

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 18-G-0133 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of St. Lawrence Gas Company, Inc. for Gas Service.

CASE 18-G-0140 - Joint Petition of Liberty Utilities Co. and St. Lawrence Gas Company, Inc. for Approval, Pursuant to Section 70 of the PSL, of the Acquisition of St. Lawrence Gas Company, Inc. by Liberty Utilities Co. and for Approval, Pursuant to Section 69 of the PSL, of the Issuance of Long-Term Indebtedness.

ORDER ADOPTING THE TERMS OF JOINT PROPOSAL

Issued and Effective: October 18, 2019

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on October 17, 2019

COMMISSIONERS PRESENT:

John B. Rhodes, Chair
Diane X. Burman
James S. Alesi
Tracey A. Edwards
John B. Howard

CASE 18-G-0133 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of St. Lawrence Gas Company, Inc. for Gas Service.

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ORDER ADOPTING THE TERMS OF JOINT PROPOSAL

(Issued and Effective October 18, 2019)

BY THE COMMISSION:

I. INTRODUCTION

This Order adopts the terms set forth in the attached Joint Proposal, which was filed on May 31, 2019.¹ Signatories to the Joint Proposal include St. Lawrence Gas Company, Inc. d/b/a Enbridge St. Lawrence Gas (St. Lawrence), Liberty Utilities Co.²

¹ The Joint Proposal is appended to this Order as Attachment A.

² Liberty Utilities, a Delaware Corporation, is a subsidiary of Algonquin Power & Utilities Corp.

(Liberty Utilities)(collectively, Joint Petitioners), Staff of the Department of Public Service (DPS Staff), Multiple Intervenors (MI), Agri-Mark, Inc. (Agri-Mark), and Upstate Niagara Cooperative, Inc. (Upstate Niagara)(collectively, Signatory Parties).³

In adopting the Joint Proposal, this Order resolves the issues in Case 18-G-0133 (Expansion Rate Case), regarding surcharges in St. Lawrence's Expansion Area⁴ and Case 18-G-0140 (Acquisition and Financing Case), regarding Liberty Utilities' acquisition of St. Lawrence and related financing. Among other things, this Order continues St. Lawrence's base rates at current levels through May 31, 2022.⁵ The Order also continues the Contribution-in-Aid-of-Construction (CIAC) surcharge, currently paid by customers in the Expansion Area, but establishes an end date of no later than January 31, 2023. The Order directs St. Lawrence to write-down plant-in-service related to the Expansion Area by \$19 million and forego recovery of certain Expansion Area expenses until the Expansion Area provides enough revenue to meet the utility's cost to serve that area. St. Lawrence will be required to make an additional

³ The Signatory Parties, except Agri-Mark, filed statements supporting the Joint Proposal and recommending that the Commission adopt its terms.

⁴ See Case 10-T-0154, St. Lawrence Gas Company, Inc. - Gas Transmission Siting and 10-G-0295, St. Lawrence Gas Company, Inc. - Gas Franchise, Order Granting Certificate of Environmental Compatibility and Public Need and Authorizing Exercise of New Franchises (issued February 18, 2011)(Expansion Area).

⁵ Case 15-G-0382, St. Lawrence Gas Company, Inc. - Gas Rates, Order Establishing Multi-Year Rate Plan (issued July 15, 2016). The 2016 Rate Plan provides for certain customer credits to decrease each year, beginning on June 1, 2019 and June 1, 2020. Those changes will occur as previously authorized by the Commission.

write-down to plant-in-service if the Expansion Area is not self-sufficient by January 31, 2023.

The Order also requires Liberty Utilities to provide \$1.5 million in shareholder funds for the benefit of St. Lawrence's customers. Further, it adopts the Joint Proposal's metrics and revenue adjustments intended to protect St. Lawrence customers through improved customer service, gas safety, reliability, and revamped capital investment processes and procedures. The Order also protects St. Lawrence's customers by requiring certain financial and credit rating protections, appointing a local independent member to the board overseeing St. Lawrence's operations, requiring retention of a local headquarters for a minimum of five years, and optimizing St. Lawrence's contracted pipeline capacity. Finally, the Order authorizes St. Lawrence to issue up to \$28.2 million in long-term financing.

II. BACKGROUND

St. Lawrence is a wholly-owned subsidiary of Enbridge Gas Distribution, Inc., which in turn is owned by Enbridge, Inc. St. Lawrence employs approximately 50 full-time employees. Prior to 2012, St. Lawrence provided gas service in rural northern New York to approximately 16,300 customers in St. Lawrence County and a small portion of Lewis County (Legacy Area).

In 2010, St. Lawrence filed Cases 10-G-0295 and 10-T-0154, seeking approval to construct an approximately 48-mile transmission line and related distribution facilities (the Expansion Project) to provide gas to various communities in St. Lawrence County and Franklin County (the Expansion Area). St. Lawrence indicated that it expected the Expansion Project to attach two industrial customers, 372 commercial or institutional

customers, and 2,133 residential customers in the project's first five years. On February 18, 2011, the Commission authorized St. Lawrence to construct the transmission and distribution facilities.⁶ In addition, it established a five-year development period and allowed St. Lawrence to charge a temporary revenue surcharge to Expansion Area customers.⁷ At the time, the Expansion Project's expected cost, including the transmission line and the associated distribution systems, was \$23.5 million. Before construction began, St. Lawrence sought amendment of its Certificate of Public Convenience and Necessity (CPCN) for the Expansion Area because of increased cost estimates.

In 2012, the Commission issued an order amending the CPCN (the 2012 Order).⁸ The 2012 Order authorized the Expansion Project with an estimated cost of \$40.5 million and approved a Temporary Revenue Surcharge (TRS) for Expansion Area customers for a period of 60 months beginning when the first Expansion Area customer received gas service. The 2012 Order required St. Lawrence to charge Expansion Area customers a CIAC surcharge, a volumetric-charge specific to each customer service class. The Commission continued the previously-established five-year development period and approved an updated return on equity.

In July 2016, the Commission issued an order establishing the 2016 Rate Plan, a three-year rate plan for St.

⁶ St. Lawrence received \$6.3 million in public funding from various sources including the State of New York and Franklin County.

⁷ Case 10-T-0154, supra, Order Granting Certificate of Environmental Compatibility and Public Need and Authorizing Exercise of New Franchises.

⁸ Case 10-G-0295, supra, Order Granting Amendment of Certificate of Public Convenience and Necessity (issued July 13, 2012).

Lawrence covering the period June 1, 2016 through May 31, 2019. The rates currently apply to both the Legacy Area and the Expansion Area.⁹ Although the Commission authorized increased rates for each year of the plan, customer bill impacts were moderated through the application of customer credits that had accrued from a variety of overcollections.¹⁰

III. PROCEDURAL HISTORY

A. Expansion Rate Case

On February 26, 2018, in Case 18-G-0133 (Expansion Rate Case), St. Lawrence filed tariff leaves and supporting testimony seeking to recover cost overruns related to the Expansion Project of \$11.7 million. St. Lawrence explained that the actual cost of the completed portion of the Expansion Project at the time of filing was \$52.2 million. St. Lawrence also sought authorization to recover the cost to complete the remaining portion of the Expansion Project, estimated at approximately \$18.6 million.

St. Lawrence proposed to: (1) extend the development period applicable to Expansion Area customers for an additional 15 years, (2) increase the temporary revenue surcharge (TRS) charged to customers in the Expansion Area, and (3) reduce the CIAC but extend it through the additional 15-year development period. St. Lawrence stated that the increased TRS and extended development period modifications would allow it to recover the

⁹ Case 15-G-0382, supra, Order Establishing Multi-Year Rate Plan.

¹⁰ Id., p. 9. As explained in more detail below, The Joint Proposal in this proceeding provides for the 2016 Rate Plan RY3 (i.e., the period ending May 31, 2019) base rates to continue, subject to any surcharges or surcredits authorized in the 2016 Rate Plan, until the Commission sets new base rates for St. Lawrence.

unanticipated cost overruns associated with the Expansion Project and complete the remaining distribution facilities in the Expansion Area. St. Lawrence did not propose to increase its base delivery revenue. According to St. Lawrence, the proposed tariff changes would have resulted in a decrease in customers' monthly bill. On March 8, 2018, the Commission suspended the proposed rates in the Expansion Rate Case through July 29, 2018, pursuant to New York Public Service Law (PSL) §66.

B. Acquisition and Financing Petition

On February 28, 2018, in Case 18-G-0140 (Acquisition Case), St. Lawrence and Liberty Utilities filed a petition for Commission approval pursuant to PSL §70 for Liberty Utilities to purchase all the outstanding common stock of St. Lawrence and, as a result, ownership of St. Lawrence.¹¹ If approved, Liberty Utilities would own St. Lawrence and its two non-regulated subsidiaries, St. Lawrence Gas Co. Service & Merchandising Corp. (SLG Service & Merchandising) and S.L.G. Communications Corp.

¹¹ Pursuant to the Securities Purchase Agreement (the "Agreement") executed by the Joint Petitioners on August 31, 2017 (Attachment 2 to the Petition), Liberty Utilities, or its subsidiaries, would acquire all of St. Lawrence's outstanding shares in exchange for the consideration of \$70 million, subject to certain adjustments to be determined as of the closing date of the transaction. The Agreement expressly acknowledges that Commission approval is a pre-condition to closing on the transaction. Accordingly, closing will not occur until three business days after Commission approval of the transaction and satisfaction of any other conditions precedent in the Agreement.

(SLG Communications).¹² St. Lawrence and Liberty Utilities also sought Commission approval, pursuant to PSL §69, for the issuance of long-term indebtedness to replace St. Lawrence's existing indebtedness (the Financing). Specifically, the Joint Petitioners requested authority for St. Lawrence to issue indebtedness in the amount of \$32.5 million, to replace the balance of a note payable to Enbridge U.S.¹³ and a \$7.0 million term loan from KeyBank. The Joint Petitioners sought clarification or, to the extent necessary, modification of the St. Lawrence Affiliate Code of Conduct (the Code) to accommodate St. Lawrence's participation, together with the Company's non-regulated subsidiaries, in the Liberty Utilities Money Pool Agreement (Money Pool). The Petition included attachments, prepared direct testimony and exhibits, supporting the proposed transaction and related financing.

On April 17, 2018, the Administrative Law Judges (ALJs) convened a procedural and technical conference and on May 31, 2018, they issued a ruling joining the two cases. Following the ruling, the parties conducted discovery¹⁴ and on June 11, 2018, St. Lawrence filed additional revenue requirement

¹² SLG Service & Merchandising, a New York Corporation, is primarily engaged in the rental of furnaces, boilers, water heaters and other natural gas appliances. SLG Communications, a New York Corporation, is primarily engaged in providing communications services to St. Lawrence.

¹³ At the time of filing \$25.5 million. The Joint Proposal indicates that as of May 15, 2019, the balance on the note was approximately \$23.0 million.

¹⁴ According to the Joint Proposal, the Joint Petitioners responded to 190 interrogatories from DPS Staff in the Expansion Rate Case and a total of 145 from Staff in the Acquisition and Financing Case. In addition, the Joint Petitioners answered one consolidated set of interrogatories with 31 individual questions from MI in the Acquisition and Financing Case.

forecasts and testimony in the Acquisition and Financing Case related to the 12-month period following the term of the 2016 Rate Plan, June 1, 2019 to May 31, 2020 (Rate Year 4 information).¹⁵

On July 3, 2018, the Commission, further suspended the effective date of the rates through January 29, 2019, in Case 18-G-0133. Public statement hearings were held in Malone on August 15, 2018, and in Potsdam on August 16, 2018.¹⁶ On August 16, 2018, a Ruling on Schedule Modifications, was issued adopting a schedule that required the filing of direct testimony by parties other than the Joint Petitioners by October 4, 2018, and the filing of rebuttal testimony by October 25, 2018.

On October 4, 2019, Staff and Agri-Mark filed direct testimony and exhibits. On October 23, 2018, the Joint Petitioners filed and served a Notice of Impending Settlement Negotiations, proposing that the initial settlement conference be held in Albany on October 30, 2018.

On October 25, 2018, St. Lawrence and Liberty Utilities filed rebuttal testimony and exhibits. To accommodate settlement negotiations, several requests to postpone the commencement of evidentiary hearings and due-dates for pre-hearing submissions were granted. In addition, St. Lawrence agreed to a series of extensions to the statutory suspension period in the Expansion Rate Case. The most recent extension is through November 30, 2019.¹⁷ The Signatory Parties filed the Joint Proposal on May 31, 2019 and statements supporting the

¹⁵ Rate Year 5 is the period from June 1, 2020 to May 31, 2021 and Rate Year 6 is from June 1, 2021 to May 31, 2022.

¹⁶ Three individuals spoke in Malone and four individuals spoke in Potsdam.

¹⁷ Case 18-G-0133, supra, Order Approving Extension of Maximum Suspension Period of Major Rate Filing.

Joint Proposal on June 21, 2019 and June 24, 2019.¹⁸ The evidentiary hearing occurred on July 16, 2019.

IV. NOTICE AND PUBLIC COMMENTS

Notice of St. Lawrence's Expansion Rate Case filing was published in newspapers of general circulation in its service area once each week for four weeks pursuant to PSL §66.¹⁹ Pursuant to the State Administrative Procedure Act (SAPA) §202(1), Notice of Proposed Rulemaking for St. Lawrence's tariff filings was published in the State Register on June 6, 2018 and Notice of Proposed Rulemaking for the Joint Petition of St. Lawrence and Liberty Utilities was published in the State Register on July 25, 2018.²⁰ Also on July 25, 2018, the Secretary issued a Notice Soliciting Comments and Announcing Public Statement Hearings to be held in Malone on August 15, 2018 and Potsdam on August 16, 2018.²¹ On June 7, 2019, the Secretary issued a Notice of Joint Proposal and Soliciting Public Comment.

A total of seven individuals commented at the Public Statement Hearings (PSH) held in August 2018²² and eight written

¹⁸ On June 24, 2019, Liberty Utilities and St. Lawrence filed a "corrected" statement which added a table of contents to its previously filed statement. Also, on June 24, 2019, Upstate Niagara filed its statement in support and a "revised" statement correcting a typographical error.

¹⁹ Notice of the tariff filings was published weekly in the Malone Telegram, the Press Republican, and the Watertown Daily Times from March 3, 2018 to March 24, 2018.

²⁰ PSC SAPA Nos. 18-G-0133SP1 and 18-G-0140SP1 respectively.

²¹ Notice of the Public Statement Hearing was published in the Malone Telegram, the Press Republican, and the Watertown Daily Times on August 7 and 10, 2018.

²² Garry Douglas, North Country Chamber of Commerce; Dr. Calvin Martin, Farms Against Rural Mismanagement; Anne Britton; Mark Peets, Supervisor Town of Brasher; William Demo; Robert Stewart, Superintendent, Brasher Falls Central School; Chuck Wilson, North Country Dairy.

comments were submitted.²³ All commenters indicated general support for the Expansion Project, as originally proposed, but opposed continuation of the TRS for 15 years. Many of the commenters expressed disappointment and mistrust having invested time and equipment to convert to natural gas under the promise of cost savings, much of which would be negated by St. Lawrence's proposal to continue its surcharge for another 15 years.

Representatives from the Towns of Brasher and Stockholm opposed continuing the TRS and noted the impact to residents and businesses. Dr. Calvin Martin spoke in favor of a System Benefits Charge for St. Lawrence customers with the funds to be used to help offset the cost of weatherization and high-efficiency equipment. James Britell also supported a System Benefit Charge and further extension of St. Lawrence's system. Howard Zemsky, President and Chief Executive Officer of Empire State Development, noted that significant expansion projects related to agriculture would be jeopardized by extending the surcharge.

All comments have been fully reviewed and considered in the preparation of this Order.

V. STANDARD OF REVIEW AND LEGAL AUTHORITY

Pursuant to PSL §§5, 65(1) and (8), and 66 (1) and (12), the Commission has the legal authority to review the proposed tariff leaves, as well as modify, reject or approve such filed tariffs.

²³ Mark Peets, Supervisor Town of Brasher; Brian Bujnowski, Howard Zemsky, President and CEO of Empire State Development; James Britell; Clark Decker, Supervisor Town of Stockholm, Donald LaFave, Ritchie LeFevre, Brasher-Stockholm Recreation Commission, Donald Dabiew, Chairman Franklin County Legislature.

Pursuant to PSL §§5, 66(1) and 69, the Commission has the legal authority to review requests for the issuance of securities and forms of indebtedness, as well as modify, reject or approve such requests.

Pursuant to PSL §70, transfer of ownership of all or any part of the franchise, works or system of any gas or electric corporation is prohibited without the consent of the Commission. That consent may be given only if the Commission determines that the proposed acquisition, with such terms and conditions as the Commission may fix and impose, "is in the public interest." In evaluating whether a proposed transaction is in the public interest, "petitioners must show that the transaction would provide customers positive net benefits after considering the expected benefits offset by any risks or detriments that would remain after applying reasonable mitigation measures."²⁴

In reviewing a joint proposal, the Commission's obligation is to ensure that its terms, when viewed together, produce a result that is in the public interest. The Commission must find that the terms of a joint proposal fall within the range of litigated outcomes and that the rates proposed are just and reasonable and are in the public interest.²⁵ A joint proposal should balance protection of consumers with fairness to investors and the long-term viability of the utility.

The factors the Commission takes into account in evaluating a joint proposal, are "themselves elements of the

²⁴ Case 07-M-0906, Iberdrola, S.A. et al. Acquisition Petition, Order Authorizing Acquisition Subject to Conditions (issued January 6, 2009), p. 111.

²⁵ Cases 90-M-0255, et al., Procedures for Settlements and Stipulation Agreements, Opinion 92-2 (issued March 24, 1992).

public interest standard."²⁶ These factors are: (1) the settlement's consistency with law and with the regulatory, economic, social and environmental policies of the Commission and the State; (2) whether the result compares favorably with the likely result of full litigation and is within the range of reasonable outcomes; (3) whether the settlement strikes a fair balance among the interests of ratepayers and investors and the long-term soundness of the utility; and (4) the existence of a rational basis for the decision.

VI. TERMS OF THE JOINT PROPOSAL REGARDING
EXPANSION AREA RATES

A. Rate Base and Capital Additions

The Joint Proposal requires St. Lawrence to remove from its books \$19.0 million of plant-in-service in the Expansion Area. St. Lawrence must file the actual journal entries recording the write-down with the Secretary within 30 days after this Order. Originally, St. Lawrence sought recovery of \$70.8 million of capital costs from customers, comprised of \$52.2 million of actual incurred project costs as of September 30, 2017 and an estimated additional \$18.6 million of capital costs that were projected to be incurred to complete the remaining portion of the Expansion Area project.²⁷ DPS Staff testified that the Company should reduce plant-in-service by \$26.3 million reflecting a disallowance of \$16.3 million in cost overruns and \$9 million for CIAC revenues that would have been received had St. Lawrence completed the Expansion Project on time and connected the customers as it forecasted.²⁸

²⁶ Id.

²⁷ Initial Testimony of the Construction Panel, p. 14.

²⁸ Testimony of the Staff Policy Panel (18-G-0133), p. 58

The Joint Proposal calls for the rate base of the Expansion Area and the Legacy Area to remain separate for ratemaking purposes until the base rate revenues from the Expansion Area are sufficient to cover the Company's cost of service for the Expansion Area, including the proposed rate of return, without subsidization from Legacy Area revenues (self-supporting) or January 31, 2023, whichever occurs earlier.

Similarly, the Joint Proposal continues the current CIAC charges²⁹ in the Expansion Area until the earlier of (1) the date that the Expansion Area is self-supporting, or (2) January 31, 2023. However, if the Expansion Area is not self-supporting on January 31, 2023, and the CIAC charges terminate automatically, shareholders would be required to write-down plant-in-service to a level that allows the Expansion Area to be self-sufficient without subsidization from Legacy Area customers. The Joint Proposal prohibits St. Lawrence and Liberty Utilities from requesting an extension of or increase to the current CIAC charges. By July 31st of each year until the CIAC charges terminate, St. Lawrence must file a report with the Secretary comparing Expansion Area revenues and cost of service for the previous year. In addition, St. Lawrence shall file a report with the Secretary identifying its estimate of when the CIAC will end, no later than 6 months prior to the anticipated end date. The report shall include detail to support the estimate and must be filed no later than July 31, 2022 (i.e. six months prior to the January 31, 2023 automatic CIAC termination).

St. Lawrence originally proposed extending the development period for an additional 15 years. St. Lawrence

²⁹ The CIAC charge is equal to \$3.61 per dekatherm (Dth) for residential customers, \$5.15 per Dth for commercial customers, \$3.86 per Dth for industrial customers.

proposed that, during this extended development period, it would charge customers a TRS and a CIAC surcharge. The Company proposed adjusting the surcharges to minimize short-term impacts while still allowing full recovery of Expansion Area cost over time.³⁰ DPS Staff recommended continuing the CIAC charges at the current rates and not restarting the TRS.³¹

The Joint Proposal includes limits regarding attachment of new customers. For calendar year 2019, St. Lawrence would only be authorized to connect customers who meet the criteria for attachment to existing gas mains.³² For any distribution system enhancements planned for calendar year 2020, the Joint Proposal requires St. Lawrence to file with the Secretary a demonstration that the planned enhancement is economic, inclusive of estimated capital expenditures. The filing would include: (1) project cost estimates; (2) prospective customer survey results (with prospective customers' current energy type); (3) historic and projected natural gas and alternative energy costs; (4) number of total potential new customers and number of committed customers (5) annual conversion estimates for the first five years; (6) annual projected volumetric throughput for the first five years; (7) annual projected revenues for the first five years; and, (8) any other information St. Lawrence considers relevant.

DPS Staff will review the filing and St. Lawrence commits to cooperating with DPS Staff and, if necessary, modifying the proposal to resolve any concerns DPS Staff may have. Issues that cannot be resolved between DPS Staff and St. Lawrence would be brought to the Commission. Construction

³⁰ Initial Testimony of the Finance Panel, p. 42.

³¹ Testimony of the Staff Policy Panel (18-G-0133), pp. 43, 73.

³² See 16 NYCRR §230.2.

proposed for calendar year 2020, would only begin after May 1, 2020. For calendar year 2021 and each following year until the Commission resets St. Lawrence's base rates, the same requirements would apply.

The Joint Proposal indicates that this review process will not preclude St. Lawrence from connecting prospective customers that meet the requirements for provision of service under the Commission's regulations or that otherwise agree to pay the full cost of the main extensions required to connect them.

St. Lawrence originally proposed spending an additional \$18.6 million to complete the build out of the Expansion Area distribution system. The Company proposed to add 198,224 feet of main, 2,551 services, 2,794 meters and four district stations.³³ In its testimony, DPS Staff expressed concerns with St. Lawrence's plans based on its capital investment planning process,³⁴ and, in DPS Staff's view, less than realistic cost projections.³⁵

The Joint Proposal also provides procedures for addressing construction budgeting and variances in the Expansion Area as described below.

Discussion

The requirement to write-down \$19.0 million of plant-in-service serves the public interest because it avoids burdening St. Lawrence's customers with the cost overruns. It also recognizes our policies of avoiding the undue subsidization of expansion areas by existing customers and placing the risks

³³ Initial Testimony of the Finance Panel, p. 6.

³⁴ Testimony of the Staff Rates Panel, p. 14.

³⁵ Testimony of the Staff Infrastructure Panel, p.64.

associated with cost overruns primarily on utilities, not their customers.³⁶

Also, the adopted approach for consolidating the Expansion area and the Legacy Area is reasonable and equitable. Requiring that the Legacy Area and Expansion Area rate bases will be consolidated, no later than January 31, 2023 provides beneficial certainty to customers and St. Lawrence. The requirement that St. Lawrence make an additional write-down to plant-in-service, if the Expansion Area is not self-supporting by January 31, 2023, protects Legacy Area customers from cross-subsidization and provides the correct incentives to St. Lawrence. This provision also addresses the concern raised by the Empire Development Authority regarding the negative impact to agriculture expansion investments of continuing surcharges for an additional 15 years, as originally proposed by St. Lawrence. Further, continuation of CIAC surcharges at the current rate for a limited period, until January 31, 2023, provides St. Lawrence the opportunity to recover Expansion Area capital costs while providing certainty to existing and prospective customers in the Expansion Area.

The limitations on St. Lawrence's ability to construct additional network enhancements in addition to the requirement for the Company to adopt improved capital expenditure standards and procedures related to construction budget variances will protect customers from unnecessary cost overruns and help avoid

³⁶ See Case 89-G-078, Policy for Rate Treatment of Gas Service Expansion into New Franchise Areas, Statement of Policy Regarding Rate Treatment to be Afforded to the Expansion of Gas Service Into New Franchise Areas (issued December 11, 1989) and Case 12-G-0297, Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service, Order Instituting Proceeding and Establishing Further Process.

uneconomic buildout of gas infrastructure.³⁷ Improvements to the decision-making and budgeting processes will benefit shareholders and customers alike and are a necessary aspect of the overall response to the issues encountered during Expansion Project construction. Once the improvements have been adopted, St. Lawrence will have additional opportunities for further buildout of the system. However, it must file a detailed business plan demonstrating that the planned enhancement is feasible economically which will help impose an appropriate level of discipline to the process. These provisions strike an appropriate balance between the need for close oversight and an opportunity for the Company to enhance the value of its system for its shareholders and existing and potential customers.

B. Expansion Area Cost of Service

As indicated in the Joint Proposal, the TRS, which terminated on November 25, 2018, will not be revived. The Joint Proposal limits recovery of the cost to serve the Expansion Area, including operation and maintenance (O&M) expenses, depreciation expenses, taxes other than income taxes and return on investment within the Expansion Area, to the collection of base rate charges that St. Lawrence has already been authorized to charge Expansion Area customers. The Joint Proposal explicitly states that it contains no provision for recovery or

³⁷ The construction budget and variance procedures must address: (1) a process to base projects on engineering analysis and design; (2) project investment thresholds to allow for timely monitoring and oversight by the St. Lawrence Board and the Commission; (3) procedures to enter into construction contracts before any work commences; and (4) a process requiring pre-approval of projects by the St. Lawrence Board when a significant change in scope or budget will cause an increase of 10% or more in capital expenditures, compared with the previously approved budget.

deferral of the cost to serve the Expansion Area, including, but not limited to those costs for which St. Lawrence sought recovery in its Expansion Area Rate filing:³⁸ (1) the expenses incurred during fiscal years 2014 through 2017;³⁹ (2) additional expenses incurred in the period of 2018 through the date when the Expansion Area and Legacy Area rate bases are combined, which St. Lawrence had proposed to collect through a continuation of the TRS;⁴⁰ and (3) rate case expenses incurred in this proceeding.⁴¹

St. Lawrence originally proposed to restart the temporary revenue surcharge, at approximately double the rate authorized in the 2012 Order and proposed to apply it for an extended 15-year development period, i.e., through 2033.⁴² In its testimony, Staff recommended that the Commission reject the proposal to restart the temporary revenue surcharge arguing that requiring the Company to forego this revenue while continuing the CIAC at current levels was an equitable approach.⁴³ Similarly, Agri-Mark opposed continuation of the TRS and CIAC beyond the period that the Commission originally approved.⁴⁴

Discussion

Denying St. Lawrence's request to reestablish the TRS is reasonable and equitable as it reflects the expectation of

³⁸ See Hearing Ex. 35, St. Lawrence Exhibit FP-1A, Model Summary, Pro Forma Incremental Statement.

³⁹ Approximately \$3.0 million.

⁴⁰ As presented in St. Lawrence's filing, these cost estimates include the proposed 15-year development period.

⁴¹ St. Lawrence estimates this cost at \$658,000 as of February 26, 2018. See St. Lawrence Finance Rebuttal Testimony, p. 23.

⁴² Initial Testimony of the Finance Panel, pp. 19-21.

⁴³ Testimony of the Staff Policy Panel (18-G-0133), pp. 73-74.

⁴⁴ Testimony of Mehm, pp. 2-3.

existing Expansion Area customers. St. Lawrence will still receive Expansion Area revenues through collection of base rates and the continuation of the CIAC through, potentially, January 31, 2023, which will allow the Expansion Area to become self-sufficient in a reasonable time-frame without disrupting existing customer expectations.

C. Outreach and Education Plan

The Joint Proposal contemplates an outreach and education program specific to the Expansion Area to inform customers of the outcome of these proceedings. St. Lawrence, on or before January 1st of each year until the CIAC charges cease, must file an Outreach and Education Plan for the Expansion Area. As part of the Outreach and Education Plan, St. Lawrence would be required to conduct a minimum of two public information forums at different locations within the Expansion Area. The public forums must take place within 60 days of this Order addressing the Joint Proposal.

St. Lawrence originally proposed a Community Engagement Plan to inform customers of the construction issues the Company encountered in the Expansion Area and the need to continue the Expansion Project and recover all its costs.⁴⁵ DPS Staff recommended a separate Outreach and Education Plan for the Expansion Area to operate until the surcharges terminate and to include Company-sponsored public information sessions to explain the outcome of this proceeding.⁴⁶

⁴⁵ Testimony of Gilles Volpé, p. 18.

⁴⁶ Testimony of the Staff Consumer Policy Panel (18-G-0133), pp. 14-17.

Discussion

The Outreach and Education Plan and forums specific to the Expansion Area are a reasonable way to inform the public of the both the specific outcome of this proceeding and more generally, the opportunities and costs related to gas service.

D. Accumulated Deferred Federal Income Taxes

St. Lawrence must adjust its Accumulated Deferred Federal Income Taxes (ADFIT) balance to reflect the write-downs to plant-in-service and evaluate the excess amount of ADFIT deferred in response to the federal tax law changes, which included a corporate income tax rate reduction, that was passed in 2017.⁴⁷ The Joint Proposal recognizes that St. Lawrence will defer excess ADFIT until it can be addressed in the Company's next base rate proceeding, in accordance with the Commission's Order in Case 17-M-0815.⁴⁸ St. Lawrence must file with the Secretary the journal entries implementing any adjustment within 30 days of the issuance of this order. If St. Lawrence concludes that no adjustment is required, it will file an explanation for its conclusion instead of the journal entries effectuating the adjustments. If the Company must make an additional write-down to plant-in-service, it will revise the ADFIT balance to reflect the impact of the write-down, including the balance of excess ADFIT as required.

St. Lawrence originally proposed reflecting ADFIT associated with forecasted plant investment during its proposed

⁴⁷ See Public Law 115-17 ("The Act to Provide for Reconciliation Pursuant to Titles II and V of The Concurrent Resolution on the Budget for Fiscal Year 2018")(often colloquially referred to as the Tax Cuts and Jobs Act of 2017).

⁴⁸ Case 17-M-0815, Proceeding on Motion of the Commission on Changes in Law that May Affect Rates, Order Determining Rate Treatment of Tax Changes (issued August 9, 2018).

extended development period and included a regulatory liability related to excess ADFIT in its cost of service forecast.⁴⁹ DPS Staff countered that the Company's ADFIT balance and the regulatory liability related to the excess deferred federal income taxes be adjusted to reflect the impact of DPS Staff's proposed plant-in-service write down.⁵⁰

Discussion

The requirement that St. Lawrence evaluate and make necessary adjustments to its excess ADFIT related to recent tax law changes and reflecting the required right-downs is appropriate because it appropriately reflects the impact of the write-down to plant-in-service on St. Lawrence's deferred income taxes.

E. Rate of Return and Capital Structure

The Joint Proposal states that a return on equity (ROE) of 8.60% would be used solely for determining whether the Expansion Area is self-supporting. In their litigated positions, the Company proposed a 9.0% ROE and DPS Staff proposed an ROE of 8.6%.

For determining whether the Expansion Area is self-supporting, the Signatory Parties propose a total cost of capital based upon a 48.0% common equity ratio, a debt ratio of 51.2% and a customer deposits ratio of 0.8%. The proposed capital structure would include the long-term debt the Joint Petitioners requested in the Acquisition and Financing Case, as described below. The Joint Proposal includes cost rates of 8.6%

⁴⁹ Initial Testimony of the Finance Panel, pp. 53-55.

⁵⁰ Testimony of the Staff Accounting Panel (18-G-0133), pp. 47-48; 54-55.

for ROE, 4.4%⁵¹ for long-term debt and 2.45%⁵² for customer deposits. These rates would be used to determine the total cost of capital.

St. Lawrence proposed utilizing a capital structure consisting of a 48.0% common equity ratio, a 52.0% short-term debt ratio and a short-term debt cost rate of 2.29%.⁵³ DPS Staff recommended a capital structure comprised of 48.0% common equity, 15.9% long-term debt, 35.3% short-term debt and 0.80% customer deposits and a long-term debt cost rate of 2.98%, a short term debt cost rate of 3.05%, and a customer deposit rate of 1.05%.⁵⁴

Discussion

The adopted Rate of Return and capital structure are reasonable for determining when the Expansion Area becomes self-supporting. The cost rates associated with the proposed capital structure include an ROE of 8.6%, a long-term debt cost rate of 4.4% and a customer deposits cost rate of 2.45%. These figures are reasonable because they are reflective of current market conditions at the time the Joint Proposal was executed and the debt cost rate also reflects Liberty Utilities embedded cost of debt which will be updated once the transaction is closed. Further, the new debt provided by Liberty Utilities will have a longer term than St. Lawrence's existing obligations which will more closely match the utility's debt obligations with the long

⁵¹ This figure reflects Liberty Utilities' current embedded cost of debt that is subject to change once the requested transaction is closed.

⁵² This figure reflects the Commission's currently approved Customer Deposit Rate. This rate is updated annually, and the Joint Proposal indicates that the rate in effect at the time of the calculation will be used.

⁵³ Initial Testimony of the Finance Panel, p. 55.

⁵⁴ Exhibit____(SFP-2).

lives of utility assets such as gas transmission lines and delivery mains.

VII. TERMS OF THE JOINT PROPOSAL
REGARDING THE ACQUISITION AND FINANCING

A. Acquisition of St. Lawrence

1. Local Presence

The Joint Proposal includes a requirement that within one year of the closing of the acquisition of St. Lawrence, Liberty Utilities will appoint an independent director who resides within St. Lawrence's service territory to its East Region Board of Directors (resident Board member). However, if Liberty Utilities acquires any additional Commission-regulated utilities within the State of New York, this requirement may be fulfilled by appointing a resident of either St. Lawrence's service territory or the service area of another New York utility acquired by Liberty Utilities. The Joint Proposal clarifies that a resident of one of the counties in which the utility provides service, even if that individual is not in the relevant service area itself, is enough to fulfill this requirement. The resident Board member would be subject to all the requirements generally applicable to other Board members. If the appointed resident Board member retires or is removed, Liberty Utilities would be required to appoint a replacement director meeting the residency requirements as soon as practical.

The Joint Proposal also includes a requirement that St. Lawrence keep its corporate headquarters within the St. Lawrence service territory. However, St. Lawrence may petition the Commission to relocate its corporate headquarters no sooner than five years after closing of the acquisition of St. Lawrence.

Liberty Utilities proposed that St. Lawrence be governed, managed, and overseen by its East Regional Board of Directors (Board), East Region President, and St. Lawrence's General Manager.⁵⁵ DPS Staff recommended that the Commission require an independent board member who is located within St. Lawrence's service territory to ensure that the interest of St. Lawrence customers are appropriately reflected within the Board.⁵⁶ Liberty Utilities and St. Lawrence stated that St. Lawrence's headquarters and management team would remain in Massena. DPS Staff recommended requiring that the headquarters remain within St. Lawrence's service territory until the Commission approves a relocation.

Discussion

The provisions requiring local management, headquarters and board representation help to ensure that the interests of St. Lawrence and its customers are appropriately represented, and that St. Lawrence's management remains close to and responsive to customers' interest. Further, they are consistent with terms we have previously approved.⁵⁷

2. Financial Transparency and Reporting

The Joint Proposal calls for St. Lawrence to file with the Commission the amount of charges made among Liberty Utilities and its affiliates that are applicable to St. Lawrence. The report must be filed within six months of the closing of Liberty Utilities' acquisition of St. Lawrence and

⁵⁵ Exhibit___(SPP-1) (18-G-0140).

⁵⁶ Testimony of the Staff Policy Panel (18-G-0140), pp. 30-31.

⁵⁷ Case 12-M-0192, Joint Petition of Fortis Inc., Fortis US Inc., Cascade Acquisition Sub Inc., CH Energy Group, Inc., and Central Hudson Gas & Electric Corporation for Approval of the Acquisition of CH Energy Group, Inc. by Fortis Inc. and Related Transactions, Order Authorizing Acquisition Subject to Conditions (Issued June 26, 2013), pp. 18-19.

annually, within 45 days of the end of the calendar year. The report must include a description of how Liberty Utilities derived the intercompany charges.

Under the Joint Proposal, Liberty Utilities would provide DPS Staff access to its accounting policies, books, and records, including consolidated tax returns. Liberty Utilities would also be required to file annually with the Secretary consolidated audited financial statement, including balance sheets, income statements, cash flow statements and related notes. The documents may be accompanied by a request for confidential treatment as appropriate. There was general agreement among the parties on these issues.⁵⁸

DPS Staff and Liberty Utilities generally agreed on the Company's proposed affiliate transaction and cost allocation methods.⁵⁹ Liberty Utilities stated that, in the context of settlement discussions, it did not oppose DPS Staff's recommendation for annual reporting on the level of intercompany charges.⁶⁰

3. Code of Conduct

The Joint Proposal includes a revised Code of Conduct attached as Appendix 2.⁶¹ The Signatory Parties agreed that Liberty Utilities and its affiliates will be bound by and comply with the revised Code upon Commission adoption of the Joint Proposal. This provision generally reflects DPS Staff's recommendation that St. Lawrence's participation in the money pool as a borrower and a lender only be permitted if the other participants in the pool are regulated utilities.

⁵⁸ DPS Staff Statement in Support, pp. 24-25.

⁵⁹ Testimony of the Staff Policy Panel (18-G-0140), pp. 53-55.

⁶⁰ Rebuttal Testimony of the Liberty Utilities Panel, p. 19.

⁶¹ The Commission approved the existing code as part of the 2016 Rate Plan.

Discussion

The Code of Conduct is reasonable and appropriate. The provisions regarding the money pool appropriately protect St. Lawrence and its customers while providing St. Lawrence access to funds on a short-term basis to ease cash-flow management.

4. Rate Freeze

The Joint Proposal limits when St. Lawrence may file for new base rates by requiring that its next filing include a test period reflecting a full year of Liberty Utilities' ownership of St. Lawrence.⁶² The Joint Proposal further requires that St. Lawrence's next rate filing utilize a Rate Year commencing on or after June 1 of the earliest calendar year in which new rates could go into effect given the required test period. Until such time that the Commission approves new base rates, the rates currently in effect pursuant to the 2016 Rate Plan (i.e. the rates the Commission established for the 12 months ending May 31, 2019), will remain in effect, subject to any surcharges or surcredits authorized in the 2016 Rate Plan. The requirement that the test period reflect at least a full year of Liberty Utilities' ownership precludes any change in base rates prior to June 1, 2022. The Joint Proposal clarifies that unless the Signatory Parties specifically recommends a

⁶² The Joint Proposal recognizes that St. Lawrence may file for rate changes during the term of the rate freeze under limited circumstances including a minor change in any individual base delivery service rate or rates which has a de minimus revenue effect. It further recognizes the Commission's authority to act on St. Lawrence's rates if an unforeseen event requires a change to ensure the Company can maintain safe and adequate service, or causes the rates to become excessive. This provision is standard in joint proposals recommending multi-year rate plans, which, regarding the rate freeze, this Joint Proposal does. See Joint Proposal VI.F.

change to the 2016 Rate plan, the provisions of the rate plan remain in effect.⁶³

Liberty Utilities did not propose a rate freeze as part of its Acquisition filing.⁶⁴ The Joint Proposal limits on filing for new base rates generally reflect DPS Staff's view that utilizing a historic test year occurring entirely after Liberty Utilities acquires St. Lawrence will provide a better baseline to assess St. Lawrence's rate proposals in a future rate proceeding.⁶⁵

Discussion

The rate freeze is an important aspect of the Joint Proposal by providing rate stability to consumers including predictability and minimizing cost increases. Maintaining base rates at current levels protects rate payers without negatively impacting the viability of the utility. We note, however, that the 2016 Rate Plan continued base rates subject to any surcharges or surcredits authorized in the 2016 Rate Plan until the Commission sets new base rates for St. Lawrence. The 2016 Rate Plan included customer credits which decreased on June 1, 2019 and will decrease again on June 1, 2020.⁶⁶ We previously authorized those changes, and they will result in an annual bill increase of approximately 1% in Rate Year 4 and Rate Year 5 and approximately 0.6 in Rate Year 6.⁶⁷ Further, the

⁶³ Similarly, Appendix 9 of the Joint Proposal lists the provisions of the rate plan for illustrative purposes only and does not impact St. Lawrence's obligations under its current rate plan.

⁶⁴ Testimony of the Staff Policy Panel (18-G-0140), p. 71.

⁶⁵ Testimony of the Staff Policy Panel (18-G-0140), p. 70.

⁶⁶ See Case 15-G-0382, supra, Order Establishing Multi-Year Rate Plan (issued July 15, 2016), Appendix A, p. 16 of 17 and Appendix B, p. 5.

⁶⁷ Id.

requirement that St. Lawrence maintain the same rate year (i.e. the 12-months ending on May 31 of a given year) will ensure any increase in rates will begin during the summer season when bills are typically lower, mitigating the impacts for the first few months of any future rate increase.

5. Capital Structure and Financial Protections

The Joint Proposal contemplates St. Lawrence utilizing Liberty Utilities' embedded cost of debt for long-term debt. The 2016 Rate Plan contained a true-up mechanism for short-term interest rates. The Signatory Parties propose that this mechanism be continued until changed by further Commission action, except that, at the time of the refinancing of the existing short-term Enbridge U.S. note with long-term debt, Liberty Utilities' embedded cost of debt will be used in place of St. Lawrence's actual short-term debt cost rate.

If, according to its annual earnings filing, St. Lawrence is overearning in its Legacy Area and the true-up would result in a deferral to be recovered from customers, St. Lawrence would not be allowed to true up its actual interest rate with the cost figure used to set rates during the time that St. Lawrence is overearning. If the true-up results in a deferral amount to be recovered from customers that is larger than the amount of St. Lawrence's overearnings, St. Lawrence would be permitted to recover the true-up amount net of the overearnings.

Liberty Utilities testified that it did not intend to pass along the premium over book value (i.e., goodwill) to customers.⁶⁸ The Joint Proposal prevents St. Lawrence and Liberty Utilities from passing through to customers any portion of goodwill. Therefore, St. Lawrence will not include the

⁶⁸ Initial Testimony of the Liberty Utilities Panel, p. 28.

goodwill associated with this transaction on the Company's annual Commission report, or in the equity component of St. Lawrence's capitalization for purposes of calculating St. Lawrence's return, future revenue requirement or any other component of St. Lawrence's rates. St. Lawrence must file its goodwill calculation as soon as it is available but in accordance with the U.S. Generally Accepted Accounting Principles (GAAP).

The Joint Proposal indicates that Liberty and St. Lawrence have agreed to work to maintain the common equity capitalization ratio for St. Lawrence that the Commission used to establish St. Lawrence's rates. In that regard, St. Lawrence would be required to maintain: a minimum common equity (MER) subject to dividend restriction; and a minimum debt rating of BBB. Liberty Utilities and St. Lawrence have agreed to maintain a minimum common equity, as measured by a trailing 13-month average, in relation to the common equity ratio of 48% used to set rates. The Joint Proposal defines minimum common equity as no less than 300 basis points below the common equity ratio used to set rates. If the minimum common equity ratio requirement is not maintained, no dividends are payable until the minimum common equity ratio is regained. The 300 basis points reflects a compromise between the 400 basis point⁶⁹ cushion suggested by Liberty Utilities and the 200 basis points recommended by DPS Staff.⁷⁰

If Liberty Utilities' Standard and Poor's (S&P) debt rating falls below BBB within the three years directly following closing of the acquisition of St. Lawrence, a BBB rating will be

⁶⁹ Rebuttal Testimony of the Liberty Utilities Panel, p. 16.

⁷⁰ Testimony of the Staff Policy Panel (18-G-0140), pp. 47-48.

imputed to the cost of any debt issued during that three-year period.

The Joint Proposal states that in the three-year period after the Acquisition closes, when Liberty Utilities issues debt, it shall provide DPS Staff with comparable debt issuance data of like tenor for other public utilities for the period 60 days prior to and 60 days following the debt issuance. If Liberty Utilities' credit rating at the time of the debt issuance is below BBB (S&P) or Baa2 (Moody's), the credit spread differential between the comparable debt data and Liberty Utilities' debt will be used to calculate St. Lawrence's cost of debt in subsequent rate cases. The Joint Proposal indicates that if there are comparable public utility debt issuances of like tenor, the credit spread for a like tenor will be interpolated from available data. Liberty Utilities and DPS Staff agree to work in good faith to determine the credit spread differential to be applied. Liberty Utilities testified that it did not expect the transaction to significantly impact St. Lawrence's credit rating. The Joint Proposal generally reflects DPS Staff's recommendations for required safeguards to protect St. Lawrence's customer if such negative impacts do occur.

The Earnings Sharing Mechanism (ESM) For Rate Years 4, 5, and 6 shall be reported for each Rate Year on an annual basis but be calculated cumulatively. The Joint Proposal requires the annual report to be filed within 90 days of the end of each Rate Year. The Joint Proposal states that the ESM calculations for Rate Years 4-6 will include only the Legacy Area and the lower of St. Lawrence's actual common equity ratio or the common equity ratio used to set rates, i.e., 48.0%. If the Expansion Area becomes self-sufficient and the CIAC terminates, St. Lawrence's earnings shall be determined company-wide. For purposes of the earnings calculation required by the 2016 Rate

Plan, the incremental cost attributable to the Acquisition will be excluded. If St. Lawrence does not file for new rates to be effective on June 1, 2022, the ESM for any additional period beyond June 1, 2022,⁷¹ shall be determined on an annual basis and filed annually within 90 days after the end of each Rate Year.⁷² Liberty Utilities did not address St. Lawrence's current earnings sharing mechanism (ESM) in its testimony. Staff stated in its testimony that the current rate plan contains an ESM that will protect customers from paying excessive rates and that it will capture a portion of any excess earnings for the benefit of customers.⁷³

Discussion

The Joint Proposal recommends that the Commission require a capital structure with 48.0% common equity, 51.2% long-term debt and .8% customer deposits. The cost rates are 9.0% for ROE, 4.4% for long-term debt and 2.45% for customer deposits. The Joint Proposal also recommends that the Commission require updating the debt cost true-up contained in the 2016 Rate Order to reflect the anticipated refinancing of a portion of St. Lawrence's existing short-term debt with long-term debt. The Joint Proposal allows St. Lawrence to true-up the debt costs to reflect Liberty Utilities' embedded cost of debt.

The capital structure and cost rates adopted here are reasonable for the purposes of valuing a rate freeze. It also reflects the updated cost rates for long-term debt proposed as

⁷¹ The Joint Proposal refers to this period colloquially as "Rate Year 7."

⁷² Appendix 3 of the Joint Proposal sets forth St. Lawrence's Capital Structure and Cost of Capital.

⁷³ Testimony of the Staff Policy Panel (18-G-0140), p. 69.

part of the Joint Proposal and customer deposits.⁷⁴ Allowing St. Lawrence to true-up the cost associated with its existing short-term debt when it does refinance with long-term debt is rational and will ensure that the refinancing occurs.

The prohibition against passing along costs associated with goodwill is in the public interest as it protects rate payers from paying such costs and is consistent with our treatment of goodwill in previous transaction proceedings.⁷⁵ Similarly, the customer protections connected to St. Lawrence's maintenance of a minimum common equity ratio and Liberty Utilities' maintenance of a minimum S&P debt rating protect St. Lawrence customers not only if Liberty Utilities permits St. Lawrence's financial situation to degrade, but also if Liberty Utilities fails to protect its BBB rating. However, the structure of the Negative Revenue Adjustment (NRA) should provide sufficient flexibility to St. Lawrence and Liberty Utilities to manage their operations. Overall, the acquisition by Liberty Utilities will provide St. Lawrence better access to capital markets on terms that are more favorable than it can otherwise obtain on a stand-alone basis. Moreover, the financial protections should maintain St. Lawrence's ability to attract capital on its own if necessary.

Incremental costs attributable to the Acquisition, as provided in such cost summaries, will be appropriately excluded from the earnings calculation required by the 2016 Rate Plan. If the Expansion Area becomes self-sufficient and the CIAC is terminated before we reset St. Lawrence's base rates, the Company's earnings will be measured on a company-wide basis for

⁷⁴ Joint Proposal, pp. 32-33.

⁷⁵ See Case 15-G-0382, supra, Order Establishing Multi-Year Rate Plan, Appendix 1, p. 1 and Case 12-M-0192, supra, Order Authorizing Acquisition Subject to Conditions, pp. 40-41.

the Rate Year beginning after the CIAC ends and thereafter. The earnings sharing mechanism rationally excludes the Expansion area to avoid skewing the results lower and will continue to provide the Company with incentive to control costs while allowing ratepayers to share in efficiency gains.

6. Positive Benefit Adjustments

St. Lawrence's shareholders would provide a total of \$1.0 million over three years to fund the development of a Carbon Reduction Initiative which would be developed in consultation with DPS Staff. The Joint Proposal indicates the initiative is intended to assist new and existing residential and small general firm service customers to install high-efficiency gas equipment and weatherization. The Joint Proposal also contemplates a deferral of \$0.5 million for the future benefit of customers, as determined by the Commission. The Joint Proposal clarifies that the Carbon Reduction Initiative is distinct from the Marketing and Incentives for Conversions program authorized as part of the 2016 Rate Plan which is intended to continue until the Commission resets base rates. The Carbon Reduction Initiative will expire on May 31, 2022, and St. Lawrence will be required to defer any unspent monies for the future benefit of ratepayers, as determined by the Commission. However, the Joint Proposal provides for the possibility of continuing the initiative if the parties to the next rate proceeding propose such continuance.

In its testimony, Liberty Utilities argued that any risk involved with the transaction would be neutralized by the measures it proposed, and therefore a positive benefit adjustment (PBA) was not warranted. DPS Staff disagreed with Liberty Utilities and recommended that the Commission require a PBA of \$3.3 million as a condition of authorizing the acquisition.

Discussion

The positive benefit adjustment reasonably and equitably balances the risks and benefits associated with this transaction. In addition, the amount of the positive benefit adjustment recommended in the Joint Proposal, as a percent of delivery revenue, is within the range required in other recent Commission-authorized acquisitions. The positive benefit adjustment is reasonable in the context of this entire Joint Proposal, including a three-year rate freeze, improved safety and customer service metrics, and provisions setting the Expansion Area on a path to self-sufficiency. By assisting customers with the installation cost of weatherization and high-efficiency equipment, the program addresses comments requesting a System Benefit program. Further, reduction of greenhouse gas emissions from all Commission-regulated activities is a primary policy goal and these efforts will provide a small contribution toward that goal. The shareholder contribution toward funding an energy efficiency program in this Joint Proposal is not typical but is meant to provide additional benefits of the acquisition by Liberty to ratepayers. As part of the Joint Proposal that includes rate freezes for existing customers, the Carbon Reduction Initiative funded by shareholders will enable ratepayers to make energy related improvements to their homes.

7. Savings and Cost Trackers

St. Lawrence is required to separately track and report (1) costs attributable to the Acquisition and (2) costs that would have been incurred without the transaction. St. Lawrence is also required to track transition expenses, capitalized costs, and benefits arising from the transition. This information would be included in St. Lawrence's first post-Acquisition rate proceeding filing to enable the Commission to

determine the appropriate treatment of the expenses and capitalized costs.

Similarly, the Joint Proposal requires St. Lawrence to track and report any synergy savings. In its first post-Acquisition rate filing, St. Lawrence would identify gross savings attributable to specific operational changes and the cost of achieving the savings to illustrate the net synergy savings.

The Joint Proposal contemplates the possibility that Liberty Utilities, its parent company, Algonquin Power & Utilities Corp., or an affiliate of either may complete additional mergers or acquisitions within the United States or Canada prior to the Commission establishing new base rates for St. Lawrence. The Joint Proposal would require St. Lawrence to track and report to the Secretary any savings attributable to such a transaction that would be reasonably applicable to St. Lawrence or its customers. The Joint Proposal provides for deferral of such savings with a 50/50 sharing with St. Lawrence customers if the savings are material, defined as five percent or more of St. Lawrence's net income on an after-tax basis. St. Lawrence will also be required to report increased costs related to such transactions on an annual basis.⁷⁶ Liberty Utilities generally did not oppose DPS Staff's recommendation to track the transition costs related to the Acquisition, except it opposed the recommendation to exclude all the Acquisition costs from St. Lawrence's earnings calculation.⁷⁷

⁷⁶ Appendix 3 of the Joint Proposal sets forth St. Lawrence's Capital Structure and Cost of Capital.

⁷⁷ Rebuttal Testimony of the Liberty Utilities Panel, pp. 13-15.

Discussion

The requirements for tracking costs and savings and other benefits associated with the Acquisition and associated operational changes will ensure that costs and benefits related to the Acquisition are properly tracked and reported. They will also protect St. Lawrence customers from inappropriate costs and ensure that savings and costs are appropriately considered in the next rate proceeding. Similarly, tracking and reporting related to any future mergers or acquisitions that Liberty Utilities may transact will ensure appropriate allocation of material savings. While encouraging the Joint Petitioners to take advantage of economic efficiencies through improved operations and beneficial transactions, they also provide for an appropriate allocation of related benefits to St. Lawrence and its customers until such savings are accounted for in the Company's base rates.

8. Gas Safety

Appendix 5 of the Joint Proposal includes metrics for company performance related to Emergency Response Time, Damage Prevention, Leak Backlog, and Safety Violations (High Risk and Other Risk) on a calendar year basis for 2019 and 2020. The Joint Proposal places revenues equivalent to a total of 138 pre-tax basis points at risk for St. Lawrence related to the gas safety metrics.⁷⁸ The Joint Proposal provides for the safety targets, NRAs and positive revenue adjustments applicable in

⁷⁸ DPS Staff stated at the evidentiary hearing that the dollar value of a basis point in the Legacy Area is equal to \$1,970 pursuant to the 2016 Rate Plan. The dollar value for the Expansion Area based on forecasts and reflecting write-down is equal to \$1,114. Tr. 24-25. However, these figures would be updated to reflect the basis point values for the year the NRA or PRA is applicable.

calendar year 2020 to remain in effect until changed by Commission action.

Emergency Response metrics are tied to the statewide emergency response targets of responding to leak and odor call at a rate of 75% within 30 minutes, 90% within 45 minutes, and 95% within 60 minutes. Failure to meet each performance level will result in varying NRAs: nine pre-tax basis points for the 30-minute metric; six for the 45-minute metric; and three for the 60-minute metric. The Joint Proposal establishes a maximum annual NRA related to emergency response targets of 18 pre-tax basis points. The Joint Proposal also provides St. Lawrence the opportunity for a positive revenue adjustment (PRA) if the Company exceeds the targets: three pre-tax basis points for responding to greater than 85% of leak or odor calls in 30 minutes; six pre-tax basis points for greater than 90%. The maximum PRA applied in any one calendar year is six pre-tax basis points. The NRA would be increased by 150% if a target is missed during a dividend restriction related to a failure to maintain the minimum equity ratio required by the Joint Proposal and by 200% if a target is missed three of the next five calendar years (through 2023).

Beginning in calendar year 2019 and on a calendar year basis thereafter, if St. Lawrence exceeds targets related to damages to its facilities, it will be subject to an NRA. The facility damage metrics are measured annually in terms of instances of damaged facilities per 1,000 Dig Safely or "one-call" tickets. In 2019, St. Lawrence will incur an NRA of: five pre-tax basis points for exceeding 2.85 instances per 1000 calls; 15 pre-tax basis points for exceeding 2.95 instances per 1000 calls; and 27 basis points for exceeding 3.00 instances per 1000 tickets. In 2020, the threshold incident rates would change to 2.75, 2.85, and 3.00 with the pre-tax basis point NRA

staying at 5, 15 and 27, respectively. However, if an annual target is missed, St. Lawrence also would have had to miss the target on a two-year lookback basis for the NRA to apply.

The PRA related to damage prevention for 2019 would be five pre-tax basis point for less than 2.25 instances of damage per 1,000 tickets and 10 pre-tax basis points for less than 2.00 instances. In 2020, St. Lawrence would earn a PRA of five pre-tax basis points for achieving a rate of 2.15 instances per 1,000 tickets and 10 pre-tax basis points for 1.90 instances per 1,000 tickets. St. Lawrence could not earn more than 10 pre-tax basis point each year related to damage prevention.

The Joint Proposal also includes an NRA related to St. Lawrence's leak backlog. In 2019, the Company would be assessed an NRA of 18 pre-tax basis points if it has more than five Type 1, 2, 2A and 3 leaks in backlog pending repair, including failed rechecks on December 31 of the respective year. In 2020, the NRA remains at 18 pre-tax basis points, but the threshold is reduced to four Type 1, 2, 2A and 3 leaks including failed recheck as of December 31 of the respective year. The maximum NRA related to St. Lawrence's leak backlog is 18 pre-tax basis points each year. The NRA will be increased by 150% if it is triggered during a dividend restriction related to the required minimum common equity ratio and by 200% if triggered in three of the next five calendar years.

Beginning in calendar year 2019, St. Lawrence will be assessed an NRA for instances of High Risk and Other Risk noncompliance of certain safety regulations contained in 16 NYCRR Parts 255 and 261. The listing of what code sections represent High Risk or Other Risk are contained in Appendix 5 of the Joint Proposal. The maximum NRA for non-compliance with safety regulations is 75 pre-tax basis points each calendar year. Repeated failures to follow a step or requirement

resulting in a violation are considered multiple occurrences. Failure to follow a St. Lawrence procedure will be considered a single occurrence under 16 NYCRR 255.603.

The Joint Proposal recognizes that on February 12, 2019, the Department of Public Service, Office of Electric, Gas and Water, Pipeline Safety Section filed the Operator Qualification White Paper.⁷⁹ The Joint Proposal does not preclude St. Lawrence from requesting deferred accounting treatment, if Commission action on the whitepaper results in incremental costs for Rate Years 4, 5, or 6.

Liberty Utilities did not propose any changes in gas safety metrics. The specific metrics and associated NRAs and PRAs contained in the Joint Proposal generally reflect DPS Staff's recommendations with some adjustments to the targets for damage prevention.

Discussion

The Joint Proposal includes several provisions for improving performance targets and associated revenue adjustments related to gas safety metrics including emergency response, damage prevention, leak backlog and gas safety violations. The changes related to gas safety that we adopt here,⁸⁰ reflect St. Lawrence's recent performance and our policy of working collaboratively with distribution utilities to constantly

⁷⁹ Case 14-G-0212, Proceeding on Motion of the Commission to Investigate the Practices of Qualifying Persons to Perform Plastic Fusions on Natural Gas Facilities and Case 17-G-0318, In the Matter of an Investigation into Local Distribution Company Use of Northeast Gas Association Operator Qualification Program.

⁸⁰ Joint Proposal, Appendix 5 Schedule A contains a complete list of gas safety performance metrics and associated revenue adjustments.

improve gas safety.⁸¹ Moreover, they appropriately include both NRAs and PRAs.

The 150% and 200% incremental NRAs related to dividends restrictions and multiple target misses appropriately recognize the importance of gas safety and complying with applicable safety regulations, the importance of which cannot be overstated. The targets reflect an expectation of improving performance, are in accordance with our safety goals and are in the public interest.

9. Customer Service

The Service Quality Performance Mechanism (SQPM) approved by the Commission as part of the 2016 Rate Plan is proposed to continue until changed by the Commission with revised targets and revenue adjustments to two of the three metrics. Performance for all measures shall be assessed on a calendar year basis. The SQPM has targets for complaint rates with escalating NRAs up to \$36,000 for a complaint rate of equal or greater than 2.5. The complaint rate is defined as the 12-month escalated complaint rate as reported to St. Lawrence by DPS Staff each January 15 for the previous calendar year. The maximum NRA tied to the customer satisfaction index is \$36,000 for a customer satisfaction index equal to or less than 84%. The Joint Proposal provides for NRAs that are doubled from those imposed by the 2016 Rate Plan. Further, the Joint Proposal provides for the proposed NRAs to triple if the targets are missed during a dividend restriction and quadruple if the targets are missed in three out the next five calendar years. Revenue adjustments pursuant to the SQPM are in pre-tax dollars and will be deferred for future customer benefit.

⁸¹ Case 17-G-0245, In the Matter of Staff's Analysis of Local Distribution Company Performance Related to the Gas Safety Measures.

St. Lawrence would be entitled to a PRA of \$12,000 per year related to terminations and collectibles if both measures are at or below the annual target of 451 customer terminations and \$173,000 bad debt. St. Lawrence would receive a PRA of \$6,000 if one measure is at or below and the other is at or below the three-year average (i.e., terminations = 466 and bad debt = \$204,000). If both measures are below the targets, St. Lawrence will not be entitled to any positive adjustments, nor subject to negative adjustments.

The Joint Proposal would require St. Lawrence to continue to employ an independent customer satisfaction survey, with the results of such surveys filed with the Secretary within 60 days after they are completed, accompanied by the Company's plans to address legitimate customer suggestions received as part of the survey.

The Joint Proposal adopts Staff's proposal for the doubling, tripling, and quadrupling the NRAs associated with customer service performance. Regarding performance targets, the Joint Proposal reflects a compromise among the parties.⁸²

Under the Joint Proposal, in order to ensure that the Company's customer service related staffing does not decline following the acquisition, St. Lawrence is required to provide a formal training plan, developed with Liberty Utilities' guidance, for Staff review within 90 days following this Order. The Joint Proposal requires all St. Lawrence employees involved in customer service to complete the training by December 31 of the calendar following the year the Acquisition closes, and further specifies that a minimum of 10 employees must complete the training program. St. Lawrence must report to the Secretary the employees who have received the training by January 31

⁸² DPS Staff's Statement in Support.

following each calendar year. The report would also include lists of employees who, during the year, received refresher customer service training and performed customer service duties, and who no longer perform customer service duties. St. Lawrence would be required to maintain a minimum of 10 employees trained to perform customer service going forward.

Liberty Utilities testified that it planned to retain St. Lawrence employees for at least 12 months following the Acquisition.⁸³ Staff recommended extending the retention period until rates are next set.⁸⁴ Liberty Utilities responded that the recommendation may be harmful to customers by removing St. Lawrence's ability to manage employee performance and restructure assignments as needed.⁸⁵

The Joint Proposal includes specific provisions for improving customer service including the development and implementation of a Customer Service Improvement Plan to be filed with the Secretary within 60 days of the issuance of this Order. Company shareholders are responsible for the cost of developing and implementing the plan until the Commission next establishes rates of St. Lawrence.

Discussion

Service Quality Performance Mechanism will continue albeit with modified targets and revenue adjustment. The modifications are a reasonable improvement and will help ensure that St. Lawrence customers receive a consistent and adequate level of customer service by providing St. Lawrence with the appropriate incentives to provide such service. The other

⁸³ Initial Testimony of the Liberty Utilities Panel, p. 44.

⁸⁴ Testimony of the Staff Consumer Policy Panel (18-G-0140), p. 25.

⁸⁵ Rebuttal Testimony of the Liberty Utilities Panel, pp. 63-64.

customer service-oriented requirements are also expected to help maintain a level of customer service that is appropriate.

10. Timely Filings

The Joint Proposal includes a provision whereby St. Lawrence will incur an NRA equal to three pre-tax basis points for each instance it fails to make a complete filing by the deadline as specified in the relevant statute, regulation or Commission order or fails to request an extension or waiver of such deadline, where an extension or waiver is possible, in a timely fashion.⁸⁶

Discussion

We adopt the provision imposing an NRA of three basis points for each instance St. Lawrence fails to make a timely filing or to timely ask for an extension. This provision reasonably provides an incentive for St. Lawrence to focus on improving its performance related to compliance with filing deadlines, a recurring issue for the Company in the past. Timely filings are a minimum requirement for DPS Staff to perform its duties without undue strain on limited resources.

11. Capital Expenditures and Reporting

St. Lawrence will comply with the "Liberty Way Policy and Procedure: Capital Expenditures - Planning and Management," which defines Liberty Utilities' capital processes from planning through construction. However, if those processes conflict with more stringent standards specified in any Commission orders, the more stringent standards will apply.

⁸⁶ The Joint Proposal, p. 27, states that "a timely request is understood to mean a request made in writing not less than one day in advance of the relevant deadline" except "as provided in the relevant requirement e.g., in the relevant Commission order or issuance from the Secretary." This Order provides that requests for extension are timely only if received at least three days prior to the relevant deadline.

For any future Expansion Area construction, the Joint Proposal requires that St. Lawrence develop and follow a construction budget and variance procedure. St. Lawrence must establish a set of procedures and controls including: a process for basing projects on engineering analysis and design; project investment thresholds for timely oversight by its Board and the Commission; procedures to enter construction contracts before any work commences; and a process requiring re-approval of projects by the Board when a significant change in scope or budget will cause an increase of 10% or more in capital expenditures, compared with the previously-approved budget.

St. Lawrence is also required to file with the Secretary its annual capital expenditure budget within 30 days of Board approval. Further, within two months of the end of a calendar year, St. Lawrence would file with the Secretary its monthly variance reports for the calendar year.

The Joint Proposal provides for downward-only net plant true-up to determine if St. Lawrence has spent its Legacy Area capital budget in Rate Years 4 and 5, as measured on a cumulative basis. The Joint Proposal indicates that the analysis should begin with the Rate Year 3 actual ending balances of plant in service, Construction Work in Progress, and accumulated depreciation. For Rate Years 4 and 5, the estimated Legacy Area capital investment amounts are \$2.028 million and \$1.732 million, respectively. Minimum net plant target levels for Rate Year 5 will continue until the Commission next establishes base rates for St. Lawrence.

The Joint Proposal does not establish a set capital investment amount for Rate Year 6, but it does indicate that St. Lawrence would be expected to spend the amount of capital required to prudently own and operate the system. The Joint Proposal contemplates St. Lawrence reviewing actual net plant in

service for Rate Year 5 to determine whether that amount is in line with the net plant in service target for that year. If the actual net plant in service exceeds the target, there will not be a deferral. However, if at the end of Rate Year 5, actual net plant in service is less than targeted, St. Lawrence will defer, for the future benefit of customers, the carrying cost of the variance between the actual and the target. Each month after Rate Year 5, St. Lawrence will calculate whether net plant in service exceeds the target. If net plant in service remains below the target figure, an appropriate deferral will be made on the calculated carrying charges. Deferrals shall accrue at the Company's pre-tax rate of return until the full deferred balance is returned to customers. St. Lawrence would be required to report the results of its net plant in service evaluation within 90 days of the end of Rate Year 5, if the target is not yet met, and St. Lawrence must file a supplemental report 90 days after the target is achieved.

These provisions generally reflect DPS Staff's recommendations. Liberty Utilities presented no concerns with requiring St. Lawrence to adopt its capital expenditure standards and otherwise improving St. Lawrence's planning and budgeting.

Discussion

Requiring St. Lawrence to comply with the "Liberty Way Policy and Procedure: Capital Expenditures - Planning and Management," unless the manual conflicts with more stringent standards in Commission orders, should help improve St. Lawrence's performance. The requirement to file information related to St. Lawrence's capital expenditure budgets and variances will allow us to exercise appropriate oversight of the Company. The downward only true-up incentivizes the appropriate level of spending by not allowing contemporaneous recovery of

overspending while reimbursing customers for underspending. Given issues that arose with the Expansion Area Project, these provisions are reasonable and in accordance with our treatment of capital expenditure spending for other utilities.

12. Optimization of Assets

St. Lawrence is required to issue a request for proposals (RFP) within 120 days of Acquisition closing in order to enter into an asset management agreement with a term of one to three years. St. Lawrence must file with the Secretary a copy of the RFP and, upon completion of the process, a report detailing the outcome. St. Lawrence will continue to operate under its existing agreement with Tidal Energy until the RFP results in a new asset management agreement. St. Lawrence also must utilize an RFP process each time the asset management agreement is renewed.

Discussion

Requiring that St. Lawrence make best efforts to enter into an asset management agreement optimizing its pipeline assets helps ensure that St. Lawrence's firm customers will benefit from the market value of the capacity assets which are supported by those customers in rates. It will also help to avoid a decrease in revenue associated with asset optimization.

13. Documentation and Reporting Requirements

The Joint Proposal also includes various documentation and reporting requirements in addition to those described above including an annual report identifying outcome and benefits of the Companies' outreach and education programs. St. Lawrence must also submit for DPS Staff review a draft plan regarding outreach and education specific to the Acquisition. Following DPS Staff's review, the Acquisition Outreach and Education plan will be incorporated into St. Lawrence's 2019 companywide

Outreach and Education plan. St. Lawrence will submit an Outreach and Education Plan to the Secretary by January 1 of each year.

St. Lawrence must document all gas service requests. Requests from the Expansion Area will be recorded separately from the Legacy Area, with such documentation, including date and location of request, among other information, with other information required to be provided by St. Lawrence to DPS Staff within 10 days of DPS Staff's requests.

B. Issuance of Long-term Indebtedness

The Signatory Parties recommend that the Commission authorize St. Lawrence to issued debt up to \$28.2 million, an amount intended to allow St. Lawrence some flexibility to manage its debt and equity ratios. The recommended debt issuance would allow St. Lawrence to refinance nearly all of its current debt consisting of a note payable to Enbridge of \$23.0 million and the Key Bank loan of \$7.0 million. No later than 120 days after Acquisition closing, St. Lawrence will issue a 10- or 15-year promissory note to Liberty Utilities. The loan will be priced at Liberty Utilities' embedded cost of debt calculated using the most recent quarter end for which a financial closing has been completed. The Joint Proposal requires Liberty Utilities to recapitalize any of St. Lawrence's remaining outstanding debt with the goal of achieving an actual common equity ratio approximating the 48.0% ratio to be used for ratemaking purposes. Liberty Utilities will also use its Money Pool to replace the \$6.0 million short-term line of credit St. Lawrence has with Key Bank.⁸⁷ These provisions reflect an agreement among

⁸⁷ Appendix 8, contains the "Reimbursement Margin" that supports the Signatory Parties recommendation regarding the debt issuance.

the parties that the terms and tenor of the indebtedness available to St. Lawrence following the transaction will be an improvement to what the Company has been able to access in the past.

Discussion

The issuance of indebtedness authorized here will permit St. Lawrence to refinance most its outstanding debt. Because St. Lawrence has a history of being unable to secure permanent financing for its long-term utility assets, the issuance of long-term promissory notes to Liberty Utilities will stabilize its finances. The debt is reasonably priced and provides maturities that better match the lives of St. Lawrence's utility assets. Given St. Lawrence's relatively small size and history, the Company is unlikely to attract long-term financing on better terms as a stand-alone entity. St. Lawrence has relied on its parent for most of its capital, both equity and debt in the past. Aside from grants associated with the Expansion Area, outside bank funding only accounts for \$7 million of its capital (plus the short-term \$6 million line of credit with Key Bank). St. Lawrence's access to reasonably priced and structured capital through Liberty Utilities is likely to be a significant benefit to customers relative to alternatives such as commercial bank term loans, which typically offer less generous terms and include greater restrictions. Accordingly, this provision of the Joint Proposal is reasonable and is adopted.

CONCLUSION

We adopt the terms of the Joint Proposal. Viewed in its entirety, as it must be, the Joint Proposal provides for resolution of these two proceeding that is just and in the public interest. The proposed resolutions of contested issues

are consistent with the law and the Commission's policies related to, among other issues, system expansion and acquisition of regulated utilities. The record demonstrates that the terms of the Joint Proposal are within the reasonable range of litigated outcomes.

The required write-down of \$19.0 million of plant-in-service provides an equitable result to the cost overruns incurred by St. Lawrence and appropriately places the risk of the expansion project on shareholders. Further, requiring St. Lawrence to write-down additional plant-in-service, if the Expansion Area is not self-supporting by January 31, 2023, protects Legacy Area customers from cross-subsidization and provides the correct incentives to St. Lawrence. Continuation of CIAC surcharges at the current rate until January 31, 2023 provides St. Lawrence the opportunity to recover Expansion Area capital costs while providing certainty to existing and prospective customers in the Expansion Area. Moreover, the \$28.2 million in long-term financing authorized in this Order will also stabilize the St. Lawrence's finances.

The metrics and revenue adjustments adopted by the Order will help protect St. Lawrence customers by incentivizing improved customer service, gas safety, reliability, and revamped capital investment processes and procedures. Further, the provision requiring \$1.5 million in shareholder funds for the benefit of St. Lawrence's customers will ensure that the transaction will provide a net benefit. The financial and credit rating protections, appointment of a local independent member to the board, retention of a local headquarters, and optimizing St. Lawrence's contracted pipeline capacity will also protect St Lawrence's customers.

In summary, we approve the Joint Proposal including the proposed resolution of St. Lawrence's rate filing and Liberty Utilities' acquisition of St. Lawrence.

The Commission orders:

1. In accordance with the foregoing discussion, and subject to the determinations and understandings set forth above, the terms of the Joint Proposal filed in these proceedings on May 31, 2019, and attached hereto as Attachment A, are adopted and are incorporated as part of this order, with the exception of Section VI.

2. St. Lawrence Gas Company, Inc. is directed to file a cancellation supplement, effective on not less than one day's notice, on or before October 28, 2019, cancelling the tariff amendments and supplements listed in Attachment B to this order.

3. St. Lawrence Gas Company Inc. is directed to file, on not less than one day's notice, to become effective on November 1, 2019, such further tariff amendments as are necessary to effectuate the terms of this order and to incorporate in such filing tariff amendments that were previously approved by the Commission in Case 18-G-0731 since the tariff amendments listed in Attachment B were filed.

4. St. Lawrence Gas Company, Inc. shall serve copies of its filing on all parties to these proceedings. Any party wishing to comment on the tariff amendments may do so by filing its comments with the Secretary to the Commission and serving its comments upon all active parties within ten days of service of the tariff amendments. The amendments specified in the compliance filing shall not become effective on a permanent basis until approved by the Commission and will be subject to

refund if any showing is made that the revisions are not in compliance with this order.

5. The requirements of the Public Service Law §66(12)(b) that newspaper publication be completed prior to the effective date of the amendments is waived; provided, however, that St. Lawrence Gas Company Inc. shall file with the Secretary to the Commission, not later than six weeks following the amendments' effective date of the amendments, proof that notice to the public of the changers made by the amendments and their effective date has been published, once a week for four consecutive weeks in daily or weekly newspapers having general circulation in the service territory and areas affected by the amendments.

6. In the Secretary's sole discretion, the deadlines set forth in this order may be extended. Any request for an extension must be in writing, must include a justification for the extension, and must be filed at least three days prior to the affected deadline.

7. These proceedings are continued.

By the Commission,

(SIGNED)

KATHLEEN H. BURGESS
Secretary

SUBJECT: Filing by ST. LAWRENCE GAS COMPANY, INC.

Amendments to Schedule P.S.C. No. 3 - Gas

Third Revised Leaf No. 42

Tenth Revised Leaves Nos. 267, 276

Eleventh Revised Leaf No. 261

Supplement Nos. 12, 13, 14, 15

BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

PROCEEDING ON MOTION OF THE
COMMISSION AS TO THE RATES,
CHARGES, RULES AND REGULATIONS OF
ST. LAWRENCE GAS COMPANY, INC.
REGARDING FRANKLIN AND
ST. LAWRENCE COUNTIES EXPANSION
PROJECT

Case 18-G-0133

JOINT PETITION OF LIBERTY UTILITIES
CO. AND ST. LAWRENCE GAS COMPANY,
INC. FOR APPROVAL, PURSUANT TO
SECTION 70 OF THE PSL, OF THE
ACQUISITION OF ST. LAWRENCE GAS
COMPANY, INC. BY LIBERTY UTILITIES
CO. AND FOR APPROVAL, PURSUANT TO
SECTION 69 OF THE PSL, OF THE
ISSUANCE OF LONG-TERM
INDEBTEDNESS

Case 18-G-0140

JOINT PROPOSAL

May 31, 2019

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BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

PROCEEDING ON MOTION OF THE
COMMISSION AS TO THE RATES,
CHARGES, RULES AND REGULATIONS OF
ST. LAWRENCE GAS COMPANY, INC.
REGARDING FRANKLIN AND
ST. LAWRENCE COUNTIES EXPANSION
PROJECT

Case 18-G-0133

JOINT PETITION OF LIBERTY UTILITIES
CO. AND ST. LAWRENCE GAS COMPANY,
INC. FOR APPROVAL, PURSUANT TO
SECTION 70 OF THE PSL, OF THE
ACQUISITION OF ST. LAWRENCE GAS
COMPANY, INC. BY LIBERTY UTILITIES
CO. AND FOR APPROVAL, PURSUANT TO
SECTION 69 OF THE PSL, OF THE
ISSUANCE OF LONG-TERM
INDEBTEDNESS

Case 18-G-0140

JOINT PROPOSAL

I. INTRODUCTION

This Joint Proposal (“Joint Proposal”) is made as of the 31st day of May, 2019, by and among St. Lawrence Gas Company, Inc. (d/b/a Enbridge St. Lawrence Gas) (“St. Lawrence Gas,” “SLG” or the “Company”), Liberty Utilities Co. (“Liberty Utilities”) (collectively, “Joint Petitioners”), the Staff of the Department of Public Service (“Staff”), Multiple Intervenors (“MI”), Agri-Mark, Inc. (“Agri-Mark”), and Upstate Niagara Cooperative, Inc. (“Upstate Niagara”) (collectively, the “Signatory Parties” or the “Signatories”). The only other party that participated in settlement negotiations, the Utility Intervention Unit, Division of Consumer

Protection, of the Department of State (“UIU”), stated that it would neither support nor oppose this Joint Proposal.¹ This Joint Proposal settles all contested issues among the Signatory Parties in the above-captioned cases.²

A. Definitions

As used in this Joint Proposal, the following terms have the following meanings:

“2016 Rate Plan” shall mean the Commission’s Order Establishing Multi-Year Rate Plan issued in Cases 15-G-0382 and 13-G-0076 on July 15, 2016 and the Joint Proposal attached to that Order.

“Expansion Area” shall mean the service territory served by the Expansion Project.

“Expansion Project” shall mean the 48-mile high-pressure natural gas transmission line installed by SLG in new portions of St. Lawrence County and Franklin County and the distribution system branching from that line.

“Legacy Area” shall mean the portion of SLG’s service territory that is not served by the Expansion Project.

¹ The Signatory Parties, together with UIU, are referred to herein as the “Settlement Parties.” One additional party, Friends Against Rural Mismanagement (“FARM”), appeared in these proceedings. FARM had the opportunity to participate in the negotiations that led to this Joint Proposal, however it chose not to participate in settlement negotiations.

² Case 18-G-0133, *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of St. Lawrence Gas Company, Inc. for Gas Service*, is referred to herein as the “Expansion Rate Case” because it addresses the rates to be charged in SLG’s “Expansion Area” served and to be served by the construction of new facilities authorized by the Commission in prior proceedings, including Case 10-T-0154, *Application of St. Lawrence Gas Company, Inc. for a Certificate of Environmental Compatibility and Public Need Pursuant to Article VII of the PSL for the Construction, Operation and Maintenance of a New 8, 6 and 4-inch Steel, High Pressure Natural Gas Transmission Line and Related Land and Equipment from the Town of Norfolk, St. Lawrence County to the Town of Chateaugay, Franklin County* and Case 10-G-0295, *Petition of St. Lawrence Gas Company, Inc. for an Original Certificate of Public Convenience and Necessity Under Section 68 of the PSL for the Exercise of Gas Franchises of Numerous Municipalities in the Counties of Franklin and St. Lawrence*. Case 18-G-0140, *Joint Petition of Liberty Utilities Co. and St. Lawrence Gas Company, Inc. for Approval, Pursuant to Section 70 of the PSL, of the Acquisition of St. Lawrence Gas Company, Inc. by Liberty Utilities Co. and for Approval, Pursuant to Section 69 of the PSL, for the Issuance of Long-Term Indebtedness* (the “Acquisition and Financing Case”), which addresses the proposed acquisition of St. Lawrence Gas by Liberty Utilities (the “Acquisition” or the “Transaction”), is referred to herein as the “Acquisition and Financing Case.”

“Pre-Tax Basis Point” shall mean the revenue requirement equivalent of a basis point on common equity, as measured for the Legacy Area system.

“Rate Year 1” or “RY 1” shall mean the 12-month period ending May 31, 2017. This is the same period as “Rate Year 1” in the 2016 Rate Plan.

“Rate Year 2” or “RY 2” shall mean the 12-month period ending May 31, 2018. This is the same period as “Rate Year 2” in the 2016 Rate Plan.

“Rate Year 3” or “RY 3” shall mean the 12-month period ending May 31, 2019. This is the same period as “Rate Year 3” in the 2016 Rate Plan.

“Rate Year 4” or “RY 4” shall mean the 12-month period ending May 31, 2020.

“Rate Year 5” or “RY 5” shall mean the 12-month period ending May 31, 2021.

“Rate Year 6” or “RY 6” shall mean the 12-month period ending May 31, 2022.

“Secretary” shall mean the Secretary to the Commission.

B. Background

1. Expansion Rate Case

On February 26, 2018, SLG filed revised leaves to its gas tariff, PSC No. 3—GAS, to take effect April 1, 2018, along with prepared written testimony and exhibits of SLG witnesses in support of the proposed tariff changes. SLG’s revised tariff leaves sought to: (1) extend the development period for the Expansion Project for an additional 15 years, (2) renew the Temporary Revenue Surcharge applicable to Expansion Area customers,³ and (3) reduce the applicable Contribution in Aid of Construction (“CIAC”) volumetric surcharge rate applicable to Expansion Area customers and extend the CIAC payment term through the proposed

³ When SLG filed the Expansion Rate Case, the Temporary Revenue Surcharge was set to expire in November 2018. SLG proposed to renew the surcharge and have it continue through the proposed extended development period.

development period. SLG's proposed, revised tariff leaves did not propose an increase to its base delivery revenues.

In 2011, the Commission issued an order that, among other things, issued a Certificate of Public Convenience and Necessity authorizing SLG to exercise gas franchises in numerous municipalities in the Expansion Area.⁴ At the time, the Expansion Project's expected cost was projected to be \$23.5 million. Before beginning construction, SLG sought to revise the terms under which it could construct the Expansion Project, as the estimated costs had increased. In 2012, the Commission issued an order amending the Company's Certificate of Public Convenience and Necessity (the "2012 Order").⁵ As is relevant here, the 2012 Order authorized the Expansion Project to move forward with an expected cost of \$40.5 million. Further, the 2012 Order provided for a Temporary Revenue Surcharge to be paid by Expansion Area customers. That Temporary Revenue Surcharge would be charged for the first 60 months beginning when service was provided to the first Expansion Area customer. The 2012 Order also required SLG to charge Expansion Area customers a CIAC surcharge, the volumetric rate of which varied by customer service classification. SLG was required to charge the CIAC surcharge to Expansion Area customers. In addition, the 2012 Order continued the five-year development period, and updated the Company's return on equity.

In its February 26, 2018 filing in the Expansion Rate Case, SLG explained that the Expansion Project costs had increased above \$40.5 million. By September 30, 2017, the actual cost of the portion of the Expansion Project completed at the time of filing was \$52.2 million. SLG's Expansion Rate Case filing sought authorization to recover the cost overruns associated

⁴ See Cases 10-G-0295 and 10-T-0154, *supra*, Order Granting Certificate of Environmental Compatibility and Public Need and Authorizing Exercise of Gas Franchises (Issued Feb. 18, 2011).

⁵ See Case 10-G-0295, *supra*, Order Granting Amendment of Certificate of Public Convenience and Necessity (Issued July 13, 2012).

with that portion of the Expansion Project, approximately \$11.7 million, and to recover the estimated cost to complete the remainder of the Expansion Project, approximately \$18.6 million.

2. Acquisition and Financing Case

On February 28, 2018 in the Acquisition and Financing Case, SLG and Liberty Utilities⁶ filed a petition (the “Petition”) for Commission approval under Section 70 of the New York Public Service Law (“PSL”) for the purchase of all of the outstanding common stock of SLG by Liberty Utilities and, as a result, ownership of SLG and its two non-regulated subsidiaries, St. Lawrence Gas Co. Service & Merchandising Corp. (“SLG Service & Merchandising”) and S.L.G. Communications Corp. (“SLG Communications”),⁷ by Liberty Utilities.⁸ The Joint Petitioners also sought Commission approval, pursuant to PSL § 69, for the issuance of long-term indebtedness to replace existing indebtedness of SLG (the “Financing”). With regard to the Financing, the Joint Petitioners requested authority for SLG to issue indebtedness in the amount of \$32.5 million.⁹ Further, the Joint Petitioners sought clarification or, to the extent necessary, modification of the SLG Affiliate Code of Conduct (the “Code”) to accommodate participation of SLG, together with SLG Service & Merchandising and SLG Communications, under the Liberty Utilities Money Pool Agreement (“Money Pool”). The Petition was accompanied by

⁶ Liberty Utilities, a Delaware Corporation, is a subsidiary of Algonquin Power & Utilities Corp. (“Algonquin”).

⁷ SLG Service & Merchandising, a New York Corporation, is primarily engaged in the rental of water heaters and other natural gas appliances. SLG Communications, a New York Corporation, is primarily engaged in providing communications services to SLG.

⁸ Pursuant to the Securities Purchase Agreement (the “Agreement”) executed by the Joint Petitioners on August 31, 2017 (Attachment 2 to the Petition), Liberty Utilities, or its subsidiaries, will acquire all of SLG’s outstanding shares in exchange for the consideration of \$70 million, subject to certain adjustments to be determined as of the closing date of the Transaction. The Agreement expressly acknowledges that Commission approval is a pre-condition to closing on the Transaction. Accordingly, closing will not occur until three business days after Commission approval of the Transaction and satisfaction of any other conditions precedent in the Agreement.

⁹ As indicated in the Petition, this amount consists of the balance on a note payable to Enbridge U.S. (\$25.5 million at the time of filing) and a \$7.0 million term loan from KeyBank. As described in Section V.B, *infra*, as of May 15, 2019, the balance on the note was approximately \$23.0 million.

attachments, including prepared direct testimony and exhibits, supporting the proposed Transaction and Financing.¹⁰

II. PROCEDURAL SUMMARY

Following the filing of both the Expansion Rate Case and the Acquisition and Financing Case, on March 8, 2018, the Commission issued a notice, pursuant to PSL § 66, suspending the rates proposed in the Expansion Rate Case through July 29, 2018. A procedural and technical conference was held in that proceeding in Albany on April 17, 2018. Following that conference, various rulings were issued by the presiding Administrative Law Judges (“ALJs”) in one or both cases to address scheduling and joinder of the two cases.¹¹ The parties to the two proceedings engaged in an exchange of discovery requests.¹² On June 11, 2018, SLG filed additional information in the Acquisition and Financing Case pertaining to the initial 12 months following the term of the 2016 Rate Plan (*i.e.*, Rate Year 4 information). Thereafter, the Commission, by Notice issued July 3, 2018, further suspended the effective date of rates in Case 18-G-0133 through January 29, 2019, the maximum period provided for in PSL § 66. Public Statement Hearings were held in both proceedings in Malone on August 15, 2018 and in Potsdam on August 16, 2018.¹³ By Ruling on Schedule Modifications, issued August 16, 2018, the ALJs adopted a schedule requiring the filing of direct testimony by parties other than the Joint Petitioners by October 4, 2018 and the filing of rebuttal testimony by October 25, 2018.

¹⁰ For purposes of this Joint Proposal, references to the “Petition” are deemed to include its accompanying attachments, unless the context requires otherwise.

¹¹ In their Third Ruling on Schedule and Procedure, issued May 31, 2018 in both cases, the ALJs joined the cases.

¹² A total of 190 interrogatories were received from Staff and answered or otherwise addressed in the Expansion Rate Case; a total of 145 were received from Staff and answered in the Acquisition and Financing Case. In addition, MI propounded, and the Companies answered, one consolidated set of interrogatories with 31 individual questions in the Acquisition and Financing Case.

¹³ A total of three individuals spoke in Malone and four in Potsdam.

Staff and Agri-Mark filed direct testimony and exhibits on October 4, 2018. Following that filing, Staff and the Joint Petitioners conducted exploratory discussions to determine whether settlement of some or all issues might be feasible and, on October 23, 2018, the Joint Petitioners filed and served a Notice of Impending Settlement Negotiations, proposing that the initial settlement conference be held in Albany on October 30, 2018. SLG and Liberty Utilities filed their rebuttal testimony and exhibits on October 25, 2018.

To accommodate settlement negotiations, which began on October 30, 2018 and continued, either in person or by telephone conference calls, among the Settlement Parties until the date the Signatory Parties filed this Joint Proposal, the ALJs repeatedly postponed the commencement of evidentiary hearings, as well as the filing of pre-hearing submissions. In addition, to enable such postponements in the litigation schedule and to allow sufficient time for the post-hearing process leading to a Commission decision, SLG agreed to a series of extensions to the statutory suspension period in the Expansion Rate Case, the most recent of which is through November 30, 2019.¹⁴

III. APPROVAL OF JOINT PROPOSAL AS IN THE PUBLIC INTEREST

The Signatory Parties recommend that the Commission approve the terms of this Joint Proposal without modification. The Signatories have concluded that the terms and conditions herein resolve all issues raised in the Expansion Rate Case and Acquisition and Financing Case in a manner that: (1) allows SLG to provide safe and adequate service at just and reasonable rates pursuant to PSL § 65; and, (2) provides for the acquisition of SLG by Liberty Utilities and issuance of indebtedness by SLG, in a manner that is in the “public interest” pursuant to PSL §§ 70 and 69, respectively.

¹⁴ See Case 18-G-0133, *supra*, Request for Extension of Time (Filed May 3, 2019).

IV. TERMS GOVERNING THE EXPANSION RATE CASE

A. Rate Base and Capital Additions

1. Plant-in-Service Write-Down

The Expansion Area Plant-in-Service balance shall be reduced by \$19.0 million (*i.e.*, removed from SLG's books of record). SLG shall file the actual journal entries with the Secretary effectuating this adjustment not later than 30 days after the issuance of the Commission order addressing this Joint Proposal.

2. Consolidation of Legacy and Expansion Rate Bases

The respective rate bases of the Legacy and Expansion Areas will be consolidated for ratemaking purposes no earlier than the date on which the Expansion Area is self-supporting or January 31, 2023, whichever occurs first. As used herein, "self-supporting" means that Expansion Area base rate revenues support the Expansion Area cost of service, including the rate of return as set forth in Section IV.E.1.a, below, without subsidization from Legacy Area customers.

3. Contributions in Aid of Construction

The current CIAC charges in the Expansion Area will continue until the earlier of:

- (a) the date that the Expansion Area is self-supporting, as described in Section IV.A.4, *supra*; or
- (b) January 31, 2023. If the CIAC charges terminate automatically on January 31, 2023 and the Expansion Area is not self-supporting at that time, shareholders will write-down plant-in-service to a level that allows the base rate revenues from the Expansion Area to cover the cost of service (excluding gas costs) for the Expansion Area without subsidization from Legacy Area customers.

SLG and Liberty will not seek to otherwise extend or increase the current CIAC charges in future filings. On or before July 31st of each year until the CIAC charges terminate, SLG will file with the Secretary a report comparing of Expansion Area revenues and cost of service for the

preceding Rate Year ending May 31st. In addition, no later than six months prior to the anticipated termination of the CIAC charges, SLG will file with the Secretary a report identifying the estimated date by which the Company expects the Expansion Area to be self-supporting and provide the detail to support the basis for such estimate. The report six months prior to the termination of the CIAC charges shall be filed no later than July 31, 2022, *i.e.*, six months prior to the January 31, 2023 sunset date for the CIAC charges. Each of these reports shall include the form included in Appendix 1.

4. Network Enhancement

For Calendar Year (“CY”) 2019, SLG will limit its network enhancement in the Expansion Area to prospective customers who meet the criteria for attachment to existing gas mains pursuant to the Commission’s entitlement regulations. For CY 2020, SLG will file with the Secretary, by December 31, 2019, a business case demonstrating the economic feasibility, inclusive of estimated capital expenditures, for SLG’s intended distribution enhancements it intends to construct in CY 2020. The business case will include: (1) project cost estimates; (2) prospective customer survey results (with potential customers’ current energy type); (3) historic and projected natural gas and alternative energy costs; (4) number of total potential new customers, number of committed customers (5) annual conversion estimates for the first five years; (6) annual projected volumetric throughput for the first five years; (7) annual projected revenues for the first five years; and, (8) any other information SLG considers relevant. Any proposed construction would begin after May 1, 2020. Staff will review the filing and SLG commits to working with Staff to resolve any concerns with or to make modifications to the filed plan. Should issues arise that SLG and Staff cannot resolve, the matter may be brought to the Commission for action. For CY 2021 and each calendar year thereafter until base rates are next reset by the Commission, SLG will follow this procedure with regard to proposed Expansion

Area capital projects and expenditures for each year. The foregoing requirement for a business plan shall not preclude SLG from extending service to prospective customers who meet the requirements of the Commission's rules and regulations for extensions of service or who otherwise agree to pay the full cost of such main extensions.

5. Construction Budget and Variance Procedures

For any future Expansion Area construction, SLG will follow the construction budget and variance procedures set forth below in Section V.A.9.b.

B. Expansion Area Cost of Service

1. Temporary Revenue Surcharge

The Temporary Revenue Surcharge, that had been authorized for a five-year "development period," as described in the 2012 Order, terminated as of November 25, 2018 and will not be renewed.

2. Recovery of Expansion Area Cost of Service

The prospective cost of service related to the Expansion Area, including operation and maintenance ("O&M") expenses, depreciation expenses, taxes other than income taxes, and return on investment associated with the Expansion Area, will only be recovered through base rates. The Signatory Parties agree that there shall be no special provision for recovery or deferral of the cost of service related to the Expansion Area, including, but not limited to, the following costs specifically requested by SLG in the Expansion Rate Case: (1) the expenses incurred during the fiscal years 2014 through 2017;¹⁵ (2) additional expenses incurred in the period from 2018 through the date when the Expansion Area and Legacy Area rate bases are combined, that

¹⁵ SLG set forth the costs it sought to recover in Case 18-G-0133, Exhibit __ (FP-1A). As proposed by SLG, these costs amount to approximately \$3.0 million.

were intended to be recovered through the Temporary Revenue Surcharge;¹⁶ and, (3) the rate case expenses incurred in this proceeding.¹⁷

C. Outreach and Education Plan

On or before January 1st of each year until the CIAC charges discussed above in Section IV.A.3. cease, SLG will prepare and submit to the Secretary, in Case 18-G-0133, an Outreach and Education (“O&E”) Plan pertaining to the Expansion Area. In addition, following the issuance of an order adopting the terms of this Joint Proposal, SLG will sponsor at least two public information forums at different locations within the Expansion Area to inform customers of the outcome of this proceeding. These public information forums shall take place within 60 days of the date of the Commission’s order regarding this Joint Proposal.

D. Accumulated Deferred Federal Income Taxes

SLG will adjust the Accumulated Deferred Federal Income Taxes (“ADFIT”) balance to reflect the impact of the write-down to plant-in-service. In addition, SLG will evaluate the amount of excess ADFIT that was deferred as a result of the Tax Cuts and Jobs Act of 2017, and, if necessary, will adjust the balance to reflect the impact of the write-down to plant-in-service. The Signatory Parties recognize that, in accordance, with the Commission Order in Case 17-M-0815, SLG will defer the excess ADFIT until it can be addressed in the Company’s next base rate proceeding.¹⁸ Not later than 30 days after the date of the Commission order addressing this Joint Proposal, SLG shall file with the Secretary the actual journal entries effectuating any adjustments. If as a result of its evaluation, SLG understands that it does not need to adjust

¹⁶ These expenses are identified in Case 18-G-0133, Exhibit __ (FP-1A) and, as presented, covered the originally proposed 15-year development period.

¹⁷ At the time of filing of Case 18-G-0133, SLG estimated these expenses at \$658,000. See Case 18-G-0133, SLG Finance Rebuttal Testimony at 23.

¹⁸ For purposes of clarity, the Commission’s Order in Case 17-M-0815 requires that SLG defer the excess ADFIT related to the Legacy Area until addressed in the Company’s next base rate proceeding.

excess ADFIT, it will file an explanation of its evaluation in lieu of the applicable journal entries. Further, in the event the Company makes an additional write-down to plant-in-service, the ADFIT balance would be revised to reflect the impact of that write-down, including the balance of excess ADFIT, as needed.

E. Rate of Return and Capital Structure

1. Cost of Capital

a. Return on Equity

Solely for purposes of determining whether the Expansion Area is self-supporting, a return on equity (“ROE”) of 8.60% will be used.

b. Capital Structure and Cost Rates

The total cost of capital for the purpose of measuring whether the Expansion Area is self-supporting is based upon a 48.0% common equity ratio, together with a debt ratio of 51.2% and a customer deposits ratio of 0.8%. The capital structure will include the long-term debt to be issued pursuant to the request in the Acquisition and Financing Case. The cost rates are 8.6% for ROE, 4.4% for long-term debt¹⁹ and 2.45% for customer deposits²⁰ and will be incorporated into the total cost of capital.

¹⁹ The cited rate, 4.4%, is the current embedded cost of debt for Liberty Utilities, which is subject to change to reflect Liberty Utilities’ embedded cost of debt when the Acquisition closes.

²⁰ The cited rate, 2.45%, is the current Commission-approved Customer Deposit Rate. The Commission updates this rate annually, and SLG’s calculations shall reflect the rate currently in effect at the time of the calculation.

V. **TERMS GOVERNING THE ACQUISITION AND FINANCING CASE**

A. **Acquisition of SLG**

1. **Corporate Structure**

a. **Corporate Governance and Operational Provisions**

(i) **Liberty Utilities East Region Board of Directors Membership**

No later than one year after the closing of the Acquisition of SLG, Liberty Utilities will appoint to its East Region Board of Directors (“Board”) an independent director who is a resident of the service area of SLG within the State of New York; provided that, in the event that Liberty Utilities acquires one or more additional utilities within the State of New York that are regulated by the Commission, this requirement may be satisfied by the appointment of an independent director who is a resident of either the service area of SLG or the service area of such other utility or utilities as may be acquired by Liberty Utilities. For purposes of this requirement, “resident of the service area” may include the circumstance in which the personal residence of the director is within one of the counties in which the utility provides service, but not within the relevant service area itself; provided that the director’s principal place of business or employment is within such service area. Except for this residency requirement, an independent director selected in compliance with such requirement will be subject to the requirements for Board membership that apply generally to other Board members. In the event of retirement or removal of a director selected to comply with the foregoing residency requirement, a replacement director meeting this residency requirement will be selected as soon as practicable, consistent with the requirements generally applicable to the selection of directors.

(ii) **Headquarters**

SLG’s corporate headquarters will remain within SLG’s service territory, subject to the right of SLG to petition the Commission for approval to relocate its corporate headquarters

outside of SLG's service territory no earlier than five years following the closing of the Acquisition.

b. Financial Transparency and Reporting

To enable Staff to determine whether the rates and charges of SLG are just and reasonable, Liberty Utilities shall provide Staff access to its accounting policies, books and records, including consolidated tax returns. In addition, Liberty Utilities shall annually file with the Secretary the consolidated audited financial statements of Liberty Utilities, including balance sheets, income statements, cash flow statements and related notes. The parties recognize that Liberty Utilities may request confidential treatment for the filing (*i.e.*, filed with the Department of Public Service Records Access Officer).

c. Affiliate Transactions and Cost Allocation

Within six months following the closing of the Acquisition and annually, within 45 days of the end of the CY, thereafter, SLG shall file with the Commission the amount of Liberty Utilities intercompany charges made among Liberty Utilities and its affiliates that are applicable to SLG. Such filing shall include a description of how the identified intercompany charges were derived.

d. Code of Conduct

Upon closing of the Acquisition, Liberty Utilities and its affiliates will comply with the Code (Appendix 2), which is a revision of, and, upon adoption of this Joint Proposal, will supersede, the Code filed pursuant to Joint Proposal Section VIII.D.2 of the 2016 Rate Plan.

2. Rate Freeze

SLG's next base rate filing will be dependent on the use of a test period reflecting a full year of Liberty Utilities ownership of SLG. Additionally, the first such filing will provide for continuity from the Rate Years under the 2016 Rate Plan by using a Rate Year commencing on

or after June 1 of the earliest CY in which new rates could go into effect using such test period.²¹ Prior to the effective date of any new rates that are approved pursuant to such filing, the rates currently in effect pursuant to the 2016 Rate Plan for the third rate year referenced therein (*i.e.*, the 12 months ending May 31, 2019) will remain in effect, subject to any surcharges or surcredits authorized by the 2016 Rate Plan.

3. Capital Structure and Financial Protections

a. Debt Cost Rates and True-Up

For future rate filings following the closing of the Acquisition, SLG will use the Liberty Utilities embedded cost of debt for long-term debt. The true-up mechanism for short-term interest rates adopted in the 2016 Rate Plan will continue in effect during the term of this Joint Proposal and thereafter, until changed by the Commission, with the exception that, at the time of the refinancing of the Enbridge U.S. Note Payable short-term debt with long-term debt, Liberty Utilities' embedded cost of debt will be used in place of SLG's actual short-term debt cost rate. If, however, SLG's annual earnings filing with the Secretary indicates that SLG's Legacy Area is overearning the allowed rate of return and the true-up would result in a deferral to be recovered from customers, SLG will not be allowed to true up its actual interest rate cost with the cost upon which its rates were set ("True-Up Interest Rate Cost") for the period during which SLG was overearning. Should the true-up result in a deferral to be recovered from customers in excess of SLG's overearnings, SLG shall be permitted to recover its True-Up Interest Rate Costs net of overearnings.

²¹ As a practical matter, these conditions preclude any change in rates prior to June 1, 2022, subject to the provisions of Section VI.F, *infra*.

b. Financial Protections

(i) Goodwill

SLG and Liberty Utilities shall not pass along to customers of SLG the premium above book value paid by Liberty Utilities to acquire SLG (*i.e.*, goodwill) or the transaction costs attributable to the Acquisition. Thus, the goodwill associated with this transaction shall not be shown in SLG's PSC annual report or included in the equity component of SLG's capitalization for purposes of calculating SLG's return, future revenue requirements, or any other component of SLG's rates. Following closing of the Acquisition, SLG shall file the goodwill calculation as soon as it is available, subject to the time frame determined in accordance with U.S. Generally Accepted Accounting Principles.

(ii) Minimum Common Equity Ratio & Minimum Credit Quality

To support the stand-alone ability of SLG to attract capital, Liberty Utilities and SLG will seek to maintain the common equity capitalization ratio of SLG at the level used by the Commission in establishing SLG's rates. In furtherance thereof, (1) SLG shall maintain a minimum common equity ratio ("MER") subject to a dividend restriction; and, (2) Liberty Utilities shall maintain a minimum BBB debt rating as described in parts (a) and (b), respectively, below.

(a) Minimum Common Equity Ratio

At each month end, Liberty Utilities and SLG agree to maintain an MER (measured using a trailing 13-month average) in relation to the common equity ratio used to set rates, *i.e.*, 48%. The MER is defined as no less than 300 basis points below the approved common equity ratio used to set rates. In the event that the MER is not met, no dividends are payable until such time as the MER is restored.

(b) Minimum Credit Quality

In the event that Liberty Utilities' Standard & Poor's ("S&P") debt rating is downgraded below BBB within three years following the closing of the Acquisition, the cost of any debt issued during such three-year period will be determined using an imputed BBB rating. If Liberty Utilities debt rating is downgraded below BBB within three years of the closing of the Acquisition and Liberty Utilities issues debt, then in subsequent rate cases Liberty Utilities' cost of debt for any debt issued within the three years following the closing of the Acquisition will be adjusted downward as if the debt had been issued at an S&P credit rating of BBB or a Moody's Investor Service ("Moody's") credit rating of Baa2.

During the three years following the closing of the Acquisition and, at the time of debt issuance, Liberty Utilities shall submit to Staff comparable public utility debt issuance data for a time period commencing and ending 60 days before and after the Liberty Utilities debt issuance. The credit spreads for the Liberty Utilities debt issuance will then be compared to the public debt issuance data for like tenors to determine the credit spread differential resulting from the Liberty Utilities debt issuance not carrying an S&P credit rating of BBB or a Moody's credit rating of Baa2. This credit spread differential will be applied to the Liberty Utilities debt so issued for purposes of calculating Liberty Utilities' cost of debt in a subsequent rate case. Should there not be a matching tenor between any of the Liberty Utilities debt issued and the comparable public utility debt issuances, the credit spread for the missing tenor will be interpolated based on the available credit spreads. Liberty Utilities and Staff will work in good faith to determine the credit spread differential to be applied.

(iii) Money Pooling

SLG may participate in a money pool as a borrower or lender only if the other participants are regulated utilities, with the exception that Liberty Utilities may participate, but

only as a guarantor of loans made by that money pool and to provide funding to the money pool in the event that other participant-supplied funds on any given day are insufficient to meet the need for funds by the borrowing participants. SLG shall not participate in a money pool as a lender if any of the other participants are not regulated utilities. This does not preclude the unregulated affiliates of SLG in participating in a separate money pool that does not include SLG.

c. Earnings Sharing Mechanism

For Rate Years 4, 5 and 6, the Earnings Sharing Mechanism (“ESM”) shall be reported each Rate Year on an annual basis but measured cumulatively. The annual report shall be filed not more than 90 days following the end of each Rate Year. To ensure clarity for the ESM calculations for Rate Years 4, 5 and 6, SLG’s earnings shall be measured for the Legacy Area only²² and shall be calculated using the lower of SLG’s actual common equity ratio or the common equity ratio used to set rates, *i.e.*, 48.0%. For purposes of the earnings calculation required by the 2016 Rate Plan, the incremental costs attributable to the Acquisition, as provided in such cost summaries, will be excluded. Should SLG not file for new rates to be effective on June 1, 2022, the ESM for any additional periods, *e.g.*, what could be thought of as a “Rate Year 7,” shall be measured on an annual basis and filed annually not more than 90 days following the end of each Rate Year. Appendix 3 sets forth the SLG Capital Structure and Cost of Capital.

4. Positive Benefit Adjustments

SLG’s shareholders shall fund: (a) a Carbon Reduction Initiative (“CRI”), to be developed in consultation with Staff, in the total amount of \$1.0 million over three years to assist

²² Should the Expansion Area be self-sufficient and the CIAC terminated, prior to the next time SLG’s base rates are reset, SLG’s earnings would be measured on a Company-wide basis for the Rate Year beginning after the CIAC ends and thereafter.

new and existing residential and small general firm service customers seeking to install high-efficiency natural gas equipment and weatherization;²³ and, (b) a deferral of \$0.5 million for the future benefit of customers, as determined by the Commission. With regard to the CRI, at the conclusion of the aforementioned three-year period, the Shareholder-funded CRI will expire, and SLG shall defer any unspent funds for the future benefit of customers, as determined by the Commission. In the next proceeding to set base rates for SLG, the parties to that proceeding may propose to continue the CRI and address the source of funding for the continued or re-established CRI.

5. Savings and Cost Trackers

a. Acquisition and Transition Costs

Within 90 days after the issuance of a Commission order approving the Acquisition, SLG shall file cost summaries separating the incremental costs attributable to the Acquisition (*i.e.*, the costs that would not have been incurred in the absence of the Acquisition) from those costs that would have been incurred absent the Acquisition. SLG shall also track any transition expenses and capitalized costs and any benefits arising from such costs and provide the results of such tracking in the filing for its first post-Acquisition rate proceeding to enable the Commission to determine whether any of the capitalized costs should be recovered from customers, as well as to determine whether any of the expenses should be removed from the historic test year data. The mechanism to be used in tracking the aforementioned costs and benefits is described in Appendix 4.

²³ The CRI is separate and distinct from the “Marketing and Incentives for Conversions” (the “M&IC Program”) authorized in Paragraph III (g) of the 2016 Rate Plan. The M&IC Program will continue until the Commission resets SLG’s base rates.

b. Synergy Savings

SLG shall track any synergy savings and provide the results of such tracking in the filing of its first post-Acquisition rate proceeding. The synergy savings will identify the gross savings attributable to particular operational changes, as well as the costs to achieve, so as to arrive at the net synergy savings. The mechanism to be used in tracking any synergy savings that result from the Acquisition during the period until base rates are next re-set is described in Appendix 4.

c. Future Acquisition Savings

In the event that Liberty Utilities, Algonquin, or an affiliate of either completes any additional mergers or acquisitions within the United States or Canada, before the Commission adopts its next order approving new base rates for SLG, Liberty Utilities will track and report to the Secretary any savings resulting from such merger or acquisition that would reasonably be applicable to SLG or its customers. Such savings will be deferred and shared between shareholders and customers, on a 50/50 basis, to the extent that the portions of such savings realized by Liberty Utilities are material (*i.e.*, five percent or more of SLG net income on an after-tax basis). In the event that such a merger or acquisition results in any increased costs to SLG, SLG shall file, on an annual basis, a report describing such costs. The mechanism to be used in tracking the aforementioned savings and costs is described in Appendix 4.

6. Gas Safety

a. Metrics

Appendix 5 hereto sets forth the metrics applicable to SLG in the subject areas of Emergency Response Time, Damage Prevention, Leak Backlog and Safety Violations (both High-Risk and Other Risk) on a CY basis for CY 2019 and CY 2020. A total of 138 Pre-Tax Basis Points will be at risk per CY for SLG's performance under the Gas Safety Performance Metrics, as described below. All safety metric targets, Negative Revenue Adjustments

(“NRAs”) and Positive Revenue Adjustments (“PRAs”) applicable in CY 2020 will remain in effect until changed by the Commission.

(i) Emergency Response

SLG will incur an NRA if it fails to meet the current CY statewide emergency response performance levels of responding to 75% of leak and odor calls in 30 minutes, 90% of leak and odor calls in 45 minutes and 95% of leak and odor calls in 60 minutes. Failure to meet the goal of 75% in 30 minutes will result in an NRA of nine Pre-Tax Basis Points. Failure to meet the goal of 90% in 45 minutes will result in an NRA of six Pre-Tax Basis Points. Failure to meet the goal of 95% in 60 minutes will result in an NRA of three Pre-Tax Basis Points. The foregoing emergency response CY targets and associated CY NRAs are subject to a maximum annual NRA of 18 Pre-Tax Basis Points.

SLG will earn a PRA of three Pre-Tax Basis Points if SLG meets the CY emergency response performance of greater than 85% of leak and odor calls in 30 minutes. SLG will earn a PRA of six Pre-Tax Basis Points for CY emergency response performance of greater than 90% of leak and odor calls in 30 minutes. The limit on PRAs as applied in any one CY is six Pre-Tax Basis Points.

The Emergency Response NRA BP shall be increased by 150% if a target is missed during a dividend restriction, as described above in Section V.A.3.b.(ii)(a) of this Joint Proposal, and increased by 200% if a target is missed three years within the next consecutive five CYs.

(ii) Damage Prevention

Beginning with CY 2019, SLG will incur an NRA for exceeding the following targets, measured in instances per 1,000 “one-call” tickets, for damages to Company facilities. In CY 2019, the Company will incur an NRA of five Pre-Tax Basis Points for exceeding 2.85 instances of overall (total) damages, 15 Pre-Tax Basis Points for exceeding 2.95 instances of

overall (total) damages, and 27 Pre-Tax Basis Points for exceeding 3.00 instances of overall (total) damages. In CY 2020, the Company will incur an NRA of five Pre-Tax Basis Points for exceeding 2.75 instances of overall (total) damages, 15 Pre-Tax Basis Points for exceeding 2.85 instances of overall (total) damages, and 27 Pre-Tax Basis Points for exceeding 3.00 instances of overall (total) damages. The limit on NRAs as applied in any one CY is 27 Pre-Tax Basis Points. Imposition of the foregoing NRAs is subject to the additional requirement that, if a target is missed on an annual basis, the NRA will only be triggered if the Company also misses the target on a two-year “lookback” basis.

In CY 2019, the Company will earn a PRA of five Pre-Tax Basis Points for performance less than or equal to 2.25 instances of overall (total) damages and ten Pre-Tax Basis Points for less than 2.00 instances of overall (total) damages. In CY 2020, the Company will earn a PRA of five Pre-Tax Basis Points for performance less than or equal to 2.15 instances of overall (total) damages and ten Pre-Tax Basis Points for less than 1.90 instances of overall (total) damages. The limit on PRAs as applied in any one CY is ten Pre-Tax Basis Points.

(iii) Leak Backlog

For CY 2019, SLG will be assessed an NRA of 18 Pre-Tax Basis Points if the Company has more than five Type 1, 2, 2A and 3 leaks in backlog pending repair, including repairs that failed re-checks, on December 31 of the respective year. For CY 2020, SLG will be assessed an NRA of 18 Pre-Tax Basis Points if the Company has more than four Type 1, 2, 2A and 3 leaks in backlog pending repair, including repairs that failed re-checks, on December 31 of the respective year. The maximum NRA that may be assessed for this metrics is 18 Pre-Tax Basis Points. The Leak Backlog NRA BP shall be increased by 150% if a target is missed during a dividend restriction, as described above in Section V.A.3.b(ii)(a) of this Joint Proposal, and shall be increased by 200% if a target is missed three years within the next consecutive five CYs.

(iv) Gas Safety Violations Performance Measures

Beginning CY 2019, the Company will be assessed an NRA for instances of High Risk and Other Risk noncompliance (occurrences) of certain pipeline safety regulations set forth in 16 NYCRR Parts 255 and 261, as identified during Staff's annual field and record audits. Appendix 5 sets forth the type of audit (record or field), the violation category risk (high or other), the number of occurrences and associated NRAs. Appendix 5 also contains a list of identified High Risk and Other Risk pipeline safety regulations pertaining to this metric. The limit on NRAs as applied in any one CY is 75 Pre-Tax Basis Points.

Repeated failure to follow a step or requirement that constitutes a violation will result in multiple occurrences of such violation. Failure to follow a Company procedure will be cited as a single occurrence under 16 NYCRR Part 255.603.

b. Operator Qualification and Other Safety Requirements

On February 12, 2019, the Department of Public Service, Office of Electric, Gas and Water, Pipeline Safety Section filed the Operator Qualification White Paper.²⁴ In the event that Commission action regarding the White Paper leads SLG to incur incremental costs in RYs 4, 5 and/or 6, SLG is not precluded from filing a petition with the Secretary requesting deferred accounting treatment, as provided for below in Section V.A.12.

7. Customer Service

a. Service Quality Performance Mechanism

The Service Quality Performance Mechanism ("SQPM") shall continue in its current form, with adjusted targets and revenue adjustments to two of the three metrics. Performance for all measures shall be assessed on a CY basis. The SQPM shall continue until modified by the

²⁴ Case 14-G-0212, *Proceeding on Motion of the Commission to Investigate the Practices of Qualifying Persons to Perform Plastic Fusions on Natural Gas Facilities*; and Case 17-G-0318, *In the Matter of an Investigation into Local Distribution Company Use of Northeast Gas Association Operator Qualification Program*.

Commission. In any CY that SLG fails to achieve any of the service quality thresholds, a revenue adjustment will be imposed for the year equal to the dollar amount assigned to the threshold. Revenue adjustments will be in pre-tax dollars. Revenue adjustments pursuant to this mechanism will be deferred for future customer use. Appendix 6 hereto sets forth the metrics applicable to SLG in the subject areas of PSC Complaint Rate, Customer Satisfaction Index and Terminations and Uncollectible Expense on a CY basis. In each case, the targets and NRA and PRA applicable in CY 2019 will be modified for CY 2020, as indicated in Appendix 6, and will remain in effect at their 2020 levels until modified by the Commission.

(i) PSC Complaint Rate

A complaint threshold shall be measured by PSC complaint data for the 12-month period covered by each CY. During the term of this Rate Plan, and until otherwise directed by the Commission, the PSC Complaint Rate is the 12-month escalated complaint rate as reported by Staff to the Company by January 15 of the following year that includes data for January through December of each CY. If the PSC Complaint Rate in any year of the Rate Plan is greater than or equal to 1.5, SLG will be subject to a minimum NRA. If the PSC Complaint Rate for any year is greater than or equal to 2.5, SLG will incur the maximum NRA. SLG will be assessed potential NRAs on this measure, shown in Appendix 6.

If changes are made to the complaint handling procedures or contact classifications on which these threshold rates are based, then the measurement method and the complaint targets should be modified. Any such modifications would be established based on a reasonable period of experience, be mutually agreed upon by Staff and SLG and filed with the Secretary. In the event that Staff and SLG cannot agree on such a period, the matter would be handled in accordance with the dispute resolution mechanism described in Section VI.G. of this Joint

Proposal. The threshold and complaint rate targets set forth in Appendix 6 shall remain in effect until the matter is resolved by agreement or Commission order.

(ii) Overall Customer Satisfaction Index

An overall customer satisfaction index shall be calculated based on the results of the annual customer satisfaction survey and will reflect the percentage of customers satisfied with the service they receive from SLG. The survey will be conducted by an independent vendor on a group deemed to be representative of SLG's residential customers and a second group deemed to be representative of its commercial and industrial customers. If the overall satisfaction index in any year of the Rate Plan is equal to or below 86%, SLG will be subject to a minimum negative revenue adjustment. If the satisfaction index is equal to or below 84%, SLG will incur the maximum negative revenue adjustment. SLG will be assessed potential negative revenue adjustments on this measure, shown in Appendix 6.

(iii) Customer Satisfaction Survey

SLG shall continue to have an independent customer satisfaction survey that will allow SLG to accurately assess its level of service and make any necessary improvements. Within 60 days after such surveys are completed, SLG shall report to the Secretary the results of the survey, propose any changes to minimum, intermediate and maximum customer satisfaction indices to be used in determining performance according to the scale shown in Appendix 6, and describe how it plans to address legitimate customer suggestions, if any, that are developed as a result of the survey.

(iv) Negative Revenue Adjustment Multiplier

The NRAs shown in Appendix 6 have been doubled from those in the 2016 Rate Plan. In addition, the NRAs shall be tripled if targets are missed during a dividend restriction and quadrupled if targets are missed in three years out of the next five consecutive CYs.

(v) Terminations and Uncollectible Expense Incentive

SLG shall continue the Terminations and Uncollectible Expense measure to foster a reduction in customer terminations and in uncollectible expenses. This measure shall be positive only and calculated on a CY basis, as shown in Appendix 6. Specifically, SLG shall be entitled to an incentive of \$12,000 per year if both measures are at or below target set forth in Appendix 6, unchanged from the 2016 Rate Plan, and \$6,000 per year if one measure is at or below target and the other is at or below the three-year average (set in 2016). If neither measure is at or below the target, SLG shall not be entitled to any positive incentive but shall not be subject to any NRA.

b. Employment Levels

To ensure the Company's customer service related staffing does not decline following the Acquisition, the Signatory Parties agree that SLG will provide the formal training plan, it will develop with Liberty Utilities' guidance, for Staff review within 90 days of the date of the Commission's order regarding this Joint Proposal. Once the plan is reviewed by Staff, all employees currently involved in customer service duties at SLG will take the training no later than December 31 of the CY following the year in which the Acquisition closes. SLG shall ensure that a minimum of ten employees receive this training. SLG shall submit to the Secretary a report specifying the employees trained to perform customer service duties January 31 of the following CY. Following this initial report, SLG shall annually submit a report on January 31 of each subsequent year updating the list of employees who receive full training for the first time, employees who receive an annual refresher, listing the employees who perform customer service duties, and listing any employees who no longer perform such duties, if applicable. Following the implementation of training, SLG will ensure that it maintains at least a minimum of ten employees trained to perform customer service duties. The requirement regarding the minimum

number of employees trained to perform customer service duties will remain in effect until modified by the Commission.

c. Actions to Improve Customer Service

To improve service to its customers, SLG will prepare and file with the Secretary, within 60 days of a Commission Order addressing this Joint Proposal, a Customer Service Improvement Plan. Commencement of implementation of such Customer Service Improvement Plan will occur no later than 30 days following such filing. The cost of implementing such a Customer Service Improvement Plan will be borne by shareholders until rates are next set by the Commission. When it next files a base rate case, SLG shall address the plan and whether it should continue.

8. Timely Filings

SLG will incur an NRA of three Pre-Tax Basis Points for each instance in which SLG fails to make a complete filing by the relevant deadline specified by applicable statute, regulation or Commission order, or fails to request an extension or waiver of such deadline, where an extension or waiver is possible,²⁵ in a timely fashion.²⁶ SLG will have the right to request a waiver of the imposition of an NRA by demonstrating good cause for the failure. This requirement shall remain in effect until changed by the Commission. The Signatory Parties recognize that SLG may request discontinuance of this requirement when it next files a base rate case.

²⁵ The Signatory Parties recognize that the Secretary may not have the authority to extend a particular deadline. Should SLG seek to rely on a request to the Secretary for an extension to demonstrate that it has met the requirements of this provision, SLG must demonstrate that the requested extension is one that the Secretary has the authority to grant.

²⁶ For requests for extensions made to the Secretary, except as otherwise provided in the relevant requirement, *e.g.*, in the relevant Commission order or issuance from the Secretary, a timely request is understood to mean a request made in writing not less than one day in advance of the relevant deadline. For requests for extensions or waivers that would require Commission action, a timely request means a request made in writing, *e.g.*, in the form of a petition, at a time that allows the Commission to act on the request prior to the relevant deadline.

9. Capital Expenditures and Reporting

a. Budgeting Process

SLG will comply with the “Liberty Way Policy and Procedure: Capital Expenditures – Planning and Management,” which defines the Liberty Utilities capital processes from planning through construction, unless such processes are in conflict with more stringent standards specified in Commission orders, in which case, the latter will supersede the former.

b. Construction Budget and Variance Procedures

For any future Expansion Area construction, SLG will follow the construction budget and variance procedures set forth below in Section V.A.9.c. No later than December 31, 2019, SLG will establish and provide to Staff a set of procedures and appropriate controls to address the following four areas pertaining to construction budget and variance procedures: (a) a process to base projects on engineering analysis and design; (b) project investment thresholds to allow for timely monitoring and oversight by the Board and the Commission; (c) procedures to enter into construction contracts before any work commences; and (d) a process requiring re-approval of projects by the Board when a significant change in scope or budget will cause an increase of 10% or more in capital expenditures, compared with the previously approved budget.

c. Filing of Capital Budgets and Variance Reports

Within 30 days of approval by the Board, SLG will file its approved annual capital expenditure budget with the Secretary. In addition, within two months following the end of the CY, SLG will file with the Secretary the Company’s monthly variance reports for such CY.

d. Legacy Area Net Plant True-Up Mechanism

A downward-only net plant true-up shall be used to determine if SLG has spent its Legacy Area capital budget in Rate Years 4 and 5 on a cumulative basis. The starting point for the analysis is the Rate Year 3 actual ending balances of plant in service, Construction Work in

Progress, and accumulated depreciation. For Rate Years 4 and 5, the estimated Legacy Area capital investment amounts are \$2.028 million and \$1.732 million, respectively. The foregoing two capital investment amounts will be included in the first line (“Utility Plant”) as shown in Appendix 7 to determine the “Net Plant Targets.”

The net plant targets will continue at the Rate Year 5 minimum level until SLG’s rates are next reset. Rate Year 6 will not have a set capital investment amount, but SLG will be expected to spend the amount of capital required to prudently own and operate the system. At the end of Rate Year 5, SLG shall review the actual net plant in service for Rate Year 5 to determine whether that amount is greater or less than the net plant in service target for that year, computed as indicated above. If the actual net plant in service amount exceeds the target, there will be no deferral. If, at the end of Rate Year 5, the actual net plant in service amount is less than the target amount, SLG will book a deferral, for the benefit of customers, of the carrying cost of the variance,²⁷ and each month after Rate Year 5, SLG will test to determine if the net plant in service target has been exceeded. If the target has not been exceeded, additional carrying charges will be calculated and a deferral will be recorded until the target has been met. The deferral balance shall accrue interest at the pre-tax rate of return until the deferral balance is returned to customers. Within 90 days of the end of Rate Year 5, SLG shall file with the Secretary a report of its review. Should the target not yet be exceeded, SLG shall file a supplementary report within 90 days of the date the target is actually met.

10. Asset Optimization

Within 120 days following the closing of the Acquisition, SLG will issue a Request for Proposals (“RFP”) for the purpose of entering into the best available asset management

²⁷ Carrying costs shall mean the amount equivalent to the return on investment (*i.e.*, the pre-tax rate of return multiplied by the net plant variance) and the depreciation expense associated with the variance.

agreement (“AMA”) having a term between one and three years. Within 30 days following issuance of the RFP, SLG will file a copy of the RFP with the Secretary. Within 30 days following completion of the RFP process, SLG will report on the outcome of the process to the Secretary. Until the RFP process is concluded and any resulting changes to SLG’s asset optimization program are made, SLG will continue to operate under its existing agreement with Tidal Energy. The Company will follow this RFP process each time the AMA agreement is up for renewal. Nothing contained herein shall preclude SLG from seeking modification or elimination of this RFP process in the future.

11. Additional Documentation and Reporting Requirements

a. Reporting on Liberty Days/Community Engagement

Within 90 days following the end of each Rate Year, SLG will file a report with the Secretary identifying the benefits of the Liberty Days program.

b. Outreach and Education Plan

i. Acquisition Plan

Not later than 30 days following the filing of this Joint Proposal, SLG and Liberty Utilities will submit for Staff review a draft plan regarding O&E specific to the Acquisition, which, following Staff review and any revisions resulting from such review, will be included in the Company’s 2019 O&E Plan.²⁸ The draft plan will include discussion of any changes brought about by the Acquisition that will affect customers, with the final plan detailing any material provisions set forth in the Commission’s order approving the Acquisition.

²⁸ If the 2019 O&E Plan has already been filed, then SLG shall submit the portion relating to the Acquisition as a supplement.

ii. Annual Outreach & Education Plan

SLG shall submit its annual O&E Plan to the Secretary by January 1st of each year in Cases 08-G-1392 and 17-M-0475.

c. Gas Service Requests

SLG will document all gas service requests, separately, for the Legacy and Expansion Areas. Such documentation will include: location, including whether within the Legacy Area or the Expansion Area; date of request for service; applicant's current heating fuel; length of both main and service (separately) required to serve the customer; estimated cost to extend service to the customer, including, as applicable, single up-front payment and monthly surcharge, as set forth in the Commission's regulations (16 NYCRR Part 230); and date of connection or change to request, including discussion of any changes. If requested by Staff, the Company will be required to provide such documentation to Staff within 10 days of the request.

12. Impact of Mandatory Changes

To the extent that a mandatory change not specifically addressed in the 2016 Rate Plan or in this Joint Proposal occurs, SLG is not precluded from petitioning the Commission for deferred accounting treatment of the revenue requirement impacts of revenues, expenses and rate base (including income or other federal or State tax expense) for such changes, for refund to or recovery from customers in a manner to be determined by the Commission.

A "mandatory change" shall mean a change in the revenues or expenses of SLG due to: generic policy decisions of the Commission that become effective during the period covered by this Joint Proposal; any externally imposed accounting change; any change in federal, state or local rates, regulation, or precedent governing income, revenue sales or franchise taxes; or any legislative, court, or regulatory change, which imposes or modifies existing obligations or duties. Consistent with the foregoing, the Signatory Parties recognize that generic policy decisions of

the Commission will be applicable to SLG according to their terms unless stayed by the Commission or a court or provided otherwise by the Commission during the period covered by this Joint Proposal. All Signatory Parties reserve all of their administrative and judicial rights in connection with such generic proceedings and in connection with any filing by SLG pursuant to this provision. This provision is not intended to preclude SLG from petitioning the Commission for deferred accounting treatment of other costs that may arise prior to or during the period covered by this Joint Proposal.

B. Issuance of Long-Term Indebtedness

Pursuant to Public Service Law §69, in connection with the Acquisition, the Signatory Parties recommend that the Commission authorize SLG to issue indebtedness up to \$28.2 million.²⁹ This will allow SLG to refinance a portion of its current debt, *i.e.*, the Enbridge Note Payable of \$23.0 million and the Key Bank loan of \$7.0 million. SLG will issue a 10-year or 15-year promissory note to Liberty Utilities at or following the closing of the Acquisition, but no later than 120 days after the Acquisition. The loan will be priced at Liberty Utilities' embedded cost of debt calculated using the most recent quarter end for which a financial closing has been completed. Liberty Utilities will recapitalize the remainder of SLG's outstanding debt with the intent to achieve an actual common equity ratio approximating the 48.0% common equity ratio used for ratemaking purposes. SLG also has a short-term line of credit with Key Bank for \$6.0 million and Liberty Utilities will utilize its' Money Pool as a substitute vehicle as discussed earlier in this Joint Proposal.

The Signatory Parties recognize that the debt authority for SLG shall be subject to the conditions the Commission may impose, consistent with those typically associated with

²⁹ This amount of indebtedness provides SLG some flexibility to manage its debt and common equity ratios, while reflecting that the Company is required to maintain a minimum common equity ratio as described in Section V.A.3.b(ii)(a), above.

Commission orders authorizing utility financing pursuant to PSL §69.³⁰ Appendix 8, contains the “Reimbursement Margin” that supports granting SLG the requested debt authority.

VI. GENERAL AND MISCELLANEOUS PROVISIONS

A. Provisions Not Separable

It is understood that each provision of this Joint Proposal is in consideration and support of all the other provisions and each provision is expressly conditioned upon acceptance by the Commission of this Joint Proposal in its entirety without change. If the Commission fails to adopt this Joint Proposal according to its terms without change, then the Signatory Parties will be free to pursue their respective positions in this proceeding without prejudice.

B. Provisions Not Precedent

The terms and conditions of the Joint Proposal apply solely to, and are binding on each Signatory Party only in the context of the purposes and results of this Joint Proposal. None of the terms and provisions of this Joint Proposal, nor any methodology or principle utilized herein, and none of the positions taken herein by any Signatory Party may be referred to, cited or relied upon by any other Signatory Party in any fashion as precedent or in any other proceedings before the Commission, or any other regulatory agency, or before any court of law for any purpose except in furtherance of the purposes and results of the Joint Proposal, or as may be necessary in explaining derivation of specific costs or accounting treatments as relevant to future ratemaking proceedings.

³⁰ See, e.g., Case 18-M-0271, *Central Hudson Gas & Electric Corporation – Financing*, Order Authorizing Issuance of Securities (issued September 13, 2018); Case 18-G-0558, *KeySpan Gas East Corp. d/b/a National Grid – Financing*, Order Authorizing Issuance of Securities (Issued February 8, 2019); Case 18-G-0559, *The Brooklyn Union Gas Company d/b/a National Grid NY – Financing*, Order Authorizing Issuance of Securities (Issued February 8, 2019).

C. Cooperation on Implementation

The Signatory Parties recognize that certain provisions of this Joint Proposal require that actions be taken in the future to effectuate fully this Joint Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

D. Continuation of Provisions in Subsequent Years

Except as expressly stated herein, all provisions of this Joint Proposal will continue beyond the end of the last Rate Year during which base rates are frozen pursuant to this Joint Proposal until changed by order of the Commission. For those provisions in this Joint Proposal that establish targets, the targets in effect during such Rate Year will apply to subsequent years.

E. Tariff Filings

The Signatory Parties agree that St. Lawrence Gas will file a cancellation of the proposed tariff leaves currently suspended through July 31, 2019 and file new tariff leaves in a manner consistent with any Commission order(s) regarding the terms of this Joint Proposal.

F. Rate Changes

Changes to St. Lawrence Gas's base delivery service rates during the period of the rate freeze described herein will not be permitted, except for (a) changes provided for in this Joint Proposal; or (b) subject to Commission approval, changes as a result of the following circumstances:

1. A minor change in any individual base delivery service rate or rates whose revenue effect is de minimis, or essentially offset by associated changes within the same class. It is understood that, over time, such minor changes are routinely made and that they may continue to be sought during the term of the Rate Plans, provided they will not result in a change (other than a de minimis change) in the

revenues that SLG's base delivery service rates are designed to produce overall before such changes.

2. If a circumstance occurs which, in the judgment of the Commission, so threatens St. Lawrence Gas's economic viability or ability to maintain safe, reliable and adequate service as to warrant an exception to this undertaking, SLG will be permitted to file for an increase in base delivery service rates at any time under such circumstances.
3. The Signatory Parties recognize that the Commission reserves the authority to act on the level of St. Lawrence Gas's gas rates in the event of unforeseen circumstances that, in the Commission's opinion, have such a substantial impact on the range of earnings levels or equity costs envisioned by this Joint Proposal as to render SLG's gas rates unreasonable or insufficient for the provision of safe and adequate service at just and reasonable rates.
4. The Signatory Parties reserve the right to support or oppose any filings made by St. Lawrence Gas under this Section.

G. Dispute Resolution

In the event of any disagreement over the interpretation of this Joint Proposal or the implementation of any of the provisions of this Joint Proposal the Signatory Parties will use the following process. First the Signatory Parties will seek to resolve the dispute informally. If any such disagreement cannot be resolved informally, any Signatory Party may petition the Commission for a determination on the disputed matter.

H. Effect of Commission Adoption of Terms of This Joint Proposal

No provision of this Joint Proposal or the Commission's adoption of the terms of this Joint Proposal shall in any way abrogate or limit the Commission's statutory authority under the

PSL. The Signatory Parties recognize that any Commission adoption of the terms of this Joint Proposal does not abrogate or limit the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

I. Relationship to 2016 Joint Proposal

Except as specifically modified by this Joint Proposal, the provisions of the 2016 Rate Plan remain in effect. Solely for the convenience of the parties, Appendix 9 sets forth the provisions of the Joint Proposal adopted by the Commission to institute the 2016 Rate Plan, and identifies the provisions of that 2016 Joint Proposal that the Signatory Parties understand will be modified should the Commission adopt this Joint Proposal. The list contained in Appendix 9 is intended solely for the convenience of the parties in understanding the relationship between this Joint Proposal and the 2016 Rate Plan and shall not in any way affect the legal requirements set forth in the 2016 Rate Plan.

J. Entire Agreement

This Joint Proposal, including all attachments, exhibits and appendices, if any, represents the entire agreement of the Signatory Parties with respect to the matters resolved herein.

K. Execution

This Joint Proposal is being executed in counterpart originals, and will be binding on each Signatory Party when the counterparts have been executed.

L. Notice

Except for notices or filings with the Secretary, all communications provided for herein or with reference to this Joint Proposal will be deemed to have been sufficiently given or served for all purposes if sent by electronic mail, to the following persons:

If to St. Lawrence Gas:

Kimberly S. Baxter, Manager, Regulatory Affairs
kbaxter@stlawrencegas.com

and

Aubrey A. Ohanian, Harris Beach PLLC
aohanian@harrisbeach.com

If to Liberty Utilities:

Mark Saltsman, Vice President & General Manager of New York
Operations
Mark.Saltsman@libertyutilities.com

and

Stanley W. Widger, Jr., Nixon Peabody LLP
swidger@nixonpeabody.com

If to Staff:

Brandon F. Goodrich, Assistant Counsel
Brandon.Goodrich@dps.ny.gov

If to Multiple Intervenors:

Amanda De Vito Trinsey, Couch White, LLP
adevito@couchwhite.com

If to Agri-Mark:

Frank Mehm, Sr. V.P. Finance
fmehm@agrismark.net

and

Donna Brooks, Shipman & Goodwin LLP
DBrooks@goodwin.com

If to Upstate Niagara:

Mike Patterson, Chief Financial Officer
mpatterson@upstateniagara.com

and

Lynn Scott, Paralegal
lscott@upstateniagara.com

CASES 18-G-0133 & 18-G-0140

and

Joseph G. Casion, Harter Secrest & Emery, LLP
jcasion@hselaw.com

or such other persons as the Signatory Parties may designate from time to time by notice given in
accordance with the foregoing.

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

ST. LAWRENCE GAS COMPANY, INC.

By: 

Aubrey A. Ohanian

Date: 5/31/19

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

LIBERTY UTILITIES CO.

By: Stanley W. Widger, Jr.
Stanley W. Widger, Jr.

Date: 5/31/19

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

STAFF OF THE DEPARTMENT OF PUBLIC SERVICE

By: 

Brandon F. Goodrich

Date: May 31, 2019

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

MULTIPLE INTERVENORS

By: 
Amanda De Vito Trinsey

Date: 5-30-19

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

AGRI-MARK, INC.


By:  SVP - FINANCE
Frank Mehm

Date: 5/31/19

CASES 18-G-0133 & 18-G-0140

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

UPSTATE NIAGARA COOPERATIVE, INC.

By: 
Mike Patterson

Date: 5/30/19

APPENDIX 1

St. Lawrence Gas Company, Inc.
Case 18-G-0133
Expansion Area Self-Supporting Mechanism
For the Twelve Months Ended (Month/Day/Year)

| | |
|---|-------|
| Base Delivery Revenues | \$ - |
| Operations & Maintenance Expenses | - |
| Depreciation | - |
| Taxes Other Than Income Taxes | - |
| Operating Income Before Taxes | \$ - |
| Income Taxes | \$ - |
| Operating Income After Taxes | \$ - |
| Overall Rate of Return | 6.40% |
| Rate Base (Self-Supporting) | \$ - |
| Actual Rate Base | - |
| Additional Net Plant Write-Down Remaining | \$ - |

| | |
|--|-------|
| Rate of Return (ROR) | 6.40% |
| Weighted Cost of Debt and Customer Deposit | 2.27% |
| Equity Ratio | 48% |
| Rate of Return on Common Equity | 8.60% |

St. Lawrence Gas Company, Inc.
Case 18-G-0133
Expansion Area Self-Supporting Mechanism
Income Statement For the Twelve Months Ended (Month/Day/Year)

Company Rate Year Ending XX
XX, XXXX

| | |
|---|------|
| | |
| Base Delivery Revenues | |
| Operation & Maintenance Expenses | |
| Meter Reading | |
| Vehicle Expense | |
| Building Rent | |
| Fringe Benefits | |
| Marketing | |
| Payroll | |
| Uncollectible Expense | |
| Total Operation & Maintenance Expenses | \$ - |
| Depreciation Expense | |
| Taxes Other Than Income Taxes | |
| Property Taxes | |
| Payroll Taxes | |
| Revenue Taxes | |
| Total Taxes Other Than Revenue and Income Taxes | \$ - |
| Operating Income Before Income Taxes | \$ - |
| Income Taxes | |
| Federal Income Taxes | |
| State Income Taxes | |
| Total Income Taxes | \$ - |
| Operating Income After Income Taxes | \$ - |

St. Lawrence Gas Company, Inc.
Case 18-G-0133
Expansion Area Self-Supporting Mechanism
Capital Structure

| | <u>Weighting Percent</u> | <u>Cost Rate</u> | <u>Weighted After Tax Cost</u> |
|-------------------|------------------------------|------------------|------------------------------------|
| Long Term Debt | 51.20% | 4.40% | 2.25% |
| Customer Deposits | 0.80% | 2.45% | 0.02% |
| Common Equity | 48.00% | 8.60% | 4.13% |
| Total | <u>100%</u> | | <u>6.40%</u> |

Notes:

- a) Capital Structure (i.e. weighting percentages) reflects agreed upon terms
- b) Cost Rate for Common Equity reflects agreed upon terms
- c) Cost Rate for Long Term Debt reflects Liberty Utilities current embedded cost of debt and is subject to update at closing of the Acquisition
- d) Cost Rate for Customer Deposits reflects the current Commission approved rate. This would reflect the Commission approved rate at the time of calculation.

APPENDIX 2

St. Lawrence Gas Company, Inc.

Affiliate Code of Conduct

1. Purpose, Application and Corporate Statement

1.1 Purpose and Objectives of the Affiliate Code of Conduct (“Code”)

The purpose of this Code is to establish parameters and standards for transactions, information sharing and the sharing of services and resources between St. Lawrence Gas Company, Inc. (“St. Lawrence Gas” or “SLG”), Affiliates and Representatives while permitting each party to achieve appropriate efficiencies and economies of scope and scale.

This Code will be reviewed and, as warranted, revised in each future rate proceeding for SLG and in any proceeding concerning a change in ownership of SLG.

Specifically, the Code is designed to meet the following objectives:

- Provide transparent and consistent guidance for SLG employees, Affiliates’ employees and Representatives respecting Affiliate interactions,
- Create an awareness of compliance and ethics issues and accountabilities among SLG employees, Affiliates’ employees and Representatives,
- To set standards that result in Affiliates and Customers being treated fairly and consistently and to prevent unduly preferential treatment,
- To set standards that result in Affiliates being treated fairly and that avoid cross-subsidizing Affiliate services or facilities,
- To protect and set standards for the use of confidential Customer information collected in the course of providing services and access to facilities,
- Avoid practices that could impede market competition that could occur between SLG and Affiliates and that may be detrimental to the interests of Customers.

1.2 Who This Code of Conduct Applies To

All employees (including managers, directors, full-time employees and part-time employees) and Representatives of SLG and all Affiliates’ employees are expected to comply with all aspects of this Code.

The above objectives can only be realized through a demonstrated observance of and respect for the spirit and intent of this Code by all SLG employees, Representatives and Affiliates’ employees to which it applies.

As this Code cannot address each specific issue that may arise, when necessary, employees and Representatives should be encouraged to seek additional guidance from their supervisor or others within St. Lawrence Gas.

1.3 Definitions

- 1.3.1 Affiliate Activities – General business activities of an Affiliate relating to construction, operation, maintenance, generation, transportation, marketing, handling, storage of natural resources and energy such as oil, gas or electricity and facilities associated with the same.
- 1.3.2 Affiliates – An “affiliate” of SLG carrying out business in the United States or Canada, as defined by applicable federal, state or local laws, including, but not limited to New York State Public Service Law (“PSL”) § 110(2). SLG’s current and known Affiliates, both regulated and unregulated, and including SLG’s Parent Company, are listed in the **Appendix**, along with a description of each Affiliates’ service territory and operations.
- 1.3.3 Code – This Affiliate Code of Conduct.
- 1.3.4 Compliance Officer – The individual tasked with the responsibilities specified in section 6.2 of this Code
- 1.3.5 Confidential Information – Any information of a proprietary, intellectual or similar nature relating to any current or potential Customer of SLG, which information has been obtained or compiled in the process of providing current or prospective services and which is not otherwise available to the public.
- 1.3.6 Customer(s) – Any current or potential person or organization to which SLG distributes natural gas.
- 1.3.7 Fair Market Value – The price reached in an open and unrestricted market between informed and prudent parties, acting at arm’s length and under no compulsion to act. In determining the Fair Market Value, the seller may use any method that it believes is commercially reasonable in the circumstances.
- 1.3.8 For Profit Affiliate Services – Any service, provided by SLG to an Affiliate or vice versa, on a for-profit basis.
- 1.3.9 Fully Burdened Costs – The sum of direct costs plus a proportional share of indirect costs that may include a return on invested capital, which shall not exceed the weighted average costs of capital for SLG.
- 1.3.10 Information Services – Any computer systems including: computer services, databases, electronic storage services or electronic communication media, printing services or electronic communication media utilized by SLG or Affiliates relating to their respective Customers or respective operation.
- 1.3.11 Parent Company – The Parent Company of SLG refers to either or both of Liberty Utilities Co., SLG’s direct Parent Company, and Algonquin Power & Utilities Corp., SLG’s ultimate Parent Company.
- 1.3.12 PSC – The New York State Public Service Commission.
- 1.3.13 Regulated Affiliates – Affiliates whose tolls and tariffs are under the jurisdiction of the PSC or the equivalent of the PSC in another US state or Canadian province.

- 1.3.14 Representative – Contract workers, independent consultants, agents and any other entities that are not Affiliates, but who act on behalf of SLG.
- 1.3.15 Resources – Includes employees, intellectual property, materials, supplies, computer systems, equipment and facilities.
- 1.3.16 Senior Management Team – Employees designated as officers of St. Lawrence Gas as determined by the Company’s Board of Directors.
- 1.3.17 Services Agreement – An agreement entered into between SLG and one or more Affiliate for the provision of Shared Services and shall provide the following matters, as appropriate in the circumstances:
- a. The type, quantity and quality of service,
 - b. Pricing, allocation or cost recovery provisions,
 - c. Confidentiality arrangements,
 - d. Apportionment of risk (including the risk of over or under provision of service),
 - e. Dispute resolution provisions, and
 - f. A representation by SLG and each Affiliate party to the agreement that the agreement complies with this Code.
- 1.3.18 Shared Core Corporate Services – SLG department functions that provide or receive shared strategic management and policy support to or from the corporate group of which SLG and Affiliates are members and may include legal, finance, tax, treasury, pensions, risk management, audit services, corporate planning, human resources, health and safety, communications, investor relations, trustee or public affairs.
- 1.3.19 Shared Customer Services – Any service provided to or from an Affiliate in relation to coordination and logistics, customer support services, legal and regulatory affairs, operation services, planning and analysis, system optimization, asset management, inventory management, facilities management and control center operations; the charges for such services shall be reimbursed on a Fully Burden Cost basis.
- 1.3.20 Shared Services – Any service provided by SLG to an Affiliate or by an Affiliate to SLG, the charges for such services to be reimbursed on a Fully Burdened Cost basis.
- 1.3.21 SLG Services – Services provided by SLG to an Affiliate or Customer in relation to the distribution of Natural Gas including: interconnections; access to SLG facilities pipelines, lands, rights-of-way, leases, operations and maintenance, construction, regulatory services, technical and design; control center; and any other general services provided in relation to construction, operation, maintenance, removal, abandonment, deactivation or decommissioning of liquids pipeline.

- 1.3.22 St. Lawrence Gas Company, Inc. – SLG is owned by its immediate parent company, Liberty Utilities Co.. Liberty Utilities Co. is the subsidiary of its parent company, Algonquin Power & Utilities Corp. Both SLG and Liberty Utilities Co. are subsidiaries of their ultimate parent company, Algonquin Power & Utilities Corp.
- 1.3.23 Unregulated Affiliate Activities – General business activities of an Unregulated Affiliate relating to construction, operation, maintenance, generation, transportation, marketing, handling, storage of natural resources and energy, as well as the facilities associated with the same.
- 1.3.24 Unregulated Affiliate – An Affiliate that is not regulated by the PSC or the equivalent of the PSC in another US state or Canadian province.

1.4 Affiliate Code of Conduct Policy and Corporate Statement

SLG is committed to conducting its business in a socially responsible, legally compliant and ethical manner in accordance with a core set of corporate values, key components of the corporate values include operating with integrity, honesty, respect and transparency in all of its dealings with stakeholders. This commitment requires that SLG operates in compliance with both the letter and the spirit of the law. The interactions between SLG and Affiliates are governed by various legal and contractual provisions that are designed to ensure that these inter-affiliate interactions are appropriate and transparent.

2. Corporate Governance of SLG and Affiliates

2.1 Separate Operations

The commercial and business affairs of SLG should be managed and conducted independently from the commercial and business affairs of its Unregulated Affiliates, except as required to fulfill Shared Core Corporate Services and Shared Customer Services.

2.2 SLG Board of Directors

Liberty Utilities East Region Board of Directors shall act as the board of directors for SLG. The East Region Board of Directors shall include an independent director who is a resident of the service area of SLG. For purposes of this requirement, “resident of the service area” may include the circumstance in which the personal residence of the director is within one of the counties in which SLG provides service, but not within the relevant service area; provided that the director’s principal place of business or employment is within such service area. An Independent Director shall mean an individual who is not : (1) an officer or director of SLG’s parent, (2) an officer or director of any of SLG’s Regulated Affiliates or (3) and officer or director of any of SLG’s Unregulated Affiliates. Furthermore, no person holding any other position that could reasonably be considered to be detrimental to the interests of SLG or Affiliate Customers can be a SLG Director.

2.3 Separate Management

Subject to Sections 2.3 and 2.4, members of SLG’s Senior Management Team must be separate from the managers of its Unregulated Affiliates. Subject to Sections 2.3 and 2.4, SLG may share management team members and managers with Regulated Affiliates.

2.4 Exception to Separate Management

SLG managers may also be managers of an Affiliate in order to perform Shared Core Corporate Services. However, this exception shall not allow an SLG officer in a commercial or business development role to be an officer of an Unregulated Affiliate that has or reasonably expects to have marketing functions and/or significant commercial or business development arrangements with SLG.

2.5 Guiding Principle

Notwithstanding sections 2.2 and 2.3, an individual shall not act both as a director or officer, or member of a management team of SLG and as a director, officer or member of a management team of any other Affiliate (thereby acting in a dual capacity) unless the individual is able to carry out his/her responsibilities in a manner that preserves the form, spirit and intent of this Code.

Specifically, an individual:

- a. Shall not agree to act in a dual capacity if the individual, acting reasonably, determines that acting in a dual capacity could be detrimental to the interests of Customers, and
- b. If or when acting in a dual capacity, shall abstain from engaging in any activity that the individual, acting reasonably, determines could be detrimental to the interests of Customers.

2.6 Accounting Separation

SLG must maintain separate financial records and books of accounts from those of its Affiliates. There shall be no cross -subsidization between SLG and any Affiliate.

2.7 Physical Separation

SLG must put appropriate measures in place to restrict access to SLG's Confidential Information by employees of Unregulated Affiliates with significant commercial and business development responsibilities.

Commercial and business development employees of an Unregulated Affiliate must be physically separated from SLG staff.

Where SLG provides services to an Unregulated Affiliate that operates in whole or in part as a producer, marketer, shipper or refiner, that Unregulated Affiliates' employees whose functions include commercial development, business development, marketing, producing, refining and shipping must be physically located in a separate building or complex for SLG's office that are used for its day to day operations.

2.8 Separation of Information Services

Subject to Section 2.11 where SLG shares Information Services with an Unregulated Affiliate, Confidential Information must be protected from unauthorized access by an Unregulated Affiliate and vice versa. Access to SLG and each Unregulated Affiliate's respective Information Services must include appropriate computer data management and data access protocols as well as contractual provisions regarding the breach of any access protocols. Compliance with the access protocols must be confirmed in writing every two years from the effective date of this Code by SLG through a review that complies with applicable federal, state and local laws.

2.9 Financial Transactions with Affiliates

SLG may participate in a money pool as a borrower or lender only if the other participants are regulated utilities, with the exception that Liberty Utilities Co. may participate, but only as a guarantor of loans made by that money pool and to provide funding to the money pool in the event that other participant-supplied funds on any given day are insufficient to meet the need for funds by the borrowing participants. SLG shall not participate in a money pool as a lender if any of the other participants are not regulated utilities. This does not preclude the unregulated affiliates of SLG in participating in a separate money pool that does not include SLG.

2.10 Sharing of Assets

The operation plant, assets and equipment of SLG shall be separated in ownership from that of its Affiliates. For the purposes of this section, operational plant, assets and equipment means any pipeline or portion thereof that is capable of being operated as a line for the transmission of gas or oil and includes all branches, extensions, tanks, reservoirs, storage facilities, pumps, racks and compressors.

2.11 Sharing Services Permitted

Where SLG determines that it is prudent in operating its business, it may obtain Shared Services or Shared Customer Services from, or provide Shared Services or Shared Customer Services to, an Affiliate. SLG must periodically review the prudence of such sharing arrangements and make any adjustments necessary to ensure that each of SLG and their Affiliates bears its proportionate share of costs. If services are shared between SLG and an Affiliate, a Services Agreement must be put into place.

Employees providing Shared Customer Services will be required to undertake training in relation to protecting and using Confidential Information within a reasonable period of time of their commencing their job and annually, thereafter.

2.12 Sharing of Employees

SLG may share employees with an Affiliate on a Fully Burdened Cost recovery basis provided that the shared employees are able to carry out their responsibilities in a manner that is consistent with the spirit and intent of this Code. In particular, an employee must not be shared if it could reasonably be considered detrimental to the interests of SLG Customers or the Affiliate's Customers. If employees are shared, such employees must abstain from engaging in any activity that could reasonably be considered detrimental to the interests of SLG Customers or Affiliate's Customers.

Certain employees must not be shared. Unless they are providing Shared Corporate Services or Shared Customer Services, SLG may not share employees with an Unregulated Affiliate if that employee:

- Routinely participates in management level decision-making respecting the provision of SLG Services or Unregulated Affiliate Activities or how SLG Services or Unregulated Affiliate Activities and services are delivered,
- Routinely deals with or has direct contact with SLG or Unregulated Affiliate Customers, and
- Is routinely involved in senior commercial management of SLG or an Unregulated Affiliate's business.

Despite the above, for Shared Core Corporate Services or Shared Customer Services, Fully Burdened Costs may be applied where applicable. Cost allocation shall be applied in a reasonable manner to avoid

cross subsidizations with respect to all Shared Core Corporate Services and Shared Customer Services. Such cost allocation shall be documented for audit purposes.

2.13 Occasional Services Permitted

Where SLG has otherwise acted prudently, it may receive or provide one-off, infrequent or occasional services to or from an Affiliate and such services shall be properly documented. For example, an employee of SLG may provide an Unregulated Entity with assistance resolving a database question, if needed. In the event that such occasional services become regular occurrences, SLG must enter into a Services Agreement with the Affiliate for Shared Services.

2.14 Emergency Services Permitted

In the event of an emergency, SLG may share services and resources with an Affiliate without a Services Agreement on a Fully Burdened Cost recovery basis.

2.15 Shared Services Employees

An employee or contractor to an Affiliate that, except in cases of emergency under section 2.14 of the Code, provides Shared Core Corporate Services, Shared Customer Services or Shared Services to SLG will, for purposes of the Code, be treated as if employed directly by SLG.

2.16 Debt Limits

“Average Total Debt” is defined as an amount equal to (i) long-term debt, plus (ii) notes payable (including current maturities of long-term debt), minus the average daily balance of cash and cash equivalents appearing on SLG’s consolidated balance sheet. “Average Total Capital” is defined as the sum of (i) Average Total Debt, (ii) common shareholder equity (excluding goodwill), and (iii) preferred stock. It is expected that, for any six month period ending at the end of a quarter, SLG’s Average Total Debt will not exceed 55 percent of its Average Total Capital, excluding any goodwill.

If SLG’s Average Total Debt does not exceed 55 percent for the most recent six or three month period ending at the end of a quarter, there will be no dividend restrictions. If SLG’s Average Total Debt exceeds 55 percent for both the most recent three and six month periods, but does not exceed 57 percent in the most recent three or six month period, then SLG will be permitted to pay dividends up to an amount equal to but no greater than 50 percent of its net income for the previous twelve months ending at the end of a quarter until its Average Total Debt for the most recent six month period ending at the end of a quarter is less than or equal to 55 percent. In addition, absent a Commission order to the contrary, if during both the most recent six and three month period ending at the end of a quarter, SLG’s Average Total Debt exceeds 57 percent, then SLG will not pay further dividends until the Average Total Debt is reduced to 55 percent or less over the most recent six months ending at the end of a quarter.

3. Transfer Pricing

3.1 For Profit Affiliate Services

Where SLG determines it is prudent to do so, it may obtain For Profit Affiliate Services from an Affiliate.

Prior to outsourcing to an Affiliate a service that SLG presently conducts itself, SLG shall undertake a prudent cost-benefit analysis over an appropriate timeframe in the circumstances. An Affiliate shall

likewise undertake a prudent cost-benefit analysis over an appropriate timeframe in the circumstances, prior to outsourcing a service to SLG.

When SLG contracts to receive For Profit Affiliate Services it shall pay in accordance with any terms required pursuant to an order from the PSC or other applicable regulatory body or pay no more than the Fair Market Value of such services.

3.2 Asset Transfers

Assets transferred, mortgaged, leased or otherwise disposed of by SLG to an Affiliate must be at the higher of book value or fair market value of such assets or, where required, upon terms approved by the appropriate regulatory agency. If an asset is transferred, leased, sold or otherwise disposed of by SLG to an Affiliate, SLG shall notify **the Secretary of the Commission** not less than 90 days prior to such transfer. Assets transferred, mortgaged, leased or otherwise disposed of by an Affiliate to SLG must be at the lower of book value or fair market value of such assets or, where required, upon terms approved by the appropriate regulatory agency.

Where operational efficiencies between SLG and Affiliates can be obtained through the use of common facilities, combined purchasing power or through the use of other cost saving procedures, assets used in SLG and Affiliates' operations may be transferred between each other at net book value or other reasonable standard. All such transitions must be properly documented and accounted for in SLG and the Affiliates' respective accounting records.

4. Mitigation of Market Power and Equal Treatment of Representatives

SLG and its Affiliates shall conduct themselves in accordance with all applicable competition laws in the jurisdictions in which they conduct business.

SLG shall apply and enforce all tariff provisions in accordance with applicable legislation, regulatory orders, permits and licenses. Such tariff provisions shall be applied to Affiliates in the same manner as other Customers and/or prospective Customers in order to ensure no undue discrimination, preference or prejudice, except as approved by the appropriate regulatory agency. SLG shall not provide special rebates, rebates or different rates for like and contemporaneous service to Affiliates and Customers, except as approved by the appropriate regulatory agency.

SLG shall not favor any Affiliate with respect to access to information concerning services to Customers or scheduling of their transportation. All requests to SLG by an Affiliate for access to their respective services shall be processed and provided in accordance with this Code in the same manner as it would be processed or provided for any Customer.

SLG shall not condition or otherwise require any Customer to deal with an Affiliate in order to receive SLG transportation services.

SLG shall not explicitly or implicitly suggest that a Customer may receive an inappropriate advantage if that Customer also deals with an Affiliate.

Affiliates may not imply in any marketing material, other public documents or communications that Customers or potential Customers of the Affiliate may also receive preferential access to or service from

SLG. If SLG becomes aware of any such inappropriate marketing material, public documents or communication, SLG shall:

- Immediately take reasonable steps to notify affected Customers or potential customers of the inaccurate information, and
- Take necessary steps to ensure that Affiliate is aware of this concern and to request that no further communications be made to suggest preferential access to or services from SLG.

There are no restrictions on any Affiliate using the same name, trade names, trademarks, service names, service marks or a derivative of a name of SLG, or in identifying itself as being affiliated with SLG. However, no non-SLG affiliate will be allowed to use the same name, trade names, trademarks, service names, service marks or a derivative of a name of SLG in any manner.

Affiliates are prohibited from giving any appearance that they represent SLG in matters involving the marketing of services by SLG or other Affiliates. If a customer requests information about securing any service or product offered within SLG's service territory by an Affiliate, SLG must offer to provide a list of all companies that are qualified and approved pursuant to governmental or SLG standards (including retail access standards) as providers of similar products or services within SLG's service territory.

5. Confidentiality

5.1 Release of SLG Information to Unregulated Affiliates

SLG must not provide any Affiliate who is a producer, refiner, marketer or shipper with information relating to the planning, operations, finances or strategy of SLG before such information is publicly available. In other words, subject to sections 2.1, 2.2, 2.4 and 2.12, SLG must take care that it does not disclose SLG information to any Affiliate who is a producer, refiner, marketer or shipper that it would not disclose to other Customers or potential Customers. This would include any Confidential Information and non-aggregated customer information gathered by SLG to generate annual supply forecasts for planning purposes.

Managers of SLG who are also managers of an Affiliate, as permitted by this Code, may disclose SLG planning, operational, financial and strategic information to the Affiliate to fulfill their responsibilities with respect to corporate governance, policy and strategic direction of an Affiliated entity, but only to the extent necessary and not for any other purpose.

5.2 No Release of Confidential Customer Information

SLG must not, without the Customer's prior written consent, use or disclose to an Affiliate any Confidential Information for the purpose of pursuing commercial or business development activities.

Where an Affiliate acquires specific Confidential Information, such information may not be used for commercial or business development activities without the Customer's consent. SLG may disclose Confidential Information for operational purposes, Shared Customer Services, emergencies or on an as-needed basis, to an Affiliate provided the Affiliate does not release the Confidential Information to any other entity without receiving the prior written consent of the Customer.

SLG and its Affiliates seek to achieve operational efficiencies through the sharing of Resources. Where such Resource-sharing opportunities arise, SLG will:

- Not directly or indirectly disclose any Confidential Information provided to it by Customers unless:
 - It obtains consent for disclosure by the Customer,
 - The information is required for Shared Customer Services, Shared Corporate Services, emergency, operations purposes, or
 - The information is required by law.
- Implement reasonable measures to prevent any direct or indirect disclosure of any Customer proprietary or Confidential Information.

SLG and its Affiliates may respectively disclose Confidential Information when aggregated with the Confidential Information of other Customers in such a manner that an individual Customer's Confidential Information cannot be identified.

SLG employees whose primary job functions include commercial and business development services will be required to undertake training in relation to protecting and using Confidential Information within a reasonable period of time of their commencing their job and annually, thereafter.

6. Compliance Measures

6.1 Compliance Requirements

SLG is responsible for ensuring compliance with this Code.

SLG shall communicate the contents of this Code and any modifications to it from time to time to its employees, directors, managers, Representatives and Affiliates.

SLG shall make this Code available on its internal and external websites.

SLG shall appoint a compliance officer (the "Compliance Officer"). SLG shall ensure that the Compliance Officer has access to adequate resources to fulfill his or her responsibilities.

6.2 Responsibility of Compliance Officer

The responsibilities of the Compliance Officer with respect to this Code shall include:

- Providing guidance, advice and information to SLG for the purpose of ensuring compliance with this Code,
- Monitoring and documenting compliance with this Code by SLG, their employees, directors, managers, Representatives and Affiliates,
- Monitoring and documenting compliance with this Code by Affiliates with respect to the interactions of the Affiliates with SLG,
- Providing for the preparation and updating of a Compliance Report and Compliance Plan for SLG,

- Performing annual reviews of compliance with these Compliance Reports and Compliance Plans,
- Receiving and investigating internal and external disputes, complaints and inquires with respect to the application of and alleged non-compliance with this Code,
- Recommending measures to SLG to address events of non-compliance with the Code, and
- Maintaining and retaining for a period of seven years adequate records with respect to all aspects of the Compliance Officer's responsibility.

6.3 Communication of Code of Conduct Requirements

SLG shall communicate this Code as follows:

- On its internal and external websites, and
- Through orientation and training of all SLG employees, managers and directors.

6.4 Compliance Plan

SLG shall prepare a Compliance Plan and make it available on internal and external websites.

The Compliance Plan shall detail the measures, policies, procedures and monitoring mechanisms that SLG will employ to ensure full compliance with the provisions of this Code by their employees, directors, managers, Representatives and Affiliates. SLG shall review and update its Compliance Plan annually.

6.5 Annual Compliance Report

The Compliance Report referenced in Section 6.2 shall be prepared annually and will include the following information prepared in respect to the period of time covered by the Compliance Report:

- A list of all Services Agreements entered into during the period covered by the Compliance Report,
- An overall assessment of compliance with the Code,
- An assessment of the effectiveness of the Compliance Plan and any recommendations for modifications, and
- In the event of any material non-compliance with this Code, a description of same and an explanation of all steps taken to correct such non-compliance.

SLG shall provide Department Staff with a copy of these annual Compliance Reports, upon request.

6.6 Dispute, Compliant and Inquiry Resolution

Disputes, complaints or inquiries from within SLG, an Affiliate, Customers of SLG or from a Representative respecting the application of, or alleged non-compliance with this Code, may be made verbally or submitted in writing to the Compliance Officer and may be made confidentially. The identity of any party making a submission to the Compliance Officer shall be kept confidential by the Compliance Officer unless the party otherwise agrees.

The Compliance Officer shall acknowledge all disputes, complaints or inquires in writing within five business days of receipt of the same.

The Compliance Officer shall respond to the dispute, complaint or inquiry within 25 business days of its receipt. The response shall include a description of the dispute, complaint or inquiry and the initial response of SLG or Affiliate to the issues identified in the submission. A final disposition of the dispute, complaint or inquiry shall be completed as expeditiously as possible in the circumstances and, in any event, within 90 days of receipt of the dispute, complaint or inquires, except where the party making the submission otherwise agrees.

All records of the Compliance Officer in relation to a dispute, complaint or inquiry shall be kept for a period of at least seven years. Compliance records shall be maintained in a manner sufficient to support a third party independent audit of the state of compliance with this Code.

6.7 Non-Compliance

Any non-compliance with this Code by any employee, director, officer or Representative of SLG or an Affiliate with respect to the interactions of the Affiliate with SLG will be considered to be addressed pursuant to this Code.

Non-compliance with this Code by an employee, director, officer, Representative or SLG or an Affiliate may subject such individual to internal disciplinary action.

7. General Provisions

7.1 Interpretation

Headings are for convenience only and shall not affect the interpretation of this Code. Words importing the singular include the plural and vice versa. A reference to a statute, document or a provision of a document includes an amendment or supplement to, or a replacement of that statute, document or that provision of that document.

7.2 Coming into Force

This Code comes into effect upon closing of the Acquisition of SLG by Liberty Utilities Co. However, to the extent existing agreements or arrangements are in place between parties to whom this Code applies that do not conform with this Code, SLG shall use reasonable efforts to ensure that such agreements or arrangements are brought into compliance with this Code within 90 days after this Code comes into force.

7.3 Amendments to this Code

This Code may be reviewed and amended by SLG from time to time.

7.4 Authority of Regulators

This Code does not detract from, reduce or modify in any way the powers of SLG or Affiliates' respective regulators. Compliance with this Codes does not eliminate the requirement for specific approval or filings where required by legislation, regulation or by a regulator's decisions, orders or directions.

**Appendix
List of Affiliates**

i. Affiliates Regulated by the NYS PSC:

None.

ii. Affiliates Regulated by the Equivalent of the NYS PSC in other US states or Canadian Provinces:

| | Name | Territory and Operations |
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| a. | Liberty Utilities (New Brunswick Gas) Corp. | On December 4, 2018, the Liberty Utilities Group entered into an agreement to purchase Enbridge Gas New Brunswick Limited Partnership (“EGNB”), a subsidiary of Enbridge Inc., along with its general partner (the “EGNB Acquisition”). EGNB is a utility regulated by the New Brunswick Energy and Utilities Board that provides natural gas to approximately 12,000 customers in 12 communities across New Brunswick and operates approximately 800 kilometers of natural gas distribution pipeline. Closing of the EGNB Acquisition is expected to occur in July/August 2019 and remains subject to customary closing conditions, including the receipt of regulatory and government approvals. |
| b. | Liberty Utilities (EnergyNorth Natural Gas) Corp. | EnergyNorth is a regulated natural gas utility providing natural gas distribution service in 30 communities covering five counties in New Hampshire. Its franchise service area includes the communities of Nashua, Manchester and Concord. It is regulated by the NHPUC. |
| c. | Liberty Utilities (Granite State Electric) Corp. | Granite State Electric, regulated by the NHPUC, provides distribution service in southern and northwestern New Hampshire, centered around operating centers in Salem in the south and Lebanon in the northwest. Granite State Electric’s customer base consists of a mixture of residential, commercial and industrial customers. Granite State Electric is required to provide electric commodity supply for all customers who do not choose to take supply from a competitive supplier (“Default Service”) in the New England power market and is allowed to fully recover its costs for the provision and administration of Default Service under the Default Service Adjustment Provision, as approved by the NHPUC. Granite State Electric must file with the NHPUC twice a year to adjust for market prices of power purchased and is also subject to limited FERC regulation. |
| d. | Liberty Utilities (New England Natural Gas Company) Corp. | New England Gas is a natural gas utility, regulated by the MA DPU, providing natural gas distribution services in six communities located in the southeastern portion of Massachusetts. New England Gas customer base consists of a mixture of residential, commercial, and industrial customers. |
| e. | Liberty Utilities (Peach State Natural Gas) Corp. | Peach State Gas is a Georgia PSC -regulated natural gas system providing natural gas distribution services in 13 communities covering six counties in Georgia. Its franchise service area includes the communities of Columbus, Gainesville, Waverly Hall, Oakwood, and Hamilton. Peach State Gas’ customer base consists of a mixture of residential, commercial, industrial and transportation customers. |

| | Name | Territory and Operations |
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| f. | Liberty Utilities (CalPeco Electric) LLC | CalPeco Electric is a California PUC-regulated utility that provides electric distribution service to the Lake Tahoe basin and surrounding areas. The service territory, centered on a highly popular tourist destination, has a customer base spread throughout Alpine, El Dorado, Mono, Nevada, Placer, Plumas and Sierra Counties in northeastern California. CalPeco Electric's connection base is primarily residential. Its commercial connections consist primarily of ski resorts, hotels, hospitals, schools and grocery stores. The Corporation has entered into a multi-year services agreement with NV Energy that commenced in January 2016. On January 31, 2017, the Federal Energy Regulatory Commission authorized transactions between the Luning Solar Facility and CalPeco Electric pursuant to the services agreement with NV Energy. CalPeco Electric is also subject to FERC regulation. |
| g. | Liberty Utilities (Park Water) Corp. | Liberty Park Water owns and operates two California PUC-regulated water utilities engaged in the production, treatment, storage, distribution, and sale of water in southern California |
| h. | Liberty Utilities (Apple Valley Ranchos Water) Corp. | Liberty Utilities (Apple Valley Ranchos Water) Corp. (wholly-owned by Liberty Park Water) is a California PUC-regulated water utility which owns and operates the water system in Apple Valley. |
| i. | Liberty Utilities (Bella Vista Water) Corp. | The Liberty Utilities Bella Vista Water utility is located in Sierra Vista Arizona. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| j. | Liberty Utilities (Gold Canyon Sewer) Corp. | The Liberty Utilities Gold Canyon Sewer utility is located in Avondale Arizona. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| k. | Liberty Utilities (Litchfield Park Water & Sewer) Corp. | The LPSCo System, located in and around the city of Goodyear 15 miles west of Phoenix, Arizona has a service area that includes the City of Litchfield Park and sections of the cities of Goodyear and Avondale as well as portions of unincorporated Maricopa County. The wastewater system's Palm Valley Water Reclamation Facility has permitted treatment capacity of 6.5 million gallons per day. |
| l. | Liberty Utilities (Northwest Sewer) Corp. | The Liberty Utilities Northwest Sewer utility is located in Goodyear Arizona serving several HOA's in the area. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |

| | Name | Territory and Operations |
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| m. | Liberty Utilities (Black Mountain Sewer) Corp. | The Liberty Utilities Black Mountain Sewer utility is located in Carefree Arizona. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| n. | Liberty Utilities (Entrada Del Oro Sewer) Corp. | The Liberty Utilities Entrada Del Oro Sewer utility is located in Avondale Arizona. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| o. | Liberty Utilities (Pine Bluff Water) Inc. | The Liberty Utilities Pine Bluff Water utility is located in Pine Bluff Arkansas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| p. | Liberty Utilities (Rio Rico Water & Sewer) Corp. | The Liberty Utilities Rio Rico Water & Sewer utility is located in Rio Rico Arizona. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| q. | Liberty Utilities (Seaside Water) LLC | The Liberty Utilities Seaside Water utility is located at Seaside Resort in Texas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| r. | Liberty Utilities (Fox River Water) LLC | The Liberty Utilities Fox River Water utility is located at Sheridan Illinois and based in Jackson Missouri. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| s. | Liberty Utilities (Missouri Water) LLC | The Liberty Utilities Missouri Water utility is located in Jackson Missouri. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| t. | Liberty Utilities (Silverleaf Water) LLC | The Liberty Utilities Silverleaf Water utility is located in Wood County Texas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |

| | Name | Territory and Operations |
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| u. | Liberty Utilities (Tall Timbers Sewer) Corp. | The Liberty Utilities Tall Timbers Sewer utility is located in Tyler Texas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| v. | Liberty Utilities (White Hall Sewer) Corp. | The Liberty Utilities White Hall Sewer utility is located in White Hall Arkansas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| w. | Liberty Utilities (White Hall Water) Corp. | The Liberty Utilities White Hall Water utility is located in White Hall Arkansas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| x. | Liberty Utilities (Woodmark Sewer) Corp. | The Liberty Utilities Woodmark Sewer utility is located in Smith County Texas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| y. | Liberty Utilities (Woodson-Hensley Water) Corp. | The Liberty Utilities Woodson-Hensley Water utility is located in in the towns of Woodson and Hensley Arkansas. All of Liberty Utilities water and wastewater utilities are generally subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rate, service, accounting procedures, issuance of securities, acquisitions and other matters. |
| z. | Liberty Utilities (Midstates Natural Gas) Corp. | Midstates Gas owns regulated natural gas utilities providing natural gas distribution services to approximately 190 communities in the states of Illinois, Iowa and Missouri, with a mix of residential, commercial, industrial and transportation customers. The franchise service area includes the communities of Virden, Vandalia, Harrisburg and Metropolis in Illinois, Keokuk in Iowa, and Butler, Kirksville, Canton, Hannibal, Jackson, Sikeston, Malden and Caruthersville in Missouri. The utilities in each of these states are regulated by their respective state PUCs. |

| | Name | Territory and Operations |
|-----|---|---|
| aa. | The Empire District Electric Company | <p>Based in Joplin, Missouri, Empire is a regulated utility providing electric, natural gas and water service in parts of Missouri, Kansas, Oklahoma and Arkansas. As part of its electric segment, it provides water service to three towns in Missouri. The vertically-integrated regulated electricity operations of Empire represent the majority of its operating revenues and assets. The largest urban area served is the city of Joplin, Missouri, and its immediate vicinity. Empire also operates a fiber optics business. The utility portions of the business are subject to regulation by the MPSC, the KCC, the OCC, the APSC and the FERC.</p> <p>Owner of, among other things, (i) electric and water distribution and electric transmission utility assets serving locations in Missouri, Kansas, Oklahoma and Arkansas, (ii) the Mid-West wind development project, and (iii) the Ozark Beach hydro facility in Missouri, the Riverton, Energy Center, and Stateline No. 1 natural gas-fired power generation facilities in Kansas and Missouri, the Asbury coal-fired power generation facility in Missouri and a 40% interest in the Stateline combined cycle gas facility in Missouri.</p> |
| bb. | The Empire District Gas Company | <p>Empire District Gas is engaged in the distribution of natural gas in Missouri and is regulated by the MO PSC. A PGA allows EDG to recover from its customers, subject to audit and final determination by regulators, the cost of purchased gas supplies and related carrying costs associated with EDG's use of natural gas financial instruments to hedge the purchase price of natural gas. This PGA allows EDG to make rate changes periodically (up to four times) throughout the year in response to weather conditions and supply demands, rather than in one possibly extreme change per year.</p> |

iii. Unregulated Affiliates:

| | Name | Territory and Operations |
|----|---|--|
| a. | Algonquin Power & Utilities Corp. | <p>The Corporation owns and operates a diversified portfolio of regulated and non-regulated generation, distribution, and transmission utility assets. The Corporation's operations are organized across two primary North American business units consisting of: the Liberty Utilities Group, which primarily owns and operates a portfolio of regulated electric, natural gas, water distribution and wastewater collection utility systems, and transmission operations; and the Liberty Power Group.</p> |
| b. | Empire District Industries, Inc. | <p>An unregulated Affiliate of the Empire District Electric Company located in Joplin Missouri, primarily engaged in providing fiber optic services in the Empire District service territory.</p> |
| c. | St. Lawrence Gas Co. Service & Merchandising Corp. | <p>A direct, wholly owned Subsidiary of SLG, and an unregulated business, primarily engaged in the rental of water heaters and other natural gas appliances to its customers in St. Lawrence County, Lewis County, Franklin County and Jefferson County in New York State.</p> |
| d. | S.L.G. Communications Corp. | <p>A direct, wholly owned Subsidiary of SLG, and an unregulated business, primarily to serve as a holding company for maintaining FCC licenses for two-way radio communications for the parent company.</p> |

APPENDIX 3

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Capital Structure and Cost of Capital

| | Percentage of Capital | Cost Rate | Weighted After Tax Cost | Pre-Tax Cost | Effective Tax Rate |
|-------------------|--------------------------|--------------|----------------------------|--------------|-------------------------------|
| Long-term Debt | 51.20% | 4.40% | 2.25% | 2.25% | |
| Common Equity | 48.00% | 9.00% | 4.32% | 5.85% | 26.135% |
| Customer Deposits | 0.80% | 2.45% | 0.02% | 0.02% | |
| TOTAL | 100.00% | | 6.59% | 8.12% | |

APPENDIX 4

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Synergy Savings Tracking Mechanism
For the Twelve Months Ended (Month/Day/Year)

Initiative:
Description of Initiative:

Savings

| Capital | | | | | | | | |
|----------|----------------------|---------|--------------------|--------------------------|----------------------------|---------------|--------------------|--------------------------------|
| Category | Baseline for Savings | Savings | % Allocated to SLG | Savings Allocated to SLG | Baseline for Costs Avoided | Costs Avoided | % Allocated to SLG | Costs Avoided Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| O&M | | | | | | | | |
|----------|----------------------|---------|--------------------|--------------------------|----------------------------|--------------|--------------------|-------------------------------|
| Category | Baseline for Savings | Savings | % Allocated to SLG | Savings Allocated to SLG | Baseline for Costs Avoided | Cost Avoided | % Allocated to SLG | Cost Avoided Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| Total Savings | | |
|---------------|----------------------|-------------------------------------|
| Category | Savings/Cost Avoided | Annual Ongoing Savings/Cost Avoided |
| | | |
| | | |

Costs To Achieve

| Capital | | | | | | | | |
|----------|--------------------------------|-------------------|--------------------|------------------------------------|----------------------------|---------------|--------------------|--------------------------------|
| Category | Baseline for Incremental Costs | Incremental Costs | % Allocated to SLG | Incremental Costs Allocated to SLG | Baseline for Ongoing Costs | Ongoing Costs | % Allocated to SLG | Ongoing Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| O&M | | | | | | | | |
|----------|--------------------|-------------------|--------------------|------------------------------------|----------------------------|---------------|--------------------|--------------------------------|
| Category | Baseline for Costs | Incremental Costs | % Allocated to SLG | Incremental Costs Allocated to SLG | Baseline for Ongoing Costs | Ongoing Costs | % Allocated to SLG | Ongoing Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| Total Costs To Achieve | | |
|------------------------|-------------------|----------------------|
| Category | Incremental Costs | Annual Ongoing Costs |
| | | |
| | | |

Net Savings

| Capital | | | | | | |
|----------|-----------------|--------------------|----------------------------------|-------------------------|--------------------|--|
| Category | Capital Savings | % Allocated to SLG | Capital Savings Allocated to SLG | Ongoing Capital Savings | % Allocated to SLG | Ongoing Capital Savings Allocated to SLG |
| | | | | | | |
| | | | | | | |

| O&M | | | | | | |
|----------|-------------|--------------------|------------------------------|---------------------|--------------------|--------------------------------------|
| Category | O&M Savings | % Allocated to SLG | O&M Savings Allocated to SLG | Ongoing O&M Savings | % Allocated to SLG | Ongoing O&M Savings Allocated to SLG |
| | | | | | | |
| | | | | | | |

| Total Net Savings | | |
|-------------------|--------------------------|---|
| Category | Net Savings/Cost Avoided | Net Annual Ongoing Savings/Cost Avoided |
| | | |
| | | |

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Future Acquisition Savings Tracking Mechanism
For the Twelve Months Ended (Month/Day/Year)

Acquisition:
Description of Savings:

| Materiality Test | |
|---|--|
| Incremental Savings | |
| Net Income Available for Common | |
| Incremental Savings As a % of Net Income Available for Common | |

Savings

| Capital | | | | | | | | |
|----------|----------------------|---------|--------------------|--------------------------|----------------------------|---------------|--------------------|--------------------------------|
| Category | Baseline for Savings | Savings | % Allocated to SLG | Savings Allocated to SLG | Baseline for Costs Avoided | Costs Avoided | % Allocated to SLG | Costs Avoided Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| O&M | | | | | | | | |
|----------|----------------------|---------|--------------------|--------------------------|----------------------------|--------------|--------------------|-------------------------------|
| Category | Baseline for Savings | Savings | % Allocated to SLG | Savings Allocated to SLG | Baseline for Costs Avoided | Cost Avoided | % Allocated to SLG | Cost Avoided Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| Total Savings | | | | |
|---------------|----------------------------|---|---|---|
| Category | Total Savings/Cost Avoided | Customers Share of the Savings (i.e. 50%) | Total Annual Ongoing Savings/Cost Avoided | Customers Share of the Savings (i.e. 50%) |
| | | | | |
| | | | | |

Additional Costs as a Result of the Acquisition

| Capital | | | | | | | | |
|----------|-------------------------------|------------------|--------------------|-----------------------------------|---------------------------------------|--------------------------|--------------------|---|
| Category | Baseline for Additional Costs | Additional Costs | % Allocated to SLG | Additional Costs Allocated to SLG | Baseline for Additional Ongoing Costs | Additional Ongoing Costs | % Allocated to SLG | Additional Ongoing Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| O&M | | | | | | | | |
|----------|-------------------------------|------------------|--------------------|-----------------------------------|---------------------------------------|--------------------------|--------------------|---|
| Category | Baseline for Additional Costs | Additional Costs | % Allocated to SLG | Additional Costs Allocated to SLG | Baseline for Additional Ongoing Costs | Additional Ongoing Costs | % Allocated to SLG | Additional Ongoing Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| Total Additional Costs | | |
|------------------------|------------------|---------------------------------|
| Category | Additional Costs | Annual Ongoing Additional Costs |
| | | |
| | | |

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Transition Costs Tracking Mechanism
For the Twelve Months Ended (Month/Day/Year)

Transition Cost:
Description of Transition Cost:

Transition Costs as a Result of the Acquisition

| Capital | | | | | | | | |
|----------|-------------------------------|------------------|--------------------|-----------------------------------|---------------------------------------|--------------------------|--------------------|---|
| Category | Baseline for Transition Costs | Transition Costs | % Allocated to SLG | Transition Costs Allocated to SLG | Baseline for Ongoing Transition Costs | Ongoing Transition Costs | % Allocated to SLG | Ongoing Transition Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| O&M | | | | | | | | |
|----------|-------------------------------|------------------|--------------------|-----------------------------------|---------------------------------------|--------------------------|--------------------|---|
| Category | Baseline for Transition Costs | Transition Costs | % Allocated to SLG | Transition Costs Allocated to SLG | Baseline for Ongoing Transition Costs | Ongoing Transition Costs | % Allocated to SLG | Ongoing Transition Costs Allocated to SLG |
| | | | | | | | | |
| | | | | | | | | |

| Total Transition Costs | | |
|------------------------|------------------|---------------------------------|
| Category | Transition Costs | Annual Ongoing Transition Costs |
| | | |
| | | |

APPENDIX 5

| Gas Safety Performance Metrics and Negative (NRA) / Positive (PRA) Revenue Adjustments | | | |
|---|----------------|--------------|--------------------------|
| Gas Safety Metrics | Targets | | Basis Points (BP) |
| Emergency Response (percent completed) | | | (NRA) / PRA (BP) |
| | 2019 | 2020 | |
| 30 Minute Response | > 90% | > 90% | 6 bp |
| | >85% - 90% | >85% - 90% | 3 bp |
| | 75% - 85% | 75% - 85% | 0 bp |
| | < 75% | < 75% | (9) bp |
| 45 Minute Response | <90% | <90% | (6) bp |
| 60 Minute Response | <95% | <95% | (3) bp |
| Excavation Damages (per 1000 Tickets) | | | (NRA) / PRA (BP) |
| | 2019 | 2020 | |
| Total Damages | > 3.00 | > 3.00 | (27) bp |
| | >2.95 - 3.00 | >2.85 - 3.00 | (15) bp |
| | >2.85 - 2.95 | >2.75 - 2.85 | (5) bp |
| | >2.25 - 2.85 | >2.15 - 2.75 | 0 bp |
| | 2.00-2.25 | 1.90-2.15 | 5 bp |
| | <2.00 | <1.90 | 10 bp |
| Leak Management | | | (NRA) / PRA (BP) |
| | 2019 | 2020 | |
| Total Year-End Leak Backlog (Type 1, 2, 2A and 3) | 0 | 0 | NA |
| | 1 - 5 leaks | 1 - 4 leaks | 0 bp |
| | >5 leaks | >4 leaks | (18) bp |
| Gas Safety Violations (NYCRR Parts 255 & 261) | | | (NRA) / PRA (BP) |
| | 2019 | 2020 | |
| Record Violations | | | |
| High Risk | 1-4 | 1-4 | 0 |
| | 5-8 | 5-8 | (1/2) bp |
| | >8 | >8 | (1) bp |
| Other Risk | 1-8 | 1-8 | 0 |
| | >8 | >8 | (1/4) bp |
| Field Violations | | | |
| High Risk | 1-8 | 1-8 | (1/2) bp |
| | >8 | >8 | (1) bp |
| Other Risk | >0 | >0 | (1/4) bp |

St. Lawrence Gas Company, Inc.
Cases 18-G-0133 & 18-G-0140
Part 255 / 261
High and Other Gas Risk Safety Violations

HIGH RISK SECTIONS PART 255

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--|--------------------|-------------|
| Material - General | 255.53 | HIGH |
| Transportation of Pipe | 255.65 | HIGH |
| Pipe Design - General | 255.103 | HIGH |
| Design of Components - General Requirements | 255.143 | HIGH |
| Design of Components - Flexibility | 255.159 | HIGH |
| Design of Components - Supports and anchors | 255.161 | HIGH |
| Compressor Stations: Emergency shutdown | 255.167 | HIGH |
| Compressor Stations: Pressure limiting devices | 255.169 | HIGH |
| Compressor Stations: Ventilation | 255.173 | HIGH |
| Valves on pipelines to operate at 125 psig or more | 255.179 | HIGH |
| Distribution line valves | 255.181 | HIGH |
| Vaults: Structural Design requirements | 255.183 | HIGH |
| Vaults: Drainage and waterproofing | 255.189 | HIGH |
| Protection against accidental overpressuring | 255.195 | HIGH |
| Control of the pressure of gas delivered from high pressure distribution | 255.197 | HIGH |
| Requirements for design of pressure relief and limiting devices | 255.199 | HIGH |
| Required capacity of pressure relieving and limiting stations | 255.201 | HIGH |
| Qualification of welding procedures | 255.225 | HIGH |
| Qualification of Welders | 255.227 | HIGH |
| Protection from weather | 255.231 | HIGH |
| Miter Joints | 255.233 | HIGH |
| Preparation for welding | 255.235 | HIGH |
| Inspection and test of welds | 255.241(a),(b) | HIGH |
| Nondestructive testing-Pipeline to operate at 125 PSIG or more | 255.243(a)-(e) | HIGH |
| Welding inspector | 255.244(a),(b),(c) | HIGH |
| Repair or removal of defects | 255.245 | HIGH |
| Joining Of Materials Other Than By Welding - General | 255.273 | HIGH |
| Joining Of Materials Other Than By Welding - Copper Pipe | 255.279 | HIGH |
| Joining Of Materials Other Than By Welding - Plastic Pipe | 255.281 | HIGH |
| Plastic pipe: Qualifying persons to make joints | 255.285(a),(b),(d) | HIGH |
| Notification requirements | 255.302 | HIGH |
| Compliance with construction standards | 255.303 | HIGH |
| Inspection: General | 255.305 | HIGH |
| Inspection of materials | 255.307 | HIGH |

| | | |
|------------------------|---------|------|
| Repair of steel pipe | 255.309 | HIGH |
| Repair of plastic pipe | 255.311 | HIGH |

HIGH RISK SECTIONS PART 255 (continued)

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|---|----------------------------|-------------|
| Bends and elbows | 255.313(a),(b),(c) | HIGH |
| Wrinkle bends in steel pipe | 255.315 | HIGH |
| Installation of plastic pipe | 255.321 | HIGH |
| Underground clearance | 255.325 | HIGH |
| Customer meters and service regulators: Installation | 255.357(d) | HIGH |
| Service lines: Installation | 255.361(e),(f),(g),(h),(i) | HIGH |
| Service lines: Location of valves | 255.365(b) | HIGH |
| External corrosion control: Buried or submerged pipelines installed after July 31, 1971 | 255.455(d),(e) | HIGH |
| External corrosion control: Buried or submerged pipelines installed before August 1, 1971 | 255.457 | HIGH |
| External corrosion control: Protective coating | 255.461(c) | HIGH |
| External corrosion control: Cathodic protection | 255.463 | HIGH |
| External corrosion control: Monitoring | 255.465(a),(e) | HIGH |
| Internal corrosion control: Design and construction of transmission line | 255.476(a),(c) | HIGH |
| Remedial measures: General | 255.483 | HIGH |
| Remedial measures: transmission lines | 255.485(a),(b) | HIGH |
| Strength test requirements for steel pipelines to operate at 125 PSIG or | 255.505(a),(b),(c),(d) | HIGH |
| General requirements (UPGRADES) | 255.553 (a),(b),(c),(f) | HIGH |
| Upgrading to a pressure of 125 PSIG or more in steel pipelines | 255.555 | HIGH |
| Upgrading to a pressure less than 125 PSIG | 255.557 | HIGH |
| Conversion to service subject to this Part | 255.559(a) | HIGH |
| General provisions | 255.603 | HIGH |
| Operator Qualification | 255.604 | HIGH |
| Essentials of operating and maintenance plan | 255.605 | HIGH |
| Change in class location: Required study | 255.609 | HIGH |
| Damage prevention program | 255.614 | HIGH |
| Emergency Plans | 255.615 | HIGH |
| Customer education and information program | 255.616 | HIGH |
| Maximum allowable operating pressure: Steel or plastic pipelines | 255.619 | HIGH |
| Maximum allowable operating pressure: High pressure distribution | 255.621 | HIGH |
| Maximum and minimum allowable operating pressure: Low pressure | 255.623 | HIGH |
| Odorization of gas | 255.625(a),(b) | HIGH |
| Tapping pipelines under pressure | 255.627 | HIGH |
| Purging of pipelines | 255.629 | HIGH |
| Control Room Management | 255.631 | HIGH |
| Transmission lines: Patrolling | 255.705 | HIGH |
| Leakage Surveys - Transmission | 255.706 | HIGH |

| | | |
|---|---------|------|
| Transmission lines: General requirements for repair procedures | 255.711 | HIGH |
| Transmission lines: Permanent field repair of imperfections and damages | 255.713 | HIGH |
| Transmission lines: Permanent field repair of welds | 255.715 | HIGH |

HIGH RISK SECTIONS PART 255 (continued)

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--|------------------------|-------------|
| Transmission lines: Permanent field repair of leaks | 255.717 | HIGH |
| Transmission lines: Testing of repairs | 255.719 | HIGH |
| Distribution systems: Leak surveys and procedures | 255.723 | HIGH |
| Compressor stations: procedures | 255.729 | HIGH |
| Compressor stations: Inspection and testing relief devices | 255.731 | HIGH |
| Compressor stations: Additional inspections | 255.732 | HIGH |
| Compressor stations: Gas detection | 255.736 | HIGH |
| Pressure limiting and regulating stations: Inspection and testing | 255.739(a),(b) | HIGH |
| Regulator Station Overpressure Protection | 255.743(a),(b) | HIGH |
| Transmission Line Valves | 255.745 | HIGH |
| Prevention of accidental ignition | 255.751 | HIGH |
| Protecting cast iron pipelines | 255.755 | HIGH |
| Replacement of exposed or undermined cast iron piping | 255.756 | HIGH |
| Replacement of cast iron mains paralleling excavations | 255.757 | HIGH |
| Leaks: Records | 255.807(d) | HIGH |
| Leaks: Instrument sensitivity verification | 255.809 | HIGH |
| Leaks: Type 1 | 255.811(b),(c),(d),(e) | HIGH |
| Leaks: Type 2A | 255.813(b),(c),(d) | HIGH |
| Leaks: Type 2 | 255.815 (b),(c),(d) | HIGH |
| Leak Follow-up | 255.819(a) | HIGH |
| Leaks - Nonreportable Reading | 255.821 | HIGH |
| High Consequence Areas | 255.905 | HIGH |
| Required Elements (IMP) | 255.911 | HIGH |
| Knowledge and Training (IMP) | 255.915 | HIGH |
| Identification of Potential Threats to Pipeline Integrity and Use of the | 255.917 | HIGH |
| Baseline Assessment Plan(IMP) | 255.919 | HIGH |
| Conducting a Baseline Assessment (IMP) | 255.921 | HIGH |
| Direct Assessment (IMP) | 255.923 | HIGH |
| External Corrosion Direct Assessment (ECDA) (IMP) | 255.925 | HIGH |
| Internal Corrosion Direct Assessment (ICDA) (IMP) | 255.927 | HIGH |
| Confirmatory Direct Assessment (CDA) (IMP) | 255.931 | HIGH |
| Addressing Integrity Issues (IMP) | 255.933 | HIGH |
| Preventive and Mitigative Measures to Protect the High Consequence | 255.935 | HIGH |
| Continual Process of Evaluation and Assessment (IMP) | 255.937 | HIGH |
| Reassessment Intervals (IMP) | 255.939 | HIGH |
| General requirements of a GDPIM plan | 255.1003 | HIGH |

| | | |
|--|----------|------|
| Implementation requirements of a GDPIM plan. | 255.1005 | HIGH |
| Required elements of a GDPIM plan. | 255.1007 | HIGH |
| Required report when compression couplings fail. | 255.1009 | HIGH |
| Requirements a small liquefied petroleum gas (LPG) operator must satisfy to implement a GDPIM plan | 255.1015 | HIGH |

HIGH RISK SECTIONS PART 261

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--------------------------------|---------------|-------------|
| Operation and maintenance plan | 261.15 | HIGH |
| Leakage Survey | 261.17(a),(c) | HIGH |
| Carbon monoxide prevention | 261.21 | HIGH |
| Warning tag procedures | 261.51 | HIGH |
| HEFPA Liaison | 261.53 | HIGH |
| Warning Tag Inspection | 261.55 | HIGH |
| Warning tag: Class A condition | 261.57 | HIGH |
| Warning tag: Class B condition | 261.59 | HIGH |

OTHER RISK SECTIONS PART 255

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--|----------------|-------------|
| Preservation of records | 255.17 | OTHER |
| Compressor station: Design and construction | 255.163 | OTHER |
| Compressor station: Liquid removal | 255.165 | OTHER |
| Compressor stations: Additional safety equipment | 255.171 | OTHER |
| Vaults: Accessibility | 255.185 | OTHER |
| Vaults: Sealing, venting, and ventilation | 255.187 | OTHER |
| Calorimeter or calorimeter structures | 255.190 | OTHER |
| Design pressure of plastic fittings | 255.191 | OTHER |
| Valve installation in plastic pipe | 255.193 | OTHER |
| Instrument, control, and sampling piping and components | 255.203 | OTHER |
| Limitations On Welders | 255.229 | OTHER |
| Quality assurance program | 255.230 | OTHER |
| Preheating | 255.237 | OTHER |
| Stress relieving | 255.239 | OTHER |
| Inspection and test of welds | 255.241(c) | OTHER |
| Nondestructive testing-Pipeline to operate at 125 PSIG or more | 255.243(f) | OTHER |
| Plastic pipe: Qualifying joining procedures | 255.283 | OTHER |
| Plastic pipe: Qualifying persons to make joints | 255.285(c),(e) | OTHER |
| Plastic pipe: Inspection of joints | 255.287 | OTHER |
| Bends and elbows | 255.313(d) | OTHER |
| Protection from hazards | 255.317 | OTHER |
| Installation of pipe in a ditch | 255.319 | OTHER |

| | | |
|--|--------------------|-------|
| Casing | 255.323 | OTHER |
| Cover | 255.327 | OTHER |
| Customer meters and regulators: Location | 255.353 | OTHER |
| Customer meters and regulators: Protection from damage | 255.355 | OTHER |
| Customer meters and service regulators: Installation | 255.357(a),(b),(c) | OTHER |
| Customer meter installations: Operating pressure | 255.359 | OTHER |

OTHER RISK SECTIONS PART 255 (continued)

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|---|------------------------------|--------------------|
| Service lines: Installation | 255.361(a),(b),(c),(d) | OTHER |
| Service lines: valve requirements | 255.363 | OTHER |
| Service lines: Location of valves | 255.365(a),(c) | OTHER |
| Service lines: General requirements for connections to main piping | 255.367 | OTHER |
| Service lines: Connections to cast iron or ductile iron mains | 255.369 | OTHER |
| Service lines: Steel | 255.371 | OTHER |
| Service lines: Cast iron and ductile iron | 255.373 | OTHER |
| Service lines: Plastic | 255.375 | OTHER |
| Service lines: Copper | 255.377 | OTHER |
| New service lines not in use | 255.379 | OTHER |
| Service lines: excess flow valve performance standards | 255.381 | OTHER |
| External corrosion control: Buried or submerged pipelines installed after July 31, 1971 | 255.455(a) | OTHER |
| External corrosion control: Examination of buried pipeline when | 255.459 | OTHER |
| External corrosion control: Protective coating | 255.461(a),(b),(d),(e),(f),(| OTHER |
| External Corrosion Control - Monitoring | 255.465 (b),(c),(d),(f) | OTHER |
| External corrosion control: Electrical isolation | 255.467 | OTHER |
| External corrosion control: Test stations | 255.469 | OTHER |
| External corrosion control: Test lead | 255.471 | OTHER |
| External corrosion control: Interference currents | 255.473 | OTHER |
| Internal corrosion control: General | 255.475 | OTHER |
| Internal corrosion control: Design and Construction of transmission line | 255.476(d) | OTHER |
| Atmospheric corrosion control: General | 255.479 | OTHER |
| Atmospheric corrosion control: Monitoring | 255.481 | OTHER |
| Remedial measures: transmission lines | 255.485(c) | OTHER |
| Remedial measures: Pipelines lines other than cast iron or ductile iron | 255.487 | OTHER |
| Remedial measures: Cast iron and ductile iron pipelines | 255.489 | OTHER |
| Direct Assessment | 255.490 | OTHER |
| Corrosion control records | 255.491 | OTHER |
| General requirements (TESTING) | 255.503 | OTHER |
| Strength test requirements for steel pipelines to operate at 125 PSIG or | 255.505(e),(h),(i) | OTHER |
| Test requirements for pipelines to operate at less than 125 PSIG | 255.507 | OTHER |
| Test requirements for service lines | 255.511 | OTHER |
| Environmental protection and safety requirements | 255.515 | OTHER |

| | | |
|---|------------------------|-------|
| Records (TESTING) | 255.517 | OTHER |
| Notification requirements (UPGRADES) | 255.552 | OTHER |
| General requirements (UPGRADES) | 255.553(d),(e) | OTHER |
| Conversion to service subject to this Part | 255.559(b) | OTHER |
| Change in class location: Confirmation or revision of maximum | 255.611(a),(d) | OTHER |
| Continuing surveillance | 255.613 | OTHER |
| Odorization | 255.625(e),(f) | OTHER |
| Pipeline Markers | 255.707(a),(c),(d),(e) | OTHER |

OTHER RISK SECTIONS PART 255 (continued)

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--|----------------------------|--------------------|
| Transmission lines: Record keeping | 255.709 | OTHER |
| Distribution systems: Patrolling | 255.721(b) | OTHER |
| Test requirements for reinstating service lines | 255.725 | OTHER |
| Inactive Services | 255.726 | OTHER |
| Abandonment or inactivation of facilities | 255.727(b)-(g) | OTHER |
| Compressor stations: storage of combustible materials | 255.735 | OTHER |
| Pressure limiting and regulating stations: Inspection and testing | 255.739(c),(d),(e),(f) | OTHER |
| Pressure limiting and regulating stations: Telemetering or recording | 255.741 | OTHER |
| Regulator Station MAOP | 255.743 (c) | OTHER |
| Service Regulator - Min.& Oper. Load | 255.744 (c),(d),(e) | OTHER |
| Distribution Line Valves | 255.747 | OTHER |
| Valve maintenance: Service line valves | 255.748 | OTHER |
| Regulator Station Vaults | 255.749 | OTHER |
| Caulked bell and spigot joints | 255.753 | OTHER |
| Reports of accidents | 255.801 | OTHER |
| Emergency lists of operator personnel | 255.803 | OTHER |
| Leaks General | 255.805(a),(b),(e),(g),(h) | OTHER |
| Leaks: Records | 255.807(a),(b),(c) | OTHER |
| Type 3 | 255.817 | OTHER |
| Interruptions of service | 255.823(a),(b) | OTHER |
| Logging and analysis of gas emergency reports | 255.825 | OTHER |
| Annual Report | 255.829 | OTHER |
| Reporting safety-related conditions | 255.831 | OTHER |
| General (IMP) | 255.907 | OTHER |
| Changes to an Integrity Management Program (IMP) | 255.909 | OTHER |
| Low Stress Reassessment (IMP) | 255.941 | OTHER |
| Measuring Program Effectiveness (IMP) | 255.945 | OTHER |
| Records (IMP) | 255.947 | OTHER |
| Records an operator must keep | 255.1011 | OTHER |

OTHER RISK SECTIONS PART 261

| ACTIVITY TITLE | CODE SECTION | RISK FACTOR |
|--------------------------------------|---------------------|--------------------|
| High Pressure Piping - Annual Notice | 261.19 | OTHER |
| Warning tag: Class C condition | 261.61 | OTHER |
| Warning tag: Action and follow-up | 261.63(a)-(h) | OTHER |
| Warning Tag Records | 261.65 | OTHER |

APPENDIX 6

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Service Quality Performance Mechanism

| PSC Complaint Rate | |
|--------------------|----------|
| Targets | NRA's |
| < 1.5 | \$0 |
| >= 1.5 | \$12,000 |
| >= 2.0 | \$24,000 |
| >= 2.5 | \$36,000 |

| Customer Satisfaction Index | |
|-----------------------------|----------|
| Targets | NRA's |
| >86% | \$0 |
| <=86% | \$12,000 |
| <=85% | \$24,000 |
| <=84% | \$36,000 |

| Terminations and Uncollectibles | | |
|---|-----------------------|-----------|
| | Customer Terminations | Bad Debt |
| Three Year Average (set in 2016) | 466 | \$204,000 |
| Target | <=451 | \$173,000 |
| PRA Only | | |
| <p>The Company shall be entitled to an incentive of \$12,000 per year if both measures are at or below target set forth above; and \$6,000 per year if one measure is at or below target and the other is at or below the three-year average. If neither measure is at or below the target, the Company shall not be entitled to any positive incentive, but shall not be subject to any financial penalty.</p> | | |

| Negative Revenue Adjustment Multiplier |
|---|
| <p>The NRAs shown in this appendix have been doubled from those in the 2016 Rate Plan. In addition, the NRAs shall be tripled if targets are missed during a dividend restriction and quadrupled if targets are missed in three years out of the next five consecutive CYs.</p> |

APPENDIX 7

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Net Plant - Legacy Area Only

| | Rate Year 4 Monthly Average | Rate Year 5 Monthly Average |
|---------------------|--------------------------------|--------------------------------|
| Utility Plant | \$62,905,844 | \$64,536,152 |
| CWIP | \$219,696 | \$219,696 |
| Total Utility Plant | \$63,125,540 | \$64,755,848 |
| Less: Accum. Depre. | \$31,713,816 | \$33,070,043 |
| Net Utility Plant | \$31,411,724 | \$31,685,805 |

APPENDIX 8

St. Lawrence Gas Company, Inc.
Case 18-G-0140
Reimbursement Margin as of December 31, 2018

| | <u>Before Write-Down</u> | <u>Write-Down Adj</u> | <u>After Write-Down</u> |
|--|--------------------------|-----------------------|-------------------------|
| Net Utility Plant (net of goodwill) | \$ 67,094,686 | \$ (19,000,000) | \$ 48,094,686 |
| Deferred Debits | | | |
| Unamortized Debt Expense | 4,199 | | 4,199 |
| Miscellaneous Deferred Debits | 4,594,944 | | 4,594,944 |
| Deferred Credits | | | |
| Customer Advances Per Constructions | (303,824) | | (303,824) |
| Other Deferred Credits | (35,895) | | (35,895) |
| Other Regulatory Liabilities | (295,275) | | (295,275) |
| Accumulated Deferred Income Taxes (net) | (5,593,031) | 4,965,580 | (627,451) |
| Reimbursable Plant | \$ 65,465,805 | | \$ 51,431,385 |
| Long-Term Securities | 7,000,000 | | 7,000,000 |
| Short-Term Debt Obligations | 23,000,000 | | 23,000,000 |
| Common Stock | | | |
| Common Stock Issued | \$ 4,350,000 | | \$ 4,350,000 |
| Other Paid-In Capital | 13,000,000 | | 13,000,000 |
| Total Long-Term Securities | \$ 47,350,000 | | \$ 47,350,000 |
| Reimbursement Margin - December 31, 2018 | \$ 18,115,805 | | \$ 4,081,385 |
| Pro-Forma 2019 - 2023 Adjustments | | | |
| Capital Expenditures | \$ 20,496,000 | | \$ 20,496,000 |
| CIAC | (11,354,925) | | (11,354,925) |
| Depreciation | (10,033,035) | | (10,033,035) |
| Deferred Federal Income Tax | (598,349) | | (598,349) |
| Enbridge Paid-In Capital | 13,000,000 | | 13,000,000 |
| Liberty Equity Infusion | (13,000,000) | | (13,000,000) |
| Refinancing of Debt Obligations | 30,000,000 | | 30,000,000 |
| Forecasted Reimbursement Margin - December 31, 2023 | \$ 46,625,496 | | \$ 32,591,076 |
| Current Petition Requirements | | | |
| Replace Long-Term Debt | \$ 7,000,000 | | \$ 7,000,000 |
| Replace Enbridge US Note Payable with Long-Term Debt | 21,185,000 | | 21,185,000 |
| Excess Reimbursement Margin Through December 31, 2023 | \$ 18,440,496 | | \$ 4,406,076 |

Notes:

Typically short-term debt obligations are not included in the reimbursement margin, however SLG has been funding a portion of its capital expenditures with short term debt and therefore it has been included in its capital structure for ratemaking purposes.

APPENDIX 9

St. Lawrence Gas Company, Inc.
Cases 18-G-0133 & 18-G-0140
 15-G-0382 Joint Proposal
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