



General Offices:
One Energy Plaza
Jackson, MI 49201

Tel: (517) 788-0550
Fax: (517) 768-3644

*Washington Office:
1730 Rhode Island Ave. N.W.
Suite 1007
Washington, DC 20036

Tel: (202) 778-3340
Fax: (202) 778-3355

Writer's Direct Dial Number: (517) 788-2112
Writer's E-mail Address: anne.uitvlugt@cmsenergy.com

LEGAL DEPARTMENT
SHAUN M. JOHNSON
Senior Vice President
and General Counsel

MELISSA M. GLEESPEN
Vice President, Corporate
Secretary and Chief
Compliance Officer

KELLY M. HALL
Vice President and Deputy
General Counsel

Eric V. Luoma
Adam C. Smith
Bret A. Totoraitis
Assistant General Counsel

Robert W. Beach
Ian F. Burgess
Don A. D'Amato
Gary A. Gensch, Jr.
Matthew D. Hall
Emerson J. Hilton
Georgine R. Hyden
Katie M. Knue
Robert F. Marvin
Jason M. Milstone
Rhonda M. Morris
Deborah A. Moss*
Chantez L. Pattman
Michael C. Rampe
Scott J. Sinkwitts
Theresa A.G. Staley
Janae M. Thayer
Anne M. Uitvlugt
Aaron L. Vorce
Attorney

June 1, 2020

Ms. Lisa Felice
Executive Secretary
Michigan Public Service Commission
7109 West Saginaw Highway
P.O. Box 30221
Lansing, MI 48909

RE: Case No. U-20674 - In the matter, on the Commission's own motion, regarding the regulatory filings, determinations, and/or approvals necessary for Consumers Energy Company to fully comply with the Code of Conduct, Mich Admin Code, R 460.10101 et seq.

Dear Ms. Felice:

Enclosed for electronic filing in the above-captioned case is **Consumers Energy Company's 2019 Annual Report of Value-Added Programs & Services.**

This is a paperless filing and is therefore being filed only in PDF format. Confidential attachments will be filed under seal with the Executive Secretary's office of the Michigan Public Service Commission.

Sincerely,

Anne M. Uitvlugt

Consumers Energy Company

2019 Annual Report of Value Added Programs & Services

June 1, 2020



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1. EXECUTIVE SUMMARY

Consumers Energy Company (“Consumers Energy” or the “Company”) strives to deliver energy at low costs, while also ensuring reliability to its customers. Under MCL 460.10ee(2), Consumers Energy is permitted to offer its customers Value-Added Programs and Services (“VAPS”). The Company’s current VAPS in place include the Appliance Service Plan (“ASP”), AllConnect Mover Program, Virtual Energy Engineer (“VEE”) Energy Manager, Business Customer Technical Services (“BCTS”), Onsite Energy Engineer (“OSEE”), Gas Transportation and Storage Third Party Services (“Gas T&S”), Customer Requested Fuel Lines, Appliance Repair Non-ASP/Tune-Ups, Underground Customer-Owned Fuel Line Maintenance Contracts, and Laboratory Services.

The Company’s offered VAPS provide valued services and increased customer satisfaction on a continual basis for Consumer Energy customers. The Company is able to provide services that meet the diverse needs of our customers. Thousands of customers annually rely on our ASP program to protect them from high, unexpected, out of pocket repair bills in the middle of a cold winter night and the Company is honored customers chose us to provide that piece of mind. Our AllConnect Mover Program provides an easier process for customers who move to a new home, setting up services and eliminating unnecessary stress.

The Company also provides electric equipment, construction, and maintenance services to businesses on their side of the meter. Often times, these services are provided in emergency situations which gets the customer back in business as soon as possible. Our OSEE offering helps customers identify ways to reduce energy waste in manufacturing facilities helping them reduce costs and become more competitive in their industry and in Michigan.

Our customers rely on these programs to meet their personal and business needs and look to the Company as a trusted resource. Additionally, the margins from these programs are currently used to help offset the utility’s revenue requirement.

As required by MCL 460.10ee(15) and directed by the Michigan Public Service Commission’s (“MPSC” or the “Commission”) Order in Case No. U-18361, a utility who offers VAPS is required to provide the Commission with an annual report regarding its program offering. MCL 460.10ee(15) states that the annual report must “provide a list of its offered value-added programs and services, the estimated market share occupied by each value-added program and service offered by the utility, and a detailed accounting of how the costs for the value-added programs and services were apportioned between the utility and the value-added programs and services.” Additionally, the annual report shall show to what extent the utility’s rates were affected by the allocations. MCL 460.10ee(6)(c).

The information presented in the 2019 Annual Report of Value Added Programs & Services complies with these requirements. As part of this report, the Company has included Confidential Attachment 1 – Organizational Chart; Confidential Attachment 2 - 2019 Financial Summary; Confidential Attachment 3 – 2019 Financial Allocations: (a) showing how all of the utility’s costs associated with the unregulated value-added program or service were allocated to the unregulated program or service, and (b) to what extent the utility’s rates were affected by the allocations; Confidential Attachment 4 – 2019 Code of Conduct Complaints; Confidential Attachment 5 – 2019 Information Sharing; Confidential Attachment 6 – Report of 2019 Internal Audits; and Confidential Attachment 7 – Customer Count.

2. OVERVIEW OF VALUE ADDED PROGRAMS & SERVICES

2.1 Appliance Service Plan (ASP)

Description of Program/Service Offering:

ASP contracts provide three different service contracts: Appliance Repair, Fuel Line Repair, and Surge Protection.

Customers can enter into a year-long contract, which can be paid in advance, or they can elect to pay a fixed monthly fee that is added to their utility bill. Covered repairs are provided at no additional charge for service calls, parts, or labor.

Primary Customer Category: Residential – State of Michigan

2.2 AllConnect Mover Program (AllConnect)

Description of Program/Service Offering:

AllConnect is a third-party provider contracted to offer one-stop shopping for customers who have moved. AllConnect provides a single point of contact to assist customers with transferring services such as cable television service, internet service, and waste management services. Customers agree to speak with an AllConnect representative regarding these service offerings and in exchange the Company receives a commission.

Primary Customer Category: Residential – State of Michigan

2.3 Appliance Repair Non-ASP / Tune-ups

Description of Program/Service Offering:

The Company provides time and material services for Heating, Ventilation, Air Conditioning (“HVAC”); water heaters; and appliances. Additionally, through this program the Company provides carbon monoxide investigation and HVAC tune-ups for summer (Air Conditioning) or winter (Furnace) seasons.

Primary Customer Category: Residential - State of Michigan

2.4 Customer Requested Fuel Lines

Description of Program/Service Offering:

The Company provides gas fuel line construction and repair services to residential and commercial customers who require fuel line work on customer-owned lines. This service is currently not being offered.

Primary Customer Category: Residential & Commercial – State of Michigan

2.5 Business Customer Technical Services

Description of Program/Service Offering:

BCTS provides customers with construction services beyond the meter. This includes a portfolio of services such as:

- Indoor and outdoor lighting services (including light emitting diode (“LED”) lighting);
- Construction and project management services;
- Electric material sales;
- Electrical equipment repairs and preventative maintenance;
- Billing services;
- Generator installation;
- Energy audit and consulting services;
- Power quality; and
- Engineering Design Services (design services/stamped drawings/technical consultation).

These services are requested by the customer and competitively bid. All installation work is completed by a network of third-party contractors that install the work for and on behalf of Consumers Energy.

Primary Customer Category: Commercial – State of Michigan

2.6 Onsite Energy Engineer (OSEE)

Description of Program/Service Offering:

The Company currently offers commercial customers OSEE. This service provides customers with a Certified Energy Manager to provide consultation, research, and project management in optimizing and understanding how energy impacts their daily business.

Primary Customer Category: Commercial – State of Michigan

2.7 Virtual Energy Engineer (VEE) Energy Manager

Description of Program/Service Offering:

The (VEE) Energy Manager is a service intended to provide our customers with a holistic approach that integrates traditional energy management techniques, facility health assessments, and process controls into a single virtual platform that provides customers with the ability to monitor and manage their energy use.

Primary Customer Category: Commercial – State of Michigan

2.8 Gas Transportation and Storage Third Party Services

Description of Program/Service Offering:

The Company provides planned maintenance, emergent repairs, and construction services to third-party gas producers or large gas consumers that have interconnection agreements with the Company’s Gas Transportation and Storage infrastructure.

Primary Customer Category: Third-party gas producing companies that have interconnection agreements with Consumers Energy – State of Michigan

2.9 Underground Customer-Owned Fuel Line Maintenance Contracts

Description of Program/Service Offering:

The Company provides Customer-Owned Fuel Line Maintenance Contracts in cases where there is a single meter, connected to customer-owned piping that then attaches to buildings on the customer's premises.

Primary Customer Category: Commercial – State of Michigan

2.10 Laboratory Services

Description of Program/Service Offering:

The Company provides laboratory services (Calibration and Instrumentation Services ("C&IS"), Metallurgy, Analytical Chemistry, and Nondestructive Testing) to various industries.

Primary Customer Category: Commercial – State of Michigan

3. ESTIMATED MARKET SHARE FOR STATE OF MICHIGAN

3.1. Appliance Service Plan (ASP)

Based on Navigant Market Assessment of (VAPS)¹, ASP represents a market size of \$1,233 million (in Michigan), of which Consumers Energy controls approximately 5.8% (\$71.9M). There are several channels of competition for ASP-like programs inside Michigan, including: other regulated utilities, utility affiliates, and non-utility affiliated vendors.

3.2. AllConnect

Consumers Energy has not completed market studies for this offering. This is a complementary service provided to customers. However, the Company estimates that the market share is low based on the low number of customers participating in the program.

3.3. Appliance Repair Non-ASP / Tune-Ups

Consumers Energy has not completed market studies for this offering. This is a complementary service provided to customers. However, the Company estimates that the market share is low based on the low number of customers participating in the program.

3.4. Customer Requested Fuel Line Installations

This service is currently not being offered.

¹Navigant Consulting, Inc. (February 8, 2017) *Market Assessment of Value Added Products & Services (VAPS) Final Report –Revision 2.0*

3.5. Business Customer Technical Services (BCTS)

Based on Navigant Market Assessment of (VAPS)¹, LED lighting represents a Commercial and Industrial (“C&I”) market size of \$115 million (in Michigan), of which Consumers Energy currently controls only 1-2%. The Company is uniquely positioned as a technology-agnostic trusted advisor to its customers. The LED lighting market is highly fragmented and competitive.

Other than in the area of LED lighting, the Company has not completed market studies for this offering but is providing the customer with a complementary service. However, the Company estimates that the market share is low based on the low number of customers participating in the program.¹

3.6. Onsite Energy Engineer (OSEE)

Consumers Energy has not completed market studies for this offering. This is a complementary service provided to customers. However, the Company estimates that the market share is low based on the low number of customers participating in the program.

3.7. Virtual Energy Engineer (VEE) Energy Manager

Based on Navigant Market Assessment of VAPS¹, VEE represents a C&I market size of \$131 million (in Michigan). Consumers Energy is positioned to address customer needs with a unique offering, but faces strong competition and competing products/services.

3.8. Gas Transportation and Storage Third Party Services

Consumers Energy has not completed market studies for this offering. This is a complementary service provided to customers. However, the Company estimates that the market share is low based on the low number of customers participating in the program.

3.9. Underground Customer-Owned Fuel Line Maintenance Contracts

Consumers Energy has not completed market studies for this offering. This is a complementary service provided to customers. However, the Company estimates that the market share is low based on the low number of customers participating in the program.

3.10. Laboratory Services

The majority of Laboratory Services’ commercial work resides within the Calibration Services Department. These services are roughly 50% in-state. In 2018, Laboratory Services generated \$1,456,075 in total revenue, of which \$1,276,754 or 88% was generated through C&IS.

The Calibration Services industry represents roughly \$20 million within the state of Michigan, and accounts for no more than 3% of the market share within the state. The three other departments combined represent the remaining 12% of the \$1.5 million in Lab Services revenue and account for well below 1% of the market share within the state of Michigan within their respective industries.

¹ Navigant Consulting, Inc. (February 8, 2017) *Market Assessment of Value Added Products & Services (VAPS) Final Report –Revision 2.0*

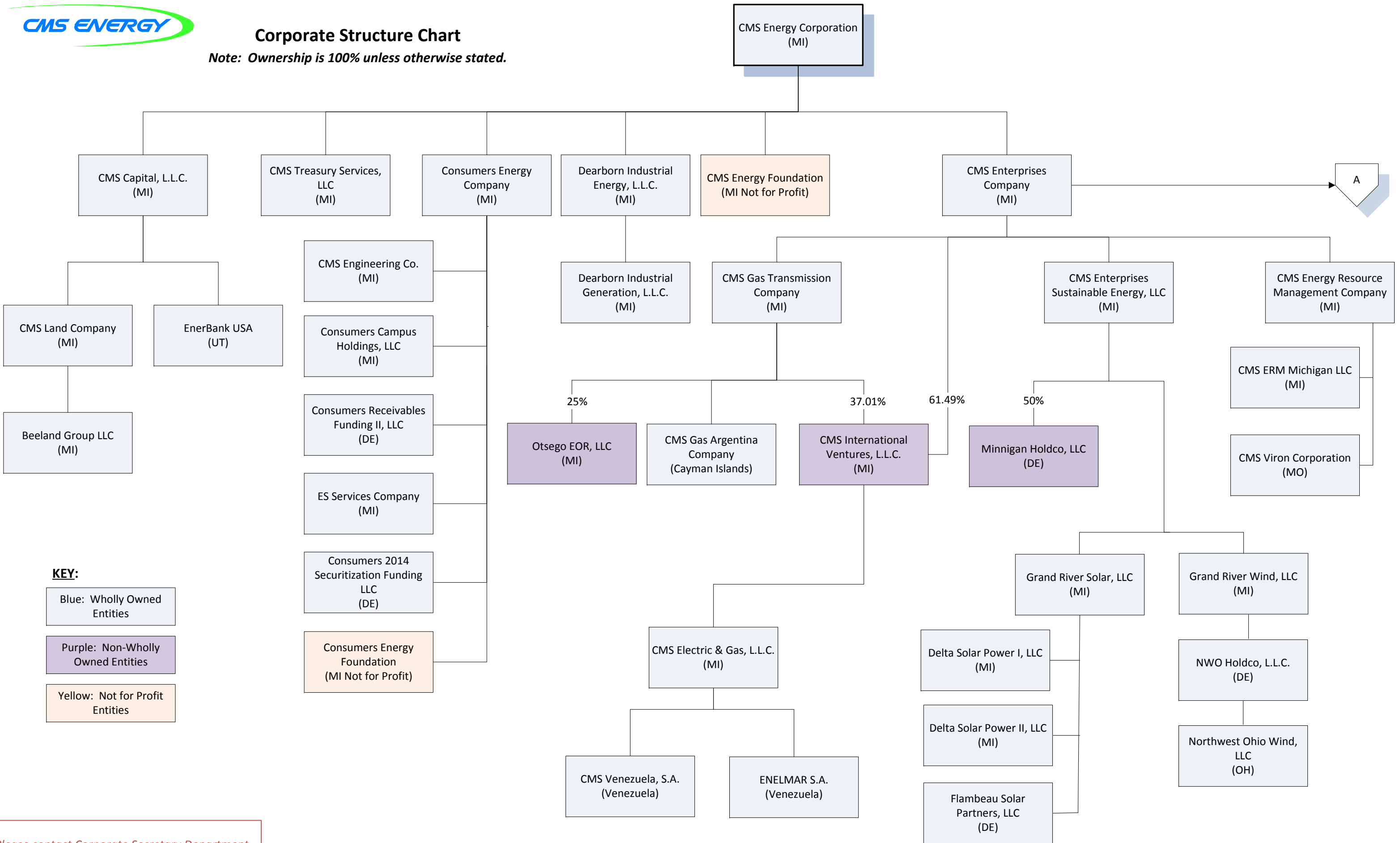
4 STATEMENT OF COMPLIANCE

As required by Mich Admin Code R 460.10112(2), the Company has verified the accuracy of the information in the annual report and certifies that there is no cross-subsidization between regulated and non-regulated utility programs and services.

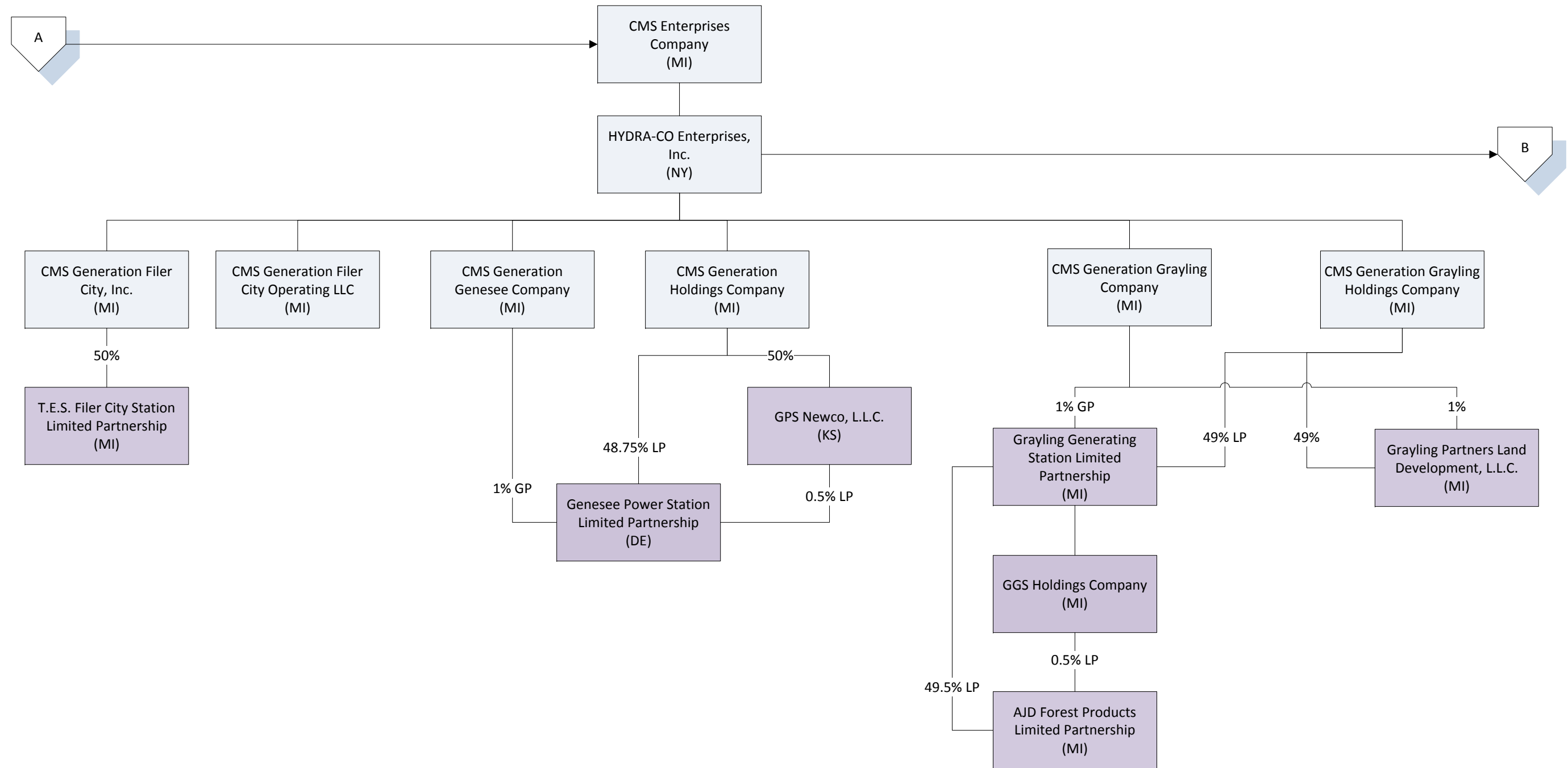
Dated: June 1, 2020

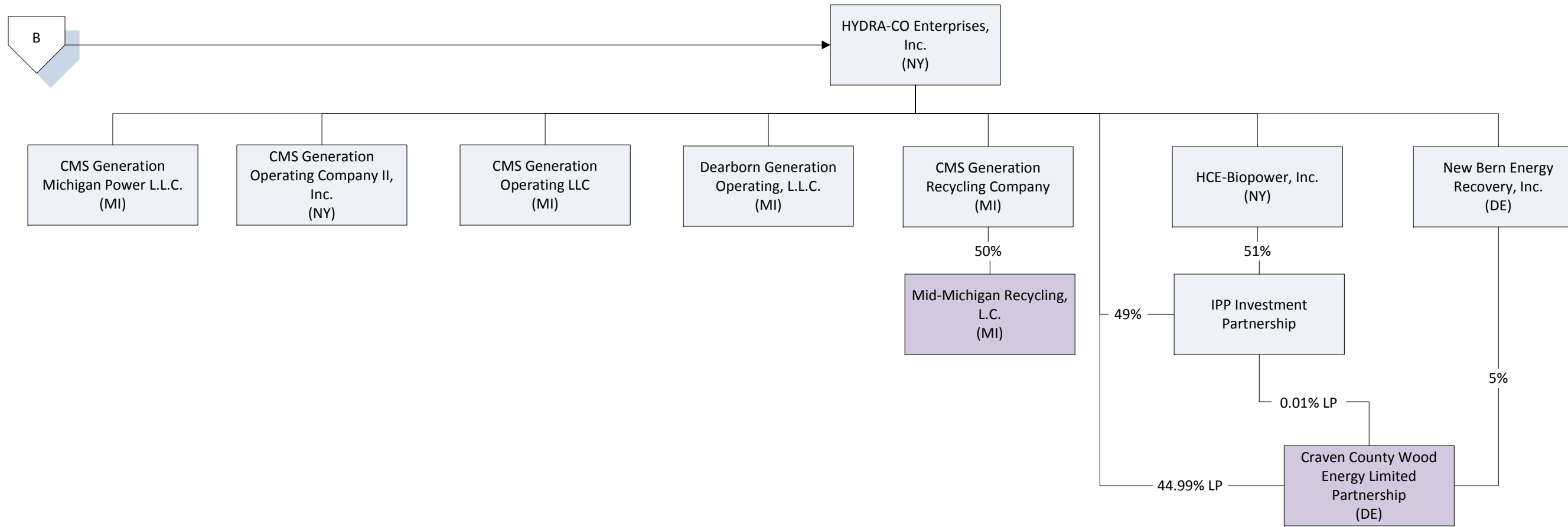
Respectfully submitted,

Lauren Youngdahl Snyder
Vice President, Customer Experience
Consumers Energy Company



Please contact Corporate Secretary Department regarding any questions or changes.





VAPS Annual Report
2019 Financial Summary
-CONFIDENTIAL-

Attachment 2

Line	Description	2019	ASP	BCTS	OSEE	Gas T&S	VEE Energy Manager	Allconnect Program	Appliance Repair (Non ASP)	Customer Requested Fuel Lines	Gas Fuel Line Maint Contracts	Lab Services
Revenue												
Plan Gross Revenues												
1	Revenues	\$ 87,924,195	\$ 73,763,591	\$ 10,018,197	\$ 1,478,844	\$ 478,075	\$ 230,267	\$ 526,698	\$ 43,663	\$ -	\$ 15,283	\$ 1,369,577
2	Free Month Incentive Revenue	\$ (90,043)	\$ (90,043)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Net Revenues (RDS)	\$ 87,834,152	\$ 73,673,548	\$ 10,018,197	\$ 1,478,844	\$ 478,075	\$ 230,267	\$ 526,698	\$ 43,663	\$ -	\$ 15,283	\$ 1,369,577
Expenses:												
Cost of Goods Sold												
4	Material & labor (including labor overheads)	39,415,621	28,944,645	7,998,937	382,146	192,094	627,971	-	67,934	-	28,708	1,173,186
5	ACAP Expense	5,296,726	5,296,726	-	-	-	-	-	-	-	-	-
6	Field Expense (Payout)	-	-	-	-	-	-	-	-	-	-	-
7	Total Cost of Goods Sold	44,712,347	34,241,371	7,998,937	382,146	192,094	627,971	-	67,934	-	28,708	1,173,186
8	Gross Margin	43,121,805	39,432,177	2,019,260	1,096,698	285,981	(397,704)	526,698	(24,271)	-	(13,425)	196,391
Operational Expense												
9	Schedule, Control & Dispatch	738,445	401,162	-	-	-	330,971	6,312	-	-	-	-
10	Solution Center Costs	3,480,483	3,480,483	-	-	-	-	-	-	-	-	-
11	Org & Office Admin	5,900,921	3,979,478	1,567,554	37,297	19,648	296,944	-	-	-	-	-
12	Program Amends	226,779	226,779	-	-	-	-	-	-	-	-	-
13	Total Operational Expense	10,346,628	8,087,902	1,567,554	37,297	19,648	627,915	6,312	-	-	-	-
Marketing Expense												
14	Promotional Program & Research	4,341,351	4,341,351	-	-	-	-	-	-	-	-	-
15	Marketing Supervision	944,636	944,636	-	-	-	-	-	-	-	-	-
16	Point Plus	917,135	917,135	-	-	-	-	-	-	-	-	-
17	Direct Mail	1,545,042	1,545,042	-	-	-	-	-	-	-	-	-
18	Total Marketing Expense	7,748,164	7,748,164	-	-	-	-	-	-	-	-	-
19	Total Expenses	62,807,139	50,077,437	9,566,491	419,443	211,742	1,255,886	6,312	67,934	-	28,708	1,173,186
20	Bad Debt - Uncollectibles	1,865,921	1,864,784	-	-	-	-	-	-	-	1,137	-
21	Total Expenses including UA's	64,673,060	51,942,221	9,566,491	419,443	211,742	1,255,886	6,312	67,934	-	29,845	1,173,186
22	Margin	23,161,092	21,731,327	451,706	1,059,401	266,333	(1,025,619)	520,386	(24,271)	-	(14,562)	196,391
Indirect Expenses:												
Indirect Operational Expense												
	Small Tools	27,015	27,015	-	-	-	-	-	-	-	-	-
	Training	260,329	260,329	-	-	-	-	-	-	-	-	-
	Complaints	20,938	20,938	-	-	-	-	-	-	-	-	-
	Total Indirect Operational Expense	308,282	308,282	-	-	-	-	-	-	-	-	-
Indirect Admin Expense												
	Billing	240,906	240,429	31	-	1	14	1	44	-	6	380
	Payment Processing	231,641	231,182	30	-	1	13	1	42	-	6	366
	Total Indirect Admin Expense	472,547	471,611	61	-	2	27	2	86	-	12	746
Indirect IT/Infrastructure Expense												
	SAP	39,706	25,147	7,279	5,956	662	662	-	-	-	-	-
	MDSI	-	-	-	-	-	-	-	-	-	-	-
	Radio & Telephone	-	-	-	-	-	-	-	-	-	-	-
	Total Indirect IT/Infrastructure Expense	39,706	25,147	7,279	5,956	662	662	-	-	-	-	-
Indirect Overhead/Corporate Expense												
	Labor Related	3,010,124	2,626,184	-	-	-	-	-	-	-	-	383,940
	Other Corporate Related	2,541,809	2,541,809	-	-	-	-	-	-	-	-	-
	Total Indirect Overhead/Corporate Expense	5,551,933	5,167,993	-	-	-	-	-	-	-	-	383,940
	Total Indirect Expenses	6,372,468	5,973,033	7,340	5,956	664	689	2	86	-	12	384,686
	VAPS Indirect Margin	16,788,624	15,758,294	444,366	1,053,445	265,669	(1,026,308)	520,384	(24,357)	-	(14,574)	(188,295)

Notes to Attachment 1

Note 1 Future year revenues, expenses and margin are expected to remain flat for the next 5 years and be consistent with 2019 results
 Note 2 A separate Balance Sheet, Income Statement, Trial Balance or General Ledger is not available for VAPS programs
 Note 3 VAPS Indirect Margin does not include taxes.

VAPS Annual Report
 2019 Financial Allocations
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COMPLAINTS

2019 Study	
2018 Total Utility Complaints	2770
2018 Total Customer Care Spend - Labor	\$ 693,594.65
2018 Total Customer Care Spend - Non-Labor	\$ 40,570.09
Cost Per Complaint - Labor	\$ 250.40
Cost Per Complaint - Non-Labor	\$ 14.65

	BCTS	OSEE	Gas T&S	VEE	Misc ES Services	ASP	Allconnect	Appliance Repair	Gas Fuel Lines
2019 Complaints	0	0	0	0	0	79	0	0	0
Labor Allocation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,781.22	\$ -	\$ -	\$ -
Non-Labor Allocation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,157.05	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,938.27	\$ -	\$ -	\$ -

Source Information	
Department: Customer Care	
Report: Customer Complaints by area	

VAPS Annual Report
 2019 Financial Allocations
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PAYMENT PROCESSING

Cost Per Payment Processed - Labor	\$ -
Cost Per Payment Processed - Non-Labor	\$ 0.10

	BCTS	OSEE	Gas T&S	VEE	Misc ES Services	ASP	Allconnect	Appliance Repair	Gas Fuel Lines
<i>2019 Contracts/Jobs Sold</i>	298	-	6	11	1	192,651	12	420	56
<i>Labor Allocation</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Non-Labor Allocation</i>	\$ 29.80	\$ -	\$ 0.60	\$ 13.20	\$ 1.20	\$ 231,181.20	\$ 1.20	\$ 42.00	\$ 5.60

Source Information
Name: Tim Denton/Cami Wrozek
Department: Billing Services/Treasury

VAPS Annual Report
 2019 Financial Allocations
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BILLING

ASP Cost/Bill - Per MPSC ruling	\$ 0.104

	BCTS	OSEE	Gas T&S	VEE	Misc ES Services	ASP	Allconnect	Appliance Repair	Gas Fuel Lines
<i>2019 Contracts/Jobs Sold</i>	298	-	6	11	1	192,651	12	420	56
<i>Labor Allocation</i>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Non-Labor Allocation</i>	\$ 30.99	\$ -	\$ 0.62	\$ 13.73	\$ 1.25	\$ 240,428	\$ 1.25	\$ 43.68	\$ 5.82

Source Information
Name: Tim Denton/Cami Wrozek
Department: Billing Services/Treasury

VAPS Annual Report
 2019 Financial Allocations
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TRAINING

2019 Study		
Gas ASP Training costs are captured in three cost centers that are classified as Gas Utility Training O&M expense within the DCO. All costs within these cost centers are specific to ASP.		
ASP Training Cost Centers:		
120266		
120048		
120133		
Internal Orders for Gas ASP Training:		Settlement to ASP Training CCs
6501630	Gas Certification Committee	10%
6603002	BAY CITY HQ	100%
6603005	SAGINAW HQ	100%
6603008	FLINT HQ	100%
6603010	HOWELL HQ	100%
6603011	LIVONIA HQ	100%
6603012	MACOMB HQ	100%
6603014	PONTIAC HQ	100%
6603015	ROYAL OAK HQ	100%
6603018	LANSING HQ	100%
6603021	KALAMAZOO HQ	100%

2019 ASP Training Costs	\$	260,328.99
Labor Allocation	\$	260,328.99
Non-Labor Allocation	\$	-

Source Information	
Report: BI Cost Center Reporting - See cost centers listed above	

VAPS Annual Report
 2019 Financial Allocations
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TOOLS

2019 Study		
<p>Gas ASP Tools costs are captured in a cost center that is classified as Gas Utility Tools O&M expense within the DCO. All costs within this cost center are specific to ASP.</p>		
ASP Tools Cost Center:		
121609		

2019 ASP Tools Costs	\$	27,015.04
Labor Allocation	\$	-
Non-Labor Allocation	\$	27,015.04

Source Information	
Report: BI Cost Center Reporting - See cost centers listed above	

VAPS Annual Report
 2019 Financial Allocations
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CORPORATE

2019 Study	
<u>2019 Intercompany Overhead Rates</u>	
Pensions & Benefits	14.00%
Payroll Tax	7.90%
Other Comp & Benefits	3.00%
Administrative & General Salaries	5.70%
Office Supplies & Expenses	2.00%
Outside Services	4.40%
GO Property Insurance	0.00%
Injuries & Damages	0.20%
Miscellaneous General Expense	0.80%
GO Rents	0.10%
GO Maintenance of General Plant	0.90%
Depreciation	3.90%
GO Property Tax	2.10%
Return on Investment	4.00%
Labor-Related Corporate Loadings	24.90%
Other Corporate Loadings	24.10%
2018 Intercompany OH Rate	49.00%

<i>2019 ASP Labor Expense</i>	\$ 10,546,923.52
<i>Labor-Related Corporate Loadings</i>	\$ 2,626,183.96
<i>Other Corporate Loadings</i>	\$ 2,541,808.57

Source Information
Name: Svitlana Lykhytska
Department: General Accounting

VAPS Annual Report
 2019 Financial Allocations
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TECHNOLOGY

		Cost	Active Directory ID's	Cost per person	Total Cost Per Person
2019	Core SAP	\$ 6,105,464.00	11,549	\$ 529	\$ 662
2019	Oracle	\$ 1,537,118.00	11,549	\$ 133	

	BCTS	OSEE	Gas T&S	VEE	Misc ES Service	ASP	Allconnect	Appliance Repair	Gas Fuel Lines
<i>2019 Headcount</i>	11	9	1	1	0	38	0	0	0
<i>Technology Expense</i>	\$ 7,279.28	\$ 5,955.77	\$ 661.75	\$ 661.75	\$ -	\$ 25,146.60	\$ -	\$ -	\$ -

Misc Es Services, Allconnect, Appliance Repair and Gas Field Fuel lines - there were never employees who directly worked for these organizations.

VAPS Annual Report
 2019 Financial Allocations
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LAB SERVICES

Labor Allocations for Standard Administrative and Overhead Functions

Employee	Internal Labor Allocations (%)							Commercial Allocations (%)				Total Comm	
	Metallurgy	C&IS	Chem	NDT	EPTS	RCTS	SS	C&IS	NDT/Mat	Chem			
NKT	5	15	15	35	5	5	5	11	2	2	15	Shared Services Department employees - Labor allocated out to billable departments at a split of 85% Internal and 15% Commercial	
CLK	5	15	15	35	5	5	5	11	2	2	15		
DRR	5	15	15	35	5	5	5	11	2	2	15		
JWD	5	15	15	40	5	5		11	2	2	15		
PSG	5	15	15	40	5	5		11	2	2	15		
BJM	5	15	15	40	5	5		11	2	2	15	Lab Manager - Labor allocated to billable departments	
JDW		60						40			40	C&IS Leadership - Standard labor allocations based on % of time dedicated to Internal or Commercial services	
MWG		60						40			40		
MMW		60						40			40	C&IS Administrative Employees - Standard labor allocations based on % of time dedicated to Internal or Commercial services	
SEK		60						40			40		
LRC		60						40			40		
HGW		60						40			40		
BEK			85						15		15	Chemistry Leadership	

Standard allocations derived based on % of workload dedicated to supporting value added commercial operations for overhead and administrative functions. Direct labor and expenses associated with commercial operations are directly charged through SAP.

Allocated Admin & OH Labor: \$243,000
 Applied InterCompany OH Rate: 58%
 Total Allocated Admin & OH Labor: \$383,940

2019 Code of Conduct Complaint Summary

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Number in 2019: 1 Complaint

Name of person filing complaint: Phil Forner, Allendale Heating & Cooling

Date the complaint was filed: Nov. 13, 2019

Type of complaint: Informal; complaint number 1050792978

Description of the complaint: Mr. Forner created this informal complaint to see how he could obtain the same data that was shared by the utility with the ASP team back in 2018. The utility had been in discussions with Mr. Forner since May 2019 on this issue and the utility asked him to sign a non-disclosure agreement before releasing the data. Mr. Forner did not feel he needed to sign a non-disclosure agreement, hence the complaint.

Summary of resolution: The issue was not resolved to Mr. Forner's satisfaction. At the time, the Company was waiting on a ruling by the MPSC to see whether the requested data could be shared without Mr. Forner signing a non-disclosure agreement. The ruling came on Jan. 23, 2020 which stated that customer names and addresses can be shared without a non-disclosure agreement being signed. Customer name and address data was shared with Mr. Forner on Jan. 29, 2020.

VAPS Annual Report
2019 Information Sharing

-CONFIDENTIAL-

Department	Date Requested	Data Completed	Title	Data Elements
ASP Marketing	5/1/2019	5/30/2019	Marketing List for ASP Spring Direct Mail Campaign	Customer First Name, Customer Last Name, House Number Service, Street Address Service, Apartment Number Service, City Service, State Service, Zip Code Service, House Number Mailing, Street Address Mailing, City Mailing, State Mailing, Zip Code Mailing
ASP Marketing	8/1/2019	9/6/2019	Marketing List for ASP Fall Direct Mail Campaign	Customer First Name, Customer Last Name, House Number Service, Street Address Service, Apartment Number Service, City Service, State Service, Zip Code Service, House Number Mailing, Street Address Mailing, City Mailing, State Mailing, Zip Code Mailing
VAPS Operations (including ASP)	2019	2019	General Operations	All data elements accessible by SAP to obtain new VAPS customers, create and fulfill VAPS contractual obligation, maintain VAPS contracts, address customer concerns related to VAPS

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Internal Audit Report: LS080819

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**CE Laboratory Services
Internal Audit Report, 2019**

Internal Audit Report Number: LS080819

Description of Audit Scope: This internal audit was a performance based audit. Compliance to the following items was verified during the audit: 10 CFR 50 Appendix B, ANSI/NCSL Z540-1-1994, 2009 The NELAC Institute (TNI) Standard, and ISO/IEC 17025:2017, including A2LA's Normative Documents and Measurement of Uncertainty Policies in applicable LS accredited disciplines. The Administration Portion of this audit was completed using the NUPIC07, Rev 21 Check Sheet.

Identification of Auditors: Terry Coleman, (Lead Auditor)
 Nick Serafin, Auditor
 Emil Blaj, Auditor (TNI Lead)
 Lyle Decker, Auditor
 Jason Watson, Auditor
 Jaron Prielipp, Auditor
 Merideth Armstrong, Auditor

Persons Contacted During the Pre Audit, Audit, and Post Audit Activities:

Name	Title	Entrance Meeting	During Audit	Exit Meeting
Merideth Armstrong	QA Analyst	x	x	x
Jason Watson	C&IS Supervisor Auditor	x	x	x
Heather Buckley	MAT. Department Head	x	x	x
Jeff Collier	NDT Department Head	x		x
Gordon Cattell	Chemistry Analyst	x		
Ryan Fogarty	Continuous Improvement Lead	x		x
Jeremy Farner	NDT Project Lead	x	x	x
Lyle Decker	Metallurgical Auditor	x	x	x
Nick Serafin	QA Manager – Auditor	x	x	
Terry Coleman	Lead Auditor	x	x	x
Sara Kampf	Technical Assistant		x	
Morgan Wright	Technical Specialist		x	
Eric Brown	Tech Specialist II		x	
Dan Binney	Technician III		x	
Kyler Desgranges	Technician II		x	
Ron Boucher	Senior Technician		x	
Alan Lawrenz	Technician III		x	

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Internal Audit Report: LS080819

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Randy Berass	Materials Testing		x	
Ethan Gurecki	Materials Testing		x	
Trudy Rankin	Materials Testing		x	
Thomas Dunn	NDT		x	
Jazzman Parker	NDT		x	
Jonathon Nimms	NDT		x	
Josh Vass	NDT		x	
Emil Blaj	Chemistry – Auditor		x	x
Sarah Kruzmanowski	Chemistry		x	
Casey Hansen	Chemistry		x	
Travis Reeter	Chemistry		x	
Gerome Sayles	Chemistry/Shared Services Manager		x	x
Brian Miles	Director Lab Services		x	x
Josh Doyle	Lab Tech Analyst II			x
Jaron Prielipp	Sr Lab Tech Analyst II			x

Summary of Audit Results: The audit was conducted by reviewing LSQA Manual, associated department administrative, and work procedures. Auditors observed work being performed and interviewed personnel responsible for the associated areas. The Consumers Energy Laboratory Services Quality Assurance Manual is Revision 53, dated April 25, 2019, is effectively implemented with the exceptions of the Audit Findings listed below. There were 13 Audit Findings and 13 Observation (opportunities for improvement)

Quality Management System Audit

1. Contract Review
2. n/a - Design
3. Commercial Grade Dedication
4. Software Quality Assurance
5. Procurement
6. Material Control and Handling, Storage and Shipping
7. n/a - Special Process
8. Test, Inspection, Calibrations

9. Document Control
10. Organization Program
11. Non Conformances / Part 21
12. Internal Audit
13. Corrective Action
14. Training/Certification
15. n/a - Field Services

Technical Audits: Complete 74

C&IS – 29
CHEM – 11
ENV – 23
MAT – 6
NDT – 5

Description of Audit Finding:**Audit Finding Report 1 – Event 200003**

Requirement: CHEM-1.2.06, paragraph 5.1 reads, “Chemistry supervisors and personnel are responsible for requesting a notebook when one is need from the QA Coordinator . . . “

Non Conformance: During the audit, it was discovered the Chemistry QA Coordinator is not the one keeping track of the Chemistry Notebooks. It was discovered that a General laboratory Technical Analysis II (Joe Gallagher) maintains the control of the Laboratory Notebooks.

Audit Finding Report 2 – Event 200004

Requirement: ISO/IEC 17025:2017 Section 8.3 Control of Management System Documentation 8.3.2 The laboratory shall ensure that:

- d) relevant versions of applicable documents are available at point of use and, where necessary, their distribution is controlled;
- f) the unintended use of obsolete documents is prevented, and suitable identification is applied to them if they are retained for any purpose.

Non Conformance: During follow up review of 2018 Internal Audits (Event 190011 and 190014) it was discovered that CHEM Procedures 2.6.01(Rev2), 2.6.02(Rev 2), 2.6.03(Rev2) and 2.5.09(Rev4) were all (red lined) updated and had training logs signed off attached in the events in Event Manager.

The controlled procedures on Chemistry’s SharePoint site were at the following Rev’s CHEM 2.6.01(Rev 0), CHEM 2.6.02(Rev 0), CHEM 2.6.03(Rev 0) and CHEM 2.5.09(Rev 3).

NOTE: Procedure 2.6.01 updated in Event Manager was Rev 2. The procedures on Chemistry’s SharePoint site was Rev 0. No clear evidence of where Rev 1 is located.

Audit Finding Report 3 – Event 200005

Requirement: ISO/IEC 17025:2017 Section 8.7.1 When a nonconformity occurs, the laboratory shall: d) review the effectiveness of any corrective action taken

LSQA 16 – 5.2.1.3. C - **Action to Prevent Recurrence (APR)** Record the processes/actions that have been implemented to prevent the recurrence of the deficiency, noted in this Event. If applicable, include objective evidence to support the action.

LSQA 16 – 5.2.1.4 – Part 3 Follow – Verify actions are complete and effective.

Non Conformance: The Events 190011 and 190014 the action to prevent reoccurrence and follow up were closed as a result of the Redline Procedures being uploaded as evidence in the Event Manager. After review, it was determined that procedures CHEM 2.6.02 and CHEM 2.5.09 were never approved or uploaded onto the SharePoint site. According to Lab Techs, they are only allowed to use Procedures on the SharePoint site, so the Action to Prevent Reoccurrence should not have been approved because the Lab Techs would have used the older procedure(s)

Audit Finding Report 4 – Event # 190005 C&IS Technical Audits 27 – Calibration of Thermocouple Indicator-

Requirement: ISO/IEC 17025:2017 Section 6.4.6 The equipment used for measurement shall be capable of achieving the measurement accuracy and/or measurement uncertainty required to provide a valid result. C&IS Procedure-09 – Determining and Reporting Measurement Uncertainty.

Non Conformance: Datasheet that was submitted with work order for QA review was older style that did not have the uncertainty worksheet attached with it. Upon verification of the measurement uncertainties listed on the datasheet, it was found that they were not correct for the standard that was used (which was the standard that the data sheet special instructions called out to use).

Audit Finding Report 5 – Event #190056 - C&IS Technical Audits 33 – Force – Compression & Tension: Calibration of dynamometer –

Requirement: ISO/IEC 17025:2017 Section 6.4.6 The equipment used for measurement shall be capable of achieving the measurement accuracy and/or measurement uncertainty required to provide a valid result. C&IS Procedure-09 – Determining and Reporting Measurement Uncertainty.

Non Conformance: The uncertainty listed on the datasheet (IS-S-26 #43, Rev. 4) was not correct (0.059%); it did not match what was in the uncertainty budget for the standards (Force Calibration (300 to 100klbf) ID#(Various) (Standard) V1.02_SCOPE.xlsm) and what is on the A2LA scope of accreditation (0.066%). The uncertainty listed on the datasheet was better than the Calibration and Measurement Capability (CMC) listed on the A2LA scope of accreditation. The uncertainty used on the datasheet came from an uncertainty budget for the force standards that was intended to go in to effect during the last A2LA audit but was not implemented

Audit Finding Report 6 – Event #190058 - *C&IS Technical Audits 8, 9, 10, 12, 14, 15, 19, 20, 21, 22, 51 – DC Volts Generate, 10V fixed point, DC volts Measure, DC Current Generate, DC Current Measure, DC Resistance Measure, DC Resistance Generate – Fixed Pts, AC Voltage Generate, AC Voltage Measure, AC Current Generate, AC Current Measure, Frequency Measure - Finding #1* –

Requirement: ISO/IEC 17025:2017 Section 7.8.2 – Common Requirements for Reports
7.8.2.1 Each report shall include at least the following information, unless the laboratory has valid reasons for not doing so, thereby minimizing any possibility of misunderstanding or misuse:

h. the date of receipt of the test or calibration item(s), and the date of sampling, where this is critical to the validity and application of the results

Non Conformance: The following standards were used during the calibration of the M&TE but were not listed on the completed calibration certificate: ID# 3741-01144 (10kΩ primary resistance standard), ID# 017655 (HP 3458A DMM used in conjunction with the MI 6000A resistance bridge), ID# 3741-00003 (0.1Ω working/transfer resistance standard), ID# 3741-01337 (100kΩ working/transfer resistance standard), ID# 3741-10348 (10MΩ working/transfer resistance standard), ID# 023382 (Fluke 5790A AC measurement standard).

Audit Finding Report 7 - Event #190059 - *C&IS Technical Audits 8, 9, 10, 12, 14, 15, 19, 20, 21, 22, 51 – DC Volts Generate, 10V fixed point, DC volts Measure, DC Current Generate, DC Current Measure, DC Resistance Measure, DC Resistance Generate – Fixed Pts, AC Voltage Generate, AC Voltage Measure, AC Current Generate, AC Current Measure, Frequency Measure Finding #2* –

Requirement: ISO/IEC 17025:2017 6.2.4 – The Laboratory shall communicate to personnel their duties, responsibilities and authorities.

Non Conformance: The technician is listed as being in training under the applicable discipline on the technical qualification matrix. The technician was supervised by a qualified person during the calibration (the internal technical auditor) but the technician did not add to the work order notes that the calibration was performed under the training/supervision of a qualified person (C&IS-02 Section 5.2).

Audit Finding Report 8 – Event #190069 - *Chemical Technical 9 - Standard Test Method for Analysis of Polychlorinated Biphenyls in Insulating Liquids by Gas Chromatography* –

Requirement: ISO 17025 (2017) Standard – 7.11.6 Calculations and data transfers shall be checked in an appropriate and systematic manner.

Requirement: CHEM-2.6.08 (Rev. 2) Section 10.1 “Using the in-house calculation program “PCB Oil Results”, obtain the calculated PCB concentration for the prepared extract.”

Non Conformance: The in-house calculation program “PCB Oil Results” was not functional. As workaround, the calculations were performed with a new/blank Excel spreadsheet that was not validated before use. Additionally, the laboratory procedure does not include contingency steps for manual calculation while the In-House developed software is not functional.

Audit Finding Report 9 – Event #190066 - *Chemical Technical 10 - Asbestos Identification in Building Materials by Polarized Light Microscopy* –

Requirement: ISO 17025 (2017) Standard – 6.2.3 - The laboratory shall ensure that the personnel have the competence to perform laboratory activities for which they are responsible and to evaluate the significance of deviations.

Requirement: CHEM-2.9.03 (Rev. 2) Section 9.3.8 “Count enough graticule fields to yield 100 fibers. Count a minimum of 20 fields. Stop at 100 fields regardless of fiber count”

Non Conformance: The technician performing the test did not recall the method requirement to count a minimum of 20 fields.

Audit Finding Report 10 – Event #190068 - *Environmental Technical 9 - Total Phosphorus (as P)* –

Requirement: TNI Standard 4.2.8.5 - Laboratories shall maintain SOPs that accurately reflect all phases of current laboratory activities, [...] and all methods.

f) The SOP may be a copy of a published or referenced method or may be written by the laboratory. In cases where modifications to the published method have been made by the laboratory or where the referenced method is ambiguous or provides insufficient detail, these changes or clarifications shall be clearly described. Each method shall include or reference the following topics where applicable:

- xiii. calibration and standardization
- xiv. procedure

Non Conformance: The CHEM-2.5.15 "Colorimetric Method for Phosphorous" procedure has not been updated with the steps performed for the low-level analysis.

Audit Finding Report 11 – Event #190067 - *Environmental Technical 10 – Alkalinity* –

Requirement: TNI Standard 4.2.8.5 - Laboratories shall maintain SOPs that accurately reflect all phases of current laboratory activities, [...] and all methods.

f) The SOP may be a copy of a published or referenced method or may be written by the laboratory. In cases where modifications to the published method have been made by the laboratory or where the referenced method is ambiguous or provides insufficient detail, these changes or clarifications shall be clearly described. Each method shall include or reference the following topics where applicable:

- iii. limits of detection and quantitation
- x. reagents and standards
- xiii. calibration and standardization
- xv. data analysis and calculations
- xviii. data assessment and acceptance criteria for quality control measures
- xx. contingencies for handling out-of-control or unacceptable data

Non Conformance: Difficulties were observed while the matrix spike (MS) and matrix spike duplicate (MSD) analysis for Alkalinity was performed. The laboratory procedure, "CHEM-2.5.36 Alkalinity by Titration" does not include steps on how to spike the sample

Audit Finding Report 12 – Event #190070 - *Environmental Technical 18 – Semivolatiles* – Requirement: TNI Standard – 4.13.2.2 Observations, data and calculations shall be recorded at the time they are made and shall be identifiable to the specific task.

TNI Standard – 4.13.3 a) - The laboratory shall establish a record keeping system that allows the history of the sample and associated data to be readily understood through the documentation. This system shall produce unequivocal, accurate records that document all laboratory activities such as laboratory facilities, equipment, analytical methods, and related laboratory activities, such as sample receipt, sample preparation, or data verification, and inter-laboratory transfers of samples and/or extracts.

CHEM-2.6.14 (Rev. 1) Section 9.2.2 - ““All samples must be spiked 20 µL internal standard before instrument analysis. In the case of the volume of extract cannot be achieved 1 ml, the exact volume must be measured, and the volume of internal standard must be adjusted accordingly.”

Non Conformance: During the internal audit it was observed that the final volume in several sample vials was significantly above the 1 mL mark, while the preparation log indicated 1 mL for all of them. The internal standard added was 20 µL to all of them, including the vials with a final volume above the 1 mL mark.

Audit Finding Report 13 – Event #190065 - *Environmental Technical 23 – Sample Login* – Requirement: TNI Standard – 5.8.5 c) - The laboratory ID code shall be placed as a durable mark on the sample container.

Non Conformance: A sample bottle pending Total Suspended Solids Analysis did not have a label indicating the laboratory control number (19-0269-12); it only had the field label on the container.

Description of Observations:

The following items are considered observations and areas and considered an opportunity for improvement. The internal audit process did not consider these areas non-conforming to a specific requirement. The recommendation from the audit team is these Observations get assigned to the Lab’s Continuous Improvement Coordinator for review and identification of implementation.

Observation 1: It was noted that there was an 841 tag attached to items at incoming and not a 256 form which is called out in procedure C&IS-08 Rev 11. Sara Laing and Morgan Wright both stated that the most of their customers except for nuclear customers use the 841 tag and not the 256 form. The procedure should be updated to mention the use of the 841 tag.

Observation 2: MAT has a spread sheet from Pipeline Integrity. Software cells not locked SCC Category Determination – provided by CE Pipeline Integrity. Cells should be locked to prevent modification.

Observation 3: In Chemistry, Some Excel Spread Sheets on the K drive were unofficially validated. The user was able to modify the spread sheets and use without being validated.

Observation 4: The Department Head of Shared Services is currently the Interim Department Head of Chemistry. With Quality reporting under the same person there could be a risk of independent decision(s).

Observation 5: *C&IS Technical Audits 13, 15, 44, and 51 – On site Calibration of Current Sources, Environmental Chamber and Temperature Controllers* - It was observed that the datasheets that were completed and provided to the customer (IS-A-173 Sh. 1 Rev. 0, IS-A-173 Sh. 2 Rev. 0, IS-H-65 Sh. 25 Rev. 1, and IS-H-90 Sh. 37 Rev. 1) did not have guardbanding applied to the tolerances.

Observation 6: *C&IS Technical Audit 18 – Calibration of Oscilloscope* - Procedure IS-P-23 is old and is not specific for the standards that are currently used for oscilloscope calibration. . . .The vagueness in parts of the procedure did not affect this calibration as the special instructions were up-to-date and had detailed instructions for each test.

Observation 7: *C&IS Technical Audit 28 – Calibration of Flow Calibrator* - The last time the procedure was revised is over 10 years ago (last revised 5/29/08). This seems like a long time but after review of the procedure and talking with the technician it was determine that the procedure is still relevant and suitable for use

Observation 8: *C&IS Technical Audit 42 – Optical Transmission Density – Densitometers, Film* - Though still operating effectively, the Macbeth densitometer standard (ID# 3741-00361) used for comparing the NIST standard density strips is quite old and should be on the radar for replacement in the next couple of years.

Observation 9: *C&IS Technical Audit 44 – On-Site Calibration of Environmental Chambers* - Standards used on-site visit form observed that was used is an older version. The new version does not contain any additional requirements, so this is not a finding

Observation 10: *C&IS Technical Audit 36 – Calibration of Torque Transducer* - Work procedure is from over 10 years ago (7/31/2008), the procedure is still valid and fit for use

Observation 11: *NDT Technical Audit 1 – Radio Graph* - NDT Dept. Head signature and printed name are missing from Thomas Dunns Visual level II NDT Initial Training Documentation and Certification Form

Observation 12: *NDT Technical Audit 2 – Liquid Penetrant* - While review of previous version Flow Serve Purchase Order Paperwork an occasion was found that a previous revision was used.

NDT Work Order 1900047 was a UT Straight Beam Inspection done on 01/16/19. The Flowserve purchase order form that was used was QA form-35, Rev. L. 2/07/18 while a similar UT straight beam inspection done on 4/4/19, The Flowserve purchase order used was QA-Form-35, Rev. H 9/30/08. Many differences on the forms were noted, see pages 85/86 for additional details.

Observation 13: *NDT Technical Audit 4 – Ultrasonic Testing* - Training record for Jonathon Nimms LSQA indoctrination Training records is missing the instructor signature.

DETAILS of the AUDIT

Section 1 – Contract Review

Each Laboratory Services (LS) department's Order Entry process slightly differs from one another, but they are guided by each departments Administrative Procedures and Laboratory Information Management Systems (LIMS). Each department uses a different administration procedures:

LSQA-20 – Order Entry

Calibration and Instrument Services C&IS-08 – Order Entry

Chemistry Environmental Chem1.1.06 – Order Entry

NDT and Materials uses NDT/MAT-A-03 – Order Entry

The audit team reviewed five (5) different purchase orders. Based on the evidence reviewed and the actions observed during the audit, it appears all requirements in the NDT, Material, and Chemistry departments are functioning per the LA Administration Procedures. It was determined during the audit; the Calibration department uses a different form number than the one identified in their Administration Procedure C&IS-08. In the discussion during the audit, it was determined the form was newly created and in the process of being implemented. For details, see Observation 1 above.

Section 2 – Design

CEC Laboratory Services doesn't provide or implement design activity. LS provides only testing and/or calibration services.

Section 3 – Commercial Grade Dedication

Laboratory Services (LS) maintains a Laboratory Services Qualified Suppliers List (LSQSL). For suppliers to be placed on the LSQAL, they are required to either be accredited to ISO 17025

with the published scope of accreditation verified; through Laboratory Services performing a 10CFR50 Appendix B audit or performing a Commercial Grade Survey and verifying applicable critical characteristics.

The LS Commercial Grade Dedication Plan for Calibration Services was reviewed and found acceptable. It was observed that the actions described in the plan are implemented, effective and records were available for review during the audit.

Calibration and Instrument Services is the only LS department that performs Commercial Grade Calibration Dedications. The LSQA manual (LSQA-05 5.2.B) specifically states that LS will not subcontract and “Dedicate” *testing and evaluation* services when a customer’s PO imposes 10CFR50 App B. Only subcontracted *calibration* services will be “Dedicated” when a customer PO imposes 10CFR50 App B. LS Performs onsite surveys of critical characteristics through a Commercial Grade Calibration Survey. One “Audit” and one “Survey” were conducted by Nick Serafin - LS Qualified Lead Auditor and Merideth Armstrong LS Qualified Auditor. A checklist was used in the 10CFR50 Appendix B audit of Crane Nuclear’s - Safety Related Appendix B program - Audit report name CN030619. A Commercial Grade Calibration Survey checklist was used for the TVA - Commercial Grade Survey - Survey/Audit report name TVA 031919. The Crane Nuclear audit had 3 findings and the TVA survey had no findings. The findings with Crane Nuclear and TVA were resolved and the follow up of the corrective actions were completed on 5/28/19 for Crane Nuclear.

Section 4 – Software

Each Laboratory Services (LS) department’s Software Validation process slightly differs from one another, but they are guided by the departments Administrative Procedures and Laboratory Information Management Systems (LIMS). Each department uses a different administration procedure.

- C&IS-04 – Control of C&IS Procedures
- CHEM-1.1.05 – Computer Software Validation
- NDT/MAT-A-01 – Document Control

The audit team reviewed several software files from all departments C&IS, Chemistry, and Metallurgy. All files showed evidence of having software/current software validation performed. If software errors are identified, they are documented in the Event Manager system.

Reviewed the annual memos for the completion of software Verification from the following areas:

C&IS: 10/10/18

Chemistry: 7/16/19

NDT/MAT: Reviewed a document titled 2019 Periodic Review and Verification of Software.

The following Finding and Observation were identified during the audits.

Audit Finding Report 8 – Contrary to requirements CHEM-2.6.08 (Rev. 2) Section 10.1 “*Using the in-house calculation program “PCB Oil Results”, obtain the calculated PCB concentration for the prepared extract.*” The in-house calculation program “PCB Oil Results” was not functional. As a work around the calculations were performed with a new/blank excel spreadsheet that was not validated before use. See Finding 6 above for details.

Observation 2 was identified in the Materials department where a customer provided a spreadsheet where the cells are not locked in the SCC Category Determination. The cells should be locked to prevent modification, for details, see Observation 2 above.

Observation 3 was identified during this audit in the Chemistry Department where it was observed that identified some cells were not locked in excel spready sheets on the k drive, see observation 3 above for details.

Section 5 – Procurement

Procurement of items/services use the following Administration Procedures:

- LSQA-5 - Procurement Control
- LSQA-8 - Supplier Evaluation and Selection
- C&IS-05 - Procurement and Receipt Inspection
- CHEM-1.1.02 - Procurement Requirements
- CHEM-1.1.03 - Receipt Inspection

The audit team reviewed, interviewed, and observed five separate procurements during the audit and found no issues. The procurement program contains the supplier qualifications embedded and all are current and updated.

Section 6 - Fabrication/Assembly Activities Material Control, Handling, Shipping and Storage

Each LS Department maintains their own Admin Procedures for Material Control, Handling, Shipping and Storage.

- LSQA-14 – Handling Storage and Shipping
- LSQA-15 – Status Indicators and Their Use
- C&IS-11 – Standardized Shipping Requirements
- CHEM-1.2.02 – Sample Preservation, Hold Time and Containers
- CHEM-1.2.03 – Sample Labeling
- CHEM-1.2.05 – On-site Sample Pickup and Sample Inventory Requirements
- CHEM-1.2.08 – Handling and Disposal of Lab Testing WasteCHEM-1.2.04 – Chain of Custody Requirements
- CHEM-1.2.01 – Sample Log-in

The audit team observed the receiving department performing receiving, check in of materials/equipment, packaging and the shipping out of materials/equipment. Items received were identified and delivered to the correct department. The environmental conditions were adequate to protect the equipment and material from damage and/or deterioration.

Observed C&IS, Chemistry, and Metallurgy for proper handling and labeling of samples from the field that requires testing. In all cases procedures were followed and all items were properly identified.

A Non Conformance was identified in the Chemistry Department, with the *Sample Login Process*. The TNI Standard – 5.8.5 c) - The laboratory ID code shall be placed as a durable mark on the sample container. During the audit, there was a sample bottle identified as pending Total Suspended Solids Analysis that did not have a label indicating the laboratory control number (19-0269-12); it only had the field label on the container. See Finding 13 above for details.

Observation 1 was identified in the Calibration department with reference to an incorrect number for a form being used. See Observation 1 above for details.

Section 7 - Special Processes

CEC Laboratory Services doesn't provide or implement any Special Processes. LS provides only testing and/or calibration services.

Section 8 - Test, Inspection and Calibration

Each LS Department maintains their own Admin Procedure(s) for Test Inspection and Calibration.

- LSQA-06 – Work Procedure Requirements
- LSQA-11 – Inspection
- LSQA-12 – Test Control
- C&IS-05 – Procurement and Receipt Inspection
- C&IS-06 – Control of Measurement and Test Equipment
- C&IS-07 – Standardize Calibration Procedure Requirements
- CHEM-1.1.03 – Receipt Inspection
- CHEM-1.2.10 – Refrigerator, Freezer, Oven and Incubator Temperature Log
- CHEM-1.2.13 – Equipment Recall & Calibration

Reviewed the Technical Audit Schedule in SharePoint and compared. Reviewed the following Technical Audits

- C&IS – 23 audits in 2019
- NDT – 5 audits in 2019
- MAT – 7 audits in 2019

Chemistry – 11 audits in 2019

Environmental – 23 audits in 2019

The technical audit reports identify compliance for satisfactory, finding or observation, related to the test methods used. Here is a list of the findings identified during the Technical Audits:

Audit Finding 4 – Contrary to requirements in C&IS-09 – Determining and Reporting Measurement of Uncertainty–During the *Calibration of Thermocouple Indicator* the verification of the Measurement uncertainties listed on the data sheet was found to be incorrect for the standard equipment that was used for the calibration. See Finding 4 above for details

Audit Finding Report 5 – Contrary to requirements in C&IS-09 – Determining and Reporting Measurement of Uncertainty-During the *Calibration of Force – Compression & Tension: Calibration of dynamometer* – The uncertainty listed on the datasheet (IS-S-26 #43, Rev. 4) was not correct. See Finding 5 above for details.

Audit Finding Report 6 – Contrary to the requirements in ISO/IEC 17025:2017 Section 7.8.2 – Common Requirements for Reports-During the review of the reports for calibration of – *DC Volts Generate, 10V fixed point, DC volts Measure, DC Current Generate, DC Current Measure, DC Resistance Measure, DC Resistance Generate – Fixed Pts, AC Voltage Generate, AC Voltage Measure, AC Current Generate, AC Current Measure, Frequency Measure*. It was determined that not all standards used for calibration were identified on the complete certificate. See Finding 6 above for details.

Audit Finding Report 9 – Contrary to the requirements in CHEM-2.9.03 (Rev. 2) *Asbestos Identification in Building Materials by Polarized Light Microscopy* – During the audit, the technician performing the test did not recall the method requirement to count a minimum of 20 fields. See Finding 9 above for details.

Audit Finding Report 10 – Contrary to the requirements in CHEM-2.5.15 "*Colorimetric Method for Phosphorous*", the procedure has not been updated with the steps performed for the low-level analysis. See Finding 10 above for details.

Audit Finding Report 11 – Contrary to the requirements in "CHEM-2.5.36 Alkalinity by Titration" the procedure does not include steps on how to spike the sample. During the audit, difficulties were observed while the matrix spike (MS) and matrix spike duplicate (MSD) analysis for Alkalinity was performed. See Finding 11 above for details.

There were several areas identified during the audit for improvement, such as:

Observation 5: C&IS Technical Audits 13, 15, 44, and 51 – On site Calibration of Current Sources, Environmental Chamber and Temperature Controllers - It was observed that the datasheets that were completed and provided to the customer did not have guardbanding applied to the tolerances. See Observation 5 above for details.

Observation 6: *C&IS Technical Audit 18 – Calibration of Oscilloscope* - Procedure IS-P-23 is old and is not specific for the standards that are currently used for oscilloscope calibration. . . .The vagueness in parts of the procedure did not affect this calibration as the special instructions were up-to-date and had detailed instructions for each test. See Observation 6 above for details.

Observation 7: *C&IS Technical Audit 28 – Calibration of Flow Calibrator* - The last time the procedure was revised is over 10 years ago (last revised 5/29/08). This seems like a long time but after review of the procedure and talking with the technician it was determine that the procedure is still relevant and suitable for use. See Observation 7 above for details.

Observation 8: *C&IS Technical Audit 42 – Optical Transmission Density – Densitometers, Film* - Though still operating effectively, the Macbeth densitometer standard (ID# 3741-00361) used for comparing the NIST standard density strips is quite old and should be on the radar for replacement in the next couple of years. See Observation 7 above for details

Observation 9: *C&IS Technical Audit 44 – On-Site Calibration of Environmental Chambers* - Standards used on-site visit form observed that was used is an older version. The new version does not contain any additional requirements, so this is not a finding, See Observation 9 above for details.

Observation 10: *C&IS Technical Audit 36 – Calibration of Torque Transducer* - Work procedure is from over 10 years ago (7/31/2008), the procedure is still valid and fit for use. See Observation 10 above for details.

Section 9 – Document Control/Adequacy

LS maintains a controlled Quality Assurance Manual (LSQA), Administrative Procedures, Work Instructions, and records to support the documented QMS. LS Quality Department maintains control of the Labs overall Quality Assurance Manual. Each department within LS controls their Administrative Procedures and Work Instructions. Every two years each department is required to perform a review of their Procedures to verify they are still effective. During this audit the following reviews have occurred:

Chemistry: 2/7/2018
C&IS: 1/25/19
NDT: 5/30/2018
Materials: 4/24/2018
QA: 12/21/2018

Department Working procedures were reviewed

Chemistry: 2/7/19
C&IS: 12/7/18
NDT: 4/24/18
Materials: 4/24/18

The most recent Quality Manual was revised and updated 5/7/19

Audit Finding Report 2 – Contrary to the requirements in ISO/IEC 17025:2017 Section 8.3

Control of Management System Documentation, 8.3.2 The laboratory shall ensure that:

d) relevant versions of applicable documents are available at point of use and, where necessary, their distribution is controlled;

f) the unintended use of obsolete documents is prevented, and suitable identification is applied to them if they are retained for any purpose.

During audit it was identified that CHEM Procedures 2.6.01(Rev2), 2.6.02(Rev 2), 2.6.03(Rev2) and 2.5.09(Rev4) were all (red lined) updated and had training logs signed off attached in the events. However, the controlled procedures on Chemistry's SharePoint site were at the following Rev's CHEM 2.6.01(Rev 0), CHEM 2.6.02(Rev 0), CHEM 2.6.03(Rev 0) and CHEM 2.5.09(Rev 3). See Finding 2 above for details.

Observation 12: *NDT Technical Audit 2 – Liquid Penetrant* - While review of previous version Flow Serve Purchase Order Paperwork an occasion was found that a previous revision was used. NDT Work Order 1900047 was a UT Straight Beam Inspection done on 01/16/19. The Flowserve purchase order form that was used was QA form-35, Rev. L. 2/07/18 while a similar UT straight beam inspection done on 4/4/19, The Flowserve purchase order used was QA-Form-35, Rev. H 9/30/08. Many differences on the forms were noted, see pages 85/86 for additional details. See Observation 12 above for details

Section 10 – Organization/Program

The organization of Laboratory Services starts with the Director of the Lab. All Department heads except the Quality Department head report directly to the Director of the Lab. All Supervisors report to their assigned Department Heads and then the employees report to the Supervisors. These roles are defined in LSQA-01, Revision 16. The evidence that the lab operates in this method is that each department head has their Organization Chart and implementation by the director of the lab.

The authority of independence is that Lab QA Manager reports to a Department Head titled Shared Services. Currently the Department Head of Shared Services is assigned on a temporary basis to the Chemistry Department Head.

Observation 4: The Department Head of Shared Services is currently the Interim Department head of Chemistry. With Quality reporting under the same person there could be a risk of independent decision(s). See observation 4 above for details

Reviewed the QA Status Report (Management Review) from 2018, dated June 6th, 2019, which addresses all elements of the Quality Management System as required in LSQA-02.

Section 11 – Nonconforming items/Part 21

The Event Manager (EM) is the Laboratory Services’ computer based corrective action/process improvement system described in LSQA-16. The EM system is controlled, so only Department Heads or their Designate can disposition, but the approval requires review and approval by both the Department Heads and the LS Quality Manager (or designate).

The Process of reviewing each non-conforming event identifies if it necessitates a 10CFR21.21 reporting requirement. In 2018, there were no non-conformances (events) identified as requiring NCR reporting.

NRC required reporting documents are posted on the bulletin board between the shipping receiving area and 1st floor main hallway.

In 2019, there were 72 documented Events created in Event Manager. 67 Events were Deficiency Notices and 5 were Customer Complaints with Deficiency Notices.

Section 12 – Internal Audits

Laboratory Services conducts internal audits to verify compliance with the requirements of the LSQA-16 Process.

LS internal audits are coordinated by the Quality Assurance Department Head, led by a qualified lead auditor, and conducted by trained auditors.

The previous internal audit (LS041918) utilized NUPIC-07-Rev 20 checklist to complete an internal audit on LSQA admin procedures as well as an internally developed performance-based checklist for internal technical audits. The checklist was completed with enough objective evidence to support conclusions and resulted in 4 findings and 13 observations. The audit personnel were independent from the departments audited. The audit results, including findings and observations, are included as part of the Management Review.

As a result of the 2018 Internal Audit IA041918, it was identified that actions to prevent reoccurrence was not effective in one area. The details of this was captured in Finding 2 and 3 above.

A follow up to the findings LS041918 was performed with the following results.

Audit IA041918 5/16/18 Event 180042	Closed	Interview and verification of personnel on the training matrix
Audit IA041918 10/29/18 Event 190094	Closed	Follow up review of calibration certificates
Audit IA041918 10/30/18 Event 180095	Closed	Follow-Up Audit

Audit IA041918 2/14/19 Event 190011 2/14/19 Event 190014	Closed	Verified that the documents were available at the point of use and they were not.
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Section 13 – Corrective Action

Laboratory Services performs Corrective Actions identified through the Event Manager and with the requirements outlined in the LSQA-16 Process.

In the LS Corrective Action Process, Events are entered in the Event Manager program when issues are identified, such as deficiency notices, process improvements and customer complaints. Initially the Event is evaluated to determine whether it is a customer complaint and if it is determined to be a non-conforming deficiency (DN).

Once the Event is identified as a DN it goes through the normal process of implementing appropriate corrective action. There are three parts to the LSQA 16 procedure, which include (1) Identification, and Notification of the Event Deficiency, (2) Evaluation and Disposition by Notified Department/Organization, and (3) Follow Up Resolution.

Finding 3: During 2018 Internal Audit follow up it was identified that events 190011 and 190014 the action to prevent reoccurrence and follow up were closed as a result of the Redline Procedures being uploaded as evidence in the Event Manager. However, the procedures were never updated on the SharePoint site, See Finding 3 above for details.

Section 14 – Training/Certification

Laboratory Services has several Admin Procedures that are followed to identify, track and implement the Lab training/qualification/certification process. The following administration procedures are followed.

- LSQA-19 – Training and Qualification Requirements for Certification
- C&IS-03 – Qualification and Certification
- Chem-1.1.04 – Qualification and Training Requirements for Chemistry Department Personnel Certification
- MAT-A-12 – Personnel Proficiency Testing
- NDT-A-02 – ND Personnel Training, Qualification, and Certification

The record was reviewed that tracks QA indoctrination training. All lab personnel have been documented as being trained in QA Indoctrination.

The department specific administration procedures for training six different individuals were checked for the work processes they were working on. Each were verified to have adequate

training. However, during technical audits, there were instances where the technical training matrix was not updated, see specific areas below.

Audit Finding Report 7 – Contrary to requirements in ISO/IEC 17025:2017 6.2.4 – The Laboratory shall communicate to personnel their duties, responsibilities and authorities-During calibration of – *DC Volts Generate, 10V fixed point, DC volts Measure, DC Current Generate, DC Current Measure, DC Resistance Measure, DC Resistance Generate – Fixed Pts, AC Voltage Generate, AC Voltage Measure, AC Current Generate, AC Current Measure, Frequency Measure Finding #2* – It was determined the technician listed on technical qualification matrix was listed as being in training. Work was performed without being supervised by qualified person. The technician did add or removed from work. See Finding 7 above for details

Section 15 – Field Services

Laboratory Services performed Field Services in accordance with the following procedures

Materials:

MAT-R08 – Replication Procedure

MAT-XRF17 – X-Ray Fluorescence Allow Analysis

NDE:

NDT-RT-52 – Visual and Computer Radiographic Examination

NDT-MT-05 – Magnetic Particle Examination

NDT-PT-06 – Radiographic Examination of Welds

NDT-UT-29 – Straight Beam Ultrasonic Examination

NDT-VT-05 – Visual Examination

During this assessment five internal audits were performed on field Service activities for the NDE department. During this assessment there were not internal audits performed for Field Service Activity for the Materials department due to the internal Technical Audit Schedule.

NDE Field Personnel work out of the locations. The main office is in Jackson Michigan with satellite offices on the West Side of State Campbell Plant and East side of state at Bay City Plant. Personnel have access to the quality manual and procedures through remote login to the server. These are the same controls as available inside of the laboratory.

Section 16 Records

Laboratory Services maintained records in accordance with corporate record retention policies and the following Administration Procedures

LSQA-17 Quality Assurance Records

CHEM. 1.2.06 – Control of Laboratory Notebooks

CHEM. 1.1.07 – Reporting and Record Retention

Over 105 individual records were reviewed during the audit to support objective evidence for compliance to this audit process. At no time during the audit was a record was not available to support record retention. Also verified during the audit was a review employee training files for NDT and Metallurgy. Files are stored in a locked fire proof cabinet located on the second floor of the Lab. They are also scanned and stored electronically in LS Operations located in Citrix. Some NDT files are also stored in the K drive which is on the network and the network is backed up by our corporate IT department. Records are kept per the Laboratory Services Retention Schedule.

The Chemistry department maintains control of laboratory notebooks. Procedure: CHEM-1.2.06, paragraph 5.1 reads, “Chemistry supervisors and personnel are responsible for requesting a notebook to contact the QA Coordinator when one is needed. . .”. Contrary to this requirement, it was identified that a General laboratory Technical Analysis II maintains control of the Laboratory Notebooks. See Finding 1 above for details.

During the Technical audit of – *Semivolatiles* – It was observed that the final volume in several samples vials was significantly above the 1mL mark. The requirements is TNI Standard – 4.13.2.2_Observations, data and calculations shall be recorded at the time they are made and shall be identifiable to the specific task. see Finding 12 above for details. The accurate amount of sample was not recorded correctly, see Finding 12 above for details.

Observation 11: *NDT Technical Audit 1 – Radio Graph* - NDT Dept. Head signature and printed name are missing from Thomas Dunns Visual level II NDT Initial Training Documentation and Certification Form. See Observation 11 above for details.

Observation 13: *NDT Technical Audit 4 – Ultrasonic Testing* - Training record for Jonathon Nimms LSQA indoctrination Training records is missing the instructor signature. See Observation 13 above for details

Lead Auditor



QA Department Head



Report Name: Energy Services Sales and Marketing
Report Number: 2019-16
Assessed Risk: Compliance Based
Business Owner: Jenny Olenik, Sr. Quality System Specialist

Background

The Energy Services (Home and Industrial Portfolios) Sales and Marketing team manages both regulated rate service offerings and non-regulated rate offerings. The unregulated offerings are referred to as Value Added Products and Services (VAPS). In contrast to Consumers Energy's (CE or the Company's) core gas and electric businesses, the success of VAPS is contingent upon the ability to sell additional product and service offerings, such as an appliance service plan (ASP), to the customer. Management developed sales incentive goals to reward employees and contractors for making sales, which are outlined in the following incentive plans:

- *Industrial Sales Commission and Incentive Plan:* This plan consists of four incentives to reward CE sales team members for selling products to commercial and industrial customers that will improve their energy efficiency, reduce electrical consumption during periods of high demand and reward the sales team members for a 1st quartile JD Power Score; and
- *Residential Products Sales Incentive Plan:* This plan consists of seven incentives for internal and external sales professionals who are responsible for selling, upgrading or transferring sales calls for the Appliance Service Plan.

Both incentive programs represent \$2.2 million (\$2.14 million for the residential incentives and \$66k for the industrial incentives) for the 2019 award year as outlined in the below table.

Internal Audit Focus

The focus of the audit included an evaluation of the governance, processes, procedures and controls in place to manage the Energy Services Sales and Marketing incentive compensation programs, including validating that the management action plans from the prior 2018 audit had been completed and implemented. Internal Audit (IA) also assessed if we could calculate the same incentive payout results as management based on the criteria outlined in the incentive plans, policies and procedures.

Positive Highlights

Since the 2018 audit, management has made several process and control enhancements, including:







- Significant enhancements to the process documentation, including the development of incentive plans, standard operating procedures and work instructions to illustrate how the processes work from end-to-end;
- Automating the calculation process for three of the complex residential metrics, Customer Contact Center, Harris & Harris and the Solution Center. While not implemented yet, this enhancement is expected to reduce the manual effort; and
- A new process to validate the accuracy of third party vendor invoices against the sales from the CE system.

Energy Services Sales and Marketing – Summary of Incentives

The graphic below provides context regarding each of the VAPS Energy Services incentives, including the recipients, payout totals for 2019, number of employees or contractors receiving the incentive, average incentive award per person and if the incentive was in-scope or out of scope:

Report continued on next page



Energy Services Sales and Marketing – Summary of Incentives					
 Incentive	 Recipient	 Estimated 2019 Payout	 Estimated # of employees or contractors	 IA's Recalculation Result of a Sample	 In scope or out of scope
Residential Products Sales Incentives					
Allconnect – Mover	Third Party	\$800,000	500	Agreed	In Scope
Allconnect – H.S.A. (Home Solutions Advisor)	Third Party	\$775,000	15	Agreed	In Scope
Marketing Advisor	CE	\$0	3	Agreed	In Scope
Customer Contact Center (Note 1)	CE	\$430,000	175	Not Remediated	Limited Procedures
Harris & Harris (Note 1)	Third Party	\$70,000	35	Not Remediated	Limited Procedures
Concentrix (Note 2)	Third Party	\$21,000	45	Out of Scope	Out of Scope
Solutions Center (Dialog Direct) (Note 1)	Third Party	\$40,000	100	Not Remediated	Limited Procedures
Total Residential Products Sales Incentives		\$2,136,000			
Industrial Sales Commissions and Incentives					
Virtual Energy Engineer	CE	\$9,000	5	Agreed	In Scope
Tech Services	CE	\$29,000	5	Agreed	In Scope
Demand Response	CE	\$28,000	5	Agreed	In Scope
JD Power Quartile Calculation (Note 3)	CE	\$0	5	Out of Scope	Out of Scope
Total Industrial Sales Commissions and Incentives		\$66,000			
Grand Total Residential and Industrial Incentives		\$2,202,000			

Note 1: While management communicated that the remediation effort from the 2018 audit was complete, during this audit IA confirmed with management that the new calculation process (automated process through the Incentive Machine) had not been implemented. In addition, due to challenges with the vendor who managed incentive payouts as outlined in the Summary of Incentive Results below, it was unclear when it would be implemented. Therefore, given that the incentive calculation is not being performed using the Incentive Machine, limited procedures were performed to understand the effectiveness of the future state of the process.

Note 2: The Company stopped using the third party vendor Concentrix in July 2019. Given the 2019 incentives that were paid were minimal, IA considered this incentive out of scope.

Note 3: The JD Power Quartile Calculation is an annual incentive that was not complete at the time of IA's audit; therefore, it was considered out of scope.

Summary of Incentive Results

As outlined above, management made several improvements to the overall process, including the creation of overarching governance and standards and improved procedures and controls. The key area where prior audit gaps had not been remediated pertains to three of the residential incentives, Contact Center, Harris and Harris and the Solution Center, which account for 25% of the total annual incentive payout or approximately \$540,000. Initially management developed a plan to work with an existing vendor who manages the calculation and payout process to address gaps. While management was in the process of implementing the action plans from the 2018 audit, the vendor opted to no longer provide the managed service after June 2019. This resulted in a change of course from a vendor managed service to developing and implementing an internal calculation tool, called the Incentive Machine. Per the extension to the plan, the Incentive Machine development was completed in September with a plan to start using in October, however at the time of the audit in October 2019, the tool had not been implemented.

While IA understands that the vendor change was out of management's control, management calculated the retail incentives for all of 2019 using processes that had known data integrity issues. As a result, IA could not re-perform management's calculation to confirm that the incentives were calculated accurately for 2019.

The re-calculation summary results for the 11 VAPS incentives is as follows:

- 3 out of the 11 incentives, IA did not re-calculate the incentives given that the gaps identified in the 2018 audit were not remediated and, therefore, IA was unable to effectively re-perform the calculations;
- 4 out of the 11 incentives, IA agreed with management's calculations;
- 2 out of the 11 incentives, IA identified immaterial differences; and
- 2 out of the 11 incentives were out of scope because they were either immaterial or not completed at the time of this audit.

Summary of Findings

IA identified 5 findings which are outlined in the table below. IA recommends that management prioritize addressing the data integrity gaps for the three retail incentives, which are outlined in Findings 1a and 1b.

Summary of Findings			Management Response
#	Description	Priority Rating*	Target Date
1.	Insufficient Remediation Actions Taken Since 2018 Audit (Residential Incentive Plan)	Yellow	
1a.	<p>Enhancements Required to the Processes to Identify and Implement Short-Term Stop Gap Measures (Residential Incentive Plan) During the 2018 audit, IA identified gaps with the governance, standards, processes and controls for the Residential Incentive Plan incentives. In addition, IA was unable to independently recalculate the incentive for the Customer Contact Center due to the data integrity weaknesses and lack of documentation to explain the calculation process.</p> <p>Management developed extensive documentation for the new calculation process which was scheduled to be implemented in September 2019 to address the aforementioned gaps, however, the new calculation process was not implemented at the time of the audit. Therefore, management calculated the residential incentives for all of 2019 based on the same processes that have known gaps. In addition, IA confirmed with management that they did not implement any short term "stop-gap" measures to address the known data quality issues while the long term solution was being developed and implemented.</p>		5/29/2020
1b.	<p>Enhancements Required to the Design of the Incentive Machine (Residential Incentive Plan) During User Acceptance Testing of the new incentive calculation process (the Incentive Machine) for 3 of the residential incentives, management self-identified a design flaw related to data availability. More specifically, the data required for the incentive calculation becomes unavailable and expires after one day. Management communicated that they implemented a mitigating control to validate that the required data set did run appropriately. However, there is no documentation that outlines this control and how it should be performed, including if the incentive calculation was performed as intended.</p> <p>While management self-identified the aforementioned issue, IA observed that, management has not yet developed a solution to correct this issue which could result in inaccurate incentive calculations and could result in underpaying or overpaying the CMS employees for sales they made.</p>		9/4/2020

Summary of Findings			Management Response
#	Description	Priority Rating*	Target Date
2.	<p>Enhancements Required to the Processes and Controls for Demand Response Contracts (Industrial Incentive Plan)</p> <p>The Demand Response Program (DRP) is designed to incentivize Commercial and Industrial customers for reducing energy usage in the event of a demand response event. Energy Management Solutions Sales Advisors are incentivized for the number of kilowatts (Kw) each C&I customer commits to reducing. IA observed that management has not clearly defined nor documented the inclusions or exclusions for this incentive, which has resulted in IA observing minor inconsistencies in the calculation.</p> <p>In addition, IA observed the following gaps in the review process of DRP contracts which is performed by the Network Operations Center (NOC):</p> <ul style="list-style-type: none"> • There is no standard that outlines the process to review demand response nominations; • The review is not performed timely (up to 7 months after the contract is executed); and <p>There is no evidence that any actions are taken based on the results of the review, including when the reviewer flags the contract as “unachievable” based on historical data.</p>	Yellow	7/2/2020
3.	<p>Enhancements Required to the Monitoring Processes and Controls to Identify and Communicate No Consent Sales (Residential Incentive Plan)</p> <p>The Company leverages internal and third party CSRs to sell ASP plans to customers, which they are incentivized for. In 2019, management implemented a control to monitor for potential no consent sales, which involves listening to a sample of recorded calls. IA observed that management is actively listening to calls and has processes in place for each sales channel to identify instances of no consent sales. IA validated with the Accountable Authority in place at the time of the audit, that there were 47 no consent sales reported to the Compliance Department in 2019.</p> <p>However, IA observed the following gaps in the process to identify and report no consent sales for the third party vendor, Allconnect, including:</p> <ul style="list-style-type: none"> • CE is not independently selecting the calls to review for no consent sales. Therefore, given Allconnect is choosing the calls they provide for management’s review, there is a chance that calls or behaviors which do not align to company standards could go undetected. <p>Management has not implemented a risk based approach to support the call sampling methodology they are using, which currently equates to 2% of all calls.</p>	Yellow	7/21/2020
4.	<p>Enhancements Needed to the Allconnect Incentive Review Processes (Residential Incentive Plan)</p> <p>Since the 2018 audit, management implemented an independent calculation process to confirm that incentive calculations performed by their third party vendor, Allconnect, are accurate and agree to the contract. While the new process is a significant improvement from the prior one, IA observed that there is no process in place to periodically, and as changes are made, agree the data in the new spreadsheet to the contract in order to help ensure that key data inputs are complete and accurate. As a result, IA observed that there were two products being sold by Allconnect and incentivized by the Company, which were not documented as part of the contract. The amounts associated with these two products were immaterial to the overall program.</p>	Green	8/20/2020



Summary of Findings			Management Response
#	Description	Priority Rating*	Target Date
5.	<p>Enhancements Needed to the Incentive Procedures (<i>Residential & Industrial Incentive Plan</i>)</p> <p>IA observed minor gaps in the incentive procedures related to the incentive review process and the change management process. More specifically, IA observed that there is no defined timeline for when the review of incentive calculations should occur. In addition, the change management procedure does not specify that leadership approval is required for changes to the incentive plans (e.g. incentive targets with monetary impact).</p>	Green	5/21/2020

*See Appendix B for definition of Priority Rating and Sarbanes Key Control.

Note 1: None of the findings are Sarbanes Key Controls.

Note 2: Management agrees with all of the findings identified.

Report CC Listing:

PKPope	SMJohnson	SJBartholomew	DADeGarmo	HPAttisha	JSWeber
RPHayes	DVRao	DMBaughman	CDuVall	JEHanger	Audit Committee
GJRochow	BJRich	MAMacdonald	DDKirchner	MWMetz	PwC
JFBrossoit	GPBarba	JCMayes	TStudnicka	HBMillner	
CAHendrian	MMGleespen	AMConrad	DDSchmidt	VCMoore	
BJHofmeister	LEYoungdahl	TGGilmore	RRAnthony	JLTupper	



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Appendix C – Definition of Red, Yellow, Green and Sarbanes Key Control 27



Detailed Findings, Recommendations and Management Action Plans

Finding 1a: Enhancements Required to the Processes to Identify and Implement Short-Term Stop Gap Measures (Residential Incentive Plan)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Yellow	If Sarbanes Yes, Provide Reference: N/A
<p>Description of Issue During the 2018 audit, IA identified gaps with the governance, standards, processes and controls for the Residential Incentive Plan incentives. In addition, IA was unable to independently recalculate the incentive for the Customer Contact Center due to the data integrity weaknesses and lack of documentation to explain the calculation process.</p> <p>Management developed extensive documentation for the new calculation process which was scheduled to be implemented in September 2019 to address the aforementioned gaps, however, the new calculation process was not implemented at the time of the audit. Therefore, management calculated the residential incentives for all of 2019 based on the same processes that have known data quality gaps. In addition, IA confirmed with management that they did not implement any short term “stop-gap” measures to address the known data quality issues until the long term solution was being developed and implemented.</p> <p>Risk Lack of short term countermeasures to mitigate the risk associated with known data integrity issues may result in calculation errors not being identified or remediated timely. This could result in potential and persistent errors in incentive compensation and a process that is not well controlled.</p> <p>Recommendation Management should consider the following recommendations as they develop their management action plan:</p> <ol style="list-style-type: none"> 1. Develop and implement short-term stop gap measures while the new incentive calculation process is being implemented, including measures to enhance the data quality used in the current incentive compensation processes; 2. Develop and implement a plan to transition from the current calculation processes for each impacted incentive to the new calculation process to verify the following: <ol style="list-style-type: none"> a. Accuracy of the data used in the new calculation process; and b. Validating, through testing, that the new process is working as intended. 	

Detailed Findings, Recommendations and Management Action Plans

Finding 1a – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Hayley Millner-Customer Contact Center Sales Channel Manager

MAP Support Role (if applicable): Jody Tupper, Sr. Quality System Specialist
 Josh Hanger, Bus Sup Adv

Management Action Plan:

Management agrees with IA’s findings and will:

1a-IMa	Turned on Incentive Machine and document (ASP-PLN-00002) the date of turn on for each channel.	Solution Center	Completed 11/01/2019
		CCC	Completed 01/01/2020
		H & H	Completed 01/01/2020

1a-IMb	Implemented Daily Checks on Sales Incentive Machine to confirm the data inputs (HR Demographic and Sales Export Files) and data outputs (all workbooks and views tied to incentives) and document results. (Change Management #00060).	Completed 01/01/2020.
1a-IMc	Implemented data upload for each Sales Channel to address missing data detected during Daily Checks.	Completed 01/01/2020

1a1a	Document or Draft and submit short term gap measures (since Audit) for incentive machine.	4/17/2020
1a1b	Approve short term gap measures for incentives machine	5/8/2020
1a1c	Train and Release short term gap measures for incentive machine	5/29/2020

1a2a	Document or Draft and submit process to transition from current calculation process for each incentive to the new calculation process to verify the following: -Accuracy of the data used in the new calculation process; -Validating, through testing, that the new process is working as intended.	4/17/2020
1a2b	Approve process to transition from current calculation process for each incentive to the new calculation process to verify the following: -Accuracy of the data used in the new calculation process; -Validating, through testing, that the new process is working as intended.	5/8/2020
1a2c	Train and Release process to transition from current calculation process for each incentive to the new calculation process to verify the following: -Accuracy of the data used in the new calculation process; -Validating, through testing, that the new process is working as intended.	5/29/2020

Target Date:

05/29/2020

Note: The management action plan for items 1a-IMa, 1a-IMb, and 1a-IMc with a January 1, 2020 completion date was not validated prior to the issuance of this audit report and needs to be validated during the standard Audit Findings Follow-up process performed by Internal Controls.



April 16, 2020

Detailed Findings, Recommendations and Management Action Plans

Finding 1b: Enhancements Required to the Design of the Incentive Machine (<i>Residential Incentive Plan</i>)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Yellow	If Sarbanes Yes, Provide Reference: N/A
<p>Description of Issue</p> <p>The “Incentive Machine” is a Tableau configured dashboard that reports the results for 3 of the residential incentive metrics including: (i) Customer Contact Center (internal), (ii) Harris and Harris (external) and (iii) Solutions Center (Dialog Direct) (internal).</p> <p>During User Acceptance Testing of the new incentive calculation process (the Incentive Machine) for 3 of the residential incentives, management self-identified a design flaw related to data availability. More specifically, if the daily data required for the incentive calculation is not delivered to the Tableau server, the database will have a gap in data which then becomes unavailable and expires after one day. Management communicated that they implemented a mitigating control to validate that the required data set did run appropriately. Although there were no IT level controls at the time of the audit, there were business level controls in place for checking file delivery in the email PO Box once per day. However, there is no documentation that outlines this control and how it should be performed, including what process is in place to confirm that the incentive calculation was performed as intended.</p> <p>While management self-identified the aforementioned issue as related to the CE IT Active Directory Group and Voxai Genesys data sets, IA observed that management did not perform a root cause analysis to identify the reason for this job process failure. As a result, management has not yet developed a solution to correct this issue which could result in inaccurate incentive calculations and could likely result in underpaying or overpaying the CMS employees for sales they made.</p> <p>Risk</p> <p>Without a more robust process in place to monitor job failures, data inconsistencies may not be identified timely resulting in the data needed to perform the calculation being inaccessible. Additionally, lack of access to data needed to perform the calculation may result in the inaccurate calculation of incentive compensation, as well as inaccurate incentive compensation payouts.</p> <p>Recommendation</p> <p>Management should consider the following recommendations as they develop their management action plan:</p> <ol style="list-style-type: none"> 1. Perform a detailed root cause analysis to identify the reason for the job failure; 2. Develop a new process, or even consider using a different data set, based on the results of the root cause analysis; 3. If management deems that additional mitigating controls are still needed, management should document and implement a process for monitoring job failures, including the following: <ol style="list-style-type: none"> a. Outlining who is responsible for monitoring job notification failures; b. What steps should be performed as part of the job notification failure process, including how job notification failures should be identified and once identified how the failure should be escalated to IT to help ensure the data can be generated the same day; c. The frequency of the monitoring process; and d. The process if data is unable to be generated the same day and is unavailable for use in the data calculation. 	



Detailed Findings, Recommendations and Management Action Plans

Finding 1b – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Thomas Spring, IT Project Manager

MAP Support Role (if applicable): Denise Soltis, IT Technical Lead

HCL (Supplier)

Voxaai (Supplier)

Management Action Plan:

Management agrees with IA’s findings and will:

1b0a	Create 6 additional IT controls for the data input process: <ul style="list-style-type: none"> o Redwood Job Chain for HR data input 3 control points that generate P2 (30 min response time) IT tickets o Redwood Job Chain for Sales data input 3 control points that generate P2 (30 min response time) IT tickets 	Completed 01/01/2020
1b0b	Document/Release the business level controls for file delivery check <ul style="list-style-type: none"> o ASP-WI-00063 Rev.2 	Completed 01/01/2020
1b1	Perform and document detailed root cause analysis (for AD and Voxaai) to identify the reason for the job failure	3/6/2020
1b2a	Update and submit process to address root cause and the following: <ul style="list-style-type: none"> -Outlining who is responsible for monitoring job notification failures; -What steps should be performed as part of the job notification failure process, including how job notification failures should be identified and once identified how the failure should be escalated to IT to help ensure the data can be generated the same day; -The frequency of the monitoring process; and -The process if data is unable to be generated the same day and is unavailable for use in the data calculation. 	7/24/2020
1b2b	Approve updates to process to address root cause and the following: <ul style="list-style-type: none"> -Outlining who is responsible for monitoring job notification failures; -What steps should be performed as part of the job notification failure process, including how job notification failures should be identified and once identified how the failure should be escalated to IT to help ensure the data can be generated the same day; -The frequency of the monitoring process; and -The process if data is unable to be generated the same day and is unavailable for use in the data calculation. 	8/14/2020
1b2c	Train and Release updates to process to address root cause and the following: <ul style="list-style-type: none"> -Outlining who is responsible for monitoring job notification failures; -What steps should be performed as part of the job notification failure process, including how job notification failures should be identified and once identified how the failure should be escalated to IT to help ensure the data can be generated the same day; -The frequency of the monitoring process; and -The process if data is unable to be generated the same day and is unavailable for use in the data calculation. 	09/04/2020



Detailed Findings, Recommendations and Management Action Plans

Finding 1b – Management Action Plan Continued:**Target Date:**

09/04/2020

Note: The management action plan for items 1b0a and 1b0b with a January 1, 2020 completion date and 1b1 with a March 6, 2020 completion date were not validated prior to the issuance of this audit report and needs to be validated during the standard Audit Findings Follow-up process performed by Internal Controls.

Detailed Findings, Recommendations and Management Action Plans

Finding 2: Enhancements Required to the Processes and Controls for Demand Response Contracts (<i>Industrial Incentive Plan</i>)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Yellow	If Sarbanes Yes, Provide Reference: N/A
<p>Description of Issue</p> <p>Annually, the Company sets a goal for the Demand Response Program in order to make a nomination to the Midcontinent Independent System Operator (MISO). The Demand Response Program is designed to incentivize commercial and industrial customers for reducing energy usage by the committed amount in the instance of a demand response event. Additionally, Energy Management Solutions Sales Advisors are incentivized for the amount of nominations committed. These events may occur between the months of June – September between the hours of 11am-7pm. IA audited the Demand Response Program and observed enhancements required to the documentation and review process, as outlined below:</p> <p><i>Demand Response Sales Program:</i></p> <p>The Demand Response Program sales are made from March of the current year through February of the following year. For example, the nominations that are made from March 2019 – February 2020 would be for the June 2020 – September 2020 demand response season.</p> <p>A business decision was made in Q2 2019, after the 2019 demand response sales season typically ends, to obtain more demand response nominations for the 2019 demand response season. IA observed that, as these nominations were made outside of the normal sales cycle, the incremental demand response nominations obtained during this time by the Energy Management Solutions Sales Advisors were not included in the incentive compensation calculation for the quarter. However, management was unable to provide any documentation to support that the additional nominations should have been excluded from the incentive calculation. These nominations of approximately 5.7 megawatts (Mw), had no impact on the incentive compensation achievement for the quarter, which was 80%, because the next payout level would have had to meet the 100% nomination goal.</p> <p><i>Demand Response Sales NOC Review:</i></p> <p>An independent monitoring control was implemented in 2018 by the Network Operations Center (NOC) to review the demand response contract nominations made by the customer. The goal of this review control is to determine if the nomination is achievable based on historical usage and includes the following:</p> <ul style="list-style-type: none"> • The customer’s average usage during the demand response season of June – September between 11am and 7pm; and • The energy curtailment achieved during any dispatch readiness tests (DRT) that have been historically performed, to evaluate if the nomination amount appears achievable. <p>IA observed the following gaps with the aforementioned NOC Review Process:</p> <ul style="list-style-type: none"> • There is no standard that outlines the review process, the roles and responsibilities of all key stakeholders, the expectations when a demand response nomination appears unachievable or the criteria to identify if a nomination appears achievable or not; • While management implemented a review process and the results of the review are documented in a spreadsheet, there is no evidence that any actions are taken by the Energy Management Solutions Sales Advisors based on the NOC’s review. For example, there is no documented process to make adjustments to DR nominations for the incentive calculation or to review the information for use as lessons learned or areas to consider for continuous improvement in the future; • There is not a standard outlining the timeline for the review to be performed, and currently the review is not conducted timely. For example, the review typically occurs between October and December for contracts that may have been executed as early as 7 months prior; and 	



Detailed Findings, Recommendations and Management Action Plans

Finding 2 Continued

- Although the contract allows for an adjustment or cancellation after the NOC review period is complete, IA learned that such actions are rarely taken, even when nominations appear unachievable. For example, a demand response nomination was made for FireKeepers Casino for 2019 of 4,100 KW which was 95% of their average baseline load and was identified during the independent review process as being potentially unachievable in the instance of a demand response event. An explanation was documented indicating FireKeepers is building another hotel tower on their grounds which would result in increased usage and the ability to meet the demand response nomination, however, the second hotel tower is not expected to be completed until late 2020 after the demand response season concludes. In addition, there was no supporting documentation retained at the time of the nomination that supports why the nomination was made and why no actions were taken to adjust the demand response nomination.

Risk

Lack of documented approval to support incentive changes may result in changes being made that are not appropriate and not aligned to the spirit of the incentive (e.g. sales being made and not incentivized). In addition, without enhanced processes and controls to identify and detect potential instances where commercial and industrial customers overcommit on their demand response nominations, nominations may be unachievable, resulting in overstated incentive results, which could result in increased reputational and regulatory risks.

Recommendation

Management should consider the following recommendations as they develop their management action plans:

1. Enhance the DRP approval process to include approvals when changes to the incentives are made during the year that may result in inclusions or exclusions that do not align to the current approved incentive plan. Approvals and rationale should be retained. Also, management should align with the Director of Executive and Incentive Compensation in HR to discuss what corporate approvals are required to be obtained and retained when incentive changes occur during the year.
2. Enhance and document the independent monitoring process performed by the NOC for demand response sales to include the following:
 - a. Expected timing of the review process (i.e. before the contract is signed or incentives paid);
 - b. Required approvals and authorization within 30 days of the nomination;
 - c. Required support for demand response nominations;
 - d. Any additional approvals that may be required to authorize risky demand response nominations where it appears that a customer may underperform;
 - e. Any additional required support for risky demand response nominations where it appears the customer may underperform;
 - f. All NOC review questions, comments and authorizations cleared prior to incentives being paid;
 - g. Documented roles and responsibilities matrix to identify who can perform the review, provide authorizations, gather supporting documentation, provide additional authorizations as necessary, etc.; and
3. Communicate and train all key stakeholders on the updated processes and procedures.

Detailed Findings, Recommendations and Management Action Plans

Finding 2 – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Todd Studnicka, Director of Sales Operations

MAP Support Role (if applicable): Derek Kirchner, Director of Demand Response

Duane Schmidt, Sr Engineer

Victoria Moore, Sr. Engineer

Management Action Plan:

Management agrees with IA’s findings and will:

2-1a	Update and submit Demand Response Program approval process to include approvals when changes to the incentives are made during the year that may result in inclusions or exclusions that do not align to the current approved incentive plan. Approvals and rationale should be retained. Also, management should align with the Director of Executive and Incentive Compensation in HR to discuss what corporate approvals are required to be obtained and retained when incentive changes occur during the year.	4/15/2020
2-1b	Approve Demand Response Program approval process to include approvals when changes to the incentives are made during the year that may result in inclusions or exclusions that do not align to the current approved incentive plan. Approvals and rationale should be retained. Also, management should align with the Director of Executive and Incentive Compensation in HR to discuss what corporate approvals are required to be obtained and retained when incentive changes occur during the year.	5/6/2020
2-1c	Train and Release Demand Response Program approval process to include approvals when changes to the incentives are made during the year that may result in inclusions or exclusions that do not align to the current approved incentive plan. Approvals and rationale should be retained. Also, management should align with the Director of Executive and Incentive Compensation in HR to discuss what corporate approvals are required to be obtained and retained when incentive changes occur during the year.	5/21/2020
2-2a	Document /Update and submit the independent monitoring process performed by the NOC for demand response sales to include the following: -Expected timing of the review process (i.e. before the contract is signed or incentives paid); -Required approvals and authorization within 30 days of the nomination; -Required support for demand response nominations; -Any additional approvals that may be required to authorize risky demand response nominations where it appears that a customer may underperform; -Any additional required support for risky demand response nominations where it appears the customer may underperform; -All NOC review questions, comments and authorizations cleared prior to incentives being paid; -Documented roles and responsibilities matrix to identify whom can perform the review, provide authorizations, gather supporting documentation, provide additional authorizations as necessary.	5/21/2020

Detailed Findings, Recommendations and Management Action Plans

Finding 2 – Management Action Plan Continued:

2-2b	<p>Approve the independent monitoring process performed by the NOC for demand response sales to include the following:</p> <ul style="list-style-type: none"> -Expected timing of the review process (i.e. before the contract is signed or incentives paid); -Required approvals and authorization within 30 days of the nomination; -Required support for demand response nominations; -Any additional approvals that may be required to authorize risky demand response nominations where it appears that a customer may underperform; -Any additional required support for risky demand response nominations where it appears the customer may underperform; -All NOC review questions, comments and authorizations cleared prior to incentives being paid; -Documented roles and responsibilities matrix to identify whom can perform the review, provide authorizations, gather supporting documentation, provide additional authorizations as necessary. 	6/11/2020
2-2c	<p>Train and Release the independent monitoring process performed by the NOC for demand response sales to include the following:</p> <ul style="list-style-type: none"> -Expected timing of the review process (i.e. before the contract is signed or incentives paid); -Required approvals and authorization within 30 days of the nomination; -Required support for demand response nominations; -Any additional approvals that may be required to authorize risky demand response nominations where it appears that a customer may underperform; -Any additional required support for risky demand response nominations where it appears the customer may underperform; -All NOC review questions, comments and authorizations cleared prior to incentives being paid; -Documented roles and responsibilities matrix to identify whom can perform the review, provide authorizations, gather supporting documentation, provide additional authorizations as necessary. 	7/2/2020

Target Date:

07/02/2020



Detailed Findings, Recommendations and Management Action Plans

Finding 3: Enhancements Required to the Monitoring Processes and Controls to Identify and Communicate No Consent Sales (<i>Residential Incentive Plan</i>)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Yellow	If Sarbanes Yes, Provide Reference: N/A

Description of Issue

The Company leverages internal and third party CSRs to sell ASP plans to customers, which are incentivized. For the Industrial Sales Incentive Plan, consent for these sales is obtained through customer acknowledgment through a signed contract. However, to address the risk of no consent sales for the incentives in the Residential Products Sales Incentive Plan, management implemented a monitoring control in 2019 which involves listening to a sample of recorded calls for both CE and third party call centers. Upon completion of the call review, coaching may be provided to the CE CSRs or to the external call center to address any behavior issues or policy violations. Any instances of no consent sales that are identified, are reported to the VAPS Accountable Authority, who then reports them to the Compliance Department.

The residential sales channels have different criteria to trigger a call for no consent review by CE management as follows:

Incentive	Internal/ External Sales Channel	Sales Type	Review Frequency	Avg Sales Calls Per Month	CE's Review Criteria
Allconnect Mover	External	Sales	Monthly	770	15 calls out of all sales made in the month
Allconnect H.S.A.	External	Sales	Monthly	833	15 calls out of all sales made in the month
Customer Contact Center	Internal	Sales	Monthly	581	5 calls per sales agent with more than 20 sales per month
Customer Contact Center	Internal	Upgrades	Monthly	56	No Reviews Performed
Solutions Center (Dialog Direct)	External	Upgrades	Monthly	1,276	5 calls per agent each month

IA identified the following gaps with the process to review for no consent sales as follows:

Allconnect Mover & H.S.A.:

- CE is not independently selecting the calls to review for no consent sales. Monthly, a subset of 20 out of approximately 1,000 calls are chosen by Allconnect and provided to CE for their review, of which CE reviews 15. Therefore, given Allconnect is choosing the calls they provide for management's review, there is a chance that calls or behaviors, which do not align to company standards, could go undetected.
- Management has not implemented a risk based approach to support the call sampling methodology they are using, which currently equates to 2% of all calls.

Solutions Center (Dialog Direct) and Customer Contact Center (CCC) Upgrades:

Management confirmed that a dedicated team member is overseeing the operations of the Solutions Center contractors and that this process involves actively reviewing 5 sales calls per agent each month. IA observed that a documented call review process is in place that would identify instances of no consent sales, however, a minor enhancement is needed to document the process to escalate any no consent sales identified to the VAPS Accountable Authority.

Although there is a call review process in place for sales, management confirmed there is currently no call review process in place to review upgrades made by the Customer Contact Center team members that would identify and detect instances of no consent sales. Management further explained that sales upgrades are initiated by a current customer reaching out to CE, or its third party vendor, to upgrade their current product portfolio and that upgrades are not made through cold calls. Therefore, IA recognizes the risk associated with no consent upgrades being processed is lower than the current sales processes in place for this particular area.



Detailed Findings, Recommendations and Management Action Plans

Finding 3 Continued

Risk

Without enhancements to the monitoring controls over customer sales, inappropriate sales behaviors and potential irregularities might go undetected, which increases the Company's reputational risk, including damage to public perception, as well as customer experience issues.

Recommendation

Management should consider the following recommendations as they develop their management action plan:

1. Implement a new process where CE management independently selects calls made by Allconnect to perform the no consent review;
2. Document the methodology that should be used to perform the review of calls (CE calls and third party calls), using a risk based approach. This may include changing the methodology (from 2%) to a risk based sample size that management is comfortable with based on their risk tolerance; and
3. Enhance the process documentation for the monthly quality call review performed for Solutions Center upgrades to include how no consent sales that have been identified are escalated to the VAPS Accountable Authority.

Detailed Findings, Recommendations and Management Action Plans

Finding 3 – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Michael Metz, Asp Sales & Marketing Manager

MAP Support Role (if applicable): Josh Hanger, Bus Sup Adv
Hayley Millner-Customer Contact Center Sales Channel Manager

Management Action Plan:

Management agrees with IA’s findings and will:

3-1a	Update and submit call review process to include where CE management independently selects calls made by AllConnect to perform the no consent review using a risk-based approach.	6/15/2020
3-1b	Approve call review process to include where CE management independently selects calls made by AllConnect to perform the no consent review using a risk-based approach.	7/6/2020
3-1c	Train and Release call review process to include where CE management independently selects calls made by AllConnect to perform the no consent review using a risk-based approach.	7/21/2020
3-2a	Update and submit the process documentation for the monthly quality call review performed for Solutions Center upgrades to include how no consent sales that have been identified and are escalated to VAPS Compliance (VAPS Accountable Authority or VAPS Compliance Assurance Manager).	4/30/2020
3-2b	Approve the process documentation for the monthly quality call review performed for Solutions Center upgrades to include how no consent sales that have been identified and are escalated to the VAPS Compliance (VAPS Accountable Authority or VAPS Compliance Assurance Manager).	5/21/2020
3-2c	Train and Release the process documentation for the monthly quality call review performed for Solutions Center upgrades to include how no consent sales that have been identified and are escalated to the VAPS Compliance (VAPS Accountable Authority or VAPS Compliance Assurance Manager).	6/5/2020
3-3a	Update/Create and Submit call review process for CCC upgrades to identify No Consent Sales.	05/29/2020
3-3b	Approve call review process for CCC upgrades to identify No Consent Sales.	6/26/2020
3-3c	Train and Release call review process for CCC upgrades to identify No Consent Sales.	7/10/2020

Target Date:

07/21/2020



Detailed Findings, Recommendations and Management Action Plans

Finding 4: Enhancements Needed to the Allconnect Incentive Review Processes (<i>Residential Incentive Plan</i>)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Green	If Sarbanes Yes, Provide Reference: N/A
<p>Description of Issue</p> <p>Since the 2018 audit, management implemented an independent calculation process to confirm that incentive calculations performed by their third party vendor, Allconnect, are accurate and agree to the contract. While the new process is a significant improvement from the prior one, IA observed the following enhancements are needed:</p> <p><i>Allconnect Mover & H.S.A Validation and Review Process:</i></p> <p>A new monthly process was implemented in September 2019 to validate that the incentives calculated and invoiced by Allconnect for Mover and H.S.A. Appliance Service Plan (ASP) sales were for sales actually made by the vendor and are for the correct amounts as agreed to in the existing contracts. The validation process is performed in an Excel file which has been set up to compare CE's extracted sales data from SAP for the contracted prices to the sales data provided by the third party Allconnect for the period under review. If amounts in the validation file don't agree, there are formatting parameters that highlight discrepancies, yellow or red, in order to identify further investigation is required. Through review of the invoice validation process, IA observed the following gaps for Allconnect H.S.A. and Mover:</p> <ul style="list-style-type: none"> • A business decision was made to have Allconnect sell and incentivize two additional products on behalf of CE. However, there is no contractual agreement in place outlining that Allconnect is due an incentive for any such sales and the agreed upon amount of the incentive. For the month reviewed, IA confirmed this resulted in an immaterial overpayment of \$119 of incentives to Allconnect; and • The invoice validation spreadsheet was developed by historical process knowledge, as opposed to leveraging the existing contracts that were in place to help ensure that the file was complete and accurate. In addition, there is no process in place to validate, at least annually and as changes are made, that the contracted prices with Allconnect agree to the invoice validation spreadsheet. For example, there is not a step in the process to validate that the contracted prices in the validation spreadsheet, agree to the prices in the signed contract with <i>Allconnect</i>. As a result, the aforementioned discrepancies were not identified during the monthly validation process since the new items were captured in the validation file based on business knowledge and discussion rather than comparing the products to the contracted amount. <p>Risk</p> <p>Without establishing and implementing a process to periodically validate the completeness and accuracy of contract prices within the validation spreadsheet against the contract, management may not identify calculation errors timely. This may result in undetected inaccuracies, management being unable to implement timely countermeasures, or management not having the necessary information to make appropriate business decisions, which could result in improper awarding of bonus compensation.</p> <p>Recommendation</p> <p>Management should consider the following recommendations as they develop their management action plans:</p> <ol style="list-style-type: none"> 1. Document and implement a process to validate, at least annually, and when new products are added, that the incentive prices listed in the validation file for Allconnect Mover and H.S.A. invoices agree to the contracted incentive prices on the signed contract; 2. When changes are made, an independent reviewer should review and validate that the changes align to an existing contract; and 3. Communicate and train all key stakeholders on the updated processes and procedures. 	

Detailed Findings, Recommendations and Management Action Plans

Finding 4 – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Michael Metz, Asp Sales & Marketing Manager

Management Action Plan:

Management agrees with IA's findings and will:

4a	Document and submit a process to verify, at least annually, and when new products are added, that the incentive prices listed in the validation file for AllConnect Mover and H.S.A. invoices agree to the contracted incentive prices on the signed contract. Include an independent reviewer to review and verify the changes align to existing contract.	7/15/2020
4b	Approve a process to verify, at least annually, and when new products are added, that the incentive prices listed in the validation file for AllConnect Mover and H.S.A. invoices agree to the contracted incentive prices on the signed contract. Include an independent reviewer to review and verify the changes align to existing contract.	8/5/2020
4c	Train and Implement a process to verify, at least annually, and when new products are added, that the incentive prices listed in the validation file for AllConnect Mover and H.S.A. invoices agree to the contracted incentive prices on the signed contract. Include an independent reviewer to review and verify the changes align to existing contract.	8/20/2020

Target Date:

08/20/2020

Detailed Findings, Recommendations and Management Action Plans

Finding 5: Enhancements Needed to the Incentive Procedures (<i>Residential & Industrial Incentive Plan</i>)	Sarbanes Portal Key Control or Risk Area: No
Action Plan Priority: Green	If Sarbanes Yes, Provide Reference: N/A
<p>Description of Issue</p> <p>In the past year, management has documented and implemented processes across all incentives to define how the incentive calculations work from end to end, including, reviews for incentive calculation accuracy, validations for completeness and accuracy of key process reports and processes for change management. Through review of these processes, IA observed minor gaps in the procedures for review and change management, as outlined below:</p> <ul style="list-style-type: none"> • <i>Review:</i> The timeline for the expected completion of the review for incentive calculations has not been defined; and • <i>Change Management:</i> The change management process documentation does not include an authority matrix or the review responsibilities of key stakeholders in relation to the required level of authorization for changes to the incentive plan such as adjustments to the plan or incentive targets with monetary impact, etc. For example, an incentive compensation payout amount was increased and, while the change went through the change management process, the documentation defining change management and document control required approvers does not specify the leadership approval required to approve such an increase or define thresholds for levels of approval. <p>Risk</p> <p>Without clearly defined timelines for the review of incentive compensation calculations, bonus awards may be inappropriately paid out. In addition, without a clearly defined authority matrix to outline required approvals at various levels, changes to incentives or incentive targets may not be appropriate and may not be aligned to the spirit of the incentives, which could result in the improper awarding of bonus compensation.</p> <p>Recommendation</p> <p>Management should consider the following recommendations as they develop their management action plans:</p> <ol style="list-style-type: none"> 1. Enhance the processes and procedures for all incentives to clearly identify the following: <ol style="list-style-type: none"> a. The expected timing for incentive calculations and changes to be reviewed and approved; and b. The required level of authorization for various changes including incentive plan changes or changes that would impact the incentive payouts. 2. Communicate and train all key stakeholders on the updated processes and procedures. 	

Detailed Findings, Recommendations and Management Action Plans

Finding 5 – Management Action Plan:

Responsible Department Personnel:

MAP Owner: Jenny Olenik, Sr. Quality System Specialist

MAP Support Role (if applicable): Michael Metz, Asp Sales & Marketing Manager

Josh Hanger, Bus Sup Adv

Todd Studnicka, Director of Sales Operations

Hayley Millner-Customer Contact Center Sales Channel Manager

Jody Tupper, Sr. Quality System Specialist

Management Action Plan:

Management agrees with IA's findings and will:

5-1a	Update and submit processes for incentives to clearly identify timing for incentive calculations and changes to be reviewed and approved	4/15/2020
5-1b	Approve processes for incentives to clearly identify timing for incentive calculations and changes to be reviewed and approved	5/6/2020
5-1c	Train and Release processes for incentives to clearly identify timing for incentive calculations and changes to be reviewed and approved	5/21/2020
5-2a	Update and submit change management and document control requirements for incentives to include required level of authorization for various changes including incentive plan changes or changes that would impact the incentive payouts.	3/30/2020
5-2b	Update and submit change management and document control requirements for incentives to include required level of authorization for various changes including incentive plan changes or changes that would impact the incentive payouts.	4/20/2020
5-2c	Train and Release change management and document control requirements for incentives to include required level of authorization for various changes including incentive plan changes or changes that would impact the incentive payouts.	5/11/2020

Target Date:

05/21/2020

Note: The management action plan for item 5-2a with a March 30, 2020 completion date was not validated prior to the issuance of this audit report and needs to be validated during the standard Audit Findings Follow-up process performed by Internal Controls.

Customer Service Sales and Marketing Incentive Plan Background:

The Customer Service (Home and Industrial Portfolios) Sales and Marketing team manages both regulated rate service offerings and non-regulated rate offerings referred to as Value Added Products and Services (VAPS). In contrast to Consumers Energy's (CE or the Company's) core gas and electric businesses, the success of VAPS is contingent upon the ability to sell additional product and service offerings, such as an appliance service plan (ASP), to the customer. There are unique sales incentive goals in place to reward employees and contractors for making sales, which are outlined in the following incentive plans:

- Industrial Sales Commission and Incentive Plan; and
- Residential Products Sales Incentive Plan.

Industrial Sales Commission and Incentive Plan

The Industrial Sales Commission and Incentive Plan is in place to reward the success of eligible employees in the Business Customer Care group. This group consists of sales consultants or advisors, as well as team leaders and managers. The Business Customer Care group team offers the following services:

- *Technical Services and Virtual Energy Engineering:* The Technical Services and Virtual Energy Engineering Services are designed to help commercial and industrial customers improve energy efficiency, reduce waste, and have a better understanding of their consumption.
- *Demand Response:* The Demand Response Program incentivizes customers for reducing their electrical consumption during periods of high demand.

Sales Consultants have quarterly sales targets for each of the aforementioned offerings. Annually, a calculation is performed to assess the JD Power Score to determine if the Business Customer Care team is in the 1st quartile. On a quarterly basis, the Director of Sales and Business Development approves the incentive calculation and payouts.

Residential Products Sales Incentive Plan

The Residential Products Sales Incentive Plan is in place to reward both internal and third party sales representatives. Internally, sales representatives include eligible employees on the Customer Contact Center and Energy Services Appliance Service Plan teams as outlined below:

- *Customer Contact Center:* The Customer Contact Center team is made up of team leaders and contact center employees who have responsibilities to sell, upgrade or transfer services. This incentive pays out weekly.
- *Energy Services Appliance Service Plan:* Marketing advisors or sales coaches are responsible for obtaining new contracts per month. This incentive pays out monthly.

Third party sales teams include Concentrix, Harris and Harris, Solution Center (Dialog Direct), Allconnect – H S A and Allconnect – Mover. Third party sales teams are responsible to sell, upgrade, or transfer services. All of the third party service incentives payout monthly via an invoice to CMS.

Risk Overview:

Lack of appropriate governance, documented processes, procedures and controls in place over the sales incentive process may increase the risk of incentives being calculated incorrectly or inappropriately awarded to employees that have not met the criteria. This may result in increased reputational and operational impacts.

Audit Objectives:

The audit objectives were to:

- Verify that the governance, processes, procedures and controls are established and operating effectively;
- Validate that the incentives are adequately defined and documented, including any key inputs, reports, and any manipulation to data;
- Validate that the incentive payout criteria has been met, there is adequate supporting documentation and incentives are appropriately calculated and approved by management prior to payout; and
- Review management's processes to validate the completeness and accuracy of data used in determining the incentives that will be paid.



Appendix A - Background and Scope Details

Audit Scope:

The audit focused on validating that effective governance, processes, procedures and controls exist to manage the Energy Services Sales and Marketing incentive payout processes.

More specifically, IA focused on the following CE and third party incentives for the 2019 incentive plan payouts, as well as the Q4 2018 JD Power quartile calculation:

- Program governance, standards, roles and responsibilities;
- The approval process for the 2019 incentive compensation plans, including documentation of approvals in accordance with program standards;
- Incentive plan documentation, including incentive calculation definitions, including key inputs, inclusions and exclusions;
- Review and approval process, including emphasis on independent validation of calculation results by the reviewer / approver;
- Processes to ensure the completeness and accuracy of incentive data, including documentation to evidence the results;
- Validation of the accuracy of management's incentive calculations and payout results with source data; and
- The change control process, including any exceptions or deviations to standards or incentive plan requirements, processed for the 2019 payout.

Procedures:

Internal Audit (IA) performed the following procedures:

1. Conducted an opening meeting with key process owners;
2. Performed walkthroughs and evaluated the processes and controls in place for the aforementioned areas in the audit scope section;
3. Obtained the documents, electronic files, and other records required to perform the review and evaluation;
4. Identified potential areas of risk and evaluated the mitigation activities (if available) for reasonableness and verified that the mitigations are being performed timely;
5. Prepared and validated observations and identified gaps, if any;
6. Identified additional areas for more detailed analysis and testing;
7. Conducted follow-up interviews and obtained supplemental documentation, as needed;
8. Conducted weekly engagement status updates with key stakeholders and shared preliminary observations, report progress and communicated any additional needs;
9. Conducted a closing meeting with key stakeholders and shared observations;
10. Provided a draft audit report with findings, priority color coding and recommendations to management for review;
11. Obtained Management Action Plans (MAPs) from the process owner; and
12. Issued the final report.

Incentive Name	Target	Time Period	CE's Calc.	IA's Calc.	Diff.	CE's Conclusion (Met/Not Met)	IA's Conclusion (Met/Not Met)	Calc. Exception	Process Exception
Residential Products - Sales Incentive Plan									
Customer Contact Center (CCC)	Team Leader Credit for Employee Sales							N/A	Yes
	Each CE Employee Sale								
	Each CE Employee Upgrade								
	Each CE Employee Transfer to H.S.A.								
	Each CE Employee Transfer to Mover								
Concentrix	<i>See Note 2</i>								
Harris & Harris	Each Transfer								
Solution Center (Dialog Direct)	Each Upgrade (Base or Gold)								
VAPS Customer Services Appliance Service Plan (ASP) (Marketing Advisors)	≥ 80% of contract target = \$800 ≥ 100% of contract target = \$1,000 ≥ 150% of contract target = \$1,500	March & May 2019	\$0	\$0	\$0	Not Met	Not Met	No	No
Allconnect H.S.A. (Home Solutions Advisor)	Each Sale	August 2019	\$70,721	\$70,602	\$119	Met	Met	Yes	Yes
Allconnect Mover	Each Sale	August 2019	\$88,185	\$88,185	\$0	Met	Met	No	Yes

Note 1: While management communicated that the remediation effort from the 2018 audit was complete, during this audit IA confirmed with management that the new calculation process (automated process through the Incentive Machine) had not been implemented and due to challenges with the vendor as outlined in the Summary of Incentive Results below, it was unclear when it would be implemented. Therefore, given that the incentive calculation is not being performed using the Incentive Machine, limited procedures were performed to understand the effectiveness of the future state of the process.

Note 2: The Company stopped using the third party vendor Concentrix in July 2019. Given the 2019 incentives that were paid were minimal, IA considered this incentive out of scope.



Incentive Name	Target	Time Period	CE's Calc.	IA's Calc.	Diff.	CE's Conclusion (Met/Not Met)	IA/s Conclusion (Met/Not Met)	Calc. Exception	Process Exception
Industrial Sales Commission and Incentive Plan									
Tech Services	Zero Payout < \$1,600,000 Threshold 80% > \$1,600,000 Target 100% > \$2,000,000 Maximum 200% > \$4,000,000	Q1-Q3 2019	\$1,912	\$1,912	\$0	Not Met 4/5 Employees; Met 100% Target 1/5 Employees	Not Met 4/5 Employees; Met 100% Target 1/5 Employees	No	No
Virtual Energy Engineer	Zero Payout < N/A Threshold 80% > 4 Contracts Target 100% > 5 Contracts Maximum 200% > 8 Contracts	Q1-Q3 2019	\$1,923	\$1,923	\$0	Not Met 4/5 Employees; Met 100% Target 1/5 Employees	Not Met 4/5 Employees; Met 100% Target 1/5 Employees	No	No
Demand Response	Zero Payout < 110 Mw Threshold 80% > 110 Mw Target 100% > 131 Mw Maximum 200% > 160 Mw	Q1-Q3 2019	\$9,030	\$9,030	\$0	Met 80% Target 5/5 Employees	Met 80% Target 5/5 Employees	Yes	Yes
Q4 JD Power Quartile Calculation	See Note 3								

Note 3: The JD Power Quartile Calculation is an annual incentive that was not complete at the time of IA's audit; therefore, it was considered out of scope.



Appendix C – Definition of Red, Yellow, Green and Sarbanes Key Control

Red

Represents a significant area of risk that requires immediate action and escalation to senior management and the Audit Committee. The condition(s) requires improvement with more than usual management involvement and monitoring until the risk is mitigated. The management action plan to remediate the risks identified would be considered a “high” priority item.

Yellow

Represents a moderate area of risk that requires management action. Management is required to provide countermeasures to remediate the risk identified and improve the overall control environment. The management action plan to remediate the risks identified would be considered a “medium” priority item.

Green

Represents a low area of risk that is unlikely to result in moderate or significant impacts to the Company. Management is required to provide countermeasures to remediate the risk identified OR accept the risk with the approval of senior management. The management action plan to remediate the risks identified would be considered a “low” priority item.

Sarbanes

Findings that relate to a SOX key control or risk area as determined by the Executive Director Internal Control and Compliance, will be identified by “yes” in the report.

VAPS Annual Report 2019 Customer Count

Attachment 6

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Value Added Product or Service	VAPS Customer Count
Appliance Service Plan (ASP)	201,870
AllConnect Mover Program	N/A
Appliance Repair Non-ASP / Tune-ups	654
Customer Requested Fuel Lines	0
Business Customer Technical Services (BCTS)	183
Onsite Energy Engineer (OSEE)	4
Virtual Energy Engineer (VEE)	13
Gas Transportation and Storage Third Party Services (Gas T & S)	13
Underground Customer-Owned Fuel Line Maintenance Contracts	37
Laboratory Services	142