

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**STRATIFIED MANAGEMENT
AND OPERATIONS AUDIT OF
PENNSYLVANIA-AMERICAN
WATER COMPANY**

**PUBLIC MEETING -
NOV 6, 2008
2063484-AUD
DOCKET NO: D-2008-2063484**

STATEMENT OF VICE CHAIRMAN TYRONE J. CHRISTY

Before the Commission for consideration is the Stratified Management and Operations Audit (Audit) of Pennsylvania-American Water Company (PAWC or Company) conducted by Schumaker & Company, Inc. (Schumaker or Consultant), as well as the Implementation Plan submitted in response by PAWC. This Audit includes a total of 114 recommendations for improvement across 22 functional areas of the Company's operations. Schumaker identified seven functional areas as needing moderate improvement, four areas as needing significant improvement and three areas as needing major improvement. Schumaker estimated that total annual and one-time audit related benefits from implementation would be approximately \$900,000 to \$1,100,000 and \$400,000, respectively.

In response, PAWC has submitted an Implementation Plan indicating acceptance of 106 recommendations, partial acceptance of seven recommendations and the rejection of one recommendation. The Company indicated that a number of the Audit findings relate to PAWC's management practices and performance prior to December 31, 2007, and do not reflect significant changes that have occurred since that time. Also, PAWC pointed out that the cost benefits quantified in the Audit do not reflect any costs associated with the implementation of the recommendations. PAWC stated that both cost benefit and expense was considered in its responses within the Implementation Plan.

In its Implementation Plan, PAWC reported that it already has implemented nine recommendations, and plans to complete implementation of the vast majority of the remaining recommendations by December 2010. PAWC is required to submit progress reports on its Implementation Plan annually, by September 1st, for the next three years. The Bureau of Audits notes that it plans to follow-up on PAWC's implementation of the Audit recommendations during the next Management Efficiency Investigation (MEI), which should commence sometime in late 2010 or early 2011.

I am compelled to express my general concern over the unusually high number of functional areas found to be in need of either major or significant improvement as a result of this management audit. I note that Schumaker made a total of 33 recommendations within the three functional areas listed as requiring major improvement. These three areas include Support Services - Information Technology, Support Services – Materials Management and Customer Services. The quantified annual and one-time savings associated with the recommendations in these three areas total \$967,600 or 85% of the total annual cost savings and \$400,000 or 100% of the one-time estimated cost savings.

I wish to commend the Consultant, as well as the Bureau of Audits for the thorough and comprehensive examination of PAWC's operations within the context of this Audit. I will be monitoring PAWC's future progress reports and MEI to ensure that the concerns expressed within this Audit are addressed by the Company in an expeditious fashion. I also would implore the Bureau of Audits to closely monitor PAWC's progress and to alert the Commission in a timely manner if any implementation problems develop.

Furthermore, it is important to note that PAWC is a wholly owned subsidiary of American Water Works Company, Inc. (American Water), which was acquired by RWE Aktiengesellschaft (RWE) in 2003. RWE is a foreign corporation that was organized and exists under the laws of the Federal Republic of Germany. My review of the Schumaker Report indicates that many of the findings and recommendations appear to be the result of the corporate changes and reorganizations that occurred within this Company since its acquisition by RWE. While I am hopeful that the changes that have been implemented recently by PAWC will reverse the course of the deterioration of this Company, I believe that this Commission should consider in more detail these issues prior to approving similar mergers and acquisitions in the future.

11-6-08
DATE

Tyrone J. Christy
TYRONE J. CHRISTY, VICE CHAIRMAN