

ANNUAL REPORT
66 PA C.S. § 516 AUDITS
FISCAL YEAR 2022-2023

MANAGEMENT AUDITS &
MANAGEMENT EFFICIENCY
INVESTIGATIONS

Pennsylvania Public Utility Commission
Bureau of Audits
Issued September 2023

Docket No. D-2023- 3042338

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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 short and long-term 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.

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, 2023, 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, 2023, and a list of all Section 516 mandated MAs released to Fiscal Year End 2023 (i.e., June 30, 2023). 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 2022-2023 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>
PECO Energy	22	19	3	0	100%
PGW	32	26	3	3	91%
PWSA	41	34	7	0	100%
<u>Total</u>	<u>95</u>	<u>79</u>	<u>13</u>	<u>3</u>	<u>97%</u>

* Per implementation plans submitted by the companies.

TABLE B

FY 2022-2023 Management Efficiency Investigations
Number and Categorization of Recommendations

Evaluation of Prior Recommendations

<u>Company</u>	<u>Total Evaluated</u>	<u>Effectively Implemented</u>	<u>Partially or Not Implemented*</u>	<u>Effectively Implemented</u>
UGI Utilities **	23	18	5	78%

Staff's Follow-Up Recommendations

<u>Company</u>	<u>Total Developed</u>	<u>Accepted</u>	<u>Partially Accepted*</u>	<u>Rejected</u>	<u>Accepted or Partially Accepted</u>
UGI Utilities	10	10	0	0	100%

* Per implementation plans submitted by the companies.

** The UGI Utilities MEI released FY 2022-2023. All other public projects were MAs shown on page 5.

TABLE C

**FY 2022-2023 Management Audits (MAs) and
Management Efficiency Investigations (MEIs)**

Benefit/Cost 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)	\$0.0	\$0.0	\$0.0	\$0.0
Staff MAs & MEIs (4)	\$36,500,000	\$13,500,000	\$0.0	\$0.0
Total Benefits	\$36,500,000	\$13,500,000	\$0.0	\$0.0

One-Time Consultant Costs for FY 2022-2023 Audits (Millions)	\$0.00
Approximate Management Audit Division Costs for FY 2022-2023 (Millions)	\$1.15
Total Estimated Cost of MAs and MEIs (Millions)	\$1.15

* 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 2022-2023

PECO Energy Company (D-2021-3023906)

The report, on the Management and Operations Audit (MA) of PECO Energy Company completed by staff from the Bureau of Audits, was publicly released on August 25, 2022. The audit report contained 22 recommendations. The company's Implementation Plan, dated August 2022, indicated acceptance of 19 recommendations, and partial acceptance of 3 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 Ratings	Chapter / Functional Area	Number of Recommendations
Major Improvement Needed (0)	None	None
Significant Improvement Needed (0)	None	None
Moderate Improvement Needed (3)	V – Affiliated Interests and Cost Allocations VII – Electric Operations VIII – Gas Operations	3 5 4
Minor Improvement Needed (3)	IX – Emergency Preparedness XI – Customer Service XIV – Human Resources and Diversity	4 4 2
Meets Expected Performance Level (6)	III – Executive Management and Organizational Structure IV – Corporate Governance VI – Financial Management X – Materials Management XII – Information Technology XIII – Fleet Management	None
Total Recommendations		22

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 \$15 million annually and a one-time savings of \$13.5 million. Examples of these recommendations included:

- Submit a detailed proposal to the Commission for the Appropriate crediting of ratepayers due to PECO's corrected billings for the use of PECO's fiber network.

- Reduce Electric operations staff overtime to 15% overtime hours per normal hours worked or less: Reduce Gas operations staff overtime to 15% overtime hours per normal hours worked or less.
- Improve SAIDI¹ and CAIDI² to at or below the PUC Benchmarks.
- Reduce the number of customers experiencing multiple interruptions and strive to have zero CEMI 10+.
- Reduce company-at-fault hits on gas infrastructure.
- Continue outreach efforts to engage payment troubled customers, leverage pandemic and low-income resources to help reduce the overall level of outstanding customer balances.
- Improve Safety Performance.

¹ System Average Interruption Duration Index

² Customer Average Interruption Duration Index

Philadelphia Gas Works (D-2022-3030321)

The report, on the Management and Operations Audit (MA) of Philadelphia Gas Works completed by staff from the Bureau of Audits, was publicly released on March 2, 2023. The audit report contained 32 recommendations. The company's Implementation Plan, dated February 2023, indicated acceptance of 26 recommendations, partial acceptance of 3 recommendations, and rejection of 3 recommendations.

During the audit, 10 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 Ratings	Chapter / Functional Area	Number of Recommendations
Major Improvement Needed (0)	None	None
Significant Improvement Needed (1)	VII – Emergency Preparedness	8
Moderate Improvement Needed (3)	III – Corporate Governances	4
	VI – Gas Operations	4
	IX – Customer Service	5
Minor Improvement Needed (6)	IV – Executive Management and Organizational Structure	2
	V – Financial Management	2
	VIII – Materials Management	2
	X – Information Technology	2
	XI – Fleet Management	1
	XII – Human Resources and Diversity	2
Meets Expected Performance Level (0)	None	None
Total Recommendations		32

Many of the auditors' recommendations, if effectively implemented, could yield significant qualitative and/or quantitative benefits. Examples of these recommendations included:

- Implement a safety management system and improve safety culture at PGW.
- Accelerate cast iron main replacement.

- Increase focus on cybersecurity by developing a dedicated cybersecurity budget, performing a staffing study, and adjusting resources as needed, and create an executive level cybersecurity leadership position.
- Implement a cybersecurity-focused risk registry.
- Leverage pandemic and low-income resources to help reduce the overall level of outstanding customer balances and maintain outreach efforts to engage payment troubled customers.
- Drive safety performance to meet industry standards.

Pittsburgh Water & Sewer Authority (D-2021-3025584; D-2021-3025585; and D-2022-3030308)

The report, on the Management and Operations Audit (MA) of the Pittsburgh Water & Sewer Authority completed by staff from the Bureau of Audits, was publicly released on August 25, 2022. This was the Commission’s first management audit of PWSA. The audit report contained 41 recommendations. The company’s Implementation Plan, dated March 2023, indicated acceptance of 34 recommendations, and partial acceptance of 7 recommendations.

During the audit, 10 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 Ratings	Chapter / Functional Area	Number of Recommendations
Major Improvement Needed (0)	None	None
Significant Improvement Needed (4)	V – Financial Management	7
	VI – Operations	7
	VIII – Purchasing and Materials Management	4
	X – Information Technology	4
Moderate Improvement Needed (3)	III – Executive Management and Organizational Structure	5
	VII – Emergency Preparedness	3
	IX – Customer Service	2
Minor Improvement Needed (3)	IV – Corporate Governance	3
	XI – Fleet Management	2
	XII – Human Resources and Diversity	4
Meets Expected Performance Level (0)	None	None
Total Recommendations		41

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 \$21.5 million annually. Examples of these recommendations included:

- Petition the City and ALCOSAN to renegotiate the ALCOSAN billing servicing agreement with the PWSA to include equitable criteria for handling the uncollectible portion of the PWSA's billings that are on behalf of ALCOSAN. If negotiations are unsuccessful, consider legal action to require ALCOSAN to bill customers directly.
- Track actual billing service costs incurred to bill customers on ALCOSAN's behalf to work toward charging ALCOSAN the higher of cost or market for these services through servicing agreement renegotiations.
- Payoff and/or refinance higher interest variable and fixed rate debt with proceeds from grants or more favorably priced loans.
- Follow 52 Pa. Code § 56.331 when initiating the service termination process to balance sufficient customer notification with timely collection of past due customer billings further streamlined by enabling the automation process available to the PWSA through its customer information system.
- Identify the most practical option to rehabilitate the east and west raw water intake gates at the WTP and expedite the project as is feasibly possible to ensure no disruptions in water service to the PWSA's customer base.
- Expedite the installation of new flow meters at strategic locations and/or rehabilitate existing flow meters as needed to gain basic insight into areas contributing to excessive water loss that require replacement to maximize treated water retention.
- Modernize IT architecture and processes to increase the PWSA's cyber maturity rating.
- Enforce participation in a formalized cyber awareness training program which includes refresher training on IT policies, cyber security awareness, and remediation as necessary.

IV. SUMMARY OF MANAGEMENT EFFICIENCY INVESTIGATIONS COMPLETED IN FISCAL YEAR 2022-2023

UGI Utilities (D-2022-3032778)

The report on the Management Efficiency Investigation (MEI) of UGI Utilities, which was completed by Bureau of Audits' staff, was publicly released on May 18, 2023. The scope of this investigation was an examination of the progress in implementing 23 recommendations from the Management and Operations Audit released in November 2019.

The PUC auditors found that UGI Utilities effectively or substantially implemented 18 of the 23 prior management audit recommendations reviewed and has taken some action on the remaining 5 recommendations. Among the more notable improvements are:

- Reducing the number of third-party damages to company infrastructure.
- Increasing spending on capital replacements, resulting in a decrease in Class A leaks.
- Constructing a state-of-the-art training and operations center.
- Creating and revising many aspects of physical security, business continuity, emergency response, and cybersecurity plans.
- Conducting security assessments for physical buildings and cybersecurity.

Although these accomplishments are commendable, the PUC auditors have identified further opportunities for improvement. Specifically, UGI Utilities should:

- Enhancing the process for recording damages and related collection efforts.
- Improving, as appropriate, termination and collection processes including decreasing non-access accounts.
- Increasing staffing levels and reducing turnover rates for Customer Care Representatives.
- Utilizing annual market studies to assess compensation for Customer Care Representatives.
- Developing a process to follow national guidelines for services and costs provided by affiliates.
- Preparing a new affiliated interest agreement that adequately describes transactions between affiliates and obtain Commission approval.
- Updating the company's Cost Allocation Manual based on the current organization structure.

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, 2023**

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

Pike County Light and Power Company
Leatherstocking Gas Company LLC

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	(1)
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, 8/22	
Pennsylvania-American Water Company	8/85, 10/92, 10/00, 11/08, 3/16	(1)
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, 3/23	
Pike County Light & Power Company	1/10, 2/18	
Pittsburgh Water and Sewer Authority	4/23	
PPL Electric Utilities Corporation (formerly Pennsylvania Power & Light)	4/86, 6/94, 6/02, 7/09, 12/16	(1)
Roaring Creek Water Company	12/82, 7/92	(17)
Shenango Valley Water Company	11/85, 11/91	(17)
Veolia Water of Pennsylvania, Inc. (formerly Suez Water Pennsylvania, Inc. and 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