



Diane Roy
Director, Regulatory Services

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

Electric Regulatory Affairs Correspondence
Email: electricity.regulatory.affairs@fortisbc.com

FortisBC
16705 Fraser Highway
Surrey, B.C. V4N 0E8
Tel: (604) 576-7349
Cell: (604) 908-2790
Fax: (604) 576-7074
Email: diane.roy@fortisbc.com
www.fortisbc.com

November 5, 2014

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

Response to the Coalition for Open Competition¹ (COC) Information Request (IR) No. 1

On June 27, 2014, FEI filed the Application as referenced above. In accordance with Commission Order G-160-14 setting out the Amended Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to COC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed by: Ilva Bevacqua

For: Diane Roy

Attachments

cc (email only): Registered Parties

¹ consisting of the Mechanical Contractors Association of British Columbia (MCABC); Heating, Refrigeration and Air Conditioning Institute of Canada (HRAI); Independent Contractors and Business Association (ICBA) and Ameresco Canada Inc. (Ameresco)



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 1

1 **Request #1 - Conflict of Interest**

2 **Reference: Exhibit B-7, page 2, Regulatory Affairs:**

3 *“The service being provided involves assisting FAES in the review and filing of*
4 *regulatory applications. Staff involved includes regulatory specialists and*
5 *administrative support staff. FEI staff providing these services to both FEI and*
6 *FAES has no incentive to favour FAES’ needs.”*

7 1.1 Please confirm that size of the Regulatory Affairs department is staffed to
8 reasonably accommodate the needs of FEI and its natural gas regulatory
9 requirements?
10

11 **Response:**

12 Confirmed.

13
14

15
16 1.2 Please confirm that FEI and its natural gas customers receive priority of service
17 for its needs and that FAES’ requirements are in secondary priority? If not,
18 please explain why.

19
20 **Response:**

21 Confirmed.

22
23
24
25

26 **Reference: Exhibit B-7, page 2, Senior Management:**

27 *“Similar to the situation in Alberta’s Code of Conduct which allows for sharing of*
28 *company officers and management, FEI believe there is no harm to its ratepayers*
29 *by sharing executive management services with FAES. Concerns with respect to*
30 *commonality of officers and management could be addressed through*
31 *confidentiality disclosure agreements.”*

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 2

1 1.3 Please confirm that it is FEI's intention to have FEI Senior Management sign
2 non-disclosure agreements that precludes them from telling their subordinates in
3 FAES confidential information that Senior Management acquired in their duties to
4 FEI?

5
6 **Response:**

7 Not confirmed. Please refer to the response to BCUC IR 1.2.1.

8
9

10
11 1.4 Please describe how an internal FEI review, a third party audit or a Commission
12 review will be able to ascertain that something that was learned by a senior
13 manager in the course of their duties as a FEI executive was not inadvertently
14 disclosed to that executive's FAES subordinates? Please consider verbal as well
15 as written disclosure in your response.

16
17 **Response:**

18 In the event that an individual became aware of inadvertent disclosure, he or she would be
19 relied upon to report it consistent with the obligations imposed on that person. The concern
20 being identified is really limited to circumstances where the individual and the recipient are both
21 unaware of the improper disclosure, or it intentionally went unreported by those individuals.
22 This challenge is no different from, for instance, the challenge faced by any company of
23 assessing its employees' adherence to privacy laws through non-disclosure of personal
24 information to third parties. In such circumstances, it is impossible to prove a negative (i.e.,
25 demonstrate beyond any doubt that no disclosure occurred). However, education and regular
26 reminders regarding obligations, in combination with accepted audit processes, represent
27 reasonable and practical measures to provide an appropriate level of comfort.

28
29

30
31 1.5 Please confirm if an executive with management responsibilities in both FEI and
32 FAES has incentive compensation from both those two entities.

33



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 3

1 **Response:**

2 All employees, whether executive or not, receive incentive compensation only from their
3 employer. FEI employees receive incentive compensation (if earned) from FEI, and FAES
4 employees receive incentive compensation (if earned) from FAES. FEI Executives currently
5 receive no incentive compensation from FAES.

6
7

8

9 1.6 What are the consequences if an executive is found to breach non-disclosure
10 agreements?

11

12 **Response:**

13 While FEI's position is that non-disclosure agreements are not required. Hypothetically, if a
14 non-disclosure were required, the consequences of breaching obligations under a non-
15 disclosure agreement would vary depending on the circumstances, e.g., the nature of the
16 information disclosed, the harm, and the person's intent. Sanctions could range from no action
17 taken, a rebuke, or to termination. The assessment would be similar to ones conducted
18 routinely for employee misconduct.

19

20

21

22

23 **Reference: Exhibit B-7, page 2, Billing Services:**

24 ***"The services being provided include preparation of the resorts' customer bills.
25 The information being handled is specific to FAES and processed using existing
26 financial systems and staff."***

27 1.7 Please confirm that the billing been done for Silverstar, Sunpeaks and Furry
28 Creek is not being done on an FEI labeled bill (ie. the bill is clearly not from
29 FortisBC Energy Inc.).

30

31 **Response:**

32 The bills prepared for the different resorts have the names of the resorts and do not reference
33 FortisBC.



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 4

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31

1.8 Is FEI performing the billing for FAES for the Delta School District Project? If yes, please confirm that the bill is not being done on an FEI labelled invoice and is clearly labelled FAES.

Response:

FEI's Finance department is providing billing support to FAES for thermal energy services provided to the Delta School District Project. The bill is prepared on an invoice labelled with "FortisBC Alternative Energy Services".

1.8.1 With reference to **Attachment 1** of this request [The Board of Education of School District No. 37 (Delta) – Schedule of Payments for the Fiscal Year Ended June 20, 2013 – 1 page extract] ¹, please confirm that the full amount of \$340,648 that was paid to "FORTIS BC" was, in fact, paid to FortisBC Energy Inc for the provision of natural gas or natural gas services. Please also confirm that none of this amount was for thermal energy services paid to FortisBC Alternative Energy Services Inc.?

Response:

FEI is unable to confirm this as this information is confidential customer information.

1.9 Please indicate if FEI is providing this service on the basis of actual time and expenses or on a piecemeal (per customer bill) basis?

¹ Source: <http://www.bced.gov.bc.ca/accountability/district/sofi/2013/SD37.pdf>



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 5

1 **Response:**

2 Consistent with that allowed under the FEI Transfer Pricing Policy, FEI is providing the billing
3 service for FAES on the basis of actual time and expenses.

4

5

6

7 1.10 Does FEI provide or intend to provide this service on a FEI Tariff basis? If not,
8 why not?

9

10 **Response:**

11 No. Tariff approvals are required for regulated public utility services only, and billing is not a
12 regulated public utility service as defined under the UCA irrespective of who provides that
13 service.

14 The Code of Conduct and Transfer Pricing Policy for ARBNNM is intended to set out the way in
15 which FEI staff perform services on behalf of affiliated entities, such as FAES, ensuring FEI
16 customers are fairly compensated for sharing of these staff resources.

17



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 6

1 **Request #2 – Business Development Roles**

2 **Reference: Exhibit B-7, page 4:**

3 **“FEI employees dedicated to supporting FAES, including the business**
4 **development roles, were transferred out of FEI effective January 1, 2014, with the**
5 **employees now residing in separate FAES offices.”**

6 **Reference: Exhibit B-7, page 6:**

7 **“Separation of Employees**

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

15 2.1 Please provide the current (ie. post January 1, 2014) organization chart that
16 details the reporting arrangements from the CEO of FEI to the President of FAES
17 and the FAES organization. Please detail any additional roles that FAES
18 directors and officers hold within the FEI management.
19

20 **Response:**

21 Please refer to Attachment 2.1 for the current organization chart that details the reporting
22 arrangements from the CEO of FEI to the President of FAES and the FAES organization. For
23 clarity, the President and CEO of FEI has no role and responsibilities for FAES.
24

25 Please see the table below for a listing of FAES directors and officers, along with the additional
26 roles they hold within FEI management.



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 7

Individual	Role Within FAES	Role Within FEI
John Walker	Member of Board of Directors	Member of Board of Directors
Roger Dall'Antonia	Member of Board of Directors	Executive Vice President, Customer Service & Regulatory Affairs
Douglas Stout	President Member of Board of Directors	Vice President, Market Development & External Relations
Gareth Jones	Vice President and General Manager	Director, Business Development*
Debra Nelson	Corporate Secretary	Assistant Corporate Secretary

1 *This is a job title within FEI. It is not a position on FEI's Board of Directors.

2 FEI clarifies that Mr. Douglas Stout's Market Development role within FEI is focused on the
3 development of major projects such as the Tilbury LNG expansion. His previous responsibilities
4 for the Energy Solutions group who deal with adding natural gas customers and the Energy
5 Efficiency and Conservation group now fall under Mr. Roger Dall'Antonia, Executive Vice
6 President, Customer Services and Regulatory Affairs.

7 Regarding Mr. Gareth Jones' role as the Director, Business Development within FEI, his
8 responsibilities relate to FEI's natural gas transportation business and the Tilbury LNG plant
9 expansion.

10

11

12 2.2 Please confirm that all officers of FAES reside in separate FAES offices? If not,
13 why not and where do they reside?

14

15 **Response:**

16 Following are the current FAES officers:

- 17 • Douglas L. Stout - President
- 18 • Gareth Jones – Vice President and General Manager
- 19 • Debra G. Nelson - Corporate Secretary

20

21 As these individuals provide their services to other FortisBC companies and not exclusively to
22 FAES, they are required to work at different locations besides the Burnaby Operations site.

23 Ms. Debra Nelson is located at the Vancouver downtown office, the primary location of FHI
24 employees. In her role, Ms. Debra Nelson provides corporate secretary services to the entire
25 FortisBC group of companies.



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 8

- 1 With his role also as FEI's VP, Market Development and External Relations, Mr. Douglas Stout's
- 2 responsibilities require him to work from different office locations (Surrey, Vancouver, Kelowna).
- 3 Mr. Gareth Jones is based primarily at the Burnaby location where FAES keeps its office.
- 4 However, given the nature of his responsibilities, he is required to work from different locations.
- 5

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 9

1 **Request #3 – Safeguards & Oversight**

2 **Reference: Exhibit B-7, page 6:**

3 **“Complaints Handling**

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

13 3.1 Please comment on what FEI would see as the likely Appeal Process in the
14 event that a complainant was not satisfied with the result of the internal
15 investigation?
16

17 **Response:**

18 In the situation where a complainant is not satisfied with the result of FEI’s internal investigation
19 into a complaint as provided in writing, the complainant can raise the complaint with the
20 Commission. The Commission can then determine how best to resolve the complaint.
21
22

23
24 3.2 If the alternative was to have complaints addressed in writing to the Commission,
25 would FEI not conduct an internal investigation in any event?
26

27 **Response:**

28 FEI believes that an internal investigation conducted by FEI will be required regardless of where
29 the complaint is initially raised.

30 However, FEI does not believe a process where complainants can raise complaints directly with
31 the Commission without bringing the issue to FEI first would be efficient. In all likelihood, the
32 Commission would then ask FEI to investigate the matter and potentially conduct an internal
33 investigation. By complainants raising complaints with FEI first, there would be an opportunity
34 for FEI to clarify any issues and provide further information that may resolve the matter, thereby
35 possibly avoiding additional costs of getting the Commission involved unnecessarily.



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 10

1 As stated in the Scope section of FEI's proposed Code of Conduct, the primary responsibility for
2 administering the Code lies with FEI and that the Commission may review complaints in relation
3 to this Code. FEI believes the wording it has proposed is appropriate and serves to discourage
4 frivolous complaints while not discouraging potential complainants. The wording is consistent
5 with that included in the current approved Code of Conduct for NRBs which has been place for
6 a number of years. FEI is not aware of any situations in the past where a potential complainant
7 was discouraged from lodging a complaint due to the nature of how the complaint process is
8 defined.

9
10

11

12 3.3 In the event that FEI became aware of an alleged breach, but had not received a
13 formal complaint, would FEI proceed to investigate?
14

15 **Response:**

16 As part of its role in administering the Code of Conduct, FEI will monitor employee compliance
17 with the Code and also conduct an annual compliance review. Any compliance issues
18 discovered will be investigated by the Company.

19 With regards to a complaint raised by third parties, FEI believes it has proposed an efficient
20 complaint process which requires complaints or alleged breaches to be stated in writing.
21 Having the complaint and the circumstances stated in writing would provide clarity on the nature
22 of the complaint and would allow FEI to proceed to investigate in a timely and efficient manner.

23
24

25

26 3.4 How much additional time does FEI believe that its proposal would add to the
27 complaints process relative proceeding to a Commission led process?
28

29 **Response:**

30 As stated in the proposed process above, the Company will endeavor to complete the
31 investigation within 30 days of the receipt of the complaint which would occur before a
32 complainant brings the issue to the Commission. Also, as stated in the response to COC IR
33 1.3.2, as an investigation by FEI will be required even in a Commission-led process, FEI does
34 not believe its proposal will result in a longer process.

35



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 11

1 **Request #4 – Fully Allocated Cost versus Market**

2 **Reference: Exhibit B-7, pages 7-8: Hay Survey of 110 companies.**

3 4.1 If the Hay Survey is publicly available, please provide. If it is confidential or
4 proprietary please provide to the Commission on a Confidential Basis.

5
6 **Response:**

7 The Hay survey is an on-line database of confidential and proprietary compensation information
8 known as Hay Group PayNet. The PayNet system allows FortisBC to compare and benchmark
9 jobs within the database using a variety of searchable criteria and is searchable by numerous
10 different variables. Because of the nature of the PayNet system, it is not readily available in a
11 format that could be provided to the Commission.

12
13

14
15 4.2 Of the 110 peer group of companies, how many of these entities are:

16
17 a) In the downstream (retail) energy supply sector?
18

19 **Response:**

20 For 2014, there are 111 companies that are part of the commercial/industrial peer group of the
21 Hay survey. Those employers are:

Ainsworth Engineered Canada L. P.	Air Products Canada Ltd.
Alberta Newsprint Company	ALS Canada Ltd.
AMEC Americas Limited	ArcelorMittal Dofasco Inc.
ATCO I-TekBarrick Gold Corporation	Bekaert Canada
BHP Billiton Canada Inc.	Bluewater Power Distribution Corporation
Brantford Energy Group of Companies	Bruce Power L.P.
Burlington Hydro Inc.	Campbell Company of Canada
Cambridge and North Dumfries Hydro Inc.	Canadelle Inc.
Canadian National Railway Company	Canadian Pacific RailwayCanexus Corporation
Canfor Pulp Limited PartnershipCanpotex Limited	Capital Power Corporation
Cargill Limited	Catalyst Paper Corporation
Caterpillar of Canada Corporation	De Beers Canada Inc., Corporate Division



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 12

De Beers Canada Inc., Exploration Division	De Beers Canada Inc., Mining Division
Dow Chemical Canada Inc.	E.I. du Pont Canada Company
Enbridge Inc.	Enersource Hydro Mississauga Inc
Essar Steel Algoma Inc.	Festival Hydro Inc.
Finning (Canada)	Finning International Inc.
Fortis Inc.	Fortis Properties Corporation
FortisAlberta Inc.	FortisOntario Inc.
General Kinetics Engineering Corporation	Goldcorp Inc.
Guelph Hydro Electric Systems Inc.	Halifax Regional Water Commission
Halton Hills Hydro Inc.	Horizon Utilities Corporation
Hunter Dickinson Inc.	Hydro One Brampton
Hydro One Inc.	Hydro Ottawa Limited
INVISTA (Canada) Company	K&S Potash Canada
KGHM International Ltd.	Kinross Gold Corporation
Kitchener-Wilmot Hydro Inc.	Lehigh Hanson Materials Limited
London Hydro	Maritime Electric Company
McElhanney Consulting Services Ltd.	McElhanney Group Ltd.
McElhanney Land Surveys Ltd.	Methanex Corporation
Millar Western Forest Products Ltd.	Mitsubishi Canada Limited
Mosaic Company	NB Power Holding Corporation
Newfoundland Power Inc.	Ontario Power Authority
Ontario Power Generation Inc.	Orillia Power Corporation
Oshawa PUC Networks Inc.	Pan American Silver Corporation
Potash Corporation of Saskatchewan Inc.	Praxair Canada Inc.
Primex Manufacturing Ltd.	Rio Tinto - Diavik Diamond Mines
Rio Tinto Iron Ore/Russel Metals Inc.	SaskEnergy Incorporated
SaskPower	SaskTel
SEMAFO Inc.	Sherritt Coal
Sherritt International Corporation	Shore Gold Inc.
Silver Standard Resources Inc.	SMS Equipment Inc.
SNC-Lavalin Group Inc.	Sofina Foods Inc.
Suncor Energy Inc.	Teck Resources Limited
Teck Resources Limited - Trail Operation	Teck Resources Limited - Highland Valley Copper



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 13

Teekay Corporation	TELUS Communications Inc.
Tembec Inc.	Thunder Bay Hydro Electricity Distribution Inc.
Tolko Industries Ltd.	TVI Pacific, Inc.
Ultramar Ltée Uranium One Inc.	West Fraser Timber Co. Ltd.
Westario Power Inc.	Xstrata Copper Canada
Xstrata Nickel Canada	Xstrata Zinc Canada
Yukon Energy Corporation	

1
2
3
4

Industry representation for this peer group of companies is set out in the table below.

Industry Representation of Comparator Group Participants in the Hay Survey

Sector	# of Participants	% of Participants (rounded)
Natural Resources	42	37%
Chemicals	8	7%
Services	8	7%
Transportation	3	3%
Industrial Goods	7	6%
Utilities	32	29%
Fast Moving Consumer Goods	2	2%
Consumer Durables	1	1%
Leisure & Hospitality	1	1%
Construction & Materials	1	1%
Telecommunications	2	2%
Oil & Gas	4	4%
Total	111	100%

5
6
7
8
9
10
11
12

b) In the downstream natural gas, electricity, or thermal energy sectors?

Response:

For a listing of the companies, please refer to the response to COC IR 1.4.2(a).



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 14

1 c) In the telephone, cable, or cellular sectors?

2

3 **Response:**

4 For a listing of the companies, please refer to the response to COC IR 1.4.2(a).

5

6

7 d) Are regulated for rates of service?

8

9 **Response:**

10 For a listing of the companies, please refer to the response to COC IR 1.4.2(a).

11

12

13 e) Are regulated natural gas utilities?

14

15 **Response:**

16 For a listing of the companies, please refer to the response to COC IR 1.4.2(a).

17

18

19

20 4.3 Based on the information provided in the response by FEI to the Commission
21 Request #4, is it FEI's position that its fully allocated costs are at or higher than
22 market price?

23

24 **Response:**

25 As discussed at the April 24, 2014 workshop (refer to Exhibit B-1, Appendix B-1, page 6), FEI
26 stated:

27 *"In most cases as it applies to FEI resources being provided, the market price is the*
28 *same as fully allocated cost. This is because FEI's approach to compensation and*
29 *benefits is to provide its employees with competitive base salaries and wages, incentive*
30 *compensation and benefits. FEI refers stakeholders to Slide 56 included in the April 24*
31 *workshop material where FEI fully loaded labour rates for the type of labour resources*
32 *being provided are compared to the labour rates available in the marketplace. As a*



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 15

1 *result of its market based approach, FEI labour rates charged are consistent with the*
2 *market price or fully allocated cost.”*

3

4

5

6

4.4 For each of the examples provided on page 8, please provide the following:

7

8

a) The underlying annual salary

9

10 **Response:**

11 FEI provides the following information regarding the Hay Survey market rates, as requested in
12 questions 4.4 (a), (b), (c), (d), and (e) on a confidential basis to the Commission ONLY. The
13 information provided is proprietary to Hay and as a result, Hay has given FEI permission to
14 release it only to the Commission and not to any other parties.

15

16

17

b) The benefit burden percentage

18

19 **Response:**

20 Please refer to the response to COC IR 1.4.4(a).

21

22

23

c) Billable annual hours (i.e. annual availability)

24

25 **Response:**

26 Please refer to the response to COC IR 1.4.4(a).

27

28

29

d) Net hourly burdened cost

30

31 **Response:**

32 Please refer to the response to COC IR 1.4.4(a).



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 16

1
2
3
4
5
6
7

e) The charge out multiplier to account for overhead and profit.

Response:

Please refer to the response to COC IR 1.4.4(a).



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 17

1 **Request #5 – FEI charges to FAES**

2 **Reference: Exhibit B-7, page 9:**

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

8 **Reference: AES Inquiry Report, page 77:**

9 **“In keeping with the Principles and Guidelines set out in Section 2.2, the least**
10 **amount of regulation to protect the ratepayer should be used. The Commission**
11 **Panel has serious reservations about the applicability of the regulated cost of**
12 **service model across the entire regulated TES market and reiterates the**
13 **comments of the Commission in the Delta School District Decision that full cost of**
14 **service regulation is the “method of last resort” (see Section 2.2 of this Report).**
15 **The presence of market-based pricing or the protection of consumer interests**
16 **through the execution of long term contracts may result in a better alignment and**
17 **balance of risks and incentives between ratepayers and the thermal provider.**
18 **Regulation by complaint may also provide the appropriate level of consumer**
19 **protection.”**

20 5.1 Does FAES ever intend to utilize cost of service rate design for Micro TES and
21 Stream A TES Projects?
22

23 **Response:**

24 The information requested relates to FAES’ internal operations and is not relevant to the
25 determination of FEI’s TPP and COC.
26
27

28
29 5.2 If FAES were to utilize a COS structure, despite the AES Inquiry Report and
30 Delta School District Decision concerns, please confirm that FAES passes along
31 the exact cost of FEI services at no risk to the FAES shareholder?
32



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 18

1 **Response:**

2 The information requested relates to FAES' internal operations and is not relevant to the
3 determination of FEI's TPP and COC.

4
5

6
7 5.3 Is there any scenario where FEI services are available to TES customers if they
8 are not customers of FAES? If yes, please describe such a scenario.

9

10 **Response:**

11 All customers whose premises are within 200 metres of FEI's supply line are entitled to receive
12 natural gas service from FEI based on terms and conditions set by the Commission. FEI is not
13 aware of any scenario where the services that are the subject of this proceeding, which are not
14 regulated tariff services, are provided directly by FEI to TES customers. All FortisBC TES
15 services are being provided by FAES.

16
17

18
19

20 **Reference: Exhibit B-7, page 9:**

21 **“For example, FAES may have multiple “Stream A” projects where each has a rate**
22 **design similar to the SOLO rate design. In this rate framework, the costs that**
23 **FAES pays including the FEI charges are forecast for the entire period once.”**

24 **Reference: TES Regulatory Framework, Order G-127-14, page 9: (emphasis**
25 **added)**

26 **“Because the Commission will not be reviewing rates or the contracts upon which**
27 **those rates are based, any and all contracts that set out rates for Stream A TES**
28 **must contain the following clause to inform parties of the role of the Commission:**

29 *The Customer acknowledges [TES Provider name] is a public utility as defined in*
30 *the Utilities Commission Act (UCA). However, this Thermal Energy System has a*
31 *limited exemption, granted by British Columbia Utilities Commission Order #,*
32 *from direct oversight of rates. Accordingly, the British Columbia Utilities*
33 *Commission has not reviewed this Agreement, nor has it approved the rates*

FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 19

1 *charged for thermal services. However, other provisions of the UCA apply,*
2 *including the obligation to provide safe and reliable service. Any disputes*
3 *between the Customer and the utility that are within the jurisdiction of the British*
4 *Columbia Utilities Commission pursuant to the UCA, may be referred for*
5 *determination to the British Columbia Utilities Commission.”*

6 5.4 Please confirm that SOLO is a regulated project as its application pre-dated the
7 TES Regulatory Framework (Order G-127-14) that was issued on August 28,
8 2014.

9
10 **Response:**

11 Under the TES guidelines, SOLO is a regulated project. A CPCN for the project was granted in
12 February 2014 by Order C-3-14 and the rates were approved in April 2014 by Order G-54-14.
13 Both of these dates are earlier than August 28, 2014.

14
15

16
17 5.5 Does FEI agree or disagree that the example that was provided was purely
18 illustrative and FAES is under no obligation to provide Stream A TES projects
19 under this or any other contractual mechanism?

20
21 **Response:**

22 This question is not relevant to the determination of FEI's TPP and COC.

23
24

25
26 5.6 Does FEI agree that once it has invoiced FAES for the services FEI has
27 provided, it has no control over whether it is ultimately paid by the FAES
28 shareholder or by the FAES ratepayer?

29
30 **Response:**

31 Confirmed. FEI's CoC/TPP is concerned with the services provided by FEI to FAES. How
32 FAES allocates those costs to its projects is not the subject of this proceeding. This was
33 discussed at the Procedural Conference and recorded at Transcript Page 9:



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 20

1 *“And what FEI submits is that the clarity should come from the determination that FAES*
2 *as a company is subject to the code applicable to ARBs, irrespective of where the*
3 *resources are ultimately being used in terms of whether the project is a micro TES*
4 *project, a Stream A project, or a Stream B project.”*

5
6
7
8

9 **Reference: Exhibit B-7, page 10 (emphasis added):**

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

18 5.7 Please clarify if FEI meant to imply in the above statement that the FEI believes
19 that BCUC does intend to become involved in the setting of rates for Stream-A
20 customers. Please explain what difference there would be (if any) between a
21 Micro-TES system and a Stream-A system in terms of the level of assessment,
22 approval and adjudication of rates by the BCUC and how these differences would
23 impact FEI cross charges on FAES ratepayers.

24
25 **Response:**

26 What the above statement says is that the BCUC does not intend to become involved in setting
27 rates for micro TES projects. This is also what FEI meant to say.

28 The level of assessment for the various types of projects is explained in the TES Regulatory
29 Framework.

30 The determination of cross-charges from FEI should be unaffected by the type of TES project
31 involved. Please also refer to the response to COC IR 1.5.6.

32



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 21

1 **Request #6 – Fully Allocated Cost vs. Market**

2 **Reference: Exhibit B-7, page 11**

3 **“Completion of timesheets is done on an exception basis for all management and**
4 **most unionized office staff employees, regardless of whether the allocation is to**
5 **an FEI project, a deferral account, another department, or another entity, and is a**
6 **well-established process.”**

7 6.1 When an FEI employee works a modest amount of time for FAES, please
8 confirm that this employee accounts for only that time spent working for FAES
9 and does not confirm where the balance of their time is spent?
10

11 **Response:**

12 Confirmed that the employee need only record the time spent working for FAES. In that case,
13 the balance of their time is known to be spent on FEI matters when it is not charged to another
14 entity.

15
16

17
18 6.2 By default, if an FEI employee fails to account for their time, it automatically
19 becomes an FEI expense. If not, please state why not?
20

21 **Response:**

22 Confirmed.

23 Please also refer to the response to COC 1.6.4 which discusses the negative financial impacts
24 of employees failing to account for their time properly.

25
26

27
28 6.3 As timesheets are only done on an exception basis, does FEI conduct an audit to
29 assess that FEI employees are, in fact, completing time sheets appropriately?
30

31 **Response:**

32 With regards to FEI employees charging time to FAES for services provided, as described in
33 Exhibit B-7, Attachment 1 FEI Annual Review of Conduct and Transfer Pricing Policy, under the



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 22

1 section Scope and Approach, part of the internal audit review includes review of timesheets. “In
2 addition, reviews of internal policies and procedures, journal entries, timesheets and working
3 papers were conducted”.

4
5

6

7 6.4 Aside from the reminders described (ie. moral suasion), are there consequences
8 for incorrectly completing or failing to complete time sheets? ? If so, please
9 describe.

10

11 **Response:**

12 FEI department managers are responsible for finding ways to increase department productivity
13 and reduce O&M costs. As part of these efforts to reduce O&M costs, FEI employees and their
14 department managers ensure that employees’ labour costs are allocated appropriately, as
15 failure to properly complete timesheets for the purpose of allocating costs could have negative
16 financial impacts for the departments and the managers of the departments involved. By
17 default, employees’ labour costs are recorded as an expense in the employees’ department cost
18 centre, unless timesheet entries are provided to allocate the labour costs appropriately. The
19 allocations may be to an FEI capital project, an FEI deferral account, or another entity, such as
20 FAES. These allocations result in a different financial treatment of the labour costs compared to
21 the situation where employees do not properly complete timesheets. If timesheets aren’t
22 properly completed, the employees’ labour costs will remain in the department cost centre,
23 resulting in higher O&M expenses for that department.

24 Any negatives O&M impacts are also considered in FEI’s Balanced Scorecard results and can
25 thus affect employees through their incentive pay as well.

26



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 23

1 **Request #7 – Impact of PBR**

2 **Reference: Exhibit B-7, page 11**

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

7 7.1 It appears that FEI is of the view that there will be no detailed review that would
8 take effect until 2020. When will FEI make allowance to cross-charge FAES for
9 the corporate and overhead expenses, including:

- 10
- 11 • Advertising (including print, radio advertisements) that mention the
- 12 provision of thermal energy or geo-exchange services as part of the
- 13 FortisBC brand;
- 14
- 15 • Costs associated with the FortisBC website, including the specific costs
- 16 efforts associated with www.fortisbc.com/AlternativeEnergyServices
- 17

18 **Response:**

19 This was explained in the response to BCUC IR 2.356.1 (Exhibit B-24) in FEI’s PBR proceeding
20 and referenced in the response to COC IR 2a.17.1 (Exhibit B-25) in the same proceeding:

21 *“356.1 If it is determined that more O&M should be allocated to FAES than has been*
22 *included in the 2013 base year, please explain how the ratepayers will be “kept whole”*
23 *during the PBR if this adjustment is made. Include a sample calculation to demonstrate*
24 *how ratepayers will ultimately receive any benefit.*

25 **Response:**

26 *The amount of O&M to be allocated to FAES in the base year (2013) has already been*
27 *decided by the Commission in Order G-44-12 at \$854 thousand. FEI has provided a*
28 *discussion of how the O&M allocation during the PBR period would be adjusted through*
29 *its TES Overhead Allocation deferral account in response to BCUC IR 1.205.3. FEI also*
30 *provides the following example for illustration purposes only.*

31 *In the scenario presented in the table above, the amount that is included as a credit to*
32 *the O&M will be escalated by the formula. So \$854 thousand is the base, and it will*
33 *increase each year (i.e., a larger amount of credit going to natural gas customers each*
34 *year). There may be a different amount that is determined as a result of the TPP/CoC*
35 *review, which in this scenario FEI has shown in the line called “Amount determined by*



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 24

1 *TPP/CoC”. This is the amount that FEI will actually charge to the TESDA and will be*
2 *recovered from FAES customers. In order to hold FEI natural gas customers whole, the*
3 *difference between the two amounts (in 2014 the amount of \$19 thousand) will be*
4 *charged to the deferral account and recovered from FEI customers, so that FEI*
5 *customers will received the same \$850 thousand credit (\$869 thousand credit to O&M in*
6 *the formula less \$19 thousand debit recovered through amortization of the deferral) that*
7 *is charged to the TESDA. If the amount determined by the TPP/CoC is higher than the*
8 *amount included in the formula, the amount recorded in the deferral account would*
9 *instead be a credit which would be returned to FEI customers through amortization.”*

10 The TES Overhead Allocation deferral account has subsequently been approved by
11 Commission Order G-138-14.

12 With regards to any advertising that mentions the provision of thermal energy or geo-exchange
13 services as part of the FortisBC brand, this was explained in the responses to COC IRs 2.15.2
14 and 2.15.3.2 (Exhibit B-19) in FEI’s PBR proceeding:

15 15.2 *When this advertisement is played on the radio, what percentage of the cost of*
16 *this advertisement (including internal and external development cost, and air*
17 *time) is paid for by each of the following entities within the FortisBC group of*
18 *companies:*

- 19
- 20 (a) *Natural Gas utilities (FEI, FEVI, and FEW)?*
- 21 (b) *Electric utility (FBC)?*
- 22 (c) *Thermal Energy Services (FAES)?*
- 23

24 Response:

25 *The “Meet Gail” radio advertisement costs are largely driven by their coverage in terms*
26 *of their reach of gas and electric customers. As such, customer count is an appropriate*
27 *cost allocation driver and 85 percent of the expenditure is allocated to the natural gas*
28 *utility and 15 percent to the electric utility. The number of TES customers is so small at*
29 *this stage of FAES’ development (under 100 TES customers, as compared to over 1*
30 *million gas and electric customers) that the amount has been too small to register in the*
31 *allocation.*

32

33 15.3.2 *Notwithstanding that these advertisements are in the main totally reasonable*
34 *and excellent commercials for their intended purpose – natural gas safety -*
35 *what proportion of their cost is allocated amongst the FortisBC group of*
36 *companies (per IR 2.15.2, above) due to the tag line that include non-natural*
37 *gas service offerings?*



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 25

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33

Response:

In adherence to the principles of the AES report (page 32 -34), cost causality is the appropriate and fair means of cost allocation for this advertisement. As such, the full cost of this natural gas safety ad is charged to the natural gas line of business.

District energy and geo-exchange is mentioned in the common “tag line” used across all three lines of business (natural gas, electricity and TES). This is applied consistently whether the FortisBC common tag line is used in a natural gas utility, electric utility or FAES advertisement. It is a descriptor of the business of FortisBC.

With regards to costs associated with the FortisBC website, including the specific costs for efforts associated with www.fortisbc.com/AlternativeEnergyServices, this was explained in the response to COC IR 1.6.3 (Exhibit B-13) in FEI’s PBR proceeding:

6.3 *What contribution does FAES make for the mention of district energy and geoexchange offerings on the www.fortisbc.com website?*

Response:

The quote in the preamble to this IR is from the AES Inquiry Report issued on December 27, 2012, after the allocations and amounts of \$854 thousand for 2013 were set. Further, the quote is a recommendation that FAES and FEI are taking into consideration as part of the review of the COC/TPP.

As FEI filed in its 2012-2013 RRA, the overhead allocation of \$500 thousand to the TESDA includes IT support costs. In the 2012-2013 RRA decision, this allocation was increased to \$854 thousand for 2013. The contribution that FAES makes to the above mentioned website is covered by the \$854 thousand.

7.2 *If these types of corporate and overhead expenses are to be collected prior to the end of 2019, what mechanism will be used to allocate corporate costs?*

Response:

Please refer to the response to COC IR 1.7.1.



FortisBC Energy Inc. (FEI or the Company) Application for Approval of Code of Conduct and Transfer Pricing Policy for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment (the Application)	Submission Date: November 5, 2014
Response to Coalition for Open Competition (COC) Information Request (IR) No. 1	Page 26

1
2
3
4
5
6
7
8
9
10
11

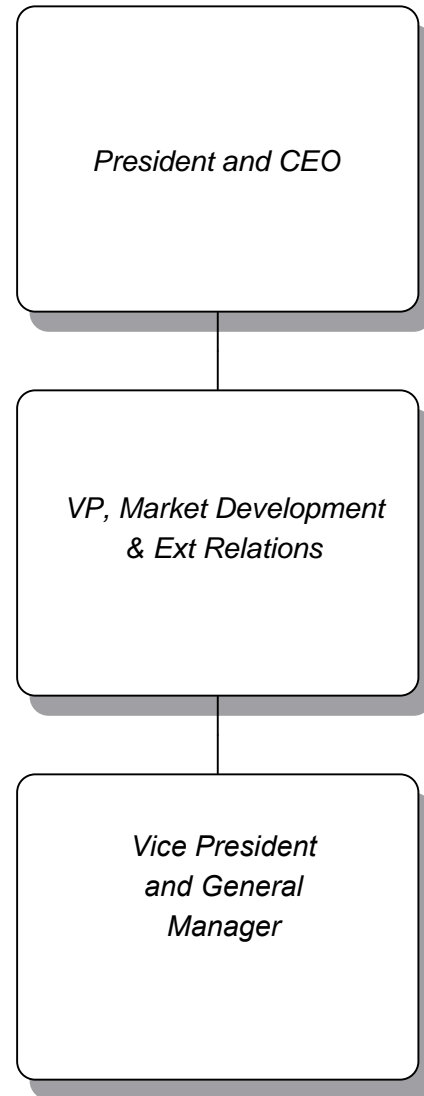
7.3 On October 3, 2014, FEI applied for “Request for Clarification and Request for Reconsideration and Variance”. Does FEI believe that this Application will have any impact, directly or indirectly, on the cross-charges as between FEI and FAES?

Response:

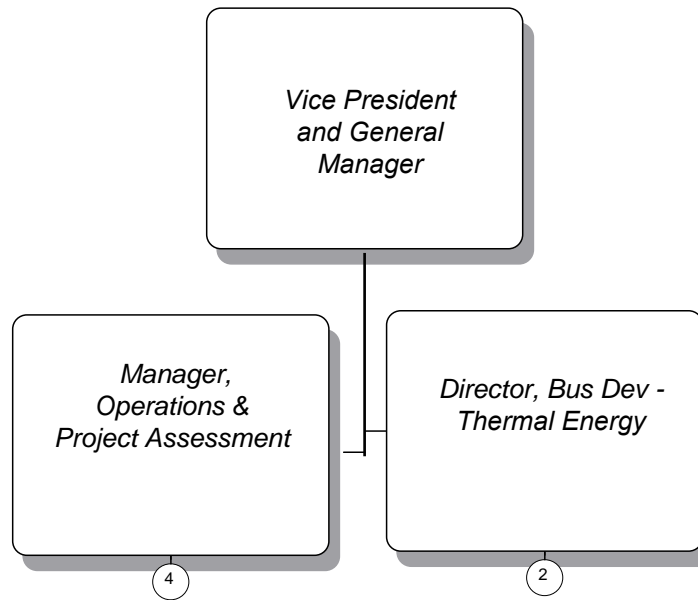
No.

Attachment 2.1

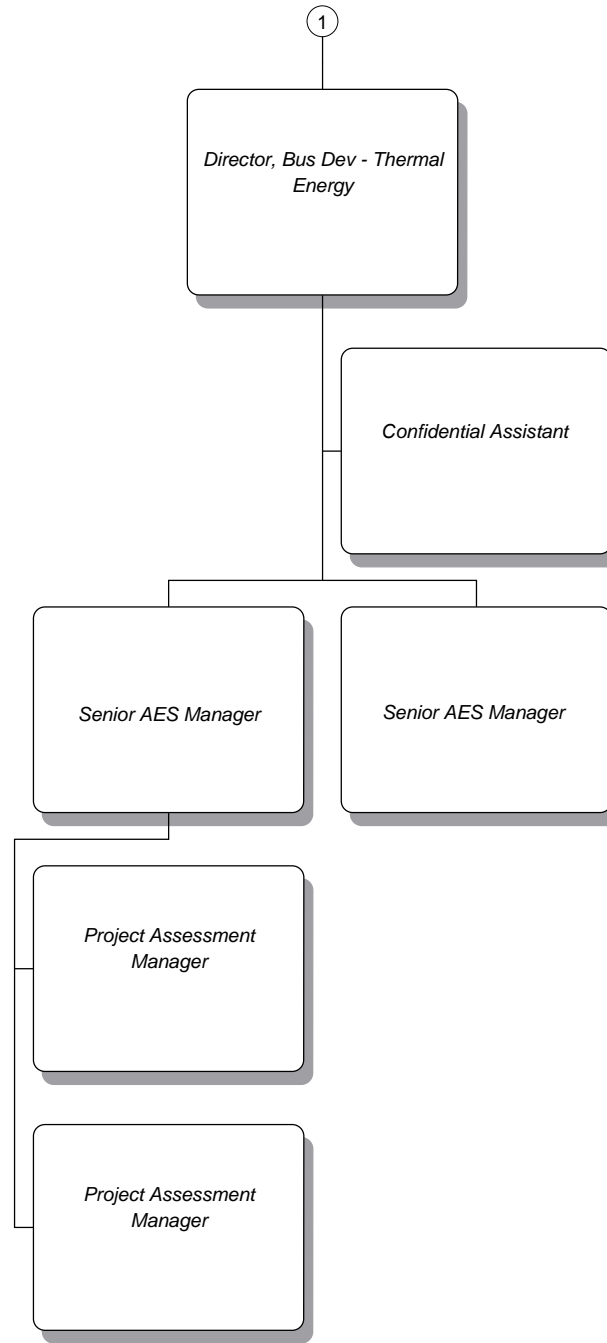
FortisBC



Alternative Energy Solutions



FAES Business Development



FAES Operations and Project Assessments

