

REQUESTOR NAME: BCOAPO *et al.*
INFORMATION REQUEST ROUND NO: #1
TO: FortisBC Energy Inc. (FEI)
DATE: October 25, 2016
APPLICATION NAME: FEI All-Inclusive Code of Conduct and Transfer Pricing Policy

1.0 Reference: Exhibit B-2, page 6
Preamble: FEI states:

“Regarding the guideline for sharing of resources between two AUs:

“Common corporate and management resources may be shared between two Affiliated Regulated Businesses that are natural monopolies, such as gas and electric service;

“Regarding cost allocation between regulated utilities.

“For an Affiliated Regulated Business, the specific guidelines set out below should be followed:

“• Any sharing of costs and services between Affiliated Regulated Business must be done on the basis of the higher of market price or the fully allocated cost, in accordance with a Commission approved Transfer Pricing Policy.”

- 1.1 Please confirm or otherwise explain that an “AU” as defined in this proceeding is not the same as an “Affiliated Regulated Business” as defined in the AES Inquiry Report.
- 1.2 If confirmed, please explain the relevance, if any, of the quote regarding cost allocation, applicable to Affiliated Regulated Businesses as defined in the AES Inquiry Report, to AUs as defined in this proceeding.

2.0 Reference: Exhibit B-2, pages 3 and 5, and Appendix F, pages 6-7, Subsidy and Transfer Pricing

The referenced pages state:

Regarding the Commission’s objectives:

“There must be no subsidy of unregulated business activities, whether undertaken by the utility or its NRB, by utility ratepayers.

and

“Key Principle

i. *The Commission Panel reaffirms the following RMDM objectives:*

- *“There must be no subsidy of unregulated business activities, whether undertaken by the utility or its [non-regulated business], by utility ratepayers.”*

- 2.1 The above appear to be the only two references to the word “subsidy” in Exhibit B-2 (including all appendices.) Please provide the operational definition of “subsidy” used by FEI to ensure compliance with the above objective and Key Principle with respect to transfer pricing.
- 2.2 Please confirm that it is FEI’s understanding that there should also be no subsidy of other regulated business activities, whether they are operating in a natural monopoly or non-natural monopoly environments. If unable to so confirm, please explain fully.
- 2.3 The Summary Matrix at Appendix F appears to only contemplate resource sharing and transfer pricing in the case of FEI providing resources to other AU, ARB, and ANRB. Can FEI confirm that it is never the case that another AU or an ARB or ANRB shares resources or provides transfer priced services to FEI? If unable to so confirm, please explain and specify the terms and pricing under which such affiliates would be bound in the provision of resources and/or services to FEI.

3.0 Reference: Exhibit B-2, pages 3-4

The referenced pages state:

Regarding the Commission’s conclusion *vis-a-vis* a utility’s Code of Conduct:
“Based on all the submissions provided, the Commission determined that the code of conduct principles contained in the staff position paper should be modified as follows:

i. The regulated company will not provide to the NRB any market-sensitive or confidential information that would inhibit a competitive energy services market from functioning. If customers agree to a release of customer information to the NRB, it should be provided to other market participants under the same terms and conditions and for the same price. Should an individual customer make a specific request to have information released to a particular third party, it will be released to that party only. The utility will be able to recover from the customer the costs associated with the provision of this information. ... [Emphasis added.]

- 3.1 Is it FEI’s view that by complying with the direction given by the Commission on page 4 (in points I to vii) that it is ensuring that it is not inhibiting “a competitive energy services market from functioning” or are there any other steps that FEI takes to ensure such “non inhibition” of market functioning?
- 3.2 Please provide details of any prior instances of customers agreeing to share customer information with NRBs, including the recovery of costs associated with the provision of the information.

4.0 Reference: Exhibit B-2, page 3, Transfer Pricing

The referenced page states:

Regarding the Commission's conclusion *vis-a-vis* a utility's transfer pricing policy:

"Accordingly, the Commission concludes that a utility's transfer pricing policy should Ensure the following:

- i. The operating costs of non-regulated activities are not reflected in the utility's cost of service.*
- ii. The costs of developing new business ventures are charged to and recovered from the NRB.*
- iii. The accounting costs are transparent and will normally fully recover for all services, including overhead, space, employee benefits, inconvenience, and a profit margin where appropriate. If the service provided by the utility to the related-NRB could also be obtained from an independent supplier, the price paid by the related-NRB to the utility should be no less than the competitive market price and will never be below the incremental cost. [Emphasis added.]*

- 4.1 Please explain how FEI generally determines (i) whether or not it can determine whether a competitive market price exists and (ii) how FEI goes about determining what the "competitive market price" is.

For example:

- (a) Does FEI require affiliates to request competitive bids from potential suppliers prior to requesting resources or services from FEI?
- (b) If not, does FEI generally have access to competitive posted prices when determining whether or not to provide resources or services to affiliates?
- (c) Does FEI ever distinguish between competitive and monopolistic/oligopolistic market prices in the markets potentially supplied by third parties?
- (d) Historically, can FEI provide the number of cases for which an affiliate requested FEI to provide resources or services and FEI determined that the market price exceeded the fully allocated cost of providing services and therefore charged the affiliate the higher market price. If there are such cases, please provide a brief, general description of these cases

5.0 Reference: Exhibit B-2, page 11

Preamble: The Application states:

"FEI currently shares resources with affiliates under sharing agreements which outline the scope of the services being provided and the fees for the services provided."

The Mutual Shared Service Agreement between FEI and FBC states:

“1.1(e) "Services" means the professional and management services to be provided by FEI or by FBC respectively, as required by the each of the parties from time to time.”

and

“2.1 Each party hereby agrees to provide to the other the Services on an as required basis and to the extent the party providing the Services has the capacity, as determined by it in its sole discretion, to provide such Services.”

and,

“3.1 The party receiving Services agrees to reimburse the party providing Services for all reasonable expenses it has incurred in providing such Services, including, without limitation, such portion of the annual salary and benefits of relevant employees as is determined by the party providing Services to be allocable to the party receiving Services based on the nature and extent of Services actually provided during the applicable period.”

- 5.1 Are these passages what FEI means when it says the sharing agreements “outline the scope of the service being provided and the fees for the services provided”?
- 5.2 Please explain how the fee set out in 3.1 of the Mutual Shared Service Agreement between FEI and FBC conforms to the principle quoted above in the preamble to IR 1.0 (above) regarding cost allocation between regulated utilities.

6.0 Reference: Exhibit B-2, pages 15-16

Preamble: In its discussion of shared resources, FEI proposes to restrict FEI sharing of services and non-executive personnel with AUs to situations where there is no detriment to FEI.

- 6.1 Given the limited amount of information available to the Commission and to intervenors relating to the sharing of services and personnel, how does FEI envision those parties being able to identify whether the sharing of services or personnel causes a detriment to FEI?

7.0 Reference: Exhibit B-2, page 18

- 7.1 Please confirm that FBC does not propose to share Customer Information with its AUs.

8.0 Reference: Exhibit B-2, pages 21-22

- 8.1 Please explain why FEI thinks it is not appropriate to use the same pricing rules for services provided to AUs as for services provided to ARBs and ANRBs?
- 8.2 Please explain why FEI thinks it is appropriate to not apply overhead or a facilities fee for services provided to an AU?