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Special Assistant

(Plus all the volunteer
help we can get)

STATE OF WEST VIRGINIA
SECRETARY OF STATE
Charleston 25305

PROPOSED RULES

STATE REGISTER FILING

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AGENCY PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

CONTACT PERSON Howard M. Cunningham PHONE 340-0426

TYPE OF RULE Legislative

TITLE OF RULE MANAGEMENT AUDITS

CHAPTER 24 ARTICLE 2 SERIES V (SEWER)

AUTHORITY 24-1-7

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CHECK APPLICABLE ITEMS BELOW TO SHOW KIND OF ACTION BEING TAKEN

NEW RULE

NOTICE OF HEARING

AMENDMENTS TO EXISTING RULE

NOTICE OF AGENCY APPROVAL
(legislative rules only)

REPEAL OF EXISTING RULE

NOTICE OF AGENCY ADOPTION
(interpretive & procedural
rules only)

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Public Service Commission Of West Virginia



201 Brooks Street, P. O. Box 812
Charleston, West Virginia 25323

NOTICE OF AGENCY ADOPTION

RULE TITLE: The Scope, Frequency and Application of Management Audits and Investigations.

RULE TYPE: Legislative

The attached rule constitutes the official rule adopted by the Public Service Commission of West Virginia on March 20, 1986, and filed with the Secretary of State.

Michael D. Greer

Michael D. Greer
Chairman

FILED IN THE OFFICE OF
THE SECRETARY OF STATE
THIS DATE March 20, 1986
ADMINISTRATIVE LAW DIVISION

GENERAL ORDER NO. 224 (SEWER)

IN THE MATTER OF The Scope, Frequency
and Application of Management Audits
and Investigations.

Proceeding Upon the Commission's Own Motion

FISCAL NOTE

This is a Fiscal Note issued pursuant to §§29A-3-4, 29A-3-5, 29A-3-9, and 24-1-7 of the West Virginia Code, relating to General Order No. 224. In the Matter of The Scope, Frequency and Application of Management Audits and Investigations.

I. OBJECTIVES OF THE RULE

The purpose of these rules and regulations is to establish requirements for the effectuation of the legislative mandate expressed in West Virginia Code §24-2-3. The rules and regulations relate to establishing a procedure for the conduct of formal management audits and investigations of utilities and the implementation of recommendations made as a result of such audits.

II. COST OF IMPLEMENTING THE ATTACHED PROPOSED RULES

A. Cost of Implementation for the State

The administration and enforcement of these rules will require no new personnel, equipment or supplies and will require no substantial changes in work assignments or procedures.

B. Cost of Implementation for Persons Affected by the Proposed Rule

Under the proposed rule, the Commission may have the audit performed by its Staff or contracted to an auditing firm. The utility will pay the cost of a contracted audit; however, the Commission shall include the cost in the utility's cost of service, thus allowing the utility to recover the expense from its customers.

III. THE EFFECT THIS MEASURE WILL HAVE ON THE COSTS AND REVENUES OF STATE GOVERNMENT (Information required by fiscal notes for either house of the Legislature)

There will be no effect on the cost and revenues of State Government except as noted in Part IV.

IV. ECONOMIC IMPACT OF THE RULES OF THE STATE OR ITS RESIDENTS

The rule provides that the audit may be performed by the Commission or contracted to an auditing firm. The utility would incur no additional costs which it could pass on to ratepayers if the audit is conducted by Staff. If the audit is contracted to a firm, the reasonable cost of conducting the audit shall be included in the utility's cost of service. The cost of the audit may be amortized over a period of years if included in the utility's cost of service. Therefore, the economic impact upon the State and its residents should be minimal, if there is any impact at all.

DATE March 20, 1986 AGENCY Public Service Commission

SIGNATURE OF AUTHORIZED REPRESENTATIVE

Michael D. Green

GENERAL ORDER NO. 222 (ELECTRIC)
GENERAL ORDER NO. 223 (GAS)
GENERAL ORDER NO. 224 (SEWER)
GENERAL ORDER NO. 225 (TELEPHONE)
GENERAL ORDER NO. 226 (WATER)

IN THE MATTER OF The Scope, Frequency
and Application of Management Audits
and Investigations.

ABSTRACT OF PROMULGATION HISTORY

The West Virginia Legislature passed Senate Bill No. 117 on March 12, 1983. Said Bill, which was effective from passage, has as one of its provisions the amendment of Section 3, Article 2, Chapter 24 of the West Virginia Code. Said amendment gives the Public Service Commission authority, in exercising its power to determine just and reasonable rates, to audit or have an audit performed of utility management practices and policies in order to determine whether or not the utility is operating with efficiency and utilizing sound management practices. The amendment further provides that the Commission adopt rules with regard to the scope, frequency and application of such management audits. The Bill was effective from passage and signed into law on March 25, 1983.

On August 21, 1985, the Commission issued General Orders 222, 223, 224, 225 and 226, initiating a rulemaking proceeding to promulgate rules effectuating the legislative mandate contained in Code §24-2-3. Adequate notice of the proposed rulemaking and copies of the proposed rules were provided to interested parties in accordance with the requirements of the August 21, 1985 Order and Code §29A-3-5. All interested parties were given the opportunity to submit written comments on the proposed rules to the Commission by 4:00 p.m., September 20, 1985.

Upon review of the comments submitted by various parties the Commission has determined that some of the proposed modifications should be adopted, and other changes made on the Commission's own initiative. Therefore, on March 20, 1986, the Commission adopted the rule hereinafter set forth as Rule 2.06 of the Rules and Regulations for the Government of Electric, Water, and Sewer Utilities and Rule 5.05 of the Rules and Regulations for the Government of Telephone Utilities as final rules establishing the procedure for management audits and investigations, to become effective sixty days after promulgation, in accordance with West Virginia Code §24-1-7.

Public Service Commission Of West Virginia

Michael D. Greer, Chairman
Oris D. Casto, Commissioner
Charlotte R. Lane, Commissioner



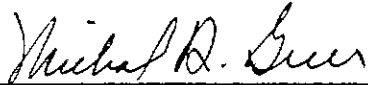
201 Brooks Street, P. O. Box 812
Charleston, West Virginia 25323

NOTICE OF PUBLIC HEARING OR COMMENT ON PROPOSED RULE COMMENT PERIOD

AGENCY: Public Service Commission of West Virginia
RULE TYPE: Legislative
RULE TITLE: Management Audit Rule - Sewer Utilities

A COMMENT PERIOD ON THE ABOVE PROPOSED RULE HAS BEEN SCHEDULED AND WILL END ON September 20, 1985 AT 4:00 p.m.. WRITTEN COMMENTS ARE TO BE MAILED TO THE FOLLOWING ADDRESS: Howard M. Cunningham, Executive Secretary, Public Service Commission of West Virginia, Post Office Box 812, Charleston, West Virginia, 25323.

THE ISSUES TO BE HEARD SHALL BE LIMITED TO THE PROPOSED RULE.


Michael D. Greer, Chairman

FILED
1985 AUG 21 AM 9:33
SECRETARY OF STATE



FILED

1985 AUG 21 AM 9:33

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Charleston 25305

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STATE REGISTER FILING

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AGENCY PUBLIC SERVICE COMMISSION OF WEST VIRGINIA

CONTACT PERSON Howard M. Cunningham PHONE 340-0426

TYPE OF RULE Legislative

TITLE OF RULE MANAGEMENT AUDITS

CHAPTER 24 ARTICLE 2 SERIES V

AUTHORITY 24-1-7

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GENERAL ORDER NO. 224 (SEWER)

SECRETARY OF STATE

IN THE MATTER OF The Scope, Frequency
and Application of Management Audits
and Investigations.

Proceeding Upon the Commission's Own Motion

FISCAL NOTE

This is a Fiscal Note issued pursuant to §§29A-3-4, 29A-3-5, 29A-3-9, and 24-1-7 of the West Virginia Code, relating to General Order No. 224. In the Matter of The Scope, Frequency and Application of Management Audits and Investigations.

I. OBJECTIVES OF THE RULE

The purpose of these rules and regulations is to establish requirements for the effectuation of the legislative mandate expressed in West Virginia Code §24-3-8. The rules and regulations relate to establishing a procedure for the conduct of formal management audits and investigations of utilities and the implementation of recommendations made as a result of such audits.

II. COST OF IMPLEMENTING THE ATTACHED PROPOSED RULES

A. Cost of Implementation for the State

The administration and enforcement of these rules will require no new personnel, equipment or supplies and will require no substantial changes in work assignments or procedures.

B. Cost of Implementation for Persons Affected by the Proposed Rule

Under the proposed rule, the Commission may have the audit performed by its Staff or contracted to an auditing firm. The utility will pay the cost of a contracted audit; however, the Commission may include the cost in the utility's cost of service, thus allowing the utility to recover the expense from its customers.

III. THE EFFECT THIS MEASURE WILL HAVE ON THE COSTS AND REVENUES OF STATE GOVERNMENT (Information required by fiscal notes for either house of the Legislature)

There will be no effect on the cost and revenues of State Government except as noted in Part IV.

IV. ECONOMIC IMPACT OF THE RULES ON THE STATE OR ITS RESIDENTS

The rule provides that the audit may be performed by the Commission or contracted to an auditing firm. The utility would incur no additional costs which it could pass on to ratepayers if the audit is conducted by Staff. If the audit is contracted to a firm, the reasonable cost of conducting the audit may be included in the utility's cost of service, at the discretion of the Commission. The cost of the audit may be amortized over a period of years if included in the utility's cost of service. Therefore, the economic impact upon the State and its residents should be minimal, if there is any impact at all.

DATE August 21, 1985 AGENCY Public Service Commission

SIGNATURE OF AUTHORIZED REPRESENTATIVE

Michael D. Green

1985 AUG 21 AM 9:33

MANAGEMENT AUDIT RULE

SECRETARY OF STATE

2.06 MANAGEMENT AUDITS

(1) A. General

B. Scope - A management audit can be defined as an examination of management practices and policies to determine whether the entity being audited is operating efficiently. The purpose of a management audit is to disclose operating areas that are well-managed, to identify opportunities for improvement, and to form recommendations for capitalizing on those opportunities. The results of a management audit and the compliance of the utility with the provisions of this policy shall be an important factor in determining just and reasonable rates.

C. Authority - West Virginia Code §24-2-3

D. Filing Date - August 21, 1985

E. Effective Date - (Proposed Rule)

(2) Types of Management Audits

The following types of management audit, which vary in scope, may be directed and utilized by the Commission:

A. Comprehensive - an investigation characterized by an extensive, detailed analysis of every facet of a utility's management and operations.

B. Reconnaissance - a broad review, similar in scope to a comprehensive audit, but in less detail. The objective of this type of audit is to identify specific areas for more intensive investigation based upon the magnitude of the problem identified or the potential benefits to be derived.

C. Focused - an in-depth investigation of one or several specific areas of a utility's management and operations.

- D. Follow-Up - a review of the progress in implementing recommendations and results of previously performed management audits.

(3) Frequency

- A. The Commission shall order a management audit of any utility under its jurisdiction whenever the Commission deems it necessary to investigate the operational efficiency of the utility. The Commission may accept or request a management audit performed under the rules of another jurisdiction in satisfaction of this rule when that audit is of the scope contemplated by the Commission, conforms to the standards herein set forth and covers the utility's service functions in its West Virginia jurisdiction.
- B. All Class A, privately-owned sewer utility companies will be subject to an initial management audit within three years of the adoption of this policy. Class A utility is defined by the Uniform System of Accounts as adopted by the Commission and as applicable to the utility's West Virginia operations. Following the completion of this initial audit, each of these selected privately-owned utilities will be subject to a management audit at least once every ten years, as directed by the Commission.

(4) Conduct and Control

- A. The Commission shall select the person or firm who shall conduct the management audits. It may choose to have the audit performed by its Staff or contracted to a qualified outside auditing firm. In the latter case, the Commission shall supervise the selection process. Although the contractor will be responsible for the conduct of the audit, the Commission will be involved in an oversight capacity which shall include review and approval of the contractor's work plans and progress reports. The audited utility shall be responsible for the cost of the outside contracted audit.
- B. The Commission may impose eligibility restrictions upon contractors relating to past, current, and post-audit relationships with the subject utility.

- C. The subject utility is expected to cooperate to the fullest extent with the performer of a Commission ordered management audit. A responsible employee shall be appointed by the subject utility as its management audit coordinator, who shall be responsible to assist in the efficient performance of the management audit.

(5) Costs

It shall be the responsibility of the audited utility to pay for a contracted audit and to ensure the reasonableness of those costs. The Commission may include the reasonable cost of conducting the management audit in the cost of service of the utility. The Commission may order such costs to be amortized over a reasonable period of years, considering the impact of these costs on both the utility and its customers.

(6) Implementation of Recommendations

- A. Within thirty days of the final submission of the management audit report, the subject utility shall file a document detailing its position on each audit recommendation. This document must state which recommendations are acceptable to the utility and the nature of the utility's disagreement with any recommendations.
- B. After reviewing the management audit report and the utility's response thereto, the Commission may issue an order prescribing the actions to be taken by the utility.
- C. Within sixty days of the Commission's order prescribing which recommendation(s) the utility shall adopt, the subject utility shall file detailed implementation plans for the Commission's review and approval. The utility shall not deviate from an approved implementation plan without prior consent of the Commission. The Commission may initiate a follow-up management audit to monitor the progress of the utility's implementation plans.

(7) Pre-emptive Management Audits

A utility which incurs expenses for a management audit in expectation of a Commission ordered management audit

shall have such expenses disallowed for ratemaking purposes.

Public Service Commission Of West Virginia

Michael D. Greer, Chairman
Chris D. Casto, Commissioner
Charlotte R. Lane, Commissioner



201 Brooks Street, P. O. Box 812
Charleston, West Virginia 25323

C E R T I F I C A T I O N

I, Michael D. Greer, Chairman of the West Virginia Public Service Commission, do hereby certify that the rules and regulations contained herein are the lawfully proposed legislative rules of the West Virginia Public Service Commission.

Michael D. Greer

Chairman.

August 21, 1985

Date

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1985 AUG 21 AM 9:33
SECRETARY OF STATE