

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
**Harrisburg, Pennsylvania 17105-3265**

**Re: MET-ED , PENELEC, AND  
PENN POWER- Management  
Efficiency Investigation  
Evaluating the Implementation  
of Selected Recommendations  
from the 2007 Stratified  
Management and Operations  
Audit**

**Public Meeting: July 14, 2011  
2143263-AUD  
Docket D-2009-2143263, D-2009-  
2143264 and D-2009-2143265**

**MOTION OF COMMISSIONER CAWLEY**

Before us for consideration is the Bureau of Audit's Management Efficiency Investigation (MEI) of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec) and Pennsylvania Power Company (Penn Power) (collectively, the FE-PA Companies) at Docket Nos. D-2009-2143263, D-2009-2143264 and D-2009-2143265, respectively, and the Implementation Plan responding to each of the Audit Staff's 17 follow-up recommendations. The Bureau of Audits is to be commended for identifying a number of areas of improvement, many of which were successfully implemented by the FE-PA Companies, resulting in combined annual savings of \$1.2 million and achieved one-time savings of \$7.4 million. The Audit Staff found that 8 of the 26 recommendations reviewed had been effectively or substantially implemented and that at least some action had been taken on 16 of the 18 other recommendations. While these improvements are laudable, Commission staff has identified areas where further improvement is recommended.

In order to ensure that Pennsylvania customers receive the full benefit of the hard work of our auditors to bring the full cost savings of this audit to bear, the FE-PA Companies should be required to report on further improvements and to take additional steps to implement all recommendations. The Audit Staff developed 17 follow-up recommendations for improvement, which are listed by functional area in Exhibit II-1 of the MEI report. The functional areas offering the greatest opportunities for increased effectiveness and/or efficiency are Support Services, Human Resources, and Customer Service. Specifically, if the FE-PA Companies implement all of the follow-up recommendations in these areas, there is the potential for an additional annual savings of approximately \$3.2 million. The Company's Implementation Plan indicates acceptance of 13 of the Audit Staff's 17 follow-up recommendations, partial acceptance of two recommendations, and rejection of two recommendations.

Not all of the cost saving measures were fully or partially implemented. In order for the Commission to better track progress on these remaining matters, certain reporting requirements should be imposed. The Commission has the power

to require utilities to file periodic reports, pursuant to Section 504, on matters that it determines relevant. Additional reports the FE-PA companies should make include:

1. The FE-PA Companies should continue to analyze and report overtime hours and dollars on a weekly, monthly, and annual basis, and separately track overtime hours for major outages, as well as mutual assistance, with the end goal of striving to achieve more efficient staff levels, estimated to be 15% of straight line hours excluding mutual assistance hours. It should be noted that excessive amounts of overtime by individual line workers can also result in fatigue and injuries or worse, a fatality. This may, at least in part, explain the FE-PA Companies' failure to achieve their target and stretch goals for Incidence Rates.
2. The FE-PA Companies saved significant costs by reviewing meter reader routes for MetEd and Penn Power, but were not successful in reducing Penelec meter reading costs. The FE-PA Companies have reported that they completed re-routing in August of 2010, which may lead to additional operating savings of \$971,000 annually on Penelec. It is recommended that the FE-PA Companies continue reporting on re-routing savings for FE-PA Companies annually until all reasonable efficiencies are achieved company-wide in Pennsylvania, so as to reduce meter reading costs down to Pennsylvania industry average costs, or until Smart Meters are installed.
3. The FE-PA Companies lately have experienced some high dividend payout ratios. While staff concluded that there is no evidence that service or reliability has been adversely affected, the Commission has an obligation to ensure that these practices do not harm service and reliability going forward. Therefore, the FE-PA Companies should report dividend payout ratios annually, and give at least 30 days advanced notice to this Commission and an explanation of the circumstances which warrant annual dividend payments that exceed 85 percent of net income.
4. The FE-PA Companies are strongly encouraged to adjust their chain of command reporting relationships so that the Director of Internal Audit reports solely to the Board's Audit Committee for operational matters and to an executive other than the CFO for administrative matters and in particular for performance evaluations. While acknowledging that utilities do have control over such management decisions, we encourage this change so that potential conflicts of interest can be avoided in the future. Further, this change can likely be implemented at no additional cost to rate payers.

In addition, it should be noted that further improvements in the following items, identified in the audit and agreed to by the FE-PA Companies, require ongoing efforts to ensure that performance meets expected industry standards. These items include, but are not limited to:

- Take additional actions on circuits that stay on the 5% worst performing circuit list for more than a year and develop solutions to improve overall reliability on these circuits.
- Correct deficiencies and major deficiencies within their respective time frames and provide the reasons why they have not been corrected in a timely


manner as an appendix to the Annual Reliability Report. More specifically, the FE-PA Companies shall strive to correct all major deficiencies identified during infrared scans of substations within seven days and all deficiencies identified within 30 days. The FE-PA Companies should consider performing thermal scans of substations during the winter and early spring months rather than during the summer when loading is the highest.

- Ensure that all employees that have access to cyber assets complete required annual training related to security awareness and procedures by maintaining appropriate Computer Based Training tracking records. Access to cyber assets should be terminated for all employees who have not completed their annual cyber training in the allotted time frame.
- Strive to answer at least 80% of calls within 30 seconds by fully leveraging the technology investments made at the Reading Contact Center.
- Reduce the number of meters not read in 6 and 12 months to achieve levels comparable to that of the other Pennsylvania EDCs.
- Complete the implementation of the previously approved revenue protection strategy or devise a new strategy and plan accordingly.

**THEREFORE, I move that:**

1. The Law Bureau draft an appropriate tentative order consistent with this motion.
2. The Management Efficiency Investigation be made public.
3. Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company be given the opportunity to submit comments to the Order within 30 days of entry of the Order.

July 14, 2011  
Date

  
James H. Cawley, Commissioner