Exhibit No.: _____
Issue: Cost Allocation Manual
Witness: Steven E. Birchfield
Exhibit Type: Direct
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: G0-2012-0322
Date: June 28, 2019

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION	)	
OF SUMMIT NATURAL GAS OF	)	**File No. GO-2012-0322**
MISSOURI, INC. FOR APPROVAL OF ITS	)	
COST ALLOCATION MANUAL	)	

DIRECT TESTIMONY OF

STEVEN E. BIRCHFIELD

CHIEF FINANCIAL OFFICER

June 28, 2019

SUBMITTED ON BEHALF OF
SUMMIT NATURAL GAS OF MISSOURI, INC.

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DIRECT TESTIMONY OF
STEVEN E. BIRCHFIELD

SUMMIT NATURAL GAS OF MISSOURI, INC.

CASE NO. GO-2012-0322

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven E. Birchfield, and my business address is 7810 Shaffer Parkway, Suite 120, Littleton, Colorado 80127.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Summit Utilities, Inc. ("Summit") as Executive Vice President and Chief Financial Officer. In this capacity, I am responsible for overseeing all of the financial activities of Summit and its subsidiaries. This includes oversight of all employees involved in preparing financial documentation and reporting and implementing all internal financial policies. I am also charged with arranging financing and establishing and implementing cost allocations for the services and goods that Summit provides to its operating subsidiaries.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Summit Natural Gas of Missouri, Inc. ("SNGMO").

Q. WHAT IS YOUR PROFESSIONAL AND EDUCATIONAL EXPERIENCE?

A. I graduated from the University of Florida in 1996 with a Bachelor of Science degree in Computer Engineering and received a Master of Business Administration degree from the University of Michigan in 2001. From 2000 to 2002, I was the Manager of Financial Analysis and Planning at HAHT Commerce (now GXS Inc.). In 2003, I joined Progress Energy (now Duke Energy) as a financial specialist, and remained with Progress Energy until 2007, serving as the Manager of Financial Services at the Harris Nuclear Plant before ultimately serving as Manager of Executive Compensation and Benefits. In 2007, I joined the Tennessee Valley

Authority as the Senior Manager of Business Planning and Reporting. At the Tennessee Valley Authority, I progressed to serve as Vice President of Finance before finally serving as Vice President and Chief Risk Officer from 2010 to 2013. From 2013 to 2014, I served as Vice President and Chief Financial Officer of Essential Power (now Cogentrix) before joining Summit in 2014 as Executive Vice President and Chief Financial Officer.

Q. HAVE YOU FILED TESTIMONY BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes, I filed testimony in Case No. GR-2018-0230.

Q. HAVE YOU FILED TESTIMONY BEFORE OTHER REGULATORY COMMISSIONS?

A. Yes, I filed testimony: (1) before the Arkansas Public Service Commission in support of Summit's acquisition of Arkansas Oklahoma Gas Corporation ("AOG"), and with respect to the Tax Cuts and Jobs Act of 2017; and, (2) before the Oklahoma Corporation Commission relating to AOG's annual Performance Based Rate Plan in 2017 and 2019. I also testified before the Colorado Public Utilities Commission in support of Colorado Natural Gas, Inc.'s ("CNG") most recent general rate case.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present SNGMO's Cost Allocation Manual ("CAM") for approval. A copy of the proposed CAM is attached to this testimony as **<u>Schedule SEB-1</u>**.

Q. WHAT COMMISSION RULE PROVIDES THE BASIS FOR THE CAM?

A. The Commission has promulgated affiliate transaction rules for gas utilities, which are found at 4 CSR 240-40.015, in an effort "to prevent regulated utilities from subsidizing their non-regulated operations." Commission Rule 240-40.015(3)(D) provides that regulated gas corporations must use a "Commission-approved CAM" for transactions involving the purchase of goods or services from an affiliate. The proposed CAM outlines how costs will be assigned or allocated in compliance with this rule.

Q. PLEASE DESCRIBE THE CORPORATE STRUCTURE OF WHICH SNGMO IS A PART.

A. SNGMO is a wholly-owned subsidiary of Summit LDC Holdings, LLC ("Summit Holdings"), which is a wholly-owned subsidiary of Summit. Summit is also the parent of Summit Natural Gas of Maine, Inc., which is regulated, and Wolf Creek Energy, LLC, which is unregulated. Summit Holdings is the parent of CNG and SNGMO, both of which are regulated, and A. O. G. Corporation, which is unregulated. A. O. G. Corporation is the parent of AOG, which is regulated. An organizational chart showing this structure is found at Tab O, Appendix 1 in **<u>Schedule SEB-1.</u>**

III. THE CAM

Q. WHAT SERVICES DOES SNGMO PROVIDE?

A. SNGMO conducts business as a "gas corporation" and a "public utility" as those terms are defined at §386.020, RSMo, and provides natural gas service in the Missouri counties of Benton, Caldwell, Camden, Daviess, Douglas, Greene, Harrison, Howell, Laclede, Miller, Morgan, Pettis, Stone, Taney, Texas, Webster, and Wright*,* subject to the jurisdiction of the Commission.

Q. DOES SNGMO PARTICIPATE IN TRANSACTIONS WITH ANY OF ITS AFFILIATES?

A. Yes.

Q. WHAT TYPES OF AFFILIATE TRANSACTIONS INVOLVE SNGMO?

A. Summit provides services to SNGMO, such as accounting and financial reporting, finance and treasury, legal, risk management, human resources, information technology, regulatory, customer service, procurement, engineering, and business development. A detailed description of the services Summit provides to SNGMO is found at Tab O, Appendix 2 in **Schedule SEB-1.** These are the types of services described by the affiliate transaction rules as “corporate support.”

Q. DOES SUMMIT’S PROVISION OF SHARED SERVICES TO ITS SUBSIDIARIES BENEFIT SNGMO AND ITS CUSTOMERS?

A. Yes. In providing shared services to its subsidiaries, Summit can achieve economies of scale that would not be possible if each of its subsidiaries had to provide the service for itself or procure that service from a third party. For example, Summit operates one customer call center for all its regulated utility customers, which provides reliable and high-quality customer service to all subsidiaries by allowing for consistent training and uniform management. Summit passes on to its subsidiaries, including SNGMO, the savings associated with its economies of scale, which in turn benefits SNGMO’s customers by helping to keep operating expenses lower than they otherwise would be if SNGMO had to provide the service itself or procure the service from a third party.

Q. ARE SNGMO'S BOOKS, ACCOUNTS AND RECORDS KEPT SEPARATE FROM ITS AFFILIATES?

A. Yes. Summit maintains a separate chart of accounts for each of its subsidiaries, including SNGMO. While there are efficiencies gained by utilizing a common accounting system and accounting personnel, the actual books and accounts are maintained separately within the accounting system. In addition, a system of internal controls consisting of policies and procedures helps to ensure the accuracy and reliability of accounting across all legal entities. The internal control environment includes separation of duties, access controls within financial systems, physical audits of inventory, documentation for financial transactions, double-entry accounting system, account reconciliations and a robust approval matrix. In addition, each utility's financial records are independently audited each year to help ensure transactions are recorded in accordance with Generally Accepted Accounting Principles.

Q. DOES SNGMO CONTROL ITS OWN BOOKS?

A. Yes. SNGMO's books and records are maintained as directed by SNGMO's Board of Directors. Accordingly, SNGMO's books are kept separately from Summit and its other subsidiaries using the various controls identified above.

Q. HOW DID SNGMO DEVELOP ITS PROPOSED CAM?

A. SNGMO filed a proposed CAM with its Application in this case. Over the years, SNGMO has held discussions with both the Staff of the Commission ("Staff") and the Office of the Public Counsel ("OPC") about the CAM and SNGMO has incorporated many of Staff's and OPC's comments and suggestions into the proposed CAM attached hereto as **Schedule SEB-1**.

Q. DOES THE COMMISSION'S AFFILIATE TRANSACTION RULE PRESCRIBE WHAT A CAM SHOULD CONTAIN?

A. Yes. Commission Rule 4 CSR 240-40.015(3)(D) states:

> In transactions involving the purchase of goods or services by the regulated gas corporation from an affiliated entity, the regulated gas corporation will use a commission approved CAM which sets forth cost allocation, market valuation and internal cost methods. This CAM can use benchmarking practices that can constitute compliance with the market value requirements of this section if approved by the commission.

Q. DOES SNGMO'S PROPOSED CAM INCLUDE COST ALLOCATION, MARKET VALUATION AND INTERNAL COST METHODS?

A. Yes, they are addressed in Tabs B and F of **Schedule SEB-1.**

Q. PLEASE EXPLAIN HOW COSTS ARE ASSIGNED AND ALLOCATED.

A. The Direct Billing Method is the preferred way of assigning costs to the subsidiaries and business practices are developed consistent with the objective of using direct billing to the maximum extent practicable. Summit's employee benefits include items such as 401k, medical, paid time off, bonus, vehicle allowances, life insurance and disability insurance. Summit's general and administrative expenses allocated through the Distrigas formula include items such as corporate insurance, rent, software expenses, utilities and other general expenses.

Q. WHAT IS THE DISTRIGAS FORMULA?

A. The Distrigas formula is used to allocate shared costs among affiliated entities. It calculates the allocations based on the ratio of direct labor, capital investment and net operating revenue of each affiliate to the total direct labor, capital investment and net operating revenues of all the affiliates.

Q. WHAT IS THE ORIGIN OF THE DISTRIGAS FORMULA?

A. The allocation of costs using a multifactor formula consisting of direct labor, capital investment and net operating revenues was initially approved in 1987 in FERC Opinion No. 291, Distrigas of Massachusetts Corporation, Docket No. R.P850125-000. The Distrigas formula is sometimes referred to as the Modified Massachusetts formula, since it is similar in many respects.

Q. WHAT IS THE DIFFERENCE BETWEEN THE DISTRIGAS FORMULA AND THE MASSACHUSETTS FORMULA?

A. The only difference between the Distrigas and Massachusetts formulas is the calculation of the revenue factor. The Massachusetts formula is computed based on gross revenues (including purchased gas costs) and the Distrigas formula is computed based on net operating revenues (excluding purchased gas costs). While both formulas are generally viewed as acceptable ways to allocate common overhead costs among separate affiliates, the Distrigas formula is generally preferred as it provides more stable allocations from year to year because purchased gas costs may fluctuate significantly from year to year.

Q. HOW LONG HAS SUMMIT USED THE DISTRIGAS FORMULA?

A. Summit has used the Distrigas formula to allocate indirect costs to all its utility subsidiaries since at least 2005. Summit entities have filed cost allocation manuals in three of Summit's four other states using the Distrigas formula and the Distrigas formula has been supported through multiple rate cases in other jurisdictions.

Q. DOES SNGMO PLAN TO SEEK COMPETITIVE BIDS FOR THE CORPRATE SUPPORT SERVICES PROVIDED BY SUMMIT?

A. No.

Q. WHY NOT?

A. Given that SNGMO is a smaller utility serving rural customers, validating fair market price through competitive bids for each individual transaction, or type of transaction, would be unduly burdensome. Additionally, it is doubtful that such request for bids would receive much response. Instead, SNGMO will periodically validate fair market price through third party studies.

Q. DOES SNGMO EVALUATE THE APPROPRIATENESS OF THE SHARED SERVICES PROVIDED TO SNGMO?

A. The services Summit provides and the staffing and costs to support those services are directly related to the needs of the subsidiaries that are receiving those services. If a shared service is being directly performed for the benefit of a subsidiary, then the associated expenses are directly charged to that subsidiary. Summit routinely evaluates its systems, processes and methods for providing services and seeks ways to improve its services and lower the associated costs.

Q. WHAT OTHER SUBJECTS DOES THE CAM ADDRESS?

A. As shown in **Schedule SEB-1**, the CAM also addresses SNGMO's audit process, reporting and record keeping requirements, and affiliate pricing.

Q. IS THERE A PROCESS OUTLINED IN THE CAM FOR EDUCATING SUMMIT EMPLOYEES ABOUT THE REQUIREMENTS OF THE AFFILIATE TRANSACTION RULES?

A. Yes. Tab I of **Schedule SEB-**1 describes the responsibility for education and compliance with the Affiliate Transaction Rules. SNGMO has agreed to form a CAM Team that will be responsible for monitoring and reviewing affiliate transactions to help ensure compliance with the Affiliate Transaction Rules. Employees of Summit and its subsidiaries engaged in or supporting affiliate transactions will be required to complete training regarding proper compliance with the Affiliate Transaction Rules. Following the training, the employees will be required to pass a test through completion of a compliance questionnaire and certification. Training materials will be developed with Staff's and OPC's input to provide greater assurance that SNGMO has an appropriate training program.

Q. WHO IS RESPONSIBLE FOR THAT PROCESS?

A. Summit's Corporate Controller.

IV. CONCLUSION

Q. IS THE PROPOSED CAM CONSISTENT WITH THE CAMS THAT SUMMIT'S OTHER UTILITIES USE IN OTHER JURISDICTIONS?

A. Yes. Similar CAMs are used in Colorado and Arkansas. Summit is updating and standardizing its CAMs, as appropriate, so that all subsidiaries have similar procedures. It is highly beneficial to maintain a similar CAM structure and layout for each subsidiary in order to increase the efficiency of the education and compliance process, as well as help make sure that costs are not misallocated because different cost allocation methodologies are used.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

IN THE MATTER OF THE APPLICATION OF OF SUMMIT NATURAL GAS OF MISSOURI, INC. FOR APPROVAL OF ITS COST ALLOCATION MANUAL	))))	File No. GO-2012-0322

AFFIDAVIT OF STEVEN E. BIRCHFIELD

STATE OF COLORADO	)	
	)	**ss**
COUNTY OF JEFFERSON	)	

Steven E. Birchfield, of lawful age and being first duly sworn, deposes and states:

1. My name is Steven E. Birchfield. I am the Executive Vice President and Chief Financial Officer of Summit Utilities, Inc.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Steven E. Birchfield

Steven Birchfield
Executive Vice President and
Chief Financial Officer

Subscribed and sworn before me to this 28th day of June, 2019.

Jeanette Binkley

Notary Public

My Commission expires: 1/4/2021

JEANETTE BINKLEY
Notary Public
State of Colorado
Notary ID # 20054000346
My Commission Expires 01-04-2021

COST ALLOCATION MANUAL

Summit Natural Gas of Missouri, Inc.

Summit Natural Gas of Missouri, Inc.

Cost Allocation Manual

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TAB A

Summit Natural Gas of Missouri, Inc.

SNGMO

INTRODUCTION

This Cost Allocation Manual ("CAM") is intended to satisfy the requirements of 4 CSR 240-40.015 by providing the criteria, guidelines, and procedures Summit Natural Gas of Missouri ("SNGMO") will follow to comply with the Missouri Public Service Commission's ("MoPSC") Affiliate Transactions (4 CSR 240-40.015) Rule for regulated gas corporations. The purpose of MoPSC Affiliate Transactions Rule, and its effective application, is to prevent regulated utilities from subsidizing affiliated non-regulated and/or regulated operations as well as provide the public the assurance that Missouri natural gas retail rates are not adversely impacted by the utilities' non-regulated activities.

A majority of SNGMO's affiliate transactions are its charges from its parent Summit Utilities, Inc. ("SUI") for goods and services. SUI, headquartered in Littleton, Colorado, is a privately-held holding company that provides services to several natural gas distribution and transmission subsidiaries: Arkansas Oklahoma Gas Corporation; Colorado Natural Gas, Inc.; Summit Natural Gas of Missouri, Inc.; Summit Natural Gas of Maine, Inc.; and related companies: Natural Gas Conversion Company, Inc.; Summit Utilities Management Services, LLC; and Wolf Creek Energy LLC. SUI's natural gas subsidiaries construct and install natural gas distribution systems in order to provide natural gas to residential and commercial customers. All SUI subsidiaries and affiliates are shown in Appendix 1.

The types of services provided by SUI to all subsidiaries including SNGMO include Executive, Miscellaneous General Expenses, Accounting and Reporting, Taxes, Audit Services, Legal, Communications, Human Resources, Payroll, Facilities – Admin, Customer Service – FERC account 903, Payment and Reporting, Rates and Regulation, Construction Operation and Maintenance, Receipts Processing, Financial Services, Customer Resource System, Network, Business Systems, Finance and Treasury, Investor Relations, Risk Management, Strategy, and Corporate Strategy and Business Development. SUI also operates as a holding company engaging in activities outside its natural gas affiliates' lines of business such as the dissolution or acquisition of companies. A key component of SNGMO's compliance with the MoPSC Affiliate Transactions Rule is that costs associated with these non-regulated activities are completely captured and not charged to its regulated affiliates.

SNGMO affiliate transactions involve the provision and receipt of goods and services between SNGMO and its regulated natural gas utility affiliates. Beginning in 2015, SNGMO's affiliated companies began providing support services to each other in an effort to leverage expertise to enhance their operations. These services include construction management, operational leadership, engineering, Geographic Information System ("GIS"), and project accounting. These services are performed by SNGMO employees on behalf of affiliated companies and performed by affiliated companies on behalf of SNGMO. The salaries and taxes associated with these services are charged as applicable to the affiliated company at cost. SNGMO will be seeking a variance based on good cause to continue this practice.

SNGMO is a local natural gas distribution utility serving approximately 18,000 customers and operating in 19 counties covering parts of northern, central and south central Missouri. SNGMO is the current name of the corporate entity formerly known as Missouri Gas Utility, Inc. ("MGU"). MGU was a wholly-owned subsidiary of SUI. SUI was formerly known as CNG Holdings, Inc. SUI acquired the municipal systems of Gallatin, Mo. and Hamilton, Mo. under their previous corporate name of CNG Holdings, Inc. These systems were originally known as MGU. MGU merged with Southern Missouri Natural Gas ("SMNG"), formerly known as Southern Missouri Gas Company, effective September 28, 2011, with MGU as the surviving entity. The five districts (service territories) for SNGMO are Gallatin and Warsaw (former MGU divisions), Lake of the Ozarks, and Branson and Rogersville (former SMNG divisions).

Certain rules and statutes address SNGMO's retail gas operations in Missouri. One of those rules is the MoPSC Affiliate Transactions Rule ("Rule"); 4 CSR 240-40.015.The Rule sets forth financial standards, evidentiary standards and record keeping requirements applicable to any MoPSC regulated gas corporation whenever such corporation participates in transactions with any affiliated entity (except with regard to HVAC services as defined in Section 386.754, RSMo). Effective application of the Rule is essential to achieve the Rule's stated purpose of assuring that rates are not adversely impacted by the utilities' non-regulated activities. Important initial steps in this process are to identify the assets, information, goods, and services being provided by affiliates or SNGMO's non-regulated operations to SNGMO Missouri regulated lines of business as well as the assets, information, goods, and services being provided by SNGMO Missouri regulated lines of business, to its affiliates or SNGMO's non-regulated operations.

SUI is a parent company operating as a non-regulated holding company as well as an entity providing assets, goods, information and services to its subsidiaries, including SNGMO. Therefore, SNGMO is required to compensate SUI at the lower of fully distributed cost ("FDC") or fair market price ("FMP") in order to participate in affiliate transactions with SUI. This feature is an important protection for the Missouri natural gas utility because FMP will be lower than FDC in cases when the Missouri natural gas utility does not need assets, goods, information and services being provided by the affiliate or in situations where the transaction has a negative net benefit (e.g., benefit value to utility is less than FDC). FDC is defined in the Affiliate Transactions Rule as a methodology that identifies all its costs in relation to all the goods and services SUI produces. The Affiliate Transactions Rule defines FDC as follows:

> Fully distributed cost (FDC) means a methodology that examines all costs of an enterprise in relation to all the goods and services that are produced. FDC requires recognition of all costs incurred directly or indirectly used to produce a good or service. Costs are assigned either through a direct or allocated approach. Costs that cannot be directly assigned or indirectly allocated (e.g., general and administrative) must also be included in the FDC calculation through a general allocation.

The MoPSC's Affiliate Transactions Rule 4 CSR 240-40.015(4)(A) specifies that SNGMO has record keeping requirements that SNGMO must maintain its books, accounts, and records separate from those of its affiliates. SUI utilizes a consolidated financial system and accounting personnel are generally employed by SUI. However, SUI maintains a system of internal controls that consists of policies and procedures that ensure the accuracy and reliability of accounting across all legal entities. The internal control environment includes separation of duties, access controls within financial systems, physical audits of inventory, documentation for financial transactions, double-entry accounting system, account reconciliations and a robust approval matrix. In addition, each utility's financial records are independently audited each year to ensure that transactions are recorded in accordance with Generally Accepted Accounting Principles ("GAAP").

Cost Assignment and Allocation

The existence and utilization of a Cost Allocation Manual ("CAM") is a requirement of the MoPSC Affiliate Transactions Rule (4 CSR 240-40.015). This Rule and its effective application is intended to provide the public the assurance that rates are not adversely impacted by the utility's non-regulated activities. SNGMO is directed by the MoPSC Affiliate Transactions Rule to include in its annual CAM filing the criteria, guidelines, and procedures it will follow to be in compliance with this Rule, as well as implement effective application practices to assure that Missouri ratepayers do not subsidize SNGMO's affiliates through regulated customers rates.

It is the objective of the SNGMO CAM to provide a high level of assurance that SNGMO has implemented a combination of criteria, guidelines, and procedures that ensure SNGMO is not subsidizing its affiliated activities or non-regulated operations. In particular, costs associated with merger and acquisition activities by SUI should not be charged to SNGMO.

SNGMO's CAM will establish the FDC methodology as defined in Missouri's Affiliate Transactions Rule. SNGMO will ensure that it creates and retains documents of the process of cost assignment by SNGMO and its parent, SUI. The cost assignment methodologies prescribed by this CAM are the tools that provide for the direct and indirect assignment and allocation of costs to the relevant regulated business functions and non-regulated business functions, providing assurance that cross-subsidization is not occurring.

The approach of cost assignment and allocation utilized by SUI to assign costs to SNGMO should be as follows:

1. All costs should be directly or indirectly assigned to the relevant business functions to the maximum extent possible and safeguards implemented to provide assurance the costs are properly categorized.

2. Indirect assignment should be based upon a method that recognizes cost causation or benefits received.

3. Remaining costs not directly or indirectly assigned should be allocated using a general allocation method (such as Distrigas[1]).

SNGMO will apply for a waiver from applicable affiliate transaction requirements consistent with the appropriate process specified in 4 CSR 240-40.015(10)(A)1 and 4 CSR 240-2.060(4) or it will not participate in the noncomplying affiliate transaction as required in 4 CSR 240-40.015(2)(D) except if it proceeds under 4 CSR 240-40.015(10)(A)2.

[1] A definition of "Distrigas" is in Tab L, "Glossary Of Terms," page 35 under the term "General Allocator."

TAB B

Summit Natural Gas of Missouri, Inc.

SNGMO

OVERVIEW OF COSTING METHODS

SUI Goods and Services to SNGMO

This section provides an overview of the cost assignment principles used by SUI in charging costs to SNGMO. Labor costs, including salary and payroll taxes, are directly assigned to the appropriate operating utility using time sheets. Labor costs incurred by SNGMO or SUI are charged directly to SNGMO when applicable as indicated by the employee. As a part of the month-end close process, allocations of SUI employee benefits will be indirectly allocated in proportion to the labor directly charged by SUI employees to SNGMO during the period. SUI employee benefits include items such as 401k, pension, medical, paid time off, bonus, vehicle allowances, life insurance and disability insurance. SUI general and administrative ("G&A") expenses allocated through the Distrigas method include items such as corporate insurance, rent, software expenses, utilities and other general expenses incurred by SUI.

Direct Billings – These are costs incurred by SUI to address a specific need for a specific subsidiary. There is a direct relationship between the cost incurred and the need of the business unit. These costs are billed to the subsidiary requiring the good or service to provide safe and adequate service at a just and reasonable rate.

The Direct Billing Method is the preferred method of assigning costs to the appropriate business units and business practices are developed consistent with the objective of using direct billing to the maximum extent practicable. There are two primary methods of Direct Billing:

> **Vendor Invoices** - Vendor invoices that include charges for goods or services that are needed for a single operating company will be coded to the appropriate company at the time of input into the accounting system.
>
> **Labor** - All employees are required to record their time to specific work orders that reflect the nature of the activity being performed or the specific project being supported. Work orders are assigned to specific operating companies where applicable.

There has been a need for employees of one SUI regulated affiliate to provide services to affiliated companies, and these occurrences are expected to continue into the future. In the event of such an occurrence, the affiliated companies will draw up a service agreement between the two companies which will include the higher of an hourly rate equal to the FDC of the employee's time and a provision to pay for all related out of pocket expense (e.g., travel time, lodging, meals) or a third party commercial rate and contract provisions. Services charged between affiliated companies will be billed monthly and settled within the following month.

The Missouri Affiliate Transactions Rule recognizes that companies do not price their goods and services just to cover their direct costs. The Rule recognizes that the market value of goods and services can exceed the costs to create or provide a good or service. The Missouri Affiliate Transactions Rule is predicated on the premise that the utility shall conduct its non-regulated business at the lower of the market value needed to acquire a good or service or the cost to create or provide the good or service itself. The Missouri Affiliate Transactions Rule is also predicated on the premise that the utility will conduct its non-regulated business when providing goods and services at market value, when market value exceeds the cost to create or provide the good or service.

In order to provide effective protection against subsidization, the MoPSC's Affiliate Transactions Rule requires use of the appropriate FMP in conjunction with a proper FDC determination in order for the utility to participate in an affiliate transaction. FMP will be determined on outside services in compliance with 4 CSR 240-40.015(3). FMP will be determined through a competitive bidding process and documented through the agreed upon pricing reflected in a contract with the service provider. Payroll services is an example of such an outside service.

The regulated utility's billing of directly or indirectly assigned and allocated common costs at FDC, is designed to prevent providing a financial advantage to or subsidization of any affiliated regulated or non-regulated activity because the FDC scope of examination includes all of the affiliate's activities. This approach helps detect if the goods and services costs are greater than the costs of the affiliate's non-utility activities, such as the operation of a holding company. A properly constructed FDC approach helps ensure appropriate charging is being done among SUI and SNGMO. SUI understands that failure to fully charge non-regulated or regulated affiliates for the FDC of goods, services, assets, or information provided on the behalf of these affiliated entities is expressly prohibited by the MoPSC's Affiliate Transactions Rule.

Parent Allocations

SUI is the Parent company of SNGMO and the other affiliates. The Parent company intends to provide common administrative and management services to all operating companies and affiliates in the SUI family of companies. These are sometimes referred to as "corporate support services" or "shared services," The Missouri Affiliate Transactions Rule, 4 CSR 240-40.015(1)(D), defines "corporate support" as:

> Corporate support means joint corporate oversight, governance, support systems and personnel, involving payroll, shareholder services, financial reporting, human resources, employee records, pension management, legal services, and research and development activities.

The services provided include but are not limited to: business systems, treasury, risk management, strategy, business development, executive management, finance, accounting, human resources, legal, engineering, safety, construction, customer service, procurement, fleet, facilities, gas supply, and support services.

When officers are preforming work that should be for the benefit of the Parent only, they should charge the associated costs to the corporate governance work order. As a result, the costs for that time remain with the Parent and should not be charged or allocated to SNGMO. These activities include corporate board meetings and preparation, engagement with shareholders not related to a specific entity, etc. The corporate governance work order should also be assigned an appropriate amount of indirect and common costs.

SUI labor and G&A costs that otherwise cannot be directly or indirectly assigned to a particular subsidiary will be allocated to all subsidiaries based on a general allocation method (such as Distrigas).

Indirect Parent company expenses include labor costs, employer payroll tax expenses, employee benefits, vehicle expenses, and common expense costs. Common expenses include the overhead associated with the Parent company corporate headquarters in Littleton, Colorado as well as overhead (including rent) associated with shared services provided out of the Fort Smith, Arkansas and Yarmouth, Maine offices.

Indirect Parent company expenses should be allocated to subsidiaries by use of an appropriate indirect allocation method.

Common expenses are accumulated and allocated to each subsidiary by applying a general allocation percentage of the subsidiary to the general allocation of all SNGMO affiliates. Officers record a portion of their time to corporate governance, which is considered as a direct charge to the holding company line of business. The labor associated with corporate governance fluctuates from month to month and is recorded as it occurs.

The indirect vehicle expense costs consist of Parent company gas and maintenance for vehicles used by officers and staff of the Parent company. These costs are coded to a clearing account; FERC account 184.

The common expense costs of the Parent company include FERC accounts 901-931, excluding FERC account 930. A general allocation method (such as Distrigas) is the best indication of the factor related to the time frame these expense costs were included.

TAB C

Summit Natural Gas of Missouri, Inc.

SNGMO

SHARED SERVICE BILLINGS BETWEEN AFFILIATES

Services

SUI's affiliated companies provide support services to each other in an effort to leverage expertise across the company. These services include construction management, operational leadership, engineering, GIS, and project accounting. These services are performed by SNGMO employees on behalf of affiliated companies and performed by affiliated companies on behalf of SNGMO. The rates charged for such services will be provided for in a service agreement between the two companies and approved by the CAM Team, which is a designated number of trained personnel with the responsibility to monitor and review affiliate transactions to ensure compliance with the Affiliate Transactions Rule, including the request for variances discussed in TAB K.

Direct Billings – These are costs incurred by SNGMO to provide a specific service to an affiliate or cost incurred by an affiliate to provide service to SNGMO. There is a direct relationship between the cost incurred and the affiliate needing the good or service. These costs are billed to the affiliate based on the labor code specified in the employee's timesheet. Direct expenses incurred by an employee are also directly billed to the affiliate.

Indirect Billings and Allocations – There will be no indirect billings or allocations between affiliated companies other than from the Parent.

Assets

The transfer of goods and assets between affiliated entities will be reviewed and approved by the CAM Team prior to movement of the goods or assets. Only those transfers that are for the mutual benefit of both affiliated entities will be approved. Transfers of assets between affiliated companies will be done at FMP.

Fixed Asset Transfers – Transfers of fixed assets between affiliated companies will be done at FMP. The receiving entity will pay shipping and processing costs.

Inventory Transfers – Transfers of inventories between affiliated companies will be done at FMP. Inventory prices are calculated using a weighted average cost calculation. The receiving entity will pay shipping and processing costs.

Vehicle Transfers – Transfers of vehicles between affiliated companies will be completed at NADA or Kelly Blue Book specific to the year, make, model, and condition of the vehicle. The receiving entity will pay all shipping and registration fees and processing costs.

TAB D

Summit Natural Gas of Missouri, Inc.

SNGMO

CLEARINGS & LOADINGS

Paid Absence Loadings – SNGMO is required to follow the FERC Uniform System of Accounts ("USOA"). The USOA describes how the various paid absence costs will be allocated over the “at work” activities. Monthly, costs charged to the various paid absence accounts are allocated to capital and expense accounts based on each account’s respective payroll activity for the month.

SNGMO employees will directly charge labor to SUI and its subsidiaries/affiliates for every activity performed by SNGMO to satisfy a need of SUI and its affiliates. Paid absence loadings will be included in the rates provided for by the service agreement between the two entities.

Payroll Tax Loadings – SNGMO employees will directly charge labor to SUI and its affiliates including non-regulated entities for every activity benefitting SUI, its affiliates and non-regulated operations. Taxes will be included in the rates provided for by the service agreement between the two entities.

Pensions and Other Benefits Loadings – Pension, post-retirement, employee insurance and other benefits are applied to labor costs to ensure that an appropriate portion of benefits is capitalized and to provide management with costs per project. SNGMO employees will directly charge labor to SUI, its affiliates, and non-regulated operations for every activity benefitting SUI, its affiliates, and non-regulated operations. Benefit loadings will be included in the rates provided for by the service agreement between the two entities.

General and Administrative ("G&A") Loading – G&A costs (as explained in TAB B) are applied to labor costs to ensure that an appropriate portion of benefits is capitalized and to provide management with costs per project. SNGMO employees will directly charge labor to SUI, its affiliates, and non-regulated operations for every activity benefitting SUI, its affiliates, and non-regulated operations. G&A loadings will be included in the rates provided for by the service agreement between the two entities.

TAB E

Summit Natural Gas of Missouri, Inc.

SNGMO

SPECIFIC ASSIGNMENT OF COSTS METHOD

Specific assignment of costs among subsidiaries is one method of indirect allocation. It is used when (1) a statistical analysis of the underlying costs indicates the benefiting entity or (2) the costs can be assigned based on the ownership of the related assets or liabilities. Specific assignment methods could be used for such transactions as property insurance premiums that are assigned based on an appropriate cost causative driver. In addition, the specific assignment method may be utilized to track costs that are beneficial to non-regulated activities. When a potential new non-regulated activity is identified, a work order may be created to help identify and accumulate costs associated with the new non-regulated activity. Ultimately, these work orders will be used to segregate those costs from regulated activities.

TAB F

Summit Natural Gas of Missouri, Inc.

SNGMO

AFFILIATE PRICING

Affiliate transactions between regulated and non-regulated affiliates follow a "best for the business" affiliate pricing policy designed to prevent cross-subsidization between regulated and non-regulated affiliates or activities.

For example, a business would not provide a good, service, information, or asset below FDC unless it was operating under distressed circumstances. Similarly, a business would not provide a good, service, information, or asset at FDC if the FMP was greater than the cost to create or provide the good or service.

The MoPSC's Affiliate Transactions Rule requires the utility to act in the utility's best interests when dealing with affiliates or its non-regulated activities. If a utility provides a good, service, asset, or information to an affiliate at cost when the fair market value is greater than FDC, the utility will experience the opportunity loss while the affiliate or non-regulated activity extracts the higher fair market value that the utility forfeited when it charged the affiliate the lower FDC-based price, thus subsidization occurs.

The Evidentiary Standard requirements of 4CSR 240-40.015(3) specify the process needed to develop appropriate compensation for affiliate transactions involving SNGMO. This section, TAB F, of the CAM provides detailed information about the requirements of the pricing of affiliate transactions. At this time, SNGMO’s CAM is based on two affiliate lines of business. The most significant dollar transactions are related to the provision of SUI’s assets, information, goods, and services to SNGMO and SUI subsidiaries. The second affiliate line of business is the transfer of assets, information, goods, and services between SNGMO and its affiliates.

SNGMO will use the requirements of the MoPSC's Affiliate Transactions Rule and the policies and procedures outlined in this CAM, with a focus on the requirements of this TAB F, to provide the evidence that demonstrates SNGMO's compliance with the Rule and this CAM.

The MoPSC's affiliate transaction pricing standard requires that:

1) All information, assets, goods or services provided by SNGMO to an affiliate or non-regulated service will be compensated at the greater of fair market price or the fully distributed cost.

2) Information, assets, goods or services provided by a non-regulated affiliate to SNGMO will be compensated at the lower of fair market price or the affiliate's fully distributed cost to provide the good or service.

SNGMO will document the FMP either through competitive bids or through other measures and will compare FMP to the FDC to determine the appropriate amount of compensation related to each affiliate transaction. To the extent necessary, SNGMO will follow the process in TAB K related to affiliated transactions that do not follow the lower of FMP or FDC rule. The pricing standard, if followed and effectively enforced, provides SNGMO the assurance that customer rates are not adversely impacted by SNGMO's affiliate or non-regulated activities.

Fully Distributed Costs ("FDC"): FDC as described in this CAM is the definition of FDC in the MoPSC's Affiliate Transactions Rule which examines all costs to produce all products and services of an enterprise, consisting of direct, indirect, and generally allocated costs.

Labor costs that are directly assignable to a good or service of an affiliate are billed to that affiliate based upon the affiliate's use of that good or service. These include costs that are directly required for an affiliate or a non-regulated service. In addition, the FDC price component for affiliate transactions will include indirect costs that are assigned based on labor charges as a cost causative relationship.

FDC includes but is not limited to billings for the following:

1) Labor - the cost of human capital associated with the service provided

2) Loadings - the benefits, pensions, insurance, paid absences, payroll taxes, non-labor charges, etc. associated with labor

Fair Market Price ("FMP"): The fair market price is the price that would be received to sell or acquire a good or service in an orderly transaction (i.e., not a forced liquidation or distressed sale) between market participants at or near the measurement date, under current market conditions. FMP is also a product of need between the buyer and seller. For example, a buyer with little to no need for a good or service will value the good or service significantly less than a buyer with a need for the product. FMP being the price of an orderly transaction means that it is a transaction by parties that satisfies the need of each party for the transaction to occur.

The Evidentiary Standard requirements of 4CSR 240-40.015(3)(A) establishes the FMP process. The Rule states:

> When a regulated gas corporation purchases information, assets, goods or services from an affiliated entity, the regulated gas corporation shall either obtain competitive bids for such information, assets, goods or services or demonstrate why competitive bids were neither necessary nor appropriate.

For SNGMO affiliate purchases, the competitive bid process (or request for proposals ("RFPs")) will establish the FMP for SNGMO affiliate transactions. When SNGMO does not use a competitive bid process, SNGMO must demonstrate that competitive bids were neither necessary nor appropriate. SNGMO procurement policies and procedures will require documentation and officer approval explaining why the competitive bid was neither necessary nor appropriate for the affiliate transactions. This documentation will determine the FMP relative to the specific purchase circumstances.

For SNGMO affiliate sales, FMP will be determined through either competitive bids (or RFPs) for the service SNGMO provides, or a market study of the service SNGMO provides. In the absence of current comparable market prices, benchmarking, if approved by the MoPSC, may be used. The transaction to sell a good or provide a service is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the good or provides the service. The objective is to determine the price that would be received to sell or paid to acquire the good or service at or near the measurement date (an exit price) based on each affiliate involved in the transaction.

TAB G

Summit Natural Gas of Missouri, Inc.

SNGMO

AFFILIATE MARKETING MATERIALS AND CUSTOMER INFORMATION

Any marketing materials or advertisements for the non-regulated affiliates with similar names, logos or trademarks to regulated affiliates will state in a font size no smaller than the smallest font size on the page and will clearly display that it is “Not Regulated by the Missouri Public Service Commission.”

Copies of all such materials by non-regulated affiliates operating in the State of Missouri for each reporting period will be reported and will be available for review on or before the submittal date of the CAM to the MoPSC and OPC upon request.

When a customer of the regulated utility requests information about a product or service provided by a non-regulated affiliate, the customer may receive the requested information. In order to prevent an unfair advantage to the non-regulated affiliate, the customer will be provided with an oral or written disclaimer that the non-regulated affiliate is not tied to the regulated utility and that other service providers may be available. The script used by SNGMO regarding non-regulated affiliates operating in the State of Missouri in this situation will be reported.

Customer Information

4 CSR 240-40.015(2)(C) requires that customer information be made available to “affiliated or unaffiliated” entities only with the consent of the customer or as otherwise allowed by the Commission’s Report and Order, issued April 27, 2016, effective May 27, 2016, and the Commission’s Order Regarding Script Revisions, issued May 26, 2016, effective May 27, 2016, in File No. EC-2015-0309.

TAB H

Summit Natural Gas of Missouri, Inc.

SNGMO

MARKETING AFFILIATE TRANSACTIONS 4 CSR 240-40.016

At this time, SNGMO marketing affiliate is not active.

TAB I

Summit Natural Gas of Missouri, Inc.

SNGMO

EFFECTIVE APPLICATION

The CAM also addresses the application of the Affiliate Transactions Rule to provide assurance of SNGMO's compliance, and is contained throughout the CAM. The Commission's application of, and SNGMO's compliance with, the Affiliate Transactions Rule ensures that the affiliate transactions engaged in by SNGMO are not subsidizing the regulated and non-regulated operations of SNGMO's affiliates. Compliance with the Rule does not serve in any way as an indication that an affiliate transaction is a prudent transaction. The prudency of individual affiliate transactions may be addressed in the rate case in which the issue of the prudence of a particular affiliate transaction is relevant. The MoPSC Affiliate Transactions Rule specifies the financial standards, evidentiary standards and record keeping requirements that must be satisfied to allow SNGMO to engage in an affiliate transaction. The Rule requirements include detailed record keeping that will provide information needed to access the prudence of the transaction.

The nature of the affiliate transactions and their significance determine the criteria, guidelines, and procedures that are needed by SNGMO to comply with the MoPSC Affiliate Transactions Rule and participate in an affiliate transaction. As the nature of SNGMO's transactions and their significance change in the future, the criteria, guidelines, and procedures will need to be examined to determine whether the criteria, guidelines, and procedures need to be changed to ensure relevance, appropriateness, and compliance with the Rule's purpose.

An overall risk assessment analysis will be developed to identify the greatest threats to compliance to highlight areas needing the greatest oversight so that compliance is a SNGMO business practice.

SNGMO's management understands that it is responsible for the overall governance and application of the SNGMO CAM preparation and implementation of criteria, guidelines, and procedures necessary to provide full compliance with the MoPSC's Affiliate Transactions Rule. SNGMO has designated its Corporate Controller with the authority to enforce full compliance with the Missouri Affiliate Transactions Rule. A CAM Team will be created to monitor and review affiliated transactions to ensure compliance with the Affiliate Transactions Rule.

The SNGMO CAM Team, under the direction of the Corporate Controller, will be responsible to ensure that:

1) all contracts that exist are reported in the CAM;

2) all contracts reported in the CAM are currently in effect;

3) all contracts no longer in effect during the reporting period have been removed from the CAM;

4) all affiliates that engage in transactions with SNGMO have a current contract or the CAM includes an explanation of why no contract exists and a certification that this treatment (engaging in transactions with no written contract) is consistent with the treatment SNGMO provides to non-affiliated entities;

5) to the extent SNGMO finds that contracts exist that were not reported and contracts reported in the CAM are no longer effective, SNGMO will take action to correct

the discrepancies and institute appropriate controls to minimize the likelihood of future discrepancies;

6) internal controls are created and employed to ensure that employees who provide or assist in the provision of affiliate services are charging time to the affiliates; and

7) all documents used to support affiliate transaction fair market price determinations when applicable are reasonable and current.

All additions to or deletions of affiliated entities / non-regulated activities will be submitted in writing to the MoPSC Staff Counsel's Department and the Office of the Public Counsel ("OPC") within thirty (30) days of the event occurring.

All SNGMO and affiliate employees engaged in or supporting affiliate transactions will be required to complete training regarding proper compliance with the Affiliate Transactions Rule, including approved variances. The training is mandatory for all SNGMO and SUI employees engaged in or supporting affiliate transactions and requires passing a test following completion of the training and a compliance questionnaire and certification.

Training materials will be developed with Staff and OPC input to provide greater assurance that SNGMO has an appropriate training program.

TAB J

Summit Natural Gas of Missouri, Inc.

SNGMO

REPORTING AND RECORDING REQUIREMENTS

SNGMO affiliate transactions, policies, and procedures are governed by the statutes and rules and regulations jurisdictional to the MoPSC. SUI will maintain each affiliate's books and records separately and each will be maintained so affiliate transactions are auditable on SNGMO's books.

An Affiliate Transactions Report will be submitted annually by March 15 for review or as required to meet all regulatory requirements.

The annual SNGMO Affiliate Transactions Report filing will include, in addition to the items specifically identified in the Rule, the following:

1) A Code of Conduct (Code of Ethics) which discusses training, application, and audits
2) Commission approved Cost Allocation Manual or reference to its location
3) A list of all reports SUI submits to regulatory bodies regarding affiliate transactions
4) A schedule listing all changes to the CAM since the last CAM filing.

SNGMO will execute written agreements for transactions with any of its affiliates.

SNGMO will comply with the requirements contained in 4 CSR 240-40.015(3) Evidentiary Standards and 4 CSR 240-40.015(4) Record Keeping Requirements. SNGMO will ensure that all its written affiliate agreements contain provisions that allow SNGMO to fully comply with 4 CSR 240-40.015(5) Records of Affiliated Entities and 4 CSR 240-40.015(6) Access to Records of Affiliated Companies. SNGMO understands that all records required under the Affiliate Transactions Rule must be maintained for a period of not less than six (6) years.

TAB K

Summit Natural Gas of Missouri, Inc.

SNGMO

AFFILIATE TRANSACTIONS RULE VARIANCES

The Affiliate Transactions Rule variance process is described in 4 CSR 240-40.015(10). (Also see 4 CSR 240-40.015(2)(D)) that precludes SNGMO from participating in any affiliate transaction not in compliance with the Affiliate Transactions Rule including the Rule's variance procedure 4 CSR 240-40.015(10), except as otherwise provided.

SNGMO understands that a variance needs to be granted or in process with the MoPSC pursuant to the Affiliate Transactions Rule 4 CSR 240-40.015(10)(A)1 or 4 CSR 240-2.060(4) before SNGMO may participate in an affiliate transaction that is not consistent with the MoPSC's Affiliate Transactions Rule.

The limited exception as outlined in the Rule is related to an affiliated transaction that must occur in furtherance of the best interests of its Missouri regulated customers. When SNGMO believes, to its best knowledge and belief, complying with the standards set out in the Affiliate Transactions Rule and its approved CAM would not be in the best interests of its regulated customers, SNGMO may engage in an affiliate transaction not in compliance with the Rule. But if it does so, SNGMO must request a variance through a written application to the MoPSC in accordance with 4 CSR 240-40.015(10)(A)2.B provide notice to the Secretary of the MoPSC and the OPC within ten (10) days of the non-complying transaction.

Furthermore, to comply with Missouri Affiliate Transactions Rule 4 CSR 240-40.015(2)(D) and 40.015(10)(A)2.B, the notice of any noncomplying affiliate transaction occurrence that SNGMO will file with the MoPSC and OPC must contain a detailed explanation of why the affiliate transaction should be exempt from affiliate transaction requirements of 4 CSR 240-40.015(2)(A) and why the noncomplying affiliate transaction was in the best interests of regulated customers.

At this time, SNGMO has no variances granted by the MoPSC. Also, SNGMO has no variances pending before the MoPSC or noticed in accordance with the requirements of 4 CSR 240-40.015(10)(A)(2). Any revisions, additions, or deletions to the CAM will be filed with the Secretary of the MoPSC and OPC within ten (10) days of the occurrence as a variance application in accordance with either (1) 4 CSR 240-40.015(10)(A)1 and 4 CSR 240-2.060(4), SNGMO cannot act in accordance with the variance application until the request receives MoPSC approval, or (2) 4 CSR 240-40.015(10)(A)2, SNGMO can operate under the revised CAM before final MoPSC determination as explained below. Within thirty (30) days of the notice to the MoPSC and OPC of the noncomplying affiliate transaction, Staff, OPC, or any party shall have the right to request a hearing regarding the noncomplying affiliate transaction. The MoPSC may grant or deny a request for a hearing. If the MoPSC denies a request for hearing, the denial shall not prejudice in any way an entity's ability to challenge the noncomplying affiliate transaction at the time of the next annual SNGMO CAM filing. At the time of the next annual filing of SNGMO's CAM, SNGMO shall provide to the Secretary of the MoPSC a list of all noncomplying affiliate transactions, which occurred between the period of the last filing and the current filing, including the transaction for which the MoPSC did not grant a hearing. Any such noncomplying affiliate transaction shall remain interim, pending final MoPSC determination on whether any of the noncomplying affiliate transactions is in the best interests of the regulated customers. Also, the question of the prudence of a particular affiliate transaction is interim pending the determination of a prudence challenge pursued by a party in the first rate case after the occurrence of the affiliate transaction pursuant to 4 CSR 240-40.015(10)(A)(2).

TAB L

Summit Natural Gas of Missouri, Inc.

SNGMO

GLOSSARY OF TERMS

Allocation – A method of assigning common costs that cannot be directly charged or indirectly assigned (e.g., general and administrative) to an asset, good, information, or service. These common costs must be included in the FDC calculation using a general allocation method (such as Distrigas). If more than one asset, good, information, or service causes a cost to be incurred that cost is fairly and equitably allocated among the assets, goods, information, or services that benefited from the cost being incurred.

Assignment – The charging of expenditures (e.g., marketing, advertising, computing, maintenance, security, supervision) incurred in joint usage for provision of assets, goods, information, or services between or among the specific assets, goods, information, or services based on a causative factor in the provision of the assets, goods, information, or services.

Colorado Natural Gas, Inc. – The Summit Utilities, Inc. natural gas distribution utility providing services within Colorado.

Corporate Governance Costs – Costs incurred for the benefit of the parent company only that should not be assigned or allocated to regulated affiliates.

Cost Allocation Manual ("CAM") – A document that includes the criteria, guidelines and procedures a regulated utility will follow to comply with the MoPSC's Gas Affiliate Transactions Rule (4 CSR 240-40.015).

CAM Team - Designated trained personnel with responsibility to ensure that all affiliate transactions are either consistent with the MOPSC's Gas Affiliate Transactions Rule, as promulgated, or comply with the terms of the variances authorized by the MoPSC, or that SNGMO otherwise has followed the variance procedures provided for in the Rule for any non-complying affiliate transactions engaged in by SNGMO.

Customer Accounting Costs – Includes activity in Federal Energy Regulatory Commission ("FERC") accounts 901-903 and FERC accounts 911-917, Sales Expenses.

Direct Assignment – The practice of assigning costs to the specific affiliate that either causes the costs to be incurred or solely benefits from the costs

GAAP – Generally accepted accounting principles. As used in this CAM refers to FASB Statement 157 and ASC 820 (Codification Topic 820) *Fair Value Measurements and Disclosures* (on July 1, 2009, FASB Statement 157 was codified into ASC Topic 820).

General Allocator – A method used to allocate costs that cannot be assigned between or among affiliates using direct or indirect allocation methods. An example of a general allocation approach is the "Distrigas" method, which assigns costs based on a) Direct Labor; b) Capital Investments; and c) Net Sales Revenues.

Indirect Assignment - Costs that are incurred by one company, which are for the benefit of either (a) all of the SUI companies or (b) all of the regulated companies, are charged to the benefited companies using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery.

Jurisdictional – body having regulatory rate authority over a utility; jurisdiction respecting a tariffed rate can be at a local, state, or federal level.

MoPSC – Public Service Commission of the State of Missouri.

Parent – Summit Utilities, Inc. (non-regulated) – Subsidiaries: A.O.G. Corp. (non-regulated); Arkansas Oklahoma Gas Corporation, Colorado Natural Gas, Inc. (regulated); Summit Natural Gas of Missouri, Inc. (regulated); Wolf Creek Energy, LLC (non-regulated); Summit Natural Gas of Maine, Inc. (regulated).

Regulated Activity - any activity that is offered as a public utility service or is incidental to public utility service regulated by the MoPSC, another state utility commission, or the FERC.

Service Agreement – a written agreement detailing the scope of any information, assets, goods or services that SNGMO is obligated to provide to any affiliated entity or SNGMO is obliged to receive and compensate any affiliated entity.

SNGMO - Summit Natural Gas of Missouri, Inc.is a natural gas distribution utility providing regulated services within Missouri.

SUI – Summit Utilities, Inc. (Parent holding company) is a company providing two lines of business functions, a holding company function and a service company function. The service company function provides overhead services to its subsidiaries.

Variance – A variance from the standards of the MoPSC's Affiliate Transactions Rule for gas corporations may be obtained by compliance with paragraphs 4 CSR 240-40.015(10)(A)1 (and 4 CSR 240-2.060(4)) or 4 CSR 240-40.015(10)(A)2, alternatives of the MoPSC Affiliate Transactions Rule (4 CSR 240-40.015) for gas corporations.

Wolf Creek Energy, LLC – A non-regulated company providing gas services within Colorado.

Abbreviation Definitions

AOG – Arkansas Oklahoma Gas Corporation, subsidiary of SUI and regulated affiliate of SNGMO

CAM – Cost Allocation Manual

CNG – Colorado Natural Gas, Inc., subsidiary of SUI and regulated affiliate of SNGMO

FERC – Federal Energy Regulatory Commission

G&A – General and Administrative

MGU – Missouri Gas Utility, former name of SNGMO

O&M – Operations and Maintenance

SMNG – Southern Missouri Natural Gas, company merged with MGU

SNGME - Summit Natural Gas of Maine, Inc., subsidiary of SUI and regulated affiliate of SNGMO

SNGMO - Summit Natural Gas of Missouri, Inc., gas utility

SNGMO affiliates - AOG, CNG, SNGME, and WCE

SUI – Summit Utilities, Inc., parent holding company of SNGMO

WCE – Wolf Creek Energy, LLC, subsidiary of SUI and non-regulated affiliate of SNGMO

Summit Natural Gas of Missouri, Inc.

SNGMO

TESTS

SNGMO will complete the following report of the results of the tests in its annual CAM filing as a function of quality control for each future reporting period:

- Annual charges to SUI and each of its subsidiaries/affiliates will be identified in a Summary Schedule and included in Tab J Reporting and Recording Requirements. An explanation must be given as to the appropriateness of the absence of any charges to SUI or any of its affiliates.

TAB N

Summit Natural Gas of Missouri, Inc.

SNGMO

AUDITS

Audits Completed or Currently Pending

SUI shall list all audits completed or currently pending regarding affiliate transactions or non-regulated utility activity. The list shall contain the title of the audits as well as a reference to the location where each audit report is or will be retained. SUI will provide to Staff and OPC a copy of each audit report with documents that support findings and conclusions as they relate to affiliate transactions.

Audits Planned

SUI shall list all audits planned regarding affiliate transactions or non-regulated utility activity that will occur in the upcoming year (or a longer period of time if consistent with the audit planning horizon) following the reporting period. SUI shall provide a description of the audit areas of each planned audit. There will be a risk evaluation performed in relation to these audits.

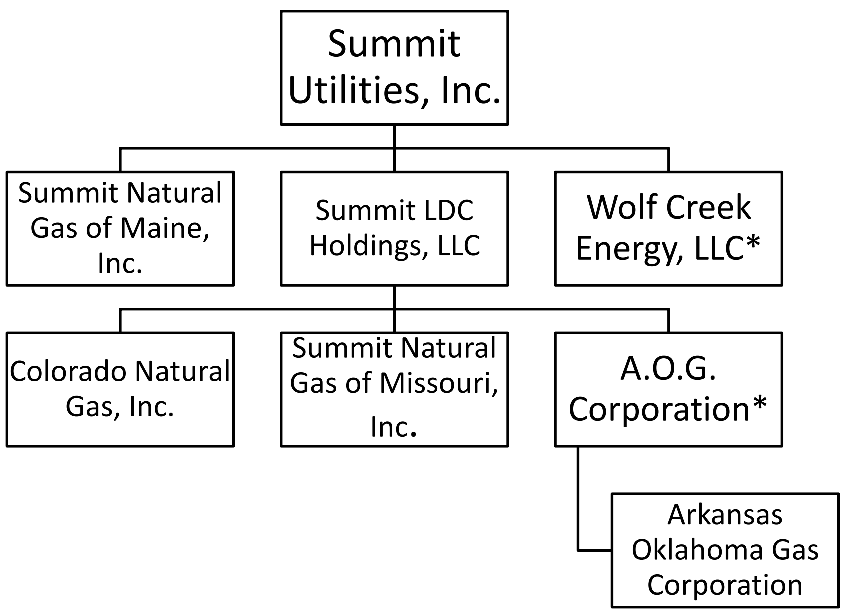
Independent Attestation

Staff and/or OPC may request the MoPSC establish an independent attestation engagement of the CAM and propose a cost allocation proposal for the engagement. Any settlement agreement in a general rate case does not, and is expressly not intended, to prohibit any party from proposing or supporting this request and cost allocation proposal on any grounds.

Tab O
Appendix 1

Summit Natural Gas of Missouri, Inc.

Organizational Chart



*Unregulated subsidiary

Appendix 2- Tab O

Services Provided by SUI to its Affiliates include, but are not limited to:	
Shared Services Provided	**Description of Services**
Executive	Executive services include the costs of senior corporate leadership, long-term business strategy development and programs to ensure the continuity and development of management.
Accounting and Financial Reporting	Accounting and Financial Reporting services include the costs for preparation of financial statements and coordination of the budgeting process with the operating companies.
Tax	Tax services include the costs for the preparation and filing of consolidated corporate tax returns and payments for all companies, administration of all income, sales/use and property tax filings, as well as monitoring tax legislation, legal developments, and rulemaking activities in the income tax, sales/use tax and property tax areas.
Audit	Audit services include the costs associated with corporate internal control guidelines and auditing of consolidated financial statements. This function also includes the cost of administering the corporate compliance, fraud and conflict of interest investigations, establishing and review of internal control compliance requirements/control testing, and evaluating contract risks.
Finance & Treasury	Finance & Treasury services include the costs of investing activities and costs associated with equity and debt securities issuance, monitoring the capital markets, investor relations, and compliance with debt covenants.
Legal	Legal services include the costs for corporate litigation, reports and filings under FERC, and corporate contracts. Other services include labor and employment law, rates and regulation, environmental matters, real estate and contracts.
Risk Management	Risk Management services include the costs of corporate risk management, property and liability insurance, and loss control services.
Human Resources	Human Resource services include the costs for employee compensation plans, corporate policies, on-boarding, terminations, benefit plans, and payroll services.
Information Technology	Information Technology services include the costs that provide benefits that impact every computer user. This includes computer technology risk management, software maintenance on applications, IT support for hardware and project management.
Regulatory	Regulatory services include the costs for determining the regulatory strategy, revenue requirements and rates for gas customers, coordinating the regulatory compliance requirements, establishing and maintaining relationships with regulatory bodies, preparing and organizing rate case filings.
Communication	Communication services include corporate communications, employee communications, and corporate media relations. Development of educational materials and communications to distribute both externally and internally.
Customer Service	Customer Service costs include those activities related to customer billing, call center support, credit and collections.
Procurement	Procurement services include the costs for purchasing goods and services from vendors and suppliers. This includes determination of organizational demand, as well as receipt. Procurement also maintains warehouse facilities and manages inventory.

Engineering	Engineering services include the costs to provide natural gas pipeline and facility design and hydraulic analysis, project management support, and drafting of construction drawings and as-built mapping. Engineering services also include land agents who complete right of way functions.
Operations	Operations services include the costs related to compliance review of pipeline integrity, safety, contract labor review and gas supply management.
Business Development	Business development services include the costs to develop and implement growth opportunities within operating companies. This provides for creation of long-term value between customers, businesses and community.