



June 11, 1999

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 three 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 his 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.

Gaétan Caron
Chief Operating Officer

Peter Schnell
A/Business Leader, Corporate Services



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, 1998. 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 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 financial information presentation.

In my opinion, this financial information presents fairly, in all material respects, the expenditures and receipts of the Board for the year ended December 31, 1998 in accordance with the significant provisions of the Regulations and accounting policies set out in Note 2 to the statement of expenditures and receipts.

A handwritten signature in black ink, appearing to read 'D. M. Young', with a long horizontal stroke extending to the right.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General for Canada

Ottawa, Canada
June 11, 1999

NATIONAL ENERGY BOARD
Statement of Expenditures and Receipts
for the year ended December 31, 1998
(thousands of dollars)

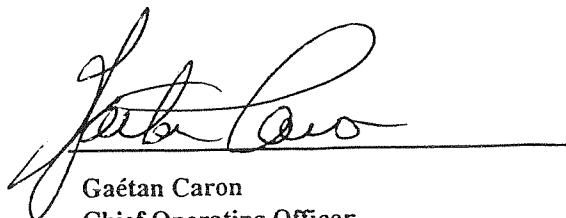
| | <u>1998</u> | <u>1997</u> |
|---|-------------------------|-------------------------|
| Expenditures | | |
| Salaries and wages | \$ 16,672 | \$ 15,425 |
| Employee benefit plans | 3,825 | 3,292 |
| Cost of other government services | | |
| Office rental | 2,577 | 2,060 |
| Employee insurance premiums and other costs | 1,055 | 1,156 |
| Professional service | 63 | 45 |
| Data processing service | 30 | 30 |
| Professional and special services | 3,129 | 4,558 |
| Machinery and equipment | 2,114 | 642 |
| Transportation and communication | 1,792 | 1,788 |
| Materials and supplies | 800 | 682 |
| Equipment rentals | 333 | 692 |
| Repairs and upkeep | 321 | 262 |
| Information | 98 | 169 |
| Other costs | 8 | 65 |
| Cost-shared arrangements refund | (189) | (153) |
| Refund of relocation costs (Note 3) | | |
| Refunds disbursed | 22,331 | 0 |
| Government of Canada Funding | <u>(22,199)</u> | <u>0</u> |
| Program costs | 32,760 | 30,713 |
| Non-recoverable costs | | |
| Frontier Lands expenditures | (2,561) | (3,958) |
| Interest on relocation cost refunds (Note 3) | (132) | 0 |
| Other Receipts | <u>(33)</u> | <u>(12)</u> |
| Net recoverable expenditures | <u>\$ 30,034</u> | <u>\$ 26,743</u> |
| Allocation of net recoverable expenditures | | |
| Gas | \$19,492 | \$16,607 |
| Oil | 9,431 | 9,333 |
| Electricity | <u>1,111</u> | <u>803</u> |
| | <u>\$ 30,034</u> | <u>\$ 26,743</u> |
| Receipts | | |
| Provisional billing | \$ 28,670 | \$ 28,813 |
| Less: Adjustment from two years prior | <u>(3,142)</u> | <u>(4,293)</u> |
| Billing for current year | 25,528 | 24,520 |
| Receipts of prior year receivables | 6,108 | 6,095 |
| Less: outstanding receivables | <u>(6,380)</u> | <u>(6,116)</u> |
| Total receipts | <u>\$ 25,256</u> | <u>\$ 24,499</u> |

The accompanying notes form an integral part of this statement.

Approved by:



Kenneth W. Vollman
Chairman & Chief Executive Officer



Gaétan Caron
Chief Operating Officer

NATIONAL ENERGY BOARD
Notes to the Statement of Expenditures and Receipts
December 31, 1998

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 January 1, 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 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 the Statement of Expenditures and Receipts
December 31, 1998

3. Refund of relocation costs

The Board collected from regulated companies a total of \$15.5 million between 1991 and 1997 for the cost of relocating from Ottawa to Calgary. Following a 1997 Federal Court of Appeal decision requiring the Board to refund relocation costs plus interest to one regulated company, the Government of Canada approved the Board's submission, which requested that all relocation costs, plus interest, be refunded to those regulated companies from which relocation costs were recovered.

The principal relocation costs of \$15.5 million, plus \$6.8 million in interest (total of \$22.3 million) was repaid in 1998. Each company was required to sign an agreement releasing the Board of any further liability with regards to relocation costs, and to discharge any actions against the Board related to relocation costs, if any.

The Government of Canada provided the Board \$22.2 million in funding to cover all principal, plus interest charges up to August 31, 1998. Interest charges from September 1 to October 8, 1998, the settlement date, were funded by the Board and excluded from the recoverable costs.

The allocation and funding of refunds, by commodity, is as follows (thousands of dollars):

| <u>Commodity Refunded</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|------------------|-----------------|-----------------|
| Gas | \$10,090 | \$4,444 | \$14,534 |
| Oil | 3,867 | 1,695 | 5,562 |
| Electricity | <u>1,532</u> | <u>703</u> | <u>2,235</u> |
| Total Refund | <u>\$15,489</u> | <u>\$6,842</u> | <u>\$22,331</u> |

| <u>Funding Source</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------|------------------|-----------------|-----------------|
| Government of Canada | \$ 15,489 | \$ 6,710 | \$22,199 |
| National Energy Board | <u>0</u> | <u>132</u> | <u>132</u> |
| Total Funding | <u>\$15,489</u> | <u>\$6,842</u> | <u>\$22,331</u> |

4. Effective April 23, 1998 the *National Energy Board Cost Recovery Regulations* were significantly amended. The major changes included:

- (i) repeal of schedules I, II, III, and the creation of generic definitions for regulated companies categorized as large, intermediate and small;
- (ii) smaller pipeline companies are required to file with the Board information showing their cost of service;
- (iii) new "small electricity exporters" and "border accommodation exporters" categories were created and subjected to a \$500 annual fee and a one time fee of \$500 respectively; while large electricity exporters now pay a minimum charge of \$500 per annum; and
- (iv) the aggregate estimated costs of the Board billed to companies are lowered from 100% to 95% to reflect that certain activities of the Board are not subject to cost recovery.

These changes were implemented on January 1, 1999. Adjustments for the period between April 23 to December 31, 1998 will be included in future billings in accordance with the *Regulations*.

NATIONAL ENERGY BOARD
Notes to the Statement of Expenditures and Receipts
December 31, 1998

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

Future lease commitments are as follows:

| | |
|---------------------|---------------|
| 1999 | \$5.1 million |
| 2000 | 3.8 million |
| 2001 | 3.8 million |
| 2002 | 3.8 million |
| 2003 and thereafter | 20.4 million |

| | | | |
|----|------------------------------|-----------------|-------------------|
| 6. | Billing Adjustment | <u>1998</u> | <u>1997</u> |
| | Net recoverable expenditures | \$ 30,034 | \$ 26,743 |
| | Less: Provisional billing | <u>(28,670)</u> | <u>(28,813)</u> |
| | Billing adjustment | <u>\$ 1,364</u> | <u>(\$ 2,070)</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 for the current year will be applied to the provisional billing in two years.

7. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after 1 January 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Board's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Board, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.