

Memorandum

March 11, 2008

FROM: Darcy Mazurkewich, Manager Audit and Compliance

TO: Willie Grieve, Chair, Alberta Utilities Commission

REGULATORY AUDIT OF INTER-AFFILIATE CODE OF CONDUCT

Please find attached the audit report resulting from the recently completed Inter-Affiliate Code of Conduct audit of the following utilities.

ATCO Electric Ltd.
ATCO Gas (a division of ATCO Gas and Pipelines Ltd.)
ENMAX Power Corp.
EPCOR Distribution and Transmission Inc.
FortisAlberta Inc.

Included in the report are the management responses provided by each Utility.

The Audit Team determined that each of the five Utilities demonstrated compliance with their Inter-Affiliate Code of Conduct (Code). This determination was based on two areas of work. One was a review of each Utility's implementation of and adherence to the compliance measures in their Compliance Plans. The other was an examination of each Utility's inter-affiliate transactions. Noted in the report is a single finding, as well as three general observations which the Audit Team believes warrant attention.

As noted in the report, the management and staff of each Utility provided us with their full cooperation throughout the audit. In fact, management's willingness to have frank and open discussions helped both the Utilities and the Audit Team better understand the issues and to improve the controls and compliance measures used by the Utilities.

If you have questions or concerns about the attached, please call me at 592-7729.



Darcy Mazurkewich
Manager, Audit and Compliance
Audit and Compliance Group, Utilities Division

cc: Please see attached list.

CC: Bob Heggie, Chief Executive Officer, Alberta Utilities Commission
Sett Policicchio, President ATCO Electric Ltd.
Jerome Engler, President ATCO Gas
Jim Beckett, Executive VP and Chief Regulatory Officer (Compliance Officer) ATCO
Electric and ATCO Gas
Keith Wellon, Chief Executive Officer and Compliance Officer, ENMAX Power Corp.
Penny Favel, Acting Director, Compliance, ENMAX Power Corp.
Guy Bridgeman, Senior Vice President, EPCOR Distribution and Transmission Inc.
Leah Fitzgerald, Chief Compliance Officer, EPCOR Utilities Inc.
Karl Smith, President and Chief Executive Officer, FortisAlberta Inc.
Karl Bomhof, Senior Legal Counsel and Compliance Officer, FortisAlberta Inc.

Arnold Mantei, Vice President Controller and Compliance Officer, AltaGas Utilities Inc.
Rob Koizumi, Manager Regulatory Affairs, AltaGas Utilities Inc.
Leigh Clarke, Senior Vice President and Compliance Officer, AltaLink Management Ltd.
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Sean McMaster, General Counsel and Chief Compliance Officer, Nova Gas Transmission
Ltd.
Mark Kocsar, Manager Transmission Compliance, Nova Gas Transmission Ltd.



ATCO Electric Ltd.
ATCO Gas (a division of ATCO Gas and Pipelines Ltd.)
ENMAX Power Corp.
EPCOR Distribution and Transmission Inc.
FortisAlberta Inc.

Inter-Affiliate Code of Conduct Audit
for the Year Ended December 31, 2006

March 2008

Audit Team:

Darcy Mazurkewich
Nick Iannone
Joel Thompson
Karen McCambly

ALBERTA UTILITIES COMMISSION
Regulatory Audit Report #2008-001:
Regulatory Audit of Inter-Affiliate Code of Conduct

March 2008

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Contents

1 BACKGROUND 1

2 OBJECTIVES 2

3 SCOPE AND WORK PERFORMED..... 3

4 INDIVIDUAL UTILITY AUDIT RESULTS..... 4

5 GENERAL OBSERVATIONS..... 4

Appendices

APPENDIX A – ATCO ELECTRIC LTD.

APPENDIX B – ATCO GAS

APPENDIX C – ENMAX POWER CORP.

APPENDIX D – EPCOR DISTRIBUTION AND TRANSMISSION INC.

APPENDIX E – FORTISALBERTA INC.

1 BACKGROUND

In 2000, the Alberta Energy and Utilities Board (Board) predecessor to the Alberta Utilities Commission¹ (Commission) received concurrent applications from the ATCO group of companies (ATCO Group) dealing with Inter-Affiliate Code of Conduct issues.² The Board also received communications indicating that other utilities had inter-affiliate concerns which needed to be addressed. During the final argument of the ATCO hearing, the Board asked for comments from interested parties, on the relative advantages of conducting a generic hearing to finalize a code of conduct rather than proceeding by drafting codes on a company-by-company basis. In a letter dated December 18, 2001, the Board advised the interested parties that it would not proceed with a generic hearing, but instead would proceed to establish a code of conduct for the ATCO Group and where appropriate, reflect those findings in subsequent decisions. This process resulted in Decision 2003-040³ which contained the ATCO Group Inter-Affiliate Code of Conduct.

In Decision 2003-040,⁴ the Board outlined the purpose of having a Code and the four parameters or principles supporting the Code.

The purpose of this Code is to establish standards and conditions for interaction between each ATCO Utility and its Utility and Non-Utility Affiliates. This Code attempts to anticipate and adjust for the potential misalignment of interest between shareholders and Utility customers occasioned by Affiliate interactions through the establishment of parameters for transactions, information sharing and the sharing of services and resources, while permitting economies of scale and operating efficiencies.

These parameters are intended to:

- (a) prevent Utilities from cross-subsidizing Affiliate activities;
- (b) protect confidential customer information collected in the course of providing Utility services;
- (c) ensure Affiliates and their customers do not have preferential access to Utility services; and
- (d) avoid uncompetitive practices between Utilities and their Affiliates, which may be detrimental to the interests of Utility customers.

Subsequent to the Board's release of Decision 2003-040, each of the other utilities⁵ were directed to file an application for approval of an Inter-Affiliate Code of Conduct (Code)⁶ based on the ATCO Group Code.

¹ This audit report is issued under the jurisdiction of the Commission. Readers are reminded that all references to past decisions issued by or directions provided by the Commission's predecessor, the Board, are indicated as such in accordance with section 80(2) of the *Alberta Utilities Commission Act*, S.A. 2007, c. A-37.2 (AUC Act).

² Application 2000234 filed jointly by ATCO Electric Ltd. (AE) and ATCO Gas and Pipelines Ltd. was with respect to their relationships and transactions with other regulated and non-regulated affiliates within the ATCO group of companies. Application 2000233 filed by AE was with respect to affiliate transactions for the 2001/2002 test period.

³ Decision 2003-040 - ATCO Group Affiliate Transactions and Code of Conduct Proceeding Part B: Code of Conduct (Application 1237673) (Released: May 22, 2003)

⁴ Decision 2003-040, page 38

⁵ The list of utilities is on page 2

⁶ The use of the term Code is used in the report to refer either collectively or individually to the Inter-Affiliate Code of Conducts approved for each utility.

Section 7.5 of each utility's Code identifies the requirement for the utility to have a Compliance Plan (Plan)⁷ to:

detail the measures, policies, procedures and monitoring mechanisms that the Utility will employ to ensure its full compliance with the provisions of the Code by the Utility, its directors, officers, employees, consultants, contractors and agents, and by Affiliates of the Utility with respect to the interactions of the Affiliates with the Utility.

In Decision 2005-013,⁸ the Board approved the ATCO Group Plans (which included the Plans for ATCO Gas, ATCO Pipelines and ATCO Electric) after having considered the Plans in a collaborative manner through an iterative, consultative process. During the remainder of 2005 and 2006 the Board approved the respective Codes and Plans of the other utilities using the ATCO Group Code and Plans as the templates.

On June 11, 2007, the Board sent a letter to the utilities listed below to notify them of the planned inter-affiliate code of conduct audit, its scope, and its timing. The first six utilities listed were originally scheduled to be audited in 2007. In October 2007, because of time constraints, the Board notified AltaLink Limited Partnership that it would not be audited in 2007. AltaLink and the remaining four utilities listed will be audited in a future period.

Utility Name	Reference Acronym	Timing Of Audit
ATCO Electric Ltd.	AE	A
ATCO Gas (a division of ATCO Gas and Pipelines)	AG	A
ENMAX Power Corp.	EPC	A
EPCOR Distribution and Transmission Inc.	EDTI	A
FortisAlberta Inc.	FAI	A
AltaLink Limited Partnership	ALP	F
AltaGas Utilities Inc.	AUI	F
NOVA Gas Transmission Ltd.	NGTL	F
CU Water Limited	CU Water	F
EPCOR Energy Alberta Inc.	EEAI	F

Legend:

A – Audited in 2007; F – To be audited at a future date

2 OBJECTIVES

The objective of the audit was to determine each utility's compliance with its Code.

The results of the audit are included in this report. Appendices A through E each express an audit opinion for the specific utility's compliance with its Code, accompanied by their management's response.⁹

⁷ The use of the term Plan is used in the report to refer either collectively or individually to the Compliance Plans approved for each utility.

⁸ Decision 2005-013 – ATCO Electric Ltd., ATCO Gas (A Division of ATCO Gas and Pipelines Ltd.), ATCO Pipelines (A Division of ATCO Gas and Pipelines Ltd.) Inter-Affiliate Code of Conduct Compliance Plans (Applications 1319546, 1319534, 1319536) (Released: February 22, 2005)

⁹ The Commission is not bound by the findings of the Audit Group with respect to any future hearings or proceedings in which an issue of compliance by the utility is raised, and which was the subject matter of an audit.

3 SCOPE AND WORK PERFORMED

The audit period covered the 2006 business cycle, with the audit planning and fieldwork occurring from June through November 2007. Audit staff spent approximately two weeks at each utility examining the utility's documents and records, and interviewing utility management and staff.

The audit work focused on testing each utility's implementation and adherence to the measures in its Plan. The measures in each utility's Plan are the preventive and detective controls used to help assure the utility, the Commission, and other stakeholders that the utility is complying with the spirit and intent of its Code.

Compliance audits are limited in that they can not determine whether the audited utility has been fully compliant with the Code. However, the Audit Team can form an opinion as to whether the utility demonstrates a respect for the spirit and intent of the Code by reviewing and testing:

- i) whether the utility effectively implemented the measures in its Plan; and
- ii) that the utility's inter-affiliate transactions are in accordance with the Code.

The following represent the significant audit procedures performed for each utility. The Audit Team:

- Reviewed relevant Board Decisions and Utility Orders to identify the related regulatory requirements and directives, and then developed compliance audit tests.
- Reviewed committee meeting minutes for evidence that actions specified in the measures of the Plan were completed, along with the timeliness of the actions taken.
- Selected and reviewed a sample of attestation and compliance certificates signed by employees, officers and directors to verify completeness, accuracy, and timeliness.
- Reviewed with members of management, the internal procedures the utility has in place to enable them to sign certificates of attestation.
- Reviewed and examined the control procedures used to ensure customer confidentiality.
- Selected and tested a sample of service agreements to determine that they were properly approved, and in accordance with the requirements defined in the utility's Code.
- Verified the accuracy of the quarterly and annual compliance reports.
- Analyzed and reconciled data in the relevant accounts to utility management reports, utility financial statements, and annual information filed with the Board.
- Reviewed where available, internal audit results assessing the utility's compliance with its Plan, and for those findings brought to management's attention, verified that corrective actions were being carried out.
- Selected a sample of inter-affiliate transactions for the audit period, and carried out tests to verify that the selected items were:
 - properly supported by a service agreement or other appropriate documentation;
 - valued in accordance with the Code and the applicable service agreement;
 - recorded in the correct entity, account and time period;
 - properly authorized; and
 - in accordance with regulatory directives.

Minor exceptions noted and documented during the audit, along with recommendations to resolve the exceptions, were communicated in writing to the management of the particular utilities. Management provided written responses addressing these exceptions and included a timeline for dealing with the exceptions noted. These exceptions were not considered of sufficient significance to warrant inclusion in this report.

4 INDIVIDUAL UTILITY AUDIT RESULTS

Appendices A through E represent the individual audit results for each utility. Each appendix includes the following:

- a brief background description of the utility;
- a statement about the timing of the audit fieldwork;
- any significant audit findings;
- the audit conclusion for the specific utility; and
- a copy of the utility management response letter to the audit report.

5 GENERAL OBSERVATIONS

Because of the relative newness of the Code and the limited experience of the utilities and the Board with the Code, it was not unexpected that interpretational differences between the utilities and the Board could exist and would be found during the audit. In examining the five utilities, the Audit Team determined that differences of interpretation existed, and it also assessed whether the difference was an industry issue or a specific issue of non-compliance.

Presented below are three issues which the Audit Team believes warrant attention by the utilities and the Commission. The Audit Team assessed them as being industry issues as they affected multiple utilities.

It is important to note that the scope of the audit related to activities and utility management actions that occurred in 2006, while the basis of the first two observations below resulted from the Audit Team's understanding of directions provided by the Board in 2007. Consequently, during 2006 the management of the utilities did not have the benefit of these Board directions to assist them in their interpretation of the Code.

Issue 1 - Governance – Section 3.1

Background

In Decision 2003-040,¹⁰ the Board stated that utilities should have separate management from their owner and affiliates. This is also stated in the governance restrictions included in Section 3.1 of the Code.

Observation

The Audit Team noted that based on the annual compliance reports filed with the Board by the utilities audited, each utility except FAI had one or more officers who also held either an officer or senior manager role with a non-utility affiliate. This is in contravention of Section 3.1.3 of the Code, even with the allowed exceptions in Section 3.1.4. This contravention does not appear to be an issue of non-compliance with the Code, as explained below.

The sharing of directors, officer, and senior managers with non-utility affiliates is allowed under Section 3.1.5 of the Code, so long as the utility can ensure that the individuals meet the following two guiding principles.

- 1) Shall not agree to act in a dual capacity if it could reasonably be considered to be detrimental to the interests of customers of the utility; and
- 2) If acting in a dual capacity, shall abstain from engaging in any activity that could reasonably be considered to be detrimental to the interests of customers of the utility.

The Audit Team noted that each utility complied with the measures in Section 3.1.5 of their Plan in all material respects. These measures deal with the requirements to: 1) maintain a listing of directors, officers and senior managers in dual capacities; 2) train these individuals on the requirements of the Code; and 3) ensure that all these individuals provided a signed certificate indicating that they have complied with the Code.

While the audit was in progress, the Board issued Decision 2007-082¹¹ in which it denied EPC's exemption request that would have allowed EPC to share five senior officers across all affiliates. In that Decision, the Board stated the following.

As a matter of principle, the Board does not consider it appropriate for the senior officers of a regulated enterprise to be performing such senior functions for non-regulated affiliates, especially those actively engaged, directly or indirectly, in the competitive electricity markets. There is good reason why Sections 3.1.1 and 3.1.3 of the EPC Code require separate management and prohibit the sharing of officers by Utility and Non-Utility Affiliates. The limited exception provided for in Section 3.1.4 of the EPC Code was founded in the particular circumstances of the ATCO Group, primarily in order to permit the historical practice of common officers among the Non-Utility corporate parent, CU Inc., and the regulated ATCO Utilities. **The Board has not been persuaded that the internal controls put forward by EPC are sufficiently reliable to achieve the objectives of the EPC Code when the activities involve the most senior individuals in a Utility and its unregulated Affiliates.** In the Board's view, the risk of potential harm

¹⁰ Decision 2003-040, pages 56-59

¹¹ Decision 2007-082 – ENMAX Power Corporation Code of Conduct Exemption (Application No. 1512335) (Released: October 26, 2007)

to customers due to misalignment of Utility and Affiliate interests in such circumstances is not reasonable and in the public interest.¹²

The “internal controls” that the Board referred to in the above quote from Decision 2007-082 included the compliance measures in EPC’s Plan. Thus this Decision, which was issued well after the audit period, questioned the sufficiency of the measures in EPC’s Plan in relation to the seniority of the individuals involved. Because those measures in EPC’s Plan are virtually identical to the measures in the Plans of the other utilities, and the fact that each utility audited, with the exception of FAI, has one or more officers in a dual capacity, the Audit Team views the findings of this Decision as an industry issue that needs to be addressed by the utilities, stakeholders, and the Commission.

As a result of Decision 2007-082, EPC informed the Board that as of December 20th 2007 it had become compliant with Section 3.1.3 of the Code through a change of officers for EPC.¹³

Recommendation

Given that the utilities operated in 2006 without the benefit of Decision 2007-082 and that during 2006 they adhered to the compliance measures in Section 3.1.5 of their respective Plans, the Audit Team finds them compliant with the Code within the scope of this audit.

However, the Audit Team recommends that EDTI, AE, and AG each review their respective list of individuals holding officer roles in non-utility affiliates (thereby acting in a dual capacity) to ascertain whether any changes may be necessary as a result of Decision 2007-082. It is further recommended that in their 2007 annual compliance reports, EDTI, AE and AG provide a rationale for those officers who act in a dual capacity and how these officers have complied with the Guiding Principles of Section 3.1.5. This will allow the Commission an opportunity to review those instances and if deemed necessary take further action.

¹² Decision 2007-082, page 10 [emphasis added by Audit Team]

¹³ December 21st, 2007 letter from Robert Hemstock, Executive Vice-President Regulatory and Legal Services, ENMAX Corporation

Issue 2 - Sharing of Employees – Section 3.3.1

Background

Section 3.3.1 of the Code of Conduct states the following regarding the ability of utilities to share employees.

A Utility may share employees on a Cost Recovery Basis with an Affiliate provided that the employees to be shared:

- a) Do not have access to Confidential Information;
- b) Do not routinely participate in making decisions with respect to the provision of Utility Services or how Utility Services are delivered;
- c) Do not routinely deal with or have direct contact with customers of the Utility; and
- d) Are not, subject to the provisions of section 3.1.4 hereof, routinely involved in operating, planning or managing the business of the Utility.

Observation

The Audit Team noted that no utility used the measures in Section 3.3.1 of its Plan pertaining to the sharing of employees, as each utility indicated that, in their opinion, they did not share any employees and thus had no need to follow those measures. Since neither the Code nor the Plan have a formal definition for the phrase “sharing of employees”, the Audit Team asked each utility for their definition and understanding of this section of the Code. The Audit Team noted that there was no consistent definition of what a shared employee was, nor did a consistent interpretation of what was intended by this section of the Code exist across the five utilities.

While the audit was in progress the Audit Team noted that the Board provided a definition for the term “Sharing of Employees”. This definition was provided in response to the 2007 second quarter compliance filing submitted by ATCO Gas.¹⁴ The Board definition includes all “employees who perform any work on behalf of an affiliate, whether through a service agreement or by way of an occasional service or emergency service”.¹⁵

Based on the definition provided by the Board to ATCO Gas, the Audit Team believes that in 2006, all utilities were sharing employees to provide shared services to affiliates with which no exemption had been approved. Because no definition was provided in the Code or Plan, the Audit Team did not consider it an issue of non-compliance within the audit scope. However, it is an issue that needs to be addressed by the utilities in 2008.

Recommendation

The Audit Team recommends that the utilities consider the Board’s definition for the “Sharing of Employees” as indicated above, and ensure that they follow the related compliance measures as outlined in their plans.

¹⁴ Application 1517888

¹⁵ Application 1517888, response letter from the Board to ATCO Gas dated October 5, 2007

Issue 3 – Delegation of Responsibilities

Observation

The Audit Team noted that with respect to the delegation of responsibilities allowed in each Utility's Plan, there appeared to be a varying degree of delegation when it came to the role of the Compliance Officer.

The Plan for each Utility includes a provision to allow for the delegation of all or a portion of tasks in the Plan. This delegation states that:

“This Compliance Plan describes certain obligations and responsibilities of specified [Utility name] management personnel. Notwithstanding this, and without otherwise reducing or eliminating the obligation and responsibility of the specified [Utility name] management personnel to ensure any specific requirements of this Compliance Plan are satisfied, it is understood that all or a portion of the tasks described in this Compliance Plan may be delegated by the specified [Utility name] management personnel to other [Utility name] personnel”.

Each Utility tailored their respective Plan to meet their individual operations. The EDTI and EPC compliance plans each include a specific provision to delegate the responsibilities of the Compliance Officer to a non-officer position. For EPC it is the Director of Compliance with further delegation to the Compliance Co-ordinator, and for EDTI it is the Conduct Leaders. As a result of their Compliance management structure, neither EPC nor EDTI have an officer of the utility as a member of their Conduct Committee.

Even though all Plans were approved by the Board, and each Plan allows for the delegation of responsibilities, the Audit Team is concerned with the delegated approaches taken by EDTI and EPC which appear to limit the involvement of senior management. The limited involvement of senior management, specifically the Compliance Officer, could potentially impair the ability of a utility to meet its compliance obligations and responsibilities.

Recommendation

The Audit Team recommends that EPC and EDTI include a minimum of one officer on their Conduct Committee. Specifically that officer should be the Compliance Officer, who as stated in Section 7.3 of the Code is required to be an officer of the Utility.

APPENDIX A – ATCO ELECTRIC LTD.

Utility Background

AE is a member of the ATCO Group of Companies. AE serves more than 190,000 customers in the northern and east-central Alberta – resource rich areas of the province where electricity is an essential component of industrial development. The company has nearly 80 years experience in serving this territory. AE is headquartered in Edmonton and has 37 service offices throughout its service area in Alberta. The company builds, operates and maintains a system of transmission and distribution lines, delivering power to homes, farms and businesses, in cities, towns, and aboriginal communities – more than 200 communities in all.

Timing

The Audit Team carried out the field assignment at AE's head office location between November 5 and 28, 2007. A closing meeting was held with AE management on November 28, 2007.

Conclusion

The Audit Team found that AE followed the measures in its Plan and the related policies and procedures in all material respects. In addition, the Audit Team found that the transactions reviewed were accurate, authorized, supported, and in compliance with regulatory requirements in all material respects. Therefore, the Audit Team concludes that AE demonstrated compliance with its Code.

The Audit Team expresses its appreciation to AE management and staff for their cooperation and assistance during the course of the audit.

Findings

There are no findings for AE.

Management Response Letter

(on next page)



March 10, 2008

Mr. Darcy Mazurkewich, CMA
Manager, Audit and Compliance
Alberta Utilities Commission
Fifth Avenue Place,
4th Floor, 425 – 1 Street SW
Calgary, Alberta T2P 3L8

Dear Mr. Mazurkewich:

**Re: Regulatory Audit Report #2008-001
ATCO Electric Ltd.
Inter-Affiliate Code of Conduct Audit
For the Year Ended December 31, 2006**

ATCO Electric has reviewed the February 2008 draft report containing your General Observations and agrees with the information and recommendations contained in the report.

We are pleased that the audit findings confirm our strong commitment to ensuring our compliance with the ATCO Group Inter-Affiliate Code of Conduct and ATCO Electric's Inter-Affiliate Code of Conduct Compliance Plan.

We would like to thank the Audit and Compliance Group for accommodating our internal schedules and for your demonstrated professionalism and work ethic during the audit. We also wish to express our appreciation for the ongoing communication throughout this process.

Sincerely,

Original Signed by

S.F. (Sett) Policicchio
President

10035 - 105 Street, Edmonton, Alberta, Canada T5J 2V6
Tel: 780-420-7310 Fax: 780-420-7400
www.atcoelectric.com

APPENDIX B – ATCO GAS

Utility Background

AG, a division of ATCO Gas and Pipelines Ltd., is a member of the ATCO Group of Companies. AG provides natural gas distribution services in Alberta to more than 970,000 customers in nearly 300 communities. AG is headquartered in Edmonton and has 62 district offices across the province. Its two service territories, AG North, serving customers living in, and north of, the City of Red Deer, and AG South, serving customers living south of the City of Red Deer, cover approximately 85 per cent of the province. AG owns and operates approximately 36,000 kilometres of pipeline throughout Alberta.

Timing

The Audit Team carried out the field assignment at AG's head office location between November 5 and 28, 2007. A closing meeting was held with AG management on November 28, 2007.

Conclusion

The Audit Team found that AG followed the measures in its Plan and the related policies and procedures in all material respects. In addition, the Audit Team found that the transactions reviewed were accurate, authorized, supported, and in compliance with regulatory requirements in all material respects. Therefore, the Audit Team concludes that AG demonstrated compliance with its Code.

The Audit Team expresses its appreciation to AG management and staff for their cooperation and assistance during the course of the audit.

Findings

There are no findings for AG.

Management Response Letter

(on next page)



March 10, 2008

Mr. Darcy Mazurkewich, CMA
Manager, Audit and Compliance
Alberta Utilities Commission
Fifth Avenue Place,
4th Floor, 425 – 1 Street SW
Calgary, Alberta T2P 3L8

Dear Mr. Mazurkewich:

**Re: Regulatory Audit Report #2008-001
ATCO Gas (a division of ATCO Gas and Pipelines Ltd.)
Inter-Affiliate Code of Conduct Audit
For the Year Ended December 31, 2006**

ATCO Gas has reviewed the February 2008 draft report containing your General Observations and agrees with the information and recommendations contained in the report.

We are pleased that the audit findings confirm our strong commitment to ensuring our compliance with the ATCO Group Inter-Affiliate Code of Conduct and ATCO Gas' Inter-Affiliate Code of Conduct Compliance Plan.

We would like to thank the Audit and Compliance Group for accommodating our internal schedules and for your demonstrated professionalism and work ethic during the audit. We also wish to express our appreciation for the ongoing communication throughout this process.

Sincerely,

Original Signed by

J.F. (Jerome) Engler
President

10035 - 105 Street, Edmonton, AB T5J 2V6
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APPENDIX C – ENMAX POWER CORP.

Utility Background

EPC is a wholly owned subsidiary of ENMAX Corporation which is a wholly owned subsidiary of the City of Calgary. EPC builds, owns, and maintains the electrical distribution and transmission systems serving the Calgary area. Its transmission system is comprised of 281 kilometres of 69kV and 138kV transmission lines and 35 substations in and around Calgary. Its distribution system links about 403,000 metered customer sites with approximately 7,100 kilometres of distribution lines and covers 1,054 square kilometres.

EPC is responsible for metering, meter data management, customer enrolment services, load settlement and billing for residential and small business customers in Calgary. It also provides some or all of these services in Red Deer, Fort Macleod, Cardston and the Municipality of Crowsnest Pass.

Timing

The Audit Team carried out the field assignment at EPC's head office location between October 1 and 12, 2007. A closing meeting was held with EPC management on October 25, 2007.

Conclusion

The Audit Team found that EPC followed the measures in its Plan and the related policies and procedures in all material respects. In addition, the Audit Team found that the transactions reviewed were accurate, authorized, supported, and in compliance with regulatory requirements in all material respects. Therefore, the Audit Team concludes that EPC demonstrated compliance with its Code.

The Audit Team expresses its appreciation to EPC management and staff for their cooperation and assistance during the course of the audit.

Findings

There are no findings for EPC.

Management Response Letter

(on next page)



ENMAX Power Corporation
141 – 50 Avenue SE
Calgary, AB T2G 4S7
Tel (403) 514-3000
enmax.com

February 28, 2008

Alberta Utilities Commission
Fifth Avenue Place,
4th Floor, 425 - 1 Street SW
Calgary, Alberta T2P 3L8

VIA e-mail

Attention: Darcy Mazurkewich

Dear Darcy:

**RE: ENMAX Power Corporation ("EPC")
Regulatory Audit Report #2008-001
Inter-Affiliate Code of Conduct Audit for the period
ended December 31, 2006**

EPC appreciates the opportunity to review and respond to the Regulatory Audit Report as conducted by the AUC. We understand that this response will be appended to the above noted Audit Report #2008-001 and posted to the AUC website.

The management of EPC has reviewed the report and is pleased that the results reflect our commitment to maintaining high quality operational processes and internal controls while remaining compliant to regulatory standards.

We believe the report to be complete, accurate and reflective of the findings communicated by the AUC during the audit process. As discussed, EPC will review and address the recommendations set out in the report.

We would like to thank the AUC for their accommodation of our internal schedules and commend the Audit Team for their professional manner and conduct throughout the audit process.

Should you have any questions or concerns, please feel free to contact me at (403) 514-3079.

Sincerely,

Keith Wellon
Chief Executive Officer
ENMAX Power Corporation

cc: Bonnie McAllister, EVP, Finance and CFO, VP and Treasurer
Robert Hemstock, EVP, Regulatory and Legal Services
Grant Weismiller, Director, Regulatory Affairs, EPC
Penny Favel, Acting Director, Compliance

APPENDIX D – EPCOR DISTRIBUTION AND TRANSMISSION INC.

Utility Background

EPCOR Distribution Inc. and EPCOR Transmission Inc. were two wholly owned subsidiaries of EPCOR Utilities Inc. which is a wholly owned subsidiary of the City of Edmonton. Effective January 1st 2007, the two entities merged to become EDTI, which builds, owns, and maintains about 9 per cent of Alberta’s transmission grid, distributing close to 14 per cent of electricity consumption. This includes 285 distribution feeders, 4,746 circuit kilometres of primary distribution lines, and services and facilities for more than 300,000 customers in the City of Edmonton.

Timing

The audit period was 2006 and was therefore before the merger of the two entities into EPCOR Distribution and Transmission Inc. As a result, both EPCOR Distribution Inc. and EPCOR Transmission Inc. were audited. The Audit Team carried out the field assignment at EPCOR Distribution and Transmission Inc.’s head office between September 4 and 14, 2007. A closing meeting was held with EDTI management on September 14, 2007.

Conclusion

With the exception of the finding noted below, the Audit Team found that EDTI followed the measures in its Plan and the related policies and procedures in all material respects. In addition, the Audit Team found that the transactions reviewed were accurate, authorized, supported, and in compliance with regulatory requirements in all material respects. Therefore, the Audit Team concludes that, excluding the finding below, EDTI demonstrated compliance with its Code.

The Audit Team expresses its appreciation to EDTI management and staff for their cooperation and assistance during the course of the audit.

Findings

(on next page)

Management Response Letter

(see following page)

APPENDIX D – EPCOR DISTRIBUTION AND TRANSMISSION INC.

<p>Compliance Officer – Section 7.3</p>
<p>Finding</p> <p>It was noted that EDTI did not have an officer of the utility designated as the Compliance Officer contrary to Section 7.3 of the Code which states that the “Utility shall ensure that the Compliance Officer is an officer of the Utility”. This was discovered when it was noted that the Conduct Leader in lieu of the Compliance Officer signed one of the Officer Certificates in EDTI’s annual compliance report, as required in Section 7.6(n) of the Code. Upon investigation it was realized that the Compliance Officer was not an officer of EDTI.</p>
<p>Impact</p> <p>EDTI is in contravention of Section 7.3 of the Code which states that the Compliance Officer be an officer of the company.</p>
<p>Recommendation</p> <p>That EDTI:</p> <ul style="list-style-type: none">• Designate an officer of the utility to fill the Compliance Officer role; and• In its 2007 annual compliance report to be filed with the Commission indicate the change made to ensure compliance with Section 7.3 of the Code.

10065 Jasper Avenue
Edmonton AB T5J 3B1
Canada



March 6, 2008

Alberta Utilities Commission
400, 425 – 1 Street S.W.
Calgary, AB T2P 3L8

Attention: Mr. Darcy Mazurkewich
Manager, Audit and Compliance

Dear Sir:

**Subject: EPCOR Distribution and Transmission Inc.
Regulatory Audit Report # 2008-001
Inter-Affiliate Code of Conduct Audit for the Year End December 31, 2006**

EPCOR Distribution and Transmission Inc., (“EDTI”) appreciates the opportunity to review and respond to the Audit Report observations and recommendations made by the AUC. We understand that this response will be appended to the above noted Audit Report # 2008-001.

We have reviewed the Audit Report and are generally pleased with the result of the audit as it is a reflection of our commitment to the regulatory compliance standards within our inter-affiliate transactions.

We make the following comments with respect to the Audit Report’s General Observations and Appendix D – the Audit Finding with respect to EDTI’s non-compliance with s. 7.3 of the EPCOR Code:

Issue 1 – Governance – Section 3.1

For reasons that EDTI will detail in its Annual Compliance Report for 2007, EDTI does not believe any changes are necessary as a result of Decision 2007-082.

Accordingly, EDTI believes that it is unnecessary for it to provide a rationale for those officers who act in a dual capacity in its 2007 annual compliance report, or to provide how these officers have complied with the Guiding Principles of Section 3.1.5.

Issue 2 – Sharing of Employees – Section 3.3.1

EDTI will detail in its Annual Compliance Report for 2007 its contention that “Sharing of Employees” does not or should not include “those employees who perform any work on behalf of an affiliate, whether through a service agreement or by way of an occasional service of emergency service” as well as those with secondary employment with an Affiliate.

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Issue 3 – Delegation of Responsibilities

A resolution is being taken forward to the EPCOR Utilities Inc. Board of Director's meeting on March 20, 2008 to appoint Leah Fitzgerald, Chief Compliance Officer, as an officer of both EDTI and EEAI.

Appendix D – EPCOR Distribution and Transmission Inc.

To remediate this inadvertent non-compliance, a resolution is being taken forward to the EPCOR Utilities Inc. Board of Director's meeting on March 20, 2008 to appoint Leah Fitzgerald, Chief Compliance Officer, as an officer of both EDTI and EEAI.

Should you have any questions or concerns, please feel free to contact me at (780) 412-7822.

Sincerely,



Guy Bridgeman
Senior Vice President
EPCOR Distribution & Transmission Inc. and
EPCOR Energy Services Alberta Inc.

APPENDIX E – FORTISALBERTA INC.

Utility Background

FAI is an electricity distribution utility which serves more than 440,000 customers in over 175 communities in its franchise area within Alberta. It has 105,000 kilometres of distribution lines, which is close to 60 per cent of Alberta's low-voltage distribution system. FAI employs more than 950 employees and has more than 40 field offices in central and southern Alberta. It is a wholly owned subsidiary of Fortis Inc. FAI has a single non-utility affiliate within Alberta, with which it has no direct business relationship.

FAI's parent Fortis Inc. is the largest investor owned utility company in Canada, serving almost 2,000,000 gas and electric customers. Its regulated holdings include a natural gas utility in British Columbia and electric utilities in five Canadian provinces and three Caribbean countries. It owns non-regulated hydroelectric generation assets across Canada and in Belize and upper New York State. It also owns hotels and commercial real estate in Canada.

Timing

The Audit Team carried out the field assignment at FAI's head office location between June 18 and June 29, 2007. A closing meeting was held with FAI management on July 30, 2007.

Conclusion

The Audit Team found that FAI followed the measures in its Plan and the related policies and procedures in all material respects. In addition, the Audit Team found that the transactions reviewed were accurate, authorized, supported, and in compliance with regulatory requirements in all material respects. Therefore, the Audit Team concludes that FAI demonstrated compliance with its Code.

The Audit Team expresses its appreciation to FAI management and staff for their cooperation and assistance during the course of the audit.

Findings

There are no findings for FAI.

Management Response Letter

(on next page)



Karl W. Smith
President & CEO

FortisAlberta Inc.
320, 17th Ave. S.W.
Calgary, AB T2S 2V1
www.fortisalberta.com

March 4, 2008

Alberta Utilities Commission
4th Floor, 425 – 1st Street SW
Calgary, Alberta
T2P 3G4

Attention: Darcy Mazurkewich

Dear Mr. Mazurkewich:

Re: AUC Inter-Affiliate Code of Conduct Audit – Management Response

Thank you for this opportunity to respond to the AUC Regulatory Audit Report #2008-001 on behalf of FortisAlberta Inc.

We were pleased to participate in the audit of FortisAlberta's compliance with the Inter-Affiliate Code of Conduct ("Code") and Compliance Plan ("Plan") conducted by the AUC Audit Team, and are satisfied with the conclusion that FortisAlberta followed its Compliance Plan in all materials respects and that the Company has demonstrated its compliance with the Code. We believe the results of the audit speak to FortisAlberta's continued commitment to regulatory compliance and to the resources we have dedicated to meeting the Company's compliance obligations.

We are confident that this commitment to regulatory compliance will enable us to continue to meet our obligations under the Code and the Plan. That said, it remains our view that the compliance measures required by the Code and Plan should be proportionate to the level of the Company's affiliate transactions. Since 2003, when the utility was owned by Aquila Networks (Canada), the Company's inter-affiliate transactions have decreased significantly (\$19.7 million in 2003 to \$1.6 million in 2007). In light of these declining levels, the Company intends to assess whether amendments to the Code and Plan are required to better achieve this desired proportionality. It is also our hope that in its evaluation of the Code and the Plan, the AUC will give similar consideration to whether, in FortisAlberta's case, the appropriate balance between the compliance measures and desired outcome has been achieved.

We are pleased that the Audit Team has recognized FortisAlberta efforts to meet its compliance obligations. We look forward to continuing to work cooperatively with your group and the AUC in the application of the Code and Plan.

Sincerely,

FortisAlberta Inc.



Karl W. Smith
President and Chief Executive Officer

cc. Karl J. Bomhof, FortisAlberta Compliance Officer