

ALBERTA MINISTRY OF

ENERGY

1998/99 Annual Report

PREFACE

Public Accounts 1998/99

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 18 Ministries.

The annual report of the Government of Alberta released in June contains the Provincial Treasurer's 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's business plan.

This Ministry annual report also includes:

- the financial statements of entities making up the Ministry including the Department of Energy, the Alberta Energy and Utilities Board, the Alberta Petroleum Marketing Commission and Gas Alberta Operating Fund,
- other financial information as required by the Financial Administration Act and the Government Accountability Act, either as separate reports or as part of financial statements, to the extent that the Ministry has anything to report, and
- financial information relating to accountable organizations and trust funds (if applicable).

MINISTER'S ACCOUNTABILITY STATEMENT

The Ministry's Annual Report for the year ended March 31, 1999, 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 August 31, 1999 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.



Stephen C. West
Minister of Energy

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MESSAGE FROM THE MINISTER OF ENERGY

Albertans are the beneficiaries of this province's wealth of energy and mineral resources. It is the task of Alberta Energy to ensure that these resources are developed in a way that generates benefits for all Albertans. This means ensuring that resource development is effective and environmentally responsible, and that it adds value for Albertans – the resource owners – and industry, the resource developers.

The Ministry of Energy includes two organizations:

- The Department of Energy, whose role is to ensure that Alberta's energy resources are developed in an effective and environmentally responsible manner, creating value for its investors and for Albertans; and
- The Alberta Energy and Utilities Board (EUB), whose role is to regulate the energy industry in a way that protects individual, public and industry interests.

The 1998/99 fiscal year brought many challenges to the Ministry's work: volatile oil and gas prices, the continuing restructuring of the electricity industry, and pressure on industry to take action on climate change. The 1998/99 Annual Report captures the developments that occurred over the past year and reflects the ministry's commitment to maintaining a prosperous, innovative and growth-oriented resource sector.

The Ministry's activities focused on four key areas:

1. Creating Value for Albertans

Each year, natural resource revenues add hundreds of millions of dollars to the provincial treasury that are spent in Albertans' priority areas. Even though oil prices were low in 1998/99, natural gas prices increased and gas development drilling reached a new high, exceeding the previous record by 10 per cent. This helped to sustain revenues and earned Albertans \$2.7 billion in energy royalties.

2. Introducing Competition to the Electricity Industry

Industries that are sheltered from competition have little incentive to improve their services, lower their prices, or broaden their range of customer choices. In 1998/99, Alberta took steps to introduce competition to the electricity industry in 2001 by:

- establishing an independent Power Pool Council,
- forming an independent assessment team to examine Alberta's existing power generation facilities,
- encouraging the development of independent power production, and
- beginning implementation of the Electric Utilities Amendment Act 1998 to deregulate Alberta's electricity industry.

3. Working with our Partners

The Ministry works with industrial, government and non-government stakeholders to share information, solve problems, and address common issues. In 1998/99, the Ministry:

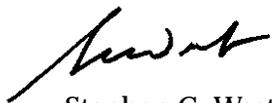
- hosted the annual Energy and Mines Ministers Conference,
- co-chaired the National Secretariat on Climate Change and the National Air Issues Coordinating Committee,
- worked with stakeholders to increase power generation and minimize the risk of major power interruptions over the winter,
- participated in the Greenhouse Gas Emissions Trading Pilot program to find ways of balancing compliance with proposed national emission standards with economic impacts, and
- continued to work on the Royalty and Related Information Review (RRIR), which will simplify the process of assessing and collecting royalties.

4. Cutting the Red Tape

Some regulation is necessary to ensure that standards of environmental responsibility, safety and security are met, but over-regulation wastes money and stifles growth. In fiscal 1998/99, Alberta Energy:

- streamlined the process for calculating and reporting royalties,
- reduced the overheads associated with data submission and information sharing between government and industry, and
- reviewed the regulatory process for mining Alberta's non-energy minerals with a view to simplification.

Despite many challenges, Alberta's petroleum industry is innovative, environmentally responsible and strong. Representing a quarter of the total investment in the province, Alberta's energy sector remains a solid foundation for the province's healthy economy and a source of tremendous value for Albertans.



Stephen C. West
Minister of Energy

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR REPORTING

The Ministry of Energy includes:

- Alberta Department of Energy
- Alberta Energy and Utilities Board
- Alberta Petroleum Marketing Commission

The executives of the individual entities within the Ministry have the primary responsibility and accountability for the respective entities. As Deputy Minister, I 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 for the year ended March 31, 1999, rests with the Minister of Energy. Under the direction of the Minister, I oversee the preparation of the Ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgements. The consolidated financial statements are prepared in accordance with the government's accounting policies.

As Deputy Minister, in addition to program responsibilities, I 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 Ministry administration,
- provide Executive Council, Treasury Board, the Provincial Treasurer, and the Minister any information needed to fulfil their responsibilities, and
- facilitate preparation of Ministry business plans and annual reports required under the Government Accountability Act.

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



Ken Smith, Deputy Minister
Department of Energy

Overview

The Alberta Ministry of Energy supports the Alberta government's priorities, core businesses, and its vision of People, Prosperity, and Preservation.

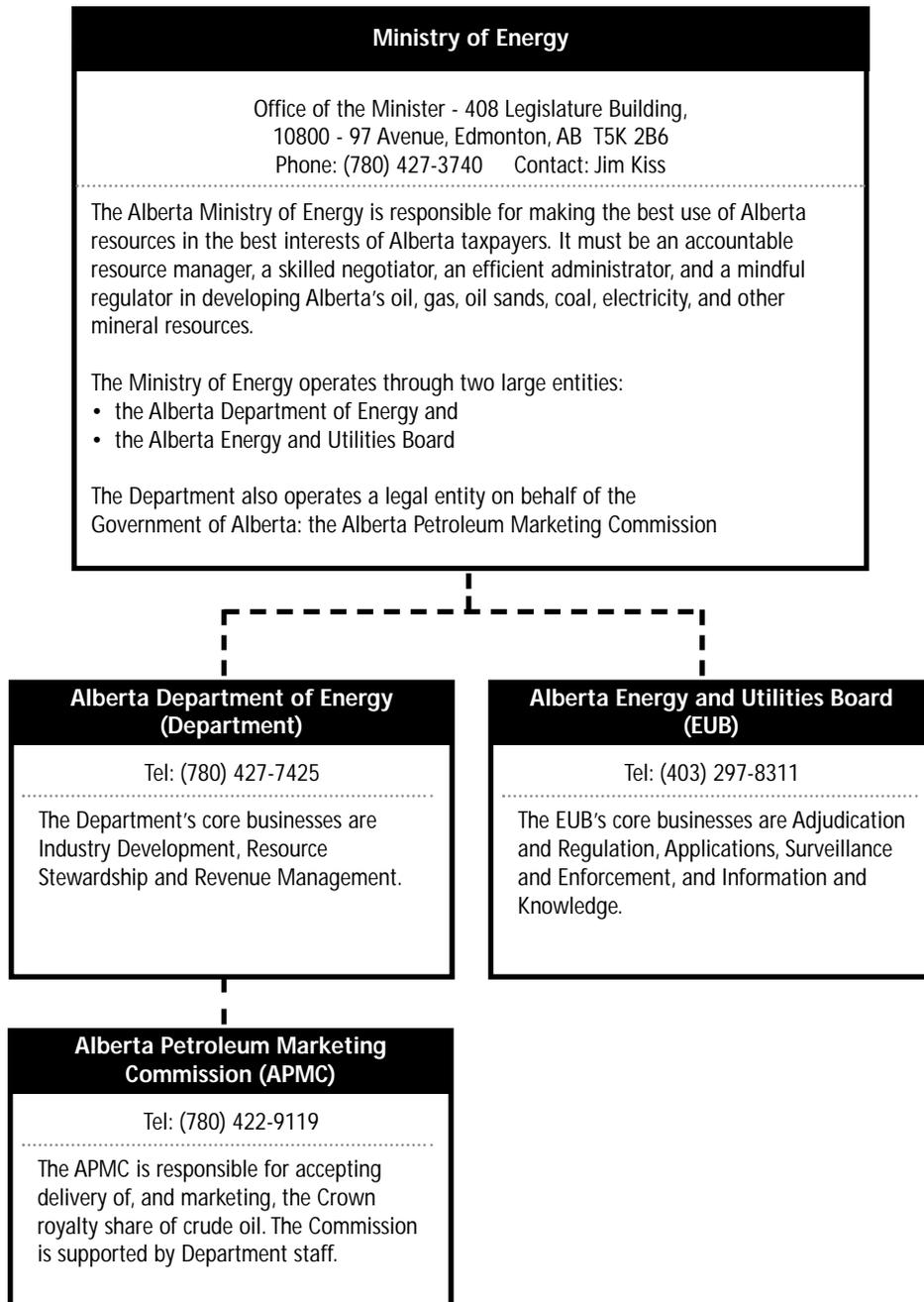
MINISTRY VISION AND MISSION

Ministry Vision

The Ministry ensures that development of Alberta’s energy and mineral resources, and operation of energy utilities, occurs within a policy, administrative and regulatory framework that benefits both present and future Albertans.

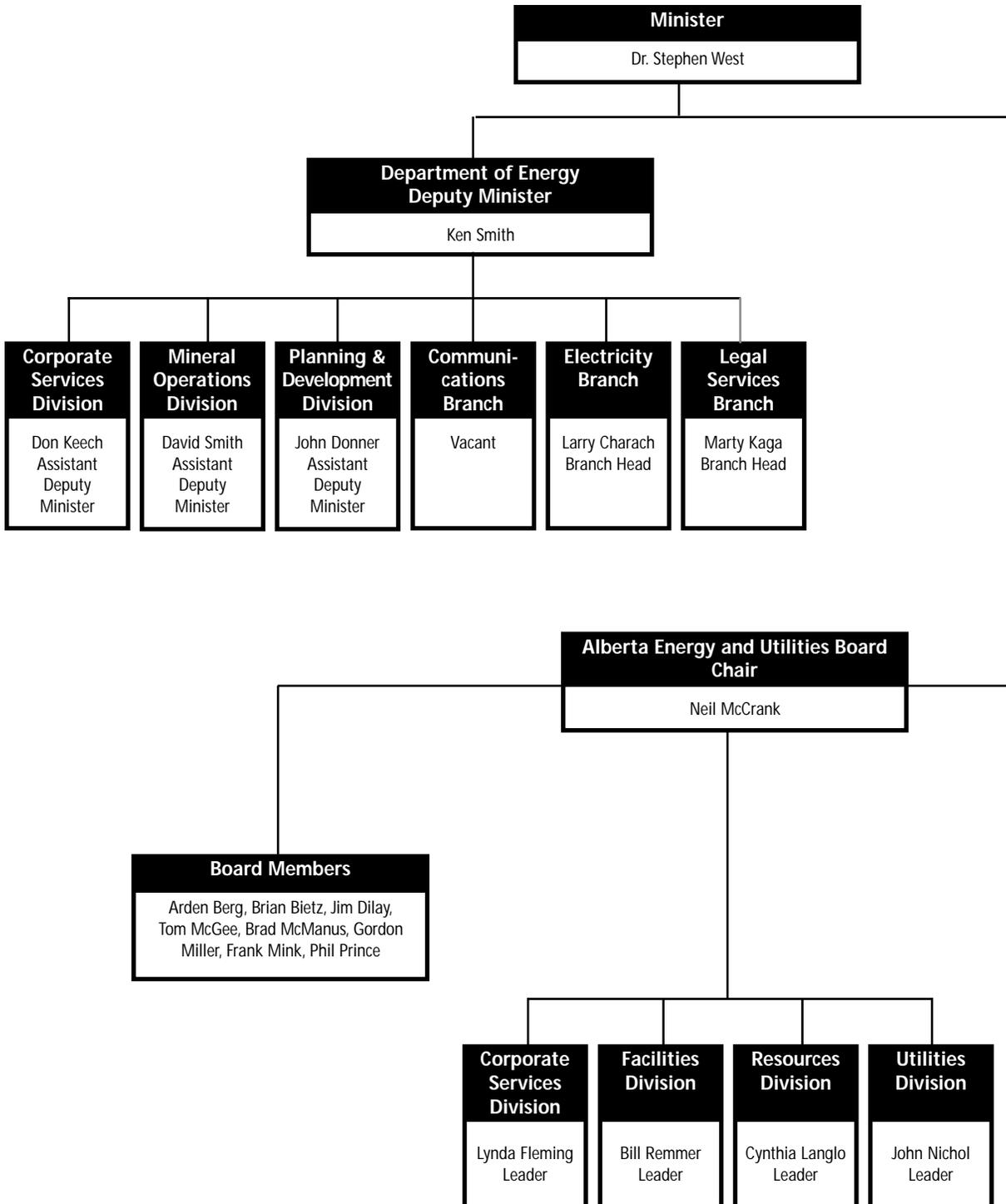
Ministry Mission

The Ministry strives to optimize the sustained contribution from Alberta’s resources in the interests of Albertans.



MINISTRY STRUCTURE

Entity Branches/Divisions and Contacts for the Alberta Department of Energy and the Alberta Energy and Utilities Board — Organizational Chart (as of March 31, 1999)



Operational Overview

Alberta Department of Energy

CORE BUSINESS: A SUMMARY

The Department's core businesses are Industry Development, Resource Stewardship and Revenue Management. The key responsibilities are to:

- foster development, investment and trade in Alberta's energy and mineral resources,
- manage the disposition of mineral rights, and
- forecast and collect revenue.

OPERATIONS AND SERVICES: A SUMMARY

There are three major divisions that each report to an Assistant Deputy Minister:

- The Mineral Operations Division is responsible for the disposition of mineral rights; assessing, levying and collecting mineral resource revenue from rentals, bonuses, royalties and freehold taxes; and providing support in resolving land access issues. The division is also responsible for overseeing the marketing of the Crown's royalty share of crude oil production.
- The Planning and Development Division provides market intelligence, analysis and projections; revenue forecasts; policy reviews and advice; and stakeholder consultation and collaboration. In partnership with stakeholders, the division delivers programs to support development of effective resource and energy markets and provides proactive responses to policy, procedure and structural changes to optimize the development of and sustained contribution from Alberta's energy and mineral resources.
- The Corporate Services Division provides the Department with support for finance, administration, planning, human resource development, information technology, internal audit, and freedom of information and protection of privacy.

Three branches report directly to the Deputy Minister:

- The Communications Branch provides communications support and service to the Department and the Minister.
- The Electricity Branch provides leadership in increasing the efficiency of the electrical industry for the benefit of Albertans.
- Legal Services provides energy-specific advisory services to the Department of Energy through the Ministry of Justice.

KEY FACTORS INFLUENCING PERFORMANCE

- A relatively high level of natural gas drilling activity and increasing natural gas royalties propelled by pipeline expansion in the province, both current and proposed, caused natural gas prices to increase to North American levels, thus helping to sustain revenue to the Crown.
- Natural gas and by-products royalty was budgeted on a forecast average price of \$1.70/metric cubic foot (mcf). The actual price was \$1.99/mcf. The increased revenues from the higher natural gas price were partially offset by lower by-product prices, which tend to follow oil prices.
- Crude oil prices were forecast at US\$17.50 per barrel for West Texas Intermediate (WTI) crude oil with a 74 cent Canada/US exchange rate. This translated into an average selling price of C\$20.36 per barrel for the forecast 32.4 million barrels of oil. The actual WTI was US\$13.70 per barrel with a 66.7 cent exchange rate. The much lower price was partially offset by the lower exchange rate. The average selling price for the 28.5 million barrels was C\$17.06 per barrel.
- Declining crude oil demand and prices caused decreased revenue to industry and royalty to the Crown. The declining cash flow to industry resulted in activity investment and drilling below the levels of the past few years. Industry cash flow in 1998 dropped an estimated 25-30 per cent and this led to a 60 per cent drop in land sales. Because prices were lower than budgeted, industry cash flow was lower than anticipated and, therefore, land sales were \$186 million or 29 per cent below budgeted levels. Sales of Crown leases and licenses fell to 6,058 from 9,215 in 1997/98, while oil sands leases and permits declined to 127 from 223.
- Total deliveries of marketable coal in 1998 increased slightly to 36.4 million tonnes from 36.3 million tonnes in 1997. Deliveries of sub-bituminous coal, used to generate electricity in Alberta, decreased to 23.5 million tonnes from 25.8 million tonnes in 1997, while deliveries of metallurgical coal, exported to other countries for steel production, fell to 6.9 million tonnes from 7.4 million tonnes. This was related to the Asian economic downturn. Deliveries of bituminous thermal coal, also produced primarily for export, increased to 4.2 million tonnes from 3.1 million tonnes.
- The anticipated tight supply of electricity last winter prompted an accelerated move to direct sales and the development of policies to increase power supply. This led to an increase in the number of participants in the market and new opportunities for cogeneration.
- Increased awareness of environmental issues, particularly the risks related to greenhouse gas emissions, led to a public-private partnership in Alberta's climate change strategy and continuing efforts to develop a national climate change strategy.

During the year, the Department made significant progress on many important initiatives and identified a number of future challenges. An analysis of these initiatives and other key Department activities is summarized below.

ANALYSIS OF KEY ACTIVITIES

Crude Oil

Oil Marketing – The three private sector agents — Gulf Canada Resources Limited, PanCanadian Petroleum Limited and CANPET Energy Group Inc. — that market Alberta's royalty crude, are in the third year of their five-year agreement with the Crown. They achieved an average price for light sweet crude of C\$18.69 per barrel, which was 8 cents per barrel over the average benchmark. The two agents — PanCanadian Petroleum Limited and CANPET Energy Group Inc. — that market the Crown's sour crude achieved an average price of C\$17.71 per barrel, which was 15 cents per barrel above the average benchmark, and an average price of C\$15.52 for heavy crude slate, which was three cents per barrel under the average benchmark and well within the performance provisions of their contracts.

Enhanced Oil Recovery (EOR) – The Department finished evaluating the effectiveness of EOR benefits under the Oil Royalty Program. The EOR policy is being reviewed in consultation with industry and other stakeholders, with completion targeted for the end of fiscal 1999/2000.

Oil Sands

A number of oil sands projects moved forward. Suncor announced it is proceeding with its \$2.2-billion Millennium project. Shell has received regulatory approval for its \$3.3-billion Muskeg River Mine and Upgrader Project and is awaiting a management decision to proceed. Imperial Oil's \$1-billion Cold Lake project is seeking approval from the Alberta Energy and Utilities Board. Mobil has delayed its \$2.5-billion Kearl Lake Mine and Upgrader Project.

Following discussions with industry, the Department established business rules governing the new royalty system for oil sands. These business rules should be released in the coming year. The Department continues to work on other related regulatory amendments and completed discussions with industry on tenure regulations for leasing oil sands rights. The review of these regulations will be completed in the coming year.

Natural Gas

During the year, the Department continued to work on streamlining all processes leading to the calculation, assessment, levy and collection of the Crown's share of the production of natural gas products.

The Department took a proactive approach to managing production data and reducing the charges associated with unfiled production data.

The Department reviewed internal processes to provide the best client service along with assurance of appropriate internal controls. One such review, took a proactive approach to managing production data and reduced charges associated with unfiled or incorrect data. The Department initiated the Natural Gas Control Assurance Project, to ensure appropriate controls were in place and review any risk associated with the current business rules and initiated a review to look at natural gas liquids. This review resulted in recommendations for changes that will increase the accuracy of the natural gas reference prices and allowances, while maintaining a relatively simple reporting system.

In addition, the Natural Gas Business Design Project Team, a joint industry/Department group, resolved and continues to address industry issues affecting natural gas royalty clients. Another industry/Department working committee continues to make progress on outstanding issues related to transporting natural gas within Alberta. Recommendations from this group will be considered for future policies and business rules.

Ethane

During the year, the Department worked to maintain the Alberta petrochemical industry's access to ethane.

Maintaining such access is central to the government's ethane policy, which encourages the availability of ethane in Alberta to develop value-added upgrading in the petrochemical industry. In December, the Minister reconfirmed Alberta's ethane policy and established a task force to consider whether changes are necessary to ensure various resource interests, such as value-added processing, are considered as natural gas liquid markets evolve.

During 1998, the Department presented final arguments to the National Energy Board (NEB) hearing on the Alliance Pipeline Project, which received NEB approval in December. The Alliance Pipeline will ship gas and gas liquids (ethane) to central U.S. and Canadian markets.

Coal

The Department continued to work on royalty legislation and began discussions with stakeholders and other interest groups to establish an appropriate royalty rate for sub-bituminous coal. Total deliveries of coal remained stable during the year, although exports of coal used in steel production declined, mainly due to the economic downturn in Asia.

Crown Land Sales

The Department continued to conduct bi-weekly land sales during the year. Due to lower oil prices dramatically decreasing industry cash flow, land sales declined. During the year, 2.6 million hectares were sold, compared to 4.8 million in 1997/98 and 5 million in 1996/97. The average price paid per hectare dipped only slightly compared to 1996/97.

Other Minerals

In 1998, mineral exploration remained strong, particularly for diamonds in northern Alberta. Three hundred applications for permits, covering more than 1.2 million hectares, were filed, down from 1997 record numbers because of limited available land. This brought the total lands under permit to more than 45 million hectares, or almost 90 per cent of available Crown lands. Towards the end of the year, we began developing a strategy for minerals that will be completed in the coming year.

Electricity

The Department is proceeding on schedule with deregulation of the electrical industry. During the year, an independent Power Pool Council was established and a Market Surveillance Administrator was hired. Also, an Independent Transmission Administrator was selected and an Independent Assessment Team was formed, the latter to examine Alberta's existing power generation facilities.

In anticipation of a tight power supply during the winter of 1998/99, we worked with stakeholders to develop policies and economic options to meet Alberta's growing power requirements. In providing consumer choice and following through on deregulation, Alberta continues to show leadership in North America.

Climate Change

The Department continued to work in partnership with others to develop a provincial response to climate change policies, thus ensuring Alberta has a strong and consistent voice in national and international discussions.

The Department assisted the Cabinet Committee on Climate Change by developing strategy options, providing analysis, working with stakeholders, and leading a working group of 12 departments. This supported the development of Alberta's climate change strategy, announced by Premier Klein in October 1998.

The risk of greenhouse gas emissions contributing to climate change warrants precautionary measures. The Department remains committed to reducing these emissions and to engaging industry and the public in finding innovative ways of responding to climate change policies. This includes using cost-effective technologies for improving the efficiency of energy production and use.

Other Initiatives

- In July 1998, the Department hosted the annual Energy and Mines Ministers Conference. This brought together nearly 300 government officials and business leaders to discuss issues relating to energy and mining. Major energy topics covered were climate change, electricity deregulation and pipeline jurisdiction. Major mining topics were geoscience funding and land access. Results and findings are being used by the Department.
- The Department continued to work on the Royalty and Related Information Review (RRIR), which will simplify the process of assessing and collecting royalties. A number of recommendations from the review's Industry/Ministry Steering Committee have already been implemented, with the balance to be in

place by 2002. One of these recommendations is a proposal for a shared information registry between Industry and Government.

- As a result of consultations with stakeholders and in conjunction with Alberta Treasury, we worked to develop a more focused and targeted Alberta Royalty Tax Credit (ARTC).
- Responsibility for Rural Utilities was transferred to the Department from Alberta Transportation and Utilities. The Rural Utilities Branch is responsible for ensuring the safe and orderly development of natural gas distribution systems; conducting technical reviews; issuing approvals; maintaining a pipeline database; developing policies for rural utility operations and business practices, and regulating over 300 rural utility associations, including gas and water cooperatives and rural electric associations.

The Branch also administers three grant programs: Rural Gas Grants, Rural Electrical Grants and the Remote Area Heating Allowance Program. The Branch's Rural Gas Program, created in 1973, provide grant funding to offset a portion of the high cost of providing natural gas service. The program has led to the development of the largest rural gas pipeline system in the world.

The Rural Electric Program, which commenced in 1947, provides grant funding to help defray the high cost of providing electric service to Alberta farmers.

In 1998, the Department entered into a private sector partnership with the Toronto Dominion Bank to provide loan funding for gas, electricity and water utility services as well as capital projects for rural utility associations and municipalities

- Responsibility for Alberta Oil Sands Technology and Research Authority (AOSTRA) was transferred from Alberta Energy to the Ministry of Science Research and Information Technology during 1998/99, as part of the ongoing realignment in government. AOSTRA was established in 1974 to encourage research in developing and processing Alberta's oil sands resources. Such research and development have helped the province's oil sands become a \$3-billion-a-year industry.

Year 2000 Compliance

As described in the Ministry's financial statements, the Year 2000 (Y2K) issue is the result of some computer systems using two digits rather than four to define the year. In July 1996, Public Works, Supply and Services and the Office of the Chief Information Officer began working with all government ministries to ensure all government information systems are Y2K ready. On April 19, 1999, the Minister of Public Works, Supply and Services and the Chief Information Officer issued an interim report indicating 84 per cent of systems vital to government business operations are considered Y2K ready. Testing and remediation of remaining government systems are expected to be completed before the end of this year.

Operational Overview

Alberta Energy and Utilities Board

CORE BUSINESS: A SUMMARY

Public Accounts 1998/99

The Alberta Energy and Utilities Board's (EUB) core businesses are Adjudication and Regulation, Applications, Surveillance and Enforcement, and Information and Knowledge. The key responsibilities are to:

- adjudicate and regulate matters relating to utility rates and the development and transportation of energy resources,
- ensure energy resource development is in the public interest,
- ensure public safety and environmental protection through regulatory requirements, surveillance, and enforcement, and
- ensure the availability of energy resource information to support responsible development.

OPERATIONS AND SERVICES: A SUMMARY

The EUB is made up of the Board and four divisions:

- The **Board**, composed of the Chair and eight Board Members in 1998/99, protects the public interest in energy resource development and regulates public utilities in competitive markets. More than 650 staff support the Board.
- The **Utilities Division** ensures Alberta's utilities provide safe and reliable services at fair and reasonable rates and that the province's electric industry builds, operates, and decommissions electric generation developments and transmission lines in an economic, efficient, and environmentally responsible manner.
- The **Facilities Division** is responsible for regulating wells, pipelines, batteries, gas plants, and waste facilities throughout their life cycles. Public and environmental protection is a key focus of this division. Groups within the division oversee applications, operations, environment, public safety, corporate compliance, and field surveillance.
- The **Resources Division** focuses on resource conservation and equity among producers. It is responsible for regulating subsurface reservoir development and production, as well as surface and subsurface coal and oil sands projects. The division also plays a major role in collecting, producing, and distributing information on reserves and minerals. The Alberta Geological Survey is part of this division.
- The **Corporate Services Division** supports the EUB with services in information systems and technology, production and well data, financial management, statistics, library and information dissemination, graphics and printing, communications, legal areas, and human resources.

KEY FACTORS INFLUENCING PERFORMANCE

- Oil and gas drilling activity slowed from the record levels of 1997/98 because of a downturn in prices. As a result, well licence applications declined by 40 per cent, while applications for related facilities continued at a steady pace. As well, there was a sustained level of “non-routine” applications, which demanded more resources because of their complex and often contentious nature.
- Landowner concern about Alberta’s oil and gas industry was a leading issue for the EUB in 1998/99. High levels of industry activity, animal health concerns, an increased focus on sour gas drilling and development, industrial sabotage in northwestern Alberta, drilling activity near populated areas, and the tragic shooting of an oilfield executive all contributed to the need for concerted action.
- A series of major electric, natural gas, and pipeline rate applications and the need for new power facilities led to 16 utility-related hearings in 1998/99, a threefold increase over last year. Ongoing efforts to develop streamlined or alternative regulatory approaches led to the completion of new EUB guidelines for negotiated settlements of utility rates.
- The EUB developed a more consistent and efficient approach to enforcement this past year, based on a corporate compliance framework established the previous year. This work was influenced by high levels of oil and gas activity, a large number of operators, the need for a level playing field, the Board’s emphasis on industry accountability, decreasing public tolerance for industry impacts on the environment, and increasing public expectations that the EUB take prompt action when companies break the rules.
- The EUB experienced a major change in leadership this year with the appointment of a new Chair in July and three new Board Members in October 1998. A strategic planning session for senior management and the Board, held at the end of March 1999, resulted in new EUB mission, vision, and value statements, as well as direction for nine priority areas for 1999/2000.
- In the final quarter of 1998/99, the EUB implemented a progressive, new performance management system that laid the groundwork for employee performance plans, with results tied to organizational priorities.

ANALYSIS OF KEY ACTIVITIES

Adjudication and Regulation

One of the EUB's primary roles is to adjudicate and regulate energy developments and utility rates in the public interest. This means giving people who may be directly and adversely affected by proposed developments and rate changes an opportunity to be heard.

In 1998/99 the EUB held 47 public issues hearings — 31 for energy issues and 16 for utility matters. An analysis of the year's hearings shows that:

- Energy hearings were mainly about well licences, pipeline permits, large oil sands mining projects, and the construction or modification of oil and gas facilities.
- 15 of the 16 utility hearings considered industry matters such as rates, new or changed facilities, and tariffs; one was complaint related. Consumer groups normally represent the public at rate hearings.
- Public issues raised at hearings included the location of proposed facilities, air, soil and water quality, noise, traffic, safety, land-use issues, cumulative effects and regional development, and human and animal health concerns.

Major Hearings and Decisions for 1998/99

- May 4, 1998 – hearing to examine Canadian 88 Energy Corporation's application for a level four critical sour gas well 11 kilometres northwest of Calgary in the Lochend gas field. The Board heard extensive community concerns over eight days.
- May 19, 1998 – issued regulatory approvals regarding the merger of NOVA Corporation and TransCanada PipeLines Limited. In its decision, the Board considered concerns submitted by industry on the merger's potential impact on customers, and on industry competition and regulation.
- June 1, 1998 – hearing into landowners' request to rescind an EUB decision allowing two Shell Canada sour gas pipelines to return to service near Carbondale. After repair of internal corrosion and return to service, one of the lines suffered a weld failure, killing a cow and calf exposed to sour gas. The EUB then agreed to separate requests to hold a public inquiry into the entire Carbondale system and a hearing into returning the two lines to service. On September 17, 1998, the EUB upheld its decision to allow the two pipelines to return to service. The public inquiry was held, and its decision was pending at year-end.
- October 26, 1998 – hearing into Shell Canada Limited's application for an oil sands upgrader and related modifications to its Scotford Refinery near Fort Saskatchewan. The Board subsequently approved the project on April 6, 1999, subject to conditions and recommendations related to sulphur recovery targets, regional air monitoring, and quality-of-life issues for nearby residents.

- October 26 and December 2, 1998 – TransAlta Utilities and ATCO Electric (formerly Alberta Power Limited) had Board hearings concerning the Phase II portions of their 1996 tariff applications. In Phase I, for each utility the Board set an overall revenue requirement that, following the Phase II hearing, will be allocated among each of the rate classes the utility serves.
- November 16, 1998 – hearing into Shell Canada Limited’s application for its new Muskeg River oil sands mine, 70 kilometres north of Fort McMurray. Development plans included a truck-and-shovel mining operation, bitumen extraction and treatment plants, and related supporting facilities. The Board approved the application on February 12, 1999.
- November 30, 1998 – hearing to examine Imperial Oil Resources Ltd.’s application to expand its existing Cold Lake production project. This Makheses project proposed three new phases of bitumen production, a cogeneration facility, and further development of two existing areas. Regional groundwater quality issues were the focal point for the hearing. At fiscal year-end, a decision was pending.
- January 12, 1999 – hearing into Suncor Energy Inc.’s Millennium project application, which would expand its existing oil sands mine and processing facilities near Fort McMurray. The Board approved the project on March 29, 1999. A final, detailed report and conditions will be issued later.
- January 20, 1999 – hearing for Matrix Resources’ 1997 application to transfer 237 well licences, 28 pipeline licences, and six facilities from Legacy Petroleum and a related request to lift a closure order. Alberta Treasury and Alberta Justice, on behalf of the Alberta Surface Rights Board and the Special Areas Board, objected to the transfer because substantial debts were owed by Legacy. After failed resolution efforts, the Board held the hearing, upheld the closure order, and dismissed the transfer application on February 24, 1999.
- February 3, 1999 – hearing for Canadian Western Natural Gas (CWNG), Northwestern Utilities Limited (NUL), and Canadian Utilities Power International Limited’s application for an internal reorganization of CWNG and NUL into two new companies, one for natural gas distribution and the other for gas transmission.
- March 9, 1999 – hearing to examine two Corridor Pipeline Ltd. applications to construct crude oil and hydrocarbon diluent pipelines from the Muskeg River Mine near Fort McMurray to Sherwood Park in the same right-of-way. Landowner, routing, and environmental issues dominated the hearing. At fiscal year-end, a decision was pending.
- March 19, 1999 – hearing held to review an earlier approval for an Encal Energy Ltd. pipeline in the Wilson Creek-Rimbey area. In response to public concerns, the Board determined the concerns were valid, revoked the original permit, and held a hearing. At the end of 1998/99, a decision was pending.
- March 30, 1999 – public inquiry into Shell Canada Limited’s operating practices and history of its Carbondale sour gas pipeline system. The EUB reviewed reports documenting two line failures within 18 months on the new pipeline system. The hearing continued into 1999/2000.

Special Investigation

On October 25, 1998, a rotating power outage affected several areas of southern Alberta. At the Minister of Energy's request, the EUB coordinated an investigation into the cause of the outages. The Board found:

- no evidence that any utility or other party acted improperly or irresponsibly, and
- new power generation scheduled to enter the system in late 1998 and early 1999 will make such outages unlikely in the future.

These findings, released in an EUB report on November 4, 1998, led to the formation of an industry-government task force. It identified key ways to minimize the risk of future outages, including:

- increasing the use of provincial power interconnections on a firm and emergency capacity basis,
- improving real-time communications between electricity suppliers and the Alberta Power Pool,
- developing a voluntary load curtailment program, and
- developing programs to increase new supply.

Regulatory Initiatives

In addition to the release of 12 interim directives and informational letters, EUB staff organized numerous workshops, presentations, seminars, focus groups, and open houses to inform stakeholders of requirements and gather their input. These included:

- 125 presentations to nearly 5,000 members of industry and the public on such topics as electric industry restructuring, escalating enforcement measures, and flaring, and
- 30 workshops involving nearly 1,800 members of industry on topics such as electronic capture of well test data and the electronic submission system for gas removal data.

Applications

In 1998/99, the EUB received a total of 20,441 applications and 43,502 corporate transactions and environmental reviews. The following table summarizes EUB application activity for 1998/99.

APPLICATIONS HIGHLIGHTS

Wells

- 8,174 approvals of new, re-entry, and resumption wells, down 43.5 per cent from 1997/98
- 55 critical sour gas wells, including re-entries

Production Facilities

- 734 applications for new oil and gas batteries, satellites, compressor stations, tank farms, and pump stations
- 562 modifications to new or existing facilities
- 17 new gas plants
- 53 modifications to existing gas plants
- 146 water and 23 waste disposal plans
- 13 waste management facilities
- 13 modifications to sulphur recovery gas process plants; no new plants

Pipelines

- 7,504 pipeline permits and amendments to existing pipeline licences, a 72.7 per cent increase from 1997/98

Other Oil and Gas

- 460 rate control
- 319 enhanced recovery
- 316 spacing
- 198 commingling
- 145 gas removal
- 119 equity
- 85 gas bitumen
- 17 acid gas
- 785 applications for new oil well maximum rate limitations
- 150 requests for pool delineation
- 419 other applications

Oil Sands

- 4 registered applications for new or expanded mining or plant projects
- 13 non-registered applications related to mining or plant operations
- 40 reservoir development applications

Corporate Transactions

- 38,953 well name changes and well licence transfers
- 2,201 pipeline transfers

Environmental Review

- 269 sour gas flare permits
- 379 emergency response plans
- 1,700 subdivision and development referrals

Coal

- 28 registered applications for new or modified coal projects
- 55 non-registered applications for mining operations

Industrial Development Permits

(petrochemical and refinery)

- 9 applications to amend existing permits for use of energy resources

Hydro and Electric

- 46 applications for transmission lines and substations, power plants, industrial system designations, electrification association and service area changes

Utilities

- 31 gas utility rate applications
- 21 electric utility applications
- 28 special franchise agreements
- 25 regulatory exemptions applications
- 16 other types of applications, including rate riders, sale of assets, and milk price orders

Surveillance and Enforcement

Surveillance and enforcement are integral to effective regulation and industry compliance. The following table highlights EUB activity in 1998/99 in this area.

SURVEILLANCE AND ENFORCEMENT ACTIVITY HIGHLIGHTS

In 1998/99, the EUB:

- had 90 EUB field surveillance staff working out of eight field centres
- responded to 851 public complaints, about 5% less than in 1997/98
- conducted 7,244 inspections involving 1,088 drilling and servicing operations, 1,025 drilling waste and waste management facilities, 758 pipelines under construction and pipeline failure sites, and 4,373 gas and oil facilities
- investigated 1,354 accidental spills and releases
- monitored Alberta's growing infrastructure of about 264,000 kilometres of pipelines, 75,080 operating wells, 33,791 inactive wells, and 644 gas plants
- maintained database information on approximately 1,200 active oil and gas companies
- performed 1,207 audits to ensure facilities application accuracy
- established information checks and audits of records, reports, and corporate transactions
- monitored 15 active coal mines and 3 oil sands mines and plants and maintained a database on more than 2,000 abandoned coal mines
- handled 350 telephone and 74 written public complaints on utility matters

Information and Knowledge

The EUB has a mandate to collect and disseminate information about Alberta's energy resources. This large information base, much of it publicly accessible, contributes to improved knowledge, decision-making, and orderly development of the province's resources.

In January 1999, for example, the EUB published a major report entitled *(Pipeline Performance in Alberta)*. Expanding on research reports issued in 1983 and 1991, the latest report provided an analysis of:

- numbers and types of pipeline failures,
- measures and trends of failure rates,
- lengths, sizes, and types of pipelines installed in Alberta, and
- efforts to monitor and ensure the safe operation of pipelines within Alberta.

The following table summarizes EUB services and activities related to information and knowledge in 1998/99.

INFORMATION AND KNOWLEDGE HIGHLIGHTS

Information Dissemination

- EUB Information Services (Calgary) served 65,000 customers and handled \$2.2 million in information sales
- EUB Information Services had an inventory of 170 guides, statistical reports, decisions and maps, as well as energy data related to 41 subject areas, including landowner packages, coal mine plans, well test information, industry applications, and Board orders
- New programs for electronic data dissemination improved information retrieval for customers on such things as well test capture, mineable oil sands data, and petroleum information
- EUB libraries received 5,794 requests for information and loaned 5,694 items
- the Information Sales office of the Alberta Geological Survey (Edmonton) sold 1,935 reports and maps, worth \$44,000
- access to World Wide Web sites of the EUB/AGS increased 39.2% to 169,459 user sessions
- EUB's automated/broadcast fax systems served 911 customers.

Resource Appraisal

The EUB

- held reserves data for 24,700 gas pools, 8,900 oil pools, and 15 oil sands deposits. The ST-18 report showed remaining reserves of 1.239 trillion cubic metres (44 trillion cubic feet) of natural gas, 315 million cubic metres (1.984 billion barrels) of conventional oil, and 6.855 billion cubic metres (43.140 billion barrels) of crude bitumen
- evaluated 8,837 wells with 28,139 zones: this information was used to support the application review process and update reserves of in place volumes of natural gas, conventional oil, and crude bitumen
- defined reserves for some of the province's 247 coal deposits, which contain 35 billion tonnes of recoverable coal
- housed a collection of over 12 million vials of drill cuttings, 1,350 kilometres of core samples, 220,000 trays of drill cuttings, and over 199,000 tour reports in the EUB's Core Research Centre in northwest Calgary; the Centre received 17,500 new boxes of core and 273,750 drill cutting samples in 1998/99
- A monthly average of 300 companies, consultants, institutions, and foreign delegations used the facility.

- In response to customer requests, the Centre retrieved and delivered 288,000 core boxes and 13,900 sample trays

Regulatory Requirements

- 6 interim directives
- 6 informational letters
- 35 general bulletins
- 8 new or updated guides, including Guide 7: Production Accounting Handbook, Guide 52: Electronic Capture of Well Test Data, and Guide 59: Well Drilling and Completion Data Filing Requirements

Major Public and Statistical Publications

- ST98-40: Alberta's Energy Resources: 1998 in Review
- ST-17: Alberta Oil and Gas Industry Annual Statistics
- ST-18: Alberta's Reserves of Crude Oil, Oil Sands, Gas, Natural Gas Liquids, and Sulphur
- 98G: Pipeline Performance in Alberta
- Guide 29: EUB Hearings
- Guide 30: Guidelines for Safe Construction Near Pipelines

Year 2000 Compliance

As described in the Ministry's financial statements, the Year 2000 (Y2K) issue is the result of some computer systems using two digits rather than four to define the year. In July 1996, Public Works, Supply and Services and the Office of the Chief Information Officer began working with all government ministries to ensure all government information systems are Y2K ready. On April 19, 1999, the Minister of Public Works, Supply and Services and the Chief Information Officer issued an interim report indicating 84 per cent of systems vital to government business operations are considered Y2K ready. Testing and remediation of remaining government systems are expected to be completed before the end of this year.

Results Analysis

Alberta Department of Energy

MINISTRY OF ENERGY

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

To the Members of the Legislative Assembly:

I have performed the following procedures in connection with the Ministry of Energy's performance measures included in the 1998/99 Annual Report of the Alberta Ministry of Energy as presented on pages 31 to 45.

1. Information obtained from an independent source, such as Statistics Canada, was agreed with the information supplied by the stated source. Information provided internally was agreed to the reports from the systems used to develop the information.
2. The calculations which converted source information into reported measures were tested.
3. The appropriateness of the description of each measure's methodology was assessed.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the performance measures and therefore I express no opinion on the performance measures included in the 1998-99 Annual Report of the Alberta Ministry of Energy.



FCA
Auditor General

Edmonton, Alberta
July 30, 1999

ALBERTA DEPARTMENT OF ENERGY

Discussion of Goals, Performance and Results

Alberta's oil and gas industry is a primary driver of the province's economy. It is largely responsible for Alberta's growth of 3.1 per cent in 1998 and contributes to job creation and economic prosperity for Albertans. The Ministry's goals and strategies aim to maximize benefits to Albertans from the province's energy and mineral sectors.

The Department's strategies, as described in the Ministry's business plan, were developed to reach goals in three core businesses:

- foster development, investment, trade and research in Alberta's energy and mineral resources,
- manage the disposition of mineral rights, and
- forecast and collect revenue.

Over time, the Department's success in carrying out its core businesses affects employment, output, exports, investments and costs of doing business for the oil, gas, and coal industries. Its policies, programs, and regulations are designed to contribute to an investment climate that leads to sustainable employment and economic growth.

Total natural resource revenues dropped significantly during the year compared to previous years. The table below lists department revenue and expenses for the year.

(\$ millions)	1998-99	1997-98	1996-97	1996-96	1994-95
	Actual	Actual	Actual	Actual	Actual
Revenue					
Freehold mineral rights tax	112	131	117	101	102
Crude oil royalty	450	903	1,386	1,053	1,099
Natural gas and by-products royalty	1,467	1,660	1,299	1,003	1,257
Synthetic crude oil and bitumen royalty	59	192	512	312	209
Coal royalty	17	18	18	22	14
Bonuses and sales of Crown leases	464	1,071	927	576	978
Rentals and fees	142	148	131	116	115
Other revenue	3	2	6	1	1
Total Revenue	2,714	4,125	4,396	3,184	3,775
Department of Energy Operating Expenses	78	70	71	73	86

Source: Department of Energy

Over the past year the Department collected 16 per cent of total provincial revenue, while our operating expenses were 2.9 per cent of total Departmental revenue collected.

GOAL 1 *Increase the overall efficiency of the electricity industry, thus maintaining the Alberta Advantage of low electricity prices.*

Highlight: **The Electrical Utilities Amendment Act was proclaimed, setting the framework for deregulation, customer choice and increased competition.**

The *Electric Utilities Amendment Act* was proclaimed in April 1998. This Act provided the framework and direction for deregulation of the electrical industry to full customer choice by 2001. During the year, five Electric Utilities Act regulations were completed, an Independent Power Pool was established and a Market Surveillance Administrator was hired to implement market surveillance and to ensure that no one monopolizes or uses undue force to control the market place. An Independent Assessment Team was also formed to determine long term contracts for Alberta's existing power generation facilities, and an Independent Transmission Administrator was selected to oversee the planning and operation of the transmission grid.

The Department also responded to requests for an accelerated move to direct sales under deregulation and developed policies to increase power supply in anticipation of tight supplies last winter.

Alberta currently has about 7,600 megawatts in power generation capacity and access to 1,050 megawatts from other jurisdictions. Daily demand can vary from a low of 4,500 megawatts to a high of over 7,000 in the late afternoon and early evening. The annual demand for electricity was growing at about 4 per cent a year ago and has since slowed to less than 2 per cent. To meet this demand, new electricity supplies have come on line, power purchases from other jurisdictions have been arranged and other electricity sources have been identified such as cogeneration, which simultaneously produces electricity and useful heat from the same energy source at industrial sites. The Department remains confident deregulation will result in long-term downward pressure on prices.

Performance Measure: **Number of Power Pool Participants**
Target of 40 per cent increase by 2001.

The Department tracks but does not directly control the number of Alberta's Power Pool participants - generators, importers/exporters, and distributors. Their growing numbers indicate the success of having open, non-discriminatory access to Alberta's transmission grid for all electricity generators.

There were 39 members in the Power Pool on April 1, 1998, the base year. For fiscal year end March 31, 1999, there were 43. We foresee no problems reaching our target of 55 participants (a 40 per cent increase) by March 31, 2001.

(Source: Power Pool of Alberta - www.powerpool.ab.ca)

**Performance Measure: Consumer and Stakeholder Satisfaction
Target of 80 per cent satisfied process is
fair and effective.**

The Department has set a target that 80 per cent of stakeholders and consumers will be satisfied that consultation is fair and effective by the time electrical deregulation is fully in place in 2001. In December 1998, a survey of 38 of 41 stakeholder groups indicated 59 per cent were satisfied with the consultation process in six areas. These areas were: restructuring, deregulation, competition and competitiveness, transitional issues, balancing competing interests surrounding deregulation and providing clear, timely explanations as to why suggested changes have not been implemented. As a result of this survey, we are now providing (via the Internet) feedback on stakeholder comments resulting from consultations on proposed changes. We continue to look for ways to enhance this process.

(Source: Department of Energy)

This is an internal measure that will not be reported in future business plans. We will, however, continue to monitor satisfaction for continuous improvement.

GOAL 2 *Improve Ministry efficiency and effectiveness.*

Highlight: The Research and Technology Program was transferred to the Alberta Science and Research Authority, while Rural Utilities was transferred to the Department.

Highlight: The Minerals Tenure Branch received its second award from the Canadian Association of Petroleum Landmen for its consultation process.

Over the past year, the Department increased coordination and communication within the Ministry. Among these accomplishments:

- the Department and the Alberta Energy Utilities Board (EUB) now share a data centre in Calgary, saving the Ministry close to \$800,000,
- the Department and the EUB worked to streamline and coordinate services with libraries and other resource material, and
- enhanced cooperation between the Department and the EUB on international activities.

The Department has long worked with the Department of Environmental Protection to share such services as revenue operations, automated systems, records management, and mail and courier deliveries. As of April 1, 1999, this partnership was expanded with plans to share responsibilities under the *Freedom of Information and Protection of Privacy Act*. The Department continues to explore opportunities for expanded sharing of services with other government departments.

Service Commitments & Client Satisfaction

Monitoring client satisfaction with services allows the Department to keep pace with changes in the energy sector and help maintain an attractive investment climate for developing Alberta's resources.

Performance Measure: Service Commitments Target is that 95 per cent of the time, service commitments to our clients will be met.

The key services provided by the Department are: to assess, levy, and collect royalties; dispose of Crown mineral rights for exploration and development; identify access restrictions; and, process applications and agreements.

We have set a target that 95 per cent of the time we will meet the standards and timelines we have established for providing these services. The Department tracks incidents where the standards were not met. We are currently tracking 11 service areas and have achieved our goal of 95 per cent in 9 of them. We fell short of our target due to an extraordinary volume of work in one area, and a slow turn around, to approve mineral agreements. The Department is examining ways of improving this process. The number of services tracked will increase in the next fiscal year.

(Source: Department of Energy)

Performance Measure: Client Satisfaction.

A target will not be set until more surveys have been performed, but the Department is using client feedback to improve service.

Environics West completed the Department's first survey, in March 1998. These results showed an average satisfaction rating of 75 per cent for programs and services. In response to improvements requested by our clients, we have provided more electronic access to information for clients, filled a number of key positions to improve service and provided further staff training so they can provide clear, concise and consistent advice. Several industry seminars for petroleum and natural gas clients on a number of complex issues will be conducted in September 1999.

We plan to conduct another survey in October 1999.

GOAL 3 *Support Alberta's pipeline industry to provide access to the best markets.*

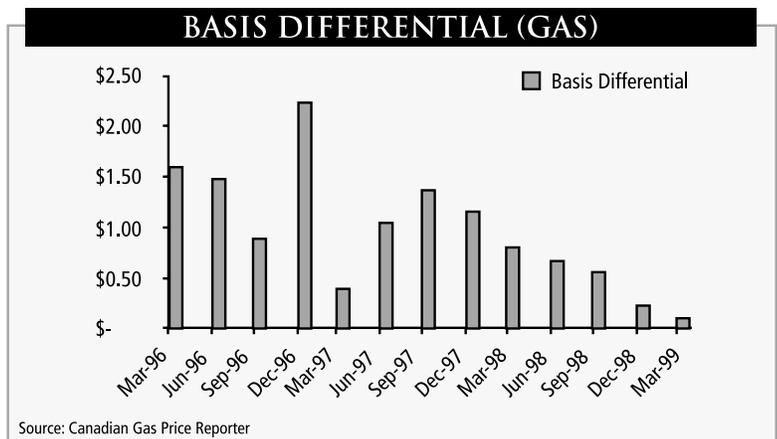
Highlight: Working with stakeholders, a consensus was reached on a new tolling structure for pipelines.

In recent years, several pipeline tolling and development issues have evolved that, if left unchecked, would have inhibited Alberta's ability to get its resources to market and eventually resulted in reduced exploration and development and lower Crown revenues from royalties. During the year, the Department made significant progress on these issues by:

- consulting with stakeholders to reach a consensus on a new tolling structure and working to incorporate it into the royalty system. The proposed structure is before the EUB for approval,
- working with other departments and levels of government to successfully resolve pipeline utility corridor issues on the Cold Lake Air Weapons Range,
- leading intra-departmental and inter-provincial teams to develop a coordinated position for resolving pipeline jurisdiction issues,
- defending provincial interests by successfully arguing, before the Federal Court of Appeal, that operations by producers should be provincially regulated even when attached to a federally regulated pipeline, and
- participating in a number of external regulatory proceedings to advocate Alberta's interests in capacity and tolling issues on pipelines outside Alberta.

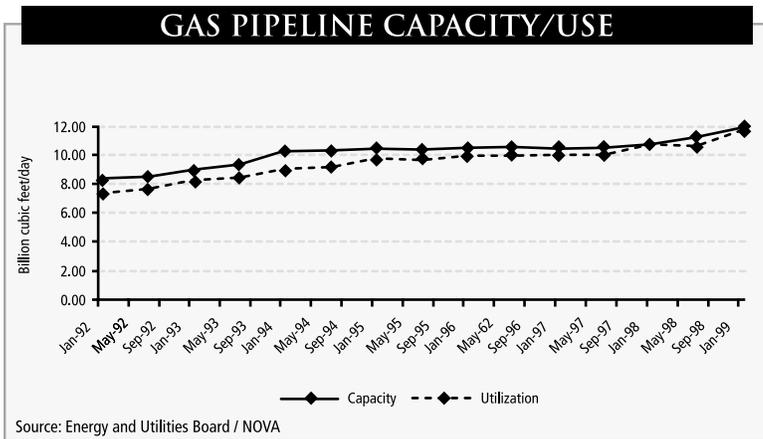
Performance Measure: Basis Differential (Discount off US Market Prices)
Target is to reduce the average discount to equal the value of transportation costs.

Ideally the average basis differential (the price difference between NYMEX and EMPRESS) should equal the cost of transportation, indicating equilibrium market conditions. The Department has set a basis differential target of \$0.50 - \$0.60/mmbtu (\$US), equivalent to transportation costs, for the fiscal year ended March 31, 1999. The differential was \$0.11 as of March 31, 1999. A significant decline resulted from pipeline expansions in late 1998, which exceeded expectations. We have exceeded our target.



This measure will not be reported in the Business Plan for 1999/2002 as we feel the problem of basis differential has been solved by increased pipeline capacity.

Performance Measure: Gas Pipeline Capacity/Use



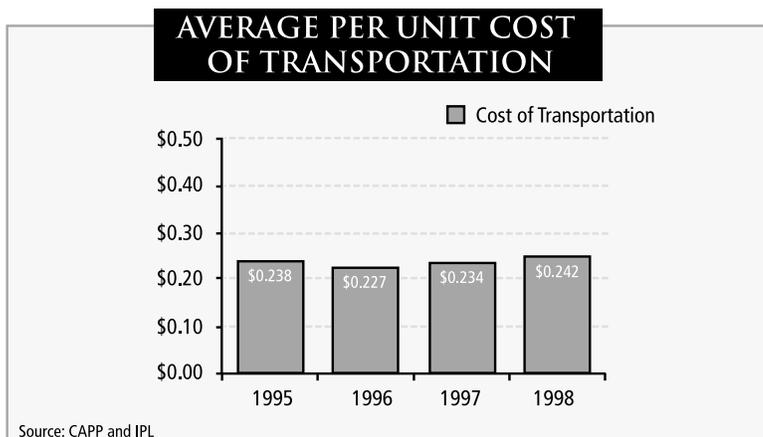
The graph illustrates available gas pipeline capacity and use. Expanded pipeline capacity allows increased gas exports, which in turn increases the value of royalties collected by the province.

Performance Measure: Crude Oil Average Apportionment
Target is to ensure adequate capacity and minimize apportionment.

In the past, the Department was asked by industry to operate its West Coast Initiative. This initiative moved crude to the west coast at a time when restricted pipeline capacity resulted in apportionment on pipelines to our prime markets in the U.S. Midwest. Apportionment is the rationing or allocation of available pipeline space when available production exceeds available space. The recent completion of Enbridge’s SEP II pipeline expansion helped resolve this problem, with crude oil apportionment rapidly declining in the third quarter of 1998 and dropping to zero in 1999. The completion of Enbridge’s Phase I Terrace Project in the spring of 1999 added more surplus export capacity, and apportionment should thus be avoided in the foreseeable future. Average apportionment for light crude stayed at 10 per cent for 1997 and 1998. For heavy crude, it fell from 8 per cent in 1997 to 4 per cent in 1998.

Source: Canadian Association of Petroleum Producers (CAPP)- Crude Oil Report

Performance Measure: Average Per Unit Cost of Gas Transportation
Target is to maintain low transportation costs while expanding pipeline capacity.



High transportation costs reduce the value of the government’s royalty share, and thus we have an interest in minimizing costs while ensuring adequate access. The average cost of transportation declines as pipelines are depreciated but increases with pipeline expansion and the cost of maintenance and repairs.

Our objective is to promote pipeline expansion when constraints limit the value of Albertans’ gas resources, and to minimize the duplication of pipeline facilities to keep transportation costs as

low as possible. The average intra-Alberta per unit cost of transportation has remained fairly constant between 1995 to 1998, fluctuating slightly from \$0.238 in 1995 to \$0.242 in 1998, due to increased pipeline capacity.

This is not an outcome measure so we will not include it in the 1999-2002 Business Plan. We will, however, continue to monitor it.

GOAL 4 *Sustain growth opportunities in the energy sector by responding to environmental concerns.*

Highlight: The Alberta Government and Alberta stakeholders won ten out of 14 National Voluntary Challenge and Registry Leadership Awards in 1999.

One of the greatest challenges the Department faced during the year was responding to risks associated with global climate change. The Department played a pivotal role in assisting the Cabinet Committee on Climate Change by developing strategic options, providing analysis, working with stakeholders and leading a working group of 12 departments. This work culminated in the Premier's October 1998 announcement of Alberta's Climate Change Strategy and Action Plan. The following progress has been made:

- In conjunction with the Alberta Science and Research Authority and the private sector, the Department developed a draft Climate Change Technology Strategy, released to stakeholders in March 1999.
- Alberta became the second province to join the Greenhouse Gas Emissions Trading pilot, which aims to find economic ways to comply with proposed national emissions standards. The Department sits on the pilot's Steering Committee, chairs the Communications Committee and is a member of the Technical Committee.
- The Department continued working with stakeholders and established partnerships with industry associations to increase commitment to reducing greenhouse gas emissions. Alberta organizations and the Alberta government are recognized as leaders in voluntary action to reduce greenhouse gases.

During the year, the Department helped define and articulate Alberta's strategy in the national climate change process, established in April 1998. We have contributed to and advanced development of analysis to assist Ministers and stakeholders to make decisions.

Department activities at the national level included:

- co-chairing the National Secretariat on Climate Change. One senior Department manager has been seconded to co-manage the national secretariat,
- co-chairing the National Air Issues Coordinating Committee that oversees the national climate change process, and
- department staff are actively contributing as members on several of the issues tables (16 in total). Approximately one half of these tables represent various

sectors (electricity, transportation, municipalities), that are looking at what can be done by their respective sectors to address climate change. The other half are comprised of stakeholders who are developing cross sector measures and options that can be part of the national strategy.

Performance Measure: Increase the number of Voluntary Challenge and Registry (VCR) registered plans.

The number of action plans registered with VCR has increased from 103 in 1997 to 129 in 1998. Future increases may be affected by changes in national VCR policy.

(Source: VCR Registry - www.vcr-mvr.ca)

Performance Measure: Reduce emissions 14 per cent below 1990 levels by calendar year 2000.

The Government of Alberta is committed to reducing emissions associated with government operations. Thanks largely to improvements in the efficiency of government buildings, our emissions at the end of 1997 were 14.6 per cent below 1990 levels, three years ahead of our target date. We are in the process of resetting our target.

(Source: Alberta Government Action Plan on Climate Change 1997/98 Progress Report)

Reporting on the Percent of Emissions Covered by Action Plans is no longer possible due to new methods of reporting. The way in which the national inventory of greenhouse gases is reported has been changed significantly since the Department's performance measure was developed. For example, new categories of greenhouse gas emission sources have been identified with the latest national inventory. To accurately report on the Department's performance would mean completely revising our targets and our measures for previous years (to be compatible with the new methodology). Instead, the Department will tie our performance to Alberta's new Climate Change Strategy.

GOAL 5 *Reduce the costs of developing Alberta's energy and mineral resources and strengthen the competitiveness of the energy sector through streamlined, effective government.*

Highlight: Royalty and Related Information Review (RRIR) recommendations have been adopted and will be fully implemented by 2002.

In September 1998, the Minister approved recommendations from a joint Industry/Ministry RRIR Steering Committee. A seven-member Implementation Steering Committee has been established and a project director hired to implement these recommendations, which include simplifying volumetric reporting requirements and operational procedures for natural gas, and revising filing penalties.

The Department also worked with industry to publish and distribute new guidelines for crude oil petroleum and complete a review of oil sands tenure and draft regulations.

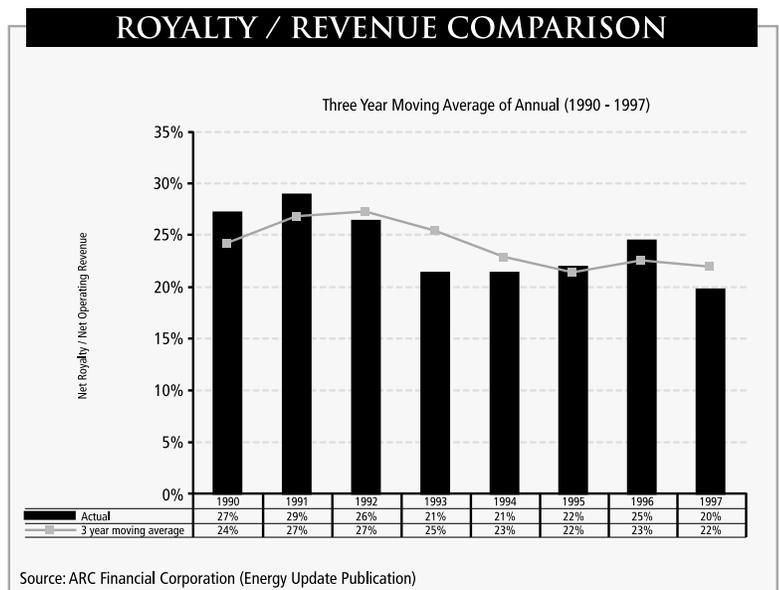
During the year, the Department worked closely with other Ministries and governments to address land claim issues and industry concerns over surface access for developing subsurface resources. The Department also received Cabinet approval for the report Alberta’s Commitment to Sustainable Development and Environmental Management, which reaffirms the province’s commitment to integrated resource management.

The Department and the EUB identified regulations scheduled for review under the Friedel Task Force. In October 1998, we submitted an annual report prepared jointly with the EUB, summarizing the status of regulations scheduled for review. We developed and documented a process to ensure regulatory reviews are conducted effectively and on schedule.

Performance Measure: Sharing the Profits from Resource Development
Target range is a ratio of between 20 - 30 per cent based on historical records.

The Department is working to ensure that Alberta’s royalty system balances two objectives: capturing a fair share of revenue from the development of resources and encouraging continued investment in and development of resources. Using the most recent Canadian data available, the ratio for 1997 was 22 per cent, which is within the target range.

In this year’s 1998/2001 Business Plan, we identified a performance measure called “Rate of Return Relative to Cost of Capital”. This measure was subsequently changed because of a lack of reliable data. In its place we have substituted “Sharing the Profits from Resource Development”.



Results Analysis

Alberta Energy and Utilities Board

ALBERTA ENERGY AND UTILITIES BOARD

Discussion on Goals, Performance and Results

The Ministry of Energy Business Plan 1997/98 to 1999/2000 listed four core business goals for the EUB in the areas of adjudication and regulation, applications, surveillance and enforcement, and information and knowledge. To achieve these goals, the plan set out several strategies and performance measures for each goal. This section highlights the EUB's progress in meeting these expectations.

GOAL 6 *Adjudication and Regulations: Provide fair, objective and efficient adjudication and regulation that encourage industry to conduct responsible resource and facility development and that yield fair and reasonable utility rates.*

Highlight: **In May 1998, the EUB implemented guidelines governing the Negotiated Settlement Process (NSP) for utility rate applications.**

After extensive stakeholder consultation, the EUB released *IL 98-4: Negotiated Settlement Guidelines: Tolls, Tariffs, and Terms and Conditions of Service*. The guidelines outline EUB expectations and procedures respecting NSPs, which are an increasingly popular alternative to utility rate hearings. In an NSP, a utility negotiates directly with its customers to establish tolls, tariffs, and terms and conditions of service. This encourages concerned parties to reach agreement in a less adversarial and costly manner and reduces the likelihood of a full-fledged rate hearing. During 1998/99, the EUB was aware of at least five NSPs.

Performance Measure: **Benchmark and Initial Index of Stakeholder Confidence and Satisfaction.**

In the spring of 1998, the EUB commissioned a stakeholder survey to measure satisfaction with key services and, more important, confidence in the Board as a regulator. The Angus Reid Group conducted the primary research through telephone interviews with over 400 participants drawn from a database of 6,000 people familiar with EUB services.

Overall, stakeholders rated both EUB image and service satisfaction at 4.9 out of 7. While the results from this survey were very positive, they should only be considered a benchmark for assessing future performance. At fiscal year-end, the detailed survey results were being assessed in conjunction with strategic and operational planning activities. The success of resulting strategic initiatives and the findings of subsequent surveys will provide a basis for developing future performance goals.

GOAL 7 *Application Process: Ensure an effective and efficient application process.*

Highlight: **The EUB introduced changes to ensure responsible, streamlined review of applications for large, integrated oil sands projects.**

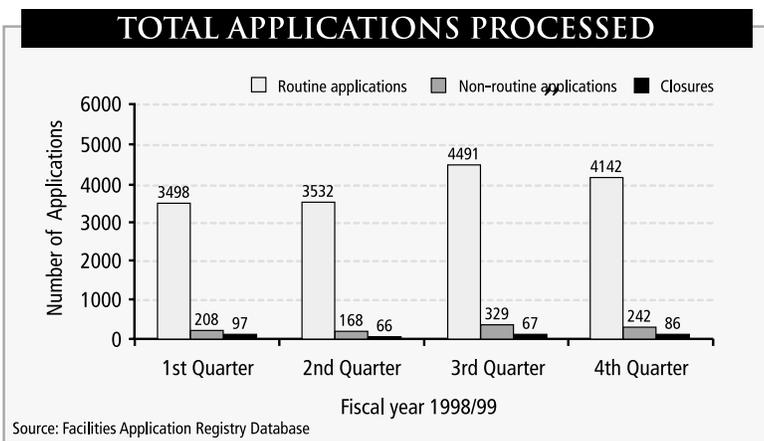
With the increase in oil sands applications and their effect on resource conservation, the EUB worked with industry to develop a new regulatory process based on operating criteria. These guidelines, presented by a staff/industry committee to the Board on March 15, 1999, reduced the need for ad-hoc application reviews.

The criteria-based process clarifies reporting and surveillance activities, provides a basis for measuring regulatory compliance and determining enforcement measures, reduces the need for applications when criteria are met, and improves communication between industry and regulatory organizations. At fiscal year-end, the committee was refining the process at the Board’s direction.

In March 1998, the Board issued a conservation report on bitumen reserves overlain by natural gas. The gas over bitumen issue is a technically complex and controversial situation in which two resources occupying the same space are owned by different companies. In its report, the Board concluded regulatory involvement was needed to deal with the production of gas associated with bitumen.

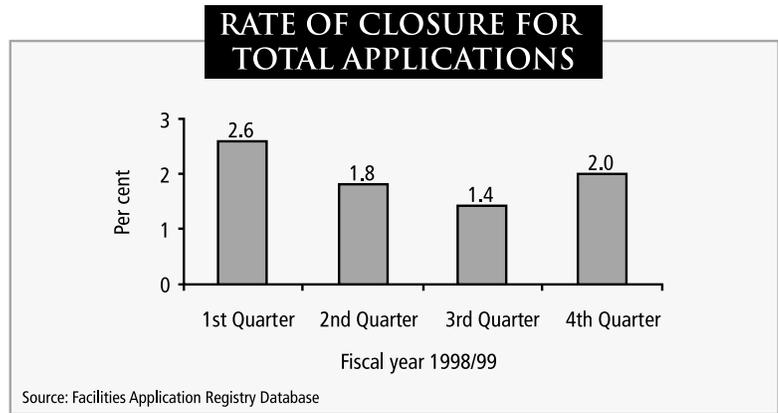
One of the report’s recommendations was to require production approvals for any associated gas developments after July 1, 1998. On February 3, 1999, the Board issued *Interim Directive 99-1: Gas/Bitumen Production in Oil Sands Areas: Application, Notification, and Drilling Requirements*. This ID, created through consultation with industry in late 1998, represented significant progress in setting the rules for orderly and equitable development. Gas over bitumen is an evolving area, and the EUB will periodically review and revise its requirements as new information becomes available.

Performance Measure: Rate of Deficient Applications



The closure of deficient applications for facilities is one measure of EUB staff efficiency and public and environmental safety. Closures occur on applications that are severely deficient and cannot be processed. Closed applications are returned to the applicant, who must correct the identified deficiencies before

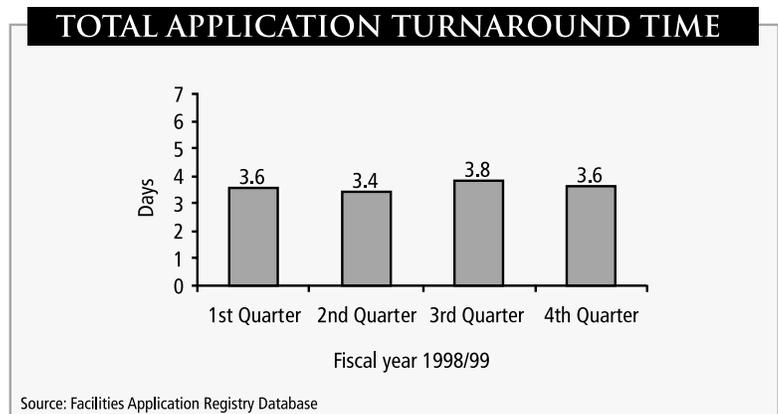
reapplying to proceed with the facility. In 1998/99, the EUB Facilities Division Applications Group closed 316 (1.9 per cent) deficient applications, up from 247 in 1997/98. The total number of routine (15,663) and non-routine (947) applications for 1998/99 was 16,610.



Performance Measure:

The average turnaround time for all applications (routine and non-routine) decreased from 4.7 days in 1997/98 to 3.6 days in 1998/99. The target is 2.5 calendar days (average) for routine facility applications.

Application Turnaround Time



GOAL 8 *Surveillance and Enforcement: Maintain public safety, conserve of resources, and protect the environment through effective surveillance and enforcement programs.*

Highlight: The EUB moved forward on a number of initiatives to resolve landowner concerns about oil and gas development.

During 1998/99, the Board intensified its efforts to respond to landowner and environmental concerns. This resulted in a combination of regulatory and communications actions, including:

- renewed emphasis by field staff on maintaining closer contact with landowners and companies through increased attendance at local meetings, with a goal of facilitating the industry-landowner relationship and avoiding or minimizing conflicts,
- increased use and evaluation of alternative dispute resolution mechanisms to resolve landowner issues; these included company-sponsored consultations and negotiations, third-party mediation, company executive involvement, and EUB senior staff/Board Member assistance,

- development of a new directive setting a firm timetable for significant reductions in flaring, a key landowner concern; the directive was in final draft form for stakeholder input at fiscal year-end,
- early groundwork for a review of sulphur recovery guidelines, another source of health and environmental concerns, and
- multi-stakeholder involvement in a new process for investigating animal health cases that livestock owners believe are related to oil and gas operations.

Highlight: Over the year, the EUB made progress in developing both its new enforcement program and its audit and inspection program and in handling utility complaints.

The EUB continued to develop a generic set of enforcement ladders to provide fair and consistent enforcement actions for non-compliance with EUB regulations. In 1998/99, EUB staff made 11 presentations on this escalating enforcement process to over 250 members of industry and their associations. Work on specific enforcement ladders in areas such as utilities and oil sands is scheduled to start in the next fiscal year.

The focus on corporate compliance also led the Field Surveillance Group to fully implement and fine tune an effective facility auditing and inspection system. The system is based on operator performance, site sensitivity, and inherent risk. It allows field inspectors to target companies and/or operations that need more attention. Results are described below in the performance measure.

Acting on recommendations made by the Clean Air Strategic Alliance, the EUB released its draft interim directive and *Upstream Petroleum Industry Flaring Guide* in March 1999. Solution gas flaring targets include a 15 per cent reduction from 1996 levels by the end of 2000 and a 25 per cent reduction by the end of 2001. As well, new performance requirements were established for all flares and personal consultation and public notification requirements were set out for new and existing solution gas batteries. A conflict resolution process to address flaring concerns was also outlined in the new draft guide.

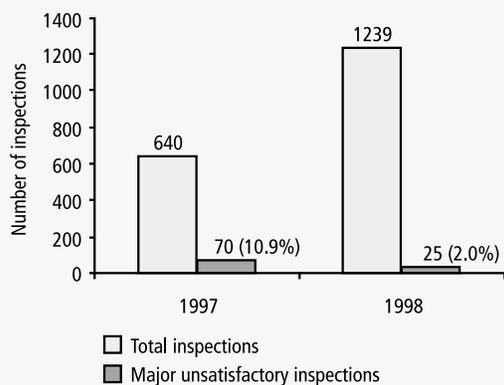
The EUB consulted with stakeholders on the development of guidelines for the preparation of utility surveillance reports. These guidelines were being fine tuned at year end. The Utilities Division also established a complaints team to develop better

means of handling customer complaints and to ensure that utility customers continue to receive safe and adequate service at fair and reasonable rates.

**Performance Measure:
Improvement among Poorest Operators**

Thanks largely to the new facility auditing and inspection system, the 15 operators with the poorest inspection records in 1997/98 showed an 82 per cent improvement in 1998/99, surpassing the target by 22 per cent.

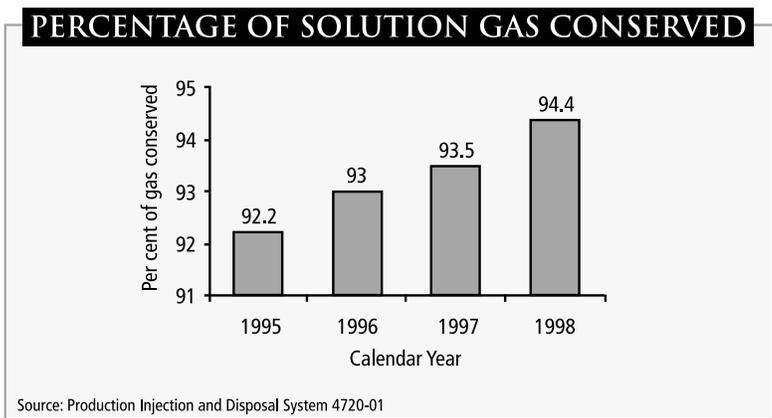
IMPROVEMENT AMONG POOREST OPERATORS



Source: 1998/99 Production Survey System (PSS) Report

Performance Measure: Percentage of Solution Gas Conserved

The volume of solution gas produced this year increased from 1997, and the gas flared decreased. This resulted in 94.4 per cent of the solution gas being conserved, indicating industry's commitment to devote considerable capital to solution gas conservation projects.



EUB field staff and Calgary Operations group continued to monitor batteries that flare significant volumes of solution gas. The information gathered is compiled on a monthly basis by the EUB.

GOAL 9 *Information and Knowledge: Ensure useful and timely information is available to support the effective, efficient, and sustainable development of energy resources.*

Highlight: The EUB made significant progress in implementing electronic commerce with the introduction of three new electronic data submission initiatives.

On March 1, 1998, the EUB began receiving electronic data submissions from oil and gas companies regarding their yearly tracking of reportable oilfield waste from generation to disposal. These data are compiled and published in the *Waste Annual Report (WAR)*. In 1998/99, the WAR system received electronic waste reports for batteries, gas plants, and wells from more than 160 companies, which produce 90 per cent of Alberta's oil and gas.

Also on March 1, 1999, the EUB began receiving gas removal data through its Website. Both the WAR and Gas Removal Data (GRD) systems used the EUB's Internet-based Digital Data Submission (DDS) system. It eliminates the need for manual error checking and data entry, edits the data prior to acceptance, provides immediate feedback on errors, is easy and inexpensive for industry to use, and provides on-line reporting capabilities to registered submitters.

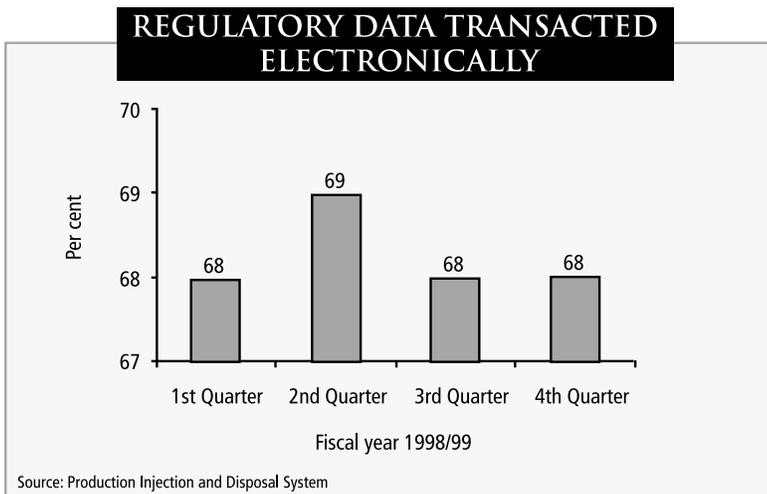
As of March 1, 1999, the EUB also required electronic submission of well test data. To facilitate the Well Test Capture (WTC) process, staff set up a Web site facility, complete with test formats, templates, examples, and frequently asked questions. This was supported by *Guide 52: Electronic Capture of Well Test Data* in January 1999. At the end of 1998/99, the WTC Web site was receiving 250 hits per day.

Despite these advances, the EUB was unable to achieve full electronic commerce in data dissemination because of priorities in other core business areas.

Highlight: Placing the onus on industry to submit accurate information resulted in ongoing improvements in data quality.

The accuracy and integrity of production accounting statements for oil and gas facilities are crucial. The Department of Energy uses production data to assist in calculating royalties, which in 1998 accounted for about \$4 billion, or about 25 per cent, of Alberta's total government revenue. A year after the Data Quality Management Program was introduced in 1997/98, errors on production accounting statements dropped from 20 to 3 per cent, helping reduce backlogs and saving the EUB and industry significant expenditures.

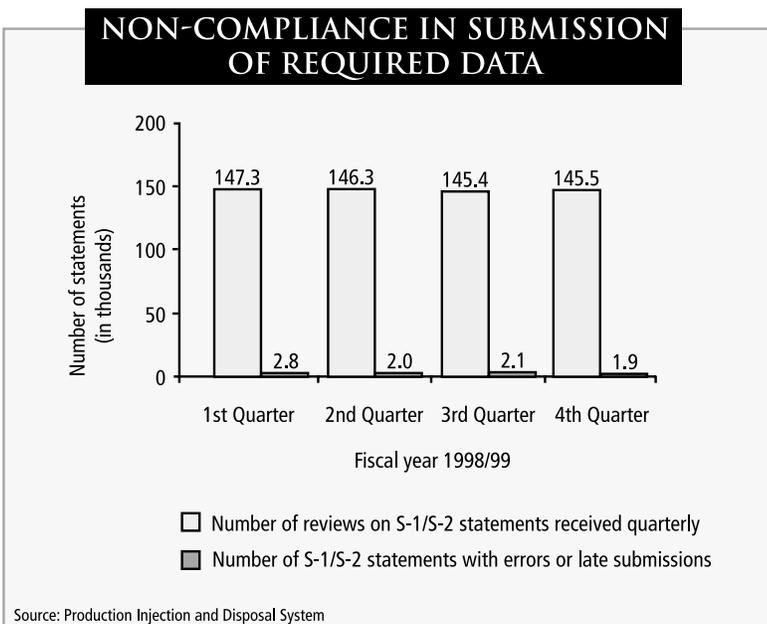
Performance Measure: Regulatory Data Transacted Electronically



In fiscal year 1998/99, 68 per cent of S-1, S-2, and S-18 reporting statements were filed by diskette, exceeding the target of 65 per cent. Previously, these statements were submitted in paper format. Further improvements are anticipated.

Note: 1998/99 was the first year this performance measure was tracked. Therefore these data, compiled by the EUB, are displayed on a quarterly basis.

Performance Measure: Non-compliance in Submission of Required Data



The EUB target for reduction of erroneous and late S-1 and S-2 statements of 5 per cent was exceeded by 3.5 per cent. The total reviewed submissions for fiscal year 1998/1999 were 584,572, of which only 8,853 (1.5 per cent) were erroneous or late. The monthly average indicates that the improved percentage — 1.5 per cent — will continue at the current rate. These data are based on monthly production reports compiled by the EUB.

MINISTRY FUTURE CHALLENGES

- Enhance the EUB's field role, continue to implement innovative enforcement approaches for non-compliance, and review consistency of enforcement decision-making.
- Coordinate EUB activities related to public safety and develop links to organizations with health and safety responsibilities.
- Continue deregulation of electrical industry to meet the 2001 target for customer choice.
- Represent Alberta's interests during climate change policy development.
- Address the increasing number and complexity of land claims and land access issues.
- Complete and implement Royalty and Related Information Review by 2002.
- When necessary, review and improve resource conservation processes.
- Explore jurisdictional authority for all reclamation issues related to oil and gas projects.
- Continue to develop agreements with Alberta Environmental Protection regarding emissions and cumulative effects.
- Keep stakeholders better informed of EUB activities.
- Improve the EUB Web site, and expand its use for delivering EUB documents and improving public access.
- Review data collection and dissemination processes to make industry more accountable for data quality, and identify revenue opportunities and efficiencies within the Ministry.
- Manage the increased demand for information technology and ensure the information systems are on par with stakeholders' business technologies.
- Ensure staff have opportunities to upgrade their skills to enhance productivity and job satisfaction.
- Continue to consult with a variety of stakeholders to identify issues and move toward direct sales to natural gas core markets and core market customer choice.
- Develop a strategy for non-energy minerals to encourage exploration and investment.
- Crown Agency Agreements expire in June 2001. The Department will evaluate the success of this initiative and examine future options for marketing its crude oil.
- Ensure Alberta's interests are protected and the province has appropriate jurisdiction over its resources.
- Look for ways to economically improve recovery of conventional oil.

Financial Information

MINISTRY OF ENERGY

Consolidated Financial Statements March 31, 1999

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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, 1999 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Department. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial 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.

The following reporting practice is not in accordance with generally accepted accounting principles:

Administration costs incurred by the Ministry of Energy related to the Alberta Oil Sands Technology and Research Authority have not been recorded in the accompanying consolidated statement of operations. Instead, the budget of \$1,480,000 and related actual expenses of \$1,360,000 have been recorded in the financial statements of the Alberta Science and Research Authority. During the year, an Order in Council transferred responsibility for the Oil Sands Technology and Research Authority Act from the Minister of Energy to the Minister Responsible for Science, Research and Information Technology. However, the Order in Council did not transfer any portion of the budget or actual expenses that related to the Ministry of Energy's administrative support for the Authority. For the year ended March 31, 1999, the Ministry's budget and expenses for administrative support related to the Authority recorded in these financial statements are understated by \$1,480,000 and \$1,360,000 respectively.

Also, the Ministry of Energy is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies three exceptions from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

Pension obligations

Obligations to pension plans for current and former employees of the Ministry have not been recognized as a liability in the accompanying consolidated statement of financial position and consequently the annual change in the liability has not been recognized in the consolidated statement of operations. In my

view, on a basis of allocation similar to that used for Provincial agencies, an amount of approximately \$2,047,000 due to pension plans at March 31, 1999 (1998 \$2,940,000), in the Ministry's capacity as employer, and which is reflected in the financial statements of the Department of Treasury, should be recognized as a liability in these financial statements. The effect of not recognizing the annual change in the liability is to overstate the Ministry's expenses for the year ended March 31, 1999 by \$893,000 (1998 \$1,781,000).

Capitalization of Assets

Capital assets costing less than \$15,000 are expensed in the year acquired and have not been recognized as assets in the accompanying consolidated statement of financial position. In my view, an amount of approximately \$2,534,000 representing the net book value of these assets as at March 31, 1999 (1998 \$3,029,000) should be recognized in these financial statements. The net effect of this understatement of assets is to overstate expenses for the year ended March 31, 1999 by approximately \$1,087,000 (1998 \$3,029,000).

Excluded direct costs

Accommodation and certain other administration costs incurred in the operation of the Ministry have not been included in expenses. These costs, estimated at \$2,979,000 for the year ended March 31, 1999 (1998 \$2,957,000), are recorded by the departments that paid the expenses on behalf of the Ministry of Energy.

In my opinion, except for the effects of the matters discussed in the preceding sections, these financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
May 20, 1999

Ministry of Energy
Consolidated Statement of Operations
For the year ended March 31, 1999
(in thousands)

	1999		1998
	Budget	Actual	Actual
Revenue: (Schedule 1)			
Non-renewable resource revenues	\$ 2,534,300	\$ 2,618,065	\$ 4,003,701
Freehold mineral rights tax	101,000	111,801	131,292
Industry levies and licences	47,081	45,815	49,144
Other	4,055	8,613	6,988
	2,686,436	2,784,294	4,191,125
Expense: (Schedule 2)			
Energy and utility resources	62,971	65,985	62,550
Departmental support services	19,292	22,279	22,865
Mineral operations and marketing	21,378	19,221	17,517
Research and external relations	9,799	8,841	7,268
Rural utilities	7,256	7,263	-
Energy policy	6,248	6,286	5,846
	126,944	129,875	116,046
Valuation adjustments:			
Provision for doubtful accounts	35	5	(14,026)
Change in accrued vacation pay	-	194	617
	35	199	(13,409)
Net operating results from continuing operations	2,559,457	2,654,220	4,088,488
Net operating results from discontinued operations (note 10)	-	581	(3,062)
Net operating results	\$ 2,559,457	\$ 2,654,801	\$ 4,085,426

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

Ministry of Energy
Consolidated Statement of Changes in Financial Position
For the year ended March 31, 1999
(in thousands)

	1999	1998
Operating transactions:		
Net operating results	\$ 2,654,220	\$ 4,088,488
Non cash items included in net operating results		
Amortization	5,211	6,165
Provision for future project abandonment	-	(72)
Pension expense	3,036	2,258
	2,662,467	4,096,839
Increase in accounts receivable	(61,071)	(16,075)
Decrease (increase) in inventory	21,700	(6,258)
Decrease (increase) in prepaid expenses	(116)	45
Decrease (increase) in accounts payable and accrued vacation pay	(66,603)	57,529
Decrease in provision for future project abandonment	(1,061)	-
Decrease (increase) in unearned revenues	(478)	2,965
Increase in tenant incentives	793	-
	2,555,631	4,135,045
Discontinued operations (Note 10)	(1,325)	(1,620)
Cash provided by operating transactions	2,554,306	4,133,425
 Financing Activities:		
Increase in gas royalty deposits	62,611	24,375
Net transfer to General Revenue	(2,640,392)	(3,962,323)
Pension obligations funded	(3,846)	(10,184)
Change in funds held on behalf of others	10,329	1,638
Discontinued operations (Note 10)	1,325	2,743
Cash used for financing transactions	(2,569,973)	(3,943,751)
 Investing Activities:		
Purchase of capital assets	(4,804)	(2,818)
Discontinued operations (Note 10)	-	959
Cash used for investing transactions	(4,804)	(1,859)
 Transfer of Assets:		
Transfer of pipelines from Transportation and Utilities (Note 17)	(2,283)	-
Net assets transferred to Alberta Science, Research and Information Technology (Note 17)	(24,415)	-
Net assets transferred to Alberta Petroleum Marketing Commission	-	(10,860)
Net assets transferred	(26,698)	(10,860)
Net Cash (Used) Provided	(47,169)	176,955
Cash, Beginning of Year	231,590	54,635
Cash, End of Year	\$ 184,421	\$ 231,590

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

Ministry of Energy
Consolidated Statement of Financial Position
For the year ended March 31, 1999
(in thousands)

	1999	1998
Assets:		
Cash and short-term investments (Note 4)	\$ 184,421	\$ 231,590
Accounts receivable	356,649	295,578
Inventory held for resale	33,100	54,800
Prepaid expenses	535	419
Pension benefits	3,920	3,110
Capital assets (Note 5)	28,947	27,071
	\$ 607,572	\$ 612,568
Liabilities and Net Assets:		
Accounts payable	\$ 48,591	\$ 115,794
Accrued vacation pay	7,057	6,457
Unearned revenue	72,487	72,965
Gas royalty deposits	290,328	227,717
Provision for future project abandonment (Note 6)	-	1,061
Funds held on behalf of others (Note 7)	14,614	4,285
Tenant incentives	793	-
	433,870	428,279
Net Assets:		
Net assets, beginning of period	184,289	61,186
Net operating results	2,654,801	4,085,426
Net transfer to General Revenue	(2,640,392)	(3,962,323)
Net assets transferred to Alberta Science, Research and Information Technology (Note 17)	(24,415)	-
Net liabilities transferred from Department of Transportation (Note 17)	(581)	-
Net assets, end of period"	173,702	184,289
	\$ 607,572	\$ 612,568

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

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 1 Authority

The Ministry of Energy has been designated as responsible for various Acts by the Government Organization Act and its regulations. To fulfill these responsibilities, the Ministry 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	Alberta Energy and Utilities Board Act
Alberta Petroleum Marketing Commission	Petroleum Marketing Act and the Natural Gas Marketing Act

Note 2 Purpose

The Ministry of Energy optimizes the sustained contribution from Alberta's resources in the interests of Albertans, and regulates energy development in a manner that protects individual, public and industry interests with respect to the resources and the environment.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is the Ministry of Energy, which consists of the organizations identified in Note 1.

(b) Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the Alberta Energy and Utilities Board and the Alberta Petroleum Marketing Commission are consolidated. Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between entities within the Ministry have been eliminated.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 3 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Basis of Consolidation (continued)

The reporting period of the Alberta Petroleum Marketing Commission is December 31. Transactions that have occurred during the period to March 31, 1999 and that significantly affect the consolidation have been recorded.

Expenses

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional government and employer contributions for employees' service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other Ministries are not reflected in the consolidated statement of net income.

Provision for future project abandonment is made when costs are reasonably determined.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value.

Assets

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

Capital assets are recorded at historical cost and are amortized over their estimated useful lives.

Liabilities

Liabilities include all financial claims payable by the Ministry at fiscal year end, except for the Department's long-term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments.

Note 4 Cash and Short-term Investments

Cash and short-term investments consist of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. Treasury is managing the Fund with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 4 Cash and Short-term Investments (continued)

Due to the short-term nature of the Fund's investments the carrying value approximates fair value. Funds held on behalf of others are invested in chartered bank deposits, and all investment earnings are accrued to the benefit of the depositor.

Note 5 Capital Assets

	1999			1998	
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	4-5 years	\$ 57,552	\$ 34,414	\$ 23,138	\$ 24,781
Equipment	10 years	7,381	5,026	2,355	1,478
Pipelines	40 years	2,927	688	2,239	-
Leasehold Improvement	Term of Lease	1,300	405	895	492
Land		320	-	320	320
		<u>\$ 69,480</u>	<u>\$ 40,533</u>	<u>\$ 28,947</u>	<u>\$ 27,071</u>

Note 6 Provision for Future Project Abandonment

Under joint participation agreements, the Ministry will incur costs when wells and experimental projects are abandoned. Estimated Ministry share of costs:

	1999	1998
Other projects	\$ -	\$ 1,061
Total	<u>\$ -</u>	<u>\$ 1,061</u>

Note 7 Funds Held on Behalf of Others

Deposits are collected by the Alberta Energy and Utilities Board to ensure the proper abandonment of oil and gas wells. The deposits plus annual interest are returned to the registered owner upon compliance.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 8 Net Assets

Net assets are comprised of:

	<u>1999</u>	<u>1998</u>
Alberta Energy	\$ 119,906	\$ 125,951
Alberta Oil Sands Technology and Research Authority	-	24,415
Alberta Petroleum Marketing Commission	30,800	11,200
Alberta Energy and Utilities Board	<u>22,996</u>	<u>22,723</u>
Total	<u>\$ 173,702</u>	<u>\$ 184,289</u>

Note 9 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:

	<u>1999</u>	<u>1998</u>
Mines and Minerals Act Securities Trust	\$ 382	\$ 3,885
Oil and Gas Conservation Trust	<u>16</u>	<u>14</u>
Total	<u>\$ 398</u>	<u>\$ 3,899</u>

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 10 Discontinued Operations

On October 1, 1997 the Alberta Oil Sands Technology and Research Authority no longer held any assets or liabilities related to the Underground Test Facility. As part of the participation agreement final reports and audited statements are required.

The revenue and expenses relating to the UTF operations were as follows:

	<u>1999</u>	<u>1998</u>
Sale of bitumen	\$ -	\$ 3,119
Operating expenses	-	(4,740)
Amortization	-	(1,500)
Net operating results	-	(3,121)
Gain on disposal of UTF	-	59
Deficiency of revenue over expenses	<u>\$ -</u>	<u>\$ (3,062)</u>

On October 2, 1997, the management of Gas Alberta Operating Fund adopted a plan to discontinue gas brokerage and retail billing operations. These activities comprised the total operations of the Fund.

The revenue and expenses relating to Gas Alberta Operating Fund were as follows:

	<u>1999</u>
Revenues from gas operations	\$ 7,345
Expenses:	
Gas operations	7,477
Administration costs	<u>91</u>
Net results from operations	(223)
Gain on sale of operations	<u>804</u>
Net income	<u>\$ 581</u>

Effective April 1, 1998 Gas Alberta Operating Fund was transferred to the Ministry of Energy from the Ministry of Transportation and Utilities. The prior year's revenue and expenses are reported by the Ministry of Transportation and Utilities.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 10 Discontinued Operations (continued)

The impact on the Statement of Change in Financial Position of the above changes is as follows:

	1999	1998
Operating activities:		
Net operating results	\$ 581	\$ (3,061)
Non-cash items included in net operating results		
Amortization	-	1,500
Gain on disposal	(804)	(59)
	(223)	(1,620)
Decrease in accounts receivable	3,786	-
Increase in inventory	(3,399)	-
Decrease in accounts payable	(1,489)	-
Cash used by operating activities of discontinued operations	\$ (1,325)	\$ (1,620)
Financing activities:		
Proceeds on sale of operations	4,637	-
Payments to General Revenues	(3,312)	-
Decrease in operating advance	-	2,743
Cash provided by financing activities of discontinued operations	1,325	2,743
Investing activities:		
Purchase of capital assets	-	(3,141)
Proceeds on disposal of UTF	-	4,100
Cash provided by investing activities of discontinued operations	-	959
Cash provided by discontinued operations	\$ -	\$ 2,082

Note 11 Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 1999 amount to \$11,754 (1998 \$19,716). 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:

1999/2000	\$ 7,167
2000/01	3,608
2001/02	492
2002/03	281
2003/04	206
	\$ 11,754

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 11 **Commitments** (continued)

Royalty Paid Natural Gas

The Province is committed to payout January 1, 1994 balances of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 1999, the commitment was estimated at \$83,071 (1998 \$121,000). Under the Natural Gas Royalty Regulation, the commitment must be discharged by December 31, 1999, with the exception of one project, which will be amortized to 2006.

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements of up to fifteen years. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contract rates. The aggregate estimated commitment of \$144,997 (1998 174,445) will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

Note 12 **Contingencies**

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

(a) Natural Gas & By-Product Royalties Appeals

Industry has appealed assessments resulting from the Ministry's Compliance and Assurance audits. The appeals relate to cost and unit price issues in the processing of natural gas liquids. The potential cost is unknown. In the opinion of management, the likely results of these appeals cannot be determined at this time.

(b) 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.

Note 13 **Budget**

The budget figures were derived from Government Estimates tabled in the Legislature on March 26, 1998. As required by the Balanced Budget and Debt Retirement Act, budgeted revenue is reduced by a cushion for resource revenue.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 14 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. The Ministry of Energy computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Ministry of Energy operations. Despite the Ministry of Energy's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 problem affecting the Ministry of Energy, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

Note 15 Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of royalties derived from non-renewable resources. It is reasonably possible that changes could occur in the near term, which may affect the amount that should have been accrued for royalties. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

Note 16 Related Party Transactions

The Ministry paid \$4,534 (1998 \$5,333) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year. In addition, the Ministry paid Payment Systems Corporation (PSC), a joint venture partially owned by the Province of Alberta until March 31, 1999, \$199 (1998 \$113) for computer processing. Accommodations, legal, telecommunications, personnel, and certain financial costs were provided to the Ministry by other government organizations at no cost.

Ministry of Energy
Notes to the Consolidated Financial Statements
March 31, 1999
(in thousands)

Note 17 Reorganizations

Pursuant to Section 17 of the Government Organization Act, Rural Utilities was transferred from the Department of Transportation to the Department of Energy, and Research and Technology was transferred from the Department of Energy to Alberta Science, Research and Information Technology. In accordance with government's accounting policies, comparative figures in these financial statements are not restated. Revenues and expenses reported in the Government Estimates for the year ended March 31, 1998 are restated to reflect this reorganization.

Note 18 Comparative Figures

Certain 1998 figures have been reclassified to conform to 1999 presentation.

Note 19 Approval of Financial Statements

The Deputy Minister and the Senior Financial Officer of the Department have approved these consolidated financial statements.

Ministry of Energy
Consolidated Schedule of Revenue — Schedule 1
For the year end March 31, 1999
(in thousands)

	1999		1998
	Budget	Actual	Actual
Non-renewable resource revenue			
Natural gas and by-products	\$ 1,282,000	\$ 1,466,800	\$ 1,659,823
Bonuses and sale of crown leases	650,000	463,691	1,071,207
Crude oil royalties	644,000	469,897	913,975
Rentals and fees	147,000	141,751	147,898
Synthetic crude oil and bitumen	50,000	58,872	192,364
Coal	17,000	17,054	18,434
Reduction to 5 year average	(255,700)	-	-
	2,534,300	2,618,065	4,003,701
Freehold mineral rights tax	101,000	111,801	131,292
Industry levies and licenses			
Industry levies and assessments	43,081	43,806	29,083
Information services	3,300	1,249	3,507
Applications and licenses	700	760	16,554
	47,081	45,815	49,144
Other revenue:			
Miscellaneous	300	1,660	5,625
Interest	1,000	3,572	1,363
Other	2,755	3,381	-
	4,055	8,613	6,988
Total Gross Revenues	\$ 2,686,436	\$ 2,784,294	\$ 4,191,125

Ministry of Energy
Consolidated Schedule of Expenses Detailed by Object — Schedule 2
For the year ended March 31, 1999
(in thousands)

	1999		1998
	Budget	Actual	Actual
Salaries, wages and employee benefits	\$ 69,203	\$ 74,080	\$ 66,908
Supplies and services	43,679	39,649	35,779
Grants	15,325	14,432	9,769
Amortization of capital assets	6,008	5,211	7,666
Well abandonment	3,400	4,024	2,126
Financial transactions and other	45	47	38
Gross expenses for operations	137,660	137,443	122,286
Less expenses for discontinued operations (Note 10)	(10,716)	(7,568)	(6,240)
Total Net Expenses	\$ 126,944	\$ 129,875	\$ 116,046

Ministry of Energy
Consolidated Schedule of Intra-Ministry Transactions — Schedule 3
For the year ended March 31, 1999
(in thousands)

	1999		1998
	Budget	Actual	Actual
Assets			
Alberta Petroleum Marketing Commission	\$ -	\$ (19,686)	\$ (38,151)
Total net assets	<u>\$ -</u>	<u>\$ (19,686)</u>	<u>\$ (38,151)</u>
Liabilities			
Alberta Petroleum Marketing Commission	\$ -	\$ (19,686)	\$ (38,151)
Total net liabilities	<u>\$ -</u>	<u>\$ (19,686)</u>	<u>\$ (38,151)</u>
Revenue			
Alberta Energy and Utilities Board funding from the Department	\$ (14,966)	\$ (14,966)	\$ (13,540)
Alberta Oil Sands Technology and Research Authority funding from the Department	<u>-</u>	<u>-</u>	<u>(8,200)</u>
Total net revenue	<u>\$ (14,966)</u>	<u>\$ (14,966)</u>	<u>\$ (21,740)</u>
Expense			
Grant funding to Alberta Energy and Utilities Board	\$ (14,966)	\$ (14,966)	\$ (13,540)
Grant funding to Alberta Oil Sands Technology and Research Authority	<u>-</u>	<u>-</u>	<u>(8,200)</u>
Total net expense	<u>\$ (14,966)</u>	<u>\$ (14,966)</u>	<u>\$ (21,740)</u>

DEPARTMENT OF ENERGY

Financial Statements March 31, 1999

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Auditor's Report

To the Minister of Resource Development

I have audited the statement of financial position of the Department of Energy as at March 31, 1999 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the management of the Department. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial 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.

The following reporting practice is not in accordance with generally accepted accounting principles:

Administration costs incurred by the Department related to the Alberta Oil Sands Technology and Research Authority have not been recorded in the accompanying statement of operations. Instead, the budget appropriation of \$1,480,000 and related actual expenses of \$1,360,000 have been recorded in the financial statements of the Alberta Science and Research Authority. During the year, an Order in Council transferred responsibility for the Oil Sands Technology and Research Authority Act from the Minister of Energy to the Minister Responsible for Science, Research and Information Technology. However, the Order in Council did not transfer any portion of the budget or actual expenses that related to the Department of Energy's administrative support for the Authority. For the year ended March 31, 1999, the Department's budget appropriation and expenses for administrative support related to the Authority recorded in these financial statements are understated by \$1,480,000 and \$1,360,000 respectively.

Also, the Department of Energy is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across departments. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies three exceptions from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

Pension obligations

Obligations to pension plans for current and former employees of the Department have not been recognized as a liability in the accompanying statement of financial position and consequently the annual change in the liability has not been recognized in the statement of operations. In my view, on a basis

of allocation similar to that used for Provincial agencies, an amount of approximately \$2,047,000 due to pension plans at March 31, 1999 (1998 - \$2,940,000), in the Department's capacity as employer, and which is reflected in the financial statements of the Department of Treasury, should be recognized as a liability in these financial statements. The effect of not recognizing the annual change in the liability is to overstate the Department's expenses for the year ended March 31, 1999 by \$893,000 (1998 - \$1,781,000).

Capitalization of Assets

Capital assets costing less than \$15,000 are expensed in the year acquired and have not been recognized as assets in the accompanying statement of financial position. In my view, an amount of approximately \$2,534,000 representing the net book value of these assets as at March 31, 1999 (1998 - \$1,447,000), should be recognized in these financial statements. The net effect of this understatement of assets is to overstate expenses for the year ended March 31, 1999 by approximately \$1,087,000 (1998 - \$1,447,000).

Excluded direct costs

Accommodation and certain other administration costs incurred in the operation of the Department have not been included in expenses. These costs, estimated at \$2,979,000 for the year ended March 31, 1999 (1998 - \$2,957,000), are recorded by the departments that paid the expenses on behalf of the Department of Energy.

In my opinion, except for the effects of the matters discussed in the preceding sections, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
May 20, 1999

Department of Energy
Statement of Operations
For the year ended March 31, 1999
(in thousands)

	<u>1999</u>	<u>1998</u>	
	<u>1998/99 Budget (Schedule 2)</u>	<u>Actual</u>	<u>Actual</u>
Revenue: (Schedule 1)			
Non-renewable resource revenue	\$ 2,534,300	\$ 2,598,464	\$ 3,992,501
Freehold mineral taxes	101,000	111,801	131,292
Other revenue	1,630	3,137	1,865
	<u>2,636,930</u>	<u>2,713,402</u>	<u>4,125,658</u>
Expense:			
Voted (Schedules 3 and 6)			
Department support services	19,292	22,278	22,865
Mineral operations	21,378	19,221	17,517
Planning and development	23,303	22,390	16,558
Energy and utilities regulation	13,765	14,966	13,540
	<u>77,738</u>	<u>78,855</u>	<u>70,480</u>
Valuation Adjustments			
Provisions for doubtful accounts	35	5	(14,026)
Provisions for vacation pay	-	194	617
	<u>35</u>	<u>199</u>	<u>13,409</u>
	<u>77,773</u>	<u>79,054</u>	<u>57,071</u>
Net operating results	<u>\$ 2,559,157</u>	<u>\$ 2,634,348</u>	<u>\$ 4,068,587</u>

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

Department of Energy
Statement of Changes in Financial Position
For the year ended March 31, 1999
(in thousands)

	1999	1998
Operating transactions:		
Net operating results	\$ 2,634,348	\$ 4,068,587
Non-cash items included in net operating results:		
Amortization	4,160	4,778
Provisions for doubtful accounts	5	(14,026)
Provisions for vacation pay	194	617
	2,638,707	4,059,956
Decrease (increase) in accounts receivable	(77,977)	68,728
Decrease (increase) in inventories held for resale	21,700	(6,258)
Increase in loans and advances	(124)	-
Decrease in accounts payable and accrued liabilities	(21,353)	(14,894)
Increase (decrease) in unearned revenue	(476)	2,965
Cash provided by operating transactions	2,560,477	4,110,497
Financing transactions:		
Net transfer to General Revenue	(2,640,392)	(3,962,323)
Decrease in gas royalty deposits	62,612	24,374
Cash used by financing transactions	(2,577,780)	(3,937,949)
Investing transactions		
Purchase of capital assets (Schedule 4)	(979)	(1,258)
Transfer of assets from Transportation and Utilities (Note 14)		
Gas pipelines	(2,283)	-
Net cash (used) provided	(20,565)	171,290
Cash and short-term investments, beginning of period	171,308	18
Cash and short-term investments, end of period	\$ 150,743	\$ 171,308

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

Department of Energy
Statement of Financial Position
As at March 31, 1999
(in thousands)

	1999	1998
Assets:		
Cash and short-term investments (Note 4)	\$ 150,743	\$ 171,308
Accounts receivable (Note 5)	299,643	221,666
Inventories held for resale	33,100	54,800
Loans and advances (Note 6)	134	15
Capital assets (Note 7)	22,388	23,286
	\$ 506,008	\$ 471,075
Liabilities:		
Accounts payable and accrued liabilities	\$ 23,283	\$ 44,442
Gas royalty deposits	290,329	227,717
Unearned revenue	72,489	72,965
	386,101	345,124
Net Assets:		
Net assets, beginning of year	125,951	19,687
Net operating results	2,634,348	4,068,587
Net transfer to General Revenue	(2,640,392)	(3,962,323)
Net assets, end of year	119,907	125,951
	\$ 506,008	\$ 471,075

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

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 1 Authority

The Department of Energy operates under the authority of the Government Organization Act, Statutes of Alberta.

Note 2 Purpose

The Department's Mission is to optimize the sustained contribution from Alberta's resources in the interests of Albertans.

Note 3 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(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 include the Alberta Petroleum Marketing Commission and the Alberta Energy and Utility Board. The activities of these organizations are not included in these financial statements.

Since significant financial transactions of the Ministry are reported outside the departmental financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Ministry is accountable.

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

(b) Basis of Financial Reporting

Expenses

Expenses represent the costs of resources consumed during the year on the Department's operations. Expenses include amortization of capital assets. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 3 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Expenses (continued)

employer contributions for employees' service relating to prior years. Certain expenses, primarily for office space, legal advice, and banking services incurred on behalf of the Department by other Ministries, are not reflected in the Statement of Operations.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value.

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.

Inventory consists of oil in feeder and trunk pipelines. Inventory is stated at net realizable value.

Capital assets are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. Capital assets are restricted to those acquired for cash or exchanged for other assets. The threshold for capitalizing new systems development is \$100 and the threshold for all other capital assets is \$15. Assets acquired by right, such as mineral resources, are not included. In addition, donated assets are excluded.

Liabilities

Liabilities include all financial claims payable by the Department at fiscal year end, except long-term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments.

Net Assets

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

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, unearned revenues and gas royalties deposits are estimated to approximate their book values.

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 4 Cash and Short-term Investments

Cash and short-term investments consist of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is being managed by Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Due to the short-term nature of the Fund's investments the carrying value approximates fair value.

Note 5 Accounts Receivable

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

Note 6 Loans and Advances

	1999		1998	
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Travel Advances	\$ 14	\$ -	\$ 14	\$ 15
Loans Receivable				
10 years	28	7	21	-
25 years	136	37	99	-
	\$ 178	\$ 44	\$ 134	\$ 15

Travel advances are provided to departmental employees to cover the cost of business travel.

Loans have been provided to Albertans in rural areas under the Rural Electrification Loans Program to help finance the costs of installing electricity into homes.

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 6 Loans and Advances (continued)

The 10-year loans, issued under the Rural Electrification Loan Act, are repayable at 10% of principal per annum plus interest that ranges from 3.5% to 9.75%, as determined when the loans were issued. Repayment commences one year after the loan is issued.

The 25-year loans, issued under the Rural Electrification Long Term Financing Act, are repayable over 25 years at interest rates that range from 3.5% to 9.75%, as determined when the loans were issued.

The allowance for doubtful accounts is established at 25% of the remaining loan balances outstanding for 10 and 25 year loans.

Note 7 Capital Assets

		1999			1998
		Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value
Computer hardware and software	5 years	\$ 42,680	\$ 23,811	\$ 18,869	\$ 22,022
Equipment	10 years	4,126	2,846	1,280	1,264
Pipeline	40 years	2,927	688	2,239	-
		\$ 49,733	\$ 27,345	\$ 22,388	\$ 23,286

Note 8 Commitments

As at March 31, 1999, the Department has commitments totaling \$3,665 (1998 - \$6,527). 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 leases with lease payment requirements in future years of:

1999/2000	\$ 2,727
2000/01	595
2001/02	252
2002/03	83
2003/04	8
	\$ 3,665

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 8 Commitments (continued)

Royalty Paid Natural Gas

The Province is committed to payout January 1, 1994 balances of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 1999, the commitment was estimated at \$83,071 (1998-\$121,000). The commitment has to be discharged by December 31, 1999, with the exception of one project, which will be amortized to 2006.

Note 9 Contingencies

At March 31, 1999, the department has been named in administrative appeals and litigation.

Management considers the contingencies will not result in any material adverse effect on the department. Any losses arising from the settlement of contingencies will be treated as current year expenses.

(a) Natural Gas & By-Product Royalties Appeals

Industry has appealed assessments resulting from the Department's Compliance and Assurance audits. The appeals relate to cost and unit price issues in the processing of natural gas liquids. The potential cost is unknown. In the opinion of management, the likely results of these appeals cannot be determined at this time.

(b) 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 Department 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.

Note 10 Related Party Transactions

The Department paid \$4,534 (1998 - \$5,333) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year. In addition, the Department paid Payment Systems Corporation (PSC), which until March 31, 1999, was a joint venture partially owned by the Province of Alberta, \$199 (1998 - \$113) for computer processing.

Accommodations, legal, telecommunications, personnel, and certain financial costs with a value of \$2,979 were provided to the Department by other government organizations at no cost. At March 31, 1999, a receivable of \$27,616 (1998 - \$32,100) was due from the Alberta Petroleum Marketing Commission, which is part of the Ministry of Energy.

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 10 Related Party Transactions (continued)

The Department and its employees paid certain taxes and fees set by regulation for permits, licenses, and other rights. These amounts were incurred in the normal course of business and reflect charges applicable to all users.

Note 11 Trust Funds under Administration

The Department 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 Department's financial statements.

As at March 31, 1999, trust funds under administration were as follows:

	1999	1998
Mines and Minerals Act Securities Trust	\$ 382	\$ 3,885
Oil and Gas Conservation Trust	16	14
Total	\$ 398	\$ 3,899

Note 12 Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in determination of the amounts at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is wherever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of royalties derived from non-renewable resources. It is reasonably possible that changes could occur in the near term that may affect the amount that should have been accrued for royalties. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

Note 13 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. Department of Energy computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems

Department of Energy
Notes to the Financial Statements
March 31, 1999
(in thousands)

Note 13 Uncertainty Due to the Year 2000 (continued)

if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Department of Energy operations. Despite the Department of Energy's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 problem affecting the Department of Energy, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

Note 14 Reorganizations

Pursuant to Section 17 of the Government Organization Act Rural Utilities was transferred from the Department of Transportation to the Department of Energy, and Research and Technology was transferred from the Department of Energy to Alberta Science, Research and Information Technology.

In accordance with government's accounting policies, comparative figures in these financial statements are not restated. Revenues and expenses reported in the Government Estimates for the year ended March 31, 1998 are restated to reflect this reorganization. The differences between the Estimates and comparative amounts in these financial statements are as follows:

	Revenues	Expenses
1997-98 actual amount per 1999-2000 Government Estimates (page 159)	\$ 4,138,862	\$ 58,629
Add:		
Research and Technology	-	9,620
Deduct:		
Rural Utilities	(2,004)	(11,178)
Consolidation Adjustment	(11,200)	-
	\$ 4,125,658	\$ 57,071
1997-98 actual amount per these financial statements		

Note 15 Comparative Figures

Certain 1998 figures have been reclassified to conform to the 1999 presentation.

Due to General Revenues reported in 1998 has been reclassified to net assets in 1999. The change in net assets reported on the Statement of Financial Position includes Net Transfer to General Revenues. As a result, the Net Contribution to General Revenues as previously reported is no longer required.

Note 16 Approval of Financial Statements

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

Department of Energy
Schedule of Revenue — Schedule 1
For the year ended March 31, 1999
(in thousands)

	1999		1998
	Authorized Budget	Actual	Actual
Non-renewable resource revenue:			
Natural gas and by-products royalty	\$ 1,282,000	\$ 1,466,800	\$ 1,659,823
Bonuses and sales of crown leases	650,000	463,691	1,071,207
Crude oil royalty	644,000	450,297	902,775
Rentals and fees	147,000	141,751	147,898
Synthetic crude oil and bitumen royalty	50,000	58,872	192,364
Coal royalty	17,000	17,053	18,434
Reduction to 5 year average	<u>(255,700)</u>	<u>-</u>	<u>-</u>
	2,534,300	2,598,464	3,992,501
Other taxes:			
Freehold mineral rights tax	101,000	111,801	131,292
Other revenue	<u>1,630</u>	<u>3,137</u>	<u>1,865</u>
Total Revenue	<u>\$ 2,636,930</u>	<u>\$ 2,713,402</u>	<u>\$ 4,125,658</u>

Department of Energy
Schedule of Budget — Schedule 2
For the year ended March 31, 1999
(in thousands)

	1998/99 Estimates (a)	Transfer of Responsibility (Note 14)	1998/99 Budget	Supplementary Estimates	Authorized Budget
Revenue:					
Non-renewable resource revenue	\$ 2,534,300	\$ -	\$ 2,534,300	\$ -	\$ 2,534,300
Other taxes	101,000	-	101,000	-	101,000
Other	1,630	-	1,630	-	1,630
	<u>2,636,930</u>	<u>-</u>	<u>2,636,930</u>	<u>-</u>	<u>2,636,930</u>
Expense:					
Voted					
Departmental support services	19,292	-	19,292	357	19,649
Mineral operations	21,378	-	21,378	342	21,720
Planning and development	17,467	5,836	23,303	225	23,528
Energy and utilities regulation	13,765	-	13,765	1,201	14,966
	<u>71,902</u>	<u>5,836</u>	<u>77,738</u>	<u>2,125</u>	<u>79,863</u>
Valuation Adjustments	35	-	35	-	35
Net Operating Results	<u>\$ 2,564,993</u>	<u>\$ (5,836)</u>	<u>\$ 2,559,157</u>	<u>\$ (2,125)</u>	<u>\$ 2,557,032</u>

(a) Government Estimates were approved on March 26, 1998 and the Supplementary Estimates were approved on March 8, 1999.

Department of Energy
Schedule of Expense Detailed by Object — Schedule 3
For the year ended March 31, 1999
(in thousands)

	1999		1998
	1998/99 Budget	Actual	Actual
Voted:			
Salaries, wages and employee benefits	\$ 28,292	\$ 28,784	\$ 26,338
Supplies and services	15,903	16,466	16,689
Grants	29,090	29,398	22,637
Financial transactions and other	45	47	38
Amortization of capital assets	4,408	4,160	4,778
Total Voted Expenses	\$ 77,738	\$ 78,855	\$ 70,480

Department of Energy
Schedule of Purchase of Capital Assets — Schedule 4
For the year ended March 31, 1999
(in thousands)

	1999		1998
	1998/99 Budget	Actuals	Actuals
Departmental support services	\$ 694	\$ 444	\$ 619
Mineral operations	621	535	639
	\$ 1,315	\$ 979	\$ 1,258

Department of Energy
Schedule of Salaries and Benefits Disclosure — Schedule 5
For the year ended March 31, 1999
(in thousands)

	1999 ⁽¹⁾			1998		
	# of Individuals	Salary ⁽²⁾	Benefits & Allowances ⁽³⁾	Total	# of Individuals	Total
Department of Energy						
Senior Official						
Deputy Minister ⁽⁴⁾	1	\$145	\$16	\$161	1.2	\$175
Executives - Assistant Deputy Ministers						
Corporate Services	1	116	15	131	0.8	116
Planning and Development ⁽⁵⁾	1	112	15	127	0.5	59
Mineral Operations	1	110	15	125	1.0	113
Research and External Relations ⁽⁶⁾	-	-	-	-	0.2	17
Policy ⁽⁷⁾	-	-	-	-	0.6	85
Executive Director - Electricity	1	115	15	130	1.0	99

- (1) This schedule includes the Department of Energy and Alberta Petroleum Marketing Commission.
- (2) Salary includes regular base pay, overtime, vacation payout and any other direct cash remuneration.
- (3) Benefits and Allowances include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, WCB premiums, health care, dental coverage, group life insurance, short and long term disability plans, payments made in lieu of employer supplied automobile, professional memberships and tuition fees.
- (4) The position was occupied by two individuals through the 1998 year. The previous Deputy Minister terminated on June/97, holiday payout of \$24. Automobile provided, no amount included in benefits and allowances figure.
- (5) Planning and Development is a newly created division combining Policy and Research and External Relations. The Assistant Deputy Minister commenced in October/97.
- (6) Research and External Relations merged with Policy as part of the restructuring. The Assistant Deputy Minister terminated in May/97.
- (7) The previous Assistant Deputy Minister terminated October/97, the holiday payout was \$25.

Department of Energy
Schedule of Comparison of Expense by Element to Authorized Budget — Schedule 6
For the year ended March 31, 1999
(in thousands)

	1998/99 Budget	Voted Supplementary Estimate	1998/99 Authorized Budget	Current Year Actuals	Unexpended (Over Expended)
Expenses:					
Voted					
Program 1 - Departmental Support Services					
1.0.1 Minister's Office	\$ 250	\$ 7	\$ 257	\$ 257	\$ -
1.0.2 Deputy Ministers' Office	422	20	442	343	99
1.0.3 Corporate Services	13,307	321	13,628	16,903	(3,275)
1.0.4 Communications	435	2	437	311	126
1.0.5 Internal Audit	339	6	345	193	152
1.0.6 Legal Services	131	1	132	111	21
1.0.7 Amortization	4,408	-	4,408	4,160	248
	<u>19,292</u>	<u>357</u>	<u>19,649</u>	<u>22,278</u>	<u>(2,629)</u>
Program 2 - Mineral Operations					
2.0.1 Program Support	207	8	215	243	(28)
2.0.2 Tenure and Royalties	21,171	334	21,505	18,978	2,527
	<u>21,378</u>	<u>342</u>	<u>21,720</u>	<u>19,221</u>	<u>2,499</u>
Program 3 - Planning and Development					
3.0.1 Program Support	166	8	174	243	(69)
3.0.2 Policy Development and Analysis	4,586	149	4,735	4,556	179
3.0.3 Research and Development	9,799	-	9,799	8,841	958
3.0.4 External Relations	603	6	609	433	176
3.0.5 Electricity	893	35	928	1,054	(126)
3.0.6 Rural Utilities	7,256	27	7,283	7,263	20
	<u>23,303</u>	<u>225</u>	<u>23,528</u>	<u>22,390</u>	<u>1,138</u>
Program 4 - Energy and Utilities Regulation					
4.0.1 Alberta Energy and Utilities Board	13,765	1,201	14,966	14,966	-
	<u>13,765</u>	<u>1,201</u>	<u>14,966</u>	<u>14,966</u>	<u>-</u>
Total Voted Expenses	<u>\$ 77,738</u>	<u>\$ 2,125</u>	<u>\$ 79,863</u>	<u>\$ 78,855</u>	<u>\$ 1,008</u>

ALBERTA ENERGY AND UTILITIES BOARD

Financial Statements March 31, 1999

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Auditor's Report

To the Members of the Alberta Energy and Utilities Board

I have audited the statement of assets, liabilities and accumulated surplus of the Alberta Energy and Utilities Board as at March 31, 1999 and the statements of revenue, expenditure and operating surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with 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, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
May 3, 1999

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF ASSETS, LIABILITIES, AND ACCUMULATED SURPLUS
AS AT MARCH 31, 1999
(thousands of dollars)

	1999	1998
	(Schedule 1)	
Assets:		
Current:		
Cash and investments ^(Note 3)	\$ 30,706	\$ 25,511
Accounts receivable	3,084	2,087
Prepaid expenses	535	419
	34,325	28,017
Deferred pension assets ^(Note 4)	3,920	3,110
Capital assets ^(Notes 5)	6,558	3,785
	\$ 44,803	\$ 34,912
 Liabilities and Surplus:		
Current:		
Accounts payable	\$ 2,743	\$ 4,651
Accrued vacation	3,657	3,253
	6,400	7,904
Funds held on behalf of others ^(Note 6)	14,614	4,285
Deferred lease incentive ^(Note 7)	793	-
	21,807	12,189
Accumulated surplus	22,996	22,723
	\$ 44,803	\$ 34,912

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

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF REVENUE, EXPENDITURE AND OPERATING SURPLUS
FOR THE YEAR ENDED MARCH 31,1999
(thousands of dollars)

	1999		1998
	Actual	Budget	Actual
	(Schedule 2)		
Revenue:			
Industry levies and assessments	\$ 43,806	\$ 43,081	\$ 29,083
Provincial contributions	15,066	13,765	13,540
Information and services	3,572	3,300	3,805
Interest	1,636	1,000	1,363
Enforcement	1,249	1,125	878
Applications and licenses ^(Note 8)	760	700	16,554
Miscellaneous	168	300	331
	<u>66,257</u>	<u>63,271</u>	<u>65,554</u>
Expenditure:			
Salaries and benefits ^(Note 9)	45,136	40,687	40,392
Building rental and maintenance	5,586	5,620	5,700
Well abandonment	4,024	3,400	2,126
Contract services	2,586	2,200	2,708
Vehicle and equipment operating costs	2,047	2,175	2,345
Computer services	1,832	2,000	2,239
Supplies ^(Note 5)	1,660	3,300	3,745
Travel and subsistence	1,265	1,210	1,245
Amortization	1,052	1,600	1,391
Miscellaneous	796	779	659
	<u>65,984</u>	<u>62,971</u>	<u>62,550</u>
Current year surplus	273	300	3,004
Accumulated surplus, beginning of year	<u>22,723</u>	<u>22,723</u>	<u>19,719</u>
Accumulated surplus, end of year	<u>\$ 22,996</u>	<u>\$ 23,023</u>	<u>\$ 22,723</u>

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1999
(thousands of dollars)

	1999	1998
Operating Activities:		
Current year surplus	\$ 273	\$ 3,004
Non-cash expenditures:		
Pension expense ^(Note 4)	3,036	2,258
Amortization	1,052	1,391
Changes in non-cash working capital:		
Accounts receivable	(997)	(385)
Prepaid expenses	(116)	45
Accounts payable	(1,908)	3,218
Accrued vacation	404	(36)
	1,744	9,495
Investing and Financing Activities:		
Increase in funds held on behalf of others	10,329	1,638
Investment in capital assets	(3,825)	(1,561)
Lease incentives received ^(Note 7)	793	-
Pension obligations funded	(3,846)	(10,184)
	3,451	(10,107)
Increase (decrease) in cash during the year	5,195	(612)
Cash and investments, beginning of year	25,511	26,123
Cash and investments, end of year ^(Note 3)	\$ 30,706	\$ 25,511

**ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999**

Note 1 Authority and Purpose

The Alberta Energy and Utilities Board (the “Board”) operates under the authority of the Alberta Energy and Utilities Board Act, Chapter A-19.5 Statutes of Alberta. The Board’s mission is to ensure that the discovery, development, and delivery of Alberta’s resources 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 generally accepted accounting principles and include the following significant policies:

(a) Fund Accounting

The accounts of the Board are maintained in accordance with the principles of fund accounting in order to recognize the intended purpose of available resources. These funds are classified as follows:

Energy Resources Fund

This fund accounts for the Board’s operating activities in relation to regulating the resource and utility industries.

Well Abandonment Fund

This fund accounts for the industry funded initiative to ensure that wells, facilities and pipelines, which have no registered owner, are abandoned and reclaimed in an orderly and safe manner.

(b) Capital Assets

All tangible and intangible assets with an economic life greater than one year are recorded at cost, or appraised value for donated assets. These assets are then amortized, using the straight-line method, over the following estimated useful lives:

Computer software	5 years
Furniture and equipment	3 to 20 years
Computer hardware	5 years
Leasehold improvements	Lease term

The useful lives have been estimated by management and will inevitably differ from actual, perhaps significantly, resulting in amortization expense not matching consumption over the asset’s life.

(c) Accrued Vacation

Vacation entitlement is expended in the year earned. A liability is accrued representing any future obligation which will be taken in kind, or paid upon employment termination.

ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999

Note 3 Cash and Investments

Cash and investments consist of deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is managed by the Department of Treasury with the objective of providing competitive interest income to depositors while maintaining the security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. Due to the short-term nature of the Fund's investments, the carrying value approximates fair value.

Note 4 Deferred Pension Assets

The Board participates with other public sector employers in the Public Service Pension Plan and the Management Employees Pension Plan. To compensate senior staff who do not participate in the Management Employees Pension Plan, the Board maintains a defined benefit Senior Employees Pension Plan and non-contributory supplementary benefit plans. The supplementary benefit plans provide additional retirement compensation to the extent that statutory guidelines and plan amendments limit benefits under the Senior Employees Pension Plan. These plans provide pensions for the Board's employees based on years of service and average earnings at retirement.

The unfunded pension obligations as at March 31, 1999 were based on extrapolations of actuarial valuations as at December 31, 1997 for each plan. The prior year unfunded obligations were extrapolations of actuarial valuations as at December 31, 1995 for the Public Service Pension Plan, as at December 31, 1996 for the Management Employees Pension Plan, and as at December 31, 1997 for the Senior Employees Pension Plan and supplementary benefit plans.

The actuarial valuations were determined using the projected benefit method pro-rated on service. Assumptions used in the valuations are based on best estimates of future events. Each plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

The Public Sector Pension Plans Act specifies the basis for determining the Public Service Pension Plan and the Management Employees Pension Plan total unfunded obligations which will be funded by employers. The Board's portion of those employers obligations was based on the Board's percentage of the total pensionable payroll of all employers.

**ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999**

Note 4 Deferred Pension Assets (Continued)

Assumptions used in computing the projected benefit obligation for the Senior Employees Pension Plan and the supplementary benefit plans include:

Investment return	7.5% per annum
Inflation	3.5% per annum
Salary increase rate	75% of inflation, plus merit and promotion
Cost of living increase	60% of inflation

The funded status of the Board's plans and amounts recognized in the Balance Sheet are as follows:

	<u>1999</u>	<u>1998</u>
	(thousands of dollars)	
Senior Employees Pension Plan	\$ 9,830	\$ 9,391
Supplementary benefit plans	1,553	1,733
Total	<u>11,383</u>	<u>11,124</u>
Pension fund assets at market value	<u>10,474</u>	<u>8,772</u>
Obligation in excess of pension fund assets	909	2,352
Net Public Service Pension Plan obligation	<u>1,231</u>	<u>1,225</u>
Net Management Employees Pension Plan obligation	<u>193</u>	<u>344</u>
Total net obligations	2,333	3,921
Deduct unamortized plan amendment costs and other	<u>6,253</u>	<u>7,031</u>
Deferred pension assets	<u>\$ 3,920</u>	<u>\$ 3,110</u>

Pension expense of \$3,035,800 (1998: \$2,258,100) is included in the Statement of Revenue, Expenditure and Operating Surplus within salaries and benefits. Pension expense includes the cost of current service, interest on unfunded liabilities, plus gains or losses resulting from experience adjustments, changes in assumptions, and past service. The gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employee group unless there is reasonable assurance regarding measurement and realization, in which case they are recognized immediately.

ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999

Note 5 Capital Assets

	1999			1998
	Cost	Accumulated Amortization	Net Asset Value	Net Asset Value
		(thousands of dollars)		
Computer software	\$ 11,385	\$ 9,386	\$ 1,999	\$ 1,366
Furniture and equipment	3,255	2,181	1,074	214
Computer hardware	2,155	1,217	938	545
Software under development	1,332	-	1,332	848
Leasehold improvements	1,300	405	895	492
Land	320	-	320	320
	\$ 19,747	\$ 13,189	\$ 6,558	\$ 3,785

Effective April 1, 1998 the Board reduced its capitalization limits to recognize all tangible and intangible assets with an economic life greater than one year. The previous capitalization limits recognized all land, computer software greater than \$100,000, and any other asset greater than \$15,000. This change in capitalization limits has been applied prospectively, and results in a \$1,825,000 decrease in current year supplies expenditures.

Note 6 Funds Held on Behalf of Others

The Board collects cash deposits to ensure the proper abandonment of oil and gas wells. The deposits plus earned interest are returned to the registered owner upon compliance.

Note 7 Future Operating Lease Commitments

The Board leases office premises and a research facility with minimum lease terms ranging from one to eleven years. As compensation in one of its leasing arrangements the Board received a tenant incentive which has been deferred to reduce future lease payments. The future minimum operating lease payments, net of tenant incentives, for the five succeeding fiscal years are as follows:

(thousands of dollars)	
1999 - 2000	\$ 4,867
2000 - 2001	\$ 3,471
2001 - 2002	\$ 652
2002 - 2003	\$ 610
2003 - 2004	\$ 610

**ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999**

Note 8 Applications and Licenses

Effective April 1, 1998 the Board eliminated all application and license fees within the Energy Resources fund. The associated revenue reduction was offset through increased industry levies and assessments.

Note 9 Board Member Salaries, Benefits and Allowances

	1999			1998
	Salary ^(a)	Benefits and Allowances ^(b)	Total	Total
Chair 1 ^(c)	\$ 112,275	\$ 12,661	\$ 124,936	\$ -
Chair 2 ^(e)	42,308	7,630	49,938	148,174
Board Member 1	121,416	26,444	147,860	132,160
Board Member 2	121,416	25,160	146,576	127,028
Board Member 3	97,797	27,633	125,430	115,289
Board Member 4	96,595	25,604	122,199	114,823
Board Member 5	95,557	21,660	117,217	104,949
Board Member 6 ^(c)	60,497	9,607	70,104	-
Board Member 7 ^{(c) (d)}	54,070	7,953	62,023	-
Board Member 8 ^(c)	49,871	8,829	58,700	-
Board Member 9 ^(e)	7,820	18,981	26,801	102,016
Board Member 10 ^(e)	-	-	-	82,559
Board Member 11 ^(e)	-	-	-	24,555

(a) Includes regular base pay, bonuses, overtime, lump sum payments and honoraria.

(b) Benefits include the employer's share of pension, statutory and flexible health benefits. Allowances include reimbursement of professional memberships, tuition fees, vacation pay, and personal computer purchases. Automobiles were provided, but no amount is included in these figures.

(c) Board members that have commenced employment during the reporting period.

(d) This board member serves as the Chairman of the Natural Resources Conservation Board ("NRCB") for twenty-percent of his time effective January 1, 1999. Salary, benefits and allowances associated with NRCB service are not included in these figures.

(e) Board members that have retired or terminated employment during the reporting period.

ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1999

Note 10 Inter-Fund Transfers

During the current fiscal year, the Well Abandonment Fund transferred \$1,446,800 to the Energy Resources Fund as compensation for prior year expenditures incurred to ensure the proper abandonment of oil and gas wells which were subsequently determined to be orphans.

Note 11 Comparative Figures

The current year budget, and prior year actual results, are presented for comparative purposes. The prior year figures have been reclassified where necessary to conform to 1999 presentation.

Note 12 Related Party Transactions

The Board has received \$13,865,000 (1998 \$13,540,000), and accrued an additional \$1,201,000 in grants from the Province of Alberta for the current fiscal year. In addition, the Board has expended \$659,200 (1998 \$683,600) for leasing costs, and \$1,603,900 (1998 \$2,054,400) for computing services to the Province of Alberta, Department of Public Works Supply and Services. The computing services are provided under agreement with the Ministry of Energy, and the Board's share of these annual service costs is based on an allocation of total services provided.

Note 13 Year 2000 Preparation

The year 2000 issue is the result of some computer systems using two digits rather than four to define the applicable year. Systems that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise if certain dates within 1999 are not recognized as valid dates. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Board operations. Despite the Board's efforts, it is not possible to be certain that all aspects, including those related to the efforts of customers, suppliers and other third parties will be fully resolved.

Note 14 Approval of Financial Statements

These financial statements were approved by the Chairman on behalf of the Board.

ALBERTA ENERGY AND UTILITIES BOARD
SCHEDULE OF ASSETS, LIABILITIES AND ACCUMULATED SURPLUS BY FUND
SCHEDULE 1
AS AT MARCH 31, 1999
(thousands of dollars)

	Energy Resources		Well Abandonment		Total	
	1999	1998	1999	1998	1999	1998
Assets:						
Current:						
Cash and investments ^(Note 3)	\$ 23,287	\$ 17,398	\$ 7,419	\$ 8,113	\$ 30,706	\$ 25,511
Accounts receivable	<u>3,067</u>	<u>2,087</u>	<u>17</u>	<u>-</u>	<u>3,084</u>	<u>2,087</u>
Prepaid expenses	535	419	-	-	535	419
	26,889	19,904	7,436	8,113	34,325	28,017
Deferred pension assets ^(Note 4)	<u>3,920</u>	<u>3,110</u>	<u>-</u>	<u>-</u>	<u>3,920</u>	<u>3,110</u>
Capital assets ^(Note 5)	<u>6,558</u>	<u>3,785</u>	<u>-</u>	<u>-</u>	<u>6,558</u>	<u>3,785</u>
	<u>\$ 37,367</u>	<u>\$ 26,799</u>	<u>\$ 7,436</u>	<u>\$ 8,113</u>	<u>\$ 44,803</u>	<u>\$ 34,912</u>
Liabilities and Surplus:						
Current:						
Accounts payable	<u>\$ 2,615</u>	<u>\$ 4,378</u>	<u>\$ 128</u>	<u>\$ 273</u>	<u>\$ 2,743</u>	<u>\$ 4,651</u>
Accrued vacation	3,657	3,253	-	-	3,657	3,253
	6,272	7,631	128	273	6,400	7,904
Funds held on behalf of others ^(Note 6)	<u>14,614</u>	<u>4,285</u>	<u>-</u>	<u>-</u>	<u>14,614</u>	<u>4,285</u>
Deferred lease incentive ^(Note 7)	793	-	-	-	793	-
	21,679	11,916	128	273	21,807	12,189
Accumulated surplus	<u>15,688</u>	<u>14,883</u>	<u>7,308</u>	<u>7,840</u>	<u>22,996</u>	<u>22,723</u>
	<u>\$ 37,367</u>	<u>\$ 26,799</u>	<u>\$ 7,436</u>	<u>\$ 8,113</u>	<u>\$ 44,803</u>	<u>\$ 34,912</u>

ALBERTA ENERGY AND UTILITIES BOARD
SCHEDULE OF REVENUE, EXPENDITURE, AND OPERATING SURPLUS BY FUND
SCHEDULE 2
FOR THE YEAR ENDED MARCH 31, 1999
(thousands of dollars)

	Energy Resources			Well Abandonment			Total		
	1999		1998	1999		1998	1999		1998
	Actual	Budget	Actual	Actual	Budget	Actual	Actual	Budget	Actual
Revenue:									
Industry levies and assessments	\$40,717	\$40,581	\$27,039	\$3,089	\$2,500	\$2,044	\$43,806	\$43,081	\$29,083
Provincial contributions	15,066	13,765	13,540	-	-	-	15,066	13,765	13,540
Information and services	3,572	3,300	3,805	-	-	-	3,572	3,300	3,805
Interest	1,200	800	1,105	436	200	258	1,636	1,000	1,363
Enforcement	1,249	1,125	878	-	-	-	1,249	1,125	878
Applications and licenses ^(Note 8)	-	-	15,594	760	700	960	760	700	16,554
Miscellaneous	161	300	303	7	-	28	168	300	331
	61,965	59,871	62,264	4,292	3,400	3,290	66,257	63,271	65,554
Expenditure:									
Salaries and benefits ^(Note 9)	45,136	40,687	40,392	-	-	-	45,136	40,687	40,392
Building rental and maintenance	5,586	5,620	5,700	-	-	-	5,586	5,620	5,700
Well abandonment	813	-	1,420	3,211	3,400	706	4,024	3,400	2,126
Contract services	2,433	2,200	2,608	153	-	100	2,586	2,200	2,708
Vehicle and equipment operating costs	2,047	2,175	2,345	-	-	-	2,047	2,175	2,345
Computer services	1,832	2,000	2,239	-	-	-	1,832	2,000	2,239
Supplies ^(Note 5)	1,659	3,300	3,745	1	-	-	1,660	3,300	3,745
Travel and subsistence	1,256	1,210	1,241	9	-	4	1,265	1,210	1,245
Amortization	1,052	1,600	1,391	-	-	-	1,052	1,600	1,391
Miscellaneous	793	779	568	3	-	91	796	779	659
	62,607	59,571	61,649	3,377	3,400	901	65,984	62,971	62,550
Current year surplus (deficit)	(642)	300	615	915	-	2,389	273	300	3,004
Inter-fund transfers ^(Note 10)	1,447	-	-	(1,447)	-	-	-	-	-
Accumulated surplus, beginning of year	14,883	14,883	14,268	7,840	7,840	5,451	22,723	22,723	19,719
Accumulated surplus, end of year	\$15,688	\$15,183	\$14,883	\$7,308	\$7,840	\$7,840	\$22,996	\$23,023	\$22,723

ALBERTA PETROLEUM MARKETING COMMISSION

Financial Statements December 31, 1998

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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, 1998 and the statements of operations and changes in financial position 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 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, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
April 23, 1999

Alberta Petroleum Marketing Commission
Statement of Operations
For the Year Ended December 31, 1998
(in thousands)

	<u>1998</u>	<u>1997</u>
	(Schedule 1)	
Crude oil revenue	\$ 1,065,926	\$ 1,525,430
Expenditures		
Other crude oil purchases	472,360	298,553
Purchases under exchange agreements	54,093	71,560
Transportation	73,234	78,797
Marketing fees	2,134	2,631
	<u>601,821</u>	<u>451,541</u>
Excess of revenue over expenditures	464,105	1,073,889
Other revenue		
Cost recoveries	54,306	29,183
Interest earned	378	1,298
Other	16	102
	<u>54,700</u>	<u>30,583</u>
Net revenue to transfer to the Province of Alberta	518,805	1,104,472
Due to the Province of Alberta, beginning of year	155,400	238,705
Cash transferred to the Province of Alberta	<u>(575,056)</u>	<u>(1,187,777)</u>
Due to the Province of Alberta, end of year	<u>\$ 99,149</u>	<u>\$ 155,400</u>

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

Alberta Petroleum Marketing Commission
Statement of Changes in Financial Position
For the Year Ended December 31, 1998
(in thousands)

	1998	1997
Cash provided by operating activities		
Net revenue to transfer to the Province of Alberta	\$ 518,805	\$ 1,104,472
Change in non-cash working capital		
Accounts receivable	39,221	26,720
Inventory	43,335	31,380
Accounts payable	(32,607)	24,279
Cash provided	568,754	1,186,851
Cash transferred to the Province of Alberta	(575,056)	(1,187,777)
Net decrease in Cash	(6,302)	(926)
Cash at beginning of year	9,939	10,865
Cash at end of year	\$ 3,637	\$ 9,939

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

Alberta Petroleum Marketing Commission
Statement of Financial Position
As At December 31, 1998
(in thousands)

	1998	1997
ASSETS		
Cash and short-term investments (Note 3)	\$ 3,637	\$ 9,939
Accounts receivable (Note 4)	86,896	126,117
Inventory	32,542	75,877
	\$ 123,075	\$ 211,933
LIABILITIES		
Accounts Payable (Note 5)	\$ 23,926	\$ 56,533
Due to the Province of Alberta	99,149	155,400
	\$ 123,075	\$ 211,933

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

Alberta Petroleum Marketing Commission
Notes to the Financial Statements
December 31, 1998
(in thousands)

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the Petroleum Marketing Act, Chapter P-5, Revised Statutes of Alberta 1980, as amended, and the Natural Gas Marketing Act, Chapter N-2.8, Statutes of Alberta 1986, as amended. 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.

Included in revenue and expenditures are sales and purchases in support of alternative markets programs designed to optimize the allocation of pipeline capacity in periods of market disruptions and apportionment.

Note 2 Significant Accounting Policies

(a) Crude Oil Revenue

Revenue is recognized when the Commission accepts delivery of crude oil. The value is determined based on the actual sales prices.

(b) Inventory

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

(c) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. Sales proceeds are remitted to the Commission in Canadian funds and foreign currencies are converted to Canadian funds at daily or average monthly rates on or near payment due date. 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, 1998.

Note 3 Cash and Short-term Investments

Cash and short-term investments consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by Alberta Treasury with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term of five years. The carrying value approximates fair value due to the short-term nature of the CCITF investments.

Alberta Petroleum Marketing Commission
Notes to the Financial Statements
December 31, 1998
(in thousands)

Note 4 Accounts Receivable

	1998	1997	
Crude oil sales	\$ 49,043	\$ 115,105	
Cost recoveries	37,853	11,012	
	\$ 86,896	\$ 126,117	

Note 5 Accounts Payable

	1998	1997	
Transportation and purchases	\$ 21,528	\$ 42,855	
Goods and services tax	2,398	13,678	
	\$ 23,926	\$ 56,533	

Note 6 Commitments

The Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements of up to fifteen years. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 1998 is \$144,997 (1997 - \$174,445). 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.

Note 7 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.

Note 8 Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer programs being written using two digits rather than four to define the applicable year. Commission computer programs that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial

**Alberta Petroleum Marketing Commission
Notes to the Financial Statements
December 31, 1998**

Note 8 Uncertainty Due to the Year 2000 (continued)

reporting may range from minor errors to significant systems failure that could affect the ability to conduct some Commission operations. Despite the Commission's efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 problem affecting the Commission, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

Note 9 Comparative Figures

Certain 1998 figures have been reclassified to conform to the 1999 presentation.

Note 10 Approval of Financial Statements

Members of the Commission have approved these financial statements.

Alberta Petroleum Marketing Commission
Schedule of Operations by Program — Schedule 1
For the Year Ended December 31, 1998
(in thousands)

	1998			1997
	Crown Royalty Program	Alternative Program	Markets Total	
Crude oil revenue	\$ 652,563	\$ 413,363	\$ 1,065,926	\$ 1,525,430
Expenditures				
Other crude oil purchases	22,588	449,772	472,360	298,554
Purchases under exchange agreements	54,093	-	54,093	71,560
Transportation	47,974	25,260	73,234	78,796
Marketing fees	<u>1,634</u>	<u>500</u>	<u>2,134</u>	<u>2,631</u>
	<u>126,289</u>	<u>475,532</u>	<u>601,821</u>	<u>451,541</u>
Excess of revenue over expenditures	526,274	(62,169)	464,105	1,073,889
Other revenue				
Cost recoveries	-	54,306	54,306	29,183
Interest earned	378	-	378	1,298
Other	<u>16</u>	<u>-</u>	<u>16</u>	<u>102</u>
	<u>394</u>	<u>54,306</u>	<u>54,700</u>	<u>30,583</u>
Net revenue to transfer to the Province of Alberta	<u>\$ 526,668</u>	<u>\$ (7,863)</u>	<u>\$ 518,805</u>	<u>\$ 1,104,472</u>

GAS ALBERTA OPERATING FUND

Financial Statements June 30, 1998

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AUDITOR'S REPORT

To the Minister of Transportation and Utilities

I have audited the statement of assets, liabilities and deficit of Gas Alberta Operating Fund as at June 30, 1998 and the statements of operations and changes in financial position for the period then ended. These financial statements are the responsibility of the management of the Fund. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial 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 Fund as at June 30, 1998 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.



FCA
Auditor General

Edmonton, Alberta
October 21, 1998

**GAS ALBERTA OPERATING FUND
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 1998**

	June 30 1998		March 31 1998
	Budget (Note7)	Actual (3 months)	Actual (year)
Revenues:			
Gas operations			
Sale of natural gas	\$ 10,639,000	\$ 7,270,858	\$ 45,602,485
Transportation revenue	70,000	68,186	320,305
Other revenue	7,000	6,258	13,785
Billing service revenue	-	-	230,282
Net proceeds from gas brokerage operations	-	-	(421,312)
	<u>10,716,000</u>	<u>7,345,302</u>	<u>45,745,545</u>
Expenses:			
Gas operations			
Purchase of natural gas	8,887,000	6,306,700	33,870,874
Pipeline operators' charges Department owned pipeline charges	1,195,000	1,040,132	6,985,466
Emergency supply service	150,000	128,618	575,669
Well operators' charges	12,000	1,976	10,794
Administration costs ^(Note 5)	12,000	-	-
	<u>460,000</u>	<u>90,567</u>	<u>779,236</u>
	<u>10,716,000</u>	<u>7,567,993</u>	<u>42,222,039</u>
Net results from operations ^(Note 6)	-	(222,691)	3,523,506
Gain on sale of operations ^(Note 3)	-	803,825	-
Net income for the period	<u>\$ -</u>	581,134	3,523,506
Deficit, beginning of period		<u>(581,134)</u>	<u>(4,104,640)</u>
Deficit, end of period		<u>\$ -</u>	<u>\$ (581,134)</u>

The accompanying notes are part of these financial statements.

**GAS ALBERTA OPERATING FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE THREE MONTHS ENDED JUNE 30, 1998**

	June 30 1998	March 31 1998
	(3 months)	(year)
Operating transactions:		
Net operating results for the period	\$ 581,134	\$ 3,523,506
Non-cash items included in net operating results:		
Gain on sale of operations ^(Note 3)	(803,825)	-
Amortization	-	21,994
	(222,691)	3,545,500
Decrease in accounts receivable	3,786,241	5,514,104
Increase in inventory	(3,399,474)	-
Decrease in accounts payable	(1,488,582)	(1,937,517)
Net cash provided by operations	(1,324,506)	7,122,087
Financing transactions		
Proceeds on sale of operations ^(Note 3)	4,636,596	-
Net cash provided by financing transactions	4,636,596	-
Net cash provided	3,312,090	7,122,087
Due to General Revenues and cash, beginning of period	(3,312,090)	(10,434,177)
Due to General Revenues and cash, end of period	\$ -	\$ (3,312,090)
Due to General Revenues and cash represented by:		
Due to General Revenues	\$ -	\$ (3,349,419)
Cash	-	37,329
	\$ -	\$ (3,312,090)

The accompanying notes are part of these financial statements.

**GAS ALBERTA OPERATING FUND
STATEMENT OF ASSETS, LIABILITIES AND DEFICIT
AS AT JUNE 30, 1998**

	June 30 1998	March 31 1998
ASSETS		
Cash	\$ -	\$ 37,329
Accounts receivable	-	<u>7,737,983</u>
	<u>\$ -</u>	<u>\$ 7,775,312</u>
LIABILITIES AND DEFICIT		
Accounts payable	\$ -	5,007,027
Due to General Revenues	-	<u>3,349,419</u>
	-	8,356,446
Deficit	-	<u>(581,134)</u>
	<u>\$ -</u>	<u>\$ 7,775,312</u>

The accompanying notes are part of these financial statements.

**GAS ALBERTA OPERATING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998**

Note 1 Authority

The Gas Alberta Operating Fund operated under the authority of the Rural Gas Act, Chapter R-19, Revised Statutes of Alberta 1980, as amended.

Note 2 Purpose

The Fund acted as “gas broker” and was responsible for the supply of natural gas to rural gas distributors throughout Alberta. Through this brokerage service, rural gas cooperatives and other rural distributors were provided with uniformly priced and secure gas supplies. Gas purchases and deliveries were financed through the Fund and distributors were assessed a wholesale gas rate for their gas supplies.

Note 3 Dissolution of Operations

On October 2, 1997, management adopted a plan to discontinue gas brokerage and retail billing operations. These activities comprised the total operations of the Fund.

Retail billing operations were transferred to the Department of Transportation and Utilities effective April 1, 1998 and ceased operations October 31, 1998.

On June 17, 1998, the sale agreement to transfer the gas brokerage operations of the Gas Alberta Operating Fund to the private sector and to assign contracts that are integral to the operations of the Fund were executed. Under the terms of the agreement to transfer operations to the private sector, the purchasing entity assumed the assets and liabilities of the Fund as at June 30, 1998. Any surplus or deficit arising from gas brokerage operations was treated as an adjustment in arriving at the final purchase price. The purchasing entity also negotiated a separate transportation agreement for use of Province of Alberta owned pipelines that were integral to the operations of the Fund.

The purchase price of the Fund was determined so that the Government of Alberta could recover its net cash position in the fund as at June 30, 1998. The proceeds of the sale of the Fund’s operations, based on the net cash position of the Fund at June 30, 1998, amounted to \$4,636,596.

**GAS ALBERTA OPERATING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998**

Note 3 Dissolution of Operations (continued).

These proceeds are allocated as follows:

Accounts receivable	\$ 3,951,742
Inventory	3,399,474
Accounts payable assumed	<u>(3,518,445)</u>
	3,832,771
Gain on sale (recovery of deficit)	<u>803,825</u>
Proceeds on sale of operations	<u>\$ 4,636,596</u>

As at June 30, 1998, the Fund had received a deposit for the sale proceeds of \$5,130,544. Based on the proceeds as calculated in the schedule above, the deposit was in excess of the required proceeds by \$493,948. These excess proceeds were transferred to the Department of Transportation and Utilities for refund to the purchaser.

In addition to the deposit received, the purchaser had paid an additional \$270,029, representing five percent of the estimated purchase price, into escrow. These escrow funds were released to the purchaser on October 2, 1998.

Note 4 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all government departments, agencies and funds. The recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting and Auditing Board where it is considered appropriate.

**GAS ALBERTA OPERATING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998**

Note 4 Summary of Significant Accounting Policies and Reporting Practices (continued)

Revenues

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

Expenses

Expenses represent the costs of resources consumed during the period on the Fund's operations. Expenses include amortization of capital assets.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the period and additional employer contributions for employees' service related to prior years.

Certain expenses, primarily for office space, legal advice and banking services incurred on behalf of the Fund by other ministries are not reflected in the Statement of Operations and Deficit.

Assets

Financial assets of the Fund 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.

Inventory

Inventory is valued at the lower of average cost or net realizable value.

Liabilities

Liabilities include all financial claims payable by the Fund at the period end, except long term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments, agencies and funds.

Due to General Revenues is the difference at the period end between the value of assets held by the Fund and its liabilities.

**GAS ALBERTA OPERATING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998**

Note 5 Administration Costs

	<u>June 30</u> <u>1998</u>	<u>March 31</u> <u>1998</u>
Salaries, wages and benefits	\$ 55,848	\$ 269,459
Freight and postage	8	129,774
System maintenance	-	87,769
Amortization	-	21,994
Materials and supplies	1,531	44,498
Data processing	5,468	25,075
Professional services	24,915	74,238
Telephone and communications	148	5,677
Travel	2,649	5,299
Employee termination costs	-	115,288
Repairs and maintenance	-	165
	<u>\$ 90,567</u>	<u>\$ 779,236</u>

Note 6 Net Results from Operations

The net results from operations includes an adjustment of \$408,196 arising from prior years operations for natural gas supplies owed to various producers on the Gas Alberta system. These costs were not significant to the financial position of the Fund in prior periods and therefore were not reported in those periods. This adjustment was made in the current period to ensure that the assets and liabilities of the Fund were accurately disclosed prior to the sale.

Note 7 Budget

The budget for the period ended June 30, 1998 was included in the Province of Alberta 1998-99 Government Estimates. A more detailed budget, which was prepared by management, has been included in these financial statements for comparison to actual figures.

**GAS ALBERTA OPERATING FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998**

Note 8 Related Party Transactions

The Fund paid \$75,000 (March 31, 1998 - \$300,000) to the Department of Transportation and Utilities for rental of a pipeline network.

The Fund and its employees paid certain taxes and fees set by regulation for permits, licenses and other rights. These amounts were incurred in the normal course of business and reflect charges applicable to all users.

Accommodations, legal, telecommunications, personnel, and certain financial costs were provided to the Fund by other government entities at no cost.

Note 9 Approval of Financial Statements

These financial statements were approved by the Senior Financial Officer and the Deputy Minister of the Department of Transportation and Utilities.

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ALPHABETICAL List of Entities' financial information in ministry annual reports

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund or Agency	Ministry Annual Report
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Agricultural Research Institute	Agriculture, Food and Rural Development
Alberta Alcohol and Drug Abuse Commission	Community Development
Alberta Dairy Control Board	Agriculture, Food and Rural Development
Alberta Energy and Utilities Board	Energy
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Economic Development
Alberta Government Telephones Commission, The	Treasury
Alberta Heritage Foundation for Medical Research Endowment Fund	Treasury
Alberta Heritage Savings Trust Fund	Treasury
Alberta Heritage Scholarship Fund	Treasury
Alberta Historical Resources Foundation, The	Community Development
Alberta Insurance Council	Treasury
Alberta Motion Picture Development Corporation	Economic Development
Alberta Municipal Financing Corporation	Treasury
Alberta Oil Sands Technology and Research Authority	Science, Research and Information Technology
Alberta Opportunity Company	Economic Development
Alberta Pensions Administration Corporation	Treasury
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council	Science, Research and Information Technology
Alberta Risk Management Fund	Treasury
Alberta School Foundation Fund	Education
Alberta Science and Research Authority	Science, Research and Information Technology
Alberta Securities Commission	Treasury
Alberta Social Housing Corporation	Municipal Affairs
Alberta Special Waste Management Corporation	Environmental Protection
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY (Continued)

Ministry, Department, Fund or Agency	Ministry Annual Report
Alberta Treasury Branches	Treasury
ATB Investment Services Inc.	Treasury
Calgary Rocky View Child and Family Services Authority	Family and Social Services
Chembiomed Ltd.	Treasury
Credit Union Deposit Guarantee Corporation	Treasury
Crop Reinsurance Fund of Alberta	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Community Development	Community Development
Department of Economic Development	Economic Development
Department of Education	Education
Department of Energy	Energy
Department of Environmental Protection	Environmental Protection
Department of Family and Social Services	Family and Social Services
Department of Justice	Justice
Department of Municipal Affairs	Municipal Affairs
Department of Public Works, Supply and Services	Public Works, Supply and Services
Department of Treasury	Treasury
Edmonton Community Board for Persons with Developmental Disabilities	Family and Social Services
Education Revolving Fund	Education
Environmental Protection and Enhancement Fund	Environmental Protection
Gainers Inc.	Treasury
Gas Alberta Operating Fund	Energy
Government House Foundation, The	Community Development
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
Lottery Fund	Economic Development
Michener Centre Facility Board, The	Family and Social Services
Ministry of Advanced Education and Career Development 1	Advanced Education and Career Development
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Community Development	Community Development

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY (Continued)

Ministry, Department, Fund or Agency	Ministry Annual Report
Ministry of Economic Development	Economic Development
Ministry of Education	Education
Ministry of Energy	Energy
Ministry of Environmental Protection	Environmental Protection
Ministry of Executive Council (1)	Executive Council
Ministry of Family and Social Services	Family and Social Services
Ministry of Health (1)	Health
Ministry of Intergovernmental and Aboriginal Affairs (1)	Intergovernmental and Aboriginal Affairs
Ministry of Justice	Justice
Ministry of Labour (1)	Labour
Ministry of Municipal Affairs	Municipal Affairs
Ministry of Public Works, Supply and Services	Public Works, Supply and Services
Ministry of Science, Research and Information Technology	Science, Research and Information Technology
Ministry of Transportation and Utilities (1)	Transportation and Utilities
Ministry of Treasury	Treasury
N.A. Properties (1994) Ltd.	Treasury
Natural Resources Conservation Board	Environmental Protection
Persons with Developmental Disabilities Calgary Region Community Board	Family and Social Services
Persons with Developmental Disabilities Central Alberta Community Board	Family and Social Services
Persons with Developmental Disabilities Foundation	Family and Social Services
Persons with Developmental Disabilities Northeast Alberta Community Board	Family and Social Services
Persons with Developmental Disabilities Northwest Alberta Community Board	Family and Social Services
Persons with Developmental Disabilities Provincial Board	Family and Social Services
Persons with Developmental Disabilities South Alberta Community Board	Family and Social Services
Public Works, Supply and Services Revolving Fund	Public Works, Supply and Services
S C Financial Ltd.	Treasury

(1) Ministry includes only the department so separate department financial statements are not necessary.

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY (Continued)

Ministry, Department, Fund or Agency	Ministry Annual Report
Science and Research Fund	Science, Research and Information Technology
Utility Companies Income Tax Rebates Fund	Treasury
Victims of Crime Fund	Justice
Wild Rose Foundation, The	Community Development

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	Ministry Annual Report
Alberta Cancer Board	Health
Alberta Heritage Foundation for Medical Research	Science, Research and Information Technology
Alberta Mental Health Board	Health
Alberta Teachers' Retirement Fund Board	Education
Improvement Districts Trust Account	Municipal Affairs
Local Authorities Pension Plan	Treasury
Long-Term Disability Income Continuance Plan Bargaining Unit Development	Advanced Education and Career
Long-Term Disability Income Continuance Plan, Management, Opted Out and Excluded	Advanced Education and Career Development
Management Employees Pension Plan	Treasury
Provincial Judges and Masters in Chambers Pension Plan	Treasury
Public Post Secondary Institutions	Advanced Education and Career Development
Public Service Management (Closed Membership) Pension Plan	Treasury
Public Service Pension Plan	Treasury
Regional Health Authorities	Health
School Boards	Education
771045 Alberta Ltd. operating as Travel Alberta	Economic Development
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Treasury

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY (Continued)

Fund or Agency	Ministry Annual Report
Universities Academic Pension Plan	Treasury
Workers' Compensation Board	Labour