

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

**Stratified Management
and Operations Audit of
Philadelphia Gas Works**

**Public Meeting -
February 5, 2009
FEB-2009-AUD-2086453
Docket No. D-06MGT042**

STATEMENT OF VICE CHAIRMAN TYRONE J. CHRISTY

Before the Commission for consideration is the Stratified Management and Operations Audit (Audit) of Philadelphia Gas Works (PGW or Company) conducted by Schumaker & Company, Inc. (Schumaker or Consultant), as well as the Implementation Plan submitted in response by PGW. This Audit includes a total of 93 recommendations for improvement across 14 functional areas of the Company's operations. Schumaker identified six functional areas as needing minor improvement, six areas as needing moderate improvement and two areas as needing significant improvement. Schumaker estimated that total annual and one-time audit related benefits from implementation would be approximately \$3.0 to \$7.35 million and \$2.0 million, respectively.

In response, PGW has submitted an Implementation Plan indicating acceptance of 88 recommendations, partial acceptance of three recommendations and the rejection of two recommendations. The Company indicated that a number of the Audit recommendations affirm commitments that the Company had already made as part of its Business Transformation (BT) "Lite" Program or contemplated as part of the broader BT Program which has yet to receive approval.¹ PGW avers that the two rejected recommendations involve matters which are beyond the control of management. Recommendation Number IV-1 states that PGW should streamline its corporate governance processes. Additionally, Recommendation Number VIII-14 states that PGW should work with the Philadelphia Facilities Management Corporation and the Philadelphia Gas Commission to develop a plan for addressing the major issues facing the City of Philadelphia regarding PGW. PGW responds that its governance is determined by the Management Agreement Act, which is a 1972 City ordinance, and can be changed only by further ordinance enactment.

In its Implementation Plan, PGW reported that it already has implemented five recommendations, and plans to complete implementation of the vast majority of the accepted recommendations by December 2010. PGW is required to submit progress reports on its Implementation Plan annually, by February 1st, for the next three years. The Bureau of Audits notes that it plans to follow-up on PGW's implementation of the

¹ Schumaker stated that the success of the BT program is predicated on obtaining timely approvals from the Philadelphia Facilities Management Corporation, the Philadelphia Gas Commission and Philadelphia City Council in order to proceed, which is a more complicated governance structure than it had seen in any gas distribution company undertaking such a program. Schumaker avers that it is important that the BT program proceed in a timely manner to address many of the recommendations contained in the Audit.

Audit recommendations during the next Management Efficiency Investigation (MEI), which should commence sometime in 2011.

I am particularly interested in the two functional areas found to be in need of significant improvement as a result of this management audit. I note that Schumaker made a total of 43 recommendations within these two functional areas, which include Support Services – Procurement Services and Customer Service. All of the annual and one-time savings quantified by the consultant are associated with the recommendations in these two areas. A major issue of concern was PGW's procedures dealing with theft of services. Schumaker recommended that PGW undertake a major study to improve the gas theft prevention program and to build a stronger gas theft of service program. According to Schumaker, PGW's gas theft statistics identify anywhere from \$800,000 to \$4,000,000 annually in gas theft. Therefore, significant cost savings might be possible through implementation of a more rigorous gas theft detection and prosecution program. PGW has accepted this recommendation and states that it will review its current program and undertake an industry study to determine best practices and will implement enhancements to existing policies and procedures as necessary. I encourage the Company to diligently pursue this commitment.

Another issue of concern raised within the audit involves PGW's current soft-off program which the Consultant avers is resulting in \$1 to 2 million a year in unnecessary costs. Schumaker avers that PGW currently is incurring an expense of \$5.7 to \$6.7 million per year in natural gas costs as a result of its current soft-off program. In a soft-off program, a technician is not dispatched to actually turn-off a meter when a customer terminates service. Instead, the meter is monitored for unauthorized usage and is turned off only when unauthorized usage is identified. Schumaker recommends that PGW reevaluate the use of this program. PGW has accepted this recommendation and states that, as part of its BT Program, it will implement an automated soft-off selection and monitoring process as well as a landlord cooperation program. As a result, PGW believes that it will be able to minimize the extra costs that exceed the expected soft-off consumption by physically notifying and shutting off properties where the accumulated usage has exceeded a PGW defined threshold in a timely manner.

I wish to commend the Consultant and the Bureau of Audits for the thorough and comprehensive examination of PGW's operations within the context of this Audit. I will be monitoring PGW'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 request the Bureau of Audits to closely monitor PGW's progress and to alert the Commission in a timely manner if any implementation problems develop.

DATE

TYRONE J. CHRISTY, VICE CHAIRMAN

