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Vancouver, BC, V6E 4M3



June 30, 2016

British Columbia Utilities Commission  
6<sup>th</sup> Floor, 900 Howe Street  
Vancouver, BC  
V6Z 2N3

Attention: Ms. Laurel Ross, Acting Commission Secretary and Director

Dear Ms. Ross:

**Re: Aitken Creek Gas Storage ULC  
British Columbia Utilities Commission (the Commission) Order G-39-16 – Aitken  
Creek Gas Storage ULC (ACGS) Code of Conduct and Transfer Pricing Policy  
Compliance Filing**

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On March 18, 2016, the Commission issued its Decision and Order G-39-16 (the ACGS Decision) approving the FortisBC Midstream Inc. (FMI) Application to Acquire the Shares of Aitken Creek Gas Storage ULC (ACGS), which occurred on April 1, 2016. Directive No. 3 of Order G-39-16 directed as follows:

Aitken Creek Gas Storage must file with the Commission a Code of Conduct and a Transfer Pricing Policy which covers the interactions between Aitken Creek Gas Storage and its affiliated natural monopoly utilities, and interactions between Aitken Creek Gas Storage and its affiliated non-regulated businesses, and Aitken Creek Gas Storage and its affiliated regulated businesses operating in a non-natural monopoly environment as set out in the attached Reasons for Decision.

In the ACGS Decision, on page 12 of Appendix A, the Commission further stated:

The ACGS COC/TPP must be filed for approval by the Commission no later than the time FEI files its all-inclusive Code of Conduct and Transfer Pricing Policy.

On April 18, 2016, the Commission issued Order G-52-16 approving a request for extension by FEI to the filing of its All-inclusive Code of Conduct (CoC) and Transfer Pricing Policy (TPP) from April 27, 2016 to June 30, 2016.

ACGS hereby encloses, and requests approval of, its All-Inclusive Code of Conduct and Transfer Pricing Policy for ACGS as contemplated in Order G-36-16.

In developing its proposed CoC/TPP, ACGS recognized the need to consider previous Commission decisions and guidelines regarding FEI's CoC/TPP including the AES Inquiry, RMDM Guidelines and CoC/TPP for Affiliated Regulated Businesses Operating in a Non-Natural Monopoly Environment. ACGS and FEI worked collaboratively in developing common elements of their proposals, as contemplated in the joint filing date. It has been necessary, however, for ACGS to make material modifications.

The documents applicable to ACGS differ in material respects from the FEI documents in recognition of the significant differences between the two utilities. The two most notable differences are:

- ACGS does not currently have any employees. Instead, ACGS relies on its parent company, FMI, for all personnel and services required to operate. The CoC/TPP are drafted to account for both the current circumstances where FMI provides all personnel and services, and a hypothetical future scenario in which ACGS might have employees of its own. It is a term of the CoC that personnel of another entity (including FMI) who provide services on behalf ACGS will be bound by the CoC in the course of the duties those personnel are providing for and on behalf of ACGS. ACGS is thus answerable to the Commission for the conduct of personnel during the course of their work for ACGS.
- Assuming that (a) there are ACGS employees in the future (which isn't currently foreseen), and (b) those hypothetical ACGS employees might be used to serve other entities, ACGS' TPP must reflect the fact that ACGS operates based on the provision of storage services based on negotiated rates and other proprietary commercial activities that reflect natural gas market conditions. The transfer pricing provisions included in FEI's TPP that are aimed at ensuring recovery of the "higher of" market price or cost of service for labour and services are premised on cost of service ratemaking where FEI customers would bear the cost of any under-recovery. The "higher of" principle is inapplicable in the context of ACGS' market based activities. ACGS' shareholder, and not ACGS customers, bears the risk of revenue shortfalls. The shareholder should be free to negotiate a price for services that provides any contribution to costs. That amount might be below the fully allocated cost of service, depending on the circumstances. For greater clarity, the proposed ACCGS TPP does not apply to any services offered by ACGS to an Affiliate for natural gas storage and related natural gas market activities.

For regulatory efficiency, ACGS believes the regulatory process for the ACGS CoC/ TPP should follow the conclusion of the regulatory process for the FEI All-Inclusive CoC/TPP. While ACGS is a distinct applicant, with distinct customers and circumstances, the FEI process may still be informative for the ACGS CoC/TPP. After the conclusion of the regulatory process for the FEI All-Inclusive CoC/TPP, any applicable differences between FEI and ACGS's CoC/TPP can be addressed in the ACGS proceeding.

ACGS customers will be appropriately protected in the intervening period. Until there is a Commission approved ACGS CoC/TPP, ACGS will be following the safeguards and oversight processes outlined in FMI's response to BCUC IR 1.16.5 as part of the review of FMI's Application for Approval to Acquire the Shares of Aitken Creek Gas Storage ULC. The

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safeguards identified include limiting the sharing of employees (again, there are no ACGS employees currently).

If further information is required, please contact the undersigned.

Sincerely,

**AITKEN CREEK GAS STORAGE ULC**

***Original signed:***

Justin Cha  
Manager, Corporate Development and Treasury

Attachments

*Aitken Creek Gas Storage ULC*

**CODE OF CONDUCT**

*For Provision of Resources and Services to Affiliates*

***Proposed June 30, 2016***

**SCOPE**

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

ACGS obtains resources and services from FortisBC Midstream Inc. (FMI). This Code applies to ACGS personnel and any FMI personnel in the course of the duties those personnel are providing for and on behalf of ACGS. In this Code, “ACGS resources and services” refers to the resources and services provided by ACGS, irrespective of whether those services are actually performed by ACGS personnel or FMI personnel. References to “employees” or “personnel” of ACGS include resources provided by FMI.

This Code will govern the use of ACGS resources and services provided to Affiliates including shared services, employment or contracting of ACGS personnel, and the treatment of Customer Information and Commercial Information. This Code does not govern resources and services provided by AU to ACGS, those resources and services will be governed by any applicable policies of such AU. Where there is an agreement between ACGS and an AU with respect to the sharing or provision of services, resources, or personnel that has been reviewed by the Commission, the terms of that agreement will govern.

The primary responsibility for administering this Code lies with ACGS, although the Commission has jurisdiction over matters referred to in this Code. The administration of this Code may have to take into account particular circumstances in respect to a particular resource or service which is being provided and where these issues are at variance with this Code, ACGS will be required to seek Commission approval in advance. The Code also provides that the Commission may review complaints in relation to this Code.

ACGS will maintain separate financial records and appropriate documentation as well as implement appropriate safeguards, including a sufficient separation of business operations between ACGS and its Affiliates, in order to ensure a level of transparency that enables an appropriate allocation of costs between ACGS and its Affiliates.

All sharing of costs, services, Customer Information, and any documentation of information as

specified by the Commission between Affiliates must be maintained and disclosed to the Commission where required by the Commission.

The ACGS Transfer Pricing Policy for Affiliates (Transfer Pricing Policy) dated [insert date following approval] will be used in conjunction with this Code to establish the costs and pricing for ACGS resources and services provided to an Affiliate.

## **DEFINITIONS**

<b>Affiliate</b>	<i>Includes an Affiliated Natural Monopoly Utility, an Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment, and an Affiliated Non-Regulated Business, and refers to the entities listed in Appendix A to this Code.</i>
<b>Affiliated Natural Monopoly Utility (AU)</b>	<i>A separate legal entity that is an affiliate of ACGS regulated by the Commission or the National Energy Board offering regulated products and services in a natural monopoly environment.</i>
<b>Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment (ARB)</b>	<i>A separate legal entity that is an affiliate of ACGS regulated by the Commission or the National Energy Board offering regulated products and services in a non-natural monopoly environment.</i>
<b>Affiliated Non-Regulated Business (ANRB)</b>	<i>A separate legal entity that is an affiliate of ACGS not regulated by the Commission or the National Energy Board.</i>
<b>Aitken Creek Storage Asset ULC</b>	<i>May be abbreviated as follows: ACGS or the Company, and may also include employees of the Company.</i>
<b>Commercial Information</b>	<i>Information related to ACGS' commercial or trading activities and related contract negotiations, or information that will inhibit a competitive market for natural gas storage services.</i>
<b>Commission</b>	<i>British Columbia Utilities Commission.</i>
<b>Customer Information</b>	<i>Information relating to a specific customer or potential customer of ACGS which ACGS has obtained or compiled in the process of providing current or prospective public utility services and which is not otherwise available to the public.</i>
<b>Guidelines</b>	<i>Principles and Guidelines from the Retail Markets Downstream of the Utility Meter Guidelines published by the British Columbia Utility Commission in April, 1997 and the Commission's Report in the Inquiry into the Offering of Products and Services in Alternative Energy Solutions and</i>

*Other New Initiatives published in December 27, 2012. This definition does not negate the applicability of other relevant orders or directions such as Commission directions in proceedings regarding affiliates or Special Directions issued by the Province of British Columbia to the Commission on matters related to specific ACGS business activities.*

**RMDM**

*Acronym for “Retail Markets Downstream of the Utility Meter”, which may include any utility or energy related activity at or downstream of the utility meter.*

**Transfer Price or Transfer Pricing**

*The price established for the provision of ACGS resources and services to an Affiliate. Transfer pricing for any ACGS resource or service will be determined by applying the appropriate ACGS Transfer Pricing Policy as approved by the Commission.*

**APPLICATION OF COMMISSION PRINCIPLES**

**CODE OF CONDUCT PRINCIPLES**

The following principles were applied in the development of the Code of Conduct for activities between ACGS and an Affiliate.

- i. ACGS will protect and consider the interests of its own customers (“ACGS Customer”). ACGS may subsequently consider the potential interests of the customers of an Affiliate so long as there is no undue preference given to any one ACGS Customer.
- ii. ACGS will not provide Customer Information to an Affiliate without the consent of the customer, recognizing however that Affiliates provide services to ACGS and personnel from Affiliates will thus have access to ACGS Customer Information in their capacity as personnel providing services to ACGS. This Code applies to those resources in the course of their performance of services for ACGS.
- iii. ACGS and its employees will not state or imply that favoured treatment will be available to ACGS Customers as a result of using any service of an Affiliate.
- iv. ACGS will monitor compliance with this Code by also conducting an annual compliance review. ACGS will regularly advise all of its employees of their expected conduct pertaining to this Code.

1. **Transfer Pricing for Affiliates**

ACGS will conform with the Commission approved ACGS Transfer Pricing Policy.

2. **Shared Services and Personnel**

- a) This Code recognizes the potential benefits to ACGS and Affiliates in sharing resources.
- b) ACGS 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 5 of this document;
  - 2. there is limited potential for disclosure of confidential information.
- c) ACGS will not share its personnel directly responsible for natural gas trading and contracting activities with FortisBC Energy Inc.
- d) Directors and officers/executives with dual management roles in ACGS and an Affiliate are required to execute a non-disclosure agreement.

3. **Provision of Information by ACGS**

ACGS will comply with confidentiality requirements outlined in agreements with customers of ACGS regarding information required by ACGS to provide services to an Affiliate.

ACGS will not provide Commercial Information to an Affiliate, but may provide Commercial Information to personnel employed by an Affiliate to be used only in their capacity as personnel providing services to ACGS.

4. **Preferential Treatment**

ACGS will not state or imply that favoured treatment will be available to customers of ACGS as a result of using any service of an Affiliate.

In addition, no Company personnel will condone or acquiesce in any other person stating or implying that favoured treatment will be available to customers of the Company as a result of using any product or service of an Affiliate.

5. **Compliance and Complaints**

- a) The ACGS Risk and Compliance Manager will be responsible for monitoring compliance at ACGS with this Code. This will include advising all of its employees of their expected conduct pertaining to this Code, and with quarterly reminders to management of employees who may be directly involved with Affiliate activities.

- b) ACGS will monitor employee compliance with this Code by also 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.
- c) Complaints by third parties about the application of this Code, or any alleged breach thereof, should be addressed in writing to the Company's Risk and Compliance Manager who will bring the matter to the immediate attention of the Company's President 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.
- d) Where ACGS determines that the complaint is frivolous and without merit, the Company may apply to the Commission for reimbursement of the costs of the investigation from the third party initiating the complaint or where this is not possible, for inclusion of those costs in rates.

**6. Use of FortisBC Name**

The use of the FortisBC name by ACGS is an acceptable business practice. ACGS will exercise care in distinguishing between services provided by ACGS and services offered by FortisBC Energy Inc. The name FortisBC is owned by Fortis Inc.

**7. Amendments**

In order to ensure that this Code remains workable and effective, the Company will review the provisions of this Code on an ongoing basis and as required by the Commission, but with a maximum of five years between reviews.

Amendments to this Code may be made from time to time as approved by the Commission, and may result from a normal periodic review, from a request to the Commission by ACGS, an Affiliate, a customer or other stakeholder, or a review initiative by the Commission.

## **APPENDIX A**

### **AFFILIATES OF ACGS as at June 30, 2016.**

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 purpose of this Code of Conduct, FAES is classified as an ARB.

FortisBC Energy Inc. (FEI) – FEI is a wholly owned subsidiary of FortisBC Holdings Inc, which is an indirect wholly owned subsidiary of Fortis Inc., a Canadian public company. FortisBC Energy Inc. is the largest distributor of natural gas in BC serving approximately 982,000 residential, commercial and industrial and transportation customers in more than 135 communities. For the purpose of this Code of Conduct, FEI is classified as an AU.

FortisBC Huntingdon Inc. (FBCH) – FBCH is a wholly owned subsidiary of FortisBC Holdings Inc. The Corporation owns two interconnecting pipelines near Abbotsford, British Columbia which are used in the transmission of natural gas to and from the United states. The Corporation is regulated by the National Energy Board, an independent regulatory authority. For the purpose of this Code of Conduct, FBCH is classified as an AU.

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.

FortisBC Holdings Inc. (FHI) – FHI, a Canadian corporate headquartered in Vancouver, British Columbia, is the parent company of FEI, FAES, FortisBC Midstream Inc and FBCH. A wholly-owned subsidiary of Fortis Inc., FortisBC Holdings Inc., is a holding company. Its subsidiaries are the operating companies. For the purpose of this Code of Conduct, FHI is classified as an ANRB.

FortisBC Midstream Inc. (FMI) – FMI is a holding company and the parent company of ACGS.

FortisBC Pacific Holdings Inc. (FPHI) – FPHI is a holding company and the parent company of FBC. For the purpose of this Code of Conduct, FHI is classified as an ANRB.

Fortis Inc. (FI) – FI is a holding company and the parent company of FHI and FPHI. FI is a diversified, international holding corporation having investments in distribution, transmission and generation assets and utilities. For the purpose of this Code of Conduct, FHI is classified as an ANRB.

*Aitken Creek Gas Storage ULC*

**T R A N S F E R P R I C I N G P O L I C Y**

*For Provision of Resources and Services to Affiliates*

**Proposed June 30, 2016**

**SCOPE**

This Transfer Pricing Policy for Provision of Resources and Services to Affiliates (Transfer Pricing Policy or Policy) addresses the pricing of non-rate resources and services provided by Aitken Creek Gas Storage ULC (ACGS) to its Affiliates. It recognizes that ACGS currently operates under a market-based rate framework, in which ACGS' shareholder assumes all revenue and cost related risk. That is, unlike in a cost of service based regulatory framework, ACGS customers are not at risk if ACGS recovers less than the Fully Allocated Cost associated with the provision of resources and services.

The Transfer Pricing Policy applies to ACGS' provision of resources and services to any Affiliate and shall include the provision of resources and services provided on behalf of ACGS. For greater clarity this Transfer Pricing Policy does not apply to any services offered by ACGS to an Affiliate for natural gas storage and related natural gas market activities.

ACGS will maintain separate financial records and appropriate documentation as well as implement appropriate safeguards including sufficient separation of business operations between ACGS and its Affiliates, in order to ensure a level of transparency.

The ACGS Code of Conduct for Provision of Resources and Services to Affiliates (Code of Conduct) dated [insert date following approval] will be used in conjunction with this Transfer Pricing Policy.

**DEFINITIONS**

**Affiliate**

*Includes an Affiliated Natural Monopoly Utility, an Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment, and an Affiliated Non-Regulated Business, and refers to the entities listed in Appendix A to the Code of Conduct.*

**Affiliated Natural Monopoly Utility (AU)**

*A separate legal entity that is an affiliate of ACGS regulated by the Commission or the National Energy Board offering regulated products and services in a natural monopoly environment.*

## ACGS Transfer Pricing Policy for Affiliates

<b>Affiliated Regulated Business Operating in a Non-Natural Monopoly Environment (ARB)</b>	<i>A separate legal entity that is an affiliate of ACGS regulated by the Commission or the National Energy Board offering regulated products and services in a non-natural monopoly environment.</i>
<b>Affiliated Non-Regulated Business (ANRB)</b>	<i>A separate legal entity that is an affiliate of ACGS not regulated by the Commission or the National Energy Board.</i>
<b>Commission</b>	<i>British Columbia Utilities Commission.</i>
<b>Fair Market Value</b>	<i>The price reached in an open and unrestricted market between informed and prudent parties, acting at arm's length and under no compulsion to act.</i>
<b>Aitken Creek Gas Storage ULC</b>	<i>May be abbreviated as follows: ACGS or the Company, and may also include employees of the Company.</i>
<b>Fully Allocated Cost</b>	<i>The sum of the direct costs and overhead costs required to provide the product or service.</i>
<b>Transfer Price or Transfer Pricing</b>	<i>The price established for the provision of ACGS resources and services to an Affiliate. Transfer pricing for any ACGS resource or service will be determined by applying the appropriate ACGS Transfer Pricing Policy as approved by the Commission.</i>

## **POLICY**

Provision of services from ACGS to an Affiliate must be in accordance with the Commission approved Code of Conduct and the Transfer Pricing Policy or as approved by the Commission from time to time.

Transfer Prices charged to Affiliates by ACGS are intended to permit ACGS to obtain a contribution to its costs by providing services to Affiliates.

### **1. Pricing Rules**

- a) If there is an agreement between ACGS and an Affiliate that has been reviewed by the Commission, then that agreement applies. In the absence of such an agreement, the Transfer Price will be as agreed on by the parties and may be based on the following:
  1. Fair Market Value; or
  2. Fully Allocated Cost.

### **2. Separation of Financial Records and Business Operations**

- a) ACGS will maintain separate financial records and appropriate documentation as well as implement appropriate safeguards including sufficient separation of business operations between ACGS and its Affiliates.

- b) As evidence of compliance with section 2(a) herein, ACGS will:
1. Set up appropriate internal orders for tracking time, documenting the internal order numbers and ensuring that the appropriate individuals charge time to them. ACGS will be responsible for maintaining the internal orders and collecting the appropriate charges.
  2. The individuals performing the service must report all time spent on that service by coding their time to the appropriate internal order numbers. If the Transfer Price is set in accordance with section 1(b) above, the Affiliate may review the validity of the charges.
  3. The Affiliate will be invoiced for an amount calculated in accordance with the agreement. If the Transfer Price is set in accordance with section 1(b) above the invoice will include the number of hours and corresponding activities. The methodology for determining a salary level is on the basis of the average of the respective pay grades or job groups for the employees involved.
  4. The ACGS Risk and Compliance Manager 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.

**3. Review of Transfer Pricing Policy**

The Transfer Pricing Policy will be reviewed by ACGS on an annual basis as part of the Code of Conduct compliance review. However, ACGS may make an application to the Commission for approval of changes to the policy.