



May 16, 2016

VIA HAND DELIVERY

David P. Zambito

Direct Phone 717-703-5892

Direct Fax 215-989-4216

dzambito@cozen.com

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Request of SUEZ Water Pennsylvania Inc. Under Sections 2102(a) and 2102(b) of the Pennsylvania Public Utility Code for Approval of an Agreement with an Affiliated Corporation; Docket No. G-2016-_____

SUEZ WATER PENNSYLVANIA INC. REQUEST FOR APPROVAL OF AFFILIATED INTEREST AGREEMENT

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is SUEZ Water Pennsylvania Inc.'s Affiliated Interest Agreement with an affiliated entity, SUEZ Water Management & Services Inc. A copy of this document has been served in accordance with the attached Certificate of Service.

If you have any questions regarding this filing, please direct them to me. Please date-stamp the extra copy and return it with our courier. Thank you for your attention to this matter.

Sincerely,

COZEN O'CONNOR

By: David P. Zambito
Counsel for SUEZ Water Pennsylvania Inc.

DPZ/kmg
Enclosure

cc: Per Certificate of Service

LEGAL2681663011

REC'D
2016 MAY 15 PM 4:17
S.E.C. 215-989-4216

CERTIFICATE OF SERVICE
Docket No. G-2016-_____

I hereby certify that I have this day served a true copy of the SUEZ Water Pennsylvania Inc.'s Request for Approval of Affiliated Interest Agreement, upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA FIRST CLASS MAIL:

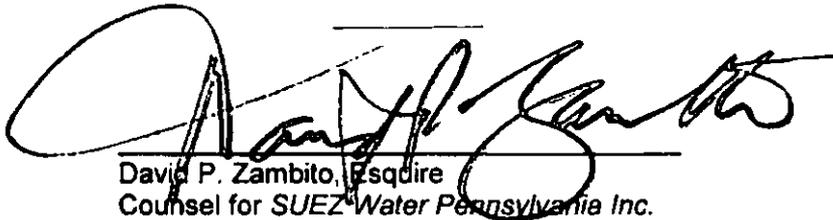
Bureau of Investigation & Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor West
P.O. Box 3265
Harrisburg, PA 17105-3265

Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Office of
Commer
300 Nor
Harrisbu

ORIGINAL

DATED: May 16, 2016

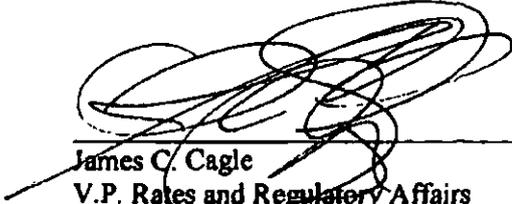

David P. Zambito, Esquire
Counsel for SUEZ Water Pennsylvania Inc.

VERIFICATION

I, James C. Cagle, hereby state that the facts set forth above are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date:

5/15/2016



James C. Cagle
V.P. Rates and Regulatory Affairs
SUEZ Water Management & Services Inc.

2016 MAY 16 PM 4:26

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Request of SUEZ Water Pennsylvania Inc. :
Under Sections 2102(a) and 2102(b) of the : Docket No. G-2016-_____
Pennsylvania Public Utility Code for Approval :
of an Agreement with an Affiliated Corporation :

**REQUEST FOR APPROVAL OF
AFFILIATED INTEREST AGREEMENT**

RECEIVED
2016 MAY 16 PM 4:25
SECRETARY'S OFFICE

NOW COMES SUEZ Water Pennsylvania Inc. ("SWP"), by and through counsel, Cozen O'Connor, and files this request, pursuant to Sections 2102(a) and 2102(b) of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 2102(a), 2102(b), for approval by the Pennsylvania Public Utility Commission ("Commission") of an agreement with an affiliated entity, SUEZ Water Management & Services Inc. ("SWM&S"), for services provided by SWM&S, including, but not limited to, executive management and support services, financial planning services, accounting and tax planning and compliance services, treasury services, internal audit services, information technology infrastructure services, legal management services, engineering and technical services, procurement services, human resources services, and environmental, health and safety oversight and program management to SWP for use in the provision of regulated water and wastewater service in SWP's certificated service territory. In support of its request, SWP states as follows:

I. INTRODUCTION

1. SWP is a certificated Pennsylvania public utility providing water service in portions of Dauphin, Cumberland, Perry, York, Wyoming, Columbia and Schuylkill Counties,

Pennsylvania pursuant to certificates of public convenience at Docket Nos. A-210013 *et seq.*¹ SWP also provides wastewater service to the Township of South Centre, Columbia County, Pennsylvania.

2. SWM&S is a wholly owned subsidiary of SUEZ Water Inc., which is in turn a wholly-owned subsidiary of Suez North America Inc. ("SNA").² SNA is a water utility holding company with operating utility subsidiaries throughout the United States. SWP is also a subsidiary of SUEZ Water Inc.

3. As SWP and SWM&S are both wholly owned subsidiaries of SUEZ Water Inc., they are affiliated entities. 66 Pa. C.S. § 2101.

4. A chart showing the relationship between SWP, SWM&S, SUEZ Water Inc., and SNA is attached hereto as **Appendix A**.

II. AFFILIATED INTEREST AGREEMENT

5. On April 10, 2016, SWP and SWM&S executed an agreement, entitled "Agreement Between SUEZ Water Management & Services Inc. and SUEZ Water Pennsylvania Inc." ("Agreement"). A true and correct copy of the Agreement is attached hereto as **Appendix B**.

6. The Agreement is a standardized agreement into which SWM&S seeks to enter with all of SNA's operating utility subsidiaries throughout the United States. Through the centralization of certain specialized shared services, SNA, and each subsidiary operating utility, is able to enjoy economies of scale and realize savings over the cost of providing the same services at each operating utility.

¹ A full list of all locations served by SUEZ can be found on page 5 of its water tariff (Water – Pa. P.U.C. No. 7).

² SNA is a wholly owned subsidiary of Suez Environnement Inc., a publicly traded company based in France.

7. Through the Agreement, SWP seeks to capture savings for itself and, by extension, its ratepayers.

8. Under Article III of the Agreement, the Agreement is contingent upon SWP's obtaining Commission approval of the instant filing.

9. Article I of the Agreement details the services to be provided by SWM&S to SWP ("Services"). The Services include, but are not limited to: executive management and support services; financial planning services; accounting and tax planning and compliance services; treasury services; internal audit services; information technology infrastructure services; legal management services; engineering and technical services; procurement services; human resources services; and, environmental, health and safety oversight and program management.

10. Under Article II of the Agreement, SWP will be charged for SWM&S's full actual cost to provide the Services, as follows:

(a) direct costs for work related to specific projects will be directly charged to the appropriate capital project or to SWP;

(b) for costs related to functions supporting the regulated business segment, costs will be allocated to SWP using the following process -- (i) SWM&S will calculate the average Revenue, Asset and Payroll for operating utilities receiving services, (ii) SWM&S will calculate the percentage of its service costs to be allocated to each operating utility receiving services,³ and (iii) SWM&S will allocate the costs to each operating utility receiving services.

³ The percentage is calculated by taking SWP's percentage of Revenue, Assets, and Payroll compared to all of the operating utilities receiving services and then using the average of those three factors to assign a percentage of the support costs to SWP. This method is based upon Federal Energy Commission's decision in *Distrigas of Massachusetts Corp.*, 41 FERC ¶ 61,205 (1987). The allocation methodology is more fully explained in *SUEZ North America Inc. & SUEZ Water Management & Services Inc. Cost Allocation Manual*, a copy of which is attached as Appendix A to the Agreement.

11. Article II of the Agreement provides that SWM&S will charge the lower of cost or market for a particular service.

12. Under Article IV of the Agreement, SWM&S shall bill SWP monthly for costs associated with a particular month as soon as practicable after the last day of the month. SWM&S's billing report shall be in sufficient detail to show separately the charge for each service rendered.

13. The term of the Agreement is from the effective date, subject to the Commission's approval, until the Agreement is terminated by either party upon not less than 90-days written termination notice, or upon the date SWP should cease to be an affiliate of SNA.

14. The Agreement contains various other contract provisions which are reasonable and customary for this type of agreement.

III. STANDARD OF REVIEW

15. "The commission shall approve such [affiliated interest] contract or arrangement . . . if it shall clearly appear and be established upon investigation that it is reasonable and consistent with the public interest." 66 Pa. C.S. § 2102(b).

IV. AGREEMENT IS REASONABLE AND IN THE PUBLIC INTEREST

16. The Agreement is reasonable and consistent with the public interest and, therefore, should be approved by the Commission.

17. Approval of the Agreement is necessary and proper because, SWP is dependent upon SWM&S for the above-referenced services and the services are essential to SWP's

continuing provision of safe, adequate, and reliable water service in its Certificated Service Territory at just and reasonable rates.

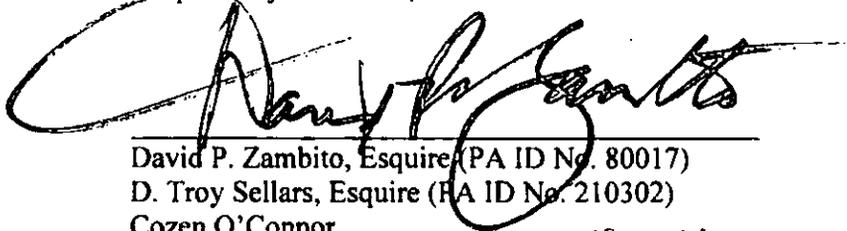
18. Through the centralization of certain specific shared services in SWM&S, an over-all cost savings will be achieved through the economies of scale and SWP's ratepayers will inevitably benefit from those savings through the mitigation of future rate increases.

19. While the above-referenced services will be centrally provided by SWM&S, the same experienced employees who currently provide day-to-day management, operation, and maintenance services to SWP locally will continue to provide those services.

V. REQUEST FOR RELIEF

WHEREFORE, for the reasons set forth herein, SUEZ Water Pennsylvania Inc. respectfully requests that the Pennsylvania Public Utility Commission approve the Agreement attached hereto as **Appendix B** as reasonable and consistent with the public interest and otherwise in compliance with the requirements of Sections 2102(a) and 2102(b) of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 2102(a), 2102(b).

Respectfully submitted,



David P. Zambito, Esquire (PA ID No. 80017)
D. Troy Sellars, Esquire (PA ID No. 210302)
Cozen O'Connor
17 North Second Street, Suite 1410
Harrisburg, PA 17101
Telephone: (717) 703-5892
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E-mail: dzambito@cozen.com
tsellars@cozen.com

RECEIVED
2016 MAY 16 PM 4:27
SECRETARY OF THE

Dated: May 16, 2016

Counsel for SUEZ Water Pennsylvania Inc.

Appendix A

Appendix B

**AGREEMENT
BETWEEN
SUEZ WATER MANAGEMENT & SERVICES
INC.
AND
SUEZ WATER PENNSYLVANIA INC.**

RECEIVED
2016 MAY 16 PM 4:27
SECRETARY OF COMMONWEALTH

AGREEMENT

The Agreement dated April 10, 2016, between SUEZ Water Management and Services, Inc., a New Jersey corporation (hereinafter the "Service Company"), with offices at 461 From Road, Paramus, NJ 07652, and SUEZ Water Pennsylvania Inc., a Pennsylvania corporation (hereinafter "Client Company"), with offices at 4211 East Park Circle, Harrisburg, PA 17111.

WITNESSETH

WHEREAS, the Service Company was organized as a wholly-owned subsidiary service company of SUEZ Water Inc. ("SWI") which is in turn a wholly-owned subsidiary of Suez North America ("SNA"); and

WHEREAS, Client Company is a utility operating company subsidiary of SNA and an associate of Service Company; and

WHEREAS, Service Company and Client Company have entered into this Service Agreement whereby Service Company agrees to provide and Client Company agrees to accept and pay for various services as provided herein at the lower of cost (including a reasonable return on common assets) or market, with cost determined in a manner which requires Service Company to fairly and equitably allocate costs among all associate companies to which it renders services (collectively, the "Client Companies"), including Client Company.

NOW THEREFORE, in consideration of the promises and the mutual agreements herein contained, the parties to this Service Agreement covenant and agree as follows:

ARTICLE I.

Service Company shall furnish to Client Company, and Client Company shall utilize, all the following services upon the terms and conditions hereinafter set forth.

- A. **EXECUTIVE SERVICES:** Service Company shall provide executive management and support to the enterprise.
- B. **FINANCIAL PLANNING:** Service Company will provide direction and assistance in the development of long and short-range business unit and departmental financial business plans, budgets, and forecasts; and develop and provide assistance related to variance analyses and projections.
- C. **ACCOUNTING AND TAX:** Service Company will manage the monthly closing process including account reconciliations and journal entry preparation; manage the accounting for fixed assets; develop and maintain accounting policies and procedures; prepare and file external financial reports; provide tax planning and compliance services; and prepare and report consolidated financial statements.

- D. **TREASURY:** Service Company will coordinate financial arrangements with financial community to arrange and provide for furnishing of Client Company's entire capital needs from other than internally generated sources.

Service Company shall assist utility Company in cash management, collection policies, and development of temporary investment programs.

- E. **INTERNAL AUDIT:** Service Company will provide independent, objective assurance and control advisory services; perform audits; and manage and administer the corporate ethics compliance programs.
- F. **INFORMATION TECHNOLOGY:** Service Company shall operate and maintain data center infrastructure and applications; provide technical support; design, develop, test and implement new information technologies; manage net security; and manage telecommunications equipment, service and usage expenses.
- G. **LEGAL:** Service Company handles all matters related to general litigation involving the corporation; manage legal services for commercial and contract law matters including real estate and land use permits; perform legal services for matters involving environmental law; provide legal advice, representation and counseling in matters arising under federal and state water regulatory laws; and, provide risk management services including management of the insurance and surety bond programs.
- H. **ENGINEERING AND TECHNICAL SERVICES:** Service Company shall advise and provide engineering services to assist Client Company in planning, operating, maintenance and construction functions.

Service Company shall assist Client Company in its operations by conducting distribution and collection system surveys and hydraulic analyses, reviewing procedures for water quality control and wastewater treatment, and preparing or reviewing maps, charts, operating statistics, reports and other pertinent data.

Service Company shall assist Client Company in the proper maintenance and protection of its properties by periodic inspection of its structures, tanks, reservoirs, wells, wastewater collection and treatment facilities, and electrical and mechanical equipment.

Such engineering services shall also include the conduct of field investigations as necessary to obtain engineering information and, when required, the preparation of studies, reports, designs and drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of utility Company's sources of supply, treatment plant, pumping stations, distribution or collection system, and such other facilities as Client Company may request.

- I. **PROCUREMENT:** Service Company shall manage procurement planning and scheduling, including the creation of RFPs, RFQs, and RFIs, and manage the bidding process.
- J. **CORPORATE COMMUNICATIONS:** Service Company shall recommend procedures to promote satisfactory customer and public relations. It shall furnish

informational material, including advertising copy, layouts, and scripts. It shall assist in the preparation of news and customer information releases, and in arrangements for public inspections, displays and other related services.

- K. **INTERNET SERVICES:** Service Company shall develop and manage the Client Company's website and social media communications.
- L. **HUMAN RESOURCES:** Service Company shall assist Client Company in the procurement of qualified personnel; manage the compensation program; provide labor relations services including contract negotiations and grievance management; identify, develop and deliver training programs to enhance the skills and capabilities of the workforce; manage and administer all short and long-term disability and FMLA programs; and advise on federal and state regulations affecting personnel.

It shall recommend and administer group insurance and pension plans for the benefit of Client Company. It shall also assist in the establishment of accident prevention and other programs relating to employee health and welfare.
- M. **REGULATORY BUSINESS:** Service Company will advise and assist in the preparation of rate schedules for Client Company's service; will prepare, or assist in preparing, the material and exhibits required for Client Company's rate cases and render advice with respect to the procedure therein; and will, at the request of Client Company, arrange for the employment of such witnesses as may be required.
- N. **REVENUE MANAGEMENT:** Service Company shall manage non-revenue water issues and automatic meter deployment.
- O. **FACILITIES:** Service Company shall manage corporate and shared services facilities as well as certain other more centrally located facilities; and support facility remodeling and renovation efforts.
- P. **BUSINESS DEVELOPMENT:** Service Company shall manage Client Company's strategic planning process, and assist in developing and growing Client Company's business.
- Q. **ENVIRONMENTAL HEALTH AND SAFETY:** Service Company shall provide general oversight and program management.
- R. **CUSTOMER CARE:** Service Company shall provide guidance, training, control and management reporting for the all customer care processes.
- S. **GENERAL:** Service Company shall keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Client Company and shall advise Client Company thereof to the extent that they may be important to Client Company.
- T. **SPECIAL SERVICES:** Service Company shall also provide Client Company with such special services, so long as such special services do not materially add to those services described in this Article, as may be requested by Client Company

and that Service Company concludes it is able to perform. In supplying such services, Service Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Service Company shall use its best efforts to maintain a staff trained and experienced in the services described in this Article.

ARTICLE II.

In consideration for the services to be rendered by Service Company as hereinabove provided, Client Company agrees to pay to Service Company all costs that reasonably can be identified and related to particular services performed by Service Company for or on its behalf based on the principles and practices described in the Cost Allocation Manual, a copy of which is attached to this Agreement as **Appendix A**. In the event of a conflict between this Agreement and the Cost Allocation Manual, this Agreement shall control.

Notwithstanding anything to the contrary in in this Agreement or the Cost Allocation Manual, Client Company shall pay Service Company the lower of cost or market for a particular service.

It is the intent of this Service Agreement that charges for services shall be distributed among Client Companies, to the extent practicable, based upon direct assignment. The amounts remaining after direct assignment shall be allocated among the Client Companies using the methods identified below and in the Cost Allocation Manual. The extent of service rendered by Service Company personnel for Client Company or in common with other Client Companies shall be based on the principles and practices described below using a full-cost methodology.

The Service Company will allocate the full cost to provide the services described above to the Client Companies benefiting from the services provided based on the following three step approach.

Direct charge: For those departments performing work related to specific construction projects, costs shall be directly charged to the appropriate capital project. Engineering and Information Technology are the departments to which this most generally applies. In addition, certain other costs which are incurred specifically for the benefit of a specific affiliate should be charged directly to that affiliate. Examples include certain legal fees and bank fees.

Segment specific allocation: To the extent practicable, Service Company shall align functions with the business segments to whom services are provided. For functions supporting the regulated utility business segment, costs shall be allocated to the individual regulated utility affiliates using the three factor formula described below.

Services benefiting all affiliates: For services provided which benefit all business segments, costs shall be allocated based on a three factor formula.¹

The three factor formula used to allocate costs which are not direct charged is based on the Massachusetts Formula. The Massachusetts Formula consists of Plant, Revenues, and Labor. The specific components of a Modified Massachusetts Formula used by the Service Company is based on the nature of the Client Company's business model, and is designed to best reflect the underlying cost drivers associated with the circumstances and business model of SNA.

The Company will utilize the following factors, equally weighted:

- *Gross Revenue;*
- *Total Assets, excluding investments in subsidiaries; and,*
- *Payroll.*

See the Cost Allocation Manual for a more detailed description of the Company's cost allocation principles and practices

The method of assignment or allocation of cost shall be subject to review by the Service Company annually, or more frequently if appropriate. Such method of assignment or allocation of costs may be modified or changed by the Service Company without the necessity of an amendment to this Service Agreement; provided that, in each instance, all services rendered hereunder shall be at actual cost thereof, fairly and equitably assigned or allocated, all in accordance with the requirements of the Act and any orders promulgated thereunder. The Service Company shall review with the Client Company any proposed material change in the method of assignment or allocation of costs hereunder and the parties must agree to any such changes before they are implemented.

It is the intent of this Service Agreement that the payment for services rendered by Service Company to Client Company under this Service Agreement shall cover all the costs of its doing business including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, and compensation for use of capital as permitted by applicable laws and regulations.

Service Company and Client Company agree that the amount of compensation to be paid by Client Company hereunder is subject to the review and determination of the Pennsylvania Public Utility Commission.

ARTICLE III.

This Service Agreement shall become effective as of the date first written above, subject only to the receipt of any required regulatory approval from the Pennsylvania Public Utility Commission, and shall continue in force until terminated by Service Company or Client

¹ The first step in the process is to capitalize a portion of A&G costs associated with the services provided by M&S. These procedures refer to the allocation of the net remaining balances. Amounts subject to capitalization are distributed to affiliates each month based on the proportion of direct capital expenditures.

Company, upon not less than 90 days prior written notice to the other party; provided, however, that this Agreement shall terminate as of the date Client Company or Service Company ceases to be an affiliate of SNA. This Service Agreement shall also be subject to termination or modification at any time, without notice, if and to the extent performance under this Service Agreement may conflict with statute or with any rule, regulation or order of the Pennsylvania Public Utility Commission over Client Company adopted before or after the date of this Service Agreement.

ARTICLE IV.

As soon as practicable after the last day of each month, Service Company shall report to Client Company all amounts due from Client Company for services and expenses for such month, computed pursuant to Article II. Such reporting shall be in sufficient detail to show separately the charge for each service rendered. All amounts so reported shall be cleared through intercompany charges.

It is understood by Client Company that Service Company has entered or may enter into similar agreements with other Client Companies that are affiliated with SNA, including new direct or indirect subsidiaries, to which similar services are to be furnished. Service Company will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

Service Company agrees to keep its books and records available for inspection by representatives of Client Company and by regulatory bodies having jurisdiction over Client Company with respect to information pertaining to services rendered hereunder.

Service Company shall at any time, upon request of Client Company, furnish any and all information required by Client Company with respect to the services rendered by Service Company hereunder, the cost thereof, and the allocation of such cost among Client Companies.

IN WITNESS WHEREOF, SERVICE COMPANY and CLIENT COMPANY have caused these presents to be signed in their respective corporate names by their respective Presidents or Vice Presidents and impressed with their respective corporate seals attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

ATTEST:

SUEZ WATER MANAGEMENT &
SERVICES INC.



John T. Dillon
Assistant Secretary

By 

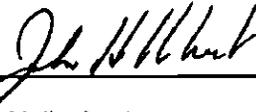
David Stanton
Sr. Vice President - Regulated Business

ATTEST:

SUEZ WATER PENNSYLVANIA INC.



John T. Dillon
Assistant Secretary

By 

John Hollenbach
Vice President and General Manager

**SUEZ North America Inc.
&
SUEZ Water Management & Services Inc.**

Cost Allocation Manual

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1. Introduction

SUEZ North America, Inc. ("SNA"), a wholly owned of Suez Inc., a publicly traded company based in France, is a water utility holding company with operating utility subsidiaries throughout the United States, which are directly owned by SNA's intermediate subsidiary, SUEZ Water, Inc.

SUEZ Water Management and Services, Inc. ("M&S" or "Shared Services Company") provides administrative, engineering, legal, operations, accounting, finance, human resources, purchasing, insurance, data processing, customer service, billing, public relations, planning and ratemaking services, collectively known as "Shared Services" to the operating subsidiaries of SUEZ Water, Inc., as listed in Appendix B.

M&S also provides Shared Services to SUEZ Water Environmental Services, Inc. ("SUEZ Environmental"), which provides non-regulated water distribution services to several municipalities throughout the United States and limited services to SUEZ Treatment Solutions Inc. and Utility Service Group Inc.

M&S is a wholly owned subsidiary of SUEZ Water, Inc., which is a wholly owned subsidiary of SNA.

The provision of shared services from M&S to its regulated affiliates throughout SNA, are specified in service agreements filed with the appropriate regulatory commissions. The services provided are listed below.

The purpose of the Cost Allocation Manual ("CAM") is to prescribe the manner in which costs will be charged to the regulated and non-regulated affiliates of SNA. The prevailing premise of these cost allocation guidelines is that allocation methods should not result in subsidization of the non-regulated services or products by regulated entities unless specifically authorized by the regulator.

These guidelines serve to lessen the possibility of subsidization in order to protect SUEZ ratepayers and to help establish and preserve competition in the water supply, wastewater collection/treatment, and related competitive services markets. The guidelines also provide flexibility to accommodate exceptions where the outcome is in the best interest of the utility, its ratepayers and competitors. The burden of proof for any exception from the general rule rests with M&S.

This Cost Allocation Manual addresses the allocation of the costs of services provided by M&S to its affiliates within SNA.

2. Responsibility for Maintaining the CAM

The overall responsibility for the Company's cost allocation policies and procedures will be with the Regulated Segment Vice President & Chief Financial Officer. The day-to-day responsibility for maintaining the CAM and ensuring that accounting records reflect the policies and procedures described in the CAM will be that of the M&S Corporate Controller.

3. Definitions

- a. **Affiliates** - companies that are related to each other due to common ownership or control.
- b. **Commission** – Appropriate State Regulatory Commission (e.g. New York Public Service Commission).
- c. **Cost Allocation Manual (CAM)** - an indexed compilation and documentation of the Company's cost allocation policies and related procedures.
- d. **Cost Allocations** - the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- e. **Cost Center** – a function or service where costs are accumulated.
- f. **Common Costs** - costs associated with services or products that are of joint benefit among regulated and non-regulated business units.
- g. **Cost Driver** - a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
- h. **Cross-subsidization** – the offering of a competitive product and/or service by a public utility, or the offering of a product and/or service by an affiliate, which relies in whole or in part on the utilization of utility employees, equipment or other assets, and for which full compensation (via cost allocation or direct payment), as determined by the Commission, has not been provided for the use of such public utility assets, resulting in the inappropriate transfer of benefits from the utility ratepayers to the competitive product and/or service or affiliate.
- i. **Department** – a function or service for which costs are accumulated.
- j. **Direct Costs** - costs that can be specifically identified with a particular service or product.
- k. **Fully Allocated Costs** – the sum of the direct, indirect and other economic costs of all equipment, vehicles, labor, related fringe benefits and overheads, real estate, furniture, fixtures, computer hardware and software, and other administrative resources utilized, and other assets utilized and costs incurred, directly or indirectly in the providing of services from the utility to an affiliate.
- l. **Indirect Costs** - costs that cannot be identified with a particular service or product. This includes but is not limited to overhead costs, administrative and general, and taxes.
- m. **Non-Regulated** – those entities, products and services which are not subject to regulation by regulatory authorities.
- n. **Regulated** - that which is subject to regulation by relevant regulatory authorities.
- o. **Shared Services** – administrative and support services that do not involve merchant functions, including by way of example: payroll, taxes, shareholder

services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management.

- p. **Shared Services Assets** – primarily computer hardware and software related, shared services assets are assets utilized by Shared Services and/or utilized in common among affiliates.
- q. **Subsidization** - the recovery of costs from one class of customers or business unit, which are more properly attributable to another.

4. General Principles

The following principles guide the allocation of costs for products or services provided by M&S to its regulated and non-regulated affiliates.

- To the extent practicable, in consideration of administrative costs, costs should be collected and classified on a direct basis for each asset, service or product provided;
- The general method for charging indirect costs should be on a fully allocated, cost-causative allocation basis;
- All direct and allocated costs between regulated and non-regulated services and products should be traceable on the books of the applicable regulated utility to the applicable Uniform System of Accounts to the extent possible;
- Documentation should be made available to the appropriate regulatory authority upon request regarding transactions between the regulated utility and its affiliates;
- Costs should be classified to services or products which, by their very nature, are either regulated, non-regulated, or common to both; and,
- The primary cost driver of common costs, or a relevant proxy in the absence of a primary cost driver, should be identified and used to allocate the cost between regulated and non-regulated services or products and between regulated entities.

5. SUEZ Organizational Structure

SNA is a holding company that provides water and wastewater services to over 7.5 million people in North America through its subsidiaries. See Appendix C for an organization chart of the SNA Corporate Structure.

The table below identifies the SNA affiliates including SUEZ Water Management & Services at December 31, 2015.

SNA Affiliates

Affiliate	Description of Business
SUEZ North America (SNA)	Holding company for all North America affiliates.

	It is wholly owned by SUEZ, S.A.S.
SUEZ Water Inc. (SWI)	Holding Company for M&S and the regulated and non-regulated USA water and wastewater operations.
SUEZ Water Resources Inc. (SWR)	Owns and operates regulated water and wastewater utilities. Also operates municipal water and waste water systems through public-private partnerships.
Regulated Water & Wastewater Utilities	<ul style="list-style-type: none"> • SUEZ Water Arlington Hills Sewer Inc. • SUEZ Water Bethel Inc. • SUEZ Water Delaware Inc. • SUEZ Water Idaho Inc. • SUEZ Water West Milford Sewer Inc. • SUEZ Water New Jersey Inc. • SUEZ Water New York Inc. • SUEZ Water Owego Inc. • SUEZ Water Pennsylvania Inc. • SUEZ Water Princeton Meadows Inc. • SUEZ Water Rhode Island Inc. • SUEZ Water South County Sewer Inc. • SUEZ Water Toms River Inc. • SUEZ Water Westchester Inc.
SUEZ Water Management & Services Inc. (M&S)	M&S provides administrative, engineering, legal, operations, accounting, finance, human resources, purchasing, insurance, data processing, customer service, billing, public relations, planning and ratemaking services, collectively known as "Shared Services" to the operating subsidiaries of SNA.
SUEZ Water Environmental Services Inc.	Parent company for the SNA non-regulated subsidiaries: <ul style="list-style-type: none"> • Bayonne Water • Middletown Water • SUEZ Water Indiana • SUEZ Water Long Island • SUEZ Water Mississippi
SUEZ Treatment Solutions Inc.	Provides local authorities and industries with water treatment solutions and services.
USG GA, LLC	Provides comprehensive condition assessments, rehabilitation services and sustainable asset management solutions to help municipal and industrial water industries manage their water systems.

6. Description of M&S Products and Services Provided To SNA Affiliates

SUEZ Water Management & Services Inc. (M&S) is a wholly owned subsidiary of SUEZ Water Inc., which is a wholly owned subsidiary of SUEZ North America, Inc. (SNA).

M&S provides administrative, engineering, legal, operations, accounting, finance, human resources, purchasing, insurance, data processing, customer service, billing, public relations, planning and ratemaking services, collectively known as "Shared Services" to the subsidiaries of SNA. These services are described below.

Services Provided By M&S

Service Provided	Description of Services Provided
Executive Services	This includes executive management and support in the Office of the CEO, the Office of the COO, and other executive positions not otherwise described herein.
Financial Planning	<p>Assessing the business environment; identification of key issues; developing business unit strategies and objectives, and examination of alternatives; developing multi-year earnings, margin, cash, O&M, and capital plan; modeling the financial impact of new capital investments and balance sheet restructuring; forecasting for regulatory filings; performing analytic support for external stakeholders, and governing corporate capital expenditures;</p> <p>Develop business unit and department financial business plans for the next year including earnings, margin, cash, O&M and capital plans;</p> <p>Perform analysis of results and prepares variance commentary for earnings, margin, O&M, and Capital within the Company and business unit;</p> <p>Prepare and revise forecasts for earnings, margin, cash, O&M, and Capital within the business units; and,</p> <p>Review actual information and projects the remainder of the current year future years. This function performs "what-if" analysis for various scenarios for business unit decision-making.</p>
Accounting and Tax	<p>Managing the monthly closing process including account reconciliations, accounting issue resolution, and process improvement; preparing standard monthly journal entries and analysis to support accounting;</p> <p>Managing the accounting for fixed assets including: work order creation and set-up, analysis and monitoring of capital projects; creating and managing fixed asset records including asset addition, retirements, transfers or adjustments and the preparation of any related journal entries and account reconciliations; reporting of plant asset information for financial, audits, regulatory reporting, rate cases or other internal needs; process associated with the development, analysis, and accounting for depreciation;</p> <p>Managing accounting policies, GAAP research, and</p>

Service Provided	Description of Services Provided
	<p>implementation of new accounting pronouncements; providing guidance on accounting issues; communicating any new accounting guidelines and procedures and their impact to appropriate organizations organization;</p> <p>Determining technical accounting details for specific transactions; performs research, consultations with external audit and guidance provided to the Company;</p> <p>Preparing and filing standard regulatory reports, and other mandated reports as well as with preparing the accounting information needed to complete the annual report;</p> <p>Ensure accurate accounting in all accounts;</p> <p>Perform tax services including audit of assessed property taxes, payment of property taxes, and the accounting for property taxes.</p> <p>Develop long-range tax planning to optimize tax positions for the Company; this also involves analysis of laws and regulations as they impact the company's interest;</p> <p>File federal state and local tax returns and defends all related income tax audits as well as all applicable sales, use, and gross receipts tax returns; and,</p> <p>Ensure proper accounting in all tax accounts.</p>
Treasury	<p>Short term borrowing and investing, including activities such as, commercial paper issuance and associated activity or issuance fees, rating agency activity or issuance fees, money, cash pooling, EFT originations, tax payments, intercompany loans administration of transactions and daily settlement, determining daily cash position, and costs for issuing and paying agents;</p> <p>Daily cash account reconciliations, treasury workstation administration; bank or third-party fees, such as service charges, positive pay fees, and security related fees for both utility and non-utility account; all bank credit facility costs (e.g. bank lines, credit lines, revolvers) including any upfront fees and on-going fees;</p> <p>Develop a long-range financing and dividend strategy consistent with the targeted credit profile, setting balance sheet targets, developing and recommending hurdle rates for the company's business lines; and,</p> <p>Rating agency relations includes managing communications with the agencies and includes annual rating maintenance fees and commercial paper surveillance fees.</p>
Internal Audit	<p>Performs independent, objective assurance and control advisory services. This includes all audits as well as development of forward looking audit plans that are independent and reviewed with the Company's Audit Committee; and,</p> <p>Manage and administer corporate ethics compliance programs,</p>

Service Provided	Description of Services Provided
	including codes of conduct requirements, whistle-blower cases, ombudsmen services, and associated compliance reporting.
Information Technology	<p>Operate and monitor data center infrastructure and applications, backup & restore services, change management administration, batch job management, hardware and software installation and decommissioning;</p> <p>Technical support, problem resolution, and the application of minor enhancements, upgrades and patches to applications;</p> <p>Develop, support and manage methodologies and measurements for effective delivery of business solutions;</p> <p>Design, develop, test and implement new information technology and new information technology standards and tools for computing environments;</p> <p>Provide support center user interface as well as Tier 1 and Tier 2 support for End User support requests;</p> <p>Install, maintain and resolve service problems for end user computing devices, software, LANs and peripherals;</p> <p>Manage the installation, operation, and on-going network security administration including: identity and access management, user provisioning, access control, monitoring and managing security systems including firewalls, IDS/IPS, and event management systems, vulnerability management (patching and antivirus administration), etc.;</p> <p>Architecture design, implementation, technical support, problem resolution, application of minor enhancements, upgrades and patches for operating and financial systems;</p> <p>Monitor security events, assists with information gathering for required system audits and provides project management support for new system implementations, upgrades and enhancements;</p> <p>Set standards for procuring network equipment and supporting configurations;</p> <p>Implement the cyber security policies and controls development and architecture evaluation of security solutions and it monitors alignment with best practices, incident response planning, and;</p> <p>Manage equipment, service and usage expenses paid to telecom providers for phone, data circuits, Internet, etc. This includes WAN costs such as fiber backbone or microwave, whether those WAN costs are external service provider costs or are provided by internal resources.</p>
Legal	<p>Handle all matters related to general litigation involving the corporation;</p> <p>Perform legal services for securities and corporate financial transactions, financial reporting and disclosures, business organizations, mergers, acquisitions and business development,</p>

Service Provided	Description of Services Provided
	<p>corporate governance, internal controls and risk management, insurance, executive compensation;</p> <p>Manage legal services for commercial and contract law matters for the corporation, including real estate matters and land use permits;</p> <p>Serve as board secretary and support corporate governance functions, board of directors meetings, legal opinion letters, assists audit and compliance functions, performs and attests internal controls, and ensures compliance with corporate registration and regulation;</p> <p>Retain and manage external counsel to provide legal representation in specialized areas of law and to manage variable level legal work;</p> <p>Legal work supporting the negotiation of water purchase agreements and other procurement contracts as well as legal work related to franchise renewals, water rights;</p> <p>Provide legal advice and representation with regard to intellectual property matters;</p> <p>Perform legal services for matters involving environmental law for the corporation including environmental permitting activities, due diligence, defense in enforcement actions, compliance advice, representation in environmental cleanup and environmental litigation costs;</p> <p>Provide legal advice, representation and counseling in matters arising under federal and state water regulatory laws, regulations and policies as they relate to the Company's utility related assets for water and waste water;</p> <p>Provide risk management services including management of the insurance and surety bond programs; and,</p> <p>Manage and administers corporate legal and regulatory compliance programs, other than Ethics Compliance.</p>
Procurement	<p>Procurement planning and scheduling;</p> <p>RFP, RFQ, RFI creation; and,</p> <p>Management of the bidding process which consists of bidder selection, invitation, bid package preparation and distribution, bid evaluations, vendor selection, and contract award, including master agreements.</p>
Corporate Communications	<p>Media Relations: Research and develop media response, positioning, and strategy to respond to media inquiries or place stories in the media. Develop press releases, arrange interviews, and maintain 24/7 media relations availability. Act as company spokesperson. Also includes communications resources with respect to corporate responsibility, etc.</p> <p>Corporate Awareness, Communications or Advertising; General</p>

Service Provided	Description of Services Provided
	<p>corporate awareness and brand image purposes, including "issue advertising". Spend includes agency/vendor fees to create and execute advertising.</p> <p>External Informational, Safety, and Educational Communications: Communications or advertising spend that provides information and educational messaging on topics such as: billing and payment options, such as e-billing, budget billing, and direct debit; rate options; low-income programs, consumer protection and privacy rights notices; general water efficiency information; public safety, including "call before you dig" programs; school education programs; and special educational programs such as environmental programs.</p> <p>Product/Service Promotion: Communications or advertising spend that promotes products or/ services from which the utility will benefit.</p> <p>Internal and Intranet Communications: Internal Communications included Company communications between employees or departments across all levels, or divisions, of an organization. Intranet Communications includes posting of content to the internal intranet, managing intranet user experience, interfacing with IT for intranet administration, measurement and analysis of intranet traffic and other data.</p> <p>External Publication and Communications: Communication targeted for non-employee audiences (public, media).</p> <p>Annual Report: Design, production, printing and distribution of the Annual report, including postage.</p> <p>Internet Website Content Development and Maintenance: Development and/or curation of content for all externally facing company websites.</p> <p>Social Media Communications: Management and administration of established corporate social media accounts, such as Facebook, Twitter, Instagram, and others, and the delivery of content through those social media channels.</p>
Regulatory Business	<p>Translation of financial data into a State and regulated revenue requirements, including the preparation of supporting work papers for rate cases and other regulatory filings;</p> <p>Internal and external costs for cost of capital and cost of equity testimony; calculations of formula rates and filings associated with these calculations;</p> <p>Oversight and policy guidance on regulatory proceedings;</p> <p>Management and maintenance of routine State economic regulatory relationships and contacts;</p> <p>Management and maintenance of routine regulatory contacts, with stakeholders;</p> <p>Monitors issues and advocates positions in federal regulatory</p>

Service Provided	Description of Services Provided
	<p>proceedings as they pertain to the Company's businesses;</p> <p>Rate design and tariff administration activities. This also includes tariff interpretation activities, marginal cost analyses, and the pricing and tariff-related aspects of special contracts requiring regulatory approval;</p> <p>Participation in technical conferences, monitoring regulatory activities, and discussing issues with PUC staff; and,</p> <p>Prepare required State and Federal regulatory reporting for initiatives including service quality indicator quarterly reports.</p>
Revenue Management	The Revenue Management function manages non-revenue water issues and automatic meter deployment.
Facilities	Manages corporate and shared services facilities as well as certain other more centrally located facilities. Supports facility remodeling and renovation efforts.
Business Development	<p>Develop and grow the non-regulated segment, i.e., Environmental Services;</p> <p>The costs associated with Business Development are charged to the non-regulated segment and are not in the M&S fees allocated to the regulated business units; and,</p> <p>Manage SUEZ Water's strategic planning process.</p>
Engineering & Technical Services	<p>Advise and provide engineering services to assist the operating companies with planning, operating, maintenance, and construction functions.</p> <p>Assist the operating companies in conducting distribution system surveys, hydraulic analysis, water quality control, system mapping, charting, and other pertinent statistical analyses.</p> <p>Provide periodic inspection of company structures including tanks, reservoirs, wells, and electrical and mechanical equipment.</p> <p>Gather all pertinent statistics, reports, cost estimates, studies, specifications and other data necessary to aid in the construction of additions or improvements to the sources of supply, treatment plant, pumping stations, distribution system, and other facilities as requested by the various operating companies.</p>
Environmental Health and Safety	Mostly performed by employees embedded in the utility business units with only two employees providing oversight at M&S.
Customer Care	<p>Provides guidance, training, control and management reporting for the Customer Service process;</p> <p>Standardizes customer service practices throughout the SUEZ Water regulated business units; and,</p> <p>Plans for consolidation of operational activities in the future.</p>

Service Provided	Description of Services Provided
Human Resources	<p>The recruitment, screening, and selection of internal and external candidates;</p> <p>Establishing relocation programs and management of employee relocations, including all administration and execution costs of the relocation program;</p> <p>Design and administer compensation processes including job evaluations, annual salary planning, incentive programs, executive compensation, deferred compensation, long term incentive programs;</p> <p>Design, management and implementation of health, prescription, life insurance, pension and retirement, reimbursement accounts, employee assistance programs, and other benefits for all employees;</p> <p>Manage strategy, negotiations, and contract interpretation. This includes arbitration resolution, mutual gains bargaining, local management support on grievances, discipline, adherence to the contract and training;</p> <p>Identification, development, and delivery of training programs to enhance the skills and capabilities of the workforce;</p> <p>Provide support on Human Resources technology and processes, technology strategy and solutions, portfolio management, corporate and ad hoc reporting, data analysis, data integrity and oversight, and system testing; and, process and release management;</p> <p>Succession planning, performance management, career development, mentoring, executive coaching, career planning & development, and employee/organizational assessments;</p> <p>Management and administration of all short and long term disability programs and FMLA, whether done internally or by a third party; disability insurance premiums, if any, and the cost of claims for self-insured programs and insured programs with a deductible; medical services required by the Company for disability cases, such as second opinions, consultations, etc.; disability case management and return to work programs; investigations of short term disability claims; legal services, whether internal or external, related to disability cases;</p> <p>Provide safety training requirements and communication tools, needs assessments and training program development, and compliance reporting, including investigation leadership and support; and,</p> <p>Labor Relations including contract negotiations and grievance management.</p>

7. Services Provided by Affiliates Other Than M&S

In addition to the services provided by the Service Company to its affiliates, services may on occasion be provided among SNA affiliates. Examples of these services include:

- Emergency response services
- Call center services
- Fleet services

Consistent with the cost allocation principles described above, these services are provided on a fully-costed basis and are either direct charged to the affiliate receiving the benefit of the service provided or allocated using an appropriate cost driver.

8. Cost Allocation Methodology

The Company's approach to cost allocation is as follows:

Direct charge: For those departments performing work related to specific construction projects, costs are charged directly to the appropriate capital project. Engineering and Information Technology are the departments to which this most generally applies. In addition, certain other costs incurred for the benefit of a specific affiliate are charged directly to that affiliate. Examples include certain legal fees and bank fees.

Segment specific allocation: To the extent practicable, shared services functions are aligned with the business segments to whom services are provided. For functions supporting the regulated utility business segment, costs are allocated to the individual regulated utility affiliates using the three-factor formula described below.

Services benefiting all affiliates: For services provided which benefit all business segments, costs are allocated based on the three-factor formula described below.¹

Three-Factor Formula

The three-factor formula used to allocate costs which are not direct charged is based on the Massachusetts Formula (MF). The Massachusetts Formula² consists of Plant, Revenues, and Labor. However, since there is no authoritative guidance on the specific definitions of these three components, variations have emerged over time among utilities using to use the MF. For example, revenues may be defined as top line revenues from the income statement or as gross margins; plant may be defined as utility plant or as total assets; and labor may be defined as headcount or as payroll dollars. In all cases, these variations are sufficiently minor to be considered a Modified Massachusetts Formula.

¹ The first step in the process is to capitalize that portion of A&G costs associated with the services provided by M&S. These procedures refer to the allocation of the net remaining balances. Amounts subject to capitalization are distributed to affiliates each month based on the proportion of direct capital expenditures.

² It is called the Massachusetts Formula based on the Federal Energy Commission decision in *Distrigas of Massachusetts Corp.* (41 FERC ¶ 61,205 (1987))

The specific components of a Modified Massachusetts Formula may vary based on the individual circumstances and business model of the organization. Based on its combination of regulated and non-regulated affiliates, an allocator comprised of the following three components best reflects the underlying cost drivers associated with the circumstances and business model of SNA.

The Company will utilize the following factors, equally weighted:

- Gross Revenue;
- Total Assets, excluding investments in subsidiaries and goodwill; and,
- Payroll.

The three-factor formula used to allocate the M&S costs is determined using the following process:

Step 1: Calculate the average Revenue, Asset and Payroll for affiliates receiving M&S services

Separately total the revenue, assets and payroll of all affiliates			
Company	Revenue (000)	Total Assets (000)	Payroll (000)
SUEZ A	\$558	\$1,669	\$906
SUEZ B	2,008	6,312	4,085
SUEZ C	4,428	18,231	9,074
SUEZ D	2,990	10,633	7,754
SUEZ E	4,199	12,550	8,237
SUEZ F (Non Regulated)	3,664	18,776	5,653
SUEZ G (Non-Regulated)	1,018	3,131	2,568
Total	\$18,865	\$71,302	\$38,277

Step 2: Determine the percentage of M&S total costs to be allocated to each facility

Calculate the percent to total for each affiliates revenue, assets and payroll				Determine the average of (1) + (2) + (3) for each company	
Company	Revenue Percent to Total (1)	Total Assets Percent to Total (2)	Payroll Percent to Total (3)	Total %	Average % **
SUEZ A	2.96%	2.34%	2.37%	7.67%	2.56%

SUEZ B	10.64%	8.85%	10.67%	30.17%	10.06%
SUEZ C	23.47%	25.57%	23.71%	72.75%	24.25%
SUEZ D	15.85%	14.91%	20.26%	51.02%	17.01%
SUEZ E	22.26%	17.60%	21.52%	61.38%	20.46%
SUEZ F (Non Regulated)	19.42%	26.33%	14.77%	60.52%	20.17%
SUEZ G (Non-Regulated)	5.40%	4.39%	6.71%	16.50%	5.50%
Total	100.00%	100.00%	100.00%	300.00%	100.00%

** This result is the allocation factor for each affiliates share of M&S costs.

Step 3: Allocate M&S O&M Cost to Affiliates

Multiply the allocation factor, determined in step two above, by the actual prior year costs for each shared service for each individual operating utility or business segment			
Company	Actual Cost of Service (000)	MMF Allocation Factor	Allocated Cost (000)
Shared Service: (name of service)			
SUEZ A	\$21,542	2.56%	\$549
SUEZ B	\$21,542	10.06%	\$2,158
SUEZ C	\$21,542	24.25%	\$5,202
SUEZ D	\$21,542	17.01%	\$3,649
SUEZ E	21,542	20.46%	\$4,389
SUEZ F (Non Regulated)	\$21,542	20.17%	\$4,326
SUEZ G (Non-Regulated)	\$21,542	5.50%	\$1,179
Total	\$21,542	100.00%	\$21,542

9. Time Reporting Procedures

All employees shall report time to reflect the actual number of productive and non-productive hours worked. For Engineering, Information Technology and other employees working on specific projects, time shall be directly charged to those projects.

Total functional area costs, which include employee labor costs, will be allocated using the three-factor formula to either specific business segments or all affiliates based on the department to which the employee is assigned and is not based on employee coded time through the time reporting process.

10. Mid-Year Changes

If a significant organizational modification occurs in mid-year, allocation pools based on historical usage statistics will be reviewed and modified at that time. In this situation, allocations using predetermined rates will be modified as part of the following quarterly true up process.

On occasion, the Company may acquire an affiliate which continues to self-provide certain services otherwise provided by the Service Company. In those instances, only those services actually provided by the Service Company to the affiliate will be reflected in the cost allocation processes described above.

11. Reporting

On a monthly basis, M&S shall make a report available to each affiliates and/or business segment for the cost of the services received by service provided. In addition, the Service Company will make available electronically the capability to drill-down on each element in the invoice.

12. Distribution

Distribution of the CAM shall be made to all holders of the SNA Policy and Procedures Manuals.

13. Shared Services Assets

Affiliates to whom M&S provides services may use shared assets related to the services provided, primarily computer hardware and software. Additionally, certain assets are utilized for the provision of shared services, for example, leasehold improvements. Historically, the cost of these assets was not recorded at M&S; instead, a portion of the fully loaded cost of such assets was recorded on the books of each of the affiliates utilizing those assets at the time the assets were placed in service.

Beginning December 2015, shared assets that have not yet been allocated to the affiliates using those assets will remain assets of M&S. In lieu of allocating asset balances among those affiliates, the cost allocation process will include a component representing the return on and of the asset, that is, depreciation, a return on the net investment in such assets (including ADIT) and applicable federal and state income taxes. The allocation of the return on and of the asset cost will be specific to each asset and costs will be allocated only to those companies utilizing the services provided by those assets. Depreciation expense shall be recorded at M&S and allocated based upon the proportion of assets allocated to each business unit. The return component of the allocation shall be calculated based upon the net asset balance allocated to each business unit at the last regulated rate of return authorized by the respective regulatory jurisdiction for the specific business unit.