

Memorandum

TO: Chairman's Executive Committee

FROM: Darcy Mazurkewich, Head, Utility Audit and Compliance Group

DATE: July 31, 2006

RE: REGULATORY AUDIT REPORT -ALTAGAS UTILITIES INC.

Attached is the audit report arising from the regulatory audit of AltaGas Utilities Inc. (AUI) that we recently completed. Also attached is management's response to the audit report.

As noted in the report, we determined that AUI had effective processes for controlling the regulated customer billing process. In addition, transactions in these processes were complete and accurate, properly supported, timely, and in accordance with applicable regulatory requirements. There were a few minor observations arising from the audit which were not of sufficient significance to warrant inclusion in the report.

As noted in the final paragraph, we received the full cooperation of AUI management and staff throughout the audit assignment.

If you have any comments about the attached, please give me a call at 297-7365.

<Approved for distribution by>

Darcy Mazurkewich

cc: Bob Heggie, Executive Manager, Utilities Branch
Arnold Mantei, Vice President Controller, AltaGas Utilities Inc.



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July 13, 2006

Darcy Mazurkewich, CMA
Head, Audit and Compliance Group
Alberta Energy and Utilities Board
640 – 5 Avenue SW
Calgary, Alberta T2P 3G4

Dear Mr. Mazurkewich:

Re: Regulated Billing System and Customer Information Controls Audit

Thank you for providing AltaGas Utilities Inc. the opportunity to comment on the Draft Regulated Billing System and Customer Information Controls Audit Report.

The management of the Company has reviewed the draft copy of the audit report and we believe that the draft report accurately reflects the findings that were communicated to the Company during the closing meeting. The Company strives to continually improve on its delivery of service and internal controls. The recommendations made are well received as they will aid in meeting this objective. It is also gratifying to receive confirmation that the current provision of service and internal controls is already at a very high level.

I thank you for the kind comments about the management and staff of AltaGas Utilities. My staff and I reciprocate these kind words about the Audit Team and commend you, Mr. Iannone and Mr. Thompson for the professional manner in which you conducted the audit.

If you have any comments or questions regarding this matter, please contact me.

Yours truly,

A handwritten signature in blue ink, appearing to read "A.A. Mantei", written over a circular scribble.

A.A. Mantei, CMA
Vice President Controller



AltaGas Utilities Inc.

Regulatory Audit of the Regulated Customer Billing Process for the 12-Month Period Ended December 31, 2005

July 2006

Audit Team:

**Darcy Mazurkewich
Nick Iannone
Joel Thompson**

ALBERTA ENERGY AND UTILITIES BOARD

Regulatory Audit Report # 2006 - 003: AltaGas Utilities Inc.
Regulatory Audit of the Regulated Customer Billing Process

July 2006

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Objectives and Scope

The overall objective of the assignment was to conduct a regulatory audit of the financial and operational controls over the regulated customer billing process of AltaGas Utilities Inc. (AUI), and to gather information and gain an understanding of the operation of their customer information controls.

The audit included a review of the operations of the regulated customer billing process, the associated financial information and the related regulatory requirements. It covered testing of samples of transactions, reviews of and discussions of the procedures being followed along with reviews of the controls over the key components of the billing process for the 12-month period ended December 31, 2005. The audit resulted in the expression of an opinion on the effectiveness of the controls and procedures with respect to this key activity, as well as an indication of whether the activity conforms with regulatory requirements.

This is the second regulatory audit of AUI. This audit marks the start of the second cycle of a three cycle audit plan developed to audit the key activities of utilities and regulated rate providers regulated by the Alberta Energy and Utilities Board (EUB). These key activities have been determined to be of interest to stakeholders in the regulatory process. One objective of these audits is to instil greater confidence in the regulatory process on the part of all stakeholders through the provision of an independent, professional review of the selected activities.

The activities examined during this audit included a review of financial and operational information provided to the EUB by AUI, as well as a review of Decisions arising from applications made to the EUB by AUI during the two-year period ended December 31, 2005. During this period, AUI filed approximately seven major applications before the EUB. These applications involved generic cost of capital, code of conduct and general rate application issues.

The Audit and Compliance group of the EUB's Utilities Branch carried out the assignment between June 13 2006 and June 29, 2006. The closing meeting was held with AUI management on June 29, 2006.

Overview

AUI, a regulated natural gas utility is wholly owned by AltaGas Utility Group Inc. a publicly traded company that was formed as a result of a corporate restructuring and the spin out of the Natural Gas Distribution business from AltaGas Income Trust. AUI is the largest and only Alberta based operating utility within the group. AUI has been engaged in the delivery and sale of natural gas to more than 90 communities in Alberta for over 50 years. AUI's transmission and distribution system consists of approximately 19,500 kilometres of pipeline. AUI's customer base of almost 62,000 customers consists primarily of residential and small commercial consumers.

AltaGas Utilities Inc.'s natural gas revenues for 2005 were \$139.2 million and it's cost for natural gas was \$108.1 million. It's net income for the year was \$3.2 million.

The Regulated Customer Billing Process

AUI's delivery tariffs are determined through a two-phase General Rate Application. Phase 1 establishes AUI's revenue requirement and Phase II sets the rates to be charged to various customer classes. The delivery tariffs are designed to recover AUI's total cost of service including an approved return on equity. During 2005, the EUB in its Decision 2005 – 029 approved new delivery tariffs for AUI that became effective from May 1, 2005.

AUI prepares and issues bills for the delivery and sale of natural gas based on regular meter readings and/or estimates of customer usage. In addition the bills include approved charges for various types of riders i.e. Property Tax, Franchise Fees and prior years Revenue Deficiency. Bills are issued monthly to customers who are assigned to one of AUI's 21 billing cycles. During the twelve-month period that ended on December 31, 2005, AUI billed an average of 62,000 customers each month. In addition to the billing function, AUI manages their own customer care function. During the 2005 business cycle the total natural gas delivered was approximately 13.1 petajoules which resulted in total transmission and distribution revenues of approximately \$139 million.

One of the main objectives of the audit work in this section was to test the effectiveness of the controls and procedures related to the three core billing processes, namely, the site management process, the meter data management process, and the tariff billing process. The other main objective was to test the completeness and accuracy of, and support for, samples of billing outputs and inputs during the 12-month period to December 31, 2005.

Site management procedures reviewed included the sub-processes of creating the site data and maintaining the site records, changes of rates, contract changes, and retailer of record. Meter data management procedures reviewed included the sub-processes of collecting meter reads and validating those reads. Tariff billing procedures reviewed involved the sub-processes required to prepare tariff bill charges, and the invoicing of the related charges. This was done for both the automated and manual billing processes.

Some documentation of the practices and procedures around the customer information control function was done however, no audit comments were made as documentation of the procedures was our objective at this time.

Audit scope was limited to the review and testing of billing charges for the 12-month period ended December 31, 2005

The following is a summary of the significant procedures tested and the audit work done.

- The key components, procedures, control points, issues, and risks associated with the regulated customer billing process were identified.
- The items that were identified were reviewed to determine whether related procedures and controls were adequate and tests were conducted to determine completeness, ownership, and timeliness.

- Alberta Regulations, EUB Decisions, and EUB Directives were reviewed and the related regulatory requirements were identified and built into the audit tests in this section.
- A sample of bill transactions was selected from all twelve months in the period. Tests were carried out to verify that the selected items were complete, properly supported, accurate; were recorded in the correct time period and were in accordance with regulatory requirements.
- A sample of transactions used as inputs to the billing process were tested in order to verify that the bill statements issued were consistent with original information.
- Reports pertaining to billing accuracy were reviewed to verify compliance with the requirements of Board Directive 003.

The audit conclusion is that AUI has an effective process for controlling the regulated customer billing process and that regulated customer billing transactions were complete, accurate, properly supported, generated on a timely basis, and were in accordance with regulatory requirements.

Principal Audit Findings and Overall Conclusion

Overall, the financial and operational controls over the selected activity of AUI were effective and the transactions examined were in accordance with regulatory requirements. Some minor exceptions of non-material amounts were noted. These items were brought to the attention of management along with suggestions to help improve the effectiveness of the related control procedure. Management has provided their responses, including an appropriate timetable for dealing with the matters noted. These items though, were not considered of sufficient significance to warrant inclusion in this report however, management actions taken on these items will be followed up on the next visit.

We thank the management and staff of AltaGas Utilities Inc. for their help and cooperation given during the audit. We appreciate the time and effort they made to provide the audit team with detailed explanations and answer to our queries.