**PENNSYLVANIA**

**PUBLIC UTILITY COMMISSION**

**Harrisburg, PA 17105-3265**

Public Meeting held February 8, 2018

Commissioners Present:

Gladys M. Brown, Chairman

Andrew G. Place, Vice Chairman

Norman J. Kennard

David W. Sweet

John F. Coleman, Jr.

Focused Management and Operations D-2017-2584891

Audit of Pike County Light and Power D-2017-2584892

Company and Leatherstocking Gas

Company LLC

**OPINION AND ORDER**

**BY THE COMMISSION:**

Before the Pennsylvania Public Utility Commission (Commission) for consideration and disposition is the Focused Management and Operations Audit (Audit) of Pike County Light and Power Company (Pike) and Leatherstocking Gas Company LLC (Leatherstocking) (collectively, the Companies) and the Companies’ Implementation Plan dated December 28, 2017. Staff for the Bureau of Audits (Audit Staff) rated nine functional areas or specific issues that were examined during the audit and identified thirty-three recommendations for improvement.

**Discussion**

**Background**

On August 11, 2016, we approved Corning Natural Gas Holding Corporation’s (CNGHC) acquisition of the stock of Pike from Orange and Rockland Utilities, Inc. (O&R).[[1]](#footnote-1) O&R and CNGHC closed on the sale of Pike on August 31, 2016. Because Pike had no employees under O&R’s ownership, we also approved a Transition Services Agreement (TSA), which specified the services that O&R will continue to perform on behalf of Pike until Pike can employ the necessary personnel or hire contractors for the services. As of July 12, 2017, Pike employed a general manager, who oversees five employees. As of December 31, 2016, Pike had about 4,700 electric customers located in the Townships of Westfall, Milford, and Dingman and the Boroughs of Matamoras and Milford in Pike County. Additionally, Pike provides natural gas service to approximately 1,200 of its electric customers in the Township of Westfall and the Borough of Matamoras. Pike’s headquarters and operation center are in Westfall. Audit Report at 10.

Leatherstocking is a 50/50 joint venture between CNGHC and Mirabito Regulated Industries, LLC (MRI), which was formed in November 2010 with the purpose of providing natural gas distribution service to currently un-served or underserved regions of central New York State and the northern tier of Pennsylvania. In September 2012, we issued a Certificate of Public Convenience to Leatherstocking to provide service to the Townships of Bridgewater, Forest Lake, Great Bend, Harmony, New Milford and Oakland and the Boroughs of Great Bend, Hallstead, Lanesboro, Montrose, New Milford, Oakland and Susquehanna.[[2]](#footnote-2) In July 2013, we issued a Certificate of Public Convenience to Leatherstocking to serve as a natural gas utility in Wyalusing Township and Wyalusing Borough within Bradford County.[[3]](#footnote-3) Leatherstocking completed installation of service to its first residential natural gas customer in November 2013. Audit Report at 11.

**The Focused Management and Operations Audit**

A number of Audit Staff’s recommendations are related to Pike’s divestiture from O&R and acquisition by CNGHC. As noted, *supra,* CNGHC had previously entered into a joint partnership with MRI to form Leatherstocking. Despite operating Leatherstocking within Pennsylvania for four years, the acquisition of Pike substantially increased CNGHC’s operations and regulatory requirements within Pennsylvania and expanded CNGHC’s activity into electric utility operations. As the audit was conducted shortly after Pike’s acquisition, Audit Staff had difficulty acquiring certain data or information on specific procedures. In some cases, Pike had not implemented or completed information technology (IT) systems, including an Outage Management System, Customer Service Information System, and Work Management System. Taking the transition into consideration, Audit Staff focused its efforts on identifying key procedures or processes lacking at Pike.

**Disposition**

In consideration of the importance of ensuring that Pike’s management effectively implements the audit recommendations and establishes proper systems and controls, it is vital that Pike provide the Commission with additional progress updates. As a result of the Audit, Pike is already required to file progress reports on all Audit recommendations by February 1st for the next three years, until February 2021. In addition, Pike is to continue to provide quarterly updates pursuant to the Settlement Agreement that we approved by our *August 2016 Order* related to the sale of Pike to CNGHC to various parties including the Commission.[[4]](#footnote-4) These existing quarterly reports/meetings related to the Settlement Agreement include:

* During the term of the TSA, Pike will meet or have a quarterly conference with the Office of Consumer Advocate (OCA) and the Office of Small Business Advocate (OSBA) to (a) explain in sufficient detail what services Pike is continuing to take under the TSA and what services it no longer requires and (b) provide sufficient detail of what substitute services from the CNGHC or other vendors has or will occur.
* Pike/CNGHC shall provide OCA, OSBA, and the Commission with sufficiently detailed quarterly status reports on the progress of retaining an electric and gas utility staff for Pike. Each report shall contain information regarding the number of permanent staff retained and the number of contractors still in use.

However, given the gravity of some of the identified audit deficiencies, we shall impose additional reporting requirements on Pike.

 First, we shall direct Pike to file a status report with the Bureaus of Technical Utility Services (TUS), Investigation and Enforcement (I&E), and Audits by July 1, 2018, and add the below requested information to the existing implementation progress report due by February 1, 2019. Each status report shall provide updated information regarding Pike’s implementation of the accepted Audit recommendations with a focus on the following:

* + Recommendation III-1: Expand Safety Manual to include detailed safety topics related to gas and electric operations.
	+ Recommendation VII-2: Update [Pike]’s Storm Response and Restoration Plan and tailor it to [Pike]’s available equipment, resources, and capabilities.
	+ Recommendation IX-1 through IX-4: Development of the 4 required plans under 52 Pa. Code § 101 – Emergency Response Plan, Physical Security Plan, Business Continuity Plan, and Cybersecurity Plan.
	+ Recommendation III-4: Select, purchase, install, and test all remaining computer systems required to run and manage [Pike] in a timely manner. The report should include a status report on computer systems, including the outage management system, work management system, SCADA system, and the “interface” between systems.
	+ Recommendation VII-1: Develop and periodically update an Electric Operations and Maintenance Manual specific to [Pike]’s system.

 Second, we shall further direct Pike to file a status report with our Bureau of Technical Utility Services’ Reliability and Emergency Preparedness Section, Bureau of Investigation and Enforcement, Bureau of Audits, and the statutory advocates, the Office of Consumer Advocate and the Office of Small Business Advocate, on April 1, 2018, regarding Pike’s completed plan and cost-benefit analysis required by the acceptance of the Audit Recommendation III-3 that Pike develop a staffing plan to document the cost-benefit analyses used to support the decision-making process in determining staffing level resources.

 Third, we shall direct that Pike hold a meeting, during the 4th quarter of 2018, at their facilities with staff from our Bureau of Technical Utility Services and Bureau of Audits to review the completed plans required by Audit Recommendations IX-1 through IX-4.[[5]](#footnote-5)

 Finally, we shall direct Pike to file a written monthly status report with our Office of Competitive Market Oversight on their Electronic Data Interchange (EDI) capabilities and when they expect to have EDI fully available for electric generation suppliers.

Before concluding, we encourage the Office of Competitive Market Oversight to continue its monitoring and coordination with Pike and EGSs to ensure that Pike’s customers receive the benefits of electric competition in accordance with the Commission’s Regulations. We also remind Pike to timely file all of its required regulatory reports as prescribed by the Commission; **THEREFORE,**

 **IT IS ORDERED:**

1. That the Focused Management and Operations Audit of Pike County Light and Power Company and Leather Stocking Gas Company LLC and the Companies’ Implementation Plan, dated December 28, 2017, be made public.

2. That the Bureau of Audits issue a Secretarial Letter directing Pike County Light and Power Company and Leather Stocking Gas Company LLC to proceed with their Implementation Plan and to submit progress reports on the Implementation Plan annually, by February 1st, for the next three years until February 1, 2021.

3. That Pike County Light and Power Company and Leatherstocking Gas Company LLC shall file the status reports at the times prescribed in this Opinion and Order.

4. That Pike County Light and Power Company shall hold a meeting, during the fourth quarter of 2018, with staff from the Bureau of Technical Utility Services and the Bureau of Audits to review the completed plans required by Recommendations IX-1 through IX-4 of the Focused Management and Operations Audit.

5. That this docket shall remain open for the filing of the required reports prescribed in the body of this Opinion and Order with the Secretary of the Commission.

**BY THE COMMISSION,**



Rosemary Chiavetta

Secretary

(SEAL)

ORDER ADOPTED: February 8, 2018

ORDER ENTERED: March 15, 2018

1. *See Joint Application of Pike County Light and Power Company, Buyer Corning Natural Gas Holding Corporation and Seller Orange and Rockland Utilities, Inc. for a Certificate of Public Convenience Approving the Transfer by Sale of 100% of the Stock of Pike County Light and Power Company from Seller Orange and Rockland Utilities, Inc. to Buyer Corning Natural Gas Holding Corporation*, Docket No. A‑2015‑2517036 (Order entered August 11, 2016) (*August 2016 Order*). [↑](#footnote-ref-1)
2. *See Application of Leatherstocking Gas Company, LLC, for Approval to Supply Natural Gas Service to the Public in Northern Susquehanna County, in the Townships of Bridgewater, Forest Lake, Great Bend, Harmony, New Milford, and Oakland, and in the Boroughs of Great Bend, Hallstead, Lanesboro, Montrose, New Milford, Oakland and Susquehanna.*, Docket No. A-2011-2275595 (Order entered September 27, 2012). [↑](#footnote-ref-2)
3. *See Application of Leatherstocking Gas Company, LLC for approval to offer, render, furnish, or supply gas utility service to the public in the additional territory of Wyalusing Township and Wyalusing Borough located in Bradford County, Pennsylvania.*, Docket No. A-2013-2356912 (Order entered July 16, 2013). [↑](#footnote-ref-3)
4. *See August 2016 Order* at 4. [↑](#footnote-ref-4)
5. We note that this requirement also satisfies the directive of Ordering Paragraph 20 of our *August 2016 Order*. [↑](#footnote-ref-5)