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PSC Receives Audit of Central Hudson

Audit Examined Information Systems Planning and Implementation, Improvements to Support Clean-Energy Goals, and Contractor Oversight

Customer Billing Snafu and Recent Bill Surge Remains Under Regulatory Microscope

ALBANY — The New York State Public Service Commission (Commission) today finalized an independent, comprehensive management and operations audit of Central Hudson Gas & Electric Corporation (Central Hudson). The highest priority recommendations made in the audit are related to strategic planning, billing and information systems, project management, and benchmarking. Meanwhile, the investigation into Central Hudson’s customer billing problems remains ongoing.

“The audit we have conducted examined Central Hudson’s electric and gas operations in New York State,” **said Commission Chair Rory M. Christian.** “The audit provided an assessment of Central Hudson’s grid modernization efforts and examined how the company is planning for and managing projects related to the Climate Leadership and Community Protection Act or Climate Act.”

The audit also examined governance, management, and customer operations, including bill estimation processes. The law provides the Commission the authority to conduct management and operations audits of natural gas and electric utilities. For large electric and natural gas utilities, such as Central Hudson, the law requires such audits at least once every five years.

The scope of the audit was consistent with the statutory directive to review the company’s construction program planning and operational efficiency. The scope included follow-up review of certain issues from the previous management and operations audit, such as system planning, project and program management, and work management processes. The scope included a review of information systems planning and implementation, elements of customer operations, and pipeline safety, including the company’s leak-prone pipe replacement program. Furthermore, the audit scope required the consultant to review improvements to electric load forecasting processes to support grid modernization goals. The audit also reviewed how the company incorporates those goals, New York State’s Climate Act goals, and other regulatory objectives into performance management and construction program planning processes.

The audit identified significant opportunities for improvement at Central Hudson:

- **Billing and Information Systems:** Central Hudson experienced numerous billing issues after replacing its 40-year-old customer information system. After implementation, the company

experienced a dramatic 900 percent increase in adjusted bills resulting from the customer information system's replacement. The auditor found the company's implementation suffered due to the inexperience of the company's information technology (IT) leadership team and its heavy reliance on software vendors for tasks typically managed internally. The consultant noted Central Hudson's practice of issuing bills monthly but reading meters every other month contributed to billing issues and a large increase in customer complaints. The consultant further noted that, as of June 2022, only 53 percent of Central Hudson's electric and gas meters featured Automated Meter Reading technology, which provides walk-by or drive-by read capability. The auditor recommended that Central Hudson read meters monthly to better align consumption with changing energy prices and reduce billing issues and resultant customer complaints. The consultant also recommended that Central Hudson assign a project management officer for all major IT programs and implement a standardized business process improvement capability program.

- **Strategic Planning:** The auditor found that Central Hudson has improved its strategic planning process since the last audit but noted several opportunities for additional improvement. The auditor found that climate goals are not included in yearly business plans and performance management team goals. Further, the auditor found that the company's formal strategic plans did not identify business opportunities linked with climate change initiatives, nor were these potential benefits considered at the Board level. Therefore, the auditor recommends that Central Hudson enhance its strategic planning to demonstrate commitments to meeting Climate Act goals with corporate objectives and team goals updated to better integrate climate commitments in its performance management process.
- **Project Management:** The auditor found that Central Hudson's project management organization has increased staffing to enhance its capacity but lacks a formal portfolio project management system. However, the consultant observed the absence of standard work breakdown structures at the project execution level. The auditor recommended implementing a portfolio project management system to better monitor projects' status with expanded work breakdown structures at the project-execution level.
- **Benchmarking:** The consultant found that Central Hudson had not advanced its benchmarking practices since the prior management and operations audit. Specifically, the consultant found that the company conducted benchmarking mainly through participation in intra-organizational working groups at Fortis, Inc. The consultant discovered that Central Hudson does not benchmark its customer service performance against other similar utilities, nor does it share best practices outside of its parent organization. The consultant recommended that Central Hudson implement performance benchmarking for customer service operations in multiple areas using an accredited benchmarking data source. Further, the consultant recommended that Central Hudson prepare formal performance assessments using industry benchmarking data from recognized national organizations and develop plans for improving low-performing areas.

The consultant observed that the company had made significant investments in grid modernization and that the company's grid modernization program considers CLCPA goals and requirements. Still, its program lacks a dedicated project management organization to focus on day-to-day activities and governance. The consultant recommends establishing a project management organization with robust reporting as is commonly practiced by other utilities in its peer group. The consultant also recommended that the company synchronize its forecasting with a focus on areas like electric vehicle forecasts to assist the company's efforts to meet its CLCPA goals.

In terms of next steps, Central Hudson has 30 days to submit an implementation plan with the Commission. Staff will review Central Hudson's implementation plan to ensure it addresses the underlying findings in the audit report. Staff will also review and assess any proposed modifications or rejections. The implementation plan will be submitted for public comment, including any revisions resulting from staff's review, further refinement by Central Hudson, or public comments, will be presented to the Commission for approval or modification.

Today's decision may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Number 21-M-0541 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission documents may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.