



7 February 2003

## Management's Responsibility for Financial Reporting

The management of the National Energy Board is responsible for the preparation of all information included in its financial statements. The accompanying statements have been prepared in accordance with Canadian generally accepted accounting principles. Management of the Board is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment. 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 financial statements also include certain expenditures supplied by government central agencies which are based on estimates. To fulfill its accounting and reporting responsibilities on cost recovery, 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 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. Management also seeks to ensure the objectivity and integrity of data in its financial statements by the careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communications programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Board.

The Auditor General of Canada annually provides an independent objective audit for the purpose of expressing an opinion on these financial statements in accordance with the significant provisions of *the Regulations*. The Board is responsible for the accuracy of billings to companies within the commodities.

\_\_\_\_\_  
Gaétan Caron  
Chief Operating Officer

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Valerie J. Katary  
Business Leader, Corporate Services and  
Senior Financial Officer



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 financial position of the National Energy Board for the year ended December 31, 2002 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Section 24.1(1) of the National Energy Board (NEB) Act and the NEB Cost Recovery Regulations.

A handwritten signature in black ink, appearing to read "Roger Simpson".

Roger Simpson, FCA  
Principal  
for the Auditor General of Canada

Edmonton, Canada  
February 7, 2003

**THE NATIONAL ENERGY BOARD**  
Statement of Financial Position

As at December 31,  
(In thousand of dollars)

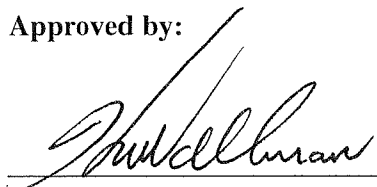
	2002	2001
<b>Assets</b>		
Current Assets:		
Accounts Receivable (Note 5)	\$13,809	\$5,676
Advances	23	34
GST Refundable Advance	517	262
Prepayments	<u>86</u>	<u>-</u>
	<b>\$14,435</b>	<b>\$5,972</b>
Other Assets:		
Capital Assets (Note 6)	\$ 594	-
Work in Progress – Software	<u>17</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$15,046</u></b>	<b><u>\$5,972</u></b>

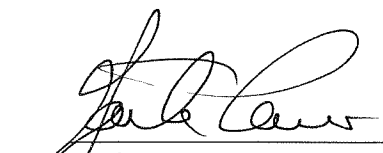
**Liabilities and Surplus (Deficit) of Canada**

Liabilities:		
Accounts payable and accrued liabilities	\$ 839	\$ 623
Contractors' holdback	24	13
Employee leave pay	1,272	1,399
Employee future benefits (Note 9)	<u>4,862</u>	<u>4,540</u>
	<b>\$6,997</b>	<b>\$6,575</b>
Surplus (Deficit) of Canada	<u>8,049</u>	<u>(603)</u>
<b>TOTAL LIABILITIES AND SURPLUS (DEFICIT) OF CANADA</b>	<b><u>\$15,046</u></b>	<b><u>\$ 5,972</u></b>

Commitments (Note 11)

Approved by:

  
\_\_\_\_\_  
Kenneth W. Vollman  
Chairman & Chief Executive Officer

  
\_\_\_\_\_  
Gaétan Caron  
Chief Operating Officer

The accompanying notes form an integral part of the financial statements.

**THE NATIONAL ENERGY BOARD**  
Statement of Operations and Deficit of Canada

Year Ended December 31, 2002  
(In thousand of dollars)

	<u>2002</u>
<b>REVENUE:</b>	
Regulatory Revenue	\$38,066
Miscellaneous Revenue including Sale of Goods and Services	<u>218</u>
<b>TOTAL REVENUE</b>	<b><u>\$38,284</u></b>
<b>EXPENSES:</b>	
Salaries and wages	\$21,698
Employee benefits	6,298
Office rental	3,690
Professional and special services	4,094
Transportation and communication	2,300
Materials and supplies	1,801
Equipment rentals	524
Repairs and upkeep	421
Information	235
Amortization expense – capital assets	94
Miscellaneous expense	<u>179</u>
<b>TOTAL EXPENSES</b>	<b>\$41,334</b>
DEDUCT: Net Recoverable Operating Costs (Note 7)	<u>38,284</u>
<b>NET NON-RECOVERABLE EXPENSES</b>	<b><u>\$ 3,050</u></b>
Net operating results of the year	\$(3,050)
Deficit of Canada, beginning of year	(603)
Services provided without charge from other Government departments	5,314
Net Cash provided by Government	<u>6,388</u>
<b>Surplus of Canada, end of year</b>	<b><u>\$ 8,049</u></b>

The accompanying notes form an integral part of the financial statements.

**THE NATIONAL ENERGY BOARD**

Statement of Cash Flows

Year Ended December 31, 2002

(In thousand of dollars)

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**2002**

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**Operating Activities:**

Non-recoverable expenses	\$(3,050)
Non-Cash Items:	
Amortization of capital assets	94
Services provided without charge by other Government department	<u>5,314</u>
	<u>\$ 2,358</u>

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**Statement of Financial Position Adjustments:**

Change in accounts payable and accrued liabilities	\$ 216
Change in contractors' holdback	11
Change in employee leave pay	(127)
Change in employee future benefits	322
Change in accounts receivable	(8,133)
Change in advances and prepayments	(75)
Change in GST refundable advance	<u>(255)</u>
	<u>\$(8,041)</u>

**Cash used by operating activities** **\$(5,683)**

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**Investing Activities:**

Acquisition of capital assets	<u>\$ (705)</u>
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NET CASH PROVIDED BY GOVERNMENT \$(6,388)

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The accompanying notes form an integral part of the financial statements.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

**1. Authority, objectives and operations**

The National Energy Board (NEB) is an independent regulatory agency, established in 1959 under the *National Energy Board Act* and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*, reporting to Parliament through the Minister of Natural Resources.

The NEB regulates the following specific aspects of the energy industry:

- a) the construction and operation of international and interprovincial pipelines;
- b) the construction and operation of international and designated interprovincial power lines;
- c) traffic, tolls and tariffs of international and interprovincial pipelines;
- d) exports of oil, gas and electricity and imports of gas and oil; and
- e) oil and gas activities on frontier lands not subject to a federal/provincial accord.

Other responsibilities of the NEB include providing advice to the Minister of Natural Resources Canada on the development and use of energy resources.

NEB's corporate purpose is to promote safety, environmental protection and economic efficiency in the Canadian public interest while respecting individuals' rights and within the mandate set by Parliament in the regulation of pipelines, energy development and trade. This principle guides the NEB in carrying out and interpreting its regulatory responsibilities. The companies that are regulated by the Board create wealth for Canadians through the transport of oil, natural gas and natural gas liquids, and through the export of hydrocarbons and electricity. As a regulatory agency, the Board's role is to help create a framework which allows these economic activities to occur when they are in the public interest.

The NEB 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 NEB has the 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 NEB's operations in carrying out its related responsibilities.

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

The NEB operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the NEB is deposited to the CRF and all cash disbursements made by the NEB are paid from the CRF.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

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

a) These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board of Canada Accounting Standards based on Canadian generally accepted accounting principles.

b) Revenue Recognition:

Revenues are recognized on the accrual basis.

c) Expenses:

All expenditures are recorded on the accrual basis.

d) Employee Future Benefits:

Pension Benefits

The NEB's eligible employees participate in the Public Service Superannuation Plan administered by the Government of Canada. Both the employees and the Board contribute to the cost of the Plan. These contributions represent the total pension obligations of the Board and are charged to operations on a current basis. The NEB is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

Non-pension benefits

The NEB is required to recognize certain non-pension post-employment benefits over the periods which employees render services to the NEB. Employees are entitled to specified benefits on termination as provided for under conditions of employment, through a severance benefit plan. Employee severance benefits are calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole. Employee severance benefits on cessation of employment represent obligations of the NEB that are normally funded through the Treasury Board.

e) Services provided without charge by other Government departments:

Amounts for services provided without charge by other Government departments are recorded as operating expenses by the NEB.

f) Receivables:

Receivables are stated at amounts expected to be ultimately realized. A provision is made for receivables where recovery is considered uncertain.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

g) Capital Assets:

Capital assets with a cost of placing in service of \$10,000 per unit or more are capitalized at cost. Amortization is calculated over their estimated useful lives on a straight-line basis as follows:

• Furniture and Equipment	10 Years
• Informatics Hardware (Computer Servers & Accessories)	5 Years
• Informatics Software (Developed In-House)	5 Years

h) Work in Progress – Software:

The capitalization of software costs has been performed prospectively as of 01 April 2002. Any costs incurred prior to this date have been expensed. Software that is not yet in service will form the basis of the Software Work in Progress account.

i) 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. These amounts are included in the determination of the Deficit of Canada account.

j) 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).

k) Net cash provided by Government:

Net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments.

l) Measurement Uncertainty:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, the valuation of capital assets and services provided without charge by other government departments are the most significant items where estimates are used. Actual amounts could differ from the current estimates. These estimates



**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

**3. Changes in Accounting Policies**

In previous years, the Board prepared only a Statement of Expenditures and Receipt on a modified cash basis. This is the first year that a set of financial statements including a Statement of Financial Position, Statement of Operations and Deficit of Canada and Statement of Cash Flows has been prepared on a full accrual accounting basis. It is neither practical nor possible for the Board to show comparative amounts because the information is not available and any estimation of previous years' amounts would be impossible to be substantiated with any degree of precision.

**4. Amendments to the NEB Cost Recovery Regulations, SOR/DORS/2002-375**

The amendments to *the Regulations* which were promulgated in November 2002 entail the following:

- To establish the authority to redistribute the 2% shortfall pursuant to section 4.1 of *the Regulations* to the other large companies within the commodity group; Section 4.1 of *the Regulations* provides that no pipeline company shall be liable to pay that portion of their cost recovery charge that exceed 2% of the cost of service of that pipeline company.
- To amend the definitions of large, intermediate and small pipelines in the Regulations for effective application of section 4.1 of *the Regulations*;
- To repeal subsection 10(3) of *the Regulations*;  
 Sub-section 10(3) of *the Regulations* provides that where an intermediate or small pipeline company provides the Board with its actual cost of service for the 2 preceding fiscal years, the Board may require that company to certify that information by statutory declaration. The Standing Joint Committee for the Scrutiny of Regulations called subsection 10(3) to the attention of the Board and questioned whether it fell within the parameters of the regulation making powers outlined in section 24.1 of the Act. As a result of the Standing Joint Committee's inquiry, subsection 10 (3) has been repealed.

<b>5. Accounts Receivable</b>	<b>2002</b>	<b>2001</b>
External Parties	\$16,722	\$8,618
Other Government Departments	<u>3</u>	<u>0</u>
Sub-total	16,725	8,618
Less: Allowance for Doubtful accounts	<u>(2,916)</u>	<u>(2,942)</u>
<b>TOTAL</b>	<b><u>\$13,809</u></b>	<b><u>\$5,676</u></b>

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

**6. Capital Assets**

Cost:	January 1 2002	Additions/ Amortization	December 31 2002
Furniture and equipment	\$0	\$ 13	\$ 13
Informatics Hardware (Computer Servers & Accessories)	0	207	207
Informatics Software (Developed In- House)	0	468	468
<b>Sub-Total</b>	<b>\$0</b>	<b>\$688</b>	<b>\$688</b>
Accumulated amortization:			
Furniture and equipment	0	1	1
Informatics Hardware (Computer Servers & Accessories)	0	42	42
Informatics Software (Developed In- House)	0	51	51
<b>Sub-Total</b>	<b>\$0</b>	<b>\$ 94</b>	<b>\$ 94</b>
<b>Net book value</b>	<b>\$0</b>	<b>\$594</b>	<b>\$594</b>

**7. Allocation of Net Recoverable Operating Costs**

The distribution of recoverable operating costs to the industry is based on the 2000-2001 fiscal year allocation of the officers and staff time of the Board:

Gas	62.925%	\$23,950
Oil	27.054%	10,298
Electricity	10.021%	3,815
Commodity Pipelines		3
Miscellaneous revenue		<u>218</u>
<b>TOTAL</b>		<b><u>\$38,284</u></b>

**8. Billing Adjustment**

	2002	2001	2000
<b>Recoverable Operating Costs</b>	\$38,284	\$32,472	\$32,279
Deduct: Provisional Billing	<u>( 32,038)</u>	<u>(31,363)</u>	<u>(29,212)</u>
<b>Billing Adjustment</b>	<b><u>\$ 6,246</u></b>	<b><u>\$ 1,109</u></b>	<b><u>\$ 3,067</u></b>

The billing adjustment represents the difference between the provisional billing and the actual recoverable expenditures. In accordance with Section 19 of the *National Energy Board Cost Recovery Regulations*, the billing adjustment of \$6,246 for the current year and \$1,109 for the

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

prior year will be applied to the provisional billings of 2004 and 2003 respectively. The 2000 billing adjustments of \$3,067 has been applied to the 2002 provisional billings.

**9. Employee Future Benefits**

Pension Benefits

During the year, the Public Service Superannuation Plan (PSSA) required the NEB to contribute to the PSSA at a rate of 2.14 times the employees' contributions. Employer contributions to the PSSA during the year were approximately \$3,272 (2001 - \$3,019).

Non-pension Benefits

During the year, the NEB paid severance costs of \$435 (2001 - \$250).

**10. Related Party Transactions**

The Board is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Board enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises except that certain services, as defined previously, are provided without charge.

During the year, the Board received services provided without charge, the value of which are estimated and recorded in the financial statements as follow:

Accommodations provided by Public Works and Government Services Canada	\$3,665
Payroll and banking services provided by Public Works and Government Services Canada	16
Contributions covering the employer's share of employees medical and dental insurance premiums provided by Treasury Board Secretariat	1,588
Audit services provided by the Office of the Auditor General of Canada	<u>45</u>
TOTAL – Other Government Department Costs	<u>\$5,314</u>

**11. 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 for an annual rent of \$3.6 million effective 1 September 1998. The actual rent for 2002 is \$3,665.

In addition to the occupancy lease the NEB also has other operating leases and service contracts.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended 31 December 2002**  
**(thousands of dollars)**

Future commitments including leases are as follows:

2003	\$4.8 million
2004	3.7 million
2005	3.7 million
2006	3.7 million
2007 and thereafter	6.1 million

**12. Parliamentary appropriations**

The Government of Canada funds the expenses of the NEB through Parliamentary appropriations. The majority of these expenses are subsequently recovered from the companies regulated by the NEB, and are deposited in the Consolidated Revenue Fund of the Government of Canada.

Expenses funded by Parliamentary appropriation are not necessarily the same as those recognized in the NEB's statement of operations because appropriations are provided on a modified cash basis while the NEB's expenses are recorded on the accrual basis. The NEB's use of Parliamentary appropriations during the year ended December 31, 2002 was as follows:

Total Expenses	\$41,334
Less: Expenses not funded by Parliamentary appropriations	
Amortization	(94)
Services provided without charge by other Government departments	(5,314)
Change in employee future benefits	(322)
Change in vacation pay accrual	127
Add: Acquisition of capital assets	<u>705</u>
Parliamentary appropriations used	<u>\$36,436</u>