



Dennis Swanson
Director, Regulatory Affairs

FortisBC Inc.
Suite 100, 1975 Springfield Road
Kelowna BC V1Y 7V7
Ph: (250) 717-0890
Fax: 1-866-335-6295
dennis.swanson@fortisbc.com
www.fortisbc.com

July 16, 2009

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 Policy Project No. 3698560

Please find enclosed 20 copies of FortisBC Final Written Submission in regard to the above captioned Application.

In recognition of FortisBC's delay in providing its Final Written Submission, the Company proposes to allow an additional day for Intervenor Final Submissions. FortisBC will file its Reply Submission on July 28, 2009 as directed by Order G-71-09.

Sincerely,

A handwritten signature in black ink, appearing to be "DS" with a long horizontal line extending to the right.

Dennis Swanson
Director, Regulatory Affairs

cc: Registered Intervenors

FORTISBC INC. FINAL SUBMISSION

A. INTRODUCTION

1. On March 31, 2009, FortisBC Inc. (“FortisBC” or the “Company”) applied to the British Columbia Utilities Commission (“the Commission”) for approval of its Revised Code of Conduct and Transfer Pricing Policy (the “Application”).
2. The Revised Code of Conduct (“Code”) governs the relationships between FortisBC and Non-Regulated Businesses (“NRBs”), which are defined as affiliates of the Company not regulated by the Commission, or divisions of the Company offering unregulated products and services. The Code replaces the Company’s Code of Conduct dated May 25, 1998.
3. The Transfer Pricing Policy (“TPP”) updates the Company’s existing policy in regard to the appropriate loading rates to be applied to transactions between FortisBC and NRBs.
4. FortisBC also applied for approval of the Subcontractor Agreement between the Company and Fortis Pacific Holdings Inc. (“FPHI”) for the supply of services to the Brilliant Expansion Power Corporation (the “Brilliant Expansion subcontract”), which was granted interim approval by Commission Order G-199-08 on January 20, 2009.
5. On July 23, 2009, FortisBC placed into record the 2008 and 2009 Internal Audit Reports on the Code of Conduct and Transfer Pricing Policy.
6. By Order G-71-09 the Commission established a written public hearing process to review the Application. On July 8, 2009, FortisBC responded to Information Requests from the Commission, BC Old Age Pensioners’ Organization et al. (“BCOAPO”), and Columbia Power Corporation (“CPC”) (Exhibit B-4). On July 10, 2009, FortisBC provided an erratum to BCUC Information Request A22.1 (Exhibit B-4-1).
7. For the reasons described in the Application and as further detailed below, FortisBC submits that the evidence before the Commission establishes that the Company’s Revised Code of Conduct and Transfer Pricing Policy as well as the Brilliant Expansion Subcontract should be approved as they are in the Public Interest.

B. REVISED CODE OF CONDUCT AND TRANSFER PRICING POLICY

8. The Revised Code of Conduct remains consistent with the Commission's Retail Markets Downstream of the Utility Meter "(RMDM)" Guidelines ("the Guidelines") dated April 1997.
9. FortisBC proposed a small number of revisions, related to: the current scope of affiliate relationships of FortisBC, which include its parent company, other regulated utilities, stand-alone affiliate companies, and the unregulated products division of the Company; recognition of contractual obligations contained in contracts or shared services agreements between FortisBC and NRBs; and changes of a housekeeping nature (Exhibit B-1, page 1).
10. The TPP is based upon the principle of full cost recovery in order to ensure that the regulated business and customers do not subsidize any costs of the NRB. In addition, a profit margin of 10 percent is applied to the total invoice price, excluding the value of any contracting or consulting services arranged by FortisBC on behalf of the NRB.
11. There are no changes, other than those of a housekeeping nature or for clarification, to the Transfer Pricing Guidelines. A small number of procedural modifications were made for simplicity.
12. Revisions to the TPP cost allocations and loadings were made in the following areas (Exhibit B-1, pages 2 – 3):
 - i. Labour Loadings in the TPP document were updated to reflect rates currently in use by FortisBC, along with an explicit recognition of future updates as required;
 - ii. Material Loading was simplified to a flat rate applicable to all materials charged out; and
 - iii. General and Administrative Overhead ("G&A") Loading was simplified to a flat rate applicable to invoice price rather than the previous graduated scale. The review of G&A allocations resulted in an increase in total recoveries from \$0.179 million under the existing TPP to \$0.405 million under the revised TPP.

C. FORTISBC PARTICIPATION IN NON-REGULATED ACTIVITIES

13. The majority of FortisBC's non-regulated activities are provided pursuant to subcontractor agreements with its parent, Fortis Pacific Holdings Inc. ("FPHI"). FPHI, a related NRB, in turn has entered into contracts for services with the City of Kelowna ("Kelowna"), Brilliant Expansion Power Corporation ("BEPC"), and Arrow Lakes Hydro Company ("ALPC").
14. FortisBC also provides to and receives services from its ultimate parent company, Fortis Inc., and a number of stand-alone affiliate companies, some of which are regulated utilities in other jurisdictions (Exhibit B-1, page 5), and provides services to its unregulated division, Walden Power Partnership ("Walden") (Exhibit B-1, page 6).
15. The corporate structure of FortisBC and its NRB's is consistent with the relevant section of the Guidelines (Exhibit B-4, BCUC Information Request Q26.2). FortisBC submits that it should not be required to amend its corporate structure in any way as customers are not harmed by the existing structure, and restructuring would result in additional costs being incurred. If restructuring of the Company is required, FortisBC submits that the costs should be to the account of the regulated business, as the structure was in place prior to the Guidelines and the Commission's approval of the original Code of Conduct.
16. Finally, FortisBC provides and receives services from its affiliate Terasen Gas Inc. ("Terasen"), which is a utility regulated by the Commission. FortisBC states that although affiliates regulated by the BCUC do not fall within the definition of a NRB within the Code, the respective Transfer Pricing Policies of the regulated affiliates have been applied to transactions between the two, as it seemed appropriate to do so (Exhibit B-4, BCOAPO Information Request Q5.a and Q7.a).
17. The Guidelines identify the objectives for the Commission's determinations with respect to utility participation in non-regulated activities (page 23), as follows:
 - i. There must be no subsidy of unregulated business activities, whether undertaken by the utility or its NRB, by utility ratepayers.

- ii. The risks associated with participation in the unregulated market must be borne entirely by the unregulated business activity. That is, the risks must have no impact on utility ratepayers.
- iii. The most economically efficient allocation of goods and resources for ratepayers should be sought.

18. FortisBC submits that its non-regulated activities are consistent with these objectives.

No subsidy by Ratepayers

19. Subsidization of NRB activity by utility ratepayers could occur, in the case of the utility providing services to an NRB, if incremental costs which are incurred in the provision of those services are paid by the regulated utility.
20. A number of incremental operations employees were identified in (Exhibit B-4, BCUC Information Request Q6.3). However the incremental facilities associated with those employees are minimal, as the operations employees working “from site” at FortisBC or third party facilities, rather than “on site” at FortisBC facilities. (Exhibit B-4, BCUC Information Request Q2.2).
21. Whenever possible, costs incurred in the provision of non-regulated services are direct charged to the NRB.
22. Costs that are allocated to NRB’s include generation absorption costing and G&A loading. FortisBC provided in some detail, in Attachment E of the Application and in the response to BCUC Information Request Q5.2 (Exhibit B-4), the development of G&A loadings and rationale for cost allocations.
23. Section 9 of the Code prohibits direct or indirect financial assistance by FortisBC to NRBs.
24. In the case of the utility receiving services from a NRB, Section 5 of the Code requires that FortisBC remain prudent and unbiased in sourcing services from an NRB, and Section 6 states that FortisBC may not give NRBs preference over non-affiliates. (Exhibit B-1, Attachment A, page 2).

25. FortisBC confirms in its response to (Exhibit B-4, BCOAPO Information Request Q8a) that each department that receives services from an NRB must justify the “Value for Money” for the service received.

Risks Borne by NRB

26. FortisBC demonstrated that there is minimal risk exposure to the Company and its ratepayers arising as a result of the affiliate/subcontractor arrangement between FortisBC and FPHI (Exhibit B-1, pages 7 – 8).

27. In response to (Exhibit B-4, BCUC Information Request Q3.2), FortisBC confirmed that the indemnity clauses with Fortis Pacific Holdings Ltd., including breach and non-performance terms, are legally enforceable and protect regulatory operations from NRB business risk.

28. The Company has explained that operational risks associated with labour resources have been mitigated. In fact, the manner in which FortisBC manages its labour resources for the benefit of regulated and NRB projects provide operational benefits to FortisBC and its ratepayers (Exhibit B-1, pages 11-15 and Exhibit B-4, CPC Information Request Q3.3.i).

29. The Company confirms its responses to (Exhibit B-4, BCUC Information Request Q14.1, Q14.3) that there is no preferential treatment of the NRB.

Efficient Allocation of Goods and Resources

30. The utilization of resources on both regulated and NRB activities provide economies of scale in particular related to General and Administrative (“G&A”) functions (Exhibit B-4, BCUC Information Request Q8.2, Q8.3). This is illustrated by comparing the number of employees engaged in NRB services (headcount) to full time equivalents for the various functions (Exhibit B-4, BCUC Information Request Q6.3).

31. The NRB services are provided with minimal need for incremental facilities (Exhibit B-4, BCUC Information Request Q2.2).

32. The subcontract agreements are of a long term nature which allows FortisBC to schedule activities between regulated and non-regulated work to optimize full time, part time and contract labour resources and provide productivity gains to the Company and its rate payers (Exhibit B-4, BCUC Information Request Q6.2, Q7.2).

D. COMPETITIVE PRICING

33. FortisBC states that its labour rates charged to NRBs are comparable to market rates (Exhibit B-4, BCUC Information Request Q1.1).
34. FortisBC states that long-term contracts, in the nature of its subcontracts with FPHI, typically do not permit re-pricing to meet short-term economic conditions, but over the long term assure consistent profitability for work performed (Exhibit B-4, BCUC Information Request Q1.1).
35. Profit margin of 10 percent is consistent with FortisBC's understanding of target margins for local contractors (Exhibit B-4, BCUC Information Request Q19.2).

E. ADDITIONAL BENEFITS OF NON-REGULATED ACTIVITIES

36. There are benefits to ratepayers arising from the inclusion the combination of regulated and non-regulated work. These benefits include economies of scale in management, administrative and general labour force functions (Exhibit B-1 page 19).
37. If FortisBC were to discontinue all non-regulated third party work, the overall revenue impact would be approximately \$0.9 million, with a corresponding rate impact of 0.4 percent. (B-1, page 19)
38. FortisBC states that its participation in non-regulated work provides employees with additional experience in a wider variety of systems and equipment (Exhibit B-4, BCUC Information Request Q11.3, CPC Information Request Q3.4)

F. CONCLUSION

39. FortisBC's non-regulated activities not only meet the RMDM Guidelines requirement that ratepayers are not harmed, but also annually provide additional ratepayer benefits through rate mitigation.
40. Therefore, FortisBC submits that the Revised Code of Conduct and Transfer Pricing Policy are in the interests of its customers and should be approved.
41. Accordingly, FortisBC submits that the Brilliant Expansion Subcontract is also shown to be in the interest of its customers and requests final approval of the Subcontract Agreement.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

A handwritten signature in black ink, appearing to read "Dennis Swanson", positioned above a horizontal line.

Dennis Swanson,
Director, Regulatory Affairs