

National Energy
Board



Office national
de l'énergie

13 February 2002

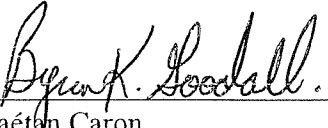
Management's Responsibility for Financial Reporting


Management of the Board is responsible for the preparation, integrity and objectivity of the Statement of Expenditures and Receipts and related information presented in the notes. The statement has been prepared on a modified cash basis and reflects cash spent and received during the year while certain expenditures supplied by government central agencies have been based on estimates. Management has determined such amounts on a reasonable basis in order to ensure that the financial information is presented fairly in all material respects. The Board maintains a weekly time reporting system that records the efforts of all staff among the four regulated commodities. In accordance with the *National Energy Board Cost Recovery Regulations*, the Board's costs are allocated to the commodities on the basis of the preceding fiscal year's accumulated time.

The Board maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial management information is available on a timely basis, and that assets are acquired economically, used to further the Board's aims, and protected from loss or unauthorized use. The Board's management recognizes its responsibility for conducting the Board's affairs in accordance with the requirements of applicable laws of Canada using sound business principles, and for maintaining standards of conduct that are appropriate to the public interest.

Management of the Board believes that the system of internal controls and approved policies, practices and procedures are designed to provide reasonable assurance that the operations are in compliance with applicable laws and conform to a high standard of business conduct.

The Auditor General of Canada annually provides an independent objective audit for the purpose of expressing her opinion on the statement of expenditures and receipts in accordance with the significant provisions of the *National Energy Board Cost Recovery Regulations* related to allocations between commodities. The Board is responsible for the accuracy of billings to companies within the commodities.

for 
Gaétan Caron
Chief Operating Officer


Valérie J. Katarey
Business Leader, Corporate Services and
Senior Financial Officer

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Chairman of the
National Energy Board

I have audited the statement of expenditures and receipts of the National Energy Board for the year ended December 31, 2001. The expenditures and receipts are calculated as described in Note 2 to the statement. This financial information is the responsibility of the Board's management. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In my opinion, this statement presents fairly, in all material respects, the expenditures and receipts of the Board for the year ended December 31, 2001 in accordance with the significant provisions of the *National Energy Board Cost Recovery Regulations* and accounting policies set out in Note 2 to the statement.

A handwritten signature in black ink, appearing to read "Ron Thompson".

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
February 13, 2002

NATIONAL ENERGY BOARD
Statement of Expenditures and Receipts
for the year ended 31 December 2001
(thousands of dollars)

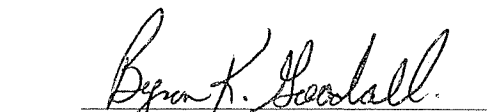
	<u>2001</u>	<u>2000</u>
Expenditures		
Salaries and wages	\$ 19,396	\$ 19,713
Employee benefit plans	4,448	4,502
Cost of other government services		
Office rental (Note 4)	3,677	3,665
Employee insurance premiums and other costs	1,433	1,111
Professional service	45	45
Data processing service	16	16
Professional and special services	2,537	2,313
Transportation and communication	1,881	1,885
Machinery and equipment	585	851
Materials and supplies	484	374
Equipment rentals	428	396
Repairs and upkeep	392	451
Information	204	144
Other costs	11	82
Cost-shared arrangements refund	<u>(33)</u>	<u>(16)</u>
Program costs	35,504	35,532
Non-recoverable costs		
Frontier Lands expenditures	(2,995)	(3,208)
Other Receipts	<u>(37)</u>	<u>(45)</u>
Net recoverable expenditures	<u>\$ 32,472</u>	<u>\$ 32,279</u>
 Allocation of net recoverable expenditures		
Gas	\$21,495	\$19,829
Oil	9,156	10,507
Electricity	<u>1,821</u>	<u>1,943</u>
	<u>\$ 32,472</u>	<u>\$ 32,279</u>
 Receipts		
Estimated Expenditures	\$ 31,363	\$ 29,212
Billing Adjustments:		
1) Adjustment from two years prior (Note 5)	3,801	1,364
2) Unrecoverable 2% Cap Shortfall (Note 3)	<u>(3,769)</u>	<u>0</u>
Billing for current year	31,395	30,576
Add: Receivables from prior years	7,633	6,915
Less: Outstanding receivables	<u>(4,304)</u>	<u>(7,633)</u>
Total receipts	<u>\$ 34,724</u>	<u>\$ 29,858</u>

The accompanying notes form an integral part of this statement.

Approved by:



Kenneth W. Vollman
Chairman & Chief Executive Officer



for Gaélan Caron
Chief Operating Officer

NATIONAL ENERGY BOARD
Notes to Statement of Expenditures and Receipts
for the year ended 31 December 2001
(thousands of dollars)

1. **Authority, objectives and operations**

The Board was established in 1959 by the *National Energy Board Act*. The objectives of the Board are to regulate in the public interest, those areas of the oil, gas and electricity industries relating to the construction and operation of pipelines and international power lines, traffic, tolls and tariffs of pipelines, and exports of gas, oil and electricity and imports of gas and oil. The Board, also, has responsibilities in the regulation of exploration for and development of oil and gas in the Frontier Lands. In addition, the Board advises the government on the development and use of energy resources.

The Board operates in a manner similar to a civil court. For major applications and inquiries, the Board holds public hearings at which applicants and interested parties have full rights of participation.

The Board has authority to charge those companies it regulates in accordance with sub-section 24.1(1) of the *National Energy Board Act* the total costs attributable to the Board's operations in carrying out its related responsibilities.

Under the *National Energy Board Cost Recovery Regulations*, which were approved by the Treasury Board, the National Energy Board can recover from the companies it regulates the cost of its operations effective 1 January 1991. The National Energy Board has the delegated authority to determine what costs will be excluded from program expenditures for cost recovery purposes.

2. **Significant provisions of the Regulations and accounting policies**

The significant provisions of the Regulations and accounting policies are as follows:

(a) Recoverable and non-recoverable costs

The Board approved the exclusion of costs related to the regulation of exploration for and development of oil and gas in the Frontier Lands, and therefore, these costs are non-recoverable.

(b) Cost allocation

In accordance with Sections 12 and 13 of the Regulations, the recoverable costs for a given calendar year are allocated to the gas, oil and electricity commodities and commodity pipelines on the basis of the actual time spent by Board members and employees during the preceding fiscal year (April 1 to March 31) on each specific commodity.

(c) Basis of accounting

Expenditures and receipts are recorded on a cash basis except for goods and services provided by other government departments and agencies, which are estimates of expenditures paid by other government organizations and are included on the Statement of Expenditures and Receipts for cost recovery purposes.

(d) Capital assets

Acquisitions of capital assets are charged to expenditures in the year of purchase.

(e) Cost-shared arrangements

Amounts received as reimbursement pursuant to any cost-sharing arrangement are recognized as credits to expenditures in the year of receipt.

NATIONAL ENERGY BOARD
Notes to Statement of Expenditures and Receipts
for the year ended 31 December 2001
(thousands of dollars)

3. Cost Recovery Regulations

On February 22, 2001, the National Energy Board had amended the Cost Recovery Regulations (the Regulations) to address fairness in the allocation of the recoverable operating costs of the Board. The amendments entailed:

- a) the integration of commodity pipelines into the NEB cost recovery methodology;
- b) the establishment of a levy equal to two tenths of one percent of the estimated cost of the approved facilities, as determined by the Board;
- c) the establishment of a cap on the liability of pipeline companies to pay cost recovery charges not to exceed two percent of the cost of service of any pipeline company.

Amendments pertinent to Items (a) and (b) are effective on January 1, 2002. Those provisions relating to Item (c) were implemented in the 2001 billing.

In implementing item (c), also known as the "2% Cap", the Board re-distributed the 2% cap shortfall of \$3,768,720 to the other large pipeline companies. The Board has determined that the Regulations do not give authority to re-distribute the 2% cap shortfall and the billings for 2001 have been adjusted to eliminate the redistribution. The Treasury Board of Canada has agreed to fund the shortfall.

The Board has proposed amendments to the Regulations to seek authority to re-distribute future shortfalls. The proposed amendments, when approved by the Treasury Board of Canada, will come into force effective January 1, 2002.

4. Commitments

The Board has a ten year occupancy lease with Public Works and Government Services Canada for office building space in Calgary, Alberta. The lease agreement provides an annual rent of \$3.6 million effective 1 September 1998. The actual rent for 2001 is \$3,677,335.

Future commitments including leases are as follows:

2002	\$3.9 million
2003	3.7 million
2004	3.7 million
2005	3.7 million
2006 and thereafter	9.7 million

5. Billing Adjustment (thousands of dollars)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Net recoverable expenditures	\$ 32,472	\$ 32,279	\$ 33,479
Less: Provisional billing	<u>(31,363)</u>	<u>(29,212)</u>	<u>(29,678)</u>
Billing adjustment	<u>\$ 1,109</u>	<u>\$ 3,067</u>	<u>\$ 3,801</u>

The billing adjustment represents the difference between the forecasted provisional billing and the actual net recoverable expenditures. In accordance with Section 19 of the *National Energy Board Cost Recovery Regulations*, the billing adjustment of \$1,109 for the current year and \$3,067 for the prior year will be applied to the provisional billings of 2003 and 2002 respectively. The 1999 billing adjustments of \$3,801 has been applied to the 2001 provisional billings.