Exhibit No.:
Issue: Billing Determinants Study; Rate Design and Proposed Rates; Acquisition Stipulation Compliance; Special Contracts; Policy Proposals
Witness: Christopher D. Krygier
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities
Case No.: GR-2014-0152
Date Testimony Prepared: February 6, 2014

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GR-2014-0152

DIRECT TESTIMONY

OF

CHRISTOPHER D. KRYGIER

ON BEHALF OF

LIBERTY UTILITIES (MIDSTATES NATURAL GAS) CORP.
D/B/A LIBERTY UTILITIES

February 6, 2014

DIRECT TESTIMONY
OF
CHRISTOPHER D. KRYGIER

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TABLE OF CONTENTS

DIRECT TESTIMONY

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CHRISTOPHER D. KRYGIER

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I. POSITION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS AFFILIATION AND BUSINESS ADDRESS.

A. My name is Christopher D. Krygier, my business address is 2370 North High Street, Suite 1, Jackson, Missouri 63755. I am testifying on behalf of the applicant, Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Utilities" or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. In 2006, I completed my Bachelor of Science in Economics from the W.P. Carey School of Business at Arizona State University. In 2010, I completed my Master of Business Administration with an emphasis in Finance also from Arizona State University. Finally, I am a Certified Management Accountant as designated by the Institute of Management Accountants.

I am employed by Liberty Utilities as its Director of Regulatory and Government Affairs for its natural gas, water and wastewater utilities in Missouri, Iowa and Illinois. I have been employed with Liberty Utilities since March 2012. Before working for Liberty

Utilities, I was employed by American Water Works, Inc. for approximately six years in a variety of capacities. Generally though, while at American Water, I worked in Financial Planning and Analysis, Rates, Regulatory Compliance and Capital Programs.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. No.

Q. HAVE YOU TESTIFIED ON MATTERS BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes, I have provided written and live testimony before the Arizona Corporation Commission. I have also provided written testimony before the Hawaii Public Utilities Commission.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to describe how Liberty Utilities has met the Commission's minimum filing requirements ("MFR"); to sponsor the Billing Determinants Study for this case, including normalizing and pro forma adjustments; to support the rates and tariff changes proposed; to address how the Company's filing complies with the conditions of the Unanimous Stipulation and Agreement ("Acquisition Stipulation") approved by the Commission in Case No. GM-2012-0037; to sponsor and review the Company's special contracts with two industrial customers; and to address Liberty Utilities' policy proposals regarding the amendment of its Extension Policy Tariff and its proposed CNG tariff.

Q. ARE YOU SPONSORING ANY SCHEDULES IN CONNECTION WITH YOUR TESTIMONY?

A. Yes. I am sponsoring Schedules COS-2 and COS-3 which are included in this filing behind the Tab labeled "Cost of Service Model" ("COS"), and the Billing Determinants Study which is included in this filing behind the Tab labeled "Billing Determinants" ("BD"). I am also sponsoring Schedule CDK-1 pertaining to the proposed rate calculations in this proceeding; Schedule CDK2, which is the previously submitted Liberty Utilities' Cost Allocation Manual ("CAM"); Schedule CDK-3 (reserved for the submission of the updated Liberty Utilities' CAM); and Schedule CDK-4HC and Schedule CDK-5HC which pertain to special contracts.

III. MINIMUM FILING REQUIREMENTS

Q. WHAT IS THE PURPOSE OF THIS PART OF YOUR TESTIMONY?

A. This portion of my testimony details how the Company met the Commission MFR's outlined in 4 CSR 240-3.030 and 4 CSR 240-3.235. 4 CSR 240-3.030 sets forth the following requirements which were met and are located behind the transmittal cover letter labeled "MFR Exhibit No. 2."

A. Letter of Transmittal

B. General information, including:

1. the amount of dollars of the aggregate annual increase and percentage of increase over current revenues;
2. names of counties and communities affected;
3. the number of customers to be affected;

4. the average change requested in dollars and percentage change from current rates;

5. the proposed annual aggregate change by general categories of service and by rate classifications;

6. press releases relative to the filing; and

7. a summary of the reasons for the proposed changes.

Q. **ARE YOU SPONSORING THIS INFORMATION?**

A. Yes.

Q. **WAS THIS INFORMATION PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION?**

A. Yes.

Q. **WHAT ARE THE OTHER MINIMUM FILING REQUIREMENTS?**

A. Commission Rule 4 CSR 240-3.235 details the requirement of a gas utility to submit a depreciation study as part of a general rate case.

Q. **HAS THE COMPANY PERFORMED A DEPRECIATION STUDY?**

A. The Company's predecessor entity, Atmos Energy Corporation ("Atmos") performed a depreciation study that satisfied this MFR. Page 8, Section 10(d) of the Acquisition Stipulation in part states: "Staff recognizes the Depreciation Study submitted by Atmos is sufficient for meeting the requirement of 4 CSR 240-3.275. The Signatories acknowledge that this study shall be deemed to meet Liberty-Midstates' requirement to perform a depreciation study within 5 years or 3 years prior to the next rate case." Accordingly, Liberty Utilities has met that requirement in 4 CSR 240-3.235.

IV. BILLING DETERMINANTS

Q. WHAT ARE BILLING DETERMINANTS?

A. Billing determinants are the units of service to which the Company's gas distribution rates are applied, specifically, the units include customer counts and the volumes of gas sold or transported. The ultimate results appear on a customer's bills as the monthly fixed fee and the monthly volumetric fee for service.

Q. ARE YOU SPONSORING THE SCHEDULES REGARDING THE BILLING DETERMINANTS ANALYSIS?

A. Yes, as previously noted, I sponsor Schedule COS-2 and COS-3 in the Cost of Service model and the complete Billing Determinants Study filed in this case, which were prepared by me or under my direction.

Q. PLEASE SUMMARIZE SCHEDULE COS-2?

A. COS-2 reflects a summary of revenues that would be collected from customers based upon the number of customers and associated gas usage, as adjusted for normal weather, and priced at the currently approved tariffs and rates. Per books test year billing units are reflected in columns (b) and (c). This data was extracted from the billing systems of the Company along with Atmos since Atmos performed the Company's billing for a portion of the test year. After the data was compiled into the model, two adjustments were applied. The first adjustment was to weather normalize natural gas consumption during the test year, which I will explain in more detail later. The second adjustment was for continued decreases in the residential customer count for each rate division.

Q. PLEASE DESCRIBE IN MORE DETAIL THE PURPOSE OF THE WEATHER NORMALIZATION ADJUSTMENT.

A. The intent of the weather normalization adjustment is to adjust commodity sales to reflect a more historical level of usage that would have occurred during the test year.

Q. WHAT METHODOLOGIES WERE USED TO CALCULATE THE WEATHER NORMALIZATION?

A. For each rate division, the Company calculated the adjustment to reflect usage under normal weather for residential and commercial customer classes. The weather stations utilized for actual and normal heating degree days by division were Kirksville, MO (USC00234544) for the NEMO division, Cape Girardeau, MO (USW00003935) for the SEMO division and Kansas City (USW00013988) for the WEMO division. Thirty year average weather utilized January 1, 1984 through December 31, 2013 daily temperatures for the 3 service area weather stations. Thirty year average monthly heating degree days were derived in the following manner. First, heating degree days were calculated for each day for the 30 year period. Second, the average heating degree day value for each day of the year was computed. Third, the average daily heating degree days were summed by month to obtain the 12 monthly 30 year average heating degree days.

For the residential and commercial customers, the following steps were taken to calculate the weather adjustment. First, the base, non-weather sensitive, usage is calculated. Next, the annual base load from the total use reveals the annual weather sensitive usage per customer, column (f). Next, the annual weather sensitive usage by HDD determines the weather dependency, column (j). Finally, the weather dependency times the HDD variance from normal weather calculates the monthly weather adjustment, column (n).

Q. PLEASE DESCRIBE BASE COUNT ADJUSTMENT.

A. The purpose of the base count adjustment is to reflect the ongoing decline of residential customers in the Company's three rate divisions. The Company employed a similar methodology to that used by Staff in the prior Atmos rate case, which resulted in a decline for each division. In the NEMO rate division, the adjustment applied was a decline of 194 customers. In the SEMO rate division, the adjustment applied was a decline of 259 customers. Lastly, in the WEMO rate division, the adjustment applied was a decline of 63 customers.

Q. PLEASE DESCRIBE HOW THE BILLING DETERMINANTS WERE CALCULATED FOR PURPOSES OF REFLECTING THE PROPOSED MARGIN REVENUES ON COS-3.

A. The underlying methodologies and process that were reflected in the calculation of the COS-2 proposed margin revenues were mirrored on COS-3, with the only difference being that the proposed rates, ISRS and proposed volumetric charge all reflect the proposed rates rather than current rates.

V. RATE DESIGN AND PROPOSED RATES

Q. IS THE COMPANY PROPOSING ANY MODIFICATIONS TO ITS EXISTING RATE DESIGN IN THIS CASE?

A. No, as discussed by Mr. Swain in his Direct Testimony, the Company is not proposing any modifications to its existing rate design in this proceeding. The Acquisition Stipulation in the GM-2012-0037 case, Paragraph 19(d), Miscellaneous Conditions, provides:

> If in its first general rate proceeding related to the acquired Atmos properties, Liberty-Midstates proposes to alter the existing rate districts,

> alter the existing rate classifications or to apply rate increases to customer classes within a rate district in a manner other than as an equal percentage increase to all customer classes and all rate elements, Liberty-Midstates will prepare and submit to Staff and OPC a class cost of service study together with detailed work papers for each district and customer class. The class cost of service study work papers will be provided in electronic format to Staff and Public Counsel at the time of Liberty-Midstates' direct testimony filing.

The Company has not prepared a class cost of service study for this proceeding. Accordingly, it is not proposing to alter the existing rate districts or to alter the existing rate classifications. In addition, it is proposing that the revenue increases to customer classes within the existing rate districts be applied on an across-the-board equal percentage basis to all customer classes and all rate elements.

Q. PLEASE DESCRIBE HOW THE COMPANY HAS DESIGNED RATES IN THIS PROCEEDING.

A. Included with my testimony is **Schedule CDK-1**, which was prepared by me. This Schedule utilizes Schedule COS-2, discussed above, which I used as a starting point for designing rates in this proceeding. Schedule COS-2 is the schedule that normalizes test period billing determinants and test period volumes. This is the appropriate place to begin allocating the Company's requested increase among customer classes and calculate the resulting rates.

Q. PLEASE CONTINUE.

A. The first step was to allocate the proposed increase by district. The second step was to apply the revenue increases to customer classes within the existing rate districts on an across-the-board equal percentage basis to all customer classes and all rate elements. The resulting rates are depicted on the attached **Schedule CDK-1**.

Q. ARE THERE ANY EXCEPTIONS TO THIS PRO-RATA APPROACH TO SPREADING THE OVERALL REQUESTED INCREASE?

A. Yes. Special contracts are not allocated any of the Company's proposed revenue increase. The special contracts, supported and described later in my testimony, are not tariff based charges, and thus are not included when allocating the increases in revenue.

VI. STIPULATION CONDITIONS

Q. CAN YOU PLEASE PROVIDE BACKGROUND ON THE ACQUISITION STIPULATION REFERENCED PREVIOUSLY?

A. Yes. The Company, Atmos, Commission Staff ("Staff"), the Office of the Public Counsel ("OPC") and IBEW Local No. 1439 ("IBEW") reached a Unanimous Stipulation and Agreement that was ultimately approved by the Commission in Docket No. GM-2012-0037 on March 14, 2012. The Acquisition Stipulation (and resulting Order approving its terms) included a number of items that impact Liberty Utilities' first rate case to be filed after the closing of the acquisition. I will discuss each of the conditions that the parties agreed to as part of the Acquisition Stipulation that have a direct impact on this rate case.

Q. **WHAT IS THE FIRST CONDITION REGARDING THE RATE MORATORIUM?**

A. In short, Liberty Utilities agreed not to file a general rate case for non-gas costs prior to December 31, 2013[1]. The Company complied with this condition by filing a rate case in 2014.

[1] Stipulation Page 4

Q. **WHAT IS THE SECOND CONDITION REGARDING THE RATE BASE OFFSET?**

A. The Company agreed to include a $16.34M rate base offset on its books and records[2]. The ultimate impact of this rate base offset is to reduce rate base and ultimately lower the overall revenue requirement requested in any base rate case for a period of ten years. The amortization of this amount is reflected on WP 7-8 of Schedule COS-7.

Q. **WHAT IS THE THIRD CONDITION REGARDING ACQUISITION COSTS AND PREMIUM?**

A. Among this condition's various subparts, the Company agreed that it would not seek to include or recover any amount of acquisition costs including all transaction costs (which are delineated in sub-part "a"), and the Company is not seeking recovery of such costs in this proceeding. A key section of this Condition relates to sub-part "d"[3] which states:

> "Liberty-Midstates shall record and separately identify all transition and transaction costs that are incurred as a result of this transaction by CSA service, by month incurred, and by FERC account for the review of Staff and OPC at the time of filing its next general rate case."

Q. **HOW HAS THE COMPANY COMPLIED WITH THIS CONDITION?**

A. Yes. The transition costs associated with the acquisition primarily consist of software investment in billing and accounting systems that were necessary since Atmos was not providing their respective systems as part of the acquisition. These costs are included within the various FERC utility plant accounts as part of the Company's proposed rate base. These transition costs are primarily reflected on WP 7-2 where they are embedded

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[2] Stipulation Page 4
[3] Stipulation Page 5

within the $24 million of Midstates General Office utility plant. The separately identified transaction costs were not included on Liberty Midstates books and are not being requested as part of the Company's cost of service.

Q. **WHAT IS THE FOURTH CONDITION REGARDING THE HANNIBAL GAS PLANT ENVIRONMENTAL COSTS[4]?**

A. The Company agreed not to include any environmental costs in rates unless the costs were related to new claims that were unknown to Atmos or the Company prior to the closing of the acquisition. The Company has not included any such costs in this rate case.

Q. **WHAT IS THE FIFTH CONDITION REGARDING WORKERS COMPENSATION CLAIMS?**

A. The Company agreed to not seek in rates any workman's compensation claims for incidents that predated the closing of the acquisition. The Company has not included any such costs in this rate case.

Q. **WHAT IS THE SIXTH CONDITION REGARDING PREPAID PENSION ASSET BALANCES?**

A. The Company agreed not to seek in rates any prepaid asset balances related to Atmos-Missouri balances in a future rate case. The Company has not included any such costs in this rate case.

Q. **WHAT IS THE SEVENTH CONDITION REGARDING AFFILIATE TRANSACTIONS AND THE COST ALLOCATION MANUAL ("CAM")?**

A. This section contains only one portion that directly relates to an action needed in this rate case, sub-part 7"e"[5], which in part states: "Liberty-Midstates shall file to seek approval

[4] Stipulation Page 5

from the Commission for its CAM prior to, or as part of, its next general rate case proceeding."

Q. ARE YOU SUBMITTING A COST ALLOCATION MANUAL FOR APPROVAL BY THE COMMISSION IN THIS PROCEEDING?

A. Yes. Attached to my testimony as Schedule CDK-2 is the CAM that was previously submitted to the Commission. The CAM outlines the methods of direct charges, cost allocations and related procedures that were utilized during the test year where applicable, and the resulting levels of such expenses and costs are prudent, just and reasonable. A revised version of the CAM is being finalized and, upon completion, will be filed in this docket for approval by the Commission. The submission of the revised CAM should occur in the very near future, and Schedule CDK-3 (Cover Sheet) is attached and reserved for that purpose. At the appropriate time, the Company will update any resulting financial impacts along with other known and measurable changes to be captured during the update period.

Q. WHY IS THE CAM BEING REVISED?

A. Given the growth that Liberty Utilities (Canada) Corp. ("LUC" – an indirect parent of its regulated utility subsidiary Liberty Utilities) has experienced in the past two years and LUC's commitment to continually review its practices and make revisions where necessary to adopt best practices, LUC decided that it was appropriate to re-evaluate its CAM. As a result of that evaluation, LUC determined that it could more precisely determine cost drivers for some categories of allocated costs and that those drivers should be used in lieu of a factoring methodology.

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[5] Stipulation Page 7

Q. CAN YOU PLEASE PROVIDE AN OVERVIEW OF HOW THE CAM ALLOCATES COSTS TO LIBERTY UTILITIES?

A. There are three buckets of costs allocated to Liberty Utilities. The first bucket of cost is the costs from APUC. These costs primarily relate to financing and strategic management costs. Where possible these costs are directly charged to an entity. If they cannot be directly charged, they are allocated to LUC and Algonquin Power Co. ("APCo") through a three factor methodology. The three factors are revenue, expenses (net of cost of fuel or power), and plant-in-service. Each of the three factors is given equal weight, or 33.3%.

The second bucket of cost is the costs from LUC ("LUC Bucket"). The LUC Bucket includes (i) costs that can be directly billed to a particular entity ("Direct Costs"), (ii) costs that are incurred by LUC solely for the benefit of its subsidiaries ("System-Wide Costs"), (iii) costs that are incurred by LUC for the benefit of the entire company, i.e., LUC and APCo ("Company-Wide Costs"), and (iv) costs that have been allocated from APUC ("APUC Indirect Costs"). The Direct Costs are of our course directly billed to the entity receiving the service. The System-Wide Costs are allocated using a four factor methodology. The four factor methodology allocates costs by relative size of the utilities. The four factor methodology used by LUC involves (1) utility plant, (2) total customers, (3) non-labor expenses, and (4) labor as allocating factors, with each factor assigned an equal weight. The Company-Wide Costs and APUC Indirect Costs are allocated using cost drivers.

The third bucket of cost is the costs from Liberty Utilities Services Corp. ("LUSC"). In the coming months, Liberty Utilities and LUC's other U.S. operating entities will be transferring all of their U.S. employees to LUSC (I would note that no physical assets are involved in such transfer). At which point, LUSC will provide all of the services currently provided by Liberty Utilities' employees. These costs will largely be direct billed to the relevant utility. However, any costs that are not able to be directly billed will be allocated to the various utilities using cost drivers.

Q. WILL THE OPERATIONS OF LIBERTY UTILITIES CHANGE IN ANY WAY AS A RESULT OF MOVING THE EMPLOYEES TO LUSC?

A. Other than the name of the employer on the employees' pay checks, nothing is expected to change. Employees will continue to time sheet, i.e., direct charge, their time as they previously have. Additionally, just as we do today, time spent for the benefit of Liberty Utilities as a whole, i.e., in support of Iowa, Illinois, and Missouri operations, will be allocated according to a four factor methodology, which uses the following factors:

Utility Plant	50%
Customer Count	40%
Non-Labor Expenses	5%
Labor	5%
Total	**100%**

There is no change to the level of visibility afforded to the Commission on this expense. As reflected in the underlying COS schedules, time or expenses that benefit all three states within the Midstates division are charged to one location and allocated to the three states based on the four factor approach described above.

Q. WHAT ARE THE BENEFITS OF MOVING THE LIBERTY UTILITIES EMPLOYEES TO LUSC?

A. Liberty Utilities expects that it will be able to provide utility service more efficiently through access to the shared pool of employees within LUSC. Liberty Utilities will have greater redundancy as well as enhanced access to emergency backup support. Liberty Utilities will have access to a broader pool of knowledge resources, which may reduce the need for more costly external consultants. Additionally, this transaction will simplify pension and payroll administration across the LUC regulated utilities' footprint of water, wastewater, natural gas and electric utilities, which is anticipated to benefit Liberty Utilities.

Q. HOW WILL LIBERTY UTILITIES ENHANCE ITS SYSTEM REDUNDANCY AND EMERGENCY RESPONSE?

A. The LUC regulated utilities' local model ensures that each utility has a full staff dedicated to its needs, *i.e.*, each utility has an accounting group, information technology support, human resources, *etc.* With all of these employees residing in LUSC, Liberty Utilities will have built in redundancy for each department. So for instance, if someone in accounts payable is out on extended leave an accounts payable employee traditionally dedicated to a different utility would be able to provide support to Liberty Utilities.

During an emergency, not only does a utility need additional operational support but due to call volume increases additional customer service representatives are needed. While utilities have mutual aid agreements to provide operational support, there is generally no ability to obtain emergency customer service support. The proposed transaction would give Liberty Utilities access to emergency customer service support, because customer service representatives from other regions could be used in an emergency to handle overflow calls, thereby increasing the level of customer service. Additionally, operational personnel from other regions could be used to assist Liberty Utilities' dedicated personnel in restoring service.

Q. HOW WILL LIBERTY UTILITIES HAVE BETTER ACCESS TO KNOWLEDGE RESOURCES?

A. The operating subsidiaries of LUC currently provide electrical utility service to approximately 90,000 customers, natural gas distribution service to over 282,000 customers, and regulated water service to more than 73,000 customers. The combined knowledge of these employees will be unified in LUSC, which Liberty Utilities will be able to access. Again, in accordance with the provisions of the Acquisition Stipulation, the Company is requesting approval of its revised CAM in this proceeding, and respectfully submits that such approval is in the public interest.

Q. **ARE THESE ALL OF THE PORTIONS OF THE STIPULATION THAT DIRECTLY RELATE TO THE RATE CASE?**

A. To the best of my knowledge, yes.

Q. ARE THERE ANY OTHER AREAS IMPLICIT IN THE STIPULATION THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. The Acquisition Stipulation's requirement that the Company formally adopt in whole Atmos' tariffs verbatim upon the closing of the transaction, obviously placed Liberty Utilities in the shoes of Atmos regarding the Energy Conservation and Efficiency Program ("EE Program"). I simply wish to advise the Commission that Liberty Utilities is committed to our EE Program and we are proposing no changes to the Program or its specific components in this proceeding. The Company has filed its Annual Energy Efficiency Reports with the Commission in accordance with the Commission's Order in Case No. GR-2010-0192, and we appreciate the continued support and work of our Advisory Group in this important area.

VII. SPECIAL CONTRACTS

Q. ARE YOU SPONSORING THE SPECIAL CONTRACTS THE COMPANY HAS WITH CERTAIN CUSTOMERS?

A. Yes, I sponsor the two contracts the Company has in place. The first contract is with Noranda Aluminum, Inc. ("Noranda"), which is located in New Madrid County, Missouri and is part of the Company's SEMO Division. The second contract is with General Mills ("GM") located in Hannibal, Missouri, which is part of the Company's NEMO Division.

Q. ARE EITHER NORADANA OR GENERAL MILLS AFFILIATED WITH THE COMPANY?

A. No.

Q. PLEASE DESCRIBE THE CONTRACT WITH NORANDA?

A. Attached to my testimony as **Schedule CDK-4HC** is the current contract with Noranda. The contract lists all of the terms and conditions of Liberty Utilities providing gas service to Noranda. Please note that this Schedule is deemed **HIGHLY CONFIDENTIAL** and should be treated accordingly. Paragraph 7 (Special Contracts) of the Unanimous Stipulation and Agreement approved in Atmos' last rate case, Case No. GR-2010-0192 et al., provided in part that said paragraph "shall not be construed to limit the ability of Atmos and Special Contract customers: i) to accept alternative mutually agreeable contract provisions, or ii) to enter into alternative mutually agreeable contracts for service." It's my understanding that Liberty Utilities and Noranda are currently negotiating an alternative mutually agreeable contract for service, and the Company will submit the new contract as a supplemental highly confidential schedule once it is finalized and executed.

Q. WHY DOES THE COMPANY HAVE A SPECIAL CONTRACT FOR NORANDA?

A. The Company believes the special contract with Noranda is fair to both Noranda and Liberty Utilities' other customers. Noranda continues to be a large employer in the Company's SEMO with extensive energy needs due to its business processes. Due to the competitive nature of Noranda's business, Noranda needs to produce its product with as competitive an energy price as possible. Besides pricing considerations, Noranda still has the option to interconnect with the Texas Eastern Transmission Company (TETCO). Entering into the contract with Noranda prevents Noranda from switching to TETCO during the contract period, which ultimately benefits customers.

Q. PLEASE DESCRIBE THE CONTRACT WITH GENERAL MILLS?

A. Attached to my testimony as **Schedule CDK-5HC** is the contract that went into effect on March 1, 2005. The contract lists all of the terms and conditions of Liberty Utilities providing gas service to General Mills. Please note that this Schedule is deemed **HIGHLY CONFIDENTIAL** and should be treated accordingly.

Q. IS THIS THE SAME EXACT CONTRACT THAT WAS REVIEWED DURING THE PRIOR ATMOS RATE CASE?

A. Yes.

Q. WHY DOES LIBERTY UTILITIES HAVE A SPECIAL CONTRACT WITH GENERAL MILLS?

A. The General Mills plant continues to occupy the same location in Hannibal, Missouri, which is located in close proximity to the Panhandle Eastern Pipeline Company ("PEPL"). Given the proximity to PEPL, with a small capital investment General Mills could interconnect with PEPL and by-pass Liberty Utilities. Accordingly, the Company continues to believe it is necessary to provide General Mills, through a special contract, a discounted rate to incent General Mills to continue having Liberty Utilities provide gas service.

Q. HOW WERE NORANDA'S AND GENERAL MILLS' CONTRACTS TREATED IN THE LAST RATE CASE, DOCKET NO. GR-2010-0192, ET AL?

A. As addressed in Paragraph 7 of the Unanimous Stipulation and Agreement referenced above, the signatories agreed that revenues associated with special contracts should not be imputed in the case.

Q. WHY IS IT IN THE PUBLIC INTEREST FOR THE COMMISSION TO CONTINUE TO TREAT THESE CONTRACTS IN THE SAME MANNER?

A. Both of these contracts continue to provide benefits to Liberty Utilities' customer base. The presence of these contracts provides two large customers that contribute to fixed and variable cost recovery of the Company's cost of service. Without Noranda and General Mills, the revenue requirement would be shifted to Liberty Utilities' other customers increasing the average customer bill.

VIII. POLICY PROPOSALS

Q. WHAT POLICY PROPOSALS IS THE COMPANY ADVOCATING IN THIS PROCEEDING?

A. The Company requests two changes. The first is a change to the amount of free main footage that is offered through the Company's Extension Policy tariff, Sheet No. 101, from 150 feet for residential customers to 350 feet.

Q. HOW DID THE COMPANY ARRIVE AT 350 FEET?

A. While the Company did not perform a detailed study that indicated a move to 350 feet was the "right" answer, the Company is looking to make a dramatic shift that may change its future course with regards to customer growth in the service territory. This is one tool to hopefully mitigate the declining customer count challenge that was described in the Billing Determinants Study above.

Q. IS THIS A PERMANENT CHANGE THE COMPANY IS REQUESTING?

A. No, the Company requests that as a trial program between now and its next general rate case it be authorized to extend the amount of free main from 150 feet to 350 feet. At the time of the next rate case, the Company would be required to request from the Commission the ability to continue the program at 350 feet. Commission Staff and OPC would evaluate the Company's request and make a recommendation regarding the continuation of the program.

Q. WOULD THE COMPANY REPORT ON PROGRAM PROGRESS IN BETWEEN RATE CASES?

A. Yes. As part of this rate filing, the Company would work with Commission Staff and OPC to develop reporting format, timing, content and frequency, among other items so program progress could be measured and analyzed on an ongoing basis.

Q. WHAT HAPPENS IF THE COMPANY DOES NOT MAKE A REQUEST IN ITS NEXT GENERAL RATE CASE?

A. If the Company fails to make a request to continue to the program, the tariff sheet would default back to 150 feet.

Q. WHY IS THE COMPANY MAKING THIS REQUEST?

A. The goal of the tariff update is to hopefully incent economic growth in the service territory via additional residential development. Increased free footage may spur additional residential homes to include natural gas and thus increase the number of growth.

Q. IS THIS DECLINING CUSTOMER COUNT A NEW DEVELOPMENT SINCE THE MISSOURI PROPERTIES WERE ACQUIRED FROM ATMOS?

A. Not at all. The last Atmos rate case contained direct testimony of Gary Smith, Pages 8-9, describing how each of the three operating divisions experienced an average yearly customer count decline, NEMO by 323 customers, SEMO by 412 customers and WEMO by 56 customers.

Q. HAS THAT TREND CONTINUED?

A. Yes, the Atmos data referenced above analyzed year over year changes from June 2006 through June 2009. Updating that analysis through September 2013 indicates the following declines by rate divisions, NEMO 194, SEMO 259 and WEMO 63.

Q. WHAT IS DRIVING THIS TREND?

A. It is extremely difficult to pinpoint an exact reason why customers are ultimately leaving the service areas; regardless, the impact directly influences the ultimate costs of providing service to customers.

Q. PLEASE SUMMARIZE WHY INCREASING THE AMOUNT OF FREE MAIN FOOTAGE IN THE COMPANY'S MAIN EXSTENSION TARIFF IS IN THE PUBLIC INTEREST?

A. This trial program is a creative solution to a unique problem. If successful, it will help stem the tide of declining customer counts which can ultimately result in higher rates for customers.

Q. WHAT IS LIBERTY UTILITIES' SECOND POLICY PROPOSAL?

A. Liberty Utilities' second policy proposal relates to Compressed Natural Gas.

Q. WHAT IS COMPRESSED NATURAL GAS ("CNG")?

A. CNG is made by compressing natural gas (which is mainly composed of methane), to less than 1 percent of the volume it occupies at standard atmospheric pressure. CNG can be used in place of gasoline, diesel fuel and propane. CNG combustion produces fewer undesirable gases than the fuels mentioned above and is therefore considered to be a much "cleaner" fuel compared to its peers.

Q. WHAT ARE THE BENEFITS OF CNG?

A. There are several advantages to CNG, including:

1) It is an abundant resource with ample domestic supply.

2) It is a "clean" fuel with significantly less emissions than gasoline, propane or diesel.

3) Economically, CNG provides significant cost advantages to using traditional fuels, which could result in savings of $1.35[6] per Gasoline Gallon Equivalent ("GGE").

Q. WHY IS THE COMPANY INTERESTED IN ENTERING THE CNG MARKET?

A. The Company is interested in entering the CNG market for the reasons stated above. Put simply, it is a cleaner, cheaper, "homemade" fuel, and Liberty Utilities believes that with the abundant supply, the economics will be favorable for customers for years to come. In accordance with this belief, Liberty Utilities plans to replace its current fleet with CNG or

[6] Source: Clean Cities Alternative Fuel Report, October 2013, found online at: http://www.afdc.energy.gov/uploads/publication/alternative_fuel_price_report_oct_2013.pdf

duel fuel vehicles when a vehicle's time for replacement arrives. Currently, Liberty Utilities' sister natural gas utility in Georgia has started using CNG vehicles in 2013, and is planning on rolling out an additional 14 vehicles in 2014.

Q. IS THERE ANYTHING THAT WOULD PREVENT LIBERTY UTILITIES FROM CONVERTING ITS FLEET?

A. Unfortunately, at present there are no public options to refuel CNG vehicles in the Company's Missouri service areas. Accordingly, before its fleet can be converted Liberty Utilities needs to secure a fueling source.

Q. HOW DOES LIBERTY UTILITIES PLAN TO ENCOURAGE THE DEVELOPMENT OF CNG FUELING IN ITS SERVICE TERRITORY?

A. Liberty Utilities plans to offer two ways to motivate the development of CNG within its service territory. First, Liberty Utilities is proposing a "Compressed Natural Gas" ("CNG") tariff in this proceeding, which is the first step in encouraging the development of public CNG fueling stations. Second, Liberty Utilities is seeking a waiver of the lower of cost or market rules related to affiliate transactions in order to assist with the economic viability of public fueling stations. This waiver would ensure that a Liberty Utilities affiliate could develop a station by ensuring that Liberty Utilities is able to provide a base-load commitment that would make the project economically feasible.

Q. COULD YOU PLEASE ELABORATE ON THE CNG TARIFF THE COMPANY IS PROPOSING TO PUT IN PLACE?

A. The Company is proposing a new CNG Tariff that would include a volumetric charge, a commodity charge, and a facilities charge, which is designed to recoup the investment in storage and compression that is needed to service a fueling station.

Q. DO ANY OTHER MISSOURI NATURAL GAS UTILITIES HAVE A CNG TARIFF?

A. Yes, Laclede Gas Company has had a Vehicular Fuel Rate ("VF") tariff in effect for several years.

Q. HOW IS LACLEDE'S TARIFF STRUCTURED?

A. Laclede's current tariff is structured to charge a monthly customer charge and volumetric rate, currently $22.09 and $5.332 per therm respectively, as well as the cost of purchased gas.

Q. ARE THERE ANY DIFFERENCES BETWEEN LIBERTY UTILITIES' PROPOSED CNG TARIFF AND LACLEDE'S VF TARIFF?

A. Yes. Liberty believes that the storage and compression functions involved in a CNG fueling station are inherently best provided by the utility as a utility service, so Liberty Utilities proposes to own that infrastructure and recoup the costs from the CNG customers through the facilities charge included in the CNG Tariff.

Q. WHY SHOULD THE COMPRESSION AND STORAGE FACILITIES BE TREATED AS UTILITY PLANT?

A. Since the CNG operation itself is, by definition, related to the natural gas business, it makes sense that the Company reflect this as part of its investment. Including it with the utility operations allows the utility to apply stringent safety and operational expertise to running these facilities. In addition, this approach allows Commission Staff to oversee the assets from a technical, safety, and rates perspective.

Q. HOW WOULD THE COMPANY PROPOSE TO HANDLE THESE INVESTMENTS IN STORAGE AND COMPRESSION IN FUTURE RATE CASES?

A. The Company would propose to handle this portion of the cost of service like any other. In its next general rate case the Company would perform a cost of service study on its CNG assets and propose revised prices at that time for Commission consideration.

Q. WHY IS AUTHORIZING A CNG TARIFF IN THE PUBLIC INTEREST?

A. The Company's proposed CNG Tariff is in the public interest for the reasons discussed previously, including the advancement of a safe, economical vehicle fuel that provides significant environmental benefits.

Q. PLEASE EXPLAIN WHY THE COMPANY SHOULD BE EXEMPT FROM THE LOWER OF COST OR MARKET TEST FOR ITS OWN FLEET IF AN AFFILIATE ENTITY IS PROVIDING FUELING SERVICES.

A. Without this waiver, a public fueling station will not be built in the service territory in the foreseeable future as a Liberty Utilities affiliate is the only entity that has expressed any interest in investing in public CNG fueling stations in the service territory. Liberty Utilities' load commitment is important to providing the base-load demand necessary to support a public fueling station; however, if Liberty Utilities is not able to recover the costs it cannot make this commitment. The public policy benefits of a public fueling station include:

a. Reduced fuel costs for the CNG fleet as part of the Company's O&M costs. As described earlier in my testimony, this can result in savings of $1.35 per GGE.

b. Local businesses will be able to convert to CNG and take advantage of fuel cost savings, which increases efficiency of their operations and could add to local economic activity.

c. Construction of the station will continue to demonstrate a commitment to "green" initiatives.

d. The provision of a green fuel source will overtime reduce carbon emissions. Collectively, these reasons justify the waiver. In short, with a proposal that has the ability to benefit customers, shareholders, the local economy, and includes environmental benefits, it seems that this is an opportunity for a "win-win" scenario.

Q. WHY IS AUTHORIZING A WAIVER IN THE PUBLIC INTEREST?

A. The station would allow Liberty to implement CNG fueling in its fleet, provide cost savings to utility customers and continue to promote clean fuels. In addition, the station would provide benefit to other local businesses, the local economy, and potentially have positive impacts on employment.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities' Tariff Revisions Designed To Implement a General Rate Increase For Natural Gas Service in the Missouri Service Areas of the Company.	)	Case No. GR-2014-0152

AFFIDAVIT OF CHRISTOPHER D. KRYGIER

STATE OF MISSOURI)
) ss
COUNTY OF CAPE GIRARDEAU)

Christopher D. Krygier, being first duly sworn on his oath, states:

1. My name is Christopher D. Krygier. I am employed by Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities ("Liberty Utilities") as Director, Regulatory & Government Affairs. My business address is 2370 N. High Street, Suite 1, Jackson, Missouri 63755.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Liberty Utilities, consisting of twenty-six (26) pages, Schedules CDK-1 through CDK-5HC, Schedules COS-2 and COS-3, and the Billing Determinants Study, all of which having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Chris Krygier 2/6/14
Christopher D. Krygier

Subscribed and sworn before me this 6th day of February, 2014.

Tisha Ann Sanderson
Notary Public

My commission expires: 4-28-14

TISHA ANN SANDERSON
Notary Public - Notary Seal
STATE OF MISSOURI
Cape Girardeau County
Commission # 10967562
My Commission Expires: April 28, 2014

SCHEDULE CDK-1

Liberty Utilities (Midstates Natural Gas) Corp. d/b/a Liberty Utilities
Missouri Jurisdiction
Rate Design

Schedule COS-3
WP 3-1

Line No.		Current rates			ISRS			Total Base Rates			Revenue Increase (COS-1)			Proposed Rates		
1	**Delivery Charge (Fixed)**	NEMO	SEMO	WEMO	NEMO	SEMO	WEMO	NEMO	SEMO	WEMO	NEMO	SEMO	WEMO	NEMO	SEMO	WEMO
2	Residential Firm Service	$22.68	$13.75	$20.17	$3.16	$1.04	$1.97	$25.84	$14.79	$22.14	27.21%	33.17%	43.48%	$ 32.87	$ 19.70	$ 31.77
3	Small Firm General Service	$22.68	$13.75	$20.17	$3.16	$1.04	$1.97	$25.84	$14.79	$22.14	27.21%	33.17%	43.48%	$ 32.87	$ 19.70	$ 31.77
4	Medium Firm General Service	$100.00	$100.00	$100.00	$13.94	$7.56	$9.78	$113.94	$107.56	$109.78	27.21%	33.17%	43.48%	$ 144.94	$ 143.23	$ 157.52
5	Large Firm General Service	$500.00	$500.00	$500.00	$69.71	$37.82	$48.92	$569.71	$537.82	$548.92	27.21%	33.17%	43.48%	$ 724.73	$ 716.19	$ 787.61
6	Interrupible Large Volume Service	$500.00	$500.00	$500.00	$69.71	$37.82	$0.00	$569.71	$537.82	$500.00	27.21%	33.17%	43.48%	$ 724.73	$ 716.19	$ 717.42
7																
8	**Distribution Charge (per ccf)**	NEMO	SEMO	WEMO							NEMO	SEMO	WEMO	NEMO	SEMO	WEMO
9	Residential Firm Service	$0.11546	$0.08735	$0.10682							27.21%	33.17%	43.48%	$ 0.14688	$ 0.11632	$ 0.15327
10	Small Firm General Service	$0.05778	$0.04536	$0.05944							27.21%	33.17%	43.48%	$ 0.07350	$ 0.06040	$ 0.08529
11	Medium Firm General Service	$0.18615	$0.16607	$0.22190							27.21%	33.17%	43.48%	$ 0.23680	$ 0.22115	$ 0.31839
12	Large Firm General Service	$0.11713	$0.14356	$0.15115							27.21%	33.17%	43.48%	$ 0.14900	$ 0.19117	$ 0.21688
13	Interrupible Large Volume Service	$0.11713	$0.14356	$0.15115							27.21%	33.17%	43.48%	$ 0.14900	$ 0.19117	$ 0.21688
14																
15	**ISRS**	NEMO	SEMO	WEMO				NEMO	SEMO	WEMO	NEMO	SEMO	WEMO	NEMO	SEMO	WEMO
16	Residential Firm Service	$3.16	$1.04	$1.97				$0.00	$0.00	$0.00	0.00%	0.00%	0.00%	$ -	$ -	$ -
17	Small Firm General Service	$3.16	$1.04	$1.97				$0.00	$0.00	$0.00	0.00%	0.00%	0.00%	$ -	$ -	$ -
18	Medium Firm General Service	$13.94	$7.56	$9.78				$0.00	$0.00	$0.00	0.00%	0.00%	0.00%	$ -	$ -	$ -
19	Large Firm General Service	$69.71	$37.82	$48.92				$0.00	$0.00	$0.00	0.00%	0.00%	0.00%	$ -	$ -	$ -
20	Interrupible Large Volume Service	$69.71	$37.82	$0.00				$0.00	$0.00	$0.00	0.00%	0.00%	0.00%	$ -	$ -	$ -
21																
22																

Line No.		NEMO	SEMO	WEMO	Overall
23					
24	Base Revenue at Present Rates (COS-1)	$ 9,056,379	$ 10,452,377	$ 1,574,238	$ 21,082,995
25	Less: Misc Revenues (from COS-2)	(256,487)	(568,763)	(21,944)	(847,194)
26	Adjusted Base Revenues	$ 8,799,892	$ 9,883,614	$ 1,552,295	$ 20,235,800
27	Revenue Deficiency (COS-1)	$ 2,394,530	$ 3,277,924	$ 674,998	$ 6,347,452
28	Indicated % Revenue Increase on Base Revenues	27.21%	33.17%	43.48%	31.37%
29					

30 Note: All values calculated on this Workpaper assume inclusion of $1.33M of ISRS Revenues.

SCHEDULE CDK-2

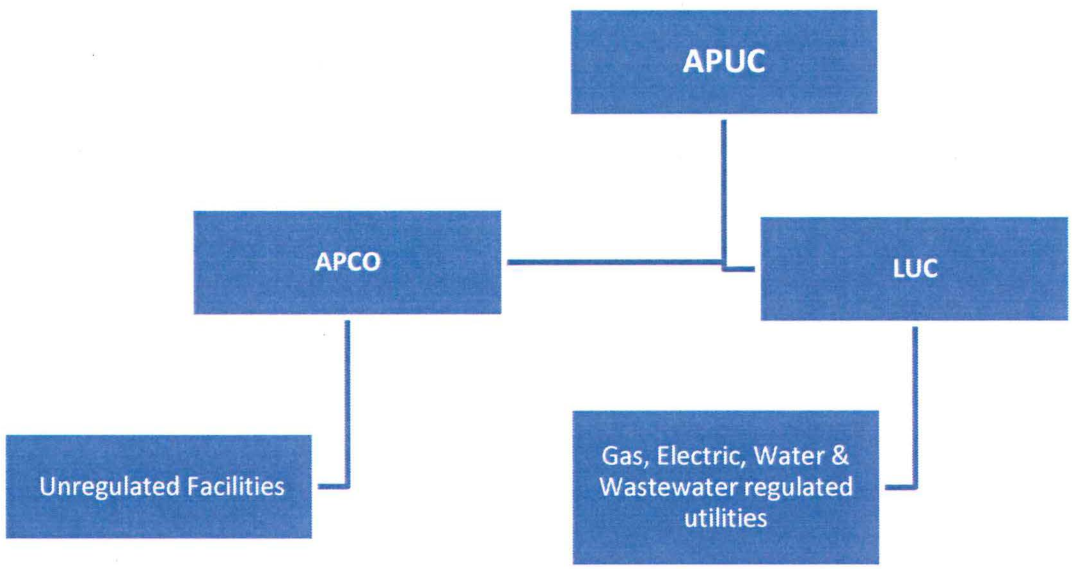
ALGONQUIN POWER & UTILITIES CORP. DIRECT CHARGE AND COST ALLOCATIONS MANUAL

This document outlines the methods of direct charge and cost allocations: (i) between Algonquin Power & Utilities Corp. and its affiliates Algonquin Power Company and Liberty Utilities (Canada) Corp.; (ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries; and (iii) between Liberty Utilities (Canada) Corp.'s service companies and its regulated utility subsidiaries.

Table of Contents

I. INTRODUCTION

The purpose of this paper is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp ("APUC"), Liberty Utilities (Canada) Corp. ("LUC"), and LUC's service companies (the "Service Companies") to the regulated utility assets and to describe the Direct Charge and Cost Allocation Methodologies used by APUC, LUC and the Service Companies. The following organization chart describes the relationships between the separate entities:



The following Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the "NARUC Guidelines for Cost Allocations and Affiliate Transactions". More specifically, the founding principles of this Cost Allocation Manual is to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities and vice versa does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts.

i. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services.

ii. Services not covered by (ii) shall be charged by the providing party to the receiving party at fully distributed cost.

iii. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

(1) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (2) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

II. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities consisting of water distribution and wastewater treatment facilities and electric and gas utilities in Canada and the United States. APUC is publicly traded on the Toronto Stock Exchange. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets and access to engineers, technicians, professional managers, and administrative staff, including trained plant operators and field supervisors.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous unregulated utility assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations, and are necessary in providing a high level of shared services at the lowest cost. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to receive a benefit they may not be able to achieve on a standalone basis such as strategic management advise and access to capital at more competitive rates.

III. SCOPE OF SERVICES PROVIDED BY APUC TO ITS SUBSIDIARIES AND HOW THOSE COSTS ARE ALLOCATED

A. *Non-Labor Services and Cost Allocation from APUC to LUC and APCo*

APUC's non-labor services include Financing Services and Administrative Services. As used herein "Financing Services" means the selling of units to public investors in order to generate the funding and capital necessary for LUC and APCo as well as providing legal and treasury services in connection with the issuance of public debt. As used herein "Administrative Services" includes the following types of services: strategic management services, corporate governance, and administration and management services such as consultation on management and administration of all aspects of utility business, including economic and strategic analysis.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Put another way, absent the services provided by APUC, each business, including each utility, would be forced to operate as stand-alone utilities, with resulting higher costs and operating expenses incurred by customers. In addition, the utilities would bare much greater risk due to a potential inability to obtain capital on a standalone basis.

The services provided by APUC specifically optimize performance of LUC, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing and Administrative Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs. See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, including corporate capital, are pooled and allocated to LUC and APCo using a Three Factor Methodology. The three factors in the Three Factors

Methodology are revenue, expenses, and plant-in-service. Each of the three factors are given equal weight, or 33.3%. Notwithstanding the above, if a charge is related either solely to the regulated utility business, *i.e.*, LUC, or to the power generation business, *i.e.*, APCo, then all of those costs will be allocated to the business segment for which they are incurred. Furthermore, costs directly attributable to a specific region ("Regional Costs") are identified as such and allocated by LUC to the utilities in that region using the Utility Four Factor Methodology, as defined in Section IV. Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity. For an example of how an invoice would be allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as donations, certain corporate travel, and certain overheads.

B. Labor Services And Cost Allocation From APUC To LUC and APCo

As described above, APUC provides benefits to the utilities it owns by use of certain shared services. Labor for services such as executive management, corporate accounting, treasury services, investor relations, and corporate finance are provided by APUC to LUC and APCo.

APUC charges labor rates at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, and other insurance provided to employees. APUC allocates these costs to LUC and APCo using the Three Factor Methodology. As discussed in Section IV, LUC then allocates these costs to its regulated utilities using the Utility Four Factor Methodology.

C. Labor Services And Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to Liberty Utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

IV. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES AND APUC AND APCO AND HOW THOSE COSTS ARE ALLOCATED

LUC provides its regulated utilities with the following services: accounting, corporate finance, human resources, information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, and utility planning. The following are examples of those services: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

Unless a charge can be directly attributable to a specific utility, LUC allocates its direct labor and direct non-labor costs, including capital costs, to its regulated utilities using a Utility Four Factor Methodology. LUC uses the Utility Four Factor Methodology to allocate Regional Costs to the utilities in that region and to allocate costs incurred for the benefit of all of its regulated assets ("System-Wide Costs") to all of its utilities.

The "Four Factor Utility Methodology" allocates costs by relative size of the utilities. The methodology used by LUC involves (1) Utility Plant, (2) Total Customers, (3) Non-Labor Expenses, and (4) Labor as allocating factors, with each factor assigned a specific weight. LUC uses the following weights under this Four Factor Utility Methodology:

Utility Plant	50%
Customer Count	40%
Non-Labor Expenses	5%
Labor	5%
Total	**100%**

LUC also uses the Utility Four Factor Methodology to allocate to its regulated utilities the System-Wide indirect labor and indirect non-labor costs allocated to LUC from APUC. As discussed in Section III(A), Regional Costs charged to LUC from APUC are allocated to the utilities in that region using the Utility Four Factor Methodology.

The following simplified hypothetical example demonstrates how the Utility Four Factor Methodology would be calculated based on ownership of only two hypothetical utilities:

FACTOR	Utility 1	Utility 2	TOTAL ALL UTILTIES	UTILITY 1 % OF TOTAL	FACTOR WEIGHT	UTILITY 1 ALLOCATION
UTILITY PLANT	727	371	1098	66%	50%	33%
CUSTOMER COUNT	6000	1000	7000	86%	40%	34%
LABOR COSTS	57	32	89	64%	5%	3%
EXPENSES	108	41	149	72%	5%	4%
TOTAL ALLOCATION						74%

As can be seen from these hypothetical numbers, Utility 1 would be allocated 74% of total Administrative/Overhead Costs incurred by LUC, based on its relative size and application of the Utility Four Factor Methodology in comparison to Utility 2. Utility 2 would be allocated the remaining 26%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

In addition, LUC provides information technology and some human resource services to APCo and APUC. These costs are directly charged to APCo and APUC.

V. SERVICE COMPANY SERVICES AND COST ALLOCATION

Some of LUC's regulated utilities may receive services such as: billing and customer service; operations and engineering; environment, health and safety, and security; finance; information technology; regulatory; legal; and administrative services, *e.g.*, rent, insurance, and office services, from a Service Company.

Unless a charge can be directly attributable to a specific utility, billing and customer service costs are allocated on customer count. For an example of how this allocation works please see Appendix 4. Operations and engineering costs are directly charged based on timesheets to the relevant regulated utility. Unless a charge can be directly attributable to a specific utility, both labor and non-labor (including capital) environment, health and safety, and security, finance, information technology, regulatory, legal, and administrative costs are allocated using the Utility Four Factor Methodology.

VI. ALLOCATION OF GAS PROCUREMENT SERVICES PROVIDED BY LIBERTY ENERGY UTILITIES (NEW HAMPSHIRE) CORP TO THE NATURAL GAS UTIILITY SUBSIDIARIES OF LUC AND HOW THOSE COSTS ARE ALLOCATED

LUC's natural gas utilities receive gas procurement services from a shared group that is housed out of New Hampshire. The group's non-labor costs are directly charged to specific assets. The gas procurement employees directly charge their time to specific assets as well. Any shared services that are provided, such as development of an overall hedging strategy, are allocated based on natural gas volumes.

I. Appendix

Appendix 1: NARUC Guidelines for Cost Allocations

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National

Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent

subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from

the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to

evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions

associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.

b. Those received from each non-regulated affiliate.

c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

Source:
http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf

Appendix 2 – Detailed Explanation of APUC Costs

1. APUC STRATEGIC MANAGEMENT COSTS

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevents those entities from being exposed to unnecessary risks.

c. Professional Services

Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital which benefits all of its subsidiaries.

2. Access to Capital Markets

One of APUC's primary functions is to ensure its subsidiaries have access to quality capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow it subsidiaries to have continued access to those capital markets, APUC incurs the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as Sedar fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unitholder Communications

Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC Financial Controls

Financial control costs incurred by APUC include costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level audits reduce the cost of the standalone audits significantly for utilities which must perform its own separate audits. Where standalone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

b. Tax Services

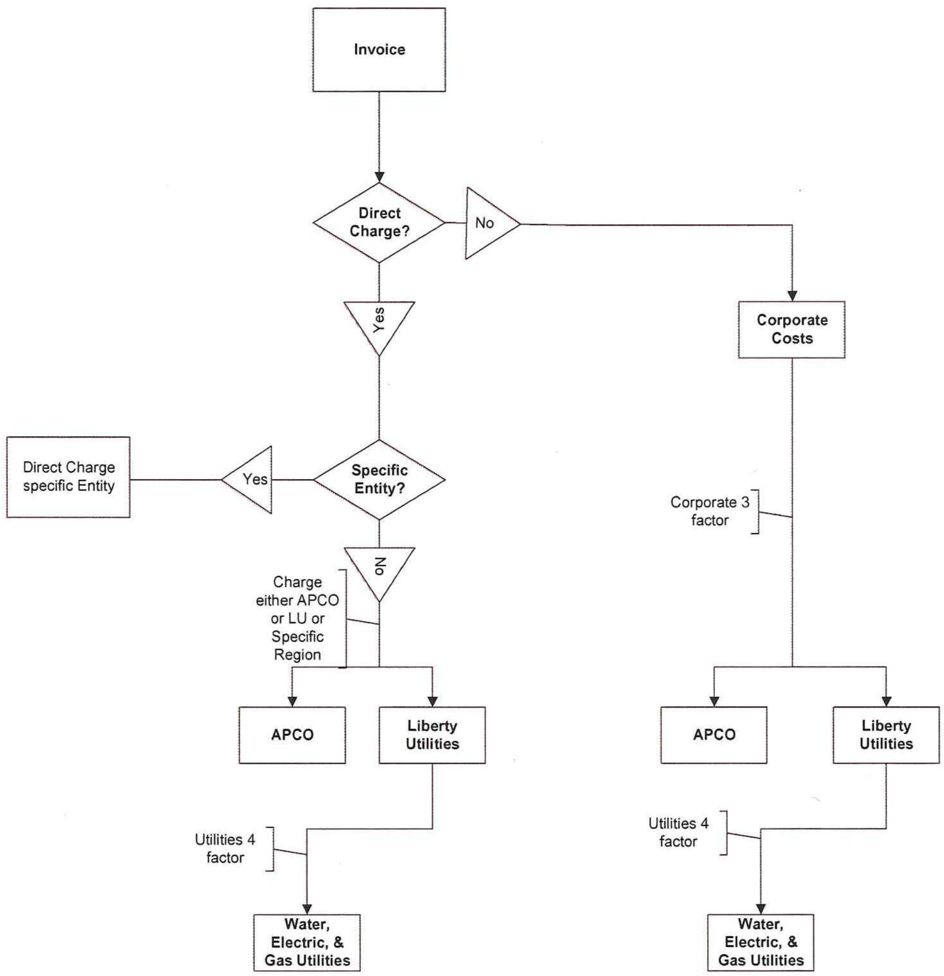
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC ADMINISTRATIVE COSTS

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees. The Three Factor Methodology is used to allocate these costs.

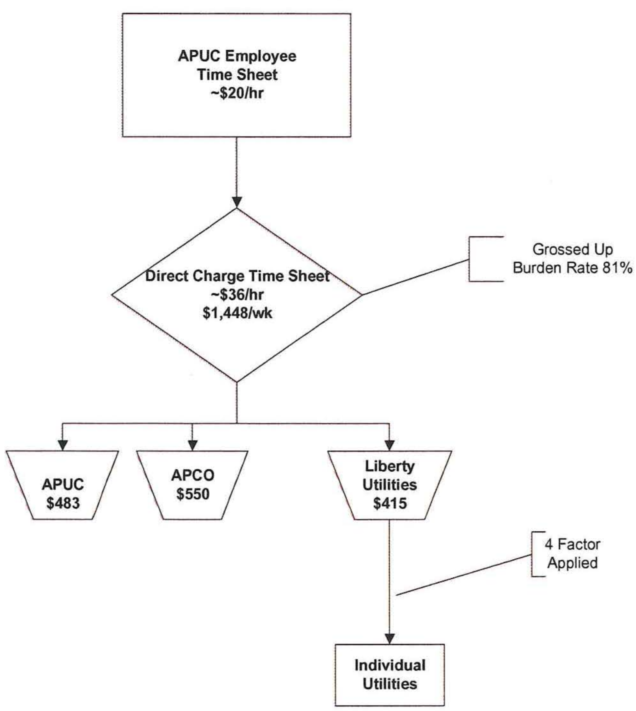
APPENDIX 3 – LIFE OF AN INVOICE

A hypothetical example is being provided of an invoice received by APUC for services to be allocated to its subsidiaries. The below diagram is intended to visually communicate APUC's allocation to APCo and Liberty Utilities.



APPENDIX 4 – LABOR ALLCOATION EXAMPLE

The following simplified example demonstrates how an APUC employee's labor costs would be allocated to the regulated utilities:



SCHEDULE CDK-3

(RESERVED)

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

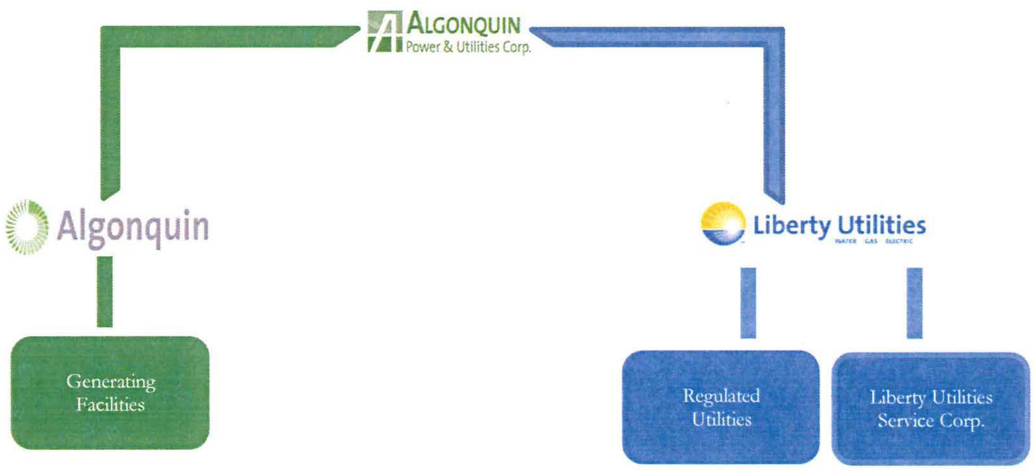
This document outlines the methods of direct charge and cost allocations: (i) between Algonquin Power & Utilities Corp. and its affiliates, Algonquin Power Company and Liberty Utilities (Canada) Corp.;(ii) between Liberty Utilities (Canada) Corp. and its regulated utility subsidiaries; (iii) between Liberty Utilities (Canada) Corp.'s service companies and its regulated utility subsidiaries; and (iv) between Liberty Utilities (Canada) Corp and Algonquin Power Company.

TABLE OF CONTENTS

1. INTRODUCTION

The purpose of this paper is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp ("APUC"), and its affiliates, Algonquin Power Company ("APCo"), Liberty Utilities (Canada) Corp. ("LUC"), and Liberty Utilities Service Corp. ("LUSC") to the regulated utilities and to describe the Direct Charge and Cost Allocation Methodologies used by APUC, APCo, LUC, and LUSC. The following organization chart identifies the relationships between the separate entities.

Figure 1: Algonquin Power & Utilities Corporate Structure



This Cost Allocation Manual ("CAM") has been completed in accordance and conformance with the NARUC Guidelines for Cost Allocations and Affiliate Transactions ("NARUC Guidelines"). More specifically, the founding principles of this Cost Allocation Manual are to a) directly charge as much as possible to the entity that procures any specific service, and b) to ensure that inappropriate subsidization of unregulated activities by regulated activities, and vice versa, does not occur. For ease of reference, the NARUC Guidelines are attached as Appendix 1.

Costs charged and allocated pursuant to this CAM shall include direct labor, direct materials, direct purchased services associated with the related asset or services, and overhead amounts. The direct charges are assigned as follows:

a. Tariffed rates or other pricing mechanisms established by rate setting authorities shall be used to provide all regulated services;

b. Services not covered by (a) shall be charged by the providing party to the receiving party at fully distributed cost; and
c. Facilities and administrative services rendered to a rate-regulated subsidiary shall be charged on the following basis:

    (i) the prevailing price for which the service is provided for sale to the general public by the providing party (i.e., the price charged to non-affiliates if such transactions with non-affiliates constitute a substantial portion of the providing party's total revenues from such transactions) or, if no such prevailing price exists, (ii) an amount not to exceed the fully distributed cost incurred by the providing party in providing such service to the receiving party.

2. THE APUC CORPORATE STRUCTURE

APUC's primary business is direct interest or equity ownership in renewable and thermal power generating facilities and regulated utilities. APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities consisting of water distribution, wastewater treatment facilities, electric and gas utilities. While power production facilities are located in both Canada and the United States, regulated utility operations are exclusively in the United States. APUC is publicly traded on the Toronto Stock Exchange. Its structure as a publicly traded holding company provides substantial benefits to its regulated utilities through access to capital markets.

APUC is the ultimate corporate parent and affiliate that provides financial, strategic management, corporate governance, administrative and support services to LUC and its subsidiaries as well as to the numerous generation assets held by APCo. The services provided by APUC are necessary for LUC and its subsidiaries to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of APCo and LUC and their respective businesses.

APUC and its affiliates capitalize on APUC's expertise and access to the capital markets through the use of certain shared services, which maximizes economies of scale and minimizes redundancy. In short, it provides for maximum expertise at lower costs. Further, the use of shared expertise allows each of the entities to receive a benefit they may not be able to achieve on a stand-alone basis such as strategic management advice and access to capital at more competitive rates.

3. SCOPE OF SERVICES AMONG AFFILIATES AND HOW THOSE COSTS ARE ALLOCATED

3.1. Labor Services and Cost Allocation from APUC to LUC and APCo

APUC provides benefits to its affiliate companies by use of certain shared services. APUC charges labor rates for these shared services at cost, which is the dollar hourly rate per employee as recorded in APUC's payroll systems, grossed up for burdens such as payroll taxes, health benefits, retirement plans, other insurance provided to employees, and other employee benefits. These labor costs are charged directly based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for non-labor costs are applied.

APUC's non-labor services include Financing Services. As used herein Financing Services means the selling of units to public investors in order to generate the funding and capital necessary (be it short term or long term funding, including equity and debt) for LUC and APCo as well as providing legal services in connection with the issuance of public debt.

The capital and funds obtained from the sale of shares in APUC are used by LUC and APCo for current and future capital investments. The services provided by APUC are critical and necessary to LUC and APCo because without those services they would not have a readily available source of capital funding. Further, relatively small utilities may have difficulty attracting capital on a stand-alone basis.

The services provided by APUC specifically optimize the performance of the utilities, keeping rates low for customers while ensuring access to capital is available. If the utilities did not have access to the services provided by APUC, then they would be forced to incur associated costs for financing, capital investment, audits, taxes and other similar services on a stand-alone basis, which would substantially increase such costs. Simply put, without incurring these costs, APUC would not be able to invest capital in its subsidiaries, including the regulated utilities.

In connection with the provision of Financing Services, APUC incurs the following types of costs: (i) strategic management costs (board of director, third-party legal services, accounting services, tax planning and filings, insurance, and required auditing); (ii) capital access costs (communications, investor relations, trustee fees, escrow and transfer agent fees); (iii) financial control costs (audit and tax expenses); and (iv) administrative (rent, depreciation, general office costs). See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

Non-labor costs, including corporate capital, are pooled and allocated to LUC and APCo using the method summarized in Table 1. Each corporate cost type, or function, has been carefully reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor each has been assigned an appropriate weighting. Table 1 includes brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

Table 1: Summary of Corporate Allocation Method of APUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs; third party legal

Tax Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and relative tax complexity, including Revenues, O&M and Net Plant. Tax activity can be driven by each of these factors.	Employee labor and related administration and programs, including Third party tax advice and services
Audit	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by a variety of factors that influence the size and complexity of Audit, including Revenues, O&M and Net Plant. Audit activity can be driven by each of these factors.	Employee labor and related administration and programs, including t Third party accounting and audit services
Investor Relations	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Employee labor and related administration and programs, including third party Investor day communications and materials
Director Fees and Insurance	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Board of Director fees, insurance and administration

Licenses, Fees and Permits	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Escrow and Transfer Agent Fees	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Other Professional Services	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.	Third party costs
Office Administration	Oakville Employees 50% Square Footage 50%	This function is driven by factors which are indicative of number of employees and square footage utilized by these employees.	Office space and utility costs. Employee labor and related administration

Notwithstanding the above, if a charge is related either solely to the regulated utility business, i.e., LUC, or to the power generation business, i.e., APCo, then all of those costs will be allocated to the business segment for which they are incurred (i.e. it is a direct charge).

Lastly, if a cost can be directly attributable to a specific entity, it will be directly charged to that entity. For an example of how an invoice would be allocated, please see Appendix 3.

Certain costs, which are incurred for the benefit of APUC's businesses, are not allocated to any subsidiary. These include costs such as donations, certain corporate travel, and certain overheads.

3.2. Labor Services and Cost Allocation From APCo To LUC

From time to time, APCo may provide Engineering and Technical Labor to LUC or its utilities. These charges plus an allocation for corporate overheads such as rent, materials/supplies, etc. are capitalized and directly charged to the relevant utility.

From time to time, APCo employees may provide administrative support to LUC or its utilities. These charges are direct charged using time sheets.

4. SCOPE OF SERVICES PROVIDED BY LUC TO ITS SUBSIDIARIES, APUC AND APCO, AND HOW THOSE COSTS ARE ALLOCATED

LUC provides its regulated utilities with the following services: accounting, administration, corporate finance, human resources (including training and development), information technology, rates and regulatory affairs, environment, health and safety, and security, customer service, procurement, risk management, legal, and utility planning. The following are examples of some of the services provided: (i) budgeting, forecasting, and financial reporting services including preparation of reports and preservation of records, cash management (including electronic fund transfers, cash receipts processing, managing short-term borrowings and investments with third parties); (ii) development of customer service policies and procedures; (iii) development of human resource policies and procedures; (iv) selection of information systems and equipment for accounting, engineering, administration, customer service, emergency restoration and other functions and implementation thereof; (v) development, placement and administration of insurance coverages and employee benefit programs, including group insurance and retirement annuities, property inspections and valuations for insurance; (vi) purchasing services including preparation and analysis of product specifications, requests for proposals and similar solicitations; and vendor and vendor-product evaluations; (vii) energy procurement oversight and load forecasting; and (viii) development of regulatory strategy.

LUC will charge costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, the indirect LUC costs cannot be directly attributed to an individual utility. LUC allocates its indirect labor and indirect non-labor costs, including capital costs, to its regulated utilities using a Utility Four Factor Methodology. LUC uses the Utility Four Factor Methodology to allocate costs incurred for the benefit of all of its regulated assets ("System-Wide Costs") to all of its utilities.

The Utility Four Factor Methodology allocates costs by relative size of the utilities. The methodology used by LUC involves four allocating factors, or drivers, (1) Utility Plant, (2) Total Customers, (3) Non-Labor Expenses, and (4) Labor, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four Factor Methodology Factors and Weightings

Factor	Weight
Utility Plant	25%
Customer Count	25%
Non-Labor Expenses	25%
Labor	25%
Total	**100%**

LUC also uses the Utility Four Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs allocated to LUC from APUC.

Table 3 provides a simplified hypothetical example to demonstrate how the Utility Four Factor Methodology would be calculated based on ownership of only two hypothetical utilities.

Table 3: Utility Four Factor Methodology Example

Factor	Utility 1	Utility 2	Total All Utilities	Utility 1 % of Total	Factor Weight	Utility 1 Allocation
Utility Plant ($)	727	371	1098	66%	25%	17%
Customer Count (#)	6000	1000	7000	86%	25%	21%
Labor ($)	57	32	89	64%	25%	16%
Non-Labor Expenses ($)	108	41	149	72%	25%	18%
Total Allocation						72%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 72% of the total Administrative/Overhead Costs incurred by LUC, based on its relative size and application of the Utility Four Factor Methodology. Utility 2 would be allocated the remaining 28%. LUC has developed and utilized this methodology to better allocate costs, recognizing that larger utilities require more time and management attention and incur greater costs than smaller ones.

LUC may also provide services to APUC and APCo. In these instances, LUC staff provide time sheets that depict the amount of time that is to be direct charged to either APUC or APCo.

In addition, LUC provides certain services that benefit the entire company, i.e., APCo and the utilities. These indirect costs are allocated using the following methodology shown in Table 4, which are designed to closely align the costs with the driver of the activity.

Table 4: Summary of Corporate Allocation Method of LUC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Risk Management	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the relative size and complexity of Risk Management -	Software platform, fees and administration

		Revenues, Net Plant and O&M costs.	
Information Technology	Number of Employees 90% O&M 10%	IT function is driven by factors which include number of employees and O&M. The larger the number of employees, the more support, software and IT infrastructure is required.	Enterprise wide support, architecture, etc. Third party fees
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Training	Number of Employees 100%	Training is directly proportional to the number of employees per function	Courses, lectures, in house training sessions by third party providers
Facilities and Building Rent	Square Footage 100%	Office space occupied accurately reflects space requirements of each subsidiary	Corporate office building
Financial Reporting and Administration	Revenue 33.3% O&M 33.3% Net Plant 33.3%	This function is driven by factors which reflect the relative size and complexity of Financial Reporting and Admin. - Revenues, Net	Employee labor and related administration and third party fees

		Plant and O&M costs.	
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees per function	Enterprise wide programs, employee labor and related administration
Legal Costs	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	This function is driven by factors which include Net Plant, as typically the higher the value of plant, the more legal work it attracts; similarly, a greater number of employees are typically more indicative of larger facilities that require greater levels of attention; and O&M costs tend to be a third factor indicative of size and legal complexity.	Employee labor and related administration and programs, including third party legal
Treasury	Capital Expenditures 25% O&M 50% Net Plant 25%	Treasury activity is typically guided by the amount of necessary capex/plant for each utility, and operating costs/cashflow	Third party financing, employee labor and related administration and programs
Internal Audit	Net Plant 25% O&M 75%	This function is driven by factors which reflect the relative size and	Third party fees, employee labor and related administration

		complexity of Internal audit activity. Larger Plant and operating costs drive of a given facility drive more activity from IA.	and programs
Procurement	O&M 50% Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration
Communications	Number of Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration

5. LIBERTY UTILTIES SERVICE CORP.

All US utility employees are employed by Liberty Utilities Service Corp. (LUSC). All employees' costs, such as salaries, benefits, insurances etc. are paid by LUSC and direct charged to the extent possible. Services provided from LUSC to each regulated utility shall be done on a time sheet basis to the extent possible. In instances where time sheeting may not be possible, the allocation factors shown in Table 5 are to be used.

Table 5: Summary of Corporate Allocation Method of LUSC Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
Customer Care and Billing	Customer count 100%	Customer count accurately reflects the resource requirements of the Customer Care and	Customer Care and Billing employees and related administrations

		Billing group	
IT/Tech Support	Number of Employees 100%	Technical support requirements are related to the number of employees	Tech support staff, associated administration, and required software, hardware, etc.
Human Resources	Number of Employees 100%	HR function is driven by number of employees. A greater number of employees requires additional HR support	HR policies, payroll processing, benefits, employee surveys
Gas Control	Net Plant 100%	The greater the plant, the more control required	Gas Control labor, administration, and associated programs
Legal	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Employee labor and related administration and programs, including third party legal
Regulatory	Net Plant 33.3% Number of Employees 33.3% O&M 33.3%	Allocated based on the relative size of affiliate and employee count.	Utility-wide studies or third party costs beneficial to all utilities
Environment, Health, Safety and Security	Number of Employees 100%	EHSS training, etc. is directly proportional to the number of employees	Utility-wide programs, employee labor and related administration
Procurement	O&M 50% Capital Expenditures 50%	Based on typical proportion of expenditures	Utility-wide support and related administration

Please note the allocation methodology can be adjusted based on the number of participating utilities. For example, Customer Service representatives who serve only the New Hampshire utilities will only have their costs allocated based on the number of customers within New Hampshire. Labor cost associated with energy procurement is directly billed to the utilities using timesheets.

6. CORPORATE CAPITAL

From time to time, APUC or LUC makes capital investments for the benefit of all the utilities or facilities it owns (examples include corporate headquarters, IT systems, etc.). All the capital investments will be kept at corporate level and charged monthly in the form of corporate capital rents to the regulated utilities. All costs associated to service the investment will be allocated to each utility based on that department's allocation where the capital investment is made. For example, if the capital investment is made in HR then the allocation methodology used for HR to allocate non-capital indirect costs as shown in Table 4 will be used to allocate the rent associated with the corporate capital expenditures, including the cost of capital, depreciation, property tax, operation and maintenance costs and all other cost associated with it. .

7. APPENDICES

APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS

Guidelines for Cost Allocations and Affiliate Transactions:

The following Guidelines for Cost Allocations and Affiliate Transactions (Guidelines) are intended to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. The prevailing premise of these Guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities unless authorized by the jurisdictional regulatory authority. These Guidelines are not intended to be rules or regulations prescribing how cost allocations and affiliate transactions are to be handled. They are intended to provide a framework for regulated entities and regulatory authorities in the development of their own policies and procedures for cost allocations and affiliated transactions. Variation in regulatory environment may justify different cost allocation methods than those embodied in the Guidelines.

The Guidelines acknowledge and reference the use of several different practices and methods. It is intended that there be latitude in the application of these guidelines, subject to regulatory oversight. The implementation and compliance with these cost allocations and affiliate transaction guidelines, by regulated utilities under the authority of jurisdictional regulatory commissions, is subject to Federal and state law. Each state or Federal regulatory commission may have unique situations and circumstances that govern affiliate transactions, cost allocations, and/or service or product pricing standards. For example, The Public Utility Holding Company Act of 1935 requires registered holding company systems to price "at cost" the sale of goods and services and the undertaking of construction contracts between affiliate companies.

The Guidelines were developed by the NARUC Staff Subcommittee on Accounts in compliance with the Resolution passed on March 3, 1998 entitled "Resolution Regarding Cost Allocation for the Energy Industry" which directed the Staff Subcommittee on Accounts together with the Staff Subcommittees on Strategic Issues and Gas to prepare for NARUC's consideration, "Guidelines for Energy Cost Allocations." In addition, input was requested from other industry parties. Various levels of input were obtained in the development of the Guidelines from the Edison Electric Institute, American Gas Association, Securities and Exchange Commission, the Federal Energy Regulatory Commission, Rural Utilities Service and the National Rural Electric Cooperatives Association as well as staff of various state public utility commissions.

In some instances, non-structural safeguards as contained in these guidelines may not be sufficient to prevent market power problems in strategic markets such as the generation market. Problems arise when a firm has the ability to raise prices above market for a sustained period and/or impede output of a product or service. Such concerns have led some states to develop codes of conduct to govern relationships between the regulated utility and its non-regulated affiliates. Consideration should be given to any "unique" advantages an incumbent utility would have over competitors in an emerging market such as the retail energy market. A code of conduct should be used in conjunction with guidelines on cost allocations and affiliate transactions.

A. DEFINITIONS

1. Affiliates - companies that are related to each other due to common ownership or control.

2. Attestation Engagement - one in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

3. Cost Allocation Manual (CAM) - an indexed compilation and documentation of a company's cost allocation policies and related procedures.

4. Cost Allocations - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).

5. Common Costs - costs associated with services or products that are of joint benefit between regulated and non-regulated business units.

6. Cost Driver - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.

7. Direct Costs - costs which can be specifically identified with a particular service or product.

8. Fully Allocated costs - the sum of the direct costs plus an appropriate share of indirect costs.

9. Incremental pricing - pricing services or products on a basis of only the additional costs added by their operations while one or more pre-existing services or products support the fixed costs.

10. Indirect Costs - costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative and general, and taxes.

11. Non-regulated - that which is not subject to regulation by regulatory authorities.

12. Prevailing Market Pricing - a generally accepted market value that can be substantiated by clearly comparable transactions, auction or appraisal.

13. Regulated - that which is subject to regulation by regulatory authorities.

14. Subsidization - the recovery of costs from one class of customers or business unit that are attributable to another.

B. COST ALLOCATION PRINCIPLES

The following allocation principles should be used whenever products or services are provided between a regulated utility and its non-regulated affiliate or division.

1. To the maximum extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided.

2. The general method for charging indirect costs should be on a fully allocated cost basis. Under appropriate circumstances, regulatory authorities may consider incremental cost, prevailing market pricing or other methods for allocating costs and pricing transactions among affiliates.

3. To the extent possible, all direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts. Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates.

4. The allocation methods should apply to the regulated entity's affiliates in order to prevent subsidization from, and ensure equitable cost sharing among the regulated entity and its affiliates, and vice versa.

5. All costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both.

6. The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products.

7. The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators.

C. COST ALLOCATION MANUAL (NOT TARIFFED)

Each entity that provides both regulated and non-regulated services or products should maintain a cost allocation manual (CAM) or its equivalent and notify the jurisdictional regulatory authorities of the CAM's existence. The determination of what, if any, information should be held confidential should be based on the statutes and rules of the regulatory agency that requires the information. Any entity required to provide notification of a CAM(s) should make arrangements as necessary and appropriate to ensure competitively sensitive information derived therefrom be kept confidential by the regulator. At a minimum, the CAM should contain the following:

1. An organization chart of the holding company, depicting all affiliates, and regulated entities.

2. A description of all assets, services and products provided to and from the regulated entity and each of its affiliates.

3. A description of all assets, services and products provided by the regulated entity to non-affiliates.

4. A description of the cost allocators and methods used by the regulated entity and the cost allocators and methods used by its affiliates related to the regulated services and products provided to the regulated entity.

D. AFFILIATE TRANSACTIONS (NOT TARIFFED)

The affiliate transactions pricing guidelines are based on two assumptions. First, affiliate transactions raise the concern of self-dealing where market forces do not necessarily drive prices. Second, utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers. Too much flexibility will lead to subsidization. However, if the affiliate transaction pricing guidelines are too rigid, economic transactions may be discouraged.

The objective of the affiliate transactions' guidelines is to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets. It provides ample flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competition. As with any transactions, the burden of proof for any exception from the general rule rests with the proponent of the exception.

1. Generally, the price for services, products and the use of assets provided by a regulated entity to its non-regulated affiliates should be at the higher of fully allocated costs or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

2. Generally, the price for services, products and the use of assets provided by a non-regulated affiliate to a regulated affiliate should be at the lower of fully allocated cost or prevailing market prices. Under appropriate circumstances, prices could be based on incremental cost, or other pricing mechanisms as determined by the regulator.

3. Generally, transfer of a capital asset from the utility to its non-regulated affiliate should be at the greater of prevailing market price or net book value, except as

otherwise required by law or regulation. Generally, transfer of assets from an affiliate to the utility should be at the lower of prevailing market price or net book value, except as otherwise required by law or regulation. To determine prevailing market value, an appraisal should be required at certain value thresholds as determined by regulators.

4. Entities should maintain all information underlying affiliate transactions with the affiliated utility for a minimum of three years, or as required by law or regulation.

E. AUDIT REQUIREMENTS

1. An audit trail should exist with respect to all transactions between the regulated entity and its affiliates that relate to regulated services and products. The regulator should have complete access to all affiliate records necessary to ensure that cost allocations and affiliate transactions are conducted in accordance with the guidelines. Regulators should have complete access to affiliate records, consistent with state statutes, to ensure that the regulator has access to all relevant information necessary to evaluate whether subsidization exists. The auditors, not the audited utilities, should determine what information is relevant for a particular audit objective. Limitations on access would compromise the audit process and impair audit independence.

2. Each regulated entity's cost allocation documentation should be made available to the company's internal auditors for periodic review of the allocation policy and process and to any jurisdictional regulatory authority when appropriate and upon request.

3. Any jurisdictional regulatory authority may request an independent attestation engagement of the CAM. The cost of any independent attestation engagement associated with the CAM, should be shared between regulated and non-regulated operations consistent with the allocation of similar common costs.

4. Any audit of the CAM should not otherwise limit or restrict the authority of state regulatory authorities to have access to the books and records of and audit the operations of jurisdictional utilities.

5. Any entity required to provide access to its books and records should make arrangements as necessary and appropriate to ensure that competitively sensitive information derived therefrom be kept confidential by the regulator.

F. REPORTING REQUIREMENTS

1. The regulated entity should report annually the dollar amount of non-tariffed transactions associated with the provision of each service or product and the use or sale of each asset for the following:

a. Those provided to each non-regulated affiliate.
b. Those received from each non-regulated affiliate.
c. Those provided to non-affiliated entities.

2. Any additional information needed to assure compliance with these Guidelines, such as cost of service data necessary to evaluate subsidization issues, should be provided.

Source:
http://www.naruc.org/Publications/Guidelines%20for%20Cost%20Allocations%20and%20Affiliate%20Transactions.pdf

APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS

1. APUC Strategic Management Costs

Strategic management decisions are critical for any public utility. The need for strategic management is even more pronounced for APUC as a publicly traded company, which depends on access to capital funding through public sales of units. APUC seeks to hire talented strategic managers that aid in running each facility owned by the company as efficiently and effectively as possible. This ensures the long term health of each utility and ensures that rates are kept as low as possible without compromising the level of service. It also facilitates each regulated utility's access to necessary capital funding at reduced costs. The costs included in Strategic Management Costs fall into the following categories.

a. Board of Directors

The Board of Directors provides strategic oversight on all company affairs including high level approvals of strategy, operation and maintenance budgets, capital budgets, etc. In addition, the Board of Directors provides corporate governance and ensures that capital and costs are incurred prudently, which ultimately protects ratepayers.

b. General Legal Services

General legal services involve legal matters not specific to any single facility, including review of audited financial statements, annual information filings, Sedar filings, review of contracts with credit facilities, incorporation, tax issues of a legal nature, market compliance, and other similar legal costs. These legal services are required in order for APUC to provide capital funding to individual utilities, without which the utilities could not provide adequate service. Additionally, the services ensure that APUC's subsidiaries remain compliant in all aspects of operations and prevents those entities from being exposed to unnecessary risks.

c. Professional Services

Professional Services including strategic plan reviews, capital market advisory services, ERP System maintenance, benefits consulting, and other similar professional services. By providing these services at a parent level, the subsidiaries are able to benefit from economies of scale. Additionally, some of these services improve APUC's access to capital which benefits all of its subsidiaries.

2. Access to Capital Markets

One of APUC's primary functions is to ensure its subsidiaries have access to quality capital. APUC is listed on the Toronto Stock Exchange, a leading financial market. In order to allow its subsidiaries to have continued access to those capital markets, APUC incurs the following costs. These services and costs are a prerequisite to the subsidiaries continued access to those capital markets.

a. License and Permit Fees

In connection with APUC's participation in the Toronto Stock Exchange, APUC incurs certain license and permit fees such as Sedar fees, annual filing fees, licensing fees, etc. These licensing and permit fees are required in order to sell units on the Toronto Stock Exchange, which in turn provides funding for utility operations.

b. Escrow Fees

In connection with the payment of dividends to unit holders, APUC incurs escrow fees. Escrow fees are incurred to ensure continued access to capital and ensure continuing and ongoing investments by shareholders. Without such escrow fees, APUC's subsidiaries would not have a readily available source of capital funding.

c. Unit Holder Communications

Unit holder communication costs are incurred to comply with filing and regulatory requirements of the Toronto Stock Exchange and meet the expectations of shareholders. These costs include items such as news releases and unit holder conference calls. In the absence of shareholder communication costs, investors would not invest in the units of APUC, and in turn, APUC would not have capital to invest in its subsidiaries. With such communications services, the subsidiaries would not have a readily available source of capital funding.

3. APUC Financial Controls

Financial control costs incurred by APUC include costs for audit services and tax services. These costs are necessary to ensure that the subsidiaries are operating in a manner that meets audit standards and regulatory requirements, which have strong financial and operational controls, and financial transactions are recorded accurately and prudently. Without these services, the regulated utilities would not have a readily available source of capital funding.

a. Audit Fees

Audits are done on a yearly basis and reviews are performed quarterly on all facilities owned by APUC on an aggregate level. These corporate parent level audits reduce the cost of the stand-alone audits significantly for utilities which must perform its own separate audits. Where stand-alone audits are not required, ratepayers receive benefits of additional financial rigor, as well as access to capital, and financial soundness checks by third parties. Finally, during rate cases, the existence of audits provides staff and intervenors additional reliance on the company records, thus reducing overall rate case costs. The aggregate audit is necessary for the regulated utilities to have continued access to capital markets and unit holders.

b. Tax Services

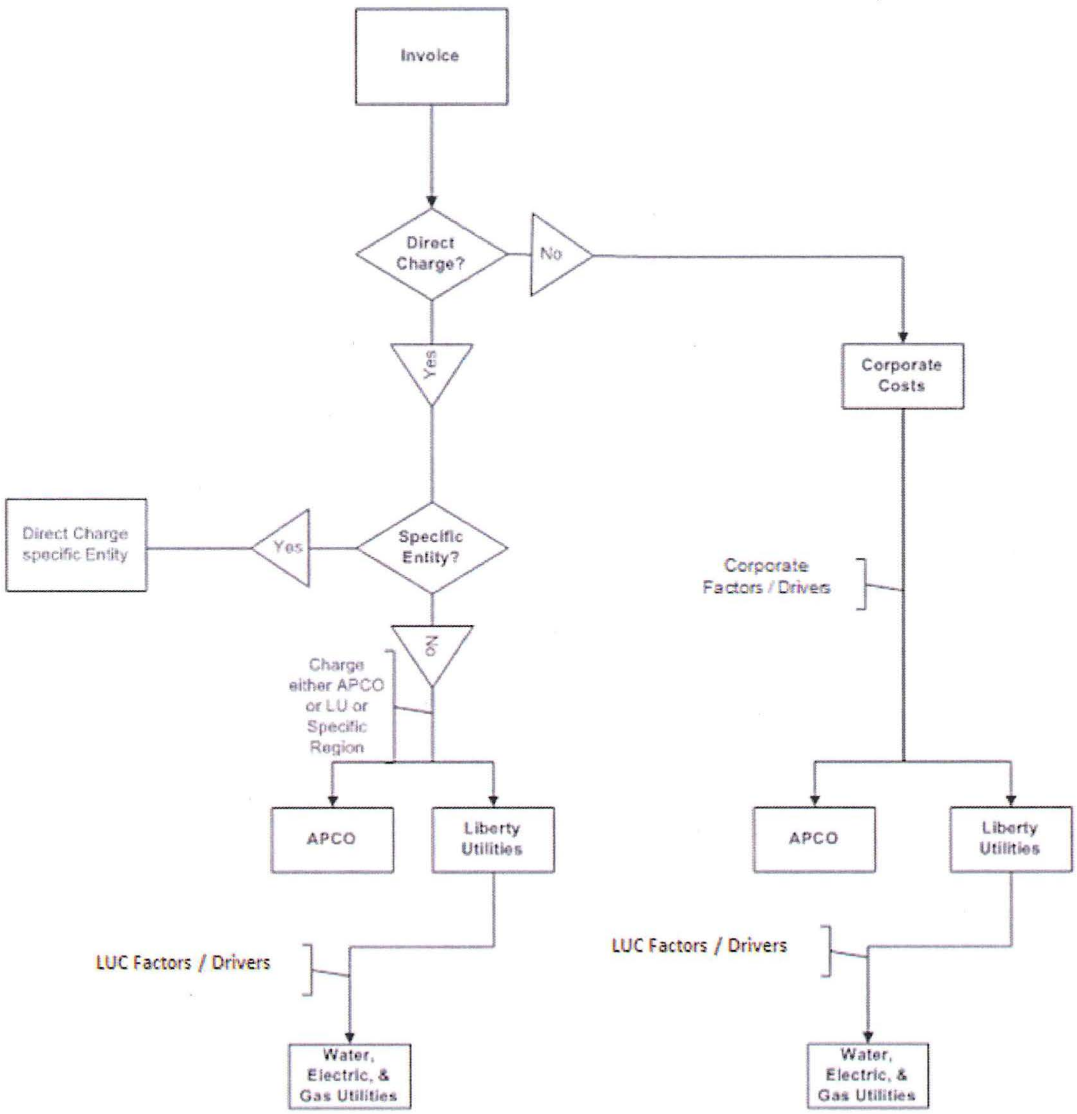
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise would be incurred by such utility in filing its own separate tax return.

4. APUC Administrative Costs

Finally, administrative costs incurred by APUC such as rent, depreciation of office furniture, depreciation of computers, and general office costs are required to house all the services mentioned above. Without these administrative costs, the employees of APUC could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

APPENDIX 3 – LIFE OF AN INVOICE

A hypothetical example is being provided of an invoice received by APUC for services to be allocated to its subsidiaries. The diagram below is intended to visually explain APUC's allocation to APCo and Liberty Utilities.



SCHEDULE CDK-4 HC

Gas Transportation Agreement

With

Noranda Aluminum, Inc.

(HIGHLY CONFIDENTIAL)

(Filed Under Seal)

NP

SCHEDULE CDK-5 HC

Gas Transportation Agreement

With

General Mills

(HIGHLY CONFIDENTIAL)

(Filed Under Seal)

NP