

**ANNUAL REPORT  
66 PA C.S. § 516 AUDITS  
FISCAL YEAR 2023-2024**

**MANAGEMENT AUDITS &  
MANAGEMENT EFFICIENCY  
INVESTIGATIONS**

**Pennsylvania Public Utility Commission  
Bureau of Audits  
Issued September 2024**

**Docket No. D-2024-3050815**

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## **I. INTRODUCTION**

Management Audits (MAs) and Management Efficiency Investigations (MEIs) evaluate 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 23 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.

The required audits and investigations may be conducted by Bureau personnel or by outside consulting firms with the oversight of Bureau personnel. Other special operational and/or financial projects may also be performed 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, 2024, 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, whereas 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, 2024, and a list of all Section 516 mandated MAs released to Fiscal Year End 2024 (i.e., June 30, 2024). 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 Nathan Paul at (717) 214-8249 or [npaul@pa.gov](mailto:npaul@pa.gov).

## **II. STATISTICAL TABLES**

**TABLE A**  
**Summary of Management Audit Recommendations**  
**Fiscal Year 2023-2024**

<b>Company</b>	<b>Total</b>	<b>Accepted</b>	<b>Partially Accepted*</b>	<b>Rejected</b>	<b>Accepted or Partially Accepted</b>
PAWC	31	23	8	0	100%
<b>Total</b>	<b>31</b>	<b>23</b>	<b>8</b>	<b>0</b>	<b>100%</b>

\* Per implementation plans submitted by the companies.

**TABLE B**  
**Summary of Management Efficiency Recommendations**  
**Fiscal Year 2023-2024**

<b>Evaluation of Prior Recommendations</b>					
<b>Company</b>	<b>Total Evaluated</b>	<b>Effectively Implemented</b>	<b>Partially or Not Implemented*</b>	<b>Effectively Implemented</b>	
Duquesne Light	16	14	2	87.50%	
<b>Staff's Follow-Up Recommendations</b>					
<b>Company</b>	<b>Total Developed</b>	<b>Accepted</b>	<b>Partially Accepted*</b>	<b>Rejected</b>	<b>Accepted or Partially Accepted</b>
Duquesne Light	4	4	0	0	100%

\* Per implementation plans submitted by the companies.

**TABLE C**  
**Management Audit (MA) and Management Efficiency Investigation (MEI)**  
**Cost Benefit Analysis (in Millions)**  
**Fiscal Year 2023-2024**

	Net Projected Savings or Benefits* Upon Implementation of Current Audit Recommendations		Net Realized Savings or Benefits* After Implementation of Prior Audit Recommendations	
	Annual	One-Time	Annual	One-Time
Consultant MAs (0)	\$0.00	\$0.00	\$0.00	\$0.00
Staff MAs & MEIs (2)	\$3.13	\$4	\$0.00	\$0.00
<b>Total Benefits</b>	<b>\$3.13</b>	<b>\$4</b>	<b>\$0.00</b>	<b>\$0.00</b>
One-Time Consultant Costs for FY 2023-2024 Audits				\$0.00
Approximate Management Audit Division Costs for FY 2023-2024				\$0.99
<b>Total Estimated Cost of MAs and MEIs</b>				<b>\$0.99</b>

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 2023-2024**

Pennsylvania-American Water Company (D-2022-3035217)

On December 21, 2023, the Commission released to the public the final audit report on the staff-completed Management and Operations Audit (MA) of Pennsylvania-American Water Company (PAWC). The audit report contained 31 recommendations. The company's Implementation Plan, dated October 2023, indicated acceptance of 23 recommendations, and partial acceptance of eight 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:

<b>Functional Ratings</b>	<b>Chapter / Functional Area</b>	<b>Number of Recommendations</b>
Major Improvement Needed (0)	None	None
Significant Improvement Needed (0)		
Moderate Improvement Needed (4)	V – Cost Allocations and Affiliated Interests	4
	VII – Water Operations	3
	IX – Emergency Preparedness	7
	XI – Customer Service	2
Minor Improvement Needed (8)	III – Executive Management and Organizational Structure	4
	IV – Corporate Governance	1
	VI – Financial Management	1
	VIII – Wastewater Operations	4
	X – Purchasing and Materials Management	2
	XII – Information Technology	1
	XIII – Fleet Management	1
XIV – Human Resources and Diversity	1	
Meets Expected Performance Level (0)	None	None
<b>Total Recommendations</b>		<b>31</b>

If effectively implemented, many of the auditors’ recommendations could yield significant qualitative and/or quantitative benefits. Several staff recommendations could yield qualitative and quantitative benefits of up-to \$3.13 million annually and a one-time savings of \$4 million. Examples of these recommendations include:

- Reduce unaccounted-for-water below the PUC’s 20% threshold and report UFW correctly;
- Reduce line hits to the company’s underground facilities;
- Improve physical security for control rooms and SCADA (Supervisory Control and Data Acquisition) control systems;
- Improve customer service performance at minimum to pre-pandemic levels;
- Continue outreach efforts to engage with payment troubled customers and leverage low-income resources to help reduce the level of outstanding customer balances; and,

- File a new or amended affiliated interest agreement that accurately reflects the current company structure and the intercompany transactions occurring between PAWC and AWWSC.

#### **IV. SUMMARY OF MANAGEMENT EFFICIENCY INVESTIGATIONS COMPLETED IN FISCAL YEAR 2023-2024**

##### Duquesne Light Company (D-2023-3037425)

On September 21, 2023, the Commission released to the public the final investigation report on the staff-completed Management Efficiency Investigation (MEI) of Duquesne Light. This investigation evaluated Duquesne's progress in implementing 16 recommendations from the Management and Operations Audit released in July 2019.

Duquesne effectively or substantially implemented 14 of the 16 prior management audit recommendations reviewed and has taken some action on the remaining two recommendations. The more notable improvements include:

- Increased staffing for field operations;
- Enhanced the reporting of outage causes provided in electric reliability reports;
- Added a financial expert, as defined by the Securities and Exchange Commission (SEC), to the Board of Directors' Audit Committee for parent company DQE Holdings LLC;
- Developed and implemented a quality assurance and improvement program and formalize policies/procedures for the Internal Audit Department;
- Developed and implemented a formal budget variance policy;
- Increased information technology maturity level by 10% and developing and implemented a plan for continued periodic internal review;
- Established individual goals and objectives for the chief executive officer which are specific, measurable, attainable, relevant, and time-based (SMART Criteria); and,
- Revised written documents used to engage contractors to consistently define safety procedures.

The PUC auditors also identified further opportunities for improvement. Specifically, Duquesne should:

- Implement measures to balance workload and limit available overtime;
- Focus on successful recruitment practices to further increase craftworker staffing levels;
- Analyze historical usage trends and obtain benchmarking data to establish an inventory turnover goal; and,
- Establish and implement net recovery performance goals for third-party collection activities while continuing to monitor monthly performance reports.

Note, the PUC auditors did not specifically identify any incremental costs associated with implementation of these recommendations.

**V. APPENDICES**

**Appendix A – List of Pennsylvania Regulated  
Utilities Subject to Mandated § 516 Management  
Audits and Management Efficiency Investigations  
as of June 30, 2024**

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.	
FirstEnergy Pennsylvania Electric Company	Metropolitan Edison Company
	Pennsylvania Electric Company
	Pennsylvania Power Company
	West Penn Power Company
Aqua Pennsylvania, Inc. Peoples Natural Gas Company LLC	
Pike County Light and Power Company Leatherstocking Gas Company LLC	

Note: The utilities listed within the shaded 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

NAME OF UTILITY PROVIDER	PAST REPORT DATE(S)	MOST RECENT REPORT DATE	NOTES
<b>Active Electric Entities</b>			
Citizens' Electric Company of Lewisburg	Jul 2007, Apr 2014	<b>Dec 2019</b>	3
Duquesne Light Company	Sept 1982, May 1990, May 1998, May 2006, Mar 2013,	<b>Sept 2019</b>	
Metropolitan Edison Company	Nov 1979, Jan 1991, Jan 1999, Mar 2007, Feb 2015	<b>June 2022</b>	10, 11, 24
PECO Energy Company	Nov 1979, Sept 1991, Sept 1999, Aug 2007, Oct 2014,	<b>Aug 2022</b>	
Pennsylvania Electric Company	Nov 1979, Jan 1991, Jan 1999, Mar 2007, Feb 2015	<b>Jun 2022</b>	10, 11, 24
Pennsylvania Power Company	Jun 1979, Jun 1990, Jun 1998, Mar 2007, Feb 2015	<b>Jun 2022</b>	10, 24
Pike County Light & Power Company	Jan 2010	<b>Feb 2018</b>	1
PPL Electric Utilities Corporation (Formerly Pennsylvania Power & Light)	Apr 1986, Jun 1994, Jun 2002, Jul 2009	<b>Dec 2016</b>	1
Wellsboro Electric Company	Jul 2007, Apr 2014	<b>Dec 2019</b>	3
West Penn Power Company	Aug 1983, Jun 1992, Jun 2000, Feb 2008, Feb 2015	<b>Jun 2022</b>	10, 24
<b>Active Gas Entities</b>			
Columbia Gas of Pennsylvania, Inc	Aug 1980, May 1990, May 1998, Aug 2006, Aug 2013	<b>Jul 2020</b>	
Leatherstocking Gas Company		<b>Feb 2018</b>	
National Fuel Gas Distribution Corporation (PA Operations)	Feb 1989, Mar 1997, Mar 2005, May 2012	<b>Apr 2018</b>	1
Peoples Natural Gas Company LLC (Formerly The Peoples Natural Gas Company)	Aug 1987, Jan 1995, Feb 2003, Mar 2010, Dec 2016	<b>May 2021</b>	22, 23
Peoples Gas LLC (Formerly Peoples TWP)	Oct 1986, Dec 1993, Dec 2001, Apr 2009, Dec 2016	<b>May 2021</b>	22, 23
Philadelphia Gas Works	Apr 2001, Feb 2009, Oct 2015	<b>Mar 2023</b>	
UGI Utilities, Inc.	Jan 1982, Jun 1989, Apr 1997, Apr 2005, May 2012	<b>Nov 2019</b>	
Valley Energy, Inc. – Pennsylvania Division	Jul 2007, Apr 2014	<b>Dec 2019</b>	3
<b>Active Water Entities</b>			
Aqua Pennsylvania, Inc	Nov 2006, Jul 2013	<b>May 2021</b>	
Columbia Water Company	Jul 1997, Jul 2005, Sept 2011	<b>May 2018</b>	
Newtown Artesian Water Company, The	Aug 1996, Sept 2004, Jan 2011	<b>May 2017</b>	1
Pennsylvania- American Water Company	Aug 1985, Oct 1992, Oct 2000, Nov 2008, Mar 2016	<b>Dec 2023</b>	
Pittsburgh Water and Sewer Authority		<b>Apr 2023</b>	
Veolia Water of Pennsylvania, Inc. (Formerly Suez Water Pennsylvania, Inc. and United Water Pennsylvania)	Aug 1988, May 1996, May 2005, Jan 2011	<b>Mar 2017</b>	
York Water Company, The	May 1982, Jun 1993, Jun 2001, Oct 2008, May 2015	<b>Jun 2021</b>	

## Appendix B – History of Mandated Management Audits Released (Continued)

NAME OF UTILITY PROVIDER	PAST REPORT DATE(S)	NOTES
<b>Inactive Electric Entities</b>		
PG Energy, Inc.	Oct 2001	16
<b>Inactive Gas Entities</b>		
Apollo Gas Company/Carnegie Natural Gas Company	Aug 1988, Feb 1998	2
Equitable Gas Company	Feb 1987, Jan 1995, Feb 2003, Jun 2010	9, 20
North Penn Gas Company & PFG, Inc. (Formerly known as Penn Fuel Gas, Inc)	Jul 1984, Sept 2004, Jun 2002	12
Pennsylvania Gas & Water Company	May 1979, Oct 1993	14
UGI Central Penn Gas, Inc.	May 2012, Nov 2019	21
UGI Penn Natural Gas, Inc.	May 2012, Nov 2019	21
<b>Past Telecommunication Management Audits</b>		
ALLTEL Pennsylvania, Inc (Now known as Windstream Pennsylvania, LLC)	Aug 1980, Sept 1989, Jul 1997	
Bell Atlantic - PA (Now known as Verizon Pennsylvania LLC)	Jan 1987, Jun 1996	
Commonwealth Telephone Company (d/b/a Frontier Communications Commonwealth Telephone Company)	Mar 1987, Mar 1996	5
Conestoga Telephone & Telegraph Company	Oct 1986, Jun 1995	6
Continental Telecom, Inc (PA Operations)	Aug 1987	8
Denver & Ephrata Telephone & Telegraph Company (Now known as Windstream D&E, Inc)	Feb 1992	
Frontier Communications (PA TELCOS)	Aug 1987, Dec 1995	
GTE North- PA Operations (Now known as Verizon North LLC)	Nov 1985, Jul 1996	
North Pittsburgh Telephone Company	Jun 1989, Jan 1997	13
United Telephone Company of Pennsylvania	Sept 1982, Feb 1992	19
<b>Inactive Water Entities</b>		
Citizens' Utilities Water Companies of Pennsylvania	Jun 1994	4
Consumers Pennsylvania Water Companies	May 1999	7
Pennsylvania Suburban Water Company (Formerly Philadelphia Suburban Water Company)	Apr 1997, Dec 1990, Nov 1998	15
Roaring Creek Water	Dec 1982, Jul 1992	17
Shenango Valley Water Company	Nov 1985, Nov 1991	17
Superior Water Company, Inc. (d/b/a Superior Water Company)	Jan 2007, Dec 2013	15

## 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
- (23) Peoples Gas Company LLC was merged into Peoples Natural Gas Company LLC by order on August 25, 2022, at Docket Nos. A-2021-3029831 and A-2021-3029833
- (24) Through an Order on December 7, 2023 (Docket No. A-2023-3038771), FirstEnergy consolidated all subsidiaries into a single entity