Define and evaluate the capital budgeting process, including project authorization, project appropriation, increase/decrease of authorization/appropriation, capital budget status reporting, validation in advance of appropriation, funding control, etc.
- Evaluate CECONY's use of budgeting guidelines, practices and procedures, including "zero-based" and other alternative methods.
- Examine the roles of and relationships between regional and centralized planning and budgeting functions.
- What is CECONY's methodology for prioritizing and determining which capital projects get approved? Include an examination of CECONY's modeling software for capital and operation and maintenance budgeting.
- How are expenditures managed and controlled? What methodologies are used to control and manage total company, program and project capital costs in the near and long term?

What is the annual process for reviewing and determining whether total capital and O&M planned expenditures are adequate? Evaluate cost control systems and processes from both a top-down and bottom-up perspective. Are there sufficient controls in place to ensure that increases and decreases to the construction budget/expenditures are justified and appropriately approved?

- Examine the bottom-up and top-down processes for developing the budgets for capital/construction classifications and categories.
- How are budget forecasts incorporated into rate case revenue requirements?

Program and Project Planning and Management

- How do capital and O&M plans and budgets convert to specific programs and projects?
- How are programs and projects prioritized and approved over various time horizons?
- Define and review program and project planning, design, estimating, engineering, costing, scheduling and execution.
- How are materials, equipment, transportation and other logistical support planned and managed for programs and projects?
- How are tradeoffs analyzed and decisions made in order to optimize the use of in-house workforce versus contractor labor?
- Examine contractor and engineering bidding practices.
- Evaluate how construction contractor projects are planned and managed
- Evaluate quality assurance and quality control at the program and project level.
- Examine contractor management, project/program management, including accountability, goals, objectives, and performance measurement.
- Examine CECONY methodology for tracking costs, work units and work quality for specific programs and projects. What are the typical variances between original budgeted and actual capital expenditures and work units? How does CECONY track and minimize the variances in order to improve the cost control, efficiency/productivity and work quality?

Workforce Management

- Examine how planning and execution of programs and projects are converted into short-term and day-to-day work planning and management.
- Evaluate work management systems that are used to schedule and manage field crews, including transportation, equipment, and materials.
- Review the roles and responsibilities of project managers, supervisors, inspectors, etc.
- How does CECONY manage quality assurance and quality control?
- How does CECONY measure and manage employee availability, utilization, efficiency, productivity and effectiveness?
- How are work program and project schedules managed on a day-to-day basis?
- How does information about rework, failures, repair history, etc. get translated into corrective actions, infrastructure aging analysis, repair versus replace decisions, etc?
- How do workforce and work management systems feed back into performance improvement opportunities?

Performance and Results Measurement

- How does CECONY’s performance (reliability, productivity, etc.) feed back to its corporate mission, objectives and goals so that CECONY can improve its processes, redirect resources, and change priorities? At what point and to what extent are the Boards involved in this feedback loop?
- Are managers held accountable for performance improvements, e.g., cost savings and productivity gains anticipated from specific capital and O&M programs and projects, specific corporate goals, etc..
- Are there impediments that tend to constrain performance improvements and necessary changes?
- Are there additional performance measures or indicators that are needed to facilitate the corporate mission, objectives and goals? For example, in addition to lagging indicators, are there appropriate leading indicators, metrics and measures that will help improve performance?

As part of your proposal, please include resources for workshop-type training for Department of Public Service Staff. We anticipate that we will need as many as five full-day workshops, most likely at the Department offices in Albany, to be scheduled after the audit begins, and these workshops will be distributed over the audit duration. We expect that the number of Staff participants in the workshops will range from five to ten. The workshop subjects will be determined after the audit starts but, for example, one workshop may be focused on optimum (or ‘best’) practices and processes that utilities use to assess operational risks associated with the delivery of the commodity, how risk assessment impacts the long-term corporate construction and O&M decisions, and how budgeting priorities are managed. We are particularly interested in developing in-house Staff skills that will allow the Department to analyze these practices and processes as part of our regulatory oversight responsibilities. Please provide a separate cost estimate for this work.

All of the above items should be considered in the development of your proposal and will also form the foundation of the audit report (with the exception of the workshop training) prepared by the consultant. Your proposal should identify any additional aspects of the process that you believe necessary to provide a thorough evaluation. A final report will be prepared and all finding and recommendations should be thoroughly documented by the consultant. Further, while the planned date for the initial draft is April 2009, we expect the consultant to bring to Staff and the CECONY’s attention any matters of significance in advance of the initial draft report (as they are identified) that would, if adopted, improve CECONY’s construction program planning process.

III. SPECIFIC DELIVERABLES

The consultant will be expected to provide the following key documents:

- 1) Work Plan - The chosen consultant will be expected to confer with Staff during the creation of its initial work plan. The consultant will be responsible for submission of an initial and final draft work plan to Staff. These drafts should outline in additional detail the scope and methods to be employed by the consultant during the

course of the engagement as well as a detailed schedule (including milestones) for the remainder of the review. The consultant may modify the initial draft after giving due consideration to Staff's comments, and must then submit a final draft work plan to Staff for approval. Approval of the work plan by Staff will authorize the consultant to execute the tasks as stated therein.¹

- 2) Briefings - The consultant will provide regular briefings to Staff on the progress of the audit and will identify emerging issues as the audit progresses.
- 3) Draft Reports - The schedule for the initial draft report is April 2009 as set forth in the schedule below. This initial draft report must represent the final work product. Staff will review the initial draft report and provide the consultant with any comments. Thereafter, the consultant will present a revised draft report to Staff. Staff will authorize the consultant to send the revised draft report to the utility for review of factual accuracy. For the final report, the consultant may make modifications to address specific comments as it deems necessary, after consultation with Staff.
- 4) Final Report - A final report by July 2009 to Staff will document the consultant's evaluation of each aspect of the audit scope, as outlined in this RFP and the subsequent approved detailed work plan. All consultant workpapers must be available for Staff's review.

IV. SCHEDULE

The schedule for this project is set forth below. A different schedule may be proposed if the consultant believes that the schedule is not achievable. If a consultant proposes a different schedule, the consultant should provide a rationale. On the other hand, if a consultant believes it can accelerate the schedule, it is encouraged to propose that, and provide a rationale.

<u>Target Date</u>	<u>Task</u>
February 13, 2008	Issue RFP ²
February 27, 2008	Bidders' Conference Call
March 3, 2008	Written Question Submission Deadline
March 7, 2008	Response to Bidder's Questions
March 13, 2008	Consultant Proposals Due
April 14 - 16, 2008	Finalist Interviews
May 2008	Consultant Selected

¹ Payments to consultants are discussed in detail in the Guide; however, bidders should be aware that 10% of the professional fees will be retained throughout the project. In addition, the Department of Public Service will retain an additional 5% of professional fees pending the approval of the detailed workplan. Once the Department approves the workplan, the 5% retained will be released. Further discussion of payments and retentions are discussed in the Guide.

² The RFP will be posted to the Department's web page at <http://www.dps.state.ny.us>.

June 2008	Orientation Meetings
July/August 2008	Draft Workplan Submitted to Staff
August 2008	Workplan Approved by Staff
April 2009	Draft Report Submitted to Staff
May 2009	Revised Draft Report to CECONY - Factual Accuracy
June 2009	Revised Draft Report to Staff/CECONY
July 2009	Final Report to the Department ³

V. BIDDERS' CONFERENCE CALL

A bidders' conference call concerning this RFP will be held at 10 AM EDT on **Wednesday, February 27, 2008**. Firms interested in participating in the bidders' conference call and who plan to submit proposals should contact Henry Leak, III, at (518) 474-2537 or at henry_leak@dps.state.ny.us for the conference call-in number, by close of business on **February 25, 2008**.

VI. PROPOSAL FORM and CONTENT

This RFP is bid in whole. We encourage individual consultants to work with others to form an audit team under the leadership of an experienced project manager and/or firm. However, there must one entity or person that represents the entire consultant team and there must be one person who is authorized to represent the team and sign the contract. Therefore, there will be only one consulting "firm" retained. All firms, employees of firms, and subcontracting firms and individuals that are part of the proposal must be approved by Staff and must comply with all aspects of the RFP, including the conflict/ethics provisions set forth in the *Guide* --Attachment B. The proposal must demonstrate a clear understanding of the objectives and deliverables. It should also illustrate the consultant's approach to meeting the objectives in a timely and comprehensive manner. Proposals should comply with the *Guide*.

VII. PROPOSAL SUBMISSION

Consultants interested in responding to this RFP must submit an original and 9 copies of their proposal. The Department of Public Service must receive all proposals no later than **5:00 PM on Thursday, March 13, 2008**. All materials should be enclosed in a sealed inner envelope and be identified on the outside as "Response to RFP For A Comprehensive Management Audit of Consolidated Edison Company of New York, Inc." Consultants should also submit an electronic version of their proposal on **March 13, 2008** to Henry Leak at henry_leak@dps.state.ny.us. The Department will not accept e-mail submissions or facsimile copies of proposals as a substitute for the hardcopies of the proposal. Further, submission of electronic version or facsimile copy of the proposal will not be considered as sufficient with respect to the bid receipt deadline of 5:00 PM on **Thursday, March 13, 2008** for the hardcopy.

All proposals must be received in our office at:

³ The final report will also be posted to the Department's web page.

Jaclyn A. Brillling
Secretary
New York State Department of Public Service
3 Empire State Plaza
Albany, New York 12223-1350

All proposals should include a cover letter, signed by a responsible person certifying:

- the accuracy of all information in the proposal;
- the bidders' commitment and ability to perform all the work contained in its proposal; and
- compliance with all Request for Proposal requirements.

The cover letter should include the bidders' address, name of a contact person, telephone number, e-mail, address and fax number. In addition, the cover letter should contain a statement that the proposal is a firm offer for a 180-day (or more) period. Staff will acknowledge receipt of each bid by e-mail. Additionally, bidders may submit a self-addressed stamped envelope requesting that Staff verify that their bid was received.

VIII. PROPOSAL EVALUATION

Overview

All proposals will be evaluated by Staff. The Commission desires to select the bidder who will provide the "best value," taking into consideration the most beneficial combination of qualifications, services and cost, and the consistency of the bid with the requirements of this RFP. Only proposals deemed to be responsive to the submission requirements will be evaluated by an Evaluation Team comprised of members of Staff. The criteria against which each proposal will be evaluated are described below.

Evaluation Criteria

The selection process entails two steps. First, initial review of the proposals based on the criteria identified below will be conducted by Staff. Second, based upon this initial evaluation, one or more of the consulting firms will be selected and interviews with the finalists will be scheduled. Similar to the cost of proposal preparation, consultant costs associated with preparation and participation of finalist interviews are the responsibility of the consulting firm, should not be incorporated in the proposal, and are not reimbursable.

The initial evaluations of the proposals will be based on Staff's assessment by using the following criteria:

Criteria 1: Content of Proposal - The proposals will be reviewed by Staff for conformity with the RFP and the *Guide*, and reviewed for substantive content. The ability of the consulting firm to prepare a proposal that is clearly written, concise, yet complete and well organized will be considered a strong indication of the firm's ability to produce a final report of similar quality. The criteria will also include the firm's proposed project management processes. Any proposed reservations or constraints concerning Staff's involvement must appear in the proposal and will be a factor in its evaluation.

Criteria 2: Firm and Individual Consultant Expertise and Experience - In evaluating the proposals, we will consider the experience, ability and expertise of the consulting firm and the experience of the individuals assigned to the project. The proposal should demonstrate the firm's ability to manage the project and present its proposed approach and methods to be used to conduct the evaluation and meet the objectives as outlined in the project scope. The expertise and experience of individuals to their proposed work assignments associated with this audit should be clearly outlined as it will be an important factor in this aspect of the evaluation.

Criteria 3: Cost - The not-to-exceed cost of the consultant's proposal will be analyzed from the prospective of the number of consultant days and the consultant billing rates, as well as administrative, travel and out-of-pocket expenses.

Proposal Price

The consultant shall provide a not-to-exceed cost in which the cost of professional services, professional out-of-pocket expenses, and support services (clerical, secretarial, research, and report preparation services) are separately stated, and the criteria for each defined for billing purposes. The proposal must include the current professional fee (billing) rates for each individual as well as an estimate of out-of-pocket expenses for each individual. The cost for all *draft* reports is to be included in the not-to-exceed cost. However, the cost of printing the *final* report is not to be included in the not-to-exceed cost. If staff determines that the consultant should provide printed copies of the final report, the consultant will be reimbursed for its cost of printing the final report. The individual professional fees and out-of-pocket expenses, along with the costs of support services should be rolled up to the not-to-exceed project cost.

For billing purposes, the professional billing rate should be an all inclusive rate that captures both the professional fee and out-of-pocket expenses for each individual, and which rolls up to the not-to-exceed project cost. The intended method of billing for clerical, secretarial, research, and all report preparation services must be explained in your proposal. An example of the invoice detail that is to be submitted and billed is shown in Exhibit 2-2 of the *Guide*. Staff will audit all invoices and no payment will be made by the utility until authorized by Staff.

Payments made under the contract will be made according to a negotiated schedule of deliverables; however, 15% of the professional fees will be retained until Staff approves the detailed workplan. With the approval of the workplan the incremental 5% of professional fees which were withheld pending approval of the workplan will be released and subsequently 10% of the professional fees will be retained until Staff determines that all deliverables have been provided to Staff. Furthermore, until such time as the consultant has completed its draft report and

delivered it to the Department for its review, no more than 75% of the budgeted professional fees will be paid to the consultant. Proposals should identify key milestones for payment. A more detailed discussion of invoices and consultant payments is included in the *Guide*.