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**Evaluation of the Revised Shared Services Cost  
Allocation Model and the Analysis of the Cost of a  
Standalone Customer Care Centre for PNG(NE)  
Prepared by:**

**Pacific Northern Gas Ltd.**

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*November 30, 2012*

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## **1.0 Summary of Findings**

### **1.1 Overview**

KPMG was retained by Pacific Northern Gas Ltd. to conduct an evaluation of Pacific Northern Gas Ltd. and Pacific Northern Gas (N.E.) Ltd.'s (collectively "PNG" or the "Company") revised 2012 shared services cost allocation model (a summary of PNG's proposed model is included in Appendix B) for purposes of reporting to the British Columbia Utilities Commission ("the Commission") as set forth in the negotiated settlement of PNG's 2011 revenue requirements application. Specifically, KPMG assessed the shared costs (referred to in this report as "Cost Pools") and related cost allocators (or "drivers") that were utilized in the updated shared services cost allocation model to allocate shared service costs from Pacific Northern Gas Ltd. to Pacific Northern Gas (N.E.) Ltd. ("PNG(NE)").

The Commission has also asked PNG to assess whether the Customer Care Centre services currently provided to PNG(NE) from PNG's Terrace office could be provided more economically on a standalone basis from a dedicated Customer Care Centre located in the PNG(NE) service area. PNG has also engaged KPMG to review Management's estimated annual operating and initial start-up costs (PNG's estimated costs are included in Appendix C) of a dedicated Customer Care Centre located in the PNG(NE) service area of Fort St. John and conclude thereon.

### **1.2 Evaluation of PNG Shared Service Cost Allocation Model**

KPMG assessed the shared service cost pools and cost allocators utilized in the Company's revised shared services cost allocation model (outlined in Appendix B).

#### *1.2.1 (i) PNG's Cost Pool and Cost Allocator Principles*

KPMG discussed with Management and reviewed PNG's cost pool and cost allocator principles discussed in Appendix A to ensure they form a reasonable guide for PNG's cost pool and cost allocator selection process. Assessed whether Appendix A principles represent appropriate principles for KPMG to assess PNG's final selected cost pools and cost allocators against in its conclusions in this report, or if adjustments were required for our reporting purposes.

#### *1.2.1 (ii) Cost Pools*

KPMG reviewed the completeness of the identified shared cost pools through the following procedures noted in Section 4.0, which included:

- Discussed and reviewed general ledger costs which were not allocated to a shared cost pool with managers to assess if related costs were incurred for the benefit of PNG(NE) and therefore should be allocated to a cost pool;
- Reviewed shared cost pools, which included both labour and/or non-labour components, through discussions with Management and divisional personnel on the activities undertaken to see if other general ledger costs were associated with these existing shared cost pool amounts and should be included in these shared cost pools; and
- Reviewed management and divisional personnel assigned to shared cost pools to ascertain if other individuals are associated with services benefiting PNG(NE) and should therefore also be included.

KPMG assessed the accuracy of the cost pools through the procedures noted in Section 4.0, which included:

- For a sample of individuals in each shared cost pool, agreed their roles to job descriptions, employee organizational charts and time study results to time sheets;
- Reconciled shared cost pool details to PNG's 2012 budget figures from its Revenue Requirement Application, as updated on March 15, 2012;
- KPMG discussed organizational changes with Management that may change shared cost pools and assessed if changes to shared cost pools were supported; and
- KPMG assessed the final shared cost pools against PNG principles discussed in Appendix A.

#### *1.2.1 (iii) Cost Allocators and Application*

KPMG assessed the proposed cost pool allocators and their application by performing the procedures noted in Section 4.0, which included:

- Compared the cost allocators to prior year cost allocators and discussed any changes with Management;
- Compared proposed cost allocators to each of PNG established cost driver assessment principles disclosed in Appendix A and to other possible allocator(s) alternatives;
- Assessed other possible allocator alternative(s); and
- Re-performed allocations using the proposed allocators and discussed the resulting allocation with Management to ensure the PNG(NE) allocation was reasonable in nature and amount.

#### *1.2.1.2 KPMG Conclusion*

Based on the scope and the results of the above procedures and other procedures more fully described in Section 4.0:

- KPMG is of the view that the shared cost pools and the cost allocator principles in Appendix A form a reasonable guide for PNG's cost pool and cost allocator selection process and are appropriate principles for KPMG to assess PNG's final selected cost pools and cost allocators.
- KPMG is of the view that the final shared cost pools and cost allocators proposed for use in the PNG shared services cost allocation model meet the internal objectives and principles criteria established by PNG as detailed in Appendix A, and as a result form a reasonable and objective basis of cost allocation.

Table 1 below presents the final shared cost pools and cost allocators and the resulting cost allocation using the 2012 budget figures and a comparison to the previous cost pools and previously applied allocators.

**Table 1 - Summary of Shared Cost Pools and Service Cost Allocators**

Shared Service Cost Pool	Total \$ Value of Proposed Cost Pool <sup>(1)</sup>	Proposed Cost Allocator	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators (Prior allocation)	Explanation of Proposed Cost Allocator Amendments	Are the proposed Cost Pools, allocators and final allocation reasonable and consistent with PNG's allocation principles?
721 – Vancouver Administration						
• Labour component	3,227,072	Time-based	931,272	28.9% (20.8%)	Updated time study results	Yes
• Non-labour component	<u>792,821</u> 4,019,893	Composite Average Allocator A <sup>(2)</sup>	251,616	31.7% (20.8%)	A composite average of relevant allocators	Yes
711/713/714 – Terrace Customer Care Centre						
• Labour component	1,126,233	Time-based	554,169	49.2% (48.2%)	Updated time study results	Yes
• Non-labour component	<u>158,232</u> 1,284,465	Composite Average Allocators B <sup>(2)</sup>	77,047	48.7% (48.2%)	A composite average of relevant allocators	Yes
711/713/714 – Vancouver Billing Services (new)						
• Labour component	197,547	Customer Count	95,176	48.2% <sup>(3)</sup> (-)% <sup>(3)</sup>	Updated customer count	Yes
• Non-labour component	<u>168,323</u> 365,870	Customer Count	81,096	48.2% (-)% <sup>(3)</sup>	Updated customer count	Yes
685 – Terrace Management						
• Labour component	878,223	Time-based	324,064	36.9% (48.2%)	Updated time study results	Yes
• Non-labour component	<u>263,540</u> 1,141,763	Composite Average Allocator A <sup>(2)</sup>	88,938	33.7% (-)%	A composite average of relevant allocators	Yes

Shared Service Cost Pool	Total \$ Value of Proposed Cost Pool <sup>(1)</sup>	Proposed Cost Allocator	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators (Prior allocation)	Explanation of Proposed Cost Allocator Amendments	Are the proposed Cost Pools, allocators and final allocation reasonable and consistent with PNG's allocation principles?
685 – Terrace Accounting (formerly Terrace Accounting/Warehouse)						
• Labour component	481,841	Time-based	204,282	42.4% (23.9%)	Updated time study results	Yes
• Non-labour component	<u>34,249</u> 516,090	Composite Average Allocator A <sup>(2)</sup>	12,029	35.1% (23.9%)	A composite average of relevant allocators	Yes
685 – Terrace Technical Services-Warehouse/Corrosion (new)						
• Non-labour component	205,246	Composite Average Allocator C <sup>(2)</sup>	67,108	32.7% (-%) <sup>(4)</sup>	A composite average of relevant allocators	Yes
685 – Terrace Drafting						
• Non-labour component	70,553	Composite Average Allocator C <sup>(2)</sup>	23,068	32.7% (48.2%)	A composite average of relevant allocators	Yes
685 – Terrace Safety & Training (formerly Terrace Engineering)						
• Non-labour component	87,427	Composite Average Allocator C <sup>(2)</sup>	28,585	32.7% (20.8%)	A composite average of relevant allocators	Yes
728 – Vancouver Corporate Expenses						
• Non-labour component	519,588	Composite Average Allocator C <sup>(2)</sup>	169,886	32.7% (26.1%)	A composite average of relevant allocators	Yes

Shared Service Cost Pool	Total \$ Value of Proposed Cost Pool <sup>(1)</sup>	Proposed Cost Allocator	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators (Prior allocation)	Explanation of Proposed Cost Allocator Amendments	Are the proposed Cost Pools, allocators and final allocation reasonable and consistent with PNG's allocation principles?
713 – Vancouver Vertex Billing Services • Non-labour component	946,986	Customer count	456,142	48.2% (48.2%)	Updated customer count	Yes
722 – Vancouver Special Services • Non-labour component	253,055	Composite Average Allocator C <sup>(2)</sup>	82,740	32.7% (32.5%)	A composite average of relevant allocators	Yes
723 – Vancouver Insurance • Non-labour component	810,437	Insurance Composite	101,665	12.5% (12.5%)	Updated insurance composite	Yes
	10,221,373		3,548,883 (3,016,436)	34.7% (30.5%)		

(1) The cost pool figures are derived from PNG's 2012 revenue requirements application, as updated on March 15, 2012

(2) Management elected to use an average or composite allocator for the non-labour component as the chosen allocators influence this cost pool component.

**Composite Average Allocator A** - this is an average of allocators including Time-Based, Customer Count, Employee Count and Rate Base allocators which influence the cost pool (See *Appendix B.4.4 Composite Allocators*)

**Composite Average Allocator B** - this is an average of allocators including Time-Based and Customer Count Allocators which influence the cost pool (See *Appendix B.4.4 Composite Allocators*)

**Composite Average Allocator C** - this is an average of allocators including Customer Count, Employee Count and Rate Base allocators which influence the cost pool. (See *Appendix B.4.4 Composite Allocators*)

(3) Included with 711/713/714 – Terrace Customer Care in prior years. The labour component was allocated based upon customer count as it influenced the level of labour costs significantly. Billing matters are general in nature and are not specific to PNG(NE) and as a result time study results were not available or relevant.

(4) Included with 685 – Terrace Accounting in prior years.

### 1.3 Evaluation of Proposed Standalone Customer Care Centre

#### 1.3.1 Standalone Customer Care Centre Costs

PNG asked KPMG to review Management's estimated annual operating and initial start-up costs for a dedicated Customer Care Centre located in the PNG(NE) service area of Fort St. John and conclude thereon. As directed in the negotiated settlement of PNG's 2011 revenue requirements application, PNG is required to perform an assessment as to whether the Customer Care Centre services, currently provided to PNG(NE) from PNG's Terrace office, could be provided more economically on a standalone basis from a dedicated Customer Care Centre located in the PNG(NE) service area.

These cost estimates were developed by PNG Management using vendor or agent quotes and/or estimates developed by experienced and knowledgeable PNG personnel that have extensive industry experience and/or work within PNG's existing customer care operation.

PNG's key assumptions and centre requirements included in cost estimates:

- Fort St. John is the most viable location, as one of PNG's existing main operating offices is already located in Fort St. John, giving PNG knowledge and experience and operational synergies to establish a standalone call centre in this city; no other location was viewed by Management as appropriate.
- The existing Terrace call centre staff would likely not relocate to the proposed Fort St. John location. All standalone call centre staff will be newly hired, including 7 customer service representatives ("CSR") and 1 manager;
- Existing Terrace CSRs and Managers would train newly hired staff;
- Five redundant Terrace CSRs would receive severance pay;
- Certain furniture and fixtures and other property and equipment (capital items) from its existing call centre operations would be transferred to the new proposed facility; and
- It is more cost effective and practical to lease office space than to finance an expansion or purchase. The estimated lease space required is 1,900 square feet.

The following tables provide a summary of the final estimates of annual operating and initial start-up costs of establishing a standalone customer call centre in Fort St. John.

**Table 2 - Summary of Annual Operating Costs of Standalone Customer Care Centre**

Type of Costs	Estimated Annual Standalone Costs for Customer Care Centre in NE Region
General and Administrative	\$ 17,400
Training	4,200
Customer Contracts and Orders	16,750
Customer Billing and Accounting	13,700
Credit and Collections	19,000
Office Equipment Maintenance	2,500
Office Lease and Utilities	57,374
Salary and Benefits	703,597
Total Annual Expense	\$ 834,521



**Table 3 - Summary of Start-up Costs of Standalone Customer Care Centre**

Type of Cost	Estimated Start-up Costs of Standalone Customer Care Centre in NE Region
Initial Training	\$ 230,475
Severance	150,000
Recruitment Costs	76,000
Capital Expenditures- Equipment and Fixtures	85,225
Total Startup costs	\$ 541,700 <sup>(1)</sup>

<sup>(1)</sup> This estimate does not include the cost to purchase office space as leasing of office space was determined to be more economical and practical.

KPMG performed the following procedures (and others more fully described in Section 4.0) in assessing the reasonableness of the above summaries of aggregated annual operating and start-up costs of the proposed standalone Customer Care Centre in Fort St. John area, including the reasonableness of the underlying assumptions and source data used:

- Assessed the completeness and breadth of costs captured and assumptions by comparing those to PNG's existing customer care centre costs in Terrace and also comparing them to other customer care assessment projects which KPMG has been involved with;
- Discussed with Management personnel regarding the costs proposed, challenging assumptions used and the basis for each line item of annual and start-up costs; and
- Assessed the accuracy of cost estimates by agreeing a judgmental sample of the costs to vendor invoices for its existing care centre, vendor quotes, labour contract rates and terms, and payroll records for existing care centre staff.

### *1.3.2 KPMG Conclusion*

Based on the results of our procedures as more fully described in Section 4.0, KPMG is of the view that the estimated summary of annual operating and start-up costs for the proposed standalone customer care centre in Fort St. John to be within a reasonable range, after reflecting certain immaterial adjustments proposed by KPMG based upon its findings, per Section 5.8.

## **2.0 Purpose of the Report**

### **2.1 Purpose**

KPMG was retained by PNG to conduct an evaluation of its revised 2012 shared services cost allocation model.

Specifically, KPMG was engaged to assess:

- PNG's cost pool and cost allocator principles discussed in Appendix A to ensure they form a reasonable guide for PNG's cost pool and cost allocator selection process and whether Appendix A principles represent appropriate principles for KPMG to assess PNG's final selected cost pools and cost allocators against in its conclusions in this report, or if adjustments were required to the principles for our reporting purposes;
- Whether the shared cost pools met PNG's basic cost pool assessment criteria in A.1 of Appendix A and therefore deemed relevant and appropriate for allocations; and
- Whether the utilized cost allocators related to the shared service cost pools met PNG's cost driver assessment principles and therefore deemed to be reasonable to use as a basis for allocation.

In addition, PNG requested that KPMG review Management's estimates of annual operating and start-up costs of a standalone basis from a dedicated Customer Care Centre located in the PNG(NE) service area of Fort St. John.

## 2.2 Report Structure

The Tables below describe the sections and appendices in this report.

### Report Body Section Descriptions

Section	Description
<i>1.0: Summary of Findings</i>	Includes a brief discussion of KPMG's approach and summary of findings.
<i>2.0: Purpose of Report</i>	Outlines the structure of the report and provides a brief explanation of each section and outlines the nature of the KPMG engagement.
<i>3.0: Background</i>	Provides background on the reasons why PNG assessed the shared service cost allocation methodology and also why it performed an economic and related qualitative assessment of having a standalone customer care centre in the PNG(NE) service area.
<i>4.0: KPMG approach and specified procedures performed</i>	<p>Provides an explanation of KPMG's approach and procedures performed to assess PNG's revised shared service cost allocation methodology, and other assumptions used by KPMG during its analysis and resulting limitations.</p> <p>Provides an explanation of KPMG's approach and procedures performed to assess PNG's estimated cost of providing a standalone customer care centre in the PNG(NE) service area.</p> <p>The scope of the above evaluation is pursuant to the terms of the engagement letter between KPMG and PNG.</p>
<i>5.0: KPMG Findings from the specified procedures performed and resulting material recommendations</i>	<p>Provides KPMG's findings from the procedures it performed to assess the shared service cost allocation methodology. It also provides KPMG's significant recommended changes resulting from its findings and if PNG implemented these recommendations.</p> <p>Provides KPMG's findings from procedures performed to assess the cost of a proposed standalone service centre in the PNG(NE) service area. It also provides KPMG's significant recommended changes resulting from its findings and if PNG implemented these recommendations.</p> <p>The final PNG revised allocation model and final standalone call centre costs is presented with KPMG's final assessment conclusions.</p>

### Report Appendices Section Descriptions

Appendix	Description
<i>A: PNG's Shared Services Cost Allocation Principles</i>	Contains a detailed description of the principles behind PNG's shared service cost allocations.
<i>B. Summary of PNG's current Shared Service Cost Allocation Model and its proposed changes</i>	Copy of PNG's high level summary of the current shared service cost allocation methodology, a summary of PNG's Management's assessment process and the resulting, proposed, changes to be implemented as part of the 2013 revenue requirements application.
<i>C Summary costs of a proposed standalone customer care centre in the PNG(NE) service area and PNG Management's assessment</i>	Copy of PNG's high level summary of estimated annual and initial start-up costs for a proposed customer care centre in PNG(NE) service area and Management's assessment process and related conclusions.

## **2.3 Limitations**

### *2.3.1 Scope of review*

In preparation of its report, KPMG reviewed and has relied upon the following documents and information:

- Historical (2012) Cost Allocation Model Documentation
- Shared Services General Ledger Detail - Budget Centre Summary
- 2012 Preliminary Rate Application Benefit Load Factors
- PNG RFP for Shared Services Study (March 2012)
- PNG Organizational Charts
- Time Study Results Excel Spreadsheets and Sample of Supporting Time Sheets
- Payroll and Other Information Supporting Customer Count, Employee Count and Rate Base Non-labour Cost Allocator Percentages
- PNG Standalone Customer Care Centre Cost Estimate Excel Spreadsheets
- Payroll and Other Information Support for PNG Cost Estimates
- Third Party Lease Cost Estimates for Fort St. John
- Various Discussions and Meetings with PNG Management and Personnel

### *2.3.2 Restrictions on distribution*

KPMG's report is confidential and is solely for the use of PNG in these specifically identified matters. KPMG understands that its report may be used by PNG in its 2013 revenue requirements application to the Commission. KPMG's report shall not be used or published for any other purpose other than the purpose outlined above, without KPMG's prior written consent in each and every instance. KPMG will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses suffered by PNG and its subsidiaries as a result of the circulation, publication, reproduction, use or reliance upon its report. In addition, KPMG will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses incurred by anyone else as a result of the circulation, publication, reproduction, use or reliance upon its report.

### *2.3.3 KPMG engagement limitations*

Our engagement is to assess and comment on the shared service cost allocation methodology based upon the results of procedures outlined in Section 4.0 of this report.

Our engagement is also to assess and comment on the aggregate cost estimates of a standalone call centre facility in the PNG(NE) service area, including reasonableness of assumptions and source data, based upon the results of procedures outlined in Section 4.0 of this report.

This evaluation does not constitute an audit of the shared cost allocation methodology, including associated cost pools and cost allocators, or of the cost estimates of a standalone call centre. Accordingly, we do not express such an opinion on such matters. For avoidance of doubt, KPMG has neither audited nor reviewed the underlying shared service cost pools, the data that underpins the PNG cost driver allocators that form the basis of the allocations per PNG's report, and the cost estimates of the standalone call centre in this report.

PNG prepared the proposed shared service cost allocations using 2012 budget figures from PNG's revenue requirement application, as updated on March 15, 2012. Our findings and conclusions are therefore limited accordingly and do not assess the reasonableness of such budgetary amounts.

### **3.0 Background**

PNG, as the parent company of PNG(NE), provides a number of administrative, accounting and regulatory and other reporting services to PNG(NE). The services are provided for PNG(NE) by PNG employees located in PNG's Vancouver head office and in its Terrace regional office. PNG allocates its costs for such shared services using a number of different cost allocators, including allocators based upon relative time, relative number of customers, relative number of employees and relative rate base.

PNG itself became a subsidiary of AltaGas Ltd., a publically listed entity, on December 20, 2011. Management fees charged to PNG by AltaGas Ltd. are also included in a shared service cost pool that is allocated to PNG(NE).

The need for a new shared service cost allocation assessment was set forth in the negotiated settlement of PNG's 2011 revenue requirements application. In the settlement, the Commission noted that the basis of the calculation of the shared service costs had not been reviewed by a third party for many years, in particular the time study allocator has not been reviewed in detail since completion of an internal study by PNG in 2003.

As such, the Commission ordered that PNG submit a Cost Allocators and Level of Shared Service Cost Recovery standalone application in Fall 2012 based on a shared service cost study prepared by a third party consultant. This study is to incorporate a time study prepared by PNG for the period of July 2011 to July 2012, which collects data on time spent by PNG-West personnel on PNG(NE) matters.

In addition, the shared service cost study is also to include an analysis of whether Customer Care Centre services provided to PNG(NE) from the PNG-West Terrace office could be provided more economically on a standalone basis from a dedicated Customer Care Centre in the PNG(NE) service area.

On September 19, 2012, PNG sent a request to the Commission asking for permission to incorporate and include the Cost Allocators and Level of Shared Service Cost Recovery application as part of its 2013 revenue requirements application, rather than filing a separate standalone application. Approval for this request was granted by the Commission on October 19, 2012.

## 4.0 KPMG Evaluation Approach

This section summarizes KPMG's approach to conducting our evaluation of PNG's updated shared service cost allocation methodology for 2012 and its cost estimates of a standalone customer care centre in Fort St. John.

Our work plan incorporated the following phases:

- **Phase 1: Launch.** In this phase, KPMG met with PNG Management to obtain PNG Management's initial estimates of cost pools and allocators and standalone care centre costs, identified primary PNG contacts and obtained other relevant information available from PNG.
- **Phase 2: Cost Pools.** In this phase, KPMG performed the following:
  - Reviewed existing PNG cost allocation methodology documentation, including current shared cost pools, process documentation, Commission correspondence, policy documentation, and peer group models to the extent possible;
  - Reviewed the historic cost allocation model to gain an understanding of the cost drivers and the cost allocation process;
  - Obtained and discussed with PNG Management its guiding principles for identifying appropriate shared cost pools. KPMG assessed the final shared cost pools against PNG cost pool principles discussed in Appendix A;
  - Obtained details of PNG Management's proposed shared cost pools. Identified and reviewed and discussed the amounts and activities within shared cost pools prepared by PNG to determine whether the shared cost pools should be adjusted. As part of this procedure we reviewed job descriptions of individuals within the shared cost pools and conducted interviews with relevant PNG Management and staff;
  - Discussed and reviewed general ledger budget costs which were not allocated to a cost pool with management and divisional managers to assess if related costs were incurred for the benefit of PNG(NE) and should be included in the cost pools;
  - Reviewed shared cost pools, including labour and/or non-labour components, and discussed and reviewed costs to see if other general ledger costs were missing as they were associated with these activities and therefore should be included in these shared cost pools;
  - Reviewed personnel assigned to shared cost pools and enquired of management if other individuals are associated with services benefiting PNG(NE); and
  - KPMG discussed organizational changes with management that may change shared cost pools and assessed if changes to shared cost pools were made in response and were supported.
- **Phase 3: Review Allocation Methodologies and Cost Drivers.** In this phase, KPMG performed the following:
  - Compared the cost allocators to historic cost allocators;
  - Evaluated the appropriateness of each cost driver for allocation of cost pool expenditures against internal cost driver principles (included in Appendix A), including identification of options (where applicable), and their pros and cons;
  - Reviewed the information collected from PNG's Time Study, and:

- (i) assessed the appropriateness of people included;
  - (ii) assessed the quality of the information collected;
  - (iii) assessed how the results were allocated to each cost pool with a labour component;
  - (iv) assessed the appropriateness of the Time Study as an allocation driver for the labour component of cost pools and in certain instances, the non-labour component of cost pools;
  - (v) assessed the method that PNG Management utilized to determine the employee benefit expense load as part of the allocation of labour costs to cost pools and tested certain data on a sample basis;
  - (vi) discussed with Management new cost drivers for non-labour related components of shared cost pools, the pros and cons of the recommended changes; and
  - (vii) assessed Management's final cost drivers and assess Management's resulting revised allocations for reasonableness.
- **Phase 4: Validate cost pools and cost allocators and methodology.** In this phase, KPMG performed the following:
  - Reconciled cost pools details to PNG's 2012 budget figures from its Revenue Requirement Application, as updated on March 15, 2012
  - For a sample of individuals in each cost pools, agree their roles to job descriptions, employee organizational charts and time study results to time sheets;
  - Validated the mathematical accuracy of cost driver allocations and ensured that the drivers are consistent with the drivers noted in Phase 3;
  - Checked that any recommended changes by KPMG to the cost pools and cost drivers are appropriately implemented; and
  - Checked the mathematical accuracy of the final updated allocation model. Re-performed allocations using the allocators and discussed the resulting allocation with Management to ensure the PNG(NE) allocation was reasonable in nature and amount.
- **Phase 5: Assessment of Standalone of Customer Care Centre for PNG(NE).** In this phase, KPMG performed the following:
  - Obtained Management's initial summary of annual operation costs and initial start-up costs and ensured that the summary total and spreadsheet formulas are mathematically correct;
  - Reviewed the assumptions applied underlying the cost estimates for reasonableness;
  - Reviewed the aggregated costs allocated to PNG(NE) relating to the Customer Care Centre under the current structure;
  - Reviewed the aggregated costs allocated to PNG(NE) relating to the Customer Care Centre under the newly proposed standalone care centre;
  - Assessed the costs estimated for a standalone Customer Care Centre in Fort St. John, including assumptions behind the costs;



- Assessed the completeness and breadth of costs captured and assumptions made by comparing those to PNG's existing customer care centre costs incurred at PNG's Terrace Office, comparing them to other customer care assessment projects which KPMG has been involved with; and
  - Assessed the accuracy of cost estimates by agreeing a judgmental sample of the annual and start-up costs to vendor invoices for its existing care centre, vendor quotes, labour contract rates and terms, payroll records for existing care centre staff.
- **Phase 6: Prepared report.** In this phase, KPMG prepared this report to summarize the results of the evaluation.

## 5.0 KPMG Findings

### 5.1 Summary

KPMG is of the view that the proposed cost pools are relevant and appropriate and the cost allocators used in the proposed shared services cost allocation model meet the internal objectives and principles criteria established by PNG, and form a reasonable and objective basis of allocation. The proposed methodology is consistent with the guiding principles of PNG in Appendix A

KPMG finds that PNG's estimate of annual operating and start-up costs of a standalone call centre in Fort St. John to be within a reasonable range based upon the results of the procedures it performed.

### 5.2 Procedures and Findings related to the Shared Cost Pools, Cost Allocators and cost allocation methodology

KPMG performed the following procedures in assessing the shared cost pools, cost allocators and cost allocation methodology prepared by PNG management (included in Appendix B). The results and findings of these assessment procedures and impact to the final results reported by PNG, if any, are also described.

Procedure	Findings (see Table 2)
<b>5.2.1 Cost Pools</b>	
1. Obtained existing PNG cost allocation methodology documentation, including current shared cost pools, process documentation, Commission correspondence, and policy documentation.	Completed, providing background information for balance of procedures.
2. Reviewed the historic and current proposed cost allocation model to gain an understanding of the cost drivers and the cost allocation process.	Completed, providing background information for balance of procedures.
3. Obtained and discussed with PNG Management its guiding principles (Appendix A) for identifying appropriate shared cost pools.	<p>Completed. KPMG determined that the cost pool principles represent an appropriate guide for PNG to select its cost pools and these principles are appropriate for KPMG to assess PNG's final cost pool sections against in this report (see Table 2a).</p> <p>Final proposed shared cost pools were concluded to be consistent with those principles (see Table 2b).</p>

Procedure	Findings (see Table 2)
4. Obtained details of PNG Management's proposed shared cost pools. Reviewed and discussed the amounts and activities within shared cost pools prepared by PNG to determine whether the shared cost pools should be adjusted. As part of this procedure we reviewed job descriptions of individuals within the shared cost pools and conducted interviews with relevant PNG Management and staff.	Completed. Shared cost pools noted in Table 2b reflect these discussions.
5. Discussed and reviewed general ledger budget costs which were not allocated to a shared cost pool with Management and divisional managers to assess if related costs were incurred for the benefit of PNG(NE) and should be included in the shared cost pools.	Completed. No additional costs were noted.
6. Reviewed shared cost pools, including labour and/or non-labour components, and discussed and reviewed costs to see if other general ledger costs were associated with these costs and therefore should be included in these shared cost pools.	Completed. No additional costs were noted
7. Reviewed personnel assigned to shared cost pools and enquired of Management if other individuals are associated with services benefiting PNG(NE).	Completed. No additional individuals were noted and as a result labour components were complete.
8. KPMG discussed organizational changes with Management that may change shared cost pools and assessed if changes to cost pools were supported.	Completed. All necessary changes were reflected in the final cost pools.
9. For one individual in each shared cost pool, agreed their roles to job descriptions, employee organizational charts and time study results to time sheets.	Completed. No issues were noted.
10. Reconcile shared cost pools details to PNG's 2012 budget figures from its Revenue Requirement Application, as updated on March 15, 2012.	Completed. Amounts reconciled. Management also changed certain shared cost pools for known changes in personnel duties in 2013, not reflected in the 2012 budget, which was appropriate.
<b>5.2.2 Cost Allocators and Cost Allocation Methodology</b>	
1. Compared the proposed cost allocators to historical cost allocators.	Completed and noted that changes were preferable and supported.

Procedure	Findings (see Table 2)
<p>2. Evaluated the appropriateness of each cost driver for allocation of cost pool expenditures against internal cost driver principles (included in Appendix A.2), including identification of options (where applicable), and their pros and cons.</p>	<p>Completed, no issues noted. See summary assessment (Table 3 for evaluation of cost allocator principles and Table 4 for proposed allocator by shared cost pool).</p>
<p><b>5.2.3 Time Based Allocator, Time Study and Employee Benefit Expense load rate applied to labour cost charged</b></p>	
<p>1. Reviewed the information collected from PNG's Time Study and assessed the quality of the information collected</p> <ul style="list-style-type: none"> <li>- (i) assessed the appropriateness of people included;</li> <li>- (ii) assessed how the results were allocated to each cost pool with a labour component;</li> <li>- (iii) assessed the appropriateness of the Time Study as an allocation driver for the labour component of cost pools and in certain instances, the non-labour component of cost pools;</li> </ul>	<p>Completed. KPMG discussed with Management and concluded that the individuals who participated in the time study were appropriate as they performed shared services.</p> <p>KPMG compared a sample of individuals whom participated in the time study to a PNG employee organization chart where their role and position supported shared services and were therefore appropriately included in the time study.</p> <p>KPMG reviewed the individual employee time allocations with management. We ensured significant changes from historic time allocations between PNG(NE) or non-PNG(NE) allocations were assessed and resolved. No significant unresolved issues were noted.</p> <p>Time study as an allocator was discussed with management. KPMG found that the use of the Time Study as a time based allocator for the proposed labour cost components to be the most relevant cost allocator for all labour related activities and costs when compared to other alternative cost drives (e.g., rate base, customer count or employee count numbers).</p> <p>The time study also served as a relevant input into composite average allocators for non-labour proposal components of cost pools (where time input is a relevant factor in its costs) formed a reasonable and objective basis of allocation.</p>

Procedure	Findings (see Table 2)
<ul style="list-style-type: none"> <li>- (iv) The time study results, by individual, were allocated by Management to the individual labour components of shared cost pools (i.e. shared cost pools 721,711,713,714, and 685 as detailed in Table 2). KPMG assessed the basis of this allocation in comparison to the details in the employee organization chart, budget details and discussions with management.</li> </ul>	<p>Completed.</p> <p>Any unusual results were reassessed with employees or their supervisors. No issues were noted that required re-assessments of individual records of time.</p>
<p>2. Re-perform calculation of the allocator related to number of employees to payroll and other supporting information.</p>	<p>Completed. No difference was noted.</p>
<p>3. Assessed the method that PNG Management utilized in order to determine the employee benefit expense load as part of the allocation of labour costs to the shared cost pools and tested certain data on a sample basis.</p> <p>The employee benefit expense load includes the following more significant benefits that are added to the cost basis of labour and then shared between PNG and PNG(NE):</p> <ul style="list-style-type: none"> <li>- Life and disability premium costs</li> <li>- Medical and dental</li> <li>- Savings and pension plan</li> <li>- CPP and EI</li> </ul>	<p>Completed. KPMG finds that the employee benefit expense load rate applied to labour costs charged to be relevant and appropriate to include based upon the sample procedures performed.</p>
<p>4. Discussed alternate cost drivers with Management the pros and cons of the recommended changes.</p>	<p>The discussions supported the final cost drivers selected by PNG.</p> <p>KPMG discussed with Management the allocators included in each composite allocator assigned to each non-labour component of each cost pool and found that the allocators assigned were reasonable as they influenced the level of costs in each pool.</p>
<p>5. Obtain from Management, back-up documentation (i.e. payroll reports) to support the numbers use to derive non-time allocators (customer count, employee count, and rate base).</p>	<p>Completed, no issues were noted.</p>

Procedure	Findings (see Table 2)
<b>5.2.4 Final Report</b>	
<p>1. Ensured Management's final cost drivers are aligned with the working steps outlined in steps 5.2.2 and 5.2.3 above.</p>	<p>Completed. Final cost drivers reflect all discussions and assessments with Management and are consistent with internal assessment principles.</p>
<p>2. Validated the mathematical accuracy of the final updated allocation model, using cost pool figures derived from PNG's 2012 revenue requirements application, as updated on March 15, 2012. Re-performed allocations using the final cost allocators and discussed the resulting allocation with Management to ensure the PNG(NE) allocation was reasonable in nature and amount.</p>	<p>Completed. No issues noted. See the resulting allocations in the tables that follow.</p>

### 5.3 Shared Service Cost Pool Evaluation Criteria

Table 2a provides an assessment of the basic principles PNG uses to evaluate cost pools to ensure that cost pools are relevant and appropriate.

PNG applied the following basic assessment criteria (see also Appendix A) when evaluating which shared goods or service expenditures of PNG should be included in cost pools to be allocated to PNG(NE) in its cost allocation model.

KPMG reviewed and assessed the principles to see if they represent relevant and appropriate evaluation criteria for PNG in developing its cost pools and also for KPMG to assess final cost pools against in concluding whether they are relevant and appropriate.

**Table 2a**

Basic Evaluation Principles	Assessment whether these represent appropriate evaluation criteria for PNG and KPMG's evaluation if the cost pools are relevant and appropriate
The goods or services must have one or some of the following basic attributes to be included in a shared cost pool to be allocated to PNG(NE):	
<ul style="list-style-type: none"> <li>The goods acquired by or services performed at the Vancouver corporate office or the Terrace regional office provide a direct or indirect benefit to PNG(NE) or its customer base.</li> </ul>	Yes.
<ul style="list-style-type: none"> <li>If the goods are no longer acquired or the services are ceased, PNG(NE) would be negatively impacted and PNG(NE) would have to find another source for such good or service or perform such service on its own. The service would be performed by PNG(NE) if it was a standalone operation performing its own service, compliance and reporting functions.</li> </ul>	Yes.

**Conclusion:** The cost pool principles above form as an appropriate guide for PNG to determine its cost pools and for KPMG to evaluate PNG's final selected cost pools against.

Table 2b provides a summary of the final shared service cost pools and concludes if they meet these principles based upon our procedures and are therefore relevant and appropriate.

**Table 2b – Summary of Shared Service Cost Pools**

<b>Shared Service Cost Pool</b>	<b>Cost Pool Consistent with Principles in Appendix A</b>	<b>Total \$ Value of Proposed Cost Pool <sup>(1)</sup></b>	<b>Cost Pool is Relevant and Appropriate / Principles are Met</b>
721 – Vancouver Administration	Yes	4,019,893	Yes
711/713/714 – Terrace Customer Care Centre	Yes	1,284,465	Yes
711/713/714 – Vancouver Billing Services (new)	Yes	365,870	Yes
685 – Terrace Management	Yes	1,141,763	Yes
685 – Terrace Accounting (formerly Terrace Accounting/ Warehouse)	Yes	516,090	Yes
685 – Terrace Technical Services – Warehouse / Corrosion (new)	Yes	205,246	Yes
685 – Terrace Drafting	Yes	70,553	Yes
685 – Terrace Safety & Training (formerly Terrace Engineering)	Yes	87,427	Yes
728 – Vancouver Corporate Expenses	Yes	519,588	Yes
713 – Vancouver Vertex Billing Services	Yes	946,986	Yes
722 – Vancouver Special Services	Yes	253,055	Yes
723 – Vancouver Insurance	Yes	810,437	Yes

<sup>(1)</sup> These cost pool figures are derived from PNG's 2012 revenue requirement application, as updated on March 15, 2012.

**Conclusion:** The cost final cost pools selected by PNG meet the principles described in Table 2a based upon our procedures performed and are viewed to be relevant and appropriate.



## 5.4 Evaluation of Cost Driver Principles Used

Table 3 provides a summary of the cost driver principles that are consistent with Management's assessment principles in Appendix A.

**Table 3 - Evaluation of Cost Driver Principles Used**

Key: S = satisfies as an evaluation criteria  
 SS = somewhat satisfies as an evaluation criteria  
 NS = does not satisfy as an evaluation criteria

Evaluation Criteria	Assessment	Explanation
<b>Defensible cost causation linkage</b>	S	<ul style="list-style-type: none"> <li>The driver provides a causal link based on a level of effort or investment with the PNG(NE) service activity for costs to be allocated to PNG(NE).</li> </ul>
<b>Freedom from bias</b>	S	<ul style="list-style-type: none"> <li>The cost driver selected would not be viewed to favor PNG(NE) or PNG-West unfairly.</li> </ul>
<b>Transparency</b>	S	<ul style="list-style-type: none"> <li>The driver used and the source or basis on how it is determined is visible to all parties affected.</li> </ul>
<b>Stability</b>	S	<ul style="list-style-type: none"> <li>The identified driver fluctuates as expected based upon the level of effort and investment. It would not be expected that this driver would have to be amended or replaced in less than 12 months.</li> </ul>
<b>Accuracy</b>	S	<ul style="list-style-type: none"> <li>The identified driver allocates costs without users having to apply estimation or judgment and the resulting allocation reflects a quantifiable allocation.</li> </ul>
<b>Sustainability</b>	S	<ul style="list-style-type: none"> <li>The identified driver can be supported into the foreseeable future without undue cost burden on PNG.</li> </ul>
<b>Cost versus benefit for effectiveness</b>	S	<ul style="list-style-type: none"> <li>The cost to identify, capture data and utilize the identified cost driver is not too burdensome relating to the benefits of its application.</li> </ul>
<b>Availability of information to apply drivers</b>	S	<ul style="list-style-type: none"> <li>The information needed to apply the cost driver is readily accessible.</li> </ul>

**Conclusion:** KPMG is of the view that the shared cost pools and the cost allocator's principles in Appendix A and noted above form a reasonable guide for PNG's cost pool and cost allocator selection process and are appropriate principles for KPMG to assess PNG's final selected cost pools and cost allocators.

## 5.5 Specific Cost Allocation Drivers Applied to Each Shared Cost Pool

Table 4 shows the final cost allocators for each shared cost pool. The cost drivers proposed by PNG are assessed against each these principles in Table 4 using the “Key” in Table 3.

**Table 4 - Specific Cost Allocation Drivers Applied to Each Shared Cost Pool**

Shared Service Cost Pool	Historic Cost Allocator	Proposed Cost Allocator	Allocator satisfies all the principles listed in Table 3
721 – Vancouver Administration			
• Labour component	Time- based	Time-based	Yes-S
• Non- labour components	Time- based	Composite Average Allocator A <sup>(1)</sup>	Yes-S
711/713/714 – Terrace Customer Care Centre			
• Labour component	Customer count	Time-based	Yes-S
• Non-labour component	Customer count	Composite Average Allocators B <sup>(1)</sup>	Yes-S
711/713/714 – Vancouver Billing Services (new)			
• Labour component	Customer count	Customer Count	Yes-S
• Non-labour component	Customer count	Customer Count	Yes-S
685 – Terrace Management			
• Labour component	Time-based	Time-based	Yes-S
• Non-labour component	n/a	Composite Average Allocator A <sup>(1)</sup>	Yes-S
685 – Terrace Accounting (formerly Terrace Accounting/Warehouse)			
• Labour component	Employee count	Time-based	Yes-S
• Non-labour component	Employee count	Composite Average Allocator A <sup>(1)</sup>	Yes-S

Shared Service Cost Pool	Historic Cost Allocator	Proposed Cost Allocator	Allocator satisfies all the principles listed in Table 3
685 – Terrace Technical Services-Warehouse/Corrosion (new)			
• Labour component	Employee count	n/a	NA
• Non-labour component	Employee count	Composite Average Allocator C <sup>(1)</sup>	Yes-S
685 – Terrace Drafting			
• Labour component	Customer count	n/a	N/A
• Non-labour component	Customer count	Composite Average Allocator C <sup>(1)</sup>	Yes-S
685 – Terrace Safety & Training (formerly Terrace Engineering)			
• Non-labour component	Time study	Composite Average Allocator C <sup>(1)</sup>	Yes-S
728 – Vancouver Corporate Expenses			
• Non-labour component	Rate base	Composite Average Allocator C <sup>(1)</sup>	Yes-S
713 – Vancouver Vertex Billing Services			
• Non-labour component	Customer count	Customer Count	Yes-S
722 – Vancouver Special Services			
• Non-labour component	Operating Margin	Composite Average Allocator C <sup>(1)</sup>	Yes-S
723 – Vancouver Insurance			
• Non-labour component	Insurance Composite	Insurance Composite	Yes-S

<sup>(1)</sup> Management elected to use an average or composite allocator for the non-labour component as the chosen allocators influence this cost pool component.

**Composite Average Allocator A** - this is an average of allocators including Time-Based, Customer Count, Employee Count and Rate Base allocators which influence the cost pool.

**Composite Average Allocator B** - this is an average of allocators including Time-Based and Customer Count Allocators which influence the cost pool.

**Composite Average Allocator C** - this is an average of allocators including Customer Count, Employee Count and Rate Base allocators which influence the cost pool.

## 5.6 Summary of Shared Service Cost Allocators

Table 5 shows the final proposed cost pools and allocators and resulting allocations prepared by Management (see also Appendix B), using cost pool figures derived from PNG's 2012 revenue requirements application, as updated on March 15, 2012. KPMG re-performed the allocations and reflected the results in this table.

**Table 5 - Summary of Shared Service Cost Allocators**

Shared Service Cost Pool (see Table 1 also)	Proposed Cost Allocator	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators (prior allocation)	KPMG reperformance of allocation agrees to client's allocation
721 – Vancouver Administration	Time-based	931,272	28.9% (20.8%)	Yes
	Composite Average Allocator A <sup>(2)</sup>	251,616	31.7% (20.8%)	Yes
711/713/714 – Terrace Customer Care Centre	Time-based	554,169	49.2% (48.2%)	Yes
	Composite Average Allocators B <sup>(2)</sup>	77,047	48.7% (48.2%)	Yes
711/713/714 – Vancouver Billing Services (new)	Customer Count	95,176	48.2% <sup>(3)</sup> (-%) <sup>(3)</sup>	Yes
	Customer Count	81,096	48.2% (-%) <sup>(3)</sup>	Yes
685 – Terrace Management	Time-based	324,064	36.9% (48.2%)	Yes
	Composite Average Allocator A <sup>(2)</sup>	88,938	33.7% (-%)	Yes
685 – Terrace Accounting (formerly Terrace Accounting/Warehouse)	Time-based	204,282	42.4% (23.9%)	Yes
	Composite Average Allocator A <sup>(2)</sup>	12,029	35.1% (23.9%)	Yes

Shared Service Cost Pool (see Table 1 also)	Proposed Cost Allocator	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators (prior allocation)	KPMG reperformance of allocation agrees to client's allocation
685 – Terrace Technical Services - Warehouse/Corrosion (new)  • Non-labour component	Composite Average Allocator C <sup>(2)</sup>	67,108	32.7% (-%) <sup>(4)</sup>	Yes
685 – Terrace Drafting  • Non-labour component	Composite Average Allocator C <sup>(2)</sup>	23,068	32.7% (48.2%)	Yes
685 – Terrace Safety & Training (formerly Terrace Engineering)  • Non-labour component	Composite Average Allocator C <sup>(2)</sup>	28,585	32.7% (20.8%)	Yes
728 – Vancouver Corporate Expenses  • Non-labour component	Composite Average Allocator C <sup>(2)</sup>	169,886	32.7% (26.1%)	Yes
713 – Vancouver Vertex Billing Services  • Non-labour component	Customer count	456,142	48.2% (48.2%)	Yes
722 – Vancouver Special Services  • Non-labour component	Composite Average Allocator C <sup>(2)</sup>	82,740	32.7% (32.5%)	Yes
723 – Vancouver Insurance  • Non-labour component	Insurance Composite	101,665	12.5% (12.5%)	Yes
		3,548,883 (3,016,436)	34.7% (30.5%)	

(1) The cost pool figures are derived from PNG's 2012 revenue requirements application, as updated on March 15, 2012

(2) Management elected to use an average or composite allocator for the non-labour component as the chosen allocators influence this cost pool component.

**Composite Average Allocator A** - this is an average of allocators including Time-Based, Customer Count, Employee Count and Rate Base allocators which influence the cost pool. . (See *Appendix B.4.4 Composite Allocators*)

**Composite Average Allocator B** - this is an average of allocators including Time-Based and Customer Count Allocators which influence the cost pool. . (See *Appendix B.4.4 Composite Allocators*)

**Composite Average Allocator C** - this is an average of allocators including Customer Count, Employee Count and Rate Base allocators which influence the cost pool. . (See *Appendix B.4.4 Composite Allocators*)

<sup>(3)</sup> Included with 711/713/714 – Terrace Customer Care in prior years. The labour component was allocated based upon customer count as it influenced the level of labour costs significantly.

<sup>(4)</sup> Included with 685 – Terrace Accounting in prior years.

## **5.7 KPMG Conclusion – Shared Service Cost Allocation**

Based on the results of its procedures, KPMG is of the view that the final shared cost pools and cost allocators proposed for use in the PNG shared services cost allocation model meet the internal objectives and principles criteria established by PNG as detailed in Appendix A and, as a result, form a reasonable and objective basis of cost allocation.

## 5.8 Assessment of Standalone of Customer Care Centre for PNG(NE)

KPMG assessed PNG's estimate of annual operating and start-up costs of a standalone call centre in Fort St. John (included in Appendix C) by performing the following assessment procedures:

Procedure	Findings
1. Obtained Management's summary of annual operating costs and initial start up costs and ensured they were consistent with the final summary in Appendix C.	Completed, the summary is consistent with Appendix C.
2. Ensured that the summary totals and spreadsheet formulas are mathematically correct.	Completed. No issues were noted.
3. Reviewed the assumptions applied underlying the cost estimates for reasonableness on a line-by-line basis.	Completed. Significant assumptions noted in Appendix C were reasonable and were applied in arriving at cost estimates.
4. Reviewed the aggregated costs allocated to PNG(NE) relating to the Customer Care Centre under the current structure.	Completed. See Table B, Appendix B.
5. Reviewed the aggregated costs allocated to PNG(NE) relating to the Customer Care Centre under the newly proposed standalone care centre.	Completed. See Table B, Appendix B.
6. Assessed the costs estimated for a standalone Customer Care Centre, including assumptions behind the costs.	Completed. See Table C and D, Appendix C.
7. Assessed the completeness and breadth of costs captured and assumptions by: <ul style="list-style-type: none"> <li>• comparing those to PNG's existing customer care centre costs: and</li> <li>• comparing them to other customer care assessment projects which KPMG has been involved with.</li> </ul>	Completed. The costs captured were viewed as complete and of adequate breadth.

Procedure	Findings
<p>8. Assess the accuracy of cost estimates by agreeing a judgmental sample of the costs to vendor invoices for its existing care centre, vendor quotes, labour contract rates and terms, payroll records for existing care centre staff.</p>	<p>Completed.</p> <p>The following comments were provided for known differences, which were agreed by Management and adjusted for in arriving at the final summaries in Appendix C:</p> <ul style="list-style-type: none"> <li>• Reduced assumed costs for answering service line from \$12,000 to \$5,400</li> <li>• Training costs were increased for the 7 CSRs being trained versus 5 recognized in error.</li> <li>• Telephone costs were not 50% of current costs as the client had intended so this was corrected by PNG reducing costs from \$32,000 to \$18,000.</li> </ul>
<p>9. Test Operating Cost items over \$5,000 to supporting records (vendor quotes and existing customer care costs) and assess if allocation thereof is reasonable.</p>	<p>Completed. No issues were noted.</p>
<p>10. Discussed basis for the increase in staff for the standalone facility and also tested salary and benefits assumptions for a CSR staff and a manager to existing labour contract terms for similar positions.</p>	<p>Completed. No issues were noted.</p>
<p>11. Test employee benefits estimates. Benefit loads are based on a percentage of employee salary, determined by level and if union or non-union. Compared benefit % for 1 CSR employee and 1 Manager to payroll and other records.</p>	<p>Completed. No issues were noted.</p>
<p>12. Test leasing and related utilities costs by comparing estimated lease rates to third party lease rates in the Fort St. John region.</p>	<p>Based upon market data on lease rates, the lease rate of \$19/sq ft was viewed as a reasonable approximation for the Fort St. John realty market.</p>
<p>13. Estimate utilities and other leased property operating costs, the client estimated costs based upon the proposed square footage or ratio of employees etc.</p>	<p>KPMG re-performed this procedure and compared the results.</p>



Procedure	Findings
14. Test training cost assumptions; compare number of employees being trained to number of assumed new hires and also instructor rates and trainee pay rates to payroll records on a sample basis.	Completed. No issues were noted.
15. Test severance and recruitment costs by comparing key severance assumptions for the 5 CSRs affected (average salary, service and week entitlement) to pension and labour contract terms.	Completed. No issues were noted.
16. Assess variance to the estimated costs for the Standalone Customer Care Centre.	<p>Management believes that actual costs of the customer care centre could be <math>\pm 10-15\%</math> of these estimated cost amounts due to variations in negotiated supplier and lease terms, training needs and recruitment costs, amongst other factors.</p> <p>KPMG is of the view this is reasonable.</p>

**5.9 KPMG Conclusion – Standalone Customer Care Centre**

Based upon the results of the above procedures, KPMG is of the view that the estimated summary of annual operating and start-up costs for the proposed standalone call centre in Fort St. John to be within a reasonable range, after reflecting certain immaterial adjustments proposed by KPMG based upon our findings and ultimately recognized by PNG.

## **Appendix A – PNG’s Shared Services Cost Allocation Principles**

### **A.1 Shared Cost Pools – PNG Management Basic Assessment Criteria**

Management applies the following basic assessment criteria when evaluating which shared goods or service expenditures of Pacific Northern Gas Ltd. (“PNG”) should be included in cost pools to be allocated to Pacific Northern Gas (N.E.) Ltd. (“PNG(NE)”) in its cost allocation model. Management has also represented that this same criteria was applied in determining its historic shared cost pools.

The goods or services must have one or some of the following basic attributes to be included in a shared cost pool to be allocated to PNG(NE):

- The goods acquired by or services performed at the Vancouver corporate office or the Terrace regional office provide a direct or indirect benefit to PNG(NE) or its customer base.
- If the goods are no longer acquired or the services are ceased, PNG(NE) would be negatively impacted and PNG(NE) would have to find another source for such good or service or perform such service on its own.
- The service would be performed by PNG(NE) if it was a standalone operation performing its own service, compliance and reporting functions.

### **A.2 Cost Drivers – PNG Management Cost Driver Assessment Principles**

Management applies the following commonly used cost driver assessment principles when evaluating which cost driver should be used to allocate a cost pool or specific costs within a cost pool between PNG or PNG(NE):

- Cost-causality - The identified driver, being it work effort or investment, has a direct correlation to the cost of the services or goods and also has a direct effect on the level of service.
- Freedom from bias - The cost driver selected would not be viewed to favor PNG(NE) or PNG unfairly.
- Transparency - The driver used and the source or basis on how it is determined is visible to all parties affected.
- Stability - The identified driver fluctuates as expected based upon the level of effort and investment. It would not be expected that this driver would have to be amended or replaced in less than 12 months
- Accuracy - The identified driver allocates costs without users having to apply estimation or judgment and the resulting allocation reflects a quantifiable allocation.
- Sustainability - The identified driver can be supported into the foreseeable future.
- Cost versus benefit for effectiveness - The cost to utilize the identified cost driver supports the resulting benefits of its application.
- Availability of information to apply drivers - The information needed to apply the cost driver is readily accessible.

## **Appendix B – Summary of PNG’s Current Shared Services Cost Allocation Model and Proposed Changes Thereto**

### **B.1 Summary of PNG’s Shared Service Cost Allocation Model**

This section summarizes the key components of the shared service cost allocation methodology and the proposed changes to the model to be applied in 2013.

PNG provides a number of administrative, accounting and regulatory and other reporting services, directly or indirectly, for the benefit PNG(NE). Since the results of PNG(NE) are separately reported to the Commission, it is necessary to use an allocation model to allocate the appropriate amount of shared costs to PNG(NE) for the services benefits it receives each reporting period. PNG currently allocates its costs for such services to PNG(NE) using a number of different cost allocators, including allocators based upon relative time, relative number of customers, relative number of employees and relative rate base.

Management identified and assigned a qualified team of internal staff members to evaluate the shared service cost allocation model in this current year’s study. Experienced management and other personnel assigned to the project included the project leaders - the VP Regulatory Affairs and Gas Supply and the Manager of Regulatory Affairs and Special Projects, supported by the General Manager Operations, Manager Terrace Customer Care Centre, IT Manager and the VP Human Resources and Government Relations.

### **B.2 Costs Shared Between PNG and PNG(NE) (Shared Cost Pools)**

The first step performed by PNG Management in assessing and finalizing a revised shared services cost allocation model to be applied in 2013 and future years was to review the activities undertaken and captured within the expenses of historic identified shared cost pools. This assessment was to validate shared activities which provide services and goods to PNG(NE) currently and/or if they require revisions using the principles described in Appendix A as a guide.

The following accounts and shared cost pools capture shared costs incurred by PNG Vancouver and the Terrace regional office for the benefit of PNG(NE) and have been used for many years:

- 1) Account 721 – Vancouver Administration
- 2) Accounts 711/713/714 – Terrace Customer Care Centre
- 3) Account 685 – Terrace Management
- 4) Account 685 – Terrace Accounting/Warehouse
- 5) Account 728 – Corporate Expenses
- 6) Account 685 – Terrace Drafting
- 7) Account 685 – Terrace Engineering
- 8) Account 713 – Vancouver Vertex Billing Services
- 9) Account 722 – Vancouver Special Services
- 10) Account 723 – Vancouver Insurance

PNG project management reviewed the cost pools identified above with key management staff in Vancouver and Terrace to assess if the current cost pools were appropriate and/or if additions or deletions to the cost pools should be made. The individual costs within each pool were also reviewed to assess if any costs should be removed from the allocation pool. This review identified whether a cost is no longer shared but now fully relates to PNG(NE) or PNG-West given its nature.

Management also reviewed all other costs in the general ledger that were not historically allocated to a shared cost pool and assessed if any of these non-allocated general ledger cost accounts should be allocated and included as a shared cost.

Table A below summarizes PNG's updated final shared cost pools as determined by PNG Management based upon this review:

**Table A – Summary of Shared Service Cost Pools**

Shared Service Cost Pool	Provides Services Shared Between PNG(NE) and PNG	Historic Cost Pool	Total \$ Value of Historic Cost Pool <sup>(1)</sup>	Total \$ Value of Proposed Cost Pool <sup>(1)</sup>	Total \$ Change in Cost Pool <sup>(1)</sup>
721 – Vancouver Administration	Yes	Yes	3,923,340	4,019,893	96,553
711/713/714 – Terrace Customer Care Centre	Yes	Yes	1,642,472	1,284,465	(358,007)
711/713/714 – Vancouver Billing Services (new)	Yes	No	–	365,870	365,870
685 – Terrace Management	Yes	Yes	698,627	1,141,763	443,136
685 – Terrace Accounting (formerly Terrace Accounting/ Warehouse)	Yes	Yes	772,230	516,090	(256,140)
685 – Terrace Technical Services – Warehouse / Corrosion (new)	Yes	No	–	205,246	205,246
685 – Terrace Drafting	Yes	Yes	163,473	70,553	(92,920)
685 – Terrace Safety & Training (formerly Terrace Engineering)	Yes	Yes	198,844	87,427	(111,417)
728 – Vancouver Corporate Expenses	Yes	Yes	519,588	519,588	–
713 – Vancouver Vertex Billing Services	Yes	Yes	946,986	946,986	–
722 – Vancouver Special Services	Yes	Yes	223,914	253,055	29,141
723 – Vancouver Insurance	Yes	Yes	810,437	810,437	–
			9,899,911	10,221,373	321,462

<sup>(1)</sup> These cost pool figures are derived from PNG's 2012 revenue requirement application, as updated on March 15, 2012.

The discussion that follows describes the services performed by the cost pool functional areas identified in Table A, and the changes made by Management under this updated allocation model and the basis for these changes.

## 721 – Vancouver Administration

The Vancouver head office provides corporate and administrative services for PNG, including PNG(NE). PNG(NE) does not employ any administrative service employees and therefore relies on head office for support. A large portion of this cost pool consists of labour costs provided by the following positions:

President	IT Manager
Executive Assistant	Senior Network Administrator (2)
Vice President Finance & Corporate Development	Vice President, Regulatory Affairs & Gas Supply
Controller	Manager Regulatory Affairs & Special Projects
Manager Financial Reporting & Taxation	Senior Regulatory Analyst
Manager Corporate Accounting	Vice President Human Resources & Government Relations
Financial Analyst	Payroll/Benefits Administrator
Manager Financial Planning and Business Development	Manager Financial Systems & Controls

A summary of many of the Account 721 administrative services provided by PNG to PNG(NE) is given below:

- Corporate governance, corporate policy and strategic direction;
- Management of all financing activities, including relationship management with short and long term lenders, reporting to lenders, and ensuring compliance with the trust deed;
- Maintenance of Corporate legal records and administration of all legal-related matters;
- Management of all employee benefit programs, including Company Pension, Savings Plan, Extended Health programs and Pension Fund investment review and management. Preparation of Pension Fund and Savings Plan remittances and Pension Fund financial record keeping;
- All regulatory services, including preparation and filing of regulatory applications, tariffs, responses to information requests, preparation of quarterly reports on gas supply costs, and attendance at public hearings and negotiated settlement proceedings;
- Gas purchasing management, including negotiation of contracts with suppliers.
- Insurance procurement and management services;
- All advanced accounting functions, including preparation and distribution of management reports, project reports, and financial statements, budgeting;

- Review of all financial information by the Disclosure Committee (a management committee);
- Preparation of material required by external auditors to complete the annual financial statement audit of PNG(NE);
- Preparation of Statistics Canada reports, including Natural Gas Distribution Report, Natural Gas Disposition Report, Survey of Environment Protection Expenditures; Natural Gas Transport and Distribution Report, Capital Expenditures, Estimates and Forecasts, and Capital and Repairs Expenditures Report, processing of tax remittances and returns, Worker's Compensation returns, and T4 and T4A slips;
- Preparation of manual bills for industrial sales and transport customers not billed through the computer based Banner System, drafting of industrial customer gas sales and transportation service contracts;
- All IT services and management, including management of existing IT assets, Help Desk services to all PNG(NE) employees, network administration, security and support, and hardware procurement; and
- Preparation of compliance reporting, including Statistics Canada reports, Natural Gas Distribution Report, Natural Gas Disposition Report, Survey of Environment Protection Expenditures; Natural Gas Transport and Distribution Report, Capital Expenditures, Estimates and Forecasts, and Capital and Repairs Expenditures Report, processing of tax remittances and tax returns (corporate, commodity taxes), Worker's Compensation returns, and T4 and T4A slips.

### **Cost Pool Changes**

Based on Management's review of underlying costs included in the Vancouver Administration cost pool, the proposed cost pool has been increased by \$96,553, primarily due to the inclusion of the labour and benefits costs associated with the office receptionist / administrative assistant. These costs were historically excluded from this pool, however, this role actively assists with corporate accounting activities which support PNG(NE) and are appropriately included in this pool.

### **711/713/714 – Terrace Customer Care Centre**

The Customer Care Centre in Terrace serves PNG's customer base across all divisions. The labour positions included in this cost pool are:

- 11 Customer Service Representatives in Terrace; and
- 1 Meter Records Clerk in Terrace.

A summary in point form of many of the Account 711/713/714 Customer Care Centre services provided by PNG to PNG(NE) is given below:

- All Customer Care Centre activities for all of the NE and PNG-West division customers, including call centre information services, establishment of new accounts, maintenance of customer accounts, preparation of change orders, collection of overdue accounts, issuance of disconnection notices;
- Meter inventory record keeping and processing of meter reads;
- Accounts receivable, customer payment processing, management of grant and rebate programs;

- Introduction, implementation and direction of new programs and services to facilitate a more efficient work flow and tracks new service line costs and coordinates billing of service line costs; and
- Respond to customer complaints on a one-on-one basis.

### **Cost Pool Changes**

Historically, the Vancouver Billing Services function has been included in this cost pool. Based on the review of cost pools, based on the distinct services provided by Vancouver Billing Services it has been segregated into its own cost pool.

Based on Management's review of underlying costs included in the Terrace Customer Care Centre cost pool, the proposed cost pool has been reduced by \$358,007, comprised of the following elements:

- Remove \$378,737 in costs related to the Vancouver Billing Services function which has been segregated into a new cost pool; and
- Add \$20,495 in costs primarily related to Itron meter maintenance that were historically excluded from this pool

### **711/713/714 – Vancouver Billing Services (new)**

Historically, the Vancouver Billing Services function has been grouped together with the Terrace Customer Care Centre function. However, given the very different service activities performed by this functional area, it has been segregated into its own cost pool.

The Vancouver Billing Services group includes the following human resources:

- 1 Coordinator Customer Information Systems; and
- 1 Billing Analyst.

Billing Services is responsible for maintenance and administration of the Banner customer billing system used to bill all of PNG and PNG(NE)'s residential and commercial customers, as well as some industrial customers. Key functions performed by this group include:

- Project management and testing of Banner billing system upgrades and customer rate changes;
- User support for the Banner customer billing system; and
- Onsite training for personnel on various matters relating to the Banner billing system and the SharePoint platform.

### **Cost Pool Changes**

Management has identified \$365,870 in costs related to this new cost pool, including:

- Reclassification of \$378,737 in costs historically grouped with Terrace Customer Care Centre;
- Reduction in allocation of labour benefits by \$39,420 due to adjustment to benefit load rate applicable to labour costs in this pool (non-bargaining unit employees); and
- Add \$26,554 in costs primarily related to data service lines historically excluded from shared services cost pools.

## 685 – Terrace Management

There are nine non-bargaining unit staff members included in the Terrace Management cost pool responsible for the management and administration of all operational activities for the PNG-West division and some in support of the PNG(NE) divisions. The following is a summary of the roles performed by these functions:

- 1) General Manager Operations
  - Responsible for oversight, operation and administration of all field operations for PNG-West and PNG(NE).
- 2) Manager Customer Care
  - Manages Customer Care Center and meter records operations and staff which serve all PNG-West and PNG(NE) customers;
- 3) Operations Accounting Manager
  - Manages Operations Accounting group responsible for day-to-day accounting activities for both PNG-West and PNG(NE).
- 4) Coordinator Marketing & Lands
  - Provides services for sales and marketing, lands and rights-of-way and pipeline public awareness services for PNG-West and PNG(NE).
- 5) Manager Community Relations & Administration
  - Provides community relations and administrative services to the PNG-West and PNG(NE) divisions.
- 6) Manager Engineering & Special Projects
  - Responsible for engineering services across both the PNG-West and NE divisions, including coordination of pipeline construction and repairs, oversight of outside contractors and engineering service; and
  - Manages direct report in Drafting area that provides service directly to PNG(NE).
- 7) Manager Technical Services
  - Responsible for managing Terrace-based technical field staff in the areas of Warehouse, Compression, Corrosion and Measurement;
  - Has little direct involvement in PNG(NE) activities, however is responsible for fleet management and engineering design work that benefits the PNG(NE) divisions;
  - Manages direct reports in areas of Warehouse and Corrosion that provide service directly to PNG(NE); and
  - Manages direct reports in areas of Compression and Measurement that provide negligible support to PNG(NE) activities.
- 8) Manager Construction Maintenance
  - Responsible for managing construction and maintenance activities for PNG-West;
  - Negligible involvement in PNG(NE) activities.



9) Manager Customer Service

- Responsible for managing customer service activities for customers in the PNG-West service area; and
- Negligible involvement in PNG(NE) activities.

**Cost Pool Changes**

Management's review of this cost pool has identified \$443,136 in additional costs being included in this pool, as discussed below.

**Labour Costs**

Historically, the cost pool for Terrace Management included the labour costs related to positions 2) through 7) above, specifically the following 6 positions:

- Manager Customer Care
- Operations Accounting Manager
- Coordinator Marketing & Lands
- Manager Community Relations & Administration
- Manager Engineering & Special Projects (30%)
- Manager Technical Services

Based on Management's review of this cost pool the following amendments have been proposed for the new cost pool:

- Add labour costs related to the General Manager Operations; this is a new position that evolved from the Manager Operations, West which had historically only had involvement in PNG-West activities; the new position has responsibility for all field operations, including both PNG-West and PNG(NE);
- Include 100% of labour costs of Manager Engineering & Special Projects; previous provision was for 30% of the labour costs attributed to oversight of Drafting function, however, support provided to PNG(NE) is much broader in base therefore inclusion of 100% of labour is considered valid;
- Exclude labour costs for Manager Technical Services; updated time study results indicate that negligible time is spent in support of PNG(NE) activities;
- The proposed cost pool for Terrace Management includes labour costs related to positions 1) through 6) above, specifically for the following 6 positions:
  - General Manager Operations
  - Manager Customer Care
  - Operations Accounting Manager
  - Coordinator Marketing & Lands
  - Manager Community Relations & Administration
  - Manager Engineering & Special Projects

The net effect of this change is a \$179,827 increase in labour-related costs in this cost pool.

## Other Costs

Historically, only labour costs have been included in this cost pool. Based on Management's review of costs related to Terrace Management, the proposed cost pool includes \$263,540 in additional costs, comprised of the following items:

- With the establishment of the position General Manager Operations, \$111,417 in costs related to operational licenses and permits have been transferred from the Terrace Safety & Training (formerly Terrace Engineering) cost pool to include these costs in the appropriate area of responsibility;
- Add \$72,599 in costs primarily related to corporate-wide initiatives in the areas of training and safety and other operational permitting and licensing requirements;
- Add \$43,942 in costs related to Records Administration services the encompass activities in both PNG-West and PNG(NE); and
- Add \$35,582 in costs related to Marketing & Lands services the encompass activities in both PNG-West and PNG(NE).

## **685 – Terrace Accounting (formerly Terrace Accounting/Warehouse)**

Historically, the Terrace Accounting and Terrace Warehouse functions were grouped together into a single cost pool. Given the distinctiveness of these functional areas, Terrace Accounting has been established as a separate cost pool. Terrace Warehouse costs have been reclassified to the proposed new Terrace Technical Services – Warehouse/Corrosion cost pool, as discussed below.

Employees included in the Terrace Accounting cost pool provide complete field accounting services to both PNG-West and PNG(NE) divisions, including processing and archival of all vendor invoices, plant accounting, employee time recording and payroll, and equipment usage record keeping.

## **Cost Pool Changes**

Based on Management's review of underlying costs included in the Terrace Accounting cost pool, the proposed cost pool has been reduced by \$256,140, comprised of the following elements:

- Reclassification of Terrace Warehouse costs of \$248,212 to the new Terrace Technical Services – Warehouse/Corrosion cost pool;
- Add \$9,760 in costs primarily related to training that were historically excluded from this pool; and
- Remove \$17,688 in costs related to the Terrace Management function that were incorrectly classified in this cost pool.

## **685 – Terrace Technical Services – Warehouse/Corrosion (new)**

Historically, the Terrace Warehouse and Terrace Accounting functions were grouped together into a single cost pool. Given the distinctiveness of these functional areas, Terrace Warehouse costs have been reclassified to this proposed new Terrace Technical Services – Warehouse/Corrosion cost pool. Terrace Accounting was established as its own cost pool, as described previously.

As part of PNG Management's shared services allocation review process, the review of Technical Services identified that the Warehouse and Corrosion service areas provided considerable support for PNG(NE) activities, whereas the Compression and Measurement service areas provided negligible support for this region. Based on these findings, this new Technical Services cost pool has been proposed for Warehouse and Corrosion functional costs.

### **Cost Pool Changes**

Based on Management's review of underlying costs related to Warehouse and Corrosion activities, a new cost pool of \$205,246 has been proposed, comprised of the following elements:

- Reclassification of Terrace Warehouse costs of \$248,212 from the historical Terrace Accounting/Warehouse cost pool;
- Elimination of all labour-related (\$72,072) and travel-related (\$871) Warehouse costs historically included in this pool as these costs are directly budgeted/charged to the PNG(NE) divisions;
- Add \$11,144 in Warehouse costs primarily related to purchasing that were excluded from historic cost pools; and
- Add \$18,833 in Corrosion costs excluded from historic cost pools.

### **685 – Terrace Drafting**

The Terrace office has a single draftsman provides drafting services to both the PNG-West and PNG(NE) divisions. The costs included in this cost pool pertain to the drafting function.

### **Cost Pool Changes**

Based on Management's review of underlying costs Terrace Drafting activities, the cost pool has been reduced by \$92,920 to reflect the removal of all labour-related costs historically included in this pool. Drafting labour costs are directly budgeted/charged to the PNG(NE) divisions.

### **685 – Terrace Safety & Training (formerly Terrace Engineering)**

Historically, the Terrace Engineering cost pool captured costs related to operational safety and training, as well as operational licenses and permits that were administered out of the Vancouver office. As noted previously under the Terrace Management cost pool discussion, with the establishment of the position General Manager Operations, costs related to operational licenses and permits historically included in this cost pool have been transferred to the Terrace Management cost pool to align with the responsibility for these costs. This proposed cost pool includes only costs related to Terrace Safety & Training expenditures pertaining to programs that span the activities of PNG-West and PNG(NE).

### **Cost Pool Changes**

Based on Management's review the Terrace Safety & Training cost pool consists of \$87,427 in costs historically included in the Terrace Engineering cost pool. As discussed above, the other \$111,417 in costs included in the historic Terrace Engineering cost pool are related to operational licenses and permits and have been transferred to the Terrace Management cost pool.

## **728 – Vancouver Corporate Expenses**

Expense items included in the Vancouver Corporate Expense cost pool have historically related to public company costs. With the acquisition of PNG by AltaGas on December 20, 2011, many of these expenses have been eliminated as PNG is no longer a publicly-listed company.

The most significant cost item in this cost pool is a management fee charged by AltaGas for corporate services provided (\$404,335). The remaining costs relate to corporate registrar fees, debt rating agency fees, corporate membership fees and communications and public relations costs.

PNG submits that all of the expenses in this pool are appropriate. As PNG(NE) is a wholly owned subsidiary of PNG, which is a subsidiary of AltaGas, PNG(NE) directly enjoys the benefits of PNG and AltaGas assuming the above corporate ownership responsibilities.

### **Cost Pool Changes**

PNG Management's review of costs included in this cost pool indicates that all relevant costs have been captured and no changes are proposed.

## **711 – Vancouver Vertex Billing Services**

Expense items included in the Vancouver Vertex Billing Services cost pool primarily consist of service fees for PNG's third-party billing services provider (Vertex) and billing-related postage costs. PNG submits that all of the expenses in this pool are appropriate.

### **Cost Pool Changes**

PNG Management's review of costs included in this cost pool indicates that all relevant costs have been captured and no changes are proposed.

## **722 – Vancouver Special Services**

The Vancouver Special Services cost pool consisted of external audit fees. All operations are included in PNG's consolidated financial statements and subject to an annual audit to meet debt holder requirements and external reporting requirements required from being a subsidiary of a publicly traded company. PNG submits that all of the expenses in this pool are appropriate.

### **Cost Pool Changes**

Based on Management's review, this cost pool has been increased by \$29,141 to include internal audit costs which have also been identified as appropriate for inclusion in this pool.

## **723 – Vancouver Insurance**

The Vancouver Insurance cost pool includes the premium cost for all insurance coverage other than automobile insurance. This includes property, liability, director and officer, and fiduciary coverage. Automobile insurance premiums are incorporated into the equipment operating cost allocation process. PNG submits that all of the expenses in this pool are appropriate.

### **Cost Pool Changes**

PNG Management's review of costs included in this cost pool indicates that all relevant costs have been captured and no changes are proposed.

## **B.3 Cost Pool Allocators (or “Drivers”)**

### ***B.3.1 Cost Driver Principles***

Shared costs are required to be allocated between PNG(NE) and the balance of PNG. PNG Management has applied the following commonly used cost driver assessment principles when evaluating which cost driver should be used to allocate a cost pool or specific costs within a cost pool (component):

- Cost-causality - The identified driver, being either related to work effort or investment, has a direct correlation to the cost of the services or goods and also has a direct effect on the level of service.
- Freedom from bias - The cost driver selected would not be viewed to favor PNG(NE) or the rest of PNG unfairly.
- Transparency - The driver used and the source or basis on how it is determined is visible to all parties affected.
- Stability - the identified cost driver is robust and changes as expected over time based upon known and established factors. It would not be expected that this driver would have to be amended or replaced in less than 12 months from initial application.
- Accuracy - The identified driver allocates costs without users having to apply estimation or judgment and the resulting allocation reflects a quantifiable allocation.
- Sustainability - The identified driver can be calculated and supported into the foreseeable future.
- Cost versus benefit for effectiveness - The cost to utilize the identified cost driver supports the resulting benefits of its application, and is not too onerous to collect the required underlying data.
- Availability of information to apply drivers - The information needed to apply the cost driver is readily accessible.

### ***B.3.2 Assessment of Appropriate Cost Drivers***

The second step performed by PNG Management in assessing and deriving its revised 2012 shared services cost allocation model was to assess and finalize cost allocators for each cost pool and/or or cost pool component identified under step one above using the principles described in Appendix A as a guide.

The five shared cost allocators utilized historically and in 2012 are included in Table B below and include:

- Time-based percentage allocator (relative time spent on PNG(NE) activities)  
This allocator was derived from the results of a 2003 time study of Vancouver head office employees to estimate the time expended on PNG(NE) matters. The percentages derived from this study have been applied for years 2004 through 2012.
- Customer count percentage allocator (relative PNG(NE) customers to total PNG customers)  
This allocator is derived from internal customer count details supporting PNG’s annual revenue requirements applications. This allocator has changed over time with changes in the distribution of total customers between PNG-West and PNG(NE).

- Employee count percentage allocator (relative PNG(NE) employees to total PNG employees)

This allocator is derived from internal employee count details and has changed over time with changes in the distribution of total employees between PNG-West and PNG(NE).

- Rate base percentage allocator (relative PNG(NE) rate base to total PNG rate base)

This allocator is derived from divisional rate base details derived from PNG's annual revenue requirements applications. This allocator has changed over time with changes in the distribution of total rate base between PNG-West and PNG(NE).

- Operating margin allocator (relative PNG(NE) operating margin to total PNG operating margin)

This allocator is derived from divisional operating margin details derived from PNG's annual revenue requirements applications. This allocator has changed over time with changes in the distribution of total operating margin between PNG-West and PNG(NE).

- Insurance composite allocator

A composite insurance allocator for insurance costs was proposed and implemented as part of PNG's 2005 revenue requirements application. The use of a composite allocator was considered appropriate given that insurance premium costs were impacted by a number of variables. As directed by BCUC Order G-42-05, allocators applied to specific premiums are as follows:

- Property – premiums allocated on basis of replacement value of assets, adjusted for estimated risk of claims;
- Commercial Liability – premiums allocated on basis of both customer count and net plant-in-service, weighted equally;
- Directors & Officers – premiums allocated on basis of net income; and
- Fiduciary – premiums allocated on basis of employee count.

PNG project management reviewed the cost pools with key management staff in Vancouver and Terrace to assess if the cost pools allocators of the prior year were appropriate and/or if changes were required due to changing activities and cost pool influencers. For new cost pools management identified the key individuals and activities of the pool to identify likely drivers of its costs.

### ***B.3.3 Updated Time Study***

As required by the Commission, a new 2011/2012 Time Study was completed to update the time-based allocator used by PNG Management. PNG Management, using the information from this updated July 2012 study, derived separate labour allocator percentages for each cost pool identified in step one. This differs from the historic approach where a general labour allocator based upon Vancouver office employees was applied on an overall basis.

A change to more specific labour allocations was viewed as more relevant. To develop these labour allocator percentages by cost pool, PNG Management:

- (i) Identified staff performing activities in these cost pools, and
- (ii) For identified staff, their time was allocated in each pool between:
  - a. PNG(NE) activities time;
  - b. Rest of PNG activities time; and
  - c. PNG non-regulated activities time.

In general, Management determined that the labour costs of each pool should be allocated based upon the updated time-based allocator for each respective pool.

#### ***B.3.4 Composite Allocators***

The non-labour cost components in general were determined to be influenced by a number of relevant allocators. Based on this multiple influence, the decision was made to move from non-labour cost allocators based on specific factors to composite allocators based on an average of cost allocators relevant to each cost pool. The following summarizes composite allocators applied in the revised cost allocation model:

Composite Average Allocator A - this is an average of allocators including Time-Based, Customer Count, Employee Count and Rate Base allocators which influence the cost pool.

Composite Average Allocator B - this is an average of allocators including Time-Based and Customer Count Allocators which influence the cost pool.

Composite Average Allocator C - this is an average of allocators including Customer Count, Employee Count and Rate Base allocators which influence the cost pool.

#### ***B.3.5 Summary of Shared Service Cost Allocators***

Table B that follows summarizes Management's proposed cost allocators to be applied to each cost pool or cost pool element under its revised cost allocation model in comparison to allocators applied historically. The table also summarizes the resulting cost allocations and percentage allocations PNG(NE) to by cost pool or cost pool element under the new model in comparison to allocations in 2012.

**Table B - Summary of Shared Service Cost Allocators**

Shared Service Cost Pool (see Table 1 also)	Historical Cost Allocator	Proposed Cost Allocator	Total \$ Value of Historical Cost Pool Allocated to NE Using Historical Allocators <sup>(1)</sup>	% of Historical Cost Pool Allocated to NE Using Historical Allocators	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators	Explanation of Proposed Cost Allocator Amendments	Are the proposed allocators and final allocation reasonable and consistent with PNG's allocation principles?
721 – Vancouver Administration								
• Labour component	Time- based	Time- based	652,400	20.8%	931,272	28.9%	Updated time study results	Yes
• Non- labour components	Time- based	Composite Average Allocator A <sup>(2)</sup>	165,224	20.8%	251,616	31.7%	A composite average of relevant allocators	Yes
711/713/714 – Terrace Customer Care Centre								
• Labour component	Customer count	Time- based	656,780	48.2%	554,169	49.2%	Updated time study results	Yes
• Non-labour component	Customer count	Composite Average Allocators B <sup>(2)</sup>	134,551	48.2%	77,047	48.7%	A composite average of relevant allocators	Yes
711/713/714 – Vancouver Billing Services (new)								
• Labour component	Customer count	Customer Count	— <sup>(3)</sup>	—% <sup>(3)</sup>	95,176	48.2%	Updated customer count	Yes
• Non-labour component	Customer count	Customer Count	— <sup>(3)</sup>	—% <sup>(3)</sup>	81,096	48.2%	Updated customer count	Yes
685 – Terrace Management								
• Labour component	Customer count	Time-based	336,593	48.2%	324,064	36.9%	Updated time study results	Yes
• Non-labour component	n/a	Composite Average Allocator A <sup>(2)</sup>	—	—%	88,938	33.7%	A composite average of relevant allocators	Yes



Shared Service Cost Pool (see Table 1 also)	Historical Cost Allocator	Proposed Cost Allocator	Total \$ Value of Historical Cost Pool Allocated to NE Using Historical Allocators <sup>(1)</sup>	% of Historical Cost Pool Allocated to NE Using Historical Allocators	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators	Explanation of Proposed Cost Allocator Amendments	Are the proposed allocators and final allocation reasonable and consistent with PNG's allocation principles?	
685 – Terrace Accounting (formerly Terrace Accounting/Warehouse)	• Labour component	Employee count	Time-based	132,513	23.9%	204,282	42.4%	Updated time study results	Yes
	• Non-labour component	Employee count	Composite Average Allocator A <sup>(2)</sup>	52,228	23.9%	12,029	35.1%	A composite average of relevant allocators	Yes
685 – Terrace Technical Services-Warehouse/Corrosion (new)	• Labour component	Employee count	n/a	— <sup>(4)</sup>	—% <sup>(4)</sup>	—	—%	No labour costs allocated	Yes
	• Non-labour component	Employee count	Composite Average Allocator C <sup>(2)</sup>	— <sup>(4)</sup>	—% <sup>(4)</sup>	67,108	32.7%	A composite average of relevant allocators	Yes
685 – Terrace Drafting	• Labour component	Customer count	n/a	44,767	48.2%	—	—%	No labour costs allocated	Yes
	• Non-labour component	Customer count	Composite Average Allocator C <sup>(2)</sup>	33,992	48.2%	23,068	32.7%	A composite average of relevant allocators	Yes

Shared Service Cost Pool (see Table 1 also)	Historical Cost Allocator	Proposed Cost Allocator	Total \$ Value of Historical Cost Pool Allocated to NE Using Historical Allocators <sup>(1)</sup>	% of Historical Cost Pool Allocated to NE Using Historical Allocators	Total \$ Value of Proposed Cost Pool Allocated to NE Using Proposed Allocators <sup>(1)</sup>	% of Proposed Cost Pool Allocated to NE Using Proposed Allocators	Explanation of Proposed Cost Allocator Amendments	Are the proposed allocators and final allocation reasonable and consistent with PNG's allocation principles?
685 – Terrace Safety & Training (formerly Terrace Engineering)  • Non-labour component	Time study	Composite Average Allocator C <sup>(2)</sup>	41,439	20.8%	28,585	32.7%	A composite average of relevant allocators	Yes
728 – Vancouver Corporate Expenses  • Non-labour component	Rate base	Composite Average Allocator C <sup>(2)</sup>	135,389	26.1%	169,886	32.7%	A composite average of relevant allocators	Yes
713 – Vancouver Vertex Billing Services  • Non-labour component	Customer count	Customer count	456,142	48.2%	456,142	48.2%	Updated customer count	Yes
722 – Vancouver Special Services  • Non-labour component	Operating margin	Composite Average Allocator C <sup>(2)</sup>	72,753	32.5%	82,740	32.7%	A composite average of relevant allocators	Yes
723 – Vancouver Insurance  • Non-labour component	Insurance Composite	Insurance Composite	101,665	12.5%	101,665	12.5%	Updated insurance composite	Yes
			3,016,436		3,548,883			

- (1) The cost pool figures are derived from PNG's 2012 revenue requirements application, as updated on March 15, 2012
- (2) Management elected to use an average or composite allocator for the non-labour component as the chosen allocators influence this cost pool component.
- Composite Average Allocator A** - this is an average of allocators including Time-Based, Customer Count, Employee Count and Rate Base allocators which influence the cost pool.
- Composite Average Allocator B** - this is an average of allocators including Time-Based and Customer Count Allocators which influence the cost pool.
- Composite Average Allocator C** - this is an average of allocators including Customer Count, Employee Count and Rate Base allocators which influence the cost pool.
- (3) Included with 711/713/714 – Terrace Customer Care in prior years. The labour component was allocated based upon customer count as it influenced the level of labour costs. Billing matters are general in nature and are not specific to PNG(NE) and as a result time study results were not available or relevant.
- (4) Included with 685 – Terrace Accounting in prior years.

#### **B.4 Management's Conclusion – Shared Services Cost Allocation**

Management determined that the final shared cost pools, cost allocators and resulting allocations under the new allocation model meet the internal objectives and principles established by PNG as detailed into Appendix A. The percentage allocations to PNG(NE) have increased in general and this is viewed to be a function of both increased activity and cost investment in PNG(NE) and also changes to the allocation model that reflect a more accurate allocation of PNG costs to PNG(NE).

## Appendix C – PNG Management’s Standalone Customer Care Centre Assessment

### C.1 Management’s Assessment Process and Procedures

Management’s assessment process involved the following steps and procedures:

- Management identified and assigned a team of internal staff members with call centre experience and/or logistical knowledge that would be able to assess the costs and qualitative factors to be considered for a standalone call centre in the NE region. Experienced management and other personnel assigned to the project included: VP Regulatory Affairs and Gas Supply, Manager of Regulatory Affairs and Special Projects, General Manager Operations, Manager Terrace Customer Service Centre, IT Manager, and VP Human Resources and Government Relations.
- Management developed a strategy to identify expected operating and capital costs of a new facility and presented the proposed strategy to KPMG. KPMG examined the strategy and provided commentary on the approach for PNG Management’s reconsideration.
- The final strategy applied by PNG Management was:
  - To define the role and function of a call centre in the NE region - As the customer care function covers a broad range of services to customers, Management considered what customer care functions would be appropriately provided at a standalone facility in the NE region. For this exercise, it was established that the following services currently provided by the Terrace call centre would be replicated in order to serve NE customers:
    - Customer contracts and service orders
    - Customer billing and accounting assistance
    - Customer credit and collections services

The back office billing function using the Banner system would continue to be operated as a centralized service and is appropriately excluded from this analysis.

- To identify a call centre location - Factors and variables considered included the prospects of a stable and/or growing economy at the proposed location, the depth of the existing labour market and the needs of the centre, PNG’s knowledge of the area, proximity to its existing and target customer base, and PNG’s existing service centres. Fort St. John is the largest city in British Columbia’s northeast region and has a growing and expanding community and business centre. One of PNG’s existing main operating offices is already located in Fort St. John, giving PNG knowledge and experience and potential operational synergies to establish a standalone call centre in this city. Based upon these factors Fort St. John was selected as the location for the proposed standalone call centre.
- To develop operating and capital estimates:
  - Management identified key assumptions and call centre requirements that would drive cost estimates and they were concluded to be:
    - Existing Terrace call centre staff would not relocate to Fort St. John. All staff would be newly hired and would include 7 customer service representatives (“CSR”) and 1 manager;

- Existing Terrace CSRs and managers would train newly hired staff while on leave of absence;
  - Five Redundant CSRs in Terrace would receive severance pay and provision for these amounts have been estimated based upon existing collective labour contract provisions;
  - Certain furniture and fixtures and other property and equipment (capital items) from its existing call centre operations in Terrace would be transferred and repurposed in the new proposed facility; and
  - Leasing office space is a more cost effective alternative to the physical expansion of the existing office or the purchase of additional office space.
- To develop specific cost estimates:
    - Management first identified and reviewed its existing call centre's operating and capital costs. These costs were assessed and evaluated as to whether they would be representative of the standalone costs for a Fort St. John operation and if not, were adjusted or revaluated and/or supported through vendor or agent quotes and management estimates from experienced and knowledgeable PNG personnel; and
    - Management considered whether it was more cost effective to lease an office versus expand existing facilities or purchase new office space and determined that leasing office space in Fort St. John was more cost effective and provided a more timely transition.

The Table C below presents management's estimate of annual operating costs for a standalone customer call centre in Fort St. John:

**Table C - Summary of Annual Operating Costs of Standalone Customer Care Centre Costs**

Type of Costs	Estimated Standalone Costs (2012) for Customer Care Centre in NE Region
General and Administrative	\$ 17,400
Training	4,200
Customer Contracts and Orders	16,750
Customer Billing and Accounting	13,700
Credit and Collections	19,000
Office Equipment Maintenance	2,500
Office Lease and Utilities	57,374
Salary and Benefits	703,598
Total Annual Expense	\$ 834,521

Table D below summarizes the estimated start-up costs of a standalone customer care centre in Fort St. John in the initial start-up year as developed by PNG Management. These costs are separate from the annual operating costs discussed above. It shows that there is a cost to invest in a new call centre of approximately \$522,000.

**Table D - Summary of Start-up Costs of Standalone Customer Care Centre**

Type of Cost	Estimated Start-up Costs (2012) of Standalone Customer Care Centre in NE Region
Initial Training	\$ 230,475
Severance	150,000
Recruitment Costs	76,000
Capital Expenditures - Equipment and Fixtures	85,225
Total Startup Costs	\$ 541,700 <sup>(1)</sup>

<sup>(1)</sup> This estimate does not include the cost to purchase office space as leasing of office space was determined to be more economical and practical.

The estimated annual operating costs and the initial start-up costs represent Management’s best estimate of the actual costs that it would incur in 2012, but Management also believes that actual costs could be ±10-15% of these estimated cost amounts due to variations in negotiated supplier and lease terms, training needs and recruitment costs, amongst other factors.

**C.2 Management’s Quantitative Assessment**

Management estimated annual operating costs of a new standalone call centre in Fort St. John to be approximately \$834,521 (2012) compared to the existing call centre costs of approximately \$667,911 allocated to PNG(NE) based upon the current allocation cost model, which was assessed and concluded to be reasonable earlier in this report. The establishment of a standalone call centre would represent an increase in annual operating costs of approximately \$166,610 or 25% to PNG(NE).

Management notes that even if the actual annual operating costs and start-up costs were ultimately ±10-15% of the estimated annual and operating costs shown in Tables C and D, a standalone customer care facility would still be viewed as uneconomical.

**C.3 Management’s Qualitative Assessment**

Benefits of stand-alone call centre in Fort St. John.

1. A standalone facility may increase customer service and satisfaction levels with more dedicated staff which may be able to expand certain service offerings over time.
2. Synergies by opening a call centre in Fort St. John near its existing operating office in Fort St. John.

Challenges of stand-alone call centre in Fort St. John.

1. A new head office reporting package and call centre governance policies would be required to allow for proper oversight and governance of the operations of a new standalone facility.
2. Loss of synergies that currently exist between PNG’s Vancouver and Terrace offices as these offices provide supportive regulatory, accounting and administrative functions to all the PNG divisions.

3. The existing structure provides a call centre workforce that has cross functional service skills which are flexible to adapt to the needs of the existing call centre and also in support of the accounting function in the Terrace office. Creating a separate second standalone call centre has the effect of increasing overall labour and operating costs due to the higher levels of staffing and more extensive operations required to accommodate daily unforeseen operational challenges and variations on its own.

#### **C.4 Management's Conclusion – Standalone Customer Care Centre**

Management is of the view that the creation of a new standalone customer care centre is not supportable economically at this time. Annual operating costs are expected to increase by 23%, with annual incremental costs to PNG on a consolidated basis being approximately \$322,700. In addition, initial start-up costs will also be incurred in year 1 and are estimated to be in excess of \$500,000.

Although there may be certain service and other benefits of a dedicated staff team and office in the PNG(N.E.) service area, these qualitative benefits do not outweigh the excessive incremental annual operating cost increases and initial start-up costs to PNG. Management views current customer satisfaction levels to be reasonable under its existing structure and is of the view that changes can be made within this structure to meet changing needs into the foreseeable future.