

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

EVALUATION AND COMPLIANCE DIVISION
Advisory, Evaluation and Research BranchRESOLUTION G-2736
October 28, 1987R E S O L U T I O NORDER INITIATING A COMPREHENSIVE MANAGEMENT AUDIT
OF SOUTHERN CALIFORNIA GAS COMPANYSUMMARY

Southern California Gas Company (SoCal Gas) is ordered to undergo a comprehensive management audit, to be conducted in two phases by a management consulting firm. The first phase of the study shall audit SoCal Gas' operational and financial processes as well as its management performance. The audit report for the first phase should be completed by January, 1989. The second phase should investigate company marketing and procurement policies, with timing to be determined.

PURPOSE

1. SoCal Gas is the next logical candidate in a series of management audits ordered by this Commission for California's major public utilities. Previous audits have been completed for Pacific Gas and Electric Company (1980), Pacific Telephone and Telegraph Company (1982) and San Diego Gas and Electric Company (1984).
2. Management audits supplement reviews of utility operations made in general rate cases, which are normally every three years. Because SoCal Gas is now authorized to extend its rate case filing to five years, per Decision 87-05-027, a management audit is particularly appropriate.
3. SoCal Gas' last general rate case was for test year 1985, and the next will be for test year 1990. Management audit final reports should be completed during the first half of 1989, during which time the test year 1990 general rate case will be litigated.
4. It is important that SoCal Gas participate in this audit in a spirit of cooperation. This order is in no way punitive or critical of past performance, but is intended to benefit company shareholders and ratepayers by contributing toward increased management effectiveness in an increasingly competitive natural gas marketplace.

SCOPE

5. The study should be a coordinated operational and financial audit. The focus of the audit should be on management procedures used to allocate utility resources, including human, financial and energy resources. The review should study and report on SoCal Gas' internal processes as well as the measurable results of those processes (for example productivity measures).

6. The audit should include specific recommendations for improvements in SoCal Gas' management methods. The first phase should focus on operational and financial processes. The second phase should cover operations in the company's core and non-core competitive natural gas markets, as distinguished in part due to recent industry restructuring.

7. The Appendix to this Resolution shows a more detailed Scope of Work.

PROCEDURES

8. In order that the management audit be comprehensive and impartial, the study should be performed by an experienced management consulting firm. The consultant should be selected with attention to avoiding conflict of interest problems relating to the firm's other business with SoCal Gas (or its subsidiaries, affiliates or parent company), or within the gas industry.

9. The Evaluation and Compliance Division should appoint a Project Coordinator to coordinate the audit project and consultant contract administration.

10. The Project Coordinator should assemble a Commission review group to actively participate in all aspects of the audit administration: issuance of a request for proposals, contractor selection, audit progress reports and final report draft review. In order that the Commission may direct and control the audit effort, the Project Coordinator should approve the request for proposals/bid package, bidder list, contractor selection criteria, final contractor selection and contract document.

11. The consultant contract shall be between the management consulting firm and SoCal Gas. However, consultant efforts should be directed by the Project Coordinator, and consultant invoices should be approved for payment by the Project Coordinator. The contract should cover the phase one study and reports, as well as a study plan for phase two. A contract extension to cover phase two may be subsequently negotiated, as directed by the Project Coordinator.

12. SoCal Gas should cooperate with consultant personnel and should afford the consultant the same access to company documents and personnel that the Commission staff would have if it were conducting the audit itself.

13. It is the intention of the Commission that SoCal Gas be allowed to recover in rates its net audit payment costs, by inclusion of costs in attrition or general rate case applications. Recovery of recorded audit costs may be offset by reduced company expenses induced by implementation of audit recommendations.

14. The Project Coordinator should determine an audit work plan, including project milestones and reporting requirements. The phase one final report should be due in January, 1989, and a draft report should be submitted for Commission review two months prior to then. Phase two should follow phase one, with scope and timing dependent upon the Project Coordinator's determination following consultant submittal of a prospective phase two study plan. When the Commission determines to begin phase two an appropriate reporting schedule will be established. The Project Coordinator may impose additional reporting requirements as necessary, including progress reports. The consultant must be available for possible testimony in SoCal Gas' test year 1990 general rate case.

THEREFORE:

1. Southern California Gas Company is ordered to undergo a comprehensive management audit, to be conducted by an independent management consulting firm. The scope and procedures for the audit shall conform to discussion paragraphs 5 through 14 and the Appendix to this Resolution. The audit project shall commence as soon as possible, and no later than 30 days following the effective date of this order.
2. The audit project shall be administered by a Project Coordinator appointed by the Evaluation and Compliance Division.
3. The final audit report for Phase One shall be filed with the Executive Director no later than January, 1989. The Project Coordinator shall determine the exact filing date.
4. This order is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 28, 1987. The following Commissioners approved it:

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



Executive Director

SCOPE OF WORK

The audit should be a coordinated organizational and operational audit, under the direction of a Commission Project Coordinator. The focus of the audit should be on management procedures used to allocate utility resources, including human, financial and energy resources. The review should study SoCal Gas' internal processes as well as the measureable results of those processes (for example productivity measures).

The audit should include specific recommendations for improvements in SoCal Gas' management staffing and methods, and should cover operations in the company's core and non-core natural gas markets, as distinguished in part due to recent industry restructuring. Specific areas of investigation should be:

PHASE 1

- o Management and organization, including supervision and communication between the various levels of management and the workforce in light of the reorganization.
- o Financial and management planning, budgeting and control policies and systems relating to their adequacy in determining and minimizing capital and operating expenditures.
- o Influence of affiliates on the policies, planning, staffing, budgeting and operation of the utility. Also, study of accounting systems effectiveness and staffing policies in preventing utility-affiliate subsidies.
- o Utilization and adequacy of electronic data processing.
- o Processes that deal with load and demand forecasting and management, and resource and supply planning.
- o Efficiency of conventional line operations and level of service provided by Customer Services Department.
- o Engineering and construction of major facilities by the utility and/or the contractors under its supervision, with particular attention to crew productivity, project management, cost control, equipment management, construction inspection, safety, construction bid documents and contract monitoring.
- o Construction, repair and maintenance activities, with attention to scheduling, dispatching of crews and work measurement standards.

PHASE 2

- o Policies on gas procurement, handling of material and purchasing in the deregulated environment.
- o Marketing policies and techniques in the deregulated environment.
- o Influence of affiliates on the policies, planning, staffing, budgeting and operation of the utility in the deregulated environment.
- o Processes that deal with load and demand forecasting and management, and resource and supply planning in the deregulated environment.