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July 8, 2009

Via Email
Original via mail

Ms. Erica M. Hamilton
Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Ms. Hamilton:

Re: Revised Code of Conduct and Transfer Pricing - Project No. 3698560

Enclosed for filing are FortisBC's responses to information requests received from the BC Utilities Commission, BCOAPO et al., and Columbia Power Corporation.

Twenty copies will be couriered to the Commission.

Sincerely,

A handwritten signature in black ink, appearing to be "Dennis Swanson", written over a horizontal line.

Dennis Swanson
Director, Regulatory Affairs

1 **1.0 Reference: Exhibit B-1, Revised Code of Conduct and Transfer Pricing**
2 **Policy, p. 4, and FortisBC Ootischenia Substation Project Progress**
3 **Report No. 4**
4 **FortisBC Services to NRBs: Market Value**

5 “In general it is FortisBC’s experience that external electrical contract
6 labour is approximately 20 percent more costly, on an hourly basis, than
7 internal labour; however in this instance the firm price contract was lower
8 than the estimate using internal labour. Because of the nature of the
9 contract, specifics relating to forecast labour hours and material costs
10 are not available for comparison.”

11 “FortisBC has a finite amount of internal resources available to perform
12 capital work. As it would not be prudent for FortisBC to maintain a
13 complement of internal resources sufficient to do all system work, some
14 of which is intermittent or of limited duration, contract resources are
15 employed.”

16 **Q1.1 Given these statements, from the Ootischenia Substation Project**
17 **Progress Report No. 4, explain how the proposed loading rates are**
18 **consistent with fully capturing the market value of the services supplied**
19 **by FortisBC to non-regulated affiliates.**

20 A1.1 The statement made in the Ootischenia report compares internal to contract
21 labour costs and is not appropriate for comparing costs charged to NRBs
22 versus contract costs. The internal labour rate is subject to a 16 percent mark-
23 up pursuant to the revised Transfer Pricing Policy (5.5 percent G&A loading
24 times 10 percent profit margin), making FortisBC’s charge-out rate to NRBs
25 comparable to the contractor rates observed at the time of the statement

1 above.

2 FortisBC's labour costs are set pursuant to its collective agreements with
3 labour unions (existing contracts cover 4 years and 5 years respectively for
4 IBEW and COPE employees). FortisBC undertakes market comparisons when
5 negotiating contracts and believes that its base labour rates are competitive.

6 FPHI contracts with third parties, and subcontracts with FortisBC, on a long-
7 term basis as well. Long-term contracts of this nature typically do not permit re-
8 pricing to meet short-term economic conditions, but over the long term assure
9 consistent profitability for work performed.

10 **2.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
11 **Policy, p. 4**
12 **Determination of Facilities Rental**

13 **"If NRB activity results in incremental costs for facilities, including**
14 **buildings, furniture and fixtures or computer equipment or software, the**
15 **incremental costs, including carrying cost calculated at the weighted**
16 **average cost of capital plus depreciation, will be direct charged to the**
17 **NRB."**

18 **Q2.1 Please explain the methods and procedures utilized by FortisBC to**
19 **identify costs that are incrementally incurred for the purpose of NRB.**
20 **Specifically, please explain how FortisBC determines if additional costs**
21 **incurred would not otherwise be needed for purposes directly related to**
22 **NRB business or as a result of larger business activities resulting from**
23 **the addition of NRB into the premises.**

24 A2.1 The determination of costs and cost causation occurs as a matter of course in

1 FortisBC's annual budget process. All costs are compiled and those costs that
2 are incurred in order to support a NRB are identified. Budgets are established
3 as part of an annual, company-wide process for all departments. Each
4 department manager is responsible for determining their departmental budget.
5 During this process, managers determine costs and cost causation. Therefore,
6 costs incurred in order to support a NRB are identified and separated. At the
7 end of the process, budgets are ultimately approved by the appropriate Vice
8 President.

9 **Q2.2 As no incremental costs were incurred related to the addition of NRB**
10 **operations within existing facilities, did FortisBC regulated operations**
11 **contain unused capacity in these facilities so that resources and assets**
12 **were otherwise idle or available for use by NRB?**

13 A2.2 No. Incremental facilities are required only when employees work "on site" at
14 FortisBC facilities, who would require work stations. Operations employees
15 working on City of Kelowna subcontract work "from site", and the incremental
16 need for locker/change/shower facilities to accommodate these 'from site'
17 employees is minimal. As stated in the response to Q24.1 below, the third
18 party generation facilities are designated as temporary reporting sites; FortisBC
19 operations personnel work "from site" at those facilities.

20

21 **3.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
22 **Policy, p. 7**
23 **Risk-Related Advantages of Affiliate Structure**

24 **"There is minimal risk exposure to FortisBC and its ratepayers arising as**
25 **a result of the affiliate/ subcontractor arrangement between FortisBC and**

1 **FPHI.”**

2 **Q3.1 Please confirm that all NRB contractual agreements with parties such as**
3 **the City of Kelowna, Brilliant Expansion Power Corporation and Arrow**
4 **Lakes Power Company are entered into by FortisBC and not Fortis Pacific**
5 **Holdings Ltd.**

6 A3.1 Not confirmed. Fortis Pacific Holdings Ltd. has entered into contractual
7 agreements with the City of Kelowna, Brilliant Expansion Power Corporation
8 and Arrow Lakes Power Company. The services performed pursuant to the
9 NRB contractual agreements are subcontracted by Fortis Pacific Holdings Ltd.
10 to FortisBC and performed by FortisBC.

11 **Q3.2 Please describe FortisBC’s legal review and consultation process**
12 **confirming that indemnity clauses with Fortis Pacific Holdings Ltd.,**
13 **including breach and non-performance terms, are legally enforceable and**
14 **protect regulatory operations from NRB business risk.**

15 A3.2 FortisBC’s legal counsel reviews all subcontractor agreements between Fortis
16 Pacific Holdings Ltd. and FortisBC in relation to the services performed by
17 FortisBC on behalf of Fortis Pacific Holdings Ltd. regarding NRB agreements
18 and is able to confirm that the terms of the subcontractor agreements are
19 legally enforceable and help to protect regulated operations from NRB business
20 risk.

21

1 **4.0 Reference: Exhibit B-1, Revised Code of Conduct and Transfer Pricing**
2 **Policy, p. 9, and**
3 **FortisBC 2009 Revenue Requirements, Exhibit B-4, A74.5**
4 **FortisBC Services to NRBs: Risk Exposure**

5 **During the FortisBC 2009 Revenue Requirements review, the Commission**
6 **inquired about an incident involving a power line technician (“PLT”). In**
7 **its response (Exhibit B-4, A74.5), FortisBC stated that "High voltage utility**
8 **work and PLTs are not part of the BC Safety Authority mandate. The PLT**
9 **was under orders to act as safety watch for the removal of grounds from**
10 **high voltage feeder cables". As the Application has not addressed this**
11 **issue, then:**

12 **Q4.1 Does FortisBC hold a contractor's licence to perform work for**
13 **entities that are subject to the *Safety Standards Act*?**

14 A4.1 FortisBC holds electrical contractor licence # 37050 (FRS no. 50518).

15

1 **Q4.2 Does FortisBC hold an operating permit or construction electrical permit**
2 **when performing for work for other entities?**

3 A4.2 FortisBC does not have operating or construction electrical permits when
4 performing work for other entities because based on section 3(1) of the
5 Electrical Safety Regulation, FortisBC is not required to hold such permits when
6 performing work for other entities related to its function as a utility. The
7 relevant provision of the Electrical Safety Regulation is provided below.

8 ***Safety Standards Act***

9 **ELECTRICAL SAFETY REGULATION**

10 [includes amendments up to B.C. Reg. 134/2009, April 1, 2009]

11 **Application to utilities**

12 **3 (1) This regulation, except for section 3.1, does not apply to a public**
13 **utility as defined in the *Utilities Commission Act* in the exercise of its**
14 **function as a utility with respect to the generation, transmission and**
15 **distribution of electrical energy.**

16 [am. B.C. Reg. 198/2006, s. (a).]

17 **Q4.3 When FortisBC supplies services to the City of Kelowna, Arrow Lakes**
18 **Power Corporation, Brilliant, Brilliant Expansion Power Corporation,**
19 **Waneta, or Fortis Pacific, do the assigned employees come under the**
20 **British Columbia Safety Standards Act? If not, why not? Please explain.**

21 A4.3 When FortisBC supplies services to the City of Kelowna, Arrow Lakes Power
22 Corporation, Brilliant, Brilliant Expansion Power Corporation, Teck Resources

1 Ltd., or FPHI, the assigned employees do come under the Safety Standards
2 Act. However, section 3(1) of the Electrical Safety Regulation specifically
3 exempts utilities such as FortisBC from certain requirements.

4 **Q4.4 Does Fortis Pacific hold all required electrical licences and electrical**
5 **permits to perform work for NRBs? If not, why not? Please explain.**

6 A4.4 FPHI does not hold electrical licences and permits to perform work for NRBs
7 because it does not engage in performing any work. The electrical work is
8 subcontracted to FortisBC.

9 **Q4.5 Suppose that a FortisBC employee is transferred to work for an NRB.**
10 **During that assignment, they are involved in an incident which leads to a**
11 **long term disability. Please confirm that any associated costs incurred**
12 **(e.g. replacement costs, lost productivity, etc.) will be entirely paid by the**
13 **NRB rather than FortisBC. If that is not the case, then explain how those**
14 **costs will be allocated.**

15 A4.5 Yes, the NRB would be responsible for the costs.

16 **5.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
17 **Policy, p. 10**
18 **Analysis of Cost-Based Loadings**

19 **“The 2008 corporate support O&M costs were adjusted for costs that**
20 **would not be applicable to NRBs (for example, the cost of external**
21 **auditors) and corporate support costs that were direct charged to NRBs**
22 **were added back to arrive at a revised O&M actual cost by department.”**

23 **Q5.1 Please provide a detail list of all costs added back in the calculation.**

1 A5.1 Approximately \$0.123 million of Finance and Purchasing costs that were direct
2 charged to the NRB were added back to net regulatory General and
3 Administrative expense of \$19.001 million. Those costs were added back to
4 arrive at the 2008 O&M amount of \$19,124. The charges relate to the cost
5 recovery of various services including, procurement services, payment services
6 and cost accounting and reporting services.

7 **Q5.2 Please explain how all costs added back are not relevant to NRBs.**
8 **Specifically, explain why costs such as the annual external audit fee are**
9 **not impacted by the growth of overall FortisBC operations which are**
10 **partially a result of new NRB ventures.**

11 A5.2 The reference in the question should be to costs deducted, not added back.
12 \$1.701 million in expenses not applicable to NRBs have been subtracted from
13 the total for allocation to the NRB as these expenses can be specifically tied to
14 the regulated entity.

15 • \$0.200 M Training – has been reduced to recognize that the NRB
16 should only pay an allocation for training that is required in order to provide
17 service to the NRB. That training is primarily compliance trades training.
18 As noted in response to Q11.3, training needs specific to non-regulated
19 activities are direct charged. The \$200,000 deducted relates to employee
20 and professional development training that is not required by statute or
21 regulations.

22 • \$1.251 M Insurance – Property insurance expense has been
23 subtracted from the total cost of insurance as the NRB owns minimal
24 property. The balance remaining is for liability insurance and since the
25 NRB owns minimal property the Company determined that liability
26 exposure was more aptly based on a pro rata revenue ratio.

- 1 • \$0.250 M Finance & Accounting – excludes external audit fees as this
2 expense is 100% attributable to auditing the regulated entity. If NRB
3 activity increased or decreased significantly the audit fees would remain
4 the same.

5 **Q5.3 Please describe how adding back certain costs in the loading calculation**
6 **has impacted the process of prorating costs over an entire population.**
7 **Specifically, does adding back such costs reduce the denominator in the**
8 **calculation to determine unit loading rates?**

9 A5.3 Adding back the direct-charged costs has the effect of increasing the amount
10 that must be recovered from the NRBs. If the direct charges had not been
11 added back the “Total for Allocation” would be reduced and the amount
12 allocated to the NRB would also be reduced.

13 The denominator would not be reduced since the actual costs recovered from
14 the NRB would not be reduced.

15 **6.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
16 **Policy, p. 13**
17 **Determination of Facilities Rental**

18 **“O&M work for the facility, as for all of FortisBC’s generation O&M, is**
19 **managed and controlled by a work order system, within which each task**
20 **has an associated labour hour estimate.”**

21 **Q6.1 Please confirm that this work order system tracks actual O&M hours**
22 **worked against the estimated hour amount contained in the work order.**

23 A6.1 Confirmed.

1 **Q6.2 Please describe how FortisBC monitors employee workloads in the**
2 **regulated business. Specifically, describe processes to determine and**
3 **track O & M staff utilization and also discuss any controls that exist to**
4 **identify unused staffing capacity within regulatory operations.**

5 A6.2 FortisBC monitors employee workloads in the regulated and non-regulated
6 business concurrently. The annual workload forecast is prepared each year for
7 regulated and non-regulated work and is distributed to the Superintendents and
8 Foremen. This work plan forms the basis of week to week resource planning,
9 and is reviewed monthly throughout the year to adjust for any changes in the
10 proposed work, either in the regulated or non-regulated business.

11 Full utilization of resources is ensured through regular review of labour
12 forecasts and schedules. In addition, as noted in the Revised Code of
13 Conduct and Transfer Pricing Policy submitted on March 31 (pp. 11),
14 FortisBC

15 “employs a permanent labour force that is able to meet the
16 operating, maintenance and sustaining capital work for the
17 Company’s own plants as well as the long term facility
18 management agreements for third party-owned assets.
19 Additional resourcing necessary to carry out major capital
20 projects and any additional short term work is managed through
21 the use of temporary workers and contractors.”

22 By maintaining a core of employees sufficient to meet long term operating and
23 maintenance needs, FortisBC is able to optimize capacity by adding temporary
24 employees and contractors as required to meet short term contractual
25 requirements as well as labour for large capital projects.

26 Control is achieved primarily through monthly budget reviews, with the labour

1 forecasts tied directly to the corporate budgeting process. Any variances in
2 planned budgets to actual/ forecast expenditures are subject to investigation
3 and explanation. Forecasts are updated quarterly (both resources and budget)
4 to permit time for mitigating measures if required.

5 **Q6.3 Please provide details of how many incremental full time O & M staff**
6 **equivalents are employed by FortisBC in order to service NRB and the**
7 **total cost of their services. Also discuss how this amount compares to**
8 **the total O&M labour allocation made to NRB.**

9 A6.3 Table 6.3 below provides the requested information for 2008.

Project No. 2698560: Revised Code of Conduct
Requestor Name: British Columbia Utilities Commission
Information Request No: 1
Request Date: June 23, 2009
Response Date: July 8, 2009

	Head count	Cost	Hours	FTE
Supervision and Management	23	438,090	4,116	2.5
Engineering	12	92,563	1,073	0.7
Total Exempt	35	530,654	5,189	3.2
COPE				
Finance	3	82,296	511	0.3
Customer Service	1	10	0	0.0
SCM (Buyers/Contract Specialists)	4	7,890	153	0.1
Designers/Design Group	9	58,826	984	0.6
Project Coordinators	3	15,161	300	0.2
Dispatch Coordinator	1	13,470	323	0.2
IT Tech	1	13,001	215	0.1
Eng. Asst	1	378	8	0.0
P&C Technologist	1	1,330	22	0.0
Sr AM/FM Data Tech	1	484	8	0.0
Tech Draftsperson	5	24,113	275	0.2
Admin Asst	5	102,342	1,439	0.9
Total COPE	35	319,301	4,236	2.6
IBEW				
CPC Tech	6	29,590	451	0.3
Equip Operators	4	77,078	1,192	0.7
Helper	8	25,225	444	0.3
Floorman	2	1,444	27	0.0
Journeyman and/or PLT	86	1,898,082	22,973	14.0
Labourer	3	66,725	1,005	0.6
Super Journeyman	5	27,309	276	0.2
Apprentices	12	23,015	434	0.3
Total IBEW	126	2,148,468	26,801	16.3
TOTAL	196	2,998,423	36,227	22.0

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5

All of the labour costs in the table above are direct charged to the NRBs.
Included are \$123,000 of General and Administrative costs that were also
direct charged. There are no allocated labour charges included.

1 **Q6.4 Please provide the total headcount of FortisBC employees involved in**
2 **providing services to NRBs. Segment the headcount into functions.**

3 A6.4 Please see Table 6.3 above.

4 **7.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
5 **Policy, p. 11**
6 **Resource Management**

7 **“As noted in its response to BCUC IR No.1, Q2.6 dated November 24,**
8 **2008, FortisBC employs a permanent labour force that is able to meet the**
9 **operating, maintenance and sustaining capital work for the Company’s**
10 **own plants as well as the long term facility management agreements for**
11 **third party-owned assets. Additional resourcing necessary to carry out**
12 **major capital projects and any additional short term work is managed**
13 **through the use of temporary workers and contractor.”**

14 **Q7.1 Please confirm that no temporary or contract workers are utilized on**
15 **regulated operations.**

16 A7.1 Not confirmed. Temporary and contract workers are integrated into crews for
17 regulated and non-regulated projects. As described in Exhibit B-1, page 11,

18 “In all cases, the company endeavours to work productively and
19 efficiently, and achieves this goal by ensuring that all crews are
20 assembled with a proper mix of experience. This experience mix is
21 maintained by assigning FortisBC permanent employees to act as
22 project Charge Hands and Lead Hands. Temporary employees are
23 mixed into the labour force considering their experience and abilities to
24 ensure that projects and tasks are staffed by an appropriate level of
25 experienced workers.”

1 **Q7.2 Please quantify, as a percentage, the variance in cost to FortisBC**
2 **between an hour of time from a temporary worker verses a permanent**
3 **staff with similar skills and qualifications.**

4 A7.2 All employees subject to FortisBC's collective agreements (both temporary and
5 permanent) are paid at the same wage rates.

6 **Q7.3 Please describe how temporary staffing is managed including who**
7 **performs recruiting, interviewing, hiring, and laying-off such individuals.**
8 **Include a description of what department is responsible for these**
9 **functions and an approximate cost factor related to the activities**
10 **described.**

11 A7.3 Recruitment of temporary staff is similar to permanent staff. Prospective
12 employees undergo an interview and a series of reference checks prior to hire.
13 Once hired, a temporary worker may be recalled provided the time between
14 recall is not excessive. Temporary staff is hired for specific projects with start
15 and end dates, although the Company reserves the right to extend or terminate
16 a temporary employee as the business need requires. All temporary employee
17 offer letters include language permitting the Company to end their work term
18 with a minimum of two weeks' notice.

19 Temporary work requirements are identified as part of the yearly labour
20 forecasts. All hours in excess of the available hours from permanent staff are
21 identified on a monthly basis. A monthly plan for temporary workers is then
22 prepared and followed throughout the year. As with all other work planning
23 processes, these requirements are reviewed on a monthly basis to manage
24 changes throughout the year.

25 The recruitment involves the services of one of the recruitment staff from the
26 FortisBC HR department working in conjunction with the hiring supervisor at an

1 approximate cost of \$1000.00, which is recovered from the NRB through the
2 G&A loading.

3 **Q7.4 As no incremental costs were incurred related to the addition of NRB**
4 **operations within existing facilities, did FortisBC regulated operations**
5 **contain unused capacity in these facilities so that resources and assets**
6 **were otherwise idle or available for use by NRB?**

7 A7.4 No. Please see the response to Q2.2 above.

8 **Q7.5 How is FortisBC compensated by the NRBs for providing standby**
9 **resources? What is the calculated benefit to the NRB for providing a**
10 **standby resource?**

11 A7.5 A standby Power Line Technician is dedicated to the City of Kelowna
12 operations and direct charged. Standby services are shared among the third
13 party generating facilities and premiums are direct-charged to the NRB for each
14 of the subcontracts.

15

1 **8.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, p. 15**
3 **General and Administrative Loading**

4 **“Subcontract G&A functions in regard to NRBs are characterized by**
5 **economies of scale – that is, the additional workloads associated with**
6 **those general and administrative tasks are absorbed by existing**
7 **employees.”**

8 **Q8.1 Please describe how FortisBC monitors employee capacity in the**
9 **regulated business. Specifically, describe processes to determine and**
10 **track how utilized administrative staff members actually are and also**
11 **describe any controls in place to identify and track any unused staffing**
12 **capacity within regulatory operations.**

13 A8.1 FortisBC does not have a formal process to monitor employee utilization but
14 instead relies on extensive budgeting and forecasting controls. Management is
15 also able to gauge employee utilization by monitoring departmental
16 performance metrics and other indicators such as overtime hours.

17 **Q8.2 Please provide details of how many incremental full time G & A**
18 **equivalents are employed by FortisBC in order to service NRB and**
19 **quantify the total cost of their services.**

20 A8.2 There are no incremental employees in the G&A category associated with
21 service to NRBs. Please also see the response to Q8.3 below. The total cost
22 to NRBs (including G&A direct charged) is \$405,000, as shown in Attachment E
23 of Exhibit B-1.

1 **Q8.3 As additional workloads were absorbed by existing G & A staff, did**
2 **FortisBC’s regulated operations contain unused staffing capacity such**
3 **that resources and assets were otherwise idle or available for use by**
4 **NRB?**

5 A8.3 No. The additional workloads were primarily absorbed as employees gain
6 experience and adopt more efficient work practices.

7 **9.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
8 **Policy, p. 17, Table 2**

9 **FortisBC Services to NRBs: Market Value**

10 **Q9.1 Table 2 of the Application, “Scope of Available Services, Compared to**
11 **FortisBC’s Brilliant Expansion Operating Services,” indicates that, other**
12 **than Corrosion Control, Dispatch Service, and Environmental Monitoring,**
13 **alternative providers could supply those services.**

Table 2
Scope of Available Services, Compared to FortisBC’s Brilliant Expansion Operating Services

Services	Martech Electrical Systems	BC Enertech	West Kootenay Mechanical	Hinz Automation	AMEC	Ridgeview Industrial	Redwood Engineering	GE	EMPAC Engineering	Hatch Energy	ABB	T-Ray Engineering
Safety Management	X	X	X									
Hydro Plant Operators		X										
Electrical Tradesmen	X					X		X			X	
Mechanical Tradesmen	X		X			X		X			X	
Welding	X		X			X		X			X	
Corrosion Control												
IT		X			X					X		
Controls Expertise	X	X		X	X		X	X	X	X	X	X
Dispatch Service												
Engineering	X	X	X	X	X		X	X	X	X	X	X
Project management	X	X		X	X		X	X	X	X	X	X
Planning		X		X	X			X	X	X		
Contract Services	X	X			X					X		
Environmental Monitoring												
Security Services	X	X										
Site Maintenance	X	X										

14

1 **Q9.1. What is the cost differential between the proposed Brilliant Expansion**
2 **Operating Services Agreement (net of Corrosion Control, Dispatch**
3 **Service, and Environmental Monitoring), versus what could have been**
4 **provided by the following supplier combinations:**

5 **Q9.1.1 BC Enertech and Ridgeview Industrial.**

6 A9.1.1 FortisBC does not know what cost structure a partnership
7 between these two organizations would be, and therefore
8 cannot project what cost differential may exist.

9 **Q9.2.2 BC Enertech and Martech Electrical Systems.**

10 A9.2.2 Please see the response to Q9.1.1 above.

11 **10.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
12 **Policy, p. 18**
13 **FortisBC Services to NRBs: Market Value**

14 **“The RMDM Guidelines state that ...’*if the service provided by the utility***
15 ***to the related- NRB could also be obtained from an independent supplier,***
16 **the price paid by the related- NRB to the utility should be no less than the**
17 **competitive market price and will never be below the incremental cost**
18 **(emphasis added).” As demonstrated above, the service provided to FPHI**
19 **in respect of the Brilliant Expansion Subcontract could not be obtained**
20 **by an independent supplier in the area.**

21 **Q10.1 On what basis does FortisBC interpret the emphasised portion of the**
22 **quote from the RMDM Guidelines to be limited to suppliers “in the area”?**

23 A10.1 Given the long term nature of these NRB contracts it is FortisBC’s opinion that

1 any contractor wishing to service them would have to establish a presence in
2 proximity to the Kootenay River generating plants to be cost effective and
3 competitive.

4 **Q10.2 Please define “area” as used in the citation, and explain why that**
5 **definition is reasonable for the purpose of determining a competitive**
6 **market price.**

7 A10.2 The contractors identified in Table 2 (see 9.0 above) are based primarily in the
8 Castlegar/Nelson/Trail area but include companies in Cranbrook, Kamloops
9 and Vancouver. FortisBC believes it has made reasonable efforts to identify
10 potential providers for these services.

11 **11.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
12 **Policy, p. 19**
13 **Benefits to FortisBC Customers of Non-Regulated Business**

14 **“Associated costs are fully recovered and the work is managed so as not**
15 **to adversely affect the regulated utility work.”**

16 **Q11.1 Please explain how workload is managed so as to not adversely affect**
17 **regulated utility work. Specifically, were additional employees hired (if so**
18 **how many full time equivalents at what cost) and did capacity exist in the**
19 **workloads of existing employees. How are workloads managed and**
20 **monitored to ensure that staffing levels are appropriate and that**
21 **unused capacity does not exist within regulatory operations.**

22 A11.1 Please see the responses to Q6.2 and Q8.3 above. FortisBC did not have
23 “unused capacity” at any time within regulated utility operations. It must be
24 recognized that economies of scale play a role in the ability of the Company to

1 deliver the services to NRBs with minimal additions to complement existing
2 resources.

3 **“If FortisBC were to discontinue all non-regulated third party work**
4 **(related to the Brilliant Expansion, Arrow Lakes Hydro and the City of**
5 **Kelowna subcontracts) the overall revenue impact is would be**
6 **approximately \$ 0.9 million with a corresponding rate impact of 0.4**
7 **percent.”**

8 **A11.2 Please quantify the overall cost impact to FortisBC should the NRB be**
9 **discontinued. This should include cost savings for unutilized**
10 **employees.**

11 A11.2 The 0.9 million reflects the additional revenue requirements should FortisBC
12 not be engaged in NRB work and includes the anticipated effect of reduced
13 economies of scale. There would be no cost savings for “unutilized”
14 employees. The discontinuance of services to NRBs would not result in lower
15 labour costs to the regulated business for those tasks, such as General and
16 Administrative that are characterized by economies of scale.

17 **“FortisBC employees gain experience in a wide variety of systems and**
18 **equipment, improving their skills and providing value, including, in**
19 **FortisBC’s opinion, increased productivity to the regulated portion of the**
20 **business.”**

21 **Q11.3 Please confirm that personal of NRB operations require expanded skills**
22 **than those required by standard regulatory personal.**

23 A11.3 No non-standard skills are required for the City of Kelowna subcontract. The
24 majority of skills required to operate and maintain a generating facility are
25 common between the regulated and non-regulated plants. Training costs for

1 these common skills is allocated to the regulated and non-regulated activities
2 as a component of labour loadings in the case of the City of Kelowna
3 subcontract, or in the Generation Absorption Rate in the case of generation
4 subcontracts.

5 The NRB contracts involve operating generating equipment that utilizes Kaplan
6 type turbines and their associated controls, while the FortisBC plants utilize
7 Francis type turbines and controls. To this extent, the skill set required to work
8 on the NRB units is different. The training of employees to maintain this
9 equipment has been direct charged to the owner.

10 **Q11.4 Please discuss if employees utilized in NRB operations are those with**
11 **greater experience, skill and ability than those employees utilized in NRB.**
12 **Specifically, are the most capable employees used in NRB with less**
13 **capable employees utilized in regulatory operations?**

14 A11.4 No, as described in the response to Q6.2 above, FortisBC engages in an
15 extensive work planning process each year. Employees are assigned to
16 regulated and non-regulated projects depending on their specific skill sets and
17 the requirements of that project. The needs of the regulated business are
18 considered in all resourcing decisions. The Company makes every effort to
19 ensure that all crews have a proper mix of skills and experience to perform
20 work in the most efficient manner.

21 **Q11.5 Please clarify if working within NRB creates the requirement for**
22 **additional training not otherwise needed in the operations of regulated**
23 **business. Also discuss if NRB staff typically receive basic training within**
24 **regulatory operations prior to being assigned to NRB operations.**

25 A11.5 Please see the response to Q11.3 above regarding training requirements.

1 Compliance training is mandatory for personnel working in regulated and non-
2 regulated activities.

3 **Q11.6 Please provide i) an average number of training hours per person as**
4 **incurred by O&M personal working exclusively in regulated operations;**
5 **and ii) an average number of training hours per person as incurred by**
6 **O&M personal working in NRB.**

7 A11.6 FortisBC provides mandatory compliance training (mandated by or related to
8 regulatory agencies such as WorksafeBC, or the Ministries of Transportation
9 and Infrastructure or Environment) to all employees working in both regulated
10 and non-regulated activities. Hours of training varies from year to year but on
11 average, training hours per person (IBEW) is around 110 hours per year to
12 provide all the mandatory compliance training.

13 Technical training to enable employees to operate the different systems as
14 identified in the response to Q11.3 is conducted on an as needed basis, and is
15 approved and paid for directly by the owner of the facilities. FortisBC
16 endeavors to ensure a wide variety of employees receive this training (subject
17 to approval) to broaden their technical knowledge and improve flexibility in
18 providing services.

19

1 **12.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment A, p. 1**
3 **Section 1, Services and Personnel**

4 **Section 1 of the Code of Conduct indicates that employees of FortisBC**
5 **can freely transfer between regulated and NRB operations so long as**
6 **sections 3 and 4 of the Code of Conduct are not compromised in relation**
7 **to confidentiality.**

8 **A12.1 Please explain if such a transfer between regulated and NRB should be**
9 **acceptable if it will compromise the Code of Conduct section 5 and 6 with**
10 **regards to preferential treatment.**

11 A12.1 No. All sections of the Code of Conduct are applicable to transactions between
12 FortisBC and NRBs.

13

1 **13.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment A, p. 2**
3 **Section 5, Inter-company Procurement Policy**

4 **Section 5 of the Code of Conduct indicates that FortisBC will not give any**
5 **of its affiliated NRB preference in bids to source services to regulated**
6 **operations.**

7 **Q13.1 Please clarify if the department at FortisBC responsible for awarding**
8 **procurement will also have any responsibilities or involvement with NRB**
9 **activities? If so, please clarify how FortisBC intends to ensure no**
10 **preferential treatment is given by these individuals.**

11 A13.1 The Supply Chain Management group at FortisBC may have involvement with
12 NRB activities but is required to abide by the Code of Conduct and Business
13 Ethics policies of FortisBC.

14 The Code of Conduct requires that:

15 *“FortisBC must remain prudent and unbiased in sourcing services from an*
16 *NRB. The NRB services must be judged by the same criteria as any other*
17 *provider of services. FortisBC will ensure that evidence of prudence and*
18 *objectivity exists whenever services are procured from the NRB.”*

19 In addition, FortisBC’s Business Ethics policy requires that:

20 *“Employees must observe the highest standards of business and personal*
21 *ethics while performing their work or otherwise representing the*
22 *Company.”*

23

1 **14.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment A, p. 2-3**
3 **Section 6, Preferential Market Treatment**

4 **Section 6 of the Code of Conduct indicates that FortisBC will not give any**
5 **of its affiliated NRB market preference over any other third party. Section**
6 **6 also indicates that FortisBC will not give or suggest preferred treatment**
7 **to any customers of the NRB.**

8 **Q14.1 Please explain how FortisBC plans to ensure that preferential treatment**
9 **of NRB customers will not be given, expected or implied if all NRB**
10 **customers are contracted with and managed by FortisBC. Will third**
11 **parties not be under the assumption that they are dealing with a single**
12 **entity, not two separate entities?**

13 **A14.1** For clarity, NRB customers contract with FPHI, not FortisBC as stated in the
14 question.

15 Section 6 of The Code of Conduct precludes FortisBC from giving or implying
16 preferred treatment for the same or similar services in comparison to non-
17 customers of the NRB, or perhaps, with respect to FortisBC's own
18 requirements, or in any other matter. FortisBC employees are expected to
19 comply with the Code of Conduct in all respects, and complaints about the
20 application or breaches of the Code of Conduct will be promptly investigated in
21 accordance with section 8.

22 FortisBC does not believe that the NRB's customers consider FortisBC and
23 FPHI to be a single entity, as each of the contracts between FPHI and its
24 customers clearly contemplates that FPHI will subcontract the services.

1 Please also refer to the response to Q13.1 above.

2 **Q14.2 Please confirm that market management of NRB is conducted by the**
3 **same parties that conduct management functions of NRB. If so, please**
4 **explain processes that will be used to ensure that staff do not exercise a**
5 **natural bias to provide preferential treatment over third parties due to the**
6 **close working relationship of the regulated and NRB.**

7 A14.2 FortisBC does not understand the distinction that is being made in the first part
8 of the question. Please see the response to Q14.1 and Q14.3 with regard to
9 the Code of Conduct provisions regarding preferential treatment of the NRBs'
10 customers.

11 **Q14.3 Describe how FortisBC plans avoid preferential treatment of the NRB if**
12 **the management team which oversees the activities of FortisBC is also**
13 **the same management team that oversees NRB performance.**
14 **Specifically, how does FortisBC plan to direct and evaluate management**
15 **performance in such a way as to ensure that management does not have**
16 **a conflict of interest to ensure optimal performance of both regulatory**
17 **and NRB business units.**

18 A14.3 FortisBC believes that the mechanisms set in place by the BCUC which
19 regulate the Company are adequate to ensure a conflict of interest would not
20 exist between its regulated and non-regulated businesses. FortisBC's
21 management team is required to comply with the Code of Conduct, which
22 defines the conditions under which the Company may do business with its
23 NRBs. As part of this Code of Conduct FortisBC employees shall not give
24 preference to NRBs or to customers of NRBs. Preferential treatment to NRBs
25 over regulated work would detrimentally affect the Company's performance in
26 its regulated business and would be disincented through the regulatory

1 constructs set out by the Commission.

2 The management of the Company is responsible for ensuring satisfactory
3 performance of the Company which meet the requirements and expectations of
4 its regulator and other stakeholders. The Company's PBR agreement allows
5 for an incentive to be paid to the Company for satisfactory performance both
6 financially and operationally in its regulated activities. In addition, capital
7 projects are initially approved and subsequently reviewed through the
8 Company's reporting by the Commission ensuring the Company is acting
9 prudently and in the public interest. The Company's expenditures are reviewed
10 through its capital plans and revenue requirements. The Company has
11 performed well to date under these mechanisms while engaging in non-
12 regulated activities. Provided that the Company is performing satisfactorily
13 under the standards set by the regulator any non-regulated work that is done in
14 compliance with the Code of Conduct should not be a conflict with the
15 regulated work. In fact, in FortisBC's case the non-regulated work provides
16 operational and financial benefits to the Company's regulated ratepayers.

17

1 **15.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment A, p. 3**
3 **Section 10, Use of Name**

4 **New wording for section 10 of the code of conduct indicates that NRB can**
5 **carry on business with and mention an affiliation FortisBC without**
6 **commission approval.**

7 **Q15.1 Please explain why NRB should be allowed to make affiliations to**
8 **FortisBC and its associated regulated business without commission**
9 **approval. Specifically, address how such affiliations will benefit the**
10 **safety, convenience or service to the public with regards to preferential**
11 **treatment.**

12 A15.1 The Fortis name has been affiliated with both regulated and non-regulated
13 businesses (including work typically done by utilities) prior to the acquisition of
14 the FortisBC. Any affiliations made related to FortisBC specifically are only as
15 a result of the subcontracting arrangements which are approved by the
16 Commission. Therefore, any affiliations to FortisBC are ultimately approved by
17 the Commission. In addition, the ratepayers of FortisBC benefit both
18 operationally and financially from the NRBs.

19 **Q15.2 Please explain why FortisBC believes that it should carry on all NRB in**
20 **the name of FortisBC and not in the name of any other entity that is**
21 **known to be an affiliate.**

22 A15.2 NRB work is done in the name of Fortis Pacific Holdings Inc. The Fortis name
23 has been affiliated with both regulated and non-regulated businesses (including
24 work typically done by utilities) prior to the acquisition of the FortisBC. Any

1 affiliations made related to FortisBC specifically are only as a result of the
2 subcontracting arrangements which are approved by the Commission.

3 **16.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
4 **Policy, Attachment C,**
5 **Transfer Pricing Policy, p. 1**
6 **Cost-Based Loadings**

7 **“Loadings are defined as the recovery of costs that, by their nature,**
8 **would be administratively prohibitive to charge directly to each business**
9 **activity. Loadings will be calculated based on the expected actual cost of**
10 **the expense and allocated on a reasonable and consistent basis. When**
11 **cost of capital is used in calculating loadings, it will be the weighted**
12 **average cost of capital of the utility. Where applicable, loadings will be**
13 **the same as those used for all other FortisBC activities.”**

14 **Q16.1 If affiliated NRBs receiving services from FortisBC’s were instead**
15 **operations integrated into the regulated company, how would that change**
16 **the cost allocation percentages, and applicable loading rates, compared**
17 **to those proposed in the Application? Please provide example**
18 **calculations illustrating each of the loading rates for service-receiving**
19 **NRBs under a non-integrated relationship (i.e., per the Application) and**
20 **what the integrated loading rates would be (i.e., in support of the first part**
21 **of the question, above).**

22 **A16.1 If affiliated NRBs were integrated into the regulated company, the regulated**
23 **company would no longer recover the G&A Loading of 5.5% or the 10% profit**
24 **margin associated with the NRB. All of the other loadings would remain the**
25 **same. The impact to revenue requirements would be approximately \$ 0.9**

1 million, with an associated rate impact of 0.4%.

2 **Q16.2 The labour contracts indicate that personnel may be assigned to either**
3 **FortisBC or NRB operations, with no loss of seniority. Assuming that**
4 **FortisBC has more personnel than any individual NRBs, a marginal**
5 **employee would represent a greater cost to the NRB rather than to**
6 **FortisBC. How does this arrangement not result in a transfer of costs**
7 **from the service-receiving NRBs to FortisBC ratepayers?**

8 A16.2 FortisBC does not understand the assumption being made in this question.
9 The recovery of the G&A Loading and Profit Margin arrangement does result in
10 a reduction of costs to the regulated business.

11 **Q16.3 Please explain how transaction costs associated with labour recruitment**
12 **are allocated between FortisBC and the affiliate. Does the allocation**
13 **reflect the unit to which each person is assigned?**

14 A16.3 A pro rata allocation of labour recruitment costs are allocated to NRB as part of
15 the Human Resource G&A loading recovery as shown in Attachment E to
16 Exhibit B-1. There is no differentiation by the department the employee is
17 assigned, however if recruitment was required for a position to be dedicated to
18 the non-regulated work, costs for that position would be direct charged.

19 **17.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
20 **Policy, Attachment C, p. 2**
21 **Section 5, Annual Review**

22 **This proposed review policy requires an annual review of prices to**
23 **ensure they are accurate, appropriate and consistent with guidelines.**

1 **Q17.1 Please clarify if this evaluation includes a review of all numerical inputs**
2 **and cost assumptions used to calculate load rates and allocation rates**
3 **for cost allocation. Specially, discuss if Loading Rates as presented in**
4 **Attachment D be recalculated based on current information on an annual**
5 **basis**

6 A17.1 Yes, the annual evaluation will include a review of all numerical inputs and
7 cost assumptions used to calculate loading rates and if the Company
8 determines that there has been a material change the rates would be adjusted.

9 **18.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
10 **Policy, Attachment C, p. 3**
11 **Section 7, Transfer Pricing Procedures**
12 **Labour Loading**

13 **“Wherever practicable, employees working on behalf of the NRB will**
14 **charge out their time to the NRB”**

15 **Q18.1 Please clarify the meaning of “practicable”. What factors would make it**
16 **impracticable to determine if services were for the NRB. In an average**
17 **employee’s day, what percentage of time would be spent on activities that**
18 **would be impracticable to divide between regulated and non-regulated**
19 **operations? Discuss if FortisBC believes that it is reasonable that in**
20 **situations where employees provide services to both regulated and non-**
21 **regulated activities simultaneously, that the full cost of these services**
22 **should be absorbed by the regulated operations?**

23 A18.1 If an employee can determine that a certain portion of their work is directly
24 attributable to providing services to a NRB, those employees will direct charge
25 those hours. Alternately, if an employee provides services to both regulated

1 and NRB, but the services cannot be directly attributable to one or the other
2 business, an estimate of the time and expense spent supporting the NRB is
3 charged to the NRB.

4 **Q18.2 Please explain why it is reasonable that supervisory and engineering time**
5 **directly attributable to the NRB should not be charged to that entity**
6 **because it is captured in Generation Absorption costs.**

7 A18.2 Any time, including supervisory and engineering, that can be directly
8 attributable to a NRB is direct charged to the NRB. The Generation Absorption
9 rate is intended to capture costs that are difficult to direct charge and support
10 both the regulated and non-regulated work.

11 The Generation Absorption costing model, allocates all Generation overheads
12 to FortisBC Operating, FortisBC Capital and NRB activities based on the
13 number of hours worked on the respective activities by FortisBC Generation
14 employees. The Generation Absorption costing model thereby provides a
15 reasonable distribution of supervisory and engineering time according to the
16 relative effort required to support FortisBC Operating, FortisBC Capital and
17 NRB activities.

18 **Q18.3 Please clarify if Labour costs will be allocated between NRB and the**
19 **regulated operations over the available hours or over the total assigned**
20 **hours of the employee.**

21 A18.3 Labour costs are allocated between NRB and the regulated operations on the
22 total available hours.

23

1 **Q18.4 Please provide the calculation to support a labour loading rate of 72.5%**
2 **including a breakdown of costs included in labour the loading pool plus a**
3 **clear description of the method to calculate the resulting percentage.**

4 A18.4 The Labour Loading rate of 72.5% is the same fringe benefit loading rate used
5 across all of FortisBC's activities, and includes the following:

- 6 Canada Pension Plan premiums (Company portion)
- 7 Education Assistance
- 8 Employment Insurance premiums (Company Pension)
- 9 Incentive Pay
- 10 Medical/Dental Benefits
- 11 Pension Benefits
- 12 Post-Retirement Benefits
- 13 Provincial Medical Premiums
- 14 Sick/Paid Leave
- 15 Statutory Holidays
- 16 Vacation
- 17 Workers' Compensation Board levy

18 The 2009 rate is calculated as follows:

19	a) Total Budgeted Labour Expense	\$36,181,399
20	b) Reduced to 95% to account for vacancies	\$34,372,329
21	c) Total Budgeted Benefits Expense	\$24,919,938
22	d) Fringe Benefit Loading Rate (c/b)	72.5 %

23

1 **Vehicles**

2 **Q18.5 Please provide an example calculation of the hourly charge out rate of a**
3 **vehicle including specific details of costs included for allocation and**
4 **method of refining total costs to an hourly basis.**

5 A18.5 An example calculation follows:

	Vehicles	Fleet Facilities	Total
Gross Book Value	\$50,000	\$450,000	\$500,000
Net Book Value	35,714	300,000	335,714
Depreciation Rate	14.3%	3.3%	
Cost of Capital	7.5%	7.5%	
Capital Cost	\$2,679	\$22,500	\$25,179
Depreciation	7,143	15,000	22,143
Pro Rata share of Fleet O&M (Note)			<u>5,000</u>
			\$52,321
Forecast Utilization in Hours			1,111
Charge out rate per Hour			\$47.11

Note: Fleet O&M includes:

- Labour
- Materials
- Fuel
- Insurance
- Property Tax

26 **Q18.6 Please clarify if costs will be allocated over the available hours of the**
27 **vehicle or over the total in-use hours of the vehicle.**

28 A18.6 Costs are allocated over the forecast utilization hours for the vehicle.

29

1 **Material Loading**

2 **Q18.7 Please provide the calculation of the labour loading rate of 7% including**
3 **details of costs included in labour loading and a clear description of the**
4 **method to calculate the resulting percentage.**

5 A18.7 This question should reference the Material Loading rate of 7%. The Material
6 Loading rate is calculated by dividing the forecast Material Management and
7 Warehousing expense by the estimated Inventory turnover. Material
8 Management and Warehousing expense includes labour, material, vehicle and
9 other costs employed in the movement of material and equipment through the
10 Company's warehouses.

Forecast Material Management & Warehousing expense	\$1,678,000
Estimated Inventory Turnover	\$24,000,000
Material Load Rate (rounded)	7.0%

11

12

1 **Other Expenses (use of assets)**

2 **Q18.8 Please describe what unit of measure will be used to determine the**
3 **percentage of asset costs to be allocated to NRB in the period.**
4 **Specifically, will asset cost be allocated on the basis of total hours/days**
5 **in use, available hours/days in the year or by some other means**

6 A18.8 The allocation methodology would be dependent on the type of asset being
7 used. For example, as described in the response to BCUC IR1 Q18.5, the
8 Vehicle Charge-Out Rate includes a cost recovery mechanism that is a function
9 of the forecast utilization of the vehicle in hours. The use of other assets such
10 as Facilities would likely be charged out based on the proportionate area used
11 by the NRB as compared to the total area of the facility.

12 **Q18.9 Please provide a sample calculation of how this unit of measure will be**
13 **calculated.**

14 A18.9 As noted in the response to BCUC IR1 Q18.8 above, there would be a number
15 of different allocation methodologies depending on the type of asset. One
16 example calculation is described in the response to BCUC IR1 Q18.5.

17 **Q18.10 In the case of significant asset-usage for larger value assets, will other**
18 **asset specific-charges such as insurance, parts and servicing be**
19 **allocated to NRB based on asset usage also?**

20 A18.10 Yes, where there is significant usage of corporate assets, all the costs including
21 those associated with the asset would be charge to the NRB.

22

1 **19.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment C, p. 4 Section 7, Profit Margin**

3 **“A profit Margin will be charged on the total invoice price including G&A”**

4 **Attachment E indicates that this profit margin will be 10%.**

5 **Q19.1 Please explain why 10% is determined to be an appropriate profit margin.**
6 **Include support for such a provision.**

7 A19.1 FortisBC considers 10% to be a reasonable return on the services provided.
8 Please also see the response to Q19.2 below.

9 **Q19.2 What is the typical profit margin charged by an independent contractor?**

10 A19.2 FortisBC is aware that a number of local contractors, including contractors
11 included in its list of comparators for generation services and contractors
12 bidding on a recent FortisBC substation project, target a profit margin of 10%.

13 **20.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
14 **Policy, Attachment D, p. 6**
15 **Note to Schedule**

16 **The attachment note indicates that rates indicated in schedule 1 are in**
17 **effect at the time the schedule is written however, are subject to**
18 **adjustment from time to time.**

19 **Q20.1 Please indicate how frequently such costs will be reviewed for**
20 **appropriateness. Are there any minimum requirements for review?**

21 A20.1 Please see the response to Q17.1 above.

1 **21.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment E, p. 1**
3 **Calculation of General and Administrative Overhead Loading**

4 **Q21.1 Within the initial calculation, three amounts have been added back to the**
5 **total for allocation under the column marked “Expenses not applicable to**
6 **NRB’s”. Please explain why these items are added back including a**
7 **description of why the removal of such costs does not alter the allocation**
8 **rate of regulated to non-regulated activities.**

9 A21.1 Please see the response to BCUC IR1 Q5.2 and Q5.3.

10 **Q21.2 Please clarify what each of the 4 amounts represents which are added**
11 **together within the “NRB allocation factor”. Include a description of**
12 **where this data was obtained from and any calculations or adjustments**
13 **that were needed to produce the data. Specifically describe what the**
14 **Non-regulated activity relates to and how this amount was obtained.**

15 A21.2 Operating and Maintenance \$44.844 million

16 Represents the Total 2008 Actual Regulated Gross O&M expenses. These
17 amounts are captured in cost centres and operating orders and pulled from the
18 general ledger. No calculations or adjustments are required.

19 Capital \$101.789 million

20 Represents the Total 2008 Actual Regulated Capital expenditures. These
21 amounts are captured in capital project orders and pulled from the general
22 ledger.

23 No calculations or adjustments are required.

1 Regulated Third Party Work \$10.965 million

2 Represents the Total 2008 Actual Results for all Regulated Third Party
3 Contract Activity.

4 These amounts are captured in third party project orders and pulled from the
5 general ledger. No calculations or adjustments are required.

6 NRB Activity (s/t G&A Loading) \$5.098 million

7 Represents regulated company resources, such as labour, vehicles and
8 inventory, used in conducting NRB activity. These amounts are pulled and
9 totalled from the General Ledger.

10 No adjustments are required.

11 **Q21.3 Please explain why insurance allocations were based on a different**
12 **allocation method (using revenues as the allocating factor) from other G&**
13 **A costs.**

14 A21.3 Please see the response to BCUC IR1 Q5.2

15 **Q21.4 Please explain why an adjustment of \$123 for “Less direct Charges”**
16 **exists within the calculation.**

17 A21.4 Please see the response to BCUC IR1 Q5.1

18 **21.5 Please explain why it was determined that the NRBs’ impact on corporate**
19 **admin, communications and executive costs was minimal (0.05%).**
20 **Please describe the NRB time and resources utilized by each of these**
21 **cost centers.**

22 A21.5 The primary focus and effort of these cost centres is on the regulated entity.

1 Advertising and communication work for the NRB is minimal and not material.
2 Any significant corporate administration costs are coded directed to the NRB
3 and, aside from the monthly executive review of NRB results, very few
4 regulated resources in these cost centres can be attributed to the NRB.

5 **Q21.6 Please clarify why the calculation has indicated that “minimal effort” was**
6 **expended by FortisBC with regards to corporate oversight of NRB.**
7 **Please describe how these large, higher risk, new and unique projects**
8 **were able to occur with minimal corporate admin, and executive**
9 **involvement. Also confirm if corporate Board of director and executive**
10 **committee minutes contain sufficient detail to confirm that these**
11 **meetings did not include significant discussions or activities related to**
12 **NRB.**

13 A21.6 The Board of Directors of FortisBC were not directly involved in the approval of
14 the current NRB work at Walden, Arrow Lakes or in the City of Kelowna as
15 these services were being provided prior to the acquisition of the predecessor
16 company by FortisBC. The Board of Directors were not involved in the
17 approval of the current NRB work at Brilliant Expansion as the low dollar value
18 associated with the contract did not require the Board of Directors approval.

19 The Board of Directors of FortisBC is generally aware of all of the NRB services
20 and the associated benefits to the regulated business of providing these
21 services but since the NRBs have been well established for a number of years,
22 there is very little specific corporate oversight required.

23

1 **22.0 Reference:Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, Attachment F, p. 4**
3 **Fortis Pacific Holdings Inc. - Address**

4 **Q22.1 Please confirm the address for Fortis Pacific Holdings Inc., shown as**
5 **“25th Floor - 4700 West Georgia Street, Vancouver BC.”**

6 A22.1 Confirmed.

7 **23.0 Reference:Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
8 **Policy, Attachment F, p. 4**
9 **General and Administrative Functions: Economies of Scale**

10 **“G&A functions in regard to NRBs are characterized by economies of**
11 **scale – that is, the additional workloads associated with those general**
12 **and administrative tasks are absorbed by existing employees.”**

13 **Q23.1 Given that G&A functions feature economies of scale, explain how cost**
14 **allocators, scaled to total activity, adequately recover for FortisBC the**
15 **fixed cost components that would otherwise have to be borne by service-**
16 **receiving NRBs on their own.**

17 A23.1 FortisBC can find no reference in the Guidelines to a requirement that costs
18 charged to a NRB should be the same as would be incurred by the NRB to self
19 serve. With regard to the overall costs charged to NRBs, the G&A loading is a
20 relatively small component, and FortisBC believes that its rates are
21 comparable, for reasons described in the response to Q1.1 above.

22

1 **Q23.2** Given that G&A functions feature economies of scale, and that NRBs' are
2 smaller than FortisBC, how do cost allocators, proportional to total
3 activity, not mean that service-receiving NRBs realise cost savings that
4 they could not achieve through self-supply? If the allocators are based
5 on adjustments to capture the differences in scale, please show how that
6 was calculated.

7 A23.2 Please see the response to BCUC IR1 Q23.1

8 **24.0** Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing
9 Policy, Attachment H
10 Cost Allocation: Travel and Relocation Costs

11 **"18.05**

12 **Employees who are required to report to their headquarters at the start of**
13 **their work day will travel to and from their work place or work site, on the**
14 **Company's time. Exceptions to this are outlined below.**

15 (a) Network Service Employees

16 **Employees who take home a Company vehicle, or are assigned to a**
17 **different or a temporary headquarters, are expected to travel the first and**
18 **last 15 minutes on their own time. This 15 minutes is meant to place the**
19 **employee closer to their intended work location or job site in the**
20 **morning, and the inverse is true at the end of the day.**

21 (b) Generation Employees

22 **South Slocan or Waneta are the Generation employee's headquarters and**
23 **the locations where Generation employees are expected to start work...**

1 **“ARTICLE 19. RELOCATION PROVISIONS**

2 **The CRA rules regarding taxable vs. non-taxable benefits apply to**
3 **Marginal Paragraph 19.01.**

4 **19.01 Permanent Transfers**

5 **(a) When at the request of the Company it is necessary for an employee to**
6 **permanently change his regularly established headquarters the Company**
7 **will undertake to move or to have moved at the Company's expense such**
8 **employee's reasonable personal household effects. The Company's**
9 **obligation in this respect is in accordance with the Company's IBEW**
10 **Relocation Guidelines.**

11 **(b) The Company will pay 100% of authorized moving expenses as set out**
12 **in (a) above for an employee who has more than five years continuous**
13 **service with the Company from the date of last hire and who is**
14 **transferred following successful application for a vacancy under Marginal**
15 **Paragraph 12.01. Should an employee leave the Company within two**
16 **years of his transfer date, with the exception of an involuntary**
17 **termination, he will be required to reimburse the Company on a pro-rated**
18 **basis.**

19 **Q24.1 Please explain how travel and moving expenses, associated with**
20 **generation employees transferred to Brilliant from South Slocan or**
21 **Waneta, were apportioned between FortisBC and Brilliant during 2008?**
22 **Please provide the calculation methodology.**

23 A24.1 The FortisBC - IBEW Collective Agreement only identifies two permanent
24 headquarters, South Slocan and Waneta. All the other plants are considered

1 temporary reporting sites Brilliant site being one of these. Employees
2 permanently transferred to Waneta in 2008 as a headquarters were not
3 compensated for any moving expenses, nor has anyone been compensated for
4 permanent transfers in the past.

5 **Q24.2 Please explain how travel and moving expenses, associated with**
6 **generation employees transferred to Brilliant Expansion Power**
7 **Corporation (“BEPC”) from South Slocan or Waneta, will be apportioned**
8 **between FortisBC and BEPC. Please provide the calculation**
9 **methodology.**

10 A24.2 Brilliant Expansion is considered a temporary reporting site and employees
11 requested to report directly to that site are compensated in accordance with
12 Article 18.05 (b) of the IBEW Collective Agreement. This article provides that
13 the employee on 36 hours notice can be required to report directly to a
14 temporary reporting site and will receive a daily allowance of one-half hour
15 straight time pay for all the days they are required to do so. This Daily cost
16 including appropriate mark-ups is part of the labour cost directly charged to the
17 owner of the facility involved.

18 **25.0 Reference: FortisBC Internal Audits**

19 **A25.1 Please provide a copy of the Internal Audit plan of FortisBC for the**
20 **current and past 3 years including details of audits identified, started and**
21 **concluded during the period requested.**

22 A25.1 Please see Attachment BCUC A25.1 for the 2008 and 2009 Internal Audit
23 Plans. Formal audit plans were not submitted for 2006 and 2007.

24 Internal Audits completed during 2009:

1 Compliance: NI 52-109 for Internal Controls over Financial Reporting
2 (ICFR)
3 Disclosure Controls and Financial Reporting
4 Fraud Risk
5 IT General Controls
6 Treasury
7 Other Audits: Code of Conduct and Transfer Pricing
8 Directors' Liabilities
9 Executive Expenses
10 Fleet Management

11 Internal Audits completed during 2008:

12 Compliance NI 52-109 for Internal Controls over Financial Reporting
13 (ICFR)
14 Accounts Payable
15 Commercial Credit Card and Expense Reports
16 Customer Extensions
17 Disclosure Controls and Financial Reporting
18 Fraud Risk
19 Inventory
20 Payroll
21 Pensions
22 Property, Plant and Equipment
23 Purchasing and Contracting
24 Revenue and Accounts Receivable
25 Other Audits: Accounts Receivable Aging Review
26 Directors' Liabilities
27 Executive Expenses
28 Privacy Policy Review
29 Code of Conduct and Transfer Pricing

30 Internal Audits completed during 2007:

31 Compliance NI 52-109 for Internal Controls over Financial Reporting
32 (ICFR)
33 Accounts Payable
34 Budgeting and Regulatory
35 Customer Extensions
36 Disclosure Controls and Financial Reporting
37 Deferred Accounts
38 Fraud Risk

Project No. 2698560: Revised Code of Conduct
Requestor Name: British Columbia Utilities Commission
Information Request No: 1
Request Date: June 23, 2009
Response Date: July 8, 2009

1 General Accounting
2 Inventory
3 IT General Controls
4 Miscellaneous Revenue
5 Payroll
6 Pensions
7 Property, Plant and Equipment
8 Purchasing
9 Revenue and Accounts Receivable
10 Revenue Analysis
11 Taxation
12 Treasury
13 Other Audits: Executive Expenses
14 Directors' Liabilities

15 Internal Audits completed during 2006:

16 Compliance Internal Controls over Financial Reporting (ICFR)
17 Accounts Payable
18 Commercial Credit Card and Expense Reports
19 Commodity Taxes
20 Customer Extensions
21 Deferred Accounts
22 Disclosure Controls
23 Financial Reporting
24 Fraud Risk
25 General Accounting
26 Inventory
27 IT General Controls
28 Miscellaneous Revenue
29 Payroll
30 Pensions
31 Power Supply
32 Property, Plant and Equipment
33 Purchasing
34 Regulatory and Budgeting
35 Revenue and Power Purchase Analysis
36 Taxation
37 Treasury
38 Other Audits
39 Executive Expenses
40 Directors' Liabilities
41 Network Security Audit (Penetration Test)

1 **Q25.2 Please provide a status update on all internal audits in progress at the**
2 **current time.**

3 A25.2 The following Internal Audits are in progress:

- 4 • Miscellaneous Revenue
- 5 • Entity Level Controls survey
- 6 • Power Supply

7 **Q25.3 Please describe how internal audit findings are utilized by FortisBC.**
8 **Address how internal control and process deficiencies are addressed.**

9 A25.3 Internal audit observations and recommendations are identified during the audit
10 process and communicated to the business process owners and managers of
11 the area being audited in the Internal Audit Report. Management provides a
12 response to each recommendation, commits to an action that will be taken and
13 estimates when the action will be completed. Once the responses have been
14 received the report is submitted to the Chief Financial Officer for review and
15 approval and, when appropriate, other members of the Executive Team.

16 FortisBC's Audit Committee meets quarterly with management and receives, in
17 advance of each meeting, a report from internal audit summarizing the activities
18 for that 3-month period. The Audit Committee has a private session with
19 internal audit during the quarterly meeting during which time they can ask any
20 questions or discuss any specific details in any of the reports.

21 **Q25.4 Please confirm that internal audit reports and findings are available for all**
22 **completed audits over the past 3 years.**

23 A25.4 Copies of all internal audit reports and findings are retained by Internal Audit.

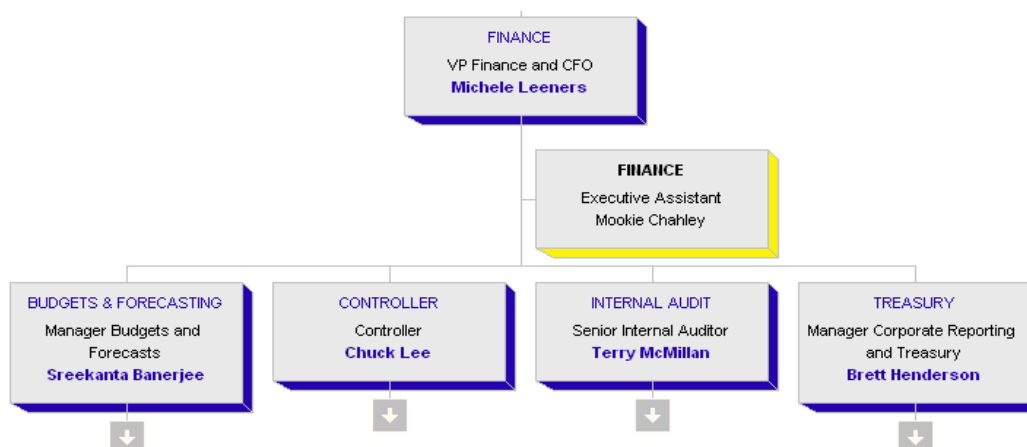
24 **Q25.5 Please provide a description and staffing diagram of the internal audit**

1 **team including a reporting hierarchy, and a description of the**
2 **qualifications and length of time each team member has been with**
3 **FortisBC in the capacity of internal audit.**

4 A25.5 The Internal Audit Department is comprised of the Senior Internal Auditor and
5 an Internal Auditor as well as occasional externally sourced consultants. The
6 Internal Audit department reports administratively to the CFO and directly to the
7 Audit Committee.

8 Senior Internal Auditor:
9 Terrence McMillan, CMA
10 Employed by FortisBC in Internal Audit since January 2005
11 Internal Auditor:
12 Janice McDowell, CGA
13 Employed by FortisBC in Internal Audit since November
14 2007

15 Members of the Internal Audit department have a combined 45 years of
16 experience in senior accounting roles.



17
18 **26.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
19 **Policy, and**
20 **BC Utilities Commission, Retail Markets Downstream of the Utility**

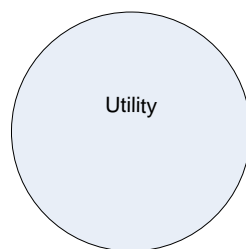
1 **Meter Guidelines**

2 **Q26.1 Please identify all instances where FortisBC is not compliance with the**
3 **currently approved Code of Conduct and Transfer Pricing Policy, if any.**

4 A26.1 FortisBC charges Labour and Material Loading rates (contained in Schedule 1
5 of the Transfer Pricing Policy) in accordance with the Revised Transfer Pricing
6 Policy in order to ensure appropriate recovery of costs. In all other material
7 respects, FortisBC is operating within the spirit and intent of the Code of
8 Conduct and Transfer Pricing Policy.

9 **Q26.2 Please describe how FortisBC’s corporate structure reflects the**
10 **principles described in Section 5.1.4 of the BCUC Retail Markets**
11 **Downstream of the Utility Meter Guidelines.**

12 A26.2 *Guideline i) If a natural monopoly exists for the good or service, it should*
13 *be provided as a regulated tariff item (Corporate Structure 1 in Figure 4).*



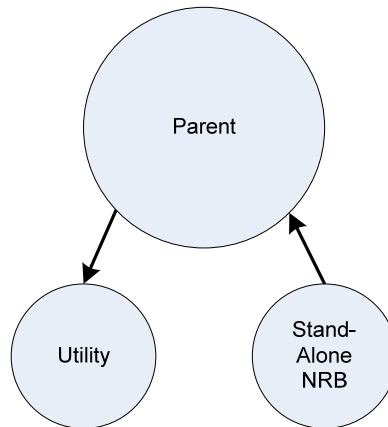
14
15

16 Corporate Structure 1 represents FortisBC’s regulated business.

17 *Guideline ii): Utility participation in the unregulated downstream market by*
18 *completely stand-alone NRBs using no utility resources is the preferred*
19 *option since it provides the maximum protection to utility ratepayers*
20 *(Corporate Structure 4 in Figure 4). Variations from this option should be*
21 *undertaken only when it can be shown that this option would result in*
22 *substantial stranded costs for the utility and/or that a transfer pricing policy*

1

mechanism will act to provide sufficient protection for ratepayers.



2

3

The guideline permits variations from this corporate structure when it can be shown that the transfer pricing policy provides sufficient protection to ratepayers. In the case of FortisBC's non-regulated activities, the Transfer Pricing Policy not only protects ratepayers, but provides significant benefits by way of rate mitigation, as stated in Exhibit B-1, page 19. The affiliate structure through which non-regulated services are provided also has risk-related advantages for FortisBC and its customers which are described at pages 7 – 8 of Exhibit B-1.

10

11

Guideline iii) The onus should always be on the utility to prove that the benefits associated with use of utility resources are sufficient to warrant the changed structure and that the transfer pricing policy mechanism will provide sufficient protection to ratepayers.

12

13

14

15

The Company complies with the Code of Conduct and Transfer Pricing Policy. Compliance is confirmed annually by means of an audit, which is filed with the Commission.

16

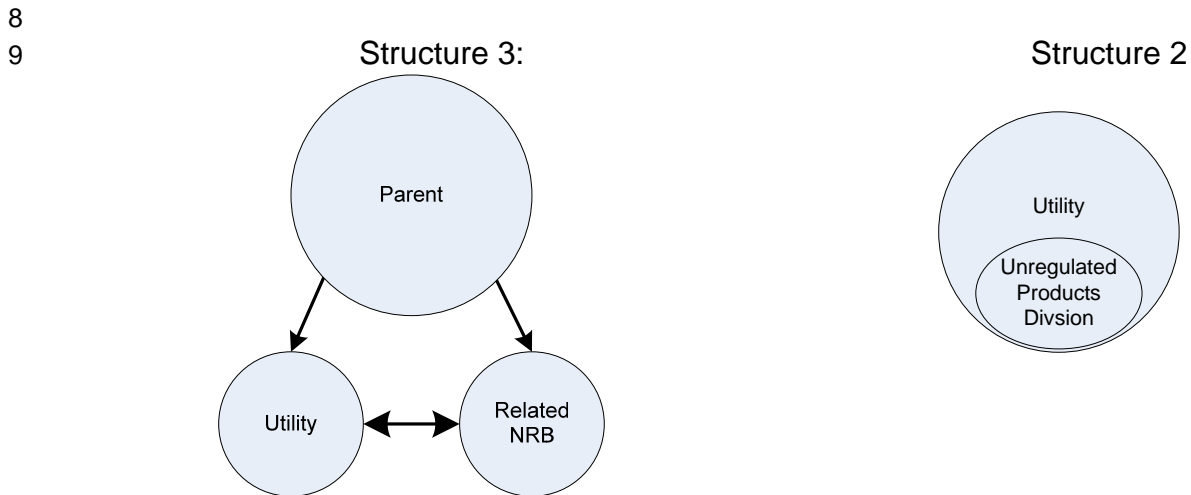
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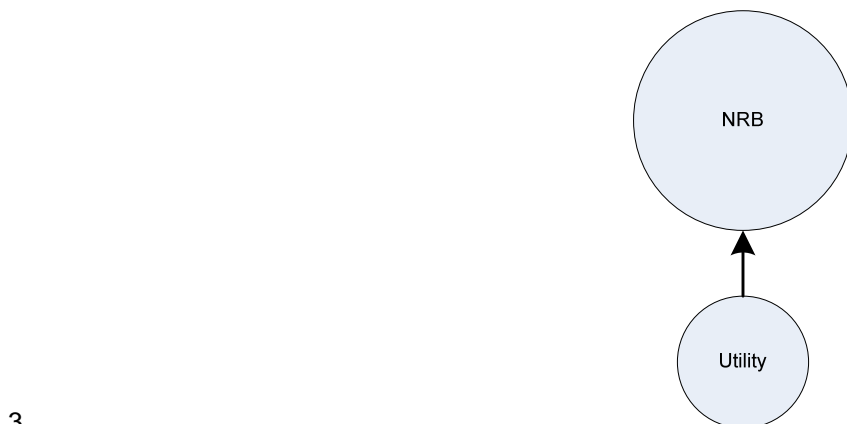
Guideline iv): If the Commission decides to allow the use of utility resources in the provision of the unregulated good or service, the

19

1 *preferred option is through a related-NRB (Corporate Structure 3 in Figure*
2 *4). Direct participation by the utility in the provision of an unregulated good*
3 *or service should be allowed only when the costs associated with forcing*
4 *the provision through the related-NRB structure would significantly offset*
5 *the benefits associated with the use of the utility's resources and it can be*
6 *shown that a transfer pricing policy mechanism will provide sufficient*
7 *protection for ratepayers (Corporate Structure 2 in Figure 4).*



1 In its submission dated March 31, 2009, FortisBC described its relationship with
2 FPHI as follows:



1 As Fortis Inc. is the ultimate parent of both FPHI and FBC, the relationship
2 could also be depicted in a manner similar to Structure 3 in the Guidelines.
3 Fortis Inc. provides services to both FPHI and FortisBC.

4 Walden Power Partnership (“Walden”) is an unregulated division of FortisBC,
5 consistent with Structure 2 of the Guidelines. The existence of this structure
6 pre-dates the Guidelines and the Commission’s approval of the original Code of
7 Conduct, and transactions with Walden are subject to the Code of Conduct and
8 Transfer Pricing Policy.

9
10 *Guideline v): Utilities and their related-NRBs will be encouraged to move*
11 *unregulated products which use utility resources into stand-alone NRBs as*
12 *soon as market conditions warrant (Corporate Structure 4 in Figure 4).*
13 *When a utility-provided product is moved to an NRB, the NRB will be*
14 *required to pay fair market value to the utility for the assets, including*
15 *goodwill, associated with the product. In addition, utilities will be required*
16 *to provide periodic proof that the benefits associated with the use of utility*
17 *services continue to exist and that ratepayers continue to be sufficiently*
18 *protected. The Commission will make directions to prohibit the use of*
19 *utility assets and services in the provision of goods and services*
20 *downstream of the retail market at any time that it finds it in the interests of*
21 *ratepayers to do so.*

22 As stated above, the existence of Walden as an unregulated division of
23 FortisBC pre-dates the Guidelines. FortisBC’s ratepayers are protected by the
24 application of the Code of Conduct and Transfer Pricing Policy.

25 **Q26.3 Please describe any options available to FortisBC, beyond those**
26 **proposed in the Revised Code of Conduct and Transfer Pricing Policy**

1 **submission, which would further improve the company’s alignment with**
2 **the achievement of the Section 5.1.4 principles.**

3 A26.3 FortisBC considers that it meets all of the principles in section 5.1.4 of the
4 Guidelines. As the corporate structure of Walden is in an acceptable structure
5 under the guidelines, the current structure does not harm ratepayers, and
6 additional costs would be incurred in corporate restructuring, FortisBC does not
7 propose any change.

8 **27.0 Reference: “Powering Up the Future: 2008 Labour Market Information**
9 **Study,” by the Electricity Sector Council (ESC) & Human**
10 **Resources and Social Development Canada (HRSDC), p. 7 and**
11 **Exhibit 6.4 FortisBC Services to NRBs: Market Value of Future**
12 **Labour Supply**

13 **The following is from the report “Powering Up the Future: 2008 Labour**
14 **Market Information Study,” by Electricity Sector Council (ESC) & Human**
15 **Resources and Social Development Canada (HRSDC). (The entire report**
16 **is available at www.brightfutures.ca.) The Report’s Summary of Findings**
17 **states as follows:**

18
19 **“In recognition of the impending labour shortages that pose a threat to**
20 **the electricity sector, the Electricity Sector Council (ESC), in partnership**
21 **with Human Resources and Social Development Canada (HRSDC),**
22 **commissioned a study to better understand more precisely which areas**
23 **and occupations are currently most under pressure, and the types of**
24 **pressure that exist. More broadly, the goal of the study was to determine**
25 **the extent of the labour supply – demand gap. With the information from**
26 **the current project, the ESC, employers, and businesses in the electricity**

1 **sector can take appropriate action to mitigate the effects of the human**
2 **infrastructure shortages.”**

3

The following Exhibit presents the projected supply-demand gap for the electricity industry for 2009 and 2012.

Exhibit 6.4: Estimated Supply and Demand Gap – Low Growth Scenario Engineers and Other Non-Support Positions		
Group/Period	Annual Estimates	
	2009	2012
Total Workforce¹		
Engineers	18,298	18,298
Trades/other non-support	39,847	39,847
Total	58,145	58,145
Estimated Demand – Low Growth Scenario²		
Engineers	1,043	1,317
Trades/other nonsupport	2,271	2,869
Total	3,314	4,186
Estimated Supply³		
Engineers	614	638
Trades/other non-support	485	514
Total	1,099	1,152
Supply-Demand Gap⁴ (per year)		
Engineers	(429)	(679)
Trades/other non-support	(1,786)	(2,355)
Total	(2,215)	(3,034)

¹ Total estimated workforce in electrical occupations, 2008 ESC Employer Survey

² No additional employment growth required for demand increases or replacement requirements. Retirements based on organization estimate of likely retirements, not the proportion eligible for retirement.

³ Portion of graduates who secure employment in electricity sector upon graduation as discussed in Section 4

⁴ Difference between estimated demand and current education supply capacity

4

5 **Q27.1 Given the anticipated future shortages of labour, how does the Revised**
6 **Code of Conduct ensure that FortisBC has a) needed personnel and b)**
7 **minimises FortisBC’s exposure to expected costs associated with future**
8 **recruitment?**

9 A27.1 FortisBC does believe that participation in third party non-regulated contracts
10 provides the benefits identified in the question. FortisBC’s labour force is larger
11 and more diversified in skills as a result of non-regulated activities, as
12 described in the responses above and in FortisBC’s opinion increase the
13 Company’s advantages in recruiting.

Project No. 2698560: Revised Code of Conduct

Requestor Name: British Columbia Old Age Pensioners' Organization et al.

Information Request No: 1

Request Date: June 26, 2009

Response Date: July 8, 2009

1 **1. Reference: Exhibit B1, page 4**

2 **BCUC IR #2.0**

3 **Q1.a In responding to the BCUC IR please specifically address if and how**
4 **FortisBC takes into account the opportunity costs associated with its**
5 **buildings, computer equipment, etc. or whether only “out of pocket”**
6 **costs are included in the determination of incremental costs?**

7 A1.a The Company does take into account the opportunity cost of its assets. For
8 example, the Vehicle Charge Out rates for NRB include a charge for the
9 financing and depreciation of the vehicle.

10 **Q1.b Do any of FortisBC's affiliates currently use building space, equipment or**
11 **software owned/leased by FortisBC? If yes, please provide a schedule**
12 **setting out the name of the affiliate, the space or equipment used in 2008,**
13 **the charges to the affiliate and the basis for the charges. (Note: The**
14 **charges should be related to the capital/lease cost of space and**
15 **equipment)**

16 A1.b No FortisBC affiliate currently uses building space, equipment or software
17 owned/leased by FortisBC.

18

Project No. 2698560: Revised Code of Conduct

Requestor Name: British Columbia Old Age Pensioners' Organization et al.

Information Request No: 1

Request Date: June 26, 2009

Response Date: July 8, 2009

1 **2. Reference: Exhibit B1, page 10 and Appendix E**

2 **BCUC IR #5.0**

3 **Page 10 states that the corporate support costs directly charged to the**
4 **NRBs were “added back”. Appendix E does not show this step.**

5 **Q2.a Please confirm that the \$19,124 k OM&A shown in Appendix E includes**
6 **this “add back”.**

7 A2.a Yes, the corporate support costs directly charged to the NRBs includes the
8 “add back”.

9 **Q2.b If the “add back” is not equal to the \$123 k of Direct Charges please**
10 **explain the difference.**

11 A2.b The “add back” is equal to the \$123,000 of Direct Charges for Finance and
12 Purchasing costs.

13 **Q2.c Why is it reasonable to assume that the allocation factors appropriately**
14 **capture the “Direct Charges” such that they can be subtracted from the**
15 **allocation results prior to the determination of the Loading Rate?**

16 A2.c There are often indirect costs incurred in running a business which cannot be
17 directly linked to a product, customer or project. Therefore, a method must be
18 derived to reasonably allocate these indirect costs to recover an appropriate
19 pro-rated amount to their goods and services. Many allocation methods exist
20 to reflect management’s best estimate of the effort required to support the
21 work.

22 Adding back the “Direct Charges” then permits a proper reflection of the effort
23 required to supporting the NRB. The Company direct charges costs whenever

1 it is reasonable and possible. These amounts have been deducted before
2 determining the loading rate; otherwise the Direct Charges would be double-
3 counted when the loading rates are applied.

4 **Q2.d Please comment on the appropriateness of the following methodology for**
5 **determining the Loading Rate:**

6 i. **Do not “add back” the corporate support costs directly**
7 **charged to NRBs**

8 ii. **Allocate the OM&A (net of Expenses not Applicable) to the**
9 **NRBs**

10 iii. **Determine the Loading Rate (without any reduction in the**
11 **allocation for Direct Charges)**

12 A2.d i. Not appropriate: Excluding the corporate support costs directly charged to
13 the NRBs would mean a reduction to the “Total for Allocation”.

14 A reduction to the “Total for Allocation” would mean a smaller amount to be
15 recovered from the NRB.

16 Adding back the “Direct Charges” properly reflects the actual cost of supporting
17 the NRB.

18 Please also see the response to Q2.c above.

19 ii. Not appropriate: “Expenses not applicable to NRBs” have been
20 subtracted from the “Total for Allocation” to the NRB as these expenses can be
21 specifically tied to the regulated entity.

22 Please see the response to BCUC IR No. 1 Q 5.2..

Project No. 2698560: Revised Code of Conduct

Requestor Name: British Columbia Old Age Pensioners' Organization et al.

Information Request No: 1

Request Date: June 26, 2009

Response Date: July 8, 2009

1 iii. Not appropriate. Calculating the loading rate based only on allocations
2 would be a less accurate means of determining the amount of effort and costs
3 that should be charged to the NRB. Wherever possible, costs will be charged
4 directly, rather than estimated or allocated.

5 **3. Reference: Exhibit B-1, page 15**

6 **Q3.a Is the Brilliant Expansion Subcontract subject to both G&A Loadings and**
7 **Generation Absorption Loadings? Please indicate what costs each of the**
8 **loading rates are applied to determine the charges related to the**
9 **Subcontract (e.g., are the Generation Absorption Loadings included in**
10 **the base to which the G&A Loadings are applied?).**

11 A3.a The Brilliant Expansion Project is subject to both Generation Absorption and
12 G&A Loadings. The Generation Absorption Loading is designed to recover the
13 costs of Generation Operations, while the G&A Loading is a recovery of
14 Corporate support costs.

15 **4. Reference: Exhibit B-1, page 18**

16 **Q4.a Apart from the 10% profit margin, how else does the loading for G&A**
17 **costs differ between regulated and non-regulated businesses?**

18 A4.a G&A costs are not allocated to activities in the regulated business other than a
19 portion of indirect overhead allocated to capital expenditures through the
20 Capitalized Overhead process.

21 **Q4.b Please clarify whether the reference to “regulated businesses” in the last**
22 **paragraph on the page refers just to regulated activities carried on by**
23 **FortisBC or also other regulated affiliates (inside or outside BC) that**
24 **FortisBC performs work for.**

Project No. 2698560: Revised Code of Conduct

Requestor Name: British Columbia Old Age Pensioners' Organization et al.

Information Request No: 1

Request Date: June 26, 2009

Response Date: July 8, 2009

1 A4.b The reference in this paragraph is to the regulated activities of FortisBC.

2 **5. Reference: Exhibit B-1, Appendix A, page 1**

3 **Q5.a Please explain why the Code of Conduct is not applicable to relationships**
4 **between FortisBC and affiliates of FortisBC that are regulated by the**
5 **BCUC.**

6 A5.a FortisBC has not stated that the Code of Conduct principles are not applicable
7 to transactions with affiliates regulated by the BCUC. For purposes of the
8 Code of Conduct, affiliates regulated by the BCUC do not fall within the
9 definition of a "Non-Regulated Business".

10 **6. Reference: Exhibit B-1, Appendix A, page 2**

11 **Q6.a Please confirm that FortisBC employees undertaking work for NRBs are**
12 **not permitted to share with NRB FortisBC customer or operational**
13 **information that may provide the NRB a competitive advantage relative to**
14 **other market participants. If yes, where is this point addressed the Code?**
15 **If not, why not?**

16 A6.a Confirmed. See sections 3 and 4 of the Code of Conduct regarding confidential
17 information.

18

Project No. 2698560: Revised Code of Conduct

Requestor Name: British Columbia Old Age Pensioners' Organization et al.

Information Request No: 1

Request Date: June 26, 2009

Response Date: July 8, 2009

1 **7. Reference: Exhibit B-1, Appendix C, page 1**

2 **Q7.a Please explain why the Transfer Pricing Policy is not applicable to**
3 **relationships between FortisBC and affiliates of FortisBC that are**
4 **regulated by the BCUC.**

5 A7.a Technically, transactions utilities regulated by the Commission are not subject
6 to the Transfer Pricing Policy as regulated affiliates are not included in the
7 definition of a "Non-Regulated Business, as noted in the response to Q5.a
8 above. FortisBC provides to and receives services from Terasen Gas Inc, and
9 the respective Transfer Pricing Policies of each utility have been applied to the
10 transactions, as it seemed appropriate to do so.

11 **Q7.b With respect to Scope, does the Transfer Pricing Policy apply to**
12 **transactions between the regulated and non-regulated business units of**
13 **FortisBC (per Exhibit B-1, page 6, item (iii)? If not, why not?**

14 A7.b Yes, the Transfer Pricing Policy applies to transactions between FortisBC and
15 Walden Power Partnership, which is the unregulated division of FortisBC.

16

1 **8. Reference: Exhibit B-1, Appendix F**

2 **Exhibit B-1, page 18**

3 **Reference is made in Exhibit B1, page 18 to the OEB's Affiliate**
4 **Relationships Code. As well as governing the costs charged to affiliates**
5 **for services provide by the regulated business, the OEB's Code also**
6 **addresses the price payable by the regulated business for services**
7 **received from affiliates and provides that:**

- 8 • **"Where a reasonably competitive market exists for a service,**
9 **product, resource or use of asset, a utility shall pay no more than the**
10 **market price when acquiring that service, product, resource or use of**
11 **asset from an affiliate" (section 2.3.3.1);**
- 12 • **"Where it can be established that a reasonably competitive market**
13 **does not exist for a service, product, resource or use of asset that a**
14 **utility acquires from an affiliate, the utility shall pay no more than the**
15 **affiliate's fully-allocated cost to provide that service, product,**
16 **resource or use of asset" (section 2.3.4.1); and**
- 17 • **"Where a utility pays a cost-based price for a service, resource,**
18 **product or use of asset that is obtained from an affiliate, the utility**
19 **shall obtain from the affiliate, from time to time as required to keep**
20 **the information current, a detailed breakdown of the affiliate's fully-**
21 **allocated cost of providing the service, resource, product or use of**
22 **asset" (section 2.3.4.3).**

23 **Q8.a FortisBC's Transfer Pricing Policy does not address the "cost" of**
24 **services acquired from affiliates. What is FortisBC's policy in this regard**

1 **and how does it compare with the OEB's requirements?**

2 A8.a As with any procurement decision, FortisBC's policy is to endeavour to achieve
3 Value For Money or "VFM". VFM is defined as the optimum combination of
4 whole life cost and quality (or fitness for purpose) to meet the end user's
5 requirement. Please also refer to the response to BCUC IR1 Q2.1. Each
6 department receiving services from an affiliate must justify the VFM for the
7 required service.

8 **Q8.b With reference to Appendix F, please provide a schedule that sets out the**
9 **basis used by each affiliate to determine the costs for the transactions**
10 **charged to FortisBC.**

11 A8.b Please see the following schedule:

Affiliate	Costing Methodology
Fortis Inc.	Combination of allocation based on ratio of total assets and an assignment of actual cost.
Fortis Alberta Inc.	Fully loaded cost recovery
Fortis Ontario Inc.	Fully loaded cost recovery
Fortis Properties Inc.	Pro rata cost recovery
Newfoundland Power Inc.	Fully loaded cost recovery
Terasen Gas Inc.	Terasen Gas Inc.'s Transfer Pricing Policy

12

1 **1.0 Reference:Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, page 9**

3 **Services to FPHI and Unregulated Products Division**

4 **“The scope of services provided to FPHI with regard to Arrow Lakes**
5 **Power Corporation and Brilliant Expansion Power Corporation ...”**

6 **Q1.1 With regard to the following services provided, please identify the**
7 **FortisBC position(s) providing the services and the specific tasks with**
8 **hours allocated to the tasks performed in the past three fiscal years:**

- 9 • **Environmental Monitoring;**
- 10 • **Security Services;**
- 11 • **Site Maintenance; and**
- 12 • **Information Technology.**

13 **A1.1 FortisBC Environmental personnel charged 23.5 hours (sturgeon salvage and**
14 **oil release). Information Technology technicians did not charge time to ALPC**
15 **or BEPC.**

16 Security services and site maintenance are contracted.

17 **2.0 Reference:Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
18 **Policy, page 13**

19 **BCUC IR 6.0**

20 **Q2.1 Please provide a summary of the improvements to the format and**
21 **functionality of the work order system program that were enabled**
22 **through the addition of projects for Columbia Power Corporation’s**
23 **subsidiaries, Brilliant Expansion Power Corporation (“BEPC”) and Arrow**

1 **Lakes Power Corporation (“ALPC”), (collectively “CPC Projects”).**

2 A2.1 The functionality and format of the Generation Work Order system (GENJO)
3 has not changed significantly as a result of the additional projects. Some
4 modifications were made in order to format outputs to meet the customers’
5 reporting needs. It should be noted that the work order system only captures
6 work related to repetitive preventative maintenance tasks. Work related to
7 capital projects or non-routine operating projects are estimated separately and
8 planned for and tracked as projects and are subject to standard project
9 management controls.

10 **Q2.2 Have FortisBC employees, who derive their total compensation from work**
11 **on CPC Projects through the respective subcontractor agreements, also**
12 **provided support to FortisBC O&M without costs charged to FortisBC**
13 **cost centres or projects?**

14 A2.2 No. All work completed by FortisBC employees is directly charged to the cost
15 center or project number for which that work occurred. The exception to this
16 rule is time classified as non-productive (safety meetings and training) for which
17 the hours are collected in the Absorption pool and distributed to the various
18 parties as per the Generation Absorption model (Exhibit B-1, pp. 13 and BCUC
19 IR No. 2 Q4.1.3).

20 **Q2.3 Please quantify and provide a breakdown of any such costs for work**
21 **performed for but not charged to FortisBC O&M over the past three fiscal**
22 **years.**

23 A2.3 There is no such work, as stated in response to Q2.2 above.

1 **3.0 Reference: Exhibit B-1, Revised Code of Conduct & Transfer Pricing**
2 **Policy, pages 11-15**

3 **Productivity and Cost Impacts**

4 **“As a result, there is virtually no risk of increased costs arising from the**
5 **Brilliant Expansion Subcontract.”**

6 **Q3.1 Please identify any occasions over the past three fiscal years when the**
7 **services provided to CPC facilities prevented or delayed FortisBC from**
8 **meeting its commitments to FortisBC’s regulated facilities.**

9 A3.1 There has not been any occurrences in the past three years that have
10 prevented FortisBC from meeting its commitments at the regulated facilities.

11 **Q3.2 For each month over the past three fiscal years, what percentage of**
12 **generation trades workers on FortisBC regulated facilities were**
13 **temporary?**

14 A3.2 The Table below shows the percentage of temporary IBEW employees at
15 Generation for the past three years by month. FortisBC cannot distinguish the
16 percentage of temporary employees working specifically at regulated facilities.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
17													
18	2006	36%	35%	34%	30%	29%	29%	30%	34%	34%	35%	39%	38%
19	2007	38%	35%	35%	35%	38%	37%	38%	36%	35%	35%	32%	31%
20	2008	31%	5%	27%	26%	24%	28%	25%	28%	34%	34%	33%	33%
21	2009	34%	29%	33%	31%	32%	32%						

22 The requirement for temporary employees is driven by major capital projects
23 and any additional short term work. At this time, the major capital projects
24 include the South Slocan Unit 3 Life Extension nearing completion, the South
25 Slocan Unit 1 Upgrade Life Extension, which will commence construction in

1 August 2009, The Corra Linn Unit 1 Life Extension will commence in August
2 2010 and Corra Linn Unit 2 Upgrade Life Extension in 2011.

3 **Q3.3.i Does FortisBC perceive any heightened risk to its regulated facilities due**
4 **to those levels of utilization of temporary workers?**

5 A3.3.i No, FortisBC does not perceive any risk to its regulated facilities. The use of
6 temporary workers is appropriate for the tasks and jobs completed. Please
7 refer to Exhibit B-1, pp.11 for a discussion on productivity and cost impacts
8 related to the use of temporary and contract workers.

9 **Q3.3.ii Of the FortisBC personnel dedicated to the CPC Projects over the past**
10 **three fiscal years, how many were significantly experienced (i.e. greater**
11 **than four years experience) tradesmen prior to their assignment at the**
12 **CPC Projects?**

13 A3.3.ii FortisBC does not dedicate personal strictly to CPC projects, and therefore
14 cannot provide that data. The average age of a FortisBC tradesman is 45, and
15 the average years of service for a regular full time employee is 13 years. The
16 estimated average years of service for FortisBC temporary employees is 4.45
17 years.

18 **Q3.4 Of the FortisBC personnel dedicated to the CPC Projects over the past**
19 **three fiscal years, how many have been developed into high value**
20 **tradesmen (i.e. leaders in the new maintenance programs with hands-on**
21 **knowledge of digital controllers, monitors and communication**
22 **equipment, etc.) as a result of their involvement and training at CPC**
23 **Projects?**

24 A3.4 FortisBC acknowledges that its personnel have developed additional skills due
25 the experience they have gained while working for CPC, however employee

1 development is a function of the range of experience, and not limited to work
2 performed for CPC. For example, since 1998 FortisBC employees have
3 completed 16 water to wire Upgrade Life Extension projects on various sizes of
4 hydro electric generating facilities owned by FortisBC and others. The
5 experience gained in all these projects had a significant impact on the collective
6 technical abilities of our tradesmen.

7 **4.0 Reference: FortisBC and FPHI October 3, 2008 Responses to Commission**
8 **Information Requests, page 4, IR 1.3.2.3**

9 **Q4.1 Please confirm:**

- 10 • **FPHI has no direct employees;**
- 11 • **BEPC has no direct employees; and**
- 12 • **there is no transfer of personnel between FortisBC and FPHI.**

13 A4.1 FortisBC confirms that FPHI has no direct employees and that to date there
14 has been no transfer of personnel between FortisBC and FPHI. FortisBC
15 understands that BEPC has no direct employees.

16 **5.0 Reference: General**

17 **Q5.1 Does FortisBC agree that it is a challenge to hire, train, and retain**
18 **workers in a rural area such as the Columbia Basin with the necessary**
19 **skill sets for both their regulated and non-regulated business (“NRB”)?**
20 **Please explain.**

21 A5.1 Although the labour market appears to be challenged and FortisBC is aware of
22 recent studies which indicate a potential skills shortage in utility workers as
23 aging worker retire, FortisBC has not yet experienced difficulty in filling vacant
24 positions within the Company. Recent postings have generated sufficient

1 interest to fill vacancies, and given the recent economic downturn the Company
2 anticipates their ability to fill trades positions will remain strong for the
3 foreseeable future. Some examples of recent postings are as follows:

4 CPC Technician Position
5 50 applications received
6 22 qualified (Electrical or Electronics Tech Diploma)

7 Millwright/Machinist
8 8 applications received
9 4 qualified

10 CPC Generation
11 13 applications received
12 3 qualified

13 Electrician Journeyman
14 7 applications received
15 5 qualified

16 Electrician Journeyman
17 6 applications received
18 5 qualified

19 **Q5.2 Does the additional work created for FortisBC employees by the BEPC**
20 **and ALPC subcontractor agreements tend to make it easier or harder to**
21 **hire, train and retain them? Please explain.**

22 A5.2 FortisBC does not recognize any additional difficulties hiring or retaining
23 employees due to the presence of the third party contracts. It is possible that
24 the variety of work that the Third Party contracts offers provides the employee
25 with a more satisfying work experience, but this is not possible to confirm.

26 **6.0 Reference: Exhibit B-1, page 7**

27 **Q6.1 Please confirm that BEPC and ALPC contract with FPHI, not FortisBC, for**
28 **facility operations & maintenance subcontractor services.**

1 A6.1 Confirmed. FPHI has entered into agreements with BEPC and ALPC for the
2 provision of those services.

3 **7.0 Reference: Exhibit B-1, page 8**

4 **Q7.1 Please confirm that FPHI provides NRB services to both BEPC and ALPC.**

5 A7.1 FPHI is a non-regulated entity that provides services to BEPC and ALPC.

6 **Q7.2 Please confirm that FortisBC provides regulated services to the Brilliant**
7 **Power Corporation for facility management and to BEPC for remote**
8 **monitoring and dispatch services.**

9 A7.2 Confirmed.

10 **8.0 Reference: Exhibit B-1, page 19**

11 **Q8.1 For those employees who provide either regulated or NRB services to**
12 **CPC's subsidiaries, for the period January 2005 through June 2009 please**
13 **describe all training of FortisBC employees provided or paid for by CPC**
14 **and/or its subsidiaries including details of the following:**

- 15
 - **course(s) taken;**
 - 16 • **specialization (e.g. mechanical, electrical, etc.); and**
 - 17 • **approximate dollar value of each course including travel costs.**

18 A8.1 FortisBC provides training for CPC facilities at the request and cost of CPC. All
19 costs associated with this training (specific to CPC non regulated facilities) are
20 directly charged to the NRB. It is not clear how the details of this training are
21 pertinent to the Revised Code of Conduct or Transfer Pricing Policy.

22

1 **Q8.2 Would FortisBC agree that both its regulated customers and NRB benefit**
2 **from the training paid for or provided by CPC and/or its subsidiaries?**

3 A8.2 FortisBC agrees that the regulated business benefits from all training provided
4 or paid for by CPC and/or its subsidiaries. FortisBC described the benefits of
5 its non-regulated activities at pages 19 – 20 of Exhibit B-1.

6 **Q8.3 Please provide a breakdown, similar to the form described in 8.1, for**
7 **training provided or paid for by FortisBC or FPHI to FortisBC employees**
8 **who provide services to CPC's subsidiaries.**

9 A8.3 Please see the response to Q8.1 above.

10 **9.0 Reference: Exhibit B-1, page 9**

11 **Q9.1 Please provide a breakdown of the number of FortisBC engineers that**
12 **have provided services to BEPC and ALPC over the past three fiscal**
13 **years. Please include the date of hire by FortisBC and any prior**
14 **engineering experience they may have had before joining FortisBC.**

15 A9.1 FortisBC provides engineering services to BEPC and ALPC as part of the
16 subcontractor agreement with FPHI. FortisBC does not believe that the details
17 of staffing and experience are relevant to this regulatory process.

18 **Q9.2 Please describe the nature and extent of the engineering services**
19 **provided to BEPC over the period January 1 2008 to January 1 2009**
20 **and to ALPC over the period January 1 2006 to January 1 2009 by**
21 **FortisBC or FPHI versus the engineering services performed by CPC's**
22 **in-house engineers.**

23 A9.2 FortisBC is not able to comment on engineering services provided by CPC.

1 Services provided by FBC to ALPC and BEPC over the time period identified
2 have included engineering design, professional consultation and technical
3 advice on operating and maintenance practices.

4 **10.0 Reference: Exhibit B-1, page 15**

5 **Q10.1 Please confirm that Generation Absorption is charged to all regulated and**
6 **NRB generating work as a loading of \$30 per hour.**

7 A10.1 The Generation Absorption rate is set each year based on the estimate of pool
8 costs (costs intended to be distributed through this allocation method) divided
9 by the estimated productive manhours. For the 2009 budget year the value of
10 the rate was set initially at \$30 per hour.

11 The costs allocated to the Generation Absorption pool as well as the estimated
12 productive man hours are reviewed quarterly to ensure the rate remains
13 applicable. If necessary the rate will be adjusted to ensure costs are not over
14 or under recovered.

15 **Q10.2 Please confirm that ALPC and BEPC each pay approximately \$400,000,**
16 **for a total of \$800,000 per year, for Generation Absorption.**

17 A10.2 The amounts stated are not correct. In 2008 the Generation Absorption costs
18 charged to ALPC and BEPC were \$265,000 and \$395,000 respectively. The
19 amount of Generation Absorption that will be charged in any given year is
20 dependent upon the proportion of total FortisBC on-site hours worked at ALPC
21 and BEPC. In addition the Generation Absorption rate will also vary year to
22 year depending on the total FortisBC on site hours expected to be worked.

23 **Q10.3 Please describe the anticipated financial, operational or other impacts on**
24 **FortisBC and its ratepayers if that revenue of approximately \$800,000 per**

1 **year was not available.**

2 A10.3 The Generation Absorption recovery noted in Q10.2 is a direct result of
3 productive labour hours worked at these locations. If these hours were not
4 required, FortisBC would be required to reduce the labour hours made
5 available for work by an equivalent amount. This reduction would be managed
6 through a reduction to the temporary or contract workforce as required.

7 It is expected that there would be some additional cost to FortisBC regulated
8 operations resulting from reduced economies of scale as a result of the loss of
9 this work. Although direct trades hours can be reduced, some of the
10 efficiencies gained through shared resources of management time, engineering
11 resources and administrative resources would be lost.

12 **11.0 Reference: Exhibit B-1, page 19**

13 **Q11.1 Should FortisBC or FPHI elect or be directed by the Commission¹ to not**
14 **offer NRB facility operations & maintenance services to BEPC and ALPC**
15 **and similar type customers, would FortisBC expect to the lose some of its**
16 **trained employees if they migrated to other companies offering the**
17 **services that are currently provided pursuant to the subcontractor**
18 **agreement(s)?**

19 A11.1 It is reasonable to expect that some FortisBC employees could elect to move to
20 new companies who may provide these services. This potential is highly
21 dependent on many factors outside the control of FortisBC such as wages,
22 benefits, and working conditions.

23

¹ Applies only to FortisBC, not FPHI.

1 **12.0 Reference: General and Administrative Overhead, Attachment "E".**

2 **Q12.1 Over the past three fiscal years has FortisBC provided BEPC or ALPC a**
3 **material amount of any of the following:**

- 4 • **Legal support;**
- 5 • **Executive services including strategic and corporate planning;**
- 6 • **Risk management and property and liability insurance;**
- 7 • **Buildings and related building services; or**
- 8 • **Marketing services?**

9 **Please explain.**

10 A12.1 FortisBC has not provided a material amount of legal, executive, risk
11 management and insurance, or marketing services to its NRBs in respect of the
12 subcontracts to BECP or ALPC. As can be seen in the calculation of G&A
13 Overhead Loading (Attachment E of Exhibit B-1), the total for those services
14 allocated to all non-regulated businesses is \$64,000, of which BEPC and ALPC
15 represent only a portion. The total of facilities and related services allocated to
16 NRBs is \$88,000 and represents employee-related requirements to service the
17 third parties.

18 **13.0 Reference: General**

19 **Q13.1 Please confirm that BEPC and ALPC have and continue to allow FortisBC**
20 **to store equipment on BEPC's and ALPC's property at no cost to**
21 **FortisBC.**

22 A13.1 Confirmed, however the equipment is mainly for the operation of the Arrow
23 Lakes Hydro and Brilliant Expansion plants, and therefore the direct benefit of

1 BEPC and ALPC.

2 **14.0 Reference: General**

3 **Q14.1 For fiscal year 2008, please compare the costs to each of BEPC and ALPC**
4 **if the requested increases in FortisBC's TPP had been in effect versus the**
5 **FPHI costs that were actually charged for BEPC and ALPC for the same**
6 **fiscal year.**

7 A14.1 The requested information is provided below.

	ALCP	BEPC
2008 Cost before Transfer Pricing	\$ 1,772	\$ 1,197
Existing Transfer Pricing	<u>186</u>	<u>130</u>
Total 2008 Cost (existing)	1,957	1,327

2008 Cost before Transfer Pricing	1,772	1,197
Revised Transfer Pricing	<u>248</u>	<u>174</u>
Total 2008 Cost (revised)	2,020	1,371

8 **Change (Increase)** \$ **63** \$ **44**