

(Decision No. C80-2084)

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

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|                                     |                   |
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| IN THE MATTER OF INVESTIGATION OF ) | CASE NO. 5978     |
| THE EFFICIENCY OF PUBLIC SERVICE )  |                   |
| COMPANY OF COLORADO BY A MANAGE- )  | ORDER INSTITUTING |
| MENT AUDIT. )                       | INVESTIGATION     |

-----  
October 28, 1980  
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S T A T E M E N T

BY THE COMMISSION:

On May 27, 1980, the Commission entered its Decision No. C80-1039 in Investigation and Suspension Docket No. 1420 (hereinafter I & S 1420). In that docket the Commission authorized Public Service Company of Colorado (hereinafter Public Service or Respondent) to increase its electric revenues by \$45,897,349; its gas revenues by \$9,890,990; and its steam revenues by \$618,148; for a total of \$56,406,487.

The background of I & S 1420 is as follows: On March 26, 1980, Public Service filed Advice Letter No. 791-Electric in which it sought an 11.4% increase in electric revenues amounting to \$56,290,000; Advice Letter No. 293-Gas in which it sought a 2.77% increase in gas revenues amounting to \$11,348,000; Advice Letter No. 23-Steam in which it sought an 11.36% increase in steam revenues amounting to \$659,000.

Public Service urgently requested that the tariffs accompanying the foregoing advice letters be permitted to become effective by operation of law, without suspension, on or before April 25, 1980.

The Commission, however, by Decision No. C80-625, entered on April 8, 1980, suspended the effective date of the tariff filings of Public Service and set the same for hearing. The scope of the hearing was limited to two basic issues:

- (1) Do the instant filings, in fact, implement the regulatory principles established in Investigation and Suspension Docket No. 1330? and
- (2) Do the emergency financial conditions outlined by Public Service in its advice letters justify accelerated relief?

Because of serious financial conditions faced by Public Service, the Commission expedited the hearings in I & S 1420 and issued its final decision therein, namely Decision No. C80-1039, on May 27, 1980. One of the principal questions that was raised during I & S 1420 was why Public Service needed considerable financial relief on an accelerated basis, and a subsidiary question to this major question was why the construction program at Public Service's Pawnee plant in Eastern Colorado would be delayed seriously or halted, in the event accelerated financial relief was not approved by the Commission.

The Commission states and finds that a general rate case does not provide the most appropriate mechanism for an examination into the management efficiency and operations of a major utility which is subject to jurisdictional oversight of this Commission. A better mechanism, we believe, is the regulatory tool generally known as a "management audit". The management audit, as a regulatory tool, is of relatively recent origin in the history of regulation. It has been used by other commissions, and it has also been used by this Commission in the past. Thus, for example, in 1977 the Commission instituted Case No. 5728 for the purpose of investigating efficiency of Colorado-Ute Electric Association, Inc. (Colorado-Ute) by the performance of a management audit.

Premises considered, by the decision and order herein, the Commission institutes an investigation of the efficiency of Public Service by a management audit.

It is our desire that the Commission have complete cooperation among all the participants in the management audit, including Public Service, the auditors, the Commission and its staff. It is our hope that the management audit can be conducted in a non-adversarial context. Thus, the order herein will set out a preliminary plan for the audit and specifically outline the Commission's proposal for the procedures to be used during the audit, selection of auditors, scope of the audit, extent of the participation by the Commission and its staff, as well as the responsibility for the payment for the audit. Thereafter Public Service will be afforded the opportunity to offer their comments and suggestions to the proposed plan, which the Commission will consider prior to deciding on a final audit plan and selection of the independent auditor.

The Commission proposes to divide this investigation into two parts. Part I will include the establishment of procedures to be utilized during the audit, the selection of the auditor, and the final determination of the initial scope of the audit. Part II will consist of two phases. Phase 1 will consist essentially of the performance of an overview audit by the auditor selected and will include a report and the recommendations of the auditor, as to which areas, if any, merit further in-depth investigation. Phase 2 will include the further in-depth investigation, if any, is required, and submission of a final report of the auditor's recommendation. There should be no need for hearings or any other formal proceedings during Phases 1 and 2 of the investigation; however, the Commission feels that it may be appropriate to present the report and recommendations of the auditor in Phase 1 or Phase 2 through oral testimony to provide any of the parties an opportunity to explore the underlying factual basis of the recommendations as well as the justification therefor.

The Commission believes that specifications for the audit should be disseminated to and bids obtained from a representative number of responsible management auditing firms who have experience in utility audits. For that purpose, the Commission proposes to send audit specifications to the firms which will be invited on bid on the project. The firms are listed in Appendix A attached hereto.

Comments may be provided to the Commission on the acceptability of the above-mentioned firms, providing specific reasons for any expressed preferences or priorities; any additional firms that should be included and the reasons for their inclusion may also be provided.

The suggested scope of inquiry to be supplied to each management audit firm is as follows:

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## ORGANIZATION

- Organizational Structure
- Organizational Planning
- Management Communications and Control
- Administrative Procedures and Control
- Public Affairs Planning

## CORPORATE AND OPERATIONS PLANNING

- Strategic Planning
- Electric Load and Energy Forecasting
- Generation and Systems Planning
- Load Management Planning
- Gas Load and Requirement Forecasting

## ENGINEERING AND CONSTRUCTION

- Organization
- Contractor Selection
- Work Order Control
- Quality Assurance Programs
- Major Projects Management
- R & D Functions

## FUELS MANAGEMENT AND GAS SUPPLY

- Fuels Management
- Gas Supply

## POWER PRODUCTION

- Power Plant Operations
- Power Pooling and Purchase Agreements
- Capacity Utilization and Maintenance Scheduling
- System Dispatching and Control

## ELECTRIC AND GAS TRANSMISSION AND DISTRIBUTION

- Maintenance
- Operation

## CUSTOMER SERVICES

- Marketing and Customer Relations
- Credit and Collection
- Customer Accounting
- Meter Reading
- Energy Conservation Activities

## FINANCIAL SYSTEMS

- Financial Requirements Planning
- Managerial Accounting and Control
- Budget Management and Control
- Economic Analysis
- Internal Auditing
- Cost Allocation Practices
- Rates

## PERSONNEL AND LABOR RELATIONS

Manpower Planning and Overtime Practices  
Wage and Salary Practices  
Executive Compensation  
Employee Benefits  
Labor Relations  
Management Development and Training

## EXTERNAL RELATIONS

Public Relations and Communications  
Regulatory Relations  
Legislative Relations  
Financial Community

## SUPPORT FUNCTIONS

MIS and Data Processing  
Support Facilities Management and Planning  
Land Management  
Insurance/Claims  
Transportation Management  
Purchasing, Materials Management and Stores  
Legal  
Records Management

## WORK FORCE MANAGEMENT

Work Force Planning and Utilization  
Productivity Measurement

## ENVIRONMENTAL MANAGEMENT

The Commission, based upon the recommendations of the contractor, will select the specific areas to be examined in detail during Part III. If any of the areas selected for investigation are beyond the scope of the consultant's expertise, it will be allowed to subcontract specialized assignments. However, both the specific areas to be subcontracted and the particular consultant selected for the subcontracted areas should be approved by the Commission. Any costs encountered for subcontracting assignments will be assumed by the prime contractors in total costs for the management of the principal audit.

Upon completion of Part II the contractors will submit a comprehensive written report to the Commission which should include the following:

1. A summary of findings, including the development of information leading to the findings.
2. Recommendations of cost-effective actions that Public Service Company should pursue to correct any deficiencies which may exist.
3. The development of standards for the continuous review of performance.
4. A description of specific areas evaluated and the methodology used in reviewing those areas.
5. The assumptions made by the contractor in performing the study.
6. The amount of time spent in each area.



The contractor is further expected to assist the Company and the Commission in the implementation of those recommendations accepted by the Commission, if need be, and be available in the future to provide expert testimony on the findings of this study if so requested.

The following non-exhaustive list of illustrations represents examples of the types of functions the contractor will be expected to perform:

1. Evaluate the operating and construction decision-making process by top management.
2. Evaluate the management of major operations and determine how efficiently Company resources are being utilized.
3. Determine how Company policies and procedures are established and by whom.
4. Determine if appropriate and effective policies and procedures are established and being consistently followed.
5. Examine management controls and organizational structures to determine if steps are necessary for improvement.
6. Review and evaluate the functional responsibilities and authorities for operations to be performed.
7. Review and evaluate the planning and forecasting methods of the Company.
8. Determine whether there are agreed upon standards of performance and associated measurement and reporting systems in effect.

The Commission's proposed invitation for bid is attached to this decision as Appendix B.

Payment for the audit will be the responsibility of Public Service and thus, ultimately its customers. In order to reduce the impact of the cost of the audits on the rates of its customers, Public Service may amortize the cost over a period of five years.

It is contemplated that the Commission Staff will coordinate and monitor the management audit through periodic meetings with the auditors and Public Service, as necessary, but will not participate actively in the day-to-day performance of that audit.

In view of the above and foregoing, the Commission finds and concludes that it will be in the public interest for it to enter into an investigation of the efficiency of Public Service by means of the management audit.

An appropriate order will be entered.

#### ORDER

#### THE COMMISSION ORDERS THAT:

1. Case No. 5978 be, and hereby is, instituted for the purpose of investigating the efficiency of Public Service Company of Colorado by the performance of a management audit.
2. Public Service Company of Colorado be, and hereby is, made a Respondent to Case No. 5978.

3. Public Service Company of Colorado if it desires to do so may file with the Executive Secretary of the Commission on or before November 14, 1980 six copies of its comments with respect to the proposed plan for a management audit as set forth in this decision.

This Order shall be effective forthwith.

DONE IN OPEN MEETING the 28th day of October, 1980.



ATTEST, A TRUE COPY

*Nancy A. Galligan, Jr.*  
Nancy A. Galligan, Jr.  
Executive Secretary

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

EDYTHE S. MILLER

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DANIEL E. MUSE

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L. DUANE WOODARD

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Commissioners

MANAGEMENT CONSULTANTS

Arthur Anderson & Co.  
1600 Broadway  
Denver, CO 80202

Theodore Barry & Assoc.  
1151 West Sixth Street  
Los Angeles, CA 90017  
ATTN: William J. Kaffer, Vice Pres.

Booz-Allen & Hamilton  
245 Park Avenue  
New York, NY 10017  
ATTN: Mitchell Kress, Vice Pres.

The Berwick Group, Inc.  
Locust Park  
Belmont, MA 02178  
ATTN: Daniel H. Gray, Managing Director

W. E. Brennen & Co., Inc.  
2101 Central Park Avenue  
Evanston, IL 60201  
ATTN: William E. Brennen, Pres.

Cresap McCormick & Paget, Inc.  
245 Park Avenue  
New York, NY 10017

Coopers & Lybrand  
2300 Prudential Plaza  
Denver, CO 80265  
ATTN: William Harris

Day & Zimmermann, Inc.  
1518 Market Street  
Philadelphia, PA 19103  
ATTN: Frederick D. Brown, Pres.

Duff & Phelps, Inc.  
55 E. Monroe Street  
Chicago, IL 60603

The Emerson Consultants, Inc.  
30 Rockefeller Plaza  
New York, NY 10020  
ATTN: Dana Devereux, Pres.

Ernst & Ernst  
633 - 17th Street  
Denver, CO 80202

Ebasco Business Consulting Company  
Division of Ebasco Services, Inc.  
100 Church Street  
New York, NY 10007

Stanford Research Institute  
Menlo Park  
California 94025

Stone & Webster  
90 Broad Street  
New York, NY 10004

Elmer Fox, Westheimer & Co.  
2600 Lincoln Center Building  
1660 Lincoln Street  
Denver, CO 80203  
ATTN: Stephen A. Duree

Gilbert Associates, Inc.  
525 Lancaster Avenue  
Reading, PA 19603

Alexander Grant & Co.  
One First National Plaza  
Chicago, IL 60670

Hay Associates  
1845 Walnut Street  
Philadelphia, PA 19103  
ATTN: James W. Gouthro, Vice Pres.

Haskins & Sells  
633 - 17th Street  
Denver, CO 80202

A. T. Kearney, Inc.  
100 South Wacker Drive  
Chicago, IL 60606

Arthur D. Little, Inc.  
25 Acorn Park  
Cambridge, MA 02140  
ATTN: John F. Magee, Pres.

George S. May & Co.  
520 - 5th Avenue  
New York, NY 10036

McKinsey & Company, Inc.  
2 First National Plaza  
Chicago, IL 60670

Peat, Marwick, Mitchell & Co.  
1600 Broadway  
Denver, CO 80202

Price Waterhouse & Co.  
950 - 17th Street  
Denver, CO 80202

Public Operations Division  
H. B. Maynard and Company, Inc.  
100 Constitution Plaza  
Hartford, CT 06103

Touche Ross and Co.  
1700 Broadway  
Denver, CO 80202

Arthur Young & Company  
Security Life Building  
Denver, CO 80202  
ATTN: C. Richard Welsh

Gentlemen:

The State of Colorado Public Utilities Commission is seeking a management consulting firm to conduct a management audit of the management and operations of Public Service Company of Colorado. The audit would encompass Western Slope Gas Company, a subsidiary gas pipeline company, in addition to the gas, electric and steam departments of Public Service Company.

Your firm is among several that are invited to submit a proposal of such an audit if you so desire.

Public Service Company is the largest electric and gas distribution company in the State of Colorado and is the only supplier of steam under the jurisdiction of this Commission.

The company was granted an emergency rate increase in May 1980 of \$56.4 million in addition to a general rate increase of \$40 million granted in November of 1979. Currently the company has a further increase of \$121.1 million before the Commission.

Public Service Company has encountered serious problems in its construction programs, particularly with its Fort St. Vrain nuclear plant. The plant was completed many years behind schedule and has had almost continuous operating problems since it became operational on January 1, 1979. The Pawnee Plant now under construction is more than a year behind schedule for various reasons, most of which appear to be beyond the control of the company. The projected southeast plant project has been shelved indefinitely. The company states that the lack of construction funds is the primary reason for the Southeast postponement. In the meantime, the company is purchasing increasing amounts of power and these purchases are growing monthly. Obviously, Public Service Company does have serious financial problems along with its other difficulties.



It is for these reasons that this Commission wishes to assure the public, itself and Public Service Company that everything possible is being done to make certain that all avenues are being pursued that will result in the most efficient possible operation. It is believed that a management audit is the most expeditious method of achieving this goal.

The attached proposal design and content is offered for your guidance.

Each bidder will be given a specific time period to question Public Service Company officials either by telephone or personal meeting after all bidders have indicated their interest in submitting a proposal on this project. Proposals will be due approximately 50 days after the informational contacts.

Please acknowledge receipt of this letter and whether or not you are interested in making a proposal for this audit by \_\_\_\_\_ 1980.

Very truly yours,

Harry A. Galligan, Jr.  
Executive Secretary

MANAGEMENT AUDIT  
REQUEST FOR PROPOSAL  
PROPOSAL DESIGN AND CONTENT

The primary objective of this management review is to identify problem areas in operations and management, to propose solutions to those problem areas and to establish a vehicle for the continuous measurement of performance. The Commission fully expects this study to produce benefits to both Public Service Company and its customers since the goals of maximizing the firm's operating results and protecting customers' interest are reached through the same avenue, improving management's efficiency and effectiveness.

The study will be conducted in two separate phases. In the first phase the contractor will review the Company's overall operations and organization for the purpose of determining possible areas of opportunity for improvement, consistent with the contractor's proposal. The contractor's attention should be focused on identifying operating areas in which major economies might be attained without detrimental effects to adequate utility service and on determining where points of control responsibility exist with regard to the operating construction and policy decision-making process by top management.

Upon completion of the first phase, the contractor will issue a written report to the Commission which lists possible avenues of pursuit for the second phase, states the contractor's recommendations on areas he believes merit in-depth investigation and gives the rationale behind his suggestions.

The contractor will state the time necessary to review the Company's overall operations and organization in order to determine possible areas to be investigated (Phase I). Upon determination of the areas to be investigated in Phase II, and when authorization is given by the Commission, the contractor will state the time necessary to complete Phase II.

The Commission, based upon the recommendations of the contractor, will select the specific areas to be examined in detail during the second phase. If any of the areas selected for investigation are beyond the scope of the selected consultant's expertise, he will be allowed to sub-contract specialized assignments. However, both the specific areas sub-contracted and the consultants selected to perform these reviews must receive prior approval from the Commission. Any costs encountered for sub-contracted assignments will be assumed exclusively by the prime contractor within the total costs assigned for this engagement. Upon completion of the second phase, the contractor will submit a comprehensive written report to the Commission which should include the following items:

1. A summary of findings, including the development of information leading to the findings.
2. Recommendations of cost-effective actions that Public Service Company should pursue to correct any deficiencies which may exist.
3. The development of standards for the continuous review of performance.
4. A description of specific areas evaluated and the methodology used in reviewing those areas.
5. The assumptions made by the contractor in performing the study.
6. The amount of time spent in each area.

The contractor is further expected to assist the Company and the Commission in the implementation of those recommendations accepted by the Commission, if need be and be available in the future to provide expert testimony on the findings of this study if so requested.

The following non-exhaustive list of illustrations represents examples of the types of functions the contractor will be expected to perform:

1. Evaluate the operating and construction decision-making process by top management.

2. Evaluate the management of major operations and determine how efficiently Company resources are being utilized.
3. Determine how Company policies and procedures are established and by whom.
4. Determine if appropriate and effective policies and procedures are established and being consistently followed.
5. Examine management controls and organizational structures to determine if steps are necessary for improvement.
6. Review and evaluate the functional responsibilities and authorities for operations to be performed.
7. Review and evaluate the planning and forecasting methods of the Company.
8. Determine whether there are agreed upon standards of performance and associated measurement and reporting systems in effect.

It is the desire of the Commission that the following areas specifically be evaluated.

ORGANIZATION:

- \*Organizational Structure
- \*Organizational Planning
- \*Management Communications and Control
- \*Administrative Procedures and Controls
- \*Public Affairs Planning

CORPORATE AND OPERATIONS PLANNING

- \*Strategic Planning
- \*Electric Load and Energy Forecasting
- \*Generation and Systems Planning
- \*Load Management Planning
- \*Gas Load and Requirements Forecasting

ENGINEERING AND CONSTRUCTION

- \*Organization
- \*Contractor Selection
- \*Work Order Control
- \*Quality Assurance Programs
- \*Major Projects Management
- \*R & D Functions

FUELS MANAGEMENT AND GAS SUPPLY

- \*Fuels Management
- \*Gas Supply

POWER PRODUCTION

- \*Power Plant Operations
- \*Power Pooling and Purchase Agreements
- \*Capacity Utilization and Maintenance Scheduling
- \*System Dispatching and Control

ELECTRIC AND GAS TRANSMISSION AND DISTRIBUTION

- \*Maintenance
- \*Operation

CUSTOMER SERVICES

- \*Marketing and Customer Relations
- \*Credit and Collection
- \*Customer Accounting
- \*Meter Reading
- \*Energy Conservation Activities

FINANCIAL SYSTEMS

- \*Financial Requirements Planning
- \*Managerial Accounting and Control
- \*Budget Management and Control



- \*Economic Analysis
- \*Internal Auditing
- \*Cost Allocation Practices
- \*Rates

PERSONNEL AND LABOR RELATIONS

- \*Manpower Planning and Overtime Practices
- \*Wage and Salary Practices
- \*Executive Compensation
- \*Employee Benefits
- \*Labor Relations
- \*Management Development and Training

EXTERNAL RELATIONS

- \*Public Relations and Communications
- \*Regulatory Relations
- \*Legislative Relations
- \*Financial Community

SUPPORT FUNCTIONS

- \*MIS and Data Processing
- \*Support Facilities Management and Planning
- \*Land Management
- \*Insurance/Claims
- \*Transportation Management
- \*Purchasing, Materials Management and Stores
- \*Legal
- \*Records Management

WORK FORCE MANAGEMENT

- \*Work Force Planning and Utilization
- \*Productivity Measurement

ENVIRONMENTAL MANAGEMENT

Contractors who submit a proposal may be required to make an oral presentation of their proposal. Such presentations provide an opportunity for the contractor to clarify his proposal and allow the Commission to obtain answers to questions they may have regarding the proposal. The Issuing Office will schedule these presentations.

Contractors who submit proposals should provide copies of recent management audits for review. These audits should be submitted at the same time as the proposal.

The selected contractor will be required to assume responsibility for all services offered in his proposal. Further, the Commission will consider the selected contractor to be the sole point of contact with regard to contracts.

News releases pertaining to the RFP or the study to which it relates will not be made without prior Commission approval.

The entire proposal of the bidders will be made available for public inspection. Please do not include any information in the proposal which you do not wish released.

COMMISSION PARTICIPATION A staff audit manager will be designated by the Commission to coordinate the activities of the contractor with the Commissioners to insure satisfactory and timely performance of the RFP when awarded. The Commission Audit Manager or his designate will be the source of contact for the contractor in any discussions with the Commission.

The Commission staff will take part in the study on an if available basis. The Commission will rely upon the Audit Manager to answer various questions from time to time about the audit and the management and operations of the subject

utility. It will be necessary, therefore, that the Audit Manager be aware of the work of the management consultants. This will include attending selected interviews and monitoring the study's progress by both the Audit Manager and designated staff members. In any event, it is expected that the individual consultant assigned to each task area will discuss its progress informally and directly with the Audit Manager or his designates as needed. The contractor's willingness to work with the Commission staff in the described manner should be stated in the proposal.

#### INFORMATION REQUIRED FROM CONTRACTORS

Contractor's proposal must be submitted in the format outline below. Prepare consecutively numbered pages with index tabs for each section outlined below. STATEMENT OF THE PROBLEM. State in succinct terms your understanding of the problem presented by this RFP.

MANAGEMENT SUMMARY. Include a narrative description of the proposed effort and a list of the products that will be delivered.

WORK PLAN. Task descriptions are to be the guide in describing your technical plan for accomplishing the work. The task descriptions should be in sufficient depth to afford the Commission a thorough understanding of your work plan. Contractors are cautioned that their proposal may be rejected if their work plan does not include specific recommendations as to how each of the task descriptions are to be accomplished.

PRIOR EXPERIENCE. Submit statement of similar management audits conducted in the previous two years. This also would apply to a sub-contractor if appropriate. Indicate specifically any management audits of utilities. Experience shown should be work done by your company rather than by individuals. Studies or projects referred to should be identified and the name of the client shown, including the name, address and phone number of the responsible official of the client company or agency who may be contacted.

PERSONNEL. Include the names of all personnel - executive, professional, management analysts, systems analysts, auditors, staff consultants, etc. - that will be engaged in the work. Their education and experience in auditing and management evaluations, especially for stationary utilities, must be included. In addition, personnel employed by the "finalist" consulting firms that are to be assigned to personal interviews by the Commission if requested. These interviews will be conducted at the Commission offices in Denver prior to the final selection of a consultant.

STATEMENT ON POTENTIAL CONFLICTS OF INTERESTS. The consultant shall identify any relationships between itself or its employees and the utility to be audited or its employees. If there have been no such relationships, a statement to that effect is to be included in the proposal. In order to insure a completely independent study and provide maximum credibility to the resultant report, the Commission may not consider proposals submitted by consultants who have performed similar work (including financial audits) for the utility under audit. The consulting firm selected should agree not to perform subsequent work for this utility for a period of one year following submission of a final report to the Commission.

COST AND PRICE ANALYSIS. The information requested in this section is required to support the reasonableness of your quotation.

1. Manpower Costs. Itemize so as to show the following for each category of personnel with a different rate per hour:
  - a. Category: e.g., project manager, senior analyst, etc.
  - b. Estimated hours.
  - c. Rate per hour.
  - d. Total cost for each category and for all manpower needs.
2. Cost of Supplies and Materials. Itemize.
3. Consultant Costs. Itemize as in 1 above.
4. Subcontract Costs. Itemize as in 1 above.

5. Transportation Costs. Show travel costs and per diem separately.

6. Total Cost.

TIME ESTIMATES. For each task in the Work Plan, estimate the elapsed time required for completion. Indicate the number of manhours you have allocated to each task. Include a Project Schedule type display, time related, showing each event.

PHASE II. Any Phase II portion of the audit will be dependent upon the results of Phase I. The Commission must approve a Phase II and a consultant to do the Phase II.

REPORTS AND PROJECT CONTROL. Although the study will be paid for by the utility, the contractor should realize that the Commission is the principal client. Consequently, there will be no direct reporting by your firm to the utility without prior Commission approval.

It is anticipated that the Audit Manager will work with the Company and the consultant throughout the project as needed. It is necessary that the Commission maintain control of this engagement and that it and the company be kept abreast of the study progress. Therefore, periodic oral and written reports will be necessary in addition to the frequent informal contact between the consultant and the Audit Manager. These reports, as well as other documentation required from the contractor, are described below.

Weekly Informal Reports - Each week, the contractor should report to the Audit Manager in person or by phone the interviews and site visits scheduled for the following week.

Monthly Written Status Reports - Based on the task plan submitted with the proposal, the interim reports should consist of two parts:

1. General narrative briefly describing progress to date and outlining reasons for any discrepancies between the task plan schedule and progress to date. This narrative should also contain a statement indicating the status of the study



in relation to time - ahead, behind, or on schedule.

2. Status sheet indicating actual hours logged by category (i.e., project manager, senior analyst or auditor, junior analyst or auditor, etc.), material and supplies cost, and other costs, showing percentage of each in relation to proposal cost.

3. Invoices should be presented to the Company monthly

Interim reports (in triplicate) should be in the hands of the Audit Manager by the 10th working day following the month's end and shall be submitted for any months worked.

Generally the procedure to develop the final report will evolve in three stages. A detailed description of each is listed below:

TASK REPORTS. The task reports of each functional area will be sent to the Commission for review. The Commission will approve the release of the reports by the consultant to the utility. For each task area, there will be a three-party meeting between the Company, Consultant and Audit Manager. The purpose of the meeting is to review the consultant's findings in each task area with the Company's management responsible for that area. This process will ensure that material facts having an impact on the finding are not omitted. The task reports would be the basis of the draft report.

DRAFT REPORT. The draft report should comprise the task reports, management summary, and recommendations. The Company and the Commission will review the draft report prior to a meeting of all three parties. The Company's comments to the draft report should be prepared in writing so the consultant can make any changes of fact before completing the final report. The consultant must address each of the Company's comments to the draft report at the three party meeting.

FINAL REPORT. The Commission requires the final study report to include the following, written in terminology that will be meaningful to management

and others generally familiar with the subject areas:

1. General statement and management summary.
2. Recommendations for immediate changes that management can institute. These changes would include easily identifiable benefits not justifying more formalistic cost benefit analysis.
3. Recommendations as to specific areas that would require in-depth analyses and estimates of time and cost factors involved in Phase II for further studies.

It will be necessary that recommendations, especially those involving significant cost savings, be justified and accompanied by adequate back-up information. In providing adequate back-up information for those recommendations involving cost savings, the consultant should include the following for a specific time period(s):

1. Operating costs incurred before implementation of the recommendation.
2. Operating costs to be incurred after implementation of the recommendations.
3. Cost of implementing the recommendation.
4. Savings after consideration of implementation costs.

The selected consulting firm must be willing to stand behind its conclusions and recommendations by testifying, if necessary, in a future rate case or other hearing before the Commission at its standard compensation rates.