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September 26, 2014

Regulatory Affairs Correspondence
Email: gas.regulatory.affairs@fortisbc.com

Via Email
Original via Mail

British Columbia Utilities Commission
6th Floor, 900 Howe Street
Vancouver, BC V6Z 2N3

Attention: Ms. Erica M. Hamilton, Commission Secretary

Dear Ms. Hamilton:

Re: FortisBC Energy Inc. (FEI)

Application for Approval of a Code of Conduct (COC) and Transfer Pricing Policy (TPP) for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (ARBNNM) (the Application)

British Columbia Utilities Commission (BCUC or the Commission) Order G-143-14 Supplementary Information

On June 27, 2014, FEI filed the Application noted above. On September 18, 2014, the Commission issued Order G-143-14, directing FEI to file supplementary information and evidence as outlined in Appendix C of the Order.

FEI respectfully submits the attached supplementary information.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Registered Parties

1 **Request #1**

- A description of the nature of any currently provided FEI services, including services of senior management and operating personnel and the reason for concluding that no conflict of interest exists that will negatively impact ratepayers;

2

3 **Response:**

4 Consistent with the Alternative Energy Services (AES) Inquiry Report, much of the services
 5 currently being provided to FortisBC Alternative Energy Services Inc. (FAES) are corporate
 6 services. The work performed is not of a nature such that a conflict of interest exists between
 7 FAES (purchaser of services) and FEI (seller of services) that could result in a negative impact
 8 on FEI ratepayers. The following table lists FEI services currently provided along with the
 9 reason(s) for concluding that no conflict of interest exists that will negatively impact ratepayers.

Service	Description of Service	Reason(s) for concluding that no conflict of interest exists that will negatively impact natural gas ratepayers
FAES Services		
Financial management	Management reporting, financial reporting and accounts payable.	The services being provided include preparing journal entries, processing invoices, management reports and financial statements. The financial information handled is specific to FAES and processed using existing financial systems and staff.
Human Resources	Recruiting and compensation and benefits services.	The services being provided include payroll processing support for FAES employees and staff recruitment for FAES personnel needs. FEI staff providing these services to both FEI and FAES has no incentive to favour FAES' needs.
Procurement	Procurement support of goods and services.	The service being provided involves assisting with the acquisition of materials and services. Staff involved includes unionized procurement specialists and administrative support staff. FEI staff providing these services to both FEI and FAES has no incentive to favour FAES' needs.
Information Technology, Telecom and Facilities for FAES employees	Information technology support (i.e. computer hardware, SAP and Microsoft licenses, computer maintenance support, etc.), telecom and facilities (i.e. Burnaby operations) for FAES employees and FEI employees providing support to FAES.	The nature of the work performed (i.e. existing equipment and facilities being shared) does not lend itself to a situation where a conflict of interest exists between FAES (purchase of services) and FEI (seller of services).

Regulatory Affairs	Reviewing and filing of regulatory applications.	The service being provided involves assisting FAES in the review and filing of regulatory applications. Staff involved includes regulatory specialists and administrative support staff. FEI staff providing these services to both FEI and FAES has no incentive to favour FAES' needs.
Corporate Communications	FAES website and project communications services.	The services being provided involve providing assistance in updating of FAES's website and preparing communications for FAES projects. Staff involved includes web services and communications specialists. FEI staff providing these services to both FEI and FAES has no incentive to favour FAES' needs.
Senior management	Executive management services providing corporate governance, policy and strategic direction and review of the current status of projects, monitoring status of projects and reviewing and approving potential projects.	Similar to the situation in Alberta's Code of Conduct which allows for sharing of company officers and management, FEI believe there is no harm to its ratepayers by sharing executive management services with FAES. Concerns with respect to commonality of officers and management could be addressed through confidentiality disclosure agreements.
Services Provided to Silverstar, Sunpeaks and Furry Creek Resorts		
Measurement services	Measurement data services in support of billing for Silverstar, Sunpeaks and Furry Creek resorts' regulated energy systems.	The nature of the work performed is primarily technical (i.e. converting and validating the energy consumption data received from the resorts for billing use and updating of meter changes or new customers in the measurement database for the resorts) and specific to the resorts' energy systems. Staff involved includes unionized measurement analysts. FEI staff providing these services to both FEI and FAES have no incentive to favour FAES' needs.

<p>Energy Management Services</p>	<p>Negotiate propane supply contracts for Sunpeaks and Furry Creek resorts and provide backoffice support including regulatory filings, review of gas supply invoices, etc.</p>	<p>The nature of the work performed is primarily technical and administrative in nature (i.e. negotiate supply contracts for resorts, monitor and update operation teams/management about propane market trends and prices, etc.) and specific to the resorts' energy systems. A Market and Price Risk Analyst in FEI's Energy Supply group provides these services. The analyst providing these services to both FEI and FAES has no incentive to favour FAES' needs.</p>
<p>Billing Services</p>	<p>Billing services for Silverstar, Sunpeaks and Furry Creek resorts energy systems' customers</p>	<p>The services being provided include preparation of the resorts' customer bills. The information being handled is specific to FAES and processed using existing financial systems and staff.</p>
<p>Distribution management services</p>	<p>Operation and maintenance (i.e. operating personnel) of the Silverstar, Sunpeaks, Furry Creek resorts' energy systems.</p>	<p>The nature of the work performed is primarily technical in nature (i.e. manage and coordinate maintenance work on the system, manage construction services contract) and specific to the resorts' energy systems and does not lend itself to a situation where a conflict of interest exists between FAES (purchaser of services) and FEI (seller of services).</p>

- 1
- 2 FEI staff is compensated based on FEI's balanced scorecard with the scorecard objectives
- 3 focused on meeting customer, safety, regulatory and financial targets related to the gas utility
- 4 and not FAES. As a result, FEI staff has no additional financial incentive that will pay an
- 5 employee of FEI more for performing more work related to FAES (i.e. more FAES applications,
- 6 providing superior service to FAES).
- 7

1 **Request #2**

- A description of those business development roles precluded from sharing referred to in FEI submission dated September 2, 2014 and discussed in the Pre-hearing Conference and whether these roles and functions include individuals who are engaged in functions such as business planning, marketing and communications, market development, advertising, customer services and any other functions or personnel who are likely to have commercially valuable information;

2
3 **Response:**

4 The business development roles precluded from sharing, to which FEI had referred, are roles
5 with the primary responsibility of identifying and developing new projects and business
6 opportunities for FAES. As the roles are business development roles, they are involved in a
7 number of activities including business planning, marketing, market development and customer
8 relations. FEI employees dedicated to supporting FAES, including the business development
9 roles, were transferred out of FEI effective January 1, 2014, with the employees now residing in
10 separate FAES offices.

11 The employees or functions of FEI that continue to serve FAES for functions other than
12 business development do so only as a small portion of their responsibilities, and remain
13 primarily dedicated to serving FEI. Among these, the functions or personnel who are likely to
14 have commercially valuable information are limited in number. They could potentially include
15 other sales personnel including key account managers and energy solutions managers who
16 may have access to customer specific information. FEI notes that it has already dealt with this
17 potential conflict by precluding sales personnel from the definition of shared services included in
18 FEI's proposed Code of Conduct. Other areas of the business – operational and support, IT,
19 and regulatory are unlikely to come into contact with customer specific information as it is not
20 required to perform their day to day roles.

21 FEI believes that the language in its proposed Code of Conduct limits the likelihood of such
22 conflict of interest situations arising by limiting sharing of resources to corporate services as well
23 as senior management and some operating personnel. As indicated in the response to the first
24 request, the current sharing of resources is primarily corporate services, where the nature of the
25 work performed does not lend itself to a situation where a conflict of interest exists between
26 FAES (purchaser) and FEI (seller).

27

1 Request #3

- A description of the safeguards and oversight processes either currently in place or intended to be implemented if the proposed COC and TPP is approved that ensure an appropriate assessment and monitoring of potential conflicts of interest and segregations of activities where conflict has been identified;

3 Response:

4 FEI's approach to managing and handling conflict of interest for FEI employees involved in
5 providing shared services to FAES incorporates the existing mechanisms and adds new ones.
6 The approach is set out below:

7 **Communication with Employees**

8 Ensuring that all employees are aware of the Code of Conduct is integral to monitoring and
9 identifying conflicts of interest. As outlined in the response to request number six, an annual
10 reminder will be posted on the company's intranet advising all employees of the Code of
11 Conduct and Transfer Pricing Policy. Quarterly reminders will also be communicated to
12 departments that have FEI employees directly involved with FAES activities. This step has
13 already been taken.

14 **Oversight and Compliance by the Director of Finance**

15 A significant enhancement to the Code of Conduct oversight and compliance process is the
16 insertion of the Director of Finance role into the process which includes responsibility for
17 identifying and managing potential conflict of interest situations. This is a more rigorous
18 approach than that currently required under the existing Code of Conduct for NRBs.

19 As outlined in the proposed Code of Conduct, the Director of Finance is responsible for
20 monitoring compliance. This will include advising all FEI employees of their expected conduct
21 pertaining to the Code, with quarterly updates for employees who are likely to be directly
22 involved with FAES activities.

23 **Compliance Review**

24 In addition, an annual compliance review is performed by the Internal Audit group, the results of
25 which will be summarized in a report and filed with the Commission within 60 days of the
26 completion of the review. The objectives of the review are to:

- 27 • Confirm the existence of appropriate policies, processes, procedures and business
28 information systems that ensure compliance with the Code of Conduct and Transfer
29 Pricing Policy;
- 30 • Review and determine whether the control procedures were in effect and operating
31 effectively as of the date of the assessment;
- 32 • Determine who the key business process owners are and their roles in the process;

- 1 • Assess the activities of the individuals carrying out key functions or supervising the
2 activities to ensure the Company’s control processes meet the criteria; and
- 3 • Evaluate the alignment and consistency between the Code of Conduct and Transfer
4 Pricing Policy and current business practices.

5 For reference, Attachment 1 contains the recent Annual Review of the Code of Conduct and
6 Transfer Pricing Policy dated December 31, 2013.

7 **Complaints Handling**

8 An important part of the oversight process is having an effective and efficient process for
9 handling complaints by third parties regarding the application of the Code of Conduct, or any
10 alleged breach. FEI believes it has outlined an effective process where third parties can state
11 their complaints in writing to the Company’s Director of Finance and the Executive Vice-
12 President, Customer Services and Regulatory Affairs, who will bring the matter to the immediate
13 attention of the Company’s senior management and promptly initiate an investigation into the
14 complaint. As indicated, the Company will endeavour to complete this investigation within 30
15 days of the receipt of the complaint.

16 **Separation of Employees**

17 As discussed in the response to request number two, segregating activities by separating
18 employees, where required, will be done to create the separation necessary to address the
19 possible conflict of interest issues. In this regard, a number of FEI employees dedicated to
20 supporting FAES, including the business development roles, have been transferred out of FEI
21 effective January 1, 2014, with the employees now residing in FAES. These employees reside
22 at the Burnaby Operations site and are provided only visitor access to all other FortisBC sites.

23

1 **Request #4**

- Examples of services that FEI currently provides FAES and the estimated differential between fully allocated cost and market price for those services;

2

3 **Response:**

4 Outlined in the following table are examples of the labour services and the associated hourly
5 rates that FEI currently provides to FAES. In the column headed “FEI” are the FEI 2014 hourly
6 chargeout (billing) rates for the different types of positions listed. In the column headed
7 “Market”, and provided for comparison, are the estimated equivalent hourly rates as developed
8 based on the Hay survey of FEI peer group companies.

9 The differences between the FEI hourly rates and that provided as Market equivalents based
10 on the Hay survey are estimates and to be interpreted as indicative only, recognizing the
11 complexities of establishing comparable hourly labour rates (i.e. differences in time off
12 provisions between companies, equivalent positions, etc). For reference, this table was also
13 included in the material used at the second workshop held on April 24, 2014 (slide #56) and
14 included in Appendix C3 of FEI’s Application for Approval of Code of Conduct and Transfer
15 Pricing Policy for ARBNNM filed on June 27, 2014.¹

16 FEI’s approach to compensation and benefits is to provide its employees with competitive base
17 salaries and wages, incentive compensation, benefits and paid time-off. FEI’s competitive
18 approach (i.e. market based) is evident in the hourly rate differentials shown in the table, with
19 the listed FEI hourly rates comparable to those outlined for the Market.

¹ Junior engineers are not currently provided by FEI and have been provided for reference purpose only.

Comparison of Hourly Charge-Out Rates - FEI to Market			
2014 Hourly Charge-Out Rates			
(includes time off and benefits)			
Position		FEI ⁽¹⁾	Market ⁽²⁾
Junior accountants		\$ 54	\$ 54
Intermediate accountants		\$ 61	\$ 57
Accounting/Finance manager		\$ 83	\$ 75
Recruitment staff		\$ 61	\$ 43
Communications specialists		\$ 65	\$ 60
Regulatory staff – regulatory manager, regulatory specialists		\$ 89	\$ 73
Procurement specialists		\$ 70	\$ 67
Junior engineers		\$ 56	\$ 56
(1) FEI Charge-out rates are based on 2014 included in SAP.			
(2) Based on Hay survey from designated peer group consisting of ~110 companies.			
(3) Rates indicated do not include any assigned overhead charges.			

1

2 The overall comparator group includes: all utilities in the Hay database, natural resource
 3 companies including mining, forestry, and energy, engineering consulting and industrial sector
 4 organizations based in Western Canada. Included is primarily the private sector but also
 5 relevant crown corporations and authorities such as provincial utilities and provincial safety
 6 authorities.

7

1 **Request #5**

- How a reduction in FAES costs, as a result of receiving services from FEI at below-market rates, will affect the rates of FAES ratepayers, and the time-frame over which such cost reductions may be passed on to ratepayers;

2
3 **Response:**

4 The services that FAES purchases from FEI are at market rates.

- 5 • First, FAES is a separate entity that is entering into a bilateral or market transaction with
6 FEI. Although FAES is not arms-length, FAES has the ability to go out to third parties to
7 acquire services, and does so where FAES believes that it can get services on more
8 favourable terms than FEI can provide. Examples of this include the 24 hour service
9 FAES procures from third parties, or routine maintenance and operation. These
10 services are not provided by FEI to FAES.
- 11 • Second, this is further supported by the evidence provided in the response to request
12 #4, where the hourly charge-out rates for FEI labour services is comparable to that
13 outlined for the Market.
- 14 • To the extent that FEI rates are the lowest cost rate available in the market, that would
15 not necessarily make them “below market” rates.

16 In terms of rate setting, FEI charges are considered a cost of doing business for FAES as are
17 any other third party charges FAES incurs.

18 To the extent that FAES does not utilize a traditional utility cost of service rate design for all
19 customers, the recovery of those costs from FAES ratepayers will be a function of the ability for
20 FAES to generate sufficient revenue to cover its costs, like any business. FAES’ cost structure
21 thus remains an important driver of rates even what traditional rate making principles are not
22 being employed.

23 For example, FAES may have multiple “Stream A” projects where each has a rate design similar
24 to the SOLO rate design. In this rate framework, the costs that FAES pays including the FEI
25 charges are forecast for the entire period once. FAES’ expectations of what its costs will be –
26 which will include consideration of where it is getting its services and at what pricing – get
27 reflected in that forecast. To the extent that actual costs incurred differ than that forecast, there
28 is an effect on rates through the performance ratio adjustment every five years, but
29 fundamentally, the actual savings or costs against that original forecast are born by FAES. In
30 this model, higher or lower costs, including FEI charges, affect the original forecast, and the
31 performance ratios for those projects. So, the impact on customers associated with FAES’ cost
32 structure (and hence the impact of its ability to purchase services from FEI) comes into play
33 primarily at the outset of a contract term for a particular project and at contract renewal, and to a
34 lesser degree within each contract term.

1 FAES may also have “Micro TES” and “Stream B” projects in the mix of customers. With
2 respect to Micro TES, the BCUC does not intend to become involved at all in the setting of rates
3 for those customers. Whereas, for Stream B, FAES has not successfully received approval for
4 any “Stream B” rate designs to date and therefore the impact of changes in FEI cross charges
5 on FAES ratepayers is unknown for both Micro TES, and Stream B customers. But again, the
6 rate that FAES is charging will broadly reflect its expectations about its costs.

7

1 **Request #6**

2

- A description of the cost collection processes and controls that are currently in place or intended to be implemented if the proposed COC and TPP is approved that identify all services provided and costs incurred within FEI to meet the needs of FAES, including direct charges, timesheets and the methodology for overhead allocation. This description should include the monitoring, internal verification and oversight processes that will ensure (i) all appropriate services provided to FAES have been identified and (ii) the amount of the costs allocated to FAES are appropriate and accurate; and

3

4 **Response:**

5 FEI provides below a description of the cost collection processes and controls that are currently
6 in place or will be in place to ensure that all FEI charges, both direct and overhead costs, for
7 activities in support of FAES are appropriately allocated to FAES. Direct costs include costs for
8 activities that relate to a particular FAES project or projects whereas overhead costs include
9 costs for corporate services such as executive management, finance, regulatory affairs, human
10 resources, information technology support and facilities.

11 **FEI employees' time spent on FAES activities – both direct and overhead (i.e. corporate
12 services) activities**

13 FEI employee time spent on FAES activities, whether direct or overhead (corporate services), is
14 allocated based on work effort, as determined by the time spent on the activities. Each
15 employee is responsible for accounting for the time spent correctly, and there are mechanisms
16 in place to ensure compliance.

17 **Weekly timesheets**

- FEI employees are expected to complete timesheets on a regular basis where there is costing or payroll information to be submitted.
- For unionized employees, timesheets also require the review and approval of the department manager.

22 Completion of timesheets is done on an exception basis for all management and most unionized
23 office staff employees, regardless of whether the allocation is to an FEI project, a deferral
24 account, another department, or another entity, and is a well-established process. Employees
25 are indifferent, whether financially or otherwise, as to where their time is allocated. The
26 incentive for those employees is on completeness and accuracy, rather than a particular
27 allocation result. Oversight is intended to reinforce the importance of completeness and
28 accuracy and to not either undercharge or overcharge FAES.

29 All employees are reminded of the importance of completing timesheets and the Transfer
30 Pricing Policy.

- 1 Refer to the example below of the annual reminder posted (July 2013) on the company's
2 intranet to remind gas employees of the Code of Conduct and Transfer Pricing Policy and to
3 ensure that time recorded for timesheet purposes complies with the Code of Conduct and
4 Transfer Pricing Policy.

Finance News

[Printer Friendly Version](#)

Information for all gas employees


To ensure that all employees are aware of the Code of Conduct and Transfer Pricing Policy Related to Non-Regulated Businesses, please review and/or refresh your understanding of the policy by visiting the link below.

- [Code of Conduct and Transfer Pricing Policy Related to NRBs](#)

All employees should be familiar with the policy and ensure that time recorded for timesheet purposes comply with the Code of Conduct and Transfer Pricing Policies.

All Corporate Policies can be found on Pipeline at the following link.

- [Corporate Policies](#)

If you have any questions regarding the Code of Conduct and Transfer Policy, please contact Peter Orr, Financial Reporting at (604) 443-6521 .

- 5
6 Additionally, the Code of Conduct and Transfer Pricing Policy is referenced in the company's
7 "Business Ethics" eLearning course, a course that all employees are required to take.

8 Tracking of costs allocated

- 9
- Internal orders for both direct and overhead activities are raised to capture any FEI
10 employee's time incurred in support of FAES. Internal orders provide a mechanism
11 whereby costs specific to an activity (i.e. FAES work) are captured and reported
12 separately from other costs.
 - The use of the internal orders is communicated to the department/employees impacted
13 by the FEI Financial Accounting Group. Departments/employees providing support to
14 FAES are advised of the internal order number(s) to be used and notified of the
15 requirement to charge their time and related costs accordingly to FAES, in compliance
16 with the Code of Conduct and Transfer Pricing Policy. To ensure the correct internal
17 order numbers are used to record FAES related time, FEI will also include the internal
18 order numbers in the quarterly reminders sent to FEI department managers, asking for
19 review and confirmation of charges (see the following discussion).
20

21 Monitoring of the costs allocated

- 22
- FEI's Financial Accounting Group is responsible for maintaining the internal orders and
23 collecting the appropriate charges. This requirement is outlined in section 4 Cost
24 Collection Procedures of FEI's proposed Transfer Pricing Policy.

- 1 • The Director of Finance will also review the charges on a quarterly basis, comparing
2 actual charges in the quarter to that planned. Additionally, the Director of Finance will
3 seek confirmation every quarter from the FEI department managers who are responsible
4 for managing the employees that may have performed work for FAES, that the actual
5 charges recorded in the internal orders by their employees for the quarter are
6 appropriate. As indicated in the proposed FEI Transfer Pricing Policy, FAES may also
7 review the validity of the charges. These are new monitoring requirements that FEI
8 proposes to use to increase confidence that all costs related to FAES are appropriately
9 charged to FAES.

10 **Overhead Activities – direct (i.e. labour time for corporate services) and indirect (facilities**
11 **and IT support)**

12 Overhead costs include those for direct overhead costs (i.e. corporate services) and indirect
13 overhead costs (i.e. facilities and IT support related to employees providing corporate services).
14 Approximately \$250 thousand of the total \$600 thousand forecasted overhead for 2014² is for
15 indirect overhead (facilities and IT support activities), the determination of which is less
16 dependent on timesheet allocations.

17 **Direct overhead costs**

18 As indicated earlier, timesheets are used to track FEI employees' time for providing direct
19 overhead activities (i.e. corporate services) but this excludes related employee supporting costs
20 (indirect overhead costs). Direct overhead costs include the labour time for corporate services
21 such as executive management, finance, regulatory affairs, human resources, information
22 technology support and facilities.

23 **Indirect overhead costs**

24 In addition to FEI employees' time captured through timesheets, there are indirect overhead
25 costs (i.e. facilities and IT support costs related to employees) that are allocated to FAES,
26 following the allocation process as outlined in the FEI Transfer Pricing Policy. Indirect overhead
27 costs, where applicable, include a general overhead loading (i.e. 10%) for FEI employees
28 providing support to FAES and located at FEI's office (i.e. general overhead loading represent
29 services that facilitate the day-to-day functions of all employees including Human
30 Resources/Payroll, Corporate Safety, Office Services); and a facilities charge of \$100 per day.
31 The facilities charge represent a list of related expenses including office space, telephone, office
32 supplies, office furniture and equipment, SAP and Microsoft licenses. Any other overhead costs
33 in addition to the labour charges, such as equipment charges (as outlined in Appendix A of the
34 FEI proposed Transfer Pricing Policy) will be charged directly to FAES.

² Refer to slide 11 of the February 20, 2014 workshop presentation material in Appendix C2 of the FEI Application for Approval of Code of Conduct and Transfer Pricing Policy for ARBNNM filed on June 27, 2014

1 Similar to the facilities related costs discussed above for FEI staff providing service to FAES,
2 facilities related costs for FAES employees occupying the FAES office in Burnaby (which,
3 although segregated from FEI's operations is owned by FEI) are also allocated to FAES.

4 **Direct Activities**

5 Direct costs include costs for activities that related to a particular FAES project or projects.
6 Similar to the review process for labour charges, the Director of Finance will review the direct
7 charges on a quarterly basis and seek confirmation from the department managers, where
8 applicable, of the appropriateness of the charges.

9 The oversight and control processes related to the capturing of costs are described under
10 Request #3.

11

1 **Request #7**

- Under the recent PBR Decision a detailed revenue rate review will not occur until late 2016 or early 2017. Describe the processes that over the PBR period will allow the Commission and ratepayers to be assured that the appropriate level of costs incurred by FEI to meet the needs of FAES, or other ARBNMMs, are charged to FAES or the ARBNMM and are not paid for by the FEI ratepayer. The Panel is particularly concerned with the determination of indirect costs such as overheads.

2
3

4 **Response:**

5 FEI clarifies that the sentence “Under the recent PBR Decision, a detailed revenue rate review
6 will not occur until late 2016 or early 2017” is not correct. Since FEI’s multi-year PBR
7 agreement will not expire until the end of 2019, a detailed review will not be completed until
8 2019.

9 FEI believes that the cost collection processes and controls along with the monitoring and
10 oversight processes described in the previous response for services provided by FEI to FAES
11 will lead to accurate and representative costing. FEI highlights that approximately \$250
12 thousand of the total \$600 thousand forecasted overhead for 2014³ is for indirect overhead
13 (facilities and IT support activities), the determination which is less dependent on timesheet
14 allocations.

15 Recognizing that a detailed revenue rate review will not be complete until 2019, FEI would be
16 prepared to file a summary of the charges by FEI to FAES as part of the Annual Review
17 material in FEI’s Multi-Year Performance Based Ratemaking Plan 2014 – 2019. It is also during
18 these Annual Review processes that FEI will be bringing forward any revisions to methodologies
19 for allocating existing corporate services, and any future proposals for implementing a shared
20 services agreement with FortisBC Inc.

³ Refer to slide 11 of the February 20, 2014 workshop presentation material in Appendix C2 of the FEI Application for Approval of Code of Conduct and Transfer Pricing Policy for ARBNM filed on June 27, 2014

Attachment 1

**FEI ANNUAL REVIEW OF CODE OF CONDUCT AND
TRANSFER PRICING POLICY**

Date: December 31, 2013

To: **John Walker**, President and Chief Executive Officer
David Bennett, VP, Operations Support, General Counsel and Corporate Secretary
Michele Leeners, VP, Finance and Chief Financial Officer
Roger Dall'Antonia, VP, Strategic Planning, Corporate Development and Regulatory

CC: **James Wong**, Director, Finance and Planning
Peter Orr, Director, Financial Reporting
Diane Roy, Director, Regulatory Affairs (Gas)
Shawn Hill, Director, Regulatory Affairs (Energy Policy and Customer Solutions)

From: **Edward Olson**, Director, Internal Audit

Subject: **FortisBC Energy Inc. - Annual Review of Code of Conduct & Transfer Pricing Policy**

Internal Audit has completed its annual review of compliance with the Code of Conduct and Transfer Pricing Policy ("COC and TPP").

BACKGROUND

In 1997, the British Columbia Utilities Commission ("BCUC", "Commission") issued guidance to regulated utilities operating in the province of British Columbia in the document titled *Retail Markets Downstream of the Utility Meter Guidelines ("BCUC Guidelines")*. The document includes a discussion of principles that should be reflected in the internal policies prepared by the regulated utility.

The Code of Conduct and Transfer Pricing Policies were issued in 1997 to govern the relationships between FortisBC Energy Inc. (at that time named Terasen Gas Inc.) and Non-Regulated Businesses (NRBs). NRBs are defined as "an affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products and/or services".

The review undertaken by Internal Audit is conducted to satisfy the following requirements as set out in the COC and TPP:

- "FortisBC Energy Inc. will monitor employee compliance with the Code of Conduct by conducting an annual compliance review, the results of which will be summarized in a report to be filed with the Commission within 60 days of the completion of this review." (Code of Conduct, item 7)
- "FortisBC Energy Inc. will ensure that it receives adequate compensation for the resources and services provided, thereby protecting ratepayers from subsidizing unregulated activities." (Transfer Pricing Policy, Scope)
- "The Transfer Pricing Policy will be reviewed on an annual basis as part of the Code of Conduct compliance review." (Transfer Pricing Policy, item 7)

OBJECTIVES

Management is responsible for establishing and maintaining a system of internal controls to provide reasonable assurance of compliance with the COC and TPP. The objectives of the review are summarized as follows:

- Confirm the existence of appropriate policies, processes, procedures and business information systems ("control procedures") that ensure compliance with the COC and TPP.
- Review and determine whether the control procedures were in effect and operating effectively as of the date of this assessment.

- Determine who the key business process owners are and their roles in the process.
- Assess the activities of the individuals carrying out key functions or supervising the activities to ensure the Company's control processes meet the criteria.
- Evaluate the alignment and consistency between the COC and TPP and current business practices.

SCOPE AND APPROACH

Internal Audit's work focused on a review of the internal control procedures established to facilitate and ensure compliance with the COC and TPP. The period covered by the review was September 1, 2012 to August 31, 2013.

Internal Audit worked with FortisBC Energy Inc.'s management to understand the existing control procedures for each of the discrete policy elements ("control objectives") contained in the COC and TPP.

Interviews with key personnel determined the extent to which adequate control procedures have been established. In addition, reviews of internal policies and procedures, journal entries, timesheets and working papers were conducted. Agreements between FortisBC Energy Inc. and NRB's were reviewed and details of transactions pertaining to NRB activity were tested. Lastly, details of transactions with FortisBC Alternative Energy Services Inc. (a regulated affiliate) were reviewed against the existing policy in addition to ensuring that the Thermal Energy Service Deferral Account overhead allocation complied with the BCUC's determinations in Order G-44-12.

CONCLUSIONS

As a result of this review, it can be concluded that FortisBC Energy Inc. is operating within the requirements of the COC and TPP, and the internal controls in place are effective in ensuring that the regulated customer is not subsidizing non-regulated business activities.