**CITIZENS’ ELECTRIC COMPANY WELLSBORO ELECTRIC COMPANY**

**VALLEY ENERGY, INC.**

**MANAGEMENT EFFICIENCY INVESTIGATION**

**Evaluating the Implementation of**

**Selected Recommendations from the**

**2014 Focused Management and Operations**

**Audit Report**

**Implementation Plan**

**January 10, 2017**

**Docket Nos. D-2016-2537443, D-2016-2537444, AND D-2016-2537445**

CITIZENS’ ELECTRIC COMPANY OF LEWISBURG, PA

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter III – Executive Management and Organizational Structure III-1  |
|  |  |
| RECOMMENDATION: | Document Citizens’ succession plan to include key positions, any potential successor(s) within the C&T organization, and developmental opportunities completed or planned.  |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | April 21, 2017 |
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| ACTION: | Citizens’ Electric Board Policy 1-5 will be appended with an “Active Succession Plan” (Plan), which will be updated periodically as situations change. The Plan will identify the senior staff positions that need to be included, the knowledge and skills required for each position, and the developmental strategies for each position. The Plan will predict vacancies and identify potential candidates within Citizens’ as well as the C&T affiliates that could be considered and developed to fill vacant positions on a temporary and permanent basis. The Plan will also include an external recruitment plan if there are no internal candidates. The revised policy/procedure will be presented to the Board Bylaw & Policy Committee for review. Final adoption is expected at the regular meeting of the Board of Directors April 21, 2017. |
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| INDIVIDUAL RESPONSIBLE:  | Eric W. Winslow |
|  | President & CEO |

VALLEY ENERGY, INC.

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443, D-2016 2537444, D-2016-2537445

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter III – Executive Management and Organizational Structure III-1  |
|  |  |
| RECOMMENDATION: | Document Valley’s succession plan to include key positions, any potential successor(s) within the C&T organization, and developmental opportunities completed or planned. |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | June 18, 2016 |
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| ACTION: | The existing Valley Energy Board Policy 3-5 was expanded in June 2016 to include senior staff positions and to identify candidates within the C&T affiliates that could be considered and developed for filling vacant positions on a temporary and permanent basis. The revised policy/procedure was presented to the Board policy committee and the Board of Directors meetings on June 18, 2016 and was approved as presented |
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| INDIVIDUAL RESPONSIBLE:  | Robert J. Crocker |
|  | President & CEO |

WELLSBORO ELECTRIC COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter III – Executive Management and Organizational Structure III-1  |
|  |  |
| RECOMMENDATION: | Document Wellsboro succession plan to include key positions, any potential successor(s) within the C&T organization, and developmental opportunities completed or planned.  |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | April 21, 2017 |
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| ACTION: | Wellsboro Electric Board Policy 1-6 will be appended with an “Active Succession Plan” (Plan), which will be updated periodically as situations change. The Plan will identify the senior staff positions that need to be included, the knowledge and skills required for each position, and the developmental strategies for each position. The Plan will predict vacancies and identify potential candidates within Wellsboro as well as the C&T affiliates that could be considered and developed to fill vacant positions on a temporary and permanent basis. The Plan will also include an external recruitment plan if there are no internal candidates. The revised policy/procedure will be presented to the Board Bylaw & Policy Committee for review. Final adoption is expected at the regular meeting of the Board of Directors June 6, 2017. |
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| INDIVIDUAL RESPONSIBLE:  | Craig Eccher, President & CEO |

CITIZENS’ ELECTRIC COMPANY OF LEWISBURG, PA

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter IV – Corporate Governance  |
|  |  |
| RECOMMENDATION: | Ensure that the Committee Charters have the sufficient details identified in the template provided by the Audit Staff. |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | April 21, 2017 |
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| ACTION: | Citizens’ existing Board Policy 1-3 will be revised to expand the details necessary to identify the committee purpose and responsibility, committee make up and member qualification as well as requirements for record keeping and reporting responsibilities. The Executive Committee responsibilities will be expanded to incorporate responsibilities of other committees where duties were either narrow, or similar, related and overlapping. More specifically, the duties previously assigned to the Personnel and Compensation Committee were added to the Executive Committee with additional detail for evaluating the President/CEO’s performance, establishing incentives, salary and bonuses. All procedures formerly of the Nominations Committee will also be assigned to the Executive Committee. Any issues related to power supply will fall under the Executive Committee; the Power Supply CITIZENS’ ELECTRIC COMPANY OF LEWISBURG, PAMANAGEMENT EFFICIENCY INVESTIGATIOND-2016-2537443IMPLEMENTATION PLAN RESPONSEJanuary 2017Committee is no longer necessary due the recent PUC approval of Citizens’ 4th Default Service Plan for energy procurement.The revised policy/procedure will be presented to the Board Policy Committee for review. Final adoption is expected at the regular meeting of the Board of Directors April 21, 2017. |
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| INDIVIDUAL RESPONSIBLE: | Eric W. Winslow |
|  | President & CEO |

VALLEY ENERGY, INC.

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443, D-2016 2537444, D-2016-2537445

IMPLEMENTATION PLAN RESPONSE

January 2017

|  |  |
| --- | --- |
| RECOMMENDATION NUMBER: | Chapter IV – Corporate Governance  |
|  |  |
| RECOMMENDATION: | Ensure that the Committee Charters have the sufficient details identified in the template provided by the Audit Staff. |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | December 15, 2016 |
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| ACTION: | The existing Valley Energy Board Policy 1-5 was expanded in December 2016 to include a list of committees and the requirement to designate an individual to take meeting minutes. The form of the policy was revised to provide for more clarity. Each committee charter was revised as follows:Executive Committee: Added detail for evaluating the President/CEO’s performance, incentives and establishing a salary and bonus. Listed the specific members of the committee.Audit & Finance Committee: Changed the committee name from Budget and Finance Committee to Audit and Finance Committee. Added detail indicating responsibility to formally review the annual financial audit, review investments, loans and outside financing and financial credit VALLEY ENERGY, INC.MANAGEMENT EFFICIENCY INVESTIGATIOND-2016-2537443, D-2016 2537444, D-2016-2537445IMPLEMENTATION PLAN RESPONSEJanuary 2017for supply procurement, make recommendations for engagement of an auditing firm/partner, and review and approve any internal financial audits. Also added a procedure that the committee meet as needed in addition to meeting annually.By Law and Policy: Added a procedure that the committee meet as needed in addition to meeting annually.Customer and Community Relations Committee: Added the procedure to advise and assist the President/CEO and Chairman of the Board to ensure that the Corporation maintains a strong community presence and builds on its reputation within the local community. Added a procedure that the committee meet as needed in addition to meeting annually.The revised policy/procedure was presented to the Board policy committee and the Board of Directors meetings on December 15, 2016 and was approved as presented |
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| INDIVIDUAL RESPONSIBLE:  | Robert J. Crocker |
|  | President & CEO |

 WELLSBORO ELECTRIC COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter IV – Corporate Governance  |
|  |  |
| RECOMMENDATION: | Ensure that the Committee Charters have the sufficient details identified in the template provided by the Audit Staff. |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | December 12, 2016 |
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| ACTION: | Wellsboro existing Board Policy 1-3 will be revised to expand the details necessary to identify the committee purpose and responsibility, committee make up and member qualification as well as requirements for record keeping and reporting responsibilities. The Executive Committee responsibilities will be expanded to incorporate responsibilities of other committees where duties were either narrow, or similar, related and overlapping. More specifically, All procedures formerly of the Nominations Committee will also be assigned to the Executive Committee. Any issues related to power supply will fall under the Executive Committee; the Power Supply Committee is no longer necessary due the recent PUC approval of Wellsboro's 4th Default Service Plan for energy procurement.The revised policy/procedure was presented to the Board Policy Committee for review. Final adoption was approved at the regular meeting of the Board of Directors held on December 12, 2016. |
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| INDIVIDUAL RESPONSIBLE: | Craig Eccher |
|  | President & CEO |

VALLEY ENERGY, INC.

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443, D-2016 2537444, D-2016-2537445

IMPLEMENTATION PLAN RESPONSE

January 2017

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| RECOMMENDATION NUMBER: | Chapter IV – Record complete minutes of all Audit Committee meetings  |
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| RECOMMENDATION: | Include the same level of detail in the Audit Committee meeting minutes of Valley that are included in the minutes of Wellsboro and Citizens. |
| RECOMMENDATION STATUS | Accepted |
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| IMPLEMENTATION DATE: | December 15, 2016 |
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| ACTION: | The December 15, 2016 meeting of the Audit and Finance Committee included detailed minutes as recommended. |
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| INDIVIDUAL RESPONSIBLE:  | Robert J. Crocker |
|  | President & CEO |

WELLSBORO ELECTRIC COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

RECOMMENDATION NUMBER: Chapter VI Financial Management

RECOMMENDATION: Prepare written explanations by line item for variances greater than 10% in the Wellsboro Capital and O&M budgets.

RECOMMENDED STATUS: Accepted

IMPLEMENTATION DATE: October 12, 2016

ACTION: Began providing written explanations in the board reports for line items exceeding 10% in both the O&M and Capital budgets. Wellsboro began this practice at the October 12 Board meeting.

INDIVIDUAL RESPONSIBLE: Scot Boyce

 Vice President of Finance

WELLSBORO ELECTRIC COMPANY

MANAGEMENT EFFICIENCY INVESTIGATION

D-2016-2537443

IMPLEMENTATION PLAN RESPONSE

January 2017

RECOMMENDATION NUMBER: Chapter X Material Management

RECOMMENDATION: Complete the establishment of economic order points and economic order quantities for all materials in stock at Wellsboro in order to adequately analyze and determine a reasonable inventory turnover goal, and fully train the newly created Technical Assistant position.

RECOMMENDED STATUS: Accepted

IMPLEMENTATION DATE: June 6, 2017

ACTION: Analyze inventory processes and establish appropriate min/max levels. Explore material consignment options that may reduce inventory costs.

INDIVIDUAL RESPONSIBLE: Robert McCarthy

 Vice President of Engineering & Operations