

with the National Association of Regulatory Commissioners ("NARUC") Uniform System of Accounts, and to revise its computer system to generate reports and statistical information for Commission reports. The agreement was not made simply to change the format of the utility's accounting, but was made to address numerous concerns with the reliability of the financial statements. The Department not only failed to complete this task in the time required by the Commission's Order, but appears to have continuing issues with its accounting records given the Department's (and the other parties') preference to delay the proceedings of the permanent rate case until it receives audited financial statements. We also note that the Department's balance sheet for the year ending December 31, 2008, which was provided in Petitioner's 2008 Annual Report submitted on April 30, 2009, fails to appropriately balance. Resolution of accounting deficiencies warrants the same "emergency" sense of urgency on the part of Petitioner and its providers as this Commission has accorded to the first phase of this rate case. We expect the Department to fully and completely address this issue and its compliance with the Commission's prior order in the permanent rate proceeding.

The Commission has also recently conducted an informal investigation into the Department's billing practices as a result of complaints received by the Commission's Consumer Affairs Division in early 2008. These complaints resulted from a number of estimated bills that were significantly higher than actual use and where no meter reading was occurring for extended periods of time. While the customer issues appear to have been addressed, the Department has failed to take appropriate follow-up action concerning the bill estimation method. The informal investigation revealed that the Department changed the bill estimation method reflected in its rules on file with the Commission without first seeking the Commission's approval. It is now the middle of 2009 and the Department has yet to take any action to obtain the Commission's approval for the change in bill estimation method.

Rather than wait to address the next debacle characterized as an emergency situation, the Commission believes it is necessary that the Department conduct a comprehensive review of its management structure, whether it does so itself or with the assistance of an independent auditor or consultant, to identify appropriate management policies and procedures that need to be in place to assure proper, timely and reasonable management of utility operations. We note that in the Department's 2007 Annual Report, it indicated that a "major goal" for 2008 included completing a strategic plan. As part of the permanent rate proceeding, the public interest requires that these issues be addressed, and any rate relief will be dependent, at least in part, on satisfactory responses to the concerns raised herein and a demonstration that the Department's management and structure is appropriate. Consequently, the Commission finds that the Department shall provide the results of its management structure review and a copy of the Department's strategic plan with its case-in-chief filing in the permanent rate proceeding.

In reviewing its management structure, the Department should also consider whether it would be appropriate to adopt benchmarking standards outlined in industry literature, such as the American Water Works Association. The benchmarking standards to be considered should extend beyond operation practices by including management standards such as strategic and financial planning and risk management. It may also be possible to use benchmarking data to demonstrate the reasonableness of the fees associated with the Management Agreement. The Department should also consider evaluating each of its employees and positions, including the