

1 Q. Please file a copy of the most recent Intercompany Transaction Costing Guidelines.

2

3

4 A. Please see PUB-NLH-001, Attachment 1 for Newfoundland and Labrador Hydro's ("Hydro") most
5 recent Intercompany Transaction Costing Guidelines.

6 Hydro is currently reviewing its Intercompany Transactions Costing Guidelines in consideration
7 of the corporate structure changes as a result of amalgamation and in advance of the next
8 general rate application. Hydro has engaged a third party to review this work in 2025.

Exhibit 5: Intercompany Transactions Costing Guidelines

Intercompany Transactions Costing Guidelines

July 2017



Exhibit 5: Intercompany Transactions Costing Guidelines

Table of Contents

1.0	Purpose	1
2.0	Introduction	1
3.0	Costing Methods	2
3.1	Type 1 – Common Service Costs	2
3.1.1	Human Resources	3
3.1.2	Safety and Health.....	3
3.1.3	Environmental Services.....	4
3.1.4	Information Systems.....	4
3.1.5	Office Space	4
3.1.6	Telephone Infrastructure (PBX) Costs.....	4
3.2	Type 2 – Corporate Costs	5
3.2.1	Employee Labour Costs.....	5
3.2.2	Overtime	5
3.2.3	Time Sheets.....	6
3.2.4	Corporate Services	6
3.2.5	Fixed Charge.....	7
3.2.6	Materials Costs.....	8
3.2.7	Vehicle and Other Equipment Costs.....	8
3.2.8	Computers.....	8
3.3	Type 3 – Cost Recovery Business Units	8
4.0	Billing and Collection.....	8

List of Tables

Table 1 – Common Services	3
---------------------------------	---

Exhibit 5: Intercompany Transactions Costing Guidelines

List of Schedules

Schedule I - Operating Bill Rate Components

Exhibit 5: Intercompany Transactions Costing Guidelines

1.0 Purpose

This document is intended to outline the guidelines for charging costs across the lines of business within Nalcor Energy (Nalcor or the Company).

2.0 Introduction

Nalcor is a Crown corporation that was established in 2007 as part of one of the key initiatives of Newfoundland and Labrador’s Energy Plan. The Company, which is wholly owned by the Government of Newfoundland and Labrador, was established to take a lead role in the development of the province’s energy resources. The Nalcor legal entity structure is outlined in Figure 1.

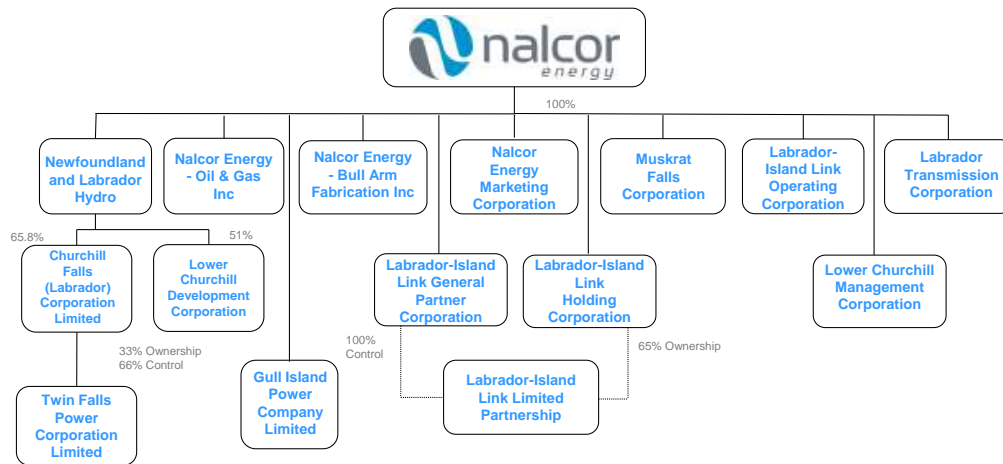


Figure 1 – Nalcor Energy Legal Entity Structure

Nalcor’s business includes the development, generation, transmission and distribution of electricity; the exploration, development, production and sale of oil and gas; industrial fabrication and energy marketing. These intercompany transaction costing guidelines apply to both intra-company and intercompany transactions.

Exhibit 5: Intercompany Transactions Costing Guidelines

1 The guidelines are based on the principle of cost based recovery. There is no profit component
2 and employees track time worked for other lines of business using a weekly time sheet. This
3 results in a labour recharge which is also used in the calculation of net full time equivalents
4 (FTEs). Costs associated with the operations of certain departments that provide common
5 services available to all lines of business are allocated through an Administration Fee as
6 outlined in this document. Common service business units are based in both Nalcor and Hydro.
7

8 **3.0 Costing Methods**

9 The costing framework used includes three primary means of charging costs among lines of
10 business at Nalcor.

- 11 Type 1 - Common Service Costs (via Administration Fee);
- 12 Type 2 - Costs related to the provision of Corporate Services; and
- 13 Type 3 – Cost Recovery business units.

14

15 **3.1 Type 1 – Common Service Costs**

16 Certain functions provide common services to various lines of business. Costs are recovered
17 through an Administration fee as described below. FTEs in common service business units are
18 counted in the entity in which they are based, however their costs are allocated through an
19 Administration Fee.

Exhibit 5: Intercompany Transactions Costing Guidelines

Table 1 – Common Services

Common Service Departments	Allocation Basis	Entity
Human Resources	FTE	Nalcor
Safety and Health	FTE	Nalcor
Environment	FTE	Nalcor
Information Systems (IS)	Average Users ¹	Nalcor
Hydro Place office space and related costs	Square footage	Hydro
Telephone and Local Area Network (LAN) costs	Users	Hydro

1 **3.1.1 Human Resources**

2 Human Resources provides service to all lines of business in the areas of:

- 3 • Payroll;
- 4 • Human Resources Systems;
- 5 • Pension administration;
- 6 • Employee recognition programs;
- 7 • Administration of the performance management system;
- 8 • Maintenance of the human resources database.

9

10 Operating costs incurred in providing Human Resources services in the common service
 11 business unit are allocated to the lines of business on a FTE basis.

12

13 **3.1.2 Safety and Health**

14 The Safety and Health department provides Occupational Health services including coordinating
 15 corporate efforts with regard to employee safety and wellness. Operating costs incurred in
 16 providing safety and health services are allocated to the lines of business on a FTE basis.

¹ Average users is the average of the number of FTEs and contractors, Lotus Notes mail boxes, number of computers and JDE Users.

Exhibit 5: Intercompany Transactions Costing Guidelines

1 **3.1.3 Environmental Services**

2 The Environment department coordinates corporate efforts with regard to environmental
3 stewardship. Operating costs incurred in providing environmental oversight services are
4 allocated to the lines of business on a FTE basis.

5

6 **3.1.4 Information Systems**

7 Information Systems (IS) provides assistance and support in the areas of software applications,
8 planning and integration and business solutions. This department is also responsible for the
9 maintenance and administration of the company-wide computer infrastructure and provides
10 technical support. Operating costs incurred in providing IS services are allocated to the lines of
11 business on an average user basis. Depreciation expenses and a return on rate base at the
12 weighted average cost of capital (WACC) for costs capitalized such as servers and software are
13 allocated to each line of business on an average user basis. Costs that are incurred solely for a
14 particular line of business, rather than shared among the lines of business are charged to that
15 line of business and are excluded from the determination of shared costs.

16

17 **3.1.5 Office Space**

18 Each line of business occupying floor space at Hydro Place is charged a rental charge for floor
19 space. The square footage rental rate reflects the average annual capital and operating cost for
20 Hydro Place as determined by the following formula:

21

$$\frac{\text{Hydro Place operating costs} + \text{return on rate base} + \text{annual depreciation}}{\text{Hydro Place total square footage}}$$

24

25 **3.1.6 Telephone Infrastructure (PBX) Costs**

26 All lines of business are charged their share of Telephone Infrastructure (PBX) costs including
27 long distance charges. The Local Area Network (LAN) costs provided by Network Services are
28 divided by the total number of LAN ports to derive a cost per user. The telephone costs

Exhibit 5: Intercompany Transactions Costing Guidelines

1 provided by Network Services are divided by the number of telephone, fax, and modem lines to
2 derive a cost per telephone.

3

4 **3.2 Type 2 – Corporate Costs**

5 Certain departments provide corporate services (or shared services) to other lines of business
6 within Nalcor. These services include management, general accounting, treasury, purchasing,
7 legal, human resources, safety and health, engineering services and administration.

8 Transactions associated with these services are governed by these guidelines. Intercompany
9 transactions operate on the premise that all transactions are billed at cost. Corporate costs
10 incurred within various lines of business are charged to the appropriate line of business as
11 described below.

12

13 **3.2.1 Employee Labour Costs**

14 All employees of Nalcor are required to charge time by completing time sheets which allocate
15 labour to work orders based on activity. The guiding principle is that where an employee
16 spends time on specific tasks and work activities for another entity or line of business, time is to
17 be charged at cost. Cost, or the bill rate, is defined as labour costs, fringe benefits (including
18 time off) and other direct costs. See Schedule I for a detailed listing of the components of the
19 bill rate. The operating bill rates are reviewed annually and updated as required. Labour hours
20 that are recharged through this process are used in the calculation of net FTEs.

21

22 **3.2.2 Overtime**

23 Overtime will be charged as incurred in accordance with the overtime policy and no additional
24 mark-up or fixed charge is applied.

Exhibit 5: Intercompany Transactions Costing Guidelines

1 **3.2.3 Time Sheets**

2 All employees are required to complete weekly time sheets. All work hours must be coded to
3 work orders in order to adequately track hours to the appropriate business unit. Time is coded
4 in 30 minute increments.

5

6 **3.2.4 Corporate Services**

7 The functions and departments that may share services across entities include:

8 **a) Leadership Team²**

9 Executive management provides strategic oversight and general management.

10 **b) Legal**

11 General Counsel's responsibilities include the provision of legal and corporate secretary
12 services.

13 **c) Internal Audit**

14 The Internal Audit department provides auditing services as determined in an annual audit
15 plan as part of the annual update of the Five-Year Internal Audit Plan.

16 **d) Engineering Services**

17 This division provides services in all engineering disciplines and covers such items as:

18 a) Design, construction and project management;

19 b) Engineering studies, technical specifications and construction coordination;

20 c) Tender preparation and analysis including interaction with consultants; and

21 d) Review and resolution of maintenance problems.

22 **e) Environmental Services**

23 The Environmental Services department's activities include auditing for compliance with
24 government regulations and corporate policy, obtaining permits and approvals for proposed
25 programs and advising on environmental matters.

² Excludes Hydro as Hydro has a separate Leadership team that supports Hydro only.

Exhibit 5: Intercompany Transactions Costing Guidelines

1 **f) Financial Planning**

2 The Investment Evaluation department provides services to facilitate the production, review
3 and distribution of annual long-term financial plans. As well, they provide financial planning
4 and analyses for various activities and scenarios.

5 **h) Risk and Insurance**

6 The Risk and Insurance department provides services related to the placement, policy and
7 claims administration, risk control and risk financing of the corporate insurance program.

8 **i) Finance**

9 The Finance department provides accounting and treasury services.

10 **j) Supply Chain Management**

11 The Supply Chain Management department coordinates all efforts related to procurement
12 process activities including tendering, purchasing and contract administration.

13

14 **3.2.5 Fixed Charge**

15 In addition to labour costs, a fixed rate will be applied to each hour of regular labour charged to
16 lines of business. The fixed charge accounts for the additional cost, beyond basic salary and
17 benefit costs, of having an employee available to provide service. The fixed charge recovers
18 costs originally charged in the Administration Fee as well as other employee related costs,
19 including:

- 20 • Telephone and fax;
- 21 • Books and subscriptions;
- 22 • Membership fees and dues;
- 23 • Conferences;
- 24 • Training; and
- 25 • Employee expenses (e.g. overtime meal allowance).

26

27 While most employees who provide intercompany services are located in Hydro Place, this rate
28 will also be used as a proxy for employees working from other locations.

Exhibit 5: Intercompany Transactions Costing Guidelines

1 The fixed charge rate is reviewed annually and updated accordingly.

2

3 **3.2.6 Materials Costs**

4 Materials issued from inventory will be charged at cost to the applicable line of business.

5

6 **3.2.7 Vehicle and Other Equipment Costs**

7 Vehicles utilized across lines of business will be charged a rental rate which is based upon the
8 type of vehicle utilized. The rental charge is calculated by multiplying the usage time by the
9 daily or hourly rental rate for the applicable vehicle. The rental rates are updated annually.

10

11 **3.2.8 Computers**

12 Computer purchases are charged directly to the applicable line of business.

13

14 **3.3 Type 3 – Cost Recovery Business Units**

15 Certain functions incur costs on a cost recovery basis. In these cases, all costs associated with
16 the activity are charged in accordance with the applicable cost recovery arrangements.

17

18 **4.0 Billing and Collection**

19 Invoices for the recovery of intercompany transactions are to be issued on a monthly basis.
20 Billings to and from related entities shall be undertaken within 30 days of the end of the month
21 in which the service, resource or asset is provided. Receivables between related companies are
22 paid upon invoice receipt from a related entity. If the invoice is not paid in full within 30 days
23 from the date of invoice, Finance will calculate an intercompany interest charge. The amount of
24 the charge will be such that there is no net financing impact on the Company to which the
25 balance is owed. Finance charges are calculated by applying a rate to the intercompany
26 balance(s) that is equal to the cost of short-term financing for the Company to which the
27 balance is owed. If the Company to which the balance is owed is Hydro, then the rate applied to
28 such balances is the last approved WACC, which is currently 6.61% (2013 Amended GRA).

Exhibit 5 - Schedule I
Operating Bill Rate Components

Operating Bill Rate Components

Components of the operating bill rate are as follows:

- Salary Cost Components:
 - Salaries & Temporary Salaries including the payroll code for Easeback/Return to Work
 - Other Salary Costs - Retroactive Pay

- Mark Up Components:
 - Fringe Benefit Costs
 - Canada Pension Plan
 - Employment Insurance
 - Public Service Pension Plan
 - Group Money Purchase Plan
 - Prior Service Matched PSPP
 - Workplace Health Safety and Compensation Premiums
 - Insurances:
 - Life Insurances
 - A D&D Insurance
 - Medical Insurance
 - Dental Insurance
 - Company Costs:
 - Employee Future Benefits expense
 - Payroll Taxes
 - Other Salary Costs - Bonus, Performance Contracts & Signing Bonus
 - Leave:
 - All paid leave types.