LOUISIANA PUBLIC SERVICE COMMISSION

PERFORMANCE AUDIT
ISSUED OCTOBER 22, 2008

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT KERRY FITZGERALD, CPA, PERFORMANCE AUDIT MANAGER, AT 225-339-3800.

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

October 22, 2008

The Honorable Joel T. Chaisson, II,
President of the Senate
The Honorable Jim Tucker,
Speaker of the House of Representatives

Dear Senator Chaisson and Representative Tucker:

This report provides the results of our follow-up performance audit on the Louisiana Public Service Commission. The audit was conducted under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended.

The report contains our findings, conclusions, and recommendations. Appendix D contains the response of the Louisiana Public Service Commission. I hope this report will benefit you in your legislative decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

PSC08

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Appendixes

Exhibits

EXECUTIVE SUMMARY

We issued a performance audit report on the Louisiana Public Service Commission (LPSC) in April 2003. Based on the results of that audit, we made recommendations to LPSC to assist in improving the performance of its operations. This follow-up audit focuses on the status of LPSC operations from FY 2003 to FY 2006. Our audit objectives were to answer the following three questions:

1. Has LPSC improved its rate setting and monitoring functions since the 2003 audit?

2. Has LPSC improved its electric and gas utility adjustment functions since the 2003 audit?

3. Has LPSC improved its independence standards since the 2003 audit?

The information in the following paragraphs presents a summary of whether LPSC has improved in each area covered by the previous audit. A detailed listing of our 2003 audit recommendations and their status of implementation can be found in Appendix A.

LPSC has generally not improved its rate setting and monitoring functions. The commission lacks policies and procedures for all aspects of the rate setting process and has no systematic plan to review rates. In addition, LPSC does not always include specific criteria for outsourced services in requests for proposals or document its need to outsource, but it has improved somewhat in these areas since the 2003 audit. Although LPSC has not developed a formal evaluation plan for contractors, it has made some improvements in its procedures to review contractor billings.

LPSC has also generally not improved its electric and gas utility adjustment functions. The commission does not require audits of all Group II and Group III gas utilities. In addition, LPSC lacks policies and procedures to review adjustment filings and does not enforce the requirement for Group III gas utilities to file adjustments. LPSC also does not require sufficient documentation to conduct reviews of adjustment filings or require utilities to designate affiliate transactions. The commission has somewhat improved the completion of two-year audits of adjustment filings and has improved its staff qualifications to some extent.

Finally, LPSC has not improved its independence standards. Although the commission has made some improvements to strengthen internal controls, the controls are still lacking. Commissioners and staff are allowed to receive meals and beverages from regulated entities and those with proceedings before the commission.

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INTRODUCTION

Audit Initiation and Objectives

We conducted this follow-up examination under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. Appendix B contains our audit scope and methodology. The objectives of this audit were to answer the following three questions:

1. Has LPSC improved its rate setting and monitoring functions since the 2003 audit?

2. Has LPSC improved its electric and gas utility adjustment functions since the 2003 audit?

3. Has LPSC improved its independence standards since the 2003 audit?

Department Overview

Article IV, Section 21 of the Louisiana Constitution of 1974, as amended, establishes the Louisiana Public Service Commission (LPSC). The commission is comprised of five commissioners, one elected from each of five districts around the state, who serve overlapping terms of six years. Louisiana Revised Statute (R.S.) 36:721 establishes the Department of Public Service within the executive branch and mandates that the department shall be responsible for performing the functions of LPSC. State law (R.S. 36:722) further states that LPSC shall represent the public interest in administration of laws applicable to LPSC and that it shall be responsible to the legislature and public.

In addition, state law (R.S. 45:1163) provides that LPSC shall exercise all necessary power and authority over any street railway, gas, electric light, heat, power, waterworks, or other local public utility for the purpose of fixing and regulating the rates charged or to be charged by and service furnished by such public utilities. LPSC has set goals to “promote fair regulation of the public utilities and motor carriers operating in the state of Louisiana” and to “continue to work towards ensuring affordable rates to customers.” For fiscal year 2007, the department had 122 authorized positions and a budget of approximately $9 million. This information is shown in Exhibit 1 on the following page.

Exhibit 1 Louisiana Public Service Commission 2006 Expenditures and 2007 Appropriations				
Program	**Fiscal Year 2006 Actual Expenditures**	**Fiscal Year 2007 Appropriation**	**Fiscal Year 2007 Authorized Positions**	**Percentage of Staff**
Administrative	$3,007,214	$3,290,354	35	29%
Support Services	1,828,207	2,102,815	25	20%
Motor Carrier Registration	1,568,378	1,700,543	25	20%
District Offices	2,079,977	2,244,528	37	30%
Total	**$8,483,776**	**$9,338,240**	**122**	**100%***

*Adding percentages for each program will not equal 100% due to rounding.

Source: Prepared by legislative auditor's staff using information from Division of Administration, Office of Planning and Budget.

The department consists of four executive budget programs, as shown in Exhibit 2 on the following page. The four programs are listed below along with a brief description of their functions and how they are organized.

- The **Administrative Program** provides support to all programs of LPSC through policy development, communications, and dissemination of information, in addition to technical and legal support to staff. This program consists of the Executive Division, Office of General Counsel, Legal Division, Management and Finance, Do Not Call Solicitation Program, Fiscal Accounting and Office Services Section, Human Resources Section, and Information Technology Section.

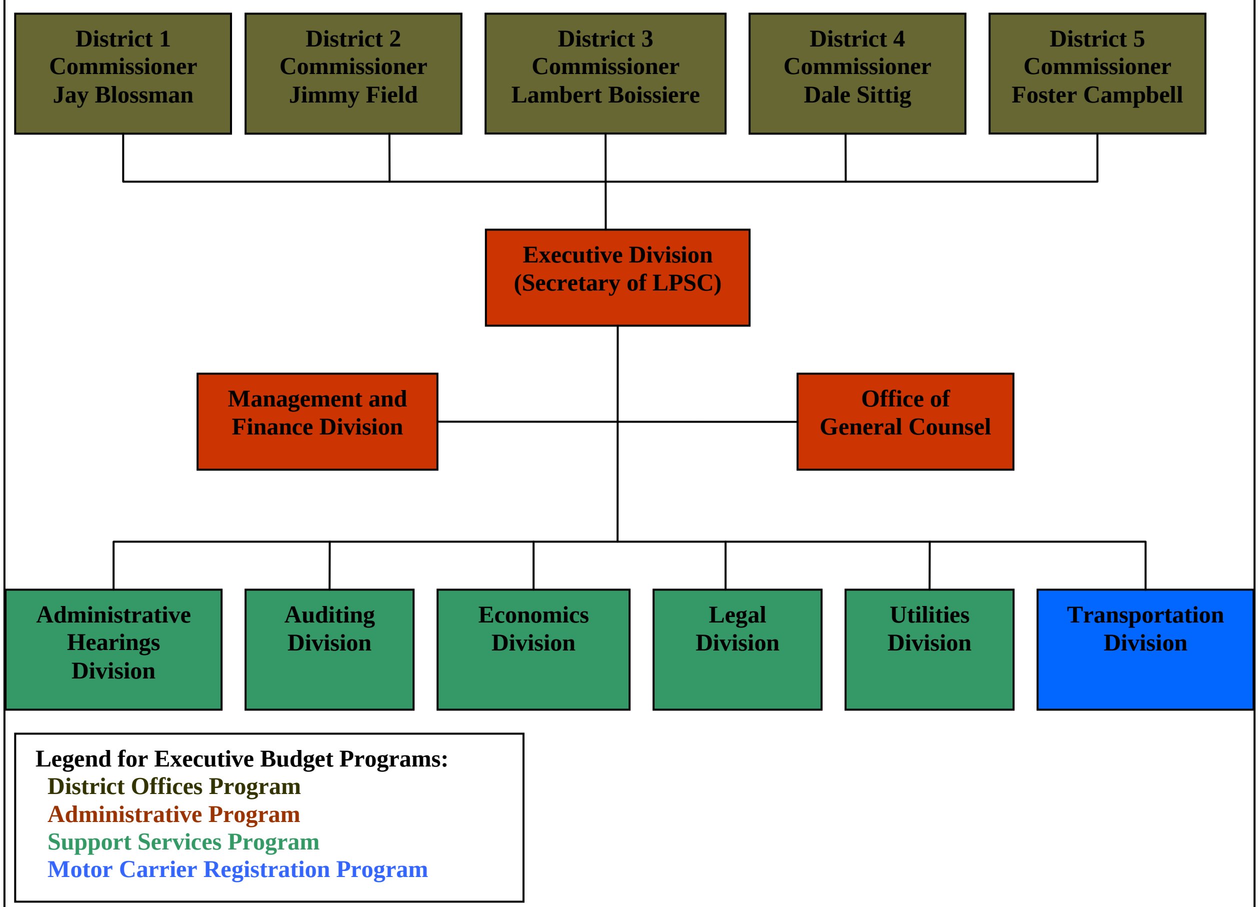
- The **Support Services Program** provides consulting functions to the commission. This program gathers a variety of economical, legal, and statistical data that administrative law judges use in making recommendations to the commissioners. The program's mission is to manage administrative hearings, provide LPSC with accurate information with respect to the financial condition of companies subject to the commission's jurisdiction, and provide technical support. The Administrative Hearings Division, Office of General Counsel, Auditing Division, Economics Division, and Utilities Division work to complete the mission of this program.

- The **Motor Carrier Registration Program** regulates companies that provide transportation services within and through the state. This program is comprised of the Transportation Division, which includes the Administrative and Enforcement sections.

- The **District Office Program** serves a public relations function by handling consumer complaints and providing information to the public. Individual district offices serve as the personal office of each public service commissioner and his or her staff. Each district has one district office and one or more satellite offices. Department staff operates the district and satellite offices.

The District Offices Program contains the commissioners, who ultimately make decisions regarding electric and gas utility regulation. The Support Services Program contains LPSC staff, who performs the analysis that allows the commissioners to make decisions regarding regulation. The Administrative Support Services Program provides oversight of the analysis conducted by the Support Services Program. The only program that is not involved in the regulation of electric and gas utility companies is the Motor Carrier Registration Program.

Exhibit 2
Louisiana Public Service Commission Organizational Chart
During Audit Period



Source: Prepared by legislative auditor's staff using information provided by LPSC.

Overview of LPSC Utility Regulation

Article IV, Section 21 (B) of the Louisiana Constitution of 1974, as amended, states that LPSC shall regulate all common carriers and public utilities. Included in LPSC's regulation is the review and approval of the rates that electric and gas utilities charge their customers (or ratepayers). Electric and gas utilities under the commission's jurisdiction include the following:

1. 19 investor-owned electric and gas utilities conducting business in Louisiana

2. 11 electric cooperatives whose members elect to be regulated by the commission

3. Electric and gas utilities owned by towns, cities, parishes, or other political subdivisions of the state whose electors vote to be regulated by the commission (currently no companies in this category are regulated by LPSC)

Appendix C contains a listing of the electric and gas utilities regulated by LPSC.

LPSC's goal is to set rates that are affordable to utility customers and that adequately compensate the utility. According to information obtained from LPSC, electric and gas utility companies regulated by LPSC received approximately $9.7 billion and $984 million, respectively, from their ratepayers in 2007 (the last year that complete information was available). So, while the total LPSC annual budget for regulating utilities and motor carriers is approximately $9 million, the commission sets the rates that result in over $10 billion in revenue from Louisiana ratepayers for the electric and gas utilities alone.

The Louisiana Constitution also states that LPSC shall adopt and enforce reasonable rules, regulations, and procedures necessary for the discharge of its duties as provided by law. LPSC addresses this mandate by adopting orders through a majority vote of the commission. According to LPSC General Order No. 2, gas and electric rates are fixed by the commission to be charged, applied, and subject to review and revision any time a complaint is filed or a utility desires to change, modify, or cancel its rates.

The rates that electric and gas companies charge their ratepayers are made up of two components. They include the base rate and either the fuel adjustment clauses or power cost adjustments for electric companies or the purchased gas adjustments for gas companies (hereafter referred to as adjustments). Both the base rate and adjustment rate are included on the ratepayers' monthly utility bills. LPSC reviews and approves both of these rates.

Rates should be set so that the amount that the utility companies collect from their ratepayers through base rates and adjustments is enough to cover all of the utilities' allowable expenses and to provide a reasonable profit. Allowable expenses are defined by LPSC General Orders as reasonable expenses necessary for the provision of electricity or gas to utility customers. LPSC establishes the rates of utility companies and is to review expenses to ensure that the companies' profits stay within a certain acceptable range (e.g., 10% - 12%).

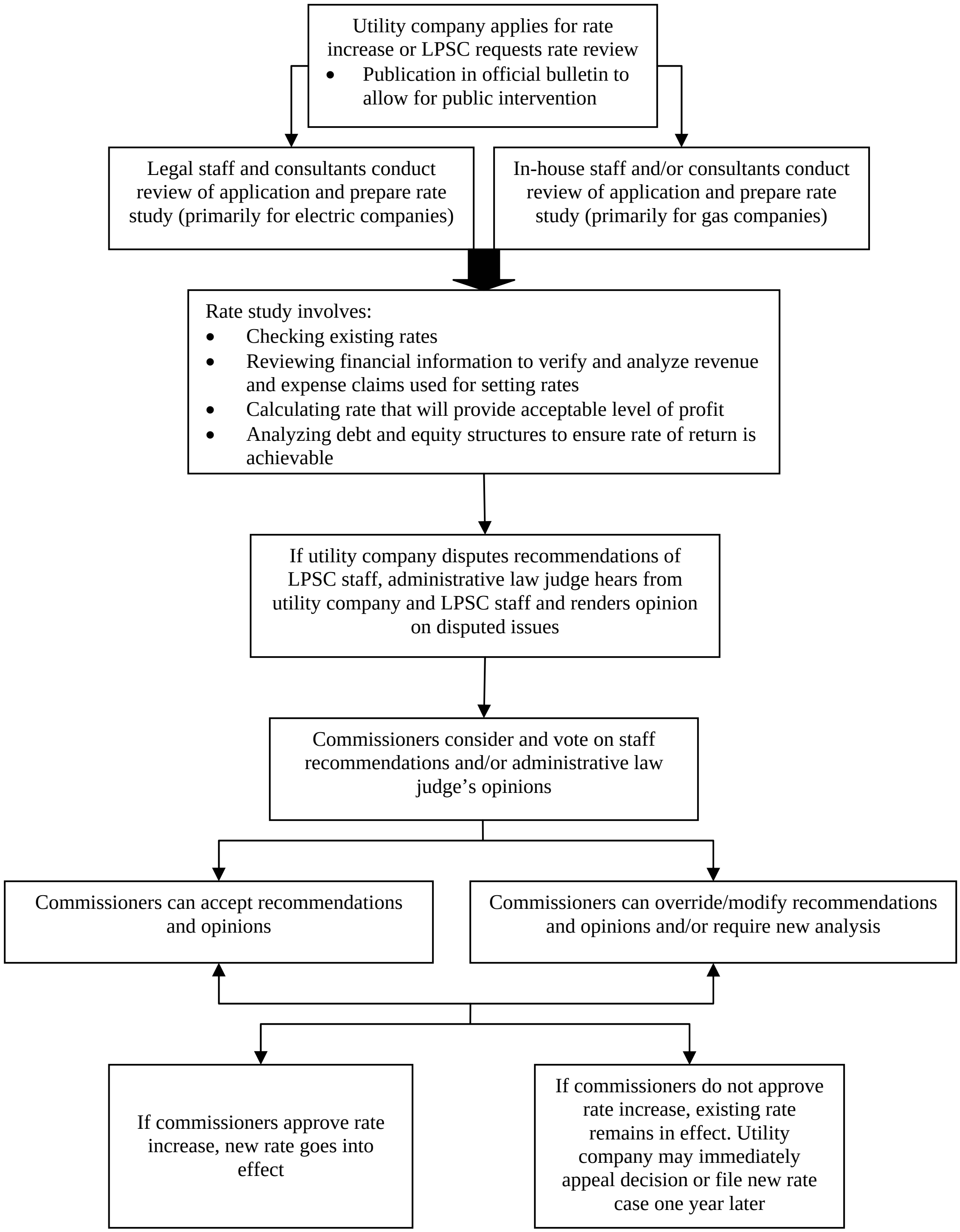
Base Rate

The base rate is the amount that a utility company charges all of its customers in order to pay for all allowable expenses, except for its fuel, purchased power, or gas costs, and still make the profit approved by LPSC. Once the base rate is reviewed and approved by LPSC, it stays the same until the utility company requests a rate increase or decrease. Exhibit 3 on page 10 summarizes the process used by LPSC to review and approve base rates.

Rate analyses can be performed by in-house LPSC staff or by external consultants hired by LPSC. When in-house LPSC staff conducts a rate analysis, the Auditing Division and the Economics Division are the primary divisions involved. Employees in these divisions analyze the financial information of the utility under review. The Auditing Division is responsible for reviewing the utility's financial information to verify its accuracy, reviewing previous rate analyses and commission orders for their relevance to the present review, and calculating several measures of the rate of return received by the utility. The Economics Division is responsible for performing cost of capital studies to determine the utility's sources of capital and to compare the capital structure of the utility under review to a group of similarly situated utilities.

The Legal Division and Administrative Hearings Division are the primary divisions involved in the legal proceedings related to rate reviews. LPSC may use outside counsel to assist the Legal Division in some cases. Attorneys in the Legal Division conduct discovery, prepare motions and briefs, present testimony, and cross-examine witnesses at hearings. The administrative law judges in the Hearings Division conduct status conferences, hold hearings, and render opinions on disputed matters related to rate reviews.

Exhibit 3
Overview of LPSC Process for Setting Base Rates of Electric and Gas Utilities



Source: Prepared by legislative auditor's staff using information provided by LPSC.

Fuel Adjustments and Purchased Gas Adjustments

The fuel adjustment (for electric utilities) and purchased gas adjustment (for gas utilities) is the amount utility companies charge all of their customers to recover the prices they paid for fuel-related expenses. For electric utilities, fuel refers to sources such as coal and natural gas purchased from various suppliers to generate electricity ultimately sold to customers. For gas utilities, fuel refers to natural gas purchased by gas utilities from natural gas pipelines for sale to and consumption by customers. The adjustment is equal to the exact amount of a company's fuel-related costs. That is, the company does not make a profit off of the adjustment. Unlike the base rate, the amount charged for the adjustment varies according to the amount that utility companies paid for their fuel.

Utility companies use adjustments to recover the costs of fuel separately from their base rates because these costs can fluctuate significantly from month to month. On the other hand, their base rates stay the same unless they apply to LPSC for rate changes, which take a significant amount of time to review and approve. If the costs of fuel were included in base rates, utility companies would need to seek approval for rate increases from LPSC every time the price of fuel fluctuated greatly. Instead, LPSC allows these costs to be included in the adjustments. Exhibit 4 summarizes the differences between base rates and adjustments charged to customers.

Exhibit 4
Differences in Base Rate and Fuel Adjustments

Base Rates	Fuel and Gas Adjustments
Rates charged to customers pay for: • All allowable costs (except for the cost of fuel) • Potential profit of utility company*	Adjustments charged to customers pay for: • Cost of fuel (electric utilities) or natural gas (gas utilities)

*LPSC offers utility companies a reasonable opportunity to earn a profit; however, a profit is not guaranteed.

Source: Prepared by legislative auditor's staff using information provided by LPSC.

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Findings, Conclusions, and Recommendations

Has LPSC Improved Its Rate Setting and Monitoring Functions Since the 2003 Audit?

Since our 2003 performance audit, LPSC has generally not improved its rate setting and monitoring functions. We assessed the current LPSC operations and compared them to the findings and recommendations of the 2003 audit. We found that LPSC somewhat improved its procedures for outsourcing services and reviewing contractor billings. The commission also somewhat improved its criteria for and documentation of outsourced needs. LPSC did not, however, improve its overall rate setting and review process or its evaluation plan for contractors. The results of our evaluation show that LPSC has not implemented three of our recommendations and only partially implemented our other four recommendations in this area from the 2003 audit. Appendix A contains a detailed listing of our 2003 recommendations and the implementation status of each recommendation.

LPSC Did Not Improve Policies and Procedures for Rate Setting Process

LPSC still lacks a comprehensive set of written policies and procedures that cover the complete process of internal review for rate cases. We found that only two of the four LPSC divisions have written policies and procedures for conducting rate reviews. This finding represents a decline from three divisions that had policies during the 2003 audit.

According to LPSC officials, Formula Rate Plans (FRPs) define the procedures by which rates may be periodically adjusted for large electric and gas utilities. Smaller utilities, however, do not have FRPs. In addition, FRPs do not outline specific procedures for LPSC staff to follow during the rate review process.

LPSC should have policies and procedures in place to guide all aspects of the rate review process. Policies and procedures would help ensure that LPSC staff reviews rate change applications in a consistent manner. The 2003 audit pointed out that LPSC is responsible for analyzing approximately $5 billion a year in electric and gas utility base rate costs for Louisiana ratepayers. We recognize that the rate setting process is not identical for all utilities. LPSC should, however, be able to commit to writing the procedures its staff uses to conduct rate reviews. Developing and following written procedures would also reduce the chance of diminished productivity in the event of staff turnover.

The Audit Division still has written policies and procedures for its auditors to use during rate reviews. The auditors use the division's audit manual when reviewing rate change applications. The contents of the audit manual include guidelines on preparing audit reports and audit steps to use when analyzing rates. The manual also identifies information needed to conduct rate analyses and a guide for calculating figures used in the analyses. Although the manual can serve as written policies and procedures, the division developed it 12 years ago. According to LPSC staff, the division has not updated the audit manual since then.

Also, the Administrative Hearings Division still follows a standard set of written procedures when it processes rate review requests. The procedures are outlined in the commission's Rules of Practice and Procedure. The administrative law judges in the Hearings Division conduct status conferences, hold hearings, and render opinions on disputed matters related to the rate review. According to LPSC officials, other divisions follow portions of the Rules of Practice and Procedure. These procedures are not specific to the rate setting process, however.

On the contrary, the Legal Division does not follow any written policies or procedures for the rate setting process. In 2003, the division had a written task list booklet, but it did not detail tasks to be performed by staff attorneys during rate reviews. LPSC prepared the task list booklet specifically for the 2003 audit but never formally adopted it into practice. The Legal Division staff does not use this booklet now. According to LPSC staff, the attorneys learn the nuances of regulation through mentoring and representing clients. The staff also said that each individual case may require a different approach. The basic practices of arguing motions and handling other related matters related to rate reviews should be consistent across all cases, however. Also, utilities regulation is a specific subset of law; therefore, the attorneys should have specific methodologies to follow when handling LPSC rate proceedings, including drafting rulemakings and other activities. Formal policies and procedures should also include basic steps in the rate review process that LPSC attorneys follow, such as reviewing files and testimony and attending status conferences. Having this basic control structure would address these issues and help ensure continuity over time in the way functions are to be handled by LPSC legal staff. For example, policies and procedures could include templates and suggested procedures for handling LPSC rate cases such as those contained in the Louisiana Civil Practice Forms reference manual for attorneys.

Finally, the Economics Division still does not follow any written policies or procedures when analyzing rate cases. The staff stated that it does its work by using previous cases as examples. This practice could lead to inconsistencies in rate reviews. In addition, the lack of written policies and procedures presents an impediment for new staff learning how to conduct rate reviews. Trying to re-create the work of a predecessor rather than following written policies and procedures also presents more opportunities for error.

Recommendation 1: We again recommend that LPSC develop and follow written policies and procedures for all aspects of the rate setting process.

> **Summary of Management's Response:** LPSC disagrees with this recommendation. The response states that the Legal Division follows the Commission's Rules of Practice and Procedure in addition to formal policies and procedures (law) contained in the Commission's Orders, Louisiana Constitution, the Louisiana Civil Code, the Louisiana Code of Civil Procedure, and Louisiana Revised Statutes, the United States Code, and the Code of Federal Regulations. The Legal Division also has forms available to assist new attorneys.

Legislative Auditor's Additional Comments: The references named do not include procedures that are specific to the rate setting process as the recommendation specifies. In addition, LPSC's response does not address the Economics Division's lack of written policies and procedures.

LPSC Did Not Improve Rate Review Procedures

LPSC still does not have a systematic plan to review rates. According to LPSC officials, staff in the Audit Division reviews financial information to ensure that utility companies set appropriate rates. However, the manual the staff uses to guide the reviews does not present a systematic plan for the reviews. In addition, the FRPs previously mentioned do not apply to all utility companies and do not provide a systematic plan for LPSC's internal review. The commission has not improved its rate review process by establishing a systematic plan for analyzing utility companies' financial information.

The manual contains basic audit steps requiring the auditors to review utility companies' annual reports. During the 2003 audit, we found inconsistencies in the methodologies the audit staff used to analyze annual reports. As mentioned, the Audit Division developed the manual 12 years ago and has not updated or made changes to it since then.

Economics Division staff stated that it uses information obtained from annual financial reports to perform cost of capital analysis studies. The studies help the staff determine utilities' sources of capital and the reasonableness of their rates of return. The staff only reviews financial information during the initial rate setting process, however. It does not consistently re-evaluate the information during subsequent rate reviews.

LPSC did not create a systematic plan for periodically reviewing ratepayers' bills to ensure that companies charge the correct rates. According to LPSC officials, the staff does not conduct regular periodic reviews of ratepayers' bills. It still relies on customer complaints to detect incorrect rates. If LPSC receives a complaint about a customer's utility bill, the audit staff will review the bill. This action is usually taken at the request of the commissioner of the particular district where the complaint was filed. LPSC officials further stated that the audit staff reviews utility companies' billing registers. LPSC cannot ensure that the registers represent the actual rates that customers are billed, however. LPSC could examine a sample of bills from the utilities' billing tapes to ensure that billed rates are correct, for example.

LPSC is responsible for ensuring that companies charge approved rates. The commission should therefore be responsible for detecting billing discrepancies. Reviewing ratepayer bills would help determine which companies should be more thoroughly audited to protect ratepayers. LPSC should take a proactive role because customers may not know what approved rates are or may not report billing discrepancies.

Recommendation 2: We again recommend that LPSC develop policies and procedures that establish a systematic plan that requires staff to determine if rates are appropriate.

> **Summary of Management's Response:** LPSC disagrees with this recommendation. The response states that the commission is currently performing thorough rate reviews and the report oversimplifies the entire rate review process.
>
> **Legislative Auditor's Additional Comments:** The response does not address the fact that LPSC does not have policies and procedures that establish a systematic plan to determine if rates are appropriate.

LPSC Documented Criteria for Outsourced Services in Some Cases

LPSC does not always include specific criteria in requests for proposals (RFPs) and letters to preauthorized contractors to address the expected scope, timeliness, and methodology of work to be provided by contractors. This situation has somewhat improved since the 2003 audit. LPSC selects consultants and outside counsel through RFPs for contracts over $50,000. Emergency contracts, contracts for services resulting from appeals, and contracts that do not exceed $50,000 do not require RFPs. For these contracts, LPSC selects from a list of preauthorized contractors. The solicitation documents should contain specific criteria or standards that hold contractors accountable for achieving measurable results. LPSC would then be able to use those standards to monitor and evaluate contractors.

We examined a sample of 13 RFPs and letters to preauthorized contractors for FY 2003 through FY 2006. We searched for criteria related to scope, timeliness, and methodology. Our examination showed that 10 of the 13 (77%) files included specific details for the scope of work. In eight of the 13 (62%) files, LPSC also included time frames for completing the work.

The other three files (23%) included only general information about the scope of work. They also contained no information specifying the time frames in which LPSC expected the contractors to complete the work. Two of these files were for projects costing less than $50,000 and thus did not require RFPs. LPSC still should have included specific criteria or standards for the scope of work and time frames in the letters to preauthorized contractors, however. In the other file, part of the scope of work is referenced to a previous order. The rest of the project, however, is a request for new services, and the RFP did not include particulars related to that scope of work or related time frames. LPSC should have included specific details to communicate exactly what it expected of the contractors.

In addition, LPSC did not include methodologies for how the contractors were to perform the work in any of the 13 files we examined. During the 2003 audit, LPSC employees stated that the regulating industry has a fairly standard approach for much of its work. LPSC did not include such information in its RFPs or letters to preauthorized contractors going forward, however, as our 2003 audit recommended. In fact, in six (46%) files, LPSC requested that respondents provide plans of action (methodologies) instead of the commission specifying methodologies. The nature of some work LPSC contracts may necessitate a lack of specifics in the RFPs and/or letters to preauthorized contractors. Nevertheless, LPSC should set basic standards to which contractors will be held accountable. Although LPSC hires contractors based on their expertise, LPSC should still have controls to ensure that the contractors perform work according to LPSC standards.

Recommendation 3: We again recommend that LPSC include in its RFPs and letters to preauthorized contractors detailed scopes of work and expected time frames for completing the work. LPSC should also include standard procedures (i.e., methodologies) for completing the work.

Summary of Management's Response: LPSC partially agrees with this recommendation. The response states that very few of the RFPs reviewed did not involve detailed scopes of work and expected time frames and that these RFPs included references to previous dockets and transcripts such that the scope was understood.

Legislative Auditor's Additional Comments: The three of 13 files that did not contain detailed scopes of work and expected time frames represent 23%, or almost one-fourth, of the sample, and thus is more than very few of the files. As explained in the finding, the one RFP that referenced a previous order only contained part of the scope of work; the section about additional services requested did not include particulars related to that scope of work or related time frames. In addition, the response does not address the two cases in which letters to preauthorized contractors did not include detailed scopes of work and expected time frames.

LPSC Did Not Improve Evaluation Plan for Contractors

LPSC still does not have an evaluation plan using RFP requirements for scope, timeliness, and methodology as criteria to measure contractors' performance. According to LPSC officials, staff attorneys involved in rate review cases assess the performance of outside counsel and consultants. Neither Economics nor Audit Division staff participates in monitoring the consultants hired to assist with their respective functions on rate reviews. In addition, LPSC does not have any checklists or performance evaluations to monitor or evaluate contractors' performance. As mentioned in the previous recommendation, LPSC would have to strengthen RFP requirements to develop an evaluation plan for contractors.

Administrative Code Title 34:V.136 states that agencies must use sufficient current information, including records concerning contractor performance, to determine that a prospective contractor meets certain standards. In addition, according to R.S. 39:1500(B), agencies must prepare final reports evaluating the contractors' performance within 60 days after completion of performance. However, LPSC staff did not prepare performance evaluations on the contractors it used.

Contractors' performance on rate review cases impacts their ability to handle future cases before the commission. According to LPSC staff, contractors who perform inadequately would not be retained in the future. However, since LPSC does not complete formal evaluations to document contractors' deficiencies, it cannot ensure that consultants and outside counsel are held accountable for desired results. In addition, LPSC staff cannot ensure that it does not rehire contractors who have performed poorly in the past.

Recommendation 4: We again recommend that LPSC formalize the process of evaluating contractors to ensure contractors' accountability to LPSC and ratepayers. This process should include documenting the contractors' performance against criteria stipulated in RFPs and letters to preauthorized contractors in a manner that can be used for future reference.

> **Summary of Management's Response:** LPSC partially agrees with this recommendation. The response states that the record compiled in the proceeding contains documentation of the quality of work and the positive results of that work. However, LPSC will continue to work on evaluation criteria.

LPSC Conducted Cost-Benefit Study but Did Not Improve Staff Training

LPSC attempted to conduct a cost-benefit study to determine whether outsourced work could be more efficiently and effectively performed by LPSC staff. After the 2003 audit, the commission conducted a study to determine the benefits of contractors' work. The study compared contractors' costs to the amount of reductions and refunds ratepayers received based on the contractors' work. It did not determine what costs would have been if the commission had used in-house staff to complete the same work.

According to LPSC officials, in 2003, the cost of achieving rate reductions and refunds for ratepayers was approximately one cent per dollar of savings. As stated, LPSC based this analysis on the costs of using contractors, not in-house staff. In the 2003 audit, we determined that using contractors was more expensive than using LPSC staff. LPSC officials stated that they may potentially achieve savings for ratepayers at a lower cost if it used in-house staff for smaller, less complicated rate cases instead of outsourcing to more expensive contractors.

These potential savings should be an incentive for LPSC to hire, train, and retain qualified staff so it can work towards using in-house staff to do more of the work currently performed by contractors. Nevertheless, LPSC did not further develop its existing staff qualifications through training. LPSC employees still attend the same conferences they attended in 2003. The training provided at these conferences does not fully prepare staff to conduct complex rate reviews. According to LPSC officials, basic training is available, but few opportunities exist for further training. Also, budget restrictions in recent years have limited employees' ability to travel to conferences, according to LPSC staff. All in all, the staff has not received the technical training necessary to perform complex rate reviews. As such, LPSC continues to use more expensive contractors to do rate reviews.

Recommendation 5: We again recommend that LPSC conduct a cost-benefit study. The study should compare the cost of using contractors to the cost of using in-house staff. In addition, we again recommend that LPSC determine if additional training is needed to enable its staff to perform more complex rate reviews so that LPSC would not have to rely as heavily on contractors. The training offered should be other than what employees currently receive.

Summary of Management's Response: LPSC partially agrees with this recommendation. The response states that since the 2003 audit, LPSC has obtained higher salaries for its attorneys and some other staff members. LPSC also emphasizes the benefits of using outside contractors in circumstances in which the LPSC deems necessary.

Legislative Auditor's Additional Comments: The response does not address our recommendation for a cost-benefit study and additional training for staff members.

LPSC Documented Majority, but Not All, of Outsourced Needs

LPSC still does not document, in a format readily available for public review, the lack of resources and/or expertise necessitating its use of contractors. According to LPSC staff, the commission has a policy to hire contractors only when necessary. Without documentation explaining why it hired contractors, we could not determine if the commission has been following its own policy.

LPSC's August 4, 2004, general order includes rules governing the selection of contract employees. The order states that LPSC may hire contractors because of insufficient available manpower. It also states that LPSC may hire contractors when LPSC staff is inadequately experienced or trained.

We asked LPSC staff for documentation outlining its rationale for selecting consultants and outside counsel. The staff initially said that it documents its justification in the RFPs used to solicit contractors. Our examination of 13 RFPs and letters to preauthorized contractors, however, showed that the staff did not document its rationale in those documents. The documents do not contain any statements indicating reasons LPSC needed to hire contractors.

LPSC staff also said that the commission meeting minutes would include discussion of the basis for hiring contractors. We reviewed the minutes from July 2002 to June 2006 but found no discussion of the basis for hiring contractors. The minutes contained only board approval and authorization of each hiring.

After we met with LPSC staff to discuss a draft of this audit report, LPSC provided us with excerpts from 13 transcripts of commission meetings in which the commission either authorized LPSC staff to issue RFPs to hire contractors if necessary or voted to hire them. We examined the transcripts and found that 10 of them (77%) contained discussion of the need to hire contractors because of lack of staffing, lack of expertise among LPSC staff, or both. In two of the 13 (15%) transcripts, the commission discusses hiring contractors, but the discussions do not include justifications for hiring them. According to LPSC officials, the transcripts are not available on the LPSC Web site, but they can be requested for public review or via a public records request.

LPSC staff later told us that it does not have a rule requiring written documentation of the rationale for hiring contractors. Without such documentation, the public cannot be confident that LPSC hired consultants or law firms for justifiable purposes. The documentation would help LPSC show that it based its selections on need rather than political or other influences.

Recommendation 6: We again recommend that LPSC maintain sufficient documentation outlining its rationale for hiring contractors. The commission should document its lack of resources and/or expertise in a format readily available for public review.

> **Summary of Management's Response:** LPSC partially agrees with this recommendation. The response states that while the majority of the transcripts reviewed had explicit documentation of the need to hire contractors, the rest had implicit documentation of the need.
>
> **Legislative Auditor's Additional Comments:** Documentation that is deemed implicit by LPSC may not be as easily understood by hired contractors or the public, thus LPSC should include additional information to ensure that its rationale is understood clearly by all parties involved.

LPSC Implemented Inadequate Procedures to Review Contractor Billings

LPSC developed and implemented some procedures for reviewing contractor billings. In 2003, we recommended that such procedures include a review by LPSC staff knowledgeable of the particular work performed. We also recommended that LPSC require utility companies to submit payments for contractors to LPSC. This requirement would strengthen LPSC's controls over the payment process. We found that LPSC has implemented some measures since 2003 that improved its review of contractor billings. Yet LPSC did not implement the measures in a timely manner and inadequately implemented some aspects of the measures.

The legal staff is responsible for reviewing contractor billings. In June 2003, LPSC created a general policy for reviewing requests for payment of contractor fees. LPSC did not develop more detailed and thorough procedures until October 2006. Management and Finance staff began assisting legal staff with the reviews at that time.

In addition, LPSC still does not conduct an appropriate review of contractor billings for reasonableness. LPSC Management and Finance staff performs the first level of review, described as an accuracy review. The review is designed to ensure that bills have supporting documentation and that totals match. The staff returns the bills to the contractors if it finds any errors or if the bills do not include the necessary supporting documentation. In addition, the staff checks invoices to ensure that contractors have not exceeded approved budgets for the projects. Once the staff completes the reviews, it prints verification statements and forwards the bills to the Legal Division for approval.

The Legal Division's staff performs the second level of review, which it considers a reasonableness review. According to the billing review policy, the staff checks bills to ensure that each entry represents a billable event and also checks for disallowable costs before approving and forwarding the bills to the utility companies for payment. Although the staff reviews billings for "reasonableness," it is not the comprehensive review we had envisioned in our 2003 recommendation. It does not address whether contractors billed equitable amounts for the work they performed as costs can be allowable but still be unreasonable. In addition, the intent of the 2003 recommendation was for staff that is knowledgeable about the work performed to conduct the reviews. For instance, Economics Division staff (as opposed to Legal Division staff) would review bills for economic consulting work. In its reviews, the staff would determine if hours billed were reasonable for the work performed. The Legal Division is the only division that reviews bills for related work performed by contract attorneys.

Furthermore, LPSC implemented a modified version of our recommendation to require utility companies to submit contractor payments to LPSC. Under our 2003 recommendation, LPSC would make payments to contractors and then receive reimbursements from the utilities. Instead, the commission developed a policy that requires utility companies to send LPSC a copy of all contractor payments. The policy allows LPSC to verify that amounts the commission approved match the amounts utilities paid to contractors and satisfies our 2003 recommendation.

As a part of our examination of 13 files, we determined whether LPSC reviewed billings in accordance with its new policy. We found that each file included documentation of the payment and verification by Management and Finance staff and the Legal Division. Our examination provides assurance that LPSC conducted billing reviews in accordance with its policy.

Recommendation 7: We again recommend that LPSC develop and implement procedures to include reviews of contractor billings for reasonableness conducted by staff that is knowledgeable about the nature of the work.

> **Summary of Management's Response:** LPSC disagrees with this recommendation. The response states that the staff attorney involved in a case has proven to be the most qualified to review consultant billings.

> **Legislative Auditor's Additional Comments:** The staff attorney, while familiar with the case, may not have the specific knowledge and training necessary to review work completed by economics, audit, or utility contractors.

Matter for Legislative Consideration 1: In 2003, we recommended that the legislature consider legislation that would permit LPSC to bill utility companies for the use of in-house staff as well as contractors. Such legislation would allow LPSC to directly charge utility companies it reviews for the cost of using in-house staff to perform rate review analyses and related legal proceedings. The legislature did not pass any new legislation to address this issue.

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Has LPSC Improved Its Electric and Gas Utility Adjustment Functions Since the 2003 Audit?

Since our 2003 performance audit, LPSC has not improved its electric and gas utility adjustment functions. We assessed LPSC operations and compared them to the findings of the 2003 audit. We found that LPSC somewhat improved staff qualifications. It also somewhat improved its completion of two-year audits of adjustments but not its requirement for audits of Group II and Group III gas utilities. The commission also did not improve enforcement of its requirement related to Group III gas utilities' adjustment filings or establish policies and procedures to improve its reviews of adjustments. Finally, the commission did not improve enforcement of its requirements for sufficient documentation needed to conduct reviews and designation by utilities of affiliate transactions. The results of our evaluation show that LPSC has not implemented five of our recommendations and only partially implemented our other two recommendations in this area from the 2003 audit. Appendix A contains a detailed listing of our 2003 recommendations and the implementation status of each recommendation.

LPSC Somewhat Improved Completion of Two-Year Audits of Adjustment Filings

LPSC still does not conduct all two-year audits of adjustment filings for electric and gas utilities as required by LPSC general orders. According to general orders dated November 6, 1997, and March 24, 1999, every other year the commission shall perform an audit of the prior year's adjustment filings. The orders pertain to the four investor-owned electric utilities and the five Group I gas utilities regulated by the commission.[1] According to the 2003 audit, LPSC had completed only one audit of one utility company at that time. Exhibit 5 shows the number of utilities and customers regulated for Groups I, II, and III gas utilities.

Exhibit 5

Group I, II, and II Gas Utilities Customers and Utilities Regulated

Group	Number of Customers	Total Utilities Regulated by LPSC	Total Customers Regulated by LPSC*	Percentage of LPSC Regulated Base*
I	Greater than 25,000	5	650,000	95%
II	500 to 25,000	5	30,000	4%
III	Less than 500	4	1,000	Less than 1%

***Approximate figures; do not equal 100% due to rounding.

Source: Prepared by legislative auditor's staff using unaudited information provided by LPSC.

[1]Four investor-owned electric utilities and 11 cooperative electric companies (for a total of 15 electric utilities) are under LPSC jurisdiction. According to LPSC staff, the 11 cooperative electric utilities are not subject to the general order dated November 6, 1997, because they do not generate their own power. Instead, they purchase their power through one source, Louisiana Generating, LLC.

Since the 2003 audit, LPSC has increased the number of audits initiated and completed. For FY 2003 through FY 2006, LPSC initiated audits for six of the nine (67%) utility companies. LPSC did not initiate audits for the remaining three companies. As of February 28, 2008, the commission had completed audits for five of the nine (56%) companies. Exhibit 6 presents a summary of this information.

Exhibit 6

Audits Initiated FY 2003 Through FY 2006 for Investor-Owned Electric and Group I Gas Utilities

Company Name	Utility Type	Date Initiated	2/28/08 Status
SWEPCO*	Investor-Owned Electric	1/17/2003	#1: Complete #2: In Progress
Entergy Gulf States	Investor-Owned Electric	1/31/2003	In Progress
CLECO	Investor-Owned Electric	12/20/2002	Complete
Entergy Louisiana	Investor-Owned Electric	N/A	N/A
ATMOS - TransLouisiana Gas	Gas Group I	12/8/2003	Complete
Centerpoint Energy - Entex	Gas Group I	8/16/2002	Complete
Centerpoint Energy - Arkla	Gas Group I	6/20/2003	Complete
Citizens/LGS	Gas Group I	N/A	N/A
Entergy Gulf States	Gas Group I	N/A	N/A

*LPSC initiated two audits for SWEPCO on 1/17/03. The 1st audit had an audit period of 1999 through 2002 and has been completed. The 2nd audit extended the audit period to 2003 through 2004 and was still in progress as of 2/28/08.

Source: Prepared by legislative auditor's staff using information provided by LPSC.

The general orders governing adjustment filings state that ratepayers may encounter higher rates if utilities manipulate or abuse adjustments. The orders also state that the commission's ability to review costs passed through the adjustments is crucial to ensure that ratepayers are protected. According to LPSC staff, the Audit Division's biennial audits should catch any major problems the Utility Division misses in its adjustment reviews. Since the Audit Division does not conduct all required audits, LPSC cannot ensure that utilities pass only allowable costs to ratepayers, however.

Recommendation 8: We again recommend that LPSC conduct all two-year audits of adjustment filings for electric and gas utilities as required by LPSC General Orders dated November 6, 1997, and March 24, 1999.

Summary of Management's Response: LPSC partially agrees with this recommendation. The LPSC staff will continue to work to complete the audits of electric and gas utilities as outlined in LPSC's regulations.

LPSC Did Not Improve Requirement for Audits of Group II and Group III Gas Utilities

LPSC did not amend its general order dated March 24, 1999, to require audits of all Group II and Group III gas utilities in addition to the audits already required for Group I gas utilities. The requirements are the same as they were in 2003. According to the general order, audits of Group II and Group III gas utilities are conducted as ordered by the commission. LPSC completed an audit for only one Group II or Group III gas company from FY 2003 through FY 2006.

Since the 2003 audit, there has been an increase in the number of audits LPSC initiated. For FY 2003 through FY 2006, LPSC initiated audits for seven of the 10 (70%) Group II and Group III gas companies (for a total of eight audits, as two audits were initiated for one company). Of the seven companies for which audits were initiated, as of February 28, 2008, LPSC had completed one audit (14%), had dismissed two audits (29%), and had four audits (57%) still in progress. According to LPSC audit documentation, the commission did not initiate, conduct, or complete audits for three of the 10 (30%) companies. These companies have thousands of customers who risk paying higher fuel charges because LPSC is not auditing the companies. Exhibit 7 presents a summary of this information.

Exhibit 7

Group II and III Gas Utilities
Audits Initiated FY 2003 Through FY 2006
and 2/28/08 Status

Company Name	Utility Type	Date Initiated	Status as of 2/28/08
Evangeline Gas Co.	Group II	7/4/2003	Dismissed
Livingston Gas & Utility Co.	Group II	3/29/2005	In Progress
Pierre Part Natural Gas Company	Group II	N/A	N/A
South Coast Gas Company	Group II	N/A	N/A
St. Amant Gas Company	Group II	N/A	N/A
Brown Gas and Services Corp. (No longer in service)	Group III	1/31/2003	Dismissed
Elizabeth Natural Gas	Group III	1/31/2003	In Progress*
Lake St. Johns Gas Co.	Group III	12/15/2004	In Progress
The Nezpique Gas System**	Group III	#1: 1/31/2003	Complete
		#2: 7/6/2005	In Progress
Starks Water & Gas, Inc.	Group III	12/20/2004	In Progress

*The audit of Elizabeth is completed and the commissioners approved it by vote on 11/2004, but they have not issued an order stating that it has officially been completed and accepted.
**LPSC initiated two audits of the Nezpique Gas System. It initiated the first audit during FY 2003 and completed it on 12/15/04. It initiated the second audit in FY 2006, and it was in progress as of 2/28/08.
Source: Prepared by legislative auditor's staff using information provided by LPSC.

Recommendation 9: We again recommend that LPSC amend the general order dated March 24, 1999, to require audits of all Group II and Group III gas utilities in addition to the audits already required for Group I gas utilities. LPSC should include in its amendments to the general order provisions that audits be conducted on regular intervals. Because of the smaller size of Group II and Group III companies, it may not be necessary to audit them as often as Group I utilities.

> **Summary of Management's Response:** LPSC partially agrees with this recommendation. The LPSC will once again consider recommending amendments to the General Order dated March 24, 1999, as appropriate.

LPSC Did Not Improve Enforcement of Requirement for Group III Gas Utilities to File Adjustments

LPSC still does not enforce the requirement that all Group III gas utilities file adjustments at least once every six months as mandated by its general order dated March 24, 1999. Also, LPSC still does not enforce the requirement and implement penalties, if necessary, to ensure compliance by utilities. The general order requires all Group I and Group II gas utilities to file adjustments with the commission monthly. Group III gas utilities, on the other hand, must file adjustments at least once every six months. We found that none of the five Group III gas utilities filed adjustments at least once every six months for FY 2003 through FY 2006.

According to R.S. 45:1163, the commission shall exercise all necessary power and authority to regulate public utilities. Therefore, LPSC staff has the authority to enforce penalties on utility companies that fail to file adjustments. Neither the statute nor LPSC's general orders contain specific penalties against utilities that fail to file adjustments. The lack of language specifying the amount of penalties does not, however, mean that the commission cannot assess penalties.

For FY 2003 through FY 2006, the commission did not assess any penalties on Group III gas utilities, even though none of them filed adjustments at least once every six months. Instead, LPSC staff simply reminded the utilities of the filing requirement. Only three of the utilities responded to the commission's reminder notice. LPSC staff considered possible citations against the other two utilities for continuing to not report on time. According to the staff, it did not pursue the issue because Group III gas utilities have so few customers compared to the larger gas utilities. Customers of small utilities have the same right to be protected from high rates as customers of large utilities, however. Therefore, LPSC should consistently enforce its regulations on all regulated utilities.

Recommendation 10: We again recommend that LPSC require all Group III gas utilities to file adjustments at least once every six months as mandated by the general order dated March 24, 1999. In addition, LPSC should amend the general order to include specific penalties for utilities that file delinquent adjustments. Finally, LPSC should enforce this requirement and implement penalties, if necessary, to ensure compliance of utilities.

> **Summary of Management's Response:** LPSC partially agrees with this recommendation. The LPSC staff will continue to work with the Group III gas distribution utilities to ensure compliance with the LPSC's filing requirements outlined in

its General Order dated March 24, 1999, and consider the imposition of penalties as deemed appropriate and in the public interest.

LPSC Did Not Establish Policies and Procedures to Improve Reviews of Adjustment Filings

LPSC did not develop and implement detailed written policies and procedures on the process its staff is to use to review adjustments filed by utility companies as recommended in the 2003 audit. The commission's general orders outline the process for gas and electric utilities to submit their adjustment filings. They do not provide guidance to LPSC staff on how to review adjustment filings. The staff also has no formal written policies and procedures specifying how to document reviews of adjustments. Such policies and procedures should include, but not be limited to, provisions mandating the following:

- Levels of evidence necessary to support all adjustments
- Minimal invoice requirements
- Situations requiring additional information from electric or gas utilities
- Actions and penalties for noncompliance

According to Utility Division staff, it relies on basic training and on-the-job experience to learn the job functions. Without written and established policies and procedures, LPSC cannot ensure that the staff properly reviews adjustment filings and also cannot ensure that utilities meet the requirements of the general orders.

Recommendation 11: We again recommend that LPSC develop and implement detailed written policies and procedures to document the process its staff is to use when reviewing utility companies' adjustments.

Summary of Management's Response: LPSC partially agrees with this recommendation. The LPSC staff will work to adopt this recommendation as deemed appropriate.

LPSC Did Not Improve Enforcement of Requirement for Sufficient Documentation to Conduct Reviews

LPSC still has not enforced the general orders that require utilities to provide all documentation necessary to conduct comprehensive reviews of adjustment filings. LPSC also did not implement penalties, if necessary, to ensure compliance of utilities. In addition, LPSC did not amend its general order dated March 24, 1999, to require invoices for all gas adjustments. The general orders say that utility companies should submit sufficient documentation in their adjustment filings to permit the commission, its staff, and customers to determine that costs are correct and allowable.

We planned to examine adjustment filings for 26 of the 30 utility companies under LPSC's jurisdiction. LPSC staff stated that it checks some but not all invoices for every adjustment filing for the other four companies, which are investor-owned electric utilities. Therefore, we did not include those companies in our plans to examine filings.

We found that for July 1, 2003, through June 30, 2006, 24 of the 26 (92%) utility companies submitted information in attempts to fulfill the documentation requirement of the general order pertaining to adjustments. The other two utilities did not submit any adjustment documentation during this period. We examined one filing for each of the 24 companies that submitted documentation. In three (13%) of these filings, the utilities did not submit all schedules required by the general orders. All three were Group III gas utility companies.

Also, according to LPSC staff, it checks all invoices for all adjustments that are filed. In four of the 24 (17%) filings we examined, however, the utility companies did not submit all invoices to support costs reported on the required schedules. Also, we found instances in three (13%) of the filings where invoice amounts did not match costs reported on the required schedules. If utility companies fail to submit invoices and sufficient documentation in their adjustment filings, LPSC cannot ensure that costs passed on to ratepayers are correct.

In addition, as previously stated, R.S. 45:1163 provides that the commission shall exercise all necessary power and authority to regulate public utilities. Even though this law gives LPSC the authority to enforce penalties when utility companies file incorrect adjustments, we did not find any instances where the commission did so. Furthermore, the general orders still do not contain specific penalties for utility companies that do not follow correct procedures for filing adjustments as recommended in 2003.

According to LPSC staff, not much has changed related to reviewing adjustments since the 2003 audit. LPSC still does not have a formal report or tracking system documenting which adjustments are reviewed or how they are reviewed. Therefore, we could not determine if the staff ensured that utilities correctly filed all required invoices and other supporting documentation. Also, LPSC's document imaging system contains utilities' adjustment filings and LPSC's acceptance letters, but these documents do not provide evidence of LPSC's review. A calculation spreadsheet, saved on Utility Division staff's office computers, is the only evidence available to show that they conducted any type of adjustment review.

Also, the general order for electric utilities requires companies to submit detailed schedules and invoices to support their adjustment filings. The general order for gas utilities does not mention invoices. It does require detailed information identified on the schedules in the adjustment filings, though. Having consistent requirements for all utilities would simplify LPSC's review of adjustment filings.

Regarding the four investor-owned electric utility companies, LPSC staff stated that it does not have enough time or manpower to review every invoice for every adjustment filing. The staff also said that the larger utility companies have more customers and costs and thus submit more invoices. LPSC's review of some invoices for each adjustment filing, however, does provide limited assurance that costs passed on to ratepayers are allowable.

Recommendation 12: We again recommend that LPSC enforce the general orders that require utilities to provide all documentation necessary for LPSC to review and accept utilities' adjustment filings. LPSC should also implement penalties, if necessary, to ensure compliance by the utilities. In addition, LPSC should amend its general order dated March 24, 1999, to require invoices for all gas adjustments. Finally, LPSC staff should conduct and formally document its reviews of adjustments to ensure their reviews are complete.

> **Summary of Management's Response:** LPSC partially agrees with this recommendation. The response states that during the course of a monthly review, independent verification of each invoice filed is neither practical nor necessary. However, staff will continue to ensure that all documentation necessary to complete its monthly adjustment reviews is provided.
>
> **Legislative Auditor's Additional Comments:** The response does not address the fact that LPSC does not enforce the requirement for utilities to provide all documentation necessary for LPSC to review and accept utilities' adjustment filing. In addition, the response does not address whether LPSC intends to implement penalties. The response also does not address the amendment of the general order dated March 24, 1999, to require invoices for all gas adjustments.

LPSC Did Not Improve Enforcement of Requirement for Utilities to Designate Affiliate Transactions

LPSC still does not enforce the requirement that utilities file documentation regarding affiliate transactions and properly review affiliate transactions as required by its general orders. In addition, LPSC still does not enforce this requirement and implement penalties, if necessary, to ensure compliance. According to the 2003 audit, a utility's affiliate is a business entity that is owned or controlled by a supplier or its parent company and that transacts business with the utility. LPSC general orders for gas and electric adjustments require all regulated companies to report affiliate transactions to LPSC. The companies must disclose affiliate transactions in their adjustment filings and annual reports. It should be noted that not all companies have affiliate transactions.

During our examination of adjustment filings, we found that LPSC does not have a consistent reporting mechanism for utilities to designate affiliate transactions. LPSC assumes that utilities have no affiliate transactions if they do not identify any in their filings. Without a reporting mechanism, we could not determine whether the utilities we examined did not have any affiliate transactions or simply failed to report them. A simple control such as providing a box on the adjustment forms that utilities would check to designate that they have affiliate transactions would resolve this concern.

In addition, the general orders do not contain specific penalties for utility companies that do not follow procedures for reporting affiliate transactions. LPSC staff stated that affiliate transactions are reviewed in detail during audits. As previously mentioned, however, LPSC does not conduct all audits of utility companies, as required by the general orders. Therefore, affiliate transactions are not always reviewed.

LPSC staff cannot properly review adjustments without requiring utilities to comply with the general orders regarding affiliate transactions. If LPSC does not enforce the general orders and require utilities to report affiliate transactions, it cannot determine whether transactions are allowable. As a result, unallowable costs associated with such transactions could be passed on to ratepayers in terms of higher rates.

Recommendation 13: We again recommend that LPSC ensure that utilities file all required documentation regarding affiliate transactions, if applicable. In addition, LPSC should amend its reporting requirements to require utilities to clearly designate whether they have affiliate transactions. LPSC should enforce the requirement to report affiliate transactions and implement penalties, if necessary, to ensure compliance.

Summary of Management's Response: LPSC partially agrees with this recommendation. The staff does not agree that it is not currently ensuring the filing of required affiliate transaction reports. However, they will consider recommending the amendment of the applicable general orders to include clearer language related to affiliate transactions, as deemed appropriate.

LPSC Enhanced Staff Qualifications but Not Training

After the 2003 audit, LPSC requested the Department of Civil Service (Civil Service) to conduct a staffing study to determine if compensation levels for adjustment personnel are equitable, considering the amount/type of work they do, to attract and retain qualified employees. In addition, the commission attempted to enhance the hiring qualifications of fuel and gas adjustment staff. Although the commission took these actions, they do not ensure that LPSC staff is qualified to perform the duties of the commission.

LPSC requested Civil Service to conduct a staffing study for Specialist positions in 2000 and again in 2003 after our audit was issued. However, according to LPSC, Civil Service denied both requests. LPSC stated in its response to the 2003 audit that on numerous occasions it has requested Civil Service to analyze pay scales without success. LPSC also said that it is difficult to maintain staff in the Specialist positions because of its noncompetitive pay scales.

Since the 2003 audit, two Utility Division staff employees have terminated their employment. LPSC has not been able to fill the positions. At the time of our fieldwork, only two employees in the Utility Division performed adjustment work. One had been working with the division for seven years. The other had been working there for a year and a half.

LPSC attempted to further develop existing staff qualifications by increasing the minimum job qualifications for certain positions. LPSC developed more stringent qualifications for applicants after the 2003 audit. Before 2003, applicants for a Specialist I position could have a baccalaureate degree in any field but had to have at least 12 semester-hours in finance, accounting, economics, or statistics. Eight years of full-time experience in any field could be substituted for the degree. LPSC now requires a specialized bachelor's degree that is related to the work the specialists do. Specifically, Specialist I and Specialist Supervisor positions now require a baccalaureate degree in accounting, economics, agricultural economics, finance, or statistics from an accredited school. Substituting work experience for a degree is no longer an alternative.[2]

By enhancing the qualifications required for specialists, LPSC has attempted to ensure that employees have the necessary education and skills to perform their jobs properly. This initiative is an important factor in attracting and retaining qualified employees. When the commission enhanced the job requirements, it did not increase the experience requirement, however. For instance, a Specialist I position does not require job experience in any field. LPSC recognized, in its response to the 2003 audit, that training recent college graduates who are inexperienced in utility issues and regulation is less productive than hiring experienced staff. Thus, it is important for the commission to focus on hiring people with experience in fields associated with utility regulation.

In addition, LPSC implemented special pay rates in 2003 and 2004. In both instances, the special pay rates resulted in raises for Utility Division employees. In General Circular No. 1706, Civil Service allowed LPSC to introduce a special entrance pay rate. The special rate, effective July 18, 2007, was an attempt to recruit new hires and increase pay for employees in certain positions. Because of the 2008 hiring freeze the governor mandated for agencies, however, LPSC has not been able to use the special rates to hire new employees.

Despite the hiring freeze, LPSC cannot expect to attract qualified employees if it does not proactively recruit. For instance, LPSC's Web site states that there are no job openings currently available. This information has not been updated since July 13, 2005, which was before the governor implemented the current hiring freeze. Qualified applicants who search the Web site would not know that LPSC has positions available when the hiring freeze ends.

Act No. 234 of the 2007 Regular Session (effective August 14, 2007) amended R.S. 45:1177 (A)(2) to allow the commission to raise inspection and supervision fees. Utility companies must pay these fees to conduct business in the state. LPSC officials said that they are hopeful that the increase in revenue will also help secure more staff in the future.

LPSC did not further develop existing staff qualifications through training. The training that Utility Division employees receive is mainly through an on-the-job training system. According to LPSC staff, employees attend certain basic training conferences. This training does not differ from the training we evaluated in the 2003 audit, which we concluded was not sufficient. Also, LPSC employees are not allowed to travel to conferences during the first six

[2]A CPA designation will substitute for a specialized bachelor's degree; however, to obtain a CPA, an individual must still have a bachelor's degree with a required number of hours of accounting and business courses.

months of employment. Officials said that the staff gets enough exposure to daily operations during those first six months to cover the basics that these conferences offer. They also said that there are not a lot of opportunities for in-depth training available. Training could potentially be offered by in-house staff or outside consultants, however.

Recommendation 14: We again recommend that LPSC enhance qualifications of fuel and gas adjustment staff by hiring qualified employees and improving formal training. In addition, to attract and retain qualified adjustment employees, LPSC should do the following:

- Establish compensation that is competitive
- Provide employees with adequate, beneficial, and recurring training to keep them knowledgeable and qualified to perform the adjustment functions

Summary of Management's Response: LPSC partially agrees with this recommendation. The response states that LPSC will continue to recruit, employ, and retain the most qualified and experienced staff as allowed under Civil Service and at the salary levels allowed for these positions. As additional, outside training is found to exist, LPSC will pursue such training for its staff. Finally, LPSC will attempt to implement additional in-house training for its staff as needed. It should be noted that the LPSC has recently submitted a voluntary job study to the Department of Civil Service concerning the Specialist job series.

Has LPSC Improved Its Independence Standards Since the 2003 Audit?

Since our 2003 performance audit, LPSC has generally not improved its independence standards. We assessed the current LPSC operations and compared them to the findings of the 2003 audit. The results of our evaluation show that LPSC instituted some changes in this area. LPSC only partially implemented our 2003 recommendation in this area, though. Therefore, LPSC has not strengthened management controls regarding benefits staff can receive from regulated entities and entities with business before the commission as much as it could have. Appendix A contains a detailed listing of our 2003 recommendations and the implementation status of each recommendation.

LPSC Prohibited Acceptance of Gifts but Not Meals

LPSC implemented a special order regarding benefits its staff can accept from entities it regulates or that have proceedings before the commission. On September 12, 2003, the commissioners approved Special Order No. 43-2003 regarding LPSC ethics. While the special order is a step in the right direction, it does not ensure that public perception of LPSC's role in utility regulation is one of independence and objectivity. As a result, the improvements we envisioned in the 2003 audit were not fully achieved.

The special order says that commissioners are prohibited from accepting anything of value (e.g., gifts or tickets) from entities they regulate or that have proceedings with the commission. Food and beverage are exceptions to the prohibition. In addition, the order does not place limits on the amounts of meals or prices thereof.

The special order further states that the regulations are to be self-imposed by the commission until the 2004 legislative session. At that time, the commission was to request that the new rules be incorporated into the statutory ethics rules. According to LPSC's Legal Division, the commission asked the Ethics Board to include the regulations in the section of the Revised Statutes where other ethics provisions are included. The Ethics Board did not approve the request, however, and LPSC officials did not pursue the issue further. Therefore, the provisions of the special order have not been incorporated into state law and remain self-imposed.

Furthermore, the special order requires persons or entities conducting activities regulated by the commission to quarterly report all expenditures on meals (defined as food and/or beverages) at which a commissioner and/or LPSC staff is present. LPSC staff, however, does not review the quarterly reports. Therefore, the staff has no way of knowing if all required persons and entities file reports or if the reports are complete. In addition, the special order does not include penalties for LPSC to enforce should its staff determine that a person or entity has not followed the requirements.

From September 1, 2003, through June 30, 2006, persons and entities with proceedings before the commission reported $16,277 in food and/or beverage charges. They spent this money on LPSC commissioners, commissioners' spouses and staff, and LPSC staff. Exhibit 8 provides a summary, sorted by name, of these expenditures.

Exhibit 8

Food and Beverage Expenses Reported by Persons and Entities
Sorted by Name
July 1, 2002, Through June 30, 2006

Entity Name	Entity Type	Food and Beverage Cost	Number of Expense Reports Submitted*
Adams & Reese, LLP	Law Firm	$0	3
Atmos Energy	Utility	$762	11
AT&T	Utility	$21	1
Beauregard Electric	Utility	$0	3
BellSouth	Utility	$2,274	10
Centerpoint Energy	Utility	$208	5
CenturyTel	Utility	$107	1
Claiborne Electric	Utility	$0	1
Cleco Corp.	Utility	$2,091	11
Dixie Electric Membership Corp. (DEMCO)	Utility	$396	3
Eagle Water	Utility	$85	1
EATEL	Utility	$479	11
Entergy	Utility	$7,527	11
Hardy, Carey & Chautin, LLP	Law Firm	$41	1
Jefferson Davis Electric	Utility	$0	2
Kean, Miller, Hawthorne, D'Armond, McCowan & Jarman, LLP	Law Firm	$745	10
KMC Telecom	Utility	$107	1
Long Law Firm, LLP	Law Firm	$194	10
Louisiana Cable & Telecommunications Assoc. (LCTA)	Utility	$127	2
Louis Lambert	Lobbyist	$149	1
MCI WorldCom	Utility	$152	2
Northeast Louisiana Power	Utility	$9	9
Panola-Harrison Electric	Utility	$0	2
Pointe Coupee Electric	Utility	$2	10
Shirley & Ezell, LLC	Law Firm	$210	3
Southern Strategy Group Louisiana	Lobbyist	$153	1
South Louisiana Electric Cooperative Assoc. (SLECA)	Utility	$0	2
Southwestern Electric Power Co. (SWEPCO)	Utility	$124	11
Southwest Louisiana Electric Membership Corp. (SLEMCO)	Utility	$62	1
SPRINT	Utility	$220	8
Tractebel North America, Inc.	Lobbyist	$12	1
Valley Electric	Utility	$0	2
Washington-St. Tammany Electric	Utility	$20	11
TOTAL		**$16,277**	**162**

*During our audit period of FY 2003 through FY 2006, there were 11 quarters.
Source: Prepared by legislative auditor's staff using quarterly expense reports provided by LPSC.

Exhibit 9 provides a summary of the expenditures sorted by type of recipient. The exhibit shows the number of instances each type of recipient received food or beverages, according to the expense reports.

Exhibit 9 Food and Beverage Expenses Reported by Persons and Entities Sorted by Recipient Type July 1, 2002, Through June 30, 2006		
Recipient Type	**Food and Beverage Cost**	**Number of Instances**
Commissioners and wives	$4,365	170
LPSC and/or commissioners' staff*	$9,318	453
Miscellaneous commissioners and staff (Conferences)	$2,594	23
Total	**$16,277**	**646**

*Staff members range from LPSC Executive Secretary level to Executive Assistant level.
Source: Prepared by legislative auditor's staff using quarterly expense reports provided by LPSC.

Exhibit 10 provides a summary of food and beverage expenses sorted by commissioner. The exhibit shows the number of instances each commissioner received food or beverages, according to the expense reports.

Exhibit 10 Food and Beverage Expenses Reported by Persons and Entities Sorted by Commissioner July 1, 2002, Through June 30, 2006		
Commissioner Name	**Food and Beverage Cost**	**Number of Instances**
Commissioner Blossman	$1,546	49
Commissioner Boissiere	$179	4
Commissioner Campbell	$8	2
Commissioner Dixon (former commissioner)	$201	9
Commissioner Field	$952	32
Commissioner Sittig	$794	52
Total	**$3,680**	**148**

Source: Prepared by legislative auditor's staff using quarterly expense reports provided by LPSC.

Accepting expenses from regulated entities or persons or entities with proceedings before the commission may create a conflict of interest. It is essential that elected officials and public employees are independent and impartial to ensure that the public has confidence in the integrity of government. The public may view the food and beverage expenses as influencing decisions that LPSC commissioners and staff make when they regulate utility companies. In addition, as a regulatory agency, LPSC should be concerned that this type of activity increases ratepayers' costs.

Furthermore, the public might not be aware that LPSC accepts expenses from entities it regulates or persons and entities with proceeding before the commission. It may not know that the expense reports exist and are public record. According to LPSC officials, they have had approximately four requests to see the expense reports since the special order was approved in 2003. They are not available on the LPSC Web site because LPSC normally places documents on the Web site based on the frequency of requests to see them.

The legislature passed Act 9 during the First Extraordinary Legislative Session of 2008. The act amended R.S. 42:1115.1 by establishing limitations on food and beverages for public servants. The amended law assists in minimizing the appearance of impropriety for LPSC. Effective March 30, 2008, the total value of food and beverages given to a public servant at any event shall now not exceed $50. In our examination, we identified instances where reported expenses exceeded $50. Under the new law, these expenses would be subject to the statutory limitation. Also, although the limitation reduces the amount that can be spent on commissioners and staff, we still recommend that commissioners not accept items valued at any amount from entities they regulate.

Recommendation 15: We again recommend that LPSC implement a policy prohibiting LPSC staff and commissioners from accepting any meals or beverages from regulated entities.

> **Summary of Management's Response:** LPSC disagrees with this recommendation. The response states that the LPSC does, and will continue to comply with all statutory rules and LPSC orders regarding gifts and meals/beverages.
>
> **Legislative Auditor's Additional Comments:** We are not suggesting that any laws or LPSC orders have been violated. Our point is that accepting meals or beverages from entities the commission regulates could create the appearance of a conflict of interest.

Matter for Legislative Consideration 2: The legislature did pass the bill restricting food and beverage for public servants to $50. It did not, however, prohibit expenses for regulatory bodies and their staff, which would better ensure that no conflicts of interest occur.

APPENDIX A: STATUS OF 2003 RECOMMENDATIONS

We assessed current LPSC operations and compared them to the findings and recommendations of the 2003 audit. The results are shown below.

Objective 1: Rate Setting and Monitoring Functions

Overall, we found that LPSC did not improve its rate setting and monitoring functions since 2003. LPSC did not fully implement any of our recommendations in this area and only partially implemented four of our recommendations. The table below details our 2003 recommendations and implementation status for LPSC's rate setting and monitoring functions.

Status of Recommendations from 2003 Audit Objective 1 Rate Setting and Monitoring Functions			
2003 Performance Audit Report Recommendations	**Implemented**	**Partially Implemented**	**Did not Implement**
Recommendation 1: LPSC should ensure that for all aspects of the rate setting process, written procedures are developed and followed. The development and use of these written procedures will help to ensure complete and consistent rate reviews and will reduce the chances of diminished productivity in the event of staff turnover.			✓
Recommendation 2: LPSC should develop policies and procedures that establish a systematic plan that requires staff to determine if rates are appropriate through the following: • Review of annual financial reports to ensure company profit is within approved range • Review of financial information to ensure that only allowable expenses are included in rate setting analysis • Periodic review of ratepayer bills to ensure that utilities are charging correct rates			✓
Recommendation 3: LPSC should add specific criteria to RFPs used in the selection process, addressing the expected scope, timeliness, and methodology of work to be provided by consultants and outside counsel.		✓	
Recommendation 4: LPSC should develop a consultant and outside counsel evaluation plan, using RFP requirements regarding the scope, timeliness, and methodology of work provided as criteria to measure the quality of work provided.			✓

Status of Recommendations from 2003 Audit Objective 1 Rate Setting and Monitoring Functions			
2003 Performance Audit Report Recommendations	**Implemented**	**Partially Implemented**	**Did not Implement**
Recommendation 5: LPSC should conduct a cost-benefit study to determine whether work currently outsourced to consultants and outside counsel could be more efficiently and effectively performed by LPSC staff. LPSC should consider further developing existing staff qualifications through training so that more complex rate reviews can be conducted by LPSC staff instead of by consultants and outside counsel. If deemed necessary, LPSC should ask the Department of Civil Service to conduct job analyses on targeted LPSC positions to determine if existing education and experience classifications, and thus, the associated pay levels, are sufficient for the desired work to be performed.		✓	
Recommendation 6: LPSC should follow its own policy and only hire consultants and outside counsel when LPSC staff does not have the resources or expertise to handle a rate review. This lack of resources and/or expertise should be documented in a format readily available for public review.		✓	
Recommendation 7: LPSC should develop and implement procedures to review the consultant billings. These procedures should include a review by LPSC staff knowledgeable with regard to the particular work done. In addition, to strengthen controls over the payment process, LPSC should require utility companies to submit payments for consultants to LPSC. LPSC could then pay the consultants.		✓	
Matter for Legislative Consideration 1: The legislature may wish to consider legislation that would allow LPSC to directly charge the utilities reviewed for the cost of using in-house staff to perform rate review analyses and the related legal proceedings similar to the provisions that allow payments to consultants.			✓

Objective 2: Electric and Gas Utility Adjustment Functions

Generally, LPSC did not improve its electric and gas utility adjustment functions since 2003. LPSC did not fully implement any of our recommendations in this area and partially implemented only two of our recommendations. The table below details our 2003 recommendations and implementation status for LPSC's electric and gas utility adjustment functions.

Status of Recommendations from 2003 Audit Objective 2 Electric and Gas Utility Adjustment Functions			
2003 Performance Audit Report Recommendations	**Implemented**	**Partially Implemented**	**Did Not Implement**
Recommendation 8: LPSC should conduct all two-year audits of adjustment filings for electric and gas utilities as required by LPSC General Orders dated November 6, 1997, and March 24, 1999.		✓	
Recommendation 9: LPSC should amend the General Order dated March 24, 1999, to require audits of all Group II and Group III gas utilities in addition to the audits already required of Group I gas utilities. Because of the smaller size of Group II and Group III utility companies, it may not be necessary to audit them as often as Group I utilities, and LPSC should set the appropriate time frame for these audits.			✓
Recommendation 10: LPSC should require all Group III gas utilities to file adjustments at least once every six months as required by the General Order dated March 24, 1999. LPSC should enforce this requirement and implement penalties if necessary to ensure compliance of utilities.			✓
Recommendation 11: LPSC should develop and implement detailed policies and procedures to document the process LPSC staff shall use when they review the adjustments filed by the utility companies.			✓
Recommendation 12: LPSC should enforce the General Orders that require utilities to provide all documentation necessary to conduct comprehensive reviews of adjustment filings and implement penalties if necessary to ensure compliance of utilities. LPSC should also amend its General Order dated March 24, 1999, to require invoices for all gas adjustments.*			✓
Recommendation 13: LPSC should require the utilities to file required documentation regarding affiliate transactions and properly review affiliate transactions as required by the General Orders. LPSC should enforce this requirement and implement penalties if necessary to ensure compliance.			✓
Recommendation 14: LPSC should require all invoices and support documentation necessary for staff to ensure costs passed through to the ratepayers are allowable under the General Orders. LPSC should enforce this requirement and implement penalties if necessary to ensure compliance of utilities.*			✓
Recommendation 15: LPSC should require sufficient invoices that match and support all costs passed to ratepayers. If costs passed to ratepayers do not have supporting invoices, LPSC should require sufficient supporting documentation to be able to determine that the costs passed to ratepayers are accurate and allowable.*			✓

Status of Recommendations from 2003 Audit Objective 2 Electric and Gas Utility Adjustment Functions			
2003 Performance Audit Report Recommendations	**Implemented**	**Partially Implemented**	**Did Not Implement**
Recommendation 16: LPSC should request the Department of Civil Service to conduct a staffing study to determine if current compensation levels for fuel and gas adjustment personnel are equitable considering the amount/type of work that is done in order to attract and retain qualified employees. LPSC should also consider enhancing the qualifications of fuel and gas adjustment staff through formal training and hiring of staff.		✓	
*We combined recommendations 12, 14, and 15 from the 2003 report into one recommendation in this follow-up audit.			

Objective 3: Independence Standards

LPSC somewhat improved its independence standards since 2003. The commission partially implemented our recommendation in this area. The table below details our 2003 recommendations and implementation status for LPSC's independence standards.

Status of Recommendations from 2003 Audit Objective 3 Independence Standards			
2003 Performance Audit Report Recommendations	**Implemented**	**Partially Implemented**	**Did Not Implement**
Recommendation 17: LPSC should institute its own management controls regarding the types of benefits LPSC staff can accept from the entities it regulates. These controls should ensure that the public perceives LPSC's role in utility regulations as one of independence and objectivity. LPSC should consult with the Louisiana Board of Ethics when creating these controls and should consult with the board on any matters that may be violations.		✓	
Matter for Legislative Consideration 2: The legislature may wish to consider the role of ethics in state government regulatory activities and make modifications to existing ethics law by instituting more stringent limitations on the amounts and types of expenses that LPSC commissioners and staff may receive from regulated companies. The legislature may wish to modify R.S. 42.1115 to reflect these limitations on elected officials of all regulatory agencies. These limitations should ensure that the public perceives LPSC's regulatory role and the role of all officials of regulatory agencies as one that is independent and objective.		✓	

APPENDIX B: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. We followed the applicable generally accepted government auditing standards as promulgated by the Comptroller General of the United States. We began preliminary work on this audit in December 2007.

Audit Scope

We conducted this audit as a followup to the performance audit that was released April 2003. The audit covered the period from FY 2003 to FY 2006. Our audit objectives were to answer the following three questions:

1. **Has LPSC improved its rate setting and monitoring functions since the 2003 audit?**

2. **Has LPSC improved its electric and gas utility adjustment functions since the 2003 audit?**

3. **Has LPSC improved its independence standards since the 2003 audit?**

Methodology

Overall, we attempted to use the same methodologies for this audit as the ones used in the 2003 audit. However, we did not conduct work on LPSC's oversight of river pilots in Louisiana because Act No. 902 from the 2004 Regular Session removed LPSC as the regulatory entity for river pilots. In addition, we did not conduct a survey of other states' public service commissions to compare their structures and activities to LPSC.

To answer our audit objectives, we performed the following:

- Researched applicable state laws, rules, and regulations relating to LPSC
- Examined Public Service Commission board meeting minutes
- Interviewed LPSC staff regarding rate setting for gas and electric public utilities and examined related documents
- Interviewed LPSC staff regarding the review of consultants and outside counsel billings and examined related documents

- Interviewed LPSC staff regarding the audit and review process for adjustments filed by gas and electric public utilities and examined related documents

- Examined documents related to the selection of consultants and outside counsel

- Analyzed documentation pertaining to audits of adjustment filings[3]

- Analyzed a sample of adjustments filed by gas and electric public utilities

- Examined quarterly expense reports from entities with proceedings with the commission and summarized related data

[3] The 2003 report included electric cooperatives in the review of audits. However, we concluded that the format for filing monthly fuel adjustments in the 1997 general order does not apply to cooperative electric companies. Therefore, we did not include electric cooperatives in this follow-up audit.

APPENDIX C: ELECTRIC AND GAS UTILITY COMPANIES UNDER LPSC JURISDICTION

Electric Utility Companies

Company Name	Utility Type
CLECO	Investor-Owned
Entergy - Gulf States	Investor-Owned
Entergy - Louisiana	Investor-Owned
SWEPCO	Investor-Owned
Beauregard	Cooperative
Claiborne	Cooperative
Concordia	Cooperative
DEMCO	Cooperative
Jefferson Davis	Cooperative
Northeast Louisiana	Cooperative
Pointe Coupee	Cooperative
SLECA	Cooperative
SLEMCO	Cooperative
Valley	Cooperative
Washington-St. Tammany	Cooperative

Gas Utility Companies

Company Name	Utility Type
Atmos Energy - LGS	Group I
Atmos Energy - TransLA	Group I
Entergy - Gulf States	Group I
Centerpoint Energy - Arkla	Group I
Centerpoint Energy - Entex	Group I
Evangeline	Group II
Livingston	Group II
Pierre Part	Group II
South Coast	Group II
St. Amant	Group II
*Brown	Group III
Elizabeth	Group III
Lake St. John	Group III
Nezpique	Group III
Starks	Group III

*Brown Gas discontinued its service on November 1, 2006.
Source: Prepared by legislative auditor's staff using information provided by LPSC.

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APPENDIX D: LPSC RESPONSE

Louisiana Public Service Commission

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2008 Louisiana Legislative Audit Report – LPSC Response

Recommendation 1: We again recommend that LPSC develop and follow written policies and procedures for all aspects of the rate setting process.

LPSC Response:

The LPSC disagrees with the recommendation. The Commission's Administrative Hearings Division, has and is bound by, the same written set of procedures and policies as the Legal Division that govern how rate proceedings are handled; the Commission's Rules of Practice and Procedure. In addition to these Commission specific policies and procedures, the Legal Division follows formal policies and procedures (law) contained in the Commission's Orders, the Louisiana Constitution, the Louisiana Civil Code, the Louisiana Code of Civil Procedure, the Louisiana Revised Statutes, the United States Code and the Code of Federal Regulations, all of which govern the practice of this subset of law. The Legal Division also has forms on the legal drive to assist new attorneys.

The report and recommendation also suggests that "the basic practices of arguing motions and handling related matters related to rate reviews should be consistent across all cases." The LPSC disagrees with this oversimplification of the practice of law.

Recommendation 2: We again recommend that LPSC develop policies and procedures that establish a systematic plan that requires staff to determine if rates are appropriate.

LPSC Response:

The LPSC will continue to perform thorough rate reviews. The steps involved in this process are not fully outlined in the auditor report. The audit report oversimplifies the entire rate review or rate investigative process.

Recommendation 3: We again recommend that LPSC include in its RFPs and letters to preauthorized contractors detailed scopes of work and expected timeframes for completing the work. LPSC should also include standard procedures (i.e., methodologies) for completing the work.

LPSC Response:

As indicated in the audit report above, the great majority of the RFPs did involve scope and expected timeframes. Very few did not. This was explained previously: The RFPs that did not include these, in the auditors' opinion, included references to previous dockets and transcripts such that the scope was understood. These RFPs were also from older dockets that were continued such that the scope was already known.

Recommendation 4: We again recommend that LPSC formalize the process of evaluating contractors to ensure contractors' accountability to LPSC and ratepayers. This process should include documenting the contractors' performance against criteria stipulated in RFPs and letters to preauthorized contractors in a manner that can be used for future reference.

LPSC Response:

The LPSC does evaluate contractors' performance. The record compiled in the proceeding contains documentation the quality of the work and the positive results of that work. The LPSC will continue to work on evaluation criteria.

Recommendation 5: We again recommend that LPSC conduct a cost benefit study. The study should compare the cost of using contractors to the cost of using in-house staff. In addition, we again recommend that LPSC determine if additional training is needed to enable its staff to perform more complex rate reviews so that LPSC would not have to rely as heavily on contractors. The training offered should be other than what employees currently receive.

LPSC Response:

Since the previous audit, the Commission has obtained higher salaries for its attorneys and some other staff members. The Commission emphasizes, again, the benefits of using outside consultants and counsel in circumstances in which the LPSC deems necessary.

Recommendation 6: We again recommend that LPSC maintain sufficient documentation outlining its rationale for hiring contractors. The commission should document its lack of resources and/or expertise in a format readily available for public review.

LPSC Response:

As indicated in the audit report above, the majority of the cases had explicit documentation while the rest had implicit documentation of the need.

Recommendation 7: We again recommend that LPSC develop and implement procedures to include reviews of contractor billings for reasonableness conducted by staff that is knowledgeable about the nature of the work.

LPSC Response:

The LPSC disagrees with this recommendation. The Staff attorney involved in the case has proven to be the most qualified to review consultant billings and consults, if necessary, other LPSC staff members.

Recommendation 8: We again recommend that LPSC conduct all two-year audits of adjustment filings for electric and gas utilities as required by LPSC General Orders dated November 6, 1997 and March 24, 1999.

LPSC Response:
The LPSC Staff will continue to work to complete the audits of electric and gas utilities as outlined in the LPSC's regulations.

Recommendation 9: We again recommend that LPSC amend the general order dated March 24, 1999 to require audits of all Group II and Group III gas utilities in addition to the audits already required for Group I gas utilities. LPSC should include in its amendments to the general order provisions that audits be conducted on regular intervals. Because of the smaller size of Group II and Group III companies, it may not be necessary to audit them as often as Group I utilities.

LPSC Response:
The LPSC Staff will once again consider recommending amendments to the LPSC's General Order dated March 24, 1999, as appropriate.

Recommendation 10: We again recommend that LPSC require all Group III gas utilities to file adjustments at least once every six months as mandated by the general order dated March 24, 1999. In addition, LPSC should amend the general order to include specific penalties for utilities that file delinquent adjustments. Finally, LPSC should enforce this requirement and implement penalties, if necessary, to ensure compliance of utilities.

LPSC Response:

The LPSC Staff will continue to work with the Group III gas distribution utilities to ensure compliance with the LPSC's filing requirements outlined in its General Order dated March 24, 1999, and consider the imposition of penalties as deemed appropriate and in the public interest.

Recommendation 11: We again recommend that LPSC develop and implement detailed written policies and procedures to document the process its staff is to use when reviewing utility companies' adjustments.

LPSC Response:

The LPSC Staff will work to adopt this recommendation as deemed appropriate.

Recommendation 12: We again recommend that LPSC enforce the general orders that require utilities to provide all documentation necessary for LPSC to review and accept utilities' adjustment filings. LPSC should also implement penalties, if necessary, to ensure compliance by the utilities. In addition, LPSC should amend its general order dated March 24, 1999 to require invoices for all gas adjustments. Finally, LPSC staff should conduct and formally document their reviews of adjustments to ensure their reviews are complete.

LPSC Response:

In general, the LPSC disagrees with the LLA's contention that the LPSC does not require necessary documentation to complete its review of monthly adjustments. As discussed in exhaustive detail in its 2003 response to the LLA report, the Staff's monthly reviews are not audits. These reviews are independent of the final audit required. As auditors, the LLA should understand that during the conduct of any audit, it is not practical that EVERY piece of documentation is verified. Consequently, it makes reasonable sense that during the course of a monthly review independent verification of each invoice filed is neither practical nor is it necessary.

However, the Staff will continue to ensure that all documentation necessary to complete its monthly adjustment reviews is provided.

Recommendation 13: We again recommend that LPSC ensure that utilities file all required documentation regarding affiliate transactions, if applicable. In addition, LPSC should amend its reporting requirements to require utilities to clearly designate whether they have affiliate transactions. LPSC should enforce the requirement to report affiliate transactions and implement penalties, if necessary, to ensure compliance.

LPSC Response:

See response to Recommendation 12. The Staff does not agree that it is not currently ensuring the filing of required affiliate transaction reports; however, the Staff will consider recommending the amendment of the applicable General Orders to include clearer language related to affiliate transactions, as deemed appropriate.

Recommendation 14: We again recommend that LPSC enhance qualifications of fuel and gas adjustment staff by hiring qualified employees and improving formal training. In addition, to attract and retain qualified adjustment employees, LPSC should do the following:

- Establish compensation that is competitive
- Provide employees with adequate, beneficial, and recurring training to keep them knowledgeable and qualified to perform the adjustment functions

LPSC Response:

The LPSC will continue as always to recruit, employ and retain the most qualified and experienced Staff as allowed under Civil Service and at the salary levels allowed for these positions. As additional, outside training is found to exist, the LPSC will pursue such training for its Staff. Finally, the LPSC will attempt to implement additional in-house training for its Staff as needed. It should be noted that the LPSC has recently submitted a voluntary job study to the Department of Civil Service concerning the PSC Specialist job series.

Recommendation 15: We again recommend that LPSC implement a policy prohibiting LPSC staff and commissioners from accepting any meals or beverages from regulated entities.

LPSC Response:

The LPSC does, and will continue to comply with all statutory rules and LPSC orders regarding gifts and meals/beverages.