

Energy

Annual Report
2007-2008

Alberta

Public Accounts 2007-08 Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 20 Ministries.

The annual report of the Government of Alberta released June 30, 2008 contains the Minister of Finances' accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the Measuring Up report.

This annual report of the Ministry of Energy contains the Minister's accountability statement, the audited consolidated financial statements of the Ministry and a comparison of actual performance results to desired results set out in the Ministry business plan. This Ministry annual report also includes:

- the financial statements of entities making up the Ministry including the Department of Energy (DOE), the Alberta Energy and Utilities Board (EUB), the Energy Resources Conservation Board (ERCB), the Alberta Utilities Commission (AUC) and the Alberta Petroleum Marketing Commission (APMC);
- other financial information as required by the Financial Administration Act and Government Accountability Act, either as separate reports or as a part of the financial statements, to the extent that the Ministry has anything to report; and
- the financial information relating to trust funds.

Energy

2007-2008

CONTENTS

| | |
|-----|---|
| 1 | Preface |
| 3 | Table of Contents |
| 4 | Minister's Accountability Statement |
| 5 | Message from the Minister |
| 6 | Management's Responsibility for Reporting |
| 7 | Organizational Structure |
| 13 | Ministry Operational Overview |
| 25 | Ministry Results Analysis |
| 53 | Financial Statements for the Ministry of Energy |
| 71 | Financial Statements for the Department of Energy |
| 91 | Financial Statements for Energy and Utilities Regulation |
| 93 | Authorized Budget and Combined Results |
| 95 | Financial Statements for the Alberta Energy and Utilities Board |
| 109 | Financial Statements for the Energy Resources Conservation Board |
| 123 | Financial Statements for the Alberta Utilities Commission |
| 135 | Financial Statements for the Alberta Petroleum Marketing Commission |
| 143 | Entities Included in the Consolidated Government Reporting Entity |
| 149 | Entities Not Included in the Consolidated Government Reporting Entity |
| 153 | Additional Information |

Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2008, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at July 4, 2008, with material economic or fiscal implications of which I'm aware have been considered in the preparation of this report.

Original signed by

*Mel Knight, MLA
Minister of Energy*

Message from the Minister



Alberta is blessed with an abundance and variety of natural resources. The search for and development of these resources is a key driver behind our vibrant economy and high quality of life. Revenues from our energy resources help fund priority programs that benefit all Albertans, such as health care, education and social programs. In 2007-08, energy revenues accounted for nearly 30 per cent of government's total revenue.

Alberta's energy sector attracts investors from across North America and, increasingly, around the world. In fact, in 2007-08 Alberta saw an estimated 30 per cent increase in investment in our oil sands. As demand for energy continues to grow, so does Alberta's reputation as a global energy player.

Alberta is home to the world's second largest proven global crude oil reserves. We play a key role in unlocking the natural gas resources in northern Canada and Alaska. Additionally, Alberta is Canada's leading producer of petrochemicals.

Hydrocarbons will remain at the heart of Alberta's economy for decades. The world's dependence on oil will also remain strong. And Alberta will continue to focus on sustainable, environmentally responsible resource development. This is one of my mandate items and one of government's highest priorities. Much of our work in 2007-08 reflects our continued efforts to be a leader in the sustainable development of our resources in a responsible and resourceful manner.

To better address increasing activity in Alberta's energy industry, we built on the strengths of our regulatory system. We separated the Alberta Energy and Utilities Board into the Energy Resources Conservation Board and the Alberta Utilities Commission, enabling regulators to better focus their resources to improve the efficiency and transparency of the regulatory framework for Albertans.

We also created a new royalty regime to address the changing fiscal climate of the energy sector. When implemented in January 2009, Alberta's New Royalty Framework will ensure Albertans receive an increased share of revenues, and will bring stability and predictability to the oil and gas sector.

Renewable and alternative energy will play an important part in Alberta's energy mix. Energy sources such as bio-fuel present environmental advantages and help diversify Alberta's energy portfolio.

To encourage further development of these energy sources, government launched the \$209-million Bio-Energy Producer Credit Program in July 2007. Additionally, we removed the 900 megawatt threshold on wind power generation in September 2007, allowing producers to add even more wind to Alberta's power supply while maintaining reliable grid operation. This also ensures Alberta's electricity market continues to operate fairly and efficiently while remaining openly competitive.

There are many success stories as we continue to work to meet growing demand for our energy resources. Thank you to all ministry staff and energy sector stakeholders who worked so hard in 2007-08. Thank you also to all Albertans who provide the ministry with input on our programs and policies. Together we are building an even better Alberta for tomorrow.

Original signed by

*Mel Knight, MLA
Minister of Energy*

Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (DOE/department)
- Alberta Energy and Utilities Board (EUB)
- Energy Resources Conservation Board (ERCB)
- Alberta Utilities Commission (AUC)
- Alberta Petroleum Marketing Commission (APMC)

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the Ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Energy. Under the direction of the Minister we oversee the preparation of the Ministry's Annual Report including consolidated financial statements and the performance results of necessity, including amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As senior executives, in addition to program responsibilities, we establish and maintain the Ministry's financial administration and reporting functions. The Ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money, provide information to manage and report on performance;
- safeguard the assets and properties of the Province under the Ministry administration;
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Energy any information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the Government Accountability Act.

In fulfilling responsibilities for the Ministry, we have relied, as necessary, on the executive of the individual entities within the Ministry.

Original signed by

*Peter Watson
Deputy Minister, DOE*

Original signed by

*Dan McFadyen,
Chairman, Energy Resources
Conservation Board*

Original signed by

*Willie Grieve,
Chairman, Alberta
Utilities Commission*

Ministry of Energy Organizational Structure

The Ministry of Energy consists of the Alberta Department of Energy (DOE/department), the Energy Resources Conservation Board (ERCB), the Alberta Utilities Commission (AUC) and the Alberta Petroleum Marketing Commission (APMC).

The department manages the private sector development of provincially owned energy and mineral resources and the assessment and collection of non-renewable resource revenues in the form of royalties, freehold mineral taxes, rentals and bonuses. The department promotes development of Alberta's energy and mineral resources, recommends and implements energy and mineral related policy, grants rights for exploration and development to industry and establishes and administers fiscal regimes and royalty systems. To effectively manage the development of these commodities, the department has organized itself along commodity business lines. This structure builds knowledge and strengthens communication between business areas and Alberta's resource industries. Over 500 employees effectively manage a wide range of functions including revenue calculation and collection, the sale and administration of agreements, policy development and external relationships. The department works within the province's framework of sustainable resource and environmental management to maintain or enhance resource exploration and development opportunities.

Effective January 1, 2008, the Government of Alberta restructured the Alberta Energy and Utilities Board (EUB or Board) into two new organizations: the Energy Resources Conservation Board (ERCB or Board) and the Alberta Utilities Commission (AUC). The ERCB and the AUC are independent, quasi-judicial agencies of the Government of Alberta with the responsibility to regulate Alberta's energy and utilities sectors. While the Minister of Energy has governance responsibility for the ERCB and the AUC, they make their formal decisions independently in accordance with various statutes and regulations.

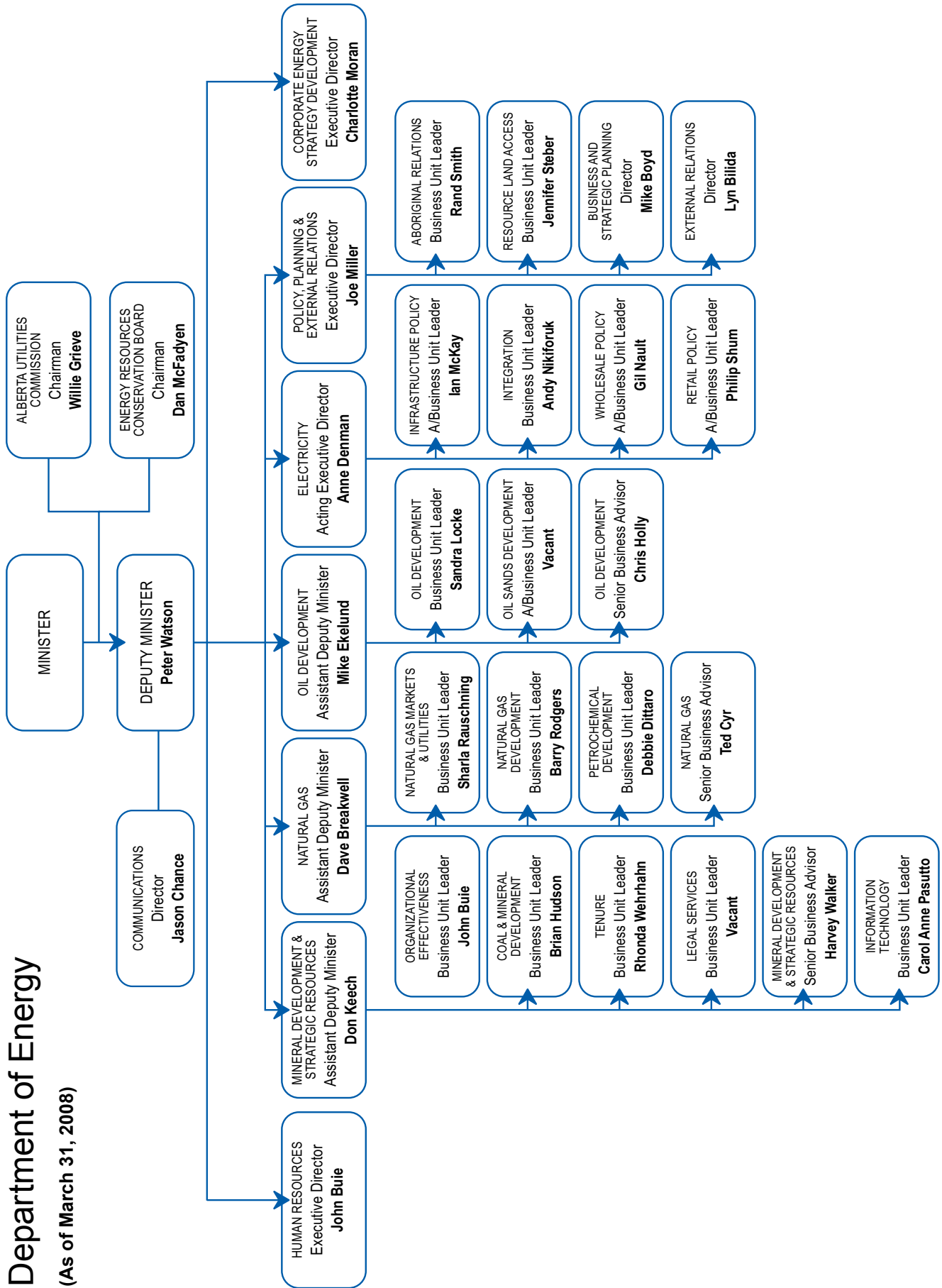
The ERCB ensures that the discovery, development and delivery of Alberta's resources take place in a manner that is fair, responsible and in the public interest. The ERCB regulates oil, natural gas, oil sands, coal and gathering systems. The ERCB also includes the Alberta Geological Survey (AGS), whose role is to provide geoscience information and expertise to government, industry, and the public in support of the sustainable development of Alberta's energy and mineral resources. The ERCB's operations are jointly funded by the Crown and a mandatory administrative fee applied to industry.

The AUC is responsible for the approval and ongoing supervision of power plants, transmission lines and gas utility pipelines, as well as economic regulation and the establishment of rates for electricity, gas and water utilities. The AUC also began taking on new responsibilities under an expanded mandate, as it now approves changes to the rules of the Alberta Electric System Operator and acts as an adjudicator for cases dealing with market noncompliance brought forward by the Market Surveillance Administrator. The AUC's operations are 100 per cent funded by the industry it regulates.

The APMC accepts delivery of the Crown's royalty share of crude oil and sells it at current market value. Unlike other energy commodities, conventional crude oil royalties are paid with 'in-kind' product. The department and the APMC's operations are integrated and fully funded by the Crown.

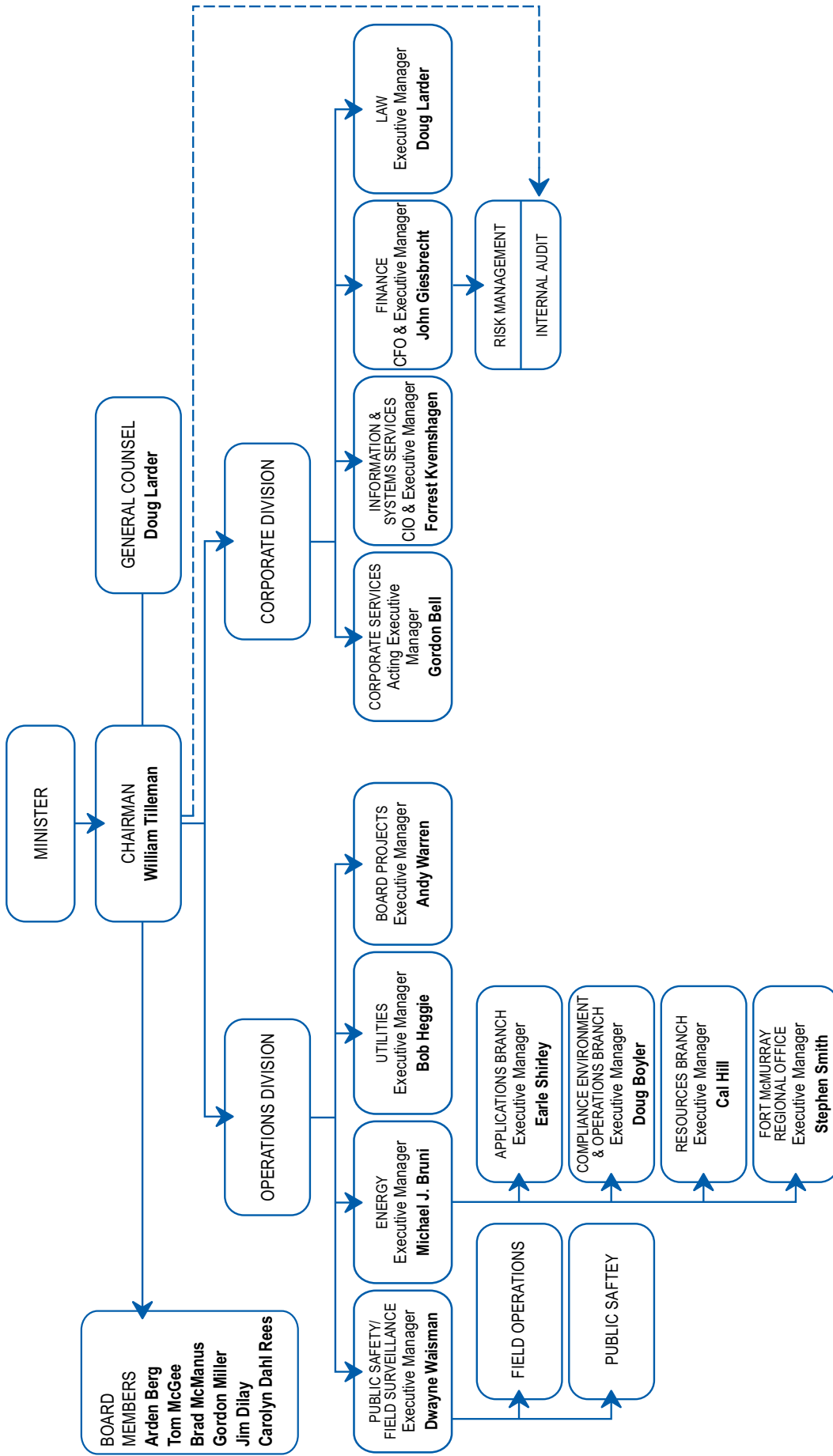
Department of Energy

(As of March 31, 2008)



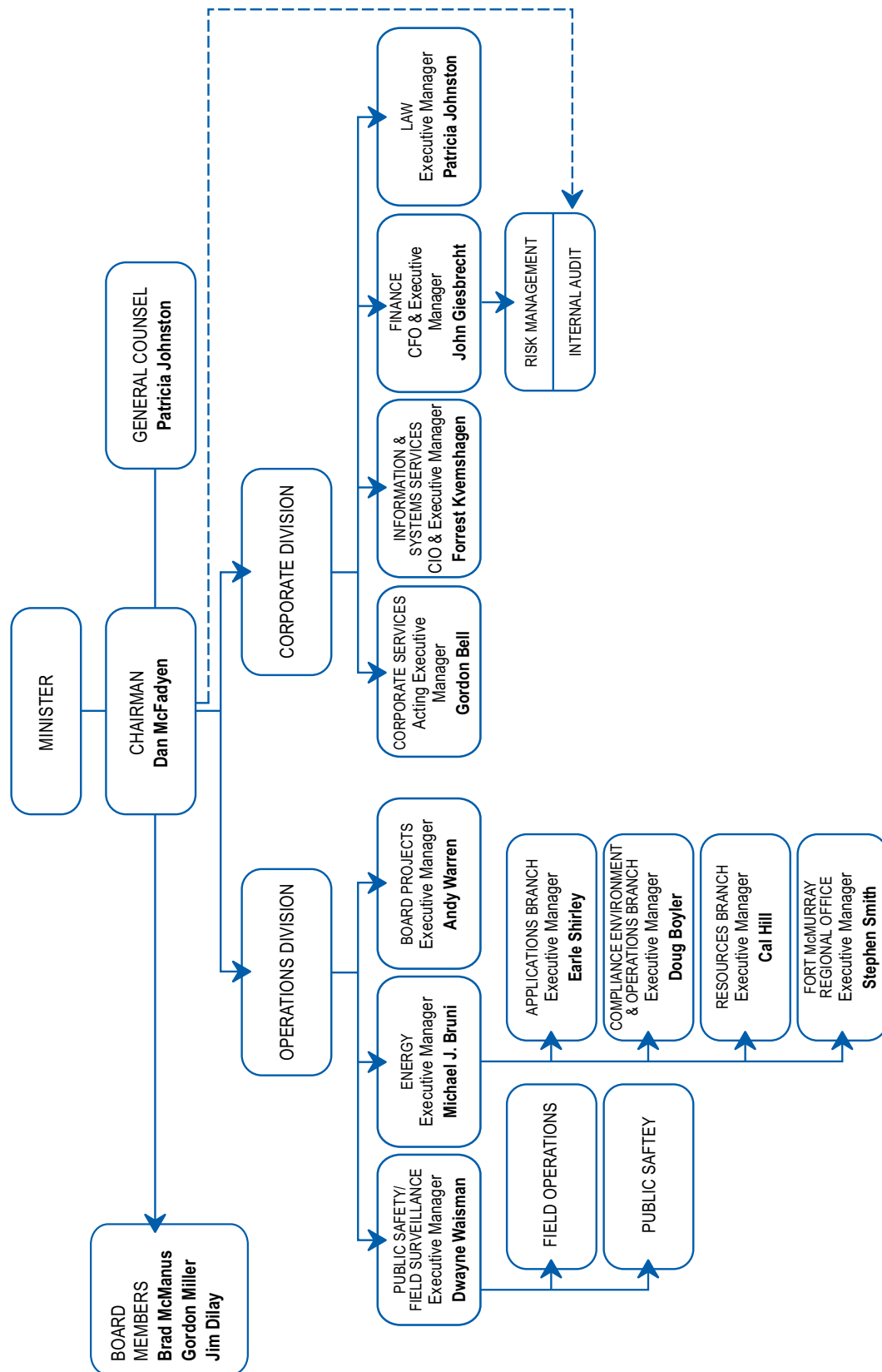
Alberta Energy and Utilities Board

(As of December 31, 2007)



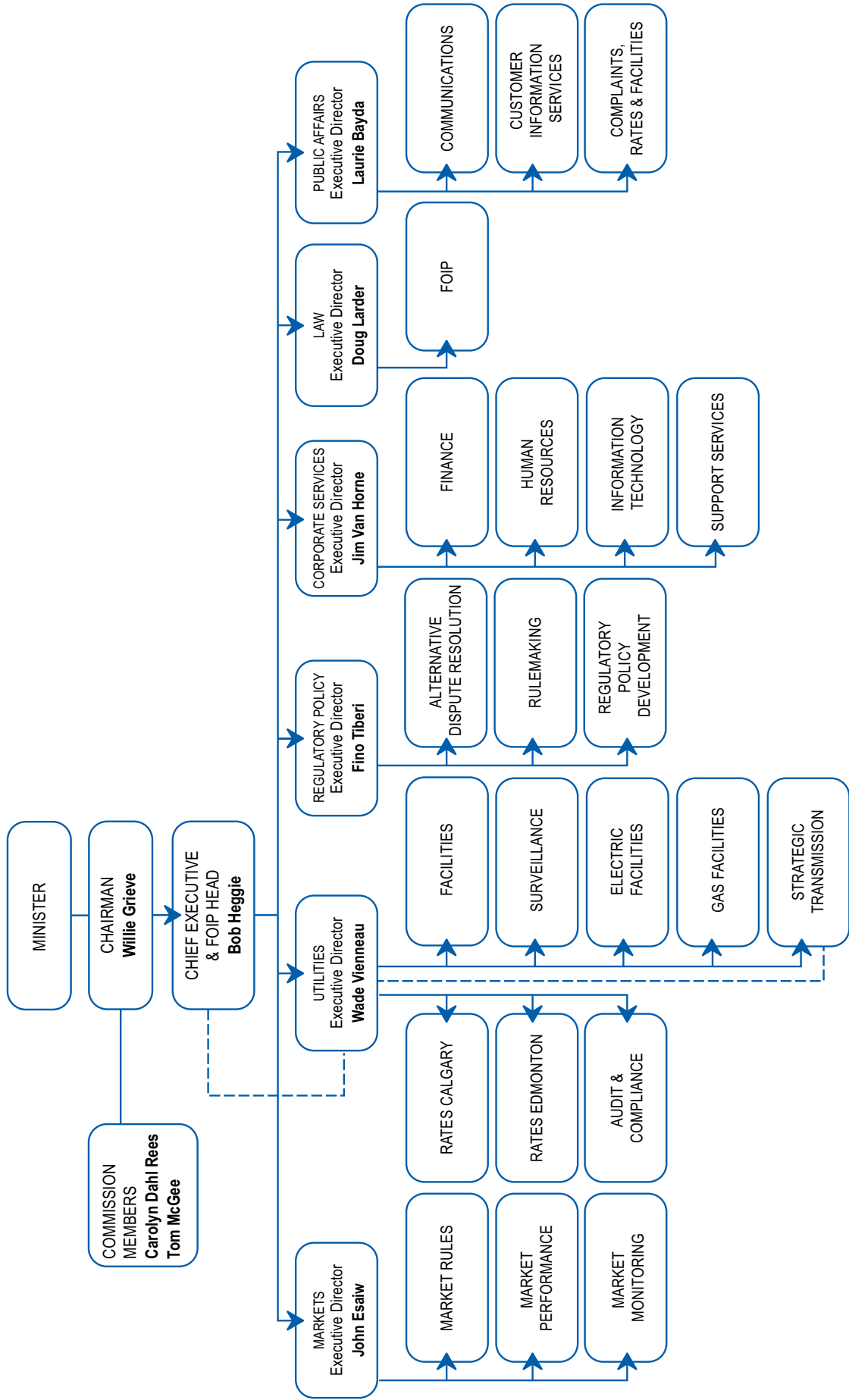
Energy Resources Conservation Board

(As of March 31, 2008)



Alberta Utilities Commission

(As of March 31, 2008)



MINISTRY OPERATIONAL OVERVIEW



Ministry Operational Overview

The Ministry of Energy has responsibility for a diverse resource development and commodity portfolio that includes natural gas, conventional oil, oil sands, coal, minerals, petrochemicals and electricity. To effectively manage the development of these resources and commodities, the department has organized itself along commodity business lines and has identified the following four core businesses:

- 1. Securing Benefits for Albertans –** Secure Albertans' share and benefits from energy and mineral resource development.

This core business includes all department operations involved in the assessment, calculation, collection and audit of royalties, freehold mineral taxes and other revenue from the energy and mineral industry. It includes all APMC operations related to the marketing and sale of the Crown's in-kind oil royalty share. The core business also includes the department's analysis and review of existing royalty features and systems and the development of new royalty features.

- 2. Resource Development –** Ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development.

This core business includes all department operations involved in directly managing the leasing and development of energy and mineral resources, including work undertaken to promote development in Alberta, maintain access to the resource, and encourage development of new technologies and new sources of energy. It also involves monitoring and assessing the competitiveness of Alberta's energy and mineral development policies, regulations and royalty programs to ensure Alberta continues to attract investment.

- 3. Energy for Albertans –** Ensure Alberta consumers have a choice of reliable and competitively priced energy.

This core business includes all departmental operations related to policy and market (wholesale and retail) design for electricity as well as retail market design for natural gas. Its aim is to provide an efficient, competitive marketplace that maintains reliable energy supplies and provides fair and equitable prices to customers.

- 4. Regulation of Energy Development by the Alberta Energy and Utilities Board –** Ensure that the discovery, development and delivery of Alberta's energy resources and utility services take place in a manner that is fair, responsible and in the public interest.

This core business includes the operations of the EUB for the period April 1 to December 31, 2007, the ERCB for the period January 1 to March 31 2008, and the AUC for the period January 1 to March 31, 2008. It covers the regulation of the development and delivery of energy resources in Alberta. It also applies technical standards for the safe and reliable operation of energy facilities while having regard for social, economic and environmental effects. Inspections are conducted to ensure compliance with regulations and to provide geoscience information and expertise needed by government, industry and the public.

On the utilities side, this core business ensures that regulated electricity and natural gas utilities provide Albertans with reliable service at reasonable prices that also give the owners of regulated utilities an opportunity to earn a fair return on their investment and recover their costs.

Ministry Revenue

| (Cdn \$ millions) | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 |
|---|---------------|---------------|---------------|---------------|--------------|
| Natural gas and byproducts | 5,199 | 5,988 | 8,388 | 6,439 | 5,450 |
| Conventional crude oil royalties | 1,655 | 1,400 | 1,463 | 1,273 | 981 |
| Bonuses from the sale of Crown leases | 1,128 | 2,463 | 3,490 | 1,252 | 967 |
| Synthetic crude oil and bitumen | 2,913 | 2,411 | 950 | 718 | 197 |
| Rentals and fees | 159 | 159 | 156 | 153 | 154 |
| Coal | 14 | 13 | 11 | 11 | 9 |
| Alberta Royalty Tax Credit | -44 | -174 | -111 | -102 | -82 |
| Total Non-Renewable Resource Revenue | 11,024 | 12,260 | 14,347 | 9,744 | 7,676 |
| Freehold Mineral Tax | 247 | 317 | 334 | 306 | 288 |
| Other revenue* | 142 | 136 | 116 | 98 | 101 |
| Total Revenue | 11,412 | 12,713 | 14,797 | 10,148 | 8,065 |
| Expenses* | 296 | 223 | 201 | 192 | 199 |
| Net Ministry of Energy Revenue | 11,116 | 12,490 | 14,596 | 9,956 | 7,866 |

* revenues and expenses are for the DOE, EUB, ERCB and the AUC

Ministry Operations:

The Alberta Crown owns 81 per cent of the province's mineral rights. The Ministry of Energy manages the development of these resources on behalf of the people of Alberta. The remaining 19 per cent are owned by individuals and companies or by the federal government in National Parks or on behalf of First Nations.

In 2007-08, gas prices continued to be steady, while oil prices climbed to new highs. Industry activity and investment remained strong for 2007-08, which resulted in the government's total non-renewable resource revenues reaching \$11 billion. These accounted for nearly 30 per cent of the total government revenues in the fiscal year. This revenue is crucial in keeping Alberta's average income tax rate one of the lowest in Canada and ensuring that necessary funding for critical public programs such as education, health and infrastructure is provided and enhanced.

In 2007, the oil and gas industry continued to be a key driver of the Alberta economy, with estimated investment of \$35.6 billion. Investment in the oil sands continues to grow and is projected to overtake investment in conventional oil and gas extraction in 2008. Project applications (either new or amendments to existing agreements) have steadily increased over the past five years and are expected to increase in the future.

Alberta's Gross Domestic Product (GDP) increased by 3.3 per cent in 2007, down from the 2006 increase of 6.6 per cent. However, Alberta still had the second highest growth rate in the nation, behind Newfoundland and Labrador (up 9.1 per cent) and tied with Manitoba. Alberta's GDP growth exceeded Canada's as a whole, which was 2.7 per cent in 2007.

During 2007, 19,597 well licenses were issued, a decrease from 22,805 in 2006. Industry drilling decreased to 16,702 in 2007 from 19,298 wells in 2006. There were 20,384 wells drilled in 2005 and 19,244 wells in 2004.

Energy companies operate more than 239,000 wells, 16,624 oil batteries and associated satellites, 802 gas plants, 12,243 gas batteries and 4,726 compressor stations, and a pipeline network of more than 403,500 kilometres. Each year, a portion of this vast energy infrastructure is inspected to make certain that projects are constructed properly and operated safely. The energy industry's proactive efforts in meeting and exceeding regulatory requirements have resulted in high compliance rates.

Companies have addressed important environmental issues, such as sulphur emissions, which have decreased by 40 per cent since 2000 from 78,000 to 47,000 tonnes in 2007. Sulphur recovery efficiencies at gas plants recovering saleable sulphur are now at 99 per cent.

To actively engage Albertans in 2007, 49 open houses were held to address concerns, answer questions, deal with issues, and improve the public's understanding of proposed developments. Synergy groups, which are made up of public, industry and government representatives, worked collaboratively to improve communications and identify and address issues.

Ministry Highlights for 2007-08 – Mandate and Strategic Priorities

(additional details for some of these can be found in the Results Analysis section)

Provincial Energy Strategy

Alberta Energy developed a framework outlining the scope of a comprehensive provincial energy strategy and established an external Energy strategy committee to advise and assist in its development.

Value-Added Strategy

The Incremental Ethane Extraction Policy (IEEP) was approved in July 2007 and became effective in December. This ten-year initiative provides incentives for value-added production of ethylene from an increased supply of ethane feedstocks in the province. In 2007-08, three projects were pre-approved for IEEP credits subject to eligibility of ethane consumed from each project.

A \$209 million Bio-Energy Producer Credit Program was also announced during the year to encourage further investment in the province's emerging bio-energy industry through financial incentives for producers of ethanol, bio-diesel or bio-generated electricity. Three companies received approval for funding under this program in 2007-08.

The department also worked with Alberta Employment, Immigration and Industry to initiate work on the potential development of a Bitumen Royalty In-Kind (BRIK) policy which would collect bitumen as royalties to encourage more value-added upgrading in Alberta. BRIK was one of the policy tools identified in the New Royalty Framework approved in 2007-08.

Electricity

Work continued on the electricity regulatory framework. Following extensive work and stakeholder consultation throughout the year, the government has passed two key regulations – the Market Surveillance Administration Regulation and the Transmission Amendment Regulation. The Market Surveillance Administration Regulation was approved in fall, 2007, and came into effect December 31, 2007. The Transmission Amendment Regulation was approved by Order in Council on December 19, 2007.

Meetings were held with the AUC Stakeholder Advisory Committee throughout the year, contributing to the development of plans for the smooth implementation of the AUC Act and separation of the EUB. The Electricity Division worked with the AUC as it drafted bylaws for establishing it formally as a government organization under the GOA to ensure a coordinated approach.

New Royalty Framework

During the 2007-08 fiscal year a lengthy, independent review of Alberta's royalty regimes was undertaken, which culminated in the October 2007 announcement of the *New Royalty Framework*.

The Framework, which will come into effect in the January 2009 production month, revises royalty regimes for oil and gas into a single sliding scale based on production, productivity and prices. The oil sands royalty regime will have a sliding royalty rate based on price.

The announcement of the *New Royalty Framework* included commitments to design new royalty programs to encourage the continued development of deep, high-cost oil and gas reserves, and to enter into negotiations with Syncrude Canada and Suncor Canada to amend their oil sands Crown Agreements to align them with the new framework. Negotiations successfully concluded with Suncor in the fourth quarter to transition that company's oil sands production to the *New Royalty Framework* beginning in 2010. Negotiations with Syncrude continued beyond the end of the 2007-08 fiscal year.

Beginning in 2007-08 and continuing into the 2008-09 fiscal year, Alberta Energy is making required changes to software systems to allow for assessment and collection of royalties under the *New Royalty Framework*.

Carbon Capture and Storage (CCS)

During the year, Alberta moved closer to making Canada's largest contribution to reducing greenhouse gas emissions when it struck the joint *ecoEnergy Carbon Capture and Storage Task Force* with the federal government. Its mandate is to provide advice on how government and industry can work together to facilitate and support the development of carbon capture and storage (CCS) opportunities in Canada.

CCS presents an opportunity for Canada to develop world-leading technology that can reduce greenhouse gas (GHG) emissions rapidly and on a massive scale. The task force reported to the federal and provincial ministers in January 2008. In 2008-09, DOE will be forming a council that will develop a road map for implementing carbon capture and storage. Under *Alberta's Climate Change Strategy*, Alberta committed to reducing projected emissions by 200 megatonnes by 2050. Expert analysis indicated carbon capture and storage would account for 139 megatonnes of the total reductions.

Land Use Framework (LUF)

One of the Government of Alberta's key cross-ministry initiatives is to develop a provincial Land-Use Framework (LUF). The intent of the LUF is to identify a provincial vision and outcomes for land use on public and private land, and to outline a decision-making framework that reflects provincial goals and priorities defined during the LUF development process. Seven departments, including the Department of Energy, continued cross-ministry work on the LUF. In 2008-09, a final draft of the LUF will be released for consultation.

Nuclear Energy

As a potential new part of Alberta's energy landscape, nuclear energy is emerging as a very important issue in Alberta. To encourage an informed and reasoned conversation with Albertans, the Alberta government formed an Expert Panel on Nuclear Power to develop an objective, fact-focused report that will provide as much information as possible on this issue.

Oil Sands

Alberta's oil sands industry continued to see significant growth in production and investment during the 2007-08 fiscal year. Some of the more significant projects under construction in 2007 included the CNRL Horizon mining and upgrader project, the OPTI Nexen Long Lake integrated SAGD recovery and upgrader project, the addition of an upgrader at the Petro Canada Edmonton refinery, and the start of a third upgrader at Suncor. Several other projects received approval, including various pipelines and upgraders.

The Oil Sands Multi-Stakeholder Committee report, focusing on vision and principles for continued oil sands development in Alberta, was submitted to the Ministers of Energy, Environment and Sustainable Resource Development in June 2007.

Natural Gas Rebate Program

The Natural Gas Rebate Program runs from October to March to help offset higher natural gas costs for Albertans. On average, almost 80 per cent of the average residential consumer's annual natural gas consumption occurs during the October to March period. In the 2007-08 rebate year, the Province paid approximately \$334.6 million to Alberta consumers to help with natural gas costs.

Even before factoring in the assistance of the natural gas rebate, Albertans pay less for natural gas than the average residential consumer in other provinces across Canada.

The Valentine Report

On March 28, 2008, Mr. Peter Valentine released a report entitled *Building Confidence: Improving Accountability and Transparency in Alberta's Royalty System*, which included a number of recommendations for the Department of Energy. DOE will work towards addressing these recommendations over the 2008-09 fiscal year.

The Alberta Energy Utilities Board (EUB), the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC)

On December 7, 2007, Bill 46, *the Alberta Utilities Commission Act*, received royal assent to realign the EUB into two separate regulatory bodies effective January 1, 2008 – the ERCB and the AUC. The ERCB focuses on Alberta's regulatory framework for energy resources. The ERCB will continue to strengthen and enhance its capacity to address evolving energy resource development within the province. Meanwhile, the AUC is responsible for the approval and ongoing supervision of power plants, transmission lines and gas utility pipelines, as well as economic regulation and the establishment of rates for electricity, gas and water utilities.

This restructuring reflects Alberta's expanding energy and utilities sectors and will allow both organizations to better focus resources to improve the regulatory framework for Albertans. It also allows the ERCB and AUC to focus on two distinct, expanding and increasingly complex segments of Alberta's vibrant economy.

Ministry – By the Numbers

2007-08 saw non-renewable natural resource revenues decline by 10 per cent to an amount of \$11 billion. This represented about 30 per cent of total provincial government revenues in 2007-08. This decrease was due to the decline in bonuses from the sale of crown leases and in gas royalties collected. With an estimated \$35.6 billion invested in 2007, upstream oil and gas industry investment remains strong. Investment in Alberta's oil sands reached an estimated 31 per cent increase over the 2006 level.

In June the Alberta government issued the annual report *ST98-2008: Alberta's Energy Reserves 2007 and Supply/Demand Outlook 2008-2017*, which details the supply of and demand for the province's diverse energy resources. Alberta's 174.2 billion barrels of remaining established oil reserves in 2007 continues to position the province as the second largest holder of proven oil reserves in the world, after Saudi Arabia. This reserves total includes 172.7 billion barrels of bitumen and 1.5 billion barrels of conventional oil reserves.

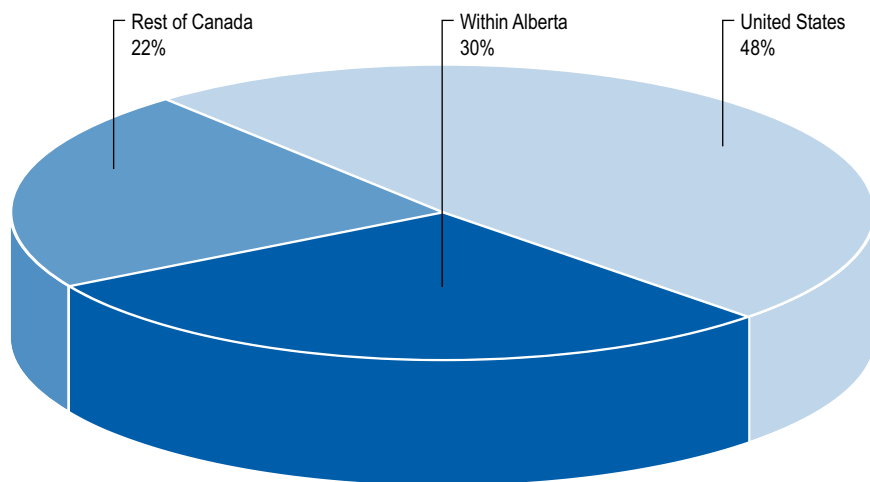
Natural Gas

For 2007-08, the average Alberta Natural Gas Reference Price was \$5.92/GJ, compared to an average price of \$5.94/GJ for the previous fiscal year. The number of successful conventional natural gas wells drilled declined to 9,912 in 2007, almost 25 per cent lower than the 13,141 wells drilled in 2006. Natural gas royalties accounted for approximately 47 per cent of Alberta's non-renewable resource revenue in 2007-08.

Total marketable natural gas production including Coalbed Methane (CBM) decreased from 5.08 trillion cubic feet (Tcf) in calendar year 2006 to 4.96 Tcf in 2007. CBM production increased from 42 billion cubic feet (Bcf) in 2006 to 76 Bcf in 2007.

Where does Alberta's Natural Gas Go?

Total Deliveries = 5.1 trillion cubic feet per year (2007)



All of Alberta's international natural gas exports are destined for U.S. markets. In 2007, about 2.5 Tcf of natural gas was delivered to the United States, accounting for 48 per cent of the total 5.1 Tcf. 30 per cent of the natural gas was kept in Alberta, where it was used primarily for electricity generation and residential and commercial heating. The remaining 22 per cent went to other Canadian provinces. The 5.1 Tcf number for deliveries differs from the production number reported above due to storage and other factors.

Conventional Crude Oil and Oil Sands

In 2007-08, Alberta's royalties from both conventional oil and oil sands amounted to about \$4.6 billion, up \$757 million from 2006-07. Of the \$4.6 billion, \$2.9 billion was collected as oil sands royalties and \$1.7 billion as conventional oil royalties. With both conventional oil and oil sands royalties increasing over the past year, the combined total accounted for 41 per cent of Alberta's total non-renewable resource revenue for 2007-08. At US\$82.25 per barrel, the average oil price for the 2007-08 fiscal year was 27 per cent higher than in 2006-07.

In 2007, Alberta produced 525,000 barrels per day (bbl/d) of conventional light, medium and heavy crude, plus an additional 141,000 bbl/d of pentanes and condensate.

In 2007, crude bitumen production exceeded 1,321 thousand bbl/d. This is an increase from 2006 when production was 1.25 million barrels per day.

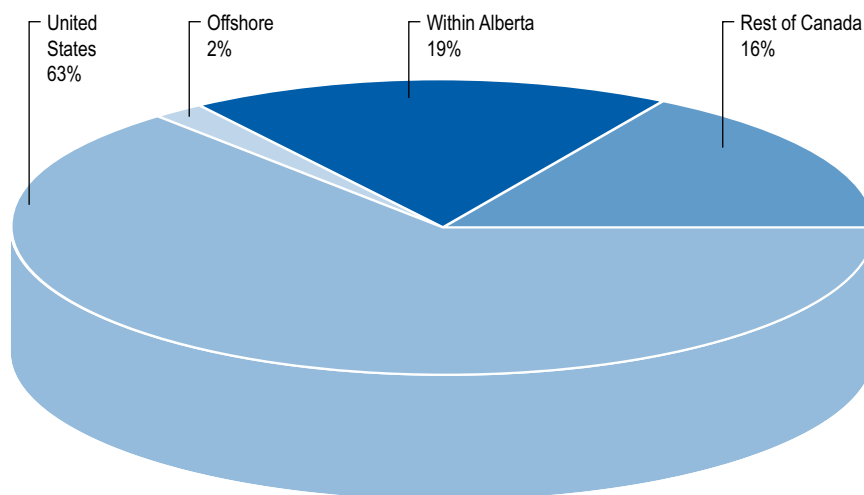
Of the total crude bitumen production in 2007, 1,184,000 bbl/d was marketable oil sands production, consisting of marketable bitumen and upgraded synthetic crude oil.

In 2007, total crude oil and equivalent production in Alberta, which consisted of conventional light, medium and heavy crude oil, marketable oil sands, and pentanes and condensate was 1,850,000 bbl/d.

Investor interest in Alberta's oil sands resource continues to grow, with an estimated \$16 billion invested in 2007, and an additional \$20 billion projected for 2008.

Where does Alberta's Crude Oil Go?

Total Deliveries = 2.12 million barrels per day (2007)



In 2007, 63 per cent of 2.12 million barrels of crude oil per day were delivered from Alberta to markets in the United States. About 16 per cent of the crude oil went to Saskatchewan, Ontario and British Columbia, while two per cent was exported offshore. The remaining 19 per cent was kept in the province, where it was refined into transportation fuels and other oil products to heat homes and buildings, generate electricity and manufacture lubricants, waxes, plastics, synthetic rubber and asphalt. The 2.12 million bbl/d of deliveries differs from the production number reported above due to storage and other factors.

Wells Drilled & Licences Issued

In 2007, 19,597 well licences were issued, a decline of more than 3,200 from the previous year of 22,805. 2007 also saw a decline in drilling activity, with the number of wells drilled decreasing to 16,702, down from 19,298 in 2006.

Coal

The current estimate for remaining established reserves for all types of coal is about 34 billion tonnes. This massive resource continues to help meet the energy needs of Albertans, supplying fuel for about 62 per cent of the province's electricity generation. Alberta's coal reserves represent about 1,000 years of supply at current production levels.

Alberta's marketable coal production totalled 32.5 million tonnes in 2007.

Coal deliveries in 2007 were 32.8 million; the difference between coal production and deliveries is due to a number of factors, including storage. In 2007, 79 per cent of Alberta's coal deliveries stayed in the province, 17 per cent was delivered offshore, with the remaining coal being shipped to the United States.

Electricity

In 2007, Alberta's strong economic growth continued to drive up electricity consumption. Peak demand increased by 40 MW, over the 2006 figure of 9,661 MW, to a new record high of 9,701 MW. An addition of 294 MW increased generation capacity to 12,142 MW of which 7.4 per cent was produced through hydro, 4.3 per cent by wind and 1.3 per cent by biomass.

Minerals

2007-08 royalty revenues from production of major industrial and metallic minerals (i.e. limestone, salt, gold, and shale and stone) was \$441,284, down 28 per cent from last year. Following strong demand from oil sands mines in 2006-07, limestone production was down 45 per cent from last year.

Strong mineral markets kept exploration strong in 2007. As of December 2007, 11.4 mineral hectares were staked for mineral exploration in Alberta, the highest since 2002.

Uranium and diamonds continued to dominate mineral exploration expenditures in Alberta in 2007. Uranium exploration continued to focus on southwestern and northeastern Alberta. Diamond exploration continues in central and northwestern Alberta and two new kimberlite discoveries were announced.

Changes in Actual Revenue from Prior Fiscal Year

(-\$1.24 billion)

Non-renewable resource revenue for the fiscal year ending March 21, 2008 was \$11 billion, a decrease of about \$1.2 billion from the previous year. Non-renewable resource revenue accounted for approximately 30 per cent of total government revenue during 2007-08.

Natural gas and byproduct royalty

(-\$789 million)

The Alberta Natural Gas Reference Price (ARP) averaged \$5.92/GJ for the 2007-08 fiscal year, a decline of \$0.02/GJ from the previous fiscal year's average. Although 25 per cent fewer conventional natural gas wells were drilled in 2007 compared to 2006, revenues decreased by only 13 per cent, to \$5.20 billion.

Crude oil royalty

(+\$255 million)

The price of West Texas Intermediate (WTI) averaged US\$82.25/barrel (bbl) during 2007-08, US\$17.35/bbl higher than the previous fiscal year. Although conventional oil production declined from 2006 to 2007, the increase in price was more than enough to offset the decline in production.

Oil sands royalty

(+\$502 million)

With record high oil prices, the province collected a record \$2.91 billion in revenues for the 2007-08 fiscal year. This figure exceeds the previous year's revenues by \$502 million.

Bonuses from the sale of crown leases

(-\$1.33 billion)

For the fiscal year 2007-08, bonuses from the sale of crown leases resulted in the collection of revenues in the amount of \$1.13 billion. At less than 50 per cent of the revenues collected the previous period, the decline of \$1.33 billion is due to both fewer hectares being sold, and a lower average price per hectare.

The average price per hectare paid at petroleum and natural gas rights sales during 2007-08, was \$350.52, a reduction from an average price of \$434.41 paid during 2006-07. There was also a decline in the number of petroleum and natural gas mineral rights sold at auction, from 2,428,313 hectares in 2006-07 to 1,664,539 hectares in 2007-08.

At \$491.93 per hectare, the average price per hectare paid for oil sands mineral rights during 2007-08, was 45 per cent lower than during the previous fiscal year. During 2007-08, 473,218 fewer hectares were sold at auction than during the previous year. This sale of 1,020,964 hectares netted approximately \$502 million in revenues, less than half of the \$1.3 billion collected in 2006-07.

Freehold mineral tax

(-\$70 million)

For the 2007-08 fiscal year, a total of \$247 million was collected through the freehold mineral tax. This decline was mainly due to lower gas production and fewer wells being drilled.

Expenses by core business

| Core Business | 2007-08 | | 2006-07 |
|----------------------------------|------------------|------------------|------------------|
| | Budget | Actual | Actual |
| Securing benefits for Albertans | \$54,110 | \$51,238 | \$45,550 |
| Resource Development | 81,964 | 74,307 | 24,576 |
| Energy for Albertans | 4,822 | 5,394 | 5,555 |
| Regulation of Energy Development | 159,002 | 165,440 | 147,718 |
| | <u>\$299,898</u> | <u>\$296,379</u> | <u>\$223,399</u> |

MINISTRY RESULTS ANALYSIS





Report of the Auditor General on the Results of Applying Specified Auditing Procedures to Performance Measures

To the Members of the Legislative Assembly

Management is responsible for the integrity and objectivity of the performance results included in the *Ministry of Energy's 2007-08 Annual Report*. My responsibility is to carry out the following specified auditing procedures on performance measures in the annual report. I verified:

Completeness

1. Performance measures and targets matched those included in Budget 2007. Actual results are presented for all performance measures.

Reliability

2. Information in reports from external organizations, such as Statistics Canada, matched information that the Ministry used to calculate the actual results.
3. Information in reports that originated in the Ministry matched information that the Ministry used to calculate the actual results. In addition, I tested the processes the Ministry used to compile the results.

Comparability and Understandability

4. Actual results are presented clearly and consistently with the stated methodology and are presented on the same basis as targets and prior years' information.

I found no exceptions when I performed these procedures.

As my examination was limited to these procedures, I do not express an opinion on whether the set of measures is relevant and sufficient to assess the performance of the Ministry in achieving its goals.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
August 8, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Core Business One: Securing Benefits for Albertans - *Secure Albertans' share and benefits from energy and mineral resource development.*

Goal 1:

Optimize Albertans' resource revenue share and benefits from the development of their energy and mineral resources over the long term

Albertans receive their share of energy and mineral resource development through royalties, rentals and bonuses paid by industry and collected by the Ministry. Alberta's resource development system is designed to collect a share of industry revenue in the form of royalties paid to the Crown from the development of provincial resources, while ensuring industry retains sufficient revenue to continue to invest in the future development of these resources. In 2007-08, non-renewable resource revenue accounted for about 30 per cent of the provincial government's total revenue. Other benefits from a strong energy industry include jobs, business opportunities, investment and innovative technologies and research.

Highlights

In February 2007, an independent panel was appointed to conduct a review of Alberta's royalty and tax regime. This review was done through Alberta Finance and was supported by DOE through background reports and analysis. The Royalty Review Panel held public meetings throughout the spring and summer of 2007 to gather input from Albertans and key stakeholders. The recommendations were submitted to government in September 2007 and a new Royalty Framework was announced on October 25, 2007. Changes are to be implemented on January 1, 2009.

Performance Measure:

1.a Sharing the Revenue from Resource Development.

Target:

20 per cent to 25 per cent of industry's annual net operating revenue.

Results:

| | Year Ending December 31 | | |
|---|-------------------------|-------------|------------------|
| | Actual 2004 | Actual 2005 | Last Actual 2006 |
| Sharing the Revenue from Resource Development – Crown Revenue Share – portion of oil and gas industry's annual net operating revenue that is paid to the Crown as royalty (three-year moving average). | 19% | 19% | 19% |

Source: Canadian Association of Petroleum Producers (CAPP)

Discussion of Results

Albertans benefit directly from energy resource development through royalties, bonuses and leasing of Crown mineral rights, freehold mineral taxes, industry levies and licenses, and indirectly from investment by the petroleum industry and the taxes paid by industry. Alberta's resource development system is intended to capture a share of the revenue from the development of resources for the benefit of Albertans, while encouraging continued industry investment.

For oil and natural gas and oil sands, an indicator of this balance is the portion of industry's net operating revenue that is paid as Crown royalty. The measure is influenced by commodity prices and industry operating costs that are beyond the influence of the department. Results presented here reflect a three-year moving average of the percentage of industry's net operating revenue collected by the Crown as royalty from the production of conventional oil, natural gas and oil sands. The most current result available is for the calendar year 2006.

Alberta's three-year average royalty share in 2006 remained at 19 per cent of industry's net operating revenue from conventional oil, natural gas and oil sands production. Results from 2004 to 2006 were below the target range of 20 – 25 per cent.

The target was met, for the last time, in 2003. A number of factors contribute to the measure's decline, including:

- Natural gas accounts for the largest share of royalty revenues. Total natural gas production peaked in 2001, and has remained relatively stable since then. Despite high natural gas well drilling, average productivity per well has been declining. The royalty rate for natural gas is partially determined by the well productivity and has therefore declined as well. Also royalties are net of the costs of processing the Crown's share of the raw gas into a marketable product and those costs have risen over the past five years.
- Conventional oil production has declined from its peak in 1973 while the number of producing wells has increased. This has led to a reduction in the average productivity for an oil well from 145 barrels per day in 1973 to 14 barrels per day in 2006. Conventional oil royalty rates are determined by a well's production quantity, vintage and density as well as price and has therefore fallen over time due to the drop in productivity.
- Conventional oil and gas royalty rates are price sensitive only up to a certain point. Royalty rates increase until oil and gas prices reach ceilings established for different types of conventional oil or gas. Once prices exceed these ceilings, royalty rates remain unchanged. Notably, the results reported in the measure reflect the current royalty regime. Changes to the regime were announced in October 2007, to be implemented on January 1, 2009. Potential changes to the measure will reflect Alberta's New Royalty Framework.
- Oil sands royalties have been relatively low largely due to significant investments in new projects which pay a royalty of one per cent of gross revenue until all costs have been recovered. However, oil sands royalties have been increasing since 2002. From 2005 to 2006, royalties paid by the oil sands sector increased by 167 per cent, from \$0.8 billion in 2005 to \$2.2 billion in 2006, which was an all-time annual record. Over time, royalties are expected to increase further as more projects achieve payout status. Oil sands production volume is also expected to increase, leading to higher royalty revenue. However, the increase in oil sands royalties paid in 2006 was not sufficient to outweigh the decline in royalties paid by the conventional oil and gas sector, which went down from \$11.8 billion in 2005 to \$9.2 billion in 2006.

The performance measure is under review by the department. Potential changes to the measure will reflect Alberta's New Royalty Framework announced in October 2007.

Methodology

The measure reflects the royalties collected from conventional oil, natural gas and oil sands, minus the Alberta Royalty Tax Credit, as a portion of the petroleum industry's annual net revenue. The performance measure is the three-year moving average of the following formula:

$$\frac{\text{Royalties} - \text{Alberta Royalty Tax Credit}}{\text{Revenues} - (\text{Taxes, Operating Costs and General and Administrative Costs})}$$

Upstream oil and gas industry financial data, such as revenues, operating costs and royalties, are obtained on a calendar year basis from the Canadian Association of Petroleum Producers (CAPP). CAPP reports revenue separately for various commodities (oil sands; crude oil and condensate; natural gas; ethane; pentanes plus; propane; butanes; sulphur) making up Alberta's petroleum industry. However, CAPP combines these same commodities into two categories (petroleum industry and oil sands) when reporting expenditure. CAPP also provides input to the department's calculation of Alberta's portion of the Canadian petroleum industry's current taxes, the primary source of which is Statistics Canada. The Alberta Royalty Tax Credit (ARTC) figures are prepared by the department using data obtained from Alberta Finance.

The measure does not include capital expenditures. Bonuses from the sale of mineral rights and rentals and licenses paid to the province are included by CAPP as capital expenditures, and are therefore excluded from this measure. Freehold mineral tax, collected by the Province, is included in the measure.

Performance Measure:

1.b Audit Adjustments to Industry Filing and Reporting

Target:

Audit adjustments to industry filing and reporting to be less than 2.0 per cent.

Results:

| | Year Ending March 31 | | |
|--|----------------------|-------------|------------------|
| | Actual 2006 | Actual 2007 | Last Actual 2008 |
| Audit Adjustments to Industry Filing and Reporting: Absolute adjustments as a percentage of department resource revenue (three-year moving average). | 2.4% | 2.0% | 1.5% |

Source: Alberta Department of Energy.

Notes: The department audits industry filing and reporting information used to calculate non-renewable resource revenue to ensure it is complete and accurate. Audit adjustments are an indicator of industry's understanding of, and compliance with, the department's reporting requirements.

Discussion of Results

This performance measure assesses the compliance of industry with Alberta Energy's reporting requirements. The measure reports all adjustments whether they are in the Crown's or in industry's favour. The percentage of audit adjustments is used as an indicator to determine if industry misinterprets certain aspects of reporting, which leads to mistakes. The ultimate intent of the measure is to help to identify the reason(s) for errors in industry reporting, which will enable the department to assist the industry in improving its reporting and, if necessary, re-evaluate guidelines for industry.

The most recent three-year average results indicate that the absolute value of audit adjustments is 1.5 per cent of associated resource revenue. The average annual absolute dollar value of adjustments arising from audits completed or processed for the three years ending March 31, 2008 was \$160.1 million on an average annual resource revenue base of \$10.4 billion. The average annual net dollar value of net adjustments for the same period was \$39.8 million in the Crown's favour.

The absolute value of audit adjustments for the three-year period ending March 31, 2008 declined from the three-year periods ending March 31, 2007 and March 31, 2006. Significant areas impacting the results include:

- Natural gas and related byproducts – actual audit adjustments as a percentage of revenue are lower in 2007-08 than in 2004-05. This is believed to have been the result of an increase in the number of audit amendments pending processing. The department continues to focus on training industry filers in the requirements for the calculation of the Alberta Gas Reference Price and identify opportunities to reduce the complexity of the filing requirements.
- Synthetic crude and bitumen adjustments have declined as a percentage of related revenues due to a decline in audit adjustments in the fiscal year ending March 31, 2008 in comparison to the fiscal year 2005 combined with a significant increase in royalties generated from 2005 to 2008.

Methodology

The department, through its Compliance and Assurance Business Unit, audits industry filing and reporting information used to calculate non-renewable resource revenues to ensure that it is complete and accurate.

This measure tracks the absolute value of adjustments arising from audits conducted by the department to information filed by industry in accordance with department requirements. As such, it excludes any adjustments made by industry. This measure also excludes any adjustments arising from audits performed by the Energy Resources Conservation Board. The measure expresses the three-year moving average of the annual total absolute dollar value of audit adjustments as a percentage of the average reported resource revenues for that three-year period.

The absolute value of audit adjustments is the sum of all adjustments, both in the Crown's favour and in industry's favour and as such is an indicator of the total error rates. Audit adjustments are based on audits completed or processed in the departments' 2007-08 fiscal year and the two preceding fiscal years. Total adjustments include adjustments to the 2007-08 year filings, adjustments to prior years' filings (based on the 2007-08 year audit and subject to statutory limitations of the *Mines and Minerals Act*, the *Freehold Mineral Rights Tax Act* and the *Natural Gas Marketing Act*) and, where applicable, also include the estimated future impact of amendments. For the fiscal year ending March 31, 2008, this could include adjustments made to industry filings submitted from 2001 to 2007. Audit results have not been extrapolated over the entire population.

Audit adjustments are assessed for conventional crude oil, natural gas and byproducts, oil sands, coal and Freehold Mineral Tax revenues. The audit result is a measure of industry's understanding of and compliance with the department's reporting requirements. The value of Crown royalty is influenced by commodity prices and production that are beyond the control of the department. Resource revenues are based on the fiscal year revenues as reported in the department's Annual Report.

Core Business Two: Resource Development - *Ensure Alberta's energy and mineral resources remain accessible, competitive and attractive to investment and development.*

Goal 2:

Maintain the competitiveness of Alberta's energy and mineral resources

Global demand for energy and growing recognition of Alberta's vast energy potential means increasing interest in Alberta as a place to invest in energy development. Alberta maintains competitive fiscal and regulatory regimes that are intended to attract industry investment and ensure that Albertans, the resource owners, benefit from resource development. Predictability, certainty, stability and an efficient regulatory system combined with an extensive energy infrastructure and ready market access are all features that make Alberta a strong competitor for industry investment. The Ministry is the principal advocate nationally and internationally for Alberta's interests and rights to develop and manage energy and mineral resources.

Highlights

Alberta's growing position as a world class energy supplier has attracted unprecedented degrees of international attention to the province. While the Ministry of Energy continues to work to promote international recognition of Alberta as a secure, reliable and environmentally responsible energy producer, this year the Ministry was also responsible for ensuring that the international investment community understood that Alberta's royalty review process, and later the resulting framework, did not alter Alberta's long-standing commitment to providing an environment of fiscal predictability, certainty and stability for energy investors. Several high profile international missions were organized to reinforce this message including: Minister Knight's missions to Chicago, Washington D.C., New York and Boston in late October 2007 and the United Kingdom in January 2008.

In 2006, DOE started to work on a long-term vision for the integrated development of Alberta's energy resources. This has now evolved into a provincial energy strategy. Alberta Energy is working on developing a framework outlining the scope of a comprehensive provincial energy strategy and has established an external Energy strategy committee to advise and assist in its development.

In 2007, the department implemented a new web-based industry interface (e-FMT) for Freehold Mineral Tax information and reporting. This project was a collaboration with industry associations, freehold owners and industry producers. The new system and processes significantly reduce industry's administration and reporting for Freehold Mineral Tax. Industry also receives electronic tax statements, reports and real-time access to enhanced information about their taxable freehold properties.

Performance Measure:

2.a Resource Development

Target:

Annual industry investment in the upstream oil and gas industry will be equal to, or greater than, \$15 billion.

Results:

Year Ending December 31

| | <u>Actual 2004</u> | <u>Actual 2005</u> | <u>Last Actual 2006</u> |
|--|--------------------|--------------------|-------------------------|
| Resource Development | | | |
| Upstream industry investment in Alberta - Annual capital expenditure in Alberta on exploration and development of oil, oil sands and gas resources | \$23.7* billion | \$32.8* billion | \$37.7 billion |

Source: Statistics Canada, Private and Public Investment in Canada (PPI) publications

* The 2004 and 2005 numbers have been restated to reflect a new data source. See "Discussion of Results" for data comparisons.

Discussion of Results

Continued investment in Alberta's energy sector demonstrates the competitiveness and attractiveness of resource development in Alberta. The department has the ability to influence industry's investment decisions through the royalty and tax regime, approval processes, land and market access, and regulatory environment. The department maintains a fiscal regime which is intended, over the long term, to encourage continued development of Alberta's energy resources and collect a share of the resource development profits.

The most current actual investment data is for the calendar year 2006. In 2006, investment in the oil and natural gas industry, including the oil sands, reached an all-time high, both for Alberta and for Canada as a whole. At \$37.7 billion, investment in Alberta accounted for about 78 per cent of Canada's total oil and natural gas industry spending of \$48.3 billion. In 2006, Alberta's conventional oil and natural gas investment, driven primarily by increases in drilling expenditures, rose by 11 per cent to about \$25.42 billion from its 2005 level of \$22.99 billion. Oil sands investment in Alberta also set a record in 2006, reaching \$12.23 billion, a 24 per cent increase over the 2005 level of about \$9.86 billion. The increase in oil sands investment was due to the further growth of major existing oil sands projects and new projects coming on-line.

Albertans benefit from industry investment through jobs, business opportunities, taxes paid to all levels of government and resource revenues. Industry investment is driven largely by commodity prices over which the department has no influence. However, investment is affected by a number of other considerations, including cash flow, exploration and labour costs, royalty rates, corporate tax rates, regulatory and approval processes including land access, environmental impacts, infrastructure (highways, housing), and access to refining, upgrading, pipelines and markets.

The data source for the performance measure has been changed. The results for the 2007-08 Annual Report were taken from Statistics Canada's "Private and Public Investment in Canada" (PPI) publications. PPI has replaced the Canadian Association of Petroleum Producers (CAPP) Statistical Handbook, and will be used as a source for the measure in the future. The results for 2005 and 2006 have been restated to reflect the new source. The table below presents a comparison between data from CAPP and PPI for 2004 to 2006. CAPP data for 2004 and 2005 in the table below was presented in the 2006-07 Annual Report.

Billions \$

| <u>Year</u> | <u>CAPP</u> | <u>PPI</u> | <u>Difference</u> |
|-------------|-------------|------------|-------------------|
| 2004 | 24.7 | 23.7 | 1.1 |
| 2005 | 35.4 | 32.8 | 2.5 |
| 2006 | 41.5 | 37.7 | 3.8 |

Note: totals in the table may not add up due to rounding.

Differences between the results can be attributed to the following factors:

- The survey, used by CAPP as a source for its Statistical Handbook, includes expenditures on land as capital expenditures. Rentals and leases paid to the Crown and, therefore, bonuses from the sale of mineral rights received by the government are included as capital expenditures in the CAPP Statistical Handbook, but excluded from PPI expenditure data. With the adoption of PPI as a source, bonuses are no longer included in the results for the measure. In the calendar year 2006, bonuses collected by the Government of Alberta were \$3.6 billion.
- In PPI, adjustments are made for Capital Items Charges to Operating Expense (CICOE).
- In PPI, an adjustment is made for software to capture work that is done by companies to improve their own software but which is not capitalized.

Methodology

Private and Public Investment data is used as a source for the capital expenditure data in the Resource Development performance measure. Previously, the measure relied on capital expenditure data in the CAPP Statistical Handbook. Expenditure data in the Statistical Handbook is taken from Statistics Canada's Oil and Gas Extraction survey.

The Oil and Gas Extraction survey is actually used as an input into the PPI data. When Statistics Canada calculates investment figures for the upstream oil and gas industry for the PPI, it uses Oil and Gas Extraction data as a starting point. However, Statistics Canada makes adjustments to ensure that data reported in the PPI publications is consistent with the System of National Accounts (SNA) concept for capital. These adjustments result in differences, which are described above in the "Discussion of Results" section.

The adoption of new data source offers the department an advantage, since this data is taken directly from a comprehensive national publication, which reports investment for all sectors and industries in Canada for which data is available. PPI reports investment data for each province and territory, and for Canada as a whole. Adoption of PPI as a source for investment data enables the department to do methodologically consistent comparisons between investment in Alberta's upstream oil and gas industry and other industries.

Goal 3:

Secure future energy supply and benefits for Albertans within a growing and competitive global energy marketplace

Alberta has long enjoyed an abundant supply of oil and natural gas. In the future, new sources of energy will be developed to ensure Alberta has a continued supply of energy to meet growing Alberta and global demand. New energy sources represent the future and include expanded oil sands production, clean burning coal technologies, coalbed methane and the development of renewable energy sources (wind, hydro, biofuels). There is also significant potential to improve the recovery of existing conventional resources remaining in the ground through technologies such as CO₂ injection. Maintaining resource access is essential for future energy development and the Ministry works within the province's framework of sustainable development to maintain or enhance resource exploration and development opportunities in a responsible manner that protects the environment and public safety.

Highlights

During the year, Alberta moved closer to making Canada's largest contribution to reducing greenhouse gas emissions when it struck the joint ecoEnergy Carbon Capture and Storage Task Force with the federal government. The Task Force's mandate is to provide advice on how government and industry can work together to facilitate and support the development of carbon capture and storage (CCS) opportunities in Canada.

CCS presents an opportunity for Canada to develop world-leading technology that can reduce greenhouse gas (GHG) emissions rapidly and on a massive scale. The Task Force reported to the federal and provincial ministers in January 2008. Alberta Energy is expected to launch a council that will develop a road map for implementing carbon capture and storage in April 2008. Under the strategy, Alberta committed to reducing projected emissions by 200 mega tonnes by 2050. Expert analysis indicated carbon capture and storage would account for 139 mega tonnes of the total reductions.

As a potential new part of Alberta's energy landscape, nuclear energy is emerging as a very important issue in Alberta. To encourage an informed and reasoned conversation with Albertans, the Alberta government formed an Expert Panel on Nuclear Power to develop an objective, fact-focused report that will provide as much information as possible on this issue.

The department also launched a number of programs to encourage the development of bio-energy/bio-fuels in the province. The Producer Credit Program begins the process of providing credits to bio-energy/bio-fuel producers to advance development, commercialization and marketing of bio-energy and bio-fuels in Alberta. Three companies have been approved for funding to date with an estimated \$4.5 million being allocated over the current fiscal year. The Commercialization and Infrastructure Programs have been very heavily subscribed since their launch, with over 60 projects being approved to date for support. Approximately \$32 million in funding has been allocated with industry expected to contribute over \$750 million in capital investment toward development of these projects. Projects currently range in scale from small regional plant opportunities (less than 4 million litre capacity) to major bio-fuel manufacturing plants of over 200 million litres expected to be constructed. A key commercial biodiesel demonstration project was initiated which will support the future integration of bio-fuels into the marketplace.

During the year the department continued to work with other Ministries and the Alberta Water Council (the Council) on water management policy, most specifically on implementation of Alberta's Water for Life strategy.

Following through with its commitment to accountability, the Alberta government has prepared a draft of the second year progress update report on the Multi-Stakeholder Advisory Committee's (MAC) recommendations on the safe and responsible development of coalbed methane in the province. This report will be finalized and released in the new fiscal year.

Performance Measure:

3.a Energy Resource Portfolio Diversification

Target:

Additional production.

Results:

| | Year Ending December 31 | | |
|---|-------------------------|--------------------|------------------|
| | Actual 2005 | Actual 2006 | Last Actual 2007 |
| 3.a Energy Resource Portfolio Diversification | | | |
| - production from new sources or extended production from existing sources. | | | |
| Oil Production (thousands of bbl/d) | | | |
| Extended Oil Recovery ¹ | 159 | 158 ² | 159 |
| Oil Sands ³ | 966 | 1,126 | 1,184 |
| Natural Gas Production (Bcf/yr) | | | |
| Coalbed methane ⁴ | 47 | 42 | 76 |
| Electricity Generating Capacity (MW)⁵ | | | |
| Natural Gas (cogeneration) | 3,191 ⁶ | 3,364 ⁶ | 3,462 |
| Renewables (hydro, wind, biomass) | 1,360 ⁶ | 1,469 ⁶ | 1,609 |

Sources: Alberta Department of Energy, Energy Resources Conservation Board.

Notes: This measure reflects the need for increasing diversification of Alberta's energy resource portfolio to meet future energy demands.

1) Includes all Ministry programs aimed at extending the productive life of conventional oil fields.

2) Extended Oil Recovery data for 2006 has been restated due to retroactive adjustments.

3) Oil sands production includes synthetic crude oil and marketable bitumen.

4) Coalbed Methane (CBM) reported here is an estimate of natural gas directly from coal seams and does not include commingled natural gas from other sources. Total gas production from all wells with completion in coal seams in 2007 was 240 billion cubic feet (Bcf). Coalbed methane production from these wells was 76 Bcf.

Previously, the Coalbed Methane production data was presented in trillion cubic feet per year. It is now reported in billion cubic feet per year. There have been no retroactive data adjustments for 2005 and 2006.

5) The measure no longer reports electricity generating capacity from oils (crude, fuel, bitumen).

6) Cogeneration data for 2005 and 2006 has been restated due to data refinements reported by plant operators.

Discussion of Results

This measure tracks a portfolio of new and extended sources of energy which reflect an increasing diversification of energy resource development in Alberta. The department influences development in order to meet future energy demands through royalty features that encourage improved resource recovery, the development of new energy sources or the application of new technologies.

In 2007, incremental Extended Oil Recovery (ExOR) represented about 30 per cent of Alberta's total conventional crude oil production of 525 thousand barrels per day (bbl/d). Programs that encourage ExOR benefit Albertans through resource royalty, employment and business opportunities and taxes at the local, provincial and federal levels.

Annual marketable oil sands production has continued its upward trend. In 2007, marketable oil sands production set a new annual record, at 1,184 thousand bbl/d. There was a net increase of about 59 thousand bbl/d in marketable oil sands production between 2006 and 2007; of that amount, synthetic crude oil and marketable bitumen production accounted for 21 thousand bbl/d and 38 thousand bbl/d, respectively. As in 2006, record marketable oil sands production in 2007 was driven by high oil sands investment.

The Coalbed Methane (CBM) production number quoted in the performance measure represents an estimate of natural gas from only the coal seam, rather than total production from all CBM wells, which includes CBM-only and commingled gas. The production of natural gas from CBM-only wells increased from 42 billion cubic feet (Bcf) in 2006 to 76 Bcf in 2007, corresponding to an increase in the number of producing CBM wells.

In 2007, Alberta's electricity generation portfolio saw the addition of 98 megawatts (MW) of gas cogeneration and 140 MW of renewable energy sources. The 98 MW of new gas cogeneration energy was primarily accounted for by the fact that it is the economically preferred option for industrial purposes that require both electricity and steam heat. The new 140 MW of renewable energy all came from an increase in wind power.

Methodology

The performance measure highlights production from new and extended sources of energy.

Biomass in electricity production refers to biological material which can be used as fuel or for industrial production. Most commonly, biomass refers to plant matter (such as wood waste), but also includes plant or animal matter used for production of fibres, chemicals or heat. Biomass may also include biodegradable wastes that can be burnt as fuel.

ExOR data is calculated by the department. The total ExOR production figure, reported in the measure, is the sum of incremental production from specific department programs aimed at extended recovery. The Extended Oil Recovery annual result, reported by the department, is the sum of incremental oil production from four well programs and three project programs aimed at extended oil recovery. If more programs are introduced to improve ExOR in the future, they will be added to the calculation of total ExOR production.

Oil sands and Coalbed Methane data is obtained from the Energy Resources Conservation Board.

Information regarding new electricity generation facilities connected to the Alberta Interconnected Electric System is available from the Energy Resources Conservation Board and the Alberta Electric System Operator. The installed capacity data reported in this measure is subject to amendment based on re-ratings as reported by facility operators.

Goal 4:

Expand value-added energy development in Alberta

The Ministry encourages industrial integration and increased value-added resource upgrading in Alberta. Extracting the most value from our energy resources by increasing the level of processing secures additional benefits for Albertans. The oil sands provide the potential for new refining capacity and for growing a more diverse petrochemical industry based on petroleum byproducts created through bitumen processing. These new opportunities, when combined with Alberta's natural gas liquid (NGL) based petrochemical industry, create significant potential for more value-added development in Alberta.

Highlights

The Incremental Ethane Extraction Policy (IEEP) was approved in July 2007 and became effective in December 2007. This 10-year initiative provides incentives for value-added production and the use of ethane in the province. Three projects were approved for IEEP credits in 2007-08.

The department also worked with Alberta Employment, Immigration and Industry to initiate work on the potential development of a Bitumen Royalty In-Kind (BRIK) policy which would collect raw

bitumen as royalties to encourage more value-added upgrading in Alberta. BRIK was one of the policy tools identified in the New Royalty Framework approved in 2007-08.

The department continued to work with and support the Hydrocarbon Upgrading Task Force (HUTF), which is an industry/government group formed in 2004 to encourage the upgrading of bitumen to value-added products in Alberta, such as transportation fuels and petrochemical products. DOE continues to provide support by meeting commitments made by the department towards developing the business case for integration and growth of value-added manufacturing in the petrochemical sector, based on non-conventional feedstock sources.

In June 2007, a kick off seminar, “From Oil Sands to a World-Class Eco-Industrial Chemical Cluster” introduced a new study co-funded by the Government of Alberta, the City of Edmonton, Edmonton Economic Development Corporation and Alberta’s Industrial Heartland Association. A presentation on the study was made at a luncheon during the National Petrochemical and Refiners Association meetings in San Antonio, Texas in March 2008.

Performance Measure:

4.a Upgrading of Bitumen in Alberta

Target:

Increasing percent upgraded in Alberta.

Results:

| | Year Ending December 31 | | |
|---|-------------------------|-------------|------------------|
| | Actual 2005 | Actual 2006 | Last Actual 2007 |
| Upgrading of Bitumen in Alberta: | | | |
| The share of bitumen upgraded in Alberta, to the total amount of bitumen produced in Alberta (three-year moving average). | 63%* | 62% | 61% |

Source: Energy Resources Conservation Board.

*2005 result, which was presented in the 2007-10 Business Plan, has been re-stated due to the methodological adjustment. See the “Methodology” section below.

Discussion of Results

The Upgrading of Bitumen in Alberta is a new performance measure in the 2007-10 Business Plan. One of the goals of the Ministry of Energy is to encourage industrial integration and increased value-added resource upgrading in Alberta.

The measure is based on the total amount of bitumen, which is sent for upgrading, and total crude bitumen produced in the province. In 2007, total crude bitumen production in Alberta reached a record 1,321 thousand barrels per day (bbl/d). Most bitumen production in the province comes from surface mining: 59 per cent of all crude bitumen produced in Alberta in 2007, or 784 thousand bbl/d, was mined bitumen. All mined bitumen that is produced in Alberta is sent for upgrading to synthetic crude oil (SCO), and is therefore included in the calculation for the measure. The remaining 41 per cent of crude bitumen production in 2007, or 536 thousand bbl/d¹, was produced using in-situ methods.

Prior to 2003, only mined bitumen was sent for upgrading. Since 2003, a portion of in-situ bitumen has been upgraded to SCO. Initially, the in-situ volumes that were upgraded to SCO were very small; however, they have been gradually increasing. In 2007, about 32 thousand bbl/d of in-situ

¹ Note: mined and in-situ bitumen production volumes do not add up to the total crude bitumen production of 1,321 thousand bbl/d due to rounding.

bitumen, or 6 per cent of all in-situ bitumen produced in Alberta was upgraded by a major oil sands company in Alberta. The measure includes the portion of in-situ bitumen that is sent for upgrading.

In 2007, 504 thousand bbl/d of in-situ bitumen, or about 38 per cent of all bitumen produced in Alberta in that year, was not upgraded. Bitumen that is sent for upgrading should not be confused with total synthetic crude oil produced. Overall, bitumen volume is reduced in the process of extracting and upgrading bitumen into SCO, and therefore the total amount of crude bitumen sent for upgrading in Alberta exceeds the total amount of SCO produced in any given year. While the total volume of bitumen sent for upgrading in Alberta in 2007 was about 817 thousand bbl/d², total SCO production in Alberta was 681 thousand bbl/d.

The three-year average reported in the measure has declined from 63 per cent in 2005 to 62 per cent in 2006, and then to 61 per cent in 2007.

A number of factors influence the results of the measure:

- The result is influenced by the proportion of mined and in-situ bitumen in the total crude bitumen production in any given year. All mined bitumen production is sent for upgrading to SCO, while only a small, although growing, portion of in-situ bitumen is sent for upgrading. Increasing in-situ bitumen production tends to push the result down since most of this bitumen is not sent for upgrading. For example, from 2006 to 2007, mined bitumen production increased by 3 per cent, but in-situ bitumen production increased by about 9 per cent. The annual ratio of bitumen sent for upgrading, as a share of total crude bitumen produced, declined from 63 per cent in 2006 to 62 per cent in 2007. This, in turn, pushed the three-year moving average down from 62 per cent in 2006 to 61 per cent in 2007.
- Outcomes may be affected by unexpected external factors; for example, a fire at an oil sands production facility in January 2005 resulted in a disruption of mined bitumen production. Total mined bitumen production declined by 11 per cent from 2004 to 2005. As a result, total bitumen sent for upgrading, as a percent of total crude bitumen produced, went down from an annual rate of 65 per cent in 2004 to 59 per cent in 2005. The decline in production and upgrading did not in any way represent a trend; however, it demonstrated that results for individual years may be significantly influenced by unpredictable factors.
- Company decisions can affect the outcome of the measure, since companies are likely to export raw bitumen to the United States for upgrading if it is more cost-efficient to do so in the United States than in Alberta.

Methodology

The performance measure reports total bitumen sent for upgrading as a percentage of total crude bitumen produced in Alberta. Results for any individual calendar year may be influenced by unexpected factors, which do not necessarily reflect actual trends. To mitigate against this problem, the measure reports the three-year moving average of the following formula:

Total bitumen sent for upgrading (mined and in-situ)

Total crude bitumen production

For example, the result reported for the calendar year 2007 is the three-year average of annual results from 2005 to 2007, which were determined using the above formula.

When the measure was initially introduced in the 2007-10 Business Plan, only mined bitumen was considered in the numerator of the formula. The 2007-10 Business Plan reported 62 per cent for 2005.

² The sum of total mined and in-situ bitumen sent for upgrading does not add to 817 thousand bbl/d due to rounding.

To improve the measure, a methodological adjustment was made to take into account the in-situ bitumen that was sent for upgrading to SCO. When this was also taken into account, the 2005 result was recalculated to be 63 per cent.

All data used to calculate the results of the measure is obtained from the Energy Resources Conservation Board.

Core Business Three: Energy for Albertans - *Ensure Alberta consumers have a choice of reliable and competitively priced energy.*

Goal 5:

Maintain a competitive market framework that provides Albertans with competitively priced and reliable electricity and natural gas

Alberta restructured its electricity industry to provide a fair, efficient and openly competitive marketplace that encourages the development of new power generation and offers all consumers choice and reliable supply. Retail natural gas has been open to choice since 1996 and retail electricity since 2001. The Ministry continues to strengthen its provisions for retail consumer choice, working to further harmonize the rules for the natural gas and electricity retail markets. Through the *Natural Gas Price Protection Act*, the Alberta government also shares the benefits of resource ownership with consumers by providing relief from high natural gas prices during periods of high consumption.

Highlights

Work continued on the electricity regulatory framework. Following extensive work and stakeholder consultation throughout the year, the government has passed two key regulations – the Market Surveillance Administration Regulation and the Transmission Amendment Regulation. The Market Surveillance Administration Regulation was approved in fall 2007, and came into effect December 31, 2007. The Transmission Amendment Regulation was approved by Order in Council on December 19, 2007.

Meetings were held with the AUC Stakeholder Advisory Committee throughout the year, contributing to the development of plans for the smooth implementation of the AUC Act and separation of the EUB. The Electricity Division worked with the AUC as it drafted bylaws for establishing it formally as a government organization under the GOA to ensure a coordinated approach.

The Natural Gas Rebate Program runs from October to March to help offset high natural gas costs for Albertans. On average, almost 80 per cent of the average residential consumer's annual natural gas consumption occurs during the October to March period. In the 2007-08 rebate year, the Province paid approximately \$334.6 million to Alberta consumers to help with natural gas costs. Even before factoring in the assistance of the natural gas rebate, Albertans pay less for natural gas than the average residential consumer in other provinces across Canada.

Performance Measure:

5.a Power Generation

Target:

Maintain a minimum 7 per cent margin over peak load.

Results:

| | Year Ending December 31 | | |
|--|-------------------------|-------------|------------------|
| | Actual 2005 | Actual 2006 | Last Actual 2007 |
| 5.a Power Generation: | | | |
| Margin between supply and peak demand* | 24%* | 19%* | 20% |

Sources: Energy Resources Conservation Board, Alberta Electric System Operator and Alberta Department of Energy.

Notes: Through industry investment, Alberta's net supply margin of electricity will be sufficient to ensure reliable power supply.

* The methodology and data presentation for this measure has been changed from the 2006-07 Annual Report. Wind power is no longer included as it is not dispatchable on a consistent basis. The margin is now presented as a percentage.

Discussion of Results

In order to determine the margin, electricity supply was calculated as total installed capacity minus the capacities from wind power and inter-ties. For 2007, the margin between electricity supply and peak demand has increased to 20 per cent from the 2006 level of 19 per cent.

Electricity supply has been calculated at 11,617 Megawatts (MW) for 2007. This is up 155 MW from the 2006 level of 11,462 MW. Peak demand in 2007 was 9,701 MW, which was an increase of 40 MW when compared to 2006. The peak demand experienced in 2007 is the highest demand level Alberta has had to date.

Methodology

Methodology for this measure has been revised. In the 2006-07 Annual Report, the margin was reported as the megawatt difference between total installed generating capacity and peak demand. To improve the measure, installed wind capacity has been removed from the total installed generating capacity, since wind power is not dispatchable on a consistent basis. The intent of the measure is to demonstrate the margin between the demand and dispatchable generating capacity. As in the past, total installed capacity, prior to wind capacity removal, is defined as the sum of the maximum continuous operating ratings of all electricity generation facilities connected to the Alberta interconnected electric system, excluding the capacity of inter-ties with British Columbia and Saskatchewan. There have been no adjustments to the peak demand component of the measure. Peak demand is defined as the highest recorded system demand (in megawatt-hours) in a climatic (October 1 through to March 31) year as recorded by the Alberta Electric System Operator (AESO).

The measure has also been renamed, from "New Power Generation" to "Power Generation." The focus of the measure is on demonstrating that there is a sufficient margin between electricity supply and peak demand.

Information about electrical generation facilities connected to the Alberta Interconnected Electric System is made available to the department from the Energy Resources Conservation Board (ERCB). The generating capacity and start-up dates are included in regulatory filings with the ERCB required under the *Hydro and Electric Energy Act* and interconnection applications to the AESO. The installed capacity data reported may be subject to adjustments based on re-ratings by facility operators.

Performance Measure:

5.b Annual Residential Natural Gas Price

Target:

Annual average residential natural gas price for Alberta should not exceed the annual average national residential natural gas price.

Results:

| | Year Ending December 31 | | |
|---|-------------------------|-------------|------------------|
| | Actual 2005 | Actual 2006 | Last Actual 2007 |
| Annual Residential Natural Gas Price | | | |
| Difference between the annual average price Albertans pay for natural gas and the price paid by other Canadian jurisdictions (\$/GJ). | -2.44 | -4.15* | -3.95 |

Source: Statistics Canada.

Note: This measure does not include Alberta's natural gas rebates.

*2006 result has been restated due to revisions in Statistics Canada data.

Discussion of Results

This measure compares the price Albertans pay for natural gas, excluding rebates, with other Canadian jurisdictions. In 2007, Alberta's annual average residential natural gas price (ARGP) was \$3.95 per gigajoule (GJ) lower than Canadian annual average residential natural gas price (NRGP). This Canadian average does not include Alberta data.

The Alberta government continues to provide a regulatory framework in which the prices that natural gas consumers pay are adjusted on a monthly basis to reflect market conditions, in contrast to the rest of Canada, where prices are adjusted less frequently. During periods of falling natural gas prices, the benefits of these lower prices accrue to Alberta consumers faster than consumers in other Canadian jurisdictions.

Methodology

The ARGP is the annual average of the monthly prices paid by Alberta residential consumers as reported by Statistics Canada. The NRGP is the annual average of the monthly prices paid by Canadian residential consumers (excluding Alberta) as reported by Statistics Canada. Each monthly price is weighted by the respective monthly consumption levels of Alberta and Canadian residential consumers.

The performance measure result is calculated as the ARGP minus the NRGP.

Core Business Four: Regulation of Energy Development by the Alberta Energy and Utilities Board - Ensure that the discovery, development and delivery of Alberta's energy resources and utility services take place in a manner that is fair, responsible and in the public interest.

Goal 6:

A regulatory framework for the energy and utility sectors that is fair, responsible and in the public interest

By enacting Bill 46, the Government of Alberta restructured the Alberta Energy and Utilities Board (EUB) into two new organizations effective January 1, 2008: the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC).

The ERCB focuses on Alberta's regulatory framework for energy resources. The ERCB will continue to strengthen and enhance its capacity to address evolving energy resource development within the province. Meanwhile, the AUC is responsible for the approval of power plants, transmission lines and gas-utility pipelines, as well as economic regulation and the establishment of rates for electricity, gas and water utilities.

This restructuring reflects Alberta's expanding energy and utilities sectors and will allow both organizations to better focus resources to improve the regulatory framework for Albertans. It also allows the ERCB and AUC to focus on two distinct, expanding and increasingly complex segments of Alberta's vibrant economy.

EUB Highlights (April 1 – December 31, 2007)

Protecting groundwater

The EUB and Alberta Environment signed a memorandum of understanding (MOU) to further coordinate efforts to protect groundwater resources in Alberta. Working more closely together at both policy and operational levels allows for better communication and information flow between agencies, fosters closer relationships among staff and increases the opportunities for more effective and efficient processes to protect groundwater.

The new MOU formalizes the coordination of groundwater protection efforts in a number of areas, such as oil sands thermal and mining operations, coalbed methane, regional cumulative effects management, water well complaint responses and working with industry to find new technologies to improve water conservation and reuse.

EUB implements all sour gas recommendations

In 2007, the EUB concluded a landmark seven-year initiative that has changed the way sour gas is developed and regulated in Alberta. In doing so, the EUB addressed dozens of recommendations brought forward from the multi-stakeholder Provincial Advisory Committee on Public Safety and Sour Gas (PSSG), which was established in 2000 to review and assess the province's regulatory regime as it relates to health and safety.

The committee made 87 recommendations towards achieving a better understanding of sour gas, improving the sour gas regulatory system, reducing the impacts of sour gas on public health and safety and improving public consultation on sour gas matters.

By implementing all 87 recommendations, the EUB toughened sour gas development regulations and their enforcement, assisted in the development of comprehensive information on the health effects of sour gas exposure and improved coordinated planning for sour gas development in both rural and urban areas. In addition, the EUB tightened regulations for the inspection and testing of sour gas pipelines and changed requirements so that landowners are consulted earlier and in greater detail than ever before by companies proposing sour gas development.

Reserves outlook

Current estimates from the *ST98-2008: Alberta's Reserves 2007 and Supply/Demand Outlook 2008-2017* indicate that about 173 billion barrels (bbl) of bitumen are recoverable with today's technology and economic conditions. Annual production of bitumen and conventional crude oil is just a sliver of the existing bitumen reserves. In 2007, the production of crude bitumen was 1.32 million bbl/d.

Alberta's remaining established reserves of conventional crude oil decreased by 4 per cent, and were 1.5 billion bbl in 2007. Also in 2007, total conventional crude oil production declined to 525 thousand bbl/d, a reduction of about 3 per cent from 2006.

Total remaining established reserves of marketable natural gas were 40.5 trillion cubic feet in 2007. Gas production in Alberta peaked in 2001. It takes an increasing number of new gas wells each year to offset production declines in existing wells.

Surveillance and compliance

The total number of field inspections, which includes well site inspections, increased to 16,408 in 2007, from 14,860 in 2006. The oil and gas industry's compliance rate with major EUB regulations was 97.5 per cent in 2007, compared to 97 per cent in 2006.

The pipeline failure rate in Alberta has fallen steadily since 2000. The number of pipeline failures per 1,000 km of pipeline was 2.1 in the calendar year 2007, compared to 2.2 in calendar 2006, 2.3 in calendar 2005, and 3.3 in 2000. In the calendar year 2007, the public registered 785 complaints to the EUB about oil and gas activities, down from 880 in the calendar year 2006. Sulphur emissions have fallen by 40 per cent since 2000, from 78,000 to 47,000 tonnes in the calendar year 2007.

Flaring and venting

ST60B-2008: Upstream Petroleum Industry Flaring and Venting Report revealed that solution gas flaring in Alberta decreased by 75.3 per cent since 1996, a provincial record. The reduction is due to the tighter economic test that became regulation in the updated *Directive 060: Upstream Petroleum Industry Flaring, Incineration, and Venting*, which came into effect in January 2007. Solution gas venting has decreased by 48 per cent since 2000, but was up by 20 per cent from 2006. This increase can be attributed to the relatively low price of gas in 2007 and the high cost of labour and services. This contributed to a drop in overall conservation from 96 per cent in 2006 to 95.7 per cent in 2007. However, this still means that 95.7 per cent of all solution gas produced in Alberta in 2007 was conserved for use or sale rather than being flared or vented.

NGL inquiry

In 2007, the EUB announced it would conduct an inquiry into matters related to natural gas liquids (NGL) extraction on regulated pipeline transmission systems and other regulated facilities. The inquiry is examining issues related to NGL extraction from the perspective of maximizing the economic, orderly and efficient development of Alberta's natural resources in the public interest.

Bitumen conservation

Following a hearing that concluded in February 2007, the EUB issued a decision that determined that continued or future natural gas production from the Cold Lake Oil Sands Area Clearwater Formation presented an unacceptable risk to a much larger bitumen resource adjacent to the gas. The decision protects bitumen for future generations of Albertans. The energy content of the bitumen reserves conserved in the contested area is about 50 times larger than the energy content of the shut-in natural gas production.

Spacing map

The EUB released a new well spacing map that has streamlined the spacing approval process and documentation. The new tool is an interactive mapping application that includes all the approved special well spacing in Alberta and provides the user with the ability to quickly determine the spacing details for any specific area and/or formation in the province.

Utilities

The EUB worked with stakeholders to review and revise *Directive 028: Applications for Power Plants, Substations, Transmission Lines and Industrial System Designations* to address the processes and application requirements related to transmission facilities, power plants and industrial systems. Particular emphasis was placed on the public consultation and personal notification requirements that transmission facility owners and the Alberta Electric System Operator (AESO) must meet prior to filing their applications with the EUB, as well as the abbreviated need process. Revised *Directive 028* was issued in July 2007.

The EUB also developed a framework intended to promote the efficient and cost-effective regulation of small water utilities. *Directive 053: Rate Application Process for Small Water Utilities*, was issued in August 2007, followed by information sessions held in Calgary and Edmonton with stakeholders. Several applications are underway using the new framework, which will be followed by an internal review of the process and results.

EUB staff also led a stakeholder consultation process that resulted in the development of *Directive 052: Rules on Standards for Requesting and Exchanging Site-Specific Historic Usage Information for Retail Electricity and Natural Gas Markets*. *Directive 052* was released in July 2007 and is scheduled for market implementation on June 1 2008.

EUB staff worked with the Department of Energy and AESO to define, develop and implement the transition plan related to the transfer of the rule-making responsibility for the Settlement System Code from the AESO to the newly created AUC. Working with stakeholders, a process was developed for implementing the recommendations of the Settlement Zone Accuracy Working Group, which resulted in 19 out of 20 recommendations now being in place.

EUB staff also worked with the Department of Energy to establish the rules that became the *Micro-Generation Regulation*. This regulation allows Albertans to generate their own environmentally friendly electricity and receive credit for any power they send into the electricity grid. The AUC will oversee the implementation of this regulation and will develop processes to simplify approvals and interconnection agreements with customers and service providers.

ERCB Highlights (January 1 – March 31, 2008)

Established on January 1, 2008, the new ERCB ensures that the discovery, development and delivery of Alberta's resources take place in a manner that is fair, responsible and in the public interest. The ERCB regulates oil, natural gas, oil sands, coal and gathering systems.

During the final quarter of the fiscal year, the ERCB worked to ensure that the transition to its role as Alberta's regulator of oil and gas occurred in a seamless and orderly fashion. In addition, by building upon a 70-year tradition of energy regulation in Alberta, the ERCB focused on its priorities of being responsive to stakeholders by increasing resources to our frontline field operations, and altering the way we operate to reflect changing public expectations and a shifting resources base.

On February 1, 2008, Dan McFadyen began his role as ERCB Chairman. In addition, three new Board members were appointed in April 2008—Michael J. Bruni, George Eynon and Jack Ebbels.

AUC Highlights (January 1 – March 31, 2008)

Established on January 1, 2008, the Alberta Utilities Commission (AUC) regulates investor-owned electric, gas and water utilities and some municipally owned electric utilities. It also exercises jurisdiction over the siting of facilities, including electric transmission facilities, electric power plants and natural gas transmission pipelines. The AUC also began taking on new responsibilities under an expanded mandate, as it now approves changes to the rules of the Alberta Electric System Operator and acts as an adjudicator for cases dealing with market noncompliance brought forward by the Market Surveillance Administrator.

During the last quarter of this fiscal year, the AUC was focused on establishing itself in a separate Calgary facility, creating an organizational design and support services appropriate to its new mandate, addressing staffing needs and developing its new adjudicative Markets Division to provide expert market analysis for AUC proceedings.

The AUC began its existence with three Commissioners, including its newly appointed Chair, Willie Grieve. Mr. Grieve began serving as Chair of the AUC on February 1, 2008. The AUC also laid the groundwork for the appointment of additional Commissioners in April 2008—Al Maydonik, Bill Lyttle and Tudor Beattie. This will enable the AUC to fulfill its mandate in view of the increasing number and complexity of applications and proceedings it will face.

Performance Measures:

6.a Application Resolution

Target:

95 per cent of oil and gas facility and resource applications filed with objections resolved (dispositioned or closed) without a hearing.

Results:

| | Year Ending March 31 | |
|---|----------------------|------------------|
| | Actual 2007 | Last Actual 2008 |
| Percentage of oil and gas facility and resource applications filed with objections resolved (dispositioned or closed) without a hearing | 93% | 96% |

Source: Integrated Application Registry (IAR).

Discussion of Results

This measure indicates the effectiveness of the ERCB's processes and procedures for ensuring applications that are filed are completed and new applicants have been thorough and diligent at ratifying, and that the ERCB works to address any concerns or objections by landowners, public and industry. It also quantifies the ERCB's ability to facilitate and resolve landowner, public and industry objections to new energy and resource development applications through mechanisms other than the hearing process. Whether an application goes to a hearing or not, eventually an application has a dispositioned or closed status. A dispositioned or closed status can be obtained through field facilitation, direct negotiation between applicant and objector, and formal alternative dispute resolution (ADR) with an independent mediator; any of which may result in withdrawal of the application by the applicant, withdrawal of the objection by the objector, resolution being reached, or closure of the application by the ERCB, rather than proceeding to a formal hearing before the Board. ERCB staff attempt to facilitate these options with the various parties during the processing of an application.

There were 37,633 energy and resource applications filed with the ERCB and the EUB during the twelve months ended March 31, 2008. Only 869 applications dispositioned had linked objections. Of the 869 applications, 834, or 96 per cent, were resolved without a hearing, with the remaining 35 applications going to a hearing. There were 15 hearings held to consider these 35 applications. More than one application may be considered at the same hearing, as one hearing may be held to consider multiple wells, related pipelines and surface facilities.

The target of 95 per cent was met. Success in meeting the target can be attributed to numerous factors, including field staff being available to attend meetings between landowners and companies to discuss new oil and gas well and facility projects in order to help identify and resolve conflicts before they intensify, the use of other mediation tools, such as company-sponsored consultation, negotiation and third-party mediation, and the ERCB encouraging senior company officials to meet with affected landowners during mediation.

However, with the Board encouraging more bundling of applications to be considered at individual hearings to allow for review of area development plans, it can be expected that the ERCB will have more hearings with multiple applications for wells and surface facilities in the future. This is efficient for both the Board and participants, and therefore the target in the 2008-11 Business Plan has been adjusted to 90 per cent.

Methodology

For the purposes of this measure, applications filed with objections means applications dispositioned or closed with linked objections during the fiscal year. Information is taken from the Integrated Application Registry (IAR) system to identify the number of applications dispositioned or closed with linked objections that went to a hearing versus applications dispositioned or closed with linked objections that did not go to a hearing.

Performance Measures:

6.b Protection of Public Safety

Target:

Less than 3.5 per cent of High Risk unsatisfactory field inspections of regulatory noncompliance.

Results:

| | Year Ending December 31 | |
|--|-------------------------|------------------|
| | Actual 2006 | Last Actual 2007 |
| Percentage of High Risk unsatisfactory field inspections of regulatory noncompliance | 2.7% | 2.5 % |

Source: Field Surveillance Inspection System database and Energy Resources Conservation Board waste plant spreadsheet, March 2008.

Discussion of Results

In calendar year 2007, there were 16,550 initial inspections. Of these inspections, 421 found High Risk noncompliances, 156 relating to pipelines.

Although the number of inspections increased from 14,918 in 2006 to 16,550 in 2007, there was a slight decrease in noncompliance with regulatory requirements over last year. This is the result of the oil and gas industry having a year to better understand the changes within *Directive 019: Compliance Assurance – Enforcement*, which introduced a new enforcement protocol last year. New noncompliances came into effect after a specific grace period had elapsed. Also, there was heightened accountability by industry because of the introduction of a monthly publication on the Board Web Site of High Risk enforcement actions in ST108.

Methodology

This indicator measures industry's compliance with regulatory requirements.

The Public Safety/Field Surveillance Branch inspects operations of the upstream oil and gas industry with respect to the drilling, production and disposition of hydrocarbons and associated wastes. All inspection results are recorded as Satisfactory, Low Risk noncompliant or High Risk noncompliant and are entered into the Field Surveillance Inspection System database, with the exception of inspections of waste plants. These are tracked manually because the waste plants do not have licence numbers. Inspections and investigations are counted for in the year that the event was initialized. This information is then reported in the annual *ST99: Provincial Surveillance and Compliance Summary*, which reports on a calendar-year basis. Field inspections for this measure are initial inspections for drilling, gas facility, oil facility, pipeline, well service, drilling waste, well sites and waste management operations completed in the calendar year.

A High Risk noncompliance is a contravention of regulation(s) and/or requirement(s) that an operator has failed to address and/or that has the potential to cause an adverse impact on the public and/or environment or is a demonstration of disregard for the regulation(s)/requirement(s).

Performance Measures:

6.c Service Standards of Utility Companies

Target:

92 per cent of utility companies' performance measure results meet the EUB target for service standards to utility customers.

Results:

| | Year Ending December 31 | |
|--|-------------------------|------------------|
| | Actual 2006 | Last Actual 2007 |
| Percentage of utility companies' performance measure results that meet the EUB target for service standards to utility customers | 90% | 90% |

Source: Utility companies' service quality and reliability plans.

Discussion of Results

This measure monitors a utility's performance with respect to services that have a substantial impact on customers, such as customer service phone answering, billing, customer satisfaction and responses to complaints. For wire owners, 94 per cent of the reporting metrics were met. For regulated rate providers, 89 per cent of the reporting metrics were met. Because the regulated rate providers have more reporting metrics, the percentage is weighted more towards the regulated rate providers. In total, 90 per cent of the total reporting metrics were met by the reporting entities.

Overall, two events contributed to the results not meeting the target of 92 per cent. First, ENMAX Energy's call center and billing, which was outsourced to a third party, was not meeting ENMAX's requirements. ENMAX terminated the arrangement, and it took them some time to establish these activities in house. Second, AltaGas Utilities has a very small call center group, which experienced a significant turnover in staff. Consequently, the performance for the call center metrics, especially calls answered and calls abandoned, were below standards for most of the latter part of 2007. AltaGas advised that it has taken steps to recruit and retain staff.

The standards currently in place were developed in consultation with the regulated rate providers and wire owners and reflect the best practices of the reporting entities, as well as the regulator's expectations of appropriate customer service. Customers are concerned about the accuracy and timeliness of their bills. All of these organizations are motivated to keep their customers satisfied with respect to billing and dealings with the organization's personnel. It is in the best interest of the organizations to keep their customers content by presenting accurate bills in a timely manner and responding to and resolving concerns as quickly as possible.

Methodology

Pursuant to EUB *Directive 002: Electric Distribution System Owner (Wire Owner) Service Quality and Reliability - Performance, Monitoring and Reporting Plan*, wire owners (ENMAX Power, EPCOR Distribution, ATCO Electric, and FortisAlberta), and pursuant to *Directive 003: Regulated Service Provider (RSP) Service Quality and Reliability Performance, Monitoring and Reporting Plan*, regulated rate providers (ENMAX Energy, EPCOR Energy, Direct Energy, and AltaGas) are required to submit quarterly and annual reports on their performance on the service measures and standards set out in the directives. *Directive 002* was updated and approved by the Board in December 2006, and became effective January 1, 2007. For the calendar year 2007, the EUB made the following changes to *Directive 002*: The standard regarding meter reading performance has been temporarily suspended, the standard regarding work completion performance has been

temporarily suspended, and the requirement to conduct an overall satisfaction survey has been deleted. The new standards in *Directive 002* and the standards in *Directive 003* were used by the EUB to monitor utility companies' performance for 2006 and 2007.

Regulated rate service providers reported on six reporting metrics per quarter and two per year, while wire owners reported on three reporting metrics per quarter and one per year. The percentage is calculated on the total incidents that the reporting wire owners and regulated rate providers achieve the metrics targets divided by the total reporting metrics.

The performance metrics used for *Directive 002* include call answer performance, caller abandon rate, complaint response time and transaction survey. The transaction survey measures the client's satisfaction from the service providers by wire owners from their last interaction. The performance metrics used for *Directive 003* include the same as *Directive 002* plus billing performance related to bills found inaccurate, bills failed to render, inaccurate bills corrected and customer satisfaction.

Organizational Capacity and Effectiveness

Goal 7:

Build an organizational environment for success

Highlights

The Employee Engagement Index and the Quality of Work Environment Index are important measures of employee satisfaction and employee engagement. For 2007, the department Employee Engagement Index was 74 per cent compared to 72 per cent for the EUB, while the Quality Work Environment Index for the department was 77 per cent, compared to 78 per cent for the EUB. All of these results are higher than for the government as a whole.

These survey results are used to identify areas for improvement at the group, branch or top level of the organization. They are intended to create a better place to work in order to retain and attract staff, and further develop and measure progress on current people initiatives.

In its biennial surveying of industry clients and electronic business users in 2007, the department once again scored high marks with overall industry satisfaction with department services at 83 per cent, while satisfaction with e-business functions was 90 per cent. Each of these results is above target.

Dr. Stefan Bachu, a senior scientist with the ERCB, was honoured as a Nobel Laureate for his participation on the United Nation's Intergovernmental Panel on Climate Change. The Nobel Peace Prize was awarded last October jointly to former U.S. Vice President Al Gore and to the Intergovernmental Panel on Climate Change. Dr. Bachu is recognized as one of the top world specialists on carbon sequestration, and he was one of the lead authors on the panel's *Special Report on Carbon Dioxide Capture and Storage*.

The department also received a Premier's Award of Excellence silver medal for the Coalbed Methane/Natural Gas in Coal Consultation Process.

Performance Measure:

7.a Industry Satisfaction with Department Services and Electronic Information Management

Target:

Industry satisfaction 80 per cent or higher.

Results:

| | Year Ending December 31 | | |
|---|-------------------------|-------------|------------------|
| | Actual 2003 | Actual 2005 | Last Actual 2007 |
| Industry Satisfaction: | | | |
| with department services | 84% | 84% | 83% |
| with department electronic information management | 94% | 90% | 90% |

Source: 2005 and 2007 Banister Research and Consulting Inc., 2003 Envirionics Research Group.

Discussion of Results

The most recent survey, for the calendar year 2007, was conducted in January and February 2008. The survey results for 2007 were similar to the results achieved for the years 2003 and 2005, and reflected high levels of stakeholder satisfaction with department services. A satisfaction rate of 83 per cent was achieved in 2007, down 1 per cent from the 2005 survey results. The helpfulness and professionalism of department staff was rated at 85 per cent, contributing to an overall high result. Results are considered accurate +/- 4.0 per cent 19 times out of 20. The department applied the Government of Alberta's framework for service excellence, focusing on courteous, competent and timely service to clients. Industry satisfaction was surveyed to ensure that department services kept pace with changing requirements in the energy sector and identified opportunities for improvements. Industry satisfaction is an indicator of staff competence, knowledge, satisfaction and service.

In an increasingly global business environment where partnerships and information sharing are keys to success, effective use of information technology to deliver business products/services and manage information is essential. Industry satisfaction with electronic information management is surveyed to assess the department's commitment to system availability and security, timeliness and ease of use. Results for industry satisfaction with electronic information management in 2007, the last year the survey was conducted, are considered accurate +/- 4.4 per cent 19 times out of 20. This result was identical to what was achieved in 2005.

High levels of satisfaction with department services and electronic information management, demonstrated by the last three biennial surveys, indicate that the department has been consistently meeting stakeholder expectations. The results for 2007 were virtually unchanged from 2005.

Methodology

In January and February 2008, Banister Research and Consulting Inc. conducted telephone interviews. This timing represented a one-time departure from the established standard. Normally, biennial surveys for this measure are done during the fall of a calendar year, for which the result is reported. For example, the surveys for 2005 were done in November 2005. The surveys were deferred from the fall of 2007 until early 2008 on the advice of Banister Research and Consulting Inc. They argued that the unusually high volume of media coverage the department was receiving during the late fall of 2007 could bias the results. The delay did not affect the results for 2007,

which are consistent with results for calendar years 2003 and 2005. In future years, the intent is to revert to the standard timing for doing these surveys. The next biennial surveys will be conducted in the fall of 2009. The results will be presented in the 2009-10 Annual Report.

For industry satisfaction with department services the focus of courteous, competent and timely service to clients was used to develop questions given to 464 randomly selected industry clients. Results are a mean average of client responses to a single question on overall satisfaction with nine business units. Due to the disbandment of the Calgary Information Centre in September 2007, one less business unit was surveyed in 2007 than in 2005. All other business units, surveyed in 2005, were also surveyed in 2007.

In order to gauge satisfaction with electronic information management, 394 randomly selected industry companies were asked questions about availability, security, timeliness and ease of use of department electronic data processing systems. Results are a mean average of client responses to these questions.

MINISTRY OF ENERGY
FINANCIAL STATEMENTS - March 31, 2008

Auditor's Report - 54
Consolidated Statement of Operations - 55
Consolidated Statement of Financial Position - 56
Consolidated Statement of Cash Flows - 57
Notes to the Consolidated Financial Statements - 58
Schedules to the Consolidated Financial Statements - 68



Auditor's Report

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Energy as at March 31, 2008 and the consolidated statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Ministry'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 statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
June 4, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Ministry of Energy

Consolidated Statement of Operations

For the year ended March 31, 2008

(in thousands)

| | 2008 | | 2007 |
|---|----------------------|----------------------|----------------------|
| | Budget | Actual | Actual |
| Revenues: (Schedule 1) | | | |
| Non-renewable resource revenue | \$ 10,260,000 | \$ 11,023,744 | \$ 12,259,880 |
| Freehold mineral rights tax | 333,000 | 246,799 | 317,172 |
| Industry levies and licences | 89,950 | 90,552 | 84,719 |
| Other revenue | 12,809 | 51,309 | 51,386 |
| | <u>10,695,759</u> | <u>11,412,404</u> | <u>12,713,157</u> |
| Expenses - Directly Incurred (Note 2 and Schedules 2 and 3) | | | |
| Energy and utility regulation | 159,002 | 165,440 | 147,718 |
| Resource development and management | 138,855 | 128,735 | 74,247 |
| Ministry support services | 2,041 | 2,204 | 1,434 |
| | <u>299,898</u> | <u>296,379</u> | <u>223,399</u> |
| Net operating results | <u>\$ 10,395,861</u> | <u>\$ 11,116,025</u> | <u>\$ 12,489,758</u> |

The accompanying notes and schedules are part of these consolidated financial statements.

Ministry of Energy

Consolidated Statement of Financial Position

As at March 31, 2008

(in thousands)

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Assets: | | |
| Cash (Notes 3 and 7) | \$ 799,117 | \$ 765,496 |
| Accounts receivable (Note 4) | 2,100,922 | 1,832,631 |
| Inventory held for resale | 14,081 | 11,080 |
| Prepaid expenses | 2,189 | 1,357 |
| Accrued pension asset (Note 8) | 8,090 | 9,405 |
| Tangible capital assets (Note 5) | 75,913 | 64,960 |
| | <u>\$ 3,000,312</u> | <u>\$ 2,684,929</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 373,129 | \$ 189,961 |
| Unearned revenue | 71,390 | 71,535 |
| Gas royalty deposits (Note 6) | 986,124 | 992,316 |
| Security deposits (Note 7) | 31,224 | 27,000 |
| Tenant incentives | 1,795 | 2,521 |
| | <u>1,463,662</u> | <u>1,283,333</u> |
| Net Assets: | | |
| Net assets, beginning of year | 1,401,596 | 1,956,604 |
| Net operating results | 11,116,025 | 12,489,758 |
| Net transfer to General Revenue | <u>(10,980,971)</u> | <u>(13,044,766)</u> |
| Net assets, end of year (Note 9) | <u>1,536,650</u> | <u>1,401,596</u> |
| | <u>\$ 3,000,312</u> | <u>\$ 2,684,929</u> |

The accompanying notes and schedules are part of these consolidated financial statements.

Ministry of Energy

Consolidated Statement of Cash Flows For the year ended March 31, 2008

(in thousands)

| | 2008 | 2007 |
|--|---------------------|---------------------|
| Operating transactions: | | |
| Net operating results | \$ 11,116,025 | \$ 12,489,758 |
| Non-cash items | | |
| Amortization | 14,210 | 13,877 |
| Pension expense | 6,947 | 6,240 |
| Valuation adjustments | 663 | 324 |
| | <u>11,137,845</u> | <u>12,510,199</u> |
| Changes in operating non-cash working capital | | |
| (Increase) in accounts receivable | (268,291) | (55,881) |
| Decrease (increase) in inventory | (3,001) | 7,296 |
| Decrease (increase) in prepaid expenses | (832) | 105 |
| Increase in accounts payable and accrued liabilities | 182,583 | 83,853 |
| (Decrease) in unearned revenue | (145) | (5,667) |
| (Decrease) in tenant incentives | (726) | (726) |
| Cash provided by operating transactions | <u>11,047,433</u> | <u>12,539,179</u> |
| Financing transactions: | | |
| Increase (decrease) in gas royalty deposits | (6,192) | 204,721 |
| Net transfer (for) General Revenue | (10,980,971) | (13,044,766) |
| Pension obligations funded | (5,622) | (7,373) |
| Increase in security deposits | 4,224 | 7,822 |
| Cash applied to financing transactions | <u>(10,988,561)</u> | <u>(12,839,596)</u> |
| Capital transactions: | | |
| Purchase of tangible capital assets | (25,251) | (19,811) |
| Cash used by capital transactions | <u>(25,251)</u> | <u>(19,811)</u> |
| Increase (decrease) in cash | 33,621 | (320,228) |
| Cash, beginning of year | <u>765,496</u> | <u>1,085,724</u> |
| Cash, end of year | <u>\$ 799,117</u> | <u>\$ 765,496</u> |

The accompanying notes and schedules are part of these consolidated financial statements.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 1 Authority

The Minister of Energy has been designated as responsible for various Acts by the *Government Organization Act* and its regulations. To fulfill these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Energy.

| Organization | Authority |
|---|---|
| Department of Energy | Government Organization Act |
| Alberta Energy and Utilities Board (The Board) | Alberta Energy and Utilities Board Act |
| Energy Resource Conservation Board (The ERCB) | Energy Resources Conservation Act |
| Alberta Utilities Commission (The AUC) | Alberta Utilities Commission Act |
| Alberta Petroleum Marketing Commission (The Commission) | Petroleum Marketing Act and the Natural Gas Marketing Act |

Effective January 1st, 2008, the Board was separated into two independent regulatory organizations, the ERCB and the AUC. The assets and liabilities of the Board as at December 31, 2007 were allocated between the ERCB and the AUC.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the departments.

Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the ERCB, Board, AUC, and the Commission are consolidated. Revenue and expense transactions, capital and financing transactions, and related asset and liability accounts between entities within the Ministry have been eliminated.

The reporting period of the Commission is December 31. Transactions that have occurred during the period to March 31, 2008 and that significantly affect the consolidation have been recorded.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services which have not been provided by year end is recorded as unearned revenue.

The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements, for example, report inaccurate or incomplete production data. The Department has implemented systems and controls in order to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Department administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Department. The Department does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Synthetic crude oil and bitumen royalties are determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the mineral rights holder sells the production.

Freehold mineral taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Industry levies and assessments are recognized as revenue in the year receivable.

Expenses

Directly Incurred

Directly incurred expenses are those costs the ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

Directly incurred expenses include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- current service costs for the defined benefit pension plans. The Board, the ERCB and AUC have their own defined benefit pension plans. The Board's pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Any actuarial gain or loss is amortized over the average remaining service period of the active employees, which is 8 years. For the purpose of calculating the expected return, plan assets are valued at fair value. Past service costs arising from plan amendments are deferred and amortized on a straight line basis over the average remaining service period of active employees at the date of amendment.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting (continued)

Incurred by Others

Services contributed by other entities in support of the ministry operations are disclosed in schedule 3 and are not reflected in the consolidated statement of operations.

Assets

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventories are stated at net realizable value.

Tangible capital assets are recorded at historical cost and are amortized over their estimated useful lives. The Department threshold for capitalizing new systems development is \$100 and the threshold for all other tangible capital assets is \$5.

Assets acquired by right, such as mineral resources, are not included.

When physical assets are gifted or sold for a nominal sum to parties external to the government reporting entity, the fair values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

Liabilities include all financial claims payable by the Ministry at fiscal year end.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, advances, accounts payable and accrued liabilities, security deposits, and gas royalty deposits are estimated to approximate their carrying values because of the short term nature of these instruments.

Net Assets

Net assets represent the difference between the carrying value of assets held by the Ministry and its liabilities.

Note 3 Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for fiscal 2008 was 4.4% (2007: 4.4%). Deposits received by the ministry as security against leases are included in cash.

Note 4 Accounts Receivable

Accounts receivable are secured by a claim against the mineral leases.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 5 Tangible Capital Assets

| | Land | Equipment | Computer hardware and software | 2008 Total | 2007 Total |
|----------------------------------|---------------|------------------|--------------------------------|-------------------|-------------------|
| Estimated Useful Life | Indefinite | 3 to 10 years | 3 to 20 years | | |
| Historical Cost | | | | | |
| Beginning of year | \$ 320 | \$ 35,007 | \$ 136,090 | \$ 171,417 | \$ 154,848 |
| Additions | - | 3,876 | 21,375 | 25,251 | 19,811 |
| Disposals, including write-downs | - | (176) | (2,998) | (3,174) | (3,242) |
| | <u>\$ 320</u> | <u>\$ 38,707</u> | <u>\$ 154,467</u> | <u>\$ 193,494</u> | <u>\$ 171,417</u> |
| Accumulated Amortization | | | | | |
| Beginning of year | \$ - | \$ 19,600 | \$ 86,857 | \$ 106,457 | \$ 95,822 |
| Amortization expense | - | 4,530 | 9,680 | 14,210 | 14,174 |
| Effect of disposals | - | (169) | (2,917) | (3,086) | (3,539) |
| | <u>\$ -</u> | <u>\$ 23,961</u> | <u>\$ 93,620</u> | <u>\$ 117,581</u> | <u>\$ 106,457</u> |
| Net Book Value, March 31, 2008 | <u>\$ 320</u> | <u>\$ 14,746</u> | <u>\$ 60,847</u> | <u>\$ 75,913</u> | |
| Net Book Value, March 31, 2007 | <u>\$ 320</u> | <u>\$ 15,407</u> | <u>\$ 49,233</u> | | <u>\$ 64,960</u> |

Equipment includes leasehold improvements, office equipment and furniture, and other equipment.

Historical cost includes work-in-progress at March 31, 2008 totaling \$13,933 (2007 - \$9,477) comprised of software.

The Board disposed of property and equipment with a net book value of \$70 (Cost: \$2,940; Accumulated Amortization: \$2,870) with no remaining economic life. Accordingly, a net loss of \$70 is included in Amortization. In addition, the ERCB disposed of computer software assets with a net book value of \$17 (Cost: \$64; Accumulated Amortization: \$47) with no remaining economic life were decommissioned during the year. Accordingly, a loss of \$17 is included in Amortization.

Note 6 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit equal to the lesser of one-sixth of the prior calendar year's royalties or the amount determined by multiplying last year's deposit by the ratio of the current long term gas reference price to the prior year long term gas reference price. The Department does not pay interest on the deposits.

Note 7 Security Deposits

The ERCB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At March 31, 2008, the ERCB held \$31,224 (EUB - 2007: \$27,000) in cash and an additional \$118,535 (EUB - 2007: \$117,271) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 8 Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$9,698 for the year ended March 31, 2008 (2007 - \$8,466).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of \$84,341 (2006 –surplus \$6,765) and the Public Service Pension Plan reported a deficiency of \$92,070 (2006– surplus \$153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$1,510 (2006 – \$3,698).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2007, the Bargaining Unit Plan reported an actuarial deficiency of \$6,319 (2006 – surplus \$153) and the Management, Opted Out and Excluded Plan an actuarial surplus of \$7,874 (2006 – \$10,148). The expense for these two plans is limited to the employer's annual contributions for the year.

In addition, the ERCB and the AUC maintain their own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2008. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2007. The effective date of the next required funding valuation for SEPP is December 31, 2010. Before January 1, 2008 the assets and liabilities of the pension plans were within the Board pension plans. Significant actuarial and economic assumptions used to value accrued benefit obligations and pension costs are as follows:

a) The Board

| | <u>2007</u> |
|--|-------------|
| Accrued benefits obligations | |
| Discount rate | 5.2% |
| Rate of compensation increase (weighted average) | 3.5% |
| Benefit costs for the year | |
| Discount rate | 5.3% |
| Expected long-term rate of return on plan assets | 5.6% |
| Rate of compensation increase | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position are as follows:

| | <u>2007</u> |
|----------------------------|------------------------|
| Plan assets at fair value | \$ 32,877 |
| Accrued benefit obligation | <u>29,799</u> |
| Plan surplus | 3,078 |
| Unamortized amounts | <u>6,327</u> |
| Accrued pension asset | <u><u>\$ 9,405</u></u> |

The asset allocation of the defined benefit pension plans investments is as follows:

| | <u>2007</u> |
|-------------------|----------------|
| Equity securities | 57.4 % |
| Debt securities | 32.1 % |
| Other | 10.5 % |
| | <u>100.0 %</u> |

Ministry of Energy

Notes to the Consolidated Financial Statements
For the year ended March 31, 2008

(In thousands)

Note 8 Employee Future Benefits (continued)

Additional information about the Board defined benefit plans are as follows:

| | April 1, 2007 to December 31, 2007 | April 1, 2006 to March 31, 2007 |
|-----------------------------------|---|--|
| Board contribution | \$ 107 | \$ 2,707 |
| The Board employees' contribution | 253 | 335 |
| Benefit paid | 2,992 | 1,538 |
| Pension expense | 1,256 | 1,574 |

b) ERCB

| | 2008 |
|--|------|
| Accrued benefits obligations | |
| Discount rate | 6.1% |
| Rate of compensation increase (weighted average) | 3.5% |
| Benefit costs for the year | |
| Discount rate | 5.5% |
| Expected long-term rate of return on plan assets | 6.0% |
| Rate of compensation increase | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position are as follows:

| | 2008 |
|----------------------------|-----------|
| Plan assets at fair value | \$ 27,737 |
| Accrued benefit obligation | 24,090 |
| Plan surplus | 3,647 |
| Unamortized amounts | 3,648 |
| Accrued pension asset | \$ 7,295 |

The asset allocation of the defined benefit pension plans investments is as follows:

| | 2008 |
|-------------------|--------|
| Equity securities | 49.0 % |
| Debt securities | 39.9 % |
| Other | 11.1 % |
| | 100.0% |

Additional information about the ERCB defined benefit plans are as follows:

| | January 1, 2008 to March 31, 2008 |
|-----------------------------------|---|
| ERCB contribution | \$329 |
| The Board employees' contribution | 88 |
| Benefit paid | 561 |
| Pension expense | 429 |

Ministry of Energy

**Notes to the Consolidated Financial Statements
For the year ended March 31, 2008**

(In thousands)

Note 8 Employee Future Benefits (continued)

| | |
|--|-------------|
| c) AUC | <u>2008</u> |
| Accrued benefits obligations | |
| Discount rate | 6.1% |
| Rate of compensation increase (weighted average) | 3.5% |
| Benefit costs for the year | |
| Discount rate | 5.5% |
| Expected long-term rate of return on plan assets | 5.8% |
| Rate of compensation increase | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position are as follows:

| | |
|----------------------------|---------------|
| | <u>2008</u> |
| Plan assets at fair value | \$ 2,717 |
| Accrued benefit obligation | <u>2,211</u> |
| Plan surplus | 506 |
| Unamortized amounts | <u>289</u> |
| Accrued pension asset | <u>\$ 795</u> |

Additional information about the AUC defined benefit plans are as follows:

| | |
|-----------------------------|---|
| | January 1, 2008 to March 31, 2008 |
| AUC contribution | \$10 |
| AUC employees' contribution | 34 |
| Benefit paid | 0 |
| Pension expense | 78 |

The asset allocation of the defined benefit pension plans investments as at March 31 was as follows:

| | |
|-------------------|---------------|
| | <u>2008</u> |
| Equity securities | 49.0 % |
| Debt securities | 39.9 % |
| Other | 11.1 % |
| | <u>100.0%</u> |

Note 9 Net Assets

Net assets are comprised of:

| | | |
|----------------------|---------------------|---------------------|
| | <u>2008</u> | <u>2007</u> |
| Department of Energy | \$ 1,470,403 | \$ 1,347,741 |
| Board | - | 53,855 |
| ERCB | 54,039 | - |
| AUC | <u>12,208</u> | <u>-</u> |
| Total | <u>\$ 1,536,650</u> | <u>\$ 1,401,596</u> |

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 10 Trust Funds under Administration

The Ministry administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds, and administers them for the purpose of various trusts, they are not included in the Ministry's financial statements.

As at March 31 trust funds under administration were as follows:

| | 2008 | 2007 |
|--------------------------------|-----------------|-----------------|
| Oil and Gas Conservation Trust | <u>\$ 3,089</u> | <u>\$ 1,927</u> |

Note 11 Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2008 amount to \$117,529 (2007- \$39,042). These commitments will become expenses of the Ministry when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

These amounts include obligations under long-term leases with lease payment requirements in future years of:

| | Grant Agreements | Service Contracts | Long-term Leases | Total |
|------------|---------------------|----------------------|---------------------|------------------|
| 2009 | \$ 34,880 | \$7,484 | \$7,836 | \$50,200 |
| 2010 | 13,767 | 2,401 | 7,526 | 23,694 |
| 2011 | 10,517 | 1,887 | 6,473 | 18,877 |
| 2012 | - | 1,861 | 3,163 | 5,024 |
| 2013 | - | - | 2,873 | 2,873 |
| Thereafter | - | - | 16,862 | 16,862 |
| | <u>\$ 59,164</u> | <u>\$13,633</u> | <u>\$44,733</u> | <u>\$117,530</u> |

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements expiring in March 2012. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2007 is \$31,201 (2006 - \$44,033). This commitment will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

| | Total |
|------|------------------|
| 2008 | <u>\$ 7,341</u> |
| 2009 | 7,341 |
| 2010 | 7,341 |
| 2011 | 7,341 |
| 2012 | 1,837 |
| | <u>\$ 31,201</u> |

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 12 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government has identified and set aside specific tracts of land to satisfy land claims by Indian Bands. The claims related to these lands are not yet resolved. In the interim, the Ministry has issued 23 petroleum and natural gas dispositions on these lands and collected bonus and rental payments on the areas under dispute. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

At March 31, 2008 the Department is a defendant in five legal claims (2007 – seven legal claims). Four of these claims have specified amounts totaling \$1,375,243 and the remaining claim has no specified amount (2007 – six with specified amounts totaling \$10,576,053 and one claim with no specified amount). Included in the total legal claims are two claims amounting to \$1,372,500 in which the Department has been jointly named with other entities (2007 - two with specified amounts totaling \$10,572,500). One claim amounting to \$572,500 (2007- One claim - \$572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

Note 13 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as \$5,198,850 in these financial statements is subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by \$175,000.

Note 14 Related Party Transactions

The Ministry paid \$9,136 (2007 - \$8,865) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year and received \$2,516 (2007 - \$987) as revenue. Included in these services was a payment of \$412 (2007 - \$412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is 78 years and the future payments are \$309 to 2009 and \$48 to 2086 annually.

Accommodations, legal, telecommunications, personnel, audit services, and certain financial costs were provided to the Ministry by other government organizations at no cost. However, services contributed by other entities in support of the Ministry operations are disclosed in schedule 3.

Ministry of Energy

Notes to the Consolidated Financial Statements For the year ended March 31, 2008

(In thousands)

Note 15 Royalty Reduction Programs

The Department provides eleven oil and gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2008, the royalties received were reduced under these programs by \$778,295 (2007 - \$786,096).

Note 16 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by \$100,763 for the year ended March 31, 2008 (2007 - \$105,306).

Note 17 Discontinued Program

On September 27, 2006 the Minister of Energy announced that the Government of Alberta would eliminate the Alberta Royalty Tax Credit Program (ARTC) as of January 1, 2007. ARTC was being applied and reported by the Department of Energy on the basis of a tax credit program as ARTC was being administered by Alberta Finance through the Alberta Income Tax Act. Because ARTC is no longer payable on royalties earned after December 31, 2006 the Department has recognized and reported ARTC based on the royalties earned up to December 31, 2006. The impact of this is to increase the ARTC reported in the fiscal year ended March 31, 2007 by \$85,000 and to increase the accounts payable and other liabilities balance as at March 31, 2007 by \$55,000. In 2008, the Department increased the ARTC estimate by an additional \$43,658 accounts payable and other liabilities balance by the same amount.

Note 18 Subsequent Event

A new royalty framework starts on January 1, 2009. One consequence of the new royalty framework is that resource revenue will become more sensitive to changes in energy prices and production.

Note 19 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer of the Department.

Consolidated Schedule of Revenue
For the year ended March 31, 2008

(in thousands)

| | 2008 | | 2007 |
|----------------------------------|----------------------|----------------------|----------------------|
| | Budget | Actual | Actual |
| Non-renewable resource revenue | | | |
| Natural gas and by-products | \$ 6,023,000 | \$ 5,198,850 | \$ 5,987,697 |
| Bonuses and sale of crown leases | 1,214,000 | 1,127,936 | 2,462,787 |
| Synthetic crude oil and bitumen | 1,795,000 | 2,913,102 | 2,411,430 |
| Crude oil royalties | 1,060,000 | 1,654,801 | 1,399,759 |
| Rentals and fees | 153,000 | 158,748 | 159,319 |
| Coal | 15,000 | 13,965 | 12,681 |
| Alberta royalty tax credit | - | (43,658) | (173,793) |
| | <u>10,260,000</u> | <u>11,023,744</u> | <u>12,259,880</u> |
| Freehold mineral rights tax | <u>333,000</u> | <u>246,799</u> | <u>317,172</u> |
| Industry levies and licenses | <u>89,950</u> | <u>90,552</u> | <u>84,719</u> |
| Other revenue | | | |
| Other | 10,309 | 48,456 | 48,772 |
| Interest | 2,500 | 2,853 | 2,614 |
| | <u>12,809</u> | <u>51,309</u> | <u>51,386</u> |
| Total Revenues | <u>\$ 10,695,759</u> | <u>\$ 11,412,404</u> | <u>\$ 12,713,157</u> |

Consolidated Schedule of Expenses Detailed by Object
For the year ended March 31, 2008

(in thousands)

| | 2008 | | 2007 |
|---|-------------------|-------------------|-------------------|
| | Budget | Actual | Actual |
| Salaries, wages and employee benefits | \$ 141,897 | \$ 150,197 | \$ 134,683 |
| Supplies and services | 72,288 | 63,494 | 55,516 |
| Amortization of capital assets | 16,088 | 14,210 | 13,877 |
| Well abandonment | 13,000 | 13,468 | 13,566 |
| Grants | 57,100 | 54,822 | 5,871 |
| Valuation adjustments | 35 | 663 | 324 |
| Financial transactions and other | 120 | 78 | 127 |
| Gross expenses for operations | <u>300,528</u> | <u>296,932</u> | <u>223,964</u> |
| Less: Recovery from support service agreements with related parties | <u>(630)</u> | <u>(553)</u> | <u>(565)</u> |
| Total Net Expenses | <u>\$ 299,898</u> | <u>\$ 296,379</u> | <u>\$ 223,399</u> |

Consolidated Schedule of Allocated Costs
For the year ended March 31, 2008

(in thousands)

| Program | 2008 | | | 2007 | |
|-------------------------------------|---|---------------------|-----------------|-------------------|-------------------|
| | Directly Incurred Expenses ⁽¹⁾ | Accommodation Costs | Other Services | Total Expenses | Total Expenses |
| Energy and utility regulation | \$ 165,440 | - | \$ 1 | \$ 165,441 | \$ 147,718 |
| Resource development and management | 128,735 | 4,113 | 2,573 | 135,421 | 80,048 |
| Ministry support services | 2,204 | 216 | 90 | 2,510 | 1,699 |
| | <u>\$ 296,379</u> | <u>\$ 4,329</u> | <u>\$ 2,664</u> | <u>\$ 303,372</u> | <u>\$ 229,465</u> |

(1) Expenses - Directly Incurred as per Statement of Operations.

DEPARTMENT OF ENERGY

FINANCIAL STATEMENTS - March 31, 2008

Auditor's Report - 72

Statement of Operations - 73

Statement of Financial Position - 74

Statement of Cash Flows - 75

Notes to the Financial Statements - 76

Schedules to the Financial Statements - 82



Auditor's Report

To the Minister of Energy

I have audited the statement of financial position of the Department of Energy as at March 31, 2008 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Department'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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
June 4, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Department of Energy

Statement of Operations

For the year ended March 31, 2008

(in thousands)

| | 2008 | | 2007 |
|--|---------------------------|----------------------|----------------------|
| | Estimates (Schedule 3) | Actual | Actual |
| Revenues: (Schedule 1) | | | |
| Non-renewable resource revenue | \$ 10,260,000 | \$ 11,023,744 | \$ 12,259,880 |
| Freehold mineral rights tax | 333,000 | 246,799 | 317,172 |
| Other revenue | 500 | 38,272 | 38,031 |
| | <u>10,593,500</u> | <u>11,308,815</u> | <u>12,615,083</u> |
| Expenses - directly incurred (Note 2b and schedule 7) | | | |
| Voted (Schedules 2,3 and 4) | | | |
| Ministry support services | 2,006 | 2,204 | 1,434 |
| Resource development and management | 138,855 | 128,572 | 73,923 |
| Energy and utilities regulation | 59,743 | 73,743 | 54,793 |
| | <u>200,604</u> | <u>204,519</u> | <u>130,150</u> |
| Statutory (Schedules 2 and 3) | | | |
| Valuation adjustments | | | |
| Provision for doubtful accounts | 35 | - | - |
| Provision for vacation pay | - | 663 | 324 |
| | <u>35</u> | <u>663</u> | <u>324</u> |
| | <u>200,639</u> | <u>205,182</u> | <u>130,474</u> |
| Net Operating Results | <u>\$ 10,392,861</u> | <u>\$ 11,103,633</u> | <u>\$ 12,484,609</u> |

The accompanying notes and schedules are part of these financial statements.

Department of Energy

Statement of Financial Position

As at March 31, 2008

(in thousands)

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Assets: | | |
| Cash | \$ 724,469 | \$ 703,987 |
| Accounts receivable (Note 3) | 2,082,136 | 1,831,244 |
| Prepaid expenses | 700 | - |
| Tangible capital assets (Note 4) | 24,515 | 20,485 |
| | <u>\$ 2,831,820</u> | <u>\$ 2,555,716</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities (Note 5) | \$ 305,452 | \$ 145,752 |
| Gas royalty deposits (Note 6) | 986,123 | 992,316 |
| Unearned revenue | 69,842 | 69,907 |
| | <u>1,361,417</u> | <u>1,207,975</u> |
| Net Assets: | | |
| Net assets, beginning of year | 1,347,741 | 1,907,898 |
| Net operating results | 11,103,633 | 12,484,609 |
| Net transfer to general revenues | (10,980,971) | (13,044,766) |
| Net assets, end of year | <u>1,470,403</u> | <u>1,347,741</u> |
| | <u>\$ 2,831,820</u> | <u>\$ 2,555,716</u> |

The accompanying notes and schedules are part of these financial statements.

Department of Energy

Statement of Cash Flows

For the year ended March 31, 2008

(in thousands)

| | <u>2008</u> | <u>2007</u> |
|--|---------------------|---------------------|
| Operating transactions: | | |
| Net operating results | \$ 11,103,633 | \$ 12,484,609 |
| Non-cash items included in net operating results | | |
| Amortization | 4,352 | 4,312 |
| Valuation adjustments | 663 | 324 |
| | <u>11,108,648</u> | <u>12,489,245</u> |
| | | |
| (Increase) in accounts receivable | (250,892) | (44,809) |
| (Increase) in prepaid expenses | (700) | - |
| Increase in accounts payable and accrued liabilities | 159,037 | 77,390 |
| (Decrease) in unearned revenue | (65) | (4,780) |
| Cash provided by operating transactions | <u>11,016,028</u> | <u>12,517,046</u> |
| | | |
| Financing transactions: | | |
| Net transfer (for) General Revenues | (10,980,971) | (13,044,766) |
| Increase (decrease) in gas royalty deposits | (6,193) | 204,721 |
| Cash applied to financing transactions | <u>(10,987,164)</u> | <u>(12,840,045)</u> |
| | | |
| Capital transactions: | | |
| Purchase of tangible capital assets (Schedule 4) | (8,382) | (5,863) |
| Cash used by capital transactions | <u>(8,382)</u> | <u>(5,863)</u> |
| | | |
| Increase (Decrease) in cash | 20,482 | (328,862) |
| | | |
| Cash, beginning of year | 703,987 | 1,032,849 |
| | | |
| Cash, end of year | <u>\$ 724,469</u> | <u>\$ 703,987</u> |

The accompanying notes and schedules are part of these financial statements.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 1 Authority and Purpose

The Department of Energy operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department manages the development of provincially owned energy and mineral resources by industry and the assessment and collection of non-renewable resource revenues in the form of royalties, freehold mineral taxes, rentals and bonuses. The Department promotes development of Alberta's energy and mineral resources, recommends and implements energy and mineral related policy, grants rights for exploration and development to industry and establishes and administers fiscal regimes and royalty systems.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (PSAB). The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the departments.

(a) Reporting Entity

The reporting entity is the Department of Energy, which is part of the Ministry of Energy and for which the Minister of Energy is accountable. Other entities reporting to the Minister are the Alberta Petroleum Marketing Commission, the Energy Resource Conservation Board and the Alberta Utilities Commission. The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net financing for General Revenues is the difference between all cash receipts and all cash disbursements made.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services which have not been provided by year end is recorded as unearned revenue. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements, for example, report inaccurate or incomplete production data. The Department has implemented systems and controls in order to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Department administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Department. The Department does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Synthetic crude oil and bitumen royalties are determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the mineral rights holder sells the production.

Freehold mineral taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Directly Incurred

Directly incurred expenses are those costs the department has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Incurred by Others

Services contributed by other entities in support of the department operations are disclosed in Schedule 7.

Assets

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals as well as inventories held for resale.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is \$100,000 and the threshold for all other tangible capital assets is \$5,000.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Liabilities

Liabilities are recorded to the extent that they represent obligations as a result of events and transactions occurring prior to the end of fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Net Assets

Net assets represents the difference between the carrying value of assets held by the Department and its liabilities.

Note 3 Accounts Receivable

Accounts receivable is secured by a claim against the mineral leases.

Note 4 Tangible Capital Assets

| | Equipment | Computer hardware and software | 2008 Total | 2007 Total |
|---|---------------|--------------------------------|------------|------------|
| Estimated Useful Life | 3 to 10 years | 10 years | | |
| Historical Cost | | | | |
| Beginning of year | \$ 15,217 | \$66,091 | \$ 81,308 | \$75,445 |
| Additions | 734 | 7,648 | 8,382 | 5,863 |
| Disposals, including write-downs | - | - | - | - |
| | \$ 15,951 | \$73,739 | \$89,690 | \$81,308 |
| Accumulated Amortization | | | | |
| Beginning of year | \$ 9,355 | \$51,468 | \$60,823 | \$56,511 |
| Amortization expense | 2,205 | 2,147 | 4,352 | 4,312 |
| Effect of disposals | - | - | - | - |
| | \$11,560 | \$53,615 | \$65,175 | \$60,823 |
| Net Book Value at March 31, 2008 | \$4,391 | \$ 20,124 | \$24,515 | |
| Net Book Value at March 31, 2007 | \$ 5,862 | \$ 14,623 | | \$20,485 |

Historical cost includes work-in-progress at March 31, 2008 totaling \$1,957 (2007 - \$697) for computer software.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 5 Accounts Payable and Accrued Liabilities

| | 2008 | 2007 |
|-----------------------------------|------------------|------------------|
| Trade | \$104,819 | \$ 65,074 |
| Royalty programs and overpayments | 174,057 | 25,565 |
| Alberta royalty tax credit | 26,576 | 55,113 |
| | <u>\$305,452</u> | <u>\$145,752</u> |

Note 6 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit equal to the lesser of one-sixth of the prior calendar year's royalties or the amount determined by multiplying last year's deposit by the ratio of the current long term gas reference price to the prior year long term gas reference price. The Department does not pay interest on the deposits.

Note 7 Commitments

As at March 31, 2008, the Department has commitments totaling \$72,797 (2007 - \$26,155). These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature.

These amounts include obligations under long-term contracts with contract payment requirements in future years of:

| | Grant Agreements | Service Contracts | Total |
|------|---------------------|----------------------|-----------------|
| 2009 | \$ 34,880 | \$7,484 | \$42,364 |
| 2010 | 13,767 | 2,401 | 16,168 |
| 2011 | 10,517 | 1,887 | 12,404 |
| 2012 | - | 1,861 | 1,861 |
| | <u>\$ 59,164</u> | <u>\$13,633</u> | <u>\$72,797</u> |

Note 8 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. In one instance, the Department may have to revoke 23 petroleum and natural gas dispositions for which the government accepted bonus, rental payments, and royalties. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 8 Contingencies and Other Liabilities (continued)

(b) Legal Claims

At March 31, 2008 the Department is a defendant in five legal claims (2007 – seven legal claims). Four of these claims have specified amounts totaling \$1,375,243 and the remaining claim has no specified amount (2007 – six with specified amounts totaling \$10,576,083 and one claim with no specified amount). Included in the total legal claims are two claims amounting to \$1,372,500 in which the Department has been jointly named with other entities (2007 - two with specified amounts totaling \$10,572,500). One claim amounting to \$572,500 (2007- One claim - \$572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

Note 9 Trust Funds under Administration

The Department administers the Oil and Gas Conservation Trust which is a regulated fund consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the fund and administers the fund for the purpose of various trusts, the fund is not included in the Department's financial statements.

As at March 31, 2008, the funds in the Oil and Gas Conservation Trust was \$3,089 (2007 - \$1,927).

Note 10 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as \$5,198,850 in these financial statements is subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by \$175,000.

Note 11 Defined Benefits Plans

The Department participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$4,229 for the year ended March 31, 2008 (2007 – \$3,800).

At December 31, 2007, the Management Employees Pension Plan reported a deficiency of \$84,341 (2006 – \$6,765) and the Public Service Pension Plan reported a deficiency of \$92,070 (2006 surplus – \$153,024). At December 31, 2007, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$1,510 (2006 – \$3,698).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2008, the Bargaining Unit Plan reported an actuarial deficiency of \$6,319 (2007 surplus – \$153) and the Management, Opted Out and Excluded Plan an actuarial surplus of \$7,874 (2007 – \$10,148). The expense for these two plans is limited to the employer's annual contributions for the year.

Department of Energy

Notes to the Financial Statements

March 31, 2008

(in thousands)

Note 12 Royalty Reduction Programs

The Department provides eleven oil and gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2008, the royalties received under these programs were reduced by \$778,295 (2007 - \$786,096).

Note 13 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by \$100,469 for the year ended March 31, 2008 (2007 - \$105,306).

Note 14 Valuation Of Financial Assets And Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, and gas royalty deposits are estimated to approximate their carrying values because of the short-term nature of these instruments.

Note 15 Discontinued Program

On September 27, 2006 the Minister of Energy announced that the Government of Alberta would eliminate the Alberta Royalty Tax Credit Program (ARTC) as of January 1, 2007. ARTC was being applied and reported by the Department of Energy on the basis of a tax credit program as ARTC was being administered by Alberta Finance through the Alberta Income Tax Act. Because ARTC is no longer payable on royalties earned after December 31, 2006 the Department has recognized and reported ARTC based on the royalties earned up to December 31, 2006. The impact of this is to increase the ARTC reported in the fiscal year ended March 31, 2007 by \$85,000 and to increase the accounts payable and other liabilities balance as at March 31, 2007 by \$55,000. Based on the cash flow of the benefits under this program, the department increased the estimate of the balance remaining to be paid by an additional \$43,658.

Note 16 Subsequent Event

A new royalty framework starts on January 1, 2009. One consequence of the new royalty framework is that resource revenue will become more sensitive to changes in energy prices and production.

Note 17 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer.

Department of Energy

Schedule 1

Schedule to Financial Statements
 Revenues
 For the year ended March 31, 2008
 (in thousands)

| | 2008 | | 2007 |
|---|----------------------|----------------------|----------------------|
| | Budget | Actual | Actual |
| Non-renewable Resource Revenue: | | | |
| Natural gas and by-products royalty | \$ 6,023,000 | \$ 5,198,850 | \$ 5,987,697 |
| Bonuses and sales of crown leases | 1,214,000 | 1,127,936 | 2,462,787 |
| Synthetic crude oil and bitumen royalty | 1,795,000 | 2,913,102 | 2,411,430 |
| Crude oil royalty | 1,060,000 | 1,654,801 | 1,399,759 |
| Rentals and fees | 153,000 | 158,748 | 159,319 |
| Coal royalty | 15,000 | 13,965 | 12,681 |
| Royalty tax credit | - | (43,658) | (173,793) |
| | <u>10,260,000</u> | <u>11,023,744</u> | <u>12,259,880</u> |
| Freehold Mineral Rights Tax | 333,000 | 246,799 | 317,172 |
| Other Revenue | 500 | 38,272 | 38,031 |
| Total Revenue | <u>\$ 10,593,500</u> | <u>\$ 11,308,815</u> | <u>\$ 12,615,083</u> |

Schedule to Financial Statements
Expense Directly Incurred - Detailed by Object
For the year ended March 31, 2008
(in thousands)

| | 2008 | | 2007 |
|---|------------|------------|------------|
| | Budget | Actual | Actual |
| Voted | | | |
| Grants | \$ 116,843 | \$ 129,065 | \$ 60,664 |
| Salaries, Wages & Employee Benefits | 53,125 | 51,149 | 46,600 |
| Supplies and Services | 26,593 | 20,428 | 19,012 |
| Amortization Of Tangible Capital Assets | 4,588 | 4,352 | 4,312 |
| Financial Transactions and Other | 85 | 78 | 127 |
| Total Voted Expenses before Recoveries | 201,234 | 205,072 | 130,715 |
| Less: Recovery from Support Service Arrangements with Related Parties ^(a) | (630) | (553) | (565) |
| Total Voted Expenses | \$ 200,604 | \$ 204,519 | \$ 130,150 |
| Statutory | | | |
| Valuation adjustments | | | |
| Provision for doubtful accounts | \$ 35 | \$ - | \$ - |
| Provision for vacation pay | - | 663 | 324 |
| | \$ 35 | \$ 663 | \$ 324 |

(a) The Department provides financial services to Tourism, Parks, Recreation and Culture and Sustainable Resource Development.

Department of Energy

Schedule 3

Schedule to Financial Statements
Budget
For the year ended March 31, 2008
(in thousands)

| | 2007-2008 Estimates | Authorized Supplementary(a) | Authorized Supplementary(b) | 2007-08 Authorized Budget |
|--|------------------------|--------------------------------|--------------------------------|------------------------------|
| Expenses: | | | | |
| Voted Expense, Equipment/Inventory Purchases | | | | |
| Program 1 - Ministry Support Services | | | | |
| 1.0.1 Minister's Office | \$ 355 | - | \$ - | \$ 355 |
| 1.0.2 Standing Policy Committee on Energy and Sustainable Development | - | - | - | - |
| 1.0.3 Deputy Ministers' Office | 460 | 4 | - | 464 |
| 1.0.4 Communications | 1,191 | 21 | - | 1,212 |
| | <u>2,006</u> | <u>25</u> | <u>-</u> | <u>2,031</u> |
| Program 2 - Resource Development and Management | | | | |
| 2.0.1 Revenue Collection | | | | |
| - Operating Expense | 54,075 | 2,125 | - | 56,200 |
| - Equipment/Inventory Purchases | 3,915 | - | - | 3,915 |
| | <u>57,990</u> | <u>2,125</u> | <u>-</u> | <u>60,115</u> |
| 2.0.2 Resource Development | | | | |
| - Operating Expense | 25,780 | 1,100 | - | 26,880 |
| - Equipment/Inventory Purchases | - | - | - | - |
| | <u>25,780</u> | <u>1,100</u> | <u>-</u> | <u>26,880</u> |
| 2.0.3 Energy Innovation Fund Initiatives | | | | |
| | 18,000 | - | - | 18,000 |
| 2.0.4 Biofuel Initiatives | | | | |
| | 41,000 | - | - | 41,000 |
| | <u>142,770</u> | <u>3,225</u> | <u>-</u> | <u>145,995</u> |
| Program 3 - Energy and Utilities Regulation | | | | |
| 3.0.1 Assistance to the Alberta Energy and Utilities Board | 59,743 | - | 4,000 | 63,743 |
| 3.0.2 Assistance to the Alberta Utilities Commission | - | - | 10,500 | 10,500 |
| | <u>59,743</u> | <u>-</u> | <u>14,500</u> | <u>74,243</u> |

| | | | | |
|----------------------------------|------------|----------|-----------|------------|
| Total Voted Expenses | \$ 204,519 | \$ 3,250 | \$ 14,500 | \$ 222,269 |
| Program Operating Expense | \$ 200,604 | \$ 3,250 | \$ 14,500 | \$ 218,354 |
| Program Capital Investment | 3,915 | - | - | 3,915 |
| Total Voted Expenses | \$ 204,519 | \$ 3,250 | \$ 14,500 | \$ 222,269 |
| Statutory Expenses: | | | | |
| Valuation adjustments | \$ 35 | \$ - | \$ - | \$ 35 |
| Program 2.1.1 Revenue Collection | \$ 35 | \$ - | \$ - | \$ 35 |

(a) Supplementary Estimates were approved on December 7, 2007

(b) Supplementary Estimates were approved on March 18, 2008

Department of Energy

Schedule 4

Schedule to Financial Statements
 Comparison of Expense - Directly Incurred , Equipment/Inventory Purchases and Statutory Expenses,
 by Element to Authorized Budget

For the year ended March 31, 2008
 (in thousands)

| | 2007-2008 Authorized Budget | Actual Expense (a) | Unexpended (Over Expended) |
|---|--------------------------------|-----------------------|-------------------------------|
| Expenses: | | | |
| Voted Expense, Equipment/Inventory Purchases | | | |
| Program 1 - Ministry Support Services | | | |
| 1.0.1 Minister's Office | \$ 355 | \$ 345 | \$ 10 |
| 1.0.2 Standing Policy Committee on Energy and Sustainable Development | - | - | - |
| 1.0.3 Deputy Ministers' Office | 464 | 448 | 16 |
| 1.0.4 Communications | 1,212 | 1,411 | (199) |
| | <u>2,031</u> | <u>2,204</u> | <u>(173)</u> |
| Program 2 - Resource Development and Management | | | |
| 2.0.1 Revenue Collection | 56,200 | 46,173 | 10,027 |
| - Operating Expense | 3,915 | 7,392 | (3,477) |
| - Equipment/Inventory Purchases | 60,115 | 53,565 | 6,550 |
| 2.0.2 Resource Development | | | |
| - Operating Expense | 26,880 | 27,482 | (602) |
| - Equipment/Inventory Purchases | - | 990 | (990) |
| | <u>26,880</u> | <u>28,472</u> | <u>(1,592)</u> |
| 2.0.3 Energy Innovation Fund Initiatives | 18,000 | 17,362 | 638 |
| 2.0.4 Biofuel Initiatives | 41,000 | 37,555 | 3,445 |
| | <u>145,995</u> | <u>136,954</u> | <u>9,041</u> |
| Program 3 - Energy and Utilities Regulation | | | |
| 3.0.1 Assistance to the Alberta Energy and Utilities Board | 63,743 | 64,343 | (600) |
| 3.0.2 Assistance to the Alberta Utilities Commission | 10,500 | 9,400 | 1,100 |

Department of Energy

Schedule 4

Schedule to Financial Statements
 Comparison of Expense - Directly Incurred , Equipment/Inventory Purchases and Statutory Expenses,
 by Element to Authorized Budget

For the year ended March 31, 2008
 (in thousands)

| | 2007-2008 Authorized Budget | Actual Expense (a) | Unexpended (Over Expended) |
|----------------------------------|--------------------------------|-----------------------|-------------------------------|
| | 74,243 | 73,743 | 500 |
| Total Voted Expenses | \$ 222,269 | \$ 212,901 | \$ 9,368 |
| Program Operating Expense | \$ 218,354 | \$ 204,519 | \$ 13,835 |
| Program Capital Investment | 3,915 | 8,382 | (4,467) |
| Total Voted Expenses | \$ 222,269 | \$ 212,901 | \$ 9,368 |
| Statutory Expenses: | | | |
| Valuation adjustments | \$ 35 | \$ 663 | \$ (628) |
| Program 2.1.1 Revenue Collection | \$ 35 | \$ 663 | \$ (628) |

(a) Includes achievement bonus of \$1,468

Department of Energy

Schedule 5

Schedule to Financial Statements
Salaries and Benefits Disclosure
For the year ended March 31, 2008
(in thousands)

| | 2008 | | | 2007 | | |
|---|-----------------------|------------------------------------|--|--------|--------|-------|
| | Salary ⁽¹⁾ | Other Cash Benefits ⁽²⁾ | Other Non-cash Benefits ⁽³⁾ | Total | Total | Total |
| Deputy Minister ⁽⁴⁾⁽⁵⁾⁽⁶⁾ | \$ 225 | \$ 89 | \$ 18 | \$ 332 | \$ 281 | |
| Executives | | | | | | |
| Assistant Deputy Minister - Mineral Development & Strategic Resources | 166 | 25 | 41 | 232 | 218 | |
| Assistant Deputy Minister - Natural Gas | 131 | 20 | 29 | 180 | 203 | |
| Assistant Deputy Minister - Oil Development | 166 | 25 | 40 | 231 | 212 | |
| Executive Director - Corporate Energy Strategy Development | 126 | 19 | 31 | 176 | 158 | |
| Executive Director - Human Resources | 136 | 20 | 34 | 190 | 179 | |
| Executive Director - Policy, Planning & External Relations | 142 | 29 | 34 | 205 | 184 | |

Total salary and benefits relating to a position are disclosed.

- (1) Salary includes regular base pay.
- (2) Other cash benefits include bonuses, overtime, vacation payout and lump sum payments.
- (3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, long and short term disability plan, professional memberships and tuition fees.
- (4) Automobile provided, no dollar amount included in other non-cash benefits.
- (5) Position was occupied by two individuals through the year.
- (6) Position was vacant for part of year.

Schedule to Financial Statements
Related Party Transactions
For the year ended March 31, 2008
(in thousands)

Related parties are those entities consolidated or accounted for on a modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the Statement of Operations at the amount of consideration agreed upon between the related parties:

| | Entities in the Ministry | | Other Entities | |
|-------------------------------|---------------------------------|------------------|-----------------------|-------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Expenses - Directly Incurred: | | | | |
| Grants | \$ 73,743 | \$ 54,793 | \$ - | \$ - |
| Other services | 2,524 | 2,081 | 4 | - |
| | <u>\$ 76,267</u> | <u>\$ 56,874</u> | <u>\$ 4</u> | <u>\$ -</u> |

The above transactions do not include support service arrangement transactions disclosed in schedule 2.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in schedule 6.

| | Entities in the Ministry | | Other Entities | |
|--------------------------------|---------------------------------|-------------|-----------------------|-----------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Expenses - Incurred by Others: | | | | |
| Accommodation | \$ - | \$ - | \$ 4,329 | \$ 4,024 |
| Travel | - | - | 409 | 475 |
| Legal | - | - | 2,255 | 1,567 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,993</u> | <u>\$ 6,066</u> |

Department of Energy

Schedule 7

Schedule to Financial Statements
 Allocated Costs
 For the year ended March 31, 2008
 (in thousands)

| Program | 2008 | | | | | | | | | | 2007 | |
|-------------------------------------|---|---------------------|----------------------|----------------|--------------|-----------------------|----------------|----------------|--|--|------------|-------|
| | Expenses Incurred by Others | | | | | Valuation Adjustments | | | | | Total | Total |
| | Directly Incurred Expenses ⁽¹⁾ | Accommodation Costs | Transportation Costs | Legal Services | Vacation Pay | Doubtful Accounts | Total Expenses | Total Expenses | | | | |
| Ministry Support Services | \$ 2,204 | \$ 216 | \$ - | \$ 90 | \$ - | \$ - | \$ 2,510 | | | | \$ 1,698 | |
| Resource Development and Management | 128,572 | 4,113 | 409 | 2,164 | 663 | - | 135,921 | | | | 80,048 | |
| Energy and Utilities Regulation | 73,743 | - | - | 1 | - | - | 73,744 | | | | 54,793 | |
| | \$ 204,519 | \$ 4,329 | \$ 409 | \$ 2,255 | \$ 663 | \$ - | \$ 212,175 | | | | \$ 136,539 | |

(1) Expenses - Directly Incurred as per Statement of Operations, excluding valuation adjustments.

ENERGY AND UTILITIES REGULATION

FINANCIAL STATEMENTS

Authorized Budget and Combined Results - 93

Alberta Energy and Utilities Board - 95

Energy Resources Conservation Board - 109

Alberta Utilities Commission - 123

By enacting Bill 46, the Government of Alberta restructured the EUB into two new organizations effective January 1, 2008: the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC). This restructuring reflects Alberta's expanding energy and utilities sectors and will allow both organizations to better focus resources to improve the regulatory framework for Albertans. It also allows the ERCB and AUC to focus on two distinct, expanding, and increasingly complex segments of Alberta's vibrant economy.

The following schedule compares the authorized 2007-2008 energy and utilities regulation budget to the combined results of the ERCB, AUC and the EUB.

**AUTHORIZED BUDGET AND COMBINED RESULTS
ENERGY RESOURCES CONSERVATION BOARD (ERCB)
ALBERTA UTILITIES COMMISSION (AUC)
ALBERTA ENERGY AND UTILITIES BOARD (EUB)**
(in thousands) (unaudited)

| | Year ended March 31, 2008 | | Actual | | | | |
|---------------------------------|---------------------------|---------|----------------------|---|--|----------|-----------|
| | ERCBAUC/EUB Budget | | March 31, 2008 | | December 31, 2007 | | |
| | Budget (Estimate) | Changes | Authorized Budget | Combined year ended March 31, 2008 ERCB/AUC/EUB | Three months ended March 31, 2008 ERCB | AUC | EUB |
| Revenues | | | | | | | |
| Industry levies and assessments | \$ 89,950 | \$ - | \$ 89,950 | \$ 90,552 | \$ 12,072 | \$ - | \$ 78,480 |
| Provincial grant | 59,743 | 14,500 | 74,243 | 73,743 | 5,100 | 9,400 | 59,243 |
| Information, services and fees | 9,809 | 2,000 | 11,809 | 10,684 | 3,427 | 64 | 7,193 |
| Investment | 2,500 | - | 2,500 | 2,853 | 320 | 86 | 2,447 |
| | 162,002 | 16,500 | 178,502 | 177,832 | 20,919 | 9,550 | 147,363 |
| Expenses | | | | | | | |
| Energy and utilities regulation | 146,002 | 11,500 | 157,502 | 152,348 | 42,753 | 6,381 | 103,214 |
| Orphan abandonment | 13,000 | - | 13,000 | 13,092 | 12,292 | - | 800 |
| | 159,002 | 11,500 | 170,502 | 165,440 | 55,045 | 6,381 | 104,014 |
| Net operating results | 3,000 | 5,000 | 8,000 | 12,392 | (34,126) | 3,169 | 43,349 |
| Capital | | | | | | | |
| Capital investments | 14,500 | 5,000 | 19,500 | 16,882 | 4,802 | 2,340 | 9,740 |
| Less: Amortization | (11,500) | - | (11,500) | (9,959) | (2,277) | (341) | (7,341) |
| Net capital investment | 3,000 | 5,000 | 8,000 | 6,923 | 2,525 | 1,999 | 2,399 |
| | \$ - | \$ - | \$ - | \$ 5,469 | \$ (36,651) | \$ 1,170 | \$ 40,950 |

Note

(1) The Budget is based on the EUB Business Plan for the twelve month period ended March 31, 2008 and a supplementary funding request arising from the realignment. The Budget and Changes have been approved by the Treasury Board.

(2) Effective January 1, 2008 the \$40,950 excess of EUB revenue over expenditure was transferred to the successor organizations to fund their expenditures for the three months ended March 31, 2008 (\$37,443 to the ERCB and \$3,507 to the AUC). The ERCB/AUC/EUB combined surplus for the twelve months ended March 31, 2008 is \$5,469.

ALBERTA ENERGY AND UTILITIES BOARD

FINANCIAL STATEMENTS

For the nine months ended December 31, 2007

(with comparatives for the year ended March 31, 2007)

Auditor's Report - 96

Statement of Operations - 97

Statement of Financial Position - 98

Statement of Cash Flows - 99

Notes to the Financial Statements - 100

Schedules to the Financial Statements - 106



Auditor's Report

To the Chair of the Alberta Energy and Utilities Board

I have audited the statement of financial position of the Alberta Energy and Utilities Board as at December 31, 2007 and the statements of operations and cash flows for the nine months 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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2007 and the results of its operations and its cash flows for the nine months then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
February 22, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA ENERGY AND UTILITIES BOARD

STATEMENT OF OPERATIONS

(in thousands)

| | (Schedule 3) Budget ⁽¹⁾ | Actual | |
|---------------------------------|---------------------------------------|--|------------------------------|
| | | Nine months ended December 31, 2007 | Year ended March 31, 2007 |
| Revenues | | | |
| Industry levies and assessments | \$ 89,950 | \$ 78,480 | \$ 84,719 |
| Provincial grant | 59,743 | 59,243 | 54,793 |
| Information, services and fees | 9,809 | 7,193 | 10,741 |
| Investment | 2,500 | 2,447 | 2,614 |
| | <u>162,002</u> | <u>147,363</u> | <u>152,867</u> |
| Expenses | | | |
| Energy regulation (Schedule 1) | 146,002 | 103,214 | 134,152 |
| Orphan abandonment (Note 4) | 13,000 | 800 | 13,566 |
| | <u>159,002</u> | <u>104,014</u> | <u>147,718</u> |
| Net operating results | <u>\$ 3,000</u> | <u>\$ 43,349</u> | <u>\$ 5,149</u> |

(1) The Budget is based on the EUB Business Plan for the year ended March 31, 2008.

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA ENERGY AND UTILITIES BOARD

STATEMENT OF FINANCIAL POSITION

(in thousands)

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|--|--------------------------|-----------------------|
| Assets | | |
| Current | | |
| Cash (Note 5) | \$ 53,012 | \$ 28,209 |
| Security deposits (Note 6) | 31,084 | 27,000 |
| Accounts receivable | 3,073 | 3,685 |
| Prepaid expenses | <u>1,786</u> | <u>1,357</u> |
| | 88,955 | 60,251 |
| Computer software (Note 7) | 32,995 | 30,705 |
| Property and equipment (Note 8) | 13,879 | 13,770 |
| Accrued pension asset (Note 9) | <u>8,256</u> | <u>9,405</u> |
| | <u>\$ 144,085</u> | <u>\$ 114,131</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 11,971 | \$ 18,079 |
| Grant payable to Orphan Well Association | 111 | 11,048 |
| Security deposits (Note 6) | 31,084 | 27,000 |
| Unearned revenue | 1,738 | 1,628 |
| Current portion of deferred lease incentives | <u>725</u> | <u>725</u> |
| | 45,629 | 58,480 |
| Deferred lease incentives | <u>1,252</u> | <u>1,796</u> |
| Total liabilities | <u>46,881</u> | <u>60,276</u> |
| Net Assets | | |
| Net assets, beginning of year | 53,855 | 48,706 |
| Net operating results | <u>43,349</u> | <u>5,149</u> |
| Net assets, end of period | <u>97,204</u> | <u>53,855</u> |
| | <u>\$ 144,085</u> | <u>\$ 114,131</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA ENERGY AND UTILITIES BOARD

STATEMENT OF CASH FLOWS

(in thousands)

| | Nine months ended December 31, 2007 | Year ended March 31, 2007 |
|---|--|------------------------------|
| Operating Activities | | |
| Net operating results | \$ 43,349 | \$ 5,149 |
| Non-cash expenses | | |
| Amortization | 7,341 | 9,565 |
| Pension | 5,296 | 6,240 |
| Changes in operating non-cash working capital | | |
| Decrease (increase) in accounts receivable | 612 | (1,062) |
| (Increase) decrease in prepaid expenses | (429) | 105 |
| (Decrease) increase in accounts payable and accrued liabilities | (6,108) | 4,556 |
| (Decrease) increase in grant payable to Orphan Well Association | (10,937) | 441 |
| Increase (decrease) in unearned revenue | 110 | (887) |
| | <u>39,234</u> | <u>24,107</u> |
| Investing Activities | | |
| Investment in computer software | (6,238) | (8,652) |
| Investment in property and equipment | (3,502) | (5,296) |
| | <u>(9,740)</u> | <u>(13,948)</u> |
| Financing Activities | | |
| Pension obligations funded | (4,147) | (7,373) |
| Lease incentives repaid | (544) | (726) |
| | <u>(4,691)</u> | <u>(8,099)</u> |
| Net cash provided | 24,803 | 2,060 |
| Cash, beginning of year | 28,209 | 26,149 |
| Cash, end of period | <u>\$ 53,012</u> | <u>\$ 28,209</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 1 Authority and Purpose

The Alberta Energy and Utilities Board (EUB) operates under the authority of the Alberta Energy and Utilities Board Act, Chapter A-17, Revised Statutes of Alberta, 2000, as amended. As of January 1, 2008 the Act was repealed and is no longer in force. The EUB's mission is to ensure that the discovery, development, and delivery of Alberta's energy resources and utility services take place in a manner that is fair, responsible and in the public interest.

Note 2 Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized as follow:

(a) Amortization

All tangible and intangible assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

| | |
|-------------------------|---|
| Computer software | Declining balance - 20 per cent per year |
| Furniture and equipment | Straight line - 3 to 20 years |
| Computer hardware | Straight line - 3 to 5 years |
| Leasehold improvements | Straight line - lease term to a maximum of 10 years |

(b) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Any excess of the net accumulated actuarial gain or loss over 10 per cent of the greater of the accrued benefit obligation and the fair value of the plan's assets is amortized over the average remaining service period of the active employees, which is 8 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans as the EUB has insufficient information to apply defined benefit plan accounting.

(c) Deferred lease incentives

Deferred lease incentives are amortized on a straight-line basis over the term of the lease.

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 2 Significant Accounting Policies (continued)

(d) Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of accounts receivable, accounts payable and accrued liabilities, grant payable to Orphan Well Association, and security deposits are estimated to approximate their carrying values.

(e) Revenue recognition

All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the period receivable.

Note 3 Realignment

Effective January 1, 2008 the EUB will be separated into two independent regulatory organizations. The Energy Resources Conservation Board (ERCB) will focus exclusively on the responsible development of Alberta's energy resources. The Alberta Utilities Commission (AUC) will oversee the distribution and sale of electricity and natural gas to Alberta consumers. Legislation to enact this change has been approved through Bill 46, which received Royal Assent on December 7, 2007.

The assets and liabilities of the EUB as at December 31, 2007 will be allocated, and commitments and contingencies will be assumed by the ERCB and the AUC. Final approval of the allocated amounts will be made by the ERCB and AUC Chairs. A memorandum of understanding document between the ERCB and the AUC will be developed to address future costs or adjustments.

Note 4 Orphan Abandonment

The EUB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The EUB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. Due to the timing of the levy, during the nine months ended December 31, 2007 the EUB levied the oil and gas industry \$0 (\$12,206 for the year ended March 31, 2007) and collected \$800 (\$1,360 for the year ended March 31, 2007) in application fees.

Note 5 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for nine months ended December 31, 2007 was 4.5% (4.4% for the year ended March 31, 2007).

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 6 Security Deposits

The EUB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At December 31, 2007, the EUB held \$31,084 (March 31, 2007: \$27,000) in cash and an additional \$112,975 (March 31, 2007: \$117,271) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 7 Computer Software

| | December 31, 2007 | | | March 31, 2007 |
|----------------------------|-------------------|------------------|------------------|------------------|
| | Cost | Accumulated | Net Book Value | Net Book Value |
| | | Amortization | | |
| Computer software | \$ 55,594 | \$ 32,380 | \$ 23,214 | \$ 21,925 |
| Software under development | 9,781 | - | 9,781 | 8,780 |
| | <u>\$ 65,375</u> | <u>\$ 32,380</u> | <u>\$ 32,995</u> | <u>\$ 30,705</u> |

Note 8 Property and Equipment

| | December 31, 2007 | | | March 31, 2007 |
|-------------------------|-------------------|------------------|------------------|------------------|
| | Cost | Accumulated | Net Book Value | Net Book Value |
| | | Amortization | | |
| Computer hardware | \$ 10,104 | \$ 5,682 | \$ 4,422 | \$ 3,905 |
| Leasehold improvements | 10,305 | 6,297 | 4,008 | 4,695 |
| Furniture and equipment | 10,790 | 5,661 | 5,129 | 4,850 |
| Land | 320 | - | 320 | 320 |
| | <u>\$ 31,519</u> | <u>\$ 17,640</u> | <u>\$ 13,879</u> | <u>\$ 13,770</u> |

Property and equipment with a net book value of \$70 (Cost: \$2,940; Accumulated Amortization: \$2,870) with no remaining economic life were disposed of during the nine months ended December 31, 2007. Accordingly, a loss of \$70 is included in Amortization - property and equipment on Schedule 1.

Note 9 Pension

The EUB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the annual contribution of \$4,040 for the nine months ended December 31, 2007 (\$4,666 for the year ended March 31, 2007).

In addition, the EUB maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 9 Pension (continued)

The effective date of the most recent actuarial funding valuation for SEPP, December 31, 2007, was the date used to measure all pension plan assets and accrued benefit obligations. The effective date of the next required funding valuation for SEPP is December 31, 2010.

Significant actuarial and economic assumptions used to value accrued benefit obligations and pension costs are as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|---|--------------------------|-----------------------|
| Accrued benefit obligations | | |
| Discount rate | 5.5% | 5.2% |
| Rate of compensation increase (weighted average) | 3.5% | 3.5% |
| Benefit costs for the year | | |
| Discount rate | 5.2% | 5.3% |
| Expected rate of return on plan assets (weighted average) | 5.7% | 5.6% |
| Rate of compensation increase (weighted average) | 3.5% | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position are as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|--------------------------------|--------------------------|-----------------------|
| Fair value of plan assets | \$ 30,993 | \$ 32,877 |
| Accrued benefit obligations | 28,391 | 29,799 |
| Plan surplus | 2,602 | 3,078 |
| Unamortized net actuarial loss | 5,654 | 6,327 |
| Accrued pension asset | \$ 8,256 | \$ 9,405 |

Additional information about the defined benefit pension plans is as follows:

| | <u>Nine months ended December 31, 2007</u> | <u>Year ended March 31, 2007</u> |
|-------------------------|--|--------------------------------------|
| ERCB contribution | \$ 107 | \$ 2,707 |
| Employees' contribution | 253 | 335 |
| Benefits paid | 2,992 | 1,538 |
| Pension benefit costs | 1,256 | 1,574 |

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 9 Pension (continued)

The asset allocation of the defined benefit pension plans investments is as follows:

| | <u>December 31, 2007</u> | <u>March 31, 2007</u> |
|-------------------|--------------------------|-----------------------|
| Equity securities | 52.4% | 57.4% |
| Debt instruments | 39.0% | 32.1% |
| Other | 8.6% | 10.5% |
| | <u>100.0%</u> | <u>100.0%</u> |

Note 10 Future Operating Lease Commitments

The EUB leases office and research storage facilities. The future annual minimum operating lease payments, net of lease incentives, are as follows:

| | | |
|------------|-----------|---------------|
| 2008 | \$ | 7,123 |
| 2009 | | 7,470 |
| 2010 | | 6,946 |
| 2011 | | 3,015 |
| 2012 | | 2,896 |
| Thereafter | | 17,580 |
| | <u>\$</u> | <u>45,030</u> |

ALBERTA ENERGY AND UTILITIES BOARD

NOTES TO THE FINANCIAL STATEMENTS

(in thousands)

Note 11 Related Party Transactions

For the nine months ended December 31, 2007 the EUB paid \$3,593 (\$4,841 for the year ended March 31, 2007) to various other Government of Alberta organizations for supplies and services. Included in these services was a payment of \$2,611 (\$3,667 for the year ended March 31, 2007) for computing services, and also a payment of \$309 (\$412 for the year ended March 31, 2007) for the lease of a research storage facility from Alberta Infrastructure and Transportation. The remaining term of this lease is seventy eight years and the future annual payments are \$412 to 2009 and \$48 thereafter.

For the nine months ended December 31, 2007 the EUB received a grant of \$59,243 (\$54,793 for the year ended March 31, 2007) and service revenue of \$1,665 (\$987 for the year ended March 31, 2007) from Government of Alberta organizations.

All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 12 Approval of financial statements

These financial statements were approved by the Chairman of the Board of the EUB on February 28, 2008.

SCHEDULE TO FINANCIAL STATEMENTS
ENERGY REGULATION EXPENSES

(in thousands)

| | Nine months ended December 31, 2007 | Year ended March 31, 2007 |
|---------------------------------------|--|------------------------------|
| Personnel | \$ 65,421 | \$ 88,083 |
| Consulting services | 10,230 | 10,505 |
| Buildings | 7,418 | 9,498 |
| Computer services | 4,688 | 6,073 |
| Amortization - computer software | 3,948 | 5,285 |
| Administrative | 3,760 | 3,620 |
| Travel and transportation | 3,500 | 4,322 |
| Amortization - property and equipment | 3,393 | 4,280 |
| Equipment rent and maintenance | 659 | 707 |
| Abandonment and enforcement | 197 | 1,779 |
| | <u>\$ 103,214</u> | <u>\$ 134,152</u> |

**SCHEDULE TO FINANCIAL STATEMENTS
SALARIES AND BENEFITS DISCLOSURE**

(in thousands)

| | Nine months ended December 31, 2007 | | | Year Ended March 31, 2007 | |
|-------------------------|--|---------------------------------|-------------------------------------|------------------------------|--------|
| | Base Salary ^(a) | Cash Benefits ^(b) | Non-cash Benefits ^(c) | Total | Total |
| Chairman ^(d) | \$ 165 | \$ 19 | \$ 10 | \$ 194 | \$ 438 |
| Board Member 1 | 117 | 2 | 27 | 146 | 222 |
| Board Member 2 | 117 | 2 | 26 | 145 | 198 |
| Board Member 3 | 117 | 21 | 2 | 140 | 188 |
| Board Member 4 | 117 | 14 | 5 | 136 | 185 |
| Board Member 5 | 105 | 2 | 21 | 128 | 193 |
| Board Member 6 | 105 | 15 | 2 | 122 | 187 |
| Board Member 7 | 105 | 2 | 3 | 110 | 205 |
| Board Member 8 | 70 | 4 | 18 | 92 | - |
| Board Member 9 | 45 | 7 | 3 | 55 | 193 |

(a) Pensionable base pay.

(b) Bonuses and payments in lieu of vacation, health, and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships, and tuition fees. Automobiles were provided, but no amount is included in these figures.

(d) For the nine month period ended December 31, 2007 there was an Acting Chairman from April 1- September 15, 2007. A Chairman was appointed on September 17, 2007.

SCHEDULE TO FINANCIAL STATEMENTS
AUTHORIZED BUDGET

(in thousands)

| | Year ended March 31, 2008 | | | Nine months ended December 31, 2007 | |
|---------------------------------|---------------------------|---------------|----------------------|--|--------|
| | Budget (Estimate) | Plan | | | Actual |
| | | Changes | Authorized Budget | | |
| Revenues | | | | | |
| Industry levies and assessments | \$ 89,950 | \$ - | \$ 89,950 | \$ 78,480 | |
| Provincial grant | 59,743 | 14,500 | 74,243 | 59,243 | |
| Information, services and fees | 9,809 | 2,000 | 11,809 | 7,193 | |
| Investment | 2,500 | - | 2,500 | 2,447 | |
| | <u>162,002</u> | <u>16,500</u> | <u>178,502</u> | <u>147,363</u> | |
| Expenses | | | | | |
| Energy regulation | 146,002 | 11,500 | 157,502 | 103,214 | |
| Orphan abandonment | 13,000 | - | 13,000 | 800 | |
| | <u>159,002</u> | <u>11,500</u> | <u>170,502</u> | <u>104,014</u> | |
| Net operating results | <u>3,000</u> | <u>5,000</u> | <u>8,000</u> | <u>43,349</u> | |
| Capital | | | | | |
| Capital investments | 14,500 | 5,000 | 19,500 | 9,740 | |
| Less: Amortization | (11,500) | - | (11,500) | (7,341) | |
| Net capital investment | <u>3,000</u> | <u>5,000</u> | <u>8,000</u> | <u>2,399</u> | |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 40,950</u> | |

Note

The Budget is based on the EUB Business Plan for the year ended March 31, 2008. Changes to the Budget were subsequently made and include the effect of the January 1, 2008 realignment of the EUB into the ERCB and AUC. The Budget and Changes have been approved by the Treasury Board of the Government of Alberta.

The Authorized Budget covers the twelve months ended March 31, 2008, while the actual EUB results reflect the nine months ended December 31, 2007. The remaining budget will be allocated to the EUB's successor entities (ERCB and AUC) in their initial operations for the three months ended March 31, 2008.

ENERGY RESOURCES CONSERVATION BOARD

FINANCIAL STATEMENTS

For the three months ended March 31, 2008

Auditor's Report - 110

Statement of Operations - 111

Statement of Financial Position - 112

Statement of Cash Flows - 113

Notes to the Financial Statements - 114

Schedules to the Financial Statements - 119



Auditor's Report

To the Chair of the Energy Resources Conservation Board

I have audited the statement of financial position of the Energy Resources Conservation Board as at March 31, 2008 and the statements of operations and cash flows for the three months 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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2008 and the results of its operations and its cash flows for the three months then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
May 2, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ENERGY RESOURCES CONSERVATION BOARD

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

(in thousands)

| | | |
|---------------------------------|----|-----------------|
| Revenues | | |
| Industry levies and assessments | \$ | 12,072 |
| Provincial grant | | 5,100 |
| Information, services and fees | | 3,427 |
| Investment | | 320 |
| | | <hr/> |
| | | 20,919 |
| | | <hr/> |
| Expenses | | |
| Energy regulation (Schedule 1) | | 42,753 |
| Orphan abandonment (Note 3) | | 12,292 |
| | | <hr/> |
| | | 55,045 |
| | | <hr/> |
| Net operating results | \$ | <u>(34,126)</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2008

(in thousands)

Assets

Current

| | | |
|----------------------------|----|--------|
| Cash (Note 4) | \$ | 29,388 |
| Security deposits (Note 5) | | 31,224 |
| Accounts receivable | | 3,240 |
| Prepaid expenses | | 2,053 |

65,905

| | | |
|---------------------------------|--|--------|
| Computer software (Note 6) | | 32,302 |
| Property and equipment (Note 7) | | 12,410 |
| Accrued pension asset (Note 8) | | 7,295 |

\$ 117,912

Liabilities

Current

| | | |
|--|----|--------|
| Accounts payable and accrued liabilities | \$ | 19,409 |
| Grant payable to Orphan Well Association | | 9,897 |
| Security deposits (Note 5) | | 31,224 |
| Unearned revenue | | 1,548 |
| Current portion of deferred lease incentives | | 725 |

62,803

| | | |
|---------------------------|--|-------|
| Deferred lease incentives | | 1,070 |
|---------------------------|--|-------|

Total liabilities 63,873

Net Assets

| | | |
|--|--|----------|
| Net assets, opening balance (Schedule 3) | | 88,165 |
| Net operating results | | (34,126) |

Net assets, end of period 54,039

\$ 117,912

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD

STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2008

(in thousands)

| | |
|--|------------------|
| Operating Activities | |
| Net operating results | \$ (34,126) |
| Non-cash expenses | |
| Amortization | 2,277 |
| Pension | 1,659 |
| Changes in operating non-cash working capital | |
| Increase in accounts receivable | (167) |
| Increase in prepaid expenses | (617) |
| Increase in accounts payable and accrued liabilities | 8,015 |
| Increase in grant payable to Orphan Well Association | 9,786 |
| Decrease in unearned revenue | (147) |
| | <u>(13,320)</u> |
| Investing Activities | |
| Investment in computer software | (3,298) |
| Investment in property and equipment | (1,504) |
| | <u>(4,802)</u> |
| Financing Activities | |
| Pension obligations funded | (1,561) |
| Lease incentives repaid | (182) |
| | <u>(1,743)</u> |
| Net cash used | (19,865) |
| Cash, beginning of period (Schedule 3) | 49,253 |
| Cash, end of period | <u>\$ 29,388</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 1 Authority and Purpose

The Energy Resources Conservation Board (ERCB) is an independent and quasi-judicial agency of the Government of Alberta. The ERCB's mission is to ensure that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest.

The ERCB was established January 1, 2008 as a result of the realignment of Alberta Energy and Utilities Board (EUB) into two independent regulatory organizations, the ERCB and the Alberta Utilities Commission (AUC). The ERCB operates under the Energy Resources Conservation Act, RSA 2000, Chapter E-10.

Note 2 Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized as follow:

(a) Amortization

All tangible and intangible assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

| | |
|-------------------------|---|
| Computer software | Declining balance - 20 per cent per year |
| Furniture and equipment | Straight line - 3 to 20 years |
| Computer hardware | Straight line - 3 to 5 years |
| Leasehold improvements | Straight line - lease term to a maximum of 10 years |

(b) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and length of service to the time of retirement.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 8 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to Government of Alberta multi-employer defined benefit pension plans as the ERCB has insufficient information to apply defined benefit plan accounting.

(c) Deferred lease incentives

Deferred lease incentives are amortized on a straight-line basis over the term of the lease.

ENERGY RESOURCES CONSERVATION BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 2 Significant Accounting Policies (continued)

(d) Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of accounts receivable, accounts payable and accrued liabilities, grant payable to Orphan Well Association and security deposits are estimated to approximate their carrying values.

(e) Revenue recognition

All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the period receivable.

Note 3 Orphan Abandonment

The ERCB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The ERCB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the three months ended March 31, 2008 the ERCB levied the oil and gas industry \$12,072 and collected \$220 in application fees.

Note 4 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with an average annual effective yield of 3.82% and maximum term to maturity of three years.

Note 5 Security Deposits

The ERCB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines and oilfield waste management facilities by holding various forms of security. At March 31, 2008, the ERCB held \$31,224 in cash and an additional \$118,525 in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 6 Computer Software

| | March 31, 2008 | | |
|----------------------------|------------------|-----------------------------|------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer software | \$ 52,656 | \$ 32,191 | \$ 20,465 |
| Software under development | 11,837 | - | 11,837 |
| | <u>\$ 64,493</u> | <u>\$ 32,191</u> | <u>\$ 32,302</u> |

ENERGY RESOURCES CONSERVATION BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 6 Computer Software (continued)

Computer software assets with a net book value of \$17 (Cost: \$64; Accumulated Amortization: \$47) with no remaining economic life were decommissioned during the three months ended March 31, 2008. Accordingly, a loss of \$17 is included in Amortization - computer software on Schedule 1.

Note 7 Property and Equipment

| | March 31, 2008 | | |
|-------------------------|------------------|--------------------------|------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer hardware | \$ 9,694 | \$ 5,872 | \$ 3,822 |
| Leasehold improvements | 10,285 | 6,631 | 3,654 |
| Furniture and equipment | 10,512 | 5,898 | 4,614 |
| Land | 320 | - | 320 |
| | <u>\$ 30,811</u> | <u>\$ 18,401</u> | <u>\$ 12,410</u> |

Property and equipment with a net book value of \$7 (Cost: \$176; Accumulated Amortization: \$169) with no remaining economic life were disposed of during the three months ended March 31, 2008. Accordingly, a loss on disposal of \$7 is included in Amortization - property and equipment on Schedule 1.

Note 8 Pension

The ERCB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the contribution of \$1,230 for the three months ended March 31, 2008.

In addition, the ERCB maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2008. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2007. The effective date of the next required funding valuation for SEPP is December 31, 2010.

Significant actuarial and economic assumptions as at March 31, 2008 used to value accrued benefit obligations and pension costs are as follows:

| | |
|--|------|
| Accrued benefit obligations | |
| Discount rate | 6.1% |
| Rate of compensation increase (weighted average) | 3.5% |

ENERGY RESOURCES CONSERVATION BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 8 Pension (continued)

| | |
|---|------|
| Benefit costs for the year | |
| Discount rate | 5.5% |
| Expected rate of return on plan assets (weighted average) | 6.0% |
| Rate of compensation increase (weighted average) | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position as at March 31, 2008 are as follows:

| | | |
|--------------------------------|----|--------|
| Fair value of plan assets | \$ | 27,737 |
| Accrued benefit obligations | | 24,090 |
| Plan surplus | | 3,647 |
| Unamortized net actuarial loss | | 3,648 |
| Accrued pension asset | \$ | 7,295 |

Additional information about the defined benefit pension plans for the three months ended March 31, 2008 is as follows:

| | | |
|-------------------------|----|-----|
| ERCB contribution | \$ | 329 |
| Employees' contribution | | 88 |
| Benefits paid | | 561 |
| Pension benefit costs | | 429 |

The asset allocation of the defined benefit pension plans investments as at March 31, 2008 is as follows:

| | | |
|-------------------|--|---------------|
| Equity securities | | 49.0% |
| Debt instruments | | 39.9% |
| Other | | 11.1% |
| | | <u>100.0%</u> |

Note 9 Future Operating Lease Commitments

The ERCB leases office and research storage facilities. The future annual minimum operating lease payments, net of lease incentives, are as follows:

| | | |
|------------|----|---------------|
| 2009 | \$ | 5,385 |
| 2010 | | 4,873 |
| 2011 | | 3,820 |
| 2012 | | 494 |
| 2013 | | 387 |
| Thereafter | | 3,879 |
| | \$ | <u>18,838</u> |

ENERGY RESOURCES CONSERVATION BOARD

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 10 Related Party Transactions

For the three months ended March 31, 2008 the ERCB paid \$1,349 to various other Government of Alberta organizations for supplies and services. Included in these services was a payment of \$938 for computing services and a payment of \$103 for the lease of a research storage facility from Alberta Infrastructure and Transportation. The remaining term of this lease is seventy eight years and the future annual payments are \$309 to 2009 and \$48 thereafter.

For the three months ended March 31, 2008 the ERCB received a grant of \$5,100 and service revenue of \$1,618 from Government of Alberta organizations. Included in these services was a receipt of \$248 for computing services and \$18 for fleet management paid by the AUC.

All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 11 Approval of financial statements

These financial statements were approved by the Board of the ERCB on May 15, 2008.

ENERGY RESOURCES CONSERVATION BOARD**SCHEDULE 1****SCHEDULE TO FINANCIAL STATEMENTS
ENERGY REGULATION EXPENSES
FOR THE THREE MONTHS ENDED MARCH 31, 2008**

(in thousands)

| | | |
|---------------------------------------|----|---------------|
| Personnel | \$ | 28,917 |
| Consulting services | | 3,987 |
| Buildings | | 2,569 |
| Administrative | | 2,422 |
| Computer services | | 1,436 |
| Amortization - computer software | | 1,148 |
| Amortization - property and equipment | | 1,129 |
| Travel and transportation | | 829 |
| Abandonment and enforcement | | 179 |
| Equipment rent and maintenance | | 137 |
| | \$ | <u>42,753</u> |

**SCHEDULE TO FINANCIAL STATEMENTS
SALARIES AND BENEFITS DISCLOSURE
FOR THE THREE MONTHS ENDED MARCH 31, 2008**

(in thousands)

| | Base Salary ^(a) | Cash Benefits ^(b) | Non-cash Benefits ^(c) | Total |
|-------------------------|----------------------------|------------------------------|-------------------------------------|--------|
| Chairman ^(d) | \$ 64 | \$ 34 | \$ 5 | \$ 103 |
| Board Member 1 | 39 | 6 | 6 | 51 |
| Board Member 2 | 39 | 12 | 4 | 55 |
| Board Member 3 | 39 | 12 | 2 | 53 |

(a) Pensionable base pay.

(b) Bonuses and payments in lieu of vacation, health, and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships, and tuition fees. Automobiles were provided, but no amount is included in these figures.

(d) For the month of January 2008 there was an Acting Chairman. A Chairman was appointed effective February 1, 2008.

SCHEDULE TO FINANCIAL STATEMENTS
ALLOCATION OF OPENING BALANCES

(in thousands)

| | EUB | January 1, 2008 | |
|--|-------------------|-------------------|-----------------|
| | December 31, 2007 | ERCB | AUC |
| Assets | | | |
| Current | | | |
| Cash | \$ 53,012 | \$ 49,253 | \$ 3,759 |
| Security deposits | 31,084 | 31,084 | - |
| Accounts receivable | 3,073 | 3,073 | - |
| Prepaid expenses | 1,786 | 1,436 | 350 |
| | <u>88,955</u> | <u>84,846</u> | <u>4,109</u> |
| Computer software | 32,995 | 30,152 | 2,843 |
| Property and equipment | 13,879 | 12,035 | 1,844 |
| Accrued pension asset | 8,256 | 7,393 | 863 |
| | <u>\$ 144,085</u> | <u>\$ 134,426</u> | <u>\$ 9,659</u> |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$ 11,971 | \$ 11,394 | \$ 577 |
| Grant payable to Orphan Well Association | 111 | 111 | - |
| Security deposits | 31,084 | 31,084 | - |
| Unearned revenue | 1,738 | 1,695 | 43 |
| Current portion of deferred lease incentives | 725 | 725 | - |
| | <u>45,629</u> | <u>45,009</u> | <u>620</u> |
| Deferred lease incentives | 1,252 | 1,252 | - |
| | <u>46,881</u> | <u>46,261</u> | <u>620</u> |
| Net Assets | <u>97,204</u> | <u>88,165</u> | <u>9,039</u> |
| | <u>\$ 144,085</u> | <u>\$ 134,426</u> | <u>\$ 9,659</u> |

Effective January 1, 2008 the EUB was separated into two independent regulatory organizations, the ERCB and the AUC. The assets and liabilities of the EUB as at December 31, 2007 were allocated, and commitments and contingencies were assumed by the ERCB and the AUC.

ALBERTA UTILITIES COMMISSION

FINANCIAL STATEMENTS

For the three months ended March 31, 2008

Auditor's Report - 124

Statement of Operations - 125

Statement of Financial Position - 126

Statement of Cash Flows - 127

Notes to the Financial Statements - 128

Schedules to the Financial Statements - 132



Auditor's Report

To the Chair of the Alberta Utilities Commission

I have audited the statement of financial position of the Alberta Utilities Commission as at March 31, 2008 and the statements of operations and cash flows for the three months then ended. These financial statements are the responsibility of the Commission'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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2008 and the results of its operations and its cash flows for the three months then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
April 25, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

ALBERTA UTILITIES COMMISSION

STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2008

(in thousands)

| | 2008 |
|---|-----------------------------|
| Revenues | |
| Provincial grant | \$ 9,400 |
| Investment | 86 |
| Professional and services | 64 |
| | <hr/> 9,550 |
| Expenses | |
| Utility Regulation (Schedule 1) | 6,381 |
| Net operating results for the period | <hr/> \$ 3,169 <hr/> |

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2008

(in thousands)

| | <u>2008</u> |
|--|------------------|
| Assets | |
| Current | |
| Cash (Note 3) | \$ 9,088 |
| Accounts receivable | 186 |
| Prepaid expenses | 136 |
| | <u>9,410</u> |
| Computer software (Note 4) | 3,403 |
| Property and equipment (Note 5) | 3,283 |
| Accrued pension asset (Note 6) | 795 |
| | <u>\$ 16,891</u> |
| | |
| Liabilities | |
| Current | |
| Accounts payable and accrued liabilities | \$ 4,683 |
| | <u>4,683</u> |
| | |
| Net Assets | |
| Net assets, opening balance (Note 7) | 9,039 |
| Net operating results | 3,169 |
| Net assets, closing balance | <u>12,208</u> |
| | <u>\$ 16,891</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION

STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2008

(in thousands)

| | <u>2008</u> |
|--|-----------------|
| Operating Activities | |
| Net operating results | \$ 3,169 |
| Non-cash expenses | |
| Amortization | 341 |
| Pension | 78 |
| Changes in operating non-cash working capital | |
| Increase in accounts receivable | (186) |
| Decrease in prepaid expenses | 214 |
| Increase in accounts payable and accrued liabilities | 4,106 |
| Decrease in unearned revenue | (43) |
| | <u>7,679</u> |
| Investing Activities | |
| Investment in computer software | (812) |
| Investment in property and equipment | (1,528) |
| | <u>(2,340)</u> |
| Financing Activities | |
| Pension obligations funded | (10) |
| | <u>(10)</u> |
| Net cash provided | 5,329 |
| Cash, beginning of period | 3,759 |
| Cash, end of period | <u>\$ 9,088</u> |

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2008

(in thousands)

Note 1 Authority and purpose

Effective January 1, 2008, the Alberta Utilities Commission (AUC) was established and operates under the authority of the Alberta Utilities Commission Act, Chapter A-37.2.

The AUC is an independent, quasi-judicial agency of the Government of Alberta and reports to the Minister of Energy. Its role is to ensure consumers are provided with reliable service at just and reasonable rates and also provide utility owners with a reasonable opportunity to recover their costs and earn a fair return on their investment. In addition, the AUC has been given new responsibilities to adjudicate competitive market issues arising from Alberta's restructured gas and electric industries.

Note 2 Significant accounting policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies are summarized as follow:

(a) Amortization

All tangible and intangible assets with an economic life greater than one year are recorded at cost and are amortized using the following methods:

| | |
|-------------------------|--|
| Computer software | Declining balance - 30 per cent per year |
| Furniture and equipment | Straight line - 3 to 40 years |
| Computer hardware | Straight line - 3 to 5 years |
| Leasehold improvements | Straight line - lease term |

(b) Pension

Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Any actuarial gain or loss is amortized over the average remaining service period of the active employees, which is 8 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

Defined contribution plan accounting is applied to the government multi-employer defined benefit pension plans as the AUC has insufficient information to apply defined benefit plan accounting.

(c) Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values.

Note 2 Significant accounting policies, continued

(d) Revenue recognition

All grants provided by Government of Alberta organizations and industry administrative fees are recognized as revenue in the period receivable.

Note 3 Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The annual average effective yield was 3.82%.

Note 4 Computer software

| | March 31, 2008 | | |
|----------------------------|-----------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Computer software | \$ 4,791 | \$ 1,527 | \$ 3,264 |
| Software under development | 139 | - | 139 |
| | <u>\$ 4,930</u> | <u>\$ 1,527</u> | <u>\$ 3,403</u> |

Note 5 Property and equipment

| | March 31, 2008 | | |
|-------------------------|-----------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value |
| Furniture and equipment | \$ 1,486 | \$ 40 | \$ 1,446 |
| Computer hardware | 1,430 | 240 | 1,190 |
| Leasehold improvements | 647 | - | 647 |
| | <u>\$ 3,563</u> | <u>\$ 280</u> | <u>\$ 3,283</u> |

Note 6 Pension

The AUC participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the contribution of \$199 for the three months ended March 31, 2008.

In addition, the AUC is a participating member of the defined benefit pension plans of Senior Employees Pension Plan (SEPP) and other two supplementary pension plans. These multi-unit pension plans compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2008. The effective date of the most recent actuarial funding valuation for SEPP, December 31, 2007. The effective date of the next required funding valuation for SEPP is December 31, 2010.

Note 6 Pension, continued

Significant actuarial and economic assumptions used to value accrued benefit obligations and benefit costs are as follows:

| | March 31, 2008 |
|---|-------------------|
| Accrued benefit obligations | |
| Discount rate | 6.1% |
| Rate of compensation increase (weighted average) | 3.5% |
| Benefit costs for the year | |
| Discount rate | 5.5% |
| Expected rate of return on plan assets (weighted average) | 5.8% |
| Rate of compensation increase (weighted average) | 3.5% |

The funded status and amounts recognized in the Statement of Financial Position are as follows:

| | March 31, 2008 |
|--------------------------------|-------------------|
| Fair value of plan assets | \$ 2,717 |
| Accrued benefit obligations | 2,211 |
| Plan surplus | 506 |
| Unamortized net actuarial loss | 289 |
| Accrued pension asset | \$ 795 |

Additional information about the defined benefit pension plans is as follows:

| | Three months ended March 31, 2008 |
|-------------------------|---|
| AUC contribution | \$ 10 |
| Employees' contribution | 34 |
| Benefits paid | - |
| Pension benefit costs | 78 |

The asset allocation of the defined benefit pension plans investments is as follows:

| | March 31, 2008 |
|-------------------|-------------------|
| Equity securities | 49.0% |
| Debt securities | 39.9% |
| Other | 11.1% |
| | 100.0% |

Note 7 Net assets opening balances

Effective January 1, 2008 the Alberta Energy and Utilities Board (EUB) was separated into two independent regulatory organizations, the AUC and the Energy Resources Conservation Board (ERCB). The assets, liabilities, and net assets of the EUB as at December 31, 2007 were allocated to the AUC and the ERCB. The Schedule of Net Assets Opening Balances, Schedule 3 discloses the allocation of the net assets between the two entities.

Note 8 Future operating lease commitments

The AUC leases office space in Calgary and Edmonton. The future annual minimum operating lease payments are as follows:

| | | |
|------------|----|---------------|
| 2009 | \$ | 2,451 |
| 2010 | | 2,653 |
| 2011 | | 2,653 |
| 2012 | | 2,669 |
| 2013 | | 2,486 |
| Thereafter | | 12,983 |
| | \$ | <u>25,895</u> |

Note 9 Related party transactions

For the three months ended March 31, 2008 the AUC received a grant of \$9,400 from Government of Alberta and paid \$248 for computing services and \$18 for fleet management to the ERC.

All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 10 Approval of financial statements

These financial statements were approved by the Chair of the Commission of the AUC on May 8, 2008.

ALBERTA UTILITIES COMMISSION**SCHEDULE 1****UTILITY REGULATION EXPENSES
FOR THE THREE MONTHS ENDED MARCH 31, 2008**

(in thousands)

| | <u>2008</u> |
|---------------------------------------|-----------------|
| Personnel | \$ 4,711 |
| Consulting services | 508 |
| Computer services | 366 |
| Amortization - computer software | 252 |
| Administrative | 247 |
| Buildings | 101 |
| Amortization - property and equipment | 89 |
| Travel and transportation | 68 |
| Equipment rent and maintenance | 39 |
| | <u>\$ 6,381</u> |

SALARIES AND BENEFITS DISCLOSURE FOR THE THREE MONTHS ENDED MARCH 31, 2008

(in thousands)

| | Three months ended March 31, 2008 | | | Total |
|--|--------------------------------------|---------------------------------|-------------------------------------|-------|
| | Base Salary ^(a) | Cash Benefits ^(b) | Non-cash Benefits ^(c) | |
| Chair ^(d) | \$ 62 | \$ - | \$ 17 | \$ 79 |
| Commission Member 1 ^(e) | 39 | 116 | 16 | 171 |
| Commission Member 2 | 25 | 12 | 9 | 46 |
| Commission Member 3 ^{(e) (f)} | 19 | 111 | 8 | 138 |

(a) Includes pensionable base pay.

(b) Includes bonuses and payments in lieu of vacation, health and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships, and tuition fees. Automobiles were provided but no amount is included in these figures.

(d) There was an Acting Chair for the month of January 2008. A Chairman was appointed on February 1, 2008.

(e) Commission Members received payments in lieu of vacation earned during employment with predecessor organization, the Alberta Energy and Utilities Board.

(f) Commission Member retired in February 2008.

SCHEDULE OF NET ASSETS OPENING BALANCES

(in thousands)

| | EUB December 31, 2007 | AUC January 1, 2008 | ERCB January 1, 2008 |
|--|-----------------------------|---------------------------|----------------------------|
| Assets | | | |
| Current | | | |
| Cash | \$ 53,012 | \$ 3,759 | \$ 49,253 |
| Security deposits | 31,084 | - | 31,084 |
| Accounts receivable | 3,073 | - | 3,073 |
| Prepaid expenses | 1,786 | 350 | 1,436 |
| | <u>88,955</u> | <u>4,109</u> | <u>84,846</u> |
| Computer software | 32,995 | 2,843 | 30,152 |
| Property and equipment | 13,879 | 1,844 | 12,035 |
| Accrued pension asset | 8,256 | 863 | 7,393 |
| | <u>\$ 144,085</u> | <u>\$ 9,659</u> | <u>\$ 134,426</u> |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | \$ 11,971 | \$ 577 | \$ 11,394 |
| Grant payable to Orphan Well Association | 111 | - | 111 |
| Security deposits | 31,084 | - | 31,084 |
| Unearned revenue | 1,738 | 43 | 1,695 |
| Current portion of deferred lease incentives | 725 | - | 725 |
| | <u>45,629</u> | <u>620</u> | <u>45,009</u> |
| Deferred lease incentives | 1,252 | - | 1,252 |
| | <u>46,881</u> | <u>620</u> | <u>46,261</u> |
| Net Assets | | | |
| Net assets | <u>97,204</u> | <u>9,039</u> | <u>88,165</u> |
| | <u>97,204</u> | <u>9,039</u> | <u>88,165</u> |
| | <u>\$ 144,085</u> | <u>\$ 9,659</u> | <u>\$ 134,426</u> |

ALBERTA PETROLEUM MARKETING COMMISSION

FINANCIAL STATEMENTS

For the year ended December 31, 2007

Auditor's Report - 136

Statement of Operations - 137

Statement of Financial Position - 138

Statement of Cash Flow - 139

Notes to the Financial Statements - 140



Auditor's Report

To the Members of the Alberta Petroleum Marketing Commission

I have audited the statement of financial position of the Alberta Petroleum Marketing Commission as at December 31, 2007 and the statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the Commission'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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by Fred J. Dunn, FCA

FCA
Auditor General

Edmonton, Alberta
March 28, 2008

The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.

Alberta Petroleum Marketing Commission
Statement of Operations
For the Year Ended December 31, 2007
(in thousands)

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Crude oil sales | \$ 1,570,910 | \$ 1,584,274 |
| Expense | | |
| Crude oil purchases | 128,698 | 119,281 |
| Transportation | 31,586 | 35,303 |
| Marketing fees | 1,686 | 1,422 |
| | <u>161,970</u> | <u>156,006</u> |
| Excess of sales over expense | 1,408,940 | 1,428,268 |
| Other revenue | | |
| Interest earned | 605 | 341 |
| Penalties collected | 1,143 | - |
| Fees on marketing | 211 | - |
| Other | 6 | 3 |
| | <u>1,965</u> | <u>344</u> |
| Net sales (to be transferred to the Province) | <u>\$ 1,410,905</u> | <u>\$ 1,428,612</u> |

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statement of Financial Position
As At December 31, 2007
(in thousands)

| | 2007 | 2006 |
|--|------------|------------|
| Assets | | |
| Cash and short-term investments (Note 3) | \$ 17,142 | \$ 6,281 |
| Accounts receivable | 152,140 | 123,139 |
| Inventory | 47,847 | 12,183 |
| | \$ 217,129 | \$ 141,603 |
| Liabilities | | |
| Accounts payable (Note 4) | \$ 48,334 | \$ 23,866 |
| Liability to the Province for inventory held | 47,847 | 12,183 |
| | 96,181 | 36,049 |
| Due to the Province of Alberta (Note 5) | 120,948 | 105,554 |
| | \$ 217,129 | \$ 141,603 |

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statement of Cash Flow
For the Year Ended December 31, 2007
(in thousands)

| | 2007 | 2006 |
|---|--------------|--------------|
| Operating transactions | | |
| Net sales (to be transferred to the Province) | \$ 1,410,905 | \$ 1,428,612 |
| Change in non-cash working capital | | |
| (Increase) decrease in Accounts receivable | (29,001) | 8,999 |
| (Increase) decrease in Inventory | (35,664) | 17,857 |
| Increase (decrease) in Accounts payable | 24,468 | (5,962) |
| Increase (decrease) in Liability to the Province for inventory held | 35,664 | (17,857) |
| | 1,406,372 | 1,431,649 |
| Net transfer to the Province of Alberta | (1,395,511) | (1,434,255) |
| Net increase (decrease) in Cash | 10,861 | (2,606) |
| Cash and short term investments at beginning of year | 6,281 | 8,887 |
| Cash and short term investments at end of year | \$ 17,142 | \$ 6,281 |

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Notes to the Financial Statements
December 31, 2007
(in thousands)

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the *Petroleum Marketing Act*, Chapter P-10, *Revised Statutes of Alberta 2000*, and the *Natural Gas Marketing Act*, Chapter N-1, *Revised Statutes of Alberta 2000*. This legislation designates the Commission as agent of the Province of Alberta to accept delivery of and market the Crown royalty share of crude oil.

Note 2 Significant Accounting Policies

(a) Sales of Crude Oil

Crude oil sales are recognized when the Crown royalty share of crude oil is sold. When producers under-deliver Crown royalty share, and that under-delivered volume is not subsequently delivered, the Commission deems a sale of crude oil to have occurred.

(b) Crude Oil Valuation

The Crown royalty share of crude oil is combined with Agents' supply of like crude. The value of Crown royalty crude oil is based on a pro-rata share of the net results of the Agents' marketing activities, which may include the sale, purchase, and transportation of crude oil. The APMC currently markets a portion of Crown royalty share, the results of which are included in the value of Crown royalty crude oil.

(c) Inventory

Inventory represents Crown royalty oil in feeder and trunk pipelines. At the balance sheet date inventories are stated at net realizable value.

(d) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. Proceeds of sales by Agents are remitted to the Commission in Canadian funds (Agent sales in foreign currencies are converted to Canadian funds at daily or average monthly rates on or near payment due date.) Proceeds of sale received by APMC in foreign currencies are valued at average monthly rates for the month of sale. Operational oil price hedging may be used to address risk. The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 2007.

Note 3 Cash and Short-term Investments

Cash and short-term investments consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2007, securities held by the Fund have an average effective market yield of 4.88% per annum (2006: 4.55%).

Alberta Petroleum Marketing Commission
Notes to the Financial Statements
December 31, 2007

(in thousands)

Note 4 Accounts Payable

| | 2007 | 2006 |
|------------------------------|-----------|-----------|
| Transportation and purchases | \$ 22,466 | \$ 13,151 |
| Goods and services tax | 25,868 | 10,715 |
| | \$ 48,334 | \$ 23,866 |

Note 5 Due to the Province of Alberta

The amount due to the Province of Alberta represents the difference between the carrying value of assets held by the Commission and its liabilities.

| | 2007 | 2006 |
|--|-------------|-------------|
| Due to Province beginning of year | \$ 105,554 | \$ 111,197 |
| Net proceeds (to be transferred to the Province) | 1,410,905 | 1,428,612 |
| Net transfer to the Province | (1,395,511) | (1,434,255) |
| Due to Province at end of year | \$ 120,948 | \$ 105,554 |

Note 6 Changes in Marketing Operations

During the year Agency contracts with Tidal Energy Marketing and EnCana Corporation expired. Beginning with the production month of June 2007, following a formal Request for Proposals process, the Commission entered into a contractual relationship with Nexen Marketing to market most of the Crown's royalty oil. Concurrent with that contract APMC began marketing a portion of the Crown's oil, and handling all the financial commitments required to move the Crown oil to the Agent's account, including pipeline tariffs, equalizations and single shipper buy/sell arrangements. Crown Royalty sales for the year in thousand m3 were APMC – 223; Nexen – 1,812; Tidal – 487; and EnCana – 1017.

Note 7 Commitments -

The Commission has entered into transportation agreements for the ensuing four and one quarter years for a portion of its anticipated pipeline requirements. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2007 is \$31,201 (2006 - \$44,033). Due 2008 - 7,341; 2009 – 7,341; 2010 - 7,341; 2011 – 7,341 and 2012 - 1,837. This commitment will be paid from future oil sales revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs. APMC also has the option of contracting the space to other shippers.

Note 8 Related Party Transactions

The Commission accepts delivery of and markets the Crown royalty share of crude oil. The Commission remits the proceeds from the sale of the Crown royalty share of crude oil to the Department of Energy. The Department provides accounting, administrative and other support services to the Commission at no charge.

Note 9 Approval of Financial Statements

The Members of the Commission have approved these financial statements.

Alphabetical List of Entities' Financial Statements in Ministry 2007-08 Annual Reports

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|--|--|
| Access to the Future Fund | Advanced Education and Technology |
| Agriculture Financial Services Corporation | Agriculture and Food |
| Alberta Alcohol and Drug Abuse Commission | Health and Wellness |
| Alberta Cancer Prevention Legacy Fund | Finance |
| Alberta Capital Finance Authority | Finance |
| Alberta Energy and Utilities Board ¹ | Energy |
| Alberta Foundation for the Arts | Tourism, Parks, Recreation and Culture |
| Alberta Gaming and Liquor Commission | Solicitor General and Public Security |
| Alberta Heritage Foundation for Medical Research Endowment Fund | Finance |
| Alberta Heritage Savings Trust Fund | Finance |
| Alberta Heritage Scholarship Fund | Finance |
| Alberta Heritage Science and Engineering Research Endowment Fund | Finance |
| Alberta Historical Resources Foundation | Tourism, Parks, Recreation and Culture |
| Alberta Insurance Council | Finance |
| Alberta Investment Management Corporation ² | Finance |
| Alberta Local Authorities Pension Plan Corporation | Finance |
| Alberta Pensions Administration Corporation | Finance |
| Alberta Petroleum Marketing Commission | Energy |
| Alberta Research Council Inc. | Advanced Education and Technology |
| Alberta Risk Management Fund | Finance |
| Alberta School Foundation Fund | Education |
| Alberta Securities Commission | Finance |
| Alberta Social Housing Corporation | Municipal Affairs and Housing |
| Alberta Sport, Recreation, Parks and Wildlife Foundation | Tourism, Parks, Recreation and Culture |
| Alberta Treasury Branches | Finance |
| Alberta Utilities Commission ¹ | Energy |
| ATB Insurance Advisors Inc. | Finance |
| ATB Investment Management Inc. | Finance |
| ATB Investment Services Inc. | Finance |
| ATB Securities Inc. | Finance |
| Child and Family Services Authorities: Calgary and Area Child and Family Services Authority | Children's Services |

1 Effective January 1, 2008, the Alberta Energy and Utilities Board was realigned into two separate regulatory bodies: the Alberta Utilities Commission and the Energy Resources Conservation Board.

2 Began operations January 1, 2008

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|---|-----------------------------------|
| Central Alberta Child and Family Services Authority | |
| East Central Alberta Child and Family Services Authority | |
| Edmonton and Area Child and Family Services Authority | |
| North Central Alberta Child and Family Services Authority | |
| Northeast Alberta Child and Family Services Authority | |
| Northwest Alberta Child and Family Services Authority | |
| Southeast Alberta Child and Family Services Authority | |
| Southwest Alberta Child and Family Services Authority | |
| Metis Settlements Child and Family Services Authority | |
| C-FER Technologies (1999) Inc. | Advanced Education and Technology |
| Climate Change and Emissions Management Fund ³ | Environment |
| Credit Union Deposit Guarantee Corporation | Finance |
| Colleges: | Advanced Education and Technology |
| Alberta College of Art and Design | |
| Bow Valley College | |
| Grande Prairie Regional College | |
| Grant MacEwan College | |
| Keyano College | |
| Lakeland College | |
| Lethbridge Community College | |
| Medicine Hat College | |
| Mount Royal College | |
| NorQuest College | |
| Northern Lakes College | |
| Olds College | |
| Portage College | |
| Red Deer College | |
| Department of Advanced Education and Technology | Advanced Education and Technology |
| Department of Agriculture and Food | Agriculture and Food |
| Department of Children's Services | Children's Services |
| Department of Education | Education |
| Department of Energy | Energy |
| Department of Finance | Finance |
| Department of Environment | Environment |
| Department of Health and Wellness | Health and Wellness |
| Department of Municipal Affairs and Housing | Municipal Affairs and Housing |

³ Began operations July 1, 2007

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|--|---|
| Department of Seniors and Community Supports | Seniors and Community Supports |
| Department of Solicitor General and Public Security | Solicitor General and Public Security |
| Department of Sustainable Resource Development | Sustainable Resource Development |
| Department of Tourism, Parks, Recreation and Culture | Tourism, Parks, Recreation and Culture |
| Energy Resources Conservation Board ¹ | Energy |
| Environmental Protection and Enhancement Fund | Sustainable Resource Development |
| Gainers Inc. | Finance |
| Government House Foundation | Tourism, Parks, Recreation and Culture |
| Historic Resources Fund | Tourism, Parks, Recreation and Culture |
| Human Rights, Citizenship and Multiculturalism Education Fund | Tourism, Parks, Recreation and Culture |
| iCORE Inc. | Advanced Education and Technology |
| Lottery Fund | Solicitor General and Public Security |
| Ministry of Advanced Education and Technology | Advanced Education and Technology |
| Ministry of Agriculture and Food | Agriculture and Food |
| Ministry of Children's Services | Children's Services |
| Ministry of Education | Education |
| Ministry of Employment, Immigration and Industry ⁴ | Employment, Immigration and Industry |
| Ministry of Energy | Energy |
| Ministry of Environment | Environment |
| Ministry of Executive Council ⁴ | Executive Council |
| Ministry of Finance | Finance |
| Ministry of Health and Wellness | Health and Wellness |
| Ministry of Infrastructure and Transportation ⁴ | Infrastructure and Transportation |
| Ministry of International, Intergovernmental and Aboriginal Relations ⁴ | International, Intergovernmental and Aboriginal Relations |
| Ministry of Justice ⁴ | Justice |
| Ministry of Municipal Affairs and Housing | Municipal Affairs and Housing |
| Ministry of Seniors and Community Supports | Seniors and Community Supports |
| Ministry of Service Alberta ⁴ | Service Alberta |
| Ministry of Solicitor General and Public Security | Solicitor General and Public Security |
| Ministry of Sustainable Resource Development | Sustainable Resource Development |
| Ministry of Tourism, Parks, Recreation and Culture | Tourism, Parks, Recreation and Culture |
| Ministry of the Treasury Board ⁴ | Treasury Board |
| N.A. Properties (1994) Ltd. | Finance |
| Natural Resources Conservation Board | Sustainable Resource Development |
| Persons with Developmental Disabilities Community Boards: | Seniors and Community Supports |

¹ Effective January 1, 2008, the Alberta Energy and Utilities Board was realigned into two separate regulatory bodies: the Alberta Utilities Commission and the Energy Resources Conservation Board.

⁴ Ministry includes only the departments so separate departmental financial statements are not necessary.

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|---|--------------------------------|
| Calgary Region Community Board | |
| Central Region Community Board | |
| Edmonton Region Community Board | |
| Northeast Region Community Board | |
| Northwest Region Community Board | |
| South Region Community Board | |
| Persons with Developmental Disabilities Provincial Board ⁵ | Seniors and Community Supports |
| Provincial Judges and Masters in Chambers Reserve Fund | Finance |
| Regional Health Authorities and Provincial Health Boards: | Health and Wellness |
| Alberta Cancer Board | |
| Alberta Mental Health Board | |
| Aspen Regional Health Authority | |
| Calgary Health Region | |
| Capital Health | |
| Chinook Regional Health Authority | |
| David Thompson Regional Health Authority | |
| East Central Health | |
| Health Quality Council of Alberta | |
| Northern Lights Health Region | |
| Peace Country Health | |
| Palliser Health Region | |
| Safety Codes Council | Municipal Affairs and Housing |
| School Boards and Charter Schools: | Education |
| Almadina School Society | |
| Aspen View Regional Division No. 19 | |
| Aurora School Ltd. | |
| Battle River Regional Division No. 31 | |
| Black Gold Regional Division No. 18 | |
| Boyle Street Education Centre | |
| Buffalo Trail Public Schools Regional Division No. 28 | |
| Calgary Arts Academy Society | |
| Calgary Girls' School Society | |
| Calgary Roman Catholic Separate School District No. 1 | |
| Calgary School District No. 19 | |
| Calgary Science School Society | |
| Canadian Rockies Regional Division No. 12 | |

⁵ Ceased operations June 30, 2006

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|---|------------------------|
| CAPE-Centre for Academic and Personal Excellence Institute | |
| Chinook's Edge School Division No. 73 | |
| Christ the Redeemer Catholic Separate Regional Division No. 3 | |
| Clearview School Division No. 71 | |
| East Central Alberta Catholic Separate Schools Regional Division No. 16 | |
| East Central Francophone Education Region No. 3 | |
| Edmonton Catholic Separate School District No. 7 | |
| Edmonton School District No. 7 | |
| Elk Island Catholic Separate Regional Division No. 41 | |
| Elk Island Public Schools Regional Division No. 14 | |
| Evergreen Catholic Separate Regional Division No. 2 | |
| FFCA Charter School Society | |
| Foothills School Division No. 38 | |
| Fort McMurray Roman Catholic Separate School District No. 32 | |
| Fort McMurray School District No. 2833 | |
| Fort Vermilion School Division No. 52 | |
| Golden Hills School Division No. 75 | |
| Grande Prairie Public School District No. 2357 | |
| Grande Prairie Roman Catholic Separate School District No. 28 | |
| Grande Yellowhead Regional Division No. 35 | |
| Grasslands Regional Division No. 6 | |
| Greater North Central Francophone Education Region No. 2 | |
| Greater Southern Public Francophone Education Region No. 4 | |
| Greater Southern Separate Catholic Francophone Education Region No. 4 | |
| Greater St. Albert Catholic Regional Division No. 29 | |
| High Prairie School Division No. 48 | |
| Holy Family Catholic Regional Division No. 37 | |
| Holy Spirit Roman Catholic Separate Regional Division No. 4 | |
| Horizon School Division No. 67 | |
| Lakeland Roman Catholic Separate School District No. 150 | |
| Lethbridge School District No. 51 | |
| Living Waters Catholic Regional Division No. 42 | |
| Livingstone Range School Division No. 68 | |
| Medicine Hat Catholic Separate Regional Division No. 20 | |
| Medicine Hat School District No. 76 | |
| Moberly Hall School Society | |
| Mother Earth's Children's Charter School Society | |

Entities Included In The Consolidated Government Reporting Entity

| Ministry, Department, Fund or Agency | Ministry Annual Report |
|---|--|
| New Horizons Charter School Society | |
| Northern Gateway Regional Division No. 10 | |
| Northern Lights School Division No. 69 | |
| Northland School Division No. 61 | |
| Northwest Francophone Education Region No. 1 | |
| Palliser Regional Division No. 26 | |
| Parkland School Division No. 70 | |
| Peace River School Division No. 10 | |
| Peace Wapiti School Division No. 76 | |
| Pembina Hills Regional Division No. 7 | |
| Prairie Land Regional Division No. 25 | |
| Prairie Rose School Division No. 8 | |
| Red Deer Catholic Regional Division No. 39 | |
| Red Deer School District No. 104 | |
| Rocky View School Division No. 41 | |
| St. Albert Protestant Separate School District No. 6 | |
| St. Paul Education Regional Division No. 1 | |
| St. Thomas Aquinas Roman Catholic Separate Regional Division No. 38 | |
| Sturgeon School Division No. 24 | |
| Suzuki Charter School Society | |
| Westmount Charter School Society | |
| Westwind School Division No. 74 | |
| Wetaskiwin Regional Division No. 11 | |
| Wild Rose School Division No. 66 | |
| Wolf Creek School Division No. 72 | |
| Supplementary Retirement Plan Reserve Fund | Finance |
| Technical Institutes and The Banff Centre: | Advanced Education and Technology |
| Northern Alberta Institute of Technology | |
| Southern Alberta Institute of Technology | |
| The Banff Centre for Continuing Education | |
| Universities: | Advanced Education and Technology |
| Athabasca University | |
| The University of Alberta | |
| The University of Calgary | |
| The University of Lethbridge | |
| Victims of Crime Fund | Solicitor General and Public Security |
| Wild Rose Foundation | Tourism, Parks, Recreation and Culture |

Entities Not Included In The Consolidated Government Reporting Entity

| Fund or Agency | Ministry Annual Report |
|---|--------------------------------------|
| Alberta Foundation for Health Research | Advanced Education and Technology |
| Alberta Heritage Foundation for Medical Research | Advanced Education and Technology |
| Alberta Heritage Foundation for Science and Engineering Research | Advanced Education and Technology |
| Alberta Teachers' Retirement Fund Board | Education |
| Improvement Districts' Trust Account | Municipal Affairs and Housing |
| Local Authorities Pension Plan | Finance |
| Long-Term Disability Income Continuance Plan - Bargaining Unit | Service Alberta |
| Long-Term Disability Income Continuance Plan - Management, Opted Out and Excluded | Service Alberta |
| Management Employees Pension Plan | Finance |
| Provincial Judges and Masters in Chambers Pension Plan | Finance |
| Provincial Judges and Masters in Chambers (Unregistered) Pension Plan | Finance |
| Public Service Management (Closed Membership) Pension Plan | Finance |
| Public Service Pension Plan | Finance |
| Special Areas Trust Account | Municipal Affairs and Housing |
| Special Forces Pension Plan | Finance |
| Supplementary Retirement Plan for Public Service Managers | Finance |
| Workers' Compensation Board | Employment, Immigration and Industry |

Government Organization Changes 2008-09

| Ministry | Program/Element/Entity Changes | Previous Location | New Location |
|--|--|---|---|
| Aboriginal Relations | <ul style="list-style-type: none"> < Aboriginal Governance, Consultation and Economic Development < First Nations Development Fund | <ul style="list-style-type: none"> < Former International, Intergovernmental and Aboriginal Relations < Former Tourism, Parks, Recreation and Culture | |
| Advanced Education and Technology | < no change | | |
| Agriculture and Rural Development | < Rural Development | < Former Employment, Immigration and Industry | |
| Children and Youth Services (formerly Children's Services) | < Women's Issues | < Former Employment, Immigration and Industry | |
| Culture and Community Spirit | <ul style="list-style-type: none"> < Culture, Community Lottery Grants, Heritage, Human Rights and Citizenship < Alberta Foundation for the Arts < Alberta Historical Resources Foundation < Government House Foundation < Historic Resources Fund < Human Rights, Citizenship and Multiculturalism Education Fund < Wild Rose Foundation < Community and Voluntary Services | <ul style="list-style-type: none"> < Former Tourism, Parks, Recreation and Culture < Former Municipal Affairs and Housing | |
| Education | < no change | | |
| Employment and Immigration | <ul style="list-style-type: none"> < Francophone Secretariat < except Rural Development < except Economic Development < except Northern Alberta Development Council < except Alberta Economic Development Authority < except Women's Issues | < Former Tourism, Parks, Recreation and Culture | <ul style="list-style-type: none"> < Agriculture and Rural Development < Finance and Enterprise, and International and Intergovernmental Relations < Finance and Enterprise < Children and Youth Services |
| Energy | < no change | | |
| Environment | < no change | | |
| Executive Council | < no change | | |

Government Organization Changes 2008-09

| Ministry | Program/Element/Entity Changes | Previous Location | New Location |
|---|---|--|---|
| Finance and Enterprise | <ul style="list-style-type: none"> < Regulatory Review Secretariat < Economic Development, except Investment Attraction < Northern Alberta Development Council < Alberta Economic Development Authority | <ul style="list-style-type: none"> < Service Alberta < Former Employment, Immigration and Industry | |
| Health and Wellness | < no change | | |
| Housing and Urban Affairs | <ul style="list-style-type: none"> < Housing Services < Alberta Social Housing Corporation | < Former Municipal Affairs and Housing | |
| Infrastructure | < except Provincial Highway Systems and Safety | < Former Infrastructure and Transportation | < Transportation |
| International and Intergovernmental Relations | <ul style="list-style-type: none"> < except Aboriginal Governance, Consultation and Economic Development < Investment Attraction | < Former Employment, Immigration and Industry | < Aboriginal Relations < |
| Justice and Attorney General | < no change | | |
| Municipal Affairs | <ul style="list-style-type: none"> < except Housing Services < except Alberta Social Housing Corporation < except Community and Voluntary Services | | <ul style="list-style-type: none"> < Housing and Urban Affairs < Culture and Community Spirit |
| Seniors and Community Supports | < no change | | |
| Service Alberta | <ul style="list-style-type: none"> < except Regulatory Review Secretariat < except Personnel Administration Office < except Aircraft Services | | <ul style="list-style-type: none"> < Finance and Enterprise < Treasury Board |
| Solicitor General and Public Security | < no change | | |
| Sustainable Resource Development | < no change | | |

Government Organization Changes 2008-09

| Ministry | Program/Element/Entity Changes | Previous Location | New Location |
|-------------------------------|--|--|--------------------------------|
| Tourism, Parks and Recreation | < except First Nations Development Fund | | < Aboriginal Relations |
| | < except Culture, Community Lottery Grants, Heritage, Human Rights and Citizenship | | < Culture and Community Spirit |
| | < except Alberta Foundation for the Arts | | |
| | < except Alberta Historical Resources Foundation | | |
| | < except Government House Foundation | | |
| | < except Historic Resources Fund | | |
| | < except Human Rights, Citizenship and Multiculturalism Education Fund | | |
| | < except Wild Rose Foundation | | |
| | < except Francophone Secretariat | | < Employment and Immigration |
| Transportation | < Provincial Highway Systems and Safety | < Former Infrastructure and Transportation | |
| Treasury Board | < Corporate Human Resources (formerly Personnel Administration Office) | < Service Alberta | |
| | < Aircraft Services | | |

Additional Information

For additional copies, contact:

**Communications Branch
Alberta Department of Energy**

11th Floor, Petroleum Plaza North
9945 – 108 Street
Edmonton, Alberta T5K 2G6

Tel: (780) 427-1083
Fax: (780) 422-0698

**Information Services
Energy Resources Conservation Board**

640 – 5 Avenue S.W.
Calgary, Alberta T2P 3G4

Tel: (403) 297-8190
Fax: (403) 297-7040

**Customer Information Services
Alberta Utilities Commission**

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

Tel: (403) 592-8845
Fax: (403) 592-4406

The Ministry of Energy Annual Report 2007-08 is available on the following website:
www.energy.gov.ab.ca/Org/Publications/AR2007pdf

Current information about the organizations that were part of the Ministry of Energy in 2007-08 is available at the following websites:

For the Alberta Department of Energy:

www.energy.gov.ab.ca
e-mail: library.energy@gov.ab.ca

For the Energy Resources Conservation Board:

www.ercb.gov.ab.ca
e-mail: ercb.info_services@ercb.gov.ab.ca

For the Alberta Utilities Commission:

www.auc.ab.ca
e-mail: info@auc.ab.ca



MINISTRY OF ENERGY 2007-08

www.energy.gov.ab.ca

www.ercb.gov.ab.ca

ISSN: 1703-4574