1 **Q. Reference: CA-NP-156, Attachment A, at p. 1: please provide a copy for the record**
2 **of the Deloitte & Touche report referenced at footnote 1.**
3
4 A. Attachment A is the Deloitte and Touche report *Newfoundland Light & Power Co.*
5 *Limited Report on Inter-corporate Charges* referenced at page 1, footnote 1 of CA-NP-
6 156, Attachment A.

Deloitte and Touche

Newfoundland Light & Power Co. Limited
Report on Inter-corporate Charges

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March 18, 1996

DELIVERED BY COURIER

Newfoundland Power
55 Kenmount Road
P.O. Box 8910
St. John's, Newfoundland
A1B 3P6

Attention: Mr. Kevin S. Warr, C.F.O.

Dear Mr. Warr:

We are pleased to enclose our report "*Newfoundland Light & Power Co. Limited, Report on Inter-corporate Charges*".

Yours truly,

DELOITTE & TOUCHE

Deloitte & Touche

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1. INTER-CORPORATE CHARGES 1993-1995
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INTRODUCTION

Newfoundland Light & Power Co. Ltd.(NP) is a wholly owned subsidiary of Fortis Inc. (Fortis). Fortis was created through a reorganization of NP in 1987 and is a holding company without any operations. In addition to NP, Fortis owns Maritime Electric, Fortis Properties and Fortis Trust and has an indirect interest in Unitel Newfoundland. Fortis Properties and Unitel Communications Inc. (Unitel) each own 50% of Unitel Newfoundland, a joint venture that owns the facilities used by Unitel in providing telecommunications services in Newfoundland.

In a 1991 rate hearing, the Newfoundland Board of Commissioners of Public Utilities (PUB) addressed the issue of inter-corporate transactions between NP and both its parent, Fortis, and other related companies. With regard to this issue, the PUB stated:

> "As the activity of Fortis expands, the opportunity for increased inter-corporate transactions will occur. This in and of itself is not a bad thing. It is the absence of arm's length character in conducting these transactions that could cause a problem or a perceived problem."[1]

The PUB did not find that there was a problem with NP's inter-corporate transactions, and stated that it:

> "... accepts NP's argument that there is no evidence to suggest any difficulty with inter-corporate transactions before the Board during the course of this hearing."[2]

However, the Board recognized that inter-corporate transactions was a sensitive issue:

> "The Board is aware of the sensitivity of related party transactions. Transactions of this nature have been given special consideration by financial accountants for some time now and continue to be deserving of special treatment and consideration." [3]

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1 Newfoundland Board of Commissioners of Public Utilities; P.U. 6 (1991) Application of Newfoundland Light & Power Co. Limited; December 4, 1991; pg. 35.

2 Newfoundland Board of Commissioners of Public Utilities; P.U. 6 (1991) Application of Newfoundland Light & Power Co. Limited; December 4, 1991; pg. 36.

The PUB concluded that NP should be required to report on inter-corporate transactions and to revise its accounting manual to facilitate the recording of related party transactions:

> "The Board therefore orders that a quarterly reporting mechanism be put in place whereby NP aggregates all inter-corporate transactions by the accepted code of accounts, segregating purchases of goods and services from sales of goods and services. This report would be submitted to the Board together with any contracts and agreements signed during that quarter with any related parties. Transactions exceeding $50,000 individually or per annum must be reported separately and compared to the cost of the same transaction from an arm's-length supplier(s). A description of the nature and the amount of the transaction(s) as well as any amount due to or from the related party must be provided.
>
> "NP's Corporate Accounting Manual should be revised to facilitate the recording of related party transactions and to reflect the special accounting status of inter-corporate and related party transactions."[4]

The Board went on to require NP to provide evidence in support of a mark-up on inter-corporate transactions:

> "The Board further orders that the Company conduct a study into the financial policies of regulated Canadian utilities with respect to mark-up percentages on related party transactions. There was no direct evidence provided to the Board for the purposes of evaluating a percentage, if any, for return on investment relating to an inter-corporate transaction."[5]

NP has asked Deloitte & Touche to review its inter-corporate charges, in particular the need to include a mark-up in the charges. Our work is summarized in this report and includes the following:

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[3] Newfoundland Board of Commissioners of Public Utilities; P.U. 6 (1991) Application of Newfoundland Light & Power Co. Limited; December 4, 1991; pg. 36.

[4] Newfoundland Board of Commissioners of Public Utilities; P.U. 6 (1991) Application of Newfoundland Light & Power Co. Limited; December 4, 1991; pg. 37.

[5] Newfoundland Board of Commissioners of Public Utilities; P.U. 6 (1991) Application of Newfoundland Light & Power Co. Limited; December 4, 1991; pg. 37.

- review of NP's current inter-corporate charging policies and practices;
- review of relevant generally accepted principles of cost allocation;
- review of pricing principles;
- review of regulatory principles; and
- review of regulatory practice.

In our review of the existing inter-corporate charges, the calculation of the charges and the basis for their calculation, we have relied on information provided by NP. We have not audited or performed any review procedures on the amount of inter-corporate charges or any of the other information provided by NP.

BACKGROUND

In 1995, Fortis allocated $854,180 to NP. Of this amount, $456,448 was allocated to regulated operations, while $397,732 was allocated to non-regulated operations. In addition, Unitel charged NP $321,318 for telecommunications services and other affiliates charged NP $2,353 for a total of $780,119 charged to NP's regulated operations in 1995. With total revenues of $338.9 million, these inter-corporate charges allocated to regulated operations amounted to 0.23% of NP's 1995 revenues. In addition NP allocated $126, 015 to Fortis and its other affiliates. These charges represented 0.23% of NP's 1995 operating expenses.

The amounts allocated from Fortis to the regulated operations of NP related primarily to executive salaries plus trustee and listing costs associated with debt and equity securities used to finance regulated operations. The amounts allocated from Fortis to the non-regulated operations of NP related primarily to directors' fees, the annual report expense for Fortis, a management fee, and the trustee and listing fees associated with securities financing non-regulated operations.

In 1995, NP charged Fortis $56,667 and other affiliates $69,348. These charges related primarily to printing and stationery costs, postage costs and insurance premiums paid for by NP on behalf of Fortis and its other subsidiaries..

As a general rule, the costs allocated to NP's regulated operations reflect either costs incurred or costs allocated on the basis of benefits received. Any costs which, in NP's opinion, might be considered to represent a duplication of amounts already incurred by it are allocated to non-regulated operations. For example, the amounts that Fortis allocates to NP for directors' fees, annual report expense, and annual meetings expense are allocated entirely to non-regulated operations.

The various inter-corporate charges are discussed below while Table 1 summarizes the amount of these transactions for each of 1993, 1994 and 1995, except for the sale of power to affiliates which was at tariffed rates. Appendix 1 provides a more detailed listing of the inter-corporate charges.

TABLE 1

INTER-CORPORATE CHARGES

	1993	1994	1995
CHARGES TO NFLD. LIGHT & POWER FROM:			
Fortis:			
Total	1,610,726	1.059,294	854,180
Less Non-Regulated	914,387	365,123	397,732
Regulated	696,339	694,171	456,448
Fortis Properties	187,405	186,166	1,613
Fortis Trust	0	0	0
Maritime Electric	0	0	740
UNITEL	88,096	168,479	321,318
	971,840	1,048,816	780,119
CHARGES FROM NFLD. LIGHT & POWER TO:			
Fortis	388,495	281,225	56,667
Fortis properties	59	0	31,199
Fortis Trust	44,877	15,184	22,647
Maritime Electric	0	15,000	8,160
UNITEL	63,367	8,309	7,342
	496,798	319,718	126,015

Fortis Executive & Staff Salaries

For executive and staff salaries, Fortis charges NP for time based on the salary of the employee plus 25%. The 25% overhead rate lacks specific support.

As of 1995, the only executive and staff time charged by Fortis to NP relates to Mr. Gosine and Mr. O'Neill. Prior to 1995, Mr. Gosine and Mr. O'Neill were employed by NP and some of Mr. Gosine's and Mr. O'Neill's time was allocated to Fortis; however, at the end of 1994, they were both transferred to Fortis. Mr. Gosine charges approximately 30% of his time to NP while Mr. O'Neill charges approximately 23% of his time. *In both cases the time allocated to NP is supported by time records.*

The cost of Mr. O'Neill's time in excess of that supported by time reports is allocated to all Fortis subsidiaries on the basis of net assets. The portion of this excess allocated to NP should have been allocated to non-regulated operations, but in error, was allocated to regulated operations in 1995. NP will be correcting this misallocation.

NP Staff Salaries

Where NP staff perform work for an affiliate, staff time is allocated based on time reports. The value of the charges is based on the salary of the staff member plus 28%. Of the 28%, 16% is intended to cover the vacation time of the employee. The remaining 12% is intended to cover the UIC payments, CPP payments and other employee benefits.

At the current time, NP does not allocate staff time to affiliates on an ongoing basis. However, in 1995, the NP Legal department and Strategic Planning department did a small amount of work for Fortis and this was charged to Fortis based on the above formula.

Chairman's Fee

In 1995, Fortis charged $10,000 a month for services provided by Dr. A.A. Bruneau, who is the chairman of NP's Board of Directors.

Trustee Fees / Listing & Filing Fees

These amounts relate to the cost of maintaining outstanding equity issues of Fortis. Fortis is not an operating company and virtually all of its equity is reinvested in its subsidiaries. This cost is allocated to the Fortis subsidiaries based on net assets.

ESPP/DRIP/CSPP Costs

The ESPP is the employee share purchase plan, the DRIP is the dividend re-investment plan and the CSPP is the customer share purchase plan.

These costs represent fees paid to Montreal Trust for managing the plans, including fees paid every time there is a transaction, such as people moving into and out of the plan, and for the issue of new shares. The cost of any discounts under the ESPP and the CSPP are recovered from the specific subsidiaries.

These costs are allocated to the subsidiaries of Fortis, including NP, on the basis of net assets since they relate to the raising of equity which is then re-invested in the various Fortis subsidiaries

Printing & Stationery Labour & Materials

NP does printing work for Fortis. NP charges for materials at cost plus its normal mark-up which is currently 14% for stores overhead. It charges for labour at the relevant hourly labour rate plus the normal overhead rate of 28%. As with staff salaries, 16% of the 28% is intended to cover the vacation time of the employee. The remaining 12% is intended to cover the UIC payments, CPP payments and other employee benefits.

Insurance

NP's risk management department arranges insurance for the Fortis group of companies. Up until the end of 1995, only the insurance premiums related to each affiliate were allocated to it. There was no allocation of staff costs. Starting in 1996, NP will charge affiliates for the staff costs associated with managing the insurance program. The charges will be based on employee time spent, as per time sheets, plus the normal overhead rate for staff time of 28%.

Interest Expense

During 1995, short-term loans were made from Fortis to NP and from NP to Fortis. The interest rates reflected market rates at the time the loans were made.

Postage & Couriers

NP handles mailings for Fortis and its affiliates. The most significant amount relates to mailings to the Fortis shareholders. NP charges for postage only. There is no mark-up or charge for labour.

Rent

Up until the end of 1994, NP leased space from Fortis Properties. In 1995, there was a small charge related to that prior period. Since the end of 1994, NP has not leased or used space owned by any of its affiliates.

NP rents a small amount of space and land to Unitel. The rent is based on estimated market value.

Pole Attachments

Unitel rents space on NP poles. The charge is based on the same methodology as was used to charge Terra Nova for the same service prior to its acquisition by Newfoundland Telephone (NP dealt with Terra Nova at arms-length).

Leased Services and Long Distance

NP purchases telecommunications facilities and services from Unitel. These services are acquired through a competitive bidding process.

Directors' Fees

These are the amounts paid to the directors of Fortis. These costs are allocated to the subsidiaries of Fortis on the basis of net assets.

Since NP has its own board of directors and does not need a second board to carry out regulated operations, no portion of these costs is allocated to NP's regulated operations.

Annual Report Expense / Annual Meeting Expense

These amounts represent the cost of producing Fortis' annual and quarterly reports and the cost of Fortis' annual meeting. These costs are allocated amongst Fortis' subsidiaries on the basis of net assets.

NP has its own annual report and annual meeting, and does not have a requirement for those of Fortis (although it could be argued that there is some benefit to NP from these costs). As a result, no portion of these costs is allocated to NP's regulated operations; the full amount is allocated to NP's non-regulated operations.

Travel Expense

Most of the travel costs are incurred by the directors of Fortis and are allocated to the subsidiaries on the basis on net assets. As with the director's fees, the entire amount of the travel expense is allocated to non-regulated operations.

Miscellaneous

In 1995, there was a total of $29,412 charged to NP from Fortis for a variety of small charges. Most of this amount was allocated to the Fortis subsidiaries, including NP, on the basis of net assets. Of the total $29,412, $26,251 was allocated to non-regulated operations leaving only $3,161 allocated to NP's regulated operations.

In 1995, NP charged Fortis $8,605 in miscellaneous charges.

PRINCIPLES

GENERALLY ACCEPTED PRINCIPLES OF COST ALLOCATION

The allocation of corporate costs to or from a regulated subsidiary is a form of reimbursement costing, i.e., the allocation of costs for the purpose of recovery. In Managerial Cost Accounting, Shillinglaw sets out six criteria for reimbursement costing:

- inclusiveness;
- causality;
- traceability;
- variability;
- capacity required; and
- beneficiality.[6]

The first criterion, inclusiveness, requires that all costs associated with a particular subsidiary, and only those costs, be assigned to the subsidiary. This is an overall principle to be applied in allocating costs. For example, if the corporate office performed the financial function for all subsidiaries, the cost of the financial function should be assigned among all subsidiaries to allow for full recovery of the cost. However, if the corporate office performed the financial function for all subsidiaries other than the regulated subsidiary, none of the costs should be assigned to the regulated subsidiary.

The causality criterion requires that, to the extent possible, costs be assigned to subsidiaries on the basis that the affiliates caused the costs to be incurred. This is the primary criterion for cost allocation.

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6 Gordon Shillinglaw; Managerial Cost Accounting, 5th ed.; (Homewood, Ill.: Richard D. Irwin, Inc., 1982); pg. 665.

However, it is a broad criterion and there are three implementation criteria related to it: traceability, variability, and capacity required.

The implementation criterion to employ, and even the applicability of the causality criterion, depends on the nature of the corporate costs. Costs can be viewed as either direct or indirect:

- direct - incurred for a specific affiliate; and
- indirect - incurred for two or more affiliates or for the entity and two or more affiliates.

Costs may also be viewed as either variable or fixed:

- variable - varying in relation to the level of activity or volume; and
- fixed - unaffected by the level of activity or volume.

Direct costs can be traced to the specific affiliates which caused the costs to be incurred. For example, corporate costs may include the cost of an individual working exclusively on the banking relationships for a regulated subsidiary. Such a cost can be traced to the regulatory affiliate, and thus satisfies the criterion of causality. Indirect costs, because they are incurred for more than one affiliate, cannot always be directly traced to specific affiliates. However, where the indirect costs are variable, a causal relationship can be identified.

Indirect costs which are short-run variable have a causal relationship to affiliates which can be measured on the basis of variability. The activity or volumes which cause the costs to vary must be identified. The costs are then allocated to affiliates on the basis that they contribute to the activity or volume. For example, insurance costs incurred by a parent may vary with the value of assets. In such a case, the insurance costs would be assigned to subsidiaries on the basis of their asset values.

Indirect costs which are long-run variable have a causal relationship to affiliates which can be measured on the basis of capacity required. The relationship between capacity and costs must be identified. The costs are then assigned on the basis of capacity required. For example, the existence of a subsidiary may require ten additional staff at the corporate office which, in turn, requires an additional 2,000 square feet of space. The cost of the additional 2,000 square feet would be assigned to the subsidiary.

Indirect fixed costs do not have any causal relationship to affiliates. Whether or not an individual affiliate exists, these costs will remain the same. However, these costs must be incurred to provide the various services to affiliates or to the entity and its affiliates. In accordance with the inclusiveness criterion, they must be allocated to affiliates to allow for their recovery.

Where a clear causal relationship does not exist, Shillinglaw maintains that the most widely-used allocation criterion is beneficiality, i.e., benefits received.[7] To show beneficiality, it is not necessary to be able to measure direct benefits. It is sufficient that the incurrence of a cost is necessary to carry out the activity.[8] Unfortunately, there is no clear method for measuring benefits received. The method of applying beneficiality is subject to considerable judgment.

A further criterion is put forward by Horngren, who uses the fairness criterion, stating that fairness sometimes requires an allocation to be made:

> "FAIRNESS OR EQUITY. This criterion is often cited in government contracting where cost allocations are the means for establishing a mutually satisfactory price. The allocation here is viewed as a 'reasonable' or 'fair' means of establishing a selling price in the minds of the contracting parties. For most allocation decisions, fairness is a lofty objective rather than an operational criterion."[9]

In applying this criterion, the implementation criterion is beneficiality, being the only method which can be used to ascribe the costs to the cost object. Thus, this criterion suffers from the weakness of all beneficiality criteria.

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[7] Gordon Shillinglaw; Managerial Cost Accounting, 5th ed.; (Homewood, Ill.: Richard D. Irwin, Inc., 1982); pg. 670.

[8] Gordon Shillinglaw; Managerial Cost Accounting, 5th ed.; (Homewood, Ill.: Richard D. Irwin, Inc., 1982); pg. 670-71.

[9] Charles T. Horngren and George Foster; Cost Accounting, A Managerial Emphasis, 6th ed.; (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1987); pg. 414.

An important practical modifier of the allocation process is that it should be reasonably simple, and that the costs of implementation and use should not exceed the benefits. With some of the more sophisticated methods of allocation, the cost can be significant, and improvements to the allocation process must always be compared to the value of the improvements. As a result, "short-cut" methods of cost allocation which are considered to approximate the theoretically-correct approach are frequently used.

To summarize, in determining the principles to be followed in allocating costs to a regulated entity, the core principle is that the regulated entity should only be paying for costs which are undertaken on its behalf and which can be traced to it, or for which it can be identified as receiving a benefit. Similarly, an affiliate of a regulated entity should be charged for costs undertaken on its behalf and which can be traced to it, or for which it can be identified as receiving a benefit.

When the costs can be related to some benefit or service received or provided by the regulated entity, there is no major problem in determining the allocation. The difficulty arises when the benefit cannot be reasonably traced. At such times, the fairness criterion must be examined to ascertain if that would support the allocation of costs to the cost object.

PRICING PRINCIPLES

When two related parties deal with each other, a fair price is usually viewed as that which would result if the parties were dealing at arm's length, i.e., if the two parties were not related.

The best estimate of an arm's-length price is fair market value. This is the best price that could be attained in a free unrestricted market between a willing buyer and a willing seller. Where there is a market in which similar goods or services are traded, fair market value can be objectively used as the basis for valuing inter-corporate transactions. However, in many cases, established markets with publicly-available data on transactions do not exist. For example, there are no well-established markets for executive services. Alternatively, a market may exist but there are significant differences between the inter-corporate transactions and those that occur in the public market. For example, it may be possible to purchase computer services at established market prices but, due to the synergies of an internal service, the internal services may not be comparable to the publicly-available services.

Where market value cannot be used, cost may be used as a surrogate. In theory, the price of goods or services will equal their cost in a competitive market. However, costs would be defined to include all economic costs. For example, it would include the cost of capital which reflects not only interest but the cost of equity, the value of risk, etc.

Where inter-corporate transactions are valued at cost, the addition of a mark-up and the size of the mark-up depends on what costs have been specifically identified. The following represent examples:

- Where the provision of a service requires the use of assets or other investment, the cost of capital should be included in either the base costs or a mark-up. However, to include the cost of capital in both the base costs and a mark-up would represent double-counting.

- In providing labour services, there is usually non-chargeable time for vacations, training, under-utilization, etc. A portion of these costs should be specifically allocated as part of the base costs, or included in a mark-up on the labour services.

- In providing effective managers or labour, there are various training costs. These training costs should be specifically allocated as part of the base costs or included in a mark-up on the salaries or labour charges.

The costs to be allocated, either as part of the base costs or as part of the mark-up, depend on the nature of the relation. The relationship will affect the benefits received by the entity receiving the good or service and the costs borne by each of the entities. For example, in providing the services of management, there is the risk associated with their future usefulness to the organization. Where the manager is temporarily transferred to an affiliate, at the end of the transfer period, the employee will be returned to his affiliate. If the employee is no longer required, it will be up to the home affiliate to retrain the employee or bear any termination costs. In such a case, a full recognition of costs would include compensation for this risk. However, two affiliates may share the costs of an executive on a long-term basis. Where both affiliates bear the risk of retraining or terminating the employee, it would be inappropriate to include compensation for the risk in the inter-corporate charge.

REGULATORY PRINCIPLES

The key regulatory principle relevant to inter-corporate charges is the cost of service standard. This standard requires that a regulated utility have the opportunity to recover its costs of providing regulated service, including a fair rate of return — no more, no less.

The implication for inter-corporate charges is that the charges to a regulated entity must represent a cost of providing regulated service, i.e., result from the provision of a good or service that benefits regulated operations. The cost of service standard also requires that inter-corporate charges to a regulated entity must not be excessive, thereby allowing the shareholders to earn more than a fair return from regulated operations.

In the case of goods and services provided by a regulated entity to an affiliate, there must be a charge. Where a charge does not exist, the shareholders will receive an unfair recovery from regulated operations. There must be a charge from regulated operations for goods and services provided to affiliate companies which ensures that the shareholders are not able to earn more than a fair return from regulated operations.

One interpretation of the cost of service standard is to have all inter-corporate charges determined by what would have occurred if they had been dealing at arm's length. For example, a regulated entity would provide tariffed services at tariffed rates, or an unregulated entity which provided similar services to unaffiliated entities would charge the same price to its regulated affiliate. If the charge represents what would be paid by the regulated entity, or received from the regulated entity, if it were dealing with an unrelated entity, the affiliate would receive no undue benefit. Hence, the transaction would be consistent with the cost of service standard.

REGULATORY PRECEDENT

There is a considerable amount of regulatory precedent dealing with charges between a regulated entity and an affiliated company. Most of this precedent deals with charges to a regulated entity from a non-regulated affiliate; however, what is just and reasonable in such cases should also be just and reasonable for charges from a regulated entity.

The types of costs allocated from parent to regulated subsidiary will vary depending on the services which are rendered by the parent company. Normally, the types of costs allocated would tend to be for services where it is appropriate to centralize the delivery within the group of companies. Such services may include:

- Treasury;
- Law;
- Accounting and Finance;
- Information Systems;
- Planning; and
- Marketing.

Appendix 2 contains a listing of costs which are typically incurred at the parent company level, and indicates regulatory entities which have received such charges from their parent and included them in their cost of service.

Although there is precedent for market-based pricing, most of the precedent deals with the allocation of costs, i.e., cost-based pricing. This may be because the characteristics of the services are unique to the specific situations; hence, there is not a well-established market in services with similar characteristics which can be used to determine market value. Although inter-corporate charges may be negotiated, regulators have evaluated these prices against market value or, more commonly, cost.

REQUIRED SUPPORT FOR INTER-CORPORATE CHARGES

Regulatory authorities have a right to review inter-corporate charges as part of their mandate to set just and reasonable rates. This principle has been explicitly stated by the Canadian Radio-television and Telecommunications Commission (CRTC):

> "Pursuant to section 340(1) of the Railway Act, the Commission has a duty to ensure that rates paid by subscribers are just and reasonable. In discharging that duty the Commission has an obligation to ensure, amongst other things, that Bell does not pay inflated prices to its affiliates, passing on the excess to its subscribers in the form of inflated rates."[10]

> "... the Commission is also of the opinion that section 340(1) of the Act, which specifies that rates should be just and reasonable, does provide sufficient authority for intervention with respect to pricing of inter-corporate transactions."[11]

In a decision dealing with Bell Canada's inter-corporate charges, the CRTC presented a specific example of this principle:

> "... the Commission considers that it should review cost-sharing arrangements between Bell and its affiliates, and any changes thereto. Bell is therefore directed to file details of new cost sharing arrangements and any changes to existing cost sharing arrangements already reviewed by the Commission, in all instances where Bell's share exceeds or is expected to exceed $500,000 in any year."[12]

A basic requirement for allowing a regulator the opportunity to review inter-corporate transactions is knowing that the transactions have occurred. As a result, regulators may require periodic reporting of such transactions. An example of the CRTC's requirements for such reporting is found in a 1990 decision dealing with Newfoundland Telephone:

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[10] CRTC; CRTC Telecom Decision 90-17; August 14,1990; pg. 15.

[11] CRTC; CRTC Telecom Decision 90-17; August 14, 1990; pg. 51.

[12] CRTC; CRTC Telecom Decision 90-17; August 14, 1990; pg. 11.

"The Commission considers the filing of regular reports concerning transactions between Nfld Tel and its affiliated companies necessary for the achievement of its regulatory objectives, including the prevention of any cross-subsidy to Nfld Tel affiliates from the general body of the company's subscribers. The Commission considers that the effort required to produce the necessary information need not, and should not, place a substantial burden on the company's resources."[13]

In their reviews of inter-corporate charges, regulators have required formal policies and control procedures for such transactions and/or specific studies to support the charges. In the case of Bell Canada, the CRTC required the company to develop an inter-corporate pricing policy:

"The Commission stated that the Inter-corporate Pricing Policy statement should be a statement of policy and general principles; its purpose should not be to set out specific details. The Commission expects Bell to maintain appropriate procedural manuals to give effect to its policy."[14]

Examples of requirements for specific studies to support inter-corporate charges can be found in the following decisions of the National Energy Board (NEB), the Ontario Energy Board (OEB) and the Alberta Public Utilities Board (APUB):

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[13] CRTC; CRTC Telecom Decision 90-15; July 12, 1990; pg. 44.

[14] CRTC; CRTC Telecom Decision 86-17; October 14, 1986; pg. 64-65.

- In a decision dealing with TransCanada PipeLines Limited, the NEB stated:

  "The Board believes that TransCanada should closely examine its treatment of inter-corporate and inter-divisional transactions. Further, the Board directs TransCanada to provide evidence in the next toll hearing of a formal policy in respect of these non-arm's-length transactions including the basis for their valuation and a proposal for reporting them to the Board as part of its quarterly surveillance report."[15]

- In a decision regarding Union Gas, the OEB stated:

  "With regard to the Company's charges from Westcoast Energy, the Board will not direct Union to withhold payment, as recommended by IGUA. The Board, however, directs the company to provide more substantiation for those charges is its next main rate case, specifically regarding the nature of the services provided, and the basis for the charges. "[16]

- In a decision dealing with Centra Gas Alberta Inc., the APUB stated:

  "The Board, however, considers that Directors' Fees allowed as part of Centra Alberta's revenue requirement should be more representative of the relative size of Centra Alberta in comparison with other companies served by the common Directors. The Board directs Centra to provide evidence respecting its relative size in comparison with other companies served by the common directors at the time of the next GRA"[17]

Conversely, when a review has been made of the costs and a proposal put forward which is supported by adequate analysis, a regulatory authority should find it acceptable. In a decision concerning the allocation of personnel service costs from Westcoast Energy to Pacific Northern Gas (PNG), the BCUC stated:

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[15] National Energy Board; Reasons for Decision re TransCanada PipeLines Limited, RH-3-86; May 1987; pg. 32.

[16] Ontario Energy Board, Decisions with Reasons re Union Gas Limited, E.B.R.O. 486, July 19, 1995, pg. 88.

[17] Public Utilities Board, Alberta; Decisions re Centra Gas Alberta Inc.; January 10, 1992; pg. 92.

"The Commission is satisfied that the 1991-1992 costs at $27,723 per month have been reviewed and adjusted properly by PNG, and expects the utility to continue the review, particularly in light of the dramatic manpower increase."[18]

ALLOCATORS USED

Regulatory authorities have been prepared to accept the allocation of direct and indirect costs on a number of bases, with the primary ones being usage and time estimates. In respect of indirect costs, allocators such as numbers of employees, revenues, assets, or various combinations have been utilized. These are frequently used when it appears clear that an entity is receiving a benefit, but it is not reasonable, usually due to cost, to develop a precise costing allocator.

The allocators must generally be supportable; however, consideration must be given to the cost of developing the allocators. For example, the CRTC has also shown a preference for allocators which are auditable and simple. These attributes were included in the criteria for the Phase III costing systems which the CRTC has required telecommunication companies under its jurisdiction to develop:

"... the Commission considered that a costing method suitable for its regulatory purposes should meet the following criteria: ...

"(3) it should be auditable by the Commission in the sense that the costs attributed by the method to various service categories can be verified on an ongoing basis against a reliable source of data such as the carriers' accounting records; and

"(4) it should be as simple and economical as possible to implement, maintain and monitor, consistent with these criteria and the objectives stated above."[19]

Although costs must usually be supported, there is a precedent for an inter-corporate charge where it was not practical to develop adequate support. However, it deals with a charge from a regulated entity to non-

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18 British Columbia Utilities Commission; re Pacific Northern Gas Ltd.; April 23, 1991; pg. 13-14.

19 CRTC; CRTC Telecom Decision 85-10; June 25, 1985; pg. 19.

regulated affiliates. Westcoast Energy Inc. has a pool of talent which is readily available to assist its non-regulated affiliates. The NEB required that Westcoast charge a retainer fee of $200,000 for this service, although there was no detailed evidence to support this charge.[20]

Further information on the basis of allocation is provided in Appendix 3.

COSTS AND COST ALLOCATORS SPECIFICALLY DISALLOWED

Where regulatory authorities have disallowed specific costs, it has usually been because no evidence, or evidence which was deemed to be insufficient, has been put forward by the regulated entity. The evidence must, in the opinion of the regulatory authority, clearly demonstrate a relationship between the costs claimed and benefits received by the regulated entity.

In a hearing into Bell Canada, for example, the CRTC disallowed costs relating to the transfer of assets from the parent company to three subsidiaries, Bell Sygma, Bell Sygma Systems Management Inc. and Bell Sygma Telecom Solutions Inc. because there was insufficient evidence showing that the transactions were priced at a fair market value:

> "...the Commission is not persuaded that Bell has demonstrated that the proposed transactions, in the aggregate, reflect either fair market value or a reasonable proxy therefor. "[21]

The OEB questioned the validity of the allocators used by Union Gas for the allocation of administrative and general expense to non-utility operations:

> "... the Board considers that there is some question as to the acceptability of the location time factors in view of the manner in which they were developed. While executive integrity is not in dispute, the Board feels that there is a need to recognize, in the rather casual nature of the estimating process, the risk of error or bias arising from unaided

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[20] National Energy Board; Reasons for Decision re Westcoast Energy Inc., RH-2-89; January 1990; pg. 22-23.

[21] CRTC; CRTC Telecom Decision, 93-12; August 30, 1993; pg. 13.

reliance upon unverifiable and incomplete recollection of happenings in fiscal 1982 as a basis for forecasting occurrences in fiscal 1984."[22]

In a decision dealing with ICG (British Columbia), the BCUC rejected the allocation of certain costs because the utility claimed a vague beneficiality for the cost rather than demonstrating cause and effect.

> "In the Commission's view, such broad assurances are no substitute for specific evidence, where the end result is increasingly heavy allocations of cost from parent to subsidiary ...
>
> "In addition to the reduction in shared cost allocations the Commission, for the next rate application, will require specific evidence, as distinct from unsupported testimony, that the projected intercompany charges are reasonable and justified without which further adjustments may be required."[23]

Appendix 4 summarizes these and other decisions made by regulatory authorities rejecting certain charges and bases of allocation.

VALUATION OF INTER-CORPORATE CHARGES

In most cases, inter-corporate charges appear to be valued at cost. Where referenced in a regulatory decision, the issue is usually whether a charge should be allocated to a related company or how to allocate the charge between related companies; references are rarely made to the valuation of the charge. The use of cost is likely a function of the specialized nature of the inter-corporate charges which makes any other valuation basis difficult, if not impossible.

The Ontario Energy Board (OEB) allowed Union Gas to allocate employee charges on the basis of cost. Union Gas is a diversified enterprise which has utility and non-utility divisions. The Board agreed that staff costs should be allocated to non-utility operations:

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22 Ontario Energy Board; Decisions with Reasons re Union Gas, E.B.R.O. 388; April 22, 1983; pg. 59.

23 British Columbia Utilities Commission; Decisions re ICG Utilities (British Columbia) Ltd.; May 8, 1985, p. 9-10.

"The Board is persuaded by the evidence that the cost driver methodology for non-utility cost allocation offers significant reductions in administrative effort and in costs as well as being forward looking....For these reasons the Board endorses the use of the cost driver *mechanism for non-utility allocations for fiscal 1996*"[24]

The Ontario Energy Board also approved a number of inter-corporate charges including a computer system, shared services and insurance for Centra Gas Ontario Inc. (Centra).

"On the basis of the Company's evidence, the Board finds Centra's proposals to be reasonable, particularly given the changes that have occurred in certain of Centra's key traditional business relationships."[25]

The Alberta Public Utilities Board (APUB) rejected cost in favour of market value where it determined that market value was less than cost. Canadian Utilities Limited (CUL) leased office space from an associate company, ATCO HD; it then sub-leased part of the space to its subsidiary, Alberta Power Limited (APL). The CUL charge to APL was based on the amount paid by CUL to ATCO HD. The APUB rejected the rental charge to APL and reduced it to better reflect market:

"The Board has concluded that the lease contracts between CUL and its associated company ATCO H.D. result in a less than reasonable rental expense to APL. Using the government lease in the Standard Life Building as an example, and considering the better location of the Standard Life Building on the one hand and the possibility of better quality of accommodation in the CU Centre on the other hand, the Board considers that a fair and reasonable rental rate to be paid by APL in the CU Centre is $13.70 per square foot."[26]

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24 Ontario Energy Board; Decisions with Reasons re Union Gas; July 19, 1995; pg. 88.

25 Ontario Energy Board; Decision with Reasons re Centra Gas Ontario Inc., E.B.R.O. 474-B, E.B.R.O. 483 and E.B.R.O 484; April 26, 1994, pg. 74.

26 The Alberta Public Utilities Board; Alberta Power Limited, General Rate Proceeding - Phase I, Decision No. E85144; December 20, 1985; pg. 252.

The policy of the CRTC is that inter-corporate transactions should be recorded at fair market value. If this is not possible, these charges should be recorded at cost. This policy was set out in Telecom Decision 90-17:

"1. All inter-corporate transactions should take place at prices that are fair and reasonable to both parties. A test of "fair and reasonable" will be fair market value. Where this test is neither feasible nor practical, other tests, such as cost-based test, may be applicable in determining a fair and reasonable price.

"2. Prices should be set so as to ensure that there is no burden to Bell Canada subscribers as a result of any such transactions.

"3. Services provided by Bell Canada will recover at least the causal costs of providing the service and, based on the circumstances underlying the transactions, provide a contribution as appropriate."[27].

Amongst the earliest inter-corporate charges in Canada which were subject to regulatory review were those charged for the sale of manufactured equipment from Northern Electric (now Northern Telecom) to Bell Canada. In this case, the value of the inter-corporate charges were based on market. The companies had to demonstrate to the Canadian Transport Commission (CTC), later the CRTC, that Bell Canada received a price from Northern which was equal to or less than the price charged to Northern's other customers for the same equipment. This was known as the most-favoured customer clause.

In determining cost, the CRTC requires that the cost of capital be recognized, and that there be a contribution to fixed common costs. This principle was set out in a decision in which the CRTC allowed Bell Canada and BC Tel to use accounting separations for their multi-line and data terminal equipment:

"In order to meet the Commission's regulatory objectives, this category will be expected to recover its total causal costs, including an appropriate cost of capital, and to make a contribution to fixed common costs. The Commission has decided that the level of such

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[27] CRTC; CRTC Telecom Decision 90-17; August 14, 1990; pg. 3, 4.

contribution shall be determined by multiplying the total fixed common costs of the company by the ratio of the total causal costs of the category to the sum of the total causal costs of each category."[28]

In determining cost, the CRTC has recognized the need to go beyond the accounting records to consider all costs. In a decision dealing with the transfer of employees from Bell Canada to an affiliate, the CRTC stated:

> "Bell has chosen to address the question of whether a subsidy exists solely on the basis of accounting costs. The Commission rejects this view and is of the opinion that accounting costs alone do not capture the full costs involved in temporary employee transfers to BCI.
>
> "Among the costs not included in the accounting costs are those costs associated with the re-employment guarantees. "[29]

The need to recognize more than just accounting costs and to make a contribution to common costs was reflected in the CRTC requirement of a mark-up of 25% on transferred employees. In a decision dealing with MT&T, the CRTC stated:

> "In light of the arrangement between MT&T and MT&T Mobility with respect to the loan of these employees, and particularly in light of the 25% contribution charge paid by MT&T Mobility, the Commission considers that MT&T has already received adequate compensation for the transfer. Accordingly, the Commission does not consider a regulatory adjustment to be necessary or appropriate."[30]

The CRTC has made similar rulings in other decisions; however, it has recognized that cost plus a mark-up should be used only where fair market value is not determinable. In a decision dealing with the price for

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[28] CRTC; CRTC Telecom Decision 86-5; March 20, 1986; pg. 12.

[29] CRTC; CRTC Telecom Decision 88-4; March 17, 1988; pg. 58-59.

[30] CRTC; CRTC Telecom Decision 94-9; April 29, 1994.

operating expenses and labour transferred by Bell and BC Tel to their respective cellular affiliates, the CRTC stated:

> "With regard to operating expenses or labour, for which fair market value cannot readily be determined, the Commission considers that a 25% mark-up should be charged in addition to causal cost. In the Commission's view such a mark-up will ensure that the price for such transactions includes an appropriate contribution."[31]

However, in the same decision, the CRTC recognized that there may be justification for a mark-up other than 25%:

> "In the event the telephone companies consider that exceptional circumstances require a mark-up of less than 25%, a rationale for such treatment should be provided in the quarterly cellular reports."[32]

The requirement that the users of an entity's regulated services must contribute more than just direct or causal costs was recognized by the Federal Government in establishing the rate methodology for the transportation of grain by the railways. In the Western Grain Transportation Act, it required that the shippers, in addition to paying for causal costs and the cost of capital, pay a contribution to the railway's common costs, which contribution was calculated as a percentage of causal costs.

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31 CRTC; CRTC Telecom Decision 87-13; September 23, 1987; pg. 8.

32 CRTC; CRTC Telecom Decision 87-13, September 23,1987, pg. 8.

CONCLUSION

Inter-corporate transactions occur extensively between Canadian utilities and related companies. It is generally recognized that inter-corporate charges should be at market where market can be demonstrated to exist, and at cost if there is no market. Where services are provided centrally for efficiency reasons, there is usually no acceptable basis for determining market, and the costs of the services are allocated among the entities using the service. In all cases where the costs are distributed, their allocation should be supported by a study.

In a cost-sharing situation, a mark-up will be provided only to permit the recovery of overhead costs; e.g., where salaries are allocated among entities, a mark-up may be provided to recover the costs associated with the salary such as benefits, space, etc.. The amount of such mark-up varies from company to company, and is specific to the costs of each company.

In addition to the previously-mentioned mark-up, there may also be a mark-up to cover the cost of capital if assets are utilized in generating the costs, and a mark-up for risk if there is a risk arising to one of the entities which is not present to all. An example of the latter occurs when employees are transferred between entities, or their costs are split between entities, but the risk of offering ongoing employment or incurring termination costs is with only one of the entities. In such a case, the CRTC has determined that a mark-up of 25% over causal costs is reasonable. Where operations are carried out on behalf of another entity in a group, the CRTC has also concluded that a 25% mark-up from cost is appropriate.

In the case of NP, market prices are used where they are available. The interest rate for loans is set to reflect market rates. The rental charges from NP to Unitel are based on market values. The charge from Unitel for telecommunication services is the result of a competitive bidding process. The charge to Unitel for the use of NP poles is based on the same methodology NP used when it dealt with an arms-length organization. Since market value is the preferred basis for establishing inter-corporate charges, these charges are consistent with regulatory theory and precedent.

Where market does not exist, inter-corporate charges from or to NP reflect either the direct costs or a share of the costs. Where there are normal loadings for materials, these are added to the charge. In the case of Fortis executive and staff costs charged to NP, an overhead rate of 25% is added to the charge.

This overhead rate lacks specific support but does not appear to be unreasonable. In the case of NP staff and labour costs charged to affiliates, an amount is added to cover employee benefits. A position could be taken that there should be an allocation of other related costs should as office space, etc., or a mark-up for overhead costs. Should these additional amounts be added to the inter-corporate charges, they should be applied both to the amounts charged by NP to its affiliates and the charges to NP from its affiliates. However, the amounts are relatively small and would likely not justify the amount of work required to estimate these additional allocations. Except for the situations noted below, the cost based charges are consistent with regulatory theory and precedent.

- In allocating charges from Fortis to the subsidiaries for costs related to raising equity, equity rather than net assets would be a preferable basis of allocation.
- The charge for the services of Dr. A.A. Bruneau is not adequately supported.
- In the case of NP's charges for postage and couriers, the charge covers direct costs only; there is no mark-up to for labour, use of space, etc. However, at current levels of service to NP's affiliates, it is unlikely that the amount of any mark-up would be significant.

INTER-CORPORATE CHARGES 1993-1995

	1993	1994	1995
CHARGES FROM FORTIS (TO REGULATED OPERATIONS)			
Executive Salaries	459,408	438,768	38,548
Executive Pension / Chairman's Fee	90,000	90,000	120,000
Staff Salaries			19,398
Annual Meeting	3,336		
Trustee's Fees	79,609	99,349	100,029
Listing & Filing Fees	32,274	36,614	47,907
Interest			92,418
Membership Fees	16,235	12,690	
ESPP/DRIP/CSPP costs			34,987
Telephone	9,248	8,743	
Postage	1,009		
Advertising		1,903	
Miscellaneous	5,220	6,104	3,161
	696,339	694,171	456,448
CHARGES TO FORTIS			
Executive Salaries	112,005	93,708	
Staff Salaries	118,853	179,833	6,674
Annual Meeting	1,185		
Insurance	12,129		15,582
Postage	1,690		11,925
Printing & Stationery	1,143	241	12,702
Interest	133,083	5,543	1,179
Miscesllaneous	8,407	1,900	8,605
	388,495	281,225	56,667

INTER-CORPORATE CHARGES 1993-1995

	1993	1994	1995
CHARGES FROM FORTIS PROPERTIES			
Rent	187,405	185,280	1,613
Customer Parking		886	
CHARGES FROM MARITIME ELECTRIC			
Emergency purchase of equipment			740
CHARGES FROM UNITEL			
Leased Services	88,096	168,479	321,318
CHARGES TO NLP	275,501	354,645	323,671

Deloitte & Touche

INTER-CORPORATE CHARGES 1993-1995

	1993	1994	1995
CHARGES TO FORTIS PROPERTIES			
Insurance	59		31,168
Stationery			31
CHARGES TO FORTIS TRUST			
Insurance	599		2,893
Postage			4,448
Printing			451
Cost of hooking up Fortis Group of companies to a network			14,855
Interest	44,278	15,184	
CHARGES TO MARITIME ELECTRIC			
Load Research Study		15,000	
Insurances			8,160
CHARGES TO UNITEL			
Customer Jobbing	62,980		
Printing & Postage	387		102
Space Rental		4,783	3,317
Pole Attachments	0	3,526	3,923
CHARGES FROM NLP	108,303	38,493	69,348

EXAMPLES OF TYPES OF COSTS ALLOCATED BETWEEN REGULATED AND AFFILIATES

Function of Costs	Details	Regulated Entity
Occupancy	Rent, light, and heat, leasehold amortization, and asset depreciation costs	Alberta Power Canadian Western Natural Gas Consumers' Gas Edmonton Power Northwestern Utilities
Financial	Internal audit, comptroller, treasury, risk management, interest, systems and data processing, external audit, general insurance	BC Tel Centra Gas Alberta Inc. Consumers' Gas ICG (BC) ICG (Manitoba) ICG (Ontario) Pacific Natural Gas TCPL
Shareholder relations	Registrar, transfer agent filings, secretarial, annual report, annual meeting, computer services, servicing shareholders	Bell Canada Consumers' Gas New Brunswick Telephone Newfoundland Tel Union Gas
Personnel	Human resources, benefit development, office management, *payroll, training, pension fund management*	Consumers' Gas Edmonton Power ICG (BC) ICG (Manitoba) MT&T PNG
[illegible]ce services	Printing, stationery, postage, telephone and telecommunications, courier	Centra Gas Ontario Inc. Inland Natural Gas
Travel	Leased aircraft	Interprovincial Pipe Line Union Gas
Executive	Salaries, benefits, dues, directors' fees, liability insurance	Alberta Power BC Gas Centra Gas Alberta Inc. Consumers' Gas ICG (BC) ICG (Manitoba) ICG (Ontario) Interprovincial Pipe Line TCPL Union Gas Westcoast Transmission
Other	Advertising, public relations, legal, regulatory expenses, marketing, planning, fleet administration, insurance, management fee	Alberta Power Centra Gas Ontario Inc. Consumers' Gas ICG (BC) ICG (Manitoba) TCPL
Storage	Gas Storage, gas supply	Centra Gas Ontario Inc. Union Gas

SUMMARY SHOWING ALLOCATORS USED BY CANADIAN REGULATORY AUTHORITIES AND THE TYPES OF COSTS TO WHICH THEY HAVE BEEN APPLIED

Method of Allocation	Regulatory Authority	Types of Costs
Usage	Alberta Public Utilities Board Manitoba Public Utilities Board Ontario Energy Board	Rent, data processing, internal audit, gas storage
Time estimates	British Columbia Utilities Commission Canadian Radio-television and Telecommunications Commission Manitoba Public Utilities Board National Energy Board Nova Scotia Board of Commissioners of Public Utilities Ontario Energy Board	Executive, data processing, human resources, marketing, rate administration
Salaries	National Energy Board Ontario Energy Board	Rent, light, and building costs
Number of employees	Alberta Public Utilities Board British Columbia Utilities Commission Manitoba Public Utilities Board	Human resources, payroll
Assets	Ontario Energy Board	General support functions, shareholder relations, audit
Revenues	Ontario Energy Board	Administration
Equity	Canadian Radio-television and Telecommunications Commission Public Utilities Board Alberta	Shareholder relations, directors' fees
Capitalization	Board of Commissioners of Public Utilities of the Province of New Brunswick	Shareholder services
Dividend level	Ontario Energy Board	Office space, salaries and expenses, directors' fees, transfer agent, and registrar
Volume of Gas Sold	British Columbia Utilities Commission	Corporate costs
Combinations (e.g., assets, revenues, and property	Alberta Public Utilities Board National Energy Board	Treasury, executive, personnel
Number of customers	Manitoba Public Utilities Board	Management and accounting, data processing

EXAMPLES OF TYPES OF COST AND COST ALLOCATORS DISALLOWED BY CANADIAN REGULATORY AUTHORITIES

		Required				
Regulator	Charge	Entire	Part	Allocation Factor	Reasons for Requiring Change	Company
NEB	Senior management salaries to non-utility activities		X	Non-utility hours recorded on time sheets, plus 65% surcharge of each dollar of wages or salaries allocated	NEB increased charge to non-utility activities	Westcoast Transmission (November 1987)
	Assets used to provide administrative services to subsidiaries: . computer equipment and leasehold improvements . office furniture and equipment		X		NEB required IPL to deduct part of noted costs on such assets from cost of service, and allocate to non-utility as being used by non-utility operations	Interprovincial Pipe Line (June 1987)
	Stand-by services (to subsidiary)		X	Percentage of total fee	NEB found it appropriate to include charge as IPL must provide the services from time to time, as per management agreement with IPL (NW), a subsidiary (even though IPL did not claim it)	Interprovincial Pipe Line (June 1987)
	Aircraft (to subsidiary)		X	Percentage of capital and operating costs of aircraft	NEB decided to include a charge (even though IPL did not claim it), due to historic usage and availability to IPL (NW)	Interprovincial Pipe Line (June 1987)
	Directors' and officers' liability insurance (to subsidiary)		X		NEB required one-third of IPL's cost to be allocated to subsidiary (Home Oil) as related to non-utility operations	Interprovincial Pipe Line (June 1987)
	Capital stock administration		X		IPL proposed to allocate total to utility operations; NEB required allocation among all activities, including non-utility	Interprovincial Pipe Line (June 1987)
BCUC	Management fee for President of parent company	X			Advice can be provided in President's capacity as Director of Inland	Inland Natural Gas (November 25, 1987)
	Data processing**		X*	CPU and time sheets	Level of charge compared to previous years'	Vancouver Island Gas (February 19, 1982)
	Marketing**			Time sheets		
	Personnel**			Time sheets		
	Payroll**			Number of employees		
	Corporate management**			Time sheets		
	Corporate office***			Customers		
	Accounting and administration***			Time		
	Rate administration***			Time		
	Engineering***			Time		
	No individual costs identified; only "reduction in shared cost allocations" (costs and allocations are same as for Vancouver Island Gas, as noted above)		X		No evidence of reasonableness or benefit; comparison with other BC utilities showed charge to be excessive	ICG Utilities (British Columbia) (May 8, 1985)
	Rate administration***		X	Time	Services could be performed by Fort St. John, division of company, instead of Utilities Division	ICG Utilities (Plains-Western) (January 22, 1985), renamed ICG Utilities (British Columbia)
	Corporate management*		X*	Time sheets	Over half of charges from head office, Inter-City Gas Corporation, disallowed without specification	ICG Utilities (Plains-Western) (January 22, 1985), renamed ICG Utilities (British Columbia)
	Data processing*		X*	CPU and time sheets	Operate without incurring most of these costs	
	Common services*		X*		Allocations should be on the basis of essential common service	Centra BC (Mar.11, 1994)
	Personnel*		X*	Time sheets		
	Marketing*		X*	Time sheets		
BCPUNB	"Ready to leave" fee		X	Fixed amount	No justification for charge	New Brunswick Telephone (August 1981)

EXAMPLES OF TYPES OF COST AND COST ALLOCATORS DISALLOWED BY CANADIAN REGULATORY AUTHORITIES

		Required				
Regulator	Charge	Entire	Part	Allocation Factor	Reasons for Requiring Change	Company
OEB	A&G costs		X*	Time sheets or assets - estimates	* OEB increased amount allocated to non-utility activities Time sheets allocation based on "casual estimates"; potential for bias; diversification into non-utility mainly responsible for need for such allocation	Union Gas (EBRO 405-2)
	Shared service costs	X*			* Pending results of management audit costs put in deferral account	ICG Utilities (Ontario) (formerly Northern & Central Gas) (EBRO 440)
	Management salaries and benefits (Utilities Division)		X		Management has not been effective; certain positions vacant and not likely to be filled in near future	ICG Utilities (Ontario) (EBRO 430)
	Management fee		X		No method exists for determining level of services required or amount to be paid for such services	Northern and Central Gas (EBRO 408)
	Management fee: . salaries and benefits . rent . computer charges		X		No detailed evidence present to support the charge or to allow OEB to adjust any of the charges (therefore, adjusted total fee)	Consumers' Gas (EBRO 395)
	Management salaries and benefits		X	Estimate of time	Executives' functions not related to utility activities; no support produced for charge	Consumers' Gas (EBRO 386-I)
	Legal fees	X		Estimate of time	No evidence to support claims; subjective allocations	Consumers' Gas (EBRO 386-I)
	Tax and accounting fees	X		Estimate of time	No evidence to support claims; subjective allocations	Consumers' Gas (EBRO 386-I)
	Rent and expenses		X	Estimate - rent and expenses apportioned in *same ratio as salaries in management fee* are to aggregate salaries of all parent-company personnel	To correspond to salaries and benefits allowed claim	Consumers' Gas (EBRO 386-I)
	Management fee: . *salaries and benefits* . rent . registration and transfer agents' fees . directors' fees and expenses . stock exchange fees		X	Ratio of dividends paid to parent, plus inflation factor	Evidence insufficient to let OEB decide if services were utility-related or not; therefore, arbitrary allowance approved	Consumers' Gas (EBRO 381)
CRTC	Employees temporarily transferred	X****		Time	25% mark-up required; accounting costs alone do not capture the full costs	Bell (CRTC 86-17) (CRTC 88-4) (CRTC 87-13)
	Cellular telephones	X****			*Contract not awarded to lowest-priced* bidder	Bell (CRTC 90-17)
	Acquisition of rights of way	X****			Contract price too high in relation to third-party price and make us buy analysis	Bell (CRTC 90-17)
	Computer software and support	X****			Contract award not justified with respect to third-party suppliers	Bell (CRTC 90-17)
	Employees	X		Time	Unable to show fair market value	Bell (CRTC 93-12)
					* Did not specify which charged reduced or disallowed ** Charges from corporate office *** Charges from utilities division **** Addressed at a generic hearing	