



February 23, 2017

Nathan Paul
Management Audit Supervisor
Bureau of Audits
Commonwealth of Pennsylvania
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105

Re: Focused Management Audit and Operations Audit, D-2016-2528481

Dear Nathan:

Attached please find our Implementation Plan in response to the Focused Management Audit and Operations Audit of SUEZ Water PA. We used the format requested and anticipate that our responses to your recommendations will meet the requirements of the PUC.

The PUC Staff that performed this Audit were very professional and courteous while working with our employees. We want to thank them for their patience and flexibility in working with our team to successfully complete this audit process.

Please call me if further information is required.

Sincerely,

A handwritten signature in blue ink that reads "John D. Hollenbach".

John D. Hollenbach
Vice President
SUEZ Water PA

**SUEZ WATER PENNSYLVANIA INC. IMPLEMENTATION PLAN
D-2016-2528481**

CHAPTER III EXECUTIVE MANAGEMENT AND ORGANIZATIONAL STRUCTURE -

There were no recommendations.

CHAPTER IV CORPORATE GOVERNANCE

There were no recommendations.

CHAPTER V FINANCIAL MANAGEMENT

Recommendation V-1 Conduct periodic internal audits of affiliate transactions including cost allocations for shared services

Priority: Medium

SWPA Position: Accept

Action taken to implement recommendation: The Internal Audit team will conduct a Management and Services (M&S) Cost Allocation review at the end of 2017. This review would look at the methodology for the allocation of M & S costs and to determine that the factors used to calculate the allocation percentages are properly supported.

Responsible Person – Lynda DiMenna, Director of Internal Audit

Anticipated Completion Date: 2017

Recommendation V-2 Update and correct information contained in Accounting and Capital Control policies

Priority: Medium

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ is in the process of comprehensively reviewing and revising as needed its internal control policies which include the Accounting and Capital control policies.

Responsible Person: Alina Rocha, Corporate Controller

Anticipated Completion Date – December 2018

Recommendation V-3 Update the dividend policy to submit detailed, written explanations for each dividend payment in excess of 85% of net income and provide advanced notice to the Commission prior to making any future dividend payments in excess of 85% of net income.

Priority: Low

SWPA Position: Accept

Action taken to implement recommendation: Policy has been updated to incorporate the above recommendation.

Responsible Person – Roberto Cruz, Director Treasury, M&S Corp Paramus Treasury

Anticipated Completion Date: Completed February 2017

Recommendation V-4 Expand features in the new financial asset management system to include monthly forecast variance cost reporting on capital expenditures.

Priority: Low

SWPA Position: Accepted in Part

Action taken to implement recommendation:

By 3/31/17 - Prepare seed proposal to release funding for commencement of the definition phase, including market assessment and cost/benefit analysis, to implement enterprise budgeting & forecast software tool.

Approval Gate – If accepted, proceed to Business Case

By 9/30/17 – Prepare business case / project plan for chosen budgeting & forecasting software tool and request funding for commencement of project execution

Approval Gate – If accepted, proceed to Project Execution

By 9/30/18 – Estimated Project Completion

Noted as 'accepted in part' due to outstanding approvals to commence definition phase and, if investment is prudent and necessary, approvals to commence execution phase.

Responsible Person: Jim Nekus

Anticipated Completion Date: September 2018

CHAPTER VI. AFFILIATED TRANSACTIONS AND COST ALLOCATIONS

Recommendation V1-1 File a new or amend existing affiliated interest agreements with the Commission for the cash pool agreement, consolidated debt agreement, and for every affiliate receiving/providing goods and/or services to SUEZ Pennsylvania Inc.

Priority: High

SWPA Position: Accept

Action taken to implement recommendation: On May 16, 2016, Suez Water Pennsylvania filed a new affiliated interest agreement (AIA) wherein Suez Water Management & Services Inc (SW M&S) provides services to Suez Water Pennsylvania. This AIA was approved on January 20, 2017.

The company is currently in the process of preparing a filing for approval by the PUC of the cash pooling agreement.

Responsible Person – Rodolphe Bouichou, CFO Regulated Segment
Gary Prettyman, Sr. Director Regulated Segment

Anticipated Completion Date Third Quarter 2017

Recommendation V1-2 Periodically conduct internal or external studies to compare SUEZ Water Pennsylvania Inc.'s Intercompany charges for services it provides to or receives from its affiliates.

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: The Company intends to periodically perform such studies to assess the services provided to Suez Water Pennsylvania Inc.

However, the company's Management and Services agreement as just approved on Jan 20, 2017 by the PUC has been implemented only for a very short period of time. As experience and data accumulates, providing stable and comparable baselines, such analyses will become feasible.

Therefore, the company plans to conduct such analyses in the next 3-4 years.

Responsible Person: Rodolphe Bouichou, CFO Regulated Segment

Anticipated Completion Date: 2019-20

Recommendation VI-3 Work with SUEZ Water Management & Services to improve the level of detail provided in intercompany invoices and reports

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: SWM&S is in the process of developing the necessary intercompany reports.

Responsible Person: Alina Rocha, Corporate Controller

Anticipated Completion Date: December 2017

CHAPTER VII WATER OPERATIONS

Recommendation VII-1 Develop a comprehensive damage prevention program

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: We are developing and refining a SOP for this activity by investigating current technology and researching new technologies.

The process will be included in the scope of work utilizing EPC Consultants who will review and recommend process improvement. This work still start the Second Quarter of 2017 and conclude by end of 2017. We expect to have a program in place by Second Quarter of 2018.

Responsible Person: William C. Kelvington, Director of Operations

Anticipated Completion Date: 2018

Recommendation VII-2 Strive to meet NRW goals and reduce UFW levels below the Commission's guidelines of 20%.

Priority: High

SWPA Position: Accepted in part that we will continue to strive to meet NRW goals and reduce UFW. The company position of including an exclusion allowance of unavoidable annual real losses is a correct methodology in calculating unaccounted for water.

Action taken to implement recommendation: NRW is an extremely high priority of the company. The company has made great progress and will continue setting a goal of 1% reduction per year.

The company is currently conducting a pilot program using permanent acoustical loggers in our distribution system in Mechanicsburg. We continue to develop DMA throughout our operations to be able to analyze data to help identify areas of water loss. The company is also utilizing the hydraulic model to identify areas where pressure management can be implemented. The company continues to replace strategic meters and installed meters on fire lines. The company continues to develop our employees in leak detection, methodology, upgrading both equipment and new technology, and upgrading distribution system with main and service replacements.

Responsible Person: William C. Kelvington

Anticipated Completion Date: In Progress

Recommendation VII-3 Accelerate main replacement efforts to achieve main replacement rates of approximately 100 to 120 years.

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ has implemented a plan to accelerate water main replacement starting in 2017. The current SUEZ plan is to replace all galvanized water main (approximately 19 miles) and glue joint PVC water main (approximately 10 miles) by 2021. In addition, replacement efforts will target AC water main and other problem watermain. The five year strategic plan is to replace approximately 13 miles of water main each year. (See SUEZ PA's Long Term Infrastructure Investment Plan Docket No. P-2017-2589724 filed February 17, 2017).

Responsible Person – Arthur Saunders, Engineer Manager

Anticipated Completion Date – 01/01/2017

Recommendation VII-4 Establish a critical valve list for each region and strive to exercise critical valves on an annual basis

Priority: Medium

SWPA Position: Accepted

Action taken to implement recommendation: A hydraulic model for the Harrisburg system was developed in 2016 which will be used as a basis for identifying critical valves. We will continue to review and/or develop models for the remaining operational areas of Mechanicsburg, Bloomsburg and Dallas.

We are developing and refining a SOP for the activity and will be incorporating in to our GIS system. We will have the process up and functional by the third Quarter of 2017. The other operations will be functional by end of 2018

Responsible Person: William C. Kelvington, Director of Operations

Anticipated Completion Date: 2018

Recommendation VII -5 Develop a comprehensive cross connections control program and update the cross connection control manual.

Priority: Medium

SWPA Position: Accepted

Action taken to implement recommendation:

SUEZ PA has received a bid from an outside contractor to complete the following:

- Review and revise the company's Cross Connection control plan.
- Complete a cross connection isolation survey of all company facilities
- Complete a survey of the company's top customers that create a potential high hazard due to cross connection. The survey will include the following:
 - Initial inspections of individual industrial, commercial, and institutional facilities within the SUEZ service area for cross-connections. Inspections will be conducted in accordance with the current Cross Connection Program, Projected State Regulation, Plumbing Code, AWWA M14 Manual and other recognized industry resources. Photographs of any existing testable assemblies and GPS locations will be collected where signal is available.
 - Generate all backflow prevention assembly test notices, non-compliance notices and coordinate/monitor backflow prevention assembly testing compliance for all backflow prevention assemblies.
 - Perform administrative functions including: answering water user telephone calls, scheduling of inspections, mailing of all notices, verification of backflow prevention assembly tester credentials & proper testing results and general customer service and program education inquiries.
 - Generate and document the required program data for the facilities
 - Submit comprehensive management reports on a quarterly basis.
 - Conduct an annual review meeting to discuss overall program status and recommendations.
 - Assist SUEZ PA with a community wide public relations program including general awareness brochures and customized web site cross connection control program overview content and resources.
 - Provide up to 0.7 CEC's annually to Certified Water Operators employed by SUEZ PA by conducts three internal Cross-Connection Control workshops.

Responsible Person – John D. Hollenbach, Vice President

Anticipated Completion Date Commence June 2017 and complete by June of 2018

Recommendation VII-6 Implement measures to routinely capture various main replacement cost components

Priority: Low

SWPA Position: Accepted

Action taken to implement recommendation: Past engineering practice has been to break out the costs of main replacement by material and installation cost only. Costs associated with valve, service and hydrants are also tracked by material and installation as well. As of January of this year installation costs have been further expanded to include restoration cost. The Company also tracks miscellaneous costs such as inspections, permits, and any change orders.

Responsible Person: Arthur Saunders, Engineer Manager

Anticipated Completion Date: Completed as of 01/01/2017

CHAPTER VIII - EMERGENCY PREPAREDNESS - SUEZ PA accepts each recommendation under emergency preparedness; however, the Company believes the overall rating for Emergency Preparedness of "Significant Improvement Necessary" should be rated as "Minor Improvements Needed".

Recommendation VIII-1 Correct minor physical security deficiencies and perform on-going physical security reviews of all facilities

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ PA takes serious the importance of physical security and believes that the reports supports that in that only sited minor deficiencies. SUEZ PA also agrees that Physical Security deficiencies should be addressed expediently and has a history of addressing these in a timely manner. For example based on site visit of a well facility it was recommended that additional security should be evaluated. Therefore SUEZ PA initiated a project in 2016 to provide an "additional layer" of physical security to its wells. SUEZ PA also includes capital dollars in its annual budget to address any physical security issues.

The report indicated SUEZ PA should enhance its security levels of Plant Tours. At the new Bloomsburg Membrane Plant dedication, security was a high priority. I.e. the entrance to the plant was barricaded and only registered guests were permitted entrance, guests were required to sign in and pictures and videos were restricted inside the facility. SUEZ PA agrees to develop a security standard for all tours by June 30, 2017.

Other proposed action steps will be as follows:

- Include to the quarterly Steering Committee Meeting agenda a security review and update.
- In 2016 SUEZ PA initiated an asset management program for its vertical assets which tracks all the maintenance work completed whether emergency or preventative via a paperless form on a smart tablet. Included in the work order form is a physical security checklist. As this system is expanded, it will help ensure physical security issues are addressed and completed in a timely manner.
- Conduct an inventory all keyed and electronic entrances to Company facilities by the end of May 2017. Make recommendations and based on results make the necessary improvements by December 2017.

Responsible Person: John D. Hollenbach, Vice President

Anticipated Completion Date: December 2017

Recommendation VIII-2 Establish uniform physical security standards for each type of facility at SWPA

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: The report recommended that SUEZ North America (SNA) establish a centralized position to develop, maintain and enforce company-wide security measures. John Eckman is Senior Director of Security and Emergency Response for SNA and provides direction and oversight to SNA physical security. Mr. Eckman was appointed to this position in 2016 and has begun establishing standards. SUEZ Pa will work with John and develop a set of uniform physical security requirements for all SUEZ PA facilities by December 2107.

Responsible Person: John D. Hollenbach, Vice President and John Eckman SR Dir. Of Security and Emergency Preparedness.

Anticipated Completion Date: December 2017

Recommendation VIII-3 Design and implement a policy of layered physical security for SCADA equipment, controllers, and servers

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ PA's SCADA systems adhere to a very strict cyber security protocol which provides a strong level of security defense. However SUEZ agrees to evaluate its SCADA security as it relates to the servers and control room. A set of standards will be established by July 31, 2017 with a December, 2017 target date to adhere to the minimum standards.

Responsible Person: John D. Hollenbach, Vice President

Anticipated Completion Date: December 2017

Recommendation VIII-4 Strive to perform a VA every ten years and revise physical and cybersecurity plans to address any new threats or vulnerabilities identified

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ PA agrees to conduct another vulnerability assessment in 2018. Below is a tentative schedule:

- Develop Request for Proposal by November 30, 2017
- Solicit Bids based on RFP by December 31, 2017
- Award bid by February 28, 2018
- Complete VA in 2018

Responsible Person: John D. Hollenbach, Vice President

Anticipated Completion Date: 2018

Recommendation VIII-5 Participate in more frequent interagency tabletop drills and exercises.

Priority: Medium

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ PA has a practice of performing a "lessons learned" when significant events occur. These serve as a table top exercise and address what went well and what improvements are needed. Two examples of these were the August 3 2016 24 inch transmission main break and the October 21 Oil spill on the Susquehanna River.

Also in 2016 the Hummelstown Fire Company conducted an on-site inspection of the Hummelstown Water Treatment Plant (WTP) for the purpose of evaluating their ability to respond to potential issues. I.e. confined space, chemical hazards and security access. In 2017 similar visits with the local fire companies/emergency service have already been scheduled for the Mechanicsburg WTP and the Harrisburg Sixth St WTP.

SUEZ PA has identified other potential tabletops drills and at a minimum will conduct one annually commencing in 2017. Each one listed below will have the appropriate outside agency(s) involved in the drill:

- Chemical Spill within a water treatment plant
- Cyber Security Event
- Breach of Security at a Company Facility
- Weather related event significantly impacting operations

- Spill on a source of supply
- Active Shooter

Responsible Person: John D. Hollenbach, Vice President

Anticipated Completion Date: 2018

Recommendation VIII-6 Update the emergency response plan PUC contact information and disseminate it to every SWPA facility

Priority: Low

SWPA Position: Accepted

Action taken to implement recommendation: An updated PUC contact list was included in the July 2016 updated Emergency Response Plan and disseminated to all locations.

Responsible Person: Kim McConnell

Anticipated Completion Date: Completed

Recommendation VIII-7 Establish controls to ensure SUEZ Water Management and Services' Legal Department provides regular cybersecurity legal and regulatory updates to SUEZ North America's subsidiary companies , including SWPA.

Priority: Low

SWPA Position: Accepted

Action taken to implement recommendation: SUEZ will establish quarterly meetings with subsidiary companies to provide updates on these issues hosted by the Legal Department and the Business Technology Services.

Responsible Person: Steve Brown, ISSO & Program Manager
John Dillon, Sr. Corporate Attorney

Anticipated Completion Date: June 2017

Recommendation VIII-8 Update the SDS sheets annually at every SWPA facility

Priority: Low

SWPA Position: Accepted

Action taken to implement recommendation: All chemical inventories (and SDS sheets) are updated on an annual basis and currently are up to date for 2017. A PM on EHS compliance calendar is maintained by the local EHS Manager to ensure compliance.

- All SDS Sheets are up to date (for all locations) and uploaded into the online system "MSDS On-Line".
- SDS database "Managers" have been identified – 12/31/16
- Training sessions for operation of the system are scheduled for February 21, 22, 28 and March 1, 2017.

Responsible Person: Brad Osevala, Manager Environmental Health and Safety

Anticipated Completion Date: Complete – 3/1/2017

CHAPTER IX MATERIALS MANAGEMENT

Recommendation IX-1 Establish minimum and maximum levels for inventory items

Priority: High

SWPA Position: Accepted but with the notation that the People Soft inventory module has many manual aspects to it and People Soft has difficulty in reconciling the five inventory locations in SUEZ PA.

Action taken to implement recommendation: SUEZ PA has contracted EPC Consultants to review the workflow process in our T&D department beginning in April 2017. Part of this workforce process review will entail a review of materials management and a possible implementation of a completely different materials management system outside of the current system being used in People Soft. SUEZ PA has attempted to utilize the min/max function in People Soft but due to the fact that SUEZ PA has five inventory locations this rendered the implementation of this functionality to a non-usable level.

While working with EPC Consultants in 2017 to develop an accurate solution that works for all SUEZ PA inventory locations, SUEZ PA will attempt one more work around using the People Soft min/max function or the Auto Replenishment mode. The SUEZ PA Harrisburg inventory location is the largest in terms of materials and value. SUEZ PA will set min/max levels for that location and adjust to account for the other four locations materials on-hand until a permanent and accurate solution can be rolled out to every inventory location in SUEZ PA.

Responsible Person: Michael Watkin, Manager Finance

Anticipated Completion Date: As we begin our materials management review with EPC Consultants in April 2017, SUEZ PA will attempt the work around, as suggested above, by September 2017 with an expected permanent solution for all inventory locations sometime in 2018.

Recommendation IX-2 Establish a consistent and uniform definition for emergency stock and identify appropriate emergency stock levels for all warehouse locations

Priority: High

SWPA Position: Accepted, although each of the five inventory locations has a different definition of what constitutes emergency stock for their locale and one uniform definition may not be the best solution.

Action taken to implement recommendation: SUEZ PA has contracted EPC Consultants to review the workflow process in our T&D department beginning in April 2017. Part of this workforce process review will entail a review of materials management and a possible implementation of a completely different materials management system outside of the current system being used in People Soft. With that being said, during the assessment SUEZ PA will work with EPC Consultants and our

corporate supply chain group to establish a uniform definition for emergency stock and at the same time develop an improved method to identify and track those items by inventory location.

Responsible Person: Michael Watkin, Manager Finance

Anticipated Completion Date: As we begin our materials management review with EPC Consultants in April 2017, SUEZ PA will work EPC Consultants and our corporate supply chain group to establish a uniform definition for emergency stock and a database to track those items outside of People Soft by October 2017 with an expected permanent solution for all inventory locations sometime in 2018.

Recommendation IX-3 Develop inventory turnover goals and strive to achieve an inventory turnover of at least 2.0

Priority: High

SWPA Position: Accepted, however, due to the manual aspects of the inventory module in People Soft, SUEZ PA will direct a vendor to ship materials to the job site therefore eliminating the completion of a hand-written receipt to remove items from the inventory yard to the project. This process also means that SUEZ PA does not order these items into the inventory accounts, therefore artificially reducing the inventory turnover ratio in an effort to be more efficient.

Action taken to implement recommendation: SUEZ PA has contracted EPC Consultants to review the workflow process in our T&D department beginning in April 2017. Part of this workforce process review will entail a review of materials management and a possible implementation of a completely different materials management system outside of the current system being used in People Soft. Until a new system is possibly implemented, SUEZ PA will work with our corporate supply chain group to standardize the method used when ordering inventory items through People Soft that are directly shipped to a job site. The methodology adopted will determine the inventory turnover goal. If the current methodology is maintained, the inventory will be less than a 2.0.

Responsible Person: Michael Watkin, Manager Finance

Anticipated Completion Date: SUEZ PA will begin tracking inventory turnover on a monthly basis, as we did in the past, by June 2017 and will work with our corporate supply chain group to standardize the method used when ordering inventory items through People Soft that are directly shipped to a job site and then determine the inventory turnover goal by October 2017 with the understanding that the process may be changed in 2018 after EPC Consultants have reviewed our workflow processes.

Recommendation IX-4 Initiate measures to improve inventory accuracy

Priority: Medium

SWPA Position: Accepted, even though every additional step that SUEZ PA would currently take to improve inventory accuracy is another manual aspect of the current inventory system in which the commission is asking us to reduce or eliminate from the process.

Action taken to implement recommendation: SUEZ PA has contracted EPC Consultants to review the workflow process in our T&D department beginning in April 2017. Part of this workforce process review will entail a review of materials management and a possible implementation of a completely different materials management system outside of the current system being used in People Soft. At a minimum, SUEZ PA will complete semi-annual inventory audits of its exempt (2" and less) and non-exempt inventory items to improve inventory accuracy. EPC Consultants may suggest cycle counting as well as part of the workflow process review and SUEZ PA will review any and all suggestions made by EPC Consultants to improve inventory accuracy. SUEZ PA will also work with EPC Consultants to implement a tracking tool for the exempt inventory items which are currently not itemized in the People Soft inventory reports.

Responsible Person: Michael Watkin, Manager Finance

Anticipated Completion Date: In 2017, SUEZ PA will begin complete semi-annual inventory audits of its exempt and non-exempt inventory items. The first inventory audit will be completed by August 2017 and the second inventory audit will be completed by December 2017.

Additionally, SUEZ PA will work with EPC Consultants to implement procedures to track our exempt inventory items in 2018.

Recommendation IX-5 Reduce or eliminate the manual aspects of the current inventory management process.

Priority: medium

SWPA Position: Accepted, however at the local level, SUEZ PA cannot necessarily dictate the direction that our corporate supply chain group will move towards but only provide recommendations.

Action taken to implement recommendation: SUEZ PA has contracted EPC Consultants to review the workflow process in our T&D department beginning in April 2017. Part of this workforce process review will entail a review of materials management and a possible implementation of a completely different materials management system outside of the current system being used in People Soft. The current inventory process is predominately manual and requires data entry especially when it

comes to issuing materials (MSRs) from the inventory accounts to projects and the recording of the inventory audit counts.

After having EPC Consultants review the workflow process in SUEZ NJ, bar-coding is being discussed as a potential way to reduce some of the manual aspects of the current inventory management process. The key challenge is being to integrate the bar-coding program with People Soft.

Responsible Person: Michael Watkin, Manager Finance

Anticipated Completion Date: Part of the EPC Consultants review of the workflow process in our T&D department includes a review of the manual aspect of the current inventory management process. SUEZ PA anticipates a recommendation by EPC Consultants for an improved inventory management process in by 2018.

CHAPTER X CUSTOMER SERVICE

Recommendation X-1 Identify methods to improve call center performance and strive to meet established goals

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: Suez Water is continually making enhancements to their website to direct customers to an online experience to assist in reducing call volumes. In addition, the company has filled all of their open positions and as employees become more experienced and knowledgeable with the water business, calls will be answered more timely and efficiently.

Responsible Person: Judy McCoy Jordan, Manager Customer Service

Anticipated Completion Date: Ongoing

Recommendation X-2 Utilize existing platforms to proactively engage customers, especially online

Priority: High

SWPA Position: Accepted

Action taken to implement recommendation: Currently the company has an email campaign to attain email addresses from Suez Water customers. As we continue to build upon the email data; customers will continuously be advised of their options to utilize the online services offered. In addition, the company is enhancing the online experience for Suez Water customers so that they can manage their accounts more effectively.

Responsible Person: Judy McCoy Jordan, Manager Customer Service

Anticipated Completion Date: Ongoing