

**MINUTES OF THE REGULAR MEETING  
OF THE  
AUDIT COMMITTEE**

**July 29, 2014**

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Minutes of the regular meeting of the New York Power Authority's Audit Committee held at the Authority's Offices at 123 Main Street, White Plains, New York at approximately 8:40 a.m.

**The following Members of the Audit Committee were present:**

Trustee Eugene L. Nicandri, Chairman  
Trustee Jonathan Foster

Trustee Terry Flynn - Excused

**Also in attendance were:**

John Koelmel	Chairman, New York Power Authority
Joanne Mahoney	Trustee, New York Power Authority
Anne Kress	Trustee, New York Power Authority
Gil Quiniones	President and Chief Executive Officer
Edward Welz	Chief Operating Officer
Robert Lurie	Executive Vice President and Chief Financial Officer
Justin Driscoll	Executive Vice President and General Counsel
Arthur Cambouris	Deputy General Counsel
William J. Nadeau	Senior Vice President and Chief Risk Officer
James Pasquale	Senior Vice President – Economic Development and Energy Efficiency
Karen Delince	Corporate Secretary
Jill Anderson	Vice President Public & Regulatory Affairs & Chief of Staff
Thomas Concadoro	Vice President and Controller
Joseph Gryzlo	Vice President and Chief Ethics & Compliance Officer
Gerard Vincitore	Vice President – Finance
Frank Deaton	Director Enterprise Risk Management
Lorna Johnson	Associate Corporate Secretary
Sheila Baughman	Assistant Corporate Secretary
Anna Devine	Executive Director, Advisory Services – Ernst & Young
Lynne Coviello	Senior Manager, Advisory Services – Ernst & Young
Todd Fowler	Engagement Partner – KPMG

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Chairman Eugene L. Nicandri presided over the meeting. Corporate Secretary Delince kept the Minutes.

**Introduction**

*Chairman Nicandri welcomed committee member, Trustee Foster; the Authority's Chairman Koelmel; Trustee Kress; President Quiniones and senior staff to the meeting. He said the meeting had been duly noticed as required by the Open Meetings Law and called the meeting to order pursuant to section B(4) of the Audit Committee Charter.*

**1. Adoption of the Proposed Meeting Agenda**

Upon motion made and seconded the agenda for the meeting was adopted.

2. **CONSENT AGENDA:**

Upon motion made and seconded the Consent Agenda was approved.

a. **Approval of the Minutes**

Upon motion made and seconded, the Minutes of the Committee's Regular Meeting held on March 25, 2014 were approved.

**DISCUSSION AGENDA:**

**3. Procurement (Services) Contract – Independent Accounting Services – Contract Award**

“The Vice President and Controller submitted the following report:

**SUMMARY**

The Audit Committee is requested to recommend that the Authority’s Trustees approve an award of up to \$2.5 million to KPMG LLP (“KPMG”) to provide independent accounting services, including the annual audits of the Authority’s financial records for the years 2014 through 2018 and other services, as may be required, through July 31, 2019.

**BACKGROUND**

Section 2879 of the Public Authorities Law and the Guidelines for Procurement Contracts require the Trustees’ approval for procurement contracts involving services to be rendered for a period in excess of one year. The Public Authority Accountability Act of 2005 provides that the Audit Committee shall recommend to the Board of Trustees the hiring of a certified independent accounting firm. At their meeting of July 28, 2009, the Trustees approved the award of a contract to KPMG, for auditing and other services, for five years (2009 through 2013). That contract will expire on July 31, 2014.

**DISCUSSION**

In accordance with the Authority’s Procurement Guidelines, a request for competitive bids was posted on the Authority’s website and published in the New York State *Contract Reporter* on June 10, 2014 for independent accounting services. The audit services shall include preparation of the following for the years 2014 through 2018: (1) an opinion on the Authority’s financial statements; (2) an opinion on the Authority’s compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York; (3) a review of the Authority’s internal control over financial reporting, compliance and other matters based on an audit of financial statements performed in accordance with government auditing standards and (4) a review of the Authority’s compliance with the requirements of a federal program and internal control over that compliance in accordance with OMB Circular A -133. In addition, the independent accountant may be requested to perform other audit services (for example, reviews of debt offering statements), and non-audit services (for example, reviews of internal process and procedural matters). In response to this request, the Authority received a bid from KPMG, its current independent accountant.

During the term of its current contract, KPMG has developed an in-depth understanding of the Authority’s operations and finances and has committed to assigning senior personnel with extensive utility experience to the Authority’s audit team. The firm’s proposed engagement partner has a deep understanding of the Authority’s local regulatory and operating environment, having served as lead partner for several large regional utility clients. In addition, KPMG plans to assign technical resources who have demonstrated their ability to address emerging complex technical issues. The firm has a large national auditing practice with significant experience in both the utility and government sectors.

KPMG’s proposed total maximum price of \$1,572,500 to perform the Authority’s audits for the years 2014 through 2018 is 16% over its current fee or 3.2% per year. This is essentially an inflationary increase and is reasonable. In addition, KPMG’s proposed hourly rates to perform other audit services and non-audit services are also reasonable. Based on KPMG’s proposed hourly rates, historical experience and projected services, staff estimates total expenditures over the five-year contract will be approximately \$2.5 million as follows: \$1.6 million for annual audit services; \$175,000 for other audit services and \$725,000 for non-audit services.

**REQUESTED ACTION**

Based on KPMG’s qualifications to perform the services, reasonable price and hourly rates, and satisfaction of the bid requirements, the Vice President and Controller requests that the Audit Committee recommend that the

Authority's Trustees approve the award of a five-year contract to KPMG LLP to perform the annual audit of the Authority's financial records for the years 2014 through 2018 and to perform other services, as may be required, through July 31, 2019, in an amount not to exceed \$2.5 million.

For the reasons stated above, I recommend the approval of the above-requested action by adoption of the resolution below."

*Mr. Concadoro provided highlights of staff's recommendation to the Committee. In response to a question from Chairman Nicandri, Mr. Concadoro said, under the Public Authority Accountability Act, the Managing Partner is required to be rotated after five years. Todd Fowler, who has extensive experience in the utility industry, is the proposed Engagement Partner.*

*Responding to a question from Authority Chairman Koelmel and Trustee Foster, Mr. Concadoro said although other firms opted not to bid, staff is of the opinion that KPMG is highly qualified to perform the work; also their bid was reasonably priced. Mr. Lurie added that staff had the same concerns regarding the lack of competition; however, based on the negotiations, KPMG is the best selection for the recommendation.*

*Responding to further questioning from Trustee Foster, Mr. Concadoro said the Authority solicited certain second tier firms; however, none of them responded to the request for bids. And Mr. Lurie added that the secondary firms tend not to have specialized utility practices, so it's difficult for them to handle the scope-of-work necessary for this contract.*

The following resolution, as submitted by the Vice President and Controller, was unanimously approved by the Audit Committee.

**RESOLVED, That pursuant to the Guidelines for Procurement Contracts adopted by the Authority and provisions of the Public Authority Accountability Act of 2005, the Audit Committee recommends that the Authority's Trustees approve the award of a five-year contract to KPMG LLP to perform the annual audits of the Authority's financial records for the years 2014 through 2018 and to perform other services, as may be required, through July 31, 2019, in an amount not to exceed \$2.5 million.**

4. Internal Audit Update

a. Approval of 2014 Audit Plan

*Ms. Anna Devine, Executive Director, Advisory Services, of Ernst & Young said she would be providing an update on the Internal Audit Plan and introduced Lynne Coviello, Senior Manager, who will be providing updates on the internal audit activities since April of this year.*

*Ms. Devine said the 2014 Internal Audit Plan was developed by the Authority's Internal Audit Department. Ernst & Young assessed the Plan making comparisons with emerging audit and industry trends, and the Authority's strategic objectives. Some adjustments were made to the Plan, such as combining audits where the scope and processes aligned. Also, some audits were added to enhance risk coverage and address emerging trends.*

*Ms. Devine continued that a detailed Internal Audit Teaming Charter was co-developed with staff from Internal Audit, Ernst & Young and Senior Management. Some of the changes included revision of the reporting protocols to management and the Audit Committee and adjustments to some of the reporting lines within the organizational chart.*

*Ms. Devine mentioned that there were three current vacancies in the Audit Department, namely, the Chief Audit Executive and two Senior Auditors. Responding to a question from Trustee Foster, Ms. Devine said the vacant positions are currently being addressed by the Authority's management. President Quiniones added that the Human Resources Department and Senior Management are actively recruiting for those positions.*

*Ms. Devine concluded by indicating that Internal Audit and Ernst & Young and staff continue to receive cooperation and support from the Authority's management in performing their audits. She then requested that the 2014 Internal Audit Plan, as required by the Authority's policy, be approved.*

*By motion made and seconded the 2014 Audit Plan was approved by the Audit Committee.*

**b. Audit Activity Update**

*Ms. Lynne Coviello provided an update of the Internal Audit Activity to the Committee. She said there were 39 audits in the Audit Plan submitted to the Committee in May. To date, they have issued four reports, two of which were issued in July and there are several reports that are in the process of being issued.*

*In response to a question from Trustee Foster, Ms. Coviello said the audits are on schedule for the end of the year. In response to further questioning from Trustee Foster, Ms. Coviello said most of the reports issued were rated “operating effectively.” They will be doing some additional audit work on some of the audits in the Plan and will provide an update to the Committee at a later date.*

*In response to a question from Chairman Nicandri, Ms. Coviello said the Plan is the same as that which was provided to the Committee members as an update in May.*

*In response to a question from Authority Chairman Koelmel, Ms. Coviello said that, as part of the assessment of the Plan that was conducted in April and May, they looked at the risk assessment conducted by Risk Management and compared it to the current Internal Audit Plan to see if the Plan addressed the risks that were a part of the Enterprise Risk Assessment; or, as risks change, if the Internal Audit Plan needed to be modified to address different risks.*

*Responding to further questioning from Authority Chairman Koelmel, Ms. Coviello said they have not implemented a rating scale, but have taken a look at the definition of “operating effectively” versus “needs improvement.” Going forward, and this can continue based on the Committee’s needs, they will identify the key observations of the audit - what is going to be an impact to the organization - and provide an executive summary of those observations to the Committee.*

*President Quiniones thanked Trustee Foster for his assistance in getting the scope-of-work – the right expectations and alignment – in place. He thanked Ernst & Young for being a part of the team.*



5. **Risk Management Update**

*Mr. Frank Deaton provided an update on the Enterprise Risk activities. He said this is the second year of completing an annual review of the Authority's risk inventory. Staff captured mitigation strategies and specific responses to each risk for the first time.*

**Top Risk Update**

*- There are two new risks in the Top Risk category. These are based on the "Impact" and "Likelihood" ratings.*

*1) Physical Security Breach – a high profile topic for the utility industry. There has been a lot of regulatory involvement for organizations to put standards in place to assess their vulnerabilities and take appropriate actions to protect their assets.*

*2) STL Generator Rotor Spider Fractures – the risk rating increased from the prior year as management works to implement their response plan.*

*Responding to a question from Trustee Foster regarding the number of critical items on the "Likelihood" axis of the metrics, Mr. Nadeau said the Authority has identified approximately 180 risks across its Business Units. However, as the Authority matures, and with proper focus, it will be able to differentiate risks resulting in a smaller number of "Critical Risks."*

*Mr. Deaton continued that "Cyber Security" has been removed from the Chart. Responsible management's assessment incorporated the enhanced controls and other investments made by the Authority that reduced the "Likelihood" rating. He indicated that Risk Management is working with the Internal Audit Department to ensure enhanced controls are working effectively.*

*In response to a comment from Authority Chairman Koelmel, President Quiniones said Ernst & Young's audit effort includes penetration testing as part of their cyber security effort. The Authority is also continuing to work with regulators and the various federal agencies regarding cyber security issues. Mr. Deaton added that Risk Management staff is working with responsible management to brief the Trustees cyber security, industry vulnerability, and the Authority's response effort.*

*Responding to further comments from Authority Chairman Koelmel and Trustee Foster, Mr. Nadeau said Risk Management had extensive dialogue with the risk owner, but, in the end, the risk owner makes the determination as to the risk level. He confirmed that Risk Management supports the Board of Trustees and the*

*Audit Committee and reiterated that Risk Management has already engaged Internal Audit to look at cyber security risk to ensure the appropriateness of management's assessment.*

**Risk Dashboard**

*Mr. Deaton provided an update of the Risk Dashboards: Significant Increases in Non-Recurring O&M Expenditures and Increasing Difficulty to attract and Retain Workforce – SENY region. He said the Risk Dashboards reflect how the program adds value to the organization by identifying the risk; identifying responses and actions. He said this will be reported to the Committee on a regular basis.*

*Mr. Nadeau indicated that Internal Audit, specifically dedicated Ernst & Young resources, will be conducting an Audit of the Authority's Enterprise Risk Management activities starting in September. As a part of their scope of work, they will be speaking with members of the Board of Trustees as well as the Executive Risk Management Committee.*

6. **Motion to Conduct an Executive Session**

*Mr. Chairman, I move that the Authority conduct an executive session to discuss matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation.* Upon motion made and seconded, an executive session was held.

7. **Motion to Resume Meeting in Open Session**

*Mr. Chairman, I move to resume the meeting in Open Session.* Upon motion made and seconded, the meeting resumed in Open Session.

8. **Next Meeting**

Chairman Nicandri said that the next regular meeting of the Audit Committee will be held on **Tuesday, September 30, 2014**, at the Niagara Power Project, Power Vista (Visitor's Center), Lewiston, New York.

**Closing**

On motion made and seconded, the meeting was adjourned by the Chairman at approximately 9:40 a.m.

A handwritten signature in black ink, appearing to read "Karen Delince". The signature is fluid and cursive, with the first name "Karen" and last name "Delince" clearly distinguishable.

Karen Delince  
Corporate Secretary

July 29, 2014

# **EXHIBITS**

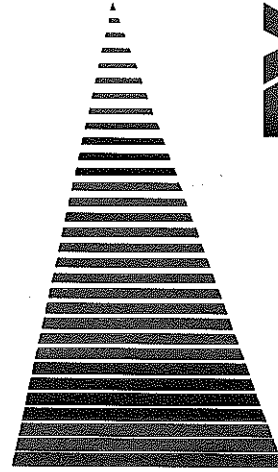
## **For**

### **July 29, 2014 Meeting**

### **Minutes**

# New York Power Authority *Internal Audit Update*

July 29, 2014



Building a better  
working world



# Agenda

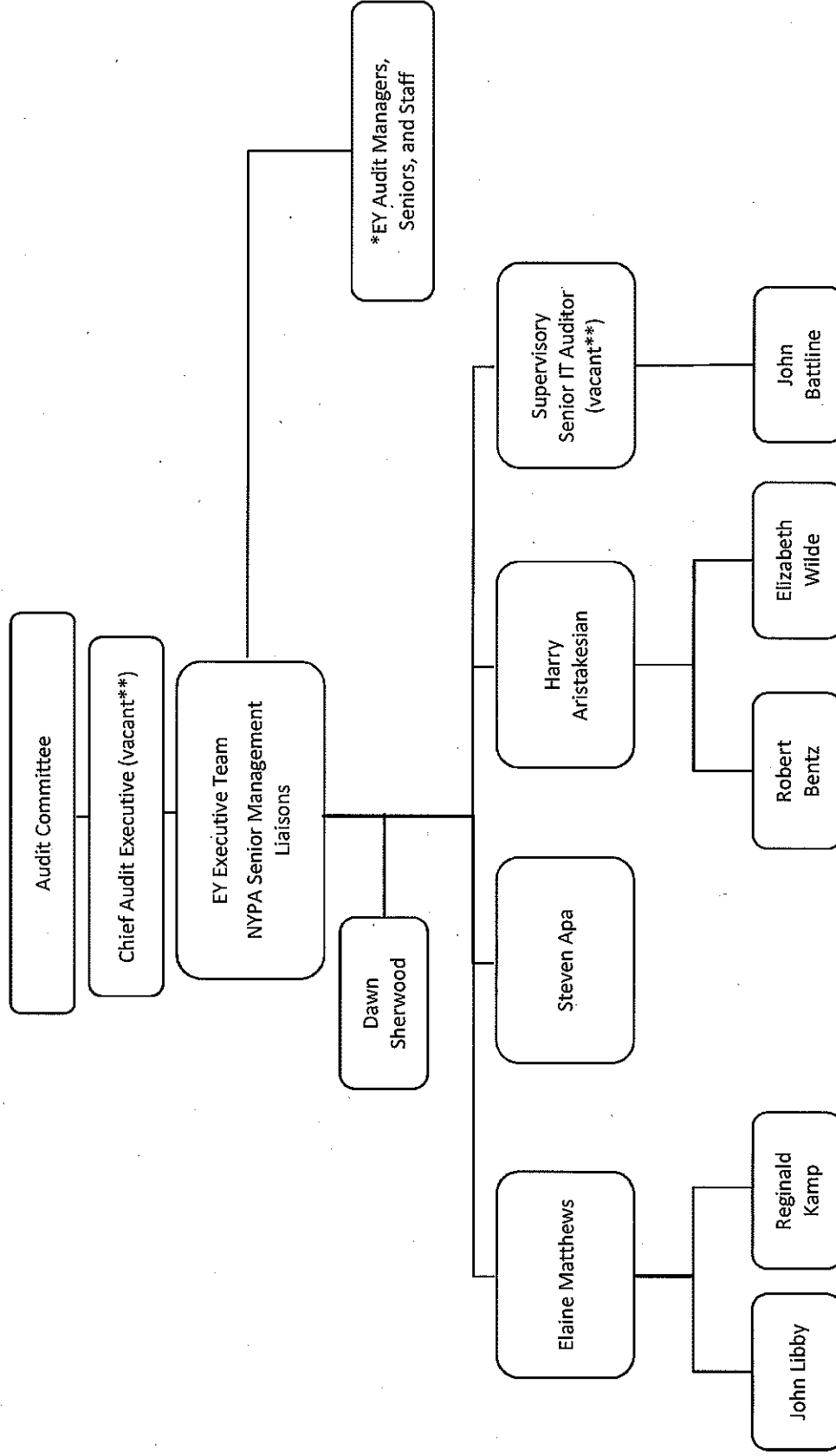
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- ▶ Status of recent IA activities
- ▶ IA Department interim organization (revised)
- ▶ Status & approval of 2014 IA Plan
- ▶ Questions on recently issued IA reports
- ▶ Appendix – 2014 IA Plan

# Status of recent IA activities

- ▶ Detailed internal audit plan pending final approval by the Audit Committee as required per the department policy and internal audit standards
- ▶ Receiving continued cooperation from NYPA Senior Staff and Department Managers with regard to the IA Teaming arrangement with EY
- ▶ Interim report issuance process underway including streamlined management and Audit Committee reporting
  - ▶▶ Issued two (2) open 2013 IA reports providing closure of 2013 audits
  - ▶▶ Issued four (4) 2014 IA reports to date
- ▶ Revised IA Department governance structure in place
  - ▶▶ Search for vacant CAE, Supervisory Senior Auditor, and Supervisory Senior IT Auditor underway
  - ▶▶ Supervisory Senior Auditor vacancy is recent as of May 20, 2014 and Supervisory Senior IT Auditor vacancy as of July 1, 2014
- ▶ NYPA prepared response to the External Quality Assessment of the IA activity conducted by the IIA from December 2013

# IA department interim organization (revised)



*\*EY Managers, Seniors/Staff, or Subject-Matter Resources may be involved in any staffing combination in the execution of certain audits. EY will be involved from an overall engagement management perspective and in scoping of upcoming audits and conducting review of reports prior to issuance by the NYPA Senior Management Liaison.*

*\*\*In addition to the CAE and Supervisory Senior IT Auditor vacancies, there is another requisition open for a Supervisory Senior Auditor.*

# Status & approval of 2014 IA Plan

Detailed internal audit plan is pending final approval by the Audit Committee as required per the department policy and internal audit standards. The following is a status update for the 39 audits in the 2014 IA Plan.

Status	Number of Audits
Report Issued	4
Fieldwork Complete – Report Pending Issuance	1
Fieldwork in Progress	9
Audit Planning	13
Not Started	12
<b>Total</b>	<b>39</b>

# Questions on recently issued IA reports

As part of the 2013 and 2014 Internal Audit Plans, the Internal Audit Department has recently completed the following audits:

- ▶ Headquarters Business Expense (FIN13425) – 2013
- ▶ Headquarters Procurement Consulting Contracts (FIN13101) – 2013
- ▶ Patch Management (IS014730) – 2014
- ▶ Revenue Requirements – Hydro Customers (OPR14007) - 2014

# Appendix - 2014 IA Plan

Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
<b>Report Issued: 4</b>					
1	OPR14016	Physical Security – St. Lawrence	Operations	Operational/Financial	2/11/14
2	OPR14110	Environmental, Health & Safety Audit Programs	Operations	Operational/Financial	2/28/14
3	IS014730	Patch Management	Enterprise Shared Services	Information Technology	6/26/14
4	OPR14007	Revenue Requirements – Hydro Customers	Business Services	Operational/Financial	7/10/14
<b>Fieldwork Complete – Report Pending Issuance: 1</b>					
5	FIN14100	Headquarters Accounts Payable	Business Services	Operational/Financial	
<b>Fieldwork In Progress: 9</b>					
6	FIN14950	Purchasing/Warehousing – Niagara	Enterprise Shared Services	Operational/Financial	
7	FIN14106	Generation Resource Management	Operations/Energy Resource Management	Operational/Financial	
8	OPR14006	Northern Region O&M	Operations	Operational/Financial	
9	FIN14241	Western NY Economic Development Fund	Economic Development & Energy Efficiency	Operational/Financial	
10	OPR14017	Central Region O&M	Operations	Operational/Financial	
11	OPR14070	Operational Planning - Asset Investment Planning	Operations	Operational/Financial	
12	FIN14113	Headquarters ProCard Expenses	Various	Operational/Financial	
13	IS014701	ITAC Process/IT Capital Projects	Enterprise Shared Services	Information Technology	
14	IS014217	Virus Protection & Response	Enterprise Shared Services	Information Technology	

# Appendix - 2014 IA Plan, cont'd

Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
<b>Audit Planning: 13</b>					
15	FIN14305	Energy Efficiency Projects – Statewide Program	Economic Development & Energy Efficiency	Operational/Financial	
16	OPR14200	Power System Operations/Energy Control Center	Operations	Operational/Financial	
17	IS014740	Cyber Security	Operations/Enterprise Shared Services	Information Technology	
18	OPR14130	Succession Planning/Retention Programs	Enterprise Shared Services	Operational/Financial	
19	OPR14050	Human Resources Operations	Enterprise Shared Services	Operational/Financial	
20	FIN14627	Customer Revenues - Niagara	Business Services	Operational/Financial	
21	OPR14060	Enterprise Risk Management	Business Services	Operational/Financial	
22	OPR14080	Employee Information Concerns Line	Law	Operational/Financial	
23	FIN14600	Purchasing/Warehousing – St. Lawrence	Enterprise Shared Services	Operational/Financial	
24	IS014750	Network ITGC Review - Security & Change Management	Enterprise Shared Services	Information Technology	
25	IS014760	General Controls over SCADA - Northern & Central	Enterprise Shared Services	Information Technology	
26	FIN14120	Cash Management & Treasury Operations	Business Services	Operational/Financial	
27	OPR14090	Social Media Governance	Enterprise Shared Services	Operational/Financial	

# Appendix - 2014 IA Plan, cont'd

Ref.	Audit #	Audit	Business Unit	Audit Type	Issuance Date
<b>Not Started: 12</b>					
28	FIN14105	Energy Efficiency Operations – Built Smart NY	Economic Development & Energy Efficiency	Operational/Financial	
29	FIN14263	NYISO Energy Settlements – Generation	Marketing	Operational/Financial	
30	OPR14101	Headquarters Procurement	Enterprise Shared Services	Operational/Financial	
31	OPR14002	Public Authorities Law Compliance	Law/Various	Operational/Financial	
32	FIN14295	SENY Cost of Service/ Long Term Agreements	Business Services	Operational/Financial	
33	FIN14260	Customer Load Forecasting	Economic Development & Energy Efficiency	Operational/Financial	
34	OPR14111	Quality Assurance/Code Compliance	Operations	Operational/Financial	
35	IS014720	IT Incident Response Plan	Enterprise Shared Services	Information Technology	
36	IS014207	Mobile Device Security & Controls	Enterprise Shared Services	Information Technology	
37	IS014710	Infrastructure Virtualization	Enterprise Shared Services	Information Technology	
38	OPR14095	Energy Trading Process & Controls Assessment	Business Services	Operational/Financial	
39	IS014210	IT Disaster Recovery - Governance	Enterprise Shared Services	Information Technology	



# **Risk Management Update**

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**July 29, 2014**

**Audit Committee Meeting**

**Frank Deaton, Director Enterprise Risk Management**

# Executive Summary

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- **2014 Risk Inventory Refresh**

- **Top Risk Updates**

- **Risk Response**

- **Response Strategy and Activities (all risks)**

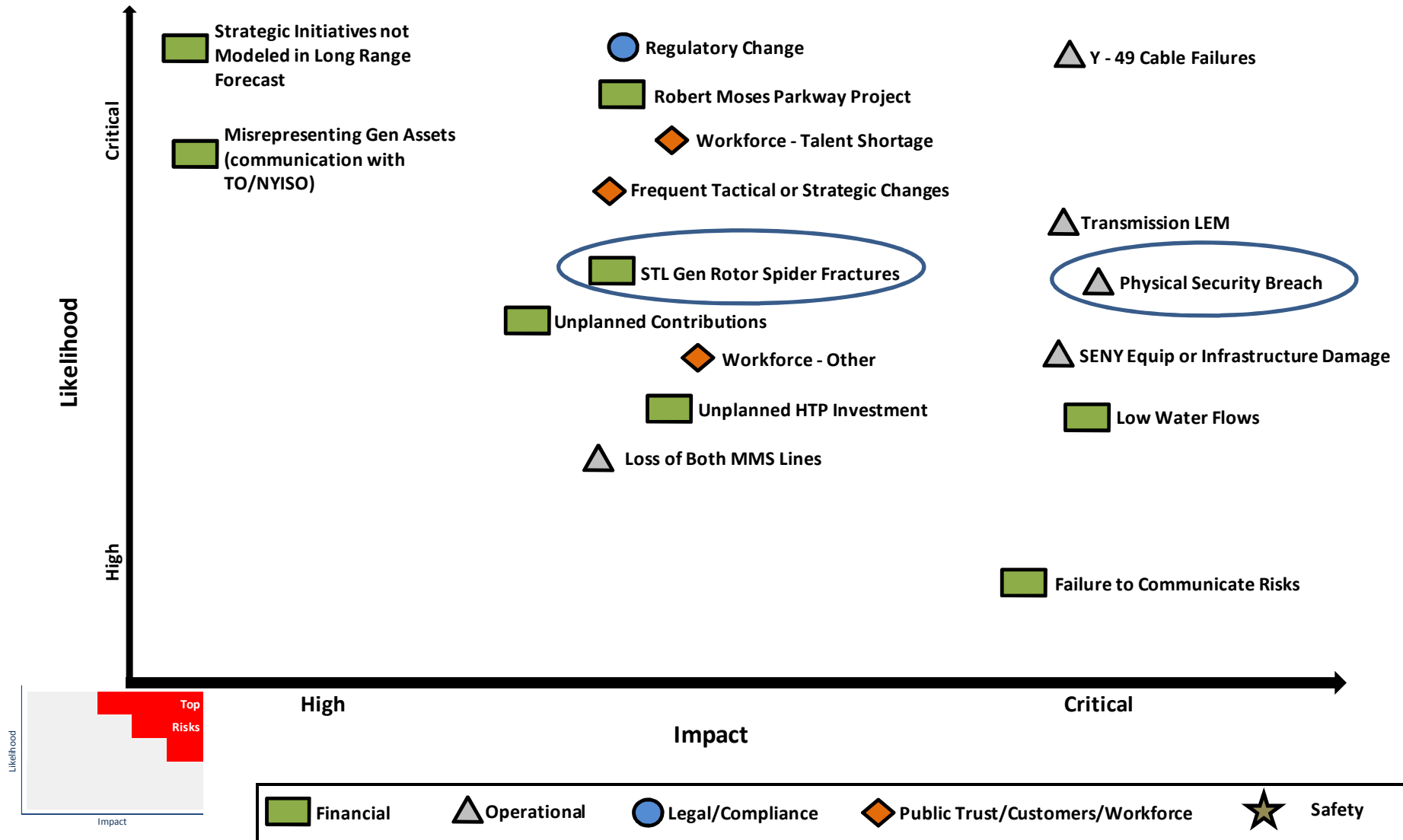
- **Deep Dives and Dashboards**

- **Upcoming**

- **Cyber Briefings**

- **Internal Audit**

# Top Risks (updated 6/30/14)



# Risk Dashboards

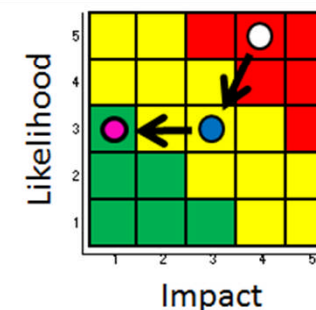
## Significant Increases in Non-Recurring O&M Expenditures Risk Response Dashboard - June 2014

Risk Number	374-2013	Risk Owner	Tom Davis, VP Fin Planning
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Response Strategy	Accept	Avoid	Mitigate	Share	Transfer
			X		

Response Strategy	Early communication between operations and budgets and clear direction on total O&M and total non-recurring O&M budgetary targets. Risk-based project and/or short-term long-term prioritization that is in alignment with industry standard practices. Early executive engagement and decision making during the process in order to gain consensus and cross-functional buy-in.
Expected Outcome	

2013: Impact 4 x Likelihood 5 = 20	○
2014: Impact 3 x Likelihood 3 = 9	●
Expected: Impact 1 x Likelihood 3 = 3	●



Risk Response Plan	Owner	Date	Status
R1 Operations and Financial Planning - Process Improvement	Bob Hopkins	May-14	\$60 Million 2015 Target Number ●
R2 Project Substantiation and Asset Management	Dolly Jinvit	May-14	Implementing Project Prioritization ●

Resources	Capital \$	O&M \$	FTEs	Budgeted (Y/N)	Year
Estimate	NA	NA	NA	NA	
Update					

Key Risk Indicator (KRI) Metric/Milestone	Threshold	Prior Period	Current Period
KRI1 Rate increase significantly greater than inflation	2 x inflation (3%)	8%*	8%* ●
KRI2 Net revenue or customer impact due to deviation from current rate plan	\$8-10 Million	\$13.7 Million	\$13.7 Million ●

6/30/14 update

\*Need for rate action was offset by favorable UCAP credits in the COS.

# Risk Dashboards

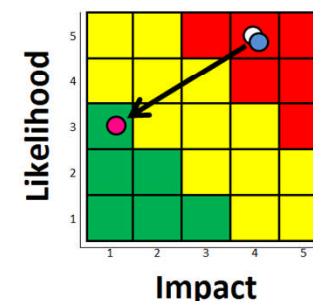
## Increasingly Difficult to Attract and Retain Workforce - SENY Region Risk Response Dashboard - June 2014

Risk Number	388-2013	Risk Owner	Tim Zandes, SENY Regional Mgr
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Response Strategy	Accept	Avoid	Mitigate	Share	Transfer
			X		

Response Strategy	Sustainable high performance workforce talent pool for predictable & reliable generation.
Expected Outcome	

Risk Score
2013: Impact 4 x Likelihood 5 = 20
2014: Impact 4 x Likelihood 5 = 20
Expected: Impact 1 x Likelihood 3 = 3



	Risk Response Plan	Owner	Date	Status
R1	Competitive pay aligned to local IPP market & local cost of living	Galina Nisman	6/14 - 15*	One bid submitted for RFP
R2	Transform legacy organizational structure	Jim Anderson	12/15*	Briefing to represented ongoing
R3	Effective two way & participatory internal communication	Tim Zandes	12/14	SENY Buzz launched
R4	Develop sustainable operational workforce plan	Galina Nisman	12/15*	Job gap analysis underway
R5	Obtain 500 MW NYC building code/fire code exemption	Jim Anderson	NA	Costs are not material to proceed w/plan

\* Represented may take longer

Resources	Capital \$	O&M \$	FTEs	Budgeted (Y/N)	Year
Estimate	NA	NA	NA	**	
Update					

\*\* Depends on Response Plan

Key Risk Indicator (KRI) Metric/	Target	2013 Year End	YTD June 2014
KRI1 Non-retirement voluntary separation	1%	5%	0%

7/1/14 update

Confidential