

**ANNUAL REPORT
66 PA C.S. § 516 AUDITS
FISCAL YEAR 2021-2022**

**MANAGEMENT AUDITS &
MANAGEMENT EFFICIENCY
INVESTIGATIONS**

**Pennsylvania Public Utility Commission
Bureau of Audits
Issued October 2022**

Docket No. D-2022- 3034874

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I. INTRODUCTION

Management Audits (MAs) and Management Efficiency Investigations (MEIs) examine the management effectiveness and operating efficiency of Pennsylvania jurisdictional fixed utilities. Specifically, MAs determine the extent to which a utility has contained costs, developed reasonable long and short-range plans for the company's continued operations, provided adequate service to the customers it serves, and provided proper management and organizational structure. MEIs, in part, review utility efforts in implementing prior management audit recommendations, as well as other areas considered critical to a utility's operations.

The MAs and MEIs are required of any electric, gas, telephone or water utility whose plant-in-service is valued at not less than \$10 million (Public Utility Code, 66 Pa. C.S. § 516). MAs are to be conducted at least once every eight years. MEIs or investigations of implementation progress are usually conducted two to three years after completion of the MAs.

As of the date of this report, MAs and MEIs are performed for 27 large and medium-sized electric, gas, and water companies. Although telecommunications companies with plant-in-service of \$10 million or more are technically covered by the mandate, audits and investigations of these companies have been suspended consistent with approved alternative regulatory plans.

Required audits and investigations are conducted by Bureau staff or by outside consulting firms with the oversight of Bureau personnel. Other special operational and/or financial projects are also performed from time to time by Bureau employees or by outside consultants with the oversight of Bureau staff.

Section 516(b) of the Pennsylvania Public Utility Code requires an Annual Report addressing the MAs and MEIs released during the year be provided to the Pennsylvania Public Utility Commission (PUC or Commission), the Bureau of Investigations & Enforcement, and the Office of Consumer Advocate. Within this Annual Report, Chapter II contains tables showing the number and categorization of recommendations from the various MAs and MEIs released during the fiscal year ended June 30, 2022, as well as a summary analysis of benefits and costs associated with the Management Audit Division's mandated operations. Chapter III of the report provides a brief narrative summary of each MA, while Chapter IV provides a summary of each MEI. Chapter V presents a list of the regulated utilities subject to mandated Section 516 MAs as of June 30, 2022, and a list of all Section 516 mandated MAs released to Fiscal Year End 2022 (i.e., June 30, 2022). Complete copies of all audits and investigations have been sent to each of the required parties and are available on the PUC's website.

Please note, this annual report addresses only MAs and MEIs performed pursuant to 66 Pa. C.S. § 516. The results of other projects completed by the Bureau of Audits' Management Audit Division during the fiscal year are available to the extent approved for public release by the Commission. A listing of those projects as well as copies of any issued reports can be obtained by contacting John Clista at (717) 772-0317 or jclista@pa.gov.

II. STATISTICAL TABLES

TABLE A

FY 2021-2022 Management Audits Number and Categorization of Recommendations

<u>Company</u>	<u>Total</u>	<u>Accepted</u>	<u>Partially Accepted*</u>	<u>Rejected</u>	<u>Accepted or Partially Accepted</u>
Met-Ed, Penelec, Penn Power, and West Penn Power	27	17	8	2	93%

* Per implementation plans submitted by the companies.

TABLE B

FY 2021-2022 Management Efficiency Investigations
Number and Categorization of Recommendations

<u>Company</u>	<u>Total Evaluated</u>	<u>Effectively Implemented</u>	<u>Partially or Unimplemented*</u>	<u>Effectively Implemented</u>
Pike County L&P and Leatherstocking Gas Co.	33	15	18	45%

<u>Company</u>	<u>Total Developed</u>	<u>Accepted</u>	<u>Partially Accepted*</u>	<u>Rejected</u>	<u>Accepted or Partially Accepted</u>
Pike County L&P and Leatherstocking Gas Co.	26	22	3	1	96%

* Per implementation plans submitted by the companies.

TABLE C

**FY 2021-2022 Management Audits (MAs) and
Management Efficiency Investigations (MEIs)**

Cost/Benefit Summary

	Net Projected Savings or Benefits* Upon Implementation of Current Audit Recommendations		Net Realized Savings or Benefits* After Implementation of Prior Audit Recommendations	
	Annual (Millions)	One-Time (Millions)	Annual (Millions)	One- Time (Millions)
Consultant MAs (0)	\$0.00	\$0.00	\$0.00	\$0.00
Staff MAs & MEIs (9)	\$39,000,000	\$22,500,000	\$0.00	\$0.00
Total Benefits	\$39,000,000	\$22,500,000	\$0.00	\$0.00
One-Time Consultant Costs for FY 2021-2022 Audits (Millions)				\$0.00
Approximate Management Audit Division Costs for FY 2021-2022 (Millions)				\$1.09
Total Estimated Cost of MAs and MEIs (Millions)				\$1.09
* These quantified benefits are net of projected or realized implementation costs.				

Readers should also note that many benefits are qualitative in nature and cannot be measured in specific dollar terms.

III. SUMMARY OF MANAGEMENT AUDITS COMPLETED IN FISCAL YEAR 2021-2022

Metropolitan Edison Company (D-2020-3023106), Pennsylvania Electric Company (D-2020-3023107), Pennsylvania Power Company (D-2020-3023108), and West Penn Power Company (D-2020-3023109)

The report on the Management and Operations Audit (MA) of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company (collectively referred to as the FirstEnergy Pennsylvania Companies or FE PA Companies) completed by staff from the Bureau of Audits, was publicly released on June 16, 2022. The audit report contained 27 recommendations. The company’s Implementation Plan, dated April 2022, indicated acceptance of 17 recommendations, partial acceptance of 8 recommendations and rejection of 2 recommendations.

During the audit, 12 functional areas or specific issues were examined in-depth. The distribution of the auditors’ functional ratings and the number of recommendations by chapter/functional area are as follows:

Functional Rating	Chapter / Functional Area	Number of Recommendations
Major Improvement Needed (0)	None	None
Significant Improvement Needed (3)	IV – Key Audit Matter	2
	VI – Affiliated Relationships and Cost Allocations	6
	VII – Financial Management	3
Moderate Improvement Needed (2)	V – Corporate Governance	1
	VIII – Electric Operations	5
Minor Improvement Needed (4)	III – Executive Management and Organizational Structure	2
	X – Materials Management	
	XI – Customer Service	1
	XIV – Human Resources	3
Meets Expected Performance Level (3)	IX – Emergency Preparedness	
	XII – Information Technology	None
	XIII – Fleet Management	
Total Number of Recommendations		27

Many of the auditors’ recommendations, if effectively implemented, could yield significant qualitative and/or quantitative benefits. Several staff recommendations, if effectively implemented, could yield qualitative and quantitative benefits of approximately \$39 million annually and a one-time savings of \$22.5 million. Examples of these recommendations included:

- Cooperate fully with all ongoing investigations and implement all approved recommendations for remediation determined by the completed internal and governmental investigations and any settlement terms arising therefrom.

- Carefully track and document ongoing activities related to the investigations and litigation, so the costs associated with dealing with the matter are appropriately segregated to minimize negative impacts to ratepayers.
- Develop and implement approved enhancements to the Compliance Program. Implement appropriate testing criterion for testing the key controls to strengthen FirstEnergy's internal control environment and ultimately resolve the noted material weakness in internal control over financial reporting.
- Conduct periodic market studies to confirm FirstEnergy Service Company's cost of services are at or lower than market, and the FE PA Companies are charging the higher of cost or market for goods/services to affiliates.
- Evaluate the current cost allocation factors to assess how accurately they represent the most relevant cost drivers, update the SA after the current reorganization is complete to include robust descriptions of all goods/services provided to the FE-PA Companies, and file the SA with the PUC for approval.
- Maintain transparent records of the additional costs incurred as a result of the investigations and fallout related to bribery charges in Ohio to demonstrate prudent and reasonable operating costs in any future rate case proceeding.
- Improve electric reliability performance by implementing remedial programs that will effectively address the top outage causes within the FE- PA Companies control (e.g., Equipment Failure, Line Failure, Animals) as well as actively identify priority off-ROW trees for removal where possible.
- Review and identify why field operations employees are incurring excessive amounts of overtime and promote and/or exercise the companies' right to equally distribute emergency callouts.
- Continue to identify exposures and to develop and implement adequate training on the appropriate procedures to proactively mitigate the risks associated with the identified exposures to ultimately improve safety performance.

IV. SUMMARY OF MANAGEMENT EFFICIENCY INVESTIGATIONS COMPLETED IN FISCAL YEAR 2021-2022

Pike County Light and Power (D-2020-3022546), and Leatherstocking Gas Company (D-2020-3022547)

The report on the Management Efficiency Investigation (MEI) of Pike County Light and Power and Leatherstocking Gas Company (or companies), which was completed by Bureau of Audits' staff, was publicly released on November 18, 2021. The scope of this investigation was an examination of the progress in implementing 33 recommendations from the Management and Operations Audit released in February 2018.

The PUC auditors found that PCLP and/or LGC effectively or substantially implemented 15 of the 33 prior management audit recommendations reviewed and has taken some action on the remaining 18 recommendations. Among the more notable improvements are:

- PCLP installed all computer systems required to manage operations in a timely manner.
- PCLP reduced overdue customer account balances and bad debt levels.
- PCLP developed an Electric Operations and Maintenance Manual specific to its system.
- PCLP fulfilled all stipulations of its Settlement Agreement.
- PCLP began tracking dispatch times for its gas odor and gas emergency calls.
- PCLP and LGC created documented physical security, business continuity, emergency response, and cybersecurity plans.
- PCLP and LGC began filing Annual Reports on Diversity in 2019.
- IT resources at PCLP and LGC were increased and the companies reviewed their resources regularly.

Although these accomplishments are commendable, the PUC auditors have identified further opportunities for improvement. Specifically, PCLP and/or LGC should:

- Update safety policies and procedures to address all aspects of operation, including electric operations.
- Strengthen the process used to periodically evaluate staffing levels and external resourcing for PCLP's operational workload to ensure the most cost effective and efficient methods are applied.
- Expand the documentation of financial management policies and procedures for LGC and PCLP.
- Update or file a new AIA reflecting LGC's change in ownership and affiliate shared services.
- Ensure all intercompany charges are fully documented and supported by the methodologies and processes prescribed by the PA PUC approved AIA.
- Meet or exceed LTIP goals to accelerate the replacement of unprotected bare steel and cast-iron mains.

- Develop a formal testing and drill program for the physical security, emergency response, cybersecurity, and business continuity plans.

No incremental costs associated with implementation of the recommendations were specifically identified.

V. APPENDICES

Appendix A – List of Pennsylvania Regulated Utilities Subject to Mandated § 516 Management Audits and Management Efficiency Investigations as of June 30, 2022

Can Do Water Company
Columbia Gas of Pennsylvania, Inc.
Community Utilities of Pennsylvania
The Columbia Water Company
Duquesne Light Company
National Fuel Gas Distribution Company
The Newtown Artesian Water Company
PECO Energy Company
Pennsylvania-American Water Company
Philadelphia Gas Works
Pittsburgh Water and Sewer Authority
PPL Electric Utilities Corporation
Veolia Pennsylvania
UGI Utilities, Inc.
The York Water Company

Citizens' Electric Company Wellsboro Electric Company Valley Energy, Inc.

Metropolitan Edison Company Pennsylvania Electric Company Pennsylvania Power Company West Penn Power Company

Aqua Pennsylvania, Inc. Peoples Natural Gas Company LLC* Peoples Gas LLC
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Pike County Light and Power Company Leatherstocking Gas Company LLC
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Note – The utilities listed within the boxes have common ownership and share support functions and therefore the audits are performed concurrently and reported within a combined report.

Appendix B – History of Mandated Management Audits Released

<u>Utility</u>	<u>Month Released</u>	<u>Notes</u>
ALLTEL Pennsylvania, Inc. (Now known as Windstream Pennsylvania, LLC)	8/80, 9/89, 7/97	
Apollo Gas Company/Carnegie Natural Gas Company	8/88, 2/98	(2)
Aqua Pennsylvania, Inc.	11/06, 5/13, 5/21	
Bell Atlantic – PA (Now known as Verizon Pennsylvania LLC)	1/87, 6/96	
Citizens' Electric Company of Lewisburg	7/07, 4/14, 12/19	(3)
Citizens Utilities Water Companies of Pennsylvania	6/94	(4)
Columbia Gas of Pennsylvania, Inc.	8/80, 5/90, 5/98, 8/06, 8/13, 7/20	
Columbia Water Company	7/97, 7/05, 9/11, 5/18	
Commonwealth Telephone Company (d/b/a Frontier Communications Commonwealth Telephone Company)	3/87, 3/96	(5)
Conestoga Telephone & Telegraph Company	10/86, 6/95	(6)
Consumers Pennsylvania Water Companies	5/99	(7)
Continental Telecom, Inc. (PA Operations)	8/87	(8)
Denver & Ephrata Telephone & Telegraph Company (Now known as Windstream D&E, Inc.)	2/92	
Duquesne Light Company	9/82, 5/90, 5/98, 5/06, 3/13, 8/19	
Equitable Gas Company	2/87, 1/95, 2/03, 6/10	(9, 20)
Frontier Communications (PA TELCOS)	8/87, 12/95	
GTE North – PA Operations (Now known as Verizon North LLC)	11/85, 7/96	
Leatherstocking Gas Company	2/18	
Metropolitan Edison Company	11/79, 1/91, 1/99, 3/07, 2/15, 6/22	(10,11)
National Fuel Gas Distribution Corporation (PA Operations)	2/89, 3/97, 3/05, 5/12, 4/18	
Newtown Artesian Water Company, The	8/96, 9/04, 1/11.5/17	
North Penn Gas Company & PFG, Inc. (Formerly known as Penn Fuel Gas, Inc.)	7/84, 7/92, 6/02	(12)
North Pittsburgh Telephone Company	6/89, 1/97	(13)
PECO Energy Company	11/79, 9/91, 9/99, 8/07, 10/14	(1)
Pennsylvania-American Water Company	8/85, 10/92, 10/00, 11/08, 3/16	
Pennsylvania Electric Company	11/79, 1/91, 1/99, 3/07, 2/15, 6/22	(10,11)
Pennsylvania Gas & Water Company	5/79, 10/93	(14)
Pennsylvania Power Company	6/79, 6/90, 6/98, 3/07, 2/15, 6/22	(10)
Pennsylvania Suburban Water Company (Formerly Philadelphia Suburban Water Company)	4/79, 12/90, 11/98	(15)
Peoples Natural Gas Company LLC (Formerly The Peoples Natural Gas Company)	8/87, 1/95, 2/03, 3/10, 12/16, 5/21	(22)
Peoples Gas LLC (Formerly Peoples TWP.)	10/86,12/93, 12/01, 4/09, 12/16, 5/21	(22)
PG Energy, Inc.	10/01	(16)
Philadelphia Gas Works	4/01, 2/09, 10/15	(1)
Pike County Light & Power Company	1/10, 2/18	
Pittsburgh Water and Sewer Authority		(1)
PPL Electric Utilities Corporation (formerly Pennsylvania Power & Light)	4/86, 6/94, 6/02, 7/09, 12/16	
Roaring Creek Water Company	12/82, 7/92	(17)
Shenango Valley Water Company	11/85, 11/91	(17)
Suez Water Pennsylvania, Inc. (formerly United Water Pennsylvania)	8/88, 5/96, 5/04, 1/11, 3/17	
Superior Water Company, Inc. (d/b/a Superior Water Company)	1/07, 12/13	(15)
UGI Utilities, Inc.	1/82, 6/89, 4/97, 4/05, 5/12, 11/19	
UGI Central Penn Gas, Inc.	5/12, 11/19	(21)
UGI Penn Natural Gas, Inc.	5/12, 11/19	(21)
United Telephone Company of Pennsylvania	9/82, 2/92	(19)
Valley Energy, Inc. – Pennsylvania Division	7/07, 4/14, 12/19	(3)
Veolia (formerly Suez Water Pennsylvania)		
Wellsboro Electric Company	7/07, 4/14, 12/19	(3)
West Penn Power Company	8/83, 6/92, 6/00, 2/08, 2/15, 6/22	(10)
York Water Company, The	5/82, 6/93, 6/01, 10/08, 5/15, 6/21	

() – see Notes on next page

Notes to History of Mandated Management Audits Released

- (1) Next audit being initiated or in progress.
- (2) Now part of Equitable Gas Company then part of Peoples Natural Gas Company
- (3) Subsidiaries of C&T Enterprises, Inc.
- (4) Now part of Pennsylvania-American Water Company.
- (5) Now part of Frontier Communications.
- (6) Became part of D & E Communications d/b/a Conestoga Telephone Company and is now Windstream Conestoga, Inc.
- (7) Became part of Philadelphia Suburban Water Company, then part of Pennsylvania Suburban Water Company, and is now a part of Aqua Pennsylvania, Inc. (See note 17).
- (8) Became part of GTE North – PA Operations and is now a part of Verizon North LLC
- (9) Formerly a Division of Equitable Resources, Inc. and subsidiary of EQT Corporation.
- (10) Subsidiary of FirstEnergy Corporation.
- (11) The 1/99 audit was released under the name GPU Energy (PA Zones).
- (12) Became subsidiaries of PPL Gas Utilities Corporation, a subsidiary of PPL Corporation, and are now a subsidiary of UGI Utilities, Inc. known as UGI Central Penn Gas, Inc.
- (13) Now Consolidated Communications of Pennsylvania Company LLC.
- (14) Gas operations became known as PG Energy (a division of Southern Union Company) and are now a subsidiary of UGI Utilities, Inc. known as UGI Penn Natural Gas, Inc. Water operations became a part of Pennsylvania-American Water Company.
- (15) Now part of Aqua Pennsylvania, Inc. a subsidiary of Aqua, America, Inc.
- (16) Now a subsidiary of UGI Utilities, Inc. known as UGI Penn Natural Gas, Inc.
- (17) Became part of Consumers Pennsylvania Water Companies, and is now a part of Aqua Pennsylvania, Inc. (See note 7).
- (18) The 1/82 audit covered the Electric Division only.
- (19) Became United Telephone Company of Pennsylvania LLC d/b/a Embarq and is now The United Telephone Company of Pennsylvania LLC d/b/a CenturyLink.
- (20) Became an operating division of Peoples Natural Gas Company effective December 17, 2013 as a result of the acquisition and merger filed on March 19, 2013 in which EGC, Peoples Natural Gas Company LLC (Peoples), and Peoples TWP LLC filed with the Commission a Joint Application at Docket Nos. A-2013-2353647, A-2013-2353649 and A- 2013-2353651 requesting all necessary approvals authorizing: the transfer of 100% of the issued and outstanding limited liability company membership interests in EGC, an indirect subsidiary of EQT Corporation (EQT), to PNG Companies LLC (PNG), an indirect subsidiary of SteelRiver Infrastructure Fund North America LP; and, the merger of EGC with Peoples, a wholly-owned subsidiary of PNG, and the operation of EGC as an operating division of Peoples.
- (21) Operate under a single rate tariff as UGI Utilities as in October 2019
- (22) Became a subsidiary of Essential Utilities in March 2020 which is the parent of Aqua Pennsylvania