



AUC

Alberta Utilities Commission

AltaGas Utilities Inc., AltaGas Ltd., and ECNG Energy L.P.

**Gas Utilities Act Code of Conduct Regulation, AR 183/2003
2012 Audit Reports**

December 17, 2013

The Alberta Utilities Commission

Decision 2013-451: AltaGas Utilities Inc., AltaGas Ltd., and ECNG Energy L.P.

Gas Utilities Act Code of Conduct Regulation, AR 183/2003

2012 Audit Reports

Application Nos. 1610058, 1610060, 1610061

Proceeding ID No. 2906

December 17, 2013

Published by

The Alberta Utilities Commission

Fifth Avenue Place, Fourth Floor, 425 First Street S.W.

Calgary, Alberta

T2P 3L8

Telephone: 403-592-8845

Fax: 403-592-4406

Website: www.auc.ab.ca

Contents

1	Introduction.....	1
2	Commission findings.....	2
2.1	Audit procedures	2
2.2	Audit reports	2
2.3	Compliance with the Gas Utilities Act Code of Conduct Regulation.....	3
3	Order	5
	Appendix 1 – Proceeding participants	7
	Appendix 2 – Summary of Commission directions.....	8

1 Introduction

1. On November 12, 2013, AltaGas Utilities Inc. (AUI) on behalf of itself, AltaGas Ltd. (AltaGas) and ECNG Energy L.P. (ECNG) filed 2012 audit reports with the Alberta Utilities Commission (AUC or Commission), pursuant to Section 40 of the *Gas Utilities Act Code of Conduct Regulation*, AR 183/2003. These filings were made in compliance with Decision 2013-344,¹ which revised and approved the audit work plans for each of the applicants for the 2012 audit year and directed AUI, AltaGas and ECNG (collectively, the companies) to file their completed audit reports no later than November 12, 2013.
2. On November 20, 2013, the Commission issued a notice of application that required interested parties to file a statement of intent to participate with the AUC by December 4, 2013. No statements of intent to participate were received and no interveners participated in the proceeding.
3. Section 40 of the *Gas Utilities Act Code of Conduct Regulation* requires the auditor to report on compliance with sections 7, 17, 22 to 24, and 26 to 29 of the regulation in accordance with Section 5815 of the Canadian Institute of Chartered Accountants (CICA) Handbook and on compliance with all other sections of the *Gas Utilities Act Code of Conduct Regulation* in accordance with Section 8600 of the CICA Handbook. Section 40(2) of the regulation provides that a separate detailed report must also be prepared in respect of contraventions discovered including a description of any action taken to address specific identified contraventions and to prevent their recurrence.
4. The audits required pursuant to Section 40 of the *Gas Utilities Code of Conduct Regulation* also assessed the applicants' adherence to the provisions of compliance plans previously filed by each of AUI, AltaGas and ECNG in accordance with Section 30 of the same regulation (the compliance plans).²
5. Ernst & Young LLP (E&Y), which was approved in Decision 2013-344 to serve as auditor for each of the applicants, stated that for the year ended December 31, 2012, AUI, AltaGas and ECNG were in compliance, in all material respects, with the criteria established by sections 7, 17, 22 to 24, and 26 to 29 of the *Gas Utilities Act Code of Conduct Regulation* and their respective compliance plans.

¹ Decision 2013-344: AltaGas Utilities Inc., AltaGas Ltd. and ECNG Energy L.P., *Gas Utilities Act Code of Conduct Regulation*, AR 183/2003, Approval of Auditor, Audit Plans and Waiver, Application Nos. 1609667, 1609668 and 1609669, Proceeding ID No. 2656, September 13, 2013.

² Decision 2005-097: AltaGas Utilities Inc., Gas Code of Conduct Regulation Compliance Plan, Application No. 1372823 August 30, 2005 and Decision 2011-174: AltaGas Ltd., ECNG Energy LP, Gas Code of Conduct Compliance Plans, Application Nos. 1607120 and 1607121, Proceeding ID No. 1127, April 27, 2011.

6. A review engagement was undertaken by E&Y to test AUI's compliance with sections 3 to 6, 8 to 16, 18 to 20, 32 to 34, 37, 38 and 42 of the *Gas Utilities Act Code of Conduct Regulation*, and compliance of AltaGas and ECNG with sections 3, 4, 6, 9 to 12, 19, 20, 21, 32 to 34, 37, 38 and 42 of the same regulation.³ In its report, E&Y indicated that nothing had come to its attention that caused it to believe that the companies were not in compliance with the identified sections of the regulation, save and except for those instances identified in the contravention reports.

2 Commission findings

2.1 Audit procedures

7. In Decision 2013-344, in which the Commission approved the audit work plans for AUI, AltaGas and ECNG, the Commission provided two directions regarding possible modifications to the audit work plans during the audit process.

8. At paragraph 24, the Commission expressed concern as to whether the auditor's procedures would identify all relevant changes in circumstances and changes to the business environment of the companies that could impact compliance with the *Gas Utilities Act Code of Conduct Regulation* and directed that for the 2012 audit:

...the auditors will revise the audit work plan during the engagement should they determine any revisions are necessary.

28. The Commission directs the companies to file with their audit reports any additional audit procedures devised and undertaken to address the changed circumstances.⁴

9. The Commission similarly expressed concern about the possibility of cross-subsidization of gas purchases and the adequacy of the auditor's procedures:

The Commission expects that Ernst and Young LLP, being aware of the Commission's concern, will, in the implementation of the audit work plans, undertake any additional procedures needed to achieve the required level of assurance that cross-subsidization in gas purchases has not occurred.⁵

10. In the scope of work sections of its audit reports for the companies, E&Y indicated that no changes were required to be made to the approved audit work plans. The Commission accepts E&Y's assessment that no changes to the approved audit work plans were required.

2.2 Audit reports

11. The Commission has reviewed the compliance reports and contravention reports prepared by E&Y in respect of AUI, AltaGas and ECNG for the 2012 fiscal year.

³ Some sections subject to a review engagement according to the *Gas Utilities Act Code of Code Regulation*, AR 183/2003, are not formally included in the auditor's report of their scope of work. These sections do not create obligations that would require an audit or review to ensure they were discharged.

⁴ Decision 2013-344, paragraphs 27 and 28.

⁵ Decision 2013-344, paragraph 14.

12. E&Y reported two contraventions for AUI, of sections 9 and 18 of the *Gas Utilities Act Code of Conduct Regulation*. The Commission considers these two contraventions to be of a non-recurring nature.

13. In the contravention reports filed in respect of AltaGas and ECNG, the auditor observed that not all personnel added to the AltaGas and ECNG joint personnel list in 2012 received compliance plan training within 30 days of being added to the list, as required under Section III (A), Policy 1, Mechanism 9 of the compliance plans. In response to an information request issued by the Commission on November 27, 2013, the applicants indicated that, of the 59 new personnel added to the joint AltaGas and ECNG personnel list during the material time, 22 did not receive their training within the required 30 days. The contravention reports indicated that all employees did eventually receive training.

14. The remediation measures proposed by AltaGas and ECNG to address non-compliance with Section III (A), Policy 1, Mechanism 9 of the compliance plans includes creating a web based compliance training site to improve tracking of the training of new personnel, and requiring the personnel to certify that they have fulfilled the training requirements of the compliance plan before being added to the personnel list. The Commission is satisfied that, if implemented and adhered to, the remediation measures proposed by AltaGas and ECNG are sufficient to ensure compliance with Mechanism 9.

15. In a prior decision related to the assessment of compliance audits for AUI, AltaGas Energy Limited Partnership and ECNG, the Commission stated that it would find it helpful if contravention reports included the number of contraventions identified, if any, and the size of the reference populations.⁶ The Commission continues to hold this view and directs that, in future audits, contravention reports prepared in accordance with Section 40(2) of the *Gas Utilities Act Code of Conduct Regulation* must include the number of contraventions identified and the size of the reference populations.

2.3 Compliance with the Gas Utilities Act Code of Conduct Regulation

16. E&Y provided audit opinions that for the year ended December 31, 2012, AUI, AltaGas and ECNG were in compliance, in all material respects, with the criteria established by sections 7, 17, 22 to 24 and 26 to 29 of the *Gas Utilities Act Code of Conduct Regulation*.

17. E&Y provided review engagement reports and related contravention reports, as described above. As stated in the review engagement reports, a review does not constitute an audit and consequently E&Y did not express audit opinions on these aspects of the applicants' overall compliance. However, E&Y stated that based on its reviews, with the exception of the contraventions reported in the *Gas Utilities Act Code of Conduct Regulation* contravention reports dated November 8, 2013, nothing had come to its attention that caused it to believe that AUI was not in compliance with sections 3 to 6, 8 to 16, 18 to 20, 32 to 34, 37, 38 and 42 of the *Gas Utilities Act Code of Conduct Regulation*, and that any of AltaGas or ECNG were not in compliance with sections 3, 4, 6, 9 to 12, 19, 20, 21, 32 to 34, 37, 38 and 42 of the *Gas Utilities Act Code of Conduct Regulation*, related interpretations, and the applicable compliance plans.

⁶ Decision 2011-488: AltaGas Ltd., as Administrator for AltaGas Energy Limited Partnership, and ECNG Energy L.P. and on behalf of AltaGas Utilities Inc., Gas Utilities Act Code of Conduct Regulation, AR 183/2003, Audit Reports, Application Nos. 1607646, 1607647 and 1607648, Proceeding ID No. 1431, December 13, 2011, paragraph 8.

18. As stated in Bulletin 2010-25,⁷ the Commission considers that non-compliance with the measures in an applicable compliance plan constitutes non-compliance with the spirit and intent of the *Gas Utilities Act Code of Conduct Regulation*.

19. The Commission has reviewed the reports provided and considered the number and nature of the contraventions reported therein. The *Gas Utilities Act Code of Conduct Regulation* requires an audit of the companies' compliance with sections 7, 17, 22 to 24, and 26 to 29 of the *Gas Utilities Act Code of Conduct Regulation*, and a review engagement of their compliance with other identified sections. As an audit opinion provides a higher degree of assurance than a review engagement report, the Commission considers contraventions of those sections for which an audit is required to be of greater import than contraventions with the sections for which a review engagement is required.

20. E&Y did not identify any contraventions with respect to the sections subject to audit.

21. E&Y reported two contraventions of sections 9 and 18 of the *Gas Utilities Act Code of Conduct Regulation*, for AUI. Both contraventions were one-time incidents and both were self-reported to the Commission, pursuant to the requirement of the *Gas Utilities Act Code of Conduct Regulation*. The Commission recognizes that regardless of the system of controls in place, mistakes can, and will, happen.

22. For AltaGas and ECNG, E&Y reported 22 contraventions of Section 3 of the *Gas Utilities Act Code of Conduct Regulation* and Policy 1, Mechanism 9 of these companies' compliance plans relating to staff training within a 30-day period. However, none of the 22 contraventions for AltaGas and ECNG identified by E&Y during its review engagements had been self-reported to the Commission. The Commission is, as noted above, satisfied with the proposed remediation measures.

23. While the Commission is satisfied that AUI, AltaGas and ECNG were, in all material respects, in compliance with the provisions of the *Gas Utilities Act Code of Conduct Regulation* and their respective individual compliance plans for the fiscal 2012 year, the Commission is concerned with the number of contraventions identified in the review engagements for AltaGas and ECNG. The Commission therefore directs AltaGas and ECNG, to institute appropriate remediation measures in respect of the identified contraventions and confirm their implementation with the AUC's Rates Division, by filing a letter to the AUC no later than March 31, 2014.

24. The Commission further directs that, during the 2014 fiscal year, AltaGas and ECNG shall provide to the AUC's Rates Division, by filing a letter no later than 45 days after the end of each quarter, reports of the number of new employees hired within the quarter and the number of employees who received compliance plan training and provided written training confirmation within 30 days of being hired.

⁷ Bulletin 2010-25, *Gas Utilities Act Code of Conduct Regulation*, AR 183/2003, process changes and clarification of requirements (issued September 17, 2010).

3 Order

25. The Commission directs:

- (1) That in future audits of the companies, contravention reports prepared in accordance with Section 40(2) of the *Gas Utilities Act Code of Conduct Regulation* must include the number of contraventions identified and the size of the reference populations.
- (2) AltaGas and ECNG to institute appropriate remediation measures in respect of the identified contraventions and to file a letter confirming the implementation of the remediation measures to the contraventions identified in their respective contravention reports, no later than March 31, 2014.
- (3) AltaGas and ECNG to file quarterly reports, no later than 45 days after the end of each quarter of their 2014 fiscal year, indicating the number of personnel hired during the quarter and the number of personnel that completed their compliance plan training and provided writing confirmation within 30 days of being hired.

Dated on December 17, 2013.

The Alberta Utilities Commission

(original signed by)

Kay Holgate
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
--

AltaGas Utilities Inc. P. Ayrey

The Alberta Utilities Commission

Commission Panel K. Holgate, Commission Member

Commission Staff R. Finn (Commission counsel) L. Maruejols
--

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. In a prior decision related to the assessment of compliance audits for AUI, AltaGas Energy Limited Partnership and ECNG, the Commission stated that it would find it helpful if contravention reports included the number of contraventions identified, if any, and the size of the reference populations. The Commission continues to hold this view and directs that, in future audits, contravention reports prepared in accordance with Section 40(2) of the *Gas Utilities Act Code of Conduct Regulation* must include the number of contraventions identified and the size of the reference populations. Paragraph 15
2. While the Commission is satisfied that AUI, AltaGas and ECNG were, in all material respects, in compliance with the provisions of the *Gas Utilities Act Code of Conduct Regulation* and their respective individual compliance plans for the fiscal 2012 year, the Commission is concerned with the number of contraventions identified in the review engagements for AltaGas and ECNG. The Commission therefore directs AltaGas and ECNG, to institute appropriate remediation measures in respect of the identified contraventions and confirm their implementation with the AUC’s Rates Division, by filing a letter to the AUC no later than March 31, 2014. Paragraph 23
3. The Commission further directs that, during the 2014 fiscal year, AltaGas and ECNG shall provide to the AUC’s Rates Division, by filing a letter no later than 45 days after the end of each quarter, reports of the number of new employees hired within the quarter and the number of employees who received compliance plan training and provided written training confirmation within 30 days of being hired. Paragraph 24