
**Newfoundland Power Inc.
Inter-Affiliate Code of Conduct**

May 2011

Table of Contents

	Page
1.0 Purpose.....	1
2.0 Application of Code.....	1
3.0 Underlying Principles	1
4.0 Definitions.....	2
5.0 Operational and Financial Independence.....	3
5.1 Independent Business Management.....	3
5.2 Separate Finance and Accounting.....	3
6.0 Transfer Pricing	3
6.1 Pricing Where Competitive Market Exists	3
6.2 Determination of Fair Market Value.....	3
6.3 Pricing Where No Competitive Market Exists	3
6.4 Fully Distributed Cost.....	4
6.5 Shared Corporate Services	4
6.6 Transfer of Assets	5
6.7 Financial Transactions with Affiliates	5
6.8 Emergency Services.....	5
6.9 Services Beyond Imitating Emergency.....	6
6.10 Utility Service	6
7.0 Billing and Collection.....	6
8.0 Confidentiality	6
8.1 Protection of Confidential Information.....	6
8.2 Sharing of Information Services	6
9.0 Reporting.....	7
10.0 Compliance	7
11.0 Administration of Inter-Affiliate Charges	7
Appendix A: Transfer Pricing Guidelines	

1.0 Purpose

The purpose of this Inter-Affiliate Code of Conduct (the "Code") is to establish standards and conditions for interaction between Newfoundland Power Inc. and its Utility and Non-Utility Affiliates. This Code attempts to anticipate and adjust for the potential misalignment of interest between shareholders and utility customers occasioned by Affiliate interactions through the establishment of parameters for transactions, information sharing and the sharing of services and resources, while permitting interactions that allow economies of scale and operating efficiencies to be achieved.

2.0 Application of Code

Whenever Newfoundland Power provides services or resources to an Affiliate or receives services or resources from an Affiliate (an "Inter-Affiliate Transaction"), it shall do so in accordance with the provisions of the Code.

3.0 Underlying Principles

The Code should be interpreted and applied in accordance with the following principles:

- i. All Inter-Affiliate Transactions shall be fully transparent and subject to the scrutiny of the Board;
- ii. All Inter-Affiliate Transactions shall be prudent, and the prudence of such transactions shall, when required, be demonstrated to the satisfaction of the Board;
- iii. Newfoundland Power shall ensure that Inter-Affiliate Transactions will not disadvantage the interests of ratepayers and furthermore that ratepayers and the Utility will derive some demonstrable benefit from such transactions;
- iv. With regard to the provision of staff and other services to its Affiliates, benefits should be transparent, demonstrable and maximized to the advantage of ratepayers;
- v. Inter-Affiliate Transactions should only be entered into insofar as they provide a net benefit to ratepayers and they do not compromise the operational or managerial integrity of Newfoundland Power;
- vi. Charges associated with Inter-Affiliate Transactions must be supported by the principles of cost causality; and
- vii. The onus is on the utility to show that it is in compliance with this Code.

4.0 Definitions

"*Affiliate*" means Fortis Inc. or any of its subsidiary companies, and includes any partnership, joint venture, or person in which Fortis Inc. or any of its subsidiary companies has a controlling interest, or that is otherwise subject to the control of Fortis Inc. or any of its subsidiary companies.

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

"*Code*" means the *Newfoundland Power Inc. Inter-Affiliate Code of Conduct*.

"*Confidential Information*" means any information relating to a specific customer or potential customer of Newfoundland Power, which information Newfoundland Power has obtained or compiled in the process of providing current or prospective Utility Service and which is not otherwise available to the public.

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

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

"*Information Services*" means computer systems, services databases and persons knowledgeable about Newfoundland Power's information technology systems.

"*Newfoundland Power*" means Newfoundland Power Inc.

"*Service Agreement*" means any agreement between Newfoundland Power and one or more Affiliates in relation to the sharing of services and/or resources.

"*Shared Service*" means any service where the service is administered by a single company for a number of Affiliated Companies.

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

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

"*Weighted Average Cost of Capital*" means the average cost of financing a Utility's regulated operations as approved for ratemaking purposes.

5.0 Operational and Financial Independence

5.1 *Independent Business Management*

The business and affairs of Newfoundland Power shall be managed and conducted in the best interests of Newfoundland Power and independently from the business and affairs of its Affiliates.

5.2 *Separate Finance and Accounting*

Newfoundland Power shall ensure accounting and financial separation from all Affiliates and shall maintain separate financial records and books of account.

6.0 Transfer Pricing

6.1 *Pricing Where Competitive Market Exists*

Where Newfoundland Power provides services, resources or assets to an Affiliate, those services, resources or assets will be valued using Fair Market Value where a competitive market exists.

In acquiring services, resources, products or assets from an Affiliate, Newfoundland Power shall pay no more than Fair Market Value for those services, resources, products or assets where a competitive market exists.

6.2 *Determination of Fair Market Value*

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

Newfoundland Power shall bear the onus of demonstrating that the methodology or methodologies utilized in determining the Fair Market Value of a service, resource, product or asset was appropriate in the circumstances.

Where a service or product is subject to a regulated tariff, the regulated tariff rate shall be deemed to be the market price.

6.3 *Pricing Where No Competitive Market Exists*

Where a competitive market does not exist for a service, resource, product or asset or, alternatively, where a market may exist but there are significant differences between those services, resources, products or assets provided by Newfoundland Power and those that are available in the public market, Newfoundland Power shall charge no less than the Fully Distributed Cost to provide that service, resource, product or asset.

Where the provision of service includes the use of an asset, the Fully Distributed Cost shall include a return on Newfoundland Power's invested capital based on Newfoundland Power's Weighted Average Cost of Capital.

Where a competitive market does not exist for a service, product, resource, or use of an asset provided by an Affiliate, Newfoundland Power shall pay no more than the Fully Distributed Cost to acquire that service, resource, product or asset. Where the provision of service includes the use of an asset, the Fully Distributed Cost shall include a return on the Affiliate's invested capital. The return on the Affiliate's invested capital for this purpose shall be no higher than the Affiliate's Weighted Average Cost of Capital.

Where Newfoundland Power pays a cost-based price, it may from time to time request a detailed breakdown of the Affiliate's fully-distributed cost of providing a service or resource.

6.4 Fully Distributed Cost

Fully Distributed Costs are calculated for services, resources, products and assets with respect to:

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

6.5 Shared Corporate Services

Where Newfoundland Power determines it is prudent to do so, it may obtain Shared Services from an Affiliate or provide Shared Services to an Affiliate. Newfoundland Power shall periodically review the prudence of Shared Services and make whatever adjustments are necessary to ensure that Newfoundland Power and its Affiliates bear their proportionate share of costs.

Subject to the Transfer Pricing Guidelines in Appendix "A", the charges to each Affiliate for a Shared Service will reflect all of the costs incurred in providing the service.

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

6.6 *Transfer of Assets*

If Newfoundland Power sells or transfers to an Affiliate a utility asset, the price shall be the greater of the market price or the net book value of the asset.

If Newfoundland Power purchases or obtains the transfer of an asset from an Affiliate, the price shall be no more than the market price.

For utility assets with a net book value exceeding \$100,000, Newfoundland Power shall obtain an independent assessment of the market price.

6.7 *Financial Transactions with Affiliates*

Newfoundland Power may, at its discretion, provide or borrow monies from an Affiliate in its normal course of business and provided such transaction does not breach the provisions of any existing credit agreements or bond covenants.

Newfoundland Power shall ensure that any loan or guarantee provided by an Affiliate is on terms no less favourable than what Newfoundland Power would be able to obtain on its own from the capital markets.

Newfoundland Power shall ensure that any loan or guarantee provided to an Affiliate is on terms no less favourable than what Newfoundland Power would be able to obtain on its own from the capital markets.

Newfoundland Power shall ensure that the terms and conditions of any financial transactions with Affiliates are properly documented and recorded in the Company's books of account.

6.8 *Emergency Services*

In the event of a utility emergency being encountered by Newfoundland Power or a Utility Affiliate, Newfoundland Power may share services and resources with the Utility Affiliate on a cost recovery basis. Requests for emergency assistance from non-affiliated utilities will be treated in the same manner.

Newfoundland Power will respond to requests from other utilities for assistance in emergency situations where it is able to do so without negatively affecting its ability to continue to provide safe and reliable service. Deployment of field staff to assist a requesting utility is always subject to the following conditions:

- Newfoundland Power's ability to continue to provide services to its customers is not negatively impacted.
- Newfoundland Power is compensated for the use of its employees on the basis of fully distributed cost. This includes indirect costs.

- Newfoundland Power will immediately recall its employees if it becomes necessary to avoid negative impacts on Newfoundland Power's customer service due to developments in the Company's service area.

6.9. Services Beyond Initiating Emergency

In the event that Newfoundland Power staff remains deployed beyond the initiating emergency, charges for technical and line personnel shall be based on the market proxy rate set out in Appendix A. Where the deployment of field staff extends beyond the initiating emergency, Newfoundland Power will bear the onus of demonstrating that the deployment beyond the initiating emergency was in accordance with the Underlying Principles of the Code.

6.10 Utility Service

Newfoundland Power shall, in relation to Utility Service provided to its Affiliates, apply and enforce the *Newfoundland Power Inc. Schedule of Rates, Rules & Regulations* impartially, in the same timeframe, and without preference, and shall treat its Affiliates no differently than other customers or prospective customers.

7.0 Billing and Collection

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

Invoices for the recovery of charges associated with Inter-Affiliate Transactions shall be issued on a monthly basis. If the invoice is not paid in full within 30 days from the date of invoice, interest charges shall apply. The interest rate shall be equal to that charged to ratepayers for outstanding charges in accordance with Regulation 10(c) of the *Newfoundland Power Inc. Schedule of Rates, Rules & Regulations*.

8.0 Confidentiality

8.1 Protection of Confidential Information

Newfoundland Power shall not release Confidential Information to an Affiliate without the written consent of the customer to which the Confidential Information relates.

8.2 Sharing of Information Services

Where Newfoundland Power shares Information Services with an Affiliate, all Confidential Information shall be protected from access by the Affiliate. Access to Newfoundland Power's Information Services shall include provision for appropriate computer data management and data access protocols, and shall be subject to contractual provisions regarding any breach of access protocols. Compliance with access protocols shall be periodically confirmed by Newfoundland Power through a review that complies with the Canadian Institute of Chartered Accountants Handbook.

9.0 Reporting

Within 45 days from the end of the quarterly financial period, Newfoundland Power shall submit to the Board a report of charges to and from Affiliated Companies. The report shall categorize inter-affiliate transactions by Affiliate and major activity. The report will also include information on any Service Agreement entered into with an Affiliate during the reporting period.

The specific form and content of the report shall be in accordance with the Board's directions in that regard.

All transactions involving loans or financial guarantees to or from Affiliates shall be reported individually.

Employee travel costs such as room or meal costs incurred at an Affiliate-owned hotel shall not be included in the report due to the administrative cost of monitoring and reporting these low cost items.

Transactions involving the provision of Utility Service to Affiliates shall not be included in the report.

10.0 Compliance

All Inter-Affiliate Transactions are subject to scrutiny by the Board.

Newfoundland Power shall comply with all Board directions with respect to Inter-Affiliate Transactions.

Any determination by the Board with respect to a matter to which this Code applies may, at the Board's discretion, be determined without a hearing through an oral, written or electronic process.

Newfoundland Power shall be responsible for communicating to employees the requirements of the Code.

Newfoundland Power will monitor and ensure compliance with the Code through annual compliance reviews.

Any non-compliance with the Code by any director, employee or agent of Newfoundland Power or Affiliate with respect to interactions of the Affiliate with Newfoundland Power will be considered to be non-compliance by Newfoundland Power and shall be subject to the full range of authority of the Board.

11.0 Administration of Inter-Affiliate Charges

The administration of charges for Inter-Affiliate Transactions is the responsibility of Newfoundland Power's Manager, Finance, who shall report directly thereon to the Chief Financial Officer. The determination of prices to be charged will be in accordance with the Code.

Appendix A
Transfer Pricing Guidelines

Appendix A**1.0 Services, Resources and Assets to be Priced at Market**

The following services and/or resources provided by Newfoundland Power to an Affiliate shall be priced using fair market value or a proxy for fair market value:

Executive and Managers

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

Engineering Services

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

Equipment and Materials

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

Incremental Expenses

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

Insurance Administration

Staff time for the administration of the group insurance program will be charged based on a market proxy rate of \$108 per hour.

Printing Charges

Charges related to the printing and production of materials or publications for an Affiliated Company will be based on a proxy for market cost including applicable capital costs.

2.0 Services, Resources and Assets to be Priced at Fully Distributed Cost

The following services and/or resources provided by Newfoundland Power to an Affiliate shall be priced using Fully Distributed Cost.

Information Systems Services

The Information Services Department acquires computer software license agreements to serve Affiliated Companies. The cost is allocated based on causality or the number of users per Affiliate.

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

Trustee, Listing and Filing Fees

These are charges from Fortis related to raising and maintaining equity capital. The full cost is allocated based the relative percentage of total shareholder equity for each Affiliate.

Share Purchase Plan Costs

These are charges from Fortis related to raising and maintaining equity capital. The full cost is allocated based the relative percentage of total shareholder equity for each Affiliate.

Employee Exchange

For an employee exchange between Affiliates that is temporary in nature, staff time is charged based on the recovery of the Fully Distributed Cost.

Emergency Services

Where assistance is provided to a Utility to deal with an emergency situation, the charges will recover the Fully Distributed Cost. Associated charges will include charges for all time spent on the emergency, including coordination and mobilization time, actual working hours at that site of the emergency and demobilization time.

Services Beyond Initiating Emergency

When staff deployment extends beyond the initiating emergency, charges for technical and line personnel shall be based on the derived market rate for Engineering Services (currently, 2 times the Fully Distributed Cost).

3.0 Determining Fully Distributed Cost – Staff Charges

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

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

Where the provision of service includes the use of an asset, the fully allocated cost may include a return on the Affiliate's invested capital. The return on the Affiliate's invested capital shall be no higher than the approved weighted average cost of capital.