

Schedule TRJ-2

**Missouri Gas Utility Inc
Cost Assignment and Allocation
Manual (CAAM)**

As of August 22, 2007

**Missouri Gas Utility Inc
Cost Assignment and Allocation Manual**

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I. INTRODUCTION

This Cost Assignment and Allocation Manual ("CAAM") describes and explains the calculation methods Missouri Gas Utility Inc ("MGU") uses to segregate and account for revenues, expenses, assets, liabilities and rate base cost components assigned or allocated to Missouri jurisdictional activities. It includes the calculation methods to segregate and account for costs between and among jurisdictions, between regulated and non-regulated activities, and between and among affiliates and the Holding Company.

This CAAM contains the following sections:

Introduction (Section I)

Regulated and Non-regulated Divisions and Activities (Section II)

Corporate Organization (Section III)

Assignments & Allocations by FERC Account (Section IV)

Cost Assignment and Allocation Principles (Section V)

Transactions between Utility and Non-regulated (Section VI)

Allocation Process (Section VII)

Utility Allocations (Section VIII)

Holding Company Assignments & Allocations (Section IX)

DEFINITIONS

Abbreviations or Acronyms

The following abbreviations or acronyms are used within this CAAM document:

A&G	Administrative and General
AFUDC	Allowance for Funds Used During Construction
CAAM	Cost Assignment & Allocation Manual
CBPH	Colorado's Best Plumbing and Heating Inc.
CNG	Colorado Natural Gas Inc
CWU	Colorado Water Utility Inc
FERC	Federal Energy Regulatory Commission
Holding Company	CNG Holdings Inc.
MGU	Missouri Gas Utility Inc.
O&M	Operations and Maintenance
Parent	CNG Holdings Inc.
SEC	Securities and Exchange Commission
WCE	Wolf Creek Energy Inc

Glossary of Terms

The following terms are used within this CAAM document:

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

CNG Holdings Inc – The holding company is the company providing overhead services to its' subsidiaries.

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

INTRODUCTION (continued)

DEFINITIONS (continued)

Colorado's Best Plumbing and Heating Inc – The non-regulated plumbing and heating company providing services within Colorado, this company was sold as of July 1, 2006 and is no longer a subsidiary of CNG Holdings.

Corporate Headquarters - The headquarters of CNG Holdings Inc located in Littleton, Colorado.

Direct Charges – Those charges which may originate at the individual company level.

Jurisdictional – having regulatory rate authority over a utility and jurisdiction can be at a tariffed rate area, state, or federal level.

Missouri Gas Utility Inc – The natural gas distribution utility providing services within Missouri.

Non-Operations and Maintenance Allocations – allocations designed to apportion expenses recorded in accounts other than O&M. The non-O&M costs apportioned include depreciation, payroll taxes, miscellaneous service revenues, amortization, etc.

Parent – CNG Holdings Inc (non-regulated)

Subsidiaries

Colorado Natural Gas Inc (regulated)

Missouri Gas Utility Inc (regulated)

Colorado Water Utility Inc (regulated)

Wolf Creek Energy Inc (non-regulated)

Rate Area – Denotes regulatory jurisdictions that are defined by geographic boundaries within the state of distribution services.

Service Area – Denotes regulatory jurisdictions that are defined by geographic boundaries within the state of distribution services.

Sub-account code – accumulates costs to be capitalized, expensed, or to be further allocated.

Wolf Creek Energy Inc – The non-regulatory transportation company providing gas marketing services within Colorado.

II. REGULATED AND NON-REGULATED DIVISIONS AND ACTIVITIES

OVERVIEW

Any service that does not meet the definition of a regulated activity or incidental service, as described below, is considered a non-regulated activity for purposes of this CAAM, regulated activity and incidental services are defined as follows:

"Regulated Activity" means any activity that is offered as a public utility service and is regulated by the Commission or regulated by another state utility commission of the FERC, or any non-regulated activity which meets certain criteria.

"Incidental Services" means non-tariffed or non-regulated services that have traditionally been offered incidentally to the provisions of tariff services where the revenues for all such services do not exceed:

The greater of \$1,000 annually or one percent of the provider's total annual Missouri operation revenues for regulated services; or, such amount established by the Commission considering the nature and frequency of the particular service

In addition certain non-jurisdictional services may be treated as regulated under the following circumstances:

A utility may classify non-jurisdictional services as regulated if the services are rate-regulated by another agency (i.e., another state utility commission or the FERC) and where there are agency-accepted principles or methods for the development of rates associated with such services. This rule may apply, for example, to a provider's wholesale sales of natural gas. For such services, the utility shall identify the services in its Cost Assignment and Allocation Manual, and account for the revenues, expenses, assets, liabilities and rate base associated with these services as if these services are regulated.

The following pages of this section provide a description of MGU's regulated and incidental services activities. Each description identifies the types of costs associated with each service or activity, and identifies the MGU business area or department which offers the service/activity. All activities are provided only within the state of Missouri.

REGULATED AND NON-REGULATED DIVISIONS AND ACTIVITIES (continued)

MGU does not perform non-regulated natural gas related activity that is not offered as a public utility service and is not regulated by this Commission or any other state utility commission or the FERC.

MGU provides regulated natural gas distribution services that are offered as a public utility service and is regulated by the Commission or regulated by another state utility commission or the FERC to its customers in Missouri.

REGULATED ACTIVITIES

Gas-Residential

Residential gas service represents the provision of natural gas service to residential customers within the MGU service territory. Costs associated with this service relate to the purchase and delivery of gas through MGU owned facilities, primarily purchased gas, facilities O&M, depreciation costs, and A&G costs.

Gas-Commercial

Commercial gas service represents the provision of natural gas service to commercial customers within the MGU service territory. Costs associated with this service relate to the purchase and delivery of gas through MGU owned facilities, primarily purchased gas, facilities O&M, depreciation costs, and A&G costs.

Gas-Transportation

Gas transportation service represents the provision of gas delivery service on behalf of end-use customers, third-party suppliers or marketers whereby MGU transports gas owned by others over MGU gas pipeline system. Costs associated with this service primarily include the facilities, O&M, depreciation costs, and A&G costs.

Gas-Miscellaneous Services

MGU provides several miscellaneous gas services, such as instituting/reinstituting service requiring a premise visit, transferring service at a specific location between customers with continuous service with no required premise visit, non-gratuitous services, processing returned checks and collecting a surcharge on payments made by debit or credit card. Costs associated with these services primarily include distribution, O&M, depreciation costs, customer accounts costs, and A&G costs.

REGULATED AND NON-REGULATED DIVISIONS AND ACTIVITIES (continued)

INCIDENTIAL SERVICES

Consistent with the description of incidental services set forth above, MGU has established the following conditions that must be met for a service to be considered an incidental service for purposes of this CAAM:

- The revenues associated with the service do not exceed the greater of \$1,000 annually or one percent of MGU's total annual Missouri operation revenues for regulated services, or such other amount established by the Commission considering the nature and frequency of the particular service.
- The service is a business activity for which:
 - There is no business or marketing plan.
 - MGU does not solicit customers for the service.
 - There is only an insubstantial commitment of resources or investment made by MGU.
 - The service has traditionally been treated as incidental for ratemaking purposes.
 - The service is an outgrowth of regulated operations.
 - There is a negligible financial or other risk to the regulated operations.

The incidental services described in this section are services not provided pursuant to any tariff that have not traditionally been treated as regulated in the operating revenue and expense accounts for ratemaking purposes. The incidental services included herein do not include other non-regulated activities.

III. CORPORATE ORGANIZATION

OVERVIEW OF COMPANY SYSTEM

CNG Holdings Inc., a Colorado corporation, (the "Parent") is a registered holding company. The Parent directly owns three operating public utility subsidiaries. These subsidiaries are Colorado Natural Gas Inc., a Colorado Corp. ("CNG"); Missouri Gas Utility Inc., a Colorado Corp. ("MGU"); and Colorado Water Utility Inc., a Colorado Corp. ("CWU"). A fourth subsidiary Colorado's Best Plumbing and Heating Corp., a Colorado Corp. ("CBPH") was sold on June 30, 2006.

The Parent also owns a non-regulated subsidiary, Wolf Creek Energy Inc. (WCE), a transportation company serving three independent gas customers. See the following for a complete legal entity organizational listing for CNG Holdings Inc. and its subsidiaries. Those affiliates that allocate or assign costs to and from MGU are identified with an "X" in one or both columns on the right-hand side of the page following the affiliate's name.

LIST OF REGULATED AND NON-REGULATED AFFILIATES

(as of April 1, 2007)

		Services Provided	
		By MGU To Parent	By Parent To MGU
CNG Holdings Inc			
	Colorado Natural Gas Inc		
	Missouri Gas Utility Inc	X	X
	Colorado Water Utility Inc		
	Wolf Creek Energy Inc		

IV. ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT

INTRODUCTION

The purpose of this section is to list the accounts MGU includes in its revenue requirement for Missouri rate area activities, and to specify how those FERC accounts and sub-accounts are assigned and/or allocated to MGU's activities, along with a description of the methods used to perform the assignments and allocations. Sections V through IX explain the assignment and allocation process and describe the methodologies in more detail based on the type of assignment or allocation method.

SUMMARY

There are certain allocations used in MGU for ratemaking purposes to apportion costs between rate areas. The apportionment methods used in the ratemaking process are explained below and in Table A as follows:

Ratemaking Analyses and Allocations

FERC Account

The FERC account columns contain the number and title of all FERC accounts included in the ratemaking process.

MGU Assignment Basis or Allocation Method for rate area activities

The MGU Assignment Basis or Allocation Method for rate area activities is the basis or method of apportioning the unassigned costs. Whenever possible, costs are established using FERC accounts, FERC sub-accounts, MGU rate area codes, and other accounting codes to provide for the direct assignment of all costs. Only when a cost cannot be directly assigned is further apportionment performed. The matrix will identify all allocation methods that may be used for each FERC account. The FERC matrix defines the costs that are apportioned into two major categories:

Directly Assigned

If only one service causes a cost to be incurred or benefits from a cost, that cost is directly assigned to that service to the greatest extent practicable.

Allocated

If more than one service causes a cost to be incurred or benefits from a cost, that cost is fairly and equitably allocated among the services that cause the cost to be incurred or benefit from the cost to the greatest extent practicable.

Analysis of Customer Count Records

An analysis of the Company customer count as recorded in the billing system is performed on a monthly basis to create allocation percents for FERC A&G accounts 901-917.

Analysis of Fully Loaded Direct Labor Records

An analysis of the Company labor as recorded on employees' time records is performed on a monthly basis to create allocation percents for FERC O&M accounts 871-894.

ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT (continued)

SUMMARY (continued)

Analysis of Plant and Equipment Records

An analysis of the Company property records is performed on a monthly basis to create allocation percents for FERC accounts 101, Utility Plant in Service and 107, Construction Work in Progress.

Analysis of Rate Base

An analysis of the Company Rate Base as of the most current rate case is used to allocate FERC account 928, Regulatory commission expenses.

Comments/Descriptions

Comments or descriptions have been added to the matrix by FERC account as appropriate to provide additional information.

ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT (continued)

TABLE A – ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT

FERC Account		MGU Assignment Basis or Allocation Method for rate area activities	Comments/Description
101	Utility Plant in Service	Directly Assigned	Includes Plant account totals as shown per Property Accounting records.
107	Construction Work in Progress	Directly Assigned	Includes Plant account totals as shown per Property Accounting records.
108	Accumulated Depreciation	Directly Assigned	Includes accumulated depreciation as shown per Property Accounting records.
111	Accumulated Amortization	Directly Assigned	Includes the amortization costs for other assets of the Company.
117	Gas Stored Underground	Directly Assigned	Includes gas purchased held in underground storage.
145	Notes Receivable Affiliates	Directly Assigned	Includes notes receivable from affiliates
154	Plant Materials and Supplies	Directly Assigned and/or Allocated based on percentage of plant and equipment	Includes all materials and supplies for regulated activities at various locations
186	Deferred Debits	Directly Assigned	Includes the pension plan funding expense
191	Un-recovered purchased gas costs	Directly Assigned	Includes increases or decreases in purchased gas costs
201	Common Stock Issued	Directly Assigned	Includes common stock held by CNG Holdings Inc
216	Retained Earnings	Directly Assigned	Includes the retained earnings of the Company
221	Bonds Payable	Directly Assigned and/or Allocated based on percentage of plant and equipment	Includes bonds issued to third parties
224	Other Long-term Debt	Directly Assigned and/or Allocated based on percentage of plant and equipment	Includes long term debt issued to third parties
235	Customer Deposits	Directly Assigned	Includes customer deposits for regulated service
252	Customer Advances for Construction	Directly Assigned	Includes customer advances for construction for the Company to provide additional regulated services
282	Accumulated Deferred Income Taxes-Property	Directly Assigned	Includes accumulated deferred income taxes related to gas property
403	Depreciation Expense	Directly Assigned	Includes the current depreciation expense
406	Amortization of Plant	Directly Assigned and/or Allocated based on percentage of plant and equipment	Includes the amortization of the excess acquisition cost over the underlying assets
408	Taxes Expense-Other	Directly Assigned and/or allocated based on plant and equipment	Includes tax expense for property tax, gross receipts tax excise taxes, and taxes other than income taxes
417	Non-utility Revenue and Expenses	Directly Assigned and/or allocated based on customer count	Includes revenue and expenses for non-utility services.
421	Miscellaneous Non-operating Income/Gain on Disposition of Property	Directly Assigned and/or allocated based on plant and equipment	Includes gains and losses on disposals
431	Other Interest Expense	Directly Assigned and/or allocated based on plant and equipment	Includes interest expense for interest paid on commercial paper
432	Allowance for Funds Used During Construction	Directly Assigned and/or allocated based on plant and equipment	Includes amounts reversed from interest expense and capitalized in association with assets under construction
480	Residential Gas Sales	Directly Assigned	Includes regulated residential gas service revenues
481	Commercial and Industrial Gas Sales	Directly Assigned	Includes regulated commercial and industrial gas service revenues
488	Miscellaneous Service Revenue	Directly Assigned	Includes regulated revenues from meter turn on, reconnects and other regulated services. Includes minimal revenues incidental to the regulated services provided

ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT (continued)

Table A – ASSIGNMENTS & ALLOCATIONS BY FERC ACCOUNT (continued)

FERC Account		MGU Assignment Basis or Allocation Method for rate area activities	Comments/Description
489	Revenue from Transportation of Gas of Others	Directly Assigned	Includes revenues from the transportation of gas for others
804	Natural Gas City Gate Purchases	Directly Assigned	Includes costs related to the purchase of regulated gas service
874	Mains and Services Expense Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
875	Measuring and Regulating Station General Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
878	Meter and House Regulator Expense Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
879	Customer Installation Expenses Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
885	Maintenance Supervision and Engineering Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
887	Maintenance Mains Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
889	Maintenance Measuring and Regulatory Station Equipment	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
892	Maintenance of Services Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
893	Maintenance of Meters and House Regulators Distribution	Directly Assigned and/or allocated based on fully loaded direct labor	Includes costs related to the provision of regulated gas service
902	Meter Reading Expenses Customer Accounts	Directly Assigned and/or allocated based on customer count	Includes costs incurred associated with the meter reading process which relates to regulated gas service.
903	Customer Records and Collection Expenses	Directly Assigned and/or allocated based on customer count	Includes costs related to labor and various materials and expenses for customer inquiries, credits and collections
904	Uncollectible Accounts	Directly Assigned and/or allocated based on customer count	Includes the expense associated with bad debts that relates to regulated services provided.
920	Administrative and General Salaries	Directly Assigned and/or allocated based on plant and equipment	Includes compensation of managers, officers, etc. not associated directly with a particular operating or maintenance function.
921	Office Supplies and Expenses	Directly Assigned and/or allocated based on plant and equipment	Includes supplies and expenses utilized by various business activities of the Company
923	Outside Services Employed	Directly Assigned and/or allocated based on sales volumes	Includes all legal, accounting, and consulting expenses not provided in-house and not associated directly with an operating or capital project.
924	Property Insurance Utility	Directly Assigned and/or allocated based on plant and equipment	Includes expenses incurred related to property insurance for utility properties.
925	Injuries and Damages	Directly Assigned and/or allocated based on labor	Includes expenses incurred related to safety activities, claims investigation, claims paid, workers compensation and other damages.
926	Employee Pension and Benefits	Directly Assigned and/or allocated based on labor	Includes pension and benefit costs incurred as related to health benefits, death benefits, retirement plans, and other related costs.
928	Regulatory Commission Expenses	Directly Assigned and/or allocated based on rate base	Includes costs incurred related to formal cases before regulatory agencies.
930	General Advertising Expenses	Directly Assigned and/or allocated based on plant and equipment	Includes general advertising costs for various business activities of the Company.
931	Rents	Directly Assigned and/or allocated based on plant and equipment	Includes rent paid to others for use of buildings land and other equipment.

V. COST ASSIGNMENT AND ALLOCATION PRINCIPLES

OVERVIEW

This section provides an overview of the cost assignment and allocation principles of MGU. Costs are directly assigned whenever possible. Both system generating processes through the use of "allocating worksheets," and manual processes are used to allocate certain costs that support multiple activities to the appropriate FERC accounts related to these activities. Assuming the transaction involves a product or service that is not provided pursuant to a tariff, the result of applying these principles is that each affiliate, utility, jurisdiction and non-regulated activity pays the higher of fully distributed cost or market price for services provided by MGU; and MGU pays the lower of fully distributed cost or market price for services provided by each affiliate, utility, jurisdiction and non-regulated activity, unless the transaction results from a competitive solicitation process, then the value of the transaction shall be the winning bid price.

COST ASSIGNMENT AND ALLOCATION PRINCIPLES

MGU applies the following cost assignment and allocation principles (listed in descending order of required application) in determining fully distributed cost.

- (1) Tariffed services provided to an activity will be charged to the activity at the tariffed rates.
- (2) If only one activity or jurisdiction causes a cost to be incurred, that cost shall be directly assigned to that activity or jurisdiction.
- (3) Costs that cannot be directly assigned to either regulated or non-regulated activities or jurisdictions will be described as common costs. Common costs shall be grouped into homogeneous cost categories designed to facilitate the proper allocation of costs between regulated and non-regulated activities or jurisdictions. Each cost category shall be fairly and equitably allocated between regulated and non-regulated activities or jurisdictions in accordance with the following principles:
 - a. **Cost causation.** All activities or jurisdictions that cause a cost to be incurred shall be allocated a portion of that cost. Direct assignment of a cost is preferred to the extent that the cost can easily be traced to the specific activity or jurisdiction.
 - b. **Variability.** If the fully distributed cost study indicates a direct correlation exists between a change in the incurrence of a cost and cost causation, that cost shall be allocated based upon that relationship.
 - c. **Traceability.** A cost may be allocated using a measure that has a logical or observable correlation to all the activities or jurisdictions that cause the cost to be incurred.
 - d. **Benefit.** All activities or jurisdictions that benefit from a cost shall be allocated a portion of that cost.
 - e. **Residual.** The residual of costs left after either direct or indirect assignment or allocation shall be allocated based upon an appropriate general allocator to be defined in the utility's CAAM.

VI. TRANSACTIONS BETWEEN UTILITY AND NON-REGULATED

OVERVIEW

This section provides an overview of transactions between utility and non-regulated activities. Included are both system generated processes and manual processes used to assign and allocate costs of MGU to non-regulated activities.

Non-regulated activities as defined in this CAAM is any activity that is not offered as a public utility service and is not regulated by this Commission or another state utility commission or the FERC.

MGU does not perform non-regulated activities. Therefore, there are no transactions between the utility and a non-regulated activity which occurred since the Missouri utility's prior CAAM was filed.

VII. ALLOCATION PROCESS

OVERVIEW

This section provides an overview of the allocation process used to allocate indirect costs to specific FERC accounts based on a predefined allocation factor. Costs are directly assigned whenever possible.

ALLOCATION

Indirect costs of MGU are allocated to each rate area based on factors specifically related to each cost.

Direct labor is a reasonable methodology to allocate indirect distribution expenses, FERC accounts 871 through 894, because costs associated with these accounts have a cost causative relationship with direct labor. The direct labor charges are accumulated from the employees' time records. Indirect O&M costs are entered into unassigned or common FERC sub-accounts and then allocated based on the total company direct labor as charged to each rate area through a journal entry into the accounting system. The allocation factor is calculated on a monthly basis.

Customer count is a reasonable methodology to allocate indirect customer account expenses, FERC accounts 901-905, because the costs associated with these accounts have a cost causative relationship with the number of customers. These are identified based on current monthly invoices processed. Indirect customer account costs are entered into unassigned or common FERC sub-accounts and are then allocated based on the total customer count as recorded in each rate area through a journal entry into the accounting system. The allocation factor is calculated on a monthly basis.

The allocation was developed to distribute indirect costs between FERC accounts by rate area.

VIII. UTILITY ALLOCATIONS

OVERVIEW

MGU's costs are directly assigned whenever possible. Indirect costs are allocated to activities using utility allocations. Common utility costs are grouped into two categories (1) O&M utility allocations and (2) non-O&M utility allocations. These allocations are performed monthly within the MGU system and are explained below.

O&M UTILITY ALLOCATIONS

Introduction

O&M utility allocations are applied to common costs that are recorded in FERC accounts 901-931. Table B in this section lists the MGU allocation methodology applied to each FERC account or range of FERC accounts.

Methodology

MGU uses the following methods to allocate common O&M costs. These methods were developed to achieve the most cost-causative relationship each FERC account or range of FERC accounts has with utility operations. The allocators used are as follows:

Customer Allocator

Customer count is used to allocate common utility costs in FERC accounts 901-917 among rate areas. The allocation is based on the monthly customer bill accounts.

Gross Plant Allocator

Gross Plant is used to allocate common utility costs in FERC accounts 920-922, FERC account 924, FERC account 927, and FERC accounts 929-931 among rate areas. The allocation is based on the monthly total gross plant.

Labor Allocator

Labor is used to allocate common utility costs in FERC accounts 925-926 among rate areas. The allocation is based on monthly operating labor.

Rate Base Allocator

Rate Base is used to allocate common regulatory expense amortization FERC account 928 among rate areas. The allocation is based on the current rate base.

Sales Volume Allocator

Sales Volume is used to allocate common natural gas management expense FERC account 923 among rate areas. The allocation is based on the monthly sales volumes.

VIII. UTILITY ALLOCATIONS (continued)

NON-O&M UTILITY ALLOCATIONS

Introduction

Non-O&M utility allocations are applied to common costs that are recorded in non-O&M FERC accounts 403-432. Table C in this section lists the MGU allocation methodology applied to each FERC account or range of FERC accounts.

Methodology

MGU uses the following methods to allocate Non-O&M costs. These methods were developed to achieve the most cost-causative relationship each FERC account or range of FERC accounts has with utility operations. The allocators used are as follows:

Gross Plant Allocator

Gross Plant is used to allocate common utility costs in FERC accounts 403-404; FERC account 408, FERC account 411.6, and FERC account 411.7 among rate areas. The allocation is based on the monthly total gross plant.

Labor Allocator

Labor is used to allocate common utility costs in FERC account 408 (property tax portion) among rate areas. The allocation is based on monthly operating labor.

Net Plant Allocator

Net Plant is used to allocate common costs in FERC accounts 427-431. The allocation is based on gross plant less accumulated depreciation. The allocator used in the current year is developed based on the previous years' actual gross plant and depreciation.

UTILITY ALLOCATIONS (continued)

TABLE B-O&M UTILITY ALLOCATIONS

FERC Account	Allocation Method	Basis for Allocation Selection
901-917	Customer	Customer bill count is a reasonable methodology to allocate common customer accounting and customer information and sales costs recorded in FERC accounts 901-917 because these costs are customer related costs, e.g., credit and collection, customer accounting, bad debt, etc.
920-922	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common costs recorded in FERC accounts 920-922 because administrative and office supplies have a cost causative relationship to utility plant in service.
923	Sales Volume	Sales volume allocator is a reasonable methodology to allocate common costs recorded in FERC account 923 because contracted natural gas management has a cost causative relationship with sales volume.
925-926	Labor	Labor allocator is a reasonable methodology to allocate common costs recorded in FERC accounts 925 & 926 because injuries and damages and pension and benefit costs have a cost causative relationship with labor.
928	Rate Base	Rate base allocator is a reasonable methodology to allocate common costs recorded in FERC account 928 because regulatory commission expense has a cost causative relationship with rate base.
927 and 929-931	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common costs recorded in FERC accounts 927 and 929-931 because franchise and general advertising and rents have a cost causative relationship to utility plant in service.

UTILITY ALLOCATIONS (continued)

TABLE C – NON-O&M UTILITY ALLOCATIONS

FERC Account	Allocation Method	Basis for Allocation Selection
403-404	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common costs recorded in FERC accounts 403 & 404 because depreciation & amortization costs have a cost causative relationship to plant in service.
408 (property tax portion)	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common property tax recorded in FERC account 408 because property tax has a cost causative relationship to plant in service.
408 (payroll tax portion)	Labor	Labor allocator is a reasonable methodology to allocate common payroll tax recorded in FERC account 408 because payroll tax has a cost causative relationship with labor.
411.6 & 411.7	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common costs recorded in FERC accounts 411.6 & 411.7 because these gains/losses have a cost causative relationship to utility plant in service.
427-431	Net Plant	Net plant allocator is a reasonable methodology to allocate common costs in FERC accounts 427-431 because interest/debt costs have a cost causative relationship to plant in service.
432	Gross Plant	Gross plant allocator is a reasonable methodology to allocate common costs recorded in FERC account 432 because AFUDC has a cost causative relationship to utility plant in service.

IX. HOLDING COMPANY ASSIGNMENTS & ALLOCATIONS

OVERVIEW

CNG Holdings Inc is the Parent company of MGU. The Parent company provides common administrative and management services to all operating companies and affiliates in the CNG holding company system. The services provided include: executive management, finance, accounting, human resources, legal, engineering, construction, customer service, environmental and support services. The Parent company provides its services to MGU and its affiliates at cost. MGU's affiliate transactions currently consist primarily of transactions from the Parent company for these services. The cost assignments and/or allocations from the Parent company are under the jurisdiction of the FERC.

The Distrigas Method is the accepted method for distributing the Parent company common expenses. For reference the accounts allocated using the Distrigas Method is described in Table D on the following pages.

The Distrigas Allocation Method is used to bill direct charges and indirect allocations from the parent company to its' subsidiaries. All labor billed includes labor overheads. Costs are allocated based on the average of three calculated rates:

Direct Labor – The fully loaded Direct Labor expenses in each subsidiary of the Parent company are accumulated and a weighted average percentage is calculated. Fully loaded direct labor charges include payroll, employer payroll taxes, pension benefits, and workmen's comp insurance.

Capital Investments – The total capital investments of each subsidiary of the Parent company is accumulated and a weighted average percentage is calculated. Capital investments include FERC accounts 101, Utility Plant in Service, and 107, Construction Work in Progress.

Net Sales Revenues – The net sales revenues of each subsidiary of the Parent company is accumulated and a weighted average percentage is calculated. Net sales revenue is defined as the total tariff purchased gas cost billed, plus commodity fees billed, and monthly service fees billed, less tariff purchased gas costs.

The labor performed by Parent company employees is separated between direct and non-direct labor for each subsidiary. The non-direct Parent company expenses include labor costs, less a 15% non-allocable officer amount, employer payroll tax expense, vehicle, and common expense costs. These costs are accumulated and allocated to each subsidiary by applying a percentage of each item to the Parent company total labor amount.

The non-direct 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 184.

The common expense costs of the Parent company include FERC accounts 870-931, excluding 923 and 930. Also included in the common expense costs are FERC accounts 403, 408, 426, and 431.

HOLDING COMPANY ASSIGNMENTS & ALLOCATIONS (continued)
TABLE D – HOLDING COMPANY ALLOCATIONS

Holding company costs to be allocated	Description of Services Provided
Executive	Executive services include the labor and non-labor costs of executive corporate management, long-term business strategy development and programs to ensure the continuity and development of management. Executive activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Miscellaneous general expenses	Miscellaneous general expense services charged to the FERC 930.2 include labor and non-labor costs for the Board of Directors and general management of the utility not provided for elsewhere.
Shareholder	Shareholder services include the labor and non-labor for investor and financial community communications, monitoring stock ownership patterns, planning shareholder meetings, coordinating the transfer agent and shareholder record keeping functions. Shareholder activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Investor Relations	The services provided by Investor Relations include labor and non-labor costs for communications to investors and the financial community, providing management with feedback from investors, reviewing all public financial documents for accuracy and completeness and distributing all financial releases. Investor Relations activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Accounting and Reporting	Accounting and Reporting services include labor and non-labor costs for preparation of operating and non-operating financial statements, ensuring compliance with applicable laws of the operating and non-operating companies, and coordinating the budgeting process with the operating and non-operating companies.
Taxes	Taxes services include the labor and non-labor costs associated with the preparation and filing of consolidated corporate tax returns and payments for all companies, administration of all income, sales/use and property tax audits, protests and appeals, lobbying and testifying on key company tax issues, monitoring tax legislation, legal developments, and rulemaking activities in the income tax, sales/use tax and property tax areas.
Audit Services	Audit Services include the labor and non-labor costs associated with corporate internal control guidelines and auditing of consolidated financial statements related to the Audit Committee. This function also includes the cost of administering the corporate compliance, fraud and conflict of interest investigations, establishing and review of Sarbanes-Oxley compliance requirements/control testing, and evaluating contract risks. Audit service activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Finance & Treasury	The Finance & Treasury services include the labor and non-labor costs of investing activities and costs associated with equity and debt securities issuance, monitoring the capital markets, Holding Company commercial paper transactions, compliance with debt covenants, and management of the Pension Fund. Finance & Treasury activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Risk Management	The Risk Management services include the labor and non-labor costs of corporate risk management, hazard insurance, and loss control services. Risk Management activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Corporate Strategy & Business Development	The Corporate Strategy & Business Development services include labor and non-labor costs for Corporate Information Officer management, establishing corporate information technology policies, and corporate strategic planning and portfolio management. Corporate Strategy & Business Development activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.

HOLDING COMPANY ASSIGNMENTS & ALLOCATIONS (continued)

TABLE D – HOLDING COMPANY ALLOCATIONS (continued)

Legal	Legal services include labor and non-labor costs for corporate or MGU litigation, Holding Company reports and filings under FERC, filing fees for Holding Company or MGU and corporate contracts. Other services include labor and employment law, litigation, rates and regulation, environmental matters, real estate and contracts. Legal activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Communications	Communication services include the labor and non-labor costs for corporate communications, employee communications, and corporate media relations. Communication activities are generally services that are performed on behalf of all MGU operating companies and affiliates, including the holding company.
Human Resources	Human Resource services include the labor and non-labor costs for executive officers' and MGU employees' compensation plans, corporate Human Resource policies, executive policy benefit plans, payroll services for MGU and the employee's handbook. Human Resource activities are generally services that are performed on behalf of all MGU operating companies and affiliates including the holding company.
Payroll	Payroll services include the labor and non-labor costs for processing payroll including but not limited to time reporting, calculation of salaries and wages, preparation of payroll tax and compliance reports.
Facilities – Admin	Facilities services include the labor and non-labor costs of operating and maintaining office buildings and service centers procuring real estate and administering real estate leases, procuring office furniture and equipment and administering contracts to provide security, housekeeping and maintenance services for facilities. Also included are costs for mail delivery, duplicating and records management, providing copy and print services and operating the corporate switchboard.
Customer Service - FERC 903	The Customer Service – FERC 903 activities include the labor and non-labor costs for meter reading to retail and wholesale customers, customer billing to retail and wholesale customers, call center support and credit and collections.
Payment and Reporting	The services included in the Payment & Reporting include the labor and non-labor costs associated with processing payments to vendors, providing audit research and reconciliation support for Accounts Payable transactions, preparing statistical and 1099 reporting and administration of purchase card programs such as transacting limit and management of expense reporting software.
Rates & Regulation	The Rates & Regulation services include the labor and non-labor costs for determining the operating companies' 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.
Construction, Operation & Maintenance	Customer and Field Operations Construction, Operations & Maintenance services include the labor and non-labor costs for construction of gas delivery systems and operating and maintaining gas delivery systems.
Receipts Processing	Receipts Processing services include the labor and non-labor costs incurred for processing payments received from customers.
Financial Services	Financial Services include the labor and non-labor costs for financial analysis, budgeting and administrative support, managerial reporting and business planning and process initiative for MGU and operating affiliates, including the holding company.
Business Systems	Business Systems services include the information technology costs that provide benefits that impact every computer user across the company. Computer Technology risk, software maintenance on applications distributed to all users governance and project management over all IT projects, fixed management fees with software companies, business analytics costs, amortization of prepaid software system costs and Chief Information Officer costs all fall under this category as well as any costs that are not specific to an application that already has a specific allocator.
CRS (Customer Resource System)	CRS services include the labor and non-labor costs for the CRS system, specifically, the application, development and maintenance costs, licensing fees, server system costs and technology risk costs specific to disaster recovery of this application.
Network	The Network services include the labor and non-labor costs for the operation and management of internal and external data transmission needs.