

# **Safeguarding the Ratepayer where Utility Affiliates Engage in Other Businesses**

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# The Issue

Address potential impact:

- On ratepayers...
- On markets...
  - of Utility diversification through affiliates to other businesses e.g. fibre-optics, oil products, steam-energy sales
- By some sort of Code of Conduct

# The Players

- **Nova Scotia Utility and Review Board:** expert board, small staff, concern expressed in '96 rate decision
- **Nova Scotia Power Inc:** diversifying, creating related new corporate structure (but remaining “traditional” vertically integrated utility in non-restructured electricity market)

# The Process

- Board advises Utility management
- Consultants appointed
- Utility designates staff team
- Iterative process
- Utility drafting initiatives

# “Design Philosophy”

- “Goals-oriented” rather than “Rules-based”
- Purpose:
  - Provide flexibility
  - Avoid legalism
  - Be effective for its purpose, but
  - Don’t discourage entrepreneurship
- Assess compliance in terms of “spirit” as much as “letter” of the Code

# Results: Content of Code

“A Code that is different”:

- Statements of **Purpose** (“no harm”) and
- **Principles** (“no cross-subsidization” + “no non-market (affiliate) behaviour”)
- Six sets of **Objectives\*** and implementation **Protocols**

\*Corporate Structure; Utility Management; Utility Financing; Fair Dealing; Accounting- ; and Employee-Compliance.

# Results: Approval

Code approved on interim basis March 2001

Became effective September 2001

# Results: Review

Board asked Consultants to advise on Utility's implementation procedures, possible changes

1. Code generally effective in its purpose
2. Refinement needed for allocations, FMV
3. Utility management making significant efforts to comply with spirit of Code

# Results: Public Hearing

- Part of Hearing of General Rate Application
- Findings:
  - Not appropriate to give final approval
  - May be merit in amending “no harm” criterion to “demonstrate a benefit” from affiliate transactions
  - Enhance “insulation” of Utility from parent by requiring different external auditors, different audit committee Chairs

# Concluding Comments

Possibly-unusual features:

- Development process
- Design: set of objectives supporting an overall purpose
- Broader objectives included: e.g. Management quality
- Non-legal text
- Annual attest by outside auditors