

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

**IN THE MATTER OF THE TARIFF SHEETS)
FILED BY COLORADO NATURAL GAS, INC.)
WITH ADVICE LETTER 89)**

Proceeding No. 18AL-___G

**DIRECT TESTIMONY OF
AMANDA TOLBERT
CONTROLLER**

May 14, 2018

**SUBMITTED ON BEHALF OF
COLORADO NATURAL GAS, INC.**

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. Amanda Tolbert, and my business address is 115 N. 12th Street, Fort Smith,
4 Arkansas.

5 Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?

6 A. I am testifying on behalf of Colorado Natural Gas, Inc. ("CNG").

7 Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

8 A. I am the Controller for Summit Utilities, Inc. ("Summit"), the parent of CNG. I am
9 responsible for the accounting function of Summit and its subsidiaries, and for
10 ensuring that they comply with generally accepted accounting principles and
11 regulatory requirements.

12 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND RELEVANT
13 BUSINESS EXPERIENCE.

14 A. For the 12 years preceding my role as Summit's Controller, I worked in various
15 accounting roles at Arkansas Oklahoma Gas Corporation, and four years in public
16 accounting. I am a Certified Public Accountant and graduated from the University
17 of Central Arkansas with a Bachelor of Business Administration degree in
18 Accounting.

19 Q. HAVE YOU FILED TESTIMONY BEFORE THIS OR ANY OTHER
20 REGULATORY COMMISSION?

21 A. This is my first testimony before the Colorado Public Utilities Commission
22 ("Commission"). I recently filed testimony before the Maine Public Utilities
23 Commission regarding the Tax Cuts and Jobs Act of 2017.

1 **II. PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

3 A. The purpose of my testimony is to discuss CNG's proposed Cost Assignment and
4 Allocation Manual ("CAAM").

5 **III. LIST OF EXHIBITS SPONSORED IN TESTIMONY**

6 **Q. ARE YOU SPONSORING EXHIBITS?**

7 A. I am sponsoring the following Exhibit:

8 **Exhibit AT-1, CNG's Proposed CAAM**

9 **IV. COST ASSIGNMENT AND ALLOCATION MANUAL**

10 **Q. WHAT IS THE COST ASSIGNMENT AND ALLOCATION MANUAL?**

11 A. The CAAM describes and documents the processes for how allocations are made
12 within CNG's books and records. These include allocations of various common
13 expenses which are incurred for the benefit of one or more of CNG's rate divisions
14 and which expenses are therefore allocated to those rate divisions. Additionally,
15 the CAAM describes and documents the processes whereby allocations are made
16 from Summit, CNG's parent, to Summit's operating utility subsidiaries. The CAAM
17 is attached as **Exhibit AT-1** as required by Rule 4503(f).

18 **Q. DOES SUMMIT USE THE ALLOCATION METHODOLOGIES DESCRIBED IN
19 THE CAAM IN EVERY JURISDICTION IN WHICH IT OPERATES?**

20 A. Yes. All of Summit's operating utility subsidiaries allocate costs using the same
21 methodology.

22 **Q. HOW DOES SUMMIT ALLOCATE PARENT-LEVEL EXPENSES TO ITS
23 SUBSIDIARIES?**

1 A. In Docket No. 05S-412G, CNG's first general rate case after it began operations,
2 CNG agreed to use the Distringas Method for Summit to allocate corporate
3 overheads among its subsidiary companies. The Distringas Method calls for parent-
4 level costs to be allocated among subsidiaries based on the average of three
5 calculated rates, one based on direct labor, one based on capital investments, and
6 one based on net sales revenue. For each subsidiary, the labor performed by
7 parent company employees is separated between direct and non-direct labor.
8 Indirect parent company expenses, such as labor costs, employer payroll tax
9 expense, vehicle, and common expenses, are accumulated and allocated to each
10 subsidiary by applying the calculated average rate. The proposed CAAM provides
11 more detail about the Distringas Method.

12 **Q. THE CAAM'S ASSIGNMENTS AND ALLOCATIONS SECTION REQUIRES**
13 **SUMMIT TO CHARGE ITS OPERATING EXPENSES AT COST TO ITS**
14 **SUBSIDIARIES USING DIRECT AND INDIRECT CHARGES VIA THE**
15 **DISTRIGAS METHOD. PLEASE EXPLAIN THE DIFFERENCE BETWEEN**
16 **DIRECT AND INDIRECT CHARGES.**

17 A. Direct charges, such as labor and supplies, are costs specifically associated with
18 providing support to a specific subsidiary or specific group of subsidiaries. Indirect
19 charges are costs not associated with a specific subsidiary or specific group of
20 subsidiaries, meaning the costs indirectly support all subsidiaries or directly
21 support the operation of the parent company. Examples of indirect charges are
22 rent and vehicle expenses incurred by the parent company. The CAAM explains
23 in more detail the treatment of direct and indirect charges.

1 **Q. ARE THERE ALLOCATIONS BETWEEN CNG AND ENTITIES OTHER THAN**
2 **SUMMIT AND ITS OTHER SUBSIDIARIES?**

3 A. CNG employees may directly charge labor or costs to Summit and any of Summit's
4 other subsidiaries when they are providing a service to that entity. However, the
5 Distrigas Method is used to allocate costs from the parent company, Summit, to all
6 operating utility subsidiaries.

7 **Q. PLEASE SUMMARIZE THE DIFFERENCE BETWEEN CNG'S CURRENT CAAM**
8 **AND ITS PROPOSED CAAM.**

9 A. The proposed CAAM would employ cost allocation methods like those employed
10 by Summit's other subsidiaries and align the cost allocation methods across all of
11 Summit's jurisdictions. The proposed CAAM includes more robust definitions and
12 methodologies for cost allocation across subsidiaries, including setting forth
13 detailed record-keeping requirements, establishing intercompany pricing, and
14 designating an individual responsible for monitoring and reviewing affiliated
15 transactions to ensure compliance with the Cost Assignment and Allocation
16 Principles described in 4 CCR 723-4-4502.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

AFFIDAVIT

STATE OF ARKANSAS

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) 18AL _____ G, IN THE MATTER OF THE TARIFF

) SHEETS FILED BY COLORADO NATURAL GAS,

) INC. WITH ADVICE LETTER 89

SEBASTIAN COUNTY

)

I, Amanda Tolbert, having been duly sworn upon my oath, state that I am the Controller for Summit Utilities, Inc., that I am duly authorized to make this affidavit on behalf of Colorado Natural Gas, Inc. and that the matters and things stated in the foregoing Testimony and exhibits thereto are true and correct to the best of my information, knowledge and belief.

Amanda Tolbert

Amanda Tolbert

Subscribed and sworn before me to this 14th day of May, 2018

Janice D Cannon

Notary Public

My Commission expires: 4-23-23



Colorado Natural Gas, Inc.

CNG's Proposed CAAM

Exhibit No. AT-1

May 14, 2018

Colorado Natural Gas, Inc.

Cost Assignment and Allocation Manual

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Colorado Natural Gas, Inc.

INTRODUCTION

The purpose of this Cost Assignment and Allocation Manual (“CAAM”) is to specify the criteria, guidelines and procedures that Colorado Natural Gas (“CNG”) will follow to comply with the Colorado Public Utilities Commission’s (“CPUC”) rules for regulated utilities that provide retail natural gas service in Colorado. This CAAM is intended to satisfy the requirements of 4 CCR 723-4-4502 and 4503.

CNG is a local natural gas distribution utility serving approximately 21,000 customers located in thirteen Colorado counties. CNG has four rate districts -- Bailey, Cripple Creek, Pueblo West, and Eastern.

CNG is a subsidiary of Summit Utilities, Inc. (“SUI”), a privately-held holding company, headquartered in Littleton, Colorado. SUI owns three other natural gas distribution and transmission subsidiaries, including Arkansas Oklahoma Gas Corporation, Summit Natural Gas of Missouri, Inc. and Summit Natural Gas of Maine, Inc. It also owns two unregulated entities, A. O. G. Corporation and Wolf Creek Energy, LLC. SUI’s organization chart is attached hereto as Appendix 1.

CNG engages in two primary types of affiliate transactions. The first are charges from SUI for goods and services related to accounting, accounts payable, accounts receivable, administrative services, auditing, business development, customer communications, customer billing, customer collections, customer service, engineering, facilities management, financial reporting and analysis, gas supply, human resources,

information technology, legal services, marketing, payroll, procurement services, regulatory compliance, risk management, taxes, and treasury.

The second type are affiliate transactions for the provision and receipt of goods and services between CNG and SUI's other subsidiaries. SUI's subsidiaries provide support services to each other in order to leverage expertise and enhance their respective operations. These services include construction services, operational support and leadership, engineering, and GIS. These services may be performed by CNG employees for SUI's other subsidiaries or performed by SUI's other subsidiaries for CNG. The costs associated with these services are charged to the applicable subsidiary at cost with no markup.

As a Colorado regulated utility, CNG must comply with the CPUC's Cost Assignment and Allocation Principles set forth in 4 CCR 723-4-4502. These principles require that non-regulated costs be captured and not charged to regulated entities. The principles prevent regulated utilities from subsidizing their affiliated non-regulated and/or regulated operations, as well as assure that natural gas retail rates are not adversely impacted by non-regulated activities.

To ensure the capture and proper categorization of costs, CNG will identify the assets, information, goods, and services being provided by

- (1) CNG's affiliates to CNG;
- (2) CNG's non-regulated operations to CNG's regulated operations;
- (3) CNG to CNG's affiliates; and
- (4) CNG's regulated operations to CNG's non-regulated operations.

CNG will compensate SUI for the assets, goods, information and services that CNG receives at the lower of fully distributed cost (“FDC”) or fair market price (“FMP”). The FDC is determined by examining all costs incurred directly or indirectly in producing a good, service, asset, or information. Costs are assigned either through a direct assignment or indirect allocation.

SUI uses a consolidated financial system and maintains a system of internal controls that helps ensure the accuracy and reliability of the accounting for SUI and its subsidiaries. CNG’s books, accounts, and records are maintained separately from SUI and SUI’s other subsidiaries. SUI’s internal control environment includes separation of duties, access controls within financial systems, physical audits of inventory, documentation for financial transactions, double-entry accounting, account reconciliations, and a robust approval matrix. In addition, each of SUI’s utility subsidiary’s financial records are independently audited each year to verify that transactions were recorded in accordance with generally accepted accounting principles (“GAAP”).

Cost Assignment and Allocation

CPUC rules require regulated utilities to keep and use a Cost Assignment and Allocation Manual. See CCR 723-4-4502 and 4503. These rules are intended to assure that a utility’s rates are not adversely impacted by its non-regulated activities. CNG will implement the criteria, guidelines, and procedures in this CAAM to ensure that its ratepayers do not subsidize CNG’s affiliates or non-regulated operations through regulated customer rates.

This CAAM establishes the assignment and allocation methodologies and establishes documentation of cost assignment and allocation by CNG and its parent, SUI.

SUI will use the following approach when assigning and allocating costs to CNG,

SUI will:

1. Assign costs directly or indirectly to CNG to the maximum extent possible;
2. Implement safeguards to assure costs are properly categorized; and
3. Use the Distrigas general allocation method to allocate any remaining costs to CNG.

Colorado Natural, Inc.
OVERVIEW OF COSTING METHODS

SUI Goods and Services to CNG

Labor costs, including salary and payroll taxes, will be directly assigned to CNG based on the time SUI employees record on their time sheets for performing work for CNG. As a part of the month-end close process, SUI employee benefits and general and administrative (“G&A”) expenses will be allocated in proportion to the labor directly charged by SUI employees to CNG during the month. SUI employee benefits include items such as 401k, medical, paid time off, bonus, vehicle allowances, life insurance, and disability insurance. SUI G&A expenses include expenses for items such as corporate insurance, office supplies, rent, software, utilities, and other general expenses incurred by SUI.

Direct Billings – SUI prefers to use direct billing when assigning costs to its subsidiaries and has developed business practices with the objective of using direct billing to the maximum extent practicable.

SUI will bill CNG directly for costs incurred by SUI that have a direct relationship to CNG’s provision of safe and adequate service. There are two primary direct billing methods:

Vendor Invoices – Vendor invoices that include charges for goods or services that are needed for a single entity will be directly coded to that entity at the time the invoices are added to the accounting system.

Labor – All employees are required to record their time to specific work orders that reflect the nature of the activity being performed or the specific project being supported. Work orders are assigned to specific entities where practicable.

From time to time, CNG employees may perform work for one or more of SUI's other utility subsidiaries. Employees of one or more of SUI's other utility subsidiaries may perform work for CNG. In those circumstances, the subsidiaries will enter into a service agreement which will include the hourly rate to be charged for the employee's time and a charge for all out-of-pocket expenses relating to the work, such as travel time, lodging and meals.

For affiliate transactions, CNG's shall conduct its non-regulated business at the lower of the market value needed to acquire a good or service or the cost to create or provide the good or service itself and will provide goods and services at market value, when market value exceeds the cost to create or provide the good or service. At no time will CNG provide a good at a price lower than Fair Market Price (FMP) or a service at a price lower than the cost to provide the service.

To provide effective protection against subsidization, CNG will use the appropriate FMP in conjunction with a proper Fully Distributed Cost (FDC) determination when participating in an affiliate transaction. CNG will determine the FMP through a competitive bidding process and document the agreed pricing in a written agreement with the affiliate.

The regulated utility's billing of directly or indirectly assigned and allocated common costs at FDC is intended to avoid subsidizing an affiliate's regulated or non-regulated activity. A properly constructed FDC approach helps ensure appropriate charging among SUI, CNG and SUI's other subsidiaries.

Parent Allocations

SUI is the parent company of CNG and several other subsidiaries. SUI provides its subsidiaries administrative, support, and management services. These services are

sometimes referred to as “corporate support services” or “shared services.” The services provided include, but are not limited to; joint corporate oversight, governance, business systems, treasury, risk management, strategy, business development, executive management, finance, accounting, human resources, legal, engineering, safety, customer service, procurement, fleet, facilities, gas supply, and support services.

SUI and CNG have an agreement that specifies the services that SUI provides to CNG, as well as the basis for determining CNG’s share of the cost of the services. SUI labor and G&A costs that cannot be directly assigned to CNG or another SUI subsidiary will be allocated to all applicable SUI subsidiaries using the Distringas method. The Distringas method allocates costs using a multi-factor formula consisting of direct labor, capital investment and net operating revenues to determine the proportionate share of shared services costs to be allocated to each subsidiary.

- **Direct Labor** – For each month for each SUI subsidiary, the direct labor expenses, including payroll and employer payroll taxes, will be accumulated and a weighted average percentage will be calculated.
- **Capital Investments** – For each month for each SUI subsidiary, the prior month’s capital investments will be accumulated, and a weighted average percentage will be calculated. Capital investments include FERC accounts 101 (Utility Plant in Service), 106 (Completed Construction Not in Service), 107 (Construction Work in Progress), and 105 (Plant Held for Future Use).
- **Net Sales Revenues** – For each month for each SUI subsidiary, the net sales revenues for the prior month will be accumulated and a weighted average percentage will be calculated. Net sales revenue is the total tariff

purchased gas cost billed, plus commodity fees billed, transport, unbilled revenues, and monthly service fees billed, less tariff purchased gas costs.

Indirect SUI expenses include labor costs, employer payroll tax expenses, employee benefits, and common expense costs. Common expenses include the overhead associated with SUI's corporate headquarters in Littleton, Colorado, as well as overhead associated with shared services provided out of SUI's Fort Smith, Arkansas and Yarmouth, Maine offices. The costs of shared space will be allocated using Distrigas methodologies. SUI's common expenses will be accumulated and allocated to each SUI subsidiary using the Distrigas percentage of the subsidiary to the indirect SUI expenses.

When a SUI employees performs work that should be for the benefit of SUI only, they charge their time to corporate governance or similar work orders. SUI employee time that is recorded to corporate governance and other parent-only work orders is excluded from the allocation. Labor associated with corporate governance varies from month to month and is recorded as it occurs. Examples of SUI-only costs include business development, corporate board meetings and preparation, audit and tax preparation for SUI, and engagement with shareholders not related to a specific entity. Corporate governance work orders are assigned indirect and common costs.

The indirect vehicle expense costs consist of SUI gas and maintenance for vehicles used by SUI employees. These costs are coded to a clearing account, FERC 184. These accounts are allocated based on SUI labor and Distrigas methodologies.

SUI's common expense costs include FERC accounts 901-931, excluding 930.

Colorado Natural Gas, Inc.**CNG****SHARED SERVICE BILLINGS BETWEEN AFFILIATES****Services**

SUI's subsidiaries may provide support services to each other in order to leverage expertise across SUI's platform. These services include construction services, operational support and leadership, engineering, and GIS. These services may be performed by CNG employees for SUI's other subsidiaries or by employees of SUI's other subsidiaries for CNG. The rates charged for such services will be set forth in a written service agreement between the relevant companies.

Direct Billings – These are costs CNG incurred in providing a specific service or good to another SUI subsidiary or costs incurred by another SUI subsidiary in providing a specific service or good to CNG. These costs are billed to the entity based on the labor code specified in the employee's timesheet. Direct expenses incurred by an employee are also directly billed to the entity.

Indirect Billings and Allocations – There will be no indirect billings or allocations to CNG from affiliates other than SUI.

Asset Transfers – CNG will not sell, lease, assign, mortgage, transfer, or otherwise dispose or encumber the whole or any part of its franchise, works, or system, necessary or useful in the performance of its duties to the public, or by any means, direct or indirect, merge or consolidate such franchise, works or system, or any part thereof,

with any other corporation, person, or public utility, without having first secured from the CPUC an order authorizing it so to do.

Assets

Asset transfers between CNG and its affiliates will be valued at FMP.

Fixed Asset Transfers – Transfers of fixed assets between CNG and its affiliates will be valued at FMP. The receiving entity will pay shipping and processing costs.

Inventory Transfers – Transfers of inventories between CNG and its affiliates will be valued at FMP. The receiving entity will pay shipping and processing costs.

Vehicle Transfers – Transfers of vehicles between CNG and its affiliates will be valued at FMP using NADA or Kelly Blue Book specific to the year, make, model, and condition of the vehicle. The receiving entity will pay shipping and processing costs, and registration fees.

Colorado Natural Gas, Inc.

CLEARINGS & LOADINGS

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

CNG employees will directly charge labor to SUI and its affiliates for each activity they perform for SUI and its affiliates. Paid absence loadings will be included in the rates provided for by the service agreement between the entities.

Payroll Tax Loadings – CNG employees will directly charge labor to SUI and its affiliates, including non-regulated entities, for each activity they perform for SUI, its affiliates and non-regulated operations. Taxes will be included in the rates provided for by the service agreement between the entities. Loading rates will be based on total labor. Loadings will be aggregated at a company level and distributed across all employees regardless of their enrollment. Any amounts not cleared will be monitored monthly.

Pensions and Other Benefits Loadings – Pension, post-retirement, employee insurance and other benefits will be applied to labor costs to ensure that an appropriate portion of benefits are charged to each activity and to provide management with costs per project. CNG employees will directly charge labor to SUI, its affiliates, and non-

regulated operations for each activity benefitting SUI, its affiliates, and non-regulated operations. Benefit loadings will be included in the rates provided for by the service agreement between the entities. Loading rates will be based on total labor. Loadings will be aggregated at a company level and will be distributed across all employees regardless of their enrollment. Any amounts not cleared will be monitored monthly.

General and Administrative (“G&A”) Loading – G&A costs are applied to labor costs to ensure that an appropriate portion of overhead expenses will be charged to each activity and to provide management with costs per project. G&A loadings will be included in the rates provided for by the service agreement between the entities. Loading rates will be based on total labor. Loadings are aggregated at a company level and will be distributed across all employees.

Colorado Natural Gas, Inc.**SPECIFIC ASSIGNMENT OF COSTS METHOD**

Specific assignment of costs among affiliates is used when (1) a statistical analysis of the underlying costs indicates the benefiting entity or (2) the costs can be assigned based on the ownership of the related assets or liabilities. Specific assignment methods may be used to assign property insurance premiums based on an appropriate cost causative driver. In addition, the specific assignment method may be used to track costs that are beneficial to non-regulated activities. When a potential new non-regulated activity is identified, a work order will be created to help identify and accumulate costs associated with the new non-regulated activity. Ultimately, these work orders will be used to segregate those costs from regulated activities.

Colorado Natural Gas, Inc.**AFFILIATE PRICING**

CNG will act in its best interests as a regulated utility when dealing with affiliates or its non-regulated activities. When pricing good, services, information, or assets:

- 1) All assets, information and goods exchanged between CNG and its affiliates will be compensated at FMP; and
- 2) All services exchanged between CNG and its affiliates will be compensated at the lower of FMP or the FDC.

CNG will determine the FMP either through competitive bids or other measures it deems proper. For an affiliate service transaction, CNG will compare the FMP to the FDC to determine the appropriate amount of compensation to be paid. To the extent necessary, CNG will follow the process in TAB K related to affiliated transactions that do not follow the lower of FMP or FDC rule.

Fully Distributed Costs: For purposes of this CAAM, FDC examines all costs incurred to produce a good or service, consisting of direct, indirect, and generally allocated costs.

Labor costs that are directly assignable to a good or service of an affiliate are billed to that affiliate based upon its use of that good or service. These include costs that are directly required for an affiliate. In addition, the FDC price component for affiliate transactions will include indirect costs which are assigned based on labor charges as a cost causative relationship.

Fair Market Price: The FMP is the price that would be received to sell or paid to 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.

For affiliate transactions involving the sale of a good, CNG will use a competitive bid process (or request for proposals (“RFPs”)) to establish the FMP. If CNG elects not to use a competitive bid process, it will demonstrate that competitive bids were either not necessary or not appropriate. CNG procurement policies and procedures will require documentation and approval explaining why a competitive bid was either not necessary or not appropriate for affiliate transactions. This documentation will determine the FMP relative to the specific purchase circumstances.

For affiliate transactions involving the sale of a service, CNG will determine FMP through either competitive bids (or RFPs) for the service or a market study of the service.

The FMP 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, CNG may, but need not, identify specific market participants. Rather, CNG will 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;
- c) market participants with whom CNG would transact business regarding the good or service in that market; and
- d) RFPs for the good or service.

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 transact.

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.

Colorado Natural Gas, Inc.

AFFILIATE MARKETING MATERIALS AND CUSTOMER INFORMATION

Any marketing materials or advertisements for CNG's non-regulated affiliates with names, logos or trademarks similar to CNG's names, logos or trademarks will state in a font size no smaller than the smallest font size on the page and will clearly display that it is "Not Regulated by the Colorado Public Utilities Commission."

When a CNG customer requests information about a product or service provided by a non-regulated CNG affiliate, the customer may receive the requested information. To prevent an unfair advantage to the non-regulated CNG affiliate, the customer will be provided an oral or written disclaimer that the non-regulated CNG affiliate is not tied to CNG and that other service providers may be available.

Colorado Natural Gas, Inc.

REPORTING AND RECORDING REQUIREMENTS

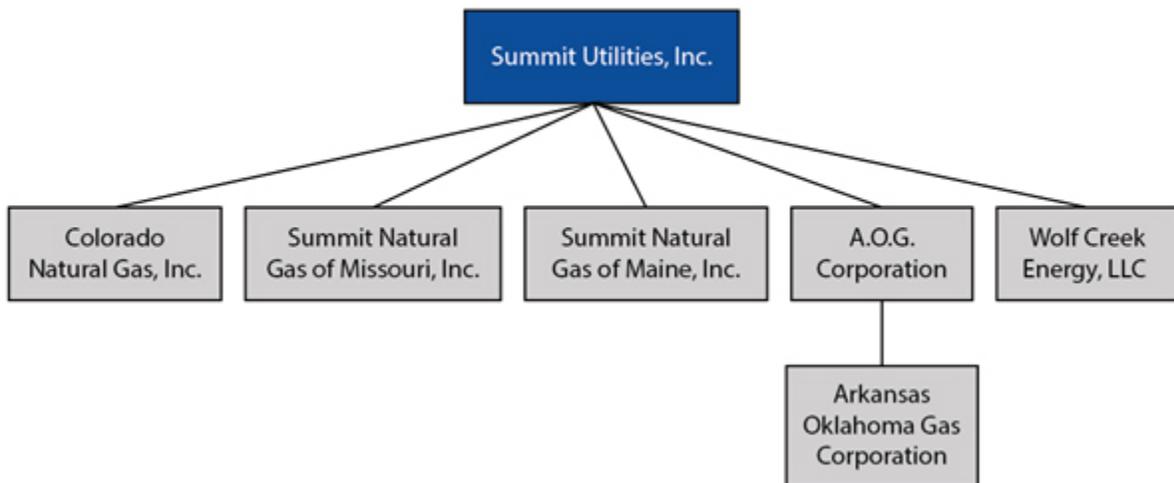
CNG affiliate transactions, policies, and procedures are governed by the CPUC's statutes, rules and regulations. SUI will maintain CNG's books and records separately from CNG's affiliates and CNG's books and records will be maintained so that its affiliate transactions are auditable on its books

CNG will execute written agreements for transactions with its affiliates.

CNG will comply with the applicable CPUC record-keeping requirements. CNG understands that all records covered by CCR 723-4 4005 (XII) must be maintained for at least three (3) years.

Colorado Natural Gas, Inc.

ORGANIZATIONAL CHART



Tab I Appendix 2

Examples of Services Provided by SUI to its Subsidiaries:

Holding Company Costs to be Allocated	Description of Services Provided
Executive	Executive services include the labor and non-labor costs of executive corporate management and programs to ensure the continuity and development of management. Executive activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.
Miscellaneous general expenses	Miscellaneous general expense services charged to the FERC 930.2 include labor and non-labor costs for the Board of Directors and general management of the utility not provided for elsewhere.
Investor Relations	The services provided by Investor Relations include labor and non-labor costs for communications to investors and the financial community, providing management with feedback from investors, reviewing all financial documents for accuracy and completeness and distributing all required financial documents. Investor Relations activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.
Accounting and Reporting	Accounting and Reporting services include labor and non-labor costs for preparation of operating and non-operating financial statements, ensuring compliance with applicable laws of the operating and non-operating companies, and coordinating the budgeting process with the operating and non-operating companies.
Taxes	Tax services include the labor and non-labor costs associated with the preparation and filing of consolidated corporate tax returns and payments for all companies, administration of all income, sales/use and property tax audits, protests and appeals, monitoring tax legislation, legal developments, and rulemaking activities in the income tax, sales/use tax and property tax areas.
Audit Services	Audit Services include the labor and non-labor costs associated with corporate internal control guidelines and auditing of consolidated financial statements related to the Audit Committee. This function also includes the cost of administering the corporate compliance, fraud and conflict of interest investigations, establishing and review of compliance requirements/control testing, and evaluating contract risks. Audit service activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.
Finance & Treasury	The Finance & Treasury services include the labor and non-labor costs of investing activities and costs associated with equity and debt securities issuance, monitoring the capital markets, compliance with debt covenants, and management of the Pension Fund. Finance & Treasury activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.
Risk Management	The Risk Management services include the labor and non-labor costs of corporate risk management, hazard insurance, and loss control services. Risk Management activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.

Holding Company Costs to be Allocated	Description of Services Provided
Corporate Strategy & Business Development	The Corporate Strategy & Business Development services include labor and non-labor costs for long-term business strategy development , corporate strategic planning, and portfolio management. Corporate Strategy & Business Development activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.
Network	The Network services include the labor and non-labor costs for the operation and management of internal and external data transmission needs.
Business Systems	Business Systems services include the information technology costs that provide benefits that impact every computer user across the company. Computer Technology risk, software maintenance on applications distributed to all users, governance and project management over all IT projects, fixed management fees with software companies, business analytics costs, and amortization of prepaid software system costs all fall under this category as well as any costs that are not specific to an application that already has a specific allocator.
Financial Services	Financial Services include the labor and non-labor costs for financial analysis, budgeting and administrative support, managerial reporting and business planning and process initiative for CNG and operating affiliates, including the holding company.
Receipts Processing	Receipts Processing services include the labor and non-labor costs incurred for processing payments received from customers.
Rates & Regulation	The Rates & Regulation services include the labor and non-labor costs for determining the operating companies' regulatory strategy, revenue requirements and rates for gas customers, coordinating the regulatory compliance requirements, establishing and maintaining relationships with regulatory bodies, preparing and organizing rate case filings.
Payment and Reporting	The services included in the Payment & Reporting include the labor and non-labor costs associated with processing payments to vendors, providing audit research and reconciliation support for Accounts Payable transactions, preparing statistical and 1099 reporting and administration of purchase card programs such as transacting limit and management of expense reporting software.
Customer Service	The Customer Service activities include the labor and non-labor costs for meter reading to retail and wholesale customers, customer billing to retail and wholesale customers, call center support and credit and collections.
Facilities	Facilities services include the labor and non-labor costs of operating and maintaining office buildings and service centers procuring real estate and administering real estate leases, procuring office furniture and equipment and administering contracts to provide security, housekeeping and maintenance services for facilities. Also included are costs for mail delivery, duplicating and records management, providing copy and print services and operating the corporate switchboard.
Payroll	Payroll services include the labor and non-labor costs for processing payroll including but not limited to time reporting, calculation of salaries and wages, preparation of payroll tax and compliance reports.
Human Resources	Human Resource services include the labor and non-labor costs for SUI and CNG employees' compensation plans, corporate Human Resource policies, benefit plans, payroll services for CNG and the employee's handbook. Human Resource activities are generally services that are performed on behalf of all SUI operating companies and affiliates including the holding company.
Communications	Communication services include the labor and non-labor costs for corporate communications, employee communications, and corporate media relations. Communication activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.

Holding Company Costs to be Allocated	Description of Services Provided
Legal	<p>Legal services include labor and non-labor costs for corporate or CNG litigation, Holding Company reports and filings under FERC, filing fees for Holding Company or CNG and corporate contracts. Other services include labor and employment law, litigation, rates and regulation, environmental matters, real estate and contracts. Legal activities are generally services that are performed on behalf of all SUI operating companies and affiliates, including the holding company.</p>