

Review of Inter-Affiliate Technology Cost Allocations

Gazifère Inc.

October 22, 2004

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1. Introduction

1.1 Overview

In the 1999-2000 rate case, the Régie de l'énergie du Québec (Régie) directed Gazifère Inc. (Gazifère) to demonstrate (in the next rate case) that it acquired services needed in a manner that meets the requirements of the Régie for inter-affiliate transactions. To that end, Gazifère engaged Deloitte to review the information technology costs that Gazifère receives from Enbridge Inc. (Enbridge, or EI) and its affiliates and render an opinion as to the extent that these services meet the requirements of the Régie for inter-affiliate transactions as reflected in decision D-2000-48 Section 3.2.1, namely:

- That the services are necessary; and,
- That the services were acquired at the lowest cost.

1.2 Background

On March 29, 2000 the Régie issued decision D-2000-48 on the Gazifère 1999-2000 rate case approving the targeted operating and maintenance (O&M) expenses performance based regulation (PBR) mechanism for a period of three years: 1999-2000, 2000-2001, and 2001-2002. Gazifère later obtained two extensions without rebasing. This mechanism ended on September 30, 2004, and Gazifère is now required to rebase for the 2004-2005 rate case year.

Although the Régie approved 75% of the increase in the affiliate charges in the 1999-2000 rate case, the Régie was of the opinion that support for the inter-affiliate charges were not fully demonstrated at the time of approving the 1999-2000 O&M expenses.

Gazifère has elected, in support of the 2004-2005 rate case application, to undertake an independent study in order to evaluate whether the services acquired from affiliates meets the requirements of the Régie.

1.3 Objective and Scope of the Review

The objective of the report is to present our findings as to whether the Régie requirements, as reflected in the above decision, have been met with regard to the Inter-Affiliate Information Technology (IT) cost allocations that Gazifère receives from its affiliate service providers; Enbridge Gas Distribution (EGD), Enbridge Inc. (EI) and Enbridge Commercial Services (ECS).

The scope of the review is limited to the following information technology services:

Table 1: Scope of Review

Service Provider	Service	2005 Charges as Filed
EGD	Desktop Services	\$ 115,200
EGD	Network Services	\$ 17,500
EGD	Application Support	\$50,300
ECS	Capital charge for Enterprise Financial System (EFS)	\$100,577
EI	EFS Application Support	\$101,583
Total		\$385,160

1.4 Approach

As part of our review of the Information Technology cost allocations, Deloitte has:

- Reviewed the current allocation mechanisms used by EI, ECS and EGD through detailed data gathering and interviews with members of those organisations and Gazifère service recipients.
- Reviewed available supporting documentation and calculations, including trends in the charges for these services from 2000 to 2005.
- Accessed our own research on regulatory precedent and industry practices related to the treatment of inter-affiliate transactions.
- Reviewed other cost allocation practices and the pricing of these types of technology services by reference to the technology outsourcing services that Deloitte provides to our clients. (Note: An external cost benchmarking study has not been conducted as part of this project.)

1.5 Consultants Appointed

The review was completed by a team of Deloitte consulting practitioners under the direction of Mr Andre Pienaar, a partner of the firm.

1.6 Qualification of Opinion

In completing the review, Deloitte relied on data and information provided by Gazifère and its affiliates, who retain responsibility for the accuracy of all data provided for analysis. Deloitte did not audit any data gathered, perform a detailed examination of underlying transactions, validate any underlying source records, or verify the accuracy of any data provided for inclusion in the final report or any templates and models prepared during the project. Deloitte has relied solely on the representation of the staff, management and executive of Gazifère and its affiliates as to the accuracy and completeness of data provided for the review.

2. Evaluation Principles

2.1 Overview

This section sets out the key principles that have guided Deloitte's evaluation, as well as the support for those principles. This support is grouped under the headings of Regulatory Principles, Regulatory Precedent, Costing Principles and Industry Practices. The final sub-section provides Deloitte's conclusion in relation to the key principles.

2.2 Regulatory Principles

Regulators must review and set rates in accordance with their empowering legislation. However, the legislation seldom contains specific guidance on how to set rates. As a result, regulators frequently refer to established regulatory principles to guide their judgement. In the context of the current evaluation, these key principles include:

- Fair and reasonable,
- Cost of service; and,
- Prudence.

These principles are reflected in Chapter IV "Rate Determination" in R.S.Q., c. R-6.1 "An Act respecting the Régie de l'énergie":

49. When fixing or modifying rates for the transmission of electrical power or for the transmission, delivery or storage of natural gas, the Régie shall in particular

- (1) determine the rate base of the electric power carrier or of the natural gas distributor after giving due consideration, in particular, to the fair value of the assets the Régie considers prudently acquired and useful for the operation of the electric power transmission system or of a natural gas distribution systems ...*
- (2) determine the overall amounts of expenditure the Régie considers necessary for the provision of the service...*
- (3) allow a reasonable return on the rate base;*
- (7) ensure that the rates and other conditions for the provision of the service are fair and reasonable;¹*

2.2.1 Fair and Reasonable

The primary regulatory principle, as reflected above, is that rates should be "fair and reasonable". "Fair and reasonable" applies to both customers and regulated entities. It requires a weighting of the legitimate interests of both parties. Unfortunately, "fair and reasonable" is a subjective concept, not fully defined in legislation. It only provides an overall direction to regulators but little specific guidance.

2.2.2 Cost of Service

At the heart of rate regulation is the "cost of service" standard, sometimes referred to as the "revenue requirement standard" which partially helps to define what constitutes fair and reasonable rates.

Under this standard, a regulated entity is permitted to set rates that allow it the opportunity to recover its costs for regulated operations, including a fair rate of return on its investment devoted to regulated operations. In most cases rates are set prospectively, based on anticipated future costs.

¹ REQ; R.S.Q., c. R-6.01; An Act respecting the Régie de l'énergie; Last amended 1 July 2001; Chapter 4, No. 49.

2.2.3 Prudence

The prudence standard modifies the “cost of service” standard. Under this standard, customers should be charged only for costs which are prudently incurred. This recognizes a regulated entity’s responsibility to provide regulated services at the most efficient cost.

Given the nature of inter-affiliate charges, several regulators have stated that the presumption of management prudence do not apply to affiliate transactions and must be proved.

For example, the Ontario Energy Board (OEB) has stated that this presumption will not apply to transactions between affiliates:

... when transactions occur between or among affiliates, the Board will not presume prudence and the onus is on the utility to establish, to the satisfaction of the Board, that the transaction is prudent and that the corresponding costs to the utility associated with the transactions are fair.²

A similar statement was made by The Newfoundland & Labrador Board of Commissioners of Public Utilities:

The Board acknowledges the general presumption of managerial good faith but notes that transactions between the utility and its affiliates present unique challenges, as they are non-arms length transactions. Therefore, the onus will be placed on the utility to establish, to the satisfaction of the Board, that the transaction is prudent and that any corresponding costs reflect “fair market value” or “cost based pricing”, including a return on invested capital, as appropriate.³

This reflects the potential conflict of interest with such transactions. As a result, regulated utilities must provide substantial support for the justifiability of their intercorporate charges.

2.2.4 Application of Regulatory Principles to Cost Allocation

The recovery of the cost of services provided by affiliates to a regulated entity is appropriate where the services support regulated operations. Of course, the service providers must be prudent in the incurrence of the costs and the regulated utilities must be prudent in the acquisition of the services, specifically because affiliate transactions between a regulated and non-regulated entity are generally subjected to detailed scrutiny to avoid the possibility of cross-subsidization. The owner of a utility can increase the amount recoverable from ratepayers by overpricing purchases from an affiliate, or by underpricing services to an affiliate, or by billing for services that are not truly required by the affiliate.

2.3 Regulatory Precedent

In the absence of, or in some cases in support of legislation, Regulators often use their previous decisions, along with those of other regulators, for guidance. In this regard, the Regulatory Precedent sub-section provides a brief overview of how selected Canadian regulators have dealt with issues related to corporate cost allocations. It is supported by Appendix B – Regulatory Precedent.

2.3.1 Affiliate Transactions

Regulators normally allow affiliates to provide services to regulated utilities, and vice-versa. Some regulators have explicitly recognized the benefits of such transactions to the utility and ratepayers, but regulators generally require a utility to pursue the best interests of the utility and its ratepayers in all transactions with affiliates. The Régie, in Decision 2004-47, has explicitly stated that the services provided from an internal service provider to a regulated utility should be in the best interests of the utility and those of its consumers:

² OEB; [RP-2001-0032](#); Enbridge Consumers Gas Distribution Inc.,; December 13, 2001; Sec. 5.11.30.

³ NFLPUB; Order No.P.U.19 (2003), re: Newfoundland Power Inc., June 20, 2003, pg. 57

La Régie estime qu'il est du devoir du Distributeur de lui faire la démonstration que les produits et services fournis par ses fournisseurs internes sont dans son meilleur intérêt et dans celui de ses consommateurs⁴

This is consistent with the cost of service and prudence standards.

2.3.2 Services Agreements

Given the inherent potential conflicts of interest found in inter-affiliate transactions, several regulators require that transactions between affiliates be governed by an affiliate relationship code ("ARC").

Although the Régie does not require the use of an ARC, it has previously set out a requirement for the use of a services agreement, which includes the principal parameters governing the affiliate transaction. This is noted as part of decision D-2003-93 relating to the provision of services by Hydro Québec to Hydro-Québec Distribution:

Le Distributeur devra également démontrer le caractère nécessaire des achats de services auprès de ces unités et s'assurer de documenter dans une entente client-fournisseur les principaux paramètres convenus et les engagements respectifs de chaque partie⁵

In the same decision, the Régie specifically identifies the various components that should make up the services agreement. They include:

- An adequate description of the products and services;
- The parameters used to establish the total cost for each product and service, including the data necessary to establish the return;
- The basis for the charges;
- The other parameters that form the basis for the agreement between the service recipient and service provider (the cost of the services, the volume of products and services provided and any changes to the allocators used).

There is also mention that the services agreement should be signed by the service recipient:

*En conséquence, la Régie demande pour la Phase 2 du présent dossier :
- que le distributeur fournisse, pour les produits et services fournis en Approvisionnement et services, Technologie de l'information, TransÉnergie-Télécommunications, Unités corporatives, Recherche et Développement et Ingénierie et construction, une description adéquate des produits et services, les paramètres d'établissement du coût complet pour chaque produit et service, y incluant les données sur les actifs nécessaires pour l'établissement du rendement, les bases de facturation utilisées et les différents autres paramètres d'importance convenus dans les ententes cadres entre clients et fournisseurs signées par le distributeur (les prix des services, les volumes de produits et services fournis, les changements des inducteurs utilisés).⁶*

2.3.3 Basis for Affiliate Charges

Generally, the preferred basis for intercorporate charges is market price. This may reflect the view that affiliates should be treated as separate organizations. In this context, market price is the price at which parties operating at arm's length would trade services. It is also consistent with the prudent standard, namely that market price is the highest price that a utility would expect to pay, and the lowest price it would expect to receive.

Unfortunately, the market price for most corporate services is difficult to establish, at least on a supportable basis. Even where comparable services can be acquired from alternative suppliers, it can

⁴ REQ; [Decision 2004-47; Hydro-Québec](#); February 26, 2004; Sec. 1.2.2

⁵ REQ; [Decision 2003-93; Hydro-Québec](#); May 21, 2003; Sec. 3.3.3.2.2

⁶ REQ; [Decision 2003-93; Hydro-Québec](#); May 21, 2003; Sec. 3.3.3.2.2

be difficult to establish the price that may be charged unless one actually transacts. Additionally, reconciling the differences between the services provided to the utility and the “benchmarked” services being compared can require a great deal of effort, and more importantly, a significant amount of subjective judgement.

Where market price cannot be established, regulators usually require, and accept, cost-based prices. These cost-based prices should reflect a fully burdened (loaded) cost, including a fair return.

In order to establish whether Gazifère acquired the required services in a manner that meets the requirements of the Régie for inter-affiliate transactions, and more specifically that the services are acquired at the lowest cost, it is useful to note that in decision D-2000-48, the Régie, stated that it considers it acceptable that the determination of a transfer price between affiliates be based on market price (when available) or on a fully allocated price (when a market price does not exist):

La Régie considère acceptable, dans le cas des transactions entre Gazifère et Enbridge et les sociétés apparentées, la détermination d'un prix de transfert basé sur le prix de marché lorsqu'une telle donnée est disponible et sur un prix d'allocation complet (fully allocated price) dans le cas des services pour lesquels un prix de marché n'existe pas.⁷

2.3.4 Regulatory Criteria for Accepting Charges

Management prudence is not presumed in a regulatory environment. In this regard, the Régie has set out the requirement that the service recipient has the obligation to ensure that the services provided by an internal service provider or affiliate are both necessary, and that the costs of those services represent only those charges required to provide the service:

La méthodologie d'imputation des frais corporatifs a des implications plus globales que les fins du présent dossier tarifaire puisque cette méthodologie est utilisée par toutes les unités d'affaires d'Hydro-Québec. La Régie considère toutefois que le Distributeur a l'obligation de s'assurer et de faire la preuve que ces services sont nécessaires et que les coûts de ces services correspondent aux seules charges nécessaires pour assumer le coût de la prestation de service.⁸

In addition, the Régie states that the service must be rendered at a price that is deemed to be just and reasonable:

La Régie doit évaluer la preuve faite de la nécessité de ces dépenses pour assurer des tarifs et des conditions applicables à la prestation de service qui soient justes et raisonnables et, dans cette mesure, juger du caractère raisonnable des prix chargés par Enbridge pour les services rendus à Gazifère⁹.

The Régie also stipulates that the services rendered by an internal service provider should be delivered in the most economical way possible:

Selon la Régie, le distributeur avait le fardeau de prouver que les montants réclamés à titre de charges d'Enbridge étaient nécessaires. Cette démonstration n'ayant pas été faite pleinement ni convaincu entièrement la Régie, celle-ci accorde toutefois à Gazifère 75 % de l'augmentation demandée et lui demande de réévaluer la nécessité de chacun des services obtenus et d'effectuer les analyses nécessaires afin de s'assurer du moyen le plus économique d'obtenir ces services.¹⁰

⁷ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

⁸ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 3.2.2

⁹ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

¹⁰ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

As a whole, these decisions are very similar to the criteria which the OEB has identified for evaluating corporate cost allocations, namely the “three prong test”. The “three prong test” stipulates that a utility must demonstrate that the charges meet the following tests:

- **Cost Incurrence**
Are the proposed charges prudently incurred by, or on behalf of, the utility for the provision of a service required by ratepayers – i.e., is there a need for the service by the regulated utility?
- **Cost Allocation**
If properly incurred, are the proposed charges allocated appropriately to the utility, based on the application of cost allocation factors supported by principles of cost causality?
- **Cost/Benefit**
Do the benefits to the utility’s ratepayers equal or exceed the costs?

2.3.5 Allocators Employed

In considering cost based intercorporate charges, regulators have allowed a wide range of allocators. Regulators generally require that costs be allocated on the basis of causality, and there is a strong preference for the use of time based allocators where costs are driven by the level of total effort.

2.4 Costing Principles

As previously mentioned, where a market price cannot be established, cost based prices are acceptable to the Régie. There is an economic justification for this approach because, in a competitive market where costs include a fair return, the prices for goods and services will tend to reflect the costs of providing them. However, this raises the issue of how costs should be calculated in order to establish the cost of intercorporate services. These issues are addressed in the following sub sections.

2.4.1 Causality

To the extent possible, costs should be allocated on the basis of causality; i.e. costs should be allocated to the affiliates that cause the costs to be incurred, at least to the extent that a direct causal relationship can be established. For example, there would be a causal relationship if the need to incur the cost disappears if the service recipient doesn’t exist. Causality also implies that the allocator needs to be closely associated with the activity or factors that drive the level of consumption of that cost.

In some cases, a “causal” relationship can only be established in relation to a group of cost objects (e.g., a group of affiliates as a whole). In such cases, where the costs are then regarded as indivisible, they could be allocated on the basis of relative benefits received.

2.4.2 Direct vs. Indirect costs

Costs can be viewed as either direct or indirect:

- A direct cost is a cost incurred for one specific cost object. For example, the cost of an employee working full time to provide one unique service would be a direct cost of the service.
- An indirect cost is a cost that is incurred for two or more cost objects. For example, the cost of an employee who contributes to the provision of two or more services is an indirect cost of each of those services.

2.4.3 Fixed or Variable Costs

Costs can also be viewed as either variable or fixed:

- Variable costs vary in relation to the volume or quantity of cost objects, and the total cost would disappear if all cost objects cease to exist.
- Fixed costs do not vary in relation to the volume or quantity of costs object, and will in fact remain at the same level even if the cost object(s) do not exist.

2.4.4 Application of Costing Principles to Regulated Cost Allocation

Shared services tend to have a high proportion of fixed indirect costs. These fixed indirect costs include those that are incurred for multiple affiliates, and costs that will continue to be incurred even if one affiliate ceases to exist or demand for a service ceases. A major reason for a corporation to provide services on a shared basis to its affiliates is because the fixed indirect costs do not increase as the number of affiliates increases, and hence the average cost falls as the number of affiliates sharing the costs increases.

2.5 Industry Practices

In February 2004, Deloitte conducted a survey of Canadian energy utilities in order to better understand the cost allocation practices employed within the industry. Fifteen of the nineteen companies invited to participate in the study completed a questionnaire. The following is a summary of the key points derived from the responses to the extent that they are relevant to this review. To maintain confidentiality no comments or responses are identified with a specific utility. The results are outlined in more detail in Appendix D: survey of Regulatory Practice.

Key Survey Findings

- **Affiliate Charges**
All the utilities receive charges for service provided by affiliates. Most also charge affiliates for services provided.
- **Formal Costing Methodologies**
Most of the utilities have formal, documented methodologies for developing the charges, and, in the majority of cases, these methodologies have been approved by the utilities' regulators.
- **Key Regulatory Principles and Practices**
In establishing affiliate service charges, the two most important principles are cost causality and transparency.
- **Full Allocation of Corporate Charges**
The objective of virtually all the methodologies was to charge operating divisions with all specified costs for services provided by the parent company.
- **Cost Based Pricing**
In the majority of cases, charges for services provided from an affiliate or to an affiliate are based on cost. Market is not typically used as a basis for establishing charges.
- **Forecasts vs. Actuals**
It is equally likely that charges will be based on budget/forecast as on actuals. In approximately one-third of the cases, the charges are based on a combination of both.

2.6 Key Principles Employed in the Review

Based on the preceding section, the following is a summary of the key principles employed in Deloitte's evaluation:

- It is common for utilities to receive charges from an affiliate (supported by the Régie).
- Where market prices are unavailable, cost based charges are acceptable (supported by the Régie).
- Cost based charges, should reflect fully loaded costs, including a fair return (supported by the Régie).
- If they are to be recovered, intercorporate charges must be prudently incurred (supported by the Régie).
- The OEB has set out criteria for evaluating the justifiability of corporate charges, commonly referred to as the "3 prong test", namely incurrence, allocation, and benefit.

- The Régie has established a set of criteria similar to that of the OEB, summarized as follows:
 - **Necessary Services**
 - The recipient has an obligation to ensure that the services provided are necessary.
 - **Required Charges**
The cost of the service represents only those charges that are required to provide the service, and are charged in manner that is reflective of cost causality.
 - **Just and Reasonable Costs**
Services must be rendered at a cost that is deemed to be just and reasonable, that is delivered in the most economical way possible.

3. Detailed Analysis of Individual Service Costs

3.1 Overview

This section presents the findings and recommendations resulting from Deloitte's review of the individual EI, ECS and EGD IT service allocations to Gazifère.

The purpose of this review was to gain an understanding of the IT cost allocations from the EI Corporate Office, ECS and EGD to Gazifère; the make up of the costs, how the costs were allocated; and how the costs were acquired by and benefited Gazifère. This was done in order to evaluate the extent to which Gazifère has met the criteria to satisfy the Régie's requirements.

3.2 Approach

The review was based on interviews with the employees and management from Gazifère, EGD, EI and ECS who are responsible for the development of the charges and supporting service level agreements, and who could speak to issues regarding the cost allocations. Additional reviews included the numerous supporting documents and schedules related to the development and application of the charges.

As part of the due diligence for this study, elements were discussed in detail with members of Deloitte's technology outsourcing practice to determine whether the services provided to Gazifère appear fair and reasonable, and are charged to Gazifère in a manner consistent with industry practice. The Deloitte outsourcing practice was provided with documentation which described the services, the basis for the allocation of the charges, as well as the amount of the charge. The outsourcing practice was also provided with the services schedules for the desktop, network support and application support services (Included as Appendices E, F, G and H).

The IT cost allocations were reviewed against the following criteria, which we have drawn from in our interpretation of the broader requirements underlying the Régie decisions referred to above, which are also evidenced in the precedents set by other Canadian regulators (e.g. the OEB's "three prong test"). In order to facilitate relevant conclusions, this report section has been structured in alignment with the following criteria:

- **Service Descriptions**
In order to understand the nature and extent of the service provided, are the service recipients at Gazifère provided with sufficient information, including type of service, quantity and quality of service, and description of pricing or cost allocation mechanisms used?
- **Necessary Services**
Are the services provided to Gazifère necessary for Gazifère to effectively serve its ratepayers?
- **Required Charges**
Does Gazifère's share of the costs incurred represent only those costs those are required to provide the service to Gazifère? Have the costs been allocated in a manner that is reflective of cost causality?
- **Just and Reasonable Costs**
Are the charges reflective of costs that are just and reasonable in the context of the services provided? Have the services been delivered in the most economical way possible?

3.3 Overall Observation

Market vs. Cost Based Pricing

The services which are allocated by EI, ECS and EGD to Gazifère are not commodities with publicly traded prices. Although it may be possible to find 3rd party suppliers for a subset of the services, it would generally be difficult to establish the prices that these alternative suppliers would charge.

It is likely that the prices from alternative suppliers would be subject to negotiation, and for competitive reasons, the suppliers would be unwilling to divulge such information unless they were engaged for the actual purpose of transacting. Even if the prices were identified, the prices would depend on the specific characteristics of each transaction, and would have to be adjusted for differences in the characteristics of the services provided by EI, ECS and EGD with those against which they were being benchmarked. This would require an analysis of the difference between the EI, ECS and EGD services and the benchmark services, and even if the supplier or receiver of the service would provide the necessary information, a significant amount of subjective judgement would be required to adjust for differences in the characteristics of the services.

Given the scope limitations, Deloitte has not undertaken an external benchmarking survey for the purpose of establishing or validating prices, but has evaluated "just and reasonable pricing" on the basis that "cost based pricing" is acceptable to the Régie.

3.4 Specific Service Evaluations

A review of each component of IT costs allocated to Gazifère by its affiliates follows.

3.4.1 Desktop Services

Gazifère Costs	2004	2005*
Allocated Annual Cost (Fiscal)	\$113,600	\$115,200 (+ 1.4%)
Gazifère Portion of Total Allocated Cost	2.52%	2.56%
* Gazifère estimated the 2005 charge by applying the monthly 2004 unit cost of \$160 to the 60 units currently supported		

3.4.1.1 Service Descriptions

Desktop Services are provided to Gazifère Inc. by EGD, and consists of:

1. Desktop Common Services
2. Break Fix Service
3. Equipment Acquisition Service
4. Quality Assurance Service
5. Managed Desktop Service
6. Internet Service
7. Server Management Service
8. Install, Moves, Adds, Changes (IMACs) of Desktops
9. Install, Moves, Adds, Changes (IMACs) of Telephone Sets
10. Network Support Service
11. Helpdesk Common Service
12. Desktop Helpdesk Support Service
13. Network Helpdesk Support Service
14. Application Helpdesk Support Service

The Desktop Services, service levels and quantity of services provided have been outlined in [Appendix E: Service Schedule: Desktop Services](#), which forms part of the "intercorporate services agreement" between EGD and Gazifère, dated October 1, 1999.

The services schedule includes a description of the service provided, service levels, a description of the pricing method used, and the quantity of the service to be provided.

There are two services related to network services in the desktop services schedule above; network support service (item no.10) and network helpdesk support service (item no.13). The costs related to these services are also recovered through the desktop charge. From a materiality perspective, these items have been included in the Desktop Services charge and related services schedule based on the rationale that it does not make sense to develop a separate charge for these items.

The current Desktop Services Schedule has been signed by the respective parties to the agreement. The current services schedule is set to expire on December 31, 2004.

Deloitte Opinion

We believe that the services, corresponding service levels and basis for the charges (both the unit cost and number of units is provided in an appendix in the services schedule) are identified in enough detail in the services schedule to provide the service recipient with sufficient information to understand the nature and extent of the services received.

3.4.1.2 Necessary Services

Gazifère does not have an Information Technology department. As such, they are dependent on Information Technology services provided by Enbridge Gas Distribution (EGD) and related affiliates.

Deloitte Opinion

Desktop Services provided by EGD form a critical component to the day to day operations of Gazifère, are essential to conducting the business, and would have to be replicated by Gazifère if it were a stand alone utility. We believe the Desktop Services receive by Gazifère from EGD are necessary in the conduct of an effective operation at Gazifère.

3.4.1.3 Required Charges

Desktop Services consist of an allocation for both remote desktop support (by EGD) and on site local support at the Gazifère Gatineau head office:

- **Remote Desktop Support**

Consisting of \$100,800, this portion represents 87.5% of the \$115,200 charge for 2005, or \$140 per unit per month. These costs are allocated to Gazifère based on the number of Gazifère laptops, desktops and printers ("units") supported by EGD as a percentage of the total number of units supported by EGD enterprise-wide. Every Gazifère equipment item, including laptops, desktops and printers, is identified by owner and asset tag, and forms the basis for the cost allocation. This list is updated regularly by an Ottawa-based EGD field technician, and recorded in an asset-tracking database at EGD.

The remote EGD shared desktop support expenses include EGD labour and other direct costs related to providing the desktop services. The \$1,897,770 related to the labour portion of the charge represents the FTE (Full Time Equivalent) providing these services within EGD. The labour portion represents only the salaries of the EGD resources and does not include facilities, benefits or other general overhead. The total expenses (labour and other expenses) are pooled and unitized based on the total number of units supported by EGD in order to determine a unit cost. A detailed breakdown of all of the expense items is presented in Table 2. The \$800,000 charge for Help Desk Services is charged by an arms length third party provider and is based on call volumes and application usage fees.

Table 2: Breakdown of EGD Shared Services Desktop Support Expenses (2004)

EGD Labour (Salaries)	\$ 1,897,770
Help Desk Services	\$ 800,000
Disaster Recovery Services	\$ 384,000
BKUP-EVAULT OFFSITE DATA STORAGE 8100	\$ 144,000
IT Asset Management	\$ 100,000
McAfee Antivirus	\$ 85,000
BKUP-RECALL OFFSITE TAPE STORAGE ACCT 4051	\$ 77,006
Novadigm Maintenance	\$ 65,000
Training and Development	\$ 61,500
Telus - WAN-ISP Internet	\$ 54,000
Marcel Mallia	\$ 54,000
Mercury Testing Tools	\$ 47,000
Network Vantage	\$ 44,400
Security Services	\$ 22,000
Employee Conferences	\$ 11,750
Novell Support	\$ 11,500
Ground Transportation	\$ 11,150
Air Fare	\$ 11,100
Accommodations	\$ 10,800
Meals/Entertainment	\$ 10,100
Server Parts	\$ 9,000
Firewall Unlimited Users w/VPN	\$ 9,000
Warehouse Deliveries	\$ 7,200
Citrix Support	\$ 6,000
IT Procurement	\$ 3,500
Webnot Maintenance	\$ 2,500
Microsoft Support	\$ 2,400
Books and Subscriptions	\$ 1,798
Other Travel Expenses	\$ 1,450
What's Up Gold Maintenance	\$ 425
Total	\$ 3,945,349

The charge to Gazifère, the service recipient, is based on the number of units which reside with Gazifère. The Gazifère portion of units for 2004 was 2.52 % of total EGD supported units or 59 units out of a total of 2,341. The calculation of the unit cost and the charge to Gazifère are presented in Table 3.

Table 3: Remote EGD Shared Services Desktop Support

	Annual	Monthly
2004		
EGD Salaries	\$ 1,897,770	
Other EGD Expenses	\$ 2,047,579	
Total Shared Expenses	\$ 3,945,349	
Total EGD Supported Units	2,341	
Unit Cost	\$ 1,685	\$ 140
Average No. of Gazifère Units	59 ¹	
Gazifère 2004 Charge	\$ 99,600	
Gazifère % of Total EGD Shared Expense	2.52%	
2005		
Gazifère annual Charge for 2005 (60 units *12 months *\$140/unit/mth)	\$ 100,800	

¹ The number of units was increased by 1 to 60 total units during fiscal 2004.

- **Onsite Local Support**

Consisting of \$14,400, this portion represents 12.5% of the \$115,200 charge for 2005 or \$20.00 of the charge per unit per month. The charge for this portion of the service is related to the provision of onsite desktop support services at Gazifère's Gatineau head office by an EGD resource that also provides similar services to EGD employees at their Ottawa office. This charge consists of an allocation of 1/5 of the \$50,000 costs of the shared EGD resource (salary costs only), and is based on the number of units support i.e. the total number of units in the Gazifère office in relation to the total number of units at the EGD Ottawa office. In addition, Gazifère is charged \$4,000 to cover the cost of a contractor to replace the EGD resource while he/she is on vacation or not available to provide services to Gazifère (i.e. service on weekends). The \$4,000 represents 1/5 of the charge for the services of the contractor and the allocation is based on the same rationale as the charge for the EGD resource.

Although these expenses are unitized and charged to Gazifère as part of the \$160.00 monthly unit charge, they are in fact driven by the size of the Gazifère office in relation to the Ottawa office and not directly by the number of units maintained (this method is apparently utilized for convenience). The unit cost calculation is presented in Table 4.

Table 4: Calculation of EGD Shared On-Site Support

		Annual	Monthly
2004			
A)	EGD Shared Resource		
	EGD salary expense for 1 shared resource	\$ 50,000	
	Gazifère portion of EGD shared resource (1/5)	20%	
	Gazifère Portion of Cost (\$50,000 * 20%)	\$ 10,000	
B)	Contractor ¹ (Replacement of EGD Shared resource during vacation)		
	Number of weeks	1.5	
	Hours per week	40	
	Hourly rate	\$ 50	
	Total Hourly Charges (1.5*40*\$50.00)	\$ 3,000	
	Out of pocket expenses	\$ 1,000	
	Cost to Gazifère	\$ 4,000	
A)	Total Gazifère Costs: A + B ($\$10,000 + \$4,000$)	\$ 14,000	\$ 20
2005			
	Total Gazifère Costs: (60 units*\$20/unit *12 months)	\$ 14,400²	\$ 20
	¹ Figures used for contractor represent 1/5 of total EGD cost for this resource ² The increase of \$400 from 2004 to 2005 for this service is based on an estimate of 60 units supported for the full year. In 2004 the number of units increased from 59 to 60 part way through the year.		

Deloitte Opinion

Remote Desktop Support

The basis for the calculation of the charges have been reviewed, and we believe that the method of allocating those costs to Gazifère reflect causality. The greater the number of units supported, the greater the charge and vice-versa. The method of allocation is such that the costs in question represent costs related to providing the service to Gazifère. The fact that the costs charged to Gazifère are not fully burdened by EGD is in the interest of the Gazifère ratepayers.

Onsite Local Support

Although proportional estimates based on number of units supported have been accepted as an appropriate basis for allocation purposes by regulators, a formal time tracking mechanism is generally preferred by regulators where it is possible to track effort on the basis of time. Although we believe that the test of causality has been met, some sort of time tracking mechanism could be implemented to ensure that an appropriate level of charges is being allocated for the onsite desktop support. However in this particular case, the level of materiality may render this approach non-cost effective.

3.4.1.4 Just and Reasonable Pricing

Based on the discussions with members of Deloitte’s outsourcing practice, it appears that the Desktop Services charges are in reasonable alignment with unit rates charged to much larger organizations which have several thousand units being supported. Given that Gazifère is a smaller organisation which has very few units, they would not normally, as a standalone organisation, be in a position to benefit from these types of rates and service levels which normally come with the economies of scale experienced by larger organisations. In addition, as a stand alone utility, it is unlikely that Gazifère would be able to entice a major outsourcer to consider a “managed service” contract due to its size (typically these types of arrangements require a minimum of 1,000 units) and if they did, it would

likely result in a cost per unit much higher than what is realized via the EGD-Gazifère affiliate relationship.

Gazifère realizes numerous other benefits from the Desktop Services provided by EGD. These benefits have not been quantified, but include:

- **Hardware Purchases**
EGD provides analysis for recommended hardware purchases, delivering upgrades, as well as obtaining bulk quotes. The analysis includes determining hardware compatibly with existing desktop applications, something which alone, would require Gazifère to retain in-house expertise.
- **Support**
In addition to centralized desktop support, Gazifère benefits from the synergies of an enterprise-wide support model which is shared across all affiliates. This ensures a strong commitment of multilevel support for all desktop and network issues, a service level which would be difficult at best for a company the size of Gazifère to obtain.
- **System Recovery**
EGD has a “fingerprint” of every desktop configuration within Gazifère, and is able to rebuild a system in a timely fashion, minimizing Gazifère user downtime.
- **Equipment Purchases**
Gazifère benefits from larger Request for Proposals (RFPs) initiated by EGD, as EGD is able to obtain volume discounts on large purchases. (Note: There is no mark-up on equipment purchased on behalf of affiliates.)
- **Licensing**
EGD is able to negotiate a cost savings in terms of licensing, as they are able to obtain volume discounts (e.g.: Internet access), which is shared across all services. For example, in Fiscal 2003, EGD paid \$54,000 for Internet access for all affiliates, including Gazifère. Alone, Gazifère would burden the cost itself, possibly resulting in a much higher cost/user.
- **Infrastructure Redundancy**
EGD has built-in contingency into their infrastructure to ensure the ongoing operation of the utilities. Alone, Gazifère would have to manage the technicalities, vendor management and related costs for this important benefit.

With the current Desktop Services Schedule, the average cost per unit in 2004 has dropped by more than 21% from 2003, and the unit cost per employee has dropped to near 2000 levels. Refer to [Appendix C: Trend Analysis](#) for details.

Deloitte Opinion

Based on our review, as well as input from Deloitte’s internal entity which operates in the IT outsourcing market place, we believe that Gazifère is receiving a necessary service at a cost which is fair and reasonable, given the added scale benefits which it could not achieve on a stand alone basis. As the costs being charged are not fully burdened by EGD for both the “Remote” and the “Onsite” components of this service, Gazifère is also being favoured by receiving only a part of the charge that would normally be inherent in market based pricing.

3.4.1.5 Overall Conclusion and Recommendation

In large, Deloitte believes that the Desktop Support Service passes the criteria tests. To the extent that the onsite desktop support is considered material, some form of time tracking could be considered.

3.4.2 Network Services

Gazifère Costs	2004	2005*
Allocated Annual Cost (Fiscal)	\$17,508	\$17,500 (+/- 0%)
Gazifère Portion of Total Allocated Cost	N/A	N/A
* Gazifère based 2005 charges on the 2004 service quantities and costs		

3.4.2.1 Service Descriptions

As described in the services schedule, Network Services consist of

1. Common Services (including managing 3rd party provider relationship)
2. Data Networks Carrier Service
3. Voice Networks Carrier Service
4. Network Professional Services

At the present time, only the pass-through costs of \$1,459/month related to the provisioning of the voice and data network, provided at arms length by a 3rd party service provider, are being charged to Gazifère by EGD.

The Network Services and service levels have been outlined in the [Appendix F: Services Schedule: Network Services](#), which forms part of the "intercorporate services agreement" between EGD and Gazifère, dated October 1, 1999.

The network support costs for the voice and data network form part of the [Appendix E: Services Schedule: Desktop Services](#), and are included in the Desktop Services charge.

The current Desktop Services Schedule has been signed by the respective parties to the agreement. The current services schedule is set to expire on December 31, 2004.

Deloitte Opinion

We believe that the services, corresponding service levels and basis for the charges (both the unit cost and number of units is provided in an appendix in the services schedule) relating to the pass-through costs are identified in enough detail in the services schedule to provide the service recipient with sufficient information to understand the nature and extent of the services received.

3.4.2.2 Necessary Services

Gazifère requires a voice and data network for day-to-day operations of the utility.

Deloitte Opinion

The Network Services procured on behalf of Gazifère are essential to conducting business. If these services were not provided through EGD, Gazifère would be required to incur the additional effort and costs in obtaining these services. We therefore believe the services they receive are necessary.

3.4.2.3 Required Charges

The charges to Gazifère consist of pass-through costs related to the voice and data network (LAN and switches) from an arms length telecom service provider. There is no mark up on the charges by EGD. Gazifère is directly charged for their portion of the expense, and therefore no allocation is required.

Deloitte Opinion

The method of charging for the network services is such that the costs in question represent only pass-through costs related to providing the service to Gazifère.

3.4.2.4 Just and Reasonable Pricing

Using the synergies of being part of a large organization, Gazifère realizes a lower Network Services cost from EGD's ability to leverage pricing for enterprise Network Services. EGD is able to obtain volume discounts from their service provider, and the Gazifère portion of the discount is passed onto Gazifère.

The average cost per month has dropped significantly, by more than 15% between 2003 and 2004. Refer to [Appendix C: Trend Analysis](#) for details.

Deloitte Opinion

The price paid is an arms length market price which is passed on directly without any loading of overhead burden to Gazifère. Either on an annual basis or at a minimum every two years, quotes are obtained from other service providers in order to assess the competitiveness of the pricing of these items. We believe these charges to be fair and reasonable.

3.4.2.5 Conclusion and Recommendation

We believe that the Network Services passes the criteria tests.

3.4.3 Application Services

Gazifère Costs	2004	2005
Allocated Annual Cost (Fiscal)	\$50,302	\$50,300 (+- 0%)
Gazifère Portion of Total Allocated Cost	1.15%	1.15% (estimate)
* Gazifère based 2005 charges on those incurred in 2004		

3.4.3.1 Service Descriptions

Application Services consists of

1. General Services
2. UNIX Server Support
3. Mainframe Support
4. Application Support

Detailed descriptions of the Application Services and service levels have been outlined in [Appendix G: Services Schedule: Application Hosting and Maintenance](#) which forms part of the "intercorporate services agreement" between EGD and Gazifère, dated October 1, 1999.

The hourly rates for which the services are based are included in [Appendix H: IT Consulting and Professional Services](#).

The Application Hosting and Maintenance Schedule and the IT Consulting and Professional Services schedule upon which the Gazifère application support charges are based are set to expire on December 31, 2004 and have been signed by both EGD and Gazifère.

Several applications encompassed by the current application services schedule are expected to be replaced by other systems in fiscal 2005. Negotiations are currently underway between EGD and Gazifère to develop a revised schedule to provide application hosting and maintenance services for 2005. The new agreement will become effective on January 1, 2005.

The services related to some of the applications that are being replaced will not be provided by the EGD applications support group (i.e. Envision). Charges related to these replacement application(s) are not part of the scope of the current study.

Deloitte Opinion

We believe that the services, corresponding service levels and basis for the charges (both the unit price and number of units is provided in appendix A of the Application Hosting and Maintenance schedule) are identified in enough detail in the services schedule to provide the service recipient with sufficient information to understand the nature and extent of the services received.

3.4.3.2 Necessary Services

The software applications which Gazifère uses (see table 6 below) are currently required by Gazifère to support the day to day operations of the utility. These applications are not owned by Gazifère. The applications need to be supported, maintained and (from time to time) modified. These services are provided by EGD in the absence of resident resources at Gazifère.

Deloitte Opinion

The applications supported by EGD form a critical component to the day to day operations of Gazifère, are essential to conducting the business, and would have to be undertaken by Gazifère if it were a stand alone utility. We believe the services they receive are necessary.

3.4.3.3 Required Charges

EGD provides application services to a number of affiliates. A portion of the EGD Application Services charge is allocated to Gazifère based on consumption metrics that are intended to reflect a cause and effect relationship. They are determined and applied on an application by application basis.

Before the costs of the applications can be charged to the respective service recipients, a cost per application is determined. The cost of the application support comprises labour, hardware and software costs.

The EGD labour charges are determined for each application supported by EGD by multiplying the hours that EGD staff spends on supporting the various applications by an hourly rate of \$125.

With regard to the hourly rate, Deloitte did not conduct an external study to validate the charge. However a study on hourly market rates for technology resources was conducted for EGD in February 2001 by PricewaterhouseCoopers in order to assist EGD in developing their market based hourly support charges. A follow up study was completed by EGD in March 2004 in order to determine whether the EGD rates were still in line with market rates. Hourly rates for a select number of technology resources were obtained from some of the major outsourcing firms (i.e. Accenture, IBM) and compared to the EGD rates. EGD concluded that their rates were somewhat lower than market rates.

To the extent that the support costs are based on a market related rate, they would by implication include all overheads plus a margin, and are thus fully burdened costs.

Software and hardware expenses are aligned to each of the respective applications and do not include either an overhead charge or mark-up.

The breakdown of the various expense components at EGD are provided in Table 5.

Table 5: Breakdown of Total EGD Application Services Cost

Application Name	Labour (hrs)	Labour Cost ** (1)	Hardware Cost *** (2)	Software Cost (3)	Total Cost (1)+(2)+(3)
GASCON	6,111	\$763,905	\$200,000		\$963,905
ELVIS	1,919	\$239,881	\$800,000		\$1,039,881
CDF	15	\$1,857			\$1,857
ORM	9,120	\$1,139,976	\$625,000		\$1,764,976
Lotus Notes	2,021	\$252,571	\$55,368	\$141,000	\$448,939
Others *	1,295	\$161,881			\$161,881
Total	20,481	\$2,560,071	\$1,680,368	\$141,000	\$4,381,439
* Includes Vacation Tracker, ROES, MSDS, Customer Adds, Damages, EQA, EDPA and CSAA					
** Rate of \$125/hr based on market rate					
*** Hardware depreciation costs for GASCON and ELVIS as per OEB/EnTrac Business Justification filing					

Once the total EGD support costs per application are determined, they are allocated to the respective service recipients using the unique allocators described in Table 6. Table 6 also includes the percentage of the total EGD expense that is attributable to Gazifère for each application.

Table 6: Basis of Allocation for Application Services Support by Application

Application Name	System Type	Description	Basis of Allocation	Gazifère Charge (2004 Costs)	Gazifère Portion of Total EGD Application Services Cost
GASCON	Mainframe	Contract management system Note: This system is scheduled to be decommissioned in October 2004. New system being developed	Number of active Gazifère gas contracts as % of total.	\$1,947	0.202%
ELVIS	Mainframe	Billing system for large volume customers Note: This system is scheduled to be decommissioned in October 2004. New system being developed	Number of Gazifère transactions as % of total (based on sample period Jan-May 2003).	\$1,857	0.26%
CDF	Mainframe	Order entry system for contractors. 100% dedicated to Gazifère. Note: This system is being replaced by Envision	Hourly rate times number of hours devoted to maintaining the system	\$2,704	100%
ORM	UNIX	Asset management system (location of pipe network – mission critical system) Note: This system is scheduled to be decommissioned this year. Replaced by Envision	Number of times Gazifère users log-on to the system as % of total	\$26,475	1.5%
Lotus Notes	Intel	Enterprise Email system.	Number of Gazifère users as % of total	\$12,463	2.776%
Others: CSAA, EDPA, EQA, MSDS, ROES, Vacation Tracer.	Various	Mainly access databases running on Intel machines	Number of Gazifère users as % of total	\$4,856	3%
Total				\$50,302	1.2 %

Deloitte Opinion

The use of volume drivers is aligned with the notion of cause and effect and is a preferred basis of allocation, provided that the volumes are reflective of cost causality. This approach is preferable to the use of a proxy allocator such as FTE or Capital employed because the volumes are measurable, and are thus less subjective than an estimate or the use of a proxy allocator. In this case, the cost driver volumes appear to be based on a rational approach on which to allocate the costs. Gazifère can control their consumption of this expense by managing their number of users and/or transactions. The basis of allocation is specific to each application which facilitates unique allocations. We therefore believe that the method of allocation is appropriate.

We believe that the method of charging for the application support services is such that the costs in question represent costs related to providing the service to Gazifère.

3.4.3.4 Just and Reasonable Pricing

A major portion of the pricing build up is the \$125 hourly charge which has been based by EGD on market rates. Gazifère also benefits as a result of being a part of a larger organization in which economies of scale and access to specialized skills sets is achieved. Additional benefits include:

- **Support**
Part of the Application Services includes a common help desk, which leverages multi-tier support staff in managing and supporting each specialized application. Gazifère would be unable to leverage similar specialized support without building its own dedicated support base.
- **Software**
The portfolio of applications supported by EGD is mission-critical to Gazifère. This includes applications such as GASCON, which is essential to Gazifère in helping manage gas contracts.

The 2004 cost of \$50,302 is less than half of the peak 2002 cost of \$112,158. This is due to the phasing out of many applications which were replaced by the Enterprise Financial System (EFS). Refer to [Appendix C: Trend Analysis](#) for details.

Deloitte Opinion

The fact that the support rates have been competitively benchmarked by EGD demonstrates due diligence on the part of EGD.

Based on our review and input from Deloitte's internal entity which operates in the IT Outsourcing market place, we believe that Gazifère is receiving a service at a cost which is based on market rates, and is fair and reasonable given the added economies of scale benefits which Gazifère could not achieve on a stand alone basis.

It is not cost effective for an organization the size of Gazifère to develop and maintain these types of applications.

3.4.3.5 Conclusion and Recommendation

We believe that the Applications Services pass the criteria tests.

3.4.4 Enterprise Financial System (EFS) Capital Charge

Gazifère Costs	2004	2005 Rate
Allocated Annual Cost (Fiscal)	\$98,766	\$100,577
Gazifère Portion of Total Allocated Cost	1.39%	1.40%

3.4.4.1 Service Descriptions

The Enterprise Financial System (EFS) Capital Charge is the Gazifère portion of the depreciation related to the EFS system. This charge is allocated to Gazifère by ECS.

The charge for Gazifère's portion of the EFS Capital Charge (depreciation) is communicated to Gazifère on an annual basis.

Prior to April 2002, Gazifère was using a number of different, disparate systems collectively functioning as an accounting package. This included a general ledger system and a mainframe system for accounts payable. As such, there was no integration between systems, nor was there integration with EI. More importantly, the accounting package contained no fixed-asset module, which is critical to Gazifère and other utilities in how assets are identified and depreciated. Lastly, Gazifère required a robust inventory module.

The EFS Financial System (EFS) was an EI initiative aimed at addressing the aforementioned shortcomings. EFS is a fully integrated system, with the following core components:

- 1. Consolidation and Planning System (Khalix)**
The consolidation and planning system consists of three instances used for consolidating the actual results, conducting the enterprise-wide budgeting and forecasting process including project and operating costs, and long range planning activities.
- 2. Expense System (Necho)**
Necho is an online system, used in reporting employee expenses, where all expenses incurred via Amex or BMO corporate cards are uploaded automatically. Necho contains an approval hierarchy where all expense report approvals are done electronically.
- 3. Financial and Project Accounting System (Oracle)**
Enbridge Financial and Project Accounting Management system, including General Ledger, Accounts Payable, Purchasing (including e-procurement), Order Management, Accounts Receivable, Cash Management, Fixed Asset, Projects, Plant Accounting and Inventory modules.

Deloitte Opinion

We believe that the amount and basis of the EFS Capital Charge (depreciation) is provided in sufficient detail that the service recipient is able to understand the nature and extent of the charge.

3.4.4.2 Necessary Services

Gazifère requires the use of a financial management and reporting system that includes the various functional components/modules of the EFS system. Gazifère has provided information detailing the various EFS modules for which they have access.

Deloitte Opinion

If Gazifère does not use EFS to support their financial management needs, they will be required to maintain a similar system themselves or seek an alternative solution from another service provider. We believe the use of these technologies is necessary.

3.4.4.3 Required Charges

The capital charges for the EFS system that are charged by ECS to Gazifère represent Gazifère's share of the depreciation on the EFS system. They do not include an overhead or a return component. It is expected that the EFS capital allocation will be fully depreciated by 2008.

The EFS Capital charge is allocated by ECS to Gazifère based on Enbridge Enterprise FTE.

The allocator for Enbridge Enterprise FTE is the ratio of total Enbridge FTE that resides in and/or support Gazifère less the FTE residing in Gazifère that support other affiliates (numerator) to the total FTE employed by Enbridge (denominator).

The Gazifère portion of the Enbridge Enterprise FTE for 2005 was 1.40% of total Enbridge Enterprise FTE or 59 FTE. Refer to Appendix C: Trend Analysis for the FTE information from 2002-2004

Deloitte Opinion

The rationale for the use of FTE to allocate the EFS capital charge is that it reflects a view that the more employees in a given organization, the larger the size and thus the requirement for more extensive use of the system. Enbridge has informed us that they had previously conducted an analysis which determined that FTE and Capital Employed resulted in a similar distribution and that FTE was decided upon as the allocator since it was better correlated to users than was Capital Employed.

However, the use of Enterprise wide FTE as an allocator to assign the depreciation expense assumes that all of the Enbridge affiliates are consuming the assets at the same rate. Currently, there is only one small affiliate that does not use the EFS system and they represent approximately 1% of the Enterprise FTE. The total Enterprise FTE number used in the denominator would need to be modified appropriately if not all of the Enbridge organizations are benefiting from the assets in the same proportion. In the case of Gazifère, we have been informed that they use all of the components of the EFS system.

It is common practice for software vendors to charge their customers based on the number of licensed users. EGD also uses number of users as an approach to allocate some of their application support charges to Gazifère. A user based charge would also provide Gazifère with the incentive to manage the consumption of this cost by encouraging them to maintain only the number of user licenses required to meet their needs in the most economical way possible. We believe this option could be explored.

However, EI has indicated that they have attempted to establish the number of users in a consistent fashion across all affiliates in a way that would be acceptable to all of the service recipients, and came to the conclusion that this was too complex in establishing with any level of accuracy or consistency. It is likely that using Enterprise FTEs achieves substantively similar results and is more cost effective to administer.

We believe that the current charge has a basis in causality. We also believe that the method of charging for EFS Capital is such that the costs in question represent costs related to providing Gazifère with the functionality of the EFS system.

Given the Régie's preference for the use of a consistent allocation methodology from year to year, we would only suggest undertaking a further review of the allocator if there is likely to be a material impact on the resulting charges.

3.4.4.4 Just and Reasonable Pricing

The Benefits of the EFS Financial System include:

- **Fixed Assets**
The Fixed Asset module allows for the automatic calculation of average cost per asset on an ongoing basis. Prior to the EFS Financial System, similar calculations were only performed once year-end data was available, and then took three months to calculate. Given that Gazifère has in excess of \$80 million in regulated fixed assets, the automation provided by the EFS Financial System is critical in controlling costs, and in timely reporting of data.
- **Inventory**
For material, inventory is managed through EGD. With the legacy accounting package, Gazifère had to account for its inventory manually, requiring a significant investment in time and effort. With the EFS Financial System, this process is now completely automated.
- **Integration**
With the EFS Financial System fully integrated with affiliate instances of the system, Gazifère users are able to perform analysis and research for invoice records and related items from a single system, as opposed to numerous, disparate systems.
- **Simplification**
The EFS Financial System simplifies tasks which were previously time consuming and cumbersome. For example, invoice recording, which once required the population from separate screens, now requires a single input screen.

The charges for EFS Capital from 2003 onwards are fairly steady and, as was previously mentioned, are expected to be fully depreciated by 2008. Refer to [Appendix C: Trend Analysis](#) for details.

Deloitte Opinion

Discussions with members of Deloitte's outsourcing practice indicate that it would be difficult to obtain and sustain an alternative system at a lower cost. Gazifère also benefits from advanced functionality, integration with EGD and scalability. We therefore believe that Gazifère is receiving a service at a cost which is fair and reasonable given the added economies of scale benefits which it could not achieve on a stand alone basis.

3.4.4.5 Conclusion and Recommendation

We believe that the EFS Capital Charge passes the criteria tests. However, the use of an alternate method of allocation could be explored.

3.4.5 Enterprise Financial System (EFS) Application Support

Gazifère Costs	2004	2005 Rate
Allocated Annual Cost (Fiscal)	\$101,109	\$101,583
Gazifère Portion of Total Allocated Cost	1.39%	1.40%

3.4.5.1 Service Descriptions

The services in support of EFS provide guidance, business support and technical expertise related to the system. The components of the system are described in section 3.4.4.1.

- 1. Consolidation and Planning System (Khalix)**
This service provides user training, support, system maintenance, customization and enhancements for all three instances of the Enbridge consolidation and planning system.
- 2. Expense System (Necho)**
This service provides the required user training, support, and system maintenance, customization and enhancements for the Enbridge expense reporting system.
- 3. Financial and Project Accounting System (Oracle)**
This service provides the required user training and support, system maintenance, and system customization and enhancements for the Enbridge Financial and Project Accounting Management system.

There are no service schedules between Enbridge and Gazifère which outline the specific services, service levels or quantity of services provided. A description of the service at a macro level (in the case of EFS, all of the components make up one service and are allocated based on only one allocator) and the method of allocation is described in the EI Cost Allocation Methodology.

The charge for Gazifère's portion of the EFS Support charge is communicated to Gazifère on an annual basis.

Deloitte Opinion

We believe that a services schedule, similar to the one used by EGD, that contains a description of the services provided, the service levels and the quantity of service should be developed for the services related to each application which EFS supports to ensure that the recipient is able to understand the nature and extent of the charge.

3.4.5.2 Necessary Services

The use of the EFS System requires access to resources with specialized skill sets and knowledge of the application. If access to these resources were not provided by the EFS department of EI, Gazifère would have to develop the skills internally or obtain support from another service provider. Additionally, as the EFS System is customized to Gazifère and its affiliates, obtaining independent support would be difficult.

Deloitte Opinion

We believe the services that Gazifère receives from the EFS department of Enbridge are necessary.

3.4.5.3 Required Charges

The Enbridge Cost Allocation Methodology aims to allocate all of the EI Corporate costs to affiliates and business units. This is an integral part of its design concept to reflect the fact that EI does not view itself as a holding company but rather as an integrated extension of the activities of its affiliates and business units.

However, the methodology allocates the costs directly from departments (cost centres) to affiliated service recipients. The result is that all of the overhead and general expense costs are allocated separately than those of the core departments that provide the service.

In terms of the scope of this study we have not been required to review all allocated costs of every department and a review of the overhead and general expense cost centres of the Enbridge Cost Allocation Methodology has therefore not been undertaken.

The costs associated with the EFS services as they are described in the charges to Gazifère which we have reviewed represent only the unburdened costs incurred within the departments who perform the service. The general expenses (e.g. rent, depreciation, and employee benefits) related to the EFS service which are allocated to Gazifère have therefore not been reviewed. Because of this, Deloitte is unable to express an opinion on the level of the total "burden" or "loading" which would normally form a part of a fully loaded service cost.

In commenting on the "required charges" and the "just and reasonable pricing" tests, we are therefore cognisant of this fact, and the reader is cautioned that we are not dealing with the total charge (i.e. the "fully loaded" cost) that Gazifère may be paying for the service.

The allocator used by EI to charge Gazifère for EFS support is Enbridge Enterprise FTE, the same allocator used to charge EI for the depreciation related to the EFS system.

Deloitte Opinion

The allocation methodology of the EFS Support charge which uses Enbridge Enterprise FTE may not take into consideration varying levels of consumption of the services or modules (i.e. Khalix, Necho, Oracle) used by the various service recipients. In addition, we believe that the method of charging for the unburdened portion of EFS application support services is such that the overall costs of providing the service to Gazifère is not immediately visible.

As mentioned previously, alternate methods of allocation could be based on users or time. However, the EFS services are provided out of multiple centres (Houston, Edmonton, Calgary and Toronto), and given the low level of materiality of the Gazifère portion of the charge and the effort that would be required to develop and maintain such an approach it may not be practical or cost effective. It is likely that using Enterprise FTEs achieves substantively similar results and is more cost effective to administer.

We believe that the current allocation method has a basis in causality.

3.4.5.4 Just and Reasonable Pricing

Gazifère benefits from the synergies of an enterprise-wide support model which is shared across all affiliates. This ensures a high level of expertise and multilevel support for all EFS-related issues, a service level which would be difficult for a company the size of Gazifère to obtain from a 3rd party service provider.

As mentioned previously, the cost charged to Gazifère as overhead and general expenses were not included in our scope for review. However, a calculation of the estimated overhead burden related to the EFS charge was provided to us by EI for 2003, 2004 and 2005, and we discussed each of the elements with them. The calculation was a broad based calculation of the total burden charged to Gazifère averaged across the EFS service cost vs. all other charges to Gazifère. The total burden represents approximately 40% of the in scope service charge.

EFS Support costs for 2003-2005 have remained fairly steady after an initial increase in costs from 2002 to 2003. The increase is believed to be attributable to the fact that the support resources were not fully in place in 2002. Refer to [Appendix C: Trend Analysis](#) for details.

Deloitte Opinion

The substance of the overhead burden estimates by EI appear to be reasonable. This represents a total cost of the service at \$139,000 for 2005. Discussions with members of our outsourcing practice indicate that for the level of service provided, it would be difficult to obtain alternative external support for the three applications at a lower cost.

A company the size of Gazifère would not be able to benefit from such a robust system and the quality of support service for which they receive if they were to attempt to develop or obtain these services on their own. (If parceled separately, it may be difficult to get the support at all (at the quality level that would be required by Gazifère). Gazifère also benefits from advanced functionality, integration

with EGD and scalability. We therefore believe that Gazifère is receiving a service at a cost which is fair and reasonable given the added scale benefits which it could not achieve on a stand alone basis.

3.4.5.5 Conclusion and Recommendation

We believe that the charge for EFS support is necessary, that the basis of allocation (while there may be other alternatives), has a basis in causality, and the price paid for the service is reasonable.

4. Summary and Conclusion

As mentioned in our introduction, Gazifère requested Deloitte to undertake an Independent study to evaluate whether the Régie requirements, as reflected in their recent decisions, have been met with regard to the Inter-Affiliate Information Technology (IT) cost allocations that Gazifère receives from its affiliate service providers; Enbridge Gas Distribution (EGD), Enbridge Inc.(EI) and Enbridge Commercial Services (ECS).

Deloitte interpreted the Régie decisions and developed the following four evaluation criteria against which, given the information that was provided to us, we evaluated the in scope services provided to Gazifère:

- **Service Descriptions**

Are the service recipients at Gazifère provided with sufficient information in order to understand the nature and extent of the service provided? (type, quantity and quality of service and description of pricing or cost allocation mechanisms used)

Other than for the EGD Application Services and the EI:EFS Application Support, the services all have adequate service schedules that meet the Service Description Criteria.

- **Necessary Services**

Are the services provided to Gazifère necessary for Gazifère to effectively serve its ratepayers?

All the services provided are necessary for Gazifère to effectively serve its ratepayers.

- **Required Charges**

Do the charges (i.e. Gazifère's share of the costs incurred) represent only those costs that are required to provide the service to Gazifère? i.e. have the costs been allocated in a manner that is reflective of cost causality?

All the service cost allocators have a basis in causality. In the case of EGD's Onsite Local Desktop Support, (where the charge is very small) and both the EFS Capital and Application Support other allocators could be considered, but only to the extent that any different results are assured to be material and developing or maintaining alternate allocators is thought to be cost effective.

- **Just and Reasonable Costs**

Are the charges reflective of costs that are just and reasonable in the context of the services provided? Have the services been delivered in the most economical way possible?

In all cases we are of the opinion that the charges are reflective of costs that are just and reasonable in the context of the services provided and are provided in the most economical way.

Appendix A: Resume

Andre Pienaar

- Summary:** Andre Pienaar is a partner with Deloitte Inc., and has practised as a consultant with the firm for 17 years. Andre was originally a partner in Deloitte's South African practice before immigrating to Canada in 1992. He has provided Strategy and Operations consulting services across a broad range of industries in multiple countries over his career. In recent years, Andre has concentrated his consulting activities on the services provided by Deloitte to Chief Financial Officers and their direct reports. He has directed and worked on a full range of financial operations improvement and performance measurement engagements including costing, and cost monitoring studies in regulated industries.
- Education / Professional Qualifications:**
- Bachelor of Commerce – University of the Witwatersrand RSA.
 - Bachelor of Accounting– University of the Witwatersrand RSA.
 - Chartered Accountant (South Africa).
 - Certified Management Consultant (Canada).
- Key Clients:** Mr. Pienaar's major clients include:
- **South Africa:** The Atomic Energy Board, The Department of Mineral and Energy Affairs , Iscor (iron and Steel) Corporation, the National Energy Council, Ministry of Economics and Tourism.
 - **United Kingdom:** The Department of Water Affairs.
 - **Germany:** Bayer Corp.
 - **USA:** SBC Communications, Learjet, Monsanto, Pharmacia Corp., Textron Inc.
 - **Canada:** Bell Canada, Enbridge, Compaq Canada, Ministry of Tourism, Ministry of Finance.
- Selected Assignments:**
- Directed the establishment of a regulatory monitoring mechanism and on-going annual review of the Oil Industry on behalf of the National Energy Council in South Africa. The mechanism required annual benchmarking of the financial performance and cost allocations across all the corporations participating in the Oil Industry, as well as the annual modeling of the effects of regulated price changes.
 - Directed the review of a complex industry proposal to the Minister of Mineral and Energy Affairs to deregulate a significant component of the Oil Industry and monitor the segmented profits of only the manufacturing segment of the industry. Accounting for the cost allocations of the retail/distribution segment remained separate, and strict regulatory control of the price of petroleum at the retail outlet was maintained.
 - Lead a study for the Ministry of Economics and Tourism to evaluate the cost allocations and build-up of export prices for the price and quota regulated Rock Lobster Industry in South Africa.
 - Lead a stream of cost reduction activity related to the costing and outsourcing of non-core activities for the Atomic Energy Board in South Africa.
 - Lead the consulting stream of an investigation into all aspects of privatising a major state owned entity, which produced and marketed 70% of South Africa's iron and steel.
 - Participated as a member of the team that advised on the deregulation of the Water Authorities in the UK.

- Lead various economic evaluation and contractor evaluation projects for the Ministry of Tourism and for the Ministry of Finance in Ontario.
- Conducted a series of privatisation projects for the Bophuthatswana Parks Board which involved commercialising operations and establishing on going monitoring mechanisms over operations.
- Participated in the leadership of a multimillion dollar project to enhance the effectiveness and efficiency of financial operations of the largest telecommunications provider in Canada. The project involved the redesign and implementation of new processes, systems, and organisation infrastructure.
- Lead a project for a large technology manufacturer and distributor in Canada which established a strategic plan and improved selected finance processes across the organisation.
- Participated in the leadership of a project for a global pharmaceutical manufacturer and distributor to centralize financial transaction processing into a pan European Shared services centre.
- Redesigned the long term planning processes to reduce the overall planning cycle for an integrated Energy company in Canada.
- Participated in the leadership of a Finance Transformation project for a large aerospace and technology company in the USA. The project focussed on the development of a shared services centre and the implementation of enterprise-wide technologies for financial processes.

Appendix B: Regulatory Precedent

1.0 Affiliate Transactions

Regulators normally allow affiliates to provide services to regulated utilities and vice versa. Some regulators have explicitly recognized the benefits of such transactions to the utility and ratepayers, but regulators generally require a utility to pursue the best interests of the utility and its ratepayers in all transactions with affiliates. The Régie, in Decision 2004-47, has explicitly stated that the services provided to a regulated utility from an internal service provider should be in the best interests of the utility and those of its consumers:

La Régie estime qu'il est du devoir du Distributeur de lui faire la démonstration que les produits et services fournis par ses fournisseurs internes sont dans son meilleur intérêt et dans celui de ses consommateurs.¹¹

This is consistent with the cost of service and prudence standards.

The Ontario Energy Board ("OEB") has stated that it has no conceptual problem with a Corporate Centre approach to shared services as long as they are delivered in a more cost effective basis than the service recipients own cost of providing the same services:

The Board has no conceptual problem with a Corporate Centre approach to shared services, provided the economies of scale and other operating efficiencies of the Centre result in the delivery of required services to Union and Centra on a more cost effective basis than the Companies' own costs of providing the same services.¹²

The Newfoundland & Labrador Board of Commissioners of Public Utilities ("NFLPUB") has stated that the utility should derive some demonstrable benefit from all inter-corporate transactions:

NP will be required to observe the following principles in all inter-corporate transactions:

(iii) A utility shall ensure that inter-corporate transactions will not disadvantage the interests of ratepayers and furthermore that ratepayers and the utility will derive some demonstrable benefit from such transactions.¹³

The Alberta Energy and Utility Board ("AEUB") has stated:

The test that the Board intends to use is also somewhat different from the approach that has been used by the Company. The Board does not accept that it is simply enough to say that customers are not harmed. The Company should be able to demonstrate that there is a clear advantage to dealing with an affiliate, instead of using a non-affiliated third party, or continuing to provide the service internally.¹⁴

¹¹ REQ; Decision 2004-47; Hydro-Québec; February 26, 2004; Sec. 1.2.2

¹² OEB; EBRO 493/494, Centra Gas Ontario Inc and Union Gas Ltd.; March 20, 1997; Sec. 5.5.12.

¹³ NFLPUB; Order No.P.U.19 (2003), re: Newfoundland Power Inc.; June 20, 2003; pg. 57.

¹⁴ AEUB; Decision 2000-9; Canadian Western Gas Company Limited; March 2, 2000; pg. 96.

2.0 Services Agreements

Given the potential conflicts of interest inherent in inter-affiliate transactions, several regulators require that transactions between affiliates be governed by an affiliate relationship code ("ARC").

Although the Régie does not require the use of an ARC it has previously set out a requirement for the use of a services agreement, which includes the principle parameters governing the affiliate transactions as part of decision D-2003-93 relating to the provision of services by Hydro Québec to Hydro-Québec Distribution:

Le Distributeur devra également démontrer le caractère nécessaire des achats de services auprès de ces unités et s'assurer de documenter dans une entente client-fournisseur les principaux paramètres convenus et les engagements respectifs de chaque partie.¹⁵

In the same decision, the Régie specifically identifies the various components that should make up the services agreement. They include:

- An adequate description of the products and services;
- The parameters used to establish the total cost for each product and service including the data necessary to establish the return;
- The basis for the charges;
- The other parameters that form the basis for the agreement between the service recipient and service provider (the price of the services, the volume of products and services provided and any changes to the allocators used).

There is also mention that the services agreement should be signed by the service recipient:

*En conséquence, la Régie demande pour la Phase 2 du présent dossier :
- que le distributeur fournisse, pour les produits et services fournis en Approvisionnement et services, Technologie de l'information, TransÉnergie-Télécommunications, Unités corporatives, Recherche et Développement et Ingénierie et construction, une description adéquate des produits et services, les paramètres d'établissement du coût complet pour chaque produit et service, y incluant les données sur les actifs nécessaires pour l'établissement du rendement, les bases de facturation utilisées et les différents autres paramètres d'importance convenus dans les ententes cadres entre clients et fournisseurs signées par le distributeur (les prix des services, les volumes de produits et services fournis, les changements des inducteurs utilisés).¹⁶*

The Ontario Energy Board, as part of the OEB Affiliate Relationship Code, requires the use of a service agreement for all shared resources and services:

2.2.1 Where a utility shares services or resources with an affiliate it shall do so in accordance with a Services Agreement, the terms of which may be reviewed by the Board to ensure compliance with this Code. The Services Agreement shall include:

- (a) the type, quantity and quality of service;*
- (b) pricing mechanisms;*
- (c) cost allocation mechanisms;*
- (d) confidentiality arrangements;*
- (e) the apportionment of risks (including risks related to under or over provision of service); and*
- (f) a dispute resolution process for any disagreement arising over the terms or implementation of the Services Agreement.¹⁷*

¹⁵ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 3.3.3.2.2

¹⁶ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 3.3.3.2.2

¹⁷ OEB; AFFILIATE RELATIONSHIPS CODE FOR GAS UTILITIES; July 31, 1999; Sec. 2.2.1.

In a recent decision dealing with the ATCO Group Inter-Affiliate Code of Conduct ("ATCO Code"), the AEUB addressed the need for a service agreement where a utility has a sharing arrangement:

Additionally, the Board considers that a sharing arrangement must be appropriately documented by an acceptable services agreement and be subject to the transfer pricing provisions of the Code. For example, with respect to the sharing of corporate services, the cost allocation methodology must fairly allocate costs among users based on some reasonable and appropriate criteria (such as time, number of employees, square footage, fixed asset ratios, capital employed, capital expenditures in a year, or annual revenues). The Board notes that both the methodology and total corporate costs will be subject to review at the Utility's GRA. The onus is on the Utility to demonstrate that the allocation methodology is reasonable and appropriate and that the methodology has been applied correctly.

The Board, as previously noted in this Decision, and in Decision 2002-069, considers that a services agreement or an equivalent contract must be entered into with respect to any shared services the Utility provides to, or acquires from, an Affiliate. ...¹⁸

The services agreement requirements are outlined in more detail in the ATCO Code:

u) **"Services Agreement"** means an agreement entered into between a Utility and one or more Affiliates for the provision of Shared Services or For Profit Affiliate Services and shall provide for the following matters as appropriate in the circumstances:

- i) the type, quantity and quality of service;
- ii) pricing, allocation or cost recovery provisions;
- iii) confidentiality arrangements;
- iv) the apportionment of risk;
- v) dispute resolution provisions; and
- vi) a representation by the Utility and each Affiliate party to the agreement that the agreement complies with the Code.¹⁹

¹⁸ AEUB; Decision 2003-040; ATCO Affiliate Transactions and Code of Conduct Proceeding – Part B: Code of Conduct; May 22, 2003; pg. 63.

¹⁹ ATCO Group; Inter-Affiliate Code of Conduct; May 22, 2003; Sec. 2.1 u)

3.0 Basis For Affiliate Charges

The preferred basis for intercorporate charges is generally market price. This may reflect the view that affiliates should be treated as separate organizations. In this context market price is the price that parties operating at arm's length would trade services at. It is also consistent with the prudent standard: market price is the highest price that a utility would expect to pay and the lowest price it would expect to receive.

Unfortunately, the market price for most corporate services is difficult to establish, at least on a supportable basis. Even where comparable services can be acquired from alternative suppliers, it can be difficult to establish the prices that may be charged unless one actually transacts. Also reconciling the differences between the services provided to the utility and the "benchmarked services being compared can require a great deal of effort, and more importantly, a significant amount of subjective judgement.

Where market price cannot be established, regulators usually require and accept cost based prices. These cost based prices should reflect fully burdened (loaded) cost, including a fair return.

In the context of the requirements of this study, namely to establish whether Gazifère acquired services needed in a manner that meets the requirements of the Régie for inter-affiliate transactions and more specifically that that the services are acquired at the lowest cost, it is useful to note that in decision D-2000-48, the Régie, stated that it considers that the determination of a transfer price between affiliates that is based on market price (when available) or on a fully allocated price (when a market price does not exist) is acceptable:

La Régie considère acceptable, dans le cas des transactions entre Gazifère et Enbridge et les sociétés apparentées, la détermination d'un prix de transfert basé sur le prix de marché lorsqu'une telle donnée est disponible et sur un prix d'allocation complet (fully allocated price) dans le cas des services pour lesquels un prix de marché n'existe pas.²⁰

The OEB has similar requirements related to affiliate charges. They are contained with the OEB ARC:

Where a utility provides a service, resource or product to an affiliate, the utility shall ensure that the sale price is no less than the fair market value of the service, resource or product.

In purchasing a service, resource or product, from an affiliate, a utility shall pay no more than the fair market value. For the purpose of purchasing a service, resource or product a valid tendering process shall be evidence of fair market value.²¹

The code goes on to state that where market is not available, cost should be used:

Where a fair market value is not available for any product, resource or service, a utility shall charge no less than a cost-based price, and shall pay no more than a cost-based price. A cost-based price shall reflect the costs of producing the service or product, including a return on invested capital. The return component shall be the higher of the utility's approved rate of return or the bank prime rate.²²

When cost based pricing is applicable, the OEB has indicated that a full costing approach should be used because it is more reliable, less judgemental and it is easier to test:

As well as addressing the fairness criterion, full costing is attractive because of its relative simplicity in application for programs classified as either ancillary or non-utility. With respect to the ancillary programs, the relative simplicity of full costing may explain its wide use in gas utility regulation in other jurisdictions. With respect to non-utility eliminations, the Board concludes full costing is more reliable, less judgemental, and that it is easier to test its results

²⁰ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

²¹ OEB; Affiliate Relationships Code For Gas Utilities; July 31, 1999; Sec. 2.3.1 – 2.3.2

²² OEB; Affiliate Relationships Code For Gas Utilities; July 31, 1999; Sec. 2.3.3.

compared to the application of the Company's Uniquely Attributable Cost approach overlaid by the Company's transfer pricing proposal.²³

The Nova Scotia Power Inc. (NSPI) Interim Code of Conduct states that affiliate prices must reflect market, or fully allocated cost where market cannot be established:

NSPI will charge and be charged prices which reflect fair market value for all non-regulated utility goods and services provided to affiliates or purchased from affiliates, provided that in no case shall NSPI supply such goods and services at a loss.

Where prices on market value cannot be established, NSPI will charge prices which reflect fully distributed costs for the goods and services provided.²⁴

4.0 Regulatory Criteria for Accepting Charges

In a regulatory environment, management prudence is not presumed and in this regard the Régie has set out the requirement that the service recipient has the obligation to ensure that the services provided by an internal service provider or affiliate are both necessary and that the costs of those services represent only those charges required to provide the service:

La méthodologie d'imputation des frais corporatifs a des implications plus globales que les fins du présent dossier tarifaire puisque cette méthodologie est utilisée par toutes les unités d'affaires d'Hydro-Québec. La Régie considère toutefois que le Distributeur a l'obligation de s'assurer et de faire la preuve que ces services sont nécessaires et que les coûts de ces services correspondent aux seules charges nécessaires pour assumer le coût de la prestation de service.²⁵

In addition the Régie states that the service must be rendered at a price that is deemed to be just and reasonable:

La Régie doit évaluer la preuve faite de la nécessité de ces dépenses pour assurer des tarifs et des conditions applicables à la prestation de service qui soient justes et raisonnables et, dans cette mesure, juger du caractère raisonnable des prix chargés par Enbridge pour les services rendus à Gazifère²⁶.

In order to judge the reasonableness of inter-affiliate charges the Régie has stipulated that the various components that make up the price should be available to be examined:

Cependant, en règle générale, la Régie ne juge pas suffisant de limiter son examen aux prix facturés à Hydro-Québec Distribution par les autres unités. L'utilisation de cette seule information n'est pas suffisante pour déterminer que ces prix sont raisonnables; il lui faut examiner les composantes du coût complet afin d'avoir une information adéquate pour porter un jugement.²⁷

²³ OEB; EBRO 495, Consumers Gas Company; August 21, 1997; Sec. 2.1.56.

²⁴ NSUARB; Nova Scotia Power Inc. Interim Code Of Conduct; Effective September 16, 2001; Sec. 6.8 – 6.9.

²⁵ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 3.2.2

²⁶ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

²⁷ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 1.4.3.2

The method of allocation that is used for the distribution of any costs that are shared between affiliates should also be provided:

Étant donné que les coûts du Distributeur sont calculés en partageant les coûts totaux des activités en question, la Régie ne peut pas apprécier ces premiers sans disposer d'une ventilation adéquate des coûts avant partage, ainsi qu'une liste des inducteurs de coût servant à la répartition entre unités.²⁸

Another criteria for accepting affiliate charges used by the Régie is the requirement that the services rendered by an internal service provider be delivered in the most economical way possible:

Selon la Régie, le distributeur avait le fardeau de prouver que les montants réclamés à titre de charges d'Enbridge étaient nécessaires. Cette démonstration n'ayant pas été faite pleinement ni convaincu entièrement la Régie, celle-ci accorde toutefois à Gazifère 75 % de l'augmentation demandée et lui demande de réévaluer la nécessité de chacun des services obtenus et d'effectuer les analyses nécessaires afin de s'assurer du moyen le plus économique d'obtenir ces services.²⁹

In terms of delivering services in the most economical way possible, the centralization and provision of services between affiliates has been widely accepted if it results in a lower cost to the rate payers.

More specifically, the OEB has stated that it has no conceptual problem with a shared services approach as long as the services are delivered in a more cost effective way than could be otherwise achieved by the service recipient:

The Board has no conceptual problem with a Corporate Centre approach to shared services, provided the economies of scale and other operating efficiencies of the Centre result in the delivery of required services to Union and Centra on a more cost effective basis than the Companies' own costs of providing the same services.³⁰

The National Energy Board (NEB³¹) has also recognized the benefit of shared services. In a 2002 decision dealing with TransCanada PipeLines, the Board stated:

... The Board is of the view that it is appropriate for TransCanada to operate as one company and allocate costs to its various entities using an allocation policy. To require the Mainline and each regulated entity to operate fully independently would result in higher Mainline costs and would not be in the best interest of tollpayers. Nonetheless, the information contained in a tolls application should be sufficient to justify the relief being sought. In certain circumstances, it may be necessary to supplement the result generated by the application of an allocation policy with additional evidence and rationale ...³¹

One of the major benefits resulting from the centralization of services, aside from economies of scale, is that the affiliates that receive the services do not have to maintain the capabilities and skills to deliver the services themselves. It is often impractical to maintain the capabilities in-house to deliver a large and broad range of services, especially if the organization is relatively small.

²⁸ REQ; Decision 2003-93; Hydro-Québec; May 21, 2003; Sec. 3.3.3.2.2

²⁹ REQ; Decision 2000-48; Gazifère Inc.; March 29, 2000; Sec. 3.2.1

³⁰ OEB; EBRO 493/494, Centra Gas Ontario Inc and Union Gas Ltd.; March, 20, 1997; Sec. 5.5.12.

³¹ NEB; RH-1-2002 TransCanada PipeLines Limited; July 2003; pg. 11.

For example, the British Columbia Utilities Commission (BCUC), in determining whether a benefit had resulted from an affiliate transaction, ruled that the difficulty in obtaining an in-house resource with appropriate skills to perform certain services was reasonable grounds for establishing that a cost allocation was reasonable and beneficial to a utility:

*The Commission accepts the argument of PNG regarding the difficulty of obtaining an in-house employee possessing the required wide range of skills. Consequently, the Commission accepts the 1997 cost allocation of \$16,175 as reasonable and beneficial to PNG.*³²

Centralizing skills in order to avoid fractional FTE's (full time equivalent person) was also deemed a benefit to the utility and thus the charges were accepted by the BCUC:

*The Study finds that PNG does not have sufficient staff to provide any of the services currently obtained from the WEI Corporate Centre without the need to hire additional personnel. The Study estimates that each of the Corporate Centre services, if provided directly by PNG, would require only part of a full time equivalent ("FTE") person which the Study considers would make it difficult to hire staff capable of providing combinations of shared cost services or who could combine them with other tasks. In many cases the Commission recognizes this as a valid observation.*³³

These decisions as a whole are very similar to the criteria which the OEB has identified for evaluating corporate cost allocations, namely the "three prong test", whereby a utility must demonstrate that the charges meet the following tests:

- Cost Incurrence - are the proposed Corporate Centre Charges prudently incurred by, or on behalf of, the Companies for the provision of a service required by Ontario ratepayers?
- Cost allocation - if properly incurred, are the proposed Westcoast Corporate Centre Charges allocated appropriately to the Companies, based on the application of cost drivers/allocation factors supported by principles of cost causality?
- Cost/Benefit - do the benefits to the Companies' Ontario ratepayers equal or exceed the costs?³⁴

In a 2002 decision, the AEUB also set out three conditions to be used to assess the reasonableness' of using an affiliate arrangement to procure goods or services:

In Decision 2002-069, the Board noted that the following conditions provided a reasonable test to determine if an affiliate arrangement should be used by a utility to procure goods or services:

- Does the decision to acquire goods or services from the affiliate affect the utility's ability to operate safely and reliably?
- Is the affiliate the least cost alternative that meets the requirements of the utility?
- Was the purchase of goods or services by the utility at the lesser of FMV, or the cost it would take for the utility to provide similar goods or services itself?³⁵

³² BCUC; Decision PACIFIC NORTHERN GAS LTD. Shared Services from Westcoast Energy Inc, Pacific Northern Gas Ltd.; August 7, 1997; pg. 18.

³³ BCUC; Decision PACIFIC NORTHERN GAS LTD. Shared Services from Westcoast Energy Inc, Pacific Northern Gas Ltd.; August 7, 1997; pg. 5.

³⁴ OEB; EBRO 493/494, Centra Gas Ontario Inc. and Union Gas Ltd.; March 20, 1997; Sec. 5.5.14.

³⁵ AEUB; Decision 2003-040; ATCO Group. Part B: Code of Conduct; May 22, 2003; pg. 75.

5.0 Allocators Employed

In considering cost based intercorporate charges, regulators have allowed a wide range of allocators. Regulators generally require that costs are allocated on the basis causality and there is a strong preference for the use of time based allocators where costs are driven by the level of total effort.

In a 1997 decision, the OEB indicated it's preference for the use of time records:

The Board, while not advocating its reinstatement, suggests that time docketing provides more direct links. Time docketing may also provide a means of validating the use of a particular cost driver for allocating Corporate Centre Charges, such as those in Corporate Planning and Development. In order to be valid, a cost driver allocation should yield substantially the same result as a time docket, or other measured basis for direct assignment of costs. The Board notes that in this proceeding, the Companies justified their use of the number of bills as a cost driver for allocating Centra's customer accounting costs, based on a time docketing study.³⁶

In a decision dealing with Newfoundland Light & Power Co. Limited, the NFLPUB ordered that all future salary allocations must be supported by time records indicating the duty and time spent on the utility's business:

The Board orders the charges of Fortis Inc. for Chairman's fees in 1996 be treated as non-regulated. All future salary allocations must be supported by time records indicating the duty and time spent on the Applicant's business. Similarly, the Applicant's executive and staff must record time spent on duties for the benefit of Fortis and its subsidiaries.³⁷

The Board cannot accept as a regulatory cost any unsupported transactions. Salary allocations from another entity are essentially unsupportable without time and project records.³⁸

The AEUB sets out several examples of potential allocators for use in the sharing of corporate services including time, number of employees, square footage, capital employed etc...). It further stipulated that the allocation methodology must be reasonable and appropriate and applied correctly:

For example, with respect to the sharing of corporate services, the cost allocation methodology must fairly allocate costs among users based on some reasonable and appropriate criteria (such as time, number of employees, square footage, fixed asset ratios, capital employed, capital expenditures in a year, or annual revenues). The Board notes that both the methodology and total corporate costs will be subject to review at the Utility's GRA. The onus is on the Utility to demonstrate that the allocation methodology is reasonable and appropriate and that the methodology has been applied correctly.³⁹

The selection of an appropriate allocator is dependent on the nature of the service involved. Often the use of a proxy allocator is selected if a more accurate measure is prohibitively expensive to obtain. The proxy should nonetheless be reflective of the principle of cost causality.

³⁶ OEB; EBRO 493/494, Centra Gas Ontario Inc and Union Gas Ltd.; March, 20, 1997; Sec. 5.5.33.

³⁷ NFLPUB; No. P.U. 7, Newfoundland Light & Power Co. Limited; 1996-97; pg. 78-79.

³⁸ NFLPUB; No. P.U. 7, Newfoundland Light & Power Co. Limited; 1996-97; pg. 78.

³⁹ AEUB; Decision 2003-040; ATCO Group. Part B: Code of Conduct; May 22, 2003; pg. 63.

For example, the CRTC questioned the use of headcount as an allocator for several specific services, including legal services, on the basis that they may not reflect causal costs. The use of FTE as an allocator assumes that the services are consumed by all of the FTE and in the same proportions and might not be appropriate where consumption of the service tends to vary among users:

For example, the Commission agrees with Cantel that it is likely that the production of cellular bills is more costly than the production of regular telephone bills of similar dollar value. Another example is that the allocation of costs for services, such as legal services, on the basis of number of employees, may not reflect causal costs.⁴⁰

BCUC accepted the use of a percentage allocation based on a historic time study as a reasonable basis for allocating administrative and general systems operations costs:

In Tab Application, p. 15, PNG states that it uses a fixed percentage, based on an historical time study, to allocate certain costs from account 721-administration and 685-general systems operations to PNG (N.E.). The method of using a fixed percentage, based on an historical time study, is reasonable and the proposed 15.5% is accepted.

BCUC also stipulated that when a time study is used for allocation purposes, it should cover a period of at least 6 months in order to capture most of the activities performed:

PNG will endeavour to update the time study with current information before submitting its next revenue requirement application. This update will have Vancouver head office employees record their actual time spent on PNG (N.E.) matters (includes Fort St. John/Dawson Creek and Tumbler Ridge divisions) using a time sheet or similar process. This process will occur over at least a 6 month period commencing April 1, 2003, to ensure that most activities are captured and reflected in the new base. PNG will use the new base to allocate costs from accounts 721 and 685 in its next revenue requirement application.⁴¹

Regardless of the allocator selected, in order to simplify comparisons between periods, the Régie highly recommends that the allocators change as little as possible. If a change in an allocator is required, the reason should be documented and the results both before and after the change should be indicated.

La Régie remarque que les inducteurs de coût diffèrent selon les services et qu'ils peuvent varier dans le temps. La Régie considère que, de façon à rendre l'information soumise comparable pour l'étude d'une demande tarifaire, le Distributeur devrait s'assurer que les règles utilisées varient le moins possible d'une année à l'autre. Tout changement de règle devra être documenté et justifié au dossier tarifaire concerné, en indiquant les résultats avant et après le changement.

⁴⁰ CRTC; CRTC 92-9, AGT Limited; May 26, 1992; Sec. V.B.6.

⁴¹ BCUC; G-14-03; Pacific Northern Gas Ltd.; March 11, 2003; Appendix A Sec. 18

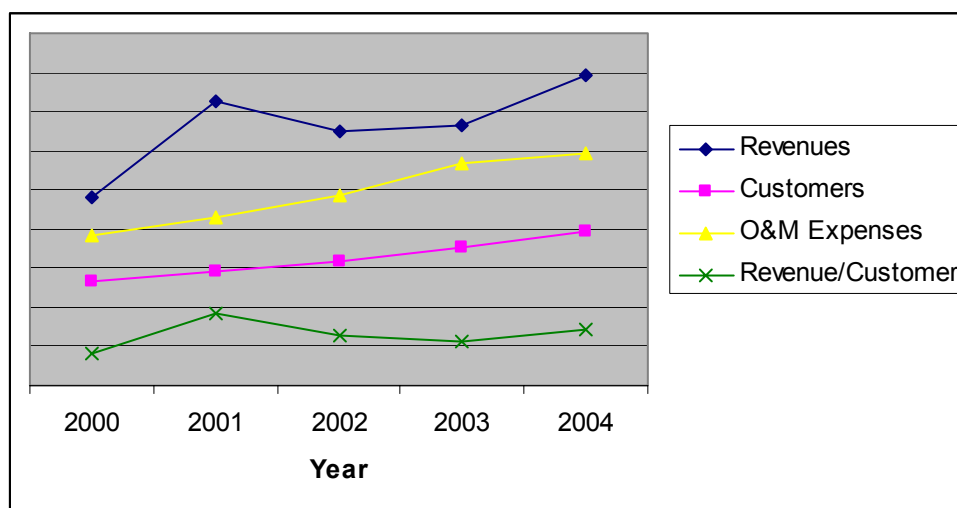
Appendix C: Trend Analysis

General Trends

For Network and Application Services, as well as for the EFS Capital Charge, costs have been adjusted to account for one time events. This allowed for a better analysis of the trends.

General Gazifère Information					
Fiscal	2000	2001	2002	2003	2004
Regulated Revenues	\$41,030,000	\$53,212,000	\$49,354,000	\$50,302,000	\$56,520,000
Average Number of Customers	23,294	24,344	25,239	26,561	28,204
Revenue/Customer	\$1,761	\$2,186	\$1,955	\$1,894	\$1,914
Regulated O&M Expenses	\$4,521,000	\$4,815,000	\$5,149,000	\$5,665,000	\$5,831,000
Average Number of Employees	48	48	48	49	50

- From 2000 to 2001, revenues showed a significant increase. This was due to a sharp increase in the price of natural gas.
- Revenues have risen in accordance with the number of customers.
- O&M Expenses have risen in line with revenues, with the exception of 2004 where O&M Expenses decreased a moderate amount.

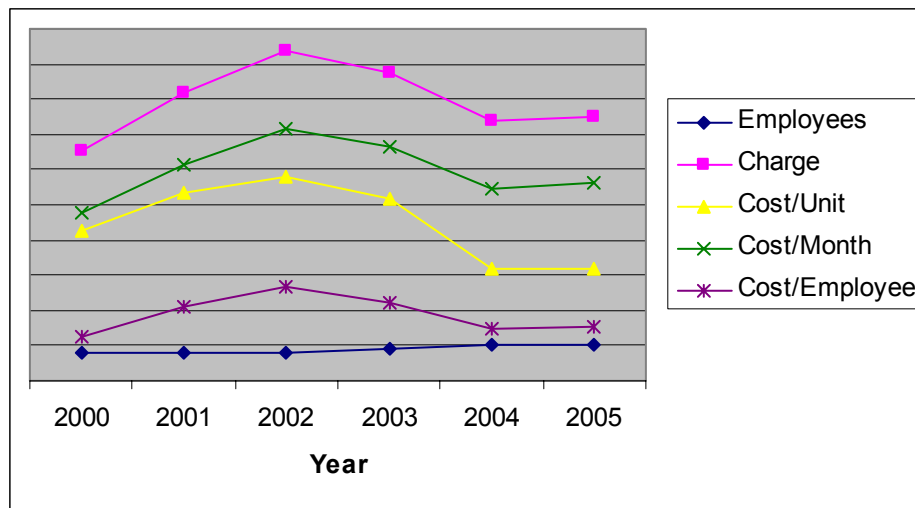


Desktop Services

Desktop Services					
Fiscal	# Employees	Total Cost	Avg. Cost/Unit	Avg. Cost/Month	Cost/Employee
2000	48	\$105,144	\$183	\$8,762	\$2,191
2001	48	\$121,844	\$208	\$10,154	\$2,538
2002	48	\$133,790	\$218	\$11,149	\$2,787
2003	49	\$127,469	\$204	\$10,622	\$2,601
2004	50	\$113,600	\$160	\$9,467	\$2,272
2005	50	\$115,200 *	\$160		

* Charge estimated by Gazifère at 60 units X \$160/Unit X 12 months.

Prior to the latest Desktop Services Schedule ([Appendix E: Services Schedule: Desktop Services](#)), the charge per unit type, as well as the total number of units factored into the Desktop Services charge to Gazifère. For example, a printer was charged a different support price than that for a desktop or a laptop. Leading up to 2003, this resulted in a year-to-year increase in average cost per unit, even though the number of full-time Gazifère employees has remained constant. With the current Desktop Services Schedule, the average cost per unit in 2004 has dropped by more than 21% from 2003, and the unit cost per employee has dropped to near-2000 levels.



Network Services

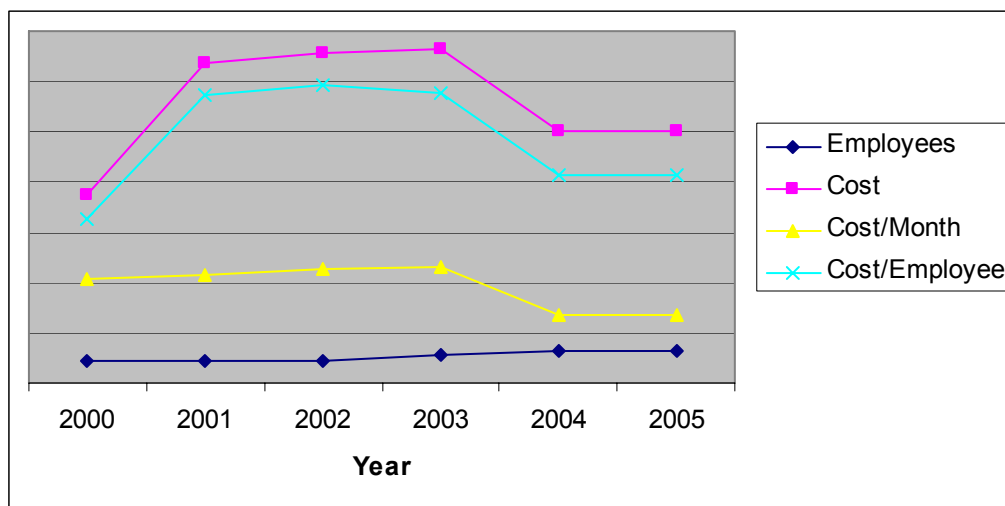
Network Services						
Fiscal	# Employees	Cost Before Adjustment	Adjustments	Adjusted Cost	Avg. Cost/Month	Cost/Employee
2000	48	\$15,000 **	\$0	\$15,000	\$1,667	\$312
2001	48	\$20,255	\$0	\$20,255	\$1,688	\$422
2002	48	\$20,645	\$0	\$20,645	\$1,720	\$430
2003	49	\$33,049	\$12,303 ***	\$20,746	\$1,729	\$423
2004	50	\$17,508	\$0	\$17,508	\$1,459	\$350
2005	50			\$17,500 *		

* Charge approximated by Gazifère at \$1,459 X 12 months.

** Network Services charges were not available for the first 3 months of Fiscal 2000

*** The \$12,303 was an adjustment for a one-time LAN Extension

From Fiscal 2000 to the end of Fiscal 2003, the Network Services charge was based on two components, namely a Telecommunications charge and a Network Support charge (the charge for each of these two components varied between \$864 and \$833 per month each). During this timeframe, the average cost per month rose at a slow pace (< 2% per year). With the current Network Services Schedule in place, the average cost per month has dropped significantly, by more than 15% between 2003 and 2004.

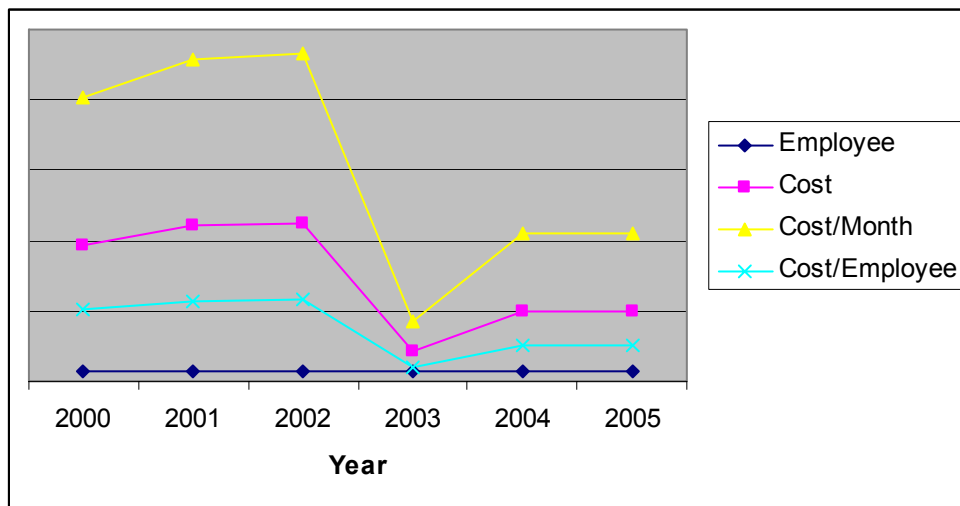


Application Services

Application Services						
Fiscal	# Employees	Cost Before Adjustment	Adjustments	Adjusted Cost	Avg. Cost/Month	Cost/Employee
2000	48	\$97,136	\$0	\$97,136	\$8,095	\$2,024
2001	48	\$110,089	\$0	\$110,089	\$9,174	\$2,294
2002*	48	\$112,158	(\$30,000)	\$82,158	\$6,847	\$1,712
2003*	49	\$20,765	\$30,000	\$50,765	\$4,230	\$1,036
2004	50	\$50,302	\$0	\$50,302	\$4,192	\$1,006
2005	50			\$50,300		

* The 2002 application services charge included an amount of \$5,000 per month for the previous financial systems which were replaced in April 2002 by the EFS system. This amount was charged to Gazifère up until September 2002 and a \$30,000 credit was received in 2003 due to this over charge. We have adjusted both periods accordingly in order to perform our trend analysis.

- The 2005 cost of \$50,300 is less than half of the peak 2001 cost of \$110,089. This is due to the phasing out of many applications which were replaced by the Enterprise Financial System (EFS).



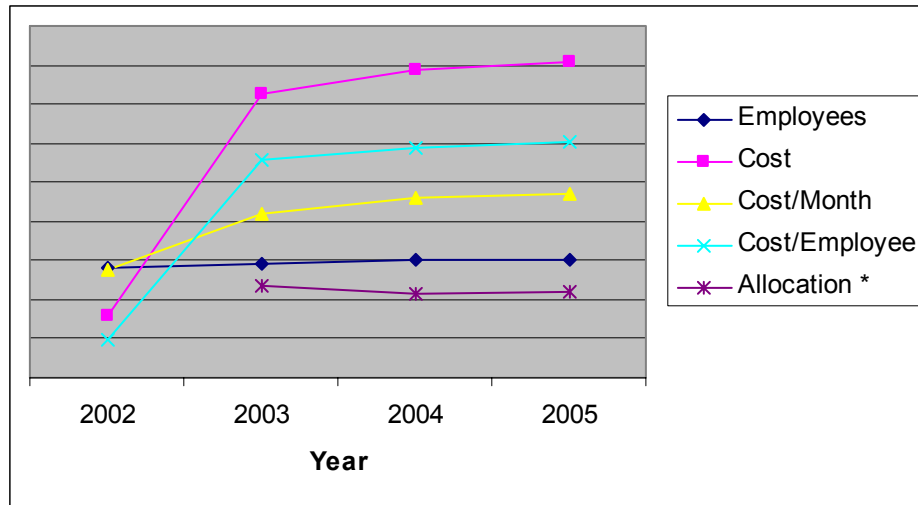
EFS Capital Charge

Enterprise Financial System (EFS) Capital Charge*				
Fiscal	Employees	Total Cost	Avg. Cost/Month	Cost / Employee
2002**	48	\$35,700	\$5,950	\$744
2003	49	\$92,829	\$7,736	\$1,894
2004	50	\$98,766	\$8,231	\$1,975
2005	50	\$100,577	\$8,381	\$2,012

*The EFS asset held at ECS will be fully amortized by 2008

** Based on 6 months of charges

- The charges have remained fairly steady since the initial increase from 2002 to 2003.



Enbridge Inc. Allocation Volumes			
Fiscal	Allocation Method	Total EI Headcount/FTE	Gazifère Headcount/FTE
2002	Headcount	4,896	44.0
2003	Enterprise FTE	3,837	55.6
2004	Enterprise FTE	3,920	54.3
2005	Enterprise FTE	4,213	59.1

* Headcount and FTE numbers provided by EI

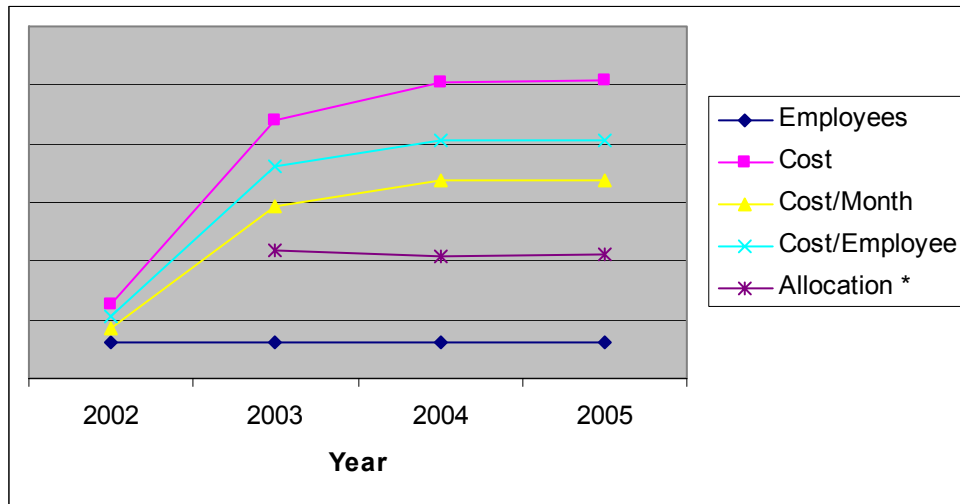
Gazifère Full-Time Equivalents (provided by EI)			
	2003	2004	2005
Gazifère Headcount	45.00	48.00	53.00
EGD Support FTE	9.60	5.50	5.07
EI Support FTE	1.06	0.88	1.04
Total FTEs	55.66	54.38	59.11

EFS Application Support

Enterprise Financial System (EFS) Application Support				
Fiscal	# Employees	Total Cost	Avg. Cost/Month	Cost/Employee
2002*	48	\$25,300	\$2,108	\$527
2003	49	\$88,198	\$7,350	\$1,800
2004	50	\$101,109	\$8,426	\$2,022
2005	50	\$101,583*	\$8,465	\$2,032

* The cost does not include a one time charge of \$50, 560 related to training, documentation, change management and post go-live user support

- Support costs for 2003-2004 are fairly stable.
- For fiscal 2002, it is believed that the support costs were lower primarily due to the fact that the full complement of people supporting the EFS application were not yet fully staffed. Detailed information is not available.



Appendix D – Survey of Utility Industry Cost Allocation Practices

Introduction

In February 2004, Deloitte conducted a survey of the costing practices of regulated Canadian energy utilities.

Nineteen Canadian utilities were asked to participate in the study and were sent a questionnaire to complete and return. A copy of the survey questionnaire is included at the end of this appendix as well as a listing of the names of the organizations who participated in the study. Fifteen of the nineteen companies completed the survey, representing a 79% response rate.

The participants have requested that their responses remain confidential; therefore, no comments or responses of any specific utility have been identified.

Summary Findings

The following is a summary of the key points derived from the survey responses. A more extensive discussion of the survey responses is provided in the sections that proceed.

- All the respondent utilities receive charges from their affiliate entities (i.e., Corporate head office etc.). Most also charge affiliates for services provided to them. 57% of these charges from and to affiliates represent less than 5% of the utilities total O&M expenses.
- Virtually all of the respondents have a formal methodology for developing affiliate charges for services from and to an affiliate. Where a formal methodology exists, the respondents normally have formal documentation.
- Although most utilities have a formal methodology, only approximately two-thirds have had the methodologies formally approved by their respective regulator.
- Approximately one-third of the respondents indicated that they had a formally approved code of conduct for charges from and to affiliates. Where they have a code, the respondents indicated that all charges were in accordance with the approved code of conduct.
- Respondents ranked cost causality and transparency as the most important principles in relation to establishing a utility's charges from and to affiliates, followed by cost inclusiveness.
- Approximately three quarters of respondents stated that the objective of their methodology was to charge operating divisions all specified costs for services provided by the parent company.
- In numerous instances, costs relating to managing the business were allowed by regulators. Of the 11 respondents that answered the question, 6 (55%) indicated that charges associated with the parent company's management of their investment in the utility were allowed, 3 (27%) indicated that they were disallowed and 2 indicated that their regulator had not addressed the issue. The remaining 4 respondents indicated that the question was not applicable or did not respond.
- Of the 11 respondents that answered the question, 8 (73%) allowed charges from an affiliate related to oversight while 3 (27%) did not. The remaining 4 respondents indicated that the question was not applicable.
- The majority of respondents indicated that charges for services from and to an affiliate are based on cost. Market is not typically used as a basis for establishing charges. However where market is used, market is determined using techniques such as:
 - Benchmarking studies;
 - Comparison to arm's length transactions;
 - Internal assessment of market cost for the service;
 - Competitive bidding process;
 - Open market.

- The majority of respondents indicated that, where charges from or to an affiliate are cost based, the cost reflect fully distributed cost, either with or without a regulated return. The use of a fully distributed cost without a return may reflect the possibility that there is not a material amount of investment associated with the services being charged. Regardless of whether the service is being provided from an affiliate or to an affiliate, the respondents indicated that indirect costs such as rent, depreciation and employee benefits are typically included in the fully-burdened charges of other departments rather than being charged separately.
- The respondents indicated that the charges for services both from and to an affiliate are based on budget/forecast, and actuals in the approximately the same proportion.
- Two-thirds of the respondents do not have a formal internal dispute resolution mechanism for charges either from or to an affiliate. Based on commentary provided, there appears to be no consistency among respondents in the resolution mechanisms that do exist.
- Approximately one-third of the 15 respondents indicated that they did not receive charges relating to the functional expense list provided in the survey. There were no instances when a participant indicated that their regulator specifically disallowed a charge.
- The majority of respondents that receive charges from and to an affiliates relating to specific functional expenses use a basis of allocation other than the list provided in the survey (i.e., Full-time equivalent, square foot, time sheet, capital employed, and time estimate).
- Of the 15 respondents who indicated that they allocated costs based on time spent, 3 rely on timesheets, 3 on management estimates and 8 use a combination of the two. Only 2 make use of time studies.

Survey Analysis

Background

Affiliate Charges:

Question 1 & 2

- All 15 responding utilities receive charges *from* affiliate entities (i.e., Corporate head office etc.) and 14 charge for services provided *to* affiliates.
- Of the 15 utilities that receive a charge *from* an affiliate, 8 (57%) indicated that the charges represented less than 50% of their O&M expenses. The charges may include both corporate and non-corporate services. For example, an electric utility included transmission charges from an affiliated utility.
- Of the 14 that charge affiliates, 8 (57%) indicated that the charges represented less than 5% of their O&M expenses.

Charges from:			Charges to:		
Range	# of respondents	%	Range	# of respondents	%
< 5 %	8	57	< 5%	8	57
5% - 50%	5	36	5% - 10%	5	38
> 50%	2	14	> 10%	1	8
Total	15	-	-	14	-

Formal Costing Methodologies:

Question 3-5

14 of the 15 respondents (93%) have a formal methodology for developing affiliate charges for services *from* and *to* an affiliate:

- All but one of the 14 (86.6%), indicated that it had documented its methodology for charges both *from* and *to* affiliate.
- Of the 14, only 9 (69%) have had the methodologies formally approved by their respective regulator.

Category	Yes	No	N/A	Total
Formal Methodology (from and to affiliates)	14	1	0	15
Documented (from and to affiliates)	13	2	0	15
Approved (from and to affiliates)	9	4	2	15

Codes of Conduct:

Question 6 & 7

- Of the 15 respondents, only 4 (26.6%) indicated having a formally approved code of conduct for charges *from* affiliates. When asked whether these charges were all in accordance with the approved code of conduct, the same 4 (26.6%) responded 'yes'.
- Among the 15 respondents, only 5 (33.3%) indicated having a formally approved code of conduct for charges *to* affiliates. When asked whether these charges were all in accordance with the approved code of conduct, the same 5 (33.3%) responded 'yes'.

Category	Yes	No	N/A	Total
Approved Code of Conduct (charges <u>from</u> affiliates)	4	11	-	15
Charges in accordance with Code of Conduct (charges <u>from</u> affiliates)	4	-	11	15
Approved Code of Conduct (charges <u>to</u> affiliates)	5	10	-	15
Charges in accordance with Code of Conduct (charges <u>to</u> affiliates)	5	-	10	15

Principles

Key Regulatory Principles and Practices:

Question 8–9

- 13 of the 15 respondents ranked the principles shown below in terms of importance for establishing charges for services from affiliates while 12 ranked the principles in terms of importance for establishing charges to affiliates. The difference in the number of responses is because one respondent indicated that it did not have charges to affiliates.
- The responses indicate that cost causality and transparency are the most important principles followed by cost inclusiveness. However, less weight was placed on the relative importance of cost causality and transparency for charges to an affiliate.
- One of the two respondents that did not rank the principles in either case, stated that the ranking was not important since their code "sets out purposes and objectives" while the other stated that all of the principles were equally important.

Principle	Charges FROM Affiliates: Score	Charges TO Affiliates: Score
Cost Causality	7.08	6.23
Transparency	6.69	6.00
Cost Inclusiveness	5.62	5.77
Objectivity	4.92	4.62
Cost Incurrence	4.54	4.46
Ease of Application	4.23	4.15
Consistency	4.23	3.46
Cost-Benefit	3.85	3.38
Accuracy	3.38	3.00
<p>* Scores are based on an average ranking of each response. Scores are based on an inverse relationship to ranking, so that a ranking of 1 received a score of 9 while a ranking of 9 received a score of 1</p>		

Full Allocation of Corporate Charges:

Question 10

- 10 (83%) of the 12 respondents who indicated that the question was applicable stated the objective of their methodology is to charge operating divisions all specified costs for services provided by the parent company.

Category	Yes	No	N/A	Total
Objective of the methodology is to charge operating divisions all specified costs	10	2	3	15

Minding the Investment:

Question 11-12

- Of the 11 respondents who addressed this issue, 6 (55%) stated that their regulator allowed costs related to the parent company's management of their investment in the utility, while 3 (27%) said their regulator disallowed these costs, and 2 (18%) indicated that their regulator has not addressed the issue. 4 considered the issued "not applicable" or did not respond.
- Of the 11 respondents who addressed this issue, 9 (81%) indicated that their regulator allowed costs from an affiliate for oversight and managing the overall organization of which the utility is a part, while 2 (19%) indicated that their regulator disallowed such costs. 4 respondents considered the issue "not applicable".

Category	Yes	No	Not Addressed	N/A	N/R	Total
Costs of managing investment in utility allowed?	6	3	2	3	1	15
Cost of oversight allowed	8	3	-	4	0	15

Methodology

Cost based Pricing:

Question 13-26

Charges for services from and to an affiliate

- 14 of the 15 respondents indicated the basis for charges from an affiliate. 9 (64%) indicated that the charges are cost based, 1 indicated that they reflect market, 2 indicated that the charges are based on both cost and market and 2 indicated that another basis is used. However, the comments of the last two respondents indicated that they used fair market value and cost and one of them stated that shared services are charged on a cost recovery basis.
- 13 of the 15 respondents indicated the basis for charges to an affiliate. 9 (69%) indicated that the charges are cost based, no respondent indicated that they reflect market, 3 indicated that the charges are based on both cost and market and 3 indicated that another basis is used. However, the comments of the last three respondents indicated that they used fair market value and cost and one of them stated that shared services are charged on a cost recovery basis.
- For costs charged to an affiliate, 1 respondent (7%) uses both cost and market, and 3 (21%) use another basis.

- Where costs are charged *from* and *to* an affiliate using market values, the techniques for establishing market include:
 - Benchmarking studies;
 - Comparison to arm's length transactions;
 - Internal assessment of market cost for the service;
 - Open market;
 - Competitive bidding process.

Charges	From	To
Cost	9	9
Market	1	0
Both	2	1
Other	2	3
Not Applicable	-	1
Not Response	1	1
Total	15	15

- All 15 respondents indicated how they established cost base prices for charges from an affiliate. The responses indicate that some use more than one approach. In most cases, cost is based on fully distributed cost, either including or excluding a regulated return. 10 of the respondents use at least one of these two approaches.
- 14 of the 15 respondents indicated how they established cost based prices for charges to an affiliate. As with charges from an affiliate, some respondents used more than one approach. After eliminating three duplications, 11 of the respondents use at least one of these two approaches.
- The use of fully distributed cost without a return may reflect the possibility that there is not a material amount of investment associated with many services.

FROM

Category	Yes	No	N/A	N/R	Total
Fully-loaded cost including a regulated return	4	11	0	0	15
Fully-loaded cost excluding a regulated return	6	9	0	0	15
Direct-cost only	6	9	0	0	15
Other	2	12	0	1	15

TO

Category	Yes	No	N/A	N/R	Total
Fully-loaded cost including a regulated return	5	9	1	0	15
Fully-loaded cost excluding a regulated return	6	8	1	0	15
Direct-cost only	4	10	1	0	15
Other	2	10	1	2	15

Fully Burdened Department Costs:

- Where charges are cost based, the following costs that support the provision of services are normally included in the fully burdened charges (i.e., loaded) rather than being charged separately.

Category	Charges FROM:				Charges TO:			
	Loaded	Separate	Both/Other/N/A	Total	Loaded	Separate	Both/Other/N/A	Total
Rent	9	3	3	15	6	3	6	15
Memberships and Industry Associations	8	4	3	15	10	3	2	15
Depreciation	7	1	7	15	7	1	7	15
Employee Benefits	12	1	3	16*	12	2	2	16*
Training	10	1	4	15	10	2	3	15
Travel & Entertainment	10	2	3	15	7	4	4	15

* Note, a respondent selected two options

Forecasts vs. Actuals:

- Charges for services *from* and *to* an affiliate are obtained from budgets/forecast, actuals or a combination of both in approximately the same proportion.

Category	Charges FROM:	Charges TO:
Budget/Forecast	5	4
Actuals	6	4
Both	4	6
Other	-	-
N/A	-	1
Total	15	15

Dispute Resolution Mechanisms:

- Of the 15 respondents, 5 (33%) indicated having an internal dispute resolution mechanism for service charges both *from* and *to* an affiliate; in both cases the respondents where the same.

Category	Yes	No	Total
Internal Dispute Resolution Mechanism (Charges FROM)	5	10	15
Internal Dispute Resolution Mechanism (Charges TO)	5	10	15

- Those respondents having an internal dispute mechanism both *from* and *to* an affiliate, provided the following comments:
 - Initially attempt to resolve the dispute by engaging a manager or director from each party. If not resolved, the aggrieved party sends the affected party written notice identifying the dispute, the amount involved and the remedy sought. The presidents of each affected party shall confer in an effort to resolve the dispute. If the presidents are unable to resolve the dispute, the dispute is submitted to the President of parent company for resolution.
 - There are three levels of informal reviews at progressively senior executive management levels within the organization that generally must first be followed. In the event that the dispute cannot be resolved through the informal review process, the dispute will be settled by arbitration conducted in accordance with the Arbitration Act.

- First stage is between counterparties who set up the agreement (typically the controller's group in each company). If not resolved, then it is passed on to a senior executive in each business unit. If not resolved there, the parties can then seek mediation (however a specific process for going to mediation is not defined in the service agreement).

Functional Areas

Cost Allocators in Use:

Definition of Bases of Allocation – Q28 & Q29

Acronym	Definition
FTE	Full Time Equivalent
SF	Square Footage
TS	Time Sheet
CE	Capital Employed
TE	Time Estimate
Other	Any other basis used to allocate costs

Question 28

- For most of the functional expenses listed below, approximately one third of the 15 respondents indicated that they received a charge. However, in all cases a significant number of respondents did not respond. It is interesting to note that no respondents stated that specific costs were disallowed.

Functional Expenses	Cost Charged	Cost Allowed (1)	Cost Disallowed (2)	Cost Allowed/Disallowed either N/A or N/R (3)	TOTAL (1) + (2) + (3)
CIO Office	6	4	-	11	15
Technology Services	6	3	-	12	15
VP HR Office	4	3	-	12	15
HR	5	3	-	12	15
Labor Relations	5	4	-	11	15
Investor Relations	6	4	-	11	15
Communications	7	5	-	10	15
Public & Governmental Affairs	7	5	-	10	15
Pension Administration	7	4	-	11	15
Taxation	7	5	-	10	15
Audit of Parent Company	6	4	-	11	15
Audit of Utility	7	4	-	11	15
CFO Office	7	4	-	11	15
Accounting	7	5	-	10	15
Legal	6	4	-	11	15
Risk Management	6	4	-	11	15
Insurance	6	4	-	11	15
Treasury	6	5	-	10	15
Procurement Services	4	4	-	13	17
Corporate Aircraft	4	2	-	13	15
CEO Office	7	4	-	11	15

Functional Expenses	Cost Charged	Cost Allowed (1)	Cost Disallowed (2)	Cost Allowed/Disallowed either N/A or N/R (3)	TOTAL (1) + (2) + (3)
VP Strategy Office	5	4	-	11	15
Planning & Development	7	6	-	9	15
Engineering Services, Marketing, Environmental / Health & Safety	1	-	-	15	15
Board, General Counsel & Secretary, Telecom Services	1	-	-	15	15

* Note – some totals are greater than 15 since some respondents gave more than one response selection

- The majority of respondents to this question use a basis of allocation other than those provided in the questionnaire and listed below. Some examples of the 'other' basis of allocation, as extracted from the survey results, are:
 - Net Wages;
 - Overhead;
 - Percent of PC's / workstations;
 - Percentage of O&M.

Functional Expenses	Basis of Allocation								
	FTE	SF	TS	CE	TE	O	N/A	N/R	Total
CIO Office	-	-	-	-	1	5	3	6	15
Technology Services	-	-	1	-	-	6	3	6	16
VP HR Office	-	-	-	-	-	5	3	7	15
HR	3	-	2	-	2	2	3	3	15
Labor Relations	-	-	-	1	-	4	2	8	15
Investor Relations	1	-	-	-	1	5	4	5	16
Communications	1	-	-	-	1	6	3	5	16
Public & Governmental Affairs	1	-	-	-	1	6	3	5	16
Pension Administration	2	-	-	-	-	6	3	5	16
Taxation	1	-	-	-	1	6	3	5	16
Audit of Parent Company	1	-	-	-	1	6	3	5	16
Audit of Utility	2	-	1	-	-	6	3	5	17
CFO Office	1	-	-	-	1	6	3	5	16
Accounting	1	-	-	-	1	5	3	6	16
Legal	1	-	1	-	1	5	3	6	17
Risk Management	1	-	-	-	1	6	3	5	16
Insurance	1	-	-	-	1	5	3	6	16
Treasury	1	-	-	-	1	6	3	5	16
Procurement Services	1	-	-	-	1	6	3	5	16
Corporate Aircraft	-	-	-	-	-	4	5	6	15
CEO Office	1	-	-	-	-	7	2	6	16
VP Strategy Office	1	-	-	-	1	4	3	7	16
Planning & Development	1	-	-	-	2	5	3	5	16
Engineering Services, Marketing, Environmental / Health & Safety	-	-	-	-	-	-	1	14	-
Board, General Counsel & Secretary, Telecom Services	-	-	-	-	-	-	-	-	-

Question 29

- For most of the functional expenses listed below, between one third and two thirds of the 15 respondents indicated that they charge affiliates. Approximately two-third of the time, the functional expenses listed below are charged. Interestingly, only slightly less than 50% of those expenses charged are actually allowed by the regulator.

Functional Expenses	Cost Charged	Cost Allowed (1)	Cost Disallowed (2)	Cost Allowed/Disallowed either N/A or N/R (3)	TOTAL (1) + (2) + (3)
CIO Office	7	4	-	11	15
Technology Services	9	4	-	11	15
VP HR Office	8	3	-	12	15
HR	9	4	-	11	15
Labor Relations	7	3	-	12	15
Investor Relations	5	2	-	13	15
Communications	8	2	-	13	15
Public Affairs	6	1	-	14	15
Pension Administration	5	1	-	14	15
Taxation	9	4	-	11	15
Audit of Parent Company	5	1	-	14	15
Audit of Utility	6	2	-	13	15
CFO Office	8	2	-	13	15
Accounting	11	5	-	10	15
Legal	9	3	-	12	15
Risk Management	8	2	-	13	15
Insurance	8	2	-	13	15
Treasury	6	2	-	13	15
Procurement Services	7	3	-	12	15
Corporate Aircraft	2	1	-	14	15
CEO Office	9	2	-	13	15
VP Strategy Office	5	2	-	13	15
Planning & Development	7	2	-	13	15
Other: Planning	1	-	-	15	15
Engineering, Corporate Services, Gas Control & Management	1	1	-	14	15
Other: Payroll Processing	1	1	-	14	15
Facility Management	1	1	-	14	15
Other: BOD of Directors Fees & Expenses	1	-	-	15	15
Annual General Meeting	1	1	-	14	15

Functional Expenses	Cost Charged	Cost Allowed (1)	Cost Disallowed (2)	Cost Allowed/Disallowed either N/A or N/R (3)	TOTAL (1) + (2) + (3)
Other: Various Operational services	1	1	-	14	15
Other: Regulatory Affairs	1	-	-	15	15

- The majority of respondents to this question use a basis of allocation other than those provided in the questionnaire and listed below. The use of time sheets and time estimates are more common for these charges than for charges from an affiliate. Some examples of the 'other' basis of allocation, as extracted from the survey results, are:
 - Net Wages;
 - Overhead;
 - Percent of PC's / workstations;
 - Percentage of O&M.

Functional Expenses	Basis of Allocation								
	FTE	SF	TS	CE	TE	O	N/A	N/R	Total
CIO Office	2	-	2	-	1	3	2	6	16*
Technology Services	3	-	-	1	2	6	2	4	18*
VP HR Office	2	-	3	-	1	2	1	6	15
HR	2	-	2	-	2	3	3	3	15
Labor Relations	2	-	2	-	-	3	3	5	15
Investor Relations	-	-	1	1	-	3	4	6	15
Communications	-	-	2	-	2	4	1	6	15
Public & Governmental Affairs	-	-	-	-	3	3	2	7	15
Pension Administration	-	-	-	-	1	4	3	7	15
Taxation	-	-	2	-	3	4	2	5	16*
Audit of Parent Company	-	-	-	-	2	3	3	7	15
Audit of Utility	-	-	1	-	2	2	3	7	15
CFO Office	1	-	3	-	1	3	2	5	15
Accounting	1	-	3	-	4	4	1	3	16
Legal	-	-	3	-	4	3	1	5	16
Risk Management	-	-	2	-	3	4	1	6	16
Insurance	-	-	2	-	2	5	1	6	16
Treasury	-	-	1	1	2	2	3	6	15
Procurement Services	1	-	1	-	1	4	3	5	15
Corporate Aircraft	-	-	-	-	-	2	5	8	15
CEO Office	1	-	3	-	2	3	2	4	15
VP Strategy Office	2	-	1	-	1	3	3	7	17
Planning & Development	1	-	2	-	2	3	1	7	16
Other: Planning	-	-	1	-	-	-	-	14	15
Engineering, Corporate Services, Gas Control & Management	-	-	-	-	1	-	-	14	15
Other: Payroll Processing	1	-	-	-	-	-	-	14	15

Functional Expenses	Basis of Allocation								
	FTE	SF	TS	CE	TE	O	N/A	N/R	Total
Facility Management	-	1	-	-	-	-	-	14	15
Other: BOD of Directors Fees & Expenses	-	-	-	-	1			14	15
Annual General Meeting	-	-	-	-	-				1
Other: Various Operational services	-	-	-	-	1			14	15
Other: Regulatory Affairs	-	-	1	-	-			14	-

Time Based Charges:

Question 30

- Where costs are allocated on the basis of time, of the 14 respondents, 8 (57%) of the utilities surveyed indicated that charges are based on both timesheets and management estimates. Some respondents provided more than one answer (i.e., use time studies and management estimates), therefore total is greater than overall number of respondents (15).

Category	# of Responses
Timesheets	3
Management Estimates	3
Both (Timesheets & Management Estimates)	8
Time Studies	2
Other	1
No Response	1
Total	18*

Comments:

Question 31

Some of the participants provided comments regarding the issues relating to charges for services from / to affiliates.

- Our regulator, like others, will always be sensible to the evidence supporting charges between a regulated enterprise and its affiliates, within or outside the legal entity, to get a reasonable assurance that there is no benefit unduly conferred to non-regulated entities by the regulated enterprise. Changing organizations and responsibilities is on going and this requires more and more efforts to keep track of cost in those changing environments in order to keep the regulator's level of satisfaction to its best.
- Our regulator has engaged an independent consultant to consider whether our Code of Conduct should be "beneficial" to ratepayers vs. "no harm" which is the current principle of the Code.
- There has been a ten-fold increase in services from affiliates with a 40% decrease in services provided to affiliates. This was a major point of concern in our most recent rate proceeding and are awaiting a final decision on whether the regulator will allow recovery of the inbound service fees.
- We are in the process of obtaining various benchmarking studies related to affiliate transactions, in a collaborative process with interested parties. The success of these processes will set the direction for future benchmarking processes.
- Long-term incentive compensation costs allocated to utilities have been disallowed because this compensation was based on parent company share price and not specific utility accomplishment.

- *We need to comply with the recently approved Code. The single biggest issue will be in the development and reporting of the compliance plan as outlined in the Code.*
- *This utility is currently in the process to determine cost allocation from the utility for shared services to other newly integrated utility. Both companies are managed by a single management team.*
- *The utility is always looking for a reasonable assurance that there is no benefit unduly conferred to or from affiliates within the regulated enterprise. That would be unacceptable to the regulators.*
- *Performing consolidation & elimination, determining process and ensuring that it gets proper priority without diverting attention for external users.*

Other Information

Survey Questionnaire

Utility Industry Survey: Corporate Cost Allocations			
Name:			
Utility:			
Title:			
Business Role:			
Phone:			
Email:			
Date:			

Survey Guidelines:

The survey questions pertain to both general principles used and specific methods for establishing each type of service charge.

The survey is organized into four sections, as follows:

- A. Background Information about your utility's involvement with charges from and to affiliates
- B. General principles employed by your organization to guide the establishment of charges for services provided by or to affiliates
- C. Key components of the methodology utilized in establishing the charges for services provided by or to affiliates
- D. Details regarding allocation of costs for services provided by or to affiliates.

A. Background Information			
1a.	Does your utility receive charges for services <u>FROM</u> an affiliate (Corporate head office, other affiliates, or a non-regulated division)?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
1b.	What % of your total O&M expenses represent charges <u>FROM</u> affiliates?	_____ %	
Comments:			
2a.	Does your utility charge for services <u>TO</u> an affiliate (Corporate head office, other affiliates, or a non-regulated division)?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
2b.	What % of your total O&M expenses represent charges <u>TO</u> affiliates?	_____ %	
Comments:			
3.	Is there a formal methodology for developing affiliate charges?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	a. for services <u>FROM</u> affiliates	<input type="checkbox"/>	<input type="checkbox"/>
	b. for charges <u>TO</u> affiliates	<input type="checkbox"/>	<input type="checkbox"/>
Comments:			
4.	Is the methodology used for affiliate charges documented?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	a. for charges <u>FROM</u> affiliates	<input type="checkbox"/>	<input type="checkbox"/>
	b. for charges <u>TO</u> affiliates	<input type="checkbox"/>	<input type="checkbox"/>
Comments:			
5.	Have the methodologies been approved by your regulator?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
	a. for charges <u>FROM</u> affiliates	<input type="checkbox"/>	N/A <input type="checkbox"/>
	b. for charges <u>TO</u> affiliates	<input type="checkbox"/>	N/A <input type="checkbox"/>
Comments:			

6. Do you have a Code of Conduct for affiliate charges that have been approved by your regulator? (If yes, please reference any decisions that addresses this Code)			
a. for charges FROM affiliates		Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. for charges TO affiliates		Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comments:			
7. Are ALL of your charges for services in accordance with your approved Code of Conduct?			
a. for charges FROM affiliates		Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. for charges TO affiliates		Yes <input type="checkbox"/>	N/A <input type="checkbox"/>
Comments:			
B. Principles for Establishing Service Charges			
8. Please rank the following nine principles in terms of importance, in relation to establishing your utility's charges for services FROM affiliates, using the following scale?			
Scale (please use each scale value only once):			
1 = most important principle, 9 = least important principle, N/A = not applicable in establishing principles			
Principle	Definition	Rank	
1. Ease of Application	Applying the methodology to determine the charges is simple	___	
2. Transparency	The nature and basis of the charges are clear to recipients and regulators	___	
3. Cost Incurrence	Charges relate only to those incurred costs which meet the needs of the recipient	___	
4. Cost Causality	Charges reflect cause and effect relationship	___	
5. Cost-Benefit	Charges relate only to those functions that create quantifiable value to the recipient	___	
6. Cost Inclusiveness	All costs related to the service are included in the calculation of the charge	___	
7. Accuracy	Charges reflect a precise and exact calculation of the charge	___	
8. Objectivity	Charges are supported by non-subjective data	___	
9. Consistency	Charges are consistently applied across functions and time periods	___	
Comments:			
9. Please rank the following nine principles in terms of importance, in relation to establishing your utility's charges for services TO affiliates, using the following scale?			
Scale (please use each scale value only once):			
1 = most important principle, 9 = least important principle, N/A = not applicable in establishing principles			

Principle	Definition	Rank		
1. Ease of Application	Applying the methodology to determine the charges is simple	—		
2. Transparency	The nature and basis of the charges are clear to recipients and regulators	—		
3. Cost Incurrence	Charges relate only to those incurred costs which meet the needs of the recipient	—		
4. Cost Causality	Charges reflect cause and effect relationship	—		
5. Cost-Benefit	Charges relate only to those functions that create quantifiable value to the recipient	—		
6. Cost Inclusiveness	All costs related to the service are included in the calculation of the charge	—		
7. Accuracy	Charges reflect a precise and exact calculation of the charge	—		
8. Objectivity	Charges are supported by non-subjective data	—		
9. Consistency	Charges are consistently applied across functions and time periods	—		
Comments:				
10. Is the objective of your methodology to charge to operating divisions all specified costs for the services provided by the parent organization to the operating divisions?	Yes <input type="checkbox"/>	No <input type="checkbox"/>	N/A <input type="checkbox"/>	
Comments:				
11. Has your regulator allowed or disallowed the charging of costs related to your parent company's management of their investment in your utility?	Allowed <input type="checkbox"/>	Disallowed <input type="checkbox"/>	Not Addressed <input type="checkbox"/>	Not Applicable <input type="checkbox"/>
Comments:				
12. Has your regulator allowed charges <u>FROM</u> an affiliate related to oversight (such as setting strategy, setting corporate standards, and managing the overall organization)?	Allowed <input type="checkbox"/>	Disallowed <input type="checkbox"/>	N/A <input type="checkbox"/>	
Comments:				
C. Overall Service Charge Methodology Employed				
13. Where your utility receives charges for services <u>FROM</u> an affiliate, on what basis are the charges established?	At Cost <input type="checkbox"/>	At Market <input type="checkbox"/>	Other (Please explain) <input type="checkbox"/>	
Comments:				
14. Where your utility allocates charges for services <u>TO</u> an affiliate, on what basis are the charges established?	At Cost <input type="checkbox"/>	At Market <input type="checkbox"/>	Other (Please explain) <input type="checkbox"/>	
Comments:				
15. If the charge <u>FROM</u> an affiliate is based on market, how do you determine market value?				
Comments:				

16. If the charge <u>TO</u> an affiliate is based on market, how do you determine market value?				
Comments:				
17. If the charges for services <u>FROM</u> affiliates are based on cost, do you use:	Yes	No		
a. Fully-loaded cost including a regulated return	<input type="checkbox"/>	<input type="checkbox"/>		
b. Fully-loaded cost excluding a regulated return	<input type="checkbox"/>	<input type="checkbox"/>		
c. Direct-cost only	<input type="checkbox"/>	<input type="checkbox"/>		
d. Other (please explain below)	<input type="checkbox"/>	<input type="checkbox"/>		
Comments:				
18. If the charges for services <u>TO</u> affiliates are based on cost, do you use:	Yes	No		
a. Fully-loaded cost including a regulated return	<input type="checkbox"/>	<input type="checkbox"/>		
b. Fully-loaded cost excluding a regulated return	<input type="checkbox"/>	<input type="checkbox"/>		
c. Direct-cost only	<input type="checkbox"/>	<input type="checkbox"/>		
d. Other (please explain below)	<input type="checkbox"/>	<input type="checkbox"/>		
Comments:				
19. Where charges <u>FROM</u> an affiliate are based on cost, are the following costs included in the fully-burdened charges of other departments (i.e. loaded) or are they charged separately (i.e. separate):	Loaded	Separate	Other (please specify)	N/A
a. Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Membership and Industry Associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Depreciation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Employee Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Travel and Entertainment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:				
20. Where charges <u>TO</u> an affiliate are based on cost, are the following costs included in the fully-burdened charges of other departments (i.e. loaded) or are they charged separately (i.e. separate):	Loaded	Separate	Other (please specify)	N/A
a. Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Membership and Industry Associations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Depreciation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Employee Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Travel and Entertainment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments:				

21. Where there are charges for services <u>FROM</u> an affiliate, from where are costs obtained:		
a. Budget / Forecast	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Actual	<input type="checkbox"/>	<input type="checkbox"/>
c. Other (please explain below)	<input type="checkbox"/>	<input type="checkbox"/>
Comments:		
22. Where there are charges for services <u>TO</u> an affiliate, from where are costs obtained:		
a. Budget / Forecast	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Actual	<input type="checkbox"/>	<input type="checkbox"/>
c. Other (please explain below)	<input type="checkbox"/>	<input type="checkbox"/>
Comments:		
23. Do you have an internal dispute resolution mechanism for service charges <u>FROM</u> an affiliate?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comments:		
24. Do you have an internal dispute resolution mechanism for service charges <u>TO</u> an affiliate?	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Comments:		
25. If you have an internal dispute resolution mechanism for service charges <u>FROM</u> an affiliate, please describe the process and identify the final arbiter.		
Comments:		
26. If you have an internal dispute resolution mechanism for service charges <u>TO</u> an affiliate, please describe the process and identify the final arbiter.		
Comments:		

D. Functional Cost Allocations

27. For each of the following functional expenses for which your utility receives a charge FROM an affiliate, please indicate the following:

- whether your utility is allocated such costs FROM an affiliate
- whether the charges have been approved or disallowed by your regulator
- the basis of allocating the charge for service FROM an affiliate (*please use acronym as per legend below*)

Basis of Allocation Legend:

FTE = Full time equivalent

TS = Timesheet

TE = Time Estimate

SF = Square Footage

CE = Capital Employed

O = Other (*please specify in comments column*)

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
CIO Office	Sets strategy and standards for technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Technology Services	Provides technical advice and provision of technology infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
VP Human Resources Office	Develops Policies and programs for HR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Human Resources:	Advises and assists in the recruiting and hiring of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Labour Relations	Develops and implements labour relations strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Investor Relations	Liaises with shareholders and capital markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Communications	Advises and assists in writing and editing external reports and press releases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Public and Governmental Affairs	Maintains the reputation of the company among external and internal stakeholders.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
Pension Administration	Oversees the management and administration of all pension and savings plan assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Taxation	Provides advice and compliance services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Audit of Parent Company	Supports external audit of parent organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Audit of Utility	Performs divisional financial, compliance, and operational audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
CFO Office	Provides senior leadership and advice regarding the financial affairs of the company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Accounting	Maintains enterprise-wide financial accounting systems and records	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Legal	Coordinates and provides enterprise-wide legal counsel and consultation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Risk Management	Prepares annual Corporate Risk Assessment and develops appropriate risk mitigation strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Insurance	Provides strategic risk management advice and placement of insurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
Treasury	Performs cash forecasting and interfaces with financial markets / institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Procurement Services	Negotiates, executes and maintains all arrangements with suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Corporate Aircraft	Provides air transportation for company personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
CEO Office	Provides business units with senior executive advisory services and oversight	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
VP Strategy Office	Performs corporate level strategic planning and project financial analyses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Planning & Development:	Provides advice and assistance in strategic planning, corporate development and acquisitions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Comments:						

28. For each of the following functional expenses for which your utility receives a charge TO an affiliate, please indicate the following:

- a. whether your utility is allocated such costs TO an affiliate
- b. whether the charges have been approved or disallowed by your regulator
- c. the basis of allocating the charge for service TO an affiliate (*please use acronym as per legend below*)

Basis of Allocation Legend:

FTE = Full time equivalent

TS = Timesheet

TE = Time Estimate

SF = Square Footage

CE = Capital Employed

O = Other (*please specify in comments column*)

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
CIO Office	Sets strategy and standards for technology	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Technology Services	Provides technical advice and provision of technology infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
VP Human Resources Office	Develops Policies and programs for HR	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Human Resources:	Advises and assists in the recruiting and hiring of employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Labour Relations	Develops and implements labour relations strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Investor Relations	Liases with shareholders and capital markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Communications	Advises and assists in writing and editing external reports and press releases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Public and Governmental Affairs	Maintains the reputation of the company among external and internal stakeholders.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Pension Administration	Oversees the management and administration of all pension and savings plan assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Taxation	Provides advice and compliance services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Audit of Parent Company	Supports external audit of parent organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
Audit of Utility	Performs divisional financial, compliance, and operational audits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
CFO Office	Provides senior leadership and advice regarding the financial affairs of the company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Accounting	Maintains enterprise-wide financial accounting systems and records	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Legal	Coordinates and provides enterprise-wide legal counsel and consultation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Risk Management	Prepares annual Corporate Risk Assessment and develops appropriate risk mitigation strategies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Insurance	Provides strategic risk management advice and placement of insurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Treasury	Performs cash forecasting and interfaces with financial markets / institutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Procurement Services	Negotiates, executes and maintains all arrangements with suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Corporate Aircraft	Provides air transportation for company personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
CEO Office	Provides business units with senior executive advisory services and oversight	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
VP Strategy Office	Performs corporate level strategic planning and project financial analyses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Planning & Development:	Provides advice and assistance in strategic planning, corporate development and acquisitions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	

FUNCTIONAL EXPENSE	Description	Cost is Charged	Charge has been Approved by Regulator	Charge has been Disallowed by Regulator	Basis of Allocation for Charges (as per legend)	Comments
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Other : (please specify)		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____	
Comments:						

29. Where costs are allocated on the basis of time, do you base charges on:		
a. Timesheets	Yes <input type="checkbox"/>	No <input type="checkbox"/>
b. Management estimates	<input type="checkbox"/>	<input type="checkbox"/>
c. Time studies	<input type="checkbox"/>	<input type="checkbox"/>
d. Other (please explain below)	<input type="checkbox"/>	<input type="checkbox"/>
Comments:		
30. Please describe any recent issues facing your organization concerning charges for services <u>FROM/TO</u> affiliates?		
Comments:		

Names of Respondents

Respondent Names	
Atco Gas / Atco Electric	Newfoundland & Labrador Hydro
Aquila	Newfoundland Power
Gaz Metropolitain	Nova Scotia Power
Hydro One	SaskEnergy
Hydro Québec Distribution	Trans-Canada Pipelines
Hydro Québec TransEnergie	Terasen Gas Inc.
Manitoba Hydro / Centra Gas	Union Gas Limited
New Brunswick Power	

Total Responses per Question

* Note, percentage calculations are based on the Number of Respondents who responded to the question, and not the number of companies who completed a survey.

Question Number	Number of Respondents	Number of "Non Response"
1a	15	0
1b	15	0
2a	15	0
2b	14	1
3a	15	0
3b	15	0
4a	15	0
4b	15	0
5a	13	2
5b	13	2
6a	15	0
6b	15	0
7a	15	0
7b	15	0
8a	13	2
9a	13	2
10a	15	0
11a	14	1
12a	15	0
13a	14	1
14a	14	1
15a	14	1
16a	15	0
17a	15	0
17b	15	0
17c	15	0
17d	14	1
18a	15	0
18b	15	0
18c	15	0
18d	13	2
19 a-f	15	0
20a	15	0
20b	15	0
20c	15	0
20d	14	1
20e	15	0
20f	15	0
21 a-c, 22 a-c, 23a, 24a, 25a, 26a	15	0

Question Number	Number of Respondents	Number of "Non Response"
30 a-d	14	1
31a	11	4
32a	1	14

Appendix E: Services Schedule: Desktop Services

See separate attachment.

Appendix F: Services Schedule: Network Services

See separate attachment.

Appendix G: Services Schedule: Application Hosting and Maintenance

See separate attachment.

Appendix H: Services Schedule: IT Consulting and Professional Services

See separate attachment

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