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February 2019

Annette Speach, Superintendent of Schools
Members of the Board of Education
North Syracuse Central School District
5355 West Taft Road
North Syracuse, NY 13212

Report Number: S9-18-22

Dear Superintendent Speach and Members of the Board of Education:

We conducted an audit of five local governments (three counties, one city and one town) and two school districts throughout New York State (NYS). The objective of our audit was to assess whether local governments and school districts that utilize aggregators¹ for energy purchases are ensuring they are procuring electricity and natural gas at the lowest prices. We included North Syracuse Central School District (District) in this audit. Within the scope of this audit, we examined the District's utility purchases for the period January 1, 2016 through May 31, 2017. We extended our audit scope back to October 2014 to review Board resolutions, March 2015 to review contract terms, and May 2015 to evaluate a cost comparison report. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the NYS General Municipal Law (GML).

This draft report of examination letter contains our findings and recommendations specific to the District. We discussed the findings and recommendations with District officials and considered their comments, which appear in Appendix B, in preparing this report. District officials disagreed with certain findings but indicated they plan to initiate some corrective action. Appendix C includes our comments on the issues raised by the District's response. At the completion of our audit of the five local governments and two school districts, we prepared a global report that summarizes the significant issues we identified at all of the local governments and school districts audited.

¹ For the purposes of this report, the term "aggregator" is considered any organization or individual that brings customers together as a group with the objective of obtaining better prices, services or other benefits, such as energy or related services. The legal propriety of a local government or school district utilizing an "aggregator" is outside the scope of this audit.

Summary of Findings

District officials entered into utility contracts without adequately comparing prices to other potential procurement options or potential benchmark rates. Between January 1, 2016 and May 31, 2017, the District spent \$1.2 million for electricity and natural gas and paid electricity rates that were 82 percent higher and natural gas rates that were 9 to 45 percent higher than potential benchmark rates we identified for comparisons. Officials told us they did not examine the District's procurement options or assess the reasonableness of the cost comparisons provided to the District. Without an adequate comparison of pricing, there is an increased risk that the District may have spent more than necessary for electricity and natural gas. Comparing the benchmark costs to the District's energy costs, the District paid approximately \$509,000 (68 percent) more for electricity and natural gas than the potential benchmarks we identified.

We found officials obtained details of the awarded utility contracts and paid electricity and natural gas according to contract terms.

Background and Methodology

The District serves the Towns of Cicero, Clay and Salina in Onondaga County, which is located in the Central New York Region. The District, which operates 10 schools with approximately 8,600 students, is governed by an elected nine-member Board of Education (Board). The Board is responsible for the general management and control of the District's financial and educational affairs and for safeguarding its resources. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Board is responsible for the approval and execution of contracts. The District's 2017-18 budgeted expenditures totaled approximately \$158.6 million.

In the 1990s, electric and natural gas industries in NYS were opened to competition. An Energy Service Company (ESCO) is an entity eligible to sell electricity and/or natural gas using the transmission or distribution system of a local utility company (LUC). The LUC may also continue to provide electricity and natural gas. Utility rates are regulated by the NYS Public Service Commission and are generally based on service classifications, such as high usage and whether the customer is commercial or industrial.

An aggregator may be described as an organization or individual that brings customers together as a group with the objective of obtaining better prices, services or other benefits, such as energy or related services. The District uses an aggregator to cooperatively purchase electricity and natural gas, to aggregate and coordinate consumption, and to jointly share costs and benefits of bidding, purchasing, delivery, billing and review and audit of bills on a cooperative basis. The Onondaga-Cortland-Madison Board of Cooperative Educational Services (BOCES) serves as the administrative participant for the aggregator. BOCES, along with a consultant, solicits, reviews and evaluates the bid submissions and recommends the winning ESCOs. Participants who elect to use the aggregator are contractually obligated to procure electricity and natural gas from the selected bidder during the contract period(s).

We examined the District's procurement of electricity and natural gas during the period January 1, 2016 through May 31, 2017. We reviewed the LUC's rates for electricity and natural gas and NYS Office of General Services (OGS) rates for natural gas to assess whether the costs were similar.² We also reviewed and compared invoices to the terms (rates, fees, surcharges and timeframes) in the District's contracts and analyzed the cost comparison report provided to the District by BOCES.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the standards and the methodology used in performing this audit are included in Appendix D of this report.

Audit Results

Evaluating Procurement Options – District officials have a responsibility to ensure that they use taxpayers' resources as prudently as possible. Officials should fulfill this responsibility, in part, by fully evaluating procurement options and comparing potential benchmark rates before committing resources. The more significant the resources that are to be expended, the more effort officials should put into the decision making process to help ensure the District's funds are used efficiently.

OGS contracts, along with LUC rates, can provide potential benchmarks to assist in assessing the reasonableness of the contract rates and terms being considered. However, while purchasing through extended OGS contracts have the potential to produce cost savings, municipalities are not required to use these contracts, and doing so does not guarantee a lower price.

The Board authorized³ the District to use the aggregator for the cooperative purchasing of electricity at a rate not to exceed \$.1126 per kwh⁴ and natural gas at a rate not to exceed \$1.141 per therm.⁵ However, the Board did not examine its procurement options or current costs before authorizing these BOCES-recommended rates. The Board's "not to exceed rates" were more than twice the benchmark rates we identified at the time authorized. As a result, the Board put the District at risk of paying significantly more than necessary for utilities. District officials received a cost comparison report in January 2017 from BOCES comparing the District's May 2015 through April 2016 electricity and natural gas costs to the LUC costs. Officials told us they did not assess the reasonableness of the cost comparisons. As a result, officials were not aware the electricity's comparison report BOCES provided overstated the LUC's costs by \$244,415, or 82 percent, because the LUC costs reported were not based on the District's LUC rates. For example, the electricity cost comparison report showed the District paid \$579,036 and showed LUC costs of \$543,972 instead of actual LUC costs of \$299,557⁶ (Figure 1).

² We included the LUC rates in the report for potential benchmark purposes only. District officials can use the LUC rates to help assess the reasonableness of the utility contract the District is considering.

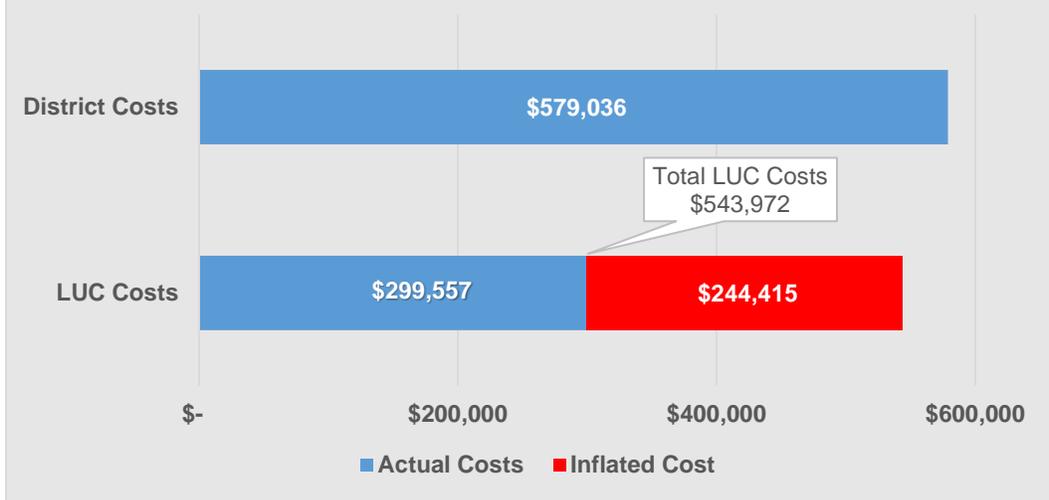
³ According to Board resolution, on October 20, 2014, the Board authorized participation for at least one year and no more than three years commencing May 1, 2015.

⁴ Kwh (Kilowatt-Hour) is a unit of measurement used to measure electricity consumption.

⁵ Therm (Thermal Unit) is a unit of measurement used to measure gas consumption.

⁶ See Appendix D for methodology.

Figure 1: Evaluation of Electricity Cost Comparison Report to Actual LUC Costs May 2015 through April 2016



District officials said they are concerned with lowering energy costs by reducing energy consumption but rely on the aggregator to get the best rates. However, officials did not adequately evaluate procurement options or evaluate the comparison report. As a result, they have less assurance that they expended significant resources prudently and in the best interests of taxpayers.

Potential Benchmark Comparisons – We calculated average electricity and natural gas rates paid for three-month periods from January 1, 2016 through March 31, 2017, and for the period April 1, 2017 through May 31, 2017. We compared the rates paid to potential benchmark rates averaged for the same time periods. We found that the District’s average electricity rates were consistently higher than the average benchmark rates, by approximately 82 percent (Figure 2). For example, the District’s electricity rates averaged \$0.0608 while the LUC rates averaged \$0.0334. The District’s average natural gas rates were also higher than other average benchmark rates, by 9 to 45 percent (Figure 3). For example, the District’s average natural gas rate was \$0.3522, while the OGS fixed rate was \$0.3219 and OGS variable rate was \$0.2434 (Appendix A).

Figure 2: Average Electricity Rates

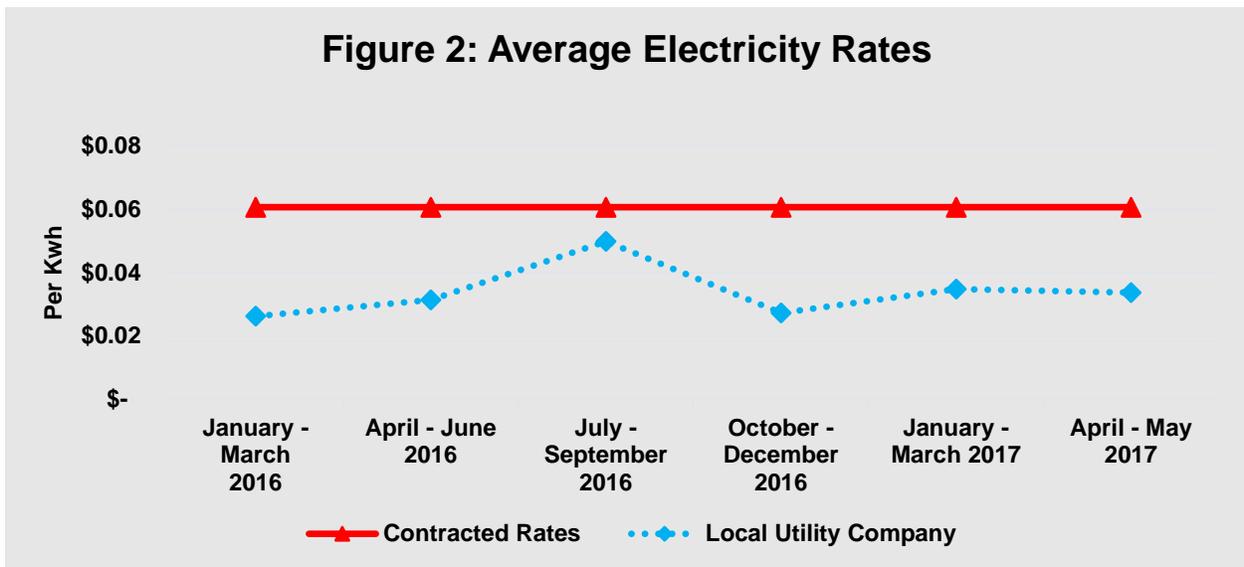
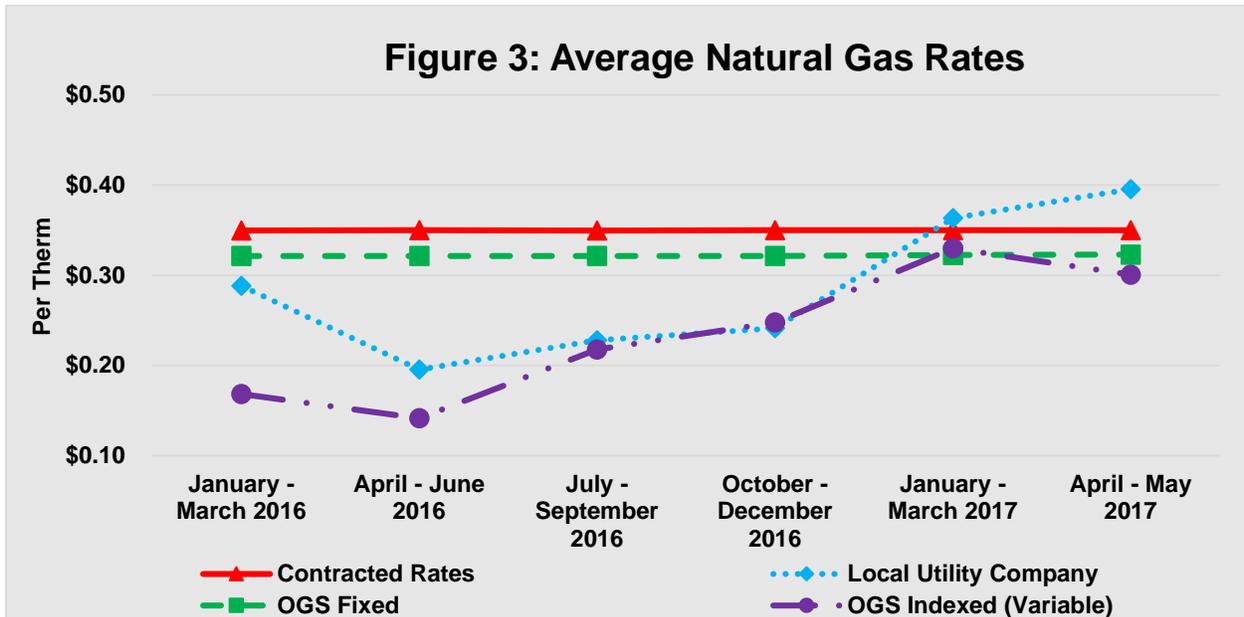


Figure 3: Average Natural Gas Rates



We also analyzed the District’s electricity and natural gas purchases and compared the actual costs paid to the costs charged by the LUC⁷ and the OGS natural gas variable and fixed costs from January 1, 2016 through May 31, 2017 (17 months). We found that the District paid significantly more for electricity and natural gas when compared to other potential benchmark costs, utility costs from other providers. For example, the District paid approximately \$380,000 more for electricity (Figure 4) and \$129,000 more for natural gas purchases (Figure 5).

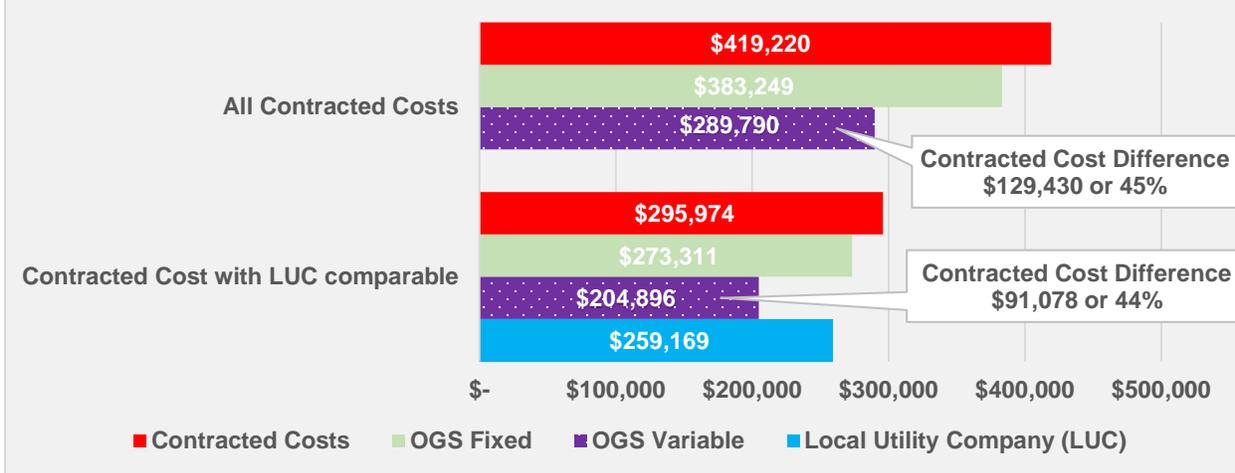
⁷ Variable rates will fluctuate based on the wholesale market prices.

**Figure 4: Comparison of Actual District Electricity Costs to the Local Utility Company
January 1, 2016 through May 31, 2017**



We compared the natural gas supply costs purchased to other potential benchmark costs (LUC and OGS fixed). The District purchased natural gas totaling \$419,220; of this, only \$295,974 could be compared to LUC rates. The LUC does not offer a comparable service classification for the remaining \$123,246.

**Figure 5: Comparison of Actual District Natural Gas Costs to Other Potential Benchmark Costs
January 1, 2016 through May 31, 2017**



Because officials did not evaluate their utility procurement options, there is an increased risk that the District spent significantly more money for electricity and natural gas than necessary.

Contract Terms – When obtaining goods and services from an awarded contract, it is imperative that officials obtain details, such as the awarded rates and contract terms, prior to entering into contracts with the vendor. Officials should then ensure that the terms of their contracts with the vendor(s) mirror what was awarded to help safeguard against paying more than required.

The District received a letter from BOCES which identified the electricity and natural gas awarded ESCOs, terms and the rates for each utility territory. In addition, the District received a copy of the awarded contract which the BOCES entered into on behalf of all the aggregator's participants. We found the District appears to have paid for electricity and natural gas according to contract terms.

Recommendations

The Board should:

1. Evaluate available electricity and natural gas purchasing options prior to authorizing the District's procurement method.
2. Review the reasonableness of comparison reports prior to entering into contracts.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk's office.

We thank the officials and staff of the District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F Deyo
Deputy Comptroller

APPENDIX A

Figure 6: Electricity Usage and Cost Comparison January 1, 2016 through May 31, 2017			
Building	Supply Usage (kwh)	ESCO Supplier (Actual Cost)	Potential Benchmark Costs Local Utility Company
Allen Road Elementary	434,320	\$26,435	\$14,629
Bear Road Elementary	415,499	\$25,287	\$14,237
Cicero Elementary	448,320	\$27,200	\$14,556
C-NS High School	4,123,810	\$250,188	\$138,368
District Office	416,480	\$25,337	\$15,103
Gillette Road Middle School	1,776,650	\$108,113	\$58,310
Lakeshore Road Elementary	364,960	\$22,141	\$12,140
Main Street School	282,880	\$17,220	\$9,932
North Syracuse Junior High	2,205,648	\$134,237	\$72,868
Roxboro Elementary/Middle Schools	2,179,452	\$132,217	\$71,904
Smith Road Elementary	613,120	\$37,314	\$20,356
Storage Building	8,031	\$487	\$374
Transportation	620,040	\$37,718	\$21,289
Total	13,889,210	\$843,894	\$464,066
Supplier Difference to Other Sources			\$379,828
% Difference			82%
Cost per Kwh		\$0.0608	\$0.0334

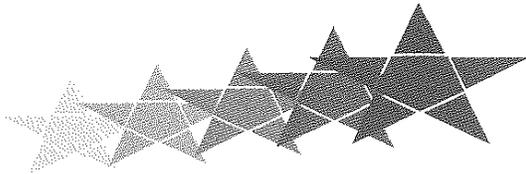
**Figure 7: Natural Gas Usage and Cost Comparison
January 1, 2016 through May 31, 2017**

Building	Supply Usage (Therms)	ESCO Supplier (Actual Cost)	Potential Benchmark Costs		
			Local Utility Company	OGS Indexed Variable	OGS Fixed
Allen Road Elementary	65,207	\$22,731	\$19,503	\$15,527	\$20,987
Bear Road Elementary	87,925	\$30,651	\$27,244	\$20,819	\$28,306
Cicero Elementary	61,702	\$21,509	\$18,764	\$14,984	\$19,859
C-NS High School Stadium	23,090	\$8,049	\$7,001	\$5,504	\$7,430
District Office	43,566	\$15,187	\$12,953	\$10,524	\$14,021
Gillette Road Middle School	136,248	\$47,496	\$43,322	\$33,642	\$43,877
Lakeshore Road Elementary	70,372	\$24,532	\$21,307	\$16,737	\$22,650
Main Street Elementary	65,551	\$22,851	\$19,489	\$15,790	\$21,096
Maintenance Garage	5,990	\$2,088	\$1,880	\$1,481	\$1,929
Roxboro Elementary/Middle Schools	174,535	\$60,844	\$52,406	\$42,034	\$56,186
Smith Road Elementary	42,559	\$14,836	\$13,350	\$10,174	\$13,703
Transportation	72,290	\$25,200	\$21,949	\$17,680	\$23,267
Subtotal - LUC Comparable	849,035	\$295,974	\$259,168	\$204,896	\$273,311
Cost per therm		\$0.3486	\$0.3053	\$0.2413	\$0.3219
C-NS High School	174,705	\$63,069		\$43,243	\$56,256
North Syracuse Junior High	166,696	\$60,177		\$41,651	\$53,682
Subtotal - Non LUC comparable	341,401	\$123,246		\$84,894	\$109,938
Cost per therm		\$0.3610		\$0.2487	\$0.3220
Total	1,190,436	\$419,220		\$289,790	\$383,249
Supplier Difference to Other Sources			\$36,806	\$129,430	\$35,971
% Difference			14%	45%	9%
Cost per therm		\$0.3522	\$0.3053	\$0.2434	\$0.3219

APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response can be found on the following pages.



North Syracuse Central School District

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North Syracuse, NY 13212
(315) 218-2150
Aspeach@nscsd.org

"BRIGHTER TOGETHER"

Annette Speach
Superintendent of Schools
www.nscsd.org

October 24, 2018

Mr. Gabriel F. Deyo
Deputy Comptroller
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Initial Response to Report Number S9-18-22

Dear Deputy Comptroller Deyo:

We are writing in response to your September 2018 report regarding the district's utility contracts. North Syracuse Central School District ("NSCSD" or "District") is a member of the [REDACTED]. The [REDACTED] competitive bid process includes contacting all certified NY ESCOs (approximately 105). [REDACTED] runs the bid process consistent with NY administrative procurement rules and regulations. [REDACTED] entered into 3-year supply arrangements with ESCOs for electricity and natural gas. The supply agreements, which were awarded after a rigorous competitive procurement process, have firm delivery and fixed pricing for the full period.

There are significant and material differences between the supply arrangements that the Audit compares. While the [REDACTED] contracts provide price and supply certainty for the full contract period, the referenced Audit arrangements provide only short term pricing that varies on a daily (e.g, utility tariff service) or monthly basis. Some of the referenced OGS natural gas arrangements appear to supply on an interruptible basis. Short term pricing arrangements available to NSCSD will vary each period and can be lower and higher than a fixed price arrangement.

See
Note 1
Page 14

Based on the [REDACTED] procurement process as described above, the method of procurement is a sound practice for providing the district with the budget certainty that we desire when building budgets and forecasting our costs. The [REDACTED] bid structure provides participants with the best available market response for that product available at the time of bid. Other arrangements would create exposure to market volatility and the risk of missing budget forecasts.

Mr. Gabriel F. Deyo
October 24, 2018
Page 2

As you know, your Audit compares term contract pricing for electricity and natural gas supplied by [REDACTED] vendors to NSCSD during the Audit review period (01/01/2016 - 5/31/2017) with "benchmark" pricing, either daily or monthly retail spot pricing or spot wholesale pricing.

When comparing market price options, a longer time period provides a broader and more complete review. Over the 2012-2018 period, the [REDACTED] fixed price contract prices were closer to the variable spot prices than the Audit period. A review of the 2012-2018 period shows that there are significant periods when the [REDACTED] fixed price was under the variable spot market price and periods when the price was over the spot market. See the charts below which indicate that when market prices rose, a fixed price contract could be below market and vice versa.

As stated above, the OGS provided information includes benchmarks for interruptible gas supply. As this is not a comparable product to the firm gas supply requirements of the District, we did not include them in the natural gas comparison. We only compared fixed, firm price natural gas arrangements to better match the risks of the supplied products. The differences in price between the benchmark electricity spot and variable short term price arrangements referenced in the Audit and the [REDACTED] contract pricing reflect the premium for price and supply certainty selected by NSCSD. Over the time periods in question, the market charged a premium for a term fixed price supply contract. Again, [REDACTED] participants, including NSCSD, value price and delivery certainty over a term contract for pricing and budgeting reasons.

See Note 1 Page 14

The North Syracuse Central School District appreciates the work performed by your field auditors and the feedback contained in your report. In light of the work you have done and information you have provided, we will review our strategy for managing market volatility when purchasing electricity and natural gas and consider modifications to our processes and procedures. We will report our conclusions to you when we submit our corrective action plan, pursuant to Section 35 of General Municipal Law.

Again, thank you for the thought provoking feedback.

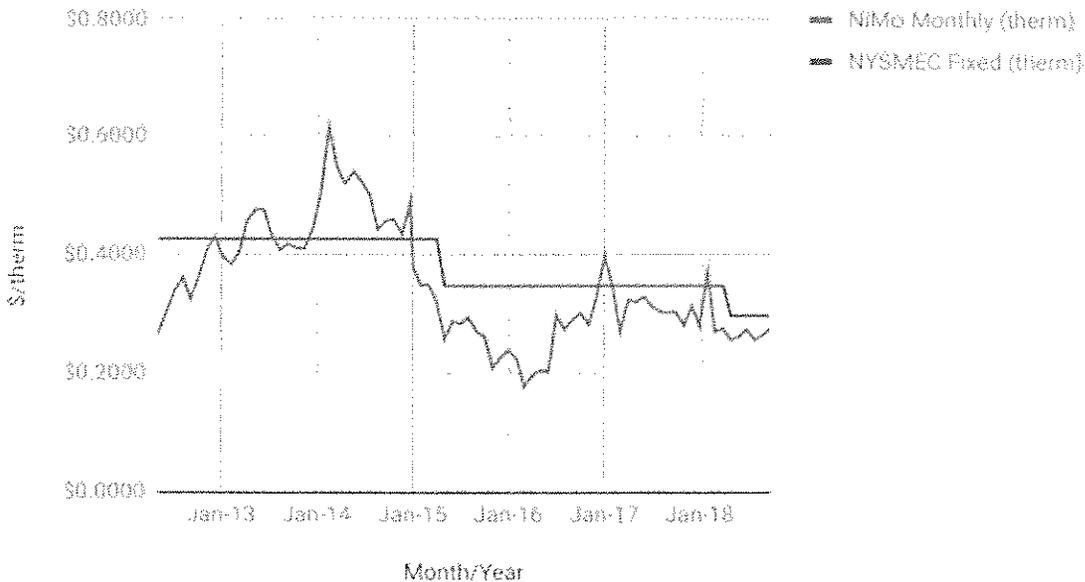
Sincerely,

Annette Speach
Superintendent of Schools

Michael Shusda
Board of Education President

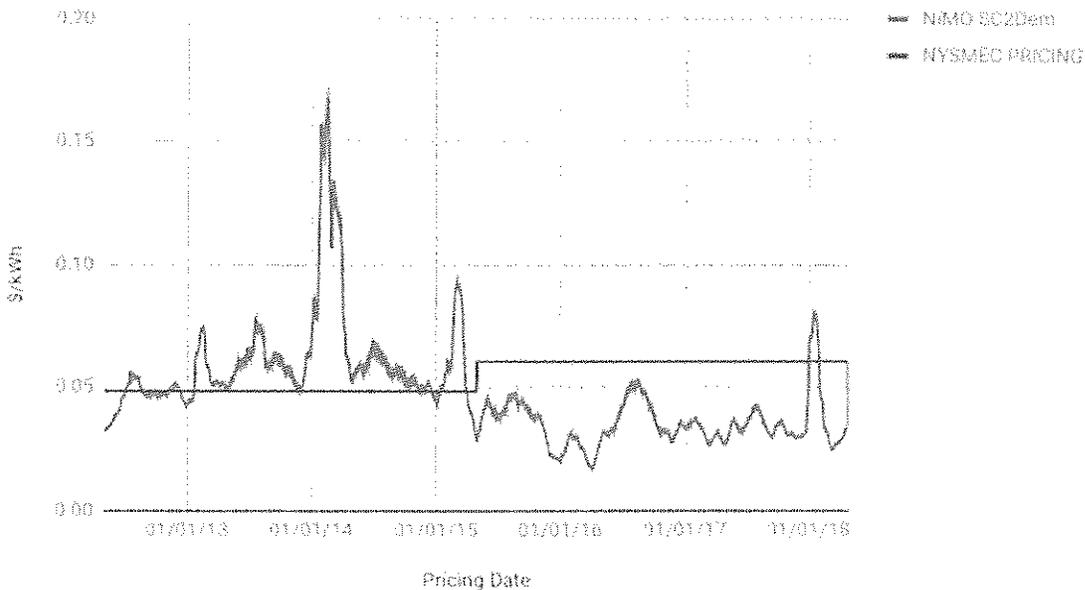
Attach.

NiMo v. NYSMEC Fixed Monthly Balancing 2012-18



See
Note 2
Page 14

ELECTRICITY May2012-Apr018



See
Note 2
Page 14

APPENDIX C

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We agree that a natural gas interruptible basis is not a valid comparison and, therefore, we did not include this comparison in our analysis. We used both an OGS fixed price and variable price that anticipates no interruptions.

Note 2

During audit fieldwork, officials were unable to provide any written documentation or verbal assertions to support the utility contract they entered into was in the best interest of the District taxpayers. The charts included in the District's response were not provided to the auditors during fieldwork, and do not provide sufficient information (such as service classification and load zone) to assess whether they are relevant and accurate. Further, officials told us they did not examine the District's procurement options or assess the reasonableness of the cost comparisons provided to the District.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess whether local governments and school districts that utilize aggregators are ensuring they are procuring electricity and natural gas at the lowest prices for the period January 1, 2016 through May 31, 2017. To accomplish the objective, our audit procedures included the following:

- We interviewed District officials and employees to gain an understanding of the electricity and natural gas procurement process.
- We reviewed policies, procedures and Board minutes related to the procurement of electricity and natural gas.
- We compared the aggregator's notification letter of the awarded ESCOs and rates to the District's contracts to assess whether the terms were the same. In addition, we analyzed the cost comparison reports, provided by the aggregator to the District, to assess the reasonableness.
- We reviewed contracts between the District and ESCOs to assess whether the District was charged the awarded contract rates, fees and surcharges.
- We reviewed all electricity and natural gas invoices to assess total supply usage, service classifications and rates paid.
- We obtained rates, based on service classifications, from the LUC and OGS and compared the District's electricity and natural gas costs (usage and service classifications) to the LUC and OGS costs to assess whether there was a cost variance.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.