

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement a General Rate Increase for)
Electric Service)

Case No. ER-2014-0370

STAFF'S MANAGEMENT AUDIT HISTORY INFORMATION

COMES NOW the Staff of the Missouri Public Service Commission and, in response to Commissioner questions during the Commission's deliberations of this case during its open meeting of August 12, 2015 (Agenda), files the attached Staff memorandum, which includes three attachments—a list identifying 47 management audits (of varying scopes), part of an order the Commission issued in Case No. EO-84-73, and an order the Commission issued in Case No. GO-92-6.

Respectfully,

/s/ Nathan Williams

Nathan Williams
Deputy Staff Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8702 (Telephone)
(573) 751-9285 (Fax)
nathan.williams@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or by electronic mail to all counsel of record on this 18th day of August, 2015.

/s/ Nathan Williams

MEMORANDUM

To: Daniel Y. Hall, Chairman
Stephen M. Stoll, Commissioner
William P. Kenney, Commissioner
Scott T. Rupp, Commissioner
Maida J. Coleman, Commissioner

From: Lisa Kremer
Manager, Engineering and Management Services Unit

Date: August 18, 2015

Re: Request Made by Commission August 12, 2015 Agenda Meeting for Information Regarding Management Audits Performed at Missouri Public Service Commission in the Context of Case No. ER-2014-0370

Attached for your information is a listing of historical management audits performed at the Missouri Public Service Commission since 1976, to the best of Staff's research and knowledge at this time. Missouri Commission Management Audits have been performed by both external consultants, selected through an RFP process and which included Staff participation, and audits also solely conducted by internal PSC staff. Management Audit scopes have ranged from comprehensive management audits which reviewed nearly all of the utilities' significant operational and managerial functional areas to more focused management audits which examined selective processes. The last Staff-conducted focused management audit was of Aquila, Inc., Case No. EO-2006-0356. The last consultant-conducted management audit was of Arkansas Western Gas Company d/b/a Associated Natural Gas Company, Case No. GO-92-6.

Some management audits were requested by the Staff or the Office of the Public Counsel and ordered by the Commission while others were initiated and directed only by the Commission without a recommendation from a party. For example, the Management Audit of U.S. Water/Lexington, Mo. Inc. arose from concerns raised in a prior Company rate case. Audit costs of external consultants were anticipated by various Commissions to be paid for by either utility shareholders or by rate payers. Two Commission orders are attached demonstrating examples of both situations. Page two of Case GO-92-6 item 2 indicates that the costs of the audit will be paid by the Company. Page two of the Commission's order in Case NO. EO-84-73 indicates that the Commission anticipated that the Company "will seek inclusion in its cost of service in ER-84-168" (the Company's pending rate case at that time).

In addition, a listing of comprehensive service quality audits is included as well. These audits focus on the area of customer service, which typically includes analysis of utility processes such as: billing, credit and collection, service disconnection/reconnection, call center, payment remittance, service order processes and meter reading.

The Staff would be pleased to respond to any questions it may.

**Management Audit History
And Other Operational Audits Focusing Primarily On Customer Service Operations**

<u>Year</u>	<u>Company</u>	<u>Title</u>	<u>Initiated By</u>	<u>Performed By</u>	<u>Order-Case No.</u>
1976	Continental Telephone	Management Audit	Commission	Theodore Barry	Informal
1976	Raytown Water	Management Audit	Commission	Arthur D. Little Inc.	Informal
1978	General Telephone	Management Audit	Staff	Staff	Informal
1978	Kansas City Power & Light Company	Management Audit	Commission	Booz-Allen Hamilton Staff monitored	Informal
1980	Gas Service	Customer Service Audit	Commission	Staff	Informal
1981	The Empire District Electric Company	Management Audit	Staff	Staff	EO-81-123
1982	Rich Hill-Hume Gas Co, Inc.	Management Audit	Staff	Staff	GO-82-110
1983	Missouri Public Service Company	Management Audit	Commission	Staff	EO-82-171
1983	The Gas Service Company	Management Study	Commission	Arthur Anderson	GR-83-225
1986	St. Louis County Water Company	Management Audit	Staff	Staff	WO-85-156
1986	Union Electric Company (nka Ameren Missouri)	Management Audit	Staff	Arthur Young Staff monitored	ER-83-163 EO-84-73 audit
1987	Laclede Gas Company	Management Audit	Staff	Ernst & Whinney Staff monitored	GR-84-161 GO-85-63
1988	United Telephone Company of Missouri	Management Audit	Staff	Scott Consulting-Richard Metzler & Associates Staff monitored	TR-85-179
1990	US Water/Lexington, Missouri, Inc.	Management Audit	Commission	Staff	WR-88-255

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<u>Year</u>	<u>Company</u>	<u>Title</u>	<u>Initiated By</u>	<u>Performed By</u>	<u>Order-Case No.</u>
1991	Kansas Power & Light Company	Management Audit	Staff	Staff	GO-89-252
1992	Central Jefferson County Utilities, Inc.	Management Audit	Staff	Staff	WO-92-74
1992	Chariton Valley Telephone	Management Audit	Staff	Staff	TO-92-263
1992	Goodman Telephone Company	Management Audit	Staff	Staff	TO-92-206
1992	Granby Telephone Company	Management Audit	Staff	Staff	TO-92-130
1992	Herculaneum Sewer Company, Inc.	Management Audit	Staff	Staff	SO-92-72
1992	Holway Telephone Company	Management Audit	Staff	Staff	TO-92-86
1992	House Springs Sewer Company, Inc.	Management Audit	Staff	Staff	SO-92-56
1992	Imperial Utility Corporation	Management Audit	Staff	Staff	SO-92-55
1992	Mid-Missouri Telephone Company	Management Audit	Staff	Staff	TO-92-196
1992	Seneca Telephone Company	Management Audit	Staff	Staff	TO-92-212
1992	Steelville Telephone Exchange, Inc.	Management Audit	Staff	Staff	TO-92-255

**Management Audit History
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<u>Year</u>	<u>Company</u>	<u>Title</u>	<u>Initiated By</u>	<u>Performed By</u>	<u>Order-Case No.</u>
1993	Associated Natural Gas Company	Management Audit	Staff	Ernst & Young Staff monitored	GO-92-6
1993	Citizen Telephone Company	Management Audit	Staff	Staff	TO-92-270
1993	McDonald County Telephone Company	Management Audit	Staff	Staff	TO-92-279
1993	New London Telephone Company	Management Audit	Staff	Staff	TO-93-7
1993	Orchard Farm Telephone Company	Management Audit	Staff	Staff	TO-93-8
1993	Peace Valley Telephone Company, Inc.	Management Audit	Staff	Staff	TO-92-245
1993	Raytown Water Company	Management Audit	Staff	Staff	WO-93-194
1993	Rock Port Telephone Company	Management Audit	Staff	Staff	TO-93-5
1993	Terre Du Lac Utilities Corporation	Management Audit	Staff	Staff	WO-94-10
1993	Tri States Utility, Inc.	Management Audit	Staff	Staff	WO-93-336
1994	IH Utilities, Inc.	Management Audit	Staff	Staff	WO-94-136
1994	Meadows Water Company	Management Audit	Staff	Staff	WO-94-106
1995	Missouri Gas Energy	Billing & Customer Service Investigation	Staff, Office of the Public Counsel and Company	Staff	GO-95-177

**Management Audit History
And Other Operational Audits Focusing Primarily On Customer Service Operations**

<u>Year</u>	<u>Company</u>	<u>Title</u>	<u>Initiated By</u>	<u>Performed By</u>	<u>Order-Case No.</u>
1999	Kansas City Power & Light Company	Customer Service Operations	Staff	Staff	Informal
1999	Union Electric Company, (dba AmerenUE)	Customer Service Operations	Staff	Staff	Informal
2002	Atmos Energy	Customer Service and Gas Supply Operations	Staff	Staff	Informal
2002	Aquila	Financial Review	Commission	Staff	Informal
2003	Laclede	Customer Service and Gas Supply Operations	Staff	Staff	Informal
2005	Aquila	Customer Service Process and Operations	Staff	Staff	Informal
2006	Aquila Inc.	Management Audit	Office of the Public Counsel	Staff	EO-2006-0356
2008	Missouri Gas Energy	Customer Service Process and Operations	Staff	Staff	Informal

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

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At a Session of the Public Service
Commission held at its office
in Jefferson City on the 19th
day of April, 1984.

CASE NO. EO-84-73

In the matter of the investigation of
the question of Union Electric Company
management audit.

ORDER DIRECTING MANAGEMENT AUDIT

On January 27, 1984, the Staff filed, pursuant to Ordered: 4 of the
Commission's Report and Order in Case No. ER-83-163, its recommendation concerning
its proposed management audit of the Union Electric Company.

Staff recommends that the audit encompass a review of the Company's
operations which will include, but not be limited to, a review of: organization,
corporate and operations planning, engineering and construction, fuels management,
power operations, transmission and distribution, customer services, financial
systems, support functions, work force management. Staff recommends that the above-
listed areas encompass a preliminary analysis of management job descriptions, oil
inventory levels, operations at coal blending facilities, and the Company's capacity
expansion program. In addition, Staff proposes that the audit include nuclear
operations and management decisions associated with the recent merger.

Staff recommends that the audit commence by the first quarter of 1985 and
that the cost of the audit be paid by the Company and recovered over an appropriate
time frame in future rates. Staff intends to participate in the preparation of the
request for proposal (RFP) and selection of the consultant subject to Commission
approval. Staff also intends to monitor the audit as it progresses.

On February 10, 1984, the Company responded to the Staff's recommendation.
The Company is generally opposed to Staff's recommendation that the Company contract

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with a private consulting firm for the performance of a comprehensive management audit. However, if the Commission orders an audit, Company generally concurs in Staff's recommendation except Company opposes inclusion of the following areas in the audit: oil inventory levels, operations at coal blending facilities, the capacity expansion program, construction activities at Callaway and the recent merger.

Having reviewed Staff's and the Company's recommendations, the Commission concludes that the Company should be ordered to contract with an outside consultant for a comprehensive management audit as recommended by the Staff. The Commission determines that the scope of the audit shall be as recommended by the Staff excluding construction activities at Callaway since the Commission anticipates that such construction activities will be adequately addressed in the Company's pending rate case, Case No. ER-84-168.

The Commission determines that the Company and Staff should jointly prepare a request for proposal for management audit and submit the same to the Commission for its approval on or before June 18, 1984. Upon approval of the RFP, the Company and Staff shall present their selection of consultant to the Commission for its approval.

The Commission anticipates that the Company will seek inclusion in its cost of service in Case No. ER-84-168 the cost associated with Phase I of the management audit after these costs are known. The Commission recognizes that the Phase I portion of the audit will begin sometime after January 1, 1985.

Upon completion of the Phase I portion of the audit, the Phase I report shall be submitted along with any recommendations for a Phase II audit and the specific costs associated therewith for Commission approval.

It is, therefore,

ORDERED: 1. That the Company shall contract with an outside consultant for a comprehensive management audit which will review the areas of the Company's operations as set forth above.

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 17th day of September, 1991.

In the matter of a management audit)
of Arkansas Western Gas Company d/b/a) CASE NO. GO-92-6
Associated Natural Gas Company.)

ORDER AUTHORIZING MANAGEMENT AUDIT

On August 29, 1991, the Commission's Staff (Staff) filed a motion in this case requesting that the Commission authorize a management audit of Associated Natural Gas Company, a division of Arkansas Western Gas Company (ANG or Company). Specifically, Staff requests that the Commission order a focused management audit of selected management processes of ANG including the policies, systems, procedures and practices of ANG to be performed by a qualified outside consulting firm based upon a contract between the consulting firm and ANG with ANG paying all costs related to the audit. Staff notes that ANG has not been subject to a management audit, not even since its recent acquisition by Arkansas Western Gas Company.

On September 6, 1991, ANG filed a response to Staff's motion stating it does not oppose Staff's motion but reserving the right to plead further after conducting further discussions with Staff regarding the scope and conduct of the audit.

Since ANG has not been subject to a management audit, the Commission determines that Staff's recommendation is reasonable and will order a management audit pursuant to Internal Procedure-3, entitled *Management Audits (IP-3)*.

IT IS THEREFORE ORDERED:

1. That a focused management audit by a qualified consulting firm of Arkansas Western Gas Company d/b/a Associated Natural Gas Company be authorized hereby as to the following specific management processes of Company:

- a. Strategic planning process and practices.
- b. Work force management process and practices.
- c. Budgeting process and practices
- d. Management process used to allocate costs to the Missouri operations of the Company.
- e. Management process used in gas supply procurement for the Missouri operations of the Company.
- f. Organization responsible for providing the Staff's information requirements during rate case proceedings.
- g. Management process of the Company's customer services function.

2. That the costs of the audit authorized herein shall be paid by Company.

3. That the contract for the audit shall be between Company and the consulting firm.

4. That Staff and Company shall jointly develop a request for proposal (RFP) pursuant to the internal procedures established by the Commission for the conduct of management audits, solicit proposals from interested bidders, evaluate these proposals and make a joint recommendation to the Commission for its approval of the selected consulting firm.

5. That Staff and Company jointly supervise the consultant's audit work plans, conduct of audit activities, documentation of audit findings, achievement of audit objectives, time schedules and cost goals to ensure compliance with the requirements in the RFP.

6. That upon completion of its investigation the consultant shall prepare a draft report, designated confidential, and provide copies of it to Staff and Company for review and comment.

7. That Staff and Company shall provide written comments to the consultant on the draft report within three weeks of its distribution.

8. That Staff and the selected consultant shall meet with the Company within two weeks after having received the written comments to discuss the audit findings.

9. That within two weeks after the meeting directed in the previous ordered section the final report shall be prepared by the chosen consultant, designated confidential and provided to Staff and Company.

10. That within thirty (30) days of the final audit report being completed, Company shall prepare an implementation plan describing its proposal for implementing the recommendations contained in the audit report and provide this plan to the Staff.

11. That Staff, upon receipt of the implementation plan, shall arrange to have the plan and the audit report filed with the Executive Secretary of the Commission.

12. That Staff shall file a motion with the Commission at the time that the audit report and implementation plan are filed advising the Commission of the need for an on-the-record conference in this case and proposing a schedule for the Commission's approval.

13. That Company shall file semiannual status reports of its progress in implementing the audit recommendations with the first report due six months after the implementation plan is filed. Company shall continue to file such status reports until the Staff and Company agree that the audit recommendations have been fully implemented, unless otherwise ordered by the Commission.

14. That Staff be authorized hereby to conduct periodic implementation reviews to assess the extent to which Company has achieved the objectives of the management audit recommendations.

15. That any party filing formal documents in this case shall serve such documents upon the officers of the collective bargaining units, if any, associated with Company's Missouri operations.

16. That this order shall become effective on the date hereof.

BY THE COMMISSION

Brent Stewart
Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure, and Perkins, CC., Concur.