



British Columbia
Utilities Commission

Laurel Ross
Acting Commission Secretary

Commission.Secretary@bcuc.com
Website: www.bcuc.com

Sixth Floor, 900 Howe Street
Vancouver, BC Canada V6Z 2N3
TEL: (604) 660-4700
BC Toll Free: 1-800-663-1385
FAX: (604) 660-1102

Log No. 49996

VIA EFILE

October 25, 2016

**FEI ALL-INCLUSIVE CODE OF CONDUCT
AND TRANSFER PRICING POLICY EXHIBIT A2-2**

Ms. Diane Roy
Vice President
Regulatory Affairs
FortisBC Energy Inc.
16705 Fraser Highway
Surrey, BC V3S 2X7

Dear Ms. Roy:

Re: FortisBC Energy Inc.
All-Inclusive Code of Conduct and Transfer Pricing Policy

Commission staff submit the following document for the record in this proceeding: October 16, 2015 FortisBC Energy Inc. Annual Review of Code of Conduct & Transfer Pricing Policy.

Yours truly,

Original signed by:

Laurel Ross

/yl
Attachment

Date: October 16, 2015

To: **Michael Mulcahy**, President & Chief Executive Officer
Roger Dall'Antonia, EVP, Customer Service & Regulatory Affairs
Ian Lorimer, VP, Finance & Chief Financial Officer
Dennis Swanson, VP, Corporate Services

CC: **Peter Orr**, Director, Financial Reporting
James Wong, Director, Finance & Planning
Diane Roy, Director, Regulatory Services

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

Subject: **Annual Review of Code of Conduct & Transfer Pricing Policy**

Internal Audit has completed its annual review of compliance with the Code of Conduct and Transfer Pricing Policy. During the current review period an additional Code of Conduct and Transfer Pricing Policy came into effect. These documents were also included in this annual review.

BACKGROUND

In 1997, the British Columbia Utilities Commission (BCUC or Commission) issued guidance to regulated utilities operating in the province of British Columbia in the document titled *Retail Markets Downstream of the Utility Meter Guidelines (RMDM)*. The document includes a discussion of principles that should be reflected in the internal policies prepared by the regulated utility. The Code of Conduct and Transfer Pricing Policy was issued in 1997 to govern the relationships between the Regulated Utility and Non-Regulated Businesses (NRBs). NRBs are defined as "an affiliate of the Utility not regulated by the Commission or a division of the Utility offering unregulated products and/or services".

In April 2015 a separate Code of Conduct and Transfer Pricing Policy (COC and TPP) came into effect to govern the relationship between the regulated utility and affiliated regulated businesses operating in a non-natural monopoly environment (ARBNNM). This document was created in response to direction provided by the BCUC in the FortisBC Energy Inc. inquiry report regarding Alternative Energy Solutions report (Order G-201-12). The principles of the RMDM guidelines were still a basis for the new Code of Conduct and Transfer Pricing Policy, however certain modifications were made to reflect FortisBC Energy Inc.'s (FEI) business relationship with FortisBC Alternative Energy Services (FAES).

To differentiate between the two sets of documents in this report, they will be referenced as either the COC and TPP (NRB) or the COC and TPP (ARBNNM).

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

- FortisBC Energy Inc. will monitor employee compliance with the Code of Conduct by conducting an annual compliance review, the results of which will be summarized in a report to be filed with the Commission within 60 days of the completion of this review. (Code of Conduct, item 7)
- The Transfer Pricing Policy will be reviewed on an annual basis as part of the Code of Conduct compliance review. (Transfer Pricing Policy, item 7)

OBJECTIVES

Management is responsible for establishing and maintaining a system of internal controls to provide reasonable assurance of compliance with the COC and TPP. Specifically, Section 4.4 Compliance in the TPP (ARBNNM) Compliance states "the Director of Finance is responsible for the oversight of safeguards related to the Transfer Pricing Policy, including the ongoing design and operating

effectiveness of the timekeeping process and other related controls and safeguards, and the maintenance of adequate records and documentation".

The objectives of the review are summarized as follows:

- Confirm the existence of appropriate policies, processes, procedures and business information systems ("control procedures") that ensure compliance with the COC and TPP.
- Review and determine whether the control procedures were in effect and operating effectively as of the date of this assessment.
- Determine who the key business process owners are and their roles in the process.
- Assess the activities of the individuals carrying out key functions or supervising the activities to ensure the Company's control processes meet the criteria.
- Evaluate through discussion and testing whether employees are sufficiently aware of the requirements of the COC and TPP to be able to understand the impact to their business area.
- Assess the alignment and consistency between the COC and TPP and current business practices.

SCOPE AND APPROACH

Internal Audit's work focused on a review of the internal control procedures established to facilitate and ensure compliance with the COC and TPP. The period covered by the review was September 1, 2014 to August 31, 2015.

Internal Audit worked with FEI's management to understand the existing control procedures for each of the discrete policy elements contained in the COC and TPP.

Interviews with key personnel determined the extent to which adequate control procedures have been established including the level of awareness of policy requirements. In addition, reviews of internal policies and procedures, related internal control narratives, journal entries, timesheets and working papers were conducted. Agreements between FEI, FAES (an ARBNNM) as well as other NRBs were reviewed and details of transactions pertaining to NRB or ARBNNM activities were tested.

OBSERVATIONS

The review was conducted to confirm compliance with the requirements of the COC and TPP, both NRB and ARBNNM versions, and to ensure the risk of non-compliance was sufficiently mitigated by the controls in place. Internal controls and procedures have been established to address the requirements; however, Internal Audit identified two areas within the TPP (ARBNNM) that require attention.

The COC (ARBNNM) states that FortisBC Energy will not share business development (sales) personnel with an ARBNNM (FAES). Although it was determined that one employee had business development responsibilities for both FEI and FAES, further investigation revealed that management had interpreted this policy to mean that no similar business development activity was to be undertaken by business development personnel. To remove any doubt as to the interpretation, management has immediately removed the employee's responsibilities within the regulated utility.

The TPP (NRB and ARBNNM) requires FEI to invoice an NRB or ARBNNM for services provided. It is recommended that an invoice document be created and issued by FEI to enhance the current practice of recording the amount owing through an inter-company journal entry.

CONCLUSION

Notwithstanding the recommendations, as a result of this review it can be concluded that FortisBC Energy Inc. is operating within the requirements of the COC and TPP (NRB) and the COC and TPP (ARBNNM). The internal controls in place are effective in ensuring that the regulated customer is not subsidizing non-regulated business activities. With the exception of the recommendations in Appendix A, the tested internal controls and procedures were found to be operating effectively in managing the associated risks.

Observation(s)	Recommendation(s)	Owner	Completion Date	Management Comment/ Action Plan
<p>COC and TPP (NRB) section 5.3 states "The NRB will be invoiced for the contracted amount in respect of Specific Committed Service and for the appropriate time based on the actual payroll level in respect of As Required Service or Designated/Affiliate Service (subject to confidentiality of salary information) with the applicable loadings applied."</p> <p>COC and TPP (ARBNNM) section 4.3 states "The ARBNNM will be invoiced for the contracted amount in respect of Specific Committed Service and for the appropriate time based on the actual payroll level in respect of As Required Service or Designated/Affiliate Service (subject to confidentiality of salary information) with the applicable loadings applied. The invoice will include the number of hours and corresponding activities."</p> <p>Currently, each month the NRB or ARBNNM is charged for 1/12th of the signed-off spreadsheet amount through entry of a recurring Journal Voucher. This does not qualify as an invoice.</p>	<p>Prepare an invoice for each monthly charge to NRBs or ARBNNMs, and whenever adjusting charges or credits are required. Each invoice should include the date issued, period it pertains to, the company being billed, due date, applicable tax, activity details (number of hours and corresponding activities) and the total amount to be paid or transferred.</p> <p>Invoices should be approved by the Financial Reporting Manager before being issued to the NRB or ARBNNM. Copies should be retained in NRB / ARBNNM files along with copies of the JV that is posted to the GL.</p>	<p>Director, Financial Reporting, Peter Orr</p> <p>Director, Finance and Planning, James Wong</p>	<p>Immediately</p>	<p>Although a formal invoice was not historically prepared, all details regarding the contracted amounts were provided directly to the NRB/ARBNNM followed by processing of the recurring Journal Voucher. Journal Vouchers are created and amounts are settled between the companies on a monthly basis.</p> <p>To remove any doubt as to compliance with the Code of Conduct, invoices will be created and provided to the NRB/ARBNNM. An invoice was generated for the period ending September 30, 2015. In addition, as Journal Vouchers are created monthly, we will create invoices monthly going forward.</p>