



Memorandum

October 21, 2008

FROM: Darcy Mazurkewich, Manager Audit and Compliance

TO: Willie Grieve, Chair, Alberta Utilities Commission

REGULATORY AUDIT OF ALTALINK

Please find attached the audit report resulting from the recently completed Regulatory Audit of AltaLink Limited Partnership (AltaLink) as well as management's response to the audit report.

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

As noted in the report, AltaLink 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 light blue circular stamp.

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

CC: Scott Thon, President and Chief Executive Officer, AltaLink
Bob Heggie, Chief Executive, Alberta Utilities Commission

October 14, 2008

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

Attention: Mr. Darcy Mazurkewich, CMA
Manager, Audit and Compliance

Dear Mr. Mazurkewich:

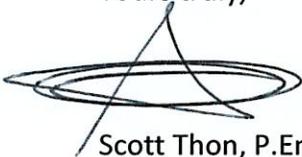
**Re: AltaLink Management Ltd.
Regulatory Audit Report – 2008-003
Inter-affiliate Code of Conduct Audit for the period ended December 31, 2007**

AltaLink has reviewed the October 2008 draft report 2008-003 (the “Audit Report”) prepared by the Alberta Utilities Commission’s (AUC) Audit Group and appreciates the opportunity to respond. We acknowledge that this response will be appended to the Audit Report and posted on the AUC’s website.

AltaLink agrees with the Audit Report’s conclusion that AltaLink is compliant with its Alberta Utilities Commission Inter-affiliate Code of Conduct in all material respects. We believe that the Audit Report’s finding reflects AltaLink’s firm commitment to regulatory and inter-affiliate compliance and that the controls and processes put in place by AltaLink are adequate to ensure such compliance.

We wish to thank the AUC’s Audit Group for their professionalism along with the accommodation of AltaLink’s internal schedules throughout this audit. If you have any questions or concerns, please feel free to contact me at (403) 267-3421.

Yours truly,



Scott Thon, P.Eng
President and Chief Executive Officer



AltaLink, L.P.

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

October 2008

Audit Group:

Nick Iannone
Joel Thompson
Darcy Mazurkewich
Karen McCambly

ALBERTA UTILITIES COMMISSION
Regulatory Audit Report #2008-003: AltaLink, L.P.
Audit in Respect of Compliance with the
Inter-Affiliate Code of Conduct
for the Year Ended December 31, 2007

October 2008

Published by

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1 UTILITY OVERVIEW

Overview

AltaLink, L.P. (AltaLink) owns and operates nearly 60 per cent of the electric transmission system in Alberta including approximately 11,600 kilometres of transmission lines and 260 substations. AltaLink's business is the ownership and operation of regulated electricity transmission assets in Alberta. It is the largest transmission facility owner in Alberta, serving approximately 85 per cent of Alberta's population. It also owns and operates the Alberta portion of the interconnection facility that connects the Alberta network to the transmission system in British Columbia.

AltaLink's operations are managed by its general partner, AltaLink Management Ltd. AltaLink has one limited partner, AltaLink Investments, L.P., which in turn has one limited partner, AltaLink Holdings, L.P. (AHLP). AHLP was formed as a limited partnership under the laws of Alberta on February 16, 2005. In Decision 2006-056,¹ the Alberta Energy and Utilities Board (Board)² approved AltaLink's application to change its ownership structure. Under the new ownership structure, SNC-Lavalin through subsidiaries owns 76.92% of AltaLink, with Macquarie Transmission Alberta Ltd. owning the remaining 23.08%. Please refer to Appendix 1 for details of the current ownership structure.

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

- fees for administration, management, operational and other services;
- fees for engineering, procurement, and construction services;
- charges relating to the construction of underground electricity transmission lines; and
- financial charges.

During 2007, net inter-affiliate transactions between AltaLink and its affiliates amounted to \$151.6 million.

2 INTER-AFFILIATE CODE OF CONDUCT BACKGROUND

In 2000, the Board received concurrent applications from the ATCO group of companies (the ATCO Group) dealing with Inter-Affiliate Code of Conduct issues.³ 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

¹ Decision 2006-056 – AltaLink Investment Management Ltd. and AltaLink Management Ltd. Application for Change in Ownership (Application No. 1434687) (Released June 13, 2006)

² 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).

³ 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.

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 2003-040⁴ which contained the ATCO Group Inter-Affiliate Code of Conduct.

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.⁵

In Decision 2004-068,⁶ the Board approved the Inter-Affiliate Code of Conduct (Code) governing the relationships and transactions between AltaLink and its regulated and non-regulated affiliates. The Code was based on the ATCO Group Code which was approved in Decision 2003-040. Section 7.5 of the Code required AltaLink to have a Compliance Plan (Plan) 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.

AltaLink's Plan based on the ATCO Group Plan was approved by the Board in Decision 2005-124.⁷

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 AltaLink's compliance with its Code for

⁴ Decision 2003-040 – ATCO Group Affiliate Transactions and Code of Conduct Proceeding Part B: Code of Conduct (Application No. 1237673) (Released: May 22, 2003)

⁵ Decision 2003-040, page 38

⁶ Decision 2004-068 - AltaLink Management Ltd. Code of Conduct Application (Application No. 1326937) (Released August 31, 2004)

⁷ Decision 2005-124 - AltaLink Management Ltd. Code of Conduct Compliance Plan Application (Application No. 1372547) (Released November 15, 2005)

the year ended December 31, 2007. The audit was conducted by the Commission's Audit and Compliance Group (Audit Group). AltaLink is the seventh utility to be audited by the Audit Group for compliance with its Code.

For the purpose of attaining its objective, the Audit Group developed and applied an audit plan. Based on the results from application of audit procedures, the Audit Group can express an opinion that AltaLink has or has not demonstrated compliance with the Code.⁸ 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 document.

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

A secondary focus was the examination of AltaLink's inter-affiliate accounts and transactions. These were tested for compliance with the financial measures in the Plan and reporting accuracy.

The audit plan, fieldwork, and audit report may differ in certain respects with procedures used and reports filed under Generally Accepted Auditing Standards (GAAS) because a regulatory compliance audit is intended to provide assurance to the Commission, and the Commission does not require that the Audit Group perform its audits in accordance with GAAS. While AltaLink is responsible to comply with its Code, the Commission is responsible for approving exemptions from the Code, approving changes to the Plan, and monitoring AltaLink'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 AltaLink's Plan, and a review of Board Decisions and Utility Orders to identify any relevant regulatory requirements and directives for AltaLink.
- Reviewed AltaLink's Compliance Plan Committee meeting minutes for evidence that actions specified in the measures of the Plan were completed in a timely manner.
- Selected and reviewed a sample of attestation and compliance certificates signed by employees, officers and directors 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.

⁸ 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 that they were properly approved, and in accordance with the requirements defined in the Code.
- Verified the quarterly and annual compliance reports for completeness, accuracy and timeliness.
- Analyzed and reconciled data in the relevant accounts to the utility's management reports, the utility's financial statements, and annual information filed with the Commission.
- Reviewed relevant audit work completed by the utility's Internal Audit group.
- 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.

5 CONCLUSION

Based on the results of the audit procedures set out above, the Audit Group is of the opinion that AltaLink 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 AltaLink for their cooperation and assistance during the course of the audit.

