

APPENDIX F-2**EPCOR WATER SERVICES INC.
SHARED AND DIRECT SERVICE CHARGES
ALLOCATION METHODOLOGY****1.0 OVERVIEW**

1. As a member of the EPCOR group of companies, EPCOR Water (West) Inc. (“EWW”) obtains certain services from EPCOR Water Services Inc. (“EWSI”) to enable EWW to carry on business as the owner and operator of the French Creek water utility. These services allow EWW to benefit both from the extensive experience and expertise that resides within EWSI and from economies of scale and scope that arise from the EPCOR group’s inter-corporate services approach to its business operations.

2. The services provided by EWSI, many of which specifically relate to technical aspects of the water utility business, include: (1) Shared Services, which are financial, administrative and other services that are allocated to EWW through an annual fee, as shown in Financial Schedule 2.3; and (2) Direct Services, which are management and technical services provided by EWSI, and directly charged to EWW based on direct labour costs, material costs and other expenses directly related to a specific job.

3. All of these services are provided pursuant to an inter-corporate services agreement between EWW and EWSI, a pro-forma copy of which is attached as Appendix F-1 to this Application. In return for these services, EWW pays inter-corporate service charges to EWSI in accordance with the terms of the agreement.

4. Appendix F-3 describes the services and associated costs related to services that are provided from EUI to EWSI. These services are provided by functional groups that are part of the EUI corporate group while Shared and Direct Services are provided by functional groups from within EWSI. For some functional categories, such as Human Resources, Supply Chain and Public and Government Affairs, services are provided from both EUI and EWSI. In these instances, the services provided by EUI tend to be limited to governance, oversight and broad policy considerations, while the services provided by EWSI are more tactical and are specifically driven by the business needs of EWW. In the case of Information Services, the EUI cost allocation is generally related to corporate applications such as the financial and human

resources systems while EWSI Information Services costs are generally related to applications and technical infrastructure unique to EWSI, such as the geographical information system (GIS).

5. The specific shared services that EWSI provides to EWW, including the methodologies used to determine the inter-corporate service charges, are described below.

2.0 SHARED SERVICES PROVIDED BY EWSI

6. Sections 2.2 to 2.13 below sets out the allocated Shared Services provided by EWSI to EWW.

2.1 Operations Management

7. Operations Management includes compensation of the Senior Vice President of EWSI together with associated ancillary costs. Operations management services are necessary to carry on the business of EWW and include the following functions:

- General management and oversight; and Operational and business related oversight.

2.2 Financial Services

8. Financial Services includes the compensation related to the Controller and resources required to provide financial oversight and accounting services. Financial Services includes the following functions:

- Financial oversight.
- Preparation of financial reports and analysis.
- Administration of the financial reporting services.
- Asset accounting administration.
- Budget administration and development and maintenance of corporate accounting policies and procedures.
- Financial support for regulatory applications.

2.3 Financial Services – Rent

9. Financial Services – Rent includes the costs associated with maintaining office space in EPCOR Tower, primarily for the financial services function, but also for the regulatory and supply chain management functions.

2.4 Occupational Health and Safety

10. Occupational Health and Safety includes costs associated with ensuring that EWW maintains appropriate health and safety practices that are in compliance with legislation. Specific functions include:

- Ensuring that existing Health and Safety practices and procedures are well designed and in compliance with legislation and compatible with Service Provider Safety Management Policies.
- Business services including internal loss management, safety and training and related support staff.
- Health, Safety and Environment Audit and Inspections.
- Environmental Issues Management.
- Health, Safety, Environment and Training, Legal Compliance and Reporting.

2.5 Information Services

11. Information Services includes charges related to EWSI's unique applications as well as costs associated with desktops, printers and network support used in EWW's operations. Specific functions include:

- Application support.
- Relationship management.
- License fees, desktop support and server support.

2.6 Public and Government Affairs

12. Public and Government Affairs includes charges related to the stakeholder and public consultation requirements of EWW. Specific functions include:

- Stakeholder relations and public consultation services.
- Internal communications (related to business unit matters).
- External communications (includes coordination of business' unit considerations such as public safety notices, performance reports, public addresses and presentations, print collateral, operational issues management, etc.).

2.7 Technical Training

13. Technical Training includes the costs to design, develop and deliver technical training to operations staff and monitor that the operating staff are compliant with regulatory requirements to maintain continuous and current health, safety and technical training.

2.8 Pension Adjustment

14. Pension adjustment are costs allocated to the EWSI Shared Services functions from EUI for an actuarial pension adjustment.

2.9 Human Resources

15. Human Resources, which includes human resources management; facilitating the management of return to work scenarios for short-term disability, long-term disability as well as Workers' Compensation Board and non-supported claims management.

2.10 Regulatory Affairs

16. Regulatory Affairs includes costs related to EWW's regulatory applications and associated requirements. Specific functions include:

- Applications development: regulatory proceeding participation, relationship management, and regulatory research.
- Monitor and coordinate responses to regulatory and policy activities or initiatives within various government ministries, departments and/or agencies which may affect the Business.
- Manage regulatory interfaces with government, regulatory and market agencies, and other industry participants.
- Manage and co-ordinate tariff and facility applications with business units.

2.11 Supply Chain Management

17. Supply Chain Management are services for purchasing and strategic sourcing including management of the end-to-end procurement process for the goods required by EWW. Specific functions include:

- Administration of procurement services, including but not limited to competitive bidding, PO creation, issuing requests for quotations and requests for proposals, contract administration and Supplier Relationship management.
- Setting and managing standards of products and services.
- Setting terms of payment.
- Administration of the Warehousing and Materials Management Services.
- Inventory Management and Item Administration.
- Fleet Management including general oversight and administration.

2.12 Business Process Management

18. Business Process Management includes the execution of planning, operating, and maintenance activities associated with business transformation projects, operational improvement initiatives, and process redesign, as well as development of training tools and methods for the advancement of processes and change management skills within EWSI.

2.13 Shared Services Incentive

19. Shared Services Incentive is paid to EWSI employees based on individual performance ratings and overall annual corporate targets. The EPCOR group's structure for compensating its non-union employees has four components: base compensation (annual salary), employer paid benefits, Short Term Incentive ("STI"), and Mid-Term Incentive ("MTI") for participating Directors, VPs and Executives. EPCOR's structure for compensating unionized employees has three components: base compensation (hourly wages / annual salaries), employer paid benefits and STI. The compensation was designed to bring employee total compensation to a level which is at par with comparable positions in the market from which EPCOR must draw employees (i.e., to market value).

3.0 SHARED SERVICES ALLOCATION

20. The allocation methodologies have been designed to ensure that the allocation of EWSI's shared service costs are fair and reasonable, cost-effective, predictable and reflect the benefit received by function or cost causation.

Table F-2-1
Allocation of EWSI Financial and Administrative Costs
Cost Allocators

A Responsibility Centre and Function	B Allocator
1 Operations Management	Composite – EWSI Revenue, Assets, Headcount
2 Financial Services	Composite - EWSI Revenue, Assets, Headcount and CapEx; Composite – EWSI Revenue, Assets, Headcount; Functional Cost Causation - CapEx
3 Financial Services – Rent	Composite – EWSI Revenue, Assets, Headcount
4 Operational Health & Safety	Functional Cost Causation – EWSI Headcount
5 Information Services	Functional Cost Causation – EWSI Total Assets
6 Public and Government Affairs	Composite – EWSI Revenue, Assets, Headcount
7 Technical Training	Functional Cost Causation – EWSI Headcount
8 Other Services	Composite – EWSI Revenue, Assets, Headcount
9 Human Resources	Functional Cost Causation – EWSI Headcount
10 Regulatory Affairs	Functional Cost Causation –EWSI Regulated Assets
11 Supply Chain Management	Composite - EWSI Revenue, Assets, Headcount
12 Business Process Management	Functional Cost Causation – EWSI Regulated Assets
13 Shared Services Incentive	Average based on allocated costs above

4.0 DIRECT SERVICES PROVIDED BY EWSI

21. Direct Services, which generally relate to management and technical functions, are charged to EWW through direct charges (included in EWSI’s operating and maintenance and general and administrative operating costs in Financial Schedule 2.2). These services are described below.

22. EWW will require a significant amount of technical expertise and support from EWSI as it implements the extensive capital improvement program outlined in the Application. These services are listed below and are reflected in the Contract Services in the pro-forma inter-
corporate services agreement between EWW and EWSI. These services are directly charged to EWW based on direct labour costs, material costs and other expenses directly related to a specific job.

4.1 Capital Planning and Management Services

23. Capital Planning and Management services includes EWSI staff providing support to EWW management with respect to the development of long-term capital planning, including cost estimates/budgeting, project justification and management of capital plan.

4.2 Operational Planning and Management Services

24. Operational Planning and Management services, which includes EWSI staff providing support to EWW management with respect to water plant operations. Specific functions include:

- Development and maintenance of operations procedures, maintenance protocols, emergency and disaster recovery plans.
- Access to computer based water operations and maintenance management systems (hydrant maintenance, water main flushing program, valve maintenance, fire hydrant flow tests, etc.).
- Maintenance of the water distribution engineering and water models and utilization of these models for system planning and operational assessments.
- Access to specialized technical expertise and intellectual property related to water utility operations including water quality, water distribution, demand management and forecasting, daily, monthly reporting, etc.
- Review of submissions from developers and the community of French Creek for new customer connections and water main extensions/upgrades to assess serviceability, location of valves and hydrants, and to confirm available versus required fire flows.
- Support review of emerging drinking water and environmental standards and implications related to local utilities.
- Support for water source protection initiatives including aquifer management and stakeholder interface and liaison.

4.3 Safety Program

25. Safety Programs includes safety courses to reduce accidents, incident reviews and the design and implementation of corrective action to reduce the likelihood of future incidents. Specific functions include:

- Implement and ensure maintenance of EPCOR based safety program.
- Provide necessary support during incidents and investigative support.
- Access to all safety training and loss control programs.
- Review, track and corrective action of safety performance within the water utility.

4.4 Operational Audits and Due Diligence Work

26. Operational Audits and Due Diligence work involves monitoring of specific operational performance measures and tracking systems, audits of water quality and asset reviews and checks. Specific functions include:

- Introduce specific operational performance measures and tracking system.
- Regular water quality audits and Quality Assurance and Quality Control due diligence.
- Asset reviews and checks.
- Ensure implementation of all water operations programs and procedures.
- Review of monthly and annual reports and tracking of specific outcome measures.
- Annual water loss audits to monitor water use and identify any concerns with leakage.