Agenda Date: 12/16/20
Agenda Item: 1A

STATE OF NEW JERSEY

Board of Public Utilities
44 South Clinton Avenue, 9th Floor
Post Office Box 350
Trenton, New Jersey 08625-0350
www.nj.gov/bpu/

AUDITS

IN THE MATTER OF AN AUDIT OF THE AFFILIATED	)	ORDER OF
TRANSACTIONS BETWEEN ROCKLAND ELECTRIC	)	IMPLEMENTATION
COMPANY, ORANGE AND ROCKLAND UTILITIES,	)	
INC., CONSOLIDATED EDISON, INC. AND	)	
AFFILIATES, PURSUANT TO N.J.S.A. 48:3-49, 48:3-55,	)	
48:3-56, 48:3-58; AND N.J.A.C. 14:4-3.7(E) AND (F),	)	
AND A COMPREHENSIVE MANAGEMENT AUDIT OF	)	
ROCKLAND ELECTRIC COMPANY, PURSUANT TO	)	
N.J.S.A. 48:2-16.4 AND N.J.A.C. 14:3-12.1 - 12.4	)	DOCKET NO. EA17020137

Parties of Record:

Margaret Comes, Esq., Rockland Electric Company
Stefanie A. Brand, Esq., Director, New Jersey Division of Rate Counsel

BY THE BOARD:

On July 19, 2019, Silverpoint Consulting LLC ("Silverpoint" or "Auditor") submitted its final audit report ("Final Report") to the New Jersey Board of Public Utilities ("Board" or "BPU") rendered in the Comprehensive Management and Affiliated Transaction audit of Rockland Electric Company ("Rockland", "RECO" or "Company"). The Final Report contained 11 recommendations. At the Board's July 25, 2019 agenda meeting, the Board accepted the Final Report for filing purposes only and authorized the release of the Final Report to the public for comment. RECO and the New Jersey Division of Rate Counsel ("Rate Counsel") submitted initial and reply comments.

By this Order, the Board considers the recommendations in the Final Report and the comments submitted to the Board.

Procedural History

At its agenda meeting on April 21, 2017, the Board authorized Board Staff ("Staff") to initiate an audit of affiliated transactions between Rockland, Orange and Rockland Utilities, Inc. ("O&R"), Consolidated Edison, Inc. ("CEI"), and affiliates, and a Comprehensive Management Audit of RECO. The Board also authorized Staff to send a Request for Proposal ("RFP") to the seven pre-approved management consulting firms under State Term Contract T2482.

In accordance with the RFP, bid proposals were submitted to the BPU, Division of Audits by July 12, 2017 from Silverpoint Consulting, SAGE Management Consultants, Schumaker and Company, NorthStar Consulting Group, and Saleeby Consulting. Liberty Consulting Group and Overland Consulting advised Board Staff, in writing, that they would not bid on this project. The bid proposals were subsequently forwarded to the Evaluation Committee for review and analysis. The Evaluation Committee included the following Staff members: Alice Bator, William Foley, Michael Davenport and James Rekulak from the Division of Audits, Thomas Walker and Jaqueline Galka from the Division of Energy, Jaqueline O'Grady from the Office of the Economist and James Kane from Counsel's Office.

At its November 21, 2017 agenda meeting, the Board approved the Evaluation Committee's recommendation of Silverpoint to perform the audit at a not-to-exceed cost of $655,200. The Board further authorized former President Mroz to execute a consulting agreement with Silverpoint.

Prior to Silverpoint's publication of the Final Report, draft versions were provided for review by Staff (including the Divisions of Audits and Energy). A draft version was also provided to RECO for its review for comment only on factual discrepancies and confidentiality.

On July 19, 2019, Silverpoint submitted the Final Report, which was accepted by the Board for filing purposes only and released for comment on August 7, 2019. On October 7, 2019 Rockland filed its initial comments on the recommendations included in the Final Report. The Company responded to the specific recommendations made by Silverpoint and provided further commentary on various statements made within the Final Report. The Company concurred with five (5) of the recommendations, and agreed to take action to implement those accepted recommendations. The Company disagreed with 5 of the recommendations, and accepted 1 in concept with clarifications and/or minor exceptions.

By letter dated October 7, 2019, Rate Counsel filed its initial comments on the recommendations included in the Final Report. Rate Counsel supports all 11 recommendations and recommends that the Board order RECO's compliance on implementing these recommendations. Rate Counsel also makes additional recommendations based upon its review of the Final Report.

By letter dated October 18, 2019, RECO filed reply comments in response to Rate Counsel's initial comments and by letter dated October 29, 2019 Rate Counsel filed reply comments in response to RECO's initial and reply comments.

Background

RECO is a subsidiary of Orange and Rockland Utilities, Inc., providing electric distribution services to approximately 72,000 customers in portions of Bergen, Passaic, and Sussex Counties in New Jersey. RECO is part of a holding company structure with CEI as the holding company and with Consolidated Edison Company of New York Inc. ("CECONY") and O&R as regulated utilities under CEI. RECO is a subsidiary of O&R. RECO has no employees and O&R provides the employees, operations, and services under a Joint Operating Agreement ("JOA") with RECO. RECO customers represent approximately 25% of O&R's total electric load.

Unregulated companies under the CEI umbrella include Con Edison Transmission Inc. ("CET") and Con Edison Clean Energy Businesses, Inc. ("CEB"). CET invests in electric and gas transmission projects through its wholly-owned subsidiaries, CET Electric and CET Gas. CEB is the parent of three subsidiaries, Consolidated Edison Development, Inc., Consolidated Edison Energy, Inc., and Consolidated Edison Solutions, Inc. each of which develop, own and operate renewable and energy infrastructure projects, and offer energy-related products and services to wholesale and retail customers. CEB also provides services to generating plants and merchant transmission. These services include managing dispatch, fuel requirements and risk management activities.

Final Report

Overall, the Final Audit Report finds that O&R is "a well-run and well-managed utility with solid reliability performance and a focus on continued improvement". Silverpoint does not recommend major operational changes or improvements at O&R except in the customer service department. With respect to affiliate transactions, Silverpoint recommends a follow-up investigation.

Company Comments (General Observation):

RECO's general comments focus on the fact that RECO responded to over 400 data requests and participated in 52 interviews and that there is no need for any additional review from the Auditor. RECO agrees with recommendations X-1, X-2, X-4, XI-1, XI-3, disagrees with recommendations V-1, VIII-2, X-3, XI-2, XI-4, and partially agree with recommendation VIII-1. In some instances, RECO provides suggestions on how it will implement.

Rate Counsel Comments (General Observation):

Rate Counsel's general comments focus on the Company's unresponsiveness to numerous data requests and requests for interviews specifically with regard to affiliate relations and the basis for cost allocations. Rate Counsel recommends that the Affiliate Relations, Accounting and Cost Allocation sections of the Final Report be deemed incomplete and returned to the Division of Audits for a more complete review, findings and recommendations. Rate Counsel also expresses its wishes to be included in both pre-audit meetings and interviews with the Auditor, Company and Staff.

Below is a detailed discussion of the recommendations set forth in the Final Report, the comments filed by the Company and Rate Counsel. In addition, Staff's position with respect to each of the audit recommendations and comments is stated below.

Specific Auditor Recommendations

A. Finance and Cash Management (Chapter V)

Silverpoint's findings indicate that CEI issued debt in the acquisition of Sempra Solar Holdings and although there was considerable spending on corporate acquisition activities during the audit period, O&R continued to spend on utilities and no new debt was issued by the utilities. According to the Auditor, there was no impact on cash flow or on credit ratings for O&R. Although RECO and O&R had not been affected directly, CEI increased its non-utility debt to about 16% of consolidated debt, up from 13%, increasing CEI's risk of future downgrades by Moody if unregulated operations increase to 15-20 percent of earnings before interest, taxes, depreciation and amortization. Consequently, New York regulators approved incremental ring-fencing conditions. Silverpoint concludes that any such financial protections would benefit RECO as well.

General Comments with regard to Chapter V:

Rate Counsel: Rate Counsel takes issue with Silverpoint's conclusion that RECO will likely be protected by stricter ring-fencing measures if CEI makes further significant investments in its non-regulated businesses. Rate Counsel argues that Silverpoint does not adequately support this conclusion regarding ring fencing and proposes that Silverpoint supplement the Final Report to explain how the incremental ring-fencing conditions will protect RECO. In addition, Rate Counsel asserts that Silverpoint should, in its supplement, be directed to include a recommendation that additional ring-fencing conditions be imposed on RECO, such as those imposed by the New York Public Service Commission ("NYPSC") on CECONY and O&R, to protect RECO and its New Jersey customers against adverse consequences arising from CEI's non-regulated activities.

Company: RECO argues that Rate Counsel's recommendation regarding supplementation of the report should be rejected by the Board. RECO argues that ring-fencing, as applicable to RECO, is a non-issue and RECO has had ring fencing protections in place since the merger of O&R and CEI in 1999. RECO states that its annual Compliance Plan Relating to the Board of Public Utilities' Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements, filed I/M/O the Proposal to Perform Audits of Competitive Services Pursuant to the Electric Discount and Energy Competition Act, Docket Nos: AA02020094, EA02020095, EA02020096, EA02020097, EA02020098, sets forth RECO's ring fencing protections. RECO further asserts that its most recent annual compliance plan, filed on May 1, 2019 in that proceeding, confirms that the relationship of O&R and RECO is governed by the Affiliate Relations Conditions ("Conditions"), a copy of which was included as Exhibit C to that filing.

The Conditions address the transfer of assets and personnel, as well as the provision of services and goods between O&R and RECO. According to RECO, the Conditions contain various financial integrity conditions including:

- Without the Board's prior permission, RECO will not (i) make loans to O&R or any unregulated subsidiary, (ii) guarantee the obligations of O&R or any unregulated subsidiary; (iii) pledge its assets as security for the indebtedness of O&R or any affiliate; and

- RECO will not pay out more than 100% of income available for dividends calculated on a two-year rolling average basis. RECO also would note that there have been no ring-fencing related complaints raised against the Company. Against this backdrop, any further investigation of ring-fencing issues is unwarranted.

Staff Response: Staff agrees with Rate Counsel with respect to the additional recommendation. Staff recommends that the Board direct RECO to provide the additional NY ring-fencing conditions arising from CEI's additional non-regulated activities and investments and an analysis of how the additional ring-fencing conditions will provide additional protections to RECO and its New Jersey customers. This should be submitted to the Board's Divisions of Audits and Energy and the Office of the Economist.

Silverpoint finds no issue with the Company's Operations & Maintenance ("O&M") budgeting process. However, Staff is concerned that O&R has been under its O&M budget each year during the audit period and that O&R (and consequently RECO) fail to address areas where spending is necessary to improve service such as in the area of customer service where Silverpoint expressed concerns over its deterioration commencing in February 2018. Staff recommends that RECO provide an explanation as to the deterioration in customer service and any relationship to the levels of O&M spending in existence during the corresponding time period.

Recommendation V-1: Identify and evaluate opportunities to utilize excess capacity at the O&R payment processing center.

As the number of customers making payments by check continues to decline, the processing center has excess capacity. Silverpoint opines that this function will not be eliminated in the near future and thus, recommends that RECO provide processing center services to other similar companies like municipalities.

Initial Comments:

Company**:** The Company **rejects** the recommendation. The Company indicates that it continually looks for process improvement opportunities. Subsequent to the time of the Audit, the Company indicates that its payment processing area began expanding its service delivery model to various organizations by providing secure document scanning, electronic distribution, archiving of accounts payable invoices, customer mail correspondence, and customer payment agreements. The Company argues that its mission is to provide safe and reliable service to its customers and payment processing is not one of the Company's core business functions. RECO does not believe that performing payment processing for similar companies (e.g., municipal utilities) aligns with its business strategy.

Rate Counsel**:** Rate Counsel has not specifically responded to this recommendation.

Staff Response**:** There is excess capacity within the payment processing center and a portion of the payment processing function costs may trickle down to RECO typically through base rates. Therefore, Staff recommends that in the interim, between now and its next base rate case filing, and as part of RECO's due diligence, RECO should consider options on how to handle the excess capacity to minimize costs to the ratepayers while still providing customers with payment options. RECO's analysis of options should be documented in writing such that it is available for review by Staff in the Company's next base rate filing.

B. Accounting and Cost Allocation (Chapter VIII)

According to the Final Report, unlike other utility holding companies, CEI does not have a service company with separate books and records to provide shared business functions, particularly when those functions are being provided to both regulated and non-regulated affiliates. Most of CEI's costs for shared services and personnel are embedded in CECONY departments and these departments report to the Chief Executive Officer of CEI. According to the Final Report, RECO has no relationship with affiliates other than O&R and O&R has no relationships with affiliates other than CECONY in connection with shared corporate and utility services.

<u>Recommendation VIII-1</u>: Develop detailed accounting practice guidelines to ensure the calculation of charges under the JOA and Power Supply Agreement ("PSA") are accurate and adequately documented.

Silverpoint finds that while RECO's internal accounting functions are adequate and that its policies under its Affiliate Cost Allocation Manual ("ACAM") and accounting procedures are consistent with regulatory requirements for affiliate transactions, they are vague. Specifically, Silverpoint states that the Company's ACAM and affiliate transaction accounting procedures use fully loaded costs, with a preference for direct assignment over allocation formulas which are consistent with pricing principles required by the Electric Discount and Energy Competition Act ("EDECA"), the affiliate standards implementing EDECA[1], and the merger settlement agreement. However, Silverpoint states that the description of charges under the JOA are thin and contradict other sources while charges to RECO under the PSA are not addressed at all. For example, the JOA states that certain costs are allocated using a revenue ratio while the ACAM describes the allocation formula for these costs as using a four part formula.

Silverpoint concludes that shared services and costs from CECONY to O&R should be using detailed accounting procedures that are fully documented so the costs from CECONY to O&R and eventually from O&R to RECO are more transparent, clear and well documented. Such documentation would demonstrate compliance with regulatory requirements regarding affiliate transactions.

Initial Comments:

Company**:** The Company **partially accepts** the recommendation. The Company indicates that it has two General Accounting Procedures (i.e., General Accounting Procedures ("GAPs") 057B "Common Expense Allocation" and 205C "Electric Power Purchase and Sales") that provide all the necessary background information and relevant accounting guidelines for the JOA and PSA between the Company and O&R. According to RECO, these GAPs were last updated in 2015 and the Company will update these GAPs to remove all the references to Pike County Light & Power Company ("Pike") and to expand on the JOA/PSA accounting by December 31, 2019. In addition, the Company plans to add detailed job aids as appendices within these GAPs. RECO's financial statements are audited annually by its external auditor, PricewaterhouseCoopers ("PwC") and RECO states that PwC has not included audit findings or citations relating to the JOA and PSA transactions.

Rate Counsel**:** Rate Counsel recommends that the Board direct the Auditor to make a specific finding as to whether the ratio of allocated billing by CECONY to O&R relative to direct charges is reasonable and supported by comparative analyses from other utilities. Rate Counsel also recommends that the Board direct the Auditor to make recommendations for CECONY to use allocators that are more reflective of the way in which costs are incurred instead of its over-reliance on the three factor allocator.

[1] These pricing principles are codified by the Affiliate Relations, Fair Competition and Accounting Standards and Related Reporting Requirements. N.J.A.C. 14:4-3.1 et seq.

Rate Counsel also recommends that the Auditor be directed to make specific conclusions and recommendations regarding CEI's allocation of governance and enterprise level costs to O&R and, ultimately RECO. Rate Counsel further contends that CEI should retain costs, such as those relating to mergers, acquisition, and divestitures and similar costs, which should not be allocated among affiliates.

In addition, Rate Counsel recommends that the Board direct RECO to provide the information that was requested concerning jointly used plant and property. The Auditor, after analyzing the information and data, should make appropriate conclusions and recommendations, including recommendations on how the inter-jurisdictional conflict should be resolved. Rate Counsel bases its recommendation on the lack of findings by Silverpoint due to RECO providing no detail on the charges or how they are calculated for jointly used plant and property under the JOA. The Company did not schedule any of Silverpoint's additional requests for testing or working sessions to explore the nature of any of the JOA charges in further detail.

***Reply Comments*:**

Company: With respect to Rate Counsel's suggestion that CEI expenses related to mergers, acquisitions and divestures have been passed down to RECO, RECO notes that the most recent merger, acquisition and/or divestiture in which CECONY was involved in was the merger of CEI and O&R in 1999.

The Company states that Rate Counsel's concerns regarding the three factor formula to allocate non-direct charges is unwarranted since the three factor formula is commonly used by utilities to allocate costs. With respect to governance and enterprise related services that are re-allocated from CEI, non-direct charges are reallocated to all affiliates and these costs include such shared services as legal, tax, and finance series, which are included in the public report. The Company argues that Rate Counsel's argument that there is a jurisdictional conflict where RECO and O&R are not recognizing differences in ratemaking in New York and New Jersey for costs allocated through the JOA is not true. According to RECO, all costs that are allocated to RECO are examined by the Board in rate cases in New Jersey as all costs being allocated to O&R are examined by the NYPSC.

Rate Counsel: Rate Counsel points out that neither the Company nor Silverpoint have stated definitively whether there were charges incurred by CECONY, on behalf of CEI, that should not have been billed to O&R and RECO. Rate Counsel argues that its essential concern is that inter-company cost sharing be based on cost-causative factors to the extent possible, and allocators that are more reflective of the way in which costs are incurred, rather than an overreliance on the three-factor allocator. Rate Counsel recommends that the Board direct Silverpoint to make these specific findings as Rate Counsel states that Silverpoint does not appear to have sufficiently examined shared service costs.

***Staff Response*:** Staff believes that there should be a follow up audit of the origins and details of the cost allocations to RECO. Staff further agrees with Rate Counsel's position that certain charges incurred by CECONY on behalf of CEI should not be billed to O&R and RECO and certain costs should be retained by CEI. As an example, Rate Counsel mentions that some of these types of costs include merger, acquisition and/or divestiture related costs. A further examination of allocations passed onto RECO should also include a review of all costs passed down directly or indirectly to RECO to ensure that they are directly allocated to the extent possible, and if not, based upon allocators that are more reflective of the way in which costs are incurred.

<u>Recommendation VIII-2</u>: Determine the impact on New Jersey ratepayers of O&R's failure to compensate RECO for the benefit of the sale of services to Pike's new owners.

The Final Report stated that O&R provided operations and customer-related services to the new owner of Pike under formal written agreements. According to the Final Report, no proceeds received by O&R for providing the services were shared with RECO despite RECO being allocated a portion of the costs associated with O&R's operations and customer-related services.

Initial Comments:

***Company*:** The Company **rejects** the recommendation. As part of the transaction by which Corning Natural Gas Holding Company ("Corning") acquired Pike from O&R, O&R entered into a Transition Services Agreement ("TSA") with Pike dated August 31, 2016. The TSA terminated in June 2018. In accordance with the TSA, O&R performed services related to electric operations (including substations), gas operations, meter operations, and meter reading for Pike. O&R billed Pike for these services at hourly rates set forth in the TSA. The O&R employees who provided these services charged their time directly to billing accounts for these services rather than to O&R expense accounts that are allocated under the JOA. In addition, as part of the TSA, O&R charged Pike fixed monthly rates for access to and monitoring of O&R's electric and gas systems, and for services related to responding to customer inquiries, processing payments and reporting requirements. In accordance with accounting guidelines, O&R recorded these fixed payments from Pike as other operating revenue. In light of these circumstances, the Company rejects the Auditor's view that RECO was somehow entitled to a portion of this revenue. RECO asserts that the Auditor's position is particularly misguided given that O&R incurred little to no incremental costs supporting recognizing TSA charges as revenue, instead of an offset to expense. Further, according to RECO, its current base rates reflect the terms of a settlement agreement reached in February 2017 ("Settlement Agreement"), which became effective March 1, 2017, both of which dates are subsequent to Corning's acquisition of Pike from O&R. In the Settlement Agreement, RECO was authorized a return on common equity of 9.6 percent.

RECO asserts that its actual return on equity of 2016, 2017, and 2018 was 7.0 percent, 8.2 percent, and 7.4 percent, respectively and has been significantly below its authorized rate indicating that, in total, RECO's customers were not overcharged during this period. In total, the fixed charges recorded as other operating revenue amounted to $269,000, $672,000, and $85,000 for 2016, 2017, and 2018, respectively. According to RECO, these amounts are all significantly lower than the "approximately $1 million per year" indicated in the Final Report. RECO maintains that to estimate the potential amounts associated with this recommendation, had the common allocation been applied to these revenues, RECO's allocation would have been $47,000, $119,000, and $16,000 for 2016, 2017, and 2018, respectively. O&R does not agree that the common allocation is applicable and disagrees with this recommendation. As described above, O&R believes it charged Pike appropriately for the services it provided. O&R further asserts that it did not include any direct costs it incurred for services provided to Pike in the JOA allocation and therefore RECO's customers were not overcharged during the term of the TSA.

***Rate Counsel*:** Rate Counsel believes the Board should direct the Company to refund a portion of the revenue related to fixed overhead costs to RECO.

***Staff Response*:** Staff recommends that the Company apply the same allocation factor ratio used to allocate O&R's operations, customer related services and fixed overhead costs to RECO to the revenues derived from services provided to Corning or other allocation factor as determined by the Board after the completion of the Board's further review of cost allocations. This amount should be used to discount RECO's rates in its next base rate case or other rate adjustment proceeding as determined by the Board.

C. Distribution and Operations Management (Chapter X)

According to the Final Report, RECO demonstrates generally good utility practice with respect to complying with "worst single contingency" design standards in several areas; 93% for transmission systems, 100% for substations and 99% for distribution circuits. RECO's planned capital projects are aiming to bring RECO into full compliance in these areas.

The Final Report finds that O&R has an effective and comprehensive approach to system planning but that RECO needs to improve upon its documentation for evaluating and selecting alternatives for major capital projects. The Final Report finds that the level of capital investment in RECO's system during the audit period was adequate.

Silverpoint's Final Report concludes that O&R's use of technology and automation are reasonably consistent with good utility practice. Consistent with this, RECO's system reliability, as measured by the System Average Interruption Frequency Index ("SAIFI"), continued to improve during the audit period, although the Customer Average Interruption Duration Index ("CAIDI") performance continued to worsen. Silverpoint further finds that O&R's time-based preventative maintenance programs are appropriate, but the extent of O&R's maintenance backlog is unclear as well as its impact on outage events in New Jersey.

The Final report states that O&R recently formalized its work management program and implemented enhanced analytical and reporting tools to support decision making regarding the use of outside contractors and employee overtime.

According to the conclusions in the Final Report, O&R's vegetation management standards and procedures are adequate, but the Company failed to meet the required four-year trim cycle in New Jersey. The Company did not provide a reason for this shortfall. While finding shortfalls in vegetation management, O&R's storm preparedness practices are very good and O&R's operations personnel provide adequate oversight of contractors performing work on the overhead distribution system for line location and mark-out service in New Jersey.

Recommendation X-1: Create planning charters to document the analysis and selection of major capital projects and system reinforcements, beginning with load areas that serve RECO customers.

The Final Report agrees with the O&R engineering department's approach of creating planning charters, centered on identified system needs that document planning for a specific geographic area. The Final Report however disagrees with the scope and timing of its implementation, as there is a "brain drain" in the area of electric system planning and operations. The Final Report, although supportive of the proposed initiatives for planning charters, contends that they should be done sooner rather than later as to institutionalize knowledge of the Company experts prior to the knowledge disappearing.

***Initial Comments*:**

***Company*:** The Company **agrees** with the recommendation. The Company indicates that it plans to implement a new "Planning Charter" procedure for all new large substation and transmission projects. The Company states that it will use the Planning Charter to capture key decisions related to project selection, alternatives considered, and other area improvements designed to remediate system deficiencies. Once a system deficiency is identified that requires a transmission or substation solution, the Company will establish and maintain a Planning Charter that will provide a complete history of the progress of the project. The Planning Charter would be updated as necessary, but no less than annually, during the planning process until the planned project becomes an in-flight construction project. The Planning Charter will then be attached to the project charter as an appendix and will continue to be modified, as necessary, to capture any relevant changes. RECO believes this procedure will provide needed insights to interested parties regarding the progress of the project.

***Rate Counsel*:** Rate Counsel did not comment on this recommendation.

***Staff Response*:** Staff **agrees** with the Final Report's recommendation and the Company's proposed approach for implementation. In agreement with the Final Report, Staff recommends that O&R develop planning charters sooner rather than later to avoid the loss of institutional knowledge. Staff further recommends that the Board require O&R to focus first on constructing planning charters for all load areas in the RECO service territory and to be completed within one year from the date of this Order with a status report provided to the Board within six months from the date of this Order.

<u>Recommendation X-2</u>: Develop formal cost-benefit analysis guidelines for evaluating capital and O&M projects.

O&R does not incorporate cost benefit analyses into its system planning processes like its affiliate CECONY. According to the Final Report, this is a normal course in any planning process, and if applied, it can lead to cost savings on capital or O&M projects by considering alternative projects.

Initial Comments:

***Company*:** The Company **agrees** with the recommendation and indicates that it will also update its Corporate Instruction, CI-291-1, "Cost-Benefit Analysis Guideline" to incorporate O&R, by December 31, 2019. The current corporate instruction applies only to CECONY.

***Rate Counsel*:** Rate Counsel **agrees** with this recommendation

***Staff*:** Staff **agrees** with the recommendation. By considering alternative projects and performing cost-benefit analyses during the planning process for capital and O&M projects, any costs savings should trickle down to RECO as O&R does the planning for itself and RECO.

<u>Recommendation X-3</u>: Implement a more formalized asset management program.

To better assess whether spending on major equipment replacement has been adequate, O&R's implementation of a formal asset management program may help better address asset age and obsolescence issues with respect to the replacement of aging infrastructure. The Final Report further states that O&R can incorporate the principles of an asset management program as it implements its Advanced Distribution Management System (“ADMS”) which is a software platform that integrates numerous utility systems and provides automated outage restoration and optimization of distribution grid performance. By doing so, O&R can combine real time performance data and predictive algorithms to yield effective predictive maintenance techniques that minimize risk of failure and maximize equipment life.

***Initial Comments*:**

***Company*:** The Company **rejects** the recommendation. The Company argues that it addresses aging infrastructure in capital project upgrades. Although the Company’s transmission system is regulated by the Federal Energy Regulatory Commission (“FERC”) and therefore is outside the scope of the Audit, RECO states that the Auditor recognizes that 93 percent of the RECO transmission system meets its design standards, and an upgrade planned for 2020 will address the remaining seven percent. According to RECO, on the distribution side, the Auditor recognizes that 99 percent of distribution circuits in RECO’s territory meet the Company’s design standards, and projects designed to address identified deficiencies are included in the Company’s five-year capital budget. Finally, RECO states that the Auditor recognizes that 100% of the Company’s substations meet its design standards. The Company believes it has mature work and inspection management systems, specifications and programs which have allowed it to successfully manage aging infrastructure and obsolescence issues through its planning process. Thus, a formalized asset management plan is not necessary.

***Rate Counsel*:** Rate Counsel **agrees** with the recommendation.

***Staff*:** Staff **agrees** with the recommendation. Staff believes that RECO deserves its own asset management plan. Staff recognizes that RECO has taken steps to review deficiencies and has focused on bringing its system closer to compliance with engineering design standards, but it behooves RECO to develop a plan and to incorporate the asset management plan into its ADMS software design as it also captures performance data of infrastructure. The Company’s current methods may not formally combine planning and performance data for optimal decision making. To formally combine the two is a way to further minimize risk of failure and maximize the life of equipment.

<u>Recommendation X-4</u>: Develop an initiative that focuses on reducing CAIDI.

According to the Final Report, O&R is moving toward more automation, which is expected to improve its System Average Interruption Frequency Index (“SAIFI”) performance, but is expected to erode CAIDI.

The Auditor also finds that RECO failed to meet the Board’s minimum requirements in 2015 for CAIDI. The Auditor states that reducing CAIDI will require reducing restoration times for customers remaining without power after automated feeder switching operations have occurred. In order to accomplish this RECO needs better communications and coordination of field work. The Final Report further states that RECO should form a task force or similar initiative to focus on identifying and implementing methods to improve response times during outage events.

Initial Comments:

Company**:** The Company **agrees** with the recommendation. The Company indicates that it recognizes the fundamental principle that SAIFI and CAIDI have an inverse relationship with each other. As a result, the Company believes ultimately SAIDI may become more representative of system performance. The Company will initiate an effort to assess RECO's CAIDI performance and determine actions necessary to consistently meet the BPU threshold standards. The Company will determine the primary drivers of CAIDI, identify opportunities for improvement focusing on reducing or eliminating most important outage duration drivers, and develop work practices and strategies to reduce outage duration of all outages with a specific emphasis on high CAIDI outages that have the greatest potential for improving CAIDI performance.

Rate Counsel**:** Rate Counsel agrees with this recommendation.

Staff**:** Staff agrees with this recommendation. Staff does not accept the inverse relationship claims by O&R regarding SAIFI and CAIDI as automation should occur instantaneously improving SAIFI while allowing the Company to dispatch field crews more efficiently and effectively to areas not corrected by automation to reduce outage duration. Cutting back on employees as a result of installing automation and causing CAIDI to increase reduces the benefits associated with automation and thus increases the cost of automation. Better communication and coordination with field work should be explored with other methods of improving response times during the outage events. Thus, RECO's failure to meet New Jersey's minimum CAIDI requirements is unacceptable and needs to be addressed.

D. Customer Service (Chapter XI)

The Final Report finds that the call center, and to a lesser degree the customer accounts, are in need of improvement. The Customer Service Departments have relied on the Customer Information Management System ("CIMS") mainframe application for the last 20 or so years. The CIMS application integrates with many accounting, operations, and customer service related systems, and performs a multitude of functions, including processing customer transactions and meter readings, calculating and formatting bills, and facilitating credit and collections activities.

In addition to the CIMS, O&R's Customer Interaction Center uses a Voice over Internet Provider where incoming calls regarding O&R and RECO are answered first by an Interactive Voice Response ("IVR") system where the call flow options include payments, turn on/turn off services, emergency and outage reporting, credit, billing and retail access as well as the option to speak to a customer service representative among other options for customers.

As part of the earlier findings in the Final Report that O&R plans to expand further in automation, O&R recognizes the need to retrain meter reader employees into other positions as Advanced Metering Infrastructure ("AMI") expands. During the audit period, overall 98.5% of the meters were read within the billing cycle surpassing the corporate goal of 92%.

With respect to the call centers, Silverpoint indicates that it was difficult to determine if customers experienced long wait times and if so, why. However point in time observations show that on one particular day 46% of calls were abandoned with 10 to 15% abandonment rates considered to be poor performance. The equivalent rate for the whole of 2018 was 37 %. According to the Final Report, it became apparent that O&R was focusing on meeting the 30 second answer call requirement in New York. The Final Report stated that the Company implemented steps to resolve problems. The Company hired additional customer service representatives, expanded the role of its third party vendor, and divided its customer service representatives into two groups, one group to answer incoming calls and the other group to handle call backs. Silverpoint monitored performance on another day during the conduct of the audit and despite the Company's efforts, still found very long wait times. The facts seem to show that the Company needs to also focus on other areas of performance, including reducing the number of abandoned calls in addition to the amount of time to resolve customer complaint calls.

In addition, there have been backlogs for Work Order Managers ("WFMs") which are billing work orders where either the bill is significantly higher or lower than the previous month's bill. Silverpoint noticed the backlogs only through same day reports. The Company could not provide historical information. The Company has not explored whether WFMs can be eliminated through programming changes in CIMS.

<u>Recommendation XI-1</u>: Begin a data driven process improvement program for the Customer Service organization.

According to the Final Report, the Company should focus on processes for its customer service organization identifying the reasons that customers contact the call center and then work to reduce those reasons. For example, they should better understand the root cause for excess in WFMs. These efforts should dovetail with the Company's current Business Cost Optimization program which focuses on cost drivers and opportunities to make changes.

Initial Comments:

***Company Response*:** The Company **agrees** with the recommendation. The Company agrees that data is critical to understanding customer behavior, as well as assessing and improving the Company's customer service and call center performance. As discussed below, the Company indicates that it is implementing a variety of data driven activities.

The Company's call center uses call codes that categorize calls into types (e.g., credit, billing, turn on/turn off). As the Company modifies its rate offerings to customers and as technology changes, the Company can amend and modify these codes as appropriate. For example, with the roll out of its new website and MyAccount features, the Company developed a website code to help analyze the factors that drive customer calls. Through this data the Company can identify ways to facilitate customer self-service through both its website and IVR system.

O&R has been analyzing the root causes of back office paperwork. The Company has adjusted the parameters that generate WFMs in order to minimize unnecessary work. These adjustments have reduced the number of WFMs relating to seasonal changes and other events. In 2018, the Company experienced an increase in billing exceptions, primarily due to the increased volume of meter replacements associated with the Company's AMI program. Although historically the Company has had meter related billing exceptions, the marked increase of meter replacements associated with the AMI program resulted in a corresponding increase in meter related billing exceptions. To address this situation, the Company assembled a multi-departmental team dedicated to reducing the meter related billing exception backlog and managing incoming meter related billing exceptions. The team has made significant progress toward reducing this backlog. With the completion of the AMI program in 2020, the Company expects that meter related billing exceptions will decrease and return to historic pre-AMI program levels.

The Company's Customer Assistance team is investigating the possibility of retaining a consultant to review call center operations. This consultant would identify areas of improvement, including using benchmarking data from similarly sized utility call centers.

The Company's Customer Assistance team members are active participants in CECONY's efforts to review key business processes to identify and analyze alignment opportunities as part of the ongoing O&R/CECONY's joint billing system project. In addition, the Customer Assistance team interacts with CECONY customer operations personnel to pursue various other initiatives. These include the deployment of robotics processing automations ("RPAs") that simplify routine transactional work, the bill redesign project, and an e-billing initiative that will reduce postage costs.

***Rate Counsel Response*:** Rate Counsel **agrees** with the recommendation.

***Staff Response*:** Staff recommends that the Company develop a plan of the mentioned improvement items and Staff will review in its implementation stage.

<u>Recommendation XI-2</u>: Improve all facets of call center performance.

O&R should identify and implement solutions to reduce call volumes, time per call, call wait time, and abandonment rate. The Company needs to assess the best combination of employees and third-party agents to provide cost effective yet flexible staffing that can accommodate peak demands for service. To allow better tactical use of overtime, managers should develop a spreadsheet tool to facilitate the recordkeeping required to comply with union overtime rules. IVR should have more options so it is more efficient and effective.

Initial Comments:

***Company Response*:** The Company **rejects** the recommendation. RECO noted that the Final Report focuses on 2018, which is outside of the audit period, and focuses on a period impacted by the March storms (i.e., Winter Storms Riley and Quinn). When the Company reviewed the draft audit report, it asserted that it corrected statements and noted that during the audit period of 2014 through 2017, the O&R Customer Service organization met all of its Key Performance Indicator ("KPI") targets established by the NYPSC, but that this information about the audit period was not included in the Final Report.

The Company argues that its 2018 call center performance issues related primarily to its call answer rates. Specifically, the Company's 2018 first-call resolution year-end percentage was 86.7% and its post-call survey year-end percentage was 84.5%. The Company contends that data from post-call surveys and first-call resolution rates demonstrate that when customers reached the Company, they were able to have their issues addressed and resolved.

Accordingly, the Company maintains that it has taken several steps to improve the call center's call answer performance. Although the Company provided information to correct the draft audit report, RECO asserts that the Final Report incorrectly concludes that Company did not respond to events in 2018. To address the temporary increase in call volume (related primarily to the new AMI Program), the Company introduced additional resources, in the form of contracted representatives, as well as both full and part-time customer service representatives ("CSRs"). As the call center's performance has returned to normal levels, the Company has reduced contracted resources and will start reducing the work hours of part-time CSRs. The additional CSRs have reduced the customers' wait time and abandonment rates and have helped the Company return to call answer rate target levels while maintaining first call resolution levels. CSR overtime is managed with a seniority list as prescribed by the collective bargaining agreement and overtime assignments are determined by a supervisor. The Company's Customer Assistance team also deployed a scheduling system that helps provide better transparency into hours worked and overall resource scheduling.

In addition, the Company states that it has retained a consultant to redesign its IVR system. This redesign project will improve the phone self-service experience, by making the Company's IVR system easier to navigate. The Company believes that a more user friendly IVR system will encourage customers to self-serve, which will in turn reduce the Company's customer call volume. The menus that customers use to navigate the IVR system will be more clear, concise and easy to understand and will increase levels of self-service transactions.

Another initiative is the Company's bill redesign project. Various employees from O&R and CECONY currently are working to improve and update their utility bills. According to RECO, once redesigned, the utility bills will be more interactive and easier to understand. The bills will also align with the Company's website where customers can take a deeper dive into their usage data.

***Rate Counsel Response*:** Rate Counsel **agrees** with the recommendation.

***Staff Response*:** Staff **agrees** with the recommendation. According to the Final Report, the Company did not adequately track information historically in the format necessary for Silverpoint to develop a clear sense of the quality of customer service as seen from the customer's perspective during the audit period. Therefore, Silverpoint audited in real time by examining the operations of the call center on particular days and by doing so, noticed many problems. It is irrelevant for the Company to argue that it was outside of the audit period. Had better data been available, Silverpoint would have had more data to examine but that would not have excused the issues found on those particular days the systems operated and on which Silverpoint clearly identified issues with the Company's performance. Moreover, since the customer service centers not only serve New York customers, but also serve New Jersey customers through RECO, they must comply with New Jersey metrics. Accordingly, Staff recommends that the Company develop a plan that includes the following metrics: reduce call volumes, time per call, call wait time, and abandonment rate. Staff will review during its implementation stage.

<u>Recommendation XI-3</u>: Reduce the volume of billing exceptions and improve the efficiency of processing.

The Final Report recommends that O&R identify ways to reduce the number of billing exceptions being created in CIMS. If O&R can reduce billing exceptions, WFMs should decline. There are certain logical explanations for billing exceptions that, if incorporated into the CIMS, would automatically resolve certain exceptions, thereby reducing employee workloads and the backlog while allowing employees to focus on exceptions that they can resolve. The Final Report also recommends that in lieu of modifying the CIMS, the Company could develop advanced analytics applications capable of automatically resolving certain exceptions.

Initial Comments:

Company Response**:** The Company **agrees** with the recommendation. O&R indicates that it is working with CECONY to retain a contractor to assist with developing billing exception related RPAs. Once implemented, these RPAs should allow the Company to eliminate several basic billing exceptions. This process is limited to RPAs from which the Company can derive payback prior to the implementation of O&R/CECONY's joint billing system project slated to be implemented by May 2023. The new billing system will include many RPAs. As noted above, with the completion of the AMI program in 2020, the Company expects that meter related billing exceptions will decrease and return to historic pre-AMI levels.

Rate Counsel Response**:** Rate Counsel **agrees** with the recommendation.

Staff Response**:** Staff **agrees** with RECO's plan to reduce billing exceptions and WFMs. However, RECO should provide Staff with a full analysis as to whether developing a robotics processing automation is more appropriate and cost effective than incorporating the logic behind the explanations for billing exceptions into the CIMS system. RECO shall also provide Staff with quarterly updates on the status of implementing and completing their plans.

<u>Recommendation XI-4</u>: Implement a benchmarking program and expand customer service metrics and statistics as a means to drive improvement.

The Company needs to develop benchmarking metrics in the customer service area that include, but are not limited to, call abandonment rates, call wait times, bill timeliness, billing exception rates, and speed of clearing billing exceptions to facility improvement efforts. The Final Report further suggests that O&R and RECO work with CECONY to understand each other's work flows and benchmarking. O&R should expand data collection, metrics, and management reporting in these benchmarking areas.

Initial Comments:

Company Response**:** The Company **rejects** the recommendation. Through the development of the new customer information system, O&R and CECONY have shared processes and procedures, which RECO asserts has encouraged changes across both companies to be better aligned with each other. The Company's current CIMS does allow the Company to report on call abandonment rates and wait times and enables the Company to evaluate the timeliness of clearing billing exceptions.

Rate Counsel Response**:** Rate Counsel **agrees** with the recommendation.

Staff Response**:** Staff **agrees** with the recommendation. Staff recommends that the Company develop a plan to use industry wide benchmarking statistics to expand service metrics.

<u>DISCUSSION AND FINDINGS</u>

The Board **<u>HEREBY</u> <u>DIRECTS</u>** RECO, with the assistance of the Division of Audits, to formulate detailed implementation plans for the 11 recommendations as modified above, within 60 days from the date of this Order. RECO shall implement all recommendations as soon as possible but not later than one year from the date of this Order unless otherwise directed in this Order above.

Furthermore, the Board **HEREBY DIRECTS** RECO to file quarterly reports with the Division of Audits, by the fifteenth day of the month following the conclusion of each calendar quarter, regarding the status of implementing all recommendations. The Division of Audits shall monitor, evaluate, and modify, as necessary, the implementation of the recommendations. The recommendations of the Final Report shall not be dispositive of issues raised in any other proceedings before this Board.

This Order shall be effective on December 26, 2020.

DATED: December 16, 2020

BOARD OF PUBLIC UTILITIES
BY:

JOSEPH L. FIORDALISO
PRESIDENT

MARY-ANNA HOLDEN
COMMISSIONER

DIANNE SOLOMON
COMMISSIONER

UPENDRA J. CHIVUKULA
COMMISSIONER

ROBERT M. GORDON
COMMISSIONER

ATTEST:

AIDA CAMACHO-WELCH
SECRETARY

In the Matter of an Audit of the Affiliated Transactions between Rockland Electric Company, Orange and Rockland Utilities, Inc., Consolidated Edison, Inc. and Affiliates, Pursuant to N.J.S.A. 48:3-49, 48:3-55, 48:3-56, 49:3-58; and N.J.A.C. 14:4-3.7(e) and (f), and a Comprehensive Management Audit of Rockland Electric Company, Pursuant to N.J.S.A. 48:2-16.4 and N.J.A.C. 14:3-12.1 - 12.4

BPU Docket No. EA17020137

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