British Columbia Utilities Commission

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VIA EFILE

October 25, 2016

FEI ALL-INCLUSIVE CODE OF CONDUCT AND TRANSFER PRICING POLICY EXHIBIT A2-4

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: November 09, 2012 British Columbia Utilities Commission - Pacific Northern Gas (N.E.) Ltd. 2012 Revenue Requirements Decision, page 33.

Yours truly,

Original signed by:

Laurel Ross

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Attachment

The Panel recognizes that the Interveners have raised significant concerns regarding the rising benefit costs; however, the Panel considers that there is insufficient evidence to decide this issue in this Application. The issue is part of a broader nation-wide concern for the rising cost of total compensation. **In the next RRA PNG (N.E.) is to bring forth evidence on alternatives for addressing strategies for total compensation, including the rising benefit costs and cost recovery from ratepayers.** In the Panel's view, this issue should be addressed on a broader basis and the Commission could require other utilities to address this issue in a generic review.

7.2.2 Rising Total Shared Service Allocation to PNG (N.E.)

Although the details of the Shared Service charges are reviewed in detail in the PNG Application and Decision, the total Shared Service allocation to PNG (N.E.) has been an issue in each RRA for the last several years. PNG (N.E.) FSJ/DC Division has seen its share of the pool of Shared Service costs rise from $1,685,000 in 2008 to $2,233,000 proposed for 2012. (Exhibit B-1, Tab Application, p. 11; Exhibit B-9, BCUC 1.23.1) This 33 percent increase over 4 years is the result of rising Shared Service costs and increasing allocations to PNG (N.E.) FSJ/DC Division as that utility has had increased customers and gas sales while PNG has stagnated. PNG (N.E.) FSJ/DC states that "…there are increased labour costs in the Test Year due to general compensation increases, as well as increase benefit loads due to increased pension costs and inflation of other benefits cost elements." (Exhibit B-9, BCUC 1.7.1)

> "Due to a shift in customer numbers, there has been an increase in costs allocated on this basis, from 44.8% under NSP 2011 to 45.2% for Test Year 2012. This was offset in part by a decrease in costs allocated based on employee count, dropping from 22.5% under NSP 2011 to 21.9% for Test Year 2012." (Exhibit B-9, FSJ/DC, BCUC 1.7.1)

The PNG (N.E.) TR Division share of Shared Services grew from $123,000 in 2008 to $153,000 proposed for 2012. (Exhibit B-1, Tab Application FSJ/DC, p. 8; Exhibit B-4, Tab 1, pp. 3, 5)

BCOAPO states that the 2012 forecasted costs for PNG (N.E.) FSJ/DC customer billing (Account 713) are $433,000, representing a 9.1 percent increase over actual 2011 costs of $397,000 and a

45 percent increase over actual 2008 costs of $299,000. (BCOAPO Final Argument, paras. 9-10, p. 2) Furthermore, BCOAPO notes that the 3.5 percent collective agreement increase forms part of a 10.5 percent customer billing labour increase (a $21,000 increase) that is three times the size of the collective agreement increase. BCOAPO submits that the labour cost component should limited to an increase of 3.5 percent. (BCOAPO Final Argument, para. 14, pp. 2-3; Exhibit B-9, FSJ/DC, BCUC 1.7.1)

The allocation methodology has been in place for several years and is the same for this year's Application as applied under NSP 2011. As part of NSP 2011, PNG agreed to undertake a new cost allocation study in 2012 to be filed with the Commission in the Fall of 2012 (Shared Services Study). On September 19, 2012 PNG and PNG (N.E.) requested approval to file the Shared Services Study as part of the PNG 2013 RRA. Commission Letter L-62-12 approved the request.

The Commission Panel acknowledges the Applicant's commitment to undertaking the new cost allocation study in 2012, and looks forward to receiving the new cost allocation study this Fall as part of the PNG 2013 RRA.

7.3 Transfers to Capital

PNG (N.E.) requests approval to calculate transfers to capital, transferring overhead to capital projects, which will impact the rate of return received by PNG (N.E.) for its rate base. The requested approval seeks to calculate transfer to capital in accordance with the capital overhead allocation methodology approved under the 2011 NSA, as amended for refinements to the methodology as noted. [PNG (N.E.) FSJ/DC, para. 57; PNG (N.E.) TR, para. 66] Item 2 of the 2011 NSA accepted the overhead capitalization rates recommended in the 2010 Overhead Capitalization Study. In addition, PNG (N.E.) agreed to apply the same capitalization overhead rates for rate setting purposes as it does for external financial reporting purposes once International Financial Reporting Standards (IFRS) are adopted. (Order G-93-11, Appendix A, p. 4)

PNG (N.E.) FSJ/DC forecast 2012 transfers to capital of $302,000. (Exhibit B-3, p. 3)