

BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Electric Service

Case 15-E- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
New York State Electric & Gas Corporation  
for Gas Service

Case 15-G- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation  
for Electric Service

Case 15-E- \_\_\_\_

Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
Rochester Gas and Electric Corporation  
for Gas Service

Case 15-G- \_\_\_\_

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**DIRECT TESTIMONY OF  
MANAGEMENT AUDIT PANEL**

**Gary L. Dunkleberger  
Linda C. Saalman  
Joseph J. Syta**

May 20, 2015

**DIRECT TESTIMONY OF MANAGEMENT AUDIT PANEL**

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**I. INTRODUCTION**

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Q. Please state the names of the members on this Management Audit Panel (“Panel”).

A. We are Gary L. Dunkleberger, Linda C. Saalman, and Joseph J. Syta.

Q. Mr. Dunkleberger, please state your title and business address.

A. I am the Manager of Programs/Projects. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My Curriculum Vitae (“CV”) is set forth in Exhibit \_\_ (MAP-1).

Q. Have you previously testified in other proceedings before the New York State Public Service Commission (“PSC” or the “Commission”) or any other state or federal regulatory agency or court?

A. I have testified before the Commission in Case 96-E-0898.

Q. Ms. Saalman, please state your title and business address.

A. I am the Manager, Project Portfolio. My business address is 89 East Avenue, Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. My CV is set forth in Exhibit \_\_ (MAP-1).

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. I have testified before the Commission in several cases, most recently in Case 96-E-0898.

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1 Q. Mr. Syta, please state your title and business address.

2 A. I am the Vice President, Controller and Treasurer. My business address is 89 East  
3 Avenue, Rochester, New York 14649.

4 Q. Please summarize your educational background and work experience.

5 A. My CV is set forth in Exhibit \_\_ (MAP-1).

6 Q. Have you previously testified in other proceedings before the Commission or any  
7 other state or federal regulatory agency or court?

8 A. I have testified before the Commission in numerous cases dating back to 1989.  
9 Most recently, I testified in support of the Companies' last rate filings in Cases  
10 09-E-0717 et al.

11 Q. What is the overall purpose of this Panel's testimony?

12 A. The Panel: 1) provides a factual history and chronology of the comprehensive  
13 management audit conducted for New York State Electric & Gas Corporation  
14 ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E" and, together  
15 with NYSEG, the "Companies") in Case 10-M-0551; 2) provides linkage to other  
16 related proceedings; 3) reviews the current status of all 75 audit  
17 recommendations; 4) addresses costs/savings associated with the implementation  
18 of the audit recommendations; 5) identifies how costs/savings are incorporated  
19 into these rate case filings; and 6) summarizes additional customer benefits  
20 realized as a result of the implementation of various audit recommendations.

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**II. IDENTIFICATION / LIST OF EXHIBITS**

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Q. Is this Panel sponsoring any exhibits?

A. Yes. This Panel is sponsoring the following exhibits:

- 1) Exhibit \_\_ (MAP-1) provides the CVs of the witnesses testifying on this Panel;
- 2) Exhibit \_\_ (MAP-2) provides the Companies’ Management Audit Recommendation Estimated Savings Table; and
- 3) Exhibit \_\_ (MAP-3) provides the Companies’ Management Audit Recommendation Status Table.

In addition, the Panel’s testimony refers to the following documents which were filed with the PSC and are publicly available on the PSC’s Document and Matter Management System:

- 1) The Liberty Audit Final Report dated June 4, 2012 (“Liberty Final Audit Report”) filed in Case 10-M-0551;
- 2) The Companies’ Comments on Final Audit Report dated June 18, 2012 (the “June 18, 2012 Comments”);
- 3) The PSC’s August 28, 2012 Order Directing the Submission of a Management Audit Implementation Plan and Establishing Further Procedures on Corporate Structure and Governance Issues in Case 10-M-0551 and Case 12-M-0066 (Approval for an Internal Reorganization);
- 4) The Companies’ initial Implementation Plan dated October 29, 2012 (“Implementation Plan”);

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- 1           5) The PSC’s November 5, 2013 Order Adopting Staff Report and Approving  
2           Reorganization, Subject to Conditions as Modified and Clarified, and Making  
3           Findings on Management Audit Compliance in Cases 10-M-0551 et al.  
4           (“Reorganization Order”);
- 5           6) The Companies’ Implementation Plan Supplement dated January 6, 2014;  
6           7) The Companies’ Implementation Plan Update dated June 30, 2014;  
7           8) The Companies’ Implementation Plan Update dated February 27, 2015; and  
8           9) The Iberdrola USA Networks, Inc. Staffing Levels Update dated December  
9           23, 2014.

10                   **III.   FACTUAL HISTORY AND CHRONOLOGY**

- 11   Q.   Please summarize the activities that initiated the management audit.
- 12   A.   On December 10, 2010, the Commission issued a Request for Proposals (“RFP”)  
13       for an independent third-party consultant to perform a comprehensive  
14       management audit of Iberdrola USA, Inc. and its New York operating utilities,  
15       NYSEG and RG&E. On March 17, 2011, the Commission approved the selection  
16       of Liberty Consulting Group (“Liberty”) to conduct a management audit of the  
17       Companies.
- 18   Q.   Please describe the data gathering and interview process that was utilized by  
19       Liberty.
- 20   A.   During the remainder of 2011, Liberty issued nearly 1,200 document requests and  
21       conducted over 275 interviews of key personnel in New York, Maine and Spain.
- 22   Q.   Did the audit include a proposed Cost Benefit Analysis (“CBA”) process?

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1 A. Yes. For the first time in a New York utility management audit, a formal CBA  
2 process was introduced and conducted by Liberty, with Company and the New  
3 York State Department of Public Service Staff (“Staff”) participation, in January  
4 2012. In the Companies’ June 18, 2012 Comments, the Companies credited the  
5 Commission’s CBA process for making the audit more productive. The  
6 Companies noted, however, that a number of recommendations only appeared in  
7 summary format at the end of the process and, therefore, were not afforded the  
8 full benefit of the CBA process.

9 Q. Please describe the key points included in the Companies’ June 18, 2012  
10 Comments.

11 A. In those comments, the Companies emphasized that the Liberty Final Audit  
12 Report’s presentation of potential savings was confusing and methodologically  
13 incorrect. Accordingly, the Companies prepared a revised analysis using  
14 Liberty’s underlying numbers, correcting the methodological errors and  
15 presenting the information in a more user-friendly format. The Companies  
16 provided the results of the revised analysis in Attachment 1 of the Companies’  
17 comments. The Companies’ analysis demonstrated that Liberty’s estimated  
18 overall net Year One savings to customers of \$5 million dollars evaporate when  
19 the Companies’ rejection of Liberty’s three energy supply recommendations is  
20 factored into the analysis. Furthermore, very few of the Liberty recommendations  
21 had quantified savings estimates, whereas many Liberty recommendations  
22 identified one-time and recurring annual incremental costs.

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1 Q. Did the Commission require the Companies to create and file an Implementation  
2 Plan in Case 10-M-0551 addressing all of the Final Audit Report's  
3 recommendations?

4 A. Yes. The Commission ordered the Companies to create and file an  
5 Implementation Plan in Case 10-M-0551 for certain recommendations and  
6 directed that the remaining recommendations related to corporate structure and  
7 governance be addressed in other proceedings.

8 Q. Did the Companies file such an Implementation Plan?

9 A. Yes. The Companies filed the Initial Implementation Plan for 62  
10 recommendations on October 29, 2012 (13 recommendations were moved out of  
11 Case 10-M-0551 to Case 12-M-0066).

12 Q. Did the Companies modify or reject any of the recommendations as part of their  
13 Implementation Plan?

14 A. The Order acknowledged the need for flexibility in addressing the audit  
15 recommendations and provided the Companies with an opportunity to propose  
16 alternative approaches to specific audit recommendations that: 1) more  
17 effectively addressed the root causes of the relevant problems and findings; 2)  
18 produced a favorable risk/cost/benefit result; 3) were more technically feasible; or  
19 4) were more desirable based on other compelling analyses. The Companies  
20 proposed to implement 44 recommendations without material modifications. The  
21 Companies indicated they planned to implement 15 of the remaining  
22 recommendations with modifications. In some cases, these modifications



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1 involved conducting a more in-depth study before making a final decision  
2 concerning the business changes Liberty recommended. Other modifications to  
3 Liberty’s recommendations were designed to reduce the cost of implementation,  
4 strengthen benefits, manage risks, or shift work from one recommendation project  
5 to another to facilitate effective completion. Finally, the Companies proposed to  
6 reject three energy supply recommendations as inappropriate, contrary to current  
7 Commission directives, and unlikely to be effective at this time.

**IV. OTHER RELATED PROCEEDINGS**

8  
9 Q. Please describe generally the recommendations that were transferred to other  
10 proceedings.

11 A. Page 3 of the Companies’ Implementation Plan includes a table listing the 13  
12 recommendations that were moved out of Case 10-M-0551 and into  
13 Case 12-M-0066.

14 Q. Were any of these recommendations subsequently moved out of Case  
15 12-M-0066?

16 A. Yes. As directed in the Reorganization Order, one of these 13 recommendations  
17 (2.1: Examine use of IEP (Iberdrola Energy Projects)) subsequently was moved  
18 to Case 13-M-0483 (Provision of Services by Iberdrola Energy Projects, Inc. to  
19 Public Utility Company Affiliates), which was initiated on November 5, 2013.  
20 Based on the Reorganization Order, 11 of the 13 initially-moved  
21 recommendations were re-integrated into Case 10-M-0551.

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1 Q. Please elaborate further on the two recommendations that were not re-integrated  
2 into Case 10-M-0551.

3 A. The first of these is Recommendation 2.1: Examine use of IEP (Iberdrola Energy  
4 Projects). This recommendation was moved to Case 13-M-0483.

5 Q. What is the current status of Case 13-M-0483?

6 A. Beginning in December 2014, and continuing through the first half of 2015, 46  
7 professionals from IEP became, or will become, employees of NYSEG and  
8 RG&E. This will increase the internal employee staffing at NYSEG and RG&E,  
9 which is consistent with the proceeding in Case 13-M-0483 and with  
10 Recommendation 2.1 in the management audit. The Iberdrola USA Networks,  
11 Inc. Staffing Levels Update filed with the Commission on December 23, 2014  
12 described this change and respectfully requested that Case 13-M-0483 be closed.

13 Q. Do the staffing changes regarding these 46 professionals that are now employees  
14 at the Companies impact any other recommendations included in the management  
15 audit?

16 A. Yes, these changes will have an impact on the estimated savings associated with  
17 the Companies' implementation of Recommendation 11.1. The estimated savings  
18 have been included in the Management Audit Recommendation Estimated  
19 Savings Table, attached as Exhibit \_\_ (MAP-2). The updated information has  
20 also been provided to Liberty for its review as part of Case 13-M-0449 (Focused  
21 Operations Audit of the Internal Staffing Levels and the Use of Contractors for  
22 Selected Core Utility Functions at Major New York Energy Utilities).

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1 Q. Please describe the second recommendation that was not re-integrated into Case  
2 10-M-0551, and which the Companies have indicated is complete from a  
3 management audit perspective because it is being addressed in another  
4 proceeding.

5 A. The second recommendation is Recommendation 2.2: Improve integration of the  
6 gas business. This recommendation remained in Case 12-M-0066.

7 Q. What is the current status of the issues associated with Recommendation 2.2 in  
8 Case 12-M-0066?

9 A. In the Reorganization Order approving the Companies' reorganization petition, a  
10 number of conditions were identified, several of which were associated with  
11 issues raised in Recommendation 2.2. With the Companies agreeing to comply  
12 with the conditions outlined in the Reorganization Order, the issues related to  
13 Recommendation 2.2 have been addressed.

14 Q. What is the current disposition of these 13 recommendations in total from the  
15 perspective of the management audit?

16 A. The Companies re-integrated these project plans into Case 10-M-0551 through an  
17 Implementation Plan Supplement filed on January 6, 2014, consistent with the  
18 Reorganization Order. The Companies' Implementation Plan Updates are filed  
19 every four months. All 75 recommendations have been included in these updates  
20 since June 30, 2014.

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1     **V.     STATUS OF THE 75 MANAGEMENT AUDIT RECOMMENDATIONS**

2     Q.     Please briefly summarize the current status of the 75 management audit  
3            recommendations.

4     A.     The status of each of the management audit recommendations is included in  
5            Exhibit \_\_ (MAP-3), the Companies’ Management Audit Recommendation Status  
6            Table (“Status Table”). The Companies reported in the Status Table that they had  
7            completed all planned work on the recommendations as of June 2014. Staff has  
8            completed its review and has accepted and closed 61 of the 75 recommendations  
9            as of May 8, 2015. The Status Table indicates the date that each recommendation  
10           was reported as being completed by the Companies and whether the  
11           recommendation has been accepted and closed by Staff or if it is still under Staff  
12           review.

13    Q.     Please elaborate on the three Liberty Audit supply-related recommendations  
14            rejected by the Companies.

15    A.     Throughout the CBA process and in the Companies’ June 18, 2012 Comments,  
16            the Companies expressed concern with the following three electric energy supply  
17            recommendations, each of which the Companies have since rejected as  
18            inappropriate, contrary to current Commission directives and unlikely to be  
19            effective at this time:

20            10) Recommendation 8.1: Analyze optimum electric portfolio;

21            11) Recommendation 8.2: Issue electric energy RFPs; and

22            12) Recommendation 8.3: Issue electric capacity RFPs.

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1 The explanation of the Companies' rejection of these three recommendations is  
2 contained in their Implementation Plan Update dated February 27, 2015.

3 Q. Has there been any feedback from Staff or discussions regarding these three  
4 recommendations or the Companies' rejection of them?

5 A. The Companies shared with Staff their intended rejection of these  
6 recommendations as part of the October 5, 2012 meeting between the Companies  
7 and Staff prior to the filing of the Companies' initial Implementation Plan. The  
8 Companies and Staff further discussed these rejected recommendations during the  
9 September 19, 2013 management audit update meeting. Additional discussions  
10 between the Companies and Staff occurred during the Fall of 2014. The  
11 Companies received electronic confirmation from Staff indicating that as of  
12 February 20, 2015, Staff considers these three recommendations closed.

13 Q. Are the Companies still actively working on any of the 75 recommendations?

14 A. No. The Companies have completed all planned work on the recommendations.  
15 However, the Companies continue to work closely with Staff by responding to  
16 questions and data requests to address any Staff concerns regarding the work  
17 completed in an effort to achieve Staff acceptance and closure of all  
18 recommendation projects. To date, the Companies have responded to over 100  
19 data requests regarding the Companies' implementation efforts on the 75  
20 recommendations.

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**VI. COSTS / SAVINGS**

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Q. Now that the Companies have completed all planned work on all of the recommendations, excluding the three the Companies rejected, are the Companies in a better position to estimate the costs and savings of the Liberty Audit recommendations?

A. Yes, given the work completed on these projects, the Companies are in a far better position to determine if there are quantifiable savings associated with each project and, if so, to estimate the savings. The Companies recently reviewed the list of completed projects to update and finalize the estimated savings and to remove as many “TBD” assessments as practical. The projects that have quantified estimated savings associated with them are listed in Exhibit \_\_ (MAP-2). Additionally, the Companies were able to find ways to systematically reduce the implementation costs estimated by Liberty. Once the three rejected recommendations are removed from consideration, the overall cost to implement the remaining 72 projects initially appeared to exceed the estimated savings based on Liberty’s estimate of the cost to implement. The implementation cost reductions identified by the Companies have ensured that the audit savings exceeded the audit costs overall.

Q. Please explain why the estimated savings of most of the projects are described in the Companies’ June 30, 2014 Implementation Plan Update as “not quantifiable.”

A. Some projects with the “not quantifiable” label result from a situation where the cost savings produced are diffuse and relatively intangible. This means that it is

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1 impossible or impractical to identify specific costs that will be reduced by a  
2 specific amount due to the project. For some other projects with this label, the  
3 savings from these projects cannot be practically or reliably separated from the  
4 savings produced by other projects or other initiatives underway at the  
5 Companies.

6 Q. Why were projects carried out in cases where the savings were projected to be  
7 “none”?

8 A. These projects provided non-savings benefits or implemented good management  
9 practices.

10 Q. Please describe the estimated savings/benefits for those projects included in  
11 Exhibit \_\_ (MAP-2).

12 A. The savings for the projects listed in Exhibit \_\_ (MAP-2) reflect, for the most  
13 part, more efficient capital project spending, whether the savings are associated  
14 with resourcing decisions (interval versus external) as in projects 11.1 and 12.2,  
15 or through implementation of productivity/efficiency tools that enable more  
16 capital work to be accomplished with the same number of resources as in project  
17 11.2. There are also savings/efficiencies that resulted in essentially pass-thru  
18 savings, such as reducing administrative costs for various energy efficiency  
19 System Benefits Charge programs, which enables more funds to be available to  
20 customers, as in project 11.9, or in improved gas forecasting resulting in reduced  
21 supply costs, as in project 9.4. The projects identified in Exhibit \_\_ (MAP-2)  
22 taken as a whole across NYSEG Electric and Gas, and RG&E Electric and Gas

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1 represent capital and pass-thru efficiency savings in excess of \$8 million over a  
2 five-year period starting with the Rate Year (i.e., the 12 months ending March 31,  
3 2017).

4 Q. Are there additional projects with non-quantifiable savings that nonetheless  
5 represented significant improvements, incorporation of best practices or resulted  
6 in general benefits to customers?

7 A. Yes. Customers have benefitted from the projects that the Companies have  
8 implemented as part of this audit in a number of areas that are not possible to  
9 assess solely from a cost savings perspective. These include increased emphasis  
10 on good governance practices, enhanced communications and coordination within  
11 the Companies, increased standardization, more structured and defined quality  
12 management procedures and improved tools that can be used by the Companies  
13 for reporting and analysis. The management audit also allowed the Companies to  
14 focus on a number of specific issues and opportunities for improved processes and  
15 incorporation of best practices. Among these issues are recommendations that  
16 enabled the Companies to enhance capital budgeting and planning processes,  
17 including improved project prioritization and selection methodologies and the  
18 creation of a new ten-year lookout. Numerous work management improvements  
19 have also been incorporated as a result of a number of the recommendations that  
20 led to the implementation of a Quality Management System based on ISO 9001  
21 criteria, improved project management through the establishment of a Project  
22 Management Office to provide better procedures and more effective monitoring



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1 of projects (including the use of a new Earned Value Management dashboard),  
2 and the creation of key performance indicators and input-based/leading  
3 performance indicators.

4 The Companies have also increased their focus on strategic planning and  
5 created a Gas Strategic Planning Committee to improve overall coordination and  
6 planning in the gas areas of the Companies. The Companies also conducted a  
7 thorough analysis of vegetation management issues.

8 **VII. COST SAVINGS ARE INCLUDED IN THE RATE CASE FILING**

9 Q. Are the specifically identified estimated cost savings associated with the  
10 management audit in Exhibit \_\_ (MAP-2) included in the Companies' rate case  
11 filing?

12 A. Yes. The Companies have identified an estimated Rate Year savings for these  
13 projects of approximately \$2 million and estimated a five-year savings for these  
14 projects of approximately \$8 million over the five-year period. Of that \$8  
15 million, approximately \$6.5 million is savings attributable to capital expenditure  
16 efficiencies.

17 Q. Would the Panel further address how savings for the projects listed as "Not  
18 Quantifiable" are addressed in the rate filing?

19 A. Yes. The Companies have included in this rate filing a 1% general productivity  
20 component. The implemented projects that were assessed as having non-  
21 quantifiable savings contribute to the to-be-achieved productivity savings.

22 Q. Are there any management audit recommendations that Staff has indicated to the

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1 Companies that need to be addressed in this current rate case filing in order for  
2 Staff to accept them as completed?

3 A. Yes. Staff has indicated that the Companies need to address three of the  
4 recommendations in this rate case filing. These are:

- 5 1) 11.7 – Move to a Five-Year Cycle Trim on all circuits (NYSEG);  
6 2) 11.8 – Achieve benefits of using herbicides in distribution vegetation  
7 management programs (NYSEG and RG&E); and  
8 3) 12.3 – Staff Gas QA/QC to support an effective and functioning QA/QC  
9 program (NYSEG and RG&E).

10 Q. Have the Companies included in this current rate filing proposals associated with  
11 each of these recommendations?

12 A. Yes. The Vegetation Management Panel includes testimony and exhibits  
13 supporting recommendations 11.7 and 11.8. The Gas Engineering, Delivery and  
14 Operations Panel includes testimony describing a new organization responsible  
15 for Gas QA/QC.

16 Q. Does this complete your testimony at this time?

17 A. Yes, it does.