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| **UGI UTILITIES, INC.****UGI CENTRAL PENN GAS, INC.****AND****UGI PENN NATURAL GAS, INC.****IMPLEMENTATION PLAN****FOR****PENNSYLVANIA PUBLIC UTILITY COMMISSION****MANAGEMENT EFFICIENCY INVESTIGATION****DOCKET NOS. D-2015-2473202,****D-2015-2473203, & D-2015-2473204****May 18, 2016** |
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MANAGEMENT EFFICIENCY INVESTIGATION

IMPLEMENTATION PLAN
Docket Nos.

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D-2015-2473203, & D-2015-2473204

May 18, 2016

INTRODUCTION

In response to the Pennsylvania Public Utility Commission Bureau of Audit’s 2015 Management Efficiency Investigation report recommendations, UGI Utilities, Inc. (“UGI-GD” when referring to its gas division, and “UGI-ED” when referring to its electric division), UGI Central Penn Gas, Inc. (“CPG”) and UGI Penn Natural Gas, Inc. (“PNG”) (collectively “UGI” or “the Company”) hereby submit the following Implementation Plan (“Plan”).

The Plan is organized to address each recommendation contained in each of the functional areas as presented in the Bureau of Audit’s report. For each recommendation, the Plan states the response of the appropriate company, the action to be taken, the individual responsible, and the expected completion date. Acceptance of recommendations does not mean that the Company is agreeing to all of the assertions or conclusions in the 2015 Management Efficiency Investigation report.

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IMPLEMENTATION PLAN

RECOMMENDATION OVERVIEW

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| --- | --- | --- | --- | --- |
| **No.** | **Focus Area** | **Recommendation** | **Response** | **Audit Report Reference** |
| 1 | Executive Management and Organizational Structure | Incorporate defined initiatives and overall corporate goals with related performance indicators into the UGI Utility Group’s strategic planning process. | Accept | III-1 |
| 2 | Affiliated Interests and Cost Allocations | Develop, maintain and distribute a comprehensive cost allocations manual which fully addresses all cost allocations utilized for shared costs. | Accept | IV-1 |
| 3 | Financial Management | Update the UGI dividend policy to include all provisions currently considered and to add a provision for the Company to notify the Commission in advance, with explanation, when a dividend payout will exceed 85% of net income. | Accept | V-2 |
| 4 | Gas Operations | Strive to continue to reduce leak backlogs and maintain complete records to document the reclassification and elimination of leaks associated with main replacement activity. | Accept | VI-3 |
| 5 | Gas Operations | Strive to improve the accuracy of the UGI’s NGDCs’ UFG calculation. | Accept | VI-4 |
| 6 | Gas Operations | Develop a business case for using contractors for certain types of work into the Staffing Study and strive to employ the most cost effective, efficient workforce. | Accept | VI-5 |
| 7 | Gas Operations | Strive to meet UGI’s Gas Service Division’s goal for replacement of mercury meters by 2018. | Accept in Part | VI-6 |
| 8 | Gas Operations | Strive to implement the remaining recommendations from the PNG Operations Audit Report in a timely manner. | Accept in Part | VI-8 |
| 9 | Gas Operations | Improve safety performance at each of the UGI Utility Group’s Companies and strive to meet its safety goals. | Accept | VI-9 |
| 10 | Emergency Preparedness | Continue performing periodic physical security risk analyses and/or vulnerability assessments of all facilities. | Accept | VIII-1 |
| 11 | Emergency Preparedness | Standardize the approach for mitigating physical security risks across the UGI Utility Group. | Accept | VIII-2 |
| 12 | Emergency Preparedness | Fully document emergency response provisions within UGI’s Electric Service Division’s Emergency Response Plan. | Accept | VIII-3 |
| 13 | Emergency Preparedness | Develop a comprehensive Cyber Security Plan and test and review it annually. | Accept | VIII-4 |
| 14 | Materials Management | Focus efforts to align CPG’s inventory accuracy with the rest of the UGI Utility Group. | Accept | IX-2 |
| 15 | Materials Management | Improve inventory turnover to at least 2.0 turns or higher for all operating companies. | Accept in Part | IX-3 |
| 16 | Materials Management | Strive to achieve a more automated materials management system. | Accept | IX-5 |
| 17 | Customer Services | Complete implementation of the customer information management and enterprise asset management software, and then reassess the consolidation of the call centers. | Accept | X-2 |
| 18 | Fleet Management | Establish annual KPI goals to benchmark against actual performance. | Accept | XI-2 |
| 19 | Diversity | Strive to increase representation of females in underrepresented EEO job categories, while maintaining diverse representation in all other EEO job categories. | Accept | XIII-1 |
| 20 | Diversity | Continue efforts to identify and utilize new MWDBE vendors, particularly MBE vendors. | Accept | XIII-2 |

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**Focus Area:** Executive Management & Organizational Structure

**Recommendation Number:** III-1

**Recommendation:** Incorporate defined initiatives and overall corporate goals with related performance indicators into the UGI Utility Group’s strategic planning process.

**Response:** Accept

**Action Plan:** The Company will continue to enhance formal strategic planning documentation in an effort to more clearly define the Company’s business planning process.

**Target Completion Date:** September 2016

**Person Responsible:** Chief Financial Officer

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**Focus Area:** Affiliated Interests & Cost Allocations

**Recommendation Number:** IV-1

**Recommendation:** Develop, maintain and distribute a comprehensive cost allocations manual which fully addresses all cost allocations utilized for shared costs.

**Response:** Accept

**Action Plan:** The Company will expand upon the existing cost allocation manual to be more comprehensive with regards to the governance of intercompany shared costs.

**Target Completion Date:** March 2017

**Person Responsible:** Chief Financial Officer

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**Focus Area:** Financial Management

**Recommendation Number:** V-2

**Recommendation:** Update the UGI dividend policy to include all provisions currently considered and to add a provision for the Company to notify the Commission in advance, with explanation, when a dividend payout will exceed 85% of net income.

**Response:** Accept

**Action Plan:** The Company will notify the Commission when the annual dividend payout for the Company will exceed 85% of net income in a given year.

The Company will also update the dividend policy to include all factors that impact dividend payments.

**Target Completion Date:** December 2016

**Person Responsible:** Chief Financial Officer

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-3

**Recommendation:** Strive to continue to reduce leak backlogs and maintain complete records to document the reclassification and elimination of leaks associated with main replacement activity.

**Response:** Accept

**Action Plan:** UGI NGDCs will continue to manage pending leak inventory through leak repair criteria, and pipe replacement programs.

The Company will enhance periodic reporting to reconcile leak inventory showing disposition of leaks by method.

**Target Completion Date:** Ongoing

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-4

**Recommendation:** Strive to improve the accuracy of the UGI’s NGDCs’ UFG calculation.

**Response:** Accept

**Action Plan:** A formal lost and unaccounted for study will be completed to determine if the accuracy of the UFG calculation can be improved.

**Target Completion Date:** December 2017

**Person Responsible:** Chief Financial Officer

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-5

**Recommendation:** Develop a business case for using contractors for certain types of work into the Staffing Study and strive to employ the most cost effective, efficient workforce.

**Response:** Accept

**Action Plan:** UGI will refine its staffing plan to include a rationale for selection and utilization of internal versus contractor personnel for certain work types.

**Target Completion Date:** September 2017

**Person Responsible:** Vice President, Operations

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-6

**Recommendation:** Strive to meet UGI’s Gas Service Division’s goal for replacement of mercury meters by 2018.

**Response:** Accept in Part

**Action Plan:** UGI-GD will continue to assertively remove mercury regulators until they are fully eradicated from the system. However, difficulty securing access to customers’ premises will result in a protracted schedule through at least 2019.

**Target Completion Date:** December 2019

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-8

**Recommendation:** Strive to implement the remaining recommendations from the PNG Operations Audit Report in a timely manner.

**Response:** Accept in Part

**Action Plan:** Significant progress has been made on implementing the majority of recommendations and various action plans are underway to address other findings for the PNG Operations Audit Report.

Remaining findings will be accepted with implementation plans proposed or otherwise rejected by the specified target completion date with the basis of the decision documented.

**Target Completion Date:** March 2017

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Gas Operations

**Recommendation Number:** VI-9

**Recommendation:** Improve safety performance at each of the UGI Utility Group’s Companies and strive to meet its safety goals.

**Response:** Accept

**Action Plan:** Since rates peaked in 2014, significant safety programs have been implemented and rates have shown improvement.

The Company will strive to continuously improve policies and processes to encourage safety culture and enhance employee safety.

**Target Completion Date:** Ongoing

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Emergency Preparedness

**Recommendation Number:** VIII-1

**Recommendation:** Continue performing periodic physical security risk analyses and/or vulnerability assessments of all facilities.

**Response:** Accept

**Action Plan:** External security consultants have performed assessments of several facilities and an assessment template has been developed.Using the template developed, remaining facilities will be assessed and findings will be prioritized.

**Target Completion Date:** December 2018

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Emergency Preparedness

**Recommendation Number:** VIII-2

**Recommendation:** Standardize the approach for mitigating physical security risks across the UGI Utility Group.

**Response:** Accept

**Action Plan:** Facility security standards have been drafted. Review, approval, and implementation are pending.Security standards will be finalized and implementation will occur on a risk-prioritized basis.

**Target Completion Date:** December 2018

**Person Responsible:** Vice President, Engineering

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**Focus Area:** Emergency Preparedness

**Recommendation Number:** VIII-3

**Recommendation:** Fully document emergency response provisions within UGI’s Electric Service Division’s Emergency Response Plan.

**Response:** Accept

**Action Plan:** UG-ED will review and update the Electric Division’s Emergency Response Plan (ERP) to incorporate procedures/plans addressing gaps identified in the MEI.

**Target Completion Date:** December 2017

**Person Responsible:** Vice President, Rates & Government Relations, General Manager, Electric Utilities

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**Focus Area:** Emergency Preparedness

**Recommendation Number:** VIII-4

**Recommendation:** Develop a comprehensive Cyber Security Plan and test and review it annually.

**Response:** Accept

**Action Plan:** The Company is in the process of an initiative to define and establish its Cyber Incident Response Plan (CIRP).

**Target Completion Date:** January 2017

**Person Responsible:** Chief Information Officer

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**Focus Area:** Materials Management

**Recommendation Number:** IX-2

**Recommendation:** Focus efforts to align CPG’s inventory accuracy with the rest of the UGI Utility Group.

**Response:** Accept

**Action Plan:** The Company has completed a roll out of a new cycle count program to align inventory accuracy across all Company locations, including CPG locations. In order to align accuracy rates, UGI has increased the count frequency and will be monitoring cycle count variances at individual warehouses to focus improvement efforts.

**Target Completion Date:** December 2017

**Person Responsible:** Director, Supply Chain

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**Focus Area:** Materials Management

**Recommendation Number:** IX-3

**Recommendation:** Improve inventory turnover to at least 2.0 turns or higher for all operating companies.

**Response:** Accept in Part

# Action Plan: The Company has enhanced the process used to calculate minimum and maximum inventory levels for each warehouse. The process is designed to optimize stocking levels and improve inventory turnover.

The Company will be review turnover metrics at each location to target specific warehouses that need improvement. Additionally, efforts will be focused on reviewing potentially obsolete materials and reducing inactive inventory to further improve the turnover ratios.

**Target Completion Date:** December 2017

**Person Responsible:** Director, Supply Chain

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**Focus Area:** Materials Management

**Recommendation Number:** IX-5

**Recommendation:** Strive to achieve a more automated materials management system.

**Response:** Accept

**Action Plan:** The Company has implemented an automated process to cycle count coding and scheduling, minimum/maximum adjustments, and material replenishment identification.

The Company will continue to consider additional automation opportunities based on cost and benefit analyses.

**Target Completion Date:** March 2017

**Person Responsible:** Director, Supply Chain

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**Focus Area:** Customer Services

**Recommendation Number:** X-2

**Recommendation:** Complete implementation of the customer information management and enterprise asset management software, and then reassess the consolidation of the call centers.

**Response:** Accept

**Action Plan:** The Company remains focused on the successful implementation of the customer information management and enterprise asset management systems. The implementation is on schedule. Post-implementation, we will reassess the potential for call center consolidation.

**Target Completion Date:** September 2017

**Person Responsible:** Vice President, Marketing

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**Focus Area:** Fleet Management

**Recommendation Number:** XI-2

**Recommendation:** Establish annual KPI goals to benchmark against actual performance.

**Response:** Accept

**Action Plan:** The Company is actively enhancing its benchmarking capability, including building a database to measure and improve fleet maintenance and utilization.

The Company will develop baseline data and use this to establish annual KPIs to benchmark improvement against actual performance.

**Target Completion Date:** September 2017

**Person Responsible:** Vice President, Operations

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**Focus Area:** Diversity

**Recommendation Number:** XIII-1

**Recommendation:** Strive to increase representation of females in underrepresented EEO job categories, while maintaining diverse representation in all other EEO job categories.

**Response:** Accept

**Action Plan:** The Company will continue to strive towards increasing and maintaining the representation of females and minorities in underrepresented EEO job categories.

**Target Completion Date:** Ongoing

**Person Responsible:** Vice President, Human Resources

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**Focus Area:** Diversity

**Recommendation Number:** XIII-2

**Recommendation:** Continue efforts to identify and utilize new MWDBE vendors, particularly MBE vendors.

**Response:** Accept

# Action Plan: The Company has continued to engage in internal education training and external outreach efforts to enhance supplier diversity spending. UGI has continued to increase its year over year spending with diverse suppliers.

# The Company will continue to focus on employee education and outreach efforts in an effort to improve supplier diversity spending.

**Target Completion Date:** Ongoing

**Person Responsible:** Director, Supply Chain