This Appendix to the Cost Allocation Manual ("CAM") of Algonquin Power & Utilities Corp. ("APUC") contains additional terms and conditions applicable to The Empire District Electric Company ("Empire Electric"), The Empire District Gas Company ("Empire Gas"), and Liberty Utilities (Midstates Natural Gas) Corp. ("Liberty Midstates") (collectively, the "Missouri Regulated Utilities"). This Missouri-specific portion of the APUC CAM must be read and followed in conjunction with the entire APUC CAM. The APUC CAM applies to subsidiaries of APUC, including the Missouri Regulated Utilities, while this Appendix applies to APUC and its affiliates other than the Missouri Regulated Utilities only to the extent required by the Missouri Public Service Commission's ("MoPSC") affiliate transaction rules or as specifically stated in this Appendix.

The Missouri Regulated Utilities are subject to the MoPSC's affiliate transaction rules, 4 CSR 240-20.015 and 4 CSR 240-40.015, and, pursuant to these rules, shall seek approval of the APUC CAM, including this Appendix. The stated purpose of the Commission's affiliate transaction rules is to prevent regulated utilities from subsidizing their non-regulated operations. An important initial step in this process is to identify the lines of business that are in operation that impact the Missouri Regulated Utilities and then determine the extent to which the electric and/or gas utility businesses are impacted by these other business activities. This Appendix is intended to satisfy the requirements of 4 CSR 240-20.015 and 4 CSR 240-40.015, by providing the criteria, guidelines, and procedures the Missouri Regulated Utilities will follow when engaging in affiliate transactions.

Business Segment Descriptions and Regulatory Jurisdictions:

1. Electric: Empire Electric is an investor-owned regulated public utility engaged in the generation, purchase, transmission, distribution and sale of electricity in parts of Missouri, Kansas, Oklahoma and Arkansas. The "Electric" segment also provides water service to three towns in Missouri. At December 31, 2014, electric operations served approximately 170,000 customers. Retail electric revenues for 2014 by jurisdiction were derived geographically as follows: Missouri 89.7%, Kansas 4.8%, Oklahoma 2.8% and Arkansas 2.7%. At December 31, 2014, Electric's transmission system consisted of approximately 22 miles of 345 kV lines, 441 miles of 161 kV lines, 745 miles of 69 kV lines and 81 miles of 34.5 kV lines. Electric's distribution system consisted of approximately 6,911 miles of line at December 31, 2014.

2. Gas: Empire Gas serves customers in northwest, north central and west central Missouri. Empire Gas was formed to hold the Missouri gas assets that Empire Electric acquired from Aquila, Inc. on June 1, 2006. At December 31, 2014, the gas segment's gas utility properties consisted of approximately 87 miles of transmission mains and approximately 1,175 miles of distribution mains. As of December 31, 2014, the gas segment served approximately 43,500 customers. The gas segment provides natural gas distribution to 48 communities and 422 transportation customers as of December 31, 2014. The largest urban area Empire Gas serves is the city of Sedalia with a population of over 20,000. At December 31, 2014, gas segment properties consisted of approximately 87 miles of transmission mains and approximately 1,175 miles of distribution mains.

Liberty Midstates provides natural gas distribution service in the states of Missouri, Illinois and Iowa. Acquired from Atmos Energy Corp. in 2012, Liberty Midstates serves primarily rural communities located in Southeast Missouri, Northeast Missouri, Western Missouri, Southeast Iowa and Southern Illinois. The company has approximately 55,000 customers in Missouri, 22,000 customers in Illinois and 4,500 customers in Iowa.

3. Water: Empire Electric also provides water service to three towns in Missouri. An additional affiliate, Liberty Utilities (Missouri Water) LLC, is a "small company" within the meaning of the MoPSC's rules and is a water and sewer utility subject to the jurisdiction and supervision of the MoPSC as provided by law.

4. Other – Unregulated: Empire District Industries, Inc. ("EDI") provides fiber optics services ("EDI Fibercom") to its customers and Empire Electric.

As public utilities, the Missouri Regulated Utilities' electric, gas, and water operations with respect to services and facilities, rates and charges, regulatory accounting, valuation of property, depreciation and various other matters are subject to the jurisdiction of:

1. Missouri Public Service Commission ("MoPSC");
2. Kansas State Corporation Commission ("KCC");
3. Oklahoma Corporation Commission ("OCC");
4. Arkansas Public Service Commission ("ArkPSC"); and/or
5. Federal Energy Regulatory Commission ("FERC").

The FERC, under the Federal Power Act ("FPA"), has jurisdiction over the wholesale rates, accounting, sale, lease or other disposition of electric transmission service and electric energy and the associated utility facilities engaged in interstate commerce.

Cost Assignment and Allocation:

The existence and utilization of a CAM is a requirement of the MoPSC Affiliate Transactions Rules (4 CSR 240-20.015 and 4 CSR 240-40.015). These rules are intended to prevent MoPSC regulated utilities from subsidizing their non-regulated operations. The Missouri Regulated Utilities are directed by MoPSC's rules to include in their CAM filings the criteria, guidelines, and procedures they will follow to be in compliance with these rules.

It is the objective of this CAM to provide a high level of assurance that the Missouri Regulated Utilities have implemented and are monitoring a set of criteria, guidelines, and procedures that also provide a high level of assurance that the Missouri Regulated Utilities are not subsidizing their affiliated activities or non-regulated operations to the detriment of their retail regulated electric and gas customers in Missouri.

The cost assignment and allocation methodologies proscribed by this CAM are the tools which provide for the direct and indirect assignment and allocation of costs to the relevant regulated business functions and non-regulated business functions, including business segments and business units, providing a level of assurance that cross-subsidization is not occurring.

The approach of cost assignment and allocation utilized by each of the Missouri Regulated Utilities is as follows:

1. All costs should be directly assigned, indirectly assigned or allocated to the relevant regulated business functions and non-regulated business functions, including business segments and business units.

2. Direct and indirect assignment is preferable to allocation and should be used when reasonable.

3. Indirect assignment should be based upon a method which recognizes cost causation or benefits received.

4. Remaining costs not directly or indirectly assigned on a causal basis should be allocated on a general allocation factor ("general allocator"). The general allocator must be used whenever the costs benefit both regulated and non-regulated activities.

Notification of Changes:

Pursuant to paragraph 15 of a Stipulation and Agreement entered into and approved by the Commission in Case No. EM-2016-0213, the Staff of the Commission and the Office of the Public Counsel will be notified within thirty days anytime there is: (1) an addition or deletion of an affiliated entity that provides services to, or receives services from, Empire Electric; (2) an addition or deletion of an unregulated service provided by Empire Electric; or (3) an addition or deletion of a regulated service by Empire Electric for which a tariff has not been approved.

Overview of Costing Methods:

The Missouri Regulated Utilities provide information, assets, goods and services to each other, as well as to the nonregulated fiber optic operations and other affiliates. Liberty Utilities Service Corp ("LUSC") provides employee services to the Missouri Regulated Utilities, as all former employees of Empire Electric, Empire Gas, and Liberty Midstates were transferred to LUSC by May of 2017. Related costs are collected and assigned directly or indirectly to an affiliate/subsidiary. The Missouri Regulated Utilities employ four general costing methods:

1. Direct Bill - Costs are charged directly to the business line receiving the benefit. Costs can be direct billed via the payroll system based on hours worked or can be billed from a vendor invoice. The Direct Bill Method is the preferred method of assigning costs and is used to the greatest extent possible.

2. Unit of Service - Costs for which the Direct Bill Method is not practical but have identifiable per unit costs. This method is appropriate for assigning costs of departments that perform the same functions for multiple companies and for which the number of units is ascertainable (i.e., number of vouchers or computers, etc.). The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.

3. Specific Assignment - Applies to costs that can be assigned to benefiting business units based on statistical analysis of the underlying cost. The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.

4. Corporate Allocation - Costs for which there is no direct relationship between the work performed and the benefiting business unit. The number of units used to

determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

Costs are either assigned on a fully distributed cost ("FDC") basis to reflect all costs incurred in providing goods, assets, information, and services, or the current fair market price ("FMP"). Costs specifically related to one business line are billed directly to that unit while costs related to more than one business line are assigned first based on a cost causative relationship with residual costs being allocated by using a general allocator applied to truly common costs. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

The Missouri Regulated Utilities will be required to bill out labor charges and related loadings incurred by and benefiting other business functions and operating units. Residual costs cannot become electric operations' cost by default.

The allocation and billing of costs is designed to reflect benefits received as closely as possible, and to prevent subsidization involving the Missouri Regulated Utilities. A second level of protection against subsidization is the MoPSC's affiliate transactions rule that requires use of the appropriate FMP instead of FDC distributions when the nature of the transaction warrants such treatment. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function. For example, Empire Electric payroll (e.g., Administrative and General) related to any business activity benefiting more than one entity will be excluded from the determination from any payroll factor assigning costs to Empire Electric.

The failure to fully charge affiliates or non-regulated activities for the relevant FMP or FDC of goods, services, assets, or information provided to or on the behalf of these affiliated entities or non-regulated operations is expressly prohibited by the MoPSC's Affiliate Transactions Rules.

The regulated utility's billing of directly or indirectly assigned and allocated common costs, FDC or FMP, whichever is higher, is designed to prevent providing a financial advantage to or subsidization of any business line or non-regulated activity, while also ensuring appropriate charging is being done among the regulated utilities.

Unless a variance from the asymmetrical pricing requirements is applicable, as noted above, affiliates are billed on an FDC or FMP basis, whichever is higher, for assets, goods, information, and services provided by the Missouri Regulated Utilities. The FDC basis includes all direct and indirect costs, including cost of capital and overheads, and an allocated portion of common costs. The following three types of cost assignments are utilized to determine proper FDC billings:

> 1) **Billing Between Business Lines** – Applies to balance sheet and income statement costs between Missouri Regulated Utilities and affiliates. For billing purposes, costs are grouped into two basic groups: (a) direct billed projects and (b) indirect billed projects. Direct billed projects are assigned directly to a business line based on the operating unit, while the indirect billed projects are assigned based on relevant cost causative factors exclusive of factors related to activities benefitting more than one entity. In addition, all business lines will be charged for the use of common plant and for the use of capital whenever such charges are appropriate.
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> 2) **Clearings and Loadings** – Applies to types of costs that are assigned based on the usage related to other costs. In some applications, costs are distributed, or "cleared" over a distribution of direct costs, such as fleet clearings. In other applications, costs are distributed, or "loaded" onto a related cost, such as paid absence, and distributed based on a payroll distribution.
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> 3) **Specific Assignment Method** – Applies to costs that can be assigned to the benefiting business unit based on a statistical analysis, usage study, or association with the underlying asset or liability. For instance, depreciation expense is assigned based on the related plant asset.

The Missouri Regulated Utilities will rely upon its Accounting Department or the group responsible for control of the costs to determine the specific assignments. Service agreements, which establish the terms and conditions for affiliate transactions, including a general description of assets, goods, information and services provided, pricing, billing and payment methods and dispute resolution, shall be entered into between affiliates when deemed reasonable and appropriate to ensure compliance with the MoPSC's affiliate transaction rules.

1. **Direct Bill -** Costs are charged directly to the company or business line receiving the benefit. Costs can be direct billed via the payroll system based on hours worked or can be billed from a vendor invoice. The Direct Bill Method is the preferred method of assigning costs and is used to the greatest extent possible.

2. **Unit of Service** - Costs for which the Direct Bill Method is not practical but have identifiable per unit costs. This method is appropriate for assigning costs of departments that perform the same functions for multiple business lines and for which the number of units is ascertainable (i.e., number of vouchers or computers, miles driven, etc.). The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.

3. **Specific Assignment** - Applies to costs that can be assigned to benefiting business units based on statistical analysis (e.g., floor space study) of the underlying cost.

4. **Corporate Allocation** - Costs for which there is no direct relationship between the work performed and the benefiting business unit.

Income Statement Billings – Income and expenses are classified into the following groups for billings purposes—direct, indirect, and common costs.

Direct Billings – These are costs incurred by the Missouri Regulated Utilities to provide a specific benefit (e.g., preparation and filing of income tax returns) to a specific business line. There is a direct relationship between the cost incurred and the business unit receiving the benefit of the cost. These costs are billed to the business line based on the owner of the operating unit charged.

The Direct Billing Method is considered the preferred method of assigning costs to the appropriate business units and will be used 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 for the benefit of a single business line will be coded to the appropriate business line/account number at the time of input into the general ledger system

Labor - Labor time entry includes the business line for which the employee was working. The general ledger system then records the appropriate portion of the salary of that person to the appropriate business line. In addition to assigning salary, the accounting system also allocates an amount to cover payroll taxes and fringe benefits. The fringe benefit amount is based on a percentage determined by Accounting with support from Human Resources. The labor overhead rate consists of Healthcare, 401K, Pension and other similar costs.

Unit of Service Method - For costs incurred on behalf of multiple business lines that do not allow for practical application of the Direct Billing Method, the Unit of Service Method is used in instances where there is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a “per unit” cost can be calculated and charged.

Each Unit of Service billing has a calculated rate that is based on various General Ledger accounts and costs and is adjusted periodically. Each rate is then applied to the appropriate volume driver to determine the monthly cost assignment to the business lines. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function.

Indirect Billings – These are costs incurred by Missouri Regulated Utilities to provide services benefiting more than one business unit that do not vary due to usage. These costs are billed to the business units based on predetermined factors or the results of periodic studies. The factors are determined based on a cost causative relationship as well as in the aggregate by a general allocator of truly common costs. The Missouri Regulated Utilities are aware that all costs are to be directly or indirectly charged to the appropriate lines of business, or affiliates, to the maximum extent possible. Common costs result from residual costs that could not reasonably be directly or indirectly assigned. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function. Refer to Appendix 3 for a list of factors and how the factors are calculated.

The Massachusetts Formula will only be used as a general allocator to allocate common costs that apply to Empire Electric, Empire Gas, and Empire Electric’s regulated water operations and activities. Liberty MidStates continues to utilize the “four-factor allocation” as a general allocator. All other residual common costs will be allocated using the General Allocator, which allocates costs based on an entity’s relative ratio of direct and assigned costs to total direct and assigned costs incurred. A General Allocator is a "last resort" allocation method which should only be used when neither direct nor indirect measures of cost causation can be found to assign the cost to a specific entity.

Unit of Service Billing Method Details:

For costs incurred on behalf of the business units that do not allow for application of the Direct Billing Method, the Unit of Service Method is used in instances where there is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a “per unit” cost can be calculated and charged. The number of units used to determine the allocation factors will exclude the units used to provide service to more than one entity or business function. For example, for assigning costs to Empire Electric related to personal computers, the computers that are used by Empire Electric for activities that benefit entities other than Empire Electric will not be used to assign costs to Empire Electric. The appropriate assignment may use the personal computers that are solely used for Empire Electric's electric or water service supplemented with Empire Electric's share of common use computers with the remaining portion of Empire Electric's common use computers included in the assignment factors of Empire Electric's affiliates.

The Unit of Service Billing method will be used as a part of the process to determine the FDC when the Missouri Regulated Utilities provide the asset, good, information, or service to a line of business or an affiliate. Added to the dollar amount of the costs arrived at by this cost method will be other components of FDC (such as capital costs, depreciation, etc.) to arrive at the fully-loaded costs to charge an affiliate in circumstances where the FDC is determined to be the appropriate charge in lieu of FMP.

Each Unit of Service billing has a calculated rate that is based on various General Ledger accounts and costs and is adjusted periodically. Each rate is then applied to the appropriate volume driver to determine the monthly allocation to the business units.

1. **Accounts Payable - Purpose**: To assign expenses associated with the processing of vendor payments for business units. **Basis of Assignment:** The assignment is based on the number of lines keyed by Accounts Payable with lines associated with common use included only after the benefitting entities are assigned their respective share of common use lines. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party**: An analyst in Financial Services will create a manual voucher each month for the assignment entry.

2. **Customer Billing – Purpose:** To assign expenses associated with the processing of customer invoices to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of active account packages at the end of each month excluding common use account packages. Common use account packages are properly assigned to benefitting entities before these packages are included in any factor to any entity. The number of active account packages is determined by obtaining a query report on the last day of the month from IT and adding the number of active account packages processed for the business unit. Gas costs assignment will be based on the computed rate. Nonregulated costs assignment will be the computed rate for non-regulated only

bills and ½ the computed rate for bills shared with regulated bills (common bills). **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry.

3. Purchasing - Purpose: To assign expenses associated with the processing of purchase orders to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of purchase orders processed by the Purchasing Department excluding the purchase orders benefitting more than one entity. The assignment factor will consider only purchase orders benefitting that entity and the entity's proper assignment of purchase orders benefitting more than one entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry.

4. IT Technical Support Purpose: To allocate expenses associated with computer maintenance and support to the appropriate business units. **Basis of Assignment:** The assignment is based on the number of personal computers maintained for each business unit and benefitting only that unit plus the proper share of common use computers. IT maintains an inventory of the personal computers and compiles the number. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry.

5. Pole Attachments - Purpose: To allocate expenses associated with having fiber optic cable attached to utility poles to the Fibercom unit. **Basis of Assignment:** The assignment is based on the number of pole attachments used by Fibercom at the end of each month. **Assignment Update Frequency:** Driver: **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the allocation entry. **Rate to be used for Assignment: Rate consistent with prevailing rates charged to other third parties for Empire pole connections.**

6. Phone Service - Purpose: To assign expenses associated with phone maintenance and support to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number of phone lines maintained for each business unit and only benefitting that business unit plus the business unit's proper share of phone lines benefiting more than one entity compared to the total phone lines for the company. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party**: An analyst in Financial Services will create a manual voucher each month for the assignment entry.

7. Two-way Radio - Purpose: To assign expenses associated with two-way radio maintenance and support for nonregulated business units to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number of radios maintained for each business unit and only benefitting that business unit plus the business unit's proper share of phone lines benefiting more than one entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party**: An analyst in Financial Services will create a manual voucher each month for the assignment entry.

8. Regulated Vehicle - Purpose: To assign expenses associated with the use of regulated vehicles for non-regulated business units to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number hours the non-regulated or gas laborer uses vehicle and the class of vehicle that is used plus the respective share of hours a regulated laborer uses the vehicle in performing an activity benefitting non-regulated or gas entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party**: Senior Budget Accountant in Financial Services will create a manual voucher each month for the assignment entry.

General Allocators (Corporate Allocation Method):

When costs cannot be directly or indirectly assigned by using a cost-causative assignment factor, a "general allocation" method must be used. The Missouri Regulated Utilities will use the following two general allocation methods.

A General Allocator is a "last resort" allocation method only used when neither direct nor indirect measures of cost causation can be found to charge a cost to a specific entity. The Massachusetts Formula approved for this allocation is an arithmetic average of total company revenues (electric, water, and gas), total company payroll (Electric and Gas) excluding Empire Electric payroll related to the provision of activities that benefit common entities, and net plant in service (electric, water, and gas) excluding Empire Electric plant in service that benefit common entities. Liberty MidStates continues to utilize the "four-factor allocation" as a general allocator. This general allocator is more fully described in the APUC CAM.

For all other revenues, expenses, gains and losses that are to be allocated using a general allocation method, a "general allocator" will be used. A General Allocator allocates costs based on an entity's relative ratio of direct and indirect assigned costs to total direct and indirect assigned costs incurred.

Cash Management Policy:

Compensation for the Use of Capital – Transactions between legal entities result in the creation of intercompany receivables or payables with settlement due in the following month. In addition to the above charges, a charge for the use of capital based on the outstanding intercompany receivable balance and the daily Commercial Paper Rate published by the Board of Governors of the Federal Reserve System for A2/P2 non-financial issuers will be applied. Any receivables outstanding after thirty (30) days from month-end will result in a late payment fee which will be based on the late payment fee charged to the respective regulated customers.

Establishment and Operation of the Cash Management Program:

A. Empire Electric is authorized to maintain a pooled master bank account (with various sub accounts) through which all of the cash receipts and cash disbursements of the Participants will be administered.

B. Empire Electric is authorized to act as the administrator of the cash management program and to be responsible for meeting the daily cash needs of the Participants. Upon the request for cash to meet the daily operations of any of the Participants made in accordance with the requirements authorizing expenditures for the Participants, Empire Electric is authorized to request the necessary funds either from available investments, if any, or from Empire Electric's revolving credit facility.

C. Cash generated from the Affiliates will be deposited in the Empire Electric master bank account. Deposits to and withdrawals from the Empire Electric master bank account by the Affiliates will be recorded to intercompany accounts between Affiliates and Empire Electric. Documentation for the deposits to and withdrawals by the Affiliates from the Empire Electric master bank account will be maintained in the financial and supporting systems of Empire Electric.

D. The Affiliates are authorized to maintain a zero balance bank account that will automatically sweep from Empire Electric's master bank account. Transactions between Empire Electric and the Affiliates will be recorded to inter-company accounts between Empire Electric and the Affiliates. Funding the Affiliate's cash accounts will be recorded through an inter-company receivable/payable account. Documentation for the transactions between the Affiliates and Empire Electric will be maintained in the financial and supporting systems of Empire Electric.

E. No security will be required to be posted by any of the Affiliates as collateral for any net borrowing positions. Loans to the Affiliates will be made pursuant to open-account advances. At the end of each month, interest expense will be charged to the Participants. The short-term borrowing rate will be the weighted average short-term borrowing rate calculated on all Empire Electric's short-term borrowings outstanding during the month. FMP equals the rate an entity would be charged from a third party lender. FMP interest for loans would be greater than Empire Electric's borrowing rate for EDI, it may be Empire Electric's borrowing rate for Empire Gas with a fee for performing the financial services. However, if Empire Electric has no outstanding third-party short-term debt, a proxy interest rate will be charged or credited to the Participant. The proxy interest rate shall be the London Inter-Bank Offered Rate ("LIBOR") plus a certain number of basis points added (the "LIBOR Rate") so that the LIBOR Rate most closely mirrors the pricing the Participant would expect if it had outstanding short-term borrowings. If no LIBOR Rate is established for that day, then the applicable rate will be the LIBOR Rate for the next day for which a rate is established.

F. Excess funds which are not required to satisfy the borrowing needs of the Participants will be invested in short-term instruments according to the guidelines of the Empire Electric Corporate Investment Policy approved by the Board of Directors. At the end of the month, the interest income will be allocated back to the Participants at the weighted average short-term interest rate of all Empire Electric's short-term investments during the month on the basis of their relative contribution to the pooled funds. Interest income resulting from the investment of the pooled funds will be used to repay the principal amount of any inter-company loan. If no inter-company loans exist, the interest income will be credited to the Participants as appropriate.

G. Costs to administer the pooled master bank account is separately identified and assigned to business functions on the basis of usage and benefits.

EDI Fibercom Lease and Tariffed Pole Attachment Fee With Empire Electric:

EDI Fibercom built storage sheds on regulated land as well as shares storage space within regulated storage sheds. The square footage occupied by EDI Fibercom was calculated and is the basis for a lease agreement with Empire Electric, which must receive in payment from EDI Fibercom the higher of FMP or FDC.

EDI Fibercom also must pay Empire Electric's tariffed pole attachment fee.

Clearings & Loadings:

Paid Absence Loadings – The Missouri Regulated Utilities are 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 straight-time payroll activity for the month.

LUSC employees will directly or indirectly charge labor to the Missouri Regulated Utilities for each and every activity performed that benefits the Missouri Regulated Utilities and its affiliates or collect the costs that benefit more than one entity for proper assignment to those entities. Paid absence loading will be assigned to these labor charges at the time of these direct and indirect charges.

Payroll Tax Loadings – Payroll taxes are loaded to labor charged to expense accounts, work orders and clearing accounts based on a projected rate applied to direct labor charged to these accounts. This process allows for payroll taxes to follow the original labor distribution and to be included in construction costs. LUSC employees will directly or indirectly charge labor to Missouri Regulated Utilities, its affiliates, and non-regulated operations for each and every activity benefitting the respective Missouri Regulated Utility, its affiliates and non-regulated operations or collect the costs that benefit more than one entity for proper assignment to those entities. Payroll taxes will be assigned to these labor charges at the time of these direct and indirect charges.

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. Loadings are based on a projected rate applied to direct labor. LUSC employees will directly or indirectly charge labor to the regulated utility, its affiliates, and non-regulated operations for each and every activity benefitting Empire Electric business lines, its affiliates, and non-regulated operations or collect the costs that benefit more than one entity for proper assignment to those entities. Pensions and other benefit costs will be assigned to these labor charges at the time of these direct and indirect charges.

Material and Tool Loading – The FERC USOA requires the use of undistributed stores expense accounts (163 accounts) to accumulate purchasing and store keeping costs of inventory materials. These costs are cleared based on historical loading rates. The rates are applied to materials issued to O&M and capital projects.

Administrative and General (A&G) Loading – The purpose of this loading is to capitalize a portion of the various A&G costs that are incurred in support of capital activities.

Based on a time study, specific departments monthly labor charges are assigned to all open construction projects.

T&D Division Overheads – The purpose of this loading is to capitalize a portion of the delivery division service costs that are related to construction and removal activity but impractical to charge directly. Certain capital projects are loaded with a flat rate per labor dollar.

Generation Division Clearing – The purpose of this clearing is to capitalize a portion of the generation service costs that are related to construction and removal activity but impractical to charge directly. The overhead costs are cleared monthly based on current month generation labor charges.

Specific Assignment of Costs Method:

Specific assignment of costs among business lines is used when (1) a statistical analysis of the underlying costs indicates the benefiting business lines 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 which are assigned based on an appropriate cost causative driver or depreciation expense which follows the ownership of the related assets.

For example, property insurance premiums may provide coverage to more than one business line but the premiums are billed with one invoice. Under the FDC method, to allocate the premium to the benefiting business lines, an analysis is done to determine the appropriate cost causative driver which determines the amount related to each business line. The invoice amount is then charged to all applicable business lines.

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 projects will be used to segregate those costs from regulated activities.

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 fully distributed cost unless it was operating under distressed circumstances. Similarly, a business would not provide a good, service, information, or asset at fully distributed cost if the fair market price was greater than the cost to create or provide the good or service.

The MoPSC's affiliate transactions rules are predicated on the utility acting 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 fully distributed cost, 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 fully distributed cost-based price, thus subsidization occurs.

This section of the CAM provides detailed information about the requirements of the pricing part of affiliate transactions. The Missouri Regulated Utilities may use as a guide the following indications of affiliate pricing put forth by the FERC.

The FERC has developed standards for review of cost- or market-based power purchase agreements between affiliates by application of *Boston Edison Co. re: Edgar Electric Energy Co.*, 55 FERC ¶ 61,382 (1991)("*Edgar*"). Examples of how to demonstrate lack of affiliate abuse, i.e., the purchaser has chosen the lowest cost supplier considering price and nonprice terms include:

> • Evidence of direct head-to-head competition between affiliated and unaffiliated suppliers;
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> • Evidence of the prices that non-affiliated buyers were willing to pay for similar service from the affiliate; and,
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> • Benchmark evidence of the prices, terms and conditions of sales made by non-affiliate sellers.

The Missouri Regulated Utilities should 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 section, to provide the evidence that demonstrates compliance with the Rules and this CAM.

Unless a variance from the asymmetrical pricing requirements is applicable, the MoPSC's affiliate transaction pricing standard requires that:

1) All information, assets, goods or services provided by a Missouri Regulated Utility to an affiliate or deregulated service will be recorded 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 a Missouri Regulated Utility will be recorded at the lower of fair market price or the fully distributed cost to provide the good or service.

Each of the Missouri Regulated Utilities will document the FMP either through competitive bids or other measures and will compare FMP to the FDC to determine the appropriate amount to be recorded.

Fully Distributed Costs ("FDC"): FDC as described in this CAM includes all costs to produce a product or service including direct, indirect, capital and overhead costs.

The capital costs will be based on the capital structure and cost components reflected in the last rate case. If the last rate case was settled without a reference to the authorized capital structure and capital cost components, an average of the capital structure and capital cost components of all parties to the case will be used for the purposes of the FDC capital cost component.

First, labor and non-labor costs that are directly assignable to an affiliate are billed to that affiliate. These include costs that directly benefit the affiliate or deregulated service. Secondly, indirect costs are billed. These include costs attributable to affiliates which are allocated based on a cost causative relationship and general service costs that are allocated using the general allocator.

All residual common costs will be allocated using the General Allocator, which allocates costs based on an entity's relative ratio of direct and assigned costs to total direct and assigned costs incurred. A General Allocator is a "last resort" allocation method only used when neither direct nor indirect measures of cost causation can be found to charge a cost to a specific entity business line.

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, OPEBs, insurance, paid absences, payroll taxes, etc. associated with labor and capital loadings associated with functional parts of the organization.

3) Plant - including Common Use Plant, which includes the use of common facilities such as telecommunication and network systems used in support of the organization.

4) Non-Labor - all other charges for materials, services and overheads.

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. The fair market price will be used to document the pricing of goods and services to the business lines. 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).

Fair Value Measurement ("FMV"): Fair value measurement guidelines under generally accepted accounting principles ("GAAP") can be found in Accounting Standards Codification 820 ("ASC" 820, formerly Financial Accounting Standard ("FAS") 157).

For purposes of this CAM, assets and liabilities in this definition will be the same for goods and services. Also for the purposes of this CAM, the term "fair value" or "fair value measurement" has the same meaning as "fair market price" as used in this CAM, ASC 820 and the MoPSC's affiliate transactions rules. Each of the Missouri Regulated Utilities shall use a valuation technique that is appropriate for the circumstances and for which sufficient data is available to measure the fair market price, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. The objective of using a fair market valuation technique, such as the one reflected in this CAM, is to determine the price at which an orderly transaction to transfer or acquire goods or provide or acquire services would take place between market participants at the measurement date under current market conditions. Each of the Missouri Regulated Utilities will use the market approach described in this CAM to determine fair market prices. The market approach is described in ASC 820.

The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) goods and services. (A quoted price in an active market provides the most reliable evidence of fair value.) A fair market price is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing the good or service. As a basis for considering market participant assumptions in fair market price determinations, this CAM uses a fair value hierarchy (described below) that distinguishes between:

1) market participant assumptions developed based on market data obtained from sources independent of the regulated utility (observable inputs), and

2) the regulated utility's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

The use of unobservable inputs is allowed only in situations in which there is little, if any, market activity for the good or service at or near the measurement date. In those situations, the Missouri Regulated Utility need not undertake all reasonable efforts to obtain information about market participant assumptions. However, the Missouri Regulated Utility must not ignore information about market participant assumptions that is reasonably available without undue cost and effort.

The fair market price of the good or service should be determined based on the assumptions that market participants would use in pricing the good or service. In developing those assumptions, the Missouri Regulated Utility may, but need not identify specific market participants. Rather, the Missouri Regulated Utility should identify characteristics that distinguish market participants generally, considering factors specific to:

a) the good or service,

b) the principal (or most advantageous) market for the good or service, and

c) market participants with whom the utility would transact business regarding the good or service in that market.

Market participants are buyers and sellers in the principal (or most advantageous) market for goods or services that are:

a) Not related parties,

b) Knowledgeable, having a reasonable understanding about the good or service and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary,

c) Able to transact for the good or service, and

d) Willing to transact -- motivated but not forced or compelled to do so.

Inputs refer broadly to the assumptions that market participants would use in pricing a good or service. Inputs may be observable or unobservable:

a) Observable inputs are inputs that reflect the assumptions market participants would use in pricing the good or service developed based on market data obtained from sources independent of the regulated utility.

b) Unobservable inputs are inputs that reflect the regulated utility's own assumptions about the assumptions market participants would use in pricing the good or service developed based on the best information available in the circumstances.

Fair Market Pricing Process: In the process of determining the fair market price for a good or service provided to or received from an affiliate, the Missouri Regulated Utility will use a process based on obtaining the highest quality of information reasonably available to determine the fair market price of an affiliate transaction. The process for determining fair market price prioritizes the inputs to valuation techniques used to measure fair market price into three broad levels based on quality of information. The process used by the Missouri Regulated Utility gives the highest priority to quoted prices (unadjusted) in active markets for identical goods and services and the lowest priority to unobservable inputs.

High Quality Inputs (observable): High quality inputs are quoted prices (unadjusted) in active markets for identical goods or services that the regulated utility has the ability to access at or near the measurement date (date of the transaction). An active market for a good or service is a market in which transactions for the good or service occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of a fair market price and shall be used to measure the fair market price whenever available.

The MoPSC's affiliate transactions rules require that when a utility purchases information, assets, goods or services from an affiliate, the utility shall either obtain competitive bids or demonstrate why competitive bids were neither necessary nor appropriate. Assuming a reasonably-designed bidding process, the obtaining of competitive bids for the purchase of goods or services by the utility may constitute a high quality input for the purposes of this CAM.

Medium Quality Inputs (observable): Medium quality inputs are inputs other than quoted prices that are observable for the good or service, either directly or indirectly. If the good or service has a specified (contractual) term, a medium quality input must be observable for substantially the full term of the good or service. Medium quality inputs include the following:

a) Quoted prices for similar goods or services in active markets.

b) Quoted prices for identical or similar goods or services in markets that are not active.

c) Inputs other than quoted prices that are observable for the good or service.

d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

Depending on the nature of the benchmark, benchmarking practices that have the characteristics of medium quality inputs (if approved by the MoPSC - 4 CSR 240-20.015(3)(D)), can constitute a medium quality input.

Lower Quality Inputs (unobservable): Lower quality inputs are unobservable inputs for the good or service. Unobservable inputs shall be used to measure the fair market price to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the good or service at or near the measurement date. Unobservable inputs shall reflect the regulated utility's own assumptions about the assumptions that market participants would use in pricing the good or service. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the regulated utility's own data.

Due to the lower quality nature of these unobservable inputs, greater effort will be made to ensure the fair market price determination using this data reviewed closely for reasonableness using the Conservatism Principle of Accounting. In developing unobservable inputs, the

Missouri Regulated Utility need not undertake all possible efforts to obtain information about market participant assumptions. However, the Missouri Regulated Utility shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the Missouri Regulated Utility's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

Labor Costs:

The Missouri Regulated Utilities will be required to bill out labor costs benefiting its business lines, affiliates, and non-regulated operations. To determine the fair market price of a good or service provided by a Missouri Regulated Utility to an affiliate, absent the applicability of a variance, the market approach as described above will be used.

Affiliate Marketing Materials and Customer Information:

Marketing materials, information, or advertisements by an unregulated affiliate entity that shares an exact or similar name, logo, or trademark of a Missouri Regulated Utility shall clearly display or announce that the affiliate entity is not regulated by the MoPSC. Compliance with this CAM provision and subpart (2)(F) of the MoPSC's affiliate transaction rules is presumed if "Not Regulated by the Missouri Public Service Commission" is set forth in a font size no smaller than the smallest font size used elsewhere on the page.

When a customer of a regulated utility requests information about a product or service provided by an unregulated affiliate, the regulated utility may provide the information, but only if the customer is informed that regulated services are not tied to the use of an affiliate provider and that other service providers may be available.

In addition, access to customer specific information by an affiliated or an unaffiliated entity will be prohibited unless authorized with the consent of the customer or as otherwise provided by law or MoPSC rules or orders.

Record Keeping:

The affiliate transactions policies and procedures of the Missouri Regulated Utilities are governed by the rules and regulations of the MoPSC, the FERC, and other state regulatory bodies. The Missouri Regulated Utilities will maintain each affiliate's books and records separately and each will be maintained so affiliate transactions are auditable on each of the Missouri Regulated Utility's books.

Affiliate transaction records will document the cost of transactions, the methods used to assign costs, and descriptions of the services provided. Affiliate transaction records will be retained for a period of at least six years or as required to meet MoPSC rules. Any non-assignment of affiliate costs or variances from the costing methods outlined in the CAM will be tracked and provided for MoPSC regulatory review on an annual basis.

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

The annual filing shall include at least those items required by subparts (4)((B) of the MoPSC affiliate transaction rules.

Training:

MoPSC Rules 4 CSR 240-20.015(9) and 4 CSR 240-40.015(9) provide that the personnel of the Missouri Regulated Utilities must be trained and advised as to the requirements and provisions of the affiliate transaction rules. Individuals to be provided with annual training in regard to the affiliate transaction rules include:

- Central Region President,
- VP of Finance,
- All remaining VPs,
- Director of Legal Services,
- Director of Financial Reporting,
- Director of Accounting and Administration,
- Secretary,
- Treasurer,
- Director of Regulatory.

These management positions are responsible for the overall governance and enforcement of the CAM preparation and implementation of criteria, guidelines, and procedures necessary to provide full compliance with the MoPSC's affiliate transactions rules. Training or review of the affiliate transaction rules will include:

- Review of definitions,
- Review of record keeping requirements,
- Review of corporate structure and identified affiliates,

- Review of processes and policies utilized to comply with the affiliate transaction rules.

Affiliate Transactions Rule Variances:

The affiliate transactions variance process is described in Rules 4 CSR 240-20.015(10) and 4 CSR 240-20.015(2)(D).

With limited exceptions, a variance needs to be granted, or be in process before the MoPSC from an applicable standard, before a regulated utility participates in an affiliate transaction that is not consistent with the MoPSC's affiliate transaction rules.

When a Missouri Regulated Utility believes complying with the standards set out in the affiliate transaction rules would, to its best knowledge and belief, not be in the best interests of its regulated customers, it may engage in an affiliate transaction not in compliance with the rule, provided a variance is requested.

Reporting Period Results:

Reporting period results should include:

- A summary of charges by absolute total with the amount charged to or billed from each subsidiary or affiliate of the Missouri Regulated Utility. The portions should identify charges to both regulated and each of its non-regulated activities.
- A schedule listing all changes from the prior CAM filing.
- A listing of all CAM changes that have not been approved by the MoPSC.