

PEOPLES NATURAL GAS COMPANY LLC

PEOPLES NATURAL GAS COMPANY LLC –
EQUITABLE DIVISION

PEOPLES TWP LLC

(COLLECTIVELY REFERRED TO AS THE PEOPLES
COMPANIES)

IMPLEMENTATION PLAN
FILED IN RESPONSE TO
PENNSYLVANIA PUBLIC UTILITY COMMISSION
FOCUSED MANAGEMENT AND OPERATIONS AUDIT

November 09, 2016

The Peoples Companies
Focused Management and Operations Audit
Implementation Plan - November 09, 2016

Recommendations Overview

No.	Recommendation	Response	Audit Report Reference
1	Provide periodic written status reports to the Risk & Audit Committee in regards to all outstanding internal audit recommendations.	Accepted	IV- 1
2	Modify the proposed Internal Audit reporting structure so that the head of the Internal Audit Department reports functionally to the Risk and Audit Committee and administratively to the President & CEO.	Accepted	IV-2
3	Develop a cost allocation manual, distribute it to appropriate employees, and provide periodic training on proper time allocation and expense to all Peoples Companies' employees, in order to ensure consistent application of cost allocation policies and procedures among all affiliates.	Accepted	V-1
4	Conduct periodic internal audits of affiliate transactions and the cost allocations process.	Accepted	V-2
5	File revised affiliated interest agreements that accurately describe the transactions and cost allocation of services provided between the Peoples Companies and their affiliates.	Accepted	V-3
6	Establish a written dividend policy that documents the procedures for determining the level of dividend payments.	Accepted	VI-1
7	Expedite the replacement of unprotected bare steel pipe to ensure Long Term Infrastructure Improvement Plan (LTIIP) targets are met for each of the Peoples Companies.	Accepted	VII-1

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8	Develop a staffing plan that accounts for the pending retirements while addressing the need for additional qualified personnel to perform all field operations activities and ensure the completion of future LTIP pipeline replacement projects.	Accepted	VII-2
9	Address excessive individual overtime levels through corrective measures; such as shift resources, standardizing and enforcing emergency call-out procedures, etc.	Accepted	VII-3
10	Develop and implement an Emergency Response Improvement Plan that addresses controllable causes to excessive emergency dispatch and response times to conform to merger commitments.	Accepted	VII-4
11	Increase third-party line hit damage collection performance by transferring the responsibilities to the General Counsel to actively pursue and litigate damage claims.	Accepted	VII-5
12	Accelerate efforts to eliminate inside meter sets to comply with PUC regulations.	Accepted	VIII-1
13	Expedite the implementation of a uniform TOS program for the Peoples Companies.	Accepted	VIII-2
14	Study potential solutions to reduce arrearages and minimize write-offs.	Accepted	VIII-3
15	Improve the identification of dispute causes by using the 2010 dispute reason codes in order to minimize the number of future customer disputes.	Accepted	VIII-4
16	Implement AMR/smart meter technology as planned to minimize meter reading and billing errors.	Accepted	VIII-5

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17	Continue to monitor training, methodologies, equipment and ergonomic needs which address the primary causes of accidents and initiate changes or introduce new programs as needed.	Accepted	X-1
18	Designate emergency stock for the Equitable Division and Peoples TWP.	Accepted	XI-1
19	Survey, evaluate, and utilize best practices of other utilities using a third-party purchasing and material delivery vendor in order to determine best practices for materials management and reasonable inventory turnover performance for the Peoples Companies.	Accepted	XI-2
20	Perform a periodic lease versus buy analysis and utilize the least cost alternative for acquiring vehicles and equipment.	Accepted	XIII-1
21	Complete the cost benefit analysis for vehicle maintenance services and, if cost justified, perform additional basic maintenance services with Company personnel.	Accepted	XIII-2

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Recommendation Number: Chapter IV – No. 1

Recommendation: Provide periodic written status reports to the Risk & Audit Committee in regards to all outstanding internal audit recommendations.

Recommendation Status: Accepted

Current Action Plans: Internal Audit has expanded distribution of the Status of Internal Audit Recommendations reporting to include the Risk and Audit Committee. This semi-annual reporting includes a summary of all current year internal audit recommendations as well as any open prior year recommendations, management commitments, target implementation dates, and implementation status.

Date Implemented: August 2016

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Mark Miller
Director, Risk and Audit
The Peoples Companies

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Recommendation Number: Chapter IV – No. 2

Recommendation: Modify the proposed Internal Audit reporting structure so that the head of the Internal Audit Department reports functionally to the Risk and Audit Committee and administratively to the President & CEO.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies' Internal Audit Director's reporting relationship has been changed to now report functionally to the Risk and Audit Committee and administratively to the President and CEO.

Date Implemented: December 31, 2016

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Mark Miller
Director, Risk and Audit
The Peoples Companies

The Peoples Companies

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Recommendation Number: Chapter V – No. 1

Recommendation: Develop a cost allocation manual, distribute it to appropriate employees, and provide periodic training on proper time allocation and expense to all Peoples Companies' employees, in order to ensure consistent application of cost allocation policies and procedures among all affiliates.

Recommendation Status: Accepted

Current Action Plans: During the 1st Quarter of 2017, the Peoples Companies will further develop, update, and document procedures on appropriate time allocation and expense charging for all Peoples Companies' personnel who are identified as performing work under provisions of the affiliated interest agreements. Immediately following this step, the revised documentation will be published and made available to these employees. Timely updates and employee notifications of any changes in procedures and affiliate agreements will be made on an ongoing basis.

By April 2017, Peoples will update and distribute cost allocation factors in compliance with existing affiliate agreements.

Date to be Implemented: First Quarter of 2017 and ongoing.

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Karen Worcester
Director, Accounting
The Peoples Companies

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Recommendation Number: Chapter V – No. 2

Recommendation: Conduct periodic internal audits of affiliate transactions and the cost allocations process.

Recommendation Status: Accepted

Current Action Plans: An Affiliated Interest and Cost Allocation audit was completed in August 2016. An internal audit of affiliated transactions and cost allocations will be repeated periodically.

Date Implemented: August 2016

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Mark Miller
Director, Risk and Audit
The Peoples Companies

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Recommendation Number: Chapter V – No. 3

Recommendation: File revised affiliated interest agreements that accurately describe the transactions and cost allocation of services provided between the Peoples Companies and their affiliates.

Recommendation Status: Accepted

Current Action Plans: The Company will immediately undertake a comprehensive review to determine the most efficient and effective structure for the provision of services between Peoples Companies and affiliates. This review will consider the transition of employees to the Peoples Service Company (“PSC”), maintaining support functions within the respective companies, and the option to house all employees within a single operating company entity that would provide PSC type services to affiliates.

Following the completion of this review, the Company will preview its proposed affiliated service structure and associated cost allocation methodologies with Commission staff and the state advocates and file supporting revised affiliated interest agreements by September 1, 2017.

Date to be Implemented: September 1, 2017

Person(s) Responsible for Implementation: Joseph Gregorini
SVP, Regulatory & Reliability
The Peoples Companies

Lynda Petrichevich
Director, Rates and Regulatory Affairs
The Peoples Companies

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Recommendation Number: Chapter VI – No. 1

Recommendation: Establish a written dividend policy that documents the procedures for determining the level of dividend payments.

Recommendation Status: Accepted

Current Action Plans: The Companies will document the procedures it follows to determine the level of dividend payments in the form of a written policy by December 31, 2016.

Date to be Implemented: December 31, 2016

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

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Recommendation Number: Chapter VII – No. 1

Recommendation: Expedite the replacement of unprotected bare steel pipe to ensure Long Term Infrastructure Improvement Plan (LTIIP) targets are met for each of the Peoples Companies.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies remain committed to an expedited 20-year replacement of targeted infrastructure and are continuously working to perform to the targets of the approved LTIIPs.

To enable the additional acceleration necessary to complete the plan within the 20 year time frame, the Companies have engaged a third party consultant to review/develop a plan that establishes the desired organizational structure, program management, required resources, and timing to meet the full targeted plant replacement. The plan is currently being reviewed by management and recommendations will be implemented as approved by management.

In support of the expedited infrastructure replacement program and the 3rd party plan, the Companies are:

- Developing the appropriate information systems to support program management; including but not limited to project scheduling;
- Integrating formal Program Management principles into the Program; and
- Modifying and accelerating the Design Process such that the majority of project designs are completed in the year prior to planned construction dates.

Date to be Implemented: Formal project plans for the 2017 approved LTIIP, consistent with the third party evaluation and including the required staffing will be available by March, 2017.

Person(s) Responsible for Implementation: Paul Becker
VP, Construction & Engineering
The Peoples Companies

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Recommendation Number: Chapter VII – No. 2

Recommendation: Develop a staffing plan that accounts for the pending retirements while addressing the need for additional qualified personnel to perform all field operations activities and ensure the completion of future LTIP pipeline replacement projects.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies field operations are split into three departments: Field Customer Service, Operations and Construction. Programs have been developed to monitor productivity and travel time for all groups. Subsequent to the final Voluntary Retirement Package elections (offered to employees in November 2015), an evaluation of the manning for each department was reviewed. For both field customer service and operations, the appropriate staffing levels for both current and future consolidated local office locations have been determined in February 2016. The current target manning includes the proper skill set and staffing levels for each area. Call out and work procedures are being standardized to provide the optimal workforce levels. As local offices are consolidated during 2017, manning will be reviewed to assure both efficient and effective operations and staffing levels may change slightly. The construction department's staffing and implementation plans to ensure that the LTIP targets are met will be completed as reported in recommendation VII-No.1.

Date to be Implemented: The final operations and field customer service plans will be completed in March, 2017.

Person(s) Responsible for Implementation: Judi Stemmler
VP, Human Resources
The Peoples Companies

David Degener
Director, Gas Operations
The Peoples Companies

Barry Leezer
Director, Field Customer Service
The Peoples Companies

Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

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Recommendation Number: Chapter VII – No. 3

Recommendation: Address excessive individual overtime levels through corrective measures; such as shift resources, standardizing and enforcing emergency call-out procedures, etc.

Recommendation Status: Accepted

Current Action Plans: Individual overtime is available by employee. The Peoples Companies will review the individual overtime statistics semi-annually and look for opportunities and options to reduce overtime.

Procedures will be developed that standardize the call out and work procedures to minimize overtime. Shifts will be implemented as necessary to assure timely responses to emergencies and assure OT use is at an optimal level.

Date to be Implemented: Standardized procedures will be complete by January 1 2017. Overtime statistics will be reviewed on an ongoing basis.

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Barry Leezer
Director, Field Customer Service
The Peoples Companies

David Degener
Director, Gas Operations
The Peoples Companies

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Recommendation Number: Chapter VII – No. 4

Recommendation: Develop and implement an Emergency Response Improvement Plan that addresses controllable causes to excessive emergency dispatch and response times to conform to merger commitments.

Recommendation Status: Accepted

Current Action Plans: To address the Customer Service Representative’s availability, distance and dispatch issues discussed in the audit, Peoples has developed, and is implementing, a plan to improve Emergency Response. The following critical steps are part of that plan.

- The Dispatch Center, systems and processes for all three companies was successfully merged in July 2015
- A new union labor agreement was negotiated and settled with three major unions so that now the Peoples’ Companies have one set of rules effective November, 2015. This allowed all of the following activities to be achieved by October 2016:
 - All Customer Service employees now take their truck home so that they don’t have to come into the shop before proceeding to a call.
 - Improved systems, including mapping, tracking and order distribution systems have been implemented
 - A more efficient and effective procedure for Standby and Call-outs has been implemented that utilizes employees from all companies.
 - Additional work shifts have been implemented
- A plan to realign the workshops and service territories of the Peoples’ Companies to better serve the entire customer base has been implemented.
- The companies have implemented ARCOS, a callout system that is used by multiple utilities, and has shown a marked improvement with each installation. We are training employees in its use now and the system will be used in production October 31, 2016.
- With the new systems implemented, the Peoples’ Companies will continue to review system data for opportunities to improve processes.

Date to be Implemented: October 31, 2016

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Barry Leezer
Director, Field Customer Service
The Peoples Companies

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Recommendation Number: Chapter VII – No. 5

Recommendation: Increase third-party line hit damage collection performance by transferring the responsibilities to the General Counsel to actively pursue and litigate damage claims.

Recommendation Status: Accepted

Current Action Plans: Responsibility for the pursuit of third-party line hit damage claims to actively pursue and litigate claims and collection was assumed by the General Counsel effective as of September 2015.

Date to be Implemented: Completed

Person(s) Responsible for Implementation: John Luke
VP, General Counsel
The Peoples Companies

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Recommendation Number: Chapter VIII – No. 1

Recommendation: Accelerate efforts to eliminate inside meter sets to comply with PUC regulations.

Recommendation Status: Accepted

Current Action Plans: To eliminate inside meter sets in compliance with §59.18, Peoples is undertaking the following:

- All meters for new construction are installed outside;
- If there is a leak reported during a survey, investigation or inspection, the meter is relocated outside;
- If there is a renewal of a main line with connecting service that includes an inside gas meter, it is relocated outside.
- Beginning September 6th, 2016, the Peoples' Companies will survey every premise to determine where we can safely locate the meter outside. This information will then be used to build and execute a concise plan to relocate remaining meters outside in compliance with the requirements of the regulation.

Date to be Implemented: Ongoing

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Barry Leezer
Director, Field Customer Service
The Peoples Companies

The Peoples Companies
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Recommendation Number: Chapter VIII – No. 2

Recommendation: Expedite the implementation of a uniform TOS program for the Peoples Companies.

Recommendation Status: Accepted

Current Action Plans: The Companies have reviewed the American Gas Association (AGA) Gas Theft Detection best practices and has included their recommendations in the recently adopted plan, implemented in September 2016. The plan is designed to effectively address possible theft of service at the Peoples' Companies. The plan includes the implementation of the following components:

- Established a formalized and dedicated gas theft program;
- Hired and filled an additional 4 gas theft positions to better cover all of the zones;
- Implemented training programs to recognize possible theft of service that are provided to the contracted meter readers, field service employees, and customer service employees. The Billing department has undertaken the following steps for the identification and billing of possible theft of service:
 - Reports are run on a daily basis using meter reading data to identify usage on inactive meters;
 - Service orders are now created and sent to the field theft group to investigate;
 - A billing theft team has been created to identify and investigate all gas theft issues exposed through reporting, public notification and employee findings
 - Through an addition to the Peoples Website, an email process has been created for all employees and the general public to report any possible incidents of gas theft through use of Gastheft@Peoples-Gas.com
 - All theft of service verified incidents are billed on a timely basis.

Date to be Implemented: Formalized Theft of Service program was implemented at the Peoples Companies in September, 2016. The Peoples Companies monitor and investigate possible theft on an ongoing basis.

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Lisa Reilly
Director, Billing
The Peoples Companies

Barry Leezer
Director, Field Customer Service
The Peoples Companies

The Peoples Companies
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Recommendation Number: Chapter VIII – No. 3

Recommendation: Study potential solutions to reduce arrearages and minimize write-offs.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies are in the process of examining solutions to reduce arrearages and minimize write-offs through various steps such as:

1. Closely track and manage payment arrangements to ensure policy compliance and to maximize Customer Assistance Program (CAP) enrollment and third party grant referrals.
2. Evaluate bringing on an additional third party collection agency to enhance final account collections.
3. Consider expanding options for accepted methods of payment.
4. Assess the policies and procedures surrounding various aspects of the customer life cycle (from application to termination) to determine opportunities for collections improvements. This will include evaluating security deposits,
5. Conduct surveys via the American Gas Association and Energy Association of Pennsylvania to identify collections best practices.

Date to be Implemented: Analysis is ongoing and the AGA survey will be completed by year end 2016. Implementation of approved recommendations is expected to begin in 2017 and may take longer than a year to implement due to IT changes that may be necessary.

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Andrew Wachter
Director, Finance
The Peoples Companies

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Recommendation Number: Chapter VIII – No. 4

Recommendation: Improve the identification of dispute causes by using the 2010 dispute reason codes in order to minimize the number of future customer disputes.

Recommendation Status: Accepted

Current Action Plans: To improve the identification of “dispute causes” the following processes have been put in place:

- Additional codes were created in March of 2015 and are currently being used to categorize disputes;
- Disputes are monitored daily to assure they are categorized correctly;
- First Call Resolution Team was created in March, 2016, that reviews the recent disputes and addresses the issues immediately
- Information from the First Call Resolution is currently being used for training purposes on an ongoing basis.

Date to be Implemented: Ongoing process improvements and training as needed

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Lisa Reilly
Director, Billing
The Peoples Companies

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Recommendation Number: Chapter VIII – No. 5

Recommendation: Implement AMR/smart meter technology as planned to minimize meter reading and billing errors.

Recommendation Status: Accepted

Current Action Plans: Peoples has implemented a 5 year project to install AMR on all Peoples and Peoples TWP meters. This project is part of Peoples Companies' LTIP filings.

The 5 year plan calls for a \$38 MM investment with \$33 MM for PNG and \$5 MM for PTWP.

Implementation at the Peoples Division and People TWP began September 6, 2016 and our plan is to install 38,000 ERTs in 2016 and 100,000 per year for 2017 - 2020

Date to be Implemented: Full implementation to be completed by December, 2020

Person(s) Responsible for Implementation: Ruth Delost-Wylie
SVP, CIO
The Peoples Companies

Lisa Reilly
Director, Billing
The Peoples Companies

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Recommendation Number: Chapter X – No. 1

Recommendation: Continue to monitor training, methodologies, equipment and ergonomic needs which address the primary causes of accidents and initiate changes or introduce new programs as needed.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies have implemented the following ongoing best-practices and new safety steps to minimize the rate of incidents:

- Continuous review of injury and accident results to determine trends and root causes;
- Development and implementation of new programs targeting gaps in injury and accident prevention;
- Improved execution of safety activities (Pre-job Safety Briefings, Supervisor Job Site Safety Observations);
- Implementation of Best Practices derived from peer companies (AGA and PA Energy Association);
- Renewed focus on safety improvement by a singular Peoples union-management safety committee (CARE) made possible by recent three union consolidation into Peoples UWUA Local 612;
- Safety training targeting locations and employees whose injury and accident experience is higher than peers;
- Continued collaboration with insurance carriers (worker's compensation, fleet, and vehicle) to identify injury and accident prevention measures that could be implemented to improve safety performance;
- Continued issuance of safety alerts and injury and accident notifications to raise awareness of our injury, accident and compliance experience; and
- Continuous safety performance benchmarking against peer companies

Date to be Implemented: Ongoing

Person(s) Responsible for Implementation: Ken Johnston
SVP, Safety, Compliance & Community Relations
The Peoples Companies

Gary Wojcik
Director, Safety and Training
The Peoples Companies

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Recommendation Number: Chapter XI – No. 1

Recommendation: Designate emergency stock for the Equitable Division and Peoples TWP.

Recommendation Status: Accepted

Current Action Plans: The Company’s Emergency stock program ensures that Peoples has long lead time, high cost, and rarely used items available for pipeline emergencies. Peoples Natural Gas has had a well-defined Emergency stocking program at their districts. However, the former Equitable and Peoples TWP shops have not been included as of the time of the audit. This was due to the lack of usage information from the legacy systems and changes in business processes that needed to be implemented subsequent to the acquisition of these companies.

The shop consolidation project of 2016 has allowed us to begin to have emergency stock at some of the legacy Equitable and Peoples TWP districts. Once the consolidation is complete many of the shops will be covered by the emergency stock program. Subsequent to the further consolidation in late 2016 and 2017 the Peoples Companies will expand the emergency stock to all remaining shops.

Project steps to be taken:

- Create a cross functional team incorporating Operations, Supply Chain, and GIS to evaluate emergency stock.
- Have the team evaluate emergency stock needs for each district based on size and type of existing infrastructure.
- Evaluate quantities and locations for these fittings to be stored with consideration to cost and lead time for each of the companies.

Date to be Implemented: Evaluate during Q4 of 2016 and complete implementation in 2017

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Andrew Wachter
Director, Finance
The Peoples Companies

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Recommendation Number: Chapter XI – No. 2

Recommendation: Survey, evaluate, and utilize best practices of other utilities using a third-party purchasing and material delivery vendor in order to determine best practices for materials management and reasonable inventory turnover performance for the Peoples Companies.

Recommendation Status: Accepted

Current Action Plans: As the Peoples Companies strive to become a best-in-class organization in Supply Chain Management; we need to evaluate our metrics and best practices in materials management. This will involve benchmarking our results against other utilities via the American Gas Association (AGA), Energy Association of Pennsylvania (EAPA) and Supply Chain trade organizations. Particular focus will be given to key metrics used to evaluate materials management such as inventory turns. In addition, the Peoples Companies will utilize the knowledge of its third party material materials management company to ensure best practices are implemented at the Peoples Companies.

Project steps to be taken:

- Poll other similar LDCs by conducting a canvass survey of national and local utilities via the AGA and EAPA
- Conduct follow-up interviews with correspondents
- Develop best practices for material management
- Evaluate Inventory goals including inventory turns for 2017 and beyond
- Implement best practices

Date to be Implemented: Complete survey and follow-up analysis by Q1 of 2017. The implementation plan is expected to cover multi years and will be developed by year end 2017.

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Andrew Wachter
Director, Finance
The Peoples Companies

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Recommendation Number: Chapter XIII – No. 1

Recommendation: Perform a periodic lease versus buy analysis and utilize the least cost alternative for acquiring vehicles and equipment.

Recommendation Status: Accepted

Current Action Plans: The Peoples Companies will periodically complete an analysis to evaluate whether leasing or buying vehicles and equipment fits within the company's overall corporate financing strategy.

Date to be Implemented: Initial analysis to be completed in 2017, with ongoing analysis to be conducted periodically.

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Andrew Wachter
Director, Finance
The Peoples Companies

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Recommendation Number: Chapter XIII – No. 2

Recommendation: Complete the cost benefit analysis for vehicle maintenance services and, if cost justified, perform additional basic maintenance services with Company personnel.

Recommendation Status: Accepted

Current Action Plans: The companies have begun an evaluation of how to best perform maintenance on company vehicles and equipment, which includes the utilization of external and internal services. The Peoples Companies will issue a request for proposal (RFP) for all fleet management services. Once the RFPs are evaluated the Peoples Companies can decide on whether or not to partner with an external fleet management group. The decision will include a determination of the potential benefits of reestablishing additional internal services.

Date to be Implemented: Target date for the RFP process is Q4 of 2016. Target date for the analysis of maintenance is early 2017.

Person(s) Responsible for Implementation: Preston Poljak
SVP, CFO
The Peoples Companies

Andrew Wachter
Director, Finance
The Peoples Companies