

PHILADELPHIA GAS WORKS

IMPLEMENTATION PLAN

for the

**STRATIFIED MANAGEMENT AND
OPERATIONS AUDIT**

MARCH 2001



March 22, 2001

Thomas Sheets
Manager, Management Audit Division
Bureau of Audits
Commonwealth of Pennsylvania
Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17015

Dear Mr. Sheets:

The Philadelphia Gas Works ("PGW" or "the Company") hereby submits its Plan for Implementation of the Recommendations in The Stratified Management and Operations Audit of the Philadelphia Gas Works conducted by the Barrington-Wellesley Group, Inc. ("BWG"), prepared for the Pennsylvania Public Utility Commission (the "PaPUC"), and submitted in January 2001. PGW fully appreciates both the need for and the benefits that can be derived from this effort. This Plan presents specific steps which PGW management proposes to take to implement the recommendations contained in the audit report.

The Audit Process

The evaluation of the company was conducted from June through September 2000, while analysis, writing, review and comments by PGW and the PUC audit staff occurred between October 2000 and January 2001. The Audit was undertaken at a time of dynamic change at PGW: interim senior management of PGW began their work only two months before the audit process commenced. Interim management shared its insights with the BWG consultants, detailed steps that were underway to correct PGW's problems, and insisted on a high degree of candor on the part of all employees in their dealing with the auditors. Many of BWG's recommendations affirm commitments that the Company had already made or programs that were contemplated prior to their arrival. Other recommendations suggest new areas for improvement. Almost 600 requests for data or documents were answered.

The review process provided management the opportunity to rebut assertions or conclusions reached by the auditors and to propose corrections or different interpretations of data or findings. The auditors reviewed PGW management's comments and incorporated some, but not all, of these into the final Audit document.

Bases for Challenging Recommendations

Because of PGW's unique status as a municipally-owned utility, it is simply not possible for management to implement all of the Audit recommendations. Several of the recommendations are premised on resolution of public policy issues beyond the control of PGW, have presumed certain results from the forthcoming collective bargaining process or presented other difficulties. As a result, PGW sought, and in the February 22, 2001 PUC Order approving the Joint Petition for Settlement, was granted language that allows PGW to challenge recommendations if they fit within three general categories, as follows:

- *Legality of the recommendations (i.e., beyond PGW's legal authority to implement including that the recommendation is not an issue over which PGW management has control or that PGW is under a legal obligation to take a different position);*
- *Affordability, feasibility and material quantification issues (i.e., the Company believes in good faith that it does not or may not have funds available to implement the recommendation while funding all other necessary operations and meeting legal obligations: that quantification of the benefit/recommendation is not accurate or justified; or that the recommendation would inappropriately reduce existing consumer protections or consumer benefit programs); and*
- *Collective bargaining (i.e., the recommendation would violate PGW's existing collective bargaining agreement).*

(Please see the attached Schedule for a listing of those recommendations to which PGW has taken exception in full or accepted in part for the reasons presented above.)

Calendarization of BWG's Quantified Benefits

In Exhibit II-2 of the Audit report, sixteen of the recommendations have been assigned dollar-saving values and are presented in lump sum form with suggested periods over which the savings might be realized. PGW offers the following table that recasts those numbers as they might affect the operating statement. The amounts to be saved are

presented incrementally in the year of first impact, as stipulated by the consultants, and then totaled.

Recommendation/Annual Savings (millions)	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Total</u>
Workers' Compensation Costs	\$.167	\$.333	\$.333	\$.167	\$ -	\$1.000
Governance	-	1.300	-	-	-	1.300
Uncollectible Expense	4.667	9.333	9.333	4.667		28.000
Billing Cycle Lag	.650	.650				1.300
Senior Citizen Discount		13.500				13.500
Cast Iron Main Program Benefit			.100			.100
Janitorial Services	.200	.200				.400
Inventory Turnover	.150	.150				.300
Fleet Improvement	.375	.375				.750
HR Information System		.400				.400
IT Costs	.300	.300				.600
Wage Increases	.300	.300				.600
Absenteeism	.337	.667	.667	.333		2.000
Fringe Benefits	1.000	2.000	2.000	1.100		6.100
Work Management	-	1.000	2.000	3.000	4.000	10.000
Total*	\$8.146	\$30.508	\$14.433	\$9.267	\$4.000	\$66.350

* Details may not add due to rounding

The Audit also quantified two areas of capital spending. The first is to increase the annual investment in cast iron main replacement by one third or \$11.2 million per year. Management views this recommendation both as not affordable and not theoretically necessary. A second recommendation regarding productivity increases is accepted. An inventory reduction recommendation results in a one-time savings of \$1.3 million.

It should be noted that the report also does not attribute costs to those recommendations that will require additional spending in order to implement them. These omissions include investment in the Human Resources Information System and the investment in fleet life-cycle studies together with the resulting capital investment in new vehicles.

Calendarization of Accepted BWG Recommendations

Having recast the Audit recommendations assuming implementation of all recommendations, the following table presents the calendarization of benefits of those

proposals that PGW accepts.:

Recommendation/Annual Savings	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>Total</u>
Workers' Compensation Costs	\$.167	\$.333	\$.333	\$.167		\$1.000
Billing Cycle Lag	.650	.650				1.300
Janitorial Services	.200	.200				.400
Inventory Turnover	.150	.150				.300
Fleet Improvement	.375	.375				.750
HR Information System		.400				.400
IT Costs	.300	.300				.600
Wage Increases	.300	.300				.600
Absenteeism	.333	.667	.667	.333		2.000
Fringe Benefits	1.000	2.000	2.000	1.100		6.100
Work Management		<u>1.000</u>	<u>2.000</u>	<u>3.000</u>	<u>4.000</u>	<u>10.000</u>
Total	\$3.475	\$6.375	\$5.000	\$4.600	\$4.000	\$23.450

The principal differences between the two tables are three recommendations which PGW either rejects totally or challenges the quantification thereof. The first, a reduction in the uncollectible expense of \$28 million or two thirds of the 1999 booked expense, is the largest. The assumption the auditors make is that PGW, as an urban utility, can realize a reduction in its uncollectible percentage to match the average for the rest of the state. This proposal is flawed in that it fails to recognize the economics and demographics of the service territory and, specifically, that one third of our customers live at or below 150% of the federal poverty limit. For decades, PGW's uncollectible experience has been in the range of 6-8% of total revenues while the state average is 1-2%. In this time of dramatically increased gas prices the percentage is even higher as customers struggle to pay their gas bills. The Company fully supports the objective of reducing the expense but not to a level of 2% of total sales.

A second recommended reduction of \$13.5 million calls for the elimination of the Senior Citizen Discount. This program is a matter of City ordinance or law that can only be changed by the City's legislative process--it is beyond the control of PGW. Further, the Natural Gas Choice and Competition Act specifically reserves this decision to the City. Even the program's elimination would not result in a net benefit to the company but rather results in a redistribution of costs back to Senior Citizens from other customer groups.

The third area is the elimination of \$1.3 million of costs resulting from the streamlining of PGW's governance structure. Any action in this regard is the sole responsibility of the City.

The Impact Of The Audit On Operations and Financial Reports

It should be noted that PGW management unilaterally committed to a reduction in unspecified spending of \$24 million over 2.5 years before the Audit began. This representation was made both in the budget filings before the Philadelphia Gas Commission and in the forecast portions of the base rate filings submitted to the PaPUC. Those reductions called for the following: \$13 million in 2001 plus \$5 million in 2002 plus \$6 million in 2003. As shown above, the total Audit recommendations, adjusted to exclude the uncollectible expense, the Senior Citizen Discount, and governance charges, which we challenge, result in a net savings of \$23.45 million (nearly \$24 million) to be realized over a four to five year period. When one compares the two sets of numbers, the cost savings for the Company are the same; the first estimated internally, the second by the auditors. Whereas the Company's internal savings were not specified in the budget filings, the remaining Audit recommendations now provide PGW with specific program targets. The attainment of \$24 million in 2.5 years is even more aggressive than the \$24 million recommended by the auditors over 4 to 5 years.

Summary

The management of PGW is appreciative of the efforts and professionalism of both the BWG auditors and the PUC Bureau of Audits staff. Although we have disagreed on several issues, this effort has given form and focus to our goals for cost reduction and savings. PGW will aggressively pursue the implementation of this program.

Sincerely,

THOMAS E. KNUDSEN

/cjp
Attachment

SCHEDULE

Recommendations Rejected In Whole or Accepted in Part

- VII-1 Revise Governance Structure: Rejected, in whole, as being outside of PGW's legal authority.
- VIII-1 Customer Service Representative: Accepted, in part, as being subject to Salaries collective bargaining negotiation.
- VIII-7 Uncollectible Expense Reduction: Accepted, in part, regarding the feasibility of the projected savings
- VIII-16 Eliminate Senior Citizen Discount: Rejected, in whole, as being outside of PGW's legal authority also on the basis of quantification of the benefit.
- IX-2 Accelerate Cast Iron Main Program: Accepted, in part, due to affordability and feasibility.
- X-2 Periodic Evaluation of Sale: Rejected, in whole, as being outside of PGW's legal authority.
- XIII-8 Back To Work Programs: Accepted, in part, as being subject to collective bargaining negotiations
- XIII-9 Fringe Benefit Cost Reduction: Accepted, in part, as being subject to collective bargaining negotiations

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation III-1: Ensure that the planning process incorporates bottom-up input from individual departments, is linked to the budgeting process, and reflects the realities of PGW's operation environment.

Response: X Accepted Rejected Accepted, in part

Individual Responsible : Director-Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Department Goals & Strategies submitted.	(C) 03/15/01
Impact of strategies quantified.	(E) 04/15/01
Strategies included in budget preparation.	(E) 05/01/01
Internal budget approval.	(E) 06/15/01
Budget submitted to Philadelphia Gas Comm.	(E) 08/01/01
Budget approval.	(E) 09/01/01
Strategies/Goals adjusted.	(E) 10/01/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation III-2: Focus the current corporate planning process on establishing goals for the next six months.

Response: X Accepted Rejected Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Develop key results areas.	(C) 11/01/00
Identify responsible individuals.	(C) 11/01/00
Publish plan.	(C) 11/01/00
Monitor results.	(E) 06/01/01
Develop plan for next period.	(E) 06/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IV-1: Undertake a Phase III project to develop specifications and procedures for a comprehensive work management and manpower planning program for PGW as part of this management and operations audit. (High Priority. See Chapter XV-Proposed Work Management and Manpower Planning Program.)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director-Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify business owner .	(E) 04/15/01
Contract Project Manager	(E) 04/15/01
Prepare specifications.	(E) 11/01/01
Develop RFP and vendors	(E) 12/15/01
Evaluate bids.	(E) 02/15/02
Select successful vendor.	(E) 03/31/02
Complete project timeline.	(E) 04/30/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IV-2: Reduce the number of positions that have high or low spans of control. (Medium Priority.)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify positions with a reporting ratio of less than 1:3 or greater than 1:10.	(E) 5/31/01
Review with the department manager reporting ratio(s).	(E) 6/30/01
Where inappropriate, work with department manager to develop appropriate recommendations.	(E) 7/31/01
Finalize and implement	(E) 8/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IV-3: Develop and implement a labor relation’s strategy that will promote improved productivity and lower labor costs. (High Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify existing collective bargaining provisions, local agreements and past practices that adversely impact productivity;	(C) March 12, 2001
Bargain over changes and/or elimination of existing collective bargaining provisions, local agreements and past practices that adversely impact productivity;	(E) May 15, 2001
Establish a new process and procedure for local agreements that shall include: (a) Written recommendation and justification by local department manager; (b) Productivity and cost impact analysis by local department manager; (c) Termination date or agreed upon process for revising or terminating agreement; (d) Review and approval by Senior Management and HRD.	(E) Dec. 31, 2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation V-1: Take steps to reduce workers' compensation claims costs.
(Medium Priority.)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Director – Risk Management

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Increase supervision of outside counsel	(C) 9/2000
Institute monthly claims review meetings with the third party administrator (CSI)	(C) 11/2000
Increase the monitoring of medical care by CSI	(E) 4/2001
Improve the vocational aspect of the program with an emphasis on increasing the availability of meaningful light duty positions for temporarily disabled employees and finding permanent jobs for permanently disabled employees	(E) 6/2001
Revamp subrogation and supersedeas recovery program	(E) 6/2001
Successfully negotiate systemic reforms in upcoming labor agreement	(E) 7/2001
Decrease ongoing indemnity costs through aggressive litigation	(E) 9/2001 with ongoing annual review

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VI-1: Develop and implement a status reporting system that will provide timely and specific information regarding improvement initiatives to the PUC, the Philadelphia Facilities Management Corporation Board of Directors, the City Council, and the Mayor. (High Priority.)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Internal Auditing

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Design a monthly “report card” of metrics and time-oriented goals that demonstrate progress in customer service and other Company operations. Metrics and goals will initially be based on the strategic plan and departmental goals.	(E) March 31, 2001
Solicit operating management for any other appropriate metrics or goals not included in the strategic plan or departmental goals.	(E) March 31, 2001
Review the report card with senior management and PFMC members to ensure the content meets their needs/expectations.	(E) April 30, 2001
Review the report card with PUC and City Administration officials and, if necessary, modify to address any concerns.	(E) May 31, 2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VII-1: Revise the governance structure of PGW to make it more accountable and to eliminate overlapping responsibilities. (High Priority.)

Response: _____Accepted X Rejected _____Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Exhibit B PUC Interim Order	(E) June 30, 2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

For clarification of governance in concept Management accepts the recommendation. However, the form, timing and fact of such a change is the sole responsibility of the City Administration and City Council and is an issue over which PGW Management has no control

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VII-2: Complete implementation of the new organization structure, and take steps to encourage managers to set and communicate consistent policies to employees in all PGW departments. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Strategic Planning

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Proposed organizational structure approved.	(C) 12/01/00
Establish corporate procedures group.	(C) 12/01/00
Identify high priority key corporate processes.	(C) 02/01/01
Task teams to work on critical processes.	(C) 02/15/01
Task Team reports submitted.	(C) 03/15/01
Key high priority procedures developed.	(E) 07/01/01
Medium priority key process teams established.	(E) 08/01/01
Complete corporate organizational staffing.	(E) 09/30/01
Task Team Reports	(E) 10/01/01
Procedures developed.	(E) 12/01/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VII- 3: Take steps to improve PGW’s interfaces with outside parties.
(Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Corporate Communications

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify BCCS issues in conjunction with Customer Affairs.	(E) 08/01/01
Develop and get approval for Communications Plan	(E) 09/01/01
Identify alternative communication methodology for customers.	(E) 12/31/01
With senior management, identify key communication issues with local government.	(E) 09/01/01
Develop communication model for local government issues.	(E) 12/31/01
Work with Regulatory Affairs to develop issues for Communication Plan with Pa. PUC.	(E) 09/01/01
Identify communication model with Pa. PUC.	(E) 12/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)
(Additional sheets may be attached)

STRATIFIED MANAGEMENT AUDIT

IMPLEMENTATION PLAN

Recommendation VII-4: Establish an ethics “hotline” reporting directly to PGW’s manager of internal audit or its chief legal counsel. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Internal Auditing

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Review the current Company ethics policy and determine the steps needed to ensure full compliance with the policy.	(E) April 30, 2001
Designate staff to participate in the ethics program and identify training needs.	(E) April 30, 2001
Obtain related training.	(E) June 30, 2001
Design a full ethics program, <u>including a telephone hotline</u> , which is in compliance with Company policy for the receipt, investigation and disposition of ethics issues.	(E) August 31, 2001
Obtain senior management approval of the ethics program.	(E) September 30, 2001
Present the ethics program to all employees.	(E) December 31, 2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

STRATIFIED MANAGEMENT AUDIT

IMPLEMENTATION PLAN

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Fill senior management positions with qualified personnel. Fill open positions that exist within all Customer Affairs operations, including the Call Center.

Response: X Accepted _____Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Hire the following permanent employees: V. P. Customer Service Director, Call Center Operation Call Center Manager Manager of Systems Administration Training Manager	 9/01 (E) 6/01 (E) 6/01 (E) 6/01 (E) 4/01 (E)
Adequately staff Customer Service Departments: Call Center up to 128 employees Dispute Resolution up to 18 employees Customer Accounting up to 24 employees District Offices up to 66 employees Training up to 7 Quality Assurance up to 10 System Administration up to 6 Supervisors of Call Center Operations up to 8	 9/01 (E) 4/01 (E) 5/01 (E) 5/01 (E) 5/01 (E) 5/01 (E) 5/01 (E) 4/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Fill senior management positions with qualified personnel. Fill open positions that exist within all Customer Affairs operations, including the Call Center.

Response: X Accepted _____Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Hire the following permanent employees:	
V. P. Customer Service	(E) 9/01
Director, Call Center Operation	(E) 6/01
Call Center Manager	(E) 6/01
Manager of Systems Administration	(E) 6/01
Training Manager	(E) 4/01
Adequately staff Customer Service Departments:	
Call Center up to 128 employees	(E) 9/01
Dispute Resolution up to 18 employees	(E) 4/01
Customer Accounting up to 24 employees	(E) 5/01
District Offices up to 66 employees	(E) 5/01
Training up to 7	(E) 5/01
Quality Assurance up to 10	(E) 5/01
System Administration up to 6	(E) 5/01
Supervisors of Call Center Operations up to 8	(E) 4/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Implement a single customer access phone number and provide cross-training to all customer service representatives (CSR) so that each can address any customer issue. Provide “estimated call wait time” to customers so that they can choose whether or not to remain on hold.

Response: X Accepted _____Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Install estimated wait time technology.	(C) 10/31/2000
All agents and new hires are fully trained to handle all aspects of the CSR job.	Ongoing

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

A single line is not necessary because with the current technology installed at PGW, it makes no difference to the customer which line is called. Since October 2000, all CSR’s are trained in all areas.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Take steps to reduce absenteeism and the use of auxiliary time in the call center to ensure that sufficient personnel are on-site to respond to customers in a timely manner. Auxiliary time for CSR's could be costing PGW as much as \$750,000 per year.

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
<p>The following steps are being taken to reduce absenteeism:</p> <ul style="list-style-type: none"> ▪ Meeting with union employees on a weekly basis to resolve outstanding issues. ▪ Supervisors are responsible for coaching, counseling and monitoring employees. ▪ Establishing a team spirit where employees will be measured and rewarded. 	<p>Ongoing</p>

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Currently, “auxiliary time” is only used for restroom, breaks or meetings with management. The union representative has stated to management that he agrees that this supposed work rule has not been in effect for a number of years. Therefore, the proposed savings of \$750,000 per year does not apply to current environment.

Cost/Benefit Analysis (documenting economics of reason for rejection)
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Take steps to bring CSR's salaries in line with industry practices. Eliminate the focus on seniority in filling CSR positions and require relevant skills instead. Consider freezing salaries of certain high paid employees.

Response: _____ Accepted _____ Rejected X Accepted, in part*

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
We are currently filling 50 jobs. The employees are being tested weekly while in training. At the end of the training period, if employees fail test they will not be awarded position.	5/01 (E)
Meet and discuss concept with Union	1/01 – 03/01 (Ongoing)
Attempt to negotiate job descriptions with Union.	(C) 3/13/01
Develop Training	(E) 4/01/01
Prepare Cost Analysis	(E) 4/15/01
Present Cost Analysis	(E) 4/22/01
Implement	(E) 5/01/01
Training (4.0 hours)	(C) 5/01
Attempt to negotiate salary level changes	(E) 05/15/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Take steps to bring CSR salaries in line with industry practices and consider freezing salaries of certain high paid employees. *This must be done in the normal collective bargaining arena.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Increase the level of training provided to CSR's and ensure that the training provided is monitored for its cost-effectiveness. Complete and utilize a users' manual for the Billing, Credit and Collection System (BCCS).

Response: X Accepted _____Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Provide a minimum of 40 hours of developmental and performance related training per employee each fiscal year.	Ongoing
Hire Training Manager and staff dedicated to Call Center and District Office training only.	(E) 4/01
Begin Phase II of Billing Training for all agents.	(E)1/01
Complete and utilize a users' manual for the Billing, Credit and Collection System (BCCS)	(C) 1/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Resolve CSR worker flexibility issues for the benefit of the customer. Change work rules as necessary to ensure maximum utilization of the Billing, Credit and Collection System (BCCS).

Response: X Accepted _____Rejected _____ Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Negotiate flexibility agreement with Union to allow use of Collection’s CSR’s to handle Billing calls during the day.	(C) 11/00 to 1/01 *
Each month review workload between Call Center and Collection Department and make determination where it is appropriate to use Collection employees to take billing calls. When appropriate, Collection employees will be utilized to handle billing calls.	Ongoing

*This agreement had to be suspended due to increased workload in the Collection area.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII-1: Improve the overall performance and cost-effectiveness of the customer call center. (High Priority)

Establish a target date to either make the Call Center effective and customer-oriented or consider outsourcing the entire function. Establish industry standard call response time goals and ensure that staffing is based on achieving those goals.

Response: _____ Accepted _____ Rejected X Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
“DID” used to connect directly to agents.	(C) 10/30/00
Queue size determined by length of expected wait.	(C) 10/30/00
Initial access to agents only if wait is less than 15 minutes.	(C) 10/30/00
Estimated wait time provided once in queue.	(C) 10/30/00
Expanded service offering to 7 a.m. to midnight 7 days a week.	(C) 10/30/00
Five (5) seconds “breathing room” between all calls.	(C) 10/30/00
Establish weekly meetings to build rapport with labor union.	Began 11/3/00 (Ongoing)
Manual use of caller ID to retrieve account immediately.	12/1/00 (Ongoing)
Allow customer to wait on hold a reasonable time and offer self-service prior to disconnect.	(C) 10/30/00
Provide fast path for shorter transaction.	(C) 10/30/00
Consolidate into two large groups for more efficient processing of calls.	(C) 10/30/00
Computerize customer transaction coding.	(C) 10/30/00
Improve CRM with FSD by establishing a procedure to call customer regarding missed appointments and to verify next day appointments.	12/1/00 (Ongoing)
Form Dispute Resolution Unit to centralize handling of internal disputes (calls from City Counsel, distressed citizens, etc.)	(C) 12/2/00
Reorganize departments to insure agent success (Training Manager, Quality Assurance	

Manager, System Administrator).	12/2/00 (Ongoing)
Establish weekly meeting with Shop Stewards to evaluate their concerns and work proposals including the workload across employees.	(C) 11/1/00
Established Call Center metrics.	11/00
Modify new hire training to include preparation to handle billing, service and emergency calls.	Began 11/00 (Ongoing)
Initiate "ANI" study in January 2001 and determine 55% of all calls are repeats (20% call more than 5 minutes).	Began 1/18/01 (Ongoing)
Broaden "ANI" study in March 2001 to determine repeat callers' "customer attributes."	Began 3/9/01 (Ongoing)
Initiate "Customer Satisfaction Survey" March 2001. Scheduled to be completed by mid to late April 2001.	(E) 4/01
We believe by 2003, customers who contact the Call Center will obtain reasonable service or we will consider outsourcing at that time.	2003

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Outsourcing does not guarantee customers will receive reasonable service, as it will take time to learn PGW's processes. However, we may consider outsourcing a portion of this service that requires a longer process if it will help us reach industry standards faster.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII- 2: Correct all billing, credit and collection system (BCCS) inaccuracies. (High Priority)

Response: ___X___Accepted ___Rejected ___Accepted, in part

Individual Responsible: Manager – Project Management Office

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The PMO is currently correcting all known billing, credit and collection system inaccuracies.	(E) 08/01
A Quality Control Section will be formally established upon BCCS system acceptance in June 2001	(E) 08/01
The PMO will continue to monitor the system for quality assurance. As in any billing system anomalies will occur. As they occur, the PMO will identify and resolve the problem.	(E) 09/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII- 3: Complete the customer satisfaction survey (Low Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Engage outside consultant.	03/15/01 (C)
Survey Design (draft)	03/15/01 (C)
Survey Finalized	03/16/01 (C)
Sample Delivery	03/19/01 (E)
Survey Programming	03/16 – 03/20/01 (E)
Interviewing	03/20 – 03/31/01 (E)
Data Processing	Early 4/01 (E)
Analysis and Report	Mid - 4/01 (E)
Final Report/Presentation	Mid/Late 4/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII –4: Conduct a study to determine if field collections personnel should be transferred to other areas of customer contact, and if collections should be outsourced to private vendors. (Medium Priority)

Response: ___X___ Accepted ___ ___ Rejected ___ ___ Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW will begin process to develop an RFP on outsourcing of collection activities.	(E) 06/01
PGW will begin internal review of effectiveness of field collection personnel and possible reassignment to other areas in Customer Affairs.	(E) 06/01
PGW will analyze RFPs from vendors and make a formal selection	(E) 07/01
*Upon completion of the collection study, a final determination on whether or not to outsource collection activities will be made.	(E) 12/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

*If the final determination is to outsource collection activity, it could be a collective bargaining agreement issue.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 5: Take steps to reduce the number of estimated bills and ensure that no customer goes over six months without a meter read. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Manager – Project Management Office

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Meters without AMR devices will be read on a six month cycle.	(E) 04/01
Update BCCS trend tables for estimating customer usage.	(C) Ongoing review.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 5: Take steps to reduce the number of estimated bills and ensure that no customer goes over six months without a meter read. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Formulate AMR residential installation plan for 2001.	(E) 03/15/01
Confirm material availability.	(E) 03/22/01
Re-start installations.	(E) 04/01/01
Complete residential AMR program.	(E) 12/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 6: Continue the installation of Automated Meter Reading (AMR) devices on commercial/industrial accounts to improve the cost effectiveness of reading their meters. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Prepare installation plan for FY 2001.	(E) 03/15/01
Prepare material requisitions, if necessary.	(E) 03/15/01
Re-start multi-year installation program.	(E) 04/01/01
Prepare installation plan for FY 2002.	(E) 03/15/02
Acquire necessary material.	(E) 03/15/02
Restart installations.	(E) 04/01/02
Finish all initial C&I AMR installs.	(E) 08/31/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 7: Take steps to improve delinquent payments and uncollectible accounts (High Priority)

Response: _____Accepted _____Rejected ___X___Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Effective 04/01/01, PGW will begin intensified collection activity on delinquent accounts that have accrued over the past winter season. (Shut-off Moratorium ends 03/31/01)	(E) 04/01
PGW instituted a pilot program with collection agencies to obtain full payment of delinquent accounts with a prescribed period of time. Program was initiated in 01/01.	(C) 01/01
PGW continues the process of contacting all eligible low-income customers for fuel grant assistance.	Ongoing.
Analyze results of pilot program to assess effectiveness.	(E) 06/01
PGW will benchmark collection and delinquency activity according to Best Practices and industry standards.	(E) 08/01
PGW will assess industry standard of 2% uncollectible expense to see if it is reasonable in PGW's service territory.	(E) 09/01
PGW will propose tariff changes regarding the transition to Chapter 56 standards.	(E) 06/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

We agree with the need to reduce the amount of uncollectibles; however, the \$28m is two-thirds of our 1999 bad debt experience and assumes a reduction to a state-wide average. It fails to recognize that one-third of our customers live at or below 150% of the federal poverty limit as well as the economic and demographic make-up of the service territory.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 8: Revise policies so that PGW can shut off customers after 32 days compared to its current 48-day termination practice. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) Expected Completion (E)
PGW will assess the impact on the BCCS system's ability to produce past-due and shut-off notices by reducing the number of days before termination can occur.	(E) 05/01
PGW will propose tariff changes to reduce the amount of days required prior to shut-off.	(E) 07/01
PGW will work with the Bureau of Consumer Services to streamline differences between PGW's current tariff and Chapter 56 standards.	(E) 06/06

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 9: Review the feasibility of reducing the Meter-Read-to-Billing cycle lag to one day. (High Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Senior VP – Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) Expected Completion (E)
PGW through the Project Management Office, will investigate the feasibility of reducing the meter-read-to-billing cycle lag to one day.	(E) 04/01
PGW will investigate the Meter Reading uploading capabilities of the current system to effectuate a reduction in the billing cycle lag.	(E) 04/01
*PGW will make the necessary changes in the billing cycle preparation, if feasible.	(E) 09/01

To be completed if rejected whole or in part:

Explanation: (Reasons for rejection)

Additional personnel and equipment may be required to reduce the meter reading period from two days to one. PGW has concerns that if the lag time is reduced after the bill calculation, there could be insufficient time to perform necessary quality control measures.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 10: Measure appointments kept for field service work from the standpoint of the customer, that is, actually accomplishing the work desired, and not on whether the employee says he or she was at the job site at a specific time. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible : Director – Field Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Service Technicians use cell phones to confirm appointments prior to arrival.	(C) 03/01/97
Customer Service Representatives (CSRs) call the night before for reminder to customers.	(C) 11/15/00
FSD Supervisor monitors Technician’s schedule and re-routes Technicians to minimize missed appointments.	(C) 11/01/00
Implement process for missed customer appointments with call-back procedure through Dispute Resolution Team.	(C) 11/01/00
CSRs scheduled to add Technician monitoring capability to their workstation.	(C) 12/01/00
PGW will change its appointment statistic methodology to be more customer focused.	(E) 06/01/01
Continue to evaluate results and make adjustments, as necessary.	(E) On-going.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 11: Conduct a study to determine which district offices should be closed and the time of their closing. (Medium Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible: VP – Customer Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Engage outside consultant.	03/15/02 (E)
Design Study (draft)	03/15/02 (E)
Design Study Finalized	03/18/02 (E)
Sample Delivery	03/19/02 (E)
Programming	03/18 – 03/20/02 (E)
Interviewing	03/20 – 03/31/02 (E)
Data Processing	Early 4/02 (E)
Analysis and Report	Mid - 4/02 (E)
Final Report/Presentation	Mid/Late 4/02 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)
Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 13: Complete efforts to reinstitute a revenue recovery unit.
(Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Engineering & Building Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Re-institute Revenue Recovery unit.	(C) 08/01/00
Post vacancies for Theft Investigator.	(C) 08/23/00
Re-establish theft tip line.	(C) 12/00
Complete staffing of Revenue Recovery.	(E) 03/31/01
Finish development of pilot program concentrating on inactive accounts w/consumption.	(E) 04/01/01
Re-establish policies and procedure Based on new BCCS system.	(E) 05/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 14: Develop an effective marketing and sales function and increase focus on Major Accounts, based on revenues received. (Low Priority)

Response: Accepted

Individual Responsible: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	C = Date Completed E = Expected Completion
1. Complete development of a Data Acquisition Plan for Major Accounts by load and revenue.	E = 11/30/01, with quarterly updates thereafter
2. Reassign Major Accounts Managers to largest customers & customer-aggregates.	E = 12/31/01
3. Begin quarterly contacts with largest 25 customers.	E = 2/28/02 and ongoing
4. Increase contacts to 75 next-largest customers, using the same or similar strategies as those listed in #3.	E = 4/30/02 and ongoing
5. Continue ongoing efforts such as tariff changes, sales, account management and promotion of gas technologies.	E = through 8/31/01, and ongoing into fiscal 2002
6. Formalize initiatives such as oil and steam conversion campaigns.	E = 12/31/01 and ongoing
7. Develop Web Site information for Major Accounts.	E = 8/31/01 and ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 15: Improve the cost-effectiveness of the Customer Responsibility Program (CRP). (Low Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Cristina Coltro, Manager – Customer Affairs

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Conduct Impact and Process Evaluations of the CRP program along with recommendations for program changes.	(E) 8/31/2001
Develop transition procedure for CRP program changes for PUC compliance.	(E) 12/31/2001

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 16: Eliminate the Senior Citizens Assistance Program and base any future bill reductions on an assessment of need. (High Priority)

Response: _____Accepted ___X___Rejected _____Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

This recommendation is beyond PGW’s legal authority to implement as it requires action by Philadelphia City Council. Moreover, PGW is constrained by the Natural Gas Act. In addition, the savings stated are inaccurate as the gas portion of the discount is recovered through the GCR and, as such, is billed to other customers. The Base Rate portion of the discount is also recovered through the base rates of other customers. Therefore, elimination of the discount will redistribute costs but will not result in any savings.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation VIII – 17: Appeal to the City administration to tighten eligibility rules for PGW’s social programs and/or transfer the cost of the social programs from PGW to the City general fund. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Letter of appeal will be sent.	(E) 04/10/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX-1: Make a final decision with respect to operating or disposing of the Gas management System (GMS).

Response: Accepted

Individual Responsible: Senior Vice President, Marketing and Supply Services

<u>Action Plan</u>	C = Date Completed E = Expected Completion
1. Negotiated with the vendor to put the system in a dormant state to reduce the maintenance fee obligation.	C = Partially completed in 12/00
2. Reduce fee payment schedule negotiated with the vendor to tie in with the Company's unbundling timeline.	E = 3/01
3. Reinstate full maintenance obligation with vendor.	E = 9/03
4. Finalize decision on operating or disposing of the Gas Management System (GMS).	C = 9/03

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 2: Accelerate the cast iron replacement program to 27 miles per year. (High Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Distribution Department

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Increase the amount of cast iron pipe retired from service by 100% to 18 miles/yr.	(E) 12/31/01
Reevaluate risk profile and priority listing and determine retirement target for 2002 (minimum 18 miles)	(E) 03/01/02

To be completed if rejected whole or in part:

Explanation: (Reason for Accepted, in part)

PGW has had a recent engineering study done that concludes that a 18 mile/yr reduction in cast iron inventory, if targeted to the riskier segments of cast iron pipe, will remove all segments with three or more breaks by 2007, thereby stabilizing the break rates for all cast iron classifications as is shown on the attached pages from the Navigant Study (2/11/2000). If PGW increases its cast iron reduction program from 9.3 miles in FY 2000 to 18 miles (approx. 100%), then this program would eliminate most of PGW's trouble-prone pipe in five years. Furthermore, more than an 18 mile/year program would stretch PGW's current resources far beyond that which can be provided in this environment and add \$11.2m to our Capital Program at a time when PGW is facing severe financial constraints. Extreme weather conditions and other variables may increase the reduction amount in any given year. (See further discussion on attached sheets.)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Philadelphia Gas Works Mains Replacement Study



Navigant™
CONSULTING, INC.

February 11, 2000

Benchmarking PGW - Top 25 Eastern Gas LDC Peer Group

Company	Total Services	Unprotected steel Services	%	Main Miles	Cast iron main Miles	%	Unprotected steel Main miles	%
1 NICOR	1,724,295	23,337	1%	26,549	561	2%	209	1%
2 Consumers Power	1,437,426	19,648	1%	22,807	872	4%	214	1%
3 AGL	1,277,398	59,441	5%	26,352	291	1%	1939	7%
4 Columbia of Ohio	1,207,252	201,316	17%	18,060	319	2%	4069	23%
5 PSE&G	1,153,327	41,608	4%	16,194	4,815	30%	1289	8%
6 East Ohio	1,095,578	638,254	58%	18,179	51	0%	7013	39%
7 MichCon	1,083,588	59,772	6%	16,492	2,830	17%	1894	11%
8 NIPSCO	654,203	-	0%	12,908	49	0%	127	1%
9 Laclede	565,669	13,110	2%	7,586	945	12%	40	1%
10 BUG	535,427	30,344	6%	3,909	1,939	50%	316	8%
11 Indiana Gas	534,473	62,508	12%	10,383	202	2%	1637	16%
12 PGW	511,545	244,759	48%	3,006	1,758	58%	547	18%
13 Peoples Gas Light	496,136	9,484	2%	3,944	1,932	49%	0	0%
14 NiMo	482,497	148,352	31%	8,223	1,032	13%	1467	18%
15 Alabama Gas	472,948	54,264	11%	8,948	1,230	14%	185	2%
16 National Fuel Gas	462,858	129,938	28%	9,470	594	6%	2979	31%
17 BG&E	454,029	97,289	21%	5,592	1,458	26%	91	2%
18 LILCO	420,771	183,536	44%	6,491	421	6%	3715	57%
19 Boston Gas	418,978	264,715	63%	5,948	2,557	43%	1804	30%
20 Columbia of PA	380,594	93,321	25%	6,839	91	1%	2448	36%
21 Con Ed	364,246	159,296	44%	4,152	1,486	36%	1470	35%
22 NJNG	361,688	68,496	19%	5,799	163	3%	750	13%
23 PECO	361,672	68,966	19%	5,884	920	16%	557	9%
24 CG&E	338,534	22,834	7%	4,562	1,033	23%	199	4%
25 Peoples Natural	332,650	80,595	24%	6,206	71	1%	2383	38%
26 UGI	267,098	42,597	16%	4,270	495	12%	603	14%

Benchmarking PGW - Top 25 Eastern Gas LDC Peer Group

There are various appropriate measures of a local distribution company's (LDC's) size: revenue, customers, services. The source of the benchmark data we used is the US Department of Transportation's Office of Pipeline Safety Annual Reports of LDC's. These reports include the number of services, which is an appropriate indicator of size, and is close to the number of customers.

While PGW is the 26th largest LDC in the USA, it is the 12th largest among its peers -- Eastern gas LDC's, and it is the largest municipal LDC, the others being investor-owned. Because PGW will soon be regulated by the Pennsylvania Public Utility Commission, we have included UGI for comparison as well, even though it is not among the top 25 Eastern gas LDC's by size.

Like many companies that serve older, urban areas, PGW's mains are mostly cast iron, with some unprotected steel, and very little plastic. As a result, half of its services are unprotected steel as well. It has fewer miles of main than any of its peers, because of its densely urban territory. In that regard, its territory resembles that of companies like Brooklyn Union Gas, Boston Gas, Peoples Gas Light & Coke of Chicago, or Consolidated Edison of New York.

CI main breaks are the main source of incidents

Cause	Leaks	Incidents	Incidents per 10,000 leaks	Risk Multiple
CI main breaks	10,760	83	77.1	385.5
Service leaks	125,941	9	.7	3.5
Main corrosion	16,560	1	.6	3.0
CI joint leaks	82,877	2	.2	1.0

Source: Independent study of another northeast gas utility

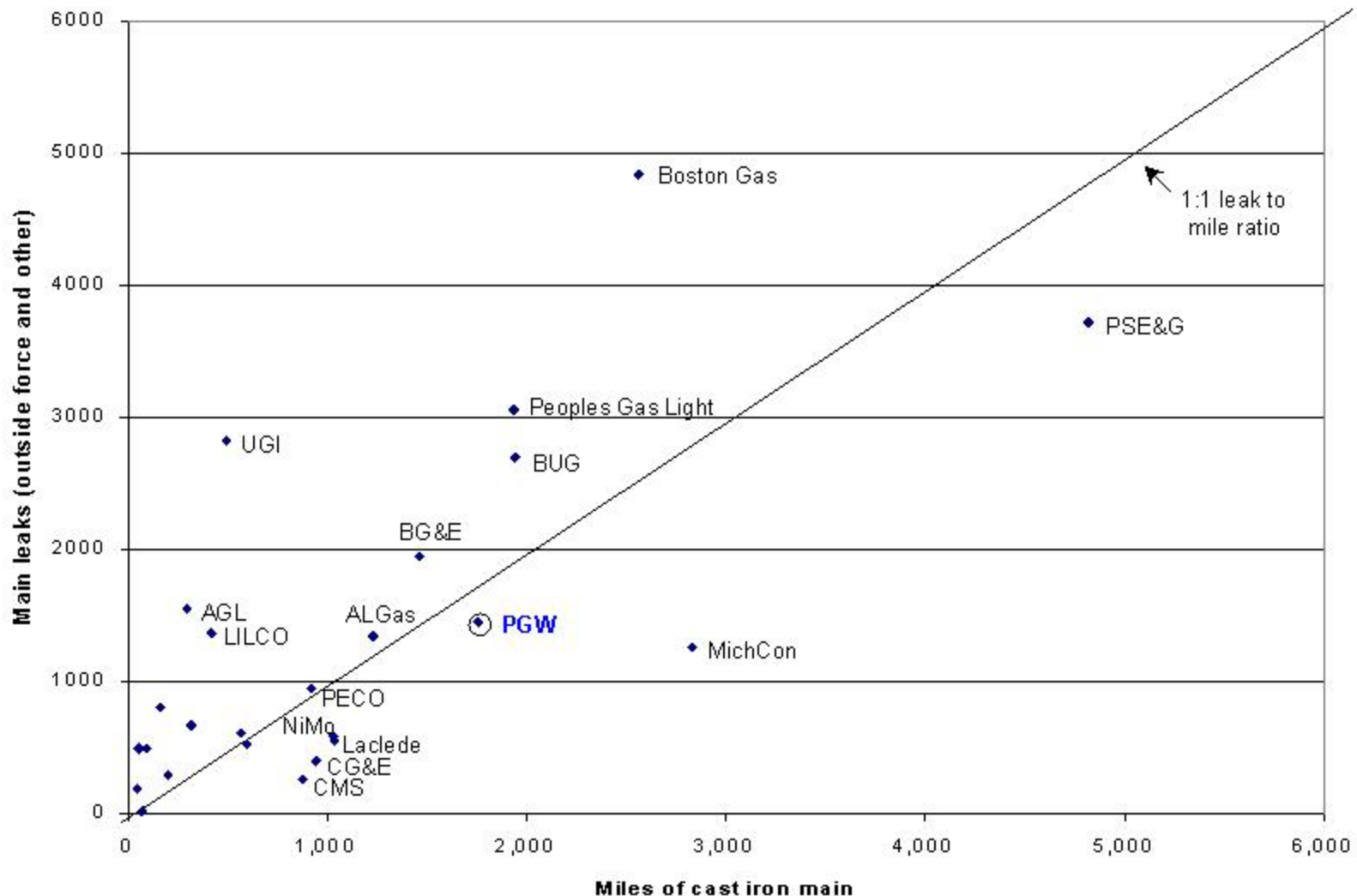
PGW's data generally confirm this relationship as well

CI main breaks are the main source of incidents

Cast iron tends to develop leaks, particularly at the joints between pipe segments. It can also break circumferentially, which is classified as a 'leak', but is more typically called a 'break'. Typically, joint leaks cause gas to escape at a slow rate, especially when the gas is at utilization pressure. Joint leaks on cast iron are often comparable to a pinhole corrosion leak on steel mains or services. A cast iron main break can cause more gas to escape, and therefore normally presents a more serious risk.

Other companies' experience confirms PGW's that cast iron main breaks are an order of magnitude more likely to cause incidents than other types of leaks. As the chart on the next page, shows, over the last 45 years PGW has had 63 incidents due to main breaks and 12 due to other causes, compared to approximately 20,000 breaks, more than 65,000 main leaks and over 200,000 service leaks. PGW's number of break-caused incidents per 10,000 breaks is 31.5, about half of the other company's experience (the other company has some cast iron at higher pressure, which is more likely to cause an incident when it breaks). PGW's number of other incidents per 10,000 other leaks is .45, about the same as the combined ratio for all of the other company's non-break leaks. The ratio of incident rates is 70, which, while half of the the comparable ratio for the other company, still strongly demonstrates that cast iron main leaks are more likely to cause incidents than other leaks by not just a multiple but by an order of magnitude (not just 7 times but 70 times).

PGW's cast iron leaks at the typical rate or less



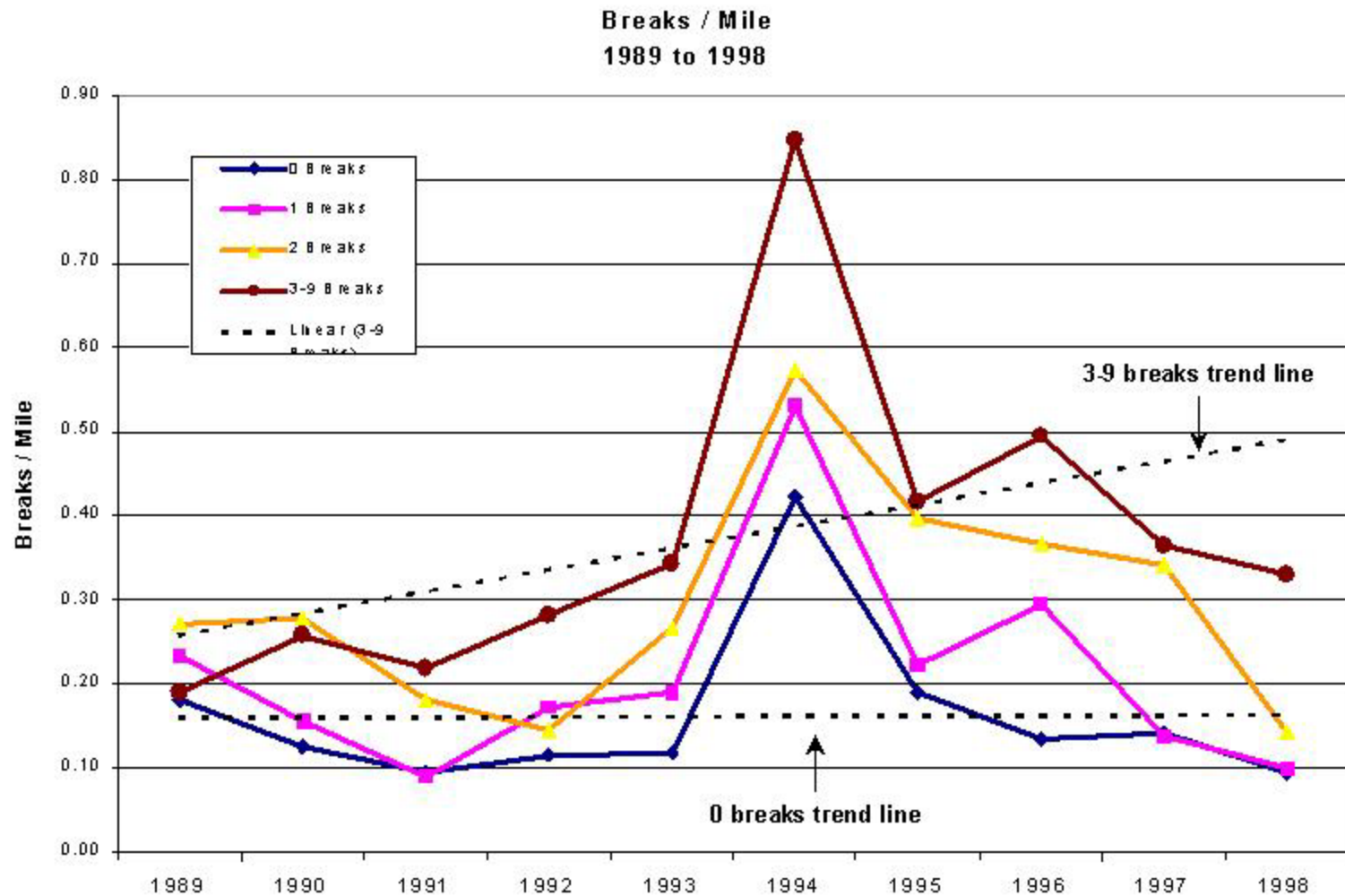
Source: U.S. DOT 1998 Annual Report - Gas Distribution System.
 Companies Ranked: Top 25 Eastern gas LDC's and UGI.
 Note: Graph Excludes Con Ed (1,486 miles, 6,476 leaks).

PGW's cast iron leaks at the typical rate or less

Companies tend to replace cast iron main that leaks too much or that might tend to break. As a result of this normal replacement, most companies find their cast iron system experience one leak per mile of main. In comparing between companies, it is useful to look at only those leaks classified as due to outside force (frost, or soil movement) or 'other' (because some companies record joint leaks in that category).

In 1998, PGW's rate of .8 per mile compared favorably to the industry average. PGW's cast iron main leak rate per mile has remained lower than the industry average since the 1995 study.

However, some of PGW's CI shows an increasing break rate

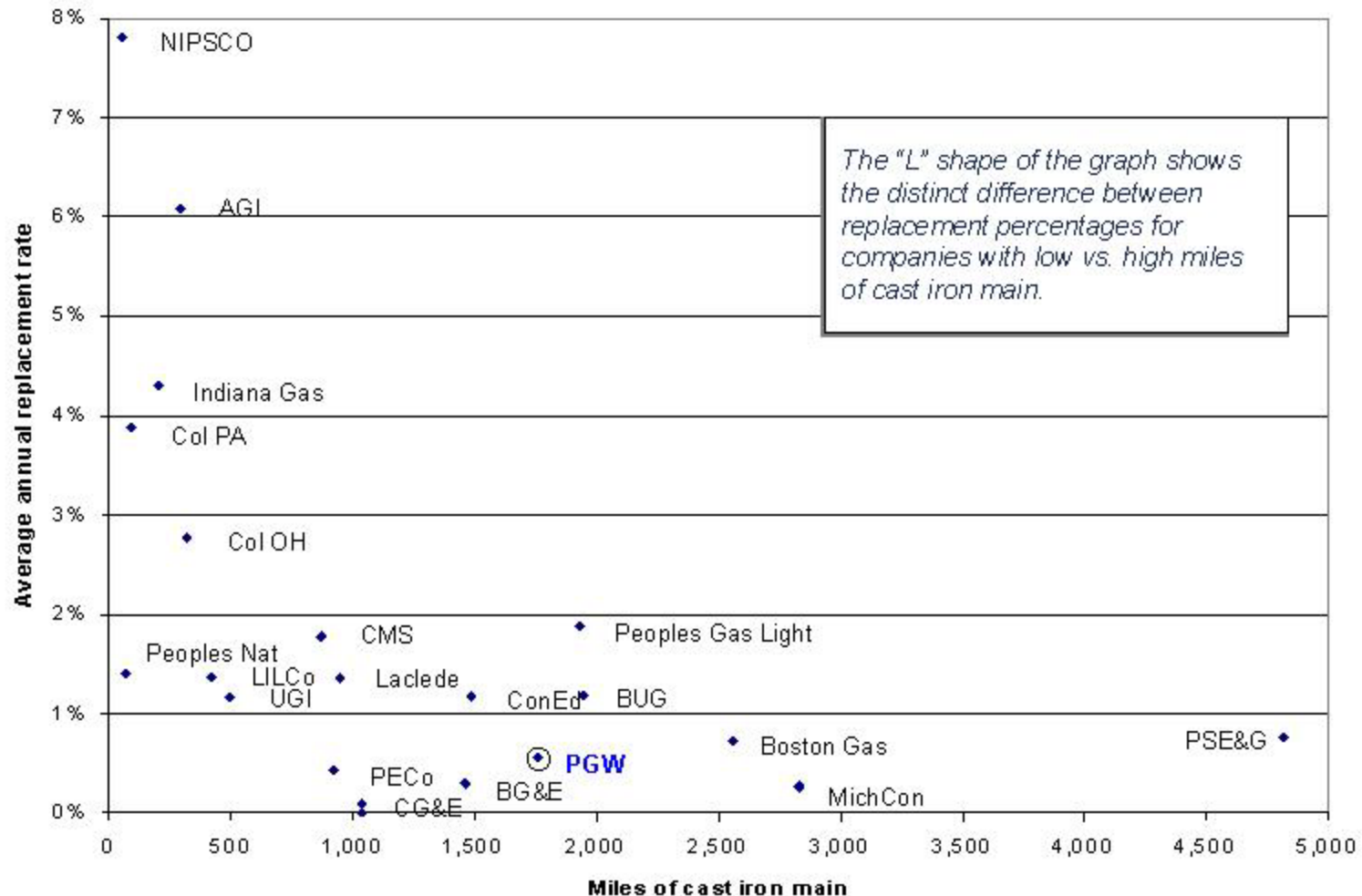


However, some of PGW's CI shows an increasing break rate

While the overall number of breaks has been relatively constant at 400 per year in normal weather, it is clear that for the last ten years some of PGW's pipe has been breaking at an increasing rate. When segments of pipe are separated into categories of how many previous breaks each segment has had, the pipe with three or more previous breaks has been breaking at an increasing rate.

It is hard to see this trend overall, because the majority of breaks still come on cast iron pipe segments that have never broken before. When pipe segments are classified by degrees of risk, the pipe segments that have broken before represent segments with higher risk, since they can be predicted to break at a higher rate. Managing risk involves managing the inventory of those segments with higher risk, and replacing pipe at a rate such that the inventory of such segments does not grow over time.

Cast iron mains replacement of 1 to 2 percent is typical



Source: U.S. DOT 1998 Annual Report - Gas Distribution System.

Companies Ranked: Top 25 Eastern gas LDC's, and UGI.

Note: Graph Excludes NJNG (163, 12.2%), NICOR, AL Gas, Nat'l Fuel Gas, East OH Gas (All missing data)

Cast iron mains replacement of 1-2 percent is typical

The annual replacement percentage of cast iron main by natural gas distribution companies falls into two distinct groups. The first group are those companies with less than 500 miles of cast iron main. For the LDC's with less than 500 miles of cast iron main, most have a cast iron annual replacement percentage exceeding 2%. This is because they are nearing the end of their replacement programs and can afford to reach for the benefits of complete replacement.

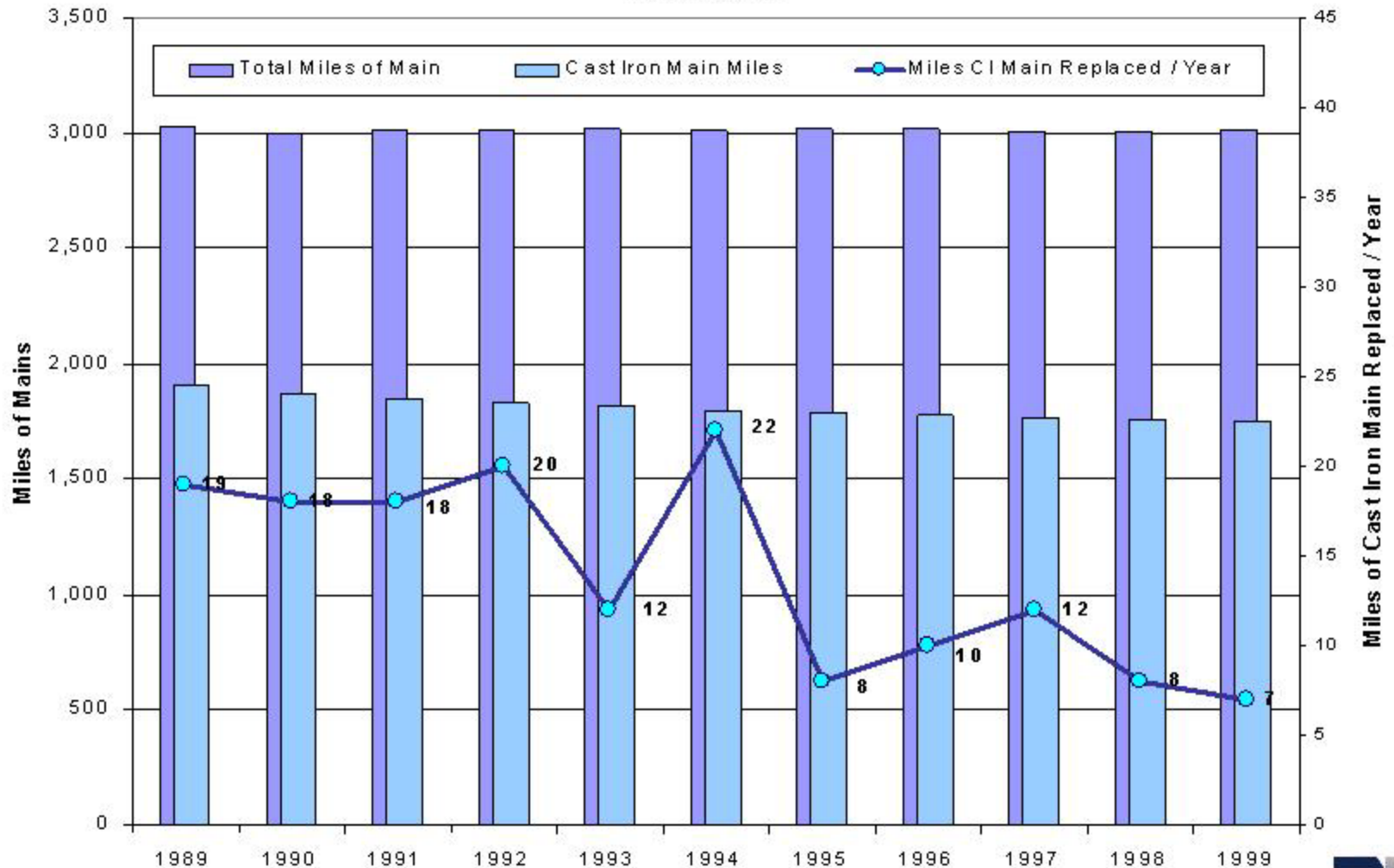
For the LDC's with greater than 500 miles of cast iron main, no company replaces more than 2% of its cast iron main annually. For this second group of companies, the average annual replacement percentage is close to 1 percent per year. At that rate, a company could take 100 years to replace all of its cast iron. This difference between the two groups is evidenced by the L-shape of the graph.

Over the 1995 to 1998 time period, PGW's annual replacement percentage has been only 0.56 percent per year, below the industry average for its peer group (LDC's with greater than 500 miles of cast iron main).

It should be noted that the data used for this comparison are the changes in year-end values of cast iron inventory. As such, what we call 'replacement' is actually the combination of replacement and abandonment, in that it includes anything that causes the inventory to decrease. For our analysis of PGW's main replacement budget, the distinction is not that crucial, because on average PGW's reduction in cast iron inventory equals the footage of new plastic that must be put in place, with the additional abandonment being mainly ductile steel or other steel.

PGW's CI main replacement dropped in 1995

PGW Cast Iron Main Replacement
1989 - 1999



PGW's CI replacement dropped in 1995

From 1989 to 1994, PGW was replacing cast iron main at a rate of about 20 miles per year, which was about 1 percent of its inventory. (The normal rate was depressed in 1993, probably because of a labor work stoppage). In 1995, that rate fell to less than half that amount, and has averaged 9.4 miles per year since then.

Replacement of main should be based on risk

Risk Rank	Size	Miles	Breaks Per mile	Cost Per foot	Replacement Cost (\$000)
1	3"	38	.3	\$140	\$28,311
1	4"	499	.3	\$140	\$368,639
2	6"	799	.2	\$140	\$590,769
3	8"	98	.1	\$150	\$77,616
4	10", 12", 14"	125	.02	\$300	\$198,634
5	16"	51	.01	\$425	\$115,117
5	20", 24"	98	.01	\$500	\$259,776
6	30" +	<u>49</u>	.00	\$625	<u>\$160,319</u>
	All sizes	1758	.22	\$194	\$1,799,181

One driver of the risk of cast iron mains breaks is pipe size: smaller diameter cast iron mains break more often

PGW's cast iron main breaks can be projected under various replacement funding levels

Using the model described above, PGW's cast iron main breaks can be projected under various assumptions about the funding of replacement.

Three funding scenarios were examined:

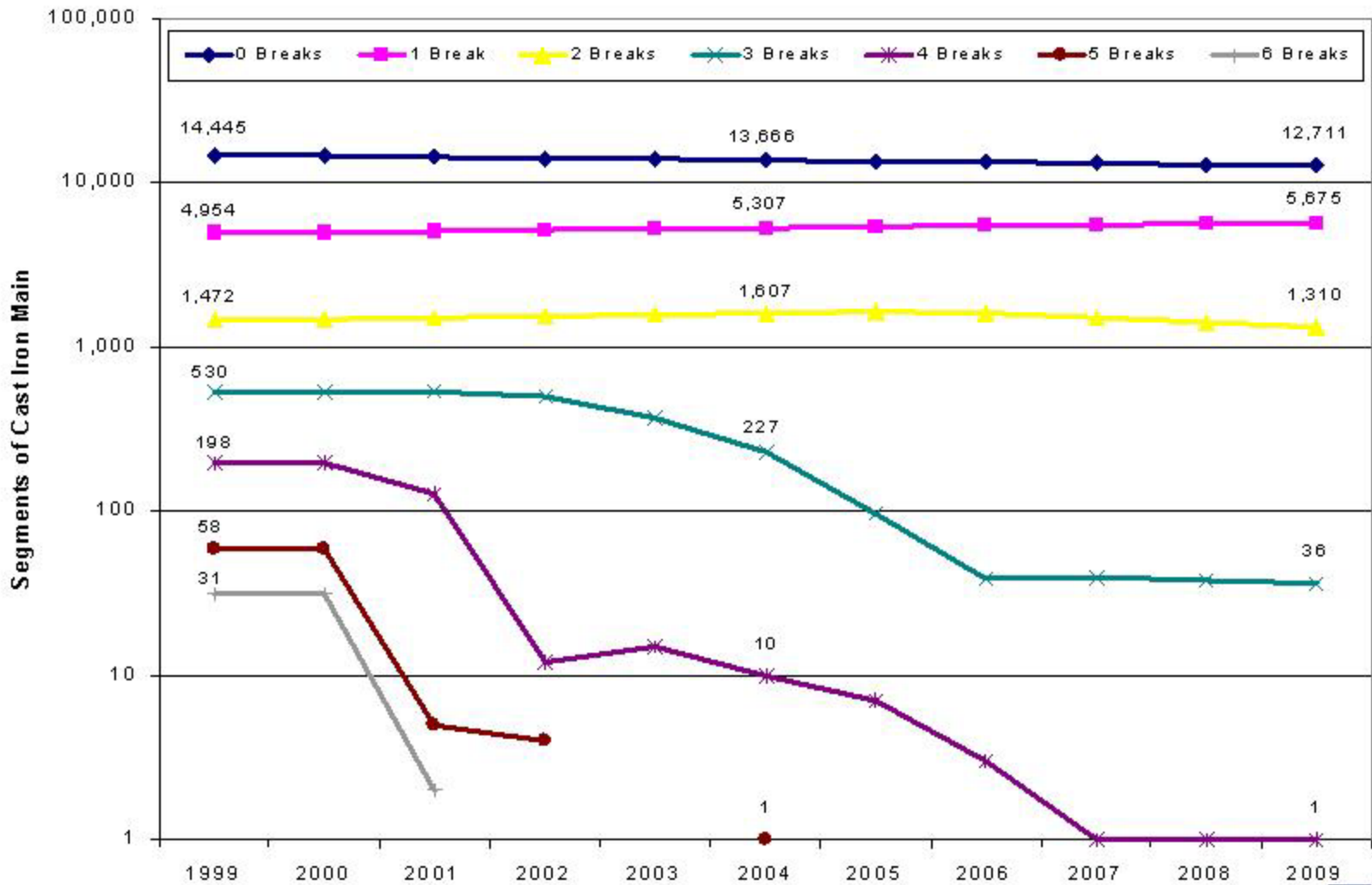
Replacement Miles per Year			Initial	Initial
Total	Enforced	Prudent	Percent	Funding
9	5.65	3.35	.5 percent	\$ 6.7 million
18	5.65	12.35	1.0 percent	\$13.3 million
27	5.65	21.35	1.5 percent	\$20.0 million

Funding in subsequent years was allowed to grow at the rate of inflation, keeping the miles replaced constant. Also, the percent replaced was allowed to grow slightly as the remaining inventory decreased yet the replacement mileage remained constant.

Starting from an initial projection in 2000 of 336 breaks per year, the level of breaks achieved by the tenth year are projected to be 353, 324, and 255, respectively.

A 16-mile replacement program eliminates most of PGW's trouble-prone pipe in 5 years

Segments of Cast Iron Main by Number of Previous Breaks



An 18-mile replacement program eliminates most of PGW's trouble-prone pipe in 5 years

An 18-mile replacement program, or about 1 percent of the current inventory per year, aggressively attacks the worst pipe segments - those with 3, 4, or more breaks already. In fact, in three years there would be less than 20 pipe segments with 4 or more breaks, assuming actual replacement followed the indicated prioritization.

This would be so even though new pipe that breaks would normally add to the inventory of pipe that is broken so many times. The reason can be seen from the chart above: even the inventory of mains with 3 breaks would be aggressively reduced under this program, so much so that the inventory of pipe with 4 or more breaks could be effectively eliminated. It even stabilizes and eventually reduces the inventory of mains with 2 breaks.

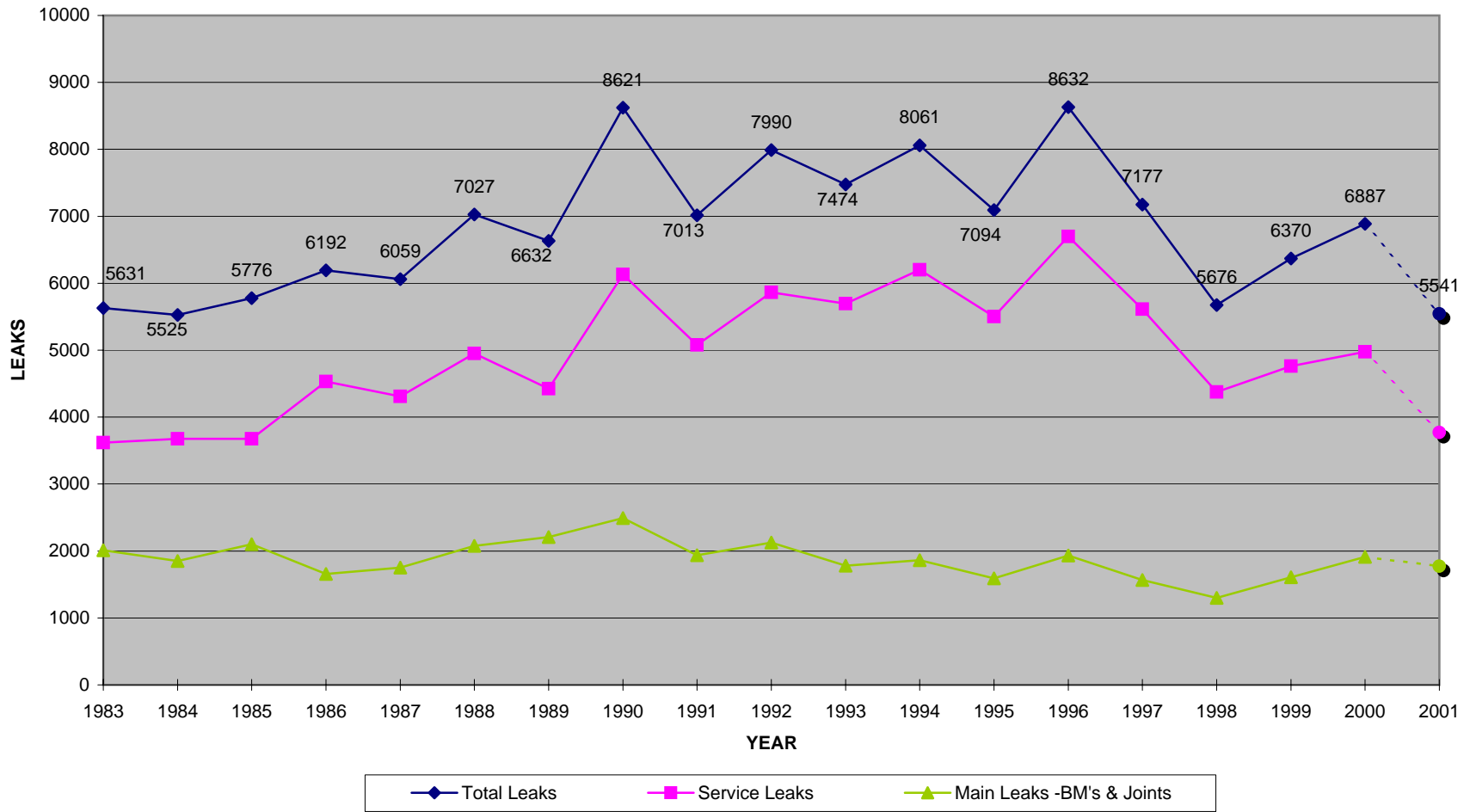
Such a program would be expected to stabilize the number of breaks at a level of less than 330 per year, under normal weather (and even less under the mild winters PGW has had lately).

We recommend the 18-mile replacement program

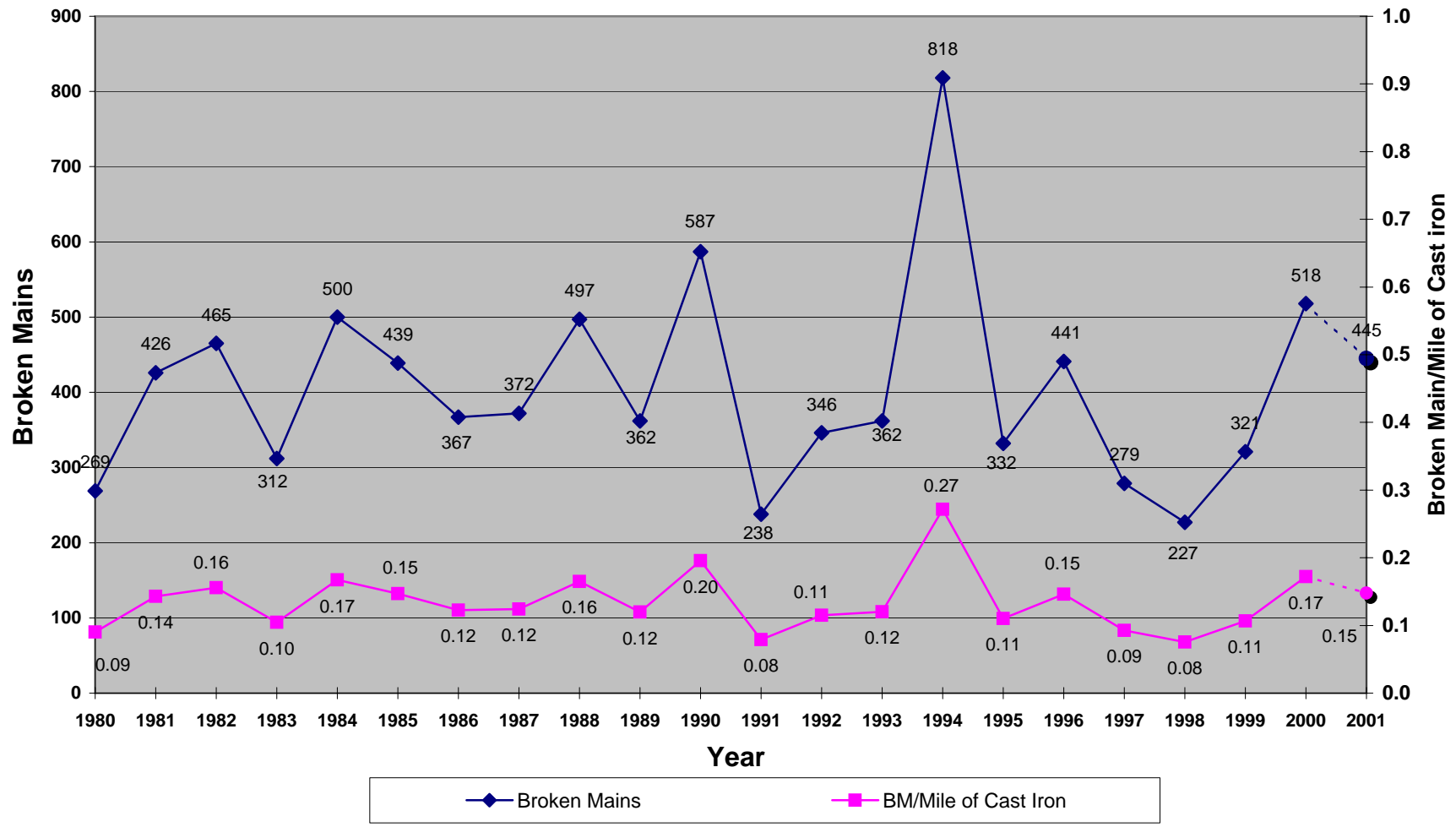
Considering the factors discussed above, the program which we would recommend at this time is the 18-mile program. Summarizing the reasons:

- The risk of incidents is driven by the risk of cast iron breaks
- The risk of cast iron breaks is reduced through replacement of break-prone mains
- The 18-mile program is required to virtually eliminate the break-prone segments (those with 3, 4, 5, or more breaks already) over the next 5-10 years
- The 18-mile program is required to keep cast iron main breaks from trending up
- The 18-mile program is approximately 1 percent of current inventory, which is comparable to what other companies with similar inventories average
- A program of much more than 18 miles would begin to experience diminishing returns once the break-prone segments were reduced
- A nine-mile program, while better than nothing, would represent a state of not keeping up with the gradual deterioration of the system, and would allow some break-prone categories to increase over the next ten years
- The relatively mild winters of late are not typical of the secular average. As normal weather returns, or with a severe winter in terms of depth of frost, breaks can be expected to increase substantially. The 18-mile program would allow PGW to replace some of the most break-prone segments in the first few years, which would better prepare the system for severe weather that is likely to recur some time in the future

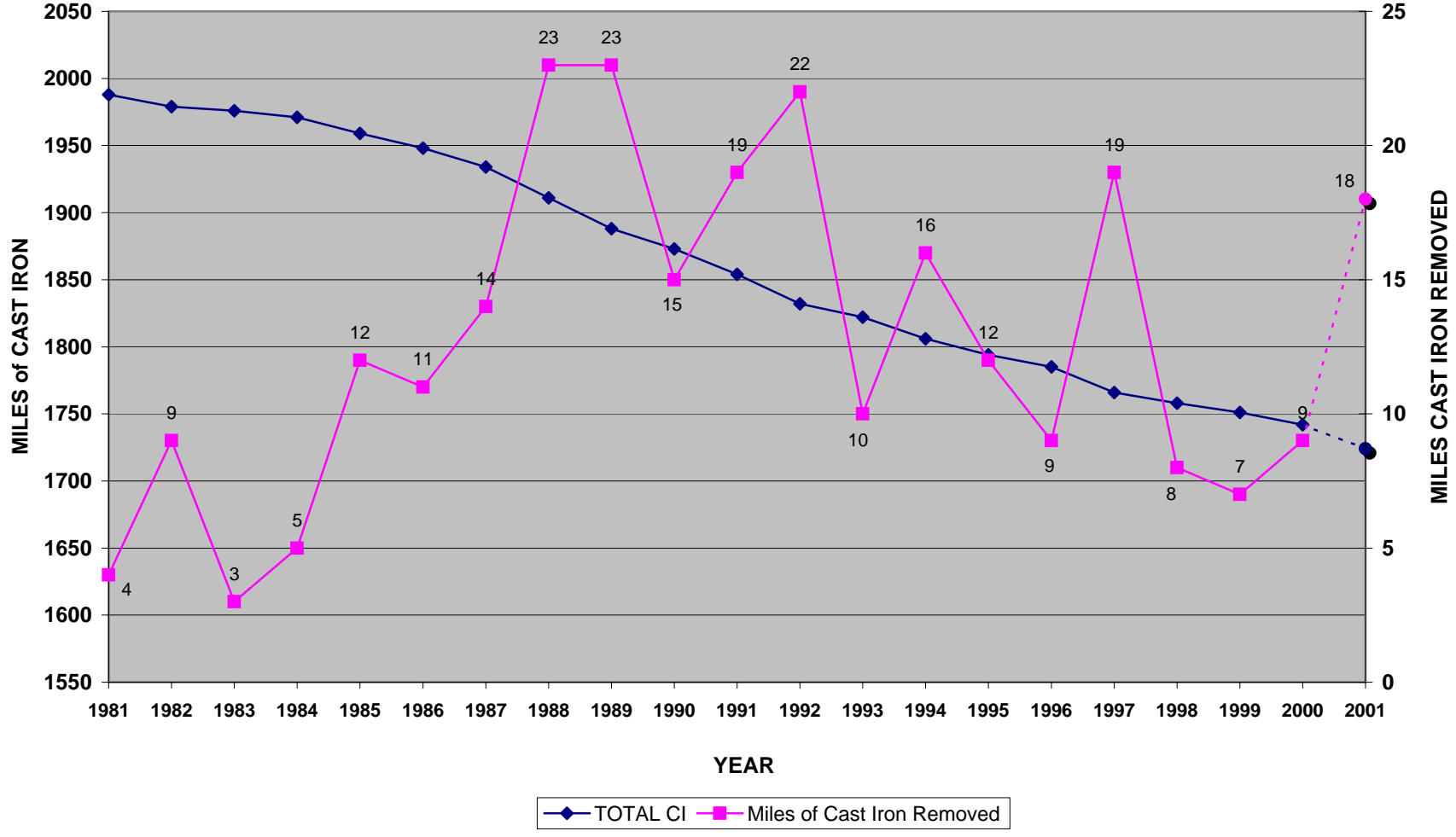
LEAK COMPARISON



Broken Mains per Year



CAST IRON PROGRAM



Recommendation IX- 3: Accelerate the replacement or cathodic protection programs for coated-but-not-cathodically protected steel main, and continue to replace bare steel services. (High Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible : Senior VP - Operations

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW has budgeted in FY 2001 \$200,000 to add cathodic protection to existing steel mains.	(C) FY 2001 budget submitted May 2000.
PGW will budget \$300,000 or more in FY 2002. Bare steel service replacements will be Accelerated as PGW increases the amount of Cast iron main replaced as shown in IX-2.	(E) Budget will be submitted May 2001.
Re-evaluate each subsequent year.	(E) May 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 4: Evaluate engineering staffing levels and trends to determine the most cost-effective way to obtain engineering services. (Medium Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Operations

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Requisitions have been processed to hire at least seven (7) new Engineers.	(C) February 2001
Hire new Engineers	(E) July 2001
Conduct study to evaluate continuing need for Engineers including the use of Professional Services Contracts.	(E) 12/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 5: Reduce PGW crews' wages and/or increase their productivity to make them more cost-effective, or contract out more construction work. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Distribution Department

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW's union contract expires in May 2001. union wages will obviously be a major topic.	(E) Some time in 2001.
New methods and technologies are being introduced to improve productivity.	(E) Continuous.
PGW has increased its amount of contract construction work from 9,000 feet in FY 2000 to a projected 35,000 feet in FY 2001..	(E) 11/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX-6: Avoid dispatching gas in an uneconomical manner.

Response: Accepted

Individual Responsible: Senior Vice President, Marketing and Supply Services

<u>Action Plan</u>	C = Date Completed E = Expected Completion
1. PGW's gas policy for economic dispatching has been reaffirmed.	C = 11/99
2. Create a Gas Supply Policy Committee made up of Senior Management along with members of the gas supply staff. The purpose of the committee is to conduct ongoing review of policy for gas supply strategies and actions.	C = 1/31/01

Explanation: (Reason for Rejection) if rejected in whole or part

The orders of the previous COO and VP of Gas Management were abandoned in November 1999 with their termination and resignation respectively and the reorganization of Gas Management into Supply Services. This fact should have been highlighted in Recommendation IX-6 to remove any appearance of a pre-formed bias in the Barrington-Wellesley audit.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX-7: Prepare a new gas supply strategic plan that addresses deregulation and the evolving natural gas market.

Response: Accepted, in part

Individual Response: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	C = Date Completed E = Expected Completion
<ul style="list-style-type: none"> • Apply gas supply purchasing and capacity strategic initiatives for upcoming injection season and subsequent winter operating season. 	E = Ongoing
<ul style="list-style-type: none"> • Form committee to address Pennsylvania State Competition Act and develop project plan. 	E = 3/31/01
<ul style="list-style-type: none"> • Identify, among other things, nominating, scheduling and associated upstream requirements for restructuring. • Prepare restructuring filing for submission • Prepare pro-forma tariff sheets 	E = 4/30/01 E = 12/31/02 E = 12/31/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

The reason Supply Services partially rejects the recommendation is based on unsound support for Conclusion 18.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 8: Solicit bids to perform janitorial services from union and non-union contractors as well as from PGW’s Building Services Department and select the most cost-effective bid. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: Director – Engineering & Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Develop RFP to solicit bids.	(C) March 2001
Bids to be sent out to all parties.	(E) April 2001
Selection of most cost-effective bid that meets all requirements.	(E) May 2001
Evaluate contractor performance and actual cost savings vs. projected.	(E) March 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 9: Take steps to increase the inventory turnover rate from 2.7 to 3.0 or greater. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Manager – Materials Management

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Separate inventory into categories based on the ability to generate increased turnover.	(C) February 2001
Improve purchasing methods to reduce need for excess inventory.	(E) August 2001
Increase turnover ratio to 3.0 or greater.	(E) December 2001
Investigate the potential for reduction in inventory due to the replacement of PGW's 30+ year old LNG liquefaction facilities.	(E) November 2002

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation IX- 10: Undertake a comprehensive fleet operations improvement program. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: _____

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
New fleet management system has been installed. Final work being performed now.	(E) April 1, 2001.
Perform life cycle analysis and develop replacement plan.	(E) May 1, 2001
Submit plan as part of FY 2002 Capital Budget.	(E) May 30, 2001
Reevaluate mechanic staffing.	(E) May 2002.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X-1: Take the necessary steps to mitigate the current financial crisis and implement appropriate measures to ensure that PGW is not allowed to make the types of questionable transactions that have compromised its financial position and impaired its credibility with lenders, the rating agencies, and others in the financial community.
(High Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW completed a \$45.0m short-term loan transaction to provide working capital with the City of Philadelphia.	(C) 12/00 Repayment due 06/03.
PGW’s outside feasibility study consultants are performing an independent review of PGW’s cash, earnings, and coverage requirements for the current and five-year forecast. This study will be utilized to support PGW’s proposed revenue bond issue in 06/01.	(E) 04/01
PGW’s ongoing base rate increase proceedings before the Pa. PUC will impact whether a bond rating improvement is possible.	(E) 10/01
*PGW will analyze each financial transaction to be undertaken to determine the benefit to PGW while assessing the financial and non-financial impacts.	(E) Ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

The tone of the conclusion that PGW used “questionable” financing transactions is inappropriate. PGW utilized a forward rate agreement, revenue bond refinancings, a knock-in swap transaction and a re-negotiation of our tax-exempt commercial paper program letter of credit. These financings provided millions of dollars of revenue enhancement, cost reductions and financial flexibility to sustain PGW through periods of operational revenue reductions. At the same time, PGW did not raise base rates. Many of the above transactions may have or could be used by many major corporations in times of financial crisis.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X-2: Evaluate periodically, that is, every four to five years, whether or not the City should sell PGW. (Low Priority)

Response: _____Accepted X Rejected _____Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

This recommendation is beyond PGW’s legal authority to implement as it is the sole prerogative of the City.

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X- 3: Establish a functioning audit committee on the PFMC Board of Directors, and restore a viable internal audit function either internally or by outsourcing it. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Director – Internal Auditing

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Hold Audit Committee meetings at least quarterly with the Director of Internal Audit and at least annually with the independent accountants and, as necessary, with finance department management and/or other senior managers.	First quarterly meeting by April 30, 2001. (E)
Hire internal audit staff for all open and approved positions.	May 31, 2001 (E)
Alternatively, obtain help from external audit consultants to perform audit work deemed critical to the operations of the Company.	June 30, 2001 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X- 4: Require the external auditing firm to adhere to SEC guidelines that require the rotation off the assignment if the partner-in-charge has served in that capacity for seven or more years. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The City Controller & City Finance Director in conjunction with PGW will meet to determine the status of PGW's independent auditor for the FY 2001 Audit.	(E) 04/01
PGW will solicit bids for the performance of its annual audit of financial statements.	(E) 04/01
PGW will review bids and select the successful vendor.	(E) 05/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X -5: Establish responsibility accounting centers at the lowest practical level of management, and set performance objectives for managers and supervisors that include specific budget performance targets that are linked to the strategic planning process. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW issued its FY 2002 operating budget and forecast preparation assumptions letter.	(C) 03/01
PGW will integrate its Strategic Plan including accountability and responsibility for meeting corporate goals into its FY 2002 operating budget.	(E) 05/01
PGW will file its FY 2002 operating budget with the Philadelphia Gas Commission for its approval.	(E) 05/01
PGW will implement a process to measure the achievement of individual departmental strategic goals and include the results in its employee evaluation and compensation review.	(E) 10/01
PGC approval of PGW's FY 2002 Operating budget.	(E) 10/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheet may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X –6: Establish a finance committee on the PFMC Board of Directors with specific responsibilities to monitor PGW’s capital and operating budget processes and budget variances. (High Priority)

Response: ___X___Accepted _____Rejected _____Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Board Resolution to establish Finance Committee	(E) 03/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheet may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X-7: Assign responsibility to the treasurer's department for establishing and enforcing cash management policies including accounts receivable collection policies and procedures. (High Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The Senior VP-Finance will have overall responsibility for establishing and enforcing cash management policies. This span of control includes the Controller and the Manager of the Collection Department.	(C) 11/00
The accountability for the Cash Receipts function was transferred to the Treasury area.	(C) 11/00
The Senior VP-Finance, Controller and Collection Manager will oversee the development of cash management and collection policies and procedures.	(E) 04/01
The Senior VP-Finance, Controller and Collection Manager will review the results of cash management and collection policies and procedures and take any necessary corrective action including possible tariff revisions.	(E) 07/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)
(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X- 8: Update accounting procedure manuals and implement procedures for the inventory and tracking of capital assets. (Low Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
The Accounting Manuals will be updated to reflect current accounting procedures and processes. The procedures for the inventory and tracking of capital assets along with all other accounting procedures will be implemented.	(E) 01/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X-9: Take steps to implement all appropriate recommendations from the forensic audit currently being performed by an external accounting firm.
(Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: Senior VP - Finance

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PGW received the final report on the audit of bank reconciliations for FY's 1997, 1998 & 1999.	(C) 02/01
PGW will make the necessary journal entries to properly reflect in the general ledger findings that were identified in the Audit Report.	(E) 06/01
PGW, through cooperation of the Accounting and Internal Auditing Department, will assure the timely completion of all bank and accounts receivable reconciliations.	(E) Ongoing.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation X-10: Establish a statement of financial policy which includes parameters against which PGW senior management and the PFMC Board of Directors can evaluate financial alternatives and performance. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: CEO/COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Draft policy for April PFMC Board Meeting	(E) 04/27/01
Final policy for May PFMC Board Meeting	(E) 05/24/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-1: Develop and implement a formal IT planning process.
(Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Create an IT strategic plan with yearly updates	6/30/01 (E) and each August
Create an IT Blueprint for Operations document with yearly updates	5/30/01 (E) and each September thereafter
Create an architectural plan with yearly updates	11/5/00 (C) and each January thereafter
Create a yearly capital planning process with input for Steering Committee and other Departments	3/31/01 (E) and each March thereafter

To be completed if rejected whole or in part:
Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-2: Strengthen the IT steering committee. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: COO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Establish new committee structure with COO as Chair.	(E) 06/01/01
Review the IT planning model.	(E) 06/30/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-3: Reorganize the IT Department to strengthen new project development and ongoing operation of applications. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify roles for new IT organization	9/30/01 (C)
Define organizational structure to support roles	10/31/00 (C)
Determine staffing numbers	12/15/00 (C)
Write job descriptions	6/30/01 (E)
Interview candidates and hire	2/28/02 (E)
New organization fully staffed	2/28/02 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-4: Emphasize outsourcing as a means for developing and implementing new IT applications to the extent possible. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Create small project process using selective sourcing	4/30/01 (E)
Purchase tool to facilitate creation of RFI and RFP for large projects.	3/1/01 (C)
Create a process for vendor selection with options including outsourcing and hosting.	4/30/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-5: Restructure the Project Management Office (PMO) after the BCCS problems are resolved. (Low Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: COO

Action Plan (if accepted, whole or in part	Date Completed (C) or Expected Completion (E)
Evaluate BCCS status	(E) 07/31/01
Determine ongoing implementation needs.	(E) 07/31/01
Decide to continue PMO/BCCS emphasis. If yes, continue independent role. If no, roll into IT Department.	(E) 08/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI –6: Continue efforts to select and implement a new Human Resource Information System (HRIS). (High Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
High level presentations and vendors	(C)12/23/00
HRD identified vendors that supported needs, also payroll department	(C) 1/12/01
All vendors submitted cost estimates	(C) 1/15/01
Brief Senior Management	(C) 1/15/01
Vendor revisited PGW for detail presentation	(C) 1/24/01- HRD (C) 1/25/01- Payroll
Discussion held with Gartner Group to validate funding & approach to project	(C) 2/21/01
Met with Legal Dept. RFP being prepared to be sent out to vendors.	(C) 2/08/01 (E) 3/31/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-6: Continue efforts to select and implement a new Human Resource Information System (HRIS). (High Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Requirements gathered	2/28/01 (C)
Prepare RFP	3/31/01 (E)
Vendor Decision	4/30/01 (E)
Implementation of Core System	9/30/01 (E)
Payroll Data Cleanup / Prep	8/31/01 (E)
Payroll Acceptance Testing	12/31/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

STRATIFIED MANAGEMENT AUDIT

IMPLEMENTATION PLAN

Recommendation XI-7: Take steps to strengthen IT internal operating practices.
(Medium Priority)

Response: _____ Accepted _____ Rejected ___X___ Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
IT Senior Team sets goals and objectives	1/10/01 (C)
Identify Key It Functions and Processes	1/12/01 (C)
Publish and distribute	5/25/01 (E)
Implement control practices	8/31/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XI-8: Take steps to reduce and control IT costs, and make the IT user departments accountable for IT costs. (High Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Information Technology

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
IT Senior Team sets goals and objectives	1/10/01 (C)
Create 1 st draft for cost controls and charge back policies	1/22/01 (C)
Purchase and install Account 4 software to track time and costs	2/26/01 (C)
Create cost controls and charge back policies	2/26/01 (C)
Create costs, pricing, categories, elements	3/30/01 (E)
Publish for review	4/30/01 (E)
Publish and distribute	5/25/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XII-1: Complete a review of applicable PUC regulatory and reporting requirements and develop a comprehensive implementation plan to ensure compliance. (High Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible; VP – Regulatory Affairs

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completed (E)	
	Started	Completed
Obtain and review Pennsylvania Code, Title 52, Public Utilities and Purdon's, Title 66 as well as the Reporting Requirements information prepared by outside counsel and by PUC Staff	1-6-2000 11-16-2000	12-15- 2000 (C)
Request Obtain a comprehensive list of electronic and hard-copy forms from the PAPUC	1-3-2001	3-9-2001 (E)
Prepare a Project Report of the key reports by date	12-15-2000	3-16-2001 (E)
Submit the Project Report to Supervisors for approval	3-16- 2001	3-30- 2001 (E)
Submit the approved Project Report to Senior Team for approval	4-16-2001	4-30-2001 (E)
Submit the approved Project Report to PUC for approval	5-1-2001	5-30-2001 (E)
Assign the PAPUC approved reports to PGW personnel for preparation	6-29-2001	6-29-2001 (E)
Receive the reports from PGW personnel; perform quality control and forward to the PAPUC.	As required	As required

To be completed if rejected whole or in part:

Explanation: N/A

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XII - 2: Implement procedures to obtain the customer information needed on an ongoing basis, and develop a detailed marketing plan to compete effectively in the restructured natural gas industry. (Low Priority)

Response: Accepted

Individual Responsible: Senior VP – Marketing & Supply Services

<u>Action Plan</u>	C = Date Completed E = Expected Completion
1. Hire Market Research Analyst.	E = 5/15/01
2. Refine and further develop Preliminary Market Research Plan based on data acquisition and analyses, early research efforts, and input from Analyst.	E = 8/31/01 and ongoing
3. Data Acquisition Plan (Departmental).	E = 4/1/01 and ongoing
4. Work with restructuring consultant starting 3/1/01 to prepare PGW for Restructuring Filing.	E = 3/1/01 - 12/1/01
5. Quantify existing pipeline/supply assets.	E = 4/1/01
6. Research capacity assignment.	E = 5/1/01
7. Begin development of Restructuring Filing.	E = 5/1/01
8. Research cost allocation.	E = 6/1/01
9. Identify potential Unbundled Services.	E = 7/1/01
10. Develop rates for Unbundled Services.	E = 8/1/01
11. Begin Market Research (dependent on budget allocation).	E = 9/1/01
12. Develop Tariff language for Unbundled Services.	E = 9/1/01
13. Tariff changes allowing negotiated rates (dependent on PUC approval).	E = 11/1/01
14. First Draft of Restructuring Filing	E = 12/1/01
15. Develop analyses/support schedules for restructuring.	E = 3/1/02
16. Update analyses/support schedules for restructuring.	E = 5/1/02
17. Final Draft of Restructuring Filing	E = 6/1/02
18. Restructuring Filing.	E = 7/1/02
19. First Draft, Marketing Plan for Unbundling.	E = 3/1/02
20. Final Marketing Plan for Fiscal 2003.	E = 9/1/02
21. Implement Unbundling.	E = 9/1/03

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII-1: Develop an ongoing plan to manage the wage and salary levels in an effective manner. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Study conducted by outside consultant	10/01/00 (C)
Establish Compensation System	12/01/00 (C)
Establish Compensation Committee	Meets as needed
Provide salary adjustments to address compression.	02/01/01 (C)
Provide performance based increases	09/01/01 (E)
Annual review of compensation system	Ongoing After 09/01/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 2: Develop and implement an incentive compensation program that rewards personnel for high-level achievements that are specifically tied to supporting PGW’s strategy. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible : VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Study conducted by outside consultant;	10/01/00 (C)
Establish Compensation System;	12/01/00 (C)
Establish Compensation Committee;	Meets as needed
Provide salary adjustments to address compression;	02/01/01 (C)
Revise performance appraisal system to incorporate elements of strategic plan;	See dates provided in Action Plan for Recommendation XIII -10
Annual budgetary review of compensation system;	Ongoing after 09/01/01 (E)
Provide performance-based increases.	Annually, beginning on 09/01/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII-3: Limit future compensation increases to a level no greater than the consumer price index (CPI). (High Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
PGW presently forecasts a total wage increase within CPI projection of 2%	(C)
Review annually to ensure total wage growth does not exceed CPI projection	Ongoing

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 4: Develop and implement a cost-effective training strategy that promotes those attributes in employees that would allow PGW to succeed in a deregulated and competitive environment. (Low Priority)

Response: x Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Provide core curriculum ex. Business Grammar, Successful Communication, etc.	C-1/15/01
Provide leadership, management, supervisory training.	C-Supervisory training implemented 1/15/01 E-Leadership and management training 8/01
Identification and implementation of software package that will track completed training.	C-2/15/01
Review skills assessment on an annual basis.	Annually
Modify curriculum accordingly.	Annually

To be completed if rejected whole or in part:
Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 5: Take steps to ensure that the Code of Ethics and conflict of interest policy are understood by all employees, and obtain proof that each employee has a copy of the policies. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Meet and discuss policy with Union	30 days after ratification of collective bargaining agreement (E)
Distribute Policy to employees and require employees to sign form acknowledging receipt of policy.	60 days after ratification of collective bargaining agreement (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII-6: Enhance union-management safety training efforts and develop specific annual goals for achieving improved safety levels. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Departments/Safety start submitting lost time accident information to CEO for review.	5/31/01 (E)
Develop Root Causes/Trends Analysis Program.	12/31/01 (E)
Present root causes and trends of accidents, plus recommendations to CEO.	3/30/02 (E)
Initiate appropriate corrective actions and training as directed by CEO to prevent similar accidents.	6/1/02 (E)
Review progress of corrective actions with appropriate Vice President and CEO.	12/31/02 (E)
Develop with the Managers' Safety Committee annual safety goals that are based on 5% reductions from FY 2000 results. Thereby achieving a lost time accident rate company goals of 2.72 or lower.	8/31/03 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 7: Work within the union contract to ensure that a consistent approach is taken for disciplinary issues throughout PGW and hold the human resource department responsible for reviewing disciplinary issues company-wide. (Medium Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	<u>Date Completed (C) or Expected Completion (E)</u>
Meet and discuss with Union new disciplinary process wherein no disciplinary action is imposed without the review and approval of the Director of Labor Relations, unless the health and safety of our employees or the general public demand an immediate suspension.	60 days after ratification of collective bargaining agreement (E)
Issue new Disciplinary Procedures	75 days after ratification of collective bargaining agreement (E)
Develop and maintain a database with the new Human Resources Information System (HRIS) of all disciplinary actions taken to allow the Human Resources Department to ensure consistency.	On-going from the date the new HRIS system is fully functional

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 8: Reduce absenteeism through consistent treatment and increased focus on “back to work” programs. (High Priority)

Response: _____Accepted _____Rejected _____X_____Accepted, in part

Individual Responsible : VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify best practices for reducing rate of absenteeism;	February 20, 2001 (C)
Attempt to negotiate significant change in the Collective Bargaining Agreement provisions governing Absence Pay Allowance (Article VIII, Section 4) that will foster improved attendance.	May 15, 2001 (E)
Implement an HR Information System (HRIS) that will allow an automated, centralized tracking of all absences by HRD;	March 31, 2002 (E)
Review absence data on a quarterly basis to ensure consistency across departments.	On-going after HRIS implementation.

To be completed if rejected whole or in part:

Explanation for Rejection in part:

We agree with the recommendation that absenteeism must be reduced in PGW. A study of best practices from other organizations has confirmed that the most effective way to control the excessive use of sick leave is to reduce the number of days of paid leave available. However, because PGW’s Absence Pay Allowance is a negotiated benefit, it can only be changed through negotiations with and agreement by the Union. Therefore, unless the Union agrees to a significant change in the Absence Pay Allowance provision in the labor contract, it will be impossible to realize the recommended savings.

Moreover, based on a previous arbitration award, PGW cannot unilaterally implement a company-wide absenteeism policy. Rather, the arbitrator specifically ruled that such a policy must be first negotiated with the Union.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 9: Take steps to reduce fringe benefit costs. (High Priority)

Response: _____Accepted _____Rejected _____X_____Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Perform a cost analysis of existing fringe benefits and compare with other employers;	March 12, 2001 (C)
Identify fringe benefits to be reduced;	March 12, 2001 (C)
Attempt to negotiate significant changes in the Collective Bargaining Agreement provisions governing health and welfare plans, overtime eligibility, meal allowances, perfect attendance and other bonuses, legal services, absence pay allowance, etc.	May 15, 2001 (E)

To be completed if rejected whole or in part:

Explanation for Rejection in part:

We agree with the recommendation that fringe benefits must be reduced in PGW. However, PGW's fringe benefits can only be changed through negotiations with and agreement by the Union. Therefore, unless the Union agrees to a significant change in the fringe benefit provisions in the labor contract, it will be impossible to realize the recommended savings.

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII – 10: Develop a company-wide policy on performance evaluations and ensure its consistent application. (Medium Priority)

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Meet with Senior Management/cross functional teams to review and if required revise core competencies.	3/31/01 (E)S
Meet and discuss with Union new performance appraisal process.	60 days after ratification of collective bargaining agreement (E)
Ensure, through communication vehicles and discussions with managers that all employees understand individual goals, departmental and corporate goals that are tied to the strategic plan.	4/15/01 (E)
Ensure, through communication vehicles, discussion and training that all employees are aware of the performance metrics.	8/31/01 for non-union employees; 90 days after contract ratification for union employees (E)
Ensure that reviews are done on an annual basis.	Annually
Develop and maintain a database with the new Human Resources Information System (HRIS) of all performance evaluations to ensure consistency and compliance.	On-going from the date the new HRIS system is fully functional.

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII – 11: Update the personnel policy manual. (Low Priority)

Response: X Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Review all current Personnel Policies to ensure compliance with Collective Bargaining Agreement and applicable employment and labor laws;	December 31, 2001 (E)
Identify which Personnel Policies are outdated;	December 31, 2001 (E)
Establish Corporate Committee to review and recommend revisions to outdated or non-compliant Personnel Policies;	January 31, 2002 (E)
Draft revisions to outdated or non-compliant Personnel Policies;	June 30, 2002 (E)
Meet and discuss proposed changes with Union;	September 30, 2002 (E)
Distribution of all revised policies.	December 31, 2002 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII – 12: Work with the City Council to determine the long-term effect of continuing the City residency requirement and, if possible, eliminate it (Low Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Prepare white paper of residency issues at PGW.	(E) 12/31/01
Submit to City Council members.	(E) 12/31/01
Seek a sponsor for a bill.	(E) 06/30/02

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIII- 13: Implement all relevant recommendations from the June 2000 external consultant’s report which provided a comprehensive assessment of the human resource function. (Medium Priority)

Response: X Accepted _____Rejected _____Accepted, in part

Individual Responsible : VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
HR Staffing Rules & Resources	Staffing Completed 02/15/01 (C)
Procedurize the selection process	02/15/01 (C)
Move Workers Compensation to HR	Rejected 12/01/00 (C)
Implement HRIS System	See recommendation XI-6 12/31/01 (E)
Update HR Policies & Procedures	See recommendation XIII – II 12/31/02 (E)
Establish Integrated Safety Program	Medical Department moved under Safety 12/01/00 (C) Also see recommendation XIII-6
Establish Drug & Alcohol as formal policy	Completed
Procedure to report to HR when arrested in Drug & Alcohol	Collective Bargaining issue negotiations 05/15/01 (E)
Develop a comprehensive Labor Relations Strategy	See recommendation IV-3 Collective Bargaining Contract 2001 Strategy 05/15/01 (E)
Work Force Analysis	See recommendation XV-1
Audit CSI twice yearly	See recommendation V-1
Introduce more effective salary management And merit planning/budgeting process	New non-union compensation plan completed 12/01/00 See recommendation XIII-1

Add a Manager or Administrator of Compensation & Benefits position	Completed 02/01/01 (C) Employee Services Administrator and Senior Compensation Analyst added
Introduce a cafeteria style Benefits program	Under investigation for contract negotiations 05/15/01 (E)
Outsource payroll	HRIS option See recommendation XI-6 12/31/01 (E)
Convert as many employees as possible to Bi-weekly payroll	On hold, pending HRIS See recommendation XI-6 12/31/01 (E)
Provide leadership training for key Professional Staff	See recommendation XIII-4 08/31/01 (E)
Ensure pay differences between moderate and effective performers	Pay for performance is part of compensation plan for 09/01/01 (E) Also see recommendation XIII-3
Define future state competencies for Professional Staff and the Bargaining Unit	See Recommendations XIII-2, XIII-4 and XIII-10
Consider turning over much of the day to day operation of the company to the Bargaining Unit (e.g. work assignments)	Under investigation for contract negotiations 05/15/01 (E)

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIV-1: Ensure that the PFMC Board of Directors requires that PGW file an Affirmative Action Plan (AAP) on an annual basis. (Medium Priority).

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Affirmative Action Developed and will be maintained on an annual basis	(C) 12/00

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIV-2: Identify the employment areas that are below “parity” in the year 2000 AAP and develop feasible approaches for reaching parity. (Medium Priority)

Response: ___v___ Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: VP- Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
1. Employment areas that are below parity have been identified.	12/00 C
2. Goals to reach parity have been established.	12/00 C
3. Corporate Diversity Committee established.	12/00 C
4. Communicate Affirmative Action objectives to PGW employees.	3/01 E
5. Train managers regarding Affirmative Action accountability.	6/01 E
6. Develop Targeted Recruitment Program.	6/01 E
7. Audit & Reporting System Implementation.	6/01 E
8. Identify minorities and women for inclusion in Succession Planning and provide training development opportunity.	8/01 E
9. Develop Liaison Activities with Community Groups, Business Leaders, Minorities and women organization.	6/01 E
10. Review and make appropriate changes to Personnel Policies and Procedures to remove barriers that impede Affirmative Action Progress.	12/00 ongoing
10. Conduct adverse Impact Analysis on all personnel actions.	6/01 E

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIV-3: Hold senior management accountable for implementing the diversity policy approved by the PFMC Board of Directors. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: CEO

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
PFMC set goals for performance reviews.	(E) 09/01/01
Annual review/sent each year.	Annual

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation XIV-4: Develop and implement a meaningful Minority Business Enterprise/Woman Business Enterprise/Disabled Business Enterprise (MBE/WBE/DBE) program for making purchases outside the normal procurement process. (Medium Priority)

Response: X Accepted _____ Rejected _____ Accepted, in part

Individual Responsible: Director – Procurement & Contract Services

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Identify current contracts, established outside the procurement processes, and integrates contracts into the normal procurement processes.	(E) 05/01
Identify MBE/WBE/DBE contracts and establish MBE/WBE/DBE codes within the Oracle financial system for tracking purposes.	(E) 07/01
Establish a procedure to include the Procurement Department to assist in identifying MBE/WBE/DBE vendors prior to award of contracts.	(C) 03/01
Approval of procedure to include the Procurement Department to assist in identifying MBE/WBE/DBE vendors prior to award contracts.	(E) 05/01
Distribute the Minority Business Enterprise Directory of Certified firms to personnel making purchases outside the procurement process.	(C) 01/01
Any new contracts are to be installed into the Oracle financial system. This will enable PGW to track MBE/WBE/DBE usage company-wide and measure annual progress. This is an on-going process.	(C) 03/01
Approval of Key Processes for Procurement and Contract Management	(E)05/01

To be completed if rejected whole or in part:

Explanation: (Reason for rejection)
 Cost/Benefit Analysis (documenting economics of reason for rejection)
 (Additional sheets may be attached)

**STRATIFIED MANAGEMENT AUDIT
IMPLEMENTATION PLAN**

Recommendation: **XV-1** – Implement the proposed work management and manpower planning program.

Response: Accepted Rejected Accepted, in part

Individual Responsible: VP – Human Resources

Action Plan (if accepted, whole or in part)	Date Completed (C) or Expected Completion (E)
Each department will identify the elements to which they will report time and budget.	4/30/01 (E)
Requirements documents(s) will be created in preparation for vendor bids	5/15/01 (E)
Solicit bids from selected vendor list	5/31/01 (E)
Vendor creates and delivers application for each department to use in reporting time	8/31/01 (E)
Each department reports time on a regular basis, generates monthly reports, and manually updates BW spreadsheet with actual times.	9/30/01 (E)

To be completed if rejected whole or in part:
Explanation: (Reason for rejection)

Cost/Benefit Analysis (documenting economics of reason for rejection)

(Additional sheets may be attached)

