

1 **Volume 1, Section 3 – Finance**

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3 **Q. Please provide a copy of any policies that NP provides to its personnel in relation to**
4 **proper tracking and accounting of inter-corporate charges.**

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6 A. Attachment A is a copy of Newfoundland Power's *Policy on Inter-Corporate*
7 *Transactions.*

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9 Attachment B is a copy of Newfoundland Power's *Internal Guidelines for Pricing Inter-*
10 *Corporate Transactions* which is provided to personnel in relation to proper tracking and
11 accounting for inter-corporate charges.

Policy on Inter-Corporate Transactions

Policy on Inter-Corporate Transactions

1.0 Purpose and Scope

The purpose of this Policy is to set out standards and conditions for inter-corporate charges between Newfoundland Power and its Related Companies. These standards and conditions apply in determining charges from Related Companies and charges to Related Companies.

The Policy protects the interests of ratepayers through the establishment of parameters for the sharing of services and resources, while allowing the achievement of economies of scale and operating efficiencies through transactions with Related Companies.

2.0 Definitions

Board means the Board of Commissioners of Public Utilities of Newfoundland and Labrador.

Demonstrable Benefits occur when inter-corporate transactions with Related Companies provide benefits to the ratepayers of Newfoundland Power that exceed the incremental costs to be borne by ratepayers of Newfoundland Power.

Fair Market Value means a price equivalent to the price reached in an open and unrestricted market between informed and prudent parties, acting at arms length and under no compulsion to act.

Fully Distributed Cost means the full cost, both direct and indirect, of providing a service including a fair return on assets, where appropriate.

Incremental Cost is a cost incurred as a result of a transaction that is over and above the cost that would be incurred in any event if the transaction did not take place.

Non-Regulated Costs are costs that are not included in the determination of the revenue requirements of Newfoundland Power used to establish electricity rates.

Policy means this Newfoundland Power Inc. Policy on Inter-Corporate Transactions.

Related Company means Fortis Inc. or any of its subsidiary companies.

Shared Service means any service, other than a Utility Service, in which the service is administered by a single company for Related Companies.

Utility means a public utility within the meaning of the *Public Utilities Act* RSN 1990 Chapter P-47, or as defined under similar legislation in another jurisdiction.

Utility Service means a service that is regulated by the Board for which the terms and conditions of service, including the schedule of rates, tolls and charges, is approved by the Board.

Non-Utility Service means a service that is not a Utility Service.

3.0 Underlying Principles

Newfoundland Power shall ensure:

- (i) that all transactions with Related Companies are prudent, fully transparent and subject to the scrutiny of the Board; and
- (ii) that ratepayers will derive a Demonstrable Benefit from all Non-Utility Service transactions with Related Companies.

All charges from Related Companies to Newfoundland Power must meet the following criteria:

- (i) the proposed charges must be prudently incurred for the provision of a service required by the ratepayers of Newfoundland Power;
- (ii) the proposed charges must be supported by the principles of cost causality; and
- (iii) the benefits to the ratepayers of Newfoundland Power must equal or exceed the costs.

Charges that do not meet these criteria will be treated as Non-Regulated Costs.

4.0 Pricing

Inter-corporate charges for Non-Utility Services will be based on Fair Market Value. If market cannot be established, the charges should be based on cost. Where cost is used, it will be based on Fully Distributed Cost including a fair return on assets, where appropriate.

Where a service is subject to a regulated tariff, the regulated tariff rate will be treated as the market price.

5.0 Determination of Fair Market Value

Newfoundland Power may utilize any reasonable method to determine Fair Market Value that is appropriate in the circumstances. Appropriate methods include competitive tendering, competitive quotes, bench-marking studies, catalogue pricing, replacement cost comparisons, or recent market transactions.

Opportunity cost will be the basis for evaluating inter-corporate loans.¹ In order to reflect the opportunity cost of the transaction, the interest rate on any loan between Newfoundland Power and a Related Company shall be set at a rate that is the average of the lowest available market rate for borrowings and the highest available market rate for deposits at the time the transaction takes place.

¹ Order No. P.U. 7 (1996-97), page 82

6.0 Determination of Fully Distributed Cost

Fully Distributed Cost with respect to:

- i) the use of personnel, means the full cost of such personnel for the duration of their service to the Related Company, including salary and benefits;
- iv) the use of equipment, means an allocated share of capital costs (cost of capital and depreciation) and operating costs appropriate for the time period utilized by the Related Company;
- v) the use of products or services, means the total cost of providing the product or service to the Related Company, allocated as appropriate to the circumstances; and
- vi) the transfer of equipment, plant, inventory, spare parts or similar assets between Related Companies, such as may occur in the provision of Emergency Services, means the net book value of the transferred assets plus any related handling charges.

7.0 Cost Allocation Among Related Companies

The charges to each Related Company for Shared Service will reflect all of the costs incurred in providing the service.

Cost will be allocated on a basis that reflects causality. Where a causal relationship cannot be established, the costs will be allocated on the basis of benefits.

8.0 Billing and Collection

Bills for charges to Related Companies, other than for Utility Service, will be issued monthly. Interest charges will apply if the bill is not paid in full within 30 days. The interest rate is set equal to that charged to ratepayers for outstanding charges as set forth in Regulation 10(c) of the *Newfoundland Power Inc. Schedule of Rates, Rules & Regulations*.

Billing for Utility Service will be in accordance with the *Newfoundland Power Inc. Schedule of Rates, Rules & Regulations*.

9.0 Regulatory Reporting

Newfoundland Power will maintain a record of supporting documentation for all inter-corporate transactions.

Newfoundland Power will submit a quarterly report to the Board, within 45 days from the end of the quarter, to assist the Board in monitoring inter-corporate charges to and from Related Companies. The report shall identify inter-corporate charges by major cost category and for

each Related Company. The report will also include copies of any formal agreements signed during the quarter with a Related Company.

Inter-corporate charges for expense account items such as room or meal costs at a Fortis hotel charged on an employee visa or expense account shall not be included in the report on inter-corporate transactions due to the administrative cost of monitoring these low cost items.

10.0 Compliance

Newfoundland Power will communicate to relevant employees their responsibilities relative to inter-corporate transactions. Information will be provided on the application of the Policy to employees that are involved in inter-corporate transactions. Newfoundland Power will make the Policy available on its intranet.

Newfoundland Power will monitor compliance with the Policy through annual compliance reviews.

The Chief Financial Officer is responsible for ensuring compliance with the Policy.

Internal Guidelines for Pricing Inter-Corporate Transactions

Internal Guidelines for Pricing Inter-Corporate Transactions

1.0 Administration of Inter-Corporate Charges

The administration of inter-corporate charges is the responsibility of the Manager, Finance, who shall report directly thereon to the Chief Financial Officer. The determination of prices to be charged will be made in accordance with the Newfoundland Power Policy on Inter-Corporate Transactions (the “Policy”).

Prior to entering into an agreement for the provision of Non-Utility Service to or from a Related Company both parties are required to discuss the key aspects of the project including: a description of the service; resources required; duration of the project; costing methodology employed; and, an estimate of the total cost of the project. To facilitate this discussion it is recommended that the *Inter-Corporate Transaction Job Costing Worksheet* be completed. A copy of the worksheet is contained in Appendix A.

Key contacts are:

Director, Forecasts (designated employee)	Ronald Crane (709) 737-5839
Treasurer	Robert Meyers (709) 737-5740
Financial Accounting Officer	Robert Ryan (709) 737-5371

2.0 Guidelines for Determining the Price

The following guidelines are provided on the application of the Policy:

How do you establish market?

A review of the market, where possible, is required to determine the market rate. Methodology options for determining market are set forth in the Policy. The market review must be documented and provided to the Manager, Finance (or a designated employee).

Where appropriate and supportable, market value may be approximated by a mark-up on cost. The definition of cost will be determined on a basis that is consistent with what is expected to be covered by the mark-up.

Below are examples where inter-corporate charges will be based on market.

Executive and Managers

Executive and Managers staff time will be charged based on a proxy for market price. Fair Market Value will be based on a market proxy rate set to equal 1.2 times the Fully Distributed Cost.

Engineering Services

Staff time to provide engineering services will be charged based on Fair Market Value. Fair Market Value will be based on a review of the market.

Equipment and Materials

Assets sold by Newfoundland Power to a Related Company or purchased from a Related Company by Newfoundland Power shall be at Fair Market Value, except in the case of Emergency Services.

Incremental Expenses

Incremental expenses such as travel expenses will be directly charged to the Related Company.

How do you establish cost?

Fully Distributed Cost is determined in accordance with Section 6 of the Policy.

Overtime will be charged out at two times the hourly rate plus loadings. Loadings are not doubled as overtime does not attract additional benefits.

The following are examples where inter-corporate charges will be based on cost:

Insurance Administration

Staff time for the administration of the group insurance program is charged based on the recovery of Fully Distributed Cost.

Information Systems Services

The Information Services Department acquires computer software license agreements to serve Related Companies. The cost is allocated based on the number of users per Related Company.

Staff time charged for contract renegotiation is based on the recovery of Fully Distributed Cost.

Trustee, Listing and Filing Fees

These are charges from Fortis. The full cost is allocated based the relative percentage of total shareholder equity for each Related Company.

Share Purchase Plan Costs

These are charges from Fortis. The full cost is allocated based the relative percentage of total shareholder equity for each Related Company.

Employee Exchange

When an employee exchange occurs, that is temporary in nature, between Related Companies, staff time is charged based on the recovery of the Fully Distributed Cost.

Emergency Services

Where assistance is provided to a Utility to deal with an emergency situation, the charges will recover the Fully Distributed Cost.

3.0 Determining Fully Distributed Cost – Staff Charges

Time spent on work for Related Companies will be supported by daily timesheets submitted on a bi-weekly basis. The Related Company will be identified on the timesheet in accordance with the Company's Code of Accounts.

The hourly labour rate will be loaded for benefits as a percentage of cost. Benefits are defined to include vacation (including statutory holidays), Canada Pension Plan, Employment Insurance, workers' compensation, health and post-secondary education tax, health insurance, and pension costs.

Appendix A Inter-Corporate Transactions Job Costing Worksheet	
Project Title: Function #	Start Date: Completion Date:

Service Provider	Service Recipient
Company: Contact Person: Phone Number:	Company: Contact Person: Phone Number:

Project Description

Pricing Methodology			
	Fair Market Value	Fully Distributed Cost	Other : Specify
Labour:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> _____
Vehicle:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> _____
Equipment:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> _____
Travel:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> _____
Material/Other:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/> _____
Estimated Total Costs (See Detailed Worksheet)			\$ _____

Appendix A Inter-Corporate Transactions Job Costing Worksheet						
Cost Category	Hours/Days		Hourly/Daily	Standard	Market	Total
	Regular	Overtime	Rate	Loading	Adjustment	Cost
Labour:						
Vehicle:						
Equipment:						
Travel:						
Material/Other:						
Total						