

DIRECT TESTIMONY

of

MARY H. EVERSON

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Application for Approval Pursuant to Section 7-101 of the Public Utilities Act of a
Services Agreement between Atmos Energy Corporation and Atmos
Energy Services, LLC

Atmos Energy Corporation

Docket No. 04-0405

August 25, 2004

1 **Witness Identification**

2 Q. Please state your name and business address.

3 A. My name is Mary H. Everson. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am an Accountant in the Accounting Department of the Financial Analysis
7 Division of the Illinois Commerce Commission (“Commission” or “ICC”).

8 Q. What is the function of the Accounting Department of the Illinois Commerce
9 Commission?

10 A. The Department’s function is to monitor the financial condition of the public
11 utilities as a part of the Commission’s responsibilities under Article IV of the
12 Public Utilities Act (“Act”) and to provide accounting expertise on matters before
13 the Commission.

14 Q. Please describe your professional background and affiliations.

15 A. I have a Bachelor of Science in Accounting from the University of Central Florida.
16 I am a Certified Public Accountant licensed to practice in the State of Illinois. I
17 joined the staff of the Illinois Commerce Commission (“Staff”) in February 1999.
18 Prior to joining Staff, I was employed in industry as a financial analyst and in
19 government as an internal auditor.

20 Q. Have you previously testified before any regulatory bodies?

21 A. Yes. I have testified on several occasions before the Commission.

22 **Purpose of Testimony**

23 Q. What is the purpose of your testimony in this proceeding?

24 A. The purpose of my testimony is to provide a recommendation to the Commission
25 regarding the application of Atmos Energy Corporation for approval of the AES
26 Services Agreement (“Agreement”) between Atmos Energy Corporation (“Atmos”
27 or “Company”) and its affiliate, Atmos Energy Services, LLC (“AES”).

28 **Attachments**

29 Q. Have you included any attachments to your testimony?

30 A. Yes. I have included Attachment 1, which is a markup of the Company’s
31 proposed Agreement, that I prepared and sent to the Company to suggest
32 alternatives to remedy the various deficiencies I noted in my review.

33 **Section 7-101 of the Act**

34 Q. Does Section 7-101 of the Public Utilities Act make it necessary for Atmos to
35 have an ICC approved affiliate agreement if it conducts business with an
36 affiliate?

37 A. Yes, it does. Section 7-101(2)(ii)(d) includes the following definition for the
38 phrase “affiliated interest” as “Every Corporation, 10% or more of whose voting
39 securities is owned, directly or indirectly by such public utility.”

40 Furthermore, Section 7-101(3) of the Public Utilities Act states:

41 No management, construction, engineering, supply, financial or
42 similar contract and no contract or arrangement for the purchase,
43 sale, lease or exchange of any property or for the furnishing of any
44 service, property or thing, hereafter made with any affiliated
45 interest, as hereinbefore defined, shall be effective unless it has
46 first been filed with and consented to by the Commission or is
47 exempted in accordance with the provisions of this Section or of
48 Section 16-111 of this Act. The Commission may condition such
49 approval in such manner as it may deem necessary to safeguard
50 the public interest. If it be found by the Commission, after
51 investigation and a hearing, that any such contract or arrangement
52 is not in the public interest, the Commission may disapprove such
53 contract or arrangement. Every contract or arrangement not
54 consented to or excepted by the Commission as provided for in this
55 Section is void.

56 Reading of those subsections indicates that if a utility has transactions with an
57 affiliate as defined in Section 7-101, those transactions are subject to approval by
58 the Commission. With this filing, Atmos has filed for approval as is necessary
59 according to the Act. However, the Agreement as filed, contains insufficient detail
60 regarding the terms and conditions governing the transactions it covers.

61
62 **Commission Policy for Approval of Affiliate Agreements**

63 Q. Has the Commission described in a previous Order a standard by which it
64 evaluates affiliate agreements?

65
66 A. Yes. In Docket No. 95-0615, the Commission applied the standard of
67 whether “the evidence indicates the benefits to ratepayers are reasonably likely
68 to exceed the costs or harms to ratepayers.”-

69

70 **Recommendations**

71 Q. Have you reviewed the Company's filing?

72 A. Yes. I have reviewed the Company's Application, the Agreement and the
73 Company's direct and supplemental direct testimony. I have also reviewed the
74 Company's responses to numerous data requests.

75 Q. What are the results of your review?

76 A. I believe the Commission should not approve the Agreement unless the
77 Company makes substantial revisions to the Agreement to address the
78 shortcomings identified in my testimony.

79 Q. Please explain your position.

80 A. I believe that, in general, the Agreement does not contain enough specificity
81 regarding the various terms contained in the Agreement. In the discussion that
82 follows, I will explain the deficiencies in the current proposed Agreement and
83 suggest alternatives that may sufficiently strengthen the Agreement.

84 Q. Please identify the flaws that you noted in the Agreement.

85 A. The Agreement either fails to address or provides insufficient detail regarding the
86 following terms or conditions:

- 87 1) Absence of limitation of the services provided by AES to Atmos;
88 2) Failure to address the components of cost charged to Atmos by AES;
89 3) Absence of dispute resolution procedures;

- 90 4) Lack of section addressing access to records;
91 5) Lack of procedures regarding the assignment of rights and obligations under
92 the Agreement; and
93 6) Lack of procedures regarding ICC approval of changes to the Agreement or a
94 change in parties to the Agreement.

95

96 **Absence of Limitation of Services Offered by AES to Atmos**

97 Q. Please explain your concern regarding the absence of limitation of services
98 offered by AES to Atmos.

99 A. As I understand the proposed Agreement, AES will provide certain gas
100 procurement and load management services to Atmos. The services that AES
101 could provide under this Agreement are listed in Exhibit 1 to the Agreement
102 (Attachment 1 to this testimony).

103 The services listed as part of Exhibit 1 attached to the Agreement are not the
104 cause for my concern. However, I believe that the services that Atmos can obtain
105 from AES under this Agreement should be limited to those services specifically
106 listed on Exhibit 1 of the proposed Agreement.

107 Q. Please explain further.

108 A. Under Section 7-101(3) of the Act, the Commission is charged with the
109 responsibility of approving only those agreements that are in the public interest.
110 Absent a complete listing of the services to be offered under this Agreement, the
111 Commission could unknowingly approve a service that is not in the public
112 interest. The Commission should not approve agreements that contain a general
113 list of services that can be modified or changed without Commission approval

114 because the Commission may find the specific details of the services
115 objectionable. In addition, conditions in the industry may change over time such
116 that what was once thought to be in the public interest may result in something
117 the Commission would have rejected had it anticipated a greater number of
118 potential services under the agreement. If the Commission were to approve a
119 general services agreement, all of the services provided under the agreement
120 would be deemed in the public interest. Clearly, it is not possible for the
121 Commission to reach this conclusion reasonably without knowing all of the
122 intended uses of the agreement and the details of the services provided. Thus,
123 the Agreement must clearly articulate the specific services to which it is intended
124 to apply.

125 **Failure to Address the Components of Cost Charged to Atmos by AES**

126 Q. Explain your concern regarding the Agreement's failure to address the
127 components of cost to be charged by AES to Atmos.

128 A. The Agreement fails to adequately address the determination of cost.

129 Q. Does the Agreement contain an adequate description of the components that will
130 be used to calculate the cost charged to Atmos?

131 A. No. The Agreement does not contain an adequate description of the components
132 that would be used to calculate the cost charged to Atmos. The Agreement
133 mentions cost in Section 4 where it states that "...AES will provide the Services

134 at cost". However, no formula to describe the components of "cost" is provided.
135 The Exhibit attached to the Agreement provides that costs will be allocated to
136 Atmos' operating divisions based upon the applicable labor distribution of the
137 employees working on Atmos' projects. I believe that more specifics are
138 necessary to fully describe both the directly assigned and the allocated costs.
139 The Agreement in its current form lacks an adequate description of the types of
140 costs that will be accumulated. These may include direct costs of materials,
141 labor, purchased services as well as indirect costs such as labor loading and
142 benefits loading. Accordingly, the Agreement as proposed is insufficient to
143 ensure that the parties to the Agreement and the Commission know how the total
144 cost for the services will be determined.

145 Q. Does the Agreement contain an adequate definition of the allocation factors that
146 AES will use to calculate charges to Atmos?

147 A. No, the allocation factors are not adequately described. The Agreement
148 describes the range of services offered by AES from which Atmos may choose to
149 have AES perform. However, it does not describe the allocation factors that will
150 be used to allocate charges for those services to the various Atmos operating
151 divisions. As I understand the situation, AES will be providing the same or
152 substantially similar services for all of Atmos' operating divisions in other states.
153 Since AES's function is to procure items or services centrally for all operating
154 divisions, the cost allocation factors must be clearly outlined in the Agreement.
155 This in turn will enable Staff to verify that the allocation factors will result in a

156 reasonable and equitable assignment of costs, so that Illinois ratepayers do not
157 subsidize the services to other divisions due to allocation methods that might
158 favor another division over the Illinois operating division.

159 The proposed Agreement allows AES to calculate cost and allocate those costs
160 to Atmos in whatever manner AES chooses. The method of calculating cost
161 could be changed completely at the discretion of AES.

162 The Company's Exhibit 1 to the proposed Agreement contains a general
163 paragraph, titled Cost of Services Performed, regarding costs of employee time,
164 which also provides that indirect costs will be included in the charge to Atmos to
165 achieve what the Company describes as "full cost". I suggest deleting that
166 section and adding one that describes assignment of direct costs that can be
167 readily attributable to one operating division and an allocation formula for fully
168 distributed costs that are attributable to more than one operating division within
169 Atmos.

170 The section on cost components should contain a complete description of the
171 elements of fully distributed costs. That section should also contain a description
172 of the basis for the direct costs and a provision to explain the elements of indirect
173 costs that might include labor loadings and benefit loadings. The allocation
174 factors should also be readily determinable for each type of service.

175 **Absence of Dispute Resolution Procedures**

176 Q. Please describe your concern regarding absence of dispute resolution
177 procedures.

178 A. The Agreement contains no specifics on how any disputes regarding cost
179 assignment or allocation between Atmos and AES are to be resolved. The
180 Company has provided some details on a dispute resolution procedure in
181 response to a data request, but those data request responses are not part of the
182 Agreement. The Agreement needs to be revised to include procedures so that
183 the Agreement is the complete document governing the transactions between
184 Atmos and AES.

185 The specific details that should be included in a revised Agreement regarding
186 dispute resolution should outline the procedures that Atmos will use to dispute a
187 charge and an explanation of the process by which any disputed amounts will be
188 resolved. I did not include a section in my revision to the proposed Agreement
189 regarding dispute resolution, but the issue of dispute resolution needs to be
190 addressed in a revised Agreement.

191 **Lack of Addressing Access to Records by Atmos**

192 Q. Does the Agreement contain a provision for Atmos or Staff to have access to the
193 records regarding transactions with affiliates?

194 A. No, it does not. The Company did provide supplemental direct testimony
195 addressing this issue. However, I believe that the Agreement should stand alone
196 without needing the clarification of additional terms that are not contained in the
197 Agreement. As a result, anyone from Staff or Atmos, who is not a participant in
198 this proceeding, should be able to determine the complete Agreement details by
199 reviewing the Agreement itself. The Agreement should contain a provision to
200 address the issue of access to records.

201 According to Section 7-101(2)(ii) regarding Commission access to records, the
202 Commission is required to first request information regarding affiliated interest
203 transactions from the public utility before requesting the same information from
204 the affiliate. Under the terms of the proposed Agreement, AES will be in
205 possession of most, if not all, of the records that will document the charges
206 passed on to Atmos. If the Commission requested information from Atmos
207 regarding affiliate transactions and Atmos did not have access to the AES
208 records documenting the transactions, the Commission might not be able to
209 require Atmos to provide information that it does not have.

210 In order to correct this flaw, I have included a section in my revised draft of the
211 Agreement that addresses Atmos' access to AES records documenting
212 transactions under the proposed Agreement. Included in my revision is a
213 provision requiring AES to retain records relating to transactions under this
214 Agreement for a period of seven years following the expiration of the Agreement.

215 Another provision that is necessary is that Atmos has the right to obtain the
216 records of these transactions from AES during this same time frame.

217 **Lack of Payment Terms**

218 Q. Please describe your concern with the lack of payment terms included in the
219 Agreement.

220 A. The Agreement does not address payment terms. I believe the terms of payment
221 including manner of payment, and the timing of invoices or other evidence of
222 charges should be contained in the Agreement. This type of provision would
223 provide protection to Atmos in the event of a dispute between Atmos and AES or
224 when asked by Staff to support charges from AES.

225 My suggested revision to the proposed Agreement regarding payment terms
226 includes a description of the manner of payment and the frequency of payments.

227 **Lack of Agreement Termination Procedures and ICC Approval of a New**
228 **Agreement**

229 Q. Please address your concern regarding the lack of termination procedures
230 addressed in the Agreement.

231 A. The Agreement in its current form allows for assignment with only the approval of
232 each of the parties to the Agreement. The Agreement fails to consider that the
233 Commission has an interest in any termination of the proposed Agreement and
234 subsequent or simultaneous change in the affiliate in the Agreement. The

235 Agreement should allow for Commission approval of the assignment to another
236 affiliate in addition to the parties to the Agreement. An assignment to another
237 affiliate should not be allowed unless the party assuming the rights and
238 obligations is approved by the Commission.

239 This is a similar concern to the one I expressed in an earlier section of my
240 testimony regarding limitation of services under the Agreement. The Commission
241 should not approve an agreement where all of the terms are not specified. The
242 Commission could unknowingly approve an agreement with potentially any
243 number of different Atmos-affiliated companies which might not be in the public
244 interest. Under the proposed Agreement, a new affiliated company could be
245 substituted for AES and nothing in the proposed Agreement requires that the
246 Commission be notified of that change. In addition, the proposed Agreement
247 does not allow for the Commission to review the Agreement to see if the
248 substituted affiliate would meet the public interest standard the Commission is
249 required to determine under Section 7-101(3) of the Act.

250 My revised draft Agreement includes a section addressing the need for a new
251 Agreement if the rights and obligations of AES are assigned to another Atmos
252 affiliate. Specifically, Atmos should be required to bring the Agreement with the
253 substituted affiliate company before the Commission for approval in the event of
254 an assignment to another Atmos-affiliated company.

255 **Alternative Language for Agreement**

256 Q. Can you provide an example of the types of detail that should be provided to
257 address the concerns you describe in earlier sections of this testimony?

258 A. Yes. Attached to my testimony is a draft copy of a revised Agreement
259 (Attachment 1) that I prepared and sent to the Company to suggest alternatives
260 to remedy the various deficiencies I noted in my review.

261 Q. Has the Company prepared a revised Agreement or offered to revise the current
262 Agreement to address your concerns?

263 A. I anticipate that the Company will address my concerns in its rebuttal testimony.

264 **Summary**

265 Q. What is your recommendation to the Commission?

266 A. I believe the Commission should not approve the Agreement unless the
267 Company makes substantial revisions to the Agreement to address the
268 shortcomings identified in my testimony.

269 **Conclusion**

270 Q. Does this question end your prepared direct testimony?

271 A. Yes.

1
2
3 **DRAFT**
4 AES SERVICES AGREEMENT
5
6

7 This AES Services Agreement (this "Agreement") is entered into as of the
8 _____ day of _____ 2004, by and between Atmos Energy Corporation, a Texas
9 and Virginia corporation ("Atmos" or "Company"), and Atmos Energy Services, LLC, a
10 Delaware limited liability company ("AES").
11

12 WHEREAS, AES is an affiliated company of Atmos Energy Corporation;
13

14 WHEREAS, AES has been formed for the purpose of providing administrative,
15 management and other services; and
16

17 WHEREAS, the Company believes that it is in the interest of the Company to
18 provide an arrangement whereby the Company may, from time to time and at the option
19 of the Company, agree to purchase certain administrative, management and other
20 services from AES for [the] Company's Illinois operations;
21

22 NOW, THEREFORE, in consideration of the mutual covenants contained herein
23 and other valuable consideration, the receipt and sufficiency of which are hereby
24 acknowledged, the parties hereto, intending to be legally bound, hereby agree as
25 follows:
26

- 27 1. SERVICES OFFERED. Exhibit I hereto lists and describes all of the only services
28 that are available from AES through this agreement. AES hereby offers to supply
29 those services to the Company in conjunction with its Illinois operations.
30
31 2. PERSONNEL. AES will provide the Services by utilizing the services of such
32 persons as have the necessary qualifications and expertise to provide the
33 Services.
34

35 If necessary, AES, after consultation with the Company, may serve as
36 administrative agent, arranging and monitoring Services provided by third parties
37 to Company, whether such Services are billed directly to Company or through
38 AES.
39

40 3. _____
41

- 42 34. COMPENSATION AND ALLOCATION. ~~As and to the extent required by law,~~
43 AES will provide the Services at costs not to exceed fully distributed cost.
44 A. Fully Distributed Costs. Costs charged on a fully distributed cost basis
45 shall reflect the amounts of direct labor, direct materials and direct purchased
46 services associated with the service provided.

47
48 (The Company could also consider using language that would limit the charges
49 to the LESSER of fully distributed cost or market.
50

51 The attached EXHIBIT 1 describes the methods for determining and allocating costs
52 for AES.
53

54 5. TERMINATION AND MODIFICATION.

55
56 A.B. Modification of Other Terms and Conditions. Other than the notice of
57 Company respecting choice modification of approved Services, as
58 provided in Section 5.A. above, no amendment, change or modification of
59 this Agreement shall be valid, ~~unless made in writing and signed by the~~
60 ~~parties hereto.~~ unless approved by the Illinois Commerce Commission.
61

62 B.C. Termination of this Agreement. The Company may terminate this
63 Agreement with AES by providing sixty (60) days advance written notice of
64 such termination to AES. If the Company chooses to contract with another
65 Atmos affiliated company, Atmos will seek ICC approval of the new
66 agreement with that affiliated provider.
67

68 6. NOTICE. Where written notice is required by this Agreement, said notice shall be
69 deemed given when mailed by United States registered or certified mail, postage
70 prepaid, return receipt requested, addressed as follows:

71
72 A. To the Company:

73
74 Atmos Energy Corporation
75 810 Crescent Centre Drive, Suite 600
76 Franklin, TN 37067-6226
77 Attn: Mr. Tom Blose
78 Phone: (615) 771-8305
79 Fax: (615) 771-9704
80

81 B. To AES:

82
83 Atmos Energy Services, LLC
84 1515 Poydras St. Suite 2180
85 New Orleans, Louisiana 70112
86 (504) 522-2614
87 (540) 522-6094 (Fax)
88

89 7. GOVERNING LAW. This Agreement shall be governed by and construed in
90 accordance with the laws of the State of Texas, without regard to any conflict of
91 laws provisions.
92

- 93 8. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes
94 the entire understanding and agreement of the parties with respect to its subject
95 matter and effective upon the execution of this Agreement by the respective
96 parties hereof and thereto, any and all prior agreements, understandings, or
97 representations with respect to this subject matter are hereby terminated and
98 cancelled in their entirety and of no further force or effect.
99
- 100 9. WAIVER. No waiver by any party hereto of a breach of any provision of this
101 Agreement shall constitute a waiver of any preceding or succeeding breach of
102 the same or any other provision hereof.
103
- 104 10. ASSIGNMENT. No assignment of this contract shall be valid without ICC
105 approval for the change in parties. This Agreement shall inure to the benefit of
106 and shall be binding upon the parties and their respective successors and
107 assigns. No assignment of this Agreement or any party's rights, interests or
108 obligations hereunder may be made without the other party's consent, which
109 shall not be unreasonably withheld, delayed or conditioned.
110
- 111 11. SEVERABILITY. If any provision or provisions of this Agreement shall be held to
112 be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the
113 remaining provisions shall in no way be affected or impaired thereby.
114
- 115 12. EFFECTIVE DATE. This Agreement is subject to the approval of the Illinois
116 Commerce Commission and shall not be effective until such approval has been
117 obtained.
118
- 119 13. ACCESS TO RECORDS. During the term of this agreement and for a period of
120 seven years after its expiration or termination as to Atmos, Atmos shall have
121 reasonable access to and the right to examine all books, documents, papers, and
122 records (collectively the "Records") which pertain to the services provided by
123 AES pursuant to said Agreement. AES shall maintain all such Records for a
124 period of seven years after the expiration of the Agreement and all such Records
125 for a period of seven years after the termination as to Atmos. During the term of
126 the Agreement and for a period of seven years after its expiration or termination
127 as to Atmos, the Illinois Commerce Commission shall have access to such
128 Records in accordance with Section 7-101 of the Public Utilities Act (220 ILCS
129 5/7-101) now in effect and as may be modified from time to time, subject to any
130 applicable limitations and restrictions as provided for in said Act, now in effect
131 and as may be modified from time to time, including but not limited to limitations
132 and restrictions governing the dissemination and disclosure of confidential and
133 proprietary Records. Nothing in this Agreement shall be construed or interpreted
134 as a waiver by Atmos or AES of any right, entitlement, claim, or privilege to
135 assert and rely upon any appropriate law, statute, rule, regulation, order, or other
136 instrument, with regard to the production, dissemination, release, or disclosure of
137 any such Records.
138

139 14. PAYMENT FOR SERVICES. Payment shall be made by making remittance of
140 the amount billed or by making the appropriate accounting entries on the books
141 of Atmos on a monthly basis. (Co. should Address dispute of charges)
142

143 IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed
144 as of the date first above mentioned.
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SERVICE AGREEMENT EXHIBIT 1

Cost Accumulation and Assignment Allocation Methods and Description of Services Offered by AES

This document sets forth the methodologies used to accumulate the costs of Atmos requested services performed by AES and to assign or allocate such costs within Atmos.

Costs of Services Performed

~~_____ The direct costs of these services will be determined based upon applicable employee's labor distribution. The full cost of providing services also includes certain indirect costs, e.g., department overheads, administrative and general costs, and taxes. Indirect costs are associated with the services performed in proportion to the direct costs of the services or other relevant cost allocators~~

Cost Assignment and Allocation

AES costs will be directly assigned, distributed or allocated to Atmos in the manner described below:

1. Direct Costs
 - a. Specific costs from third parties will be directly assigned or charged to Atmos;
2. Allocated Charges
 - b, Fully distributed Costs charged on a fully distributed cost basis shall reflect the amounts of direct labor, and direct materials associated with the services as provided will be allocated to Atmos' operating divisions based upon the applicable labor distribution of the employees of Atmos Energy Holdings that perform the agreed upon services. Other indirect costs, including those from Atmos Energy Marketing, will be charged based upon the proportion of distributed labor to total labor;

(a) Direct Costs. Costs incurred that are specifically attributable to a Party shall be directly charged to the appropriate account number.

(i) Direct Labor. Amounts of direct labor charged to a Party shall be based on an employee's direct labor rate, reflecting the effects of overtime.

These departments or individuals shall determine a normal distribution of time in an annual review of labor distribution percentages. The distribution percentages shall be used to allocate

191 time with respect to each pay period. Significant deviations of actual
192 activity from these predetermined percentages shall be reported and
193 shall result in adjustments to the predetermined distribution of labor
194 distribution charges.)

195
196 (b) Indirect Costs.

197
198 (i) Labor Loading. Direct labor charges apportioned to a
199 Party shall be increased by a loading factor to reflect certain indirect
200 costs such as paid absence and incentive compensation. The paid
201 absence time factor reflects time incurred for vacations, holidays,
202 sickness, jury duty and other paid absences.

203
204 (ii) Benefits Loading. Direct labor charges apportioned
205 to a Party shall be increased by a loading factor to reflect the cost of
206 employee benefits such as payroll taxes, pension, medical insurance,
207 the company contribution to the 401(k) plan, postretirement health care
208 costs, and the cost of administering employee benefit plans.

209
210 (d) Allocated Costs. Costs incurred that are not specifically
211 attributable to one rate division but that have joint benefit to two or more rate
212 divisions shall be charged to the appropriate accounts based on specified
213 allocation methodologies listed in Description of Services.

- 214
215
216 3. ~~Costs attributable to more than one rate division within an operating~~
217 ~~division will be allocated using methods determined on a case-by-case~~
218 ~~basis consistent with the nature of the work performed; and~~
219
220 34. Labor distribution studies will be reviewed annually and may be adjusted
221 for any known and reasonable quantifiable events, or at such time as may
222 be required due to significant changes.

223
224 **Description of Services**

225
226 A description of each of the services performed by AES pursuant to this
227 Agreement for Company ~~which may be modified from time to time~~, is presented below.
228 As discussed above, where identifiable, costs will be directly assigned or distributed to
229 the Company. For costs accumulated in Account Codes which are for services of a
230 general nature that cannot be directly assigned or distributed, the method or methods of
231 allocation are also set forth. Substitution or changes may be made in the methods of
232 calculating allocation components hereinafter specified, and will be provided to each
233 applicable state regulatory agency and Company.
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Gas Supply Procurement

Hedging Administration – Develop and recommend hedging strategy for BU (s) and assist in the development of regulatory hedging filings. Execute filed hedge plan and provide monthly reporting illustrating volumes hedged, price and mark to market value to BU and corporate management. Provide support to BU regulatory and leadership team as it pertains to hedging reporting, performance, compliance and data request. Maintain and develop financial vendor relationships.

[Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these services.\)](#)

Supply and pipeline capacity planning – Develop and provide design day studies utilizing historical daily actual to support design day pipeline, as well as, storage capacity requirements.

[Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these services.\)](#)

Procurement Plans – Develop and provide design day studies utilizing historical data. Plan annual load requirements, pipeline utilization and storage injection/withdrawal plans. Assist BU regulatory teams as needed for compliance filings with state commissions (Data request, etc.)

[Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these services.\)](#)

Procurement / Contracting – Develop and administer the RFP process for firm supply, transportation, storage services and agency services. Provide an evaluation of bids and recommendation of best options based on price, reliability, flexibility and supplier capabilities. Negotiate and coordinate local production tie-ins and pricing.

[Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these services.\)](#)

Portfolio Management – Evaluate BU(s) options of supply, transportation and storage to optimize most effective and efficient means to serve BU's firm load requirements.

[Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these services.\)](#)

280 **Contract Information Management** – Provide for a central distribution of supplier,
281 transport, storage and all other gas supply related contracts.

282
283 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
284 [services.\)](#)

285 **Contract Negotiations and Execution** – Negotiate and evaluate contracts for
286 accuracy before execution. Route to appropriate BU VP Rates for execution by the BU
287 President. Monitor all supply contract expiration and notice dates. Corporate Contracts
288 Administration to distribute executed contract copies to key personnel.

289
290 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
291 [services.\)](#)

292
293 **Supplier Relations** – Maintain good working relationships with suppliers and service
294 providers in conjunction with BU Presidents. Monitor any changes in supplier
295 organizations that may affect service reliability and accuracy.

296
297 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
298 [services.\)](#)

299
300 **Manage Third-party Agency Contracts** – Monitor and review all natural gas supply,
301 transportation and storage agency activities provided by a third party. Act as liaison
302 between gas control and all service agents.

303
304 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
305 [services.\)](#)

306
307
308 **System Load Management**

309
310
311
312 **Short term plan forecast** - Based on actual daily historical load and weather data;
313 provide daily and monthly requirements by city-gate. Communicate where applicable to
314 gas control daily the supply dispatch plan.

315
316 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
317 [services.\)](#)

318
319 **Dispatch & Balancing** - Nominate monthly, daily load requirements to all upstream
320 pipelines, suppliers and storage facilities of the BU(s). Forecast and analyze daily
321 current month load requirements vs. nominations to maintain pipeline imbalance
322 percentages within pipeline tolerance and maintain storage withdrawal and injection
323 plans.

324

325 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
326 [services.\)](#)

327
328 ***Local Production*** - Manage accounts, invoice and report local production activities
329 related to volume, cost and un-accounted for where applicable.

330
331 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
332 [services.\)](#)

333
334
335 ***Weather Database*** - Archive daily weather highs and lows by weather area in BU.
336 Calculate and archive average temperatures and heating degree days (HDD). Develop
337 reports current day, month and year to historical averages and peaks.

338
339 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
340 [services.\)](#)

341 ***Load Database*** - Archive actual city-gate deliveries to third-party transporters and R&C
342 usage by pipeline and weather area. This data is to be utilized for capacity planning,
343 monthly and daily load forecasting.

344
345 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
346 [services.\)](#)

347
348 ***Pricing Database*** - Archive pricing related indexes as published by monthly and daily
349 industry publications including NYMEX.

350
351 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
352 [services.\)](#)

353
354 ***Capacity Management*** - Utilize forecasted monthly and daily load to evaluate capacity
355 utilization. Execute steps to maximize the value of idle capacity in release markets and
356 asset optimization plans.

357
358 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
359 [services.\)](#)

360
361 ***Storage management*** - Develop and execute injection and withdrawal plans by
362 pipeline to minimize utilization of daily market volatility and support system integrity.

363
364 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
365 [services.\)](#)

366 Regulatory Compliance

367
368 ***PGA Reporting Support*** - Complete actual gas cost schedules to be used in the
369 Regulatory team's monthly PGA filings.

370

371 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
372 [services.\)](#)

373
374 ***Purchase Gas Cost Estimate*** - Provide corporate accounting and BU regulatory team
375 with gas cost estimate of current month.

376
377 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
378 [services.\)](#)

379 ***L&U Reporting*** - Provide BU's regulatory team and operations team with monthly total
380 city-gate receipts data in a Lost and Unaccounted for report.

381
382 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
383 [services.\)](#)

384
385 ***FERC Regulatory Affairs*** - Monitor all pipeline compliance and related filings. Advise
386 and support corporate legal and BU leadership of any potential issues that may impact
387 the enterprise and our customers.

388
389 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
390 [services.\)](#)

391
392 ***Commission Data Response Support*** - Assist BU regulatory team related to gas
393 supply issues.

394
395 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
396 [services.\)](#)

397 ***Testimony Support*** - Provide regulatory testimony as it pertains to gas procurement
398 services provided.

399
400 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
401 [services.\)](#)

402
403 ***Accounting Administration***

404
405 ***Supplier Invoice reconciliation*** - Reconcile supplier invoices with transportation
406 deliveries. Further reconcile transportation and storage deliveries and activities with
407 daily nominations. Approve for accuracy and/or make all appropriate adjustments.

408
409 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
410 [services.\)](#)

411 ***Supplier Invoice Reporting and Coding*** - Provide cover sheet approvals and account
412 coding for all supplier invoices. Gas cost accounting - Develop and provide supporting
413 schedules and reports to BU and gas supply operation summarizing previous month
414 actual purchase activity. Develop and provide supporting schedules and reports to BU
415 and gas supply operation summarizing current month estimates of purchase activity.
416 Maintain and reconcile invoice log.

417
418 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
419 [services.\)](#)

420
421 **Local Production** - Manage accounts, invoice and report local production activities
422 related to volume, cost and un-accounted for where applicable.

423
424 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
425 [services.\)](#)

426
427 **Gas supply record retention** - Maintain three years of purchase backup per BU for
428 data request, prudence review and management studies. Facilitate the archiving of
429 historical data past three years in central records.

430
431 Expected Allocation Ratios: [\(Company to fill in applicable allocation ratios for these](#)
432 [services.\)](#)

433
434 **Gas supply procedures manual** - Maintain gas supply procedures manual.

435
436 [Expected Allocation Ratios: \(Company to fill in applicable allocation ratios for these](#)
437 [services.\)](#)

438