



Memorandum

July 20, 2010

TO: Willie Grieve, Chair, Alberta Utilities Commission

FROM: Darcy Mazurkewich, Manager Audit and Compliance

REGULATORY AUDIT OF ENMAX POWER CORPORATION

1. Please find attached the audit report resulting from the Regulatory Audit of ENMAX Power Corporation as well as management's response to the audit report.
2. The Audit Group determined that ENMAX Power Corporation has demonstrated in all material respects for the year ended December 31, 2008 for both its Operating, Maintenance and General expenditures activities, and its Capital Management activities: that it had effective controls, policies and processes in place; that it complied with the applicable regulatory requirements for these areas; and that the relevant information provided in its 2008 Rule 005 filing with the Commission was presented fairly.
3. As noted in the report, ENMAX Power Corporation management and staff provided us with their cooperation throughout the audit.

A handwritten signature in blue ink, appearing to read 'D. Mazurkewich', is positioned above the typed name.

Darcy Mazurkewich
Manager, Audit and Compliance
Rates Division

CC: Bonnie McAllister, CFO and VP Finance, ENMAX Power Corporation
Bob Heggie, Chief Executive, Alberta Utilities Commission
Mike Hagan, Executive Director, Rates Division, Alberta Utilities Commission



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enmax.com

June 30, 2010

Audit and Compliance Group – Utilities Branch
Alberta Utilities Commission
425 – 1 Street SW
Calgary, AB T2P 3L8

Dear Mr. Mazurkewich:

RE: ENMAX Power Corporation Regulatory Audit Report

ENMAX Power Corporation would like to thank you for the opportunity to discuss your audit findings and observations during the closing meeting of the regulatory audit and for this opportunity to comment on the draft regulatory audit report.

Upon review of the draft regulatory audit report, ENMAX Power Corporation agrees with the conclusions presented by the AUC audit team and is pleased with the audit findings. We continue our commitment to fully comply with all regulatory decisions and directives in a timely manner and to ensure the effective systems of financial and operational controls are in place throughout the organization.

We look forward to working with the audit team in the future.

Sincerely,

“Original Signed by Bonnie McAllister”

Bonnie McAllister
CFO and VP Finance
ENMAX Power Corporation



AUC

Alberta Utilities Commission

Regulatory Audit Report #2010-001

ENMAX Power Corporation

**Regulatory Audit of
Operations, Maintenance and General Expenses, and
Capital Management for the Year Ended December 31, 2008**

July 2010

Audit Group:

**Nick Iannone
Silvia Danchuk
Darcy Mazurkewich**

ALBERTA UTILITIES COMMISSION

Regulatory Audit Report #2010-001: ENMAX Power Corporation
Regulatory Audit of
Operations, Maintenance and General Expenses, and
Capital Management for the Year Ended December 31, 2008

July 2010

Published by

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Overview

1. ENMAX Power Corporation (EPC) is a subsidiary of ENMAX Corporation which is a wholly owned subsidiary of the City of Calgary. EPC's two main business functions are the operation and maintenance of the electricity distribution and transmission network it owns within the City of Calgary. EPC is also responsible for billing and retail energy services in Calgary and four other municipalities in Alberta, and is responsible for providing electricity regulated-rate tariff service to customers in Calgary. Through its wholly-owned, unregulated subsidiary ENMAX Power Services Corporation, EPC provides competitive engineering, procurement, construction, and maintenance services. ENMAX Power Services Corporation also specializes in construction and maintenance of light rail transit systems.

2. The Alberta Utilities Commission (AUC or Commission) has regulatory oversight of EPC's distribution and transmission businesses. Both the rates for EPC's distribution service and the tariff for its transmission service are set through its formula-based ratemaking (FBR) plan as approved in AUC [Decision 2009-035](#).¹

Objective and Scope

3. The Audit Group of the Commission undertook this audit to provide an opinion² to the Commission regarding two areas of EPC's business activities for the year ended December 31, 2008. These two areas are operations, maintenance and general (OM&G) expense management, and capital management. The audit opinion expressed at the end of this report relates to the accounting controls, policies, and processes related to these activities; EPC's regulatory compliance with these activities; and the 2008 information which EPC filed with the Commission relevant to these activities pursuant to AUC Rule 005: *Annual Reporting Requirements of Operational and Financial Results* (2008 Rule 005 Report).³

4. The Audit Group performed the audit fieldwork from November 2, 2009 to December 11, 2009 at EPC's head office located in Calgary. This fieldwork was completed after EPC filed its application⁴ in compliance (the Compliance Application) with directions given by the Commission in Decision 2009-035.⁵ As outlined below, certain aspects of the Compliance Application were taken into account during the audit.

Operations, Maintenance and General Expense Management

5. For the year ended December 31, 2008, EPC recorded net OM&G expenses of \$74.2 million of which \$55.8 million pertained to the distribution services and \$18.4 million to the transmission services. The OM&G expenses include those costs that are directly incurred by EPC and those costs resulting from an allocation of shared services provided by ENMAX Corporation. The shared services allocation costs were \$29.0 million or 30 per cent of the gross OM&G expenses for distribution and \$6.5 million or 25 per cent of the gross OM&G expenses

1 Decision 2009-035: ENMAX Power Corporation, 2007-2016 Formula Based Ratemaking (Application No. 1550487) (Released: March 25, 2009).

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

3 ENMAX Power Corporation, 2008 Annual Reporting Requirements of Operational and Financial Results, Application No. 1605133.

4 ENMAX Power Corporation AUC Decision 2009-035 – FBR Compliance Filing - Application No. 1604999. This application resulted in Decision 2010-146 dated April 22, 2010.

5 Ibid.

for transmission. Gross OM&G expenses represent those expenses recorded before the capitalization of labour charges and overhead.

6. The shared service expense amounts noted above were included in EPC's 2008 Rule 005 Report and were developed using the post-2006 shared service allocation methodology discussed below in an excerpt from the Compliance Application.⁶ This allocation methodology was reviewed as part of this audit.

100. The Commission stated that it expects there to be no changes to the allocation method during the FBR term without Commission approval.¹⁷ EPC has changed its shared service cost allocation since the 2006 rates were approved, and the Decision is unclear whether that the Commission expects EPC to revert to the 2006 allocation, or to apply for approval of the post-2006 allocation that has been used for the 2007 and 2008 filings. Since the FBR term started January 1, 2007, the shared services allocation was in fact changed during the FBR term, something for which EPC may now require approval as a result of Decision 2009-035.

101. Unless otherwise directed by the AUC, EPC proposes to use the post-2006 shared service methodology that is currently in place for the remainder of the FBR term.

¹⁷ AUC Decision 2009-035, paragraphs 51 and 284.

7. The following table summarizes the OM&G expenses by major categories for EPC's distribution and transmission areas for the year ended December 31, 2008:

Distribution (\$ millions)	Description	Transmission (\$ millions)
51.8	Gross Salaries and Wages	12.3
10.0	Gross Employee Benefits	2.1
<22.8>	Labour Charged to Projects	<3.4>
39.0		11.0
11.1	Staffing Expenses	2.5
15.1	General Services	6.4
4.2	Consulting Costs	0.8
1.1	Construction Costs	1.8
1.5	Other	-
<17.7>	Administrative Overhead Allocated	<4.2>
54.3	Net Operations, Maintenance & General Expenses	18.3
1.5	Hearing Costs	0.1
55.8	Net Utility Operations, Maintenance & General Expenses	18.4

⁶ In paragraph 159 of Decision 2010-146 dated April 22, 2010, the Commission approved the post-2006 allocation for the determination of shared service expenses in 2008.

8. The following audit activities and procedures were undertaken to assist in the formulation of an opinion on this matter:

- A review of the following AUC decisions to identify applicable regulatory requirements:
 - Decision 2006-002 – 2005-2006 Distribution Tariff (January 13, 2006), Application No. 1380613
 - Decision 2006-079 – 2006 Transmission Facility Owner Tariff (July 25, 2006), Application No. 1422382
 - Decision 2009-035 - 2007-2016 Formula Based Ratemaking (March 25, 2009), Application No. 1550487
- A review of the post-2006 shared services costs allocation methodology.
- An analysis and reconciliation of EPC's OM&G accounts against the following schedules included in EPC's 2008 Rule 005 Report.
 - Schedule 3 – Summary of Operating and Maintenance Expense
 - Schedule 8 – Summary of Payroll and Manpower Statistics
 - Schedule 10 – Reconciliation of Financial Reporting Schedules to Unaudited Financial Statements
- An analysis and reconciliation of EPC's accounts against Schedule I, of the 2008 Compliance Report of the Inter-Affiliate Code of Conduct.⁷
- An inquiry or review of EPC's components of internal controls: system access, record maintenance, management reporting, authorizations, etc.
- A review of existing accounting policies applicable to ENMAX Corporation and its subsidiaries.
- A selection and testing of a sample of OM&G transactions to verify that they were:
 - complete, supported, and authorized;
 - for utility business and had not been previously disallowed;
 - recorded in the accounting records of the correct entity and time period; and
 - in accordance with regulatory requirements.
- A review of a sample of operating projects to verify that they were not disallowed.

Capital Management

9. EPC reported capital expenditures of \$90.2 million for distribution and \$27.7 million for transmission in 2008. For distribution this was a 16 per cent increase over 2007 capital expenditures and for transmission it was a 61 per cent increase over 2007 capital expenditures.

10. EPC's capital expenditures were incurred in the following main categories:

- Residential and commercial customer growth
- Capital replacements and upgrades
- Alberta Electric System Operator direct-assigned transmission projects

⁷ The 2008 Compliance report pursuant to section 7.6 of the Inter-Affiliate Code of Conduct, Application No. 1605025.

11. The following audit activities and procedures were undertaken to assist in the formulation of an opinion on this matter:

- A review of the following AUC decisions to identify applicable regulatory requirements:
 - Decision 2006-002 - 2005-2006 Distribution Tariff (January 13, 2006), Application No. 1380613
 - Decision 2006-079 – 2006 Transmission Facility Owner Tariff (July 25, 2006), Application No. 1422382
 - Decision 2009-035 - 2007-2016 Formula Based Ratemaking (March 25, 2009), Application No. 1550487
- An analysis and reconciliation of EPC's accounts against the following capital schedules provided in EPC's 2008 Rule 005 Report.
 - Schedule 4 – Summary of Depreciation Expense
 - Schedule 4.1 – Capital Assets Continuity Schedule
 - Schedule 4.2 – Summary of Capital Additions
- A selection and testing of a sample of capital projects to verify that the selected items were:
 - approved in accordance with ENMAX's capital policies;
 - the charges were recorded in the proper project, account and time period;
 - that closure procedures existed; and
 - the procedures were executed in a timely manner.
- A selection and testing of a sample of project expenses to verify that they were:
 - complete, supported, and authorized;
 - for utility business and had not been previously disallowed;
 - recorded in the correct entity and time period;
 - in accordance with EPC's capital policies; and
 - in accordance with regulatory requirements.
- An inquiry or review of EPC's components of internal controls: system access, record maintenance, management reporting, authorizations, etc.
- A review of existing policies applicable to ENMAX Corporation and its subsidiaries.
- A review of completed projects sampled to verify that the charges were moved from construction accounts to the appropriate fixed assets accounts.
- A review of the methodology and rates used to calculate the amounts in the Allowance for Funds Used During Construction recorded to verify that the amount was calculated and applied correctly and complied with Commission requirements.
- The sampling and testing of project change orders, to check that explanations were provided and that they were authorized in accordance with EPC's policies.
- A check to determine that EPC correctly applied a 19-per-cent overhead to its capital expenditures as approved in Decision 2009-035.
- A review of depreciation charges to verify that the rates used are in compliance with Commission requirements.

Conclusion

12. Having conducted the audit in accordance with the objective and procedures noted above, the Audit Group believes that its audit provides a reasonable basis on which it can express an opinion for the areas within the scope of this audit.

13. In the opinion of the Audit Group, and with respect to EPC's OM&G expense and capital management activities, EPC has demonstrated in all material respects for the year ended December 31, 2008 that:

- it had effective controls, policies and processes in place;
- it has complied with the applicable regulatory requirements for these areas; and
- the relevant information provided in its 2008 Rule 005 Report was presented fairly.

14. The Audit Group thanks the management and staff of EPC for the cooperation and assistance they provided during the course of the audit.