BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of Fidelity Natural Gas Inc., for a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service in and to residents of the city of Sullivan, Missouri, in Franklin and Crawford counties.	)))))))	Case No. GA-91-299

12-91

APPEARANCES

James M. Fischer, Akre, Wendt & Fischer, 102 East High Street, Suite 200, Jefferson City, Missouri 65101, for Fidelity Natural Gas, Inc.

James F. Mauze' and Thomas E. Pulliam, Moline, Ottsen, Mauze', Leggat and Shostak, 11 South Meramec Avenue, Suite 1010, St. Louis, Missouri 63105, for Missouri Pipeline Company.

Thomas E. Marshall, City Attorney, 1 Meramec Plaza, Suite 200, Sullivan, Missouri 63080, for the city of Sullivan, Missouri.

Lewis R. Mills, Jr., First Assistant Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

William M. Shansey, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

Hearing Examiner: Edward C. Graham.

REPORT AND ORDER

Procedural History

This matter commenced on March 29, 1991, when Fidelity Natural Gas, Inc. (Applicant) filed an application seeking a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service as a local distribution company (LDC) in the city of Sullivan, Missouri, in Franklin and Crawford counties.

Notice of the application was given by order of the Commission on July 2, 1991.

On August 13, 1991, the Commission granted the applications of Missouri Pipeline Company and the city of Sullivan, Missouri, to intervene in this case.

A prehearing conference was convened on November 25, 1991 and continued through November 27, 1991 for the parties to consider the issues.

On December 4, 1991, Applicant filed a Request For Variance asking the Commission to grant Applicant a variance from the provisions of 4 CSR 240-14.020(6) for good cause and to approve Applicant's proposed conversion plan for assisting consumers to gain access to natural gas service in Sullivan, Missouri. On December 13, 1991, the Staff of the Missouri Public Service Commission (Staff) filed its Responses to the Request For Variance stating therein that it was not opposed to the granting of a limited variance as requested by Applicant.

On December 19, 1991, a hearing was convened before the Commission for it to consider a Written Stipulation And Agreement entered into by the parties and to review the attached proposed tariffs, depreciation rates, and special accounting procedures.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

Applicant requests authority to provide natural gas service as a local distribution company (LDC) to the city of Sullivan, Missouri, located in Franklin and Crawford counties.

The Commission finds that Applicant is a Missouri corporation authorized to do business in the state of Missouri, with its principal office and place of business located at 64 North Clark, Sullivan, Missouri 63080. The Commission further finds that Applicant was granted a 20-year franchise by the city of Sullivan, Missouri, on March 19, 1991, to construct and operate a natural gas distribution service within the city limits as a public utility. A ratification election was held on June 4, 1991 and Applicant's franchise was approved by the voters of the city of Sullivan, Missouri. The Commission further finds that Applicant has filed a feasibility study containing plans and specifications for the installation and estimated costs thereof during the first three years of construction, plans for financing, and an estimate of the number of customers, revenues and expenses during the first three years of operation. Natural gas would be provided to Applicant's distribution system from an intrastate pipeline owned and operated by the Missouri Pipeline Company (MPC). Applicant would enter into interconnect facility operating agreements with MPC, transportation agreements with MPC and Panhandle Eastern Pipe Line Company (PEPL) or third parties holding transportation on PEPL for firm transportation to the PEPL/MPC interconnect and then to the Applicant/MPC interconnect, and agreements for a firm supply of natural gas from a supplier.

Applicant proposes, for a limited three-month period during construction, to convert customers' appliances, equipment, and piping on customers' side of the meter to natural gas use and to absorb the conversion costs. Staff believes that such a practice would violate the Commission's Promotional Practice Rules. In accordance with that position, Applicant has filed a request for variance from the application of the rules.

Based upon the prefiled testimony and the Written Stipulation And Agreement entered into among the parties, the Commission finds:

1. That natural gas service is not available in the area sought to be certified and that the granting of this Application is required for public convenience and necessity because it will make available to the residents of Sullivan, Missouri a new and cost-effective form of energy that will, additionally, enhance the economic development of the area.

2. That Applicant is qualified to perform the service proposed.

3. That there is good cause to grant Applicant a variance from the operation of the Commission's Promotional Practices Rules regarding the customer conversion plan. Specifically, the Commission finds that there are no competing regulated utility services in the proposed service area and that one competing nonregulated utility service is the city of Sullivan, which provides electricity through its municipal utility, and which has, itself, entered into the Written Stipulation And Agreement supporting a grant of authority to Applicant. The Commission further finds that the Applicant's conversion plan will result in the connection of more customers, some of whom may not have been able to afford the conversion, with safer, more cost-saving construction, and lower rates to all customers.

4. That the depreciation rates reflected in Appendix B of the Written Stipulation And Agreement are reasonable and will be approved.

5. That the accounting procedures for the allocation of certain of Applicant's costs reflected in Appendix C of the Written Stipulation And Agreement are reasonable and will be approved.

6. That the financing of Applicant through 100 percent equity financing by the parent company of Applicant, Fidelity Communications Company, is reasonable.

7. That the rates and rate design in Appendix A of the Written Stipulation And Agreement are reasonable for the Applicant's non-gas costs.

The Commission finds that the Written Stipulation And Agreement filed by the parties is reasonable and should be adopted in disposition of all the matters in this case. While the Commission finds the proposed tariffs attached to the Stipulation And Agreement as Appendix A to be proper, the Applicant should file proposed tariffs substantially identical to those in Appendix A, including the rates, terms, and conditions therein, within 30 days of the effective date of this Report And Order.

The Written Stipulation And Agreement and attached Appendix B and Appendix C are attached hereto and incorporated by reference. The Appendix A to the Written Stipulation And Agreement is not incorporated herein by reference since the tariffs in Appendix A are not being adopted in this order.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Applicant proposes to provide service to the public as a local gas distribution company (LDC) subject to the Commission's jurisdiction pursuant to Chapters 386 and 393, R.S.Mo. (Cum. Supp. 1990).

Based upon the Application, prefiled testimony and Written Stipulation And Agreement with attached Appendices A, B, and C, the Commission has found that Applicant has complied with the Commission's standards pertaining to applications requesting authority to provide natural gas distribution services. The Commission concludes that the granting of a certificate of convenience and necessity herein to Applicant is necessary and convenient for the public service pursuant to Section 373.170, R.S.Mo. (Cum. Supp. 1990).

Applicant proposes a free conversion policy that is specifically prohibited by Commission rule 4 CSR 240-14.020(6), which states as follows:

> The provision of free, or less than cost or value, installation, modification or maintenance of appliances, equipment, wiring or piping of any other person is prohibited.

However, the Commission may grant a variance from this rule under Commission rule 4 CSR 240-14.010(2), which states as follows:

On written application by a utility the commission may grant variances from the rules contained in Chapter 14, for good cause shown. The utility filing the application shall show proof of service of a copy thereof on each public utility providing the same or competing utility service in all or any portion of the service area of the filing utility.

The Commission concludes that Applicant should be granted a variance for its free conversion plan as described in the Written Stipulation And Agreement and attached appendices pursuant to Commission Rule 4 CSR 240-14.010(2).

For ratemaking and rate design purposes, the Commission may accept a stipulation of settlement on any contested matters submitted by the parties. The Commission concludes that the matters of agreement as set out in the Written Stipulation And Agreement and attached Appendices B and C are reasonable and proper and should be accepted and that the rates set out therein are just and reasonable and should be adopted.

IT IS THEREFORE ORDERED:

1. That the Missouri Public Service Commission adopts the Written Stipulation And Agreement with attached Appendix B and attached Appendix C, all being attached as Attachment A to this Report And Order.

2. That Fidelity Natural Gas, Inc. be granted a certificate of convenience and necessity to construct and provide natural gas distribution services in the city of Sullivan, Missouri located in Franklin and Crawford counties, conditioned upon compliance with the safety requirements contained in paragraph 7 of the Written Stipulation And Agreement.

3. That the depreciation rates reflected in Appendix B of the Written Stipulation And Agreement and the accounting procedures as to allocation of costs reflected in Appendix C of the Written Stipulation And Agreement are approved.

4. That Fidelity Natural Gas, Inc., be granted a variance from Commission rule 4 CSR 240-14.020(6) for its free conversion policy as described in the Written Stipulation And Agreement and attached appendices.

5. That Fidelity Natural Gas, Inc., shall file tariffs in compliance with this Report And Order within thirty (30) days of the effective date of this Report And Order.

6. That this Report And Order shall become effective on the 10th day of January, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, McClure
and Perkins, CC., concur.
Rauch, C., absent.

Dated at Jefferson City, Missouri,
on this 31st day of December, 1991.

FILED

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PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of the application of Fidelity Natural Gas, Inc., for a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service in and to residents of the City of Sullivan, Missouri, in Franklin and Crawford Counties.	Case No. GA-91-299

STIPULATION AND AGREEMENT

On March 29, 1991, Fidelity Natural Gas, Inc. ("Applicant"), filed an application seeking a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service as a local distribution company (LDC) in the City of Sullivan, Missouri, in Franklin and Crawford Counties.

On July 25, 1991, Applications to Intervene were filed by Missouri Pipeline Company ("MPC") and Laclede Gas Company ("Laclede").

On August 5, 1991, the City of Sullivan filed its Request for Leave to File Intervention Application Out of Time and an accompanying Application for Leave to Intervene.

On August 13, 1991, the Commission granted the Application to Intervene of MPC and the City of Sullivan, and denied the Application for Leave to Intervene of Laclede.

On August 9, 1991, Applicant filed its direct testimony and schedules. The direct testimony and schedules of the

Commission Staff and MPC were filed on November 15, 1991.

The prehearing conference began on November 25, 1991, and continued through November 27, 1991 with the following parties present: James M. Fischer appearing for Fidelity Natural Gas, Inc.; William M. Shansey appearing for the Commission Staff; Lewis R. Mills appearing for the Office of the Public Counsel; and Thomas E. Pulliam appearing for MPC.

As a result of the prehearing conference, the parties to this Stipulation and Agreement have reached the following agreements and recommendations:

1. The Application of Fidelity Natural Gas, Inc., for a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service in the City of Sullivan, Missouri, in Franklin and Crawford Counties should be granted.

2. The Applicant agrees to submit, for Commission approval, proposed tariffs substantively identical to those attached to this Stipulation and Agreement as Appendix A, including the rates, terms and conditions included therein. These tariffs also include inter alia, the following provisions: (1) transportation tariff; (2) extension and conversion policy; (3) PGA Clause; and (4) provisions related to Chapter 13 of the PSC rules.

3. During prehearings, Applicant presented the Staff with additional information concerning the reliability of natural gas supplies available to it, including verbal and written confirmation of the availability of firm supply from a potential supplier. The Applicant hereby agrees to aggressively pursue and obtain, before initiating retail sales, arrangements which provide for a firm supply of natural gas with terms for penalties in the event of delivery failure and definitive, stringent "force majeure" language. The Applicant agrees to provide Staff with a copy of the initial contract upon execution. The Applicant will then file its Sheet No. 29 to reflect its cost of gas. Staff will continue to monitor these arrangements through its prudency reviews in upcoming ACA audits.

4. The attached depreciation rates (Appendix B) which were recommended by Staff witness Melvin T. Love shall be adopted as the depreciation rates of the Applicant and are hereby incorporated by reference. In addition to the above-referenced depreciation rates, the Company agrees to the following:

a. The Applicant agrees to accrue and maintain its gas depreciation reserve by primary plant account.

b. If the Applicant constructs or purchases equipment not identified by the accounts shown on Appendix B, the Applicant will request the prescription of a depreciation rate from the Commission as soon as it is purchased or constructed.

c. The Applicant shall maintain continuing property records and system maps which show the date of installation and/or construction of plant and equipment.

d. The Applicant shall maintain a plant property catalog establishing property units and associated accounting instructions which distinguish between capitalization and maintenance.

e. The Applicant will file with the Staff the information contained in subparagraphs c and d above within six months of commencing operations.

5. The recommendations contained in the rebuttal testimony of Staff witness Evelyn J. Hawley relating to customer deposits, discontinuance of service, and utility billing practices shall be adopted by the Applicant and have been included in the illustrative tariffs contained in Appendix "A".

6. The Applicant agrees to follow the general principles set out in the Stipulation and Agreement signed by Fidelity Communications Company in Case No. TM-89-113 with regard to specific documentation, recordkeeping, cost assignment and cost allocation procedures, as recommended by Staff witness William A. Meyer, Jr. Specifically, the Applicant agrees to follow the allocation principles set out in Appendix "C", which are hereby incorporated by reference.

7. The Order granting a certificate of convenience and necessity to the Applicant should be based on the conditions proposed by Staff witness Deborah E. Sauer as follows:

a. Successful completion of the required pressure test(s) and provisions for the Commission's gas safety staff to witness portions of those tests;

b. The completion of the necessary construction in a proper manner by qualified personnel in conformance with sound engineering principles and applicable regulations;

c. The review, inspection and approval by Staff of the construction process;

d. The Operations and Maintenance Manual, the Emergency Plan, the Drug Program required by regulations be submitted sixty (60) days prior to the operation of the distribution system for review and approval by the Staff; and

e. Properly trained and qualified personnel be placed to operate the distribution system.

8. The Applicant agrees that, absent good cause shown or the elimination of the Purchased Gas Adjustment Clause, it will not propose new rates to become effective less than twenty-five months from the date natural gas deliveries are initiated for retail sales.

9. On December 4, 1991, the Applicant filed in this proceeding a Request For Variance from the provisions of 4 CSR 240-14.020(6) with Suggestions in Support. Applicant's Request for Variance was filed as a result of discussions during the Prehearing Conference in which some parties expressed concern that 4 CSR 240-14.020(6) may restrict the Applicant's ability to offer and implement its proposed conversion policy discussed in the direct testimony of Terry E. Troughton and Ken M. Matzdorff. The City of Sullivan, Missouri has supported the Company's proposed conversion

policy in this proceeding. Since this is a newly certificated area for natural gas service, there are no other regulated energy utilities in the area and the municipally operated electric utility supports the Applicant's proposal, the Commission Staff agrees not to oppose Applicant's Request for Variance. The Office of the Public Counsel also specifically agrees not to oppose the Applicant's Request for Variance. MPC takes no position on this issue. The Request for Variance shall be considered along with related testimony at the time this Stipulation and Agreement is presented to the Commission.

10. In the event the Commission grants the Company's Request for Variance from the provisions of 4 CSR 240-14.020(6), the Applicant agrees that any conversion costs associated with the provision of piping or equipment on the customer side of the meter will be treated as a below the line expense for ratemaking purposes. These conversion costs will be absorbed by the stockholders of Fidelity Natural Gas, Inc. and no attempt will be made to include them in present or future rates by Fidelity Natural Gas, Inc., its successors or assigns.

11. With the absorption of conversion costs by the Applicant's shareholders and the additional information concerning firm gas supply terms and prices available to the Applicant, the Staff's calculation of Applicant's rates has changed substantially. The Applicant and the Staff now agree that the following rates as contained in Appendix A, are reasonable and reflect the Applicant's non-gas costs.

General Services Sheet No. 2

Customer Charge (residential and commercial)	$8.00 per month
For all CCFs used per month	$ .3200 per CCF

Large Volume Service, Sheet No. 3

Customer Charge	$50.00 per month
Maximum Commodity Charge	$ .3200 per month
Minimum Commodity Charge	$ .200 per CCF

12. In the event that the Commission grants the Applicant a certificate of convenience and necessity to serve Sullivan, Missouri, the Applicant agrees to comply with all requirements contained in the tariffs of Missouri Pipeline Company (MPC) which have been filed and approved by the Missouri Public Service Commission. In addition, the Applicant recognizes that it will be necessary for the Applicant to enter into the following agreements:

(a) An Interconnect Facility Operating Agreement between Fidelity and MPC;

(b) The completion of all transportation delivery and interconnection facilities;

(c) A transportation agreement(s) between Fidelity and Panhandle Eastern Pipe Line Company ("PEPL"), or third parties holding transportation on PEPL, for firm transportation to the PEPL/MPC interconnect (MPC's Panhandle Station) for volumes equal to the maximum demand of Fidelity's Sullivan system;

(d) A transportation agreement between Fidelity and MPC for firm transportation from MPC's Panhandle Station to the

Sullivan city gate, for volumes equal to Fidelity's maximum demand of its Sullivan system; and

(e) An Operational Balancing Agreement between Fidelity and MPC for volumes of natural gas moved on the MPC system.

The Applicant agrees to negotiate in good faith with MPC to enter into such agreements prior to its commencement of retail service in Sullivan, Missouri.

13. That the prefiled testimony and schedules sponsored by Company witnesses Terry E. Troughton, Ken M. Matzdorff, Roy O'Haver, Kent S. Bliss and John C. Dunn; Commission Staff witnesses Craig A. Jones, Deborah E. Sauer, Melvin T. Love, William A. Meyer, Jr., Evelyn J. Hawley, and J. W. Moore; and MPC witness Tom Taylor, shall be offered into evidence without the necessity of those witnesses taking the witness stand.

14. That in the event that the Commission accepts the specific terms of this Stipulation and Agreement, the parties waive their respective rights to cross-examine the witnesses named in paragraph eleven (11) with respect to their prefiled testimonies and schedules, unless the Commission requires a hearing on the conversion cost related Request for Variance, in which case the witness will be offered for cross-examination on this topic only.

15. That in the event that the Commission accepts the specific terms of this Stipulation and Agreement and grants Applicant's Request for Variance, the parties waive their respective rights pertaining to the presentation of oral argument or filing of written briefs, pursuant to Section 536.080(1), RSMo

1986, as amended; and judicial review, pursuant to Section 386.510, RSMo 1986, as amended.

16. This Stipulation and Agreement represents a negotiated settlement for the sole purpose of disposing of all issues in this case. Signatories to this Stipulation and Agreement shall not be prejudiced or bound in any manner by the terms of this Stipulation and Agreement and any other proceeding for any purpose, except as otherwise specified herein. None of the parties to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking principle or any method of cost determination or cost allocation underlying this Stipulation and Agreement.

17. The approval of this Stipulation and Agreement in its entirety by the Commission shall constitute the regulatory approval required by Chapter 393, RSMo 1986, for Applicant to construct, install, own, operate, control, manage and maintain gas facilities and to render gas service in and to residents of the City of Sullivan, Missouri, in Franklin and Crawford Counties as proposed by the Applicant. It shall also constitute any regulatory approval required by Chapter 393 for the financing of 100% equity for Fidelity Natural Gas, Inc. by Fidelity Communications Company as proposed in this proceeding. This Stipulation and Agreement does not constitute the regulatory approval required by Chapter 393 for any additional issuances of capital by Fidelity Natural Gas, Inc.

18. That the agreements in this Stipulation and Agreement have resulted from extensive negotiations among the signatory parties and are interdependent. In the event the Commission does not approve or adopt this Stipulation and Agreement and Applicant's Request for Variance in total, or in the event the revised tariffs agreed to herein do not become effective in accordance with the provisions contained herein, this Stipulation and Agreement shall be void and no party shall be bound by any of the agreements or provisions hereof.

WHEREFORE, the parties respectfully request from the Commission the following: (1) that the Commission approve the Stipulation and Agreement in its entirety; (2) that the Commission grant the Company's Application for a certificate of convenience and necessity conditioned upon the safety requirements contained in paragraph 7 of this Stipulation and Agreement; and (3) that the Commission approve the depreciation rates reflected in Appendix B and require the Company to file tariffs consistent with the tariffs reflected in Appendix A. The Applicant further requests that the Commission grant its Request for Variance filed herein and approve Applicant's proposed conversion policy.

Respectfully submitted,

James M. Fischer #27543

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CITY OF SULLIVAN, MISSOURI

FIDELITY NATURAL GAS INC.
CASE NO. GA-91-299
PROPOSED DEPRECIATION RATES

Account No.	Account Description	Average Service Years	Net Salv.%	Depr. Rate%
	Transmission Plant			
355	Measuring & Regulating Equip.	45	0	2.22
367	Transmission Mains	60	0	1.67
	Distribution Plant			
375	Structures and Improvements	50	0	2.00
376-1	Distribution Mains-Plastic	50	0	2.00
376-2	Distribution Mains-Steel	50	0	2.00
378	Measuring & Regulating Equip.	45	0	2.22
380-1	Services-Plastic	50	0	2.00
380-2	Services-Steel	35	0	2.86
381	Meters	50	0	2.00
383	House Regulators	40	0	2.50
	General Plant			
390	Structures and Improvements	50	0	2.00
391	Data Processing Equipment	8	2	12.25
392-1	Trucks	10	10	9.00
392-2	Automobiles	5	10	18.00
393	Stores Equipment	25	10	3.60
394	Tools, Shop and Garage Equip.	25	2	3.92
395	Lab Equipment	25	0	4.00
396	Power Operated Equipment	9	10	10.00
397	Communications Equipment	25	0	4.00
398	Miscellaneous Equipment	25	0	4.00

APPENDIX C

1. Fidelity Gas, Inc. agrees to implement accounting procedures to allocate labor costs between it and all other individual companies which compose the Fidelity Group (Fidelity Telephone Company, Bourbouse Telephone Company, and Fidelity Communications Company, Systems Plus, Inc. and any other affiliates) and to accurately reflect the costs applicable to Fidelity Natural Gas, Inc. Such allocations will be based on the following general principles:

a. Officer level employees will directly report time spent on a daily basis for Fidelity Natural Gas, Inc. and each individual other company business.

b. Additional management employees whose activities vary widely on a regular basis will report time on a daily basis.

c. Union employees involved in day to day craft activities will report time on a daily basis with appropriate identification of account codes and work by specific company.

d. Time of other employees whose activities are fairly constant in nature will be studied on a regular basis, or allocated based on the nature of their activities as appropriate.

e. Specific procedures to be implemented by Fidelity Natural Gas, Inc. in regard to time reporting are outlined in paragraphs (1) through (6) below:

(1) Company Officers

a. Daily reporting of time between companies based on all hours spend for that day. Each employee will support his time reporting with additional documents as appropriate. Such documents will be retained for at least three years. Reporting would be to Combined Telephone Companies, Systems Plus, Cellutel, Inc., Fidelity Communications Company, and Fidelity Natural Gas, Inc. In addition, time would be reported for activities applicable to all companies to a separate "all Company" category. Time in the "all company" category will be allocated to individual companies based on the allocation of direct reported time. All time will be recorded as Executive Expenses.

(2) Customer Service Manager, Network Design Manger

a. Daily reporting of time by Company and function. Time would be reported on hours spent for the day. Company definitions would be as outlined in (1) a. Specific functions will need to be identified.

(3) Other General Office Administrative Personnel

a. Daily reporting of time by Company and function for a one-month period. Time would be reported on hours spent for the day. Company definitions would be as outlined in (1) a. Specific functions will need to be identified. Results of the study will be used for that employee until a new study is taken. Studies will be taken on an annual basis and when there is a significant change in an employee's responsibilities.

(4) Commercial and/or Customer Service Employees

a. The customer contact representatives and their first line supervisor would be included in this group. The time of this group would be allocated based on revenues billed by the companies comprising the Fidelity Group.

(5) Janitorial Employees

a. Time for these employees would be directly charged to building maintenance accounts without any time sheet reporting. An allocation of time between companies would be made based on an annual study of the use of the floor space in the general office building.

(6) Construction Operation Maintenance and Labor Groups

a. Most craft individuals would continue to report time on a daily basis, reporting time to the nearest fifteen minute increment. This reporting is already by company and function.

b. Craft employees in the service/dispatch center would conduct a study of the number of activities for a two-week period of time. Company and account distribution for these employees for the year would be based on appropriate allocation of the activities they participate in.

c. Supervisory time would be allocated based on the allocation of employees in the labor group. Time spent by supervisors on specific direct work functions would be allocated to the appropriate company and account code using an exception time reporting procedure.

f. Consistent with the principles outlined in "a" through "d" above, the procedures in paragraph "e" may be modified from time to time as circumstances within the company change. The reasons for any such modification shall be documented.

2. The Fidelity Natural Gas, Inc. also agrees to implement procedures for allocating other costs so that there is an accurate attribution of costs. Implementation of these procedures will be balanced between the need for detailed accurate information and the cost of achieving such information. In accomplishing this objective, the following principles will be followed:

a. Fringe benefit costs directly related to labor costs (health insurance, FICA, unemployment tax, and retirement plan costs) will be allocated based on the direct labor allocation for all employees.

b. Expenses which can easily be directly charged to Fidelity Natural Gas, Inc. (such as professional fees and travel expenditures) will be.

c. Vehicle operating costs for construction, operation or maintenance will be allocated to companies comprising the Fidelity Group based on the allocation of labor hours in the respective labor groups.

d. Insurance expense for corporate insurance policies will be individually analyzed and allocated between the companies comprising the Fidelity Group based on the nature of the specific insurance policy.

e. Individual contracts between the companies comprising the Fidelity Group will contain specific contractual charges for use of buildings by companies other than the owner of the building.

f. Other expenses which are not directly incurred by Fidelity Natural Gas, Inc. will be allocated among all companies comprising the Fidelity Group based on a relationship of these other expenses to the labor dollars allocated to each company. Such allocation will be based on the relationship developed in an annual study of the other expenses and labor dollars.

g. Consistent with the principles outlined in "a" through "f" above, these procedures may be modified from time to time as circumstances within the companies change. The reasons for any such modification shall be documented.

3. Fidelity Natural Gas, Inc. will institute procedures for approval of invoices and time sheets. Specifically, the company

will assure that each time sheet and invoice has written approval of an appropriate management person before being paid. Furthermore, Fidelity Natural Gas, Inc. will instruct personnel to see that adequate documentation is included with the payment approval to identify the item for which payment is being made.

4. Fidelity Natural Gas, Inc. will prepare and execute simple contracts between it and any other company within the Fidelity Group outlining the services and goods that will be purchased between companies and the basis for charging for those items.