Durango Mountain Utilities, LLC

Cost Assignment and Allocation Manual

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Durango Mountain Utilities, LLC
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February 2014

TABLE OF CONTENTS

1.	Introduction	3
2.	Organization of DMU, its Parent and Affiliates	4
3.	DMU Regulated and Non-regulated Divisions Cost Allocation Identification and Methodology	5
4.	Commission Rules 4502 and 4503 Compliance	7
5.	Commission Rule 4504 Fully Distributed Cost Study	9
6.	Commission Rule 4505 Compliance	12

EXHIBITS

A	Durango Mountain Resort and Durango Mountain Utilities Organizational Chart
B	Management Services Agreement between DMR and DMU
C	USoA account numbers – illustrative example
D	Fully Distributed Cost Study Worksheet – costs and revenue
E	Fully Distributed Cost Study Worksheet – assets
F.	Fully Distributed Cost Study Worksheet – liabilities

1. INTRODUCTION

This Cost Assignment and Allocation Manual ("CAAM") describes the accounting processes being implemented by and between Durango Mountain Utilities, LLC (the "Company" or "DMU") regulated and non-regulated divisions. The CAAM also describes the means by which DMU conducts business with its corporate parent, DSC/Purgatory, LLC d/b/a Durango Mountain Resort ("DMR").

DMU operates exclusively in Colorado under a Certificate of Public Convenience and Necessity ("CPCN") awarded by the Colorado Public Utilities Commission ("Commission") in Decision Nos. R13-0926 and C13-1349. The purpose of this CAAM, as stated in the Rules and Commission Regulations regarding "Unregulated Goods and Services", 4 CCR 723-4-4500 et. seq., is to establish cost assignment and allocation principles to assist the Commission in setting just and reasonable rates and to ensure that utilities do not use ratepayer funds to subsidize non-regulated activities in accordance with §40-3-114, C.R.S.

DMU is filing this CAAM to comply with the requirements of Rules 4501-4505 of the Rules Regulating Gas Utilities and Pipeline Operators of the Colorado Public Utilities Commission ("Commission"), 4 CCR 723-4.

A CAAM, as defined in 4-CCR 723-4-4501(d), means the indexed document filed by a utility with the Commission that describes and explains the costs assignment and allocation methods the utility uses to segregate and account for revenues, expenses, assets, liability and rate base cost components assigned or allocated to Colorado jurisdictional activities. It includes the cost and assignment and allocation methods to segregates and account for costs between and among jurisdictions, between regulated and non-regulated activities and between and among utility divisions.

DMU is a small utility, serving 121 meters and 250 customer equivalents. DMU does not operate in jurisdictions other than Colorado for either its regulated or non-regulated services. As a result, this CAAM focuses on 1) business conducted between DMU and DMR, and 2) business conducted or allocations made between DMU's regulated and non-regulated divisions.

DMU receives substantial support for its operations from its parent company, DMR. DMU has negotiated a Management Services Agreement ("MSA") which details the manner in which DMU conducts business with DMR. Notably, DMU does not engage in individual transactions with DMR, but rather pays a fixed fee for a suite of direct labor, corporate services, and direct and indirect expenses provided from DMR to DMU. The fixed annual fee which DMU pays to DMR is set by the terms of the MSA. DMU must allocate the costs of the MSA between its two divisions and support that division as demonstrating its development of just and reasonable rates in the public interest. If and when unexpected, one-time expenses arise, DMU and DMR will negotiate the terms of payment for such expenses pursuant to the terms of the MSA. If appropriate, DMU may seek to solicit one or more bids to investigate whether any cost savings are achievable for its ratepayers for unexpected costs which are not otherwise accounted for in DMU's rates or in the DMR MSA.

In negotiating the MSA fixed fee agreement and assigning costs and expenses between its divisions, the methodology used was to estimate that proportion of a given department, labor, property or expense within DMR and used by DMU.

2. ORGANIZATION OF DMU, ITS PARENT AND AFFILIATES

A. Description of DMR

DMR is the operator of a destination ski area and summer recreation area in southwestern Colorado, approximately 25 miles north of Durango. DMR sits at approximately 9,000 feet of elevation in unincorporated territory in both La Plata and San Juan Counties in the Highway 550 corridor. The ski resort, also known as Purgatory, was founded in the mid-1960s by the Duncan Family, which family remains a minority owner today.

DMR is also the Parent Company of affiliated entities of DMU which manage and operate within the resort community. DMR entities include, but are not limited to, the following: mountain operations, lodging, property management, food service, retail, equipment rental, ski school, day care, transportation, real estate brokerage, and utilities. The DMR development area consists of over 400 constructed units, with an anticipated build-out of 2,000 units. DMR employs between 80-100 year round staff and more than 450 seasonal employees. DMR manages and provides billing, collection, professional, and back-of-the-house services to DMU.

DMR's development is governed by a 25-year vested real estate Development Agreement, which Development Agreement was entered into on August 22, 2002 by several parties, but primarily between DMR and the Boards of County Commissioners of La Plata and San Juan Counties.

EXHIBIT A to this CAAM shows the DMR/DMU Organizational Charts.

B. Description of DMU

DMU is a direct, wholly owned subsidiary of DMR, which was formed to hold utility assets at Durango Mountain Resort, Durango, Colorado. DMU has two divisions for purposes of this CAAM: 1) Propane Utility and 2) Non-regulated Communication Services – which is involved in the delivery of cable, phone and internet services.

Durango Mountain Utilities was formed on January 12, 2006. Its parent, DSC/Purgatory, LLC was formed on May 1, 1996. DMR provides certain management services to the Company, which expenses are allocated to the Company between its two divisions described more fully in Section 3, below. The purpose of Durango Mountain Utilities is to provide various services required by the residents and businesses operating in the DMR service territory which otherwise could not be provided to all units/homes at Durango Mountain Resort in an efficient and economical way. As the Parent Company, DMR provides various administrative, management and technical services to DMU and ensures these support costs are allocated to DMU in a fair and equitable manner. DMR provides such services as accounting, finance, human resources, information technology, risk management, regulatory affairs, governance, legal services, and other corporate services to DMU.

DMU's business relationship with DMR can be described in broad terms as following the several broad categories below:

1. DMR and its business subsidiaries are customers of DMU. DMR divisions involved in mountain operations, lodging, property management, food service, retail, equipment rental, ski school, day care, transportation, real estate brokerage, all include locations within DMU service territory, and as a result take propane service from DMU. DMR therefore has a vested interest in the efficient and cost-effective operation of DMU.

2. DMU serves residential and commercial properties which DMR or its affiliates seek to develop. DMR therefore has a vested interest in maintaining a high quality of service at cost-effective rates for prospective purchasers of its property development.

3. DMR is the parent of DMU and DMR provides services to DMU which are detailed in a Management Services Agreement, described below.

C. Management Services Agreement

In Decision R13-0926, the Commission required, at Ordering paragraph 9, the following:

> The certificate of public convenience and necessity granted by Ordering Paragraph No. 2 is conditioned as follows: no later than the filing of DMU's next rate case or October 31, 2013, whichever is earlier, DMU shall enter into a written contract, written memorandum of understanding, or other formal written agreement with DSC/Purgatory, LLC, doing business as Durango Mountain Resort (DSC/Purgatory) that meets these requirements: (a) is negotiated at arm's-length; (b) addresses and covers (1) the accounting, finance, governance, human resources, information technology, legal, regulatory affairs, risk management, and

> other services (corporate and otherwise) that DSC/Purgatory provides to DMU; (2) the terms and conditions under which DSC/Purgatory provides to those services to DMU; and (3) the rates at which DSC/Purgatory provides those services to DMU; and (c) is the document pursuant to which DMU will conduct business with, and will engage in transactions with, DSC/Purgatory. As a filing in conjunction with DMU's next rate case or no later than October 31, 2013, whichever is earlier, DMU shall file, as a compliance filing, the written document that complies with this condition.[1]

In compliance with this paragraph, DMU and DMR first entered into a Standards of Conduct protocol in order to negotiate the required document (described further in the accompanying testimony). While the agreement contemplated by the Commission was to be entered into between affiliated entities, the Standards of Conduct protocol was first entered into to establish negotiation teams between DMU and DMR employees who had acknowledge their advocacy roles and limited information sharing in order to reach an agreement at arms-length that reflected negotiated terms for the benefit of DMU customers.

DMU and DMR entered into a Management Services Agreement detailing the manner in which DMU will conduct business with and will engage in transactions with, DMR. Per the MSA, DMU pays and annual fee to DMR for all reasonable costs which can be expected based on the test year of 2013. The MSA contemplates that additional transactions may become necessary during the course of a year which are not covered by the annual fee. In that instance, DMU may supplement the list of transaction elements below.

Attached as **EXHIBIT B**, please find the Management Services Agreement entered into by and between DMU and DMR in compliance with Ordering paragraph 9 of Decision R13-0926, effective January 29, 2014 (the "MSA"). The MSA formalizes and memorializes the transactions and manner in which business is conducted between DMR and DMU. The scope of the MSA is a description and catalog of the suite of property, goods, and services provided from DMR to DMU as affiliate/subsidiary and which allow DMU to take advantage of DMR's holdings and management and achieving certain economies, including in property, insurance, and personnel.

As a result of the MSA, DMU pays DMR an annual fee for the reasonable scope of all anticipated costs of DMR, and such fee is reflective of DMR's actual costs, and not at market value. Therefore, there are generally not individual transactions by and between DMR and DMU. The MSA does contemplate that emergency or unique transactions may arise which are not in the contemplated scope of the MSA. In that instance, the MSA allows for the parties to enter into additional, specific transactions which would be reported in a subsequent CAAM.

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[1] The timing of this filing was modified by Decision No. C13-1349.

3. DMU REGULATED AND NON-REGULATED DIVISIONS COST ALLOCATION IDENTIFICATION AND METHODOLOGY

Under 4 CCR 734-4-4501(e), a Division is an activity conducted by a Colorado utility but not through a legal entity separate from the Colorado utility. It includes the electric, gas or thermal activities of a Colorado utility and any non-regulated activities provided by the Colorado utility.

A. Identification of Regulated and Non-Regulated Activities

DMU operates two Divisions:

1. **Gas Sales**. The Company is a propane natural gas utility distributor regulated by the Commission. The Company provides propane natural gas service to one community in Colorado pursuant to tariffs filed with and approved by the Commission.

2. **Communication Services**. The Company offers the delivery of cable, phone, and internet (communication services). These are non-regulated activities of the Company. DMU's non-regulated services are provided via wired and wireless networks, the content and functionality of which is managed by DMU with its various third party partners/vendors Costs associated with the non-regulated division, are only borne by that division.

B. Types of costs associated with the activity and how the activity is offered to the public and whether the Colorado utility provides the activity in more than one state.

DMU's regulated and non-regulated services involved construction of facilities and customer connections. DMU was not regulated at the time it was formed for either of its Divisions. As its service territory began to expand in 2006, DMU worked with affiliated developers to install propane infrastructure at the same time as other infrastructure, including communications, water and sewer. This allowed infrastructure to be in place, with associated easement rights, as buildings were constructed. These dedicated easements and infrastructure are subject to an Infrastructure Acquisition Agreement between DMU, DMR, and certain real estate development companies. There are not individual transactions or ongoing activities between the real estate development entities and DMU.

DMU's propane activity is offered to the public in the same manner as the non-regulated activity. For customers who purchase property within DMR, services are offered as part of the Design Review Guidelines for construction, which do not allow individual propane tanks for safety and aesthetic reasons. For non-regulated services, customers may take service from other providers via satellite or cell phone, but for in-home services, DMU provides the non-regulated service as an option for customers. Both of DMU's divisions only provide the activity in Colorado.

Certain events may occur during the year that are deemed to be significant to Durango Mountain Utilities that will require corresponding adjustments made to the allocation factors. Examples of these types of events include acquisitions, divestitures, significant staffing changes or new significant revenue streams.

DMR charges its expenses of operation at cost to Durango Mountain Utilities through direct labor charges and indirect labor/overhead allocations. These charges are all provided at cost and specifically enumerated in the MSA, attached as **EXHIBIT B.**

1. **Direct Labor Costs**. Direct labor costs are the personnel costs specifically associated with DMU Propane Operations. One of the examples is 50% of the salary of the propane technician, whose service to DMU is exclusively for propane operations. Direct labor is specifically allocated to DMU based on the estimated time each employee spends on DMU propane operations. Other direct expenses such as utilities, contract services, and parts/tools are Direct Costs, defined below.

2. **Labor and Overhead Allocations**. These indirect costs are those costs that are not exclusively associated with DMU propane activity. This means that the costs indirectly support various DMR companies subsidiaries, and affiliates, including DMU propane activities. Examples include portions of building leases, labor such as accounting and insurance.

3. **Direct Costs**. These costs specifically relate to DMU propane operations and are paid by DMU. These expenses are not part of the MSA and include such items as vehicle costs, postage and freight, credit card processing, insurance specific to the 18,000 gallon propane storage facility on Sheol Street, legal and regulatory expenses, tools, parts and miscellaneous supplies, electric utility costs specific to DMU operations, and third party consultant or contract fees.

C. Cost Allocation Methodology

In negotiating the MSA fixed fee agreement, DMU first isolated the 5 main employees providing dedicated services to DMU propane activities, and then based on the estimated time they spend on propane responsibilities, assigned that percentage of their actual compensation as direct labor, plus 10% for taxes and benefits (as currently budgeted). DMU then highlighted the 6 main departments/divisions that provide indirect labor and overhead resources to the propane operations and other DMR companies (i.e. corporate overhead, accounting, and engineering). The labor and expenses in these departments/divisions was then allocated to DMU propane using a blended revenue and headcount ratio; DMU's total to all resort companies total is approximately 1.8%. Attached as **EXHIBIT D** is the worksheet used to perform the fully distributed cost study detailed in Section 5, below.

The propane division direct labor, labor/overhead allocations, direct expenses, other expenses directly related to propane operation (i.e. debt service, depreciation, and amortization of capitalized legal fees), and a return on net invested capital, comprise the costs that generate the Base Rate Charge. This per gallon charge includes an "affordability adjustment" until such time as the number of propane subscribers can be increased to distribute the fixed costs over a larger population.

4. RULE 4502 AND 4503 COMPLIANCE

In determining the fully distributed cost of segregating, assigning and allocating the revenues, expenses, assets, liabilities and rate base amounts recorded in the utility's accounting books and records using cost accounting, engineering and economic concepts, methods and standards, including return on investment in cases where assets are used, the utility must apply the principles listed in Rule 4502 and include information required by Rule 4503.

a. Rule 4503(b)(I): *See,* Section 3, supra.

b. Rule 4503(b)(II): Affiliates of DMU and an identification of which affiliates allocate or assign costs to and from the Colorado utility:

1. DMR – **assigns costs to DMU and takes service from DMU**
2. Purgatory Village Holdings, LLC
3. Durango Mountain Land Company, LLC
4. Durango Mountain Holdings, LLC
5. Purgatory Commercial Venture, LLC
6. Purgatory Village Land, LLC
7. Mountainsprings Development, LLC
8. Durango Mountain Realty, LLC
9. Purgatory Lodge Land II, LLC
10. Purgatory Lodge Land I, LLC
11. Durango Pinnacle Partners, LLC
12. Durango Commercial Partners, LLC

c. Rule 4503(b)(III) – description of sufficient detail of each regulated and non-regulated activity offered by the Colorado utility. *See,* Section 3, supra.

d. Rule 4503(b)(IV) – A preliminary list of Uniform System of Account ("USoA") numbers included in the Company's revenue requirement are listed on **EXHIBIT C** to this CAAM.

   As explained in testimony, DMU researched and considered its ability to utilize the USoA account numbers to describe its costs and revenues. However, this exercise is work and time intensive for DMU's President, who is not a full time employee, and would further involve DMR accounting staff time not contemplated in the MSA annual fee. DMR utilizes its own accounting system and has personnel who assist DMU in its accounting as required by the MSA. . In order to use the USoA, DMR would have to change its entire method of accounting or create a second set of books for regulatory purposes which, although possible, could not be accommodated in the window of time between October 2013 and January 2014. DMR and DMU will continue to work together and with the Commission to ensure that all of its accounting is transparent and easily understood with an analyst familiar with the USoA. However, DMU seeks a partial waiver of Rule 4503(b)(IV) and has attached **EXHIBIT C** to illustrate its identification of possible USoA account numbers. As a further condition of this waiver, DMU commits to producing a USoA compatible accounting methodology within six months of the final order in this proceeding.

e. Rule 4503(b)(V) – A detailed description showing how the revenues, expenses, assets, liabilities, and rate base items by account and sub-account are assigned and/or allocated to the Colorado utility's non-regulated activities, along with a description of the methods used to perform the assignment and allocations.

   This description is listed above, and the allocation of costs can be found in the Fully Distributed Cost Study, **EXHIBIT D**.

f. Rule 4503(b)(VI) – a description of each transaction between the Colorado utility and a non-regulated activity which occurred since the Colorado Utility's prior CAAM filing, and for each transaction, a description as to whether it was provided at cost or at market.

   DMU has provided a description of the transactions between DMR and DMU since May of 2012, per the requirements of Decision R13-0926, below.

g. Rule 4503(b)(VII) – A description of the basis for how the assignment or the allocation is made.

DMU has provided EXHIBIT D, which shows the income statement and revenue requirement calculations for each of its regulated and non-regulated divisions. In formulating the same, DMU performed its fully distributed cost analysis and performed an allocation of the expenses charged to DMU from DMR.

h. Rule 4503(b)(VIII) – N/A

i. Rule 4503(b)(IX) – Any additional information specifically required by Commission Order. As required by R13-0926, DMU provides additional information specifically required by Commission Order, as follows:

a. Descriptions of Transactions between DMR and DMU

The Commission required, in Decision No. R13-0926, at paragraphs 79 and 80, certain information to assure that the CAAM contains information about affiliate transactions between DMU and affiliates of DMU (both DMR and affiliates which are not DMR). The Decision required a "description of each transaction (i.e. business activity, service, product or asset) provided by, or sold by, DSC/Purgatory to DMU since May 1, 2012." The Decision required the same information from affiliates of DMU other than DSC/Purgatory to DMU since May 1, 2012.

Table 1, below provides the analysis required by the Commission's order describing the transactions by categories of costs. Prior to 2013, the costs described in Table 1 were not specifically accounted for by DMU. Rather, DMU worked with DMR to compensate DMR for services, products, assets or business activities provided for DMU's use or benefit.

Per the MSA, the annual fee for the transaction/elements of cost allocation listed below is \$343,000. Of this amount, \$133,000 is attributable to the regulated propane utility division.

Costs associated with each activity are provided in the Fully Distributed Costs Study worksheet attached as EXHIBIT D.

DESCRIPTION OF TRANSACTION/ELEMENT OF COST	**TERMS – PROVIDED AT TARIFF, COST, OR MARKET**
Direct Labor – Direct labor expenses for President, General Manager, Administration, Operations Advisor, Field Technician, and Network Technicians (3), including taxes and benefits for the same at approximately 10% of total costs.	Cost
Corporate Overhead – Includes liability insurance, property	Cost

insurance, health insurance and workers' compensation insurance, as well as property taxes, basic utilities, 401K plans, rentals, leases, and other related expenses.	
Accounting – Labor and expenses relating to accounting, including audit and tax fees, contract services (i.e. payroll), office supplies, and other miscellaneous expenses.	Cost
Information Systems – Labor and expenses relating to information systems, including servers, internet, data storage, phone and television..	Cost
Human Resources – Labor and expenses relating to H.R.	Cost
Risk Management – Labor and expenses relating to Risk Management, including insurance claim management, incorporation of DMU in the resort emergency action plan.	Cost
Engineering – Labor and expenses relating to Engineering consultation, design, operation, building repair and grounds maintenance. These expenses are in addition to Direct Expenses allocated to DMU for propane technicians.	Cost
Taxes and Benefits on DMR Labor and Overhead – Approximately 10% of total costs in Labor and Overhead Allocation.	Cost

b. Description of Transactions Between Affiliates of DMU Other Than DSC/Purgatory

None.

5. RULE 4504 FULLY DISTRIBUTED COST STUDY

Under Section 723-4-4504(a), a utility shall submit its fully distributed cost study in both electronic and paper format simultaneously with filing its CAAM for all Colorado divisions and activities. As required by Section 4504(b) DMU has attached, as EXHIBIT D and **EXHIBIT E**, its FDC study that shows the revenues, expenses assets, liabilities and rate base items assigned and allocated to each non-regulated activity. If the utility has more than one division (e.g., gas, electric, thermal or non-utility) in Colorado, the FDC study shall include a summary of all assigned and allocated costs by division.

EXHIBIT D, discussed above, shows all assigned and allocated costs by division, as a function of the MSA fee agreement with DMR.

EXHIBIT E and F, respectively, show the rate base items and liabilities assigned and allocated to each non-regulated activity.

As required by Section 4504(c), in preparation of its FDC study, the utility has completed an analysis of each non-regulated activity to identify the costs that are associated with and/or should be charged to each non-regulated activity to ensure each non-regulated activity is assigned and allocated the appropriate amount of revenues, expenses, assets, liabilities and rate base items.

As required by Section 4504(d), this CAAM is filed in connection with a rate case, and the FDC study is based upon the same test year used in the utility's rate case filing. As explained in the Advice Letter and testimony, this is the first tariff submittal of the Company. In negotiating and drafting the MSA in compliance with Decision No. R13-0926, the Company and DMR each used the period of MAY 2013 to APRIL 2014 calendar year as its "test year", although it was not regulated during the majority of 2013. The test year is based on both budgeted amounts and actual spending, itemized per the allocation methodology described above. DMU has sought a waiver or approval of its test year methodology in its rate development, and seeks a similar waiver or approval of its proposed test year methodology for purposes of this CAAM.

The utility's FDC study includes revenues, expenses, assets, liabilities and rate base items in order for the Commission to determine if all appropriate revenues, expenses, assets, liabilities and rate base items have been appropriately assigned and allocated, and to determine the utility's compliance with the principles established in rule 4502.

For each assignment and allocation the utility has:

(I) Identified the revenues, expenses, assets, liabilities and rate base items by account description; and

(II) For each account in (I) above, identified the assignment and allocation method used to assign and allocate costs in sufficient detail to verify the assignment and allocation method used to assign and allocate costs to Colorado divisions and activities is accurate and consistent with the utility's CAAM methodology and reference the CAAM section that describes the allocation.

(III) Provided the test year dollar itemized amounts of revenues, expenses, assets, liabilities, and rate base assigned and allocated to each Colorado division and non-regulated activity; the itemized amounts assigned and allocated to the Colorado utility for regulated activities; the itemized amounts assigned and allocated to the Colorado utility for Colorado non-regulated activities; and the itemized amounts assigned and allocated to other jurisdictions.

As required by Section 4504(e), DMU shall maintain all records and supporting documentation concerning its FDC study for so long as such study is in effect or are subject to a complaint or a proceeding before the Commission.

6. COMMISSION RULE 4505 COMPLIANCE

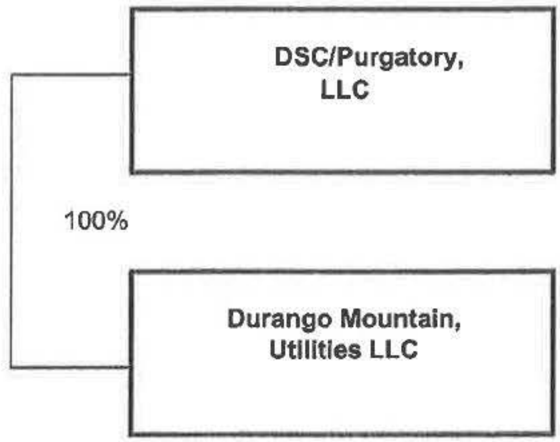
Commission Rule 4505 requires disclosure of Non-regulated Goods and Services, as follows:

Whenever a Colorado utility engages in the provision or marketing of non-regulated goods or services in Colorado that are not subject to Commission regulation, and the Colorado utility's name or logo is used in connection with the provision of such non-regulated goods and services in Colorado, there must be conspicuous, clear, and concise disclosure to prospective customers that such non-regulated goods and services are not regulated by the Commission. Such disclosure to prospective customers in Colorado shall be included in all Colorado advertising or marketing materials, proposals, contracts, and bills for non-regulated goods and services, regardless of whether the Colorado utility provides such non-regulated goods or services in Colorado directly or through a division or affiliate.

DMU acknowledges this requirement and has placed the following disclosure to prospective customers, as follows:

Notice: DMU's communication services are not regulated by the Colorado Public Utilities Commission

Durango Mountain Utilities, LLC Org Chart



Durango Mountain Resort Organization Chart

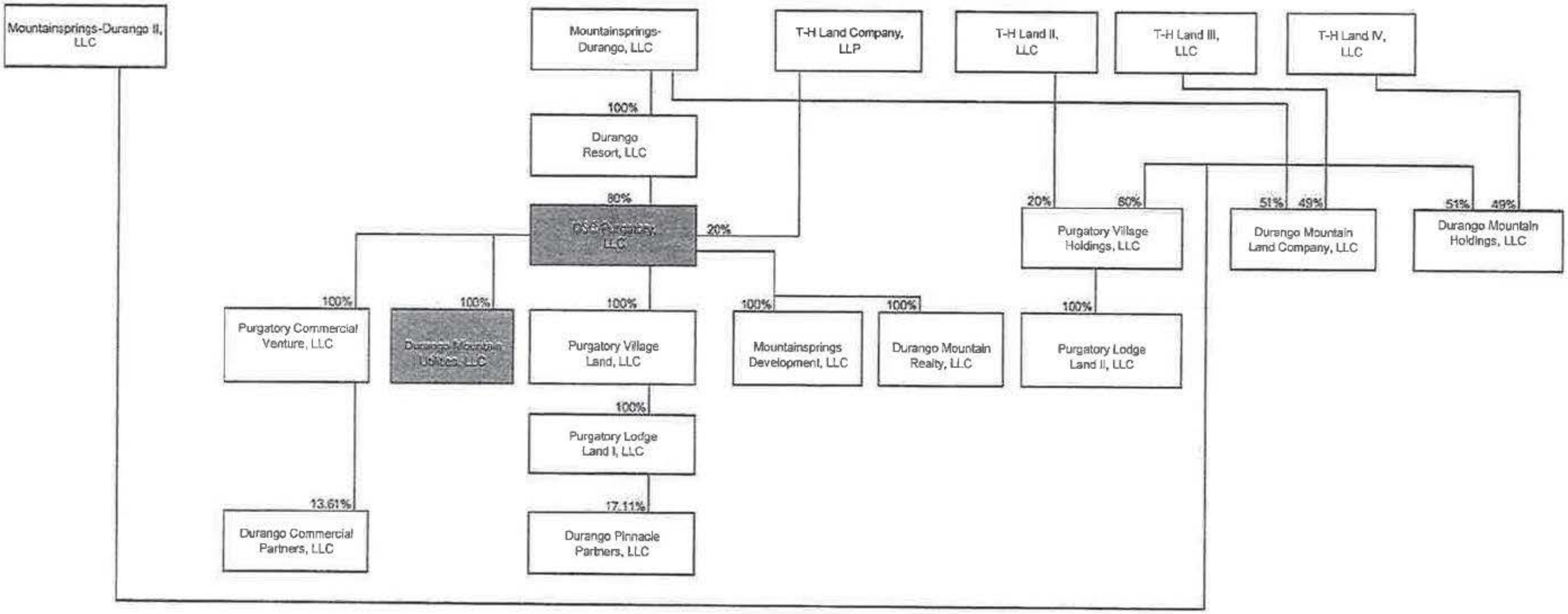


EXHIBIT A

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT (hereafter the "Agreement") is made and entered into effective as of the 28th day of January, 2014 by and between Durango Mountain Utilities, LLC ("DMU") and DSC/Purgatory, LLC, d/b/a Durango Mountain Resort ("DMR").

RECITALS

A. DMU provides propane utility services and provides communications services (which include cable television, high speed internet, and voice over internet communication ("VoIP")) to its customers. DMU's propane division is a public utility regulated by the Colorado Public Utilities Commission (the "Commission"). DMU's communication services division is not regulated.

B. DMU is a subsidiary of DMR; and both parties desire that business conducted between the entities is transparent and in the public interest.

C. Decision R13-0926 of the Administrative Law Judge of the Commission, at Ordering paragraph 9, required that DMU "enter into a written contract, written memorandum of understanding, or other formal written agreement with DSC/Purgatory, LLC…that meets [listed] requirements" enumerated therein.

D. DMR has historically provided management services to DMU similar to those described in this Agreement, but without a formal written agreement. DMU has requested that DMR enter into such a formal written agreement with DMU regarding the governance and identification of the manner in which DMU conducts business with, and will engage in transactions with, DMR for management services.

E. DMU desires to contract with DMR and DMR desires to accept such contract to manage, maintain and operate DMU. DMU and DMR desire to set forth in writing the terms of such services in this contract.

NOW, THEREFORE, in consideration of the mutual covenants and obligations set forth below, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, DMU and DMR agree as follows:

1. **EXCLUSIVE CONTRACT AND TERMS**.

A. This Agreement defines the manner and scope of services pursuant to which DMU will conduct business with, and will engage in transactions with, DMR, as requested to fulfill management and general business needs of the utility described in Section 2, below.

B. Subject to the renewals provided for herein, DMU shall utilize the exclusive services of DMR for the purposes of managing DMU commencing as of the effective date of this Agreement and terminating after five years (the "Initial Term"). The provisions of this

Agreement shall be automatically extended for two additional periods of five (5) years each (individually a "Renewal Term") upon the terms and conditions set forth in this Agreement.

C. This contract shall allow, but not require, DMU to utilize DMR's services. As a result, this contract can be amended at any time by mutual agreement of the parties, to address changes in the scope and degree of the services to be provided.

2. **SCOPE OF SERVICES TO BE PROVIDED BY DMR.**

During the Initial Term and any Renewal Term of this Agreement, DMR shall perform or cause to be performed DMU's undertakings, duties, and responsibilities with respect to DMU's operations, as set forth generally below and detailed in the income statement and worksheet attached as **EXHIBIT A**, which Exhibit is incorporated herein by reference.

A. Direct Labor:

i. President: DMR shall employ a part-time officer to provide strategic management (planning, regulatory, marketing, projects, finance, and growth) and operational oversight including budgeting, billing, customer service, technology platforms, vendor negotiations, etc.

ii. General Manager: DMR shall employ and train a full time General Manager to lead all day to day operations and business of the utility.

iii. Field Technician: DMR shall employ and train one or more technicians with the skills necessary to safely and reliably operate DMU's infrastructure and assist in customer service as DMU determines is warranted.

iv. Operations Support: DMR shall employ and train one or more officers or other personnel to provide management of operations and support for DMU's maintenance, testing and regulatory compliance obligations.

v. Administrative Services: DMR shall employ and train one or more personnel to perform administrative services, including communications with customers and on-call emergency duties.

B. Labor and Overhead Allocations:

i. Corporate resources: DMR shall provide property, liability, workers compensation, and health insurance, 401K and other employee benefits, facility resources (including all taxes, utilities, and equipment, and any associated office supplies and meeting management. DMR will also provide DMU with access to DMR senior management as needed for consultation and assistance.

ii. Accounting and Finance: DMR shall perform all accounting, budgeting, billing, collections, and financial reporting and will provide DMU access to its accounting and finance personnel as requested. *See,* Section 3 of this Agreement. DMR shall also provide third party audit services to DMU.

iii. Information Technology: DMR shall provide all information technology services for DMU including, but not limited to, computing services and servers, including software, copy machines, phone system and data storage.

iv. Human Resources: DMR shall perform all human resource management for DMU personnel, including managing benefits, taxes, health care, retirement and, without limitation, all payroll and other human resource requirements of DMU. *See,* Section 3 of this Agreement.

v. Risk Management/Insurance: DMR shall include DMU within its risk management and insurance service pool and shall procure and maintain sufficient insurance to meet DMU's insurance obligations. DMR shall further provide assistance to DMU in processing claims.

vi. Engineering/Maintenance: DMR shall provide engineering, operations and maintenance services related to existing and future DMU infrastructure. DMR shall provide maintenance services which benefit DMU operations, including but not limited to: snow removal, easement maintenance, and road maintenance.

C. Direct Expenses and Legal Fees: DMU will be responsible for its own direct operating expenses other than those contemplated in this Agreement, including legal fees incurred.

D. Nothing in this Agreement shall prevent DMU from direct acquisition or lease of any property it deems necessary to fulfill its obligations to customers outside of this Agreement.

3. **DMR RESPONSIBILITIES**.

A. In connection with the scope of services described above and set forth in EXHIBIT A, during the Initial Term and any Renewal Term of this Agreement, DMR's duties are further described by the following specific undertakings, duties, and responsibilities:

i. **Employees/Labor:** DMR shall hire, supervise, and discharge all of its own employees required for the performance of DMR's duties under this Agreement. All such employees shall be employees of DMR and not DMU, and DMR shall be responsible for the performance of all duties and responsibilities of an employer with respect to such employee, including FICA and worker's compensation insurance.

ii. **Contractors:** On behalf of DMU, DMR shall assist in retaining necessary third party laborers and contractors to accomplish the management and maintenance and operational responsibilities of DMU, at DMU's expense, which work shall be billed directly to DMU only if it is over and above amounts provided for in EXHIBIT A. DMR shall obtain approval from DMU if expenses necessary to implement this Agreement may exceed the amounts budgeted for in Exhibit A prior to incurring such expenses.

iii. **Accounting:** DMR shall maintain such accounts in accordance with this Agreement and within the DMU-approved budgets set forth by its revenue requirements approved by the Commission, including reserve accounts for repair and replacement of such items as need repair or replacement due to damage, deterioration or obsolescence. DMR shall make an accounting to DMU of such accounts and of all receipts and expenditures on a monthly basis, shall prepare monthly financial statements, and shall prepare and submit annual budgets for the approval of DMU. Working in conjunction with an accountant approved by DMU, DMR shall prepare tax forms and all forms, reports, and returns required by law to be filed by DMU. All records, books, and accounts of DMU shall be the property of DMU and shall be subject to inspection by DMU at all reasonable hours, and upon reasonable notice.

iv. **Deposits:** DMR shall be responsible for depositing all receipts from whatever source in a financial institution or institutions insured by an agency of the federal government in an account or accounts not co-mingled with any other party or affiliate of DMR, established and maintained in a manner to indicate the custodial nature thereof, with authority to disburse any liabilities or obligations to the approved budget or valid resolution of DMU for the payment of the management fee set forth in this Agreement.

v. **Disbursements:** From the funds collected and deposited in DMU account, DMR shall cause to be disbursed regularly and punctually all amounts specified in any approved operating and capital budget, and all sums otherwise due and payable as operating expenses authorized to be incurred under the terms of this Agreement, including DMR's compensation. DMR will have authorization to spend up to 5% in excess of these amounts for contingency as necessary.

vi. **Financing**: When necessary, DMR shall assist DMU in obtaining financing for its infrastructure improvements or expansions, and assist in negotiating or procuring equity or debt financing on behalf of DMU.

B. DMU hereby delegates to DMR all power and authority necessary in order for DMR to perform its duties under this Agreement. DMR shall at all times be deemed to be an independent contractor and not an employee or servant of DMU. Obligations, costs, or expenses incurred by DMR on behalf of DMU in accordance with this Agreement shall be paid by DMU under the terms of Section 5, below.

C. DMR shall exercise reasonable care in performing its duties and obligations arising out of this Agreement.

4. RECOGNITION OF COMMISSION ROLE AND AUTHORITY

A. DMR acknowledges and agrees that Commission approval of this Agreement is a condition precedent to DMU's acceptance of the same.

B. DMR acknowledges and agrees that DMU's propane utility operations exist as a Colorado public utility with certificated territory granted by, and regulated by, the Commission. As such, DMR understands that services provided to DMU under the terms of this Agreement may be audited, and DMU may be obligated to produce this Agreement, as well as other documents or communications not protected, to the Commission to demonstrate the prudence of the services provided by DMR and that DMU's actions are in the public interest such that DMU's propane operations may recover the costs incurred under this Agreement.

C. DMR understands that the Commission may find and attach certain terms and conditions to DMU's operations through its Advice Letters, applications, rules and regulations, and other means. DMU has an obligation to meet the requirements of the Commission's rules and regulations, as they may exist or be amended or modified.

D. DMR acknowledges and understands that DMR enjoys no special rights as a DMU ratepayer by virtue of this Agreement, and that DMU must interact with DMR, as a customer, pursuant to its Commission approved rates and tariffs.

5. **FEES**.

A. During the Initial Term hereof, DMR shall be paid an annual fixed fee of $343,000.00 for the direct labor provided and labor/overhead allocated resources assigned as set forth on the Scope of Services attached as Exhibit A, payable in equal monthly installments of $28,583.33 on the first day of each calendar month, beginning when this Agreement and the associated rates and tariffs are approved by the Commission and are effective.

B. The annual fixed fee under Section A, above, shall increase at a percentage rate determined by the CPI Index for Denver-Boulder-Greeley, Colorado to accommodate wage, benefits, and tax increases in the costs of service to DMR.

C. If DMR determines that a Material Change to its costs or services requested under this Agreement has occurred during the term this Agreement is in effect, then it shall provide written notice to DMU setting forth: i) a basis for that determination, and ii) cost impact for that Material Change. A Material Change is one that is defined as: i) a service or cost increase not contemplated by this Agreement or by Exhibit A thereto, and ii) which raises cost to DMR above contingencies and budget flexibility provided for in Exhibit A. In that instance that DMU agrees with the Material Change, Exhibit A shall be amended to reflect that Material Change.

D. DMR's fees are provided based on cost and do not result in a rate of return to DMR.

E. Additional Transactions: The expenses and duties of DMR, as described in Sections 2 and 3 and which costs are detailed in EXHIBIT A, represent fixed costs. To the extent unanticipated expenses or one-time expenses are required by DMU from DMR, such expenses are not contemplated by the fees set forth in this section. As a result, DMU shall notify DMR if any expenses not contemplated in the annual fixed fee are to be incurred. In that event, barring emergency situations, DMR shall provide an estimate of such expense to DMU, and payment for such expense shall be noted through separate invoice and accounting to DMU.

6. **ACCESS**. DMU does hereby grant to DMR a reasonable right of access to the DMU Facilities for the purpose of enabling DMR to carry out its duties and responsibilities with respect to this Agreement.

7. **DEFAULT AND REMEDIES**.

A. DMU may terminate this Agreement upon written notice to DMR if DMR has breached this Agreement, and such breach is not cured within fifteen (15) days after receipt of written notice thereof specifying with reasonable particularity the nature of the breach and the curative action required (the "Default Notice") or such long a time as may be necessary to cure such breach so long as such curative action is diligently pursued within the fifteen (15) day notice period. DMU may also elect to seek specific performance of this Agreement.

B. If DMU fails to pay DMR the fee set forth in Paragraph 3 of this Agreement or fails to reimburse DMR for any expenses incurred by DMR for the account of DMU within ten (10) business days following the date on which payment is due or reimbursement is requested, or if DMU defaults under any other obligations contained in this Agreement, DMR may exercise any one or more of the following remedies: (i) Terminate this Agreement upon thirty (30) business days' prior written notice to DMU; (ii) seek specific performance of this Agreement; or (iii) perform on behalf of DMU and be entitled to interest at the annual rate of Eighteen Percent (18%) on all expenditures from the date of payment until repaid.

C. DMR may terminate this Agreement upon written notice to DMU if DMU has breached this Agreement, and such breach is not cured within fifteen (15) days after receipt of written notice thereof specifying with reasonable particularity the nature of the breach and the curative action required (the "Default Notice") or such long a time as may be necessary to cure such breach so long as such curative action is diligently pursued within the fifteen (15) day notice period. DMR may also elect to seek specific performance of this Agreement.

D. Upon the expiration or earlier termination of this Agreement, DMR shall, within ten (10) days after such expiration or termination, deliver to DMU: (i) All books and records of DMU; (ii) An itemized statement of the amount due from DMU as of the date of the expiration or termination of this Agreement; and (iii) All bank records with respect to bank accounts of DMU on which DMR was a signatory or over which DMR otherwise had possession or control. DMR, at its expense, shall have the right to duplicate any records provided to DMU.

8. **LIABILITY AND RESPONSIBILITY OF DMR.** DMR is not responsible for and does not warrant for the work of any independent contractor or laborer. DMR shall not be liable under or by reason of this Agreement either directly or indirectly for any accident, injury, breakage or damage to any machinery or property, unless such damage is directly attributable to the gross negligence of DMR or of any of its employees. DMR shall not be held responsible for any loss or damage, detention or delay in

furnishing materials or failure to perform its directed duties herein provided when such is caused by fire, flood, strikes, acts of civil or military authorities, insurrection or riot, or by any other cause which is unavoidable or beyond the control of DMR or of any of its employees, agents or contractors, and not caused by the negligence of DMR or of any of its employees, agents or contractors. In addition, DMR, by this Agreement, does not assume nor contract to replace any streets, sidewalks, water pipes, sewer lines, light poles, underground wiring or any building of any type unless arrangements for such work are agreed upon by DMR and DMU. DMU shall indemnify, defend and hold DMR harmless for and against any claims or causes of action brought against DMR in any way related to this Agreement by third parties, except in cases where DMR is found to be in material breach of this Agreement.

9. **ARBITRATION AND ATTORNEYS' FEES**. Any controversy or claim arising out of or related to this Agreement, or the breach thereof, shall be settled by arbitration pursuant to C.R.S. §13-22-201 et seq., and judgment upon the award rendered by the arbitrator or arbitrators may be entered in any court having jurisdiction thereof. The parties agree that there shall be one arbitrator for any dispute, and in the event the parties cannot agree on an arbitrator, one shall be appointed by the court as set forth in C.R.S. §13-22-205. A demand for arbitration shall be made within the time limits of the applicable statute of limitations that would apply to the filing of a legal or equitable proceeding. The arbitrator shall award reasonable attorney fees and other reasonable costs of arbitration to the prevailing party in such arbitration. In the event that DMU or DMR shall institute a lawsuit proceeding to enforce any rights pursuant to this Agreement, then the prevailing party in such litigation shall receive an award of its reasonable attorney's fees and costs. Further, in the event of any litigation brought by a third party against DMR or DMU, which results in a counterclaim between DMR and DMU that pertains in any way to this Agreement, the prevailing party in such counterclaim shall receive an award of its reasonable attorney's fees and costs.

10. **RESERVED.**

11. **ENTIRE AGREEMENT; AMENDMENT** This Agreement is the entire agreement between the parties covering the management of the Project. There are no oral promises, conditions, representations, understandings, interpretations or terms of any kind as conditions or inducements to the execution of this Agreement or in effect between the parties. No change or addition may be made to this Agreement except by a written agreement executed by the parties, and the parties may not waive this requirement.

A. If an amendment to this Agreement is proposed by either party, then no amendment shall proceed before the Standards of Conduct, executed for the benefit of this Agreement, are reinstated and acknowledged appropriately.

12. **BINDING EFFECT**. This Agreement inures to the benefit of and is binding upon the parties hereto, and their respective successors and assigns.

13. **NOTICES**. All notices to be given by either party to the other shall be in writing and shall be served by personal delivery or by depositing such notice in the United States Postal Service, postage prepaid, addressed and directed to the party to receive the same at 327 S. Camino del Rio, Durango, Colorado 81301. Either party may designate a different person or entity or place at which

notices shall subsequently be sent by written notice given pursuant to this section.

14. **RESERVED**.

15. **BENEFIT.** None of the provisions of this Agreement shall be for the benefit of or enforceable by persons not parties hereto.

16. **RELATIONSHIP OF PARTIES AND INDEMNIFICATION**. The parties shall not be deemed partners or joint ventures of the other and the parties agree to indemnify and hold the other harmless from any and all claims, actions or causes of action, arising out of or having to do with, directly or indirectly, the business operations of the other.

17. **RULES OF CONSTRUCTION.** The laws of the State of Colorado shall govern the validity, performance, and enforcement of this Agreement. The invalidity or unenforceability of any provision hereof shall not affect or impair any other provision. The captions used in this Agreement are for convenience and reference only, and shall not be held to explain, modify, amplify, or aid in the interpretation or construction of any provision of this Agreement. Both parties have had an opportunity to review this Agreement with counsel and to negotiate the terms hereof. Therefore, this Agreement shall not be interpreted for or against any party as a result of which party drafted it.

18. **NO ASSIGNMENT**. Neither party shall assign this Agreement or any portion thereof without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed, provided that at least 30 days' notice of any such assignment and any assignees shall expressly assume the assignor's obligations under this Agreement. Any assignment of this Agreement shall not take effect until the assignee first obtains such approvals as may be required by all applicable regulatory agencies, including but not limited to the Commission.

19. **COUNTERPARTS**. This Agreement may be executed in several counterparts, each of which shall constitute the same agreement.

In Witness Whereof, DMR and DMU have executed this Agreement on the date set forth above.

DSC/PURGATORY, LLC D/B/A DURANGO MOUNTAIN RESORT:	DURANGO MOUNTAIN UTILITIES, LLC:
By: Gary S. Derck	By:
Title: CEO.	Title: President

Durango Mountain Utilities
Annual Proforma Income Statement
Exhibit A to the Management Services Agreement

	Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
	Comm	Propane	Total	Comm	Propane	Total	Notes
Revenue	558	449	1,007	558	550	1,108	
Percent of total	55%	45%	100%	50%	50%	100%	
Cost of Goods Sold	172	265	437	172	272	444	
Gross Margin	386	184	570	386	278	664	
							% Time
Direct Labor							
President			30	15	15	30	15%
General manager			54	27	27	54	100%
Administration			10	5	5	10	30%
Operations advisor			20	10	10	20	25%
Field technician			20	0	20	20	50%
Network technicians (3)			72	72	0	72	50%
Taxes and benefits (10%)			21	13	8	21	
Total direct labor			227	142	85	227	
Labor and overhead allocations (see allocations below)							
Corporate overhead			0	37	26	63	A
Accounting			0	15	10	25	B
Information systems			0	4	3	6	
Human resources			0	4	3	7	
Risk management			0	1	1	1	
Engineering			0	6	4	10	
Taxes and beneifts (10%)			0	2	1	3	
Total labor and overhead allocations			0	68	48	117	
DMR management services fee				**210**	**133**	**343**	

Durango Mountain Utilities
Annual Proforma Income Statement
Exhibit A to the Management Services Agreement

	Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
	Comm	Propane	Total	Comm	Propane	Total	Notes
Direct expense							
Rental & leases			80	80	0	80	
Contract services			48	33	15	48	
Parts & maintenance			15	5	10	15	
Electrical			5	3	2	5	
Other			4	2	2	4	
Small tools			3	0	3	3	
Legal - annual regulatory			0	0	10	10	
Credit card fees			2	1	1	2	
Postage & freight			2	1	1	2	
Telephone			2	1	1	2	
Insurance			2	0	2	2	
Vehicle			1	1	0	1	
Total direct expenses			164	127	48	174	
Total expenses			391	337	181	517	
EBITDA			179	49	98	147	
Percent of revenue			18%	9%	18%	13%	
Other							
Repair and maintenance - contingency				5	5	10	
Debt service			72	50	23	73	C
Depreciation - assets			75	46	29	75	D
Depreciation - infrastructure			22	7	15	22	E
Legal fees - CPCN application			0		5	5	F
Legal fees - initial tariff/rate case			0		10	10	F
Total other			169	108	87	195	
Net income (loss)			10	(59)	11	(48)	G
Percent of revenue			1%	(10%)	2%	(4%)	

Durango Mountain Utilities
Annual Proforma Income Statement
Exhibit A to the Management Services Agreement

	Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
	Comm	Propane	Total	Comm	Propane	Total	Notes
Allocation percentages							
Audited revenue - year ending April 2013							
Consolidated				22,199	22,199	22,199	
DMU				519	448	967	
Revenue as a percent of total				2.34%	2.02%	4.36%	
Full time equivalents							
President				0.08	0.08	0.16	
General manager				0.50	0.50	1.00	
Operations advisor				0.12	0.12	0.24	
Administration				0.15	0.15	0.30	
Field technician				0.00	0.50	0.50	
Network technician				1.50	0.00	1.50	
Total				2.4	1.4	3.7	
Resort year round FTE				81.0	81.0	81.0	
FTE as a percent of total				2.90%	1.67%	4.57%	
Average revenue and FTE allocation percentages				2.62%	1.84%	4.46%	
DMR labor and overhead							
Corporate overhead			1,414	37	26	63	A
Accounting							
Labor			314	8	6	14	
Expenses			241	6	4	11	B
Information systems							
Labor			72	2	1	3	
Expenses			68	2	1	3	
Human resources							
Labor			97	3	2	4	
Expenses			70	2	1	3	
Risk management							
Labor			16	0	0	1	
Expenses			17	0	0	1	
Engineering							
Labor			220	6	4	10	
Expenses			10	0	0	0	
Taxes and benefits (10%)				2	1	3	
Total			2,539	68	48	117	

Durango Mountain Utilities
Annual Proforma Income Statement
Exhibit A to the Management Services Agreement

	Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
	Comm	Propane	Total	Comm	Propane	Total	Notes
Tariff calculation							
Total expenses, other, and profit					318		
Gallons sold (estimate)					200		
Facility and service charge per gallon					1.59		
Affordability adjustment					(0.20)		
Adjusted facility and service charge per gallon					1.39		
Forecasted commodity cost per gallon					1.36		
Total cost, facility, and service per gallon					2.75		
Gallons sold (estimate)					200		
Annual revenue					550		
Annual cost of sales					272		
Annual gross margin					278		

Durango Mountain Utilities
Annual Proforma Income Statement
Exhibit A to the Management Services Agreement

Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
Comm	Propane	Total	Comm	Propane	Total	Notes

Notes

A Corporate overhead includes insurance (liability, property, health, and workers comp), property taxes, utilities, 401K, rentals, leases, etc.

B Accounting expenses includes audit/tax fees, contract services (i.e. payroll), office supplies, etc.

C $231,000 of the $750,000 loan (31%) is propane related debt.

D The non-infrastructure propane assets on the DMU balance sheet (net of depreciation) are $182,000 as of April 2013.
Annual depreciation on these assets approximates $29,000.

E Propane infrastructure installed and financed by the developer totals $512,000, and was dedicated to the DMU effective February 2006.
This infrastructure is being depreciated over a 35 year life for purposes of cost assignment.
The net book value at April 2013 is $406,000 406

F CPCN issuance costs approximate $50,000 amortized over ten years and CPCN initial tariff/rate case costs are estimated at $50,000 amortized over 5 years.

G Return on net invested capital:

Infrastructure and capital assets	587
Less tap fees received inception to date	(179)
Legal fees - CPCN application	50
Average propane inventory	25
Average working capital (est.)	25
Total net invested capital	508
Return percentage	10%
Return	51

EXHIBIT B

Durango Mountain Utilities
Propane Division Only
Chart of Accouts - FERC

Accounts Receivable	142000
Inventory	164100
Prepaid	165000
Fixed assets	118000
Accumulated depreciation	119000
Accumulated amortization	111000
Construction in progress	107000
Accounts payable	232000
Sales tax payable	236000
Customer meter deposits	235000
Accrued expense	237000
Debt service	224000
Retained earnings	433000
Revenue propane	480000
Other sales propane	484000
Propane cost of goods	808200
Labor	920000
Benefits	926000
Insurance	924000
Depreciation	403000
Facility - triple net lease	931000
Consulting	923000
Audit and tax	923000
Repair and maintenance	930200
Utilities	930200
Vehicle	931000
Training	930200
Dues, subscriptions, and travel	930200
Property taxes	930200
Copier lease	931000
Supplies and postage	921000
Credit card fees	930200
Gas and oil	930200

Durango Mountain Utilities

Fully Distributed Cost Study - Costs and Revenue

	Budget for Year Ending April 2014			Annual Proforma with Management Services Fee and Regulatory Tariff			
	Comm	Propane	Total	Comm	Propane	Total	Notes
Revenue	558	449	1,007	558	550	1,108	
Percent of total	55%	45%	100%	50%	50%	100%	
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Taxes and beneifts (10%)			0	2	1	3	
Total labor and overhead allocations			0	68	48	117	
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Durango Mountain Utilities

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Electrical			5	3	2	5	
Other			4	2	2	4	
Small tools			3	0	3	3	
Legal - annual regulatory			0	0	10	10	
Credit card fees			2	1	1	2	
Postage & freight			2	1	1	2	
Telephone			2	1	1	2	
Insurance			2	0	2	2	
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Durango Mountain Utilities

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Durango Mountain Utilities

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Durango Mountain Utilities

Fully Distributed Cost Study - Costs and Revenue

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This infrastructure is being depreciated over a 35 year life for purposes of cost assignment.
The net book value at April 2013 is $406,000 406

F CPCN issuance costs approximate $50,000 amortized over ten years and CPCN initial tariff/rate case costs are estimated at $50,000 amortized over 5 years.

G Return on net invested capital:

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Less tap fees received inception to date	(179)
Legal fees - CPCN application	50
Average propane inventory	25
Average working capital (est.)	25
Total net invested capital	508
Return percentage	10%
Return	51

Durango Mountain Utilities
Summary of Assets
As of April 2013

Description	In Service Date	Aquired Value	Useful Life	Annual Deprec	Accum Deprec	Net Value	Notes
Propane							
Sheol street expansion/replacement	Nov 2010	85,797	15	5,720	13,823	71,974	
Float gauge for Sheol street tank	Jan 2010	798	10	80	266	532	
Vaporizor and vapor line	Jan 2010	1,436	10	144	479	957	
Peregrine gas service	Jan 2009	6,165	10	616	2,671	3,493	
Vaporizor shed	Jan 2009	29,511	10	2,951	12,788	16,723	
Propane tanks - Tacoma Village	Jan 2008	3,084	10	308	1,645	1,439	
18,000 gallon propane tank	Dec 2007	181,834	10	18,183	96,978	84,856	
Chevy Silverado (@50%)	Jul 2007	4,949	5	990	3,177	1,773	
Confined space gas monitor	Sep 2003	3,822	5	0	3,822	0	
Gas Line	Dec 2002	1,100	5	0	1,100	0	
Propane before infrastructure		318,497		28,992	136,750	181,747	
Dedicated infrastructure	Feb 2006	511,538	35	14,615	105,961	405,577	A
Propane total		830,035		43,608	242,711	587,324	
Communications							
Cable TV Upgrade	Nov 2011	169,412	5	17,428	34,180	135,232	
Headend transfer from DML	Nov 2011	111,084	20	5,554	7,868	103,216	
Head End Building AC upgrade	Dec 2010	10,164	11	924	2,156	8,008	
ShoreTel phone system build-out	Jan 2010	82,739	5	16,548	12,157	70,582	
Phone/Cable equipment - Peregrine	Jan 2009	17,866	5	3,573	15,484	2,382	
Data Infrastucture - Interface Comm	Jan 2009	7,073	10	707	3,065	4,008	
Server upgrades	Dec 2007	108,644	5	365	108,279	365	
Chevy Silverado (@50%)	Jul 2007	4,949	5	990	3,177	1,773	
Cable TV upgrade	Apr 2002	8,252	5	192	8,060	192	
Communications before infrastructure		520,184		46,281	194,426	325,757	
Dedicated infrastructure	Feb 2006	256,265	35	7,322	53,083	203,182	A
Total communications		776,449		53,603	247,510	528,939	
Totals							
Assets		838,681		75,274	331,176	507,505	
Infrastructure		767,803		21,937	159,045	608,758	
Total		1,606,484		97,211	490,221	1,116,263	

Notes

A DMU has an off-balance sheet contingent liability to pay the developer for this infrastructure per the Infrastructure Acquisition Agreement. DMU has paid Durango Mountain Land $100,000 of the propane infrastructure. All other amounts remain outstanding.

Durango Mountain Utilities
Debt Summary (000)
As of April 30, 2013

	Propane	Comm	Total
Alpine Bank loan proceeds			
Purchase utility assets of the resort	9	260	269
Purchase communications headend from the resort		111	111
Upgrade the cable television system		100	100
Expand propane distribution infrastructure	100		100
Reimburse DML for a portion of propane infrastructure	100		100
Miscellaneous and other	22	48	70
Total loan	231	519	750
Percent of total	31%	69%	100%
Outstanding loan at April 30, 2013	207	461	668
Percent of total	31%	69%	100%
Debt service			
For the year ending April 30, 2013	23	50	73
	31%	69%	100%

Loan terms

Inception	September 2010
Interest rate	Prime + 1.75%
Interest rate floor	5%
Amortization	15 years
Collateral	All DMU assets
Prepayment penalty	None
Maturity	September 2015