



Memorandum

December 1, 2008

FROM: Darcy Mazurkewich, Manager Audit and Compliance

TO: Willie Grieve, Chair, Alberta Utilities Commission

REGULATORY AUDIT OF NOVA GAS TRANSMISSION LTD.

Please find attached the audit report resulting from the recently completed Regulatory Audit of NOVA Gas Transmission Ltd. (NGTL) as well as management's response to the audit report.

The Audit Team determined that NGTL demonstrated in all material respects compliance with its Inter-Affiliate Code of Conduct.

As noted in the report, NGTL management and staff provided us with their full cooperation throughout the audit.

If you have concerns about the attached, please call me at 403.592.4429.

A handwritten signature in blue ink, appearing to read 'D. Mazurkewich', is written over a faint, larger version of the same signature.

Darcy Mazurkewich
Manager, Audit and Compliance
Utilities Division

**CC: Russ Girling, President, NOVA Gas Transmission Ltd.
Bob Heggie, Chief Executive, Alberta Utilities Commission**



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November 28, 2008

Alberta Utilities Commission
4th Floor 425 – 1st Street S.W.
Calgary, Alberta
T2P 3L8

**Attention: Mr. Darcy Mazurkewich
Manager, Audit & Compliance**

Dear Mr. Mazurkewich:

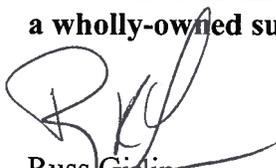
**Re: Alberta Utilities Commission (“AUC”)
Inter-Affiliate Audit - NOVA Gas Transmission Ltd. (“NGTL”)
Regulatory Audit Report #2008-004**

NGTL has reviewed the findings contained in the draft audit report and agrees with the information and opinions stated therein. NGTL is pleased that the audit opinions are reflective of its strong commitment of compliance with the provisions, spirit and intent of the NGTL Code of Conduct.

NGTL takes this opportunity to express its gratitude to the audit team for its professionalism in conducting the audit process, while, at the same time, accommodating NGTL’s commitments to its internal work schedules and deadlines.

Yours truly,

**NOVA Gas Transmission Ltd.
a wholly-owned subsidiary of TransCanada PipeLines Limited**



Russ Girling
President



NOVA Gas Transmission Ltd.

Audit in Respect of Compliance with the
Inter-Affiliate Code of Conduct
for the Year Ended December 31, 2007

November 2008

Audit Group:

Nick Iannone
Joel Thompson
Darcy Mazurkewich
Karen McCambly

ALBERTA UTILITIES COMMISSION

Regulatory Audit Report #2008-004: NOVA Gas Transmission Ltd.

Audit in Respect of Compliance with the

Inter-Affiliate Code of Conduct

for the Year Ended December 31, 2007

November 2008

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1 UTILITY OVERVIEW

Overview

NOVA Gas Transmission Ltd. (NGTL) a wholly-owned subsidiary of TransCanada PipeLines Limited (TCPL) owns and operates an Alberta-wide natural gas transportation system (“the Alberta System”). The Alberta System collects and transports natural gas for use in Alberta and delivery to provincial boundary points for connection with TCPL’s Canadian Mainline, the Foothills System and other pipelines for export to Eastern Canada and to the United States. The Alberta System at approximately 23,500 km in length and with throughput volumes of 4,015 billion cubic feet in 2007 is one of the largest carriers of natural gas in North America. In 2007, the Alberta System operating under the 2005-2007 Revenue Requirement Settlement recorded actual revenues of \$1.1 billion which closely matched the approved revenue requirement.

In the normal course of business, NGTL has inter-affiliate transactions relating to:

- allocated costs for administration, management, operational and other services;
- tolls for gas transportation on Foothills Pipe Lines Ltd. and TransCanada Pipeline Ventures LP; and
- financial costs and interest charges.

During 2007, the net inter-affiliate transactions between NGTL and its affiliates amounted to \$365.3 million.

2 INTER-AFFILIATE CODE OF CONDUCT BACKGROUND

In 2000, the Alberta Energy and Utilities Board (Board)¹ received concurrent applications from the ATCO group of companies (the ATCO Group) dealing with Inter-Affiliate Code of Conduct issues.² The Board also received communications from other utilities indicating they 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 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.

¹ This audit report is issued under the jurisdiction of the Alberta Utilities Commission. Readers are reminded that all references to past decisions issued by or directions provided by the Alberta Utilities 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 No. 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 No. 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 No. 1237673) (Released: May 22, 2003).

In Decision 2003-040, the Board outlined the purpose of having an ATCO Group Inter-Affiliate Code of Conduct and the four parameters or principles supporting that code of conduct.

“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”.⁴*

In Decision 2004-069,⁵ the Board approved the Inter-Affiliate Code of Conduct (Code) governing the relationships and transactions between NGTL and its regulated and non-regulated affiliates. The Code was based on the ATCO Group Code model which was approved in Decision 2003-040. Section 7.5 of NGTL’s Code required that NGTL prepare a Compliance Plan (Plan) to:

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

NGTL’s Plan was based on the ATCO Group Plan and was approved by the Board in Decision 2006-093.⁶

3 AUDIT OBJECTIVE AND SCOPE

The audit was conducted for the Alberta Utilities Commission (Commission) with the objective of providing the Commission with an opinion regarding NGTL’s compliance with its Code for the year ended December 31, 2007. The audit was conducted by the Commission’s Audit and Compliance Group (Audit Group) at NGTL’s Corporate Office location in Calgary.

⁴ Decision 2003-040, page 38

⁵ Decision 2004-069 - NGTL 2004 General Rate Application Phase 1 (Application No. 1315423) (Released August 24, 2004)

⁶ Decision 2006-093 - NGTL Inter-Affiliate. Code of Conduct Compliance Plan (Application No. 1401201) (Released September 12, 2006)

For the purpose of attaining the audit objective, the Audit Group developed and applied an audit plan. Based on the results of the application of the audit procedures, the Audit Group can express an opinion on whether NGTL has or has not demonstrated compliance with the Code.⁷ The audit procedures included examining and evaluating, on a test basis, evidence supporting compliance. The audit procedures are outlined in greater detail in the next section of this report.

The primary focus of the audit was the testing of NGTL's adherence to the prevention and detection control measures in its Plan. These control measures are intended to assist NGTL in ensuring its compliance with the Code. Conformity to these measures is also meant to provide the Commission and other stakeholders reasonable assurance that NGTL is compliant with the spirit and intent of the Code.

The secondary focus of the audit was an examination of NGTL's inter-affiliate accounts balances, transactions, and the control procedures around these transactions. These were tested for compliance with the measures in the Plan and for reporting accuracy.

The audit plan, fieldwork, and audit report may differ in some respects from procedures used and reports filed under Generally Accepted Auditing Standards (GAAS) because a regulatory compliance audit is intended to provide reasonable assurance to the Commission, and the Commission does not require that the Audit Group perform its audits in accordance with GAAS. While NGTL is responsible to comply with its Code, the Commission is responsible for approving exemptions to the Code, approving changes to the Plan, and monitoring NGTL's compliance reports for potential issues of concern to the Commission.

4 AUDIT PROCEDURES

The following represents the significant audit procedures performed during the course of the audit.

The Audit Group:

- Developed a compliance audit program based on the measures in NGTL's Plan, and a review of Board Decisions and Utility Orders to identify any relevant regulatory requirements and directives for NGTL.
- Reviewed NGTL's Compliance Plan Committee meeting minutes for evidence that actions specified in the measures of the Plan were completed in a timely manner.
- Reviewed NGTL's Compliance training material used to educate the directors, officers, representatives, consultants, contractors and agents about the provisions of the Code and the Plan.
- Reviewed attestation and compliance certificates and reports signed by directors, officers, representatives, consultants, contractors and agents to verify completeness, accuracy, and timeliness.
- Reviewed with management, the internal procedures the utility has in place to enable management to sign certificates of attestation.

⁷ 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.

- Selected and tested a sample of service agreements to determine whether they were properly approved, and in accordance with the requirements outlined in the Code.
- Verified the quarterly and annual compliance reports for completeness, accuracy and timeliness.
- Analyzed and reconciled data in the relevant accounts of the utility's management reports, the utility's financial statements, and annual information that is filed yearly with the Commission.
- Reviewed the monthly cost allocation process in accordance with TransCanada's Allocation Policy, including review of data integrity controls and reconciliation processes.
- Reviewed relevant audit work completed by NGTL's Internal Audit group.

5 CONCLUSION

Based on the results of the audit procedures followed, which are set out above, the Audit Group is of the opinion that NGTL complied in all material respects with its Inter-Affiliate Code of Conduct for the year ended December 31, 2007.

The Audit Group expresses its appreciation to the management and staff of NGTL for their cooperation and assistance provided during the audit.