



PENNSYLVANIA-AMERICAN WATER COMPANY

IMPLEMENTATION PLAN

in Response to the

2014 - 15 FOCUSED MANAGEMENT AND OPERATIONS AUDIT

February 2016

Pennsylvania-American Water Company Implementation Plan

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INTRODUCTION AND ACKNOWLEDGEMENT

The Pennsylvania Public Utility Commission (“PaPUC” or “the Commission”) conducted a Focused Management and Operations Audit of Pennsylvania-American Water Company (“PAWC” or “the Company”). The audit was conducted pursuant to Section 516 of the Pennsylvania Public Utility Code requiring that the Commission periodically examine the management effectiveness and operating efficiency of certain jurisdictional utilities.

In response to the Focused Management and Operations Audit Final Report, issued February 2016, Pennsylvania-American Water Company is pleased to submit its Implementation Plan.

The Implementation Plan is organized to address each recommendation contained in the Final Report, and states whether the recommendation is accepted, accepted in part, or rejected. For each recommendation accepted or accepted in part by Pennsylvania-American Water Company, the Implementation Plan describes the actions to be taken, the individuals responsible, and the expected completion dates. For each recommendation that is rejected, the Implementation Plan contains a complete explanation as to why the recommendation is not accepted.

It is important to note that the actual field work began on August 19, 2014 and continued intermittently until February 25, 2015. Accordingly, many of the findings relate to the Company’s management and operations prior to February 25, 2015, and do not reflect the current state of the Company’s operations.

Pennsylvania-American Water Company notes that some aspects of the recommendations pertain to American Water Works Company, Inc., American Water Works Service Company, Inc., or other American Water entities over which the Commission does not have jurisdiction. The boards of directors and managements of these entities have legal obligations, fiduciary duties and responsibilities separate from and different than Pennsylvania-American Water Company. The Company believes that the recommendations pertaining to these entities are outside the appropriate scope of the management audit. Responses to the recommendations affecting those entities have been considered in that context.

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Finally, Pennsylvania-American Water Company expresses its appreciation to the Commission and the Commission's Bureau of Audits for their efforts in conducting this Focused Management and Operations Audit. The Company has accepted in full 29 recommendations, accepted in part 8 recommendations, and rejected 1 recommendation. We are confident that the Implementation Plan demonstrates our commitment to take appropriate actions resulting from this important effort.

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Chapter III

Executive Management and Organizational Structure

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Chapter III

Executive Management and Organizational Structure

Recommendation III-1 Periodically review spans of control for management positions and document justification for supervisors/subordinate ratios with narrow or wide spans of control.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

In 2015 Pennsylvania-American Water Company completed an organizational redesign to 1) optimize organizational agility and 2) respond to the demands of our growing business. This six-month project included an analysis of organizational structure, reporting relationships, headcount, position titling and spans of control. This process and the subsequent outcomes have been socialized, documented and communicated and will continue to be reviewed on a regular basis by PAWC leadership.

As part of PAWC's annual talent review, the Company's leadership reviews the organizational structure and identifies opportunities to capture additional gains and efficiencies.

PAWC encourages the exchange of feedback and supports a continuous improvement culture. As such, all non-union employees participate in a structured goal setting and performance management process. Throughout the year, all employees engage with their immediate manager/supervisor to discuss performance metrics for the year -- including the metrics used to assess the performance of their respective team. During these discussions, employees including managers/supervisors have the opportunity to raise concerns about span of control.

Milestones/Full Implementation Date

Milestone	Date [xx/xx/xxxx]	Delivery E=Estimate A=Actual O=O-going
Annual Talent Review.	03/15/2016	O
Annual Succession Plan Review.	08/15/2016	O
Annual Performance Review.	12/31/2016	O

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Personnel Responsible

Michael Springer, Director, HR, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter III Executive Management and Organizational Structure

Recommendation III-2 Take measures to strengthen corporate culture at PAWC.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

In 2014, American Water, in support of strengthening corporate culture, conducted a company-wide (including PAWC) culture survey. The results led to the formation of state-based Culture Action Teams. PAWC established a dedicated state-wide cross functional team that assessed the results of the culture survey and developed action items. The Company is in the process of implementing the action plans. The process will be on-going with key milestones outlined below.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Launched enterprise-wide culture survey to all American Water employees.	03/31/2014 – 04/11/2014	A
Conducted focus groups discussions across the business to gain additional insight into the survey results.	10/01/2014 – 02/28/2015	E
Communicated results of Focus Groups.	04/06/2015	A
Formed Culture Action Teams.	04/15/2015	A
Conducted training for Action Teams.	04/20/2015	A
A total of 143 action items were identified and approved by Leadership. The following three (3) action items were identified for PAWC: <ul style="list-style-type: none"> • Recognition: Approve playbook to provide guidelines on recognizing employees for their contributions and embracing a safety culture. • Resources: Review anticipated and unanticipated job vacancies. Communicate plan/intent resulting from vacancy to the affected supervisor. 	07/13/2015	A

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• Communication: Create Project Communication best practice.		
Monthly Action Plan Progress Updates.	08/01/2015 – present	O
Culture Pulse Check Survey to be administered to subset of employees across the American Water including Pennsylvania.	02/28/2016	E
Culture Survey to be administered to all employees enterprise-wide.	10/01/2016	E

Personnel Responsible

Michael Springer, Director, HR, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter IV

Corporate Governance

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Chapter IV Corporate Governance

Recommendation IV-1 Periodically review and update the PAWC Audit Committee Charter.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion

PAWC will review and update its current audit committee charter and will review the charter, at least annually, to ensure that it reflects current operating practices. Additionally, PAWC will fill the current vacancy that exists on the audit committee. This position will be filled with a qualified independent member as elected by PAWC's Board of Directors. Upon filling the current vacancy, the audit committee will be comprised of three independent members. The composition and size of the audit committee will be consistent with the audit committee charter as well as best practices that are specified by the American Institute of Certified Public Accountants and the Institute of Internal Auditors.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Review and update PAWC's current audit committee charter to reflect current operating practices.	06/30/2016	E
Review and update the audit committee charter at least annually.		O
Fill the vacancy that currently exists in the audit committee with a qualified independent member elected by PAWC's Board of Directors.	12/31/2016	E

Personnel Responsible

PAWC Board of Directors (Kathy Pape, Chairperson)

PAWC Audit Committee (Ronald Simms, Chairman)

James Merante, Director – Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

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Chapter IV Corporate Governance

Recommendation IV-2 Rotate the external audit firm or implement contractual provisions with the incumbent firm to ensure periodic audit staff rotation.

PAWC Response The Company rejects this recommendation.

Benefit Low

Discussion

The Company carefully considered the recommendation and respectfully declines to rotate the external audit firm. We have read the Audit Staff finding and recommendation and agree that auditor independence is important. However, external audit firm rotation, as suggested in the recommendation, may only lead to solving of independence by appearance. We believe that the appropriate level of independence is achieved by the existing rules and regulations. American Water Works Company, Inc. is required to comply with auditor rotation rules as outlined by both the Securities and Exchange Commission (SEC) and the Sarbanes-Oxley Act (the "Act"). The foregoing regulatory bodies established these standards to create a cost effective way of sustaining auditor independence while balancing the need to maintain audit quality. As required under these rules and regulations, engagement audit partners (having primary responsibility for the audit) and the audit partner responsible for reviewing the audit must be rotated every five years. To ensure these rules are met, American Water's Audit Committee, consisting of three independent directors, has the responsibility for appointing the independent registered public accounting firm to audit the consolidated financial statements of American Water and its subsidiaries. As a matter of corporate governance, the appointment of the auditors is also subject to ratification by the shareholders. As noted in the recommendation, an analysis of audit fees is performed periodically comparing the American Water Works Company, Inc.'s audit fees to audit fees of other companies. This analysis is presented to the Audit Committee for their consideration. It is also the responsibility of the Audit Committee to monitor the audit firm's compliance with the engagement partner rotation rules and regulations of the SEC and the Act. The Audit Staff states in the recommendation that mandatory audit firm rotation requirements have not gained traction in U.S. based companies. One reason for this is a need to balance bringing a "fresh-look" to the audit engagement, as suggested by the Audit Staff recommendation, with that of the need to maintain continuity and audit quality. Just as long-term relationships may impact independence, other studies have shown that short-term auditor-client relationships may also carry a high risk of audit failure as a result of an auditor's lack of familiarity with the client and

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its operations. An SEC Practice Section stated the following “Firm rotation would not be cheap for American business. In GAO's survey, large firms estimated that, under rotation, first-year audit costs would increase by 20 percent, as a result of work associated with coming up to speed about a new client. Companies would also incur other, less easily measureable costs, such as the management time, effort, and distraction incident to changing auditors. And some studies suggest another cost: The risk that audit failure may be likely in the early years of a new engagement, as the incoming auditor moves up the learning curve with respect to the client and its financial reporting.” Other studies throughout the years have shown the following and suggest that financial reporting quality is greater in long-term relationships:

- As audit tenure increases, abnormal accruals are less common.
- Undetected fraud is more likely in the early years of an auditor-client relationship.
- Audit opinions issued to soon-to-be-bankrupt companies are less likely to be modified when audit tenure is short rather than long.

The Audit Staff suggests that an alternative to rotating the audit firm is for American Water to implement contractual provisions with the incumbent firm to ensure staff rotation. Although, we don't take exception to this and will consider as part of future contract negotiations, we don't believe that this is necessary given the fact that there is regular engagement turnover due to attrition within the audit firms. It is normal experience that audit engagement staff does not remain on the engagement for long periods of time. Audit firms have a keen focus on staff development. One way to accomplish development of the staff is to continually rotate audit personnel to different engagements. Also, due to promotions within the audit firm, engagement timing and audit staff turnover, it is extremely rare that audit staff would remain on an engagement for an extended period of time (greater than five years). Currently, the audit staff serving our engagement is relatively new with the manager on the engagement having the most time on the engagement, 4 years. The manager will be rolling off in 2015 and is being replaced with an individual who has approximately one year of experience on the engagement. The remainder of the engagement team has 3 years or less on the engagement. In summary, we are committed to maintaining auditor independence. At this time, we believe that independence is achieved by engagement partner rotation. This provides the appropriate balance of audit quality and costs. Additionally, as a result of the significant amount of start-up time that would be required for a new audit firm to gain an understanding of our business and internal control structure and the significant internal efforts that it would take to support this process, it is our opinion that audit firm rotation provides limited benefits, and potentially higher risks, with a significant increase in cost that would be borne by both our customers and our stockholders.

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Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Not applicable.		

Personnel Responsible

Mark Chesla, Vice President/Controller, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter V

Affiliated Transactions and Cost Allocations

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Chapter V **Affiliated Transactions and Cost Allocations**

Recommendation V-1 Update and file affiliated interest agreements that accurately and comprehensively document the nature of transactions occurring between Pennsylvania-American Water Company and its affiliates, including American Water Works Service Company and American Water Resources.

PAWC Response The Company accepts, in part, this recommendation.

Benefit Medium

Discussion

PAWC does not believe it is necessary to update and file new affiliated interest agreements with American Water Works Service Company and American Water Resources. As previously stated with regard to the existing affiliated interest agreement with American Water Works Service Company, it was drafted to have the flexibility to accommodate reorganizations, changes in phraseology or nomenclature and technologies that occur routinely and in the normal course of business, and to accommodate the provision of services by AWWSC to entities other than regulated water companies. Rather than rendering the existing contract outdated, the flexibility inherent in the service agreement is a major strength of the contract, as there are not material changes to the agreement. AWWSC is providing essentially the same substantive services today that were contemplated when the service agreement was signed in 1989. The fact that Tier 1 allocations are utilized for non-regulated companies does not render the existing agreement out of date. To the contrary, the existing agreement contemplates that the AWWSC can provide services to entities other than regulated water companies, and the Tier 1 allocations ensure that a fair share of AWWSC costs are apportioned to the non-regulated entities. As in response to the similar recommendation in the 2011 Management Efficiency Investigation at Docket No. D-2010-2192659, PAWC will submit to the PaPUC an informal information update regarding the AWWSC/PAWC affiliate agreement. Specifically, PAWC will provide a list of existing major services and current nomenclature. With regard to PAWC affiliated interest agreements with American Water Resources, PAWC will amend existing agreements where necessary that reflect material changes and file any amended agreements with the PaPUC for approval.

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Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Submit informal information update to the PaPUC regarding the AWWSC/PAWC affiliate agreement.	02/2017	E
Review American Water Resources/PAWC agreements.	08/2016	E
File any amended American Water Resources/PAWC agreements with the PaPUC, if necessary.	02/2017	E

Personnel Responsible

Andrew Swope, Divisional General Counsel (Mid-Atlantic Division American Water)

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter V

Affiliated Transactions and Cost Allocations

Recommendation V-2 Update AWWSC's Cost Allocation Manual.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

AWWSC's Cost Allocation Manual is now referred to as the Billing and Accounting Manual.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Update AWWSC's Billing and Accounting Manual (formerly the Cost Allocation Manual).	04/30/2016	E

Personnel Responsible

Rod Nevirauskas, Director of Rates and Regulation, AWWSC
Kathy Pape, President, Pennsylvania-American Water Company

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Chapter V

Affiliated Transactions and Cost Allocations

Recommendation V-3 Work with AWWSC to improve the amount of detail provided in intercompany invoices and reports.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

- In May 2015, AWWSC added additional details to the Affiliate Billing Analysis Report. The 2nd tab on the report, lists/explains key variances to budget by category (e.g. Employee Related, Contract Services, etc.) by Affiliate. Additionally, Service Company functional variances are included for review by American Water Affiliated Companies.

- In August 2015, AWWSC Financial Strategy Planning and Decision Support began to send a Labor Hours report which shows by function, the hours charged by each employee to allocation Work Breakdown Structure (WBS) and direct charges to American Water Affiliated Companies.

Milestones/Full Implementation Date

Milestone	Date [xx/xx/xxxx]	Delivery E=Estimate A=Actual O=O-going
AWWSC will continue to provide monthly affiliate billing analysis report with key variances to budget.		O

Personnel Responsible

Ralph Jedlicka, Manager Budgeting & Internal Reporting, AWWSC

Franco Boffice, Director Budgeting & Internal Reporting, AWWSC

James Merante, Director - Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter V

Affiliated Transactions and Cost Allocations

Recommendation V-4 Expand and improve training efforts by requiring periodic refresher training on proper time allocation and expense entry to all AWWSC employees, including additional targeted training for reviewers and approvers.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion
Refresher training will go-live by end of 2nd quarter, 2016. This e-learning module will be required training for AWWSC employees periodically.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Develop and launch refresher training through e-learning module.	06/30/2016	E

Personnel Responsible

Ralph Jedlicka, Manager Budgeting & Internal Reporting, AWWSC
Franco Boffice, Director Budgeting & Internal Reporting, AWWSC
Kathy Pape, President, Pennsylvania-American Water Company

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Chapter V

Affiliated Transactions and Cost Allocations

Recommendation V-5 Improve the testing and oversight of affiliate transactions throughout the organization and explore the possibility of assigning a PAWC employee the responsibility to actively oversee PAWC's affiliated transactions.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

PAWC has a dedicated financial analyst. This is a service company employee that reports to the Mid-Atlantic Division's Director of Financial Strategy, Planning and Decision Support (FSPDS). The dedicated analyst will review the monthly service company billing analysis and labor hours report provided by AWWSC's FSPDS Department and will obtain explanations/support for variances to budget that are deemed to be material. The financial analyst will work with AWWSC's FSPDS Department to make any necessary corrections to the monthly service company bill based on the findings. The financial analyst will provide a summary of the monthly analysis and findings to the Mid-Atlantic Division's Director of FSPDS for review and approval.

Milestones/Full Implementation Date

Milestone	Date [xx/xx/xxxx]	Delivery E=Estimate A=Actual O=O-going
FSPDS financial analyst to review monthly service company bills and will follow up on material variances to budget. Director- FSPDS (Mid-Atlantic Division) will review and approve monthly analysis and findings.	06/30/2016	E

Personnel Responsible

James Merante, Director - Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

Martin Randazzo, Financial Analyst (dedicated to PAWC) - AWWSC FSPDS

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter VI

Financial Management

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Chapter VI Financial Management

Recommendation VI-1 Document American Water's O&M budgeting policies and practices and update financial management procedures.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

From 2011 through 2013, American Water, and its subsidiaries, including PAWC and AWWSC, underwent a Business Transformation (BT) initiative which included the implementation of SAP. In 2014, as part of this project, American Water initiated a reorganization of its Finance Department in order to take advantage of efficiencies gained through the SAP implementation. Due to the level of resources devoted to the implementation of SAP and the subsequent Finance Department reorganization, American Water was inhibited from conducting a timely review of its existing policies and procedures and documenting its O&M budgeting policies and practices. The Finance Department reorganization has subsequently been completed and management can now focus resources on documenting the Company's budgeting policies and practices as well as updating its financial management policies and practices in accordance with Company policy.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Update Financial Management Policies and Practices per Company Policy.	12/31/2016	E
Document American Water's O&M budgeting Policies and Practices.	12/31/2016	E

Personnel Responsible

Elba Deck, Senior Director Accounting and External Reporting, AWWSC
Franco Boffice, Director Budgeting and Internal Reporting, AWWSC
James Merante, Director - Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

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Chapter VI Financial Management

Recommendation VI-2 Review and establish defined roles for the FADS Mid-Atlantic Department, and other financial departments as necessary, to formalize responsibilities which impact the services provided to PAWC.

PAWC Response The Company accepts, in part, this recommendation.

Benefit Medium

Discussion

From 2011 through 2013, American Water, and its subsidiaries, including PAWC and AWWSC, underwent a Business Transformation (BT) initiative which included the implementation of SAP. In 2014, as part of this project, American Water initiated a reorganization of its Finance Department in order to take advantage of efficiencies gained through the SAP implementation. During this process, formal job descriptions and departmental goals were developed for each functional area of finance that reported to the CFO. This included the development of detailed job descriptions and goals for the FADS Mid-Atlantic Department. Although the Company had formal job descriptions and departmental goals for each of the functional finance groups during audit fieldwork, several were inadvertently excluded in response to certain data requests, which, in part, led to this recommendation. Management will continue to review and update job descriptions and departmental goals within the AWWSC finance organization, as necessary, to ensure that the financial needs and objectives of PAWC are consistently being achieved.

Milestones/Full Implementation Date

Milestone	Date [xx/xx/xxxx]	Delivery E=Estimate A=Actual O=O-going
Review and update defined roles for FADS-Mid-Atlantic and other financial departments, as necessary.		O

Personnel Responsible

Edward Vallejo, Vice President Financial Strategy, Planning and Decision Support, AWWSC
James Merante, Director - Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

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Chapter VII

Field Operations

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Chapter VII Field Operations

Recommendation VII-1 Develop a comprehensive damage prevention program.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

The Company will complete its damage prevention program, to include the damage prevention manual and specific metrics to gauge performance, supported by a detailed training program.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Complete damage prevention manual.	09/30/2016	E
Develop and deploy training program.	12/31/2016	E

Personnel Responsible

James Sheridan, Vice President, Operations

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Chapter VII Field Operations

Recommendation VII-2 Identify the size and criticality of all valves and operate valves in accordance with corporate policies and procedures.

PAWC Response The Company accepts, in part, this recommendation.

Benefit High

Discussion

The Company agrees to develop and deploy a uniform program of valve identification and maintenance in accordance with the corporate practice. As a part of the Company's current GIS information collection project (see VII-5), accurate location data for all valves will be captured by the end of 2017. During this process, all known valves will be identified and classified, or reclassified as appropriate. In addition, the Company's implementation of SAP is now in the optimization period; and therefore, the timing of the capture of this critical GIS data will support the corporate practice. The deployment of this valve program will generally consist of four (4) phases. Phase one is the current GIS data capture/confirmation project, due to be materially complete by the end of 2017. Phase 2 will be the classification of high criticality valves. Phase 3 will be the replacement of those high criticality valves that have been identified as damaged or inoperable. Phase 4 will be the annual routine valve maintenance program in accordance with the corporate practice. Each phase will have varying timelines and overlaps of phases in different districts, based on the schedule of GIS data captured for that district, and the current valve maintenance program in each district. The proposed dates below are dates for the whole Company, with some districts being further advanced than others.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Complete GIS information collection project.	Dec 2017	O
Classification/reclassification & condition assessment of high criticality valves.	July 2019	E
Repair/replace high criticality valves.	Ongoing	O
Compliance with the Corporate Valve Operation, Inspection, and Maintenance Practice for medium criticality valves.	Jan 2020	E

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Compliance with the Corporate Valve Operation, Inspection, and Maintenance Practice for low criticality valves.	Jan 2022	E
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Personnel Responsible

James Sheridan, Vice President, Operations

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Chapter VII Field Operations

Recommendation VII-3 Reduce NRW levels and strive to improve the ILI index values.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

As part of PAWC restructuring of the Operations unit during 2015, the Company created two (2) new manager roles to focus NRW and asset maintenance. In addition, the Company is embarking on a standardization of leak detection technology to leverage in house knowledge across districts and standardize on training and operational procedures. Each district has an NRW charter, a list of commitments that the local supervisor will complete throughout the year to drive down their local NRW. This charter addresses leak surveys, meter sizing and application, meter testing, theft of service, timely response to known leaks, and reaching out to local fire departments regarding unaccounted for water.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Created two (2) new roles to focus on water network issues including a focus on NRW. One for the eastern districts and the other for the western districts.	11/09/2015	A
Developed NRW Charters for each district.	01/01/2016	A
Standardize leak detection technology.	12/31/2016	E

Personnel Responsible

Joseph Rambaldi, Director Business Performance

James Sheridan, Vice President, Operations

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Chapter VII Field Operations

Recommendation VII-4 Perform a staffing study of the Operations Department that incorporates the cost/benefit of hiring additional resources, overtime utilization, and outsourcing functions.

PAWC Response The Company accepts, in part, this recommendation.

Benefit High

Discussion

The Company conducted a complete review of the structure, resources, and potential unmet needs of the Operations Department during 2015. The review was conducted by the Company's Human Resources Department and the Operations Department senior management. The review resulted in a reorganization of resources at all supervisory/management levels of the structure - above hourly utility workers and operators - and below the senior directors. The main changes were to fold all sub departments within the Operations Department into seven geographic areas across the business. Each geographic area is now led by a senior manager with all the sub departments (Field Services; Production; Water Quality; Health and Safety) integrated beneath them to provide effective communications. The reorganization also rearranged resources to provide similar size teams for each supervisor. It also recognized the need to establish some key roles such as Fleet Coordinators and NRW Managers.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Operational Review and resulting reorganization completed.	12/2015	A

Personnel Responsible

Michael Springer, Director, HR, AWWSC
Jimmy Sheridan, Vice President, Operations

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Chapter VII Field Operations

Recommendation VII-5 Correct pipeline locational inaccuracies and incorporate key pipeline data into the GIS system.

PAWC Response The Company accepts, in part, this recommendation.

Benefit High

Discussion

Implementation of this recommendation is in progress; however, the Company recommends a modified time frame of 24 months to complete this recommendation.

As of December 2015, the PAWC GIS group has field collected the horizontal location of more than 550,000 company-owned assets as part of the Spatial Data Accuracy Initiative (SDAI). This 2.5 year program to field collect and adjust over 1,500,000 company-owned assets is scheduled for completion in 2017. The SDAI will achieve the following improvements:

- Majority of company owned assets will have a horizontal accuracy of within 3 feet;
- Assets such as curb stops, meter pits and domestic service lines that were previously not in GIS will be located;
- Increased locational accuracy of linear assets such as water mains and gravity sewer mains;
- Identification and field collection of previously missing or un-locatable company owned assets.

Beginning in 2015, the PAWC GIS group identified missing pipe installation dates and material. As of December 2015, the installation date for approximately 43% or 4,253 miles of existing mains in GIS has been populated, in addition to the pipe material for approximately 86% or 8,581 miles of existing mains. In conjunction with local operations, the PAWC GIS group anticipates completing the pipe age and material inventory by mid-2017.

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Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Collect and adjust 1.5 million company-owned assets in GIS.	12/31/2017	E
Populate the pipe installation date and material in GIS.	06/30/2017	E

Personnel Responsible

David Kaufman, Vice President Engineering

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Chapter VII Field Operations

Recommendation VII-6 Increase main replacement rates to standard industry levels for all operating districts.

PAWC Response The Company accepts, in part, this recommendation.

Benefit High

Discussion

PAWC agrees, in part, with the recommendation that main replacement rates be increased for some of the operating districts in PAWC's Southeast District, which were identified as having low main replacement rates.

PAWC's main replacement prioritization program is based on performance related factors (structural, hydraulic, and water quality) and the pipe's expected level of service. Main replacement rates are directly influenced by the pipes structural performance (break failure rates) expressed in main breaks per 100 miles of main per year. The physical attributes of the pipe (such as material type, size, year of installation) do not directly determine the replacement timing for the asset but are used as an identifier to facilitate analysis of pipe cohorts. The age of the pipe based on the year of installation is not used as a rating element because the oldest pipe is not necessarily the worst and the newest is not necessarily the best.

PAWC's statewide average main replacement rate is currently at 0.9%, which is double the industry average of approximately 0.45%. Based on our prioritization methodologies, main replacement rates for the various districts typically range between 1.4% to 0.4%. Main replacement rates will typically vary based on the life cycle of the district's pipe assets. Districts with the lower main replacement rates typically have low and/or declining main break frequency rates.

The Southeastern districts identified in Exhibit VII-21 exhibit some of the lowest main break frequency rates of all PAWC districts and have failure rates significantly lower than PAWC's statewide annual average of 30 main breaks/100 miles of main and the national average of 24 main breaks/100 miles of main. Based on evaluating the consecutive 3 year annual average of main break frequencies since 2010, most of the districts identified in Exhibit VII-21 have steady or declining main break frequency rates that have been at or below a low value of 14 main breaks/100 miles of main per year. PAWC believes the current main replacement rates are appropriate for most of these districts. Two districts identified in the Exhibit – Norristown & Yardley – have recently

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shown an increasing trend in main break frequency rates and will have their main replacement rate increased to 0.45% or greater.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Increase Norristown and Yardley Main Replacement Rate to .45% or greater.	12/31/2016	0

Personnel Responsible

David Kaufman, Vice President Engineering

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Chapter VII Field Operations

Recommendation VII-7 Take corrective action to ensure that at least 80% of commercial and industrial backflow prevention devices are tested annually.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion

During the 2015 Operations function reorganization, the new position of Operation Specialist (Backflow) was created. This individual is the lead person for the overall backflow prevention program and is responsible for improving, monitoring and reporting compliance rates for customers who have backflow prevention devices. In addition, there are three Cross Control Operation Specialists who, in addition to testing Company owned backflow devices, also conduct inspections at commercial and industrial customers. These specialists also provide education for those customers who are less responsive to the regulations. The Company is also planning software improvements to SAP that will increase the degree of automation, freeing up more resources for increasing compliance.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Created Operation Specialist (Backflow).	Nov 2015	A
Changes to SAP to advance automation of the program administration.	Dec 2016	E

Personnel Responsible

Joseph Rambaldi, Director Business Performance
James Sheridan, Vice President, Operations

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Chapter VIII

Emergency Preparedness

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Chapter VIII Emergency Preparedness

Recommendation VIII-1 Periodically review and update site-specific ERP's to ensure that external emergency agency and personnel contact lists are current.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

PAW will revise its process to include a periodic review of ERP's to ensure external emergency agency and personnel contact lists are current.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Revise EPR update process to ensure contact lists are current.	04/30/2016	A
Conduct test to ensure process is working.	08/30/2016	A

Personnel Responsible

John Ihli, Director Health & Safety/Operational Risk Management
James Sheridan, Vice President, Operations

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Chapter VIII Emergency Preparedness

Recommendation VIII-2 Create a formal cyber security awareness and training program that tracks employees' periodically required participation to ensure employees maintain a cyber safe work environment.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

The Company selected the SANS Securing the Human cyber security training program and implemented it into the Company's learning management systems (LEARN).

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Completed integration of SANS training modules in LEARN.	01/31/2016	A

Personnel Responsible

Nicholas Santillo, Jr. – Director, Physical and Cyber Security, AWWSC
James Sheridan, Vice President, Operations

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Chapter IX

Materials Management

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Chapter IX Materials Management

Recommendation IX-1 Fully utilize SAP to optimize the materials management function at PAWC.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

The Company continues to make progress on its implementation of new materials management functions in SAP. Through these efforts, the Company aspires to reduce paper-based processes, identify and correct inaccurate data, establish consistent procedures at all Company warehouses, and use the tools in SAP to optimize the Company's material management processes. A pilot is underway in the Mechanicsburg district to utilize the Material Requirements Planning (MRP) function of SAP. This will include: (1) reviewing part numbers extended to the plant for accuracy and alignment with supplier part numbers; (2) ensuring that all stock materials are extended to the plant; and (3) reviewing usage history data to set proper reorder points and maximum stocking levels. The next step will be to begin using the materials component of the "Click Mobile" application for issuing materials to the assigned service order. A review of "back office" practices will also assure that reservations created in the system are reviewed and all materials are issued out against those reservations. Shortly after implementing these changes, project managers will begin to utilize the components of SAP to load their material reservations for projects into the system. All of these changes will allow for the full utilization of MRP. A similar pilot will commence in the McMurray district to establish similar goals in a western PA district. The results of the pilots will be used to define standard materials management processes for prioritized implementation across PAWC Operations warehouses.

Milestones/Full Implementation Date

Milestone	Date [xx/xx/xxxx]	Delivery E=Estimate A=Actual O=O-going
Commenced pilot in Mechanicsburg.	11/11/2015	A
First planning meeting held in McMurray for MRP pilot.	01/22/2016	A
Review pilot results & develop standard materials management processes and implementation guidelines.	04/30/2016	E

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Begin prioritized implementation of standard materials management processes at other PA Operations.	06/30/2016	E
Complete implementation of standard materials management processes across PA Operations.	06/30/2017	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy

James Sheridan, Vice President, Operations

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Chapter IX Materials Management

Recommendation IX-2 Establish a centralized materials management organizational structure and a training program for PAWC employees handling materials.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

As part of PAWC restructuring of the Operations unit during 2015, the Company created Operations Specialist positions located across the state. These specialists report through the operations function to the Senior Operations Managers, who are responsible for overall materials management functions within their geographic area. The specialist positions will provide additional resources for the warehouse supervisors who oversee materials management processes within their warehouses, and will provide a renewed level of consistency in managing the overall process. As PAWC completes the pilots discussed in Recommendation IX-1, the Company will develop training modules and roll-out training on the standardized materials management processes for implementation at other warehouses across the state.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Created Operations Specialist positions across state.	10/22/2015	A
Review pilot results, develop standard materials management processes, implementation guidelines and training modules.	04/30/2016	E
Begin prioritizing the implementation of standard materials management processes across PAWC Operations.	06/30/2016	E
Complete implementation of standard materials management processes across PAWC Operations.	06/30/2017	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter IX Materials Management

Recommendation IX-3 Examine the accuracy of all materials management related data and correct inconsistent, incomplete, and inaccurate data when identified.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

Some of inconsistent, incomplete or inaccurate data on materials management during the audit field work were transitory due to the switchover to SAP. The Company has been working to clean up the data issues. For example, the issue with multiple part numbers for the same item has been resolved. The issue with the slow moving materials report has been determined to be a result of the report query details, and has been resolved. Nevertheless, the pilots discussed in Recommendation IX-1 should provide standardized data management and reporting practices that should bring improved accuracy and consistency for our materials management program. Best practices developed from the pilots will be implemented across the PAWC Operations warehouses, and data inaccuracies discovered during the pilots and full-scale roll-out will continue to be corrected as they are discovered.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Resolved multiple part numbers for same item.	10/31/2015	A
Resolved discrepancies in slow moving material reports.	12/31/2015	A
Identified and resolved data errors in the system.	11/11/2015	O
Review pilot results and develop standard materials management processes and implementation guidelines.	04/30/2016	E
Begin prioritized implementation of standard materials management processes across PA Operations.	06/30/2016	E
Complete implementation of standard materials management processes across PA Operations.	06/30/2017	E

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Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy

James Sheridan, Vice President, Operations

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Chapter IX Materials Management

Recommendation IX-4 Record annual counts in SAP, produce reports on shrinkage, and base frequency of inventory counts on material type instead of warehouse size.

PAWC Response The Company accepts, in part, this recommendation.

Benefit Medium

Discussion

The Company accepts this recommendation, but provides a different time frame. The Company is conducting an inventory of Tier 3 warehouses on a once every 5-year schedule, in accordance with corporate policy. In order to test the recommendation and determine if there are benefits to an increased inventory frequency of these warehouses, the Company will conduct annual inventories of these warehouses for a 2-year period and will target select material (copper and/or other high-cost, high-volume material).

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Conduct targeted 1 st year annual inventory of Tier 3 warehouses.	11/30/2016	E
Conduct targeted 2 nd year annual inventory of Tier 3 warehouses.	11/30/2017	E
Review results and identify areas for improvement.	03/30/2018	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter IX Materials Management

Recommendation IX-5 Define emergency stock and make appropriate adjustments to slow moving or obsolete stock.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

The Company is researching and assessing SAP enhancements and will submit requests for SAP upgrade.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Begin research on SAP upgrade options.	02/21/2106	A
Submit internal IT request for SAP upgrade to include emergency stock.	03/31/2016	E
SAP upgrade completed.	06/30/2016	E
Designate emergency stock material in SAP at each warehouse.	12/31/2016	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter X

Customer Service

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Chapter X Customer Service

Recommendation X-1 Improve the retention of American Water Works Service Company's Customer Service Representatives within its Call Handling Department.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

As seen by the increase in average staffing levels between 2012 and 2013, the CSC was hiring staff to prepare for a new system implementation. As that implementation phase was coming to completion, and subsequently completed, the additional headcount was transitioned down through natural attrition. This natural attrition inflated the attrition number for part of 2013, 2014 and even part of 2015. Now that the headcount numbers returned to normal operating numbers, we should have a better view of actual turnover rates in 2016. The Company continues to develop strategies to improve the retention of AWWSC's Customer Service Representatives within the Call Handling Department. Additionally, the Company undertook extensive work in 2015 on culture, creating Culture Action Teams and incorporating the teams' recommendations in the area of communications, training, reward and recognition in the CSC strategic plan.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Continue work in the area of hiring process, looking for the right candidate pools and assessment tools.	12/31/2016	O
Continue implementing the Culture Action Teams recommendations in the areas around communication, reward and recognition and training.	12/31/2016	O

Personnel Responsible

Preston Pallas, Senior Human Resources Business Partner, AWWSC

Karla Teasley, Vice President, Customer Service, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter X Customer Service

Recommendation X-2 Explore additional strategies to accelerate the recovery of overdue customer accounts receivable and continue collection measures already in place.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

PAWC will continue to perform analysis on accounts that are affecting aged receivables. Activities will be conducted from the field work and also in the back office. Strategy 1, the field work will focus on service orders that continue to be marked as incomplete, due to meter box repairs. By creating a focus to fix the meter box, this will decrease balances that are aging and growing to the point that a customer is not able to pay the balance. Strategy 2 is going to focus on orders that show a customer has consumption and their account is showing as inactive. These orders will be prioritized at a higher level, to ensure that we are correcting/investigating the account timely. Strategy 3, create earlier visibility at the district level for accounts that have high bills. Strategy 4 is a continuation of what PAWC has been doing since 2014: Review accounts that are on hold for more than 30 days, quality monitor Installment Plans to ensure that they are set up properly and continue to run special call campaigns to notify customers in a timely manner.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Curb Box Repair Priority.	12/01/2016	O
Inactive With Consumption Order Moved to Higher Priority.	10/01/2016	O
High Bill Investigation through system reports.	03/01/2016	O
Collection Strategy for Holds, Installment Plans and Collection Calls.	02/15/2016	O

Personnel Responsible

Joseph Rambaldi, Director Business Performance

Heather Hoelting, Manager Collections, AWWSC

James Merante, Director – Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

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Chapter X Customer Service

Recommendation X-3 Identify and correct the causes of data discrepancies within the reporting of customer accounts receivable aging data.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

PAWC has determined that the discrepancies in accounts receivable aging data are primarily due to differences in applying rules in generating aging reports. Subsequent to the management audit, PAWC verified that both the accounting group and collections group (CSC) will be using the same accounts receivable aging reporting on an ongoing basis. This will ensure that consistent aging trends are used in the management of PAWC's customer collections activities.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Utilization of consistent accounts receivable aging reporting by the accounting group and customer collections groups.		O

Personnel Responsible

Doug Brock, Director CSC Operations, AWWSC

Heather Hoelting, Manager Collections, AWWSC

Anne McAteer, Accounting Manager, AWWSC

James Merante, Director- Financial Strategy, Planning and Decision Support
(Mid-Atlantic Division American Water)

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Chapter X Customer Service

Recommendation X-4 Include a disclaimer for non-regulated service charges included on PAWC billings.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion
PAWC will implement a disclaimer for non-regulated service charges on PAWC billings.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Include disclaimer for non-regulated service charges on PAWC billings.	07/01/2016	A

Personnel Responsible
Tammy MacLaughlin, Manager Billing CSC, AWWSC
Susan Simms Marsh, Deputy General Counsel

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Chapter X Customer Service

Recommendation X-5 Implement additional bill rendering metrics, exception reporting, and/or increased oversight of billing data to ensure expected performance.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion

There are two (2) high level metrics used to determine effectiveness of billing and invoicing processes. These are Billing Accuracy and Bills Rendered per Billing FTE. PAWC has traditionally measured Billing Accuracy and will continue to in the future. In an effort to provide oversight at a more granular level, the Company will consider other metrics.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Define additional metrics and determine baseline measures.	02/28/2016	E
Develop scorecard and reporting frequency of new metrics.	03/30/2016	E
Benchmark new metrics where possible with other utilities.	04/15/2016	E
Determine stakeholders for delivery of performance metric data and begin ongoing delivery of data.	04/30/2016	E

Personnel Responsible

Tammy MacLaughlin, Manager Billing CSC, AWWSC
Karla Teasley, Vice President, Customer Service, AWWSC
Kathy Pape, President, Pennsylvania-American Water Company

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Chapter X Customer Service

Recommendation X-6 Strive to improve key performance indicators for the Customer Service function and establish appropriate targets which align with, or exceed, industry standards.

PAWC Response The Company accepts this recommendation.

Benefit Medium

Discussion

PAWC has established the following metrics that are related to satisfaction. The individual metrics measure points in the customer's experience from meter reading, billing, customer interactions and payment of services.

First Contact Resolution
Annualized Calls offer to queue per Customer
Quality Assurance Scores for CSR
Satisfaction with Overall Outcome of Service Contact (third-party)
Satisfaction with Performance of CSR (third-party)
Percentage Billing Corrections to Active Accounts
Account Receivables Charged Off
Percentage of Disconnects Completed to all Non-Pay Disconnects Scheduled
Percentage of Actual Reads to Total Reads
Justified PUC Complaints

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Set targets for all metrics.	03/01/2016	A

Personnel Responsible

Douglas Brock, Director CSC Operations, AWWSC

Karla Teasley, Vice President, Customer Service, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company

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Chapter XII

Fleet Management

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Chapter XII **Fleet Management**

Recommendation XII-1 Incorporate fleet management operating practices and vehicle reporting at Bethel Park into the Company's standardized fleet operating practices.

PAWC Response The Company accepts, in part, this recommendation.

Benefit Medium

Discussion

The Company agrees to incorporate the Company's fleet management operating practices and vehicle reporting at Bethel Park. However, the timeline for the Company to accomplish this is outlined below.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Utilize the Company's Fleet Management partner to conduct a gap analysis between the Company's standardized operating practices and Bethel Park's current practices.	06/30/2016	E
Implement changes to Bethel Park's fleet management practices.	09/30/2016	E

Personnel Responsible

Joseph Rambaldi, Director Business Performance

James Sheridan, Vice President, Operations

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Chapter XII Fleet Management

Recommendation XII-2 Dedicate additional resources to Fleet Management at PAWC.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

As part of PAWC restructuring of the Operations unit during 2015, the Company created the position of Program Manager. One area of focus for this position is fleet management. The Program Manager's role will centralize and standardize the overall operations of all aspects of the Company's fleet. In addition to the Program Manager position, the Company created two Fleet Specialists positions (one for East Operations and one for West Operations) reporting to the Program Manager.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Created Program Manager position for strategic liaison with Corporate Fleet and vendors.	11/09/2015	A
Hired dedicated fleet specialist for Eastern PA.	11/09/2015	A
Hired dedicated fleet specialist for Western PA.	11/09/2015	A

Personnel Responsible

Joseph Rambaldi, Director Business Performance

James Sheridan, Vice President, Operations

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Chapter XII **Fleet Management**

Recommendation XII-3 Account for the inactivity of fuel cards and take corrective actions to meet or exceed the 95% fuel card activity goal.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion
The Company will evaluate the current practice and take corrective actions.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Study cards with no activity for 6 months, address and correct issue.	04/30/2016	E
Study cards with no activity between May and June 15 th and correct issue.	08/31/2016	E
Implement card tracked refueling for Bethel Park.	12/31/2016	E

Personnel Responsible
Joseph Rambaldi, Director Business Performance
James Sheridan, Vice President, Operations

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Chapter XIII

Facilities Management

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Chapter XIII Facilities Management

Recommendation XIII-1 Dedicate personnel to the facilities management function and standardize policies across the Company.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

As part of PAWC restructuring of the Operations unit during 2015, the Company created the position of Senior Manager Operations, Operations & Maintenance Strategy. One area of focus for this position is strategic facilities management, including standardization/automation of operational assets, operational land/building optimization, and property acquisition/disposition. To support this centralized position the Company will identify local facility managers who will be responsible for the operation and maintenance of the facilities, and for implementing standardized policies and strategic improvement initiatives. The team will develop a statewide inventory of facility condition/adequacy and standardized policies and practices, as necessary.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Created Senior Manager Operations, O&M Strategy position.	10/22/2015	A
Identify local facility managers.	03/31/2016	E
Complete facility inventory & condition/adequacy assessment.	06/30/2016	E
Identify needs for standardized policies and practices.	09/30/2017	E
Prepare standardized policies and practices, as necessary.	03/31/2018	E
Implement and train on policies and practices.	06/31/2018	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter XIII

Facilities Management

Recommendation XIII-2 Develop a policy governing the use of facility needs assessments, space-planning studies, and energy usage audits to periodically assess the condition and efficiency of Company facilities.

PAWC Response The Company accepts this recommendation.

Benefit High

Discussion

Consistent with the activity and milestones identified in Recommendation XIII-1, the Company will establish a practice for managing facilities through systematic needs assessments, space-planning studies and energy usage audits. This work will be performed jointly by the Operations management team described in Recommendation XIII-1 and the Engineering Department.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Prepare Facility Needs Assessment practice	03/31/2017	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter XIII Facilities Management

Recommendation XIII-3 Accurately record expenses within the appropriate budget sub-category to allow timely and more qualitative analysis of facility-level expenses.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion

The Company will review the facility O&M expenses being charged versus budget categories to determine if/where mismatches are occurring. Mismatches will be corrected by changing expensing practices, budgeting practices, or a combination of both. This work will be coordinated with the preparation of the 2017 operating budget.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Review historical facility O&M expenses versus budget categories.	03/31/2016	E
Identify mismatches and develop solutions to correct.	04/30/2016	E
Implement changes in expensing/budgeting practices and train staff.	06/30/2106	E
Review facility O&M expenses at year-end to confirm changes.	12/31/2016	E

Personnel Responsible

Daniel Hufton, Senior Manager Operations, Operations & Maintenance Strategy
James Sheridan, Vice President, Operations

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Chapter XIV

Human Resources and Diversity

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Chapter XIV Human Resources and Diversity

Recommendation XIV-1 Update all HR policies and practices and formally document the scope, intent and usage of the Spot Award program.

PAWC Response The Company accepts this recommendation.

Benefit Low

Discussion

American Water will be conducting a review of all HR policies and practices on a 3-year cycle. The milestones below outline those HR policies under review as well as the schedule of review moving forward. The spot award program is part of the Compensation and Benefit Policy/Practice which will be revised by April 2016.

Milestones/Full Implementation Date

Milestone	Date [XX/XX/XXXX]	Delivery E=Estimate A=Actual O=O-going
Workforce Conduct Policy/Practice.	01/01/2016	E
Violence Free Workplace.	01/01/2016	E
Drug and Alcohol Free Practice.	01/01/2016	E
Leaves of Absence Policy/Practice (Phase 1).	02/01/2016	E
Recruitment and Staffing Policy/Practice.	02/01/2016	E
Tuition Reimbursement Policy/Practice.	01/01/2016	E
Time, Attendance and Paid Time Off Policy/Practice.	03/01/2016	E
Compensation and Benefits Policy/Practice.	04/01/2016	E
Employee Records Maintenance Practice.	04/01/2016	E
Leaves of Absence Policy/Practice (Phase 2).	04/01/2016	E
Separation of Employment Policy/Practice.	04/01/2016	E
Severance Appeals Practice.	04/01/2016	E
Talent and Performance Management Policy.	04/01/2016	E
Alcohol and Drug Policy.	TBD	E
Loss of Driving Privileges.	TBD	E
Tobacco Free Workplace Practice.	TBD	E
Electronic Communication Policy.	TBD	E
Casual Attire Policy.	TBD	E
Medical Examination Policy.	TBD	E

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Travel Accident Insurance Policy.	TBD	E
Special Death Benefit Policy.	TBD	E
Absence Control Policy.	TBD	E
FMLA Policy.	TBD	E
Vacation Policy.	TBD	E
Meal Allowance Policy.	TBD	E

Personnel Responsible

Michael Springer, Director, HR, AWWSC

Kathy Pape, President, Pennsylvania-American Water Company