

NOTE: THE FOLLOWING RFP IS ELIGIBLE ONLY TO THE FIVE MANAGEMENT CONSULTING FIRMS THAT HAVE EXECUTED CONTRACTS PURSUANT TO REQUEST FOR PROPOSAL (08-X-39185) FOR THE CONTRACT PERIOD 10/1/07 THROUGH 9/30/10

**REQUEST FOR PROPOSAL**

**AUDIT**

**OF**

**THE AFFILIATED TRANSACTIONS BETWEEN**

**ATLANTIC CITY ELECTRIC COMPANY AND PEPSCO HOLDINGS,  
INC. AND ITS AFFILIATES**

**PURSUANT TO**

**N.J.S.A. 48: 3-49, 48: 3-55, 48:3-56, 48:3-58 & N.J.A.C. 14:4-5 ET.  
SEQ.**

**AND**

**MANAGEMENT AUDIT**

**OF**

**ATLANTIC CITY ELECTRIC COMPANY**

**PURSUANT TO**

**N.J.S.A. 48: 2-16.4 & N.J.A.C. 14:3-12.1**

**DOCKET NO. EA07100794**

Division of Audits  
New Jersey Board of Public Utilities  
Two Gateway Center Newark, New Jersey 07102

## **SECTION 1 GENERAL INFORMATION**

### **1.0 Introduction.**

The New Jersey Board of Public Utilities (Board) has initiated a two phase audit of Atlantic City Electric Company (ACE, Utility, or Company). Phase one will consist of an audit of the affiliated transactions of ACE and PEPCO Holdings, Inc. (Pepco Holdings or PHI) and its affiliates and any competitive services of ACE. Phase two will consist of a comprehensive management audit.

ACE is a public utility under the regulation of the Board. ACE is engaged in the transmission and distribution of electricity for approximately 540,000 customers in an area of 2,700 square miles. ACE's service territory includes 124 municipalities in Atlantic, Cape May, Salem and parts of Burlington, Camden, Cumberland, Gloucester and Ocean Counties. ACE provides Default Electricity Supply, which is the supply of electricity at regulated rates to retail customers in its service territory who do not elect to purchase electricity from a competitive supplier. Default Electricity Supply is also known as Basic Generation Service (BGS).

ACE is a wholly owned subsidiary of Conectiv, which is wholly owned by PHI. ACE's affiliates include, Potomac Electric Power Company (Pepco), Delmarva Power & Light Company (Delmarva Power), Conectiv Energy Holding Company, Potomac Capital Investment Corporation, Pepco Energy Services, Inc., and PHI Service Company. All the above companies are subsidiaries of Pepco Holdings, Inc (PHI), and none of the affiliates are regulated by the Board. Pepco is a regulated electric utility delivering electricity to more than 750,000 customers in Washington, D.C. and its Maryland suburbs. Delmarva Power is a regulated utility with more than 500,000 electric delivery customers in Delaware and the Delmarva Peninsula and about 120,000 natural gas delivery customers in northern Delaware. Delmarva Power and Atlantic City Electric previously operated under the brand name Conectiv Power Delivery. Conectiv Energy Holding Company, a competitive subsidiary operating in the deregulated energy industry, manages power plant assets and buys and sells fuel and energy in the wholesale marketplace. Pepco Energy Services is a provider of deregulated energy and energy-related services for residential, small business and large commercial customers. PHI is an energy holding company engaged in regulated operations and sale of competitive energy products and services to residential and commercial customers. PHI Service Company provides a variety of support services, including legal, accounting, treasury, tax, purchasing, and information technology services to PHI and its operating subsidiaries. The services are provided pursuant to a service agreement among PHI, PHI Service Company, and the participating operating subsidiaries. PHI delivers electricity and natural gas to more than 1.9 million customers in Delaware, the District of Columbia, Maryland, New Jersey and Virginia, making it one of the largest electricity delivery companies in the mid-Atlantic region. Conectiv Solutions, LLC also has a joint venture investment with South Jersey Gas called Millennium Account Services, LLC (Millennium) that provides meter-reading services to ACE and SJG, the natural gas provider in much of southern New Jersey.

This Request for Proposal (“RFP”) establishes the guidelines for selecting a consulting firm (Contractor) to perform the audit. The Board is requiring the Contractor to submit a “not-to-exceed” bid in the proposal for this engagement. All costs related to this engagement will be borne by the Utility. Any additional work that is beyond the scope of the RFP must be presented to the Board for approval and the Contractor must satisfactorily demonstrate that it is directly related to this engagement before the additional payments are made by the Utility. Failure to meet the requirements of this RFP will be cause for rejection of any proposal. Acceptance of a contract between the Company and the Contractor is a required condition on being awarded this review.

## **2.0 SCOPE OF WORK**

The work of this contract shall be performed in two concurrent phases. Phase One shall be a review of the Company’s compliance to the competitive service statutes and the New Jersey Administrative Code as identified in section 3.4 of this RFP. As part of this review the contractor shall also examine ACE’s transactions with affiliates of PHI on a **retail and wholesale basis**.

Phase Two will consist of a comprehensive management audit in accordance with the New Jersey statutes and the New Jersey Administrative Code identified in items in sections 3.5 of this RFP.

## **3.0 PROJECT SCHEDULE**

It is the intent of this RFP that all work be completed within **twelve (12) months** of contract award.

The contractor shall adhere to a schedule as set out in the approved Work Plan in Section 3.3. The Work Plan should adhere to the schedule indicated below. This schedule constitutes an approximate time line which is subject to direction from the Board and other potential factors.

<b>Activity</b>	<b>Approximate Date</b>	<b>Timeframe from Date of Award</b>
Projected BPU Contractor Selection (Contract Award)		
Initiation of Audit / Entrance Conference		15 Days
Receipt of Draft Work Plan		25 Days
Release of Work Plan		40 Days
Receipt of Draft Final Phase One Audit Report		100 Days
Release of Draft Final Phase One Audit Report to Utility		120 Days
Receipt of Utility's Comments on Final Phase One Draft Audit Report		150 Days
Receipt of Draft Final Phase Two Audit Report		150 Days
Release of Draft Final Phase Two Audit Report to Utility		170 Days
Receipt of Utility's Comments on Final Phase Two Draft Audit Report		200 Days
Exit Conference		230 Days
Receipt of Final Audit Report		250 Days
Receipt of Utility's Comments on Findings and Recommendations		280 Days

### **3.1 PROJECT CONTROL**

The contractor shall report directly to the BPU Contract Manager. All written and oral communications shall be through the BPU Contract Manager. If a situation is urgent, the BPU Contract Manager shall be notified immediately. The contractor may be requested to discuss the audit's progress with the BPU Contract Manager as necessary.

### **3.2 ENTRANCE CONFERENCE**

Upon the award of the contract, the contractor shall schedule and attend a meeting within fifteen (15) business days with the BPU and BPU Contract Manager to discuss all pertinent items relative to the audit.

### **3.3 APPROACH TO SERVICES (WORK PLAN)**

The contractor shall prepare and submit an Approach to Services (Work Plan) within **ten (10) business days** of the entrance conference. This work plan shall include, at a minimum:

- ? The contractor's approach to performing the scope of work, with emphasis on the techniques to be used for collecting and analyzing data.
- ? The sequence of ACE's functional areas to be audited.
- ? The methods to be used in managing the project.
- ? Anticipated time for each task to be completed.

### **3.4 PHASE ONE**

#### **REVIEW OF AFFILIATE TRANASCTIONS, PLANNING, OPERATIONS AND MAINTENANCE PRACTICES.**

Phase One shall concentrate on ACE's compliance with the Electric Discount and Energy Competition Act (EDECA) particularly its electric procurement strategies, and the impact of retail and wholesale transactions with PHI and its affiliates. Specific transactions to be examined by the contractor include ACE's electric procurement activities with PHI and its affiliates as well as other financial and/or electric business transactions. Further, the contractor shall review and assess affiliate cost allocation methodologies to determine accounting and allocation procedures for separating the costs of inter-company transactions. The contractor's analysis shall determine if current accounting and allocation procedures are equitable, fair, and do not favor certain affiliates over ACE and its ratepayers. Additionally, the contractor's examination shall assess the electric generation policies, distribution policies, and assignment strategies of ACE and its affiliates. The contractor shall complete Phase One and shall produce a final report containing quantifiable findings, conclusions, and supporting recommendations pursuant to the project schedule set forth in Section 3.0.

#### **3.4.1 PROCUREMENT AND PURCHASING**

The contractor shall review and determine if the pricing of ACE's goods and services to and from PHI and its affiliates is non-discriminatory and does not exceed market rates.

The contractor shall identify and evaluate ACE's performance with regard to the designated matters and shall:

- a) Define, document and support ACE's electric procurement activities outside of the BGS Auction process to the extent there are any.
- b) Determine if ACE's purchases are and have been allocated across customer classes according to industry practices.

#### **3.4.2 AFFILIATE RELATIONSHIPS**

The contractor shall examine and determine if the holding company structure, affiliates and their diversified activities have had or may have any detrimental effects on ACE.

The contractor shall review and evaluate ACE's interactions with its affiliates. The contractor shall:

- a) Review ACE's files covering all contracts and transactions with PHI and other affiliates.
- b) Evaluate the independence of purchasing on behalf of ACE on all staff levels. Assess its performance in acting in the best interest of ACE and its ratepayers.
- c) Evaluate ACE's relationship with PHI and its affiliates and the ability of PHI's internal controls and structure to allow it to make purchases on behalf of ACE that are in the best interest of ACE and its ratepayers.

The contractor shall examine and determine if ACE has an internal system to provide assurance that its goals and objectives are accomplished at the lowest possible cost and

maximum benefit to its ratepayers. The internal controls should give a true and accurate account of the transactions of ACE and its affiliates and should show that the transactions have been carried out with integrity and according to standards consistent with regulatory and legal requirements.

The contractor shall examine and determine if ACE has internal controls that protect against irregular, illegal, and/or improper transactions, including accounting and financial activities that could result in trading irregularities, market price manipulation, false price information or unfair cost allocations from PHI or any of its affiliates to ACE.

In addition, the contractor shall review the following communication areas and shall:

- a) Evaluate the internal controls and flow of information between ACE/PHI and its affiliates.
- b) Evaluate all correspondence between directors and officers to determine if discussions were conducted:
  - ? At arms-length.
  - ? In a way that ensured compliance with affiliate relationships and fair competition standards.
  - ? In the best interest of ACE's ratepayers.

### **3.4.3 MARKET CONDITIONS**

The contractor shall evaluate ACE's market environment as follows:

- a) Examine and document the level of customer activity in transferring electric power to third party suppliers (TPS) as well as the competitiveness of the TPS market in ACE's service territory. Additionally, the contractor shall provide suggestions on how to improve TPS market competitiveness in ACE's territory.
- b) Review ACE's strategy and philosophy of any market transactions with regard to power including energy and capacity, as well as any transactions in any other market including but not limited to the emissions and solar renewable energy certificates. Evaluate the effects on pricing, refunds, and the impact on ratepayers.
- c) Review all NUG transactions and NUG mitigation efforts.

### **3.4.4 RECOMMENDATIONS AND REVIEW OF PREVIOUS AUDIT**

The Board, at its agenda meeting on June 23, 2004, directed the staff to revisit the findings and recommendations resulting from a previous competitive services audit of Atlantic City Electric Company (Docket No. EA02020095); available at [http://www.state.nj.us/bpu/compServOffer/ACE\\_Audit\\_Report\\_Redacted.pdf](http://www.state.nj.us/bpu/compServOffer/ACE_Audit_Report_Redacted.pdf) ) performed by Liberty Consulting Group ("Liberty"). The contractor shall review Liberty's report and comment on the continued viability of the recommendations.

### **3.4.5 AFFILIATE COST ALLOCATION METHODOLOGIES**

The contractor shall review and describe the cost allocation methods among ACE and PHI and its affiliates, and determine whether the cost allocation methods are the result of arms-length negotiations and whether costs are allocated on a direct assignment basis

insofar as possible. In any event, the contractor shall explain the allocations and rationale for the allocation methods, and make recommendations for adjustments if appropriate.

The contractor shall:

- a) Identify the accounting and allocation procedures for separating the costs of inter-company transactions of ACE from affiliates.
- b) Determine the accuracy of allocations when allocating joint/common costs between ACE and PHI and its affiliates. Any discrepancies shall be corrected by providing direct cost allocations when possible and explanations where the costs cannot be directly allocated.
- c) Review the time sheet reporting practices of employees with shared ACE/PHI responsibilities to determine allocations. Further, determine if the duties of employees who bill time for ACE and PHI, and/or its affiliates permit for cross-subsidization.
- d) Review and assess pricing policies between affiliate interests, e.g. the market price of electricity compared to the cost of electricity purchased by ACE.
- e) Evaluate competitive and noncompetitive bidding procedures.
- f) Identify all of ACE's lease arrangements with PHI and its affiliates, determine if the terms of the arrangements are consistent with lease arrangements in competing local markets, have recommended cost allocations and are set at arms length.
- g) Review affiliate charges and cost allocation methodologies among ACE and PHI and its affiliates for adherence to applicable legal, regulatory and contractual requirements.

### **3.5 PHASE TWO**

#### **COMPREHENSIVE MANAGEMENT AUDIT**

In Phase Two, the contractor shall perform a comprehensive audit of ACE's major organizational areas other than those identified in Phase One, functional processes, procedures and internal workings and the effect of ACE's association with PHI and affiliates. This includes an examination of executive management and corporate governance, organizational structure, strategic planning, finance, accounting and property records, distribution and operation management, human resources, customer services, external relations and support services.

In Phase Two, the contractor shall examine ACE's financial controls and integrity, organizational structure, corporate accountability, and standards of conduct. Additionally, the contractor's evaluation shall determine the adequacy of the separations of functions within ACE's operations for its competitive services and all transactions with PHI and other affiliates. The purpose of the evaluation is to determine if ACE's customers are supporting the activities of its affiliates and its parent and if ACE has been exposed to risk as a result of being associated with its affiliates.

At minimum, the contractor's evaluation shall address the following areas:

### **3.5.1 EXECUTIVE MANAGEMENT AND CORPORATE GOVERNANCE**

The contractor shall evaluate the corporate structure and determine whether the Board of Directors and senior management are able to anticipate and respond to strategic issues on an ongoing basis by ensuring that the ratepayers are insulated as much as possible from financial harm. The contractor shall determine whether the Board of Directors has the experience and knowledge to fulfill the corporate goals and objectives and ensure that no director has any conflicts of interest, self-interest, or unreasonable influence while sitting on the Board. To make this determination the contractor shall:

- a) Evaluate the selection of directors for ACE and PHI.
- b) Examine the separation of the chairman and chief executive officer titles.
- c) Review ACE/PHI's executive compensation, including a comparison with other comparable utilities.
- d) Assess the independence of ACE/PHI's senior management relative to its own performance and the best interests of its ratepayers.
- e) Assess the independence of ACE/PHI's auditors, i.e. that they do not have conflicts of interest.
- f) Evaluate the appropriateness of committee structures.
- g) Determine if ACE/PHI is in compliance with New York Stock Exchange (NYSE) requirements and the Sarbanes-Oxley Act.
- h) Examine the relationships between affiliates, determining if ACE/PHI is in compliance with affiliate relation and Federal Energy Regulatory Commission (FERC) rules.
- i) Evaluate lawsuits that have been brought before ACE/PHI's Board of Directors or officers determining if they relate to executive management or corporate governance issues and their potential impact on ACE/PHI.

### **3.5.2 ORGANIZATIONAL STRUCTURE**

The contractor shall evaluate the policies and procedures that define the need, necessity, legal entitlement and the nature of the relationship among affiliates. To make this evaluation the contractor shall:

- a) Assess the resources allocated to ACE-regulated activities versus the non-regulated activities of ACE, PHI and its affiliates.
- b) Identify and evaluate ACE, PHI and its affiliates' policies and procedures for effectiveness and adherence to legal, regulatory and contractual requirements.
- c) Review and assess affiliated interest contracts to determine if they are executed strictly "at arms length" and industry appropriate in light of current market conditions, without cross-subsidization.
- d) Determine the relationship of electric sales by PHI and its affiliates to ACE and the relative dependence by ACE on these sales to continue as a "going concern," without cross-subsidization.
- e) Review and assess internal controls to determine their effectiveness and independence.

### **3.5.3 HUMAN RESOURCES**

The contractor shall review ACE's human resources policies and procedures in the following areas to determine the effectiveness of their workforces:

- a) Review ACE's salary, wage and compensation and benefits package practices.
- b) Determine and detail:
  - ? The reasonableness of ACE's as well as PHI's and its affiliates executive compensation packages.
  - ? The basis and reasonableness for the allocation of these costs to ACE.
- c) Assess the effectiveness of ACE's development, training and evaluation techniques.
- d) Review the current labor relations status and methodology.
- e) Assess the productivity and utilization level of ACE's workforces.
- f) Assess the human resources department's capability to access personnel information and perform their assigned duties.
- g) Assess the affirmative action and equal employment opportunity (AA/EEO) policies, procedures, and functions.

### **3.5.4 STRATEGIC PLANNING**

The contractor shall evaluate ACE/PHI's strategic planning methodology. The contractor shall:

- a) Review and assess how well the organization's purpose and mission is defined.
- b) Define the specific short and long term goals and objectives of each affiliate. Additionally, suggest improvements in ACE's strategic planning needed to adapt to the current market environment and where it is discovered that affiliate goals are in conflict with ACE's goals, provide recommendations for improvement.
- c) Evaluate and recommend, as necessary, the development and implementation of ACE's business strategy for:
  - ? Customer impact.
  - ? Responsiveness to market conditions.
  - ? Clarity and employee training.
  - ? Commitment and resources for implementation.
  - ? Financial risk.
- d) Determine if the focus of ACE/PHI's management and expertise is on ACE or is being diverted elsewhere.
- e) Determine if there are any negative effects of diversification on ACE and recommend how they can be ameliorated.

### **3.5.5 FINANCE**

The contractor shall perform a general overview of ACE's finances including:

- a) Performing a complete review of the direct and indirect effects of the financing of ACE, PHI, and all affiliates on ACE.

- b) Reviewing and assessing the financial performance of ACE, PHI, and all affiliates, including the effects of affiliate interrelationships on individual company's performance.
- c) Assessing the effect of PHI and affiliate activities on ACE's credit worthiness.

In particular to ACE's financing, the contractor shall:

- a) Review the debt management policies for ACE, PHI and all affiliates, identifying any real or perceived encumbrance of utility assets for non-utility purposes as well as the extent of any negative effects from business diversification.
- b) Evaluate the investment decisions of ACE and PHI and its affiliates with respect to the degree to which tax considerations may have outweighed other investment criteria (e.g. safety) in making decisions. Additionally, the contractor shall assess the effect of PHI's financing on ACE.
- c) Evaluate the methods that ACE and PHI and its affiliates have used to determine and allocate consolidated income taxes over the past 8 years. Additionally, the contractor shall evaluate any other tax treatments allowed by the IRS and report on their advantages and disadvantages.
- d) Assess the degree to which the historical and projected tax benefits from diversified activities have been and are projected to be realized as a result of the taxable income of ACE and provide the identities of the chief beneficiaries.

### **3.5.6 CASH MANAGEMENT**

In relation to ACE's cash management, the contractor shall:

- a) Evaluate the cash forecasting and diversification of investments between all subsidiary corporations to determine:
  - ? The details of ACE and PHI and its affiliate's cash management methodologies.
  - ? If ACE's cash is held separately from the cash of PHI and its affiliates.
  - ? Identify the extent to which funds generated from the Utility's depreciation are used for non-utility purposes and make recommendations for improvement.
- b) Determine the effect of PHI and its affiliates' use of ACE's generated income on ACE's financing ability, company value, dividend policy, retained earnings, cash flow, and other financial performance measurements.
- c) Assess the quantified or potential impact of write-offs by ACE, PHI and its affiliates on ACE.
- d) Determine the effects of diversifying activities on ACE's cost of capital.
- e) Review and assess the cost of capital to ACE relative to the cost of capital to utilities with comparable risk but without non-utility affiliates. Additionally, the contractor shall provide recommendations to insulate ACE's capital costs from non-utility operations.

### **3.5.7 ACCOUNTING AND PROPERTY RECORDS**

In relation to ACE's accounting and property records, the contractor shall:

- a) Evaluate the processing, recording, authorization and accountability of the functions among all levels of affiliate management.
- b) Review the processes for receiving and securing accounts receivable.

- c) Review the independence, processing and accountability of the payroll function, including the time and resources spent by employees on payroll.
- d) Evaluate the budget reporting, tracking, revision and analysis at all levels.
- e) Evaluate work order procedures, corporate accounting manual and property records at all levels.

### **3.5.8 DISTRIBUTION AND OPERATION MANAGEMENT**

The Contractor shall measure ACE's reliability and identify the extent of any problem that may have caused financial harm to ratepayers. Include an evaluation of ACE's efforts to use smart grid technology to assist the Company in meeting efficiency and reliability standards.

In addition, the contractor shall review the following:

- a) System Operation and Maintenance.
- b) System Reliability.
- c) System Planning.
- d) Load Management.
- e) Fuels Management.
- f) Pooling, Interchange and Economic Dispatch.
- g) SmartGrid Activities

### **3.5.9 CUSTOMER SERVICE**

The contractor shall evaluate the following customer service areas to determine if ACE is serving the best interest of their ratepayers:

- a) Assess the accuracy and efficiency of ACE's meter reading procedures.
- b) Evaluate the effectiveness of ACE in servicing their customers, including the areas of billing, credit and collection, complaints and inquires, revenue protection and marketing.

### **3.5.10 EXTERNAL RELATIONS**

The contractor shall assess and make recommendations regarding the effect of ACE's management of the external relations function – the methods by which ACE relate to their various stakeholders (i.e., customers, regulators, media and investors) in the fulfillment of their corporate goals and objectives.

### **3.5.11 SUPPORT SERVICES**

The contractor shall examine the following ACE support services and determine their effectiveness in accomplishing their objectives of providing a favorable environment for ACE's operations and service.

- a) Insurance and Claims.
- b) Legal.
- c) Facilities Management.
- d) Materials Management.
- e) Transportation.
- f) Real Estate and Land Management.
- g) Computer Systems and Services.
- h) Records Management.
- i) Security of Infrastructure.

### **3.5.12 CONTRACTOR PERFORMANCE**

In relation to ACE's overall performance, the contractor shall:

- a) Evaluate ACE's method of reviewing the effectiveness of its contracted service to comply with its obligation to locate and temporarily mark its underground electric lines in accordance with the requirements of the NJ One Call Law.
- b) Identify the type and frequency of random field audits that are performed.
- c) Evaluate the procedure for reviewing the accuracy and detail of mark-outs.
- d) Identify the frequency and scope of audits that are performed at contractor facilities.
- e) Identify ACE's process for determining when there is a need to modify procedures when deficiencies are discovered.

Further, the contractor shall evaluate ACE's procedures for inspecting the work of contractors it has engaged to install new and replacement lines and services. The contractor shall:

- a) Identify ACE's process for reviewing the performance of its contracted services in installing new and replacement lines and services.
- b) Assess the procedures, percentage and areas of jobs that are inspected on a daily basis.
- c) Identify and analyze the inspection forms that are used.

### **3.6 INTERMITTENT CONFERENCES**

The contractor shall attend meetings to discuss any and all pertinent items as required by the BPU staff.

### **3.7 MONTHLY PROGRESS REPORT**

The contractor shall submit a monthly written report to the BPU Contract Manager for any month in which work was performed. The report shall consist of a general narrative providing adequate and detailed information regarding the status of the audit with an explanation of any discrepancies between the approved work plan and actual progress.

The contractor will also submit its invoice; delineate the hours of work for each consultant, their rate per hour and the area of work according to the work plan. The contractor will submit simultaneously the same invoice to the company. The contractor will receive payment from the "Treasurer, State of New Jersey" in accordance with the current Department of Treasury's rules and regulations at the time of each invoice. The contractor will be paid for all approved invoices, as determined by the BPU Manager, up to 80% of the total. Another 10% of the contract amount will be paid after the Final Report is accepted by the Board for "Filing Purposes Only". The final 10% will be paid when the Board approves the Final Report and approves or amends the final recommendations therein.

### **3.8 DRAFT FINAL AUDIT REPORT**

An initial draft of the final audit report including a summary of the audit process and all recommendations shall be submitted in accordance with the contract schedule. After appropriate review and authorization by the BPU Contract Manager, the contractor shall release an initial draft report to ACE for its review. ACE's critique of the draft report shall be confined to factual discrepancies and communicated to the BPU Contract Manager. Subsequently, the BPU Contract Manager shall authorize the preparation of a final draft audit report. This final draft report, at the option of the BPU may be submitted to the Division of Rate Counsel for their information. ACE and the Division of Rate Counsel (if released to them) will be permitted to comment upon the contractor's findings and recommendations upon terms and conditions approved by the BPU Manager. These comments shall be in the form of a separate correspondence and shall not be incorporated into the contractor's final audit report.

### **3.9 EXIT CONFERENCE**

Upon completion of the audit engagement and prior to submission of the final audit report, the contractor shall meet with the Company, BPU staff and the Division of Rate Counsel, as determined by the BPU Manager, to discuss audit findings.

### **3.10 FINAL AUDIT REPORT**

The contractor shall provide 25 bound copies, one unbound master photocopy and one electronic copy on CD-ROM of the final audit report. To protect proprietary information and/or data, such as intellectual property, trade secrets, business plans and personal information the contractor shall also provide the same number of BPU approved redacted copies, a redacted reproducible copy and a redacted electronic copy on CD ROM to the BPU Contract Manager within ten (10) business days of draft approval. If redacted copies are necessary, one set will be marked "REDACTED" and the other set will be marked "CONFIDENTIAL". The final audit report shall be released only upon authorization from the BPU. The CD must be in PDF file format to be viewable using Adobe Acrobat Reader software.

### **3.11 WORK PAPERS**

Work papers developed during the engagement shall be the property of the contractor. The contractor shall, at any given time during the course of the audit and at the conclusion thereof, make the work papers developed during the engagement available to the BPU Contract Manager for inspection or review. These work papers shall include:

- a) The facts gathered and documents obtained.
- b) Computations and analyses performed.
- c) Other pertinent data relating to the audit.

Audit work papers must be indexed in a logical manner and show evidence that each work paper or group of papers has been subjected to appropriate supervisory review. Work papers must show the name of the auditor who prepared the paper and must be clearly titled and dated.

Audit work papers must be retained for a period of not less than two (2) years from date of receipt of the contractor's final payment and shall be made available to the BPU Contract Manager when requested.

The contractor shall photocopy these papers upon request of the BPU Contract Manager.

### **3.12 LITIGATION SUPPORT**

Litigation support is not included in the bid price. The contractor shall provide expert testimony regarding any litigation resulting from audit work done as part of this contract when necessary. Expert testimony support shall be provided at the hourly rates and by the labor titles listed on the contractor's budget list for litigation support.