

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

August 4, 1999

Ms. Maureen O. Helmer
Chairman
Public Service Commission
3 Empire State Plaza
Albany, NY 12223

Re: Oversight of Utility Companies' Year
2000 Preparedness
Report 99-S-7

Dear Ms. Helmer:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have audited the Public Service Commission's monitoring and oversight of the State's utility companies' efforts to make their computer systems and automated devices and equipment Year 2000 compliant. Our audit covered the period January 1, 1998 through May 5, 1999.

A. Background

As the Year 2000 approaches, the State's utility companies must prepare their computer systems and their automated devices and equipment to process correctly when dates beyond December 31, 1999 are encountered. For utility companies, the Year 2000 problem could potentially affect company billings, the scheduling of equipment maintenance, the proper execution of equipment and devices which depend on embedded microprocessors and, ultimately, the delivery of services. Public utility services are a critical part of the State's infrastructure and are vital to the conduct of the State's business and the welfare of its citizens. Therefore, it is essential that the utility companies are prepared for the Year 2000 and its potential impacts.

The State's Public Service Commission (PSC) is responsible for making sure that the State's utility companies provide New Yorkers with access to reliable services. The PSC consists

of five commissioners appointed by the Governor. The PSC Chairman is also the chief executive of the Department of Public Service. The PSC regulates the following utility companies in New York State: 6 major investor-owned and 35 municipal electric utilities, 8 major and 8 small natural gas utilities, 3 large telephone companies and 36 smaller telephone companies, 6 large and over 300 smaller water and steam companies, and 3 large and 51 smaller cable television operators.

B. Audit Scope, Objective and Methodology

We audited the PSC's monitoring and oversight of utility companies' efforts to make their computer systems and their automated devices and equipment Year 2000 compliant. Our audit covered the period January 1, 1998 through May 5, 1999. The objective of our performance audit was to assess whether the PSC's monitoring and oversight approach for Year 2000 problem resolution by utility companies is reasonable. To accomplish our objective, we reviewed and evaluated PSC's monitoring of utility companies' Year 2000 readiness plans and remediation efforts and its actions to help ensure that the companies can meet deadlines for resolving the Year 2000 problem. During our audit, we interviewed appropriate PSC staff, reviewed progress and status reports on utility companies' activities and researched other states' monitoring and oversight activities of regulated utility companies.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand PSC's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions reported in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. Therefore, we focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of Audit

Our audit found that the PSC began monitoring utility companies' progress toward addressing the Year 2000 problem in mid-1998. From this point through early 1999, PSC's monitoring consisted primarily of obtaining periodic status reports and verbal statements from the

major utilities. Since that time, the PSC has become substantially more involved in monitoring the progress of more of the utility companies by conducting on-site reviews of the utility companies and by verifying their Year 2000 problem resolution activities. Presently, these verification and onsite review efforts appear to exceed the extent of public utility monitoring and oversight being performed by other states which are comparable to New York. We did find, however, that the PSC is not asking either the over 300 smaller water utility companies or the 51 smaller cable television operators to report their Year 2000 project status to the PSC for monitoring purposes. We conclude that these utility companies should at least be required to report whether their mission critical systems need to be corrected and, if so, the status of such corrective efforts. While it is clear that the PSC must focus on larger utility companies, it is conceivable that these smaller companies may be at risk and may also require some level of oversight and monitoring as well. Therefore, except for the smaller water utility companies and cable television operators, we conclude that the PSC's monitoring and oversight approach is a reasonable one for establishing whether important services can continue to be delivered at or before the turn of the century.

D. Monitoring and Oversight

Prior to 1999, the PSC's approach to ensuring that utility companies were progressing in their Year 2000 efforts consisted primarily of issuing directives to the utility companies and reviewing information provided by them. For example:

- In December 1997, the PSC sent a letter to the State's major utilities informing them that they had to be aware of, and take measures to address, the Year 2000 problem.
- In August 1998, the PSC notified the utilities that PSC staff would become more involved in monitoring and overseeing their Year 2000 problem resolution activities.
- In September 1998, PSC officials met with managers of the major utility companies to ascertain the status of their Year 2000 efforts.
- In October 1998, the PSC directed that by July 1, 1999, the major utilities should have achieved Year 2000-readiness and should have completed contingency plans for coping with system failures. Those utilities that anticipated problems in meeting the July 1999 deadline were to report by December 31, 1998 on the alternative steps that were being taken to achieve readiness.

Commencing in February 1999, the PSC's monitoring and oversight became more comprehensive. For example, the PSC directed the utility companies to provide the PSC with monthly status reports on their Year 2000 preparedness, and to develop by April 1, 1999, outreach programs to inform customers about Year 2000 preparations. PSC staff with appropriate expertise

for each type of utility have been assigned to review and monitor the information in the status reports and to make site visits to verify the extent of Year 2000-readiness. Our audit showed that PSC staff are adhering to these requirements. In March 1999, PSC staff made site visits to individual utility companies to assess their Year 2000 preparations. PSC officials advise us that such site visits will continue throughout 1999. In addition, PSC staff report their monitoring results to the appropriate director level within the PSC and to the PSC's Year 2000 Coordinator. Division directors then report monitoring results to the PSC Commissioners.

The PSC indicates that, overall, the utilities being monitored seem to be progressing well in their Year 2000 preparations and that all of them should be Year 2000-ready on time. As of May 1999, the PSC reports no indications that any major utility will be unable to achieve timely Year 2000-readiness. However, the PSC reports that certain utilities have revised their estimated schedules for completion of Year 2000 efforts, or have indicated that they will not make the July 1, 1999 deadline. PSC officials informed us that they plan to increase monitoring of these utilities. The additional monitoring is needed because of their increased risk for untimely completion of necessary efforts. Officials advised us that this monitoring would determine why schedules were revised and would review efforts being made to remedy the problem(s) that cause the schedule delays.

During our audit we noted that the PSC's monitoring focuses on the large utility companies that provide services to the greatest number of State businesses and residents. PSC officials stated that they are not asking either the over 300 smaller water utility companies or the 51 smaller cable television operators to report the status of any Year 2000 problem resolution efforts that they may be undertaking because it would be difficult to follow up on information from so many companies. In addition, they added that it is unlikely that the smaller water utility companies have digital systems affected by the Year 2000 problem. PSC officials advised us that they plan to send correspondence to these companies reminding them of the need to address all Year 2000 issues and requesting them to contact the PSC if problems arise. While we recognize the difficulty with monitoring numerous small utilities, a risk for non-compliance with Year 2000 requirements may reside with these companies as they may lack the sophistication to effectively resolve the Year 2000 problem. With respect to the smaller cable television companies, it should be noted that these companies are part of the Emergency Alert System (formerly the Emergency Broadcast System). Therefore, their ability to be operational at all times has increased importance.

At a minimum, we believe that the PSC should request that these companies notify the PSC of any mission critical systems that they have identified that require Year 2000 problem resolution. The status of efforts to correct such systems should also be identified. With this information, the PSC can make a more informed decision about whether and to what extent further monitoring of these particular utilities is needed.

E. Other States' Efforts

To determine how the PSC's preparations for the Year 2000 compare to those of other states, we reviewed the information posted on the web sites of the states of California, Michigan,

Illinois, Texas and Florida. Based upon this review, it appears that the PSC is doing more than is being accomplished in other states with regard to monitoring and oversight for Year 2000 compliance for public utilities. In particular, the PSC's efforts to verify data reported by utility companies and to make field visits appear to be unique based upon information available at the time our audit.

Recommendations

1. *Contact smaller water companies and cable television operators and advise them to report to PSC on the Year 2000 problem resolution status of mission critical systems. Using this information, assess whether and to what extent additional monitoring and oversight of these particular utility companies is warranted.*
2. *Continue with the established approach for monitoring and overseeing the Year 2000 problem resolution status of the utility companies subject to the regulation of the PSC.*
3. *Continue to provide increase attention and oversight to those utility companies which, through status reporting or field verification and investigation, are determined to be significantly behind schedule in making Year 2000 corrections.*

A draft copy of this report was provided to PSC officials for review and comments. PSC officials agree with each of our recommendations and state they have taken steps to implement the recommendations. A copy of their response is included as Appendix A.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Public Service Commission shall report to the Governor, the State Comptroller and the leaders of the Legislature and the fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Brian Reilly, Michael Farrar, Nadine Morrell and Jerrold Steigman.

We wish to thank the management and staff of the Public Service Commission for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Jerry Barber
Audit Director

cc: Mr. Charles Conaway



STATE OF NEW YORK
PUBLIC SERVICE COMMISSION
THREE EMPIRE STATE PLAZA
ALBANY, NY 12223-1350
E-Mail Address: MOH@dps.state.ny.us

MAUREEN O. HELMER
CHAIRMAN

(518) 474-2523
FAX (518) 473-2838

July 22, 1999

Mr. Jerry Barber
Audit Director
Division of Management Audit
Office of the State Comptroller
AESOB
Albany, NY 12236

Dear Mr. Barber:

We have reviewed the draft audit report on the Public Service Commission's monitoring and oversight of the utility companies' Y2K efforts. Our detailed response to the recommendations is attached.

We found this audit to be a constructive and timely examination of our efforts, and we have taken appropriate actions to implement your recommendations.

As per your request, we have also attached our representation letter for this audit.

Very truly yours,

MAUREEN O. HELMER
Chairman

Atts.

cc: Don Capone
Chief Budget Examiner
Division of Budget



NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE

**RESPONSE TO STATE COMPTROLLER'S DRAFT AUDIT REPORT
OVERSIGHT OF UTILITY COMPANIES' YEAR 2000 PREPAREDNESS
REPORT 99-S-7 - ISSUED JUNE 23, 1999**

RESPONSE DATED 7/22/99

RESPONSE TO FINDINGS

We are pleased that the Comptroller has concluded that our monitoring and oversight efforts are reasonable to ensure that utility companies can deliver services in the Year 2000. We will continue to monitor the utility companies' Year 2000 preparedness efforts throughout the year. Further, we are pleased that the Comptroller noted our efforts exceed that of several other States in this regard.

We appreciate the timely nature of the Comptroller's review, and have taken steps to implement the recommendations. Our detailed response to the recommendations appears below.

RESPONSE TO RECOMMENDATIONS

Comptroller's Recommendation:

- 1) Contact smaller water companies and cable television operators and advise them to report to PSC on the Year 2000 problem resolution status of mission critical systems. Using this information, assess whether and to what extent additional monitoring and oversight of these particular utility companies is warranted.

Agency Response:

We agree. In July, we sent letters to all smaller water companies and cable television operators with instructions to report on the status of their mission critical systems, as well as contingency plans that have been developed. The results of this information will be used to determine whether increased monitoring is needed for these companies.

Draft Response - Report 99-S-7

7/22/99

Page 2

Comptroller's Recommendation:

- 2) Continue with the established approach for monitoring and overseeing the Year 2000 problem resolution status of the utility companies subject to the regulation of the PSC.

Agency Response:

We agree. Our monitoring and oversight efforts, including site visits, will continue throughout the year.

Comptroller's Recommendation:

- 3) Continue to provide increased attention and oversight to those utility companies which, through status reporting or field verification and investigation, are determined to be significantly behind schedule in making Year 2000 corrections.

Agency Response:

We agree. As the year progresses, we will continue to increase our monitoring and oversight efforts to those companies that report significant lags in their remediation schedule.