

ALGONQUIN POWER & UTILITIES CORP.

COST ALLOCATION MANUAL

V2017 Effective: January 1st, 2017

TABLE OF CONTENTS

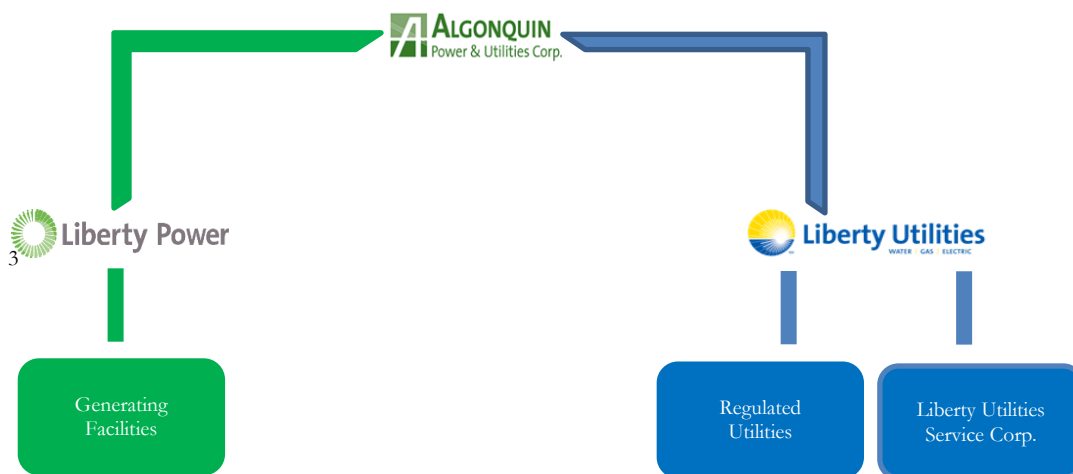
1. INTRODUCTION.....	3
2. THE APUC CORPORATE STRUCTURE.....	4
3. SCOPE OF SERVICES FROM APUC AND HOW THOSE COSTS ARE DISTRIBUTED	5
4. SCOPE OF SERVICES PROVIDED BY LUC AND HOW COSTS ARE DISTRIBUTED	11
4.1 Overview of LUC Services and Costs	11
4.2 LUC Services and Costs Provided to Liberty Utilities and Liberty Power ...	13
4.3 Shared Services from LUC.....	16
5. LIBERTY UTILITIES SERVICE CORP.....	21
5.1 Shared Services from LUSC.....	22
6. COST DISTRIBUTION AT THE REGIONAL OR STATE UTILITY LEVEL.....	25
7. CORPORATE CAPITAL.....	25
8. CAM TEAM AND TRAINING.....	26
9. AUDIT, RECORD KEEPING & AFFILIATE TRANSACTION RULES.....	26
10. UPDATING ALLOCATIONS	26
11. APPENDICES	27
APPENDIX 1 - NARUC GUIDELINES FOR COST ALLOCATIONS.....	27
APPENDIX 2 – DETAILED EXPLANATION OF APUC COSTS.....	34
1. APUC STRATEGIC MANAGEMENT COSTS	34
2. ACCESS TO CAPITAL MARKETS.....	35
3. APUC FINANCIAL CONTROLS.....	35
4. APUC ADMINISTRATIVE COSTS.....	36
APPENDIX 3 – LIFE OF AN APUC INVOICE.....	37
APPENDIX 4 – LIFE OF A LIBERTY UTILITIES INVOICE	38
APPENDIX 5 – LIFE OF A SHARED SERVICES INVOICE.....	39

APPENDIX 6 – COMPOSITE ILLUSTRATION OF ORGANIZATIONAL COST DISTRIBUTION.....	40
APPENDIX 7 – GLOSSARY OF TERMS.....	41
APPENDIX 8 - VERSION LOG.....	43
APPENDIX 9 – MISSOURI SUPPLEMENT.....	44

1. INTRODUCTION

The purpose of this manual is to provide a detailed explanation of services provided by Algonquin Power & Utilities Corp (“APUC”) and its affiliates to other entities within the APUC family of businesses and to describe the Direct Charge¹ and Indirect Charge² Methodologies used for those services. The following organization chart identifies, at a high level, the corporate structure of APUC.

Figure 1: Simplified APUC 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)

¹ Direct charges (sometimes referred to as assigned costs) are costs incurred by one company for the exclusive benefit of, or specifically identified with, one or more other companies, and which are directly charged (or assigned) to the company or companies that specifically benefited. Under the NARUC Guidelines, “Direct Costs” are defined as “costs which can be specifically identified with a specific service or product.”

² Indirect charges (sometimes referred to as allocated costs) are costs incurred by one company that are for the benefit of either (a) all of the APUC companies or (b) all of the regulated companies, and which are charged to the benefited companies using a methodology and set of logical allocation factors that establish a reasonable link between cost causation and cost recovery. Under the NARUC Guidelines, “Indirect Costs” are defined as “costs that cannot be identified with a particular service or product. This includes but not limited to overhead costs, administrative, general, and taxes.”

³ As of April 2017, Algonquin Power Co. (APCo) is doing business under the name Liberty Power. All Liberty Power employees in Canada will become employed by Liberty Utilities (Canada) Corp. in 2017. Liberty Power employees in the United States will remain employed by Algonquin Power Fund (America) Inc.

to ensure that unauthorized 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 allocated can take the form of: direct labor, direct material, direct purchased services and indirect charges (as described in Tables 1, 4a and 4b in this CAM). These costs are charged by the providing party to the receiving part at fully distributed costs.

2. THE APUC CORPORATE STRUCTURE

APUC owns a widely diversified portfolio of independent power production facilities and regulated utilities⁴ consisting of water distribution, wastewater treatment, electric and gas distribution utilities. While power production facilities are located in both Canada and the United States, regulated distribution utility operations are located in the United States.⁵ APUC is publicly traded on the New York Stock Exchange and the Toronto Stock Exchange⁶. APUC's 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 that provides financial and strategic management, corporate governance, and oversight of administrative and support services to Liberty Utilities (Canada) Corp. ("LUC") and its subsidiaries as well as to Algonquin Power Co. ("APCo") d/b/a Liberty Power and its subsidiaries. The services provided by APUC are necessary for all affiliates, including LUC and the regulated utility subsidiaries of Liberty Utilities Co. (referred to as "Liberty Utilities"), to have access to capital markets for capital projects and operations. These services are expensed at APUC and are performed for the benefit of Liberty Power and Liberty Utilities and their respective businesses.

APUC and its affiliates benefit from 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,

⁴ All distribution and transmission utilities are owned, either directly or indirectly, by Liberty Utilities Co., which is itself indirectly owned by Liberty Utilities (Canada) Corp.

⁵ Algonquin Tinker Gen Co. owns transmission assets in New Brunswick, Canada, which are subject to regulation by the New Brunswick Energy and Utilities Board.

⁶ Common shares, preferred shares, and instalment receipts of APUC are traded on the Toronto Stock Exchange under the symbols AQN, AQN.PR.A, AQN.PR.D, and AQN.IR. APUC's common shares are also listed on the New York Stock Exchange under the symbol AQN. Additional corporate information can be found at the company's website, algonquinpower.com.

the use of shared expertise allows each of the entities to receive a benefit it 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 FROM APUC AND HOW THOSE COSTS ARE DISTRIBUTED

This section provides an overview of the services provided from APUC, and method used to distribute the associated costs for these services throughout the organization.

3.1 Services and Cost Allocation from APUC to Liberty Utilities and Liberty Power

3.1.1 Description of APUC Services and Costs

APUC provides benefits to its subsidiaries by providing financing, financial control, legal, executive and strategic management and related 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 to the entity incurring these costs based on timesheets to the extent possible. If labor is for the benefit of all subsidiaries then the allocation methodologies used for indirect costs are applied. See Appendix 2 for a more detailed discussion of the costs incurred by APUC.

APUC also charges non-labor services which includes Financing Services. 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 the entire organization, including subsidiaries of Liberty Utilities and Liberty Power, as well as providing legal services and other associated costs in connection with the issuance of debt and equity.

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) other administrative costs (examples: rent, depreciation, general office costs).

The capital raised by APUC is used by Liberty Utilities (and its regulated subsidiaries) and Liberty Power for current and future capital investments. The services provided by APUC are critical and necessary to Liberty Utilities and its regulated subsidiaries and Liberty Power 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.

Indirect costs from APUC, excluding corporate capital, are pooled and allocated to LUC (and subsequently, to LUC's subsidiaries) and Liberty Power using the method summarized in Table 1. Each corporate cost type, or function, has been reviewed to properly identify the factors driving those costs. Each function or cost type is typically driven by more than one factor and each has been assigned an appropriate weighting. Table 1 includes a brief commentary on the rationale for each cost driver and weighting, along with examples for each cost type.

The services provided by APUC 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, 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.

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	Employee labor and related administration and programs; Third party legal services

			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.	
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 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	Employee labor and related administration and programs,

			scope of each affiliate - Revenues, Net Plant and O&M costs.	including third party Investor day communications and materials
Director Fees and Insurance	Revenue O&M Net Plant	33.3% 33.3% 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 O&M Net Plant	33.3% 33.3% 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 O&M Net Plant	33.3% 33.3% 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 O&M Net Plant	33.3% 33.3% 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 Administration Costs	Oakville Employees 50% Total Employees 50%	This function is driven by factors which are indicative of number of employees.	Office administration costs. Employee labor and related administration
Executive and Strategic Management	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 that is not directly attributable to any entity

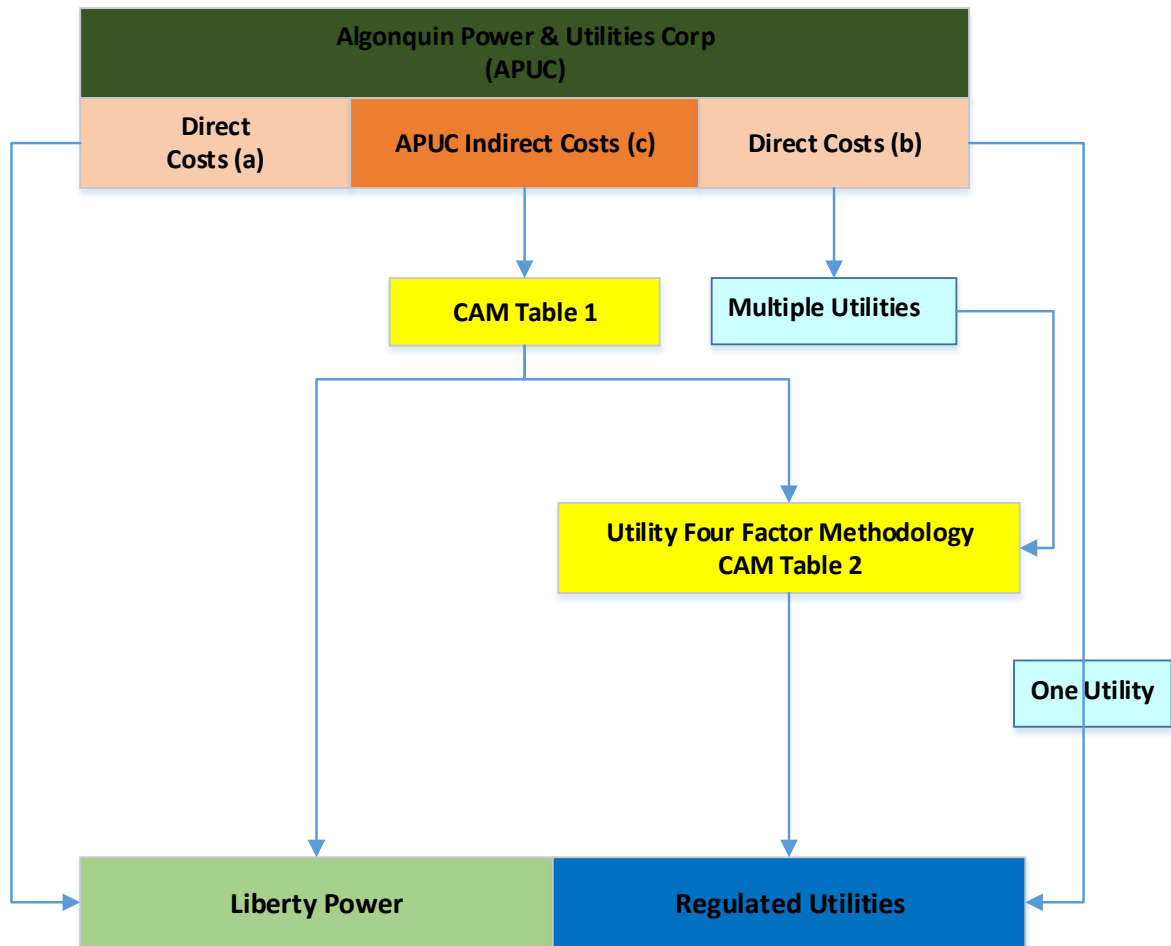
Notwithstanding the above, if a charge is related either solely to the regulated utility business or to the power generation business Liberty Power, then all of those costs will be direct charged, or assigned, to the business segment for which they are incurred. If a cost can be directly attributable to a specific entity, it will be directly charged to that entity.

In the event that organizational realignments occur, resulting in certain other services or costs to come from APUC, any allocations (if any) will be done as per the “Executive and Strategic Management” line in Table 1 above until the CAM is updated.

3.1.2 Description of the APUC Cost Flows

Please refer to Figure 2 for a diagram of the various flows of costs from APUC.

Figure 2: Illustration of APUC Corporate Cost Distributions



- (a) Costs that are directly assignable to unregulated companies.
- (b) Costs that are directly assignable to one regulated company, or that benefit all regulated operations.
- (c) Costs that benefit both unregulated and regulated operations.

As illustrated in Figure 2 and as described above, APUC incurs three types of costs that are passed on to its direct and indirect subsidiaries. The first type is APUC’s costs that directly benefit a particular specific unregulated company, which are directly assigned to that unregulated company (i.e., Liberty Power or one of its subsidiaries). The second type is APUC’s costs that directly benefit a particular regulated company, which are directly assigned to that regulated company⁷. The third type are APUC’s remaining costs that benefit the entire

⁷ This could be directly to LUC (which would subsequently be allocated over utility subsidiaries of LUC) or to a specific utility for which the service was necessary.

enterprise (both regulated and unregulated), which are allocated between regulated and unregulated company groups pursuant to CAM Table 1. Information within Table 1 includes: (a) each type of cost incurred by APUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual utility companies using the Utility Four-Factor allocation methodology set forth in CAM Table 2 (described below), resulting in utility-specific allocated charges from APUC.

For an example of how an APUC invoice would be assigned or allocated, please see Appendix 3.

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

4. SCOPE OF SERVICES PROVIDED BY LUC AND HOW COSTS ARE DISTRIBUTED

This section provides an overview of the services and the cost methodology for LUC.

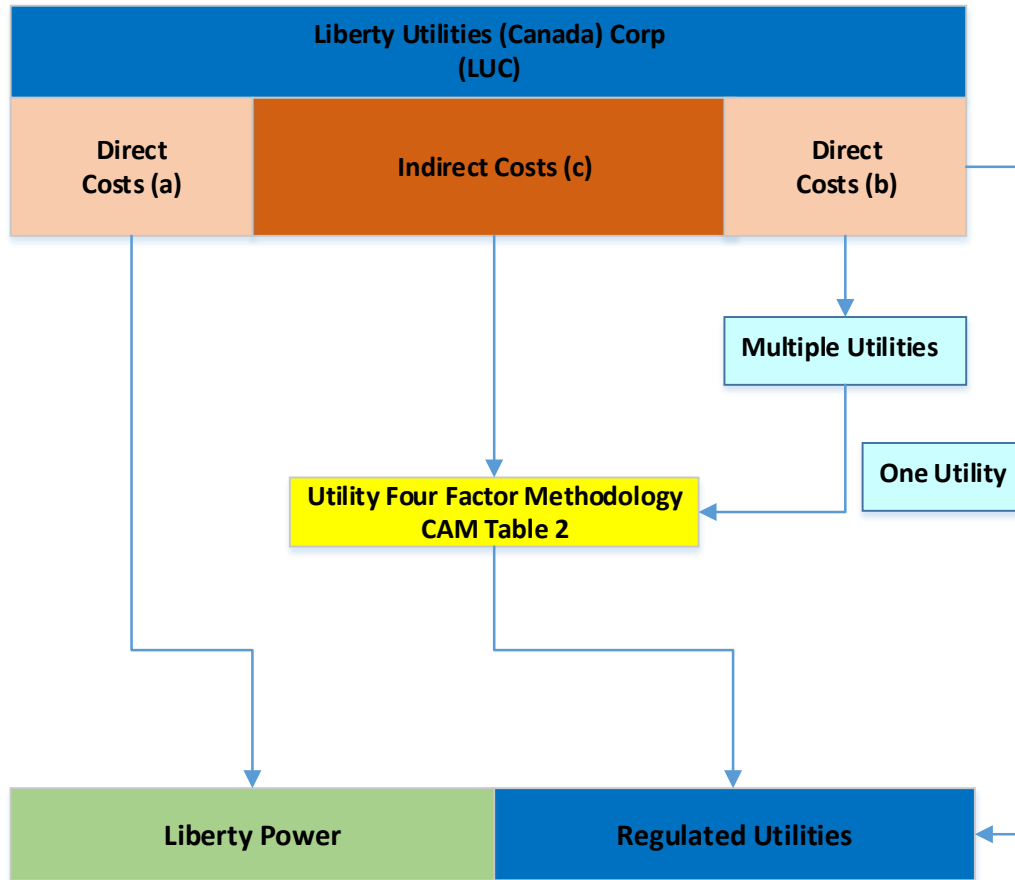
4.1 Overview of LUC Services and Costs

Various services and methods of cost distribution arise from LUC and can be categorized as those provided: (a) specifically to regulated utilities, (b) specifically to Liberty Power, or (c) to the entire organization (under the business unit of Liberty Algonquin Business Services ("LABS")). Figure 3 identifies the flow of costs from dedicated utility support and dedicated Liberty Power staff within LUC. Figure 4 identifies the flow of costs from the shared business and corporate services staff and functions ("LABS") within LUC. Both Figures 3 and 4 are depicted below in this section.

As illustrated in Figure 3, LUC incurs three types of costs. The first type is an LUC cost that directly benefits a particular Liberty Utilities affiliate (i.e., regulated company), which is directly assigned to that regulated company. The second type is an LUC cost that benefits all of the Liberty Utilities regulated companies, and which is allocated using the Utility Four-Factor Methodology described in CAM Table 2. The third type is a cost that only benefits and is directly charged to Liberty Power. All three of these cost types are described in section 4.2 below.

As illustrated in Figure 4, shared services costs arising from LUC are those from shared services⁸ that benefit both the regulated group of companies and the unregulated group of companies within the APUC family; which are allocated between the two groups pursuant to the methodology described in section 4.3 and as set forth in CAM Table 4.

Figure 3: Illustration of LUC Corporate Cost Distributions

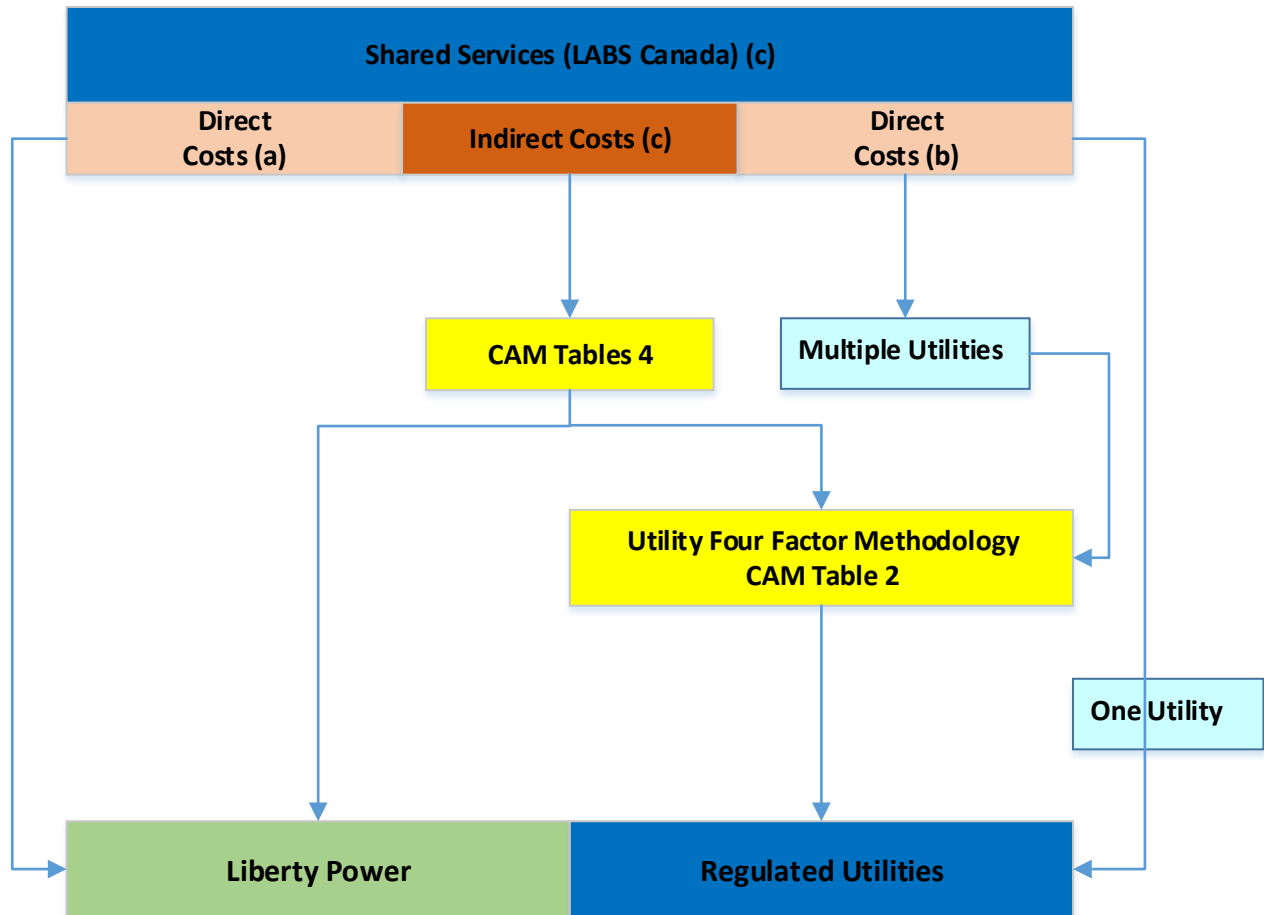


Notes:

- (a) Costs that are directly assignable to unregulated companies
- (b) Costs that are directly assignable to one or more specific regulated companies.
- (c) Costs that benefit all regulated operations.

⁸ As discussed later, shared support services that benefit both regulated and unregulated businesses within APUC are provided within Liberty Algonquin Business Services (“LABS”), which is a business unit with staff employed within LUC and LUSC. Shared services staff serve both regulated and unregulated entities. LABS staff within the corporate office in Canada are employed within LUC; LABS staff in the US are employed within LUSC. As new U.S.-based utilities are added to the Liberty-Algonquin organization, there could be a transitional period in which some of these shared services staff and functions may also remain employed within the new utility until such time that they may be transitioned to become an employee of Liberty Utilities Service Corp. (“LUSC”).

Figure 4: Illustration of LUC Shared Services Cost Distributions



Notes:

- (a) Costs that are directly assignable to unregulated companies.
- (b) Costs that are directly assignable to one or more regulated companies.
- (c) Costs that benefit both unregulated and regulated operations.

4.2 LUC Services and Costs Provided to Liberty Utilities and Liberty Power

4.2.1 Services to Liberty Utilities

LUC provides services to Liberty Utilities such as: executive, regulatory strategy, energy procurement, operations, utility planning, administration, and customer experience.

LUC will assign costs that can be directly attributable to a specific utility. These include direct labor and direct non-labor costs. However, because 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 Methodology⁹. 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 and scope of the utilities. The methodology used by LUC involves four allocating factors, or drivers: (1) Utility Net Plant; (2) Total Customers; (3) Non-Labor Expenses; and (4) Labor Expenses, with each factor assigned an equal weight, as shown in Table 2 below.

Table 2: Utility Four-Factor Methodology Factors and Weightings

Factor	Weight
Customer Count	40%
Utility Net Plant	20%
Non-Labor Expenses	20%
Labor Expenses	20%
Total	100%

LUC uses the Utility Four-Factor Methodology to allocate to its regulated utilities the system-wide indirect labor and indirect non-labor costs within LUC (from its utility-dedicated staff, and from the shared services functions within LUC).

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.

⁹ Please note, indirect costs sent to utilities via the 4-factor will consist of 1) indirect costs from LUC’s utility-dedicated staff and services, plus 2) the indirect costs from APUC, 3) the indirect costs retained within LUC from LABS (the shared services staff and services within LUC), and 4) the indirect costs allocated from LUSC.

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 Net Plant (\$)	727	371	1098	66%	20%	13%
Customer Count (#)	6000	2000	8000	75%	40%	30%
Labor Expenses (\$)	57	32	89	64%	20%	13%
Non-Labor Expenses (\$)	108	41	149	72%	20%	14%
Total Allocation						71%

As can be seen from these hypothetical numbers in Table 3, Utility 1 would be allocated 71% of the total indirect costs incurred by LUC, based on its relative size and application of the Utility Four-Factor Methodology. Utility 2 would be allocated the remaining 29%. 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.

On occasion there may be costs which are incurred for the benefit of two or more utilities, but not all of the utilities. These costs are directly assigned to utilities as per the vendor invoice, or, if the invoice doesn't specify a share for each utility, the Utility Four-Factor Methodology is used. In this situation, the weighting is determined by only including the utilities that benefited from the service and excluding the utilities that did not receive the service. For an example of how an LUC invoice would be assigned or allocated, please see Appendix 4.

4.2.2 LUC Services to Liberty Power.

A sub-set of LUC employees provide dedicated services to Liberty Power such as: executive, energy services, asset management, business development, and operations. All costs (labor and non-labor) incurred for these services will be directly charged to Liberty Power (no

indirect costs are allocated from this group). Labor costs are tracked through timesheets and directly charged to Liberty Power.

4.3 Shared Services from LUC

The last type of costs arising from LUC are those from shared services¹⁰ that benefit both the regulated group of subsidiary companies owned by Liberty Utilities and Liberty Power.

Consistent with the organization practices described earlier, shared services and costs (within LUC¹¹) are assigned when they are directly attributable to a specific affiliate company (such as a specific distribution utility) or business unit¹² (such as Liberty Utilities or Liberty Power). Labor charges for LUC shared services staff are assigned using timesheets that depict the amount of time that is to be direct charged to either Liberty Utilities or Liberty Power (or a specific subsidiary within Liberty Utilities. or Liberty Power).

Please refer to Figure 4 above for a diagram of the various flows of costs that may arise from the shared services staff and functions within LUC¹³.

Indirect costs for services from the shared services functions that cannot be directly assigned are allocated between the regulated and unregulated business units, Liberty Utilities and Liberty Power, pursuant to the methodology set forth in CAM Tables 4a and 4b. Similar to Table 1, Tables 4a and 4b include: (a) each type of cost incurred by shared services functions within LUC that is to be allocated between regulated and unregulated parts of the business; (b) the factors used to allocate each type of cost between regulated and unregulated activity; (c) the rationale for selecting the factors that are used for allocation; and (d) examples of the specific allocated costs. The costs allocated to the regulated companies as a group are then reallocated to individual companies using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUC.

¹⁰ Liberty Algonquin Business Services (“LABS”) is a business unit found organizationally within LUC and LUSC that serves both regulated and unregulated entities. The LABS business unit provides shared services throughout the organization. LABS employees and functions provided from Canada are employed within LUC; LABS employees and functions located in the U.S. are typically employed within LUSC.

¹¹ As will be discussed further in section 5, shared services to the entire APUC organization are also provided from staff within LUSC.

¹² To clarify, if a LABS service is for only one specific organization, such as the unregulated generation business, Liberty Power, the cost will be directly charged to that business unit.

¹³ Sometimes referred to as “LABS Canada.”

For an example of how an invoice or cost within LUC's shared services (LABS) would be assigned or allocated, please see Appendix 5.

4.3.1 Business Services and Corporate Services

LUC shared services that would be provided to the entire company, i.e., Liberty Power and Liberty Utilities, are internally referenced under two names - Business Services and Corporate Services. The services and functions within each category are shown in the tables below¹⁴. Indirect costs from Business Services and Corporate Services are allocated using the following methodology shown in Tables 4a and 4b, respectively, which are designed to closely align the costs with the driver of the activity.

Table 4a: Summary of Corporate Allocation Method of LUC¹⁵ Business Services Indirect Costs

Type of Cost	Allocation Methodology	Rationale	Examples
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	HR policies, payroll processing, benefits,

¹⁵ And LUSC shared services functions.

		additional HR support	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	Oakville Employees 100%	Office space occupied by employees accurately reflects space requirements of each subsidiary	Corporate office building
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
Procurement	O&M 50% Capital Expenditures 50%	Procurement function is based on typical proportion of expenditures	Enterprise wide support and related administration
Executive and Strategic Management	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 that is not directly attributable to any entity

Technical Services	Net Plant 33.3% Revenue 33.3% O&M 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 that is not directly attributable to any entity
Utility Planning	Net Plant 33.3% Revenue 33.3% O&M 33.3%	This function is driven by factors which reflect the scope of each affiliate Management - Revenues, Net Plant and O&M costs.	Employee labor and related administration that is not directly attributable to any entity

Table 4b: Summary of Corporate Allocation Method of LUC¹⁶ Corporate Services Indirect Costs

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 - Revenues, Net Plant and O&M costs.	Employee labor and related administration, Software platform, fees and administration
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¹⁶ And LUSC shared services functions.

Financial Reporting, Planning 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 Plant and O&M costs.	Employee labor and related administration and third party fees
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/cash flow	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 complexity of Internal audit activity. Larger Plant and operating costs of a given facility drive more activity from IA.	Third party fees, employee labor and related administration and programs
External Communications	Total Employees 100%	Communications cost is directly proportional to the number of employees	Enterprise wide support and related administration
Legal Costs	Net Plant 33.3%	This function is driven by factors	Employee labor and related

	<p>Number of Employees 33.3%</p> <p>O&M 33.3%</p>	<p>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.</p>	<p>administration and programs, including third party legal</p>
Compliance	<p>Revenue 33.3%</p> <p>O&M 33.3%</p> <p>Net Plant 33.3%</p>	<p>This function is driven by factors which reflect the relative size and scope of each affiliate - Revenues, Net Plant and O&M costs.</p>	<p>Employee labor and related administration that is not directly attributable to any entity</p>

5. LIBERTY UTILITIES SERVICE CORP.

This section provides an overview of some of the services (as outlined in Table 5) and the cost methodology for Liberty Utilities Service Corp. (“LUSC”).

Most U.S.-based utility employees are employed by LUSC and are dedicated to serve particular utilities. All employees’ labor costs, such as salaries, and associated labor costs, such as benefits, insurance etc. are to be paid by LUSC and direct charged to the company to which the employee is dedicated and performs work. Services provided by employees within LUSC

to each regulated utility shall be distributed on a time sheet basis to the extent possible. In infrequent instances where time sheeting may not be possible, the allocation factors shown in Tables 4a and 4b are to be used, as will be explained below.

5.1 Shared Services from LUSC

LUSC employs some individuals who provide shared services (listed in Table 5 below). Costs distributed by LUSC will include those from shared services employees: (a) where the function benefits both Liberty Utilities and Liberty Power businesses and (b) where the function benefits some or all of the regulated utilities within Liberty Utilities (e.g., energy procurement services).

Consistent with the organizational shared services practices described earlier, shared services and costs (within LUSC) are assigned when they are directly attributable to a specific affiliate company (such as a specific distribution utility, for example) or business unit (such as Liberty Utilities or Liberty Power). Labor charges for LUSC shared services staff are assigned using timesheets that depict the amount of time that is to be direct charged to either Liberty Utilities or Liberty Power (or a specific subsidiary within Liberty Utilities or Liberty Power).

The type of U.S. shared services that benefits both Liberty Utilities and Liberty Power businesses is referred to as LABS U.S. The LABS U.S. indirect costs for services from the shared services staff and functions within LUSC that cannot be directly assigned are allocated between the regulated and unregulated business units, Liberty Utilities and Liberty Power, and are distributed in the same manner per CAM Tables 4a and 4b described for shared services staff and functions within LUC. Consistent with the practices within LUC, the costs allocated from LUSC to the regulated companies as a group (i.e. to Liberty Utilities) are then reallocated to individual utility companies within the Liberty Utilities structure using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUSC.

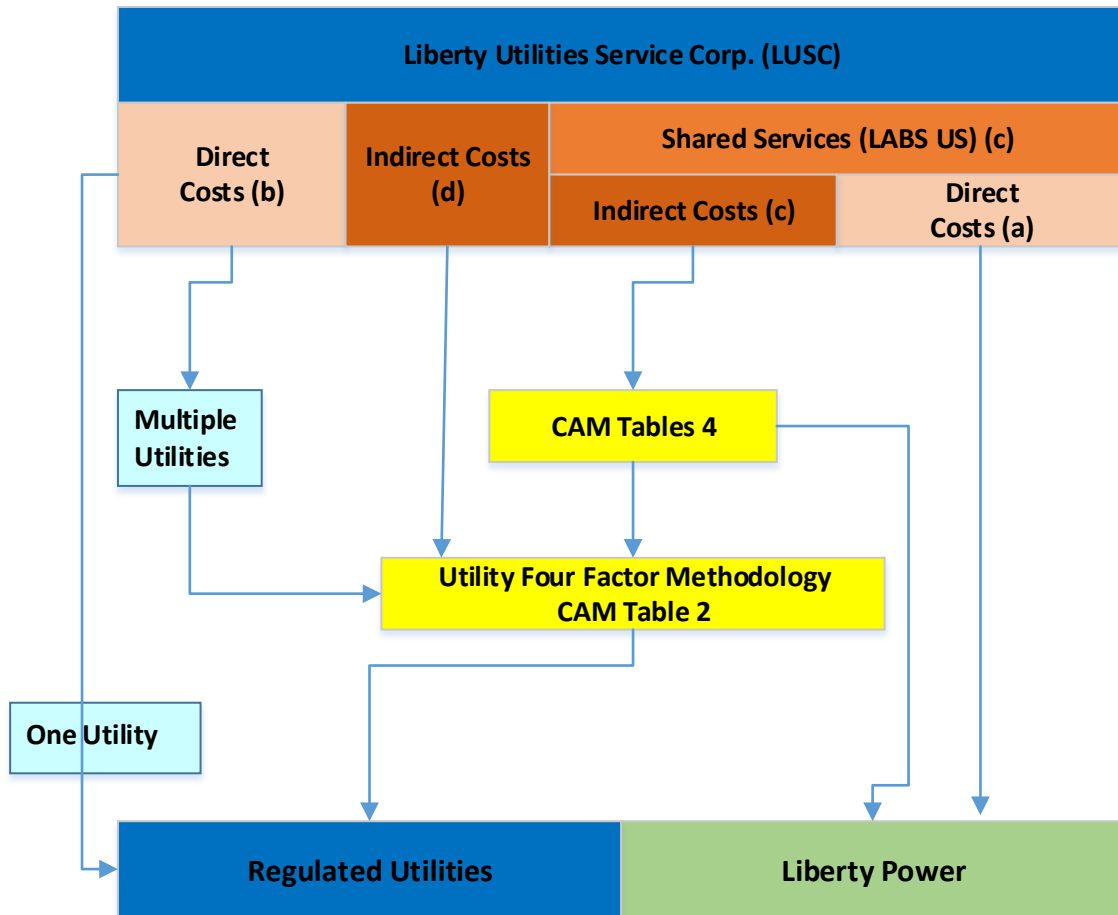
The indirect costs from the U.S. shared services that only benefit the regulated utilities are distributed using the Utility Four-Factor Methodology set forth in CAM Table 2, resulting in utility-specific allocated charges from LUSC.

Figure 5 below depicts the various flows of costs from LUSC.

Table 5 – List of Shared Services provided by Liberty Utilities Service Corp.

Customer Care and Billing
IT/Tech Support
Human Resources
Gas Control
Legal
Compliance
Regulatory & Government Relations
Environmental, Health, Safety and Security
Procurement
Operations
Engineering; Dispatch and Control
Outage Management
GIS/Mapping
Vegetation Management
Energy Procurement
Accounting and Finance
Managerial
Utility Planning
Customer Communication

Figure 5: Illustration of LUSC Cost Distributions



Notes:

- (a) Costs that are directly assignable to unregulated companies.
- (b) Costs that are directly assignable to regulated companies.
- (c) Costs that benefit both unregulated and regulated operations.

The allocation methodology may 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 indirect costs allocated, if any, to the two utilities within New Hampshire. Labor costs associated with energy procurement are directly billed to the utilities requiring energy procurement services using timesheets.

6. COST DISTRIBUTION AT THE REGIONAL OR STATE UTILITY LEVEL

Within the Liberty Utilities organization, the organizational structure and reporting relationships may evolve as the organization grows and develops. Costs and services provided to the regional or state utility level from other corporate entities are directly assigned to the extent possible and distributed over the utilities within the state or region for which they are provided. Any services and costs which cannot be directly assigned will be allocated to the utilities within the region or state using the Regional Four-Factor Methodology (25% weighting for the factors of: customer count, utility net plan, non-labor expenses, and labor expenses), unless another method of allocation is legally required.

In addition, each of the regulated entities will distribute costs amongst their affiliated entities in accordance with applicable laws/rules and affiliated service agreements. These cost allocation methods are consistent with the principles of this CAM.

7. CORPORATE CAPITAL

APUC or LUC will make capital investments such as corporate headquarters, IT systems, etc. that benefit the various operating businesses. The costs of these investments may be distributed monthly in the form of an intercompany operating expense charge, that captures the depreciation expense and cost of capital associated with the particular assets, or an alternate method of capital allocation based on the particular needs of the project. All costs associated to service the investment will be allocated to Liberty Power and Liberty Utilities, if applicable, typically based on the allocation method from which the capital investment is made. For example, if the capital investment is made in Human Resources then the allocation methodology used for Human Resources to allocate non-capital indirect costs as shown in Table 4a will be used to allocate the charge associated with the corporate capital expenditures, including the cost of capital, depreciation, and all other associated costs. From time to time, the distribution of costs associated with a corporate capital investment may use an alternate

method. Any corporate capital charges allocated or assigned to LUC are then reallocated to individual Liberty Utilities distribution utilities, or a sub-set of one or multiple distribution utilities, using the Utility Four-Factor Methodology set forth in CAM Table 2.

8. CAM TEAM AND TRAINING

The oversight of the CAM is the responsibility of the corporate Regulatory Department. Any updates or revisions are coordinated and completed by this Department. A CAM Team will be created consisting of trained employees to oversee the operations and management of the CAM principles throughout the organization.

The CAM, and any support material, is available to all employees via the Company intranet. Employee training on the CAM will be provided via the Company's Learning Management System.

9. AUDIT, RECORD KEEPING & AFFILIATE TRANSACTION RULES

Records of each company will be maintained such that all affiliate transactions are auditable. The records will document the cost of transactions, the methods used to distribute the costs, and descriptions of the services provided. The records will be retained for a minimum of three years or as required by law or regulation. The regulator will have access to records, consistent with applicable laws, regarding transactions between the regulated utility and its affiliates. All companies subject to affiliate transaction rules, whether state or federal, will comply with such requirements.

10. UPDATING ALLOCATIONS

Allocation percentages¹⁷ are updated annually. These annual updates to the allocation percentages are based on the most recent audited financial statements and other actual, year-end information. The updated percentages come into effect each April 1st and are valid through to the following March 31st. The Utility Four-Factor Methodology allocation percentages are also updated as an entity is either acquired or sold.

¹⁷ To clarify, the factors and weightings are expected to remain constant. It is the underlying information used to calculate the allocation percentages that is updated annually, such as the most recent net plant figures, or the most recent numbers of employees, for example.

11. 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 prevent 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 New York Stock Exchange ("NYSE") and the Toronto Stock Exchange ("TSX"), leading financial markets. 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 NYSE and the TSX, 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 NYSE and the TSX, 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 NYSE and the TSX 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

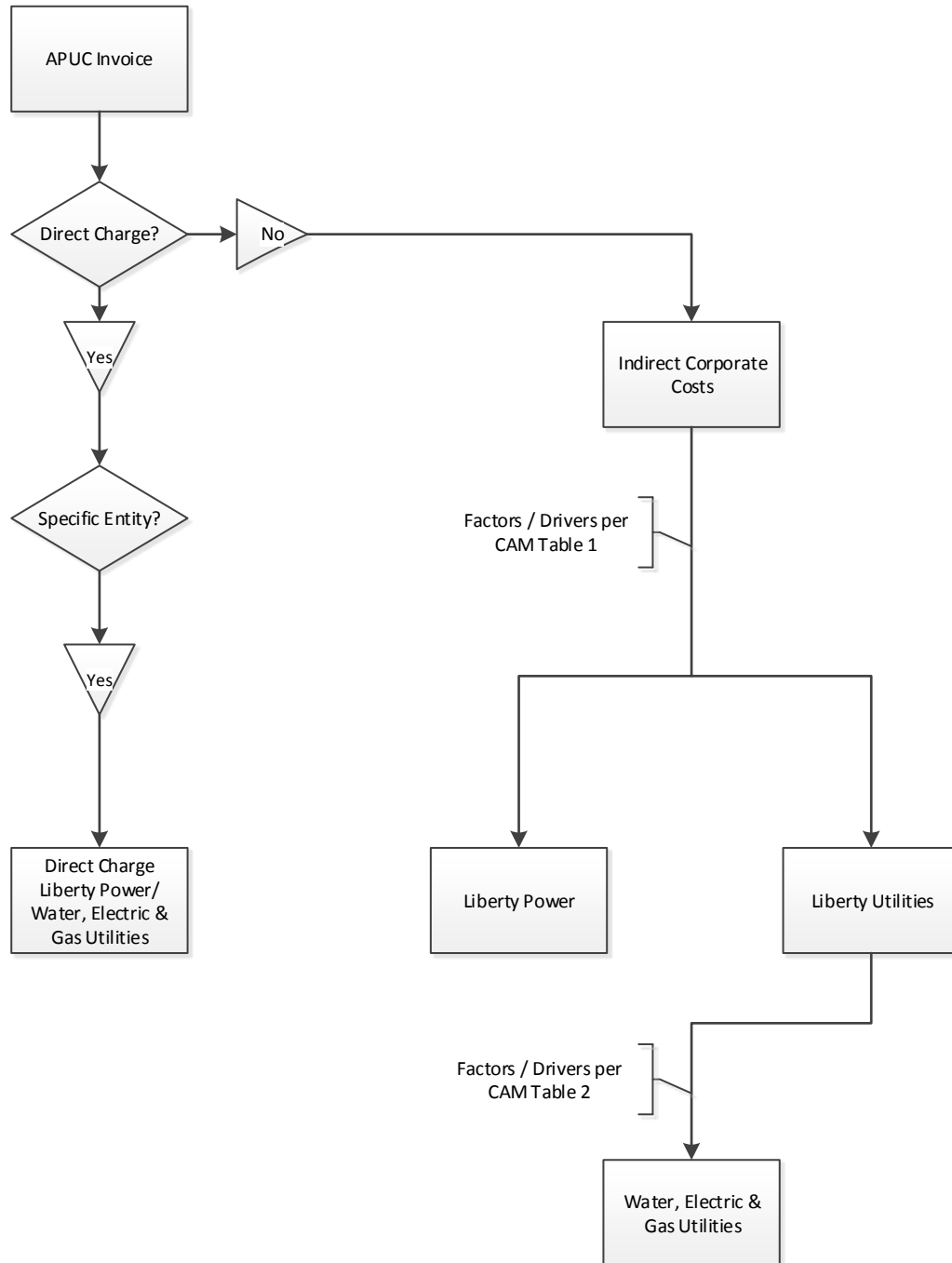
Taxes are paid on behalf of the regulated utilities at the parent level as part of a consolidated United States tax return. Tax services such as planning and filing are provided by third parties. Filing tax returns on a consolidated basis benefits each regulated utility by reducing the costs that otherwise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

4. APUC ADMINISTRATIVE COSTS

Finally, administrative costs incurred by APUC, in some cases via other corporate entities, 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 throughout the APUC organization could not perform their work and provide the necessary services to the regulated utilities. These administrative costs also include training for corporate employees.

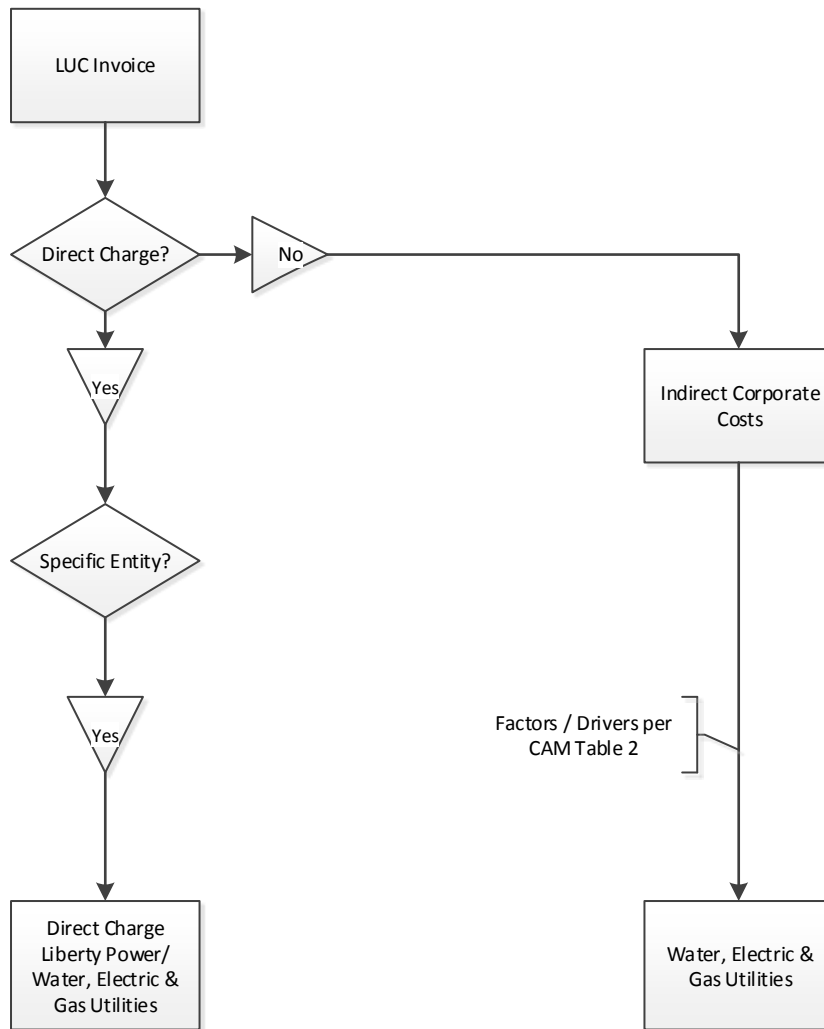
APPENDIX 3 – LIFE OF AN APUC INVOICE

A schematic is provided below showing the trail of an invoice received by APUC for services to be charged to its subsidiaries. The schematic is intended to visually explain the distribution of charges from APUC to Liberty Power and Liberty Utilities companies.



APPENDIX 4 – LIFE OF A LIBERTY UTILITIES INVOICE

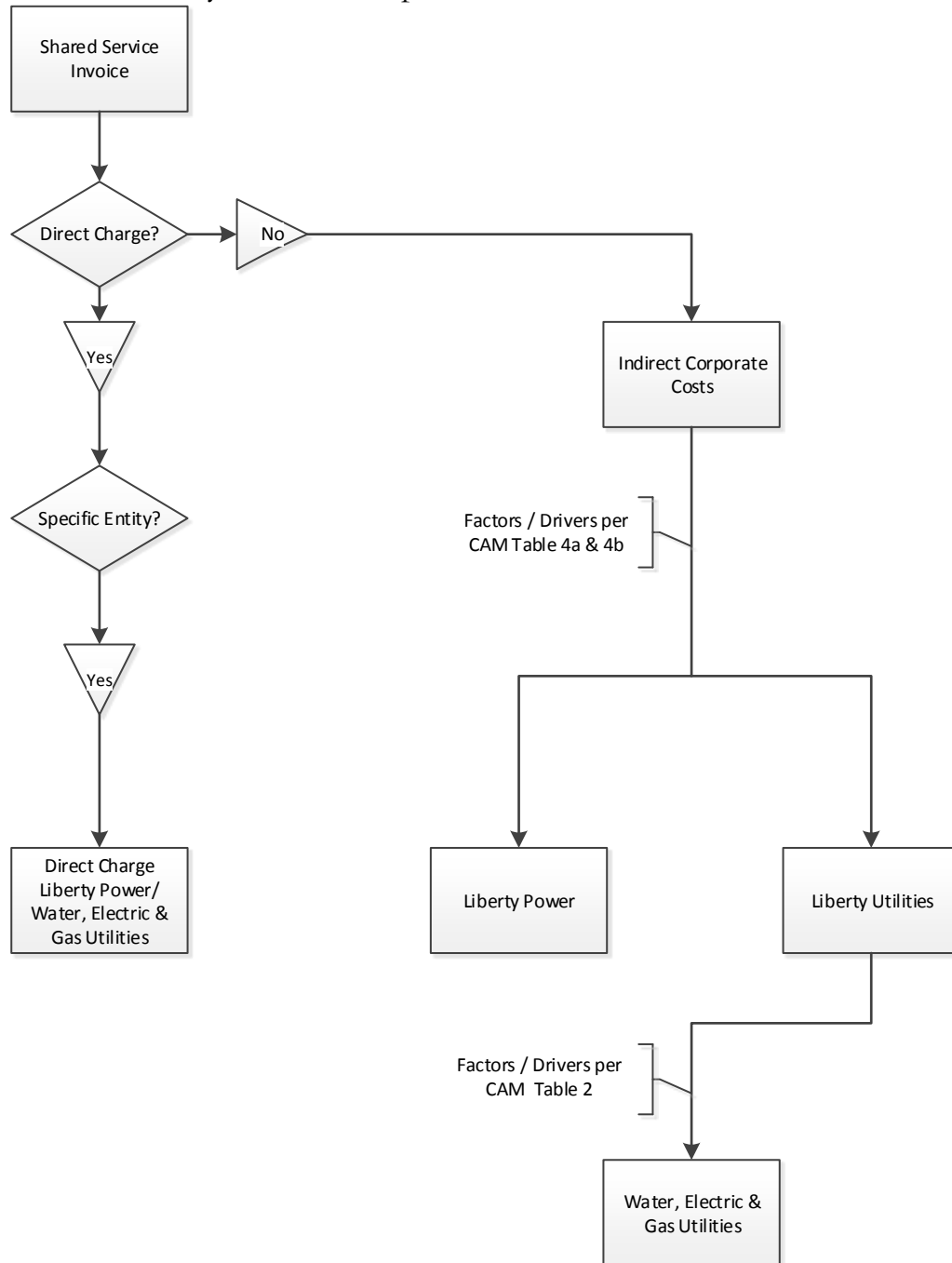
A schematic is provided below showing the trail of an invoice received by Liberty Utilities (LUC) for services to be charged to its utility subsidiaries¹⁸. The schematic is intended to visually explain the distribution of charges from LUC to Liberty Utilities companies.



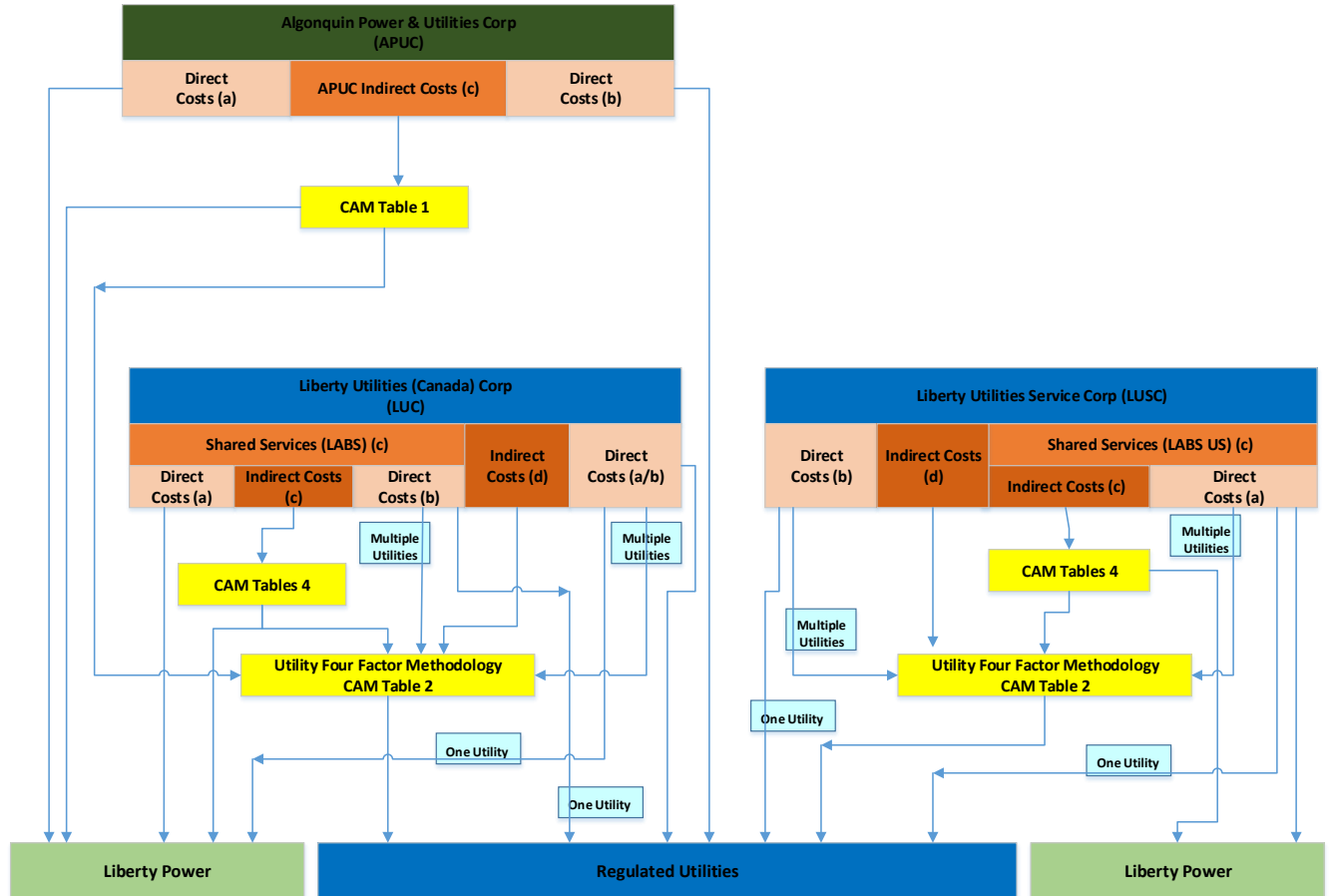
¹⁸ This is for utility-dedicated LUC staff and services (not shared services staff).

APPENDIX 5 – LIFE OF A SHARED SERVICES INVOICE

A schematic is provided below showing the trail of an invoice for shared services provided within Liberty Utilities or LUSC for services to be charged to affiliates and subsidiaries. The schematic is intended to visually explain the distribution of charges from shared services to Liberty Power and Liberty Utilities companies.



APPENDIX 6 – COMPOSITE ILLUSTRATION OF ORGANIZATIONAL COST DISTRIBUTION



Notes:

- (a) Costs that are directly assignable to unregulated companies.
- (b) Costs that are directly assignable to regulated companies.
- (c) Costs that benefit both unregulated and regulated operations
- (d) Costs that benefit all regulated operations.

APPENDIX 7 – GLOSSARY OF TERMS

Algonquin Power & Utilities Corp. (“APUC”)- is a publicly traded company and the ultimate corporate parent of Liberty Utilities and Liberty Power subsidiaries. It provides financial and strategic management, corporate governance, and oversight of administrative and support services to all its subsidiaries.

Algonquin Power Co. (“Liberty Power”)- is a subsidiary of APUC whose primary business is in energy generation through renewal (solar and wind) sources and thermal generating facilities.

Cost Allocation Manual (CAM) – a document that explains how service company costs are assigned to affiliate companies and explains the nature of the services to be provided between affiliates.

Direct Costs- (sometimes referred to as assigned costs)- costs incurred by one company for the exclusive benefit of, or specifically identified with, one or more other companies, and which are directly charged (or assigned) to the company or companies that specifically benefited.

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

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

Liberty Utilities Co.- is a subsidiary of APUC and the direct or indirect owner of regulated utilities.

Liberty Utilities (Canada) Corp. (“LUC”) - is a subsidiary of APUC and employs Canadian-based employees.

Liberty Utilities Service Corp. (“LUSC”)-is a subsidiary of APUC and employs U.S.-based distribution utility employees and those U.S. based employees providing shared services.

Liberty Algonquin Business Services (“LABS”)- is a business unit with staff employed within LUC and LUSC. These employees provide shared services to both the utility and non-utility businesses within APUC.

NARUC – National Association of Regulatory Utility Commissioners.

Service Agreement – a written agreement specifying the terms and conditions upon which services are provided to and from affiliated entities.

Utility Four-Factor – is an allocation methodology used to allocate indirect costs to regulated utilities based on the following factors: Utility Net Plant, Customer Count, Non-Labor expenses, and labor expenses.

APPENDIX 8 - VERSION LOG

1. Base Year- January 1 2014
2. V2014, July 1, 2015
3. V2017, January 1 2017 (Includes April 2017 Updates)

APPENDIX 9 – MISSOURI SUPPLEMENT

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

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

Business Segment Descriptions and Regulatory Jurisdictions:

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

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

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

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

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

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

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



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

Cost Assignment and Allocation:

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

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

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

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

1. All costs should be directly assigned, indirectly assigned or allocated to the relevant regulated business functions and non-regulated business functions, including business segments and business units.
2. Direct and indirect assignment is preferable to allocation and should be used when reasonable.
3. Indirect assignment should be based upon a method which recognizes cost causation or benefits received.
4. Remaining costs not directly or indirectly assigned on a causal basis should be allocated on a general allocation factor ("general allocator"). The general allocator must be used whenever the costs benefit both regulated and non-regulated activities.



Notification of Changes:

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

Overview of Costing Methods:

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

1. Direct Bill - Costs are charged directly to the business line receiving the benefit. Costs can be direct billed via the payroll system based on hours worked or can be billed from a vendor invoice. The Direct Bill Method is the preferred method of assigning costs and is used to the greatest extent possible.
2. Unit of Service - Costs for which the Direct Bill Method is not practical but have identifiable per unit costs. This method is appropriate for assigning costs of departments that perform the same functions for multiple companies and for which the number of units is ascertainable (i.e., number of vouchers or computers, etc.). The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.
3. Specific Assignment - Applies to costs that can be assigned to benefiting business units based on statistical analysis of the underlying cost. The number of units used to determine the assignment factors will exclude the units used to provide service to more than one entity or business function.
4. Corporate Allocation - Costs for which there is no direct relationship between the work performed and the benefiting business unit. The number of units used to



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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

The Direct Billing Method is considered the preferred method of assigning costs to the appropriate business units and will be used to the maximum extent practicable. There are two primary methods of Direct Billing:

Vendor Invoices - Vendor invoices that include charges for goods or services that are for the benefit of a single business line will be coded to the appropriate business line/account number at the time of input into the general ledger system

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

Unit of Service Method - For costs incurred on behalf of multiple business lines that do not allow for practical application of the Direct Billing Method, the Unit of Service Method is

used in instances where there is a quantifiable unit driver (purchase orders, personal computers, etc.) for which a “per unit” cost can be calculated and charged.

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

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

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

Unit of Service Billing Method Details:

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



exclude the units used to provide service to more than one entity or business function. For example, for assigning costs to Empire Electric related to personal computers, the computers that are used by Empire Electric for activities that benefit entities other than Empire Electric will not be used to assign costs to Empire Electric. The appropriate assignment may use the personal computers that are solely used for Empire Electric's electric or water service supplemented with Empire Electric's share of common use computers with the remaining portion of Empire Electric's common use computers included in the assignment factors of Empire Electric's affiliates.

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

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

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

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

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

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

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

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

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

7. Two-way Radio - Purpose: To assign expenses associated with two-way radio maintenance and support for nonregulated business units to the appropriate business unit. **Basis of Assignment:** The assignment is based on the number of

radios maintained for each business unit and only benefitting that business unit plus the business unit's proper share of phone lines benefiting more than one entity. **Assignment Update Frequency:** Driver: Monthly. Rate: Annually. **Responsible party:** An analyst in Financial Services will create a manual voucher each month for the assignment entry.

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

General Allocators (Corporate Allocation Method):

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

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

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

Cash Management Policy:

Compensation for the Use of Capital – Transactions between legal entities result in the creation of intercompany receivables or payables with settlement due in the following month. In



addition to the above charges, a charge for the use of capital based on the outstanding intercompany receivable balance and the daily Commercial Paper Rate published by the Board of Governors of the Federal Reserve System for A2/P2 non-financial issuers will be applied. Any receivables outstanding after thirty (30) days from month-end will result in a late payment fee which will be based on the late payment fee charged to the respective regulated customers.

Establishment and Operation of the Cash Management Program:

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

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

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

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

E. No security will be required to be posted by any of the Affiliates as collateral for any net borrowing positions. Loans to the Affiliates will be made pursuant to open-account advances. At the end of each month, interest expense will be charged to the Participants. The short-term borrowing rate will be the weighted average short-term borrowing rate calculated on all Empire Electric's short-term borrowings outstanding during the month. FMP equals the rate an entity would be charged from a third party lender. FMP interest for loans would be greater



than Empire Electric's borrowing rate for EDI, it may be Empire Electric's borrowing rate for Empire Gas with a fee for performing the financial services. However, if Empire Electric has no outstanding third-party short-term debt, a proxy interest rate will be charged or credited to the Participant. The proxy interest rate shall be the London Inter-Bank Offered Rate ("LIBOR") plus a certain number of basis points added (the "LIBOR Rate") so that the LIBOR Rate most closely mirrors the pricing the Participant would expect if it had outstanding short-term borrowings. If no LIBOR Rate is established for that day, then the applicable rate will be the LIBOR Rate for the next day for which a rate is established.

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

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

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

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

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

Clearings & Loadings:

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

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

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

Pensions and Other Benefits Loadings – Pension, post-retirement, employee insurance and other benefits are applied to labor costs to ensure that an appropriate portion of benefits is capitalized and to provide management with costs per project. Loadings are based on a projected rate applied to direct labor. LUSC employees will directly or indirectly charge labor to the regulated utility, its affiliates, and non-regulated operations for each and every activity benefitting Empire Electric business lines, its affiliates, and non-regulated operations or collect the costs that benefit more than one entity for proper assignment to those entities. Pensions and other benefit costs will be assigned to these labor charges at the time of these direct and indirect charges.

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

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



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

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

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

Specific Assignment of Costs Method:

Specific assignment of costs among business lines is used when (1) a statistical analysis of the underlying costs indicates the benefiting business lines or (2) the costs can be assigned based on the ownership of the related assets or liabilities. Specific assignment methods could be used for such transactions as property insurance premiums which are assigned based on an appropriate cost causative driver or depreciation expense which follows the ownership of the related assets.

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

In addition, the specific assignment method may be utilized to track costs that are beneficial to non-regulated activities. When a potential new non-regulated activity is identified, a work order may be created to help identify and accumulate costs associated with the new non-regulated activity. Ultimately, these projects will be used to segregate those costs from regulated activities.

Affiliate Pricing:

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



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

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

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

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

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

The Missouri Regulated Utilities should use the requirements of the MoPSC's affiliate transactions rule and the policies and procedures outlined in this CAM, with a focus on the requirements of this section, to provide the evidence that demonstrates compliance with the Rules and this CAM.

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



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

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

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

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

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

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

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

- 1) Labor - the cost of human capital associated with the service provided.
- 2) Loadings - the benefits, pensions, OPEBs, insurance, paid absences, payroll taxes, etc. associated with labor and capital loadings associated with functional parts of the organization.



- 3) Plant - including Common Use Plant, which includes the use of common facilities such as telecommunication and network systems used in support of the organization.
- 4) Non-Labor - all other charges for materials, services and overheads.

Fair Market Price (“FMP”): The fair market price is the price that would be received to sell or acquire a good or service in an orderly transaction (i.e., not a forced liquidation or distressed sale) between market participants at or near the measurement date, under current market conditions. The fair market price will be used to document the pricing of goods and services to the business lines. In the absence of current comparable market prices, benchmarking, if approved by the MoPSC, may be used. The transaction to sell a good or provide a service is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the good or provides the service. The objective is to determine the price that would be received to sell or paid to acquire the good or service at or near the measurement date (an exit price).

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

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



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

- 1) market participant assumptions developed based on market data obtained from sources independent of the regulated utility (observable inputs), and
- 2) the regulated utility's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

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

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

- a) the good or service,
- b) the principal (or most advantageous) market for the good or service, and
- c) market participants with whom the utility would transact business regarding the good or service in that market.

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

- a) Not related parties,



- b) Knowledgeable, having a reasonable understanding about the good or service and the transaction based on all available information, including information that might be obtained through due diligence efforts that are usual and customary,
- c) Able to transact for the good or service, and
- d) Willing to transact -- motivated but not forced or compelled to do so.

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

- a) Observable inputs are inputs that reflect the assumptions market participants would use in pricing the good or service developed based on market data obtained from sources independent of the regulated utility.
- b) Unobservable inputs are inputs that reflect the regulated utility's own assumptions about the assumptions market participants would use in pricing the good or service developed based on the best information available in the circumstances.

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

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

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

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

- a) Quoted prices for similar goods or services in active markets.
- b) Quoted prices for identical or similar goods or services in markets that are not active.
- c) Inputs other than quoted prices that are observable for the good or service.
- d) Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

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

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

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

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

Labor Costs:

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

Affiliate Marketing Materials and Customer Information:

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

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

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

Record Keeping:

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



separately and each will be maintained so affiliate transactions are auditable on each of the Missouri Regulated Utility's books.

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

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

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

Training:

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

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

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

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



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

Affiliate Transactions Rule Variances:

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

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

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

Reporting Period Results:

Reporting period results should include:

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