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November 10, 2016

Commercial Energy Consumers Association of British Columbia
c/o Owen Bird Law Corporation
P.O. Box 49130
Three Bentall Centre
2900 – 595 Burrard Street
Vancouver, BC
V7X 1J5

Attention: Mr. Christopher P. Weafer

Dear Mr. Weafer:

Re: FortisBC Energy Inc. (FEI)

Project No. 3698873

All-Inclusive Code of Conduct and Transfer Pricing Policy Application (the Application)

Response to the Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 1

On June 30, 2016, FEI filed the Application referenced above. In accordance with the British Columbia Utilities Commission Order G-157-16 setting out the Regulatory Timetable for the review of the Application, FEI respectfully submits the attached response to CEC IR No. 1.

If further information is required, please contact the undersigned.

Sincerely,

FORTISBC ENERGY INC.

Original signed:

Diane Roy

Attachments

cc (email only): Commission Secretary
Registered Parties

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1 **1. Reference: Exhibit B-2, Page 9**

Aitken Creek Gas Storage ULC (ACGS)

ACGS owns an interest in the underground reservoir and contained natural gas, wells, on-site equipment and other components of the natural gas storage facility at Aitken Creek.

ACGS is a public utility subject to an exemption and light-handed regulation by the Commission, due to the fact that it operates in a competitive environment for storage. For the purpose of this Code of Conduct, ACGS is classified as an ARB.

In 2015, no sharing of services occurred between FEI and ACGS. ACGS is filing a Code of Conduct and Transfer Pricing concurrently with this Application.

2

3 1.1 Please provide an overview of what constitutes ‘light handed regulation’.

4

5 **Response:**

6 The Commission issued Order G-71-08 with respect to ACGS that contemplated, in general
7 terms, complaints-based regulation (what FEI was referring to as “light handed regulation”).
8 Relevant portions of the order read as follows:

9 2. Pursuant to Section 88(3) of the Act and subject to paragraphs 3, 4, and 5 of
10 this Order, the Commission approves an exemption for ACGS from Part 3 of
11 the Act, effective the date of this Order.

12 3. The exemption for ACGS from Part 3 of the Act does not include Sections 24,
13 25, 38, 39, 41, 42, 43 and 52 of the Act related to ACGS’ gas storage
14 operations, services and property at the Storage Facility, effective the date of
15 this Order.

16 4. The exemption for ACGS from Part 3 of the Act does not include Sections 53
17 and 54 of the Act to the extent that an action of ACGS would result in a
18 change of ownership or control of the Storage Facility, effective the date of
19 this Order.

20 5. This exemption, granted pursuant to this Order, shall remain in effect until the
21 Commission orders otherwise following the determination of any complaint it
22 receives from a person whose interests are affected.

23 6. ACGS is responsible for the safe and proper operation of its facilities
24 consistent with the requirements of the Pipeline Act, the Petroleum and
25 Natural Gas Act and other regulatory requirements.

26 7. ACGS is directed to file an annual report for the Storage Facility in the form
27 set out in Appendix II, or as the Commission may otherwise require, and to
28 distribute copies to the parties contracting for service at the facility.

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1 8. ACGS is further directed to pay fees to the Commission in the amounts that
2 the Commission determines are required to defray regulatory costs
3 associated with the Storage Facility.

4
5
6
7 1.2 Will interveners have an opportunity to review the ACGS Code of Conduct being
8 filed concurrently with this application?
9

10 **Response:**

11 In the letter from the Commission dated August 3, 2016 regarding FEI's All-Inclusive Code of
12 Conduct and Transfer Pricing Policy and the Aitken Creek Gas Storage ULC / FortisBC
13 Midstream Inc. Code of Conduct and Transfer Pricing Policy, the Commission stated that it will
14 proceed with the review of the two applications in two separate regulatory processes.

15 FEI expects interveners will have an opportunity to participate in the regulatory process
16 regarding the ACGS Code of Conduct.
17

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1 2. **Reference: Exhibit B-2, Pages 9 and 10**

FortisBC Alternative Energy Services Inc. (FAES)

FAES is a wholly owned subsidiary of FortisBC Holdings Inc. that provides alternative energy solutions, including thermal-energy and geo-exchange systems. The company specializes in designing, owning, operating and maintaining regulated utility thermal assets to help its clients address deferred maintenance, reduce greenhouse gas emissions, support sustainability objectives and improve the performance of thermal energy systems in buildings. For the

¹² AU – Affiliated Natural Monopoly; ARB – Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment; ANRB – Affiliated Non-Regulated Business.

purpose of this Code of Conduct, FAES is classified as an ARB. This is consistent with how it was treated during the previous CoC/TPP proceeding.

In 2015, services provided by FEI to FAES include facilities and IT support and other back office supporting functions such as accounting. The services provided are governed by a Continuing Services Contract as set out in FEI's Transfer Pricing Policy Appendix A.

2.1 Please briefly describe the circumstances that make it appropriate for FAES to be classified as an Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment.

Response:

This characterization flows from the AES Inquiry Report, in which the Commission distinguished between the circumstances of FAES and those of a traditional utility. FAES is regulated, and exhibits monopoly characteristics with respect to its own customers; however, there is competition "for the market", i.e. providers of thermal energy services can compete to supply energy to a particular project.

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1 **3. Reference: Exhibit B-2, Page 10**

FortisBC Inc. (FBC)

FBC is a wholly owned subsidiary of FortisBC Pacific Holdings Inc, which is an indirect wholly owned subsidiary of Fortis Inc., a Canadian public company. FortisBC Inc. is an integrated regulated electric utility operating in the southern interior of British Columbia, serving approximately 167,600 customers directly and indirectly. For the purpose of this Code of Conduct, FBC is classified as an AU.

In 2015, services provided by FEI to FBC include rental of the Springfield Road Office facility and labour and travel expenses for staff from various departments. The services provided are governed by a Shared Services Agreement that was filed with the Commission as Appendix L-3 in FEI's 2012-2013 RRA.

2
3 3.1 Please explain how 'labour and travel expenses for staff from various
4 departments' were 'services' provided by FEI to FBC.

5
6 **Response:**

7 The labour and travel expenses were for FEI employees from different departments performing
8 related work and activities requested by FBC. The labour represents the services that are
9 provided to FBC by FEI employees.

10

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1 **4. Reference: Exhibit B-2, Pages 15 and 16**

For an AU, FEI refers to the ARB Decision where the Commission noted the following regarding the difference in sharing of resources between FEI and FBC at page 41.

“...the provision of services to FAES as set out above varies from the provision of shared services between two utilities both operating in a monopoly environment. Again, the FortisBC gas and electric utilities share some services to the benefit of both utilities, but these are committed resources sufficient to meet the ongoing needs of both utilities and both utilities have an equal priority in terms of access to and use of the shared resources.”

The above wording from the Commission confirms that by sharing resources with one another, utilities operating in a monopoly environment inherently benefit one another.

2 FEI’s position is that the requirement as specified in section 2 (3) of the wording directed by the Commission in the first excerpt above of “there are benefits to [FortisBC Energy] ratepayers” does not need to apply to an AU, as long as there is no detriment to FEI from sharing resources with an AU such as FBC. This consideration is also consistent with the principle articulated in the approved CoC/TPP for ARBs that “[FortisBC Energy] will protect and consider the interests of its own ratepayers, and having protected its ratepayers [FortisBC Energy] may also consider the potential interests of ARBNNM ratepayers.” As FBC is also a regulated utility that is a natural monopoly, sharing FEI resources with FBC with no detriment to FEI ratepayers is warranted.

For an AU situation, the following paragraph has been added to the All-Inclusive CoC/TPP:

“[FortisBC Energy] may also share its services and non-executive personnel with an AU where there is no detriment to [FortisBC Energy].”

3 Refer to page 7 of Appendix A2 CoC.

4 4.1 Please confirm or otherwise clarify that the above quotes from the Commission
5 are intended primarily to ensure the protection of FEI ratepayers, and do not
6 confer equal protection to ratepayers of an ARBNNM (now Affiliated Regulated
7 Businesses operating in a Non-Natural Monopoly’).

8
9 **Response:**

10 FEI’s understanding of the quotes is that they are intended to ensure protection of FEI
11 ratepayers first.

12

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1 **5. Reference: Exhibit B-2, Appendix A2, Page 1**

2 **SCOPE**

3 This Code of Conduct (Code) governs the relationships between [FortisBC Energy Inc. (FortisBC
4 Energy)] and its Affiliates for the provision of [FortisBC Energy] resources, and, where applicable,
5 is intended to be consistent with the principles of the British Columbia Utilities Commission
6 (Commission) outlined in the “Retail Markets Downstream of the Utility Meter” (RMDM)
7 Guidelines of April, 1997 and the Commission’s Report on the “Inquiry into the Offering of
8 Products and Services in Alternative Energy Solutions and Other New Initiatives” published in
9 December 27, 2012, collectively referred to in this document as Guidelines, or in relevant
10 Commission Orders G-31-15 and G-39-16 and accompanying decisions. If the Code of Conduct is
11 silent on a principle or guideline established in one of the above documents, acceptance of the Code
12 of Conduct does not imply that the principle, guideline or Commission direction is voided or
13 invalid.

- 14 5.1 Is the Code of Conduct intended to govern the provision of resources two ways?
15 I.e., from Affiliated Natural Monopoly (AU) resources, such as FBC to FEI as well
16 as for the provision of FortisBC Energy resources to Affiliates?

17 **Response:**

18 The All-Inclusive COC is FEI’s document and is intended to govern the provision of FEI
19 resources to its Affiliates and not from Affiliates to FEI. It is not possible for FEI to file a COC for
20 approval on behalf of another company. Except for services from FBC for which Transfer
21 Pricing is governed by the Commission’s decision in the 2012/2013 RRA and the Corporate
22 Services agreement which has been approved by the Commission, FEI receives minimal
23 services from its Affiliates.

24 Please refer to the response to BCUC IR 1.3.4 for discussion of the ARBs and ANRBs that
25 charged FEI for services in 2015 and 2016.

26 Other than that described, in the infrequent situation where FEI may receive services from its
27 Affiliates, FEI would default to pay for the services based on the Affiliate’s fully allocated cost.

- 28
29
30
31 5.1.1 If no, are there codes or documents that govern the provision of
32 resources from Affiliates such as AUs to FEI?
33

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1 **Response:**

2 No, the All-Inclusive COC is FEI's document and is intended to govern the provision of FEI
3 resources to its Affiliates and not from Affiliates to FEI. FBC has a COC/TPP that governs
4 interactions between FBC and NRBs.

5

6

7

8 5.1.1.1 If yes, please provide those codes or documents.

9

10 **Response:**

11 Please refer to the response to CEC IR 1.5.1.1.

12

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1 **6. Reference: Exhibit B-2, Appendix 2, Page 1**

2 This Code will govern the use of [FortisBC Energy] resources and services provided to
3 ~~ARBNNM's Affiliates~~ including shared services, employment or contracting of [FortisBC Energy]
4 personnel, and the treatment of ~~customer, utility, or confidential information. The Code will also~~
5 ~~determine the nature of the relationship between [FortisBC Energy] and ARBNNM's Customer~~
6 ~~Information and Commercial Information]. Where there is an agreement between the [FortisBC~~
7 ~~Energy] and its Affiliates with respect to the sharing or provision of services, resources, or personnel~~
8 ~~that has been reviewed by the Commission, the terms of that agreement will govern.~~

9 6.1 Are there any preceding agreements which this Code will supersede?

10 **Response:**

11 No. As outlined in the response to BCUC IR 1.3.1, FEI intends to maintain the existing Mutual
12 Shared Services Agreement between FEI and FBC.

13 6.1.1 If so, please provide.

14 **Response:**

15 Please refer to the response to CEC IR 1.6.1.

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1 **7. Reference: Exhibit B-2, Appendix A2, Page 4,**

- 2 i. [FortisBC Energy] will protect and consider the interests of its own
3 ~~ratepayers~~customers, and having protected its ~~ratepayers~~customers [FortisBC Energy]
4 may also consider the potential interests of the customers of an Affiliate.

5 7.1 Please explain why FEI changed the word 'ratepayers' to 'customers' at multiple
6 instances in the Code of Conduct and discuss the import of that change.

7 **Response:**

8 FEI changed the word 'ratepayers' to 'customers' in the All-Inclusive COC as the term
9 'customers' is more relevant when referencing Customer Information and Provision of
10 Information.

11
12
13 7.2 Please confirm that the above statement does not require FEI to consider the
14 potential interests of the customers of an Affiliate if its own interests are already
15 protected.

16
17 **Response:**

18 Confirmed that FEI is not required to consider the potential interests of the customers of an
19 Affiliate, but FEI may consider their interests, after having protected its own customers.

20

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1 **8. Reference: Exhibit B-2, Appendix 2, Page 5**

~~iii.ii. Aggregated Customer specific information must be treated as required by the Personal Information Protection Act and, in addition, customer specific information should only be released with the written consent of the customer. Information or individual Customer information (aggregate or customer specific with written consent) Information that is made available to an Affiliate should be made available to all parties (Affiliated Regulated and Unregulated Businesses, and, including competitors), on an equal basis, upon request, provided necessary consent is obtained. Individual Customer Information must be treated as required by the Personal Information Protection Act (PIPA), and should only be released with the written consent of the customer. The control of Customer information should not provide a competitive advantage.~~

2
3 8.1 If information is to be made available to all parties, including competitors only
4 ‘upon request’, how would a competitor be alerted to the information being made
5 available to an Affiliate?
6

7 **Response:**

8 During the FEI COC/TPP for ARBNMNs (now called ARBs) proceeding, stakeholders discussed
9 and expressed concern over making the process of providing the information too complicated
10 and costly. This discussion on Provision of Information was summarized in the minutes (pages
11 3 and 4) for the FEI COC and TPP Workshop held on April 24, 2014.¹ Stakeholders agreed that
12 it would be the responsibility of parties interested in the information to request it and not oblige
13 FEI to have to contact the parties.

14 FEI highlights that the words “upon request” were previously included in the approved FEI COC
15 for ARBs.

16
17
18
19 8.2 Would written customer consent be required each time a transfer of information
20 was conducted, or is such ‘written consent’ included in terms and conditions or
21 other general policy statements that all customers are requested to sign? Please
22 explain.
23

¹ FEI 2015 COC/TPP for ARBNMNs proceeding, Exhibit B-1, Appendix C3
http://www.bcuc.com/Documents/Proceedings/2014/DOC_41751_B-1_FEI-CodeofConduct_TransferPricingPolicyApp.pdf

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- 1 **Response:**
- 2 FEI's intention is that written customer consent would be required each time.

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1 **9. Reference: Exhibit B-2, page 19 and Appendix 2, Page 5**

For Commercial Information, concerns over sharing of the information are different for an AU than that for an ARB or ANRB. For an ARB or ANRB where competition is more prevalent and with the value of Commercial Information greater than in the situation with an AU, precluding the sharing of Commercial Information between FEI and an ARB and ANRB is warranted. This is not justified with an AU. FEI considers that sharing of Commercial Information as defined with an AU would therefore be acceptable.

2

~~iii.ii. Aggregated Customer specific information must be treated as required by the Personal Information Protection Act and, in addition, customer specific information should only be released with the written consent of the customer. Information or individual Customer information (aggregate or customer specific with written consent) Information that is made available to an Affiliate should be made available to all parties (Affiliated Regulated and Unregulated Businesses, and, including competitors), on an equal basis, upon request, provided necessary consent is obtained. Individual Customer Information must be treated as required by the Personal Information Protection Act (PIPA), and should only be released with the written consent of the customer. The control of Customer information should not provide a competitive advantage.~~

~~iii. [FortisBC Energy] will not provide Commercial Information to an Affiliate except in the case of an AU.~~

3

4

9.1 Please give examples of the types of benefits that could be generated from sharing Commercial Information with an AU.

5

6

7

Response:

8

There are limited benefits to be generated from sharing Commercial Information with an AU.

9

One example is FEI and FBC sharing information to enable a coordinated approach to manage

10

gas and electric customer service connections. This is done so that larger customer projects

11

involving both gas and electric services are internally coordinated to maximize efficiencies in the

12

design and construction process for the customer's benefit.

13

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1 **10. Reference: Exhibit B-2, Appendix A2, Page 7**

2 c) Business Development Personnel

3 ~~e) [FortisBC Energy] will not share business development personnel with an~~
4 ~~ARBNNM.~~

5 ~~[FortisBC Energy] and ARBNNM directors~~Affiliate where the Affiliate is carrying
6 out business development activities to acquire customers seeking energy products
7 and services available in a competitive marketplace and where [FortisBC Energy]
8 is providing similar energy solutions.

9 FortisBC Energy and an AU can share business development personnel.

10 10.1 If FEI is not providing similar energy solutions in the marketplace, would sharing
11 Business Development Personnel with FEI confer a competitive advantage on an
12 Affiliate? Please explain why or why not.

13 **Response:**

14 FEI believes that sharing of business development personnel for different markets (i.e. lines of
15 businesses where there is competition for the markets) has no competitive advantage.

16 For example, if the Affiliate is competing in the wholesale marketplace for natural gas (i.e.
17 ACGS), then sharing of FEI's business development personnel who have expertise in energy
18 solutions would not confer a competitive advantage to the Affiliate as the Affiliate is competing in
19 a different market than that serviced by FEI. However, if the Affiliate is competing to provide
20 similar energy solutions in the marketplace that FEI and its business development personnel are
21 also in, there would be an advantage conferred to the Affiliate by FEI sharing its business
22 development personnel.

23 FEI believes that its business development personnel who have expertise in energy solutions
24 should not be precluded from being shared with an Affiliate who is competing in different
25 markets than those serviced by the regulated utility.

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11. Reference: Exhibit B-2, Appendix 2A, Page 8

~~When the Customer information will be~~Information or Commercial Information is provided~~at, the requesting party must pay a reasonable price reflecting market circumstances and cover~~that allows FortisBC Energy to recover the cost of extracting and providing the information. All parties should pay the same price for the same ~~or similar~~ information.

11.1 Why did FEI remove the term 'reflecting market circumstances'?

Response:

FEI removed the term "reflecting market circumstances" to clarify that it is not intending to sell customer related information which the use of the term "reflecting market circumstances" may suggest. Selling customer personal information to third parties is contrary to FEI's customer privacy policy. The focus of the wording should be to reflect that parties are compensating FEI for the costs related to providing the information.

FEI's recollection of the term "reflecting market circumstances" was that the term was introduced as part of the COC and TPP for ARB proceeding. In that proceeding, Commission staff commented that the term was to address an issue with other utilities (not at FEI) where in the past, there has been concern about pricing the services either too low (not cost recovery) or too high which may prohibit the marketplace.²

11.2 Did FEI remove 'or similar' information because identical information will be released to all?

Response:

No, the words "or similar" were removed to simplify the sentence with the intent to provide clarity and to maintain the same meaning as it has today. The word "similar" may be too difficult to interpret as it may have a different meaning to different people. The intended meaning is that all Parties should pay the same price for the same information being provided.

² FEI 2015 Application for Approval of COC and TPP for ARBs, Appendix C3 – page 3 of the Minutes from the COC and TPP workshop held on April 24, 2014.

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1

2

11.2.1 If not, please explain why FEI removed the term 'or similar'.

3

4

Response:

5

Please refer to the response to CEC IR 1.11.2.

6

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12. Reference: Exhibit B-2, Appendix A2, Page 7

2. Shared Services and Personnel

- a) This Code recognizes the potential benefits to ~~the~~ [FortisBC Energy] and ~~ARBNNM regulated ratepayers~~ Affiliates in sharing resources.
- b) [FortisBC Energy] will only share its services and non-executive personnel with Affiliates in circumstances where:
 1. the services can be identified and tracked effectively and there are other appropriate safeguards in place as discussed in Section 7 of this document;
 2. there is limited potential for disclosure of confidential information; and
 3. there are benefits to [FortisBC Energy] ~~ratepayers~~ customers.

[FortisBC Energy] may also share its services and non-executive personnel with an AU where there is no detriment to [FortisBC Energy].

- 12.1 Is it reasonable to include the phrase 'ratepayer' at the end of the last sentence such that it would read 'FortisBC Energy' may also share its services and non-executive personnel with an AU where there is no detriment to FEI ratepayers?

Response:

Instead of replacing the reference to [FortisBC Energy] at the end of the last sentence with ratepayers, FEI believes changing the last sentence to end with "...where there is no detriment to [FortisBC Energy] and its customers" is more appropriate.

- 12.1.1 If not, please explain why not.

Response:

Please refer to the response to CEC IR 1.12.1.

- 12.2 Is the proposed Code of Conduct intended to provide protection for Affiliate Natural Monopoly (AU) ratepayers such as FBC, or just FEI ratepayers? Please explain why or why not.

1

2 **Response:**

3 The All-Inclusive COC is intended primarily to protect and consider the interests of FEI's own
4 customers. Only having protected its customers, FEI may also consider the potential interests
5 of the customers of an Affiliate. This is outlined in the Principles section of the proposed COC.

6 FBC has its own COC/TPP that it uses to protect the interests of its customers.

7

8

9

10 12.2.1 If yes, would it be reasonable to alter the statement to the following?
11 'FortisBC Energy and its Affiliates may share services and non-
12 executive personnel with each other where there is no detriment to
13 FortisBC Energy ratepayers or to the ratepayers of other AU'

14

15 **Response:**

16 Please refer to the response to CEC IR 1.12.2.

17

18

19

20 12.2.1.1 If no, please explain why not.

21

22 **Response:**

23 Please refer to the response to CEC IR 1.12.2.

24

25

26

27 12.2.2 If yes, please identify all the areas in the document which afford
28 protection to FEI ratepayers and do not afford equal protection to
29 Affiliate AUs.

30

31 **Response:**

32 Please refer to the response to CEC IR 1.12.2.

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1 **13. Reference: Exhibit B-2, Page 20**

5. *Equitable Access to Services*

Except as required to meet acceptable quality and performance standards, and except for some specific assets or services which require special consideration as approved by the Commission, [FortisBC Energy] will not preferentially direct customers to an ARBNNM. In discussing energy alternatives with a customer, or a potential customer, [FortisBC Energy] personnel may not preferentially direct customers to an ARBNNM. If a customer, or potential customer, requests from [FortisBC Energy] information about products or services offered by an ARBNNM, [FortisBC Energy] may provide such information, including a directory of suppliers of the product or service, but shall not promote any specific supplier in preference to any other supplier.

No substantive changes have been made to the wording incorporated into the CoC/TPP for ARBs approved by the Commission except for a change to reference "Affiliate" rather than "ARBNNM" so as to extend the existing ARB wording to the ANRB situation. The language is consistent with page 37 of the AES Inquiry Report where it was stated that similar language on preferential treatment would apply to Non-Regulated Businesses or Affiliated Regulated Business.

Preferential treatment language would not be necessary in situations where the services are offered by an AU. Accordingly, for the All-Inclusive CoC/TPP, Section 4 Preferential Treatment and Section 5 Equitable Access, does not apply to an AU situation.

The sentence "*This section on Preferential Treatment is not applicable to an AU.*" has been added to Section 4 of the All-Inclusive CoC/TPP and the sentence "*This section on Equitable Access to Services is not applicable to an AU.*" has been added to Section 5 of the All-Inclusive CoC/TPP.

2

3 13.1 Please identify any situations in which directing customers to an AU such as FBC
4 could result in either a benefit to FBC or a disadvantage to other market
5 constituents.

6

7 **Response:**

8 The issue of preferential treatment is not applicable to regulated monopoly utilities such as FEI
9 and FBC.

10 Please refer to the response to BCUC IR 1.7.5 for further discussion.

11

12

13

14 13.1.1 If none, could such situations arise in the future? Please explain why or
15 why not.

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1

2 **Response:**

3 There are none at present, and FEI cannot speculate on the future. The CoC is subject to
4 periodic review and updating in any event. Please refer to response to CEC IR 1.13.1.

5

6

7

8 13.2 What, if any, would be the effect of removing the sentence 'This section on
9 Preferential Treatment is not applicable to an AU' from the CoC?

10

11 **Response:**

12 To ensure clarity in understanding and interpretation of this section on Preferential Treatment,
13 FEI believes it is important to highlight that this section does not apply in the case of AUs.

14

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1 14. **Reference: Exhibit B-2, Page 20 and Appendix A2, Page 10**

4.2.4 Compliance (Section 7 of the Code of Conduct)

FEI believes that the compliance requirements of the CoC outlined in Section 7 Compliance and Complaints of the All-Inclusive CoC/TPP is applicable for all three Affiliate situations. The second sentence in subsection a) has been amended slightly to refer to “with quarterly reminders to management of employees who may be directly involved with Affiliate activities” instead of “with quarterly updates for employees who may be directly involved with ARBNNM activities”. This minor modification is to recognize the responsibility of management in ensuring that all FEI employees adhere to the CoC and TPP.

Refer to page 10 of Appendix A2 CoC.

- 2
- a) The Director of Finance at [FortisBC Energy] will be responsible for monitoring compliance at [FortisBC Energy] with this Code. This will include advising all of its employees of their expected conduct pertaining to this Code, and with quarterly updates for reminders to management of employees who may be directly involved with ARBNNM Affiliate activities.

3

4 14.1 Would FEI accept an alteration as follows in order to ensure that employees

5 received regular updates as well as their managers?

- 6
- 7 a) The Director of Finance....will be responsible for monitoring compliance
- 8 at...with this Code. This will include advising all of its employees of
- 9 their expected conduct pertaining to the Code, with quarterly reminders
- 10 to managers and regular updates for employees who may be directly
- 11 involved with Affiliate activities.

12

13 **Response:**

14 Under the requirements of the existing COC for ARBNNMs, FEI already provides an annual

15 reminder on its intranet site to all of its employees of the FEI COC requirements. FEI would

16 however accept the suggested alteration to the wording by CEC to include quarterly reminders

17 (i.e. regular updates) to all managers and employees of the requirements of the COC who may

18 be directly involved with Affiliate activities.

19

20

21

22 14.1.1 If not, please explain why not.

23

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1 **Response:**

2 Please refer to the response to CEC IR 1.14.1.

3

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1 **15. Reference: Exhibit B-2, Pages 12, 21 and 22**

The already-approved pricing rules for an ARB and ANRB include “the higher of market price or fully allocated cost” and FEI has maintained this rule in the All-Inclusive CoC/TPP for those situations. For sharing of resources with an AU (i.e., FBC), FEI is proposing no change to the existing transfer pricing rule as outlined in the section titled “Mutual Shared Services with FortisBC Inc.” on page 14 of this Application. The cross charges to FBC include fully loaded

2

wages including benefits and time away, with no overhead or facilities fees assigned. This practice will continue to be used until FEI evaluates the feasibility of introducing a Shared Services model approach, similar to that successfully used in the past for sharing of resources between FEI and the Vancouver Island and Whistler gas utilities.

Further, wording has been added to recognize that there may be a separate agreement reviewed by the Commission from another proceeding that overrides the TPP rules.

“If there is an agreement between [FortisBC Energy] and an Affiliate that has been reviewed by the Commission in another proceeding, that agreement applies.”

Refer to page 6 of Appendix A2 TPP.

3

Mutual Shared Services with FortisBC Inc.

FEI and FBC share common resources including the Executive Management team and other departmental resources, providing benefits to both organizations. Executive Management time is allocated on the basis of the Massachusetts formula as approved by the Commission in Order G-138-14¹⁵. The costs of other departmental resources are allocated between the Gas and Electric businesses using a timesheet allocation approach as set out in FEI’s 2012-2013 RRA.

In its 2014 to 2018 Multi-Year PBR Application, FEI provided the following discussion which remains applicable today:¹⁶

“Since 2010, the FEU and FortisBC Inc. (FBC) have been sharing common resources starting with the sharing of the Executive Management team. More recently, the sharing of resources between FEI and FBC has continued as the organizations streamline operations and processes.

In this Application, sharing of resources between FEI and FBC, except for the Executive Management team, have continued with the approved cross charge process such that the cross charge includes a fully loaded wage including benefits and time away, with no overhead or facilities fees assigned. Executive Management time is being allocated on the basis of the Massachusetts Formula. As mentioned earlier in Section A3, given the evolving nature of integration efforts between the gas and electric businesses, the traditional timesheet allocation approach continues to be the appropriate approach to allocate the majority of shared costs between the two organizations.”

The initial agreement was established in 2010 and filed with the Commission at that time. See Appendix E2 for a copy of the agreement.

4

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1
2 15.1 Please provide the rationale for why no overhead or facilities fees should be
3 assigned.
4

5 **Response:**

6 Please refer to the response to BCUC IR 1.2.2.
7

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1 16. **Reference: Exhibit B-2, Appendix A1, PDF Page 58 of 235**

5. **Equitable Access to Services**

Except as required to meet acceptable quality and performance standards, and except for some specific assets or services which require special consideration as approved by the Commission, [FortisBC Energy] will not preferentially direct its customers to an ~~ARBNNM~~ Affiliate.

In discussing energy alternatives with a customer, or a potential customer, [FortisBC Energy] personnel may not preferentially direct customers to an ~~ARBNNM~~ Affiliate. If a customer, or potential customer, requests from [FortisBC Energy] information about products or services offered by an ~~ARBNNM~~ Affiliate, [FortisBC Energy] may provide such information, including a directory of suppliers of the product or service, but shall not promote any specific supplier in preference to any other supplier.

This section on Equitable Access to Services is not applicable to an AU.

2

3 16.1 Why is the Equitable Access to Services not applicable to an AU?

4

5 **Response:**

6 The requirement for inclusion of the Equitable Access to Services (i.e. no preferential direction)
7 language in the All-Inclusive COC/TPP is to ensure that no unfair advantage is conferred to an
8 Affiliate operating in competitive market environment by the Affiliate's association with FEI.

9 The issue of preferential treatment is not applicable to a regulated monopoly utility such as FBC
10 as it has a natural monopoly for electric distribution services within its service territories. There
11 would be no unfair advantage conferred if FEI were to direct customers to FBC that were
12 seeking an electricity energy solution in FBC's service territories.

13

14

15 16.2 If there is no opportunity to preferentially direct a customer to an AU, what is the
16 value in stating that Equitable Access to Services regulation is not applicable to
17 an AU?

18

19 **Response:**

20 To ensure clarity in understanding and interpretation of this section on Equitable Access to
21 Services, FEI believes it is important to highlight that this section does not apply in the case of
22 AUs.

23 Please also refer to the response to CEC IR 1.16.1.

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1 17. **Reference: Exhibit B-2, Appendix A2, PDF Page 58 of 235**

- 2
- 3 c) Complaints by third parties about the application of this Code, or any alleged breach
- 4 thereof, should be addressed in writing to the Company's Director of Finance and
- 5 the Executive Vice-President ~~responsible for Regulatory Affairs, Customer Service~~
- 6 ~~and Regulatory Affairs~~, who will bring the matter to the immediate attention of the
- 7 Company's senior management and promptly initiate an investigation into the
- complaint. The complainant, along with the Commission, will be notified in writing
- of the results of the investigation, including a description of any course of action
- which will be or has been taken promptly following the completion of the
- investigation. The Company will endeavour to complete this investigation within
- 30 days of the written receipt of the complaint.

2

3 17.1 Please confirm that 'written' communications will include email.

4

5 **Response:**

6 Confirmed. Written communications will include email.

7

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1 18. Reference: Exhibit B-2, Appendix A2, PDF Page 59 of 235

2 9. Use of FortisBC Utility Name

The use of the FortisBC name by an ARBNNM Affiliate is an acceptable business practice. [FortisBC Energy] will exercise care in distinguishing between services provided by [FortisBC Energy] and services offered by the ARBNNM an Affiliate except in the situation of an AU. The name FortisBC is owned by Fortis Inc.

3 18.1 Why should FEI not exercise care in distinguishing services provided by FEI and
4 an AU?

5 Response:

6 This requirement to exercise care in distinguishing services provided by FEI and its Affiliates
7 came out of the AES Inquiry Report, and FEI believes the BCUC had intended to protect
8 competitive markets rather than FEI ratepayers. This competitive concern does not arise with
9 AUs, which are monopolies.

10 In any case, there is no harm to FEI ratepayers for name sharing among any type of Affiliate.
11 As FBC and FBCH (i.e. AUs) both offer regulated services under the regulation of the BCUC
12 and the NEB respectively, ratepayer protection regarding the use of the same name (FortisBC)
13 is not a concern. Additionally, FEI believes that in its shared service area, many customers of
14 FEI and FBC associate the FortisBC name as representing both the gas and electric
15 businesses.
16
17

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19. Reference: Exhibit B-2, Appendix A2, Transfer Pricing Policy PDF Page 67 of 235

1. Pricing Rules

- i. If an applicable [FortisBC Energy] tariff rate exists, the Transfer Price to an Affiliate will be set according to the tariff.
- ii. Where no tariff rate exists, the Transfer Price will be set on the basis of the higher of market price or the fully allocated cost.
- iii. Where there is no market price or a market price is not readily discernable, the Transfer Price will be set on the basis of fully allocated cost.
- iv. In situations where it can be shown that an alternative Transfer Price will provide greater benefits to the [FortisBC Energy] ~~ratepayer~~ customers, [FortisBC Energy] must apply to the Commission for a variance from the pricing rules i, ii, or iii.
- v. ~~2. — If there is an agreement between [FortisBC Energy] and an Affiliate that has been reviewed by the Commission, that agreement applies.~~

19.1 Please give examples of situations where it might be shown that an alternative Transfer Price would provide greater benefits to the FortisBC Energy customers.

Response:

For an example, FEI refers to the comments provided by stakeholders during the FEI 2015 Application for Approval of COC/TPP for ARBNM (i.e. ARBs) proceeding regarding the determination of Transfer Pricing.

In the February 20, 2014 Workshop minutes, page 10 of that proceeding, the BCOAPO commented that:

The interest of ratepayers on both sides of the FEI/FAES divide are best advanced by requiring FAES to pay the LOWER of market or fully allocated cost as long as FEI recovers incremental cost plus a premium. It's clearly not beneficial when the system disadvantages FEI/FAES relative to those operating only in non-monopoly environments. Receiving the LOWER of market or fully allocated cost benefits FAES ratepayers relative to having a non-monopoly company get the business because they can charge less. That is, shutting FAES out of the business, or preventing them from competing on equal terms does not advance the interests of FAES ratepayers.

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BCOAPO commented that the interests of ratepayers on both sides of FEI/FAES are best advanced with a different transfer pricing guidelines. FEI also believes that a lower of market price or fully allocated cost guideline has value.

FEI understands the only type of competition for thermal energy services is “competition for the market”, in which different providers of thermal energy services compete to win projects. Once the project has been secured, the provider of those services is every bit as much of a monopoly as a traditional utility given the barriers to switching. This would suggest that the “higher of” pricing could actually be limited to circumstances where the work was being done before the project was secured. Thereafter, the “lower of” pricing would be beneficial to both utilities and both sets of customers.

A second example of an alternative Transfer Price that would provide greater benefits to FEI and its ratepayers is in the situation where FEI has existing resources with fixed costs. In this case, FEI providing services to an Affiliate at less than the full costs (i.e. fully loaded labour costs plus overhead/facilities charge) benefits FEI and its ratepayers.

19.2 Please identify any existing agreements which would apply instead of this Transfer Pricing Policy.

Response:

Please refer to Appendix E of Exhibit B-2 for a listing of Corporate and Shared Services Agreements. The existing agreements that would apply instead of the All-Inclusive TPP are the Mutual Shared Services – FEI and FBC and the Corporate Services – FEI and FHI. The Corporate Services agreement between FEI and FHI is consistent with the All Inclusive TPP. There was also an earlier agreement with FEVI and FEW that terminated after the amalgamation of the two entities with FEI and is no longer in existence.