ALBERTA MINISTRY OF ENERGY
2003-2004 ANNUAL REPORT

OIL • PIPELINES • MINERALS • OIL SANDS • ELECTRICITY • NATURAL GAS • PETROCHEMICALS

EUB
Alberta Energy and Utilities Board

Alberta
ENERGY

Public Accounts 2003-2004 Preface

The Public Accounts of Alberta are prepared in accordance with the Financial Administration Act and the Government Accountability Act. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 24 Ministries.

The annual report of the Government of Alberta released June 30, 2004 contains the Minister of Finances accountability statement, the consolidated financial statements of the Province and a comparison of the actual performance results to desired results set out in the government's business plan, including the Measuring Up report.

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

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

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Minister's Accountability Statement

The Ministry's Annual Report for the year ended March 31, 2004, 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 September 1, 2004, with material economic or fiscal implications of which I'm aware have been considered in the preparation of this report.

Original signed by

Murray Smith, MLA

Minister of Energy

Message from the Minister

Many Albertans contribute every day to an energy sector that yields benefits year after year to all who live in our province.

And what a year it was.

Alberta Energy experienced record levels of activity in 2003-2004. Natural resource revenue of over $7.6 billion was the second-highest total ever delivered to Albertans. Industry investment of well over $20 billion made energy the number one investment target in Canada.

This was also the first full fiscal year in which Alberta's proven oil sands reserves of 174 billion barrels were acknowledged and reported by the United States Energy Department. Meetings took place with Vice President Cheney, Members of Congress, as well as elected officials and representatives of nations around the globe.

In July 2003, the McBride Lake Wind Farm was completed, solidifying Alberta as number one in Canada when it comes to total wind power capacity. This played a role in Alberta's total installed electric capacity exceeding 11,500 MW – a 45 per cent increase over the previous decade.

The responsive Natural Gas Rebate Program was launched in 2003, helping Albertans offset high natural gas prices. The program will continue over the next two years.

The Alberta Hub continues to attract attention as a first class pipeline network for northern gas producers. It provides highly competitive access to markets for natural gas in Alberta and across North America.

We continue to monitor industry satisfaction to identify opportunities for improvement. In November 2003, independent survey results showed overall satisfaction with the department was 84 per cent. Department personnel consistently provide excellent customer service and this has proven invaluable in our day-to-day business activities.

Alberta is a major player in the global energy industry. The Government of Alberta will continue to maintain a competitive royalty and regulatory framework necessary to attract capital investment from world markets.

Thanks to Mel Knight, MLA, for his efforts on behalf of Albertans with the U.S. Energy Council and the Canadian Energy Research Institute. And, of course, thank you to all energy sector stakeholders and ministry staff who contributed to our achievements in 2003-2004.

Original signed by

Murray Smith, MLA

Minister of Energy

Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (Department)
- Alberta Energy and Utilities Board (EUB)
- Alberta Petroleum Marketing Commission (APMC)

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

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

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the Ministry rests with the Minister of Energy. Under the direction of the Minister I oversee the preparation of the Ministry's annual report including consolidated financial statements and the performance results of necessity, include amounts that are based on estimates and judgments.
The consolidated financial statements are prepared in accordance with the government's stated 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 the Ministry administration;
- provide Executive Council, Treasury Board, the Minister of Finance and the Minister of Energy any information needed to fulfill their responsibilities; and
- facilitate preparation of Ministry business plans and annual reports required under the Government Accountability Act.

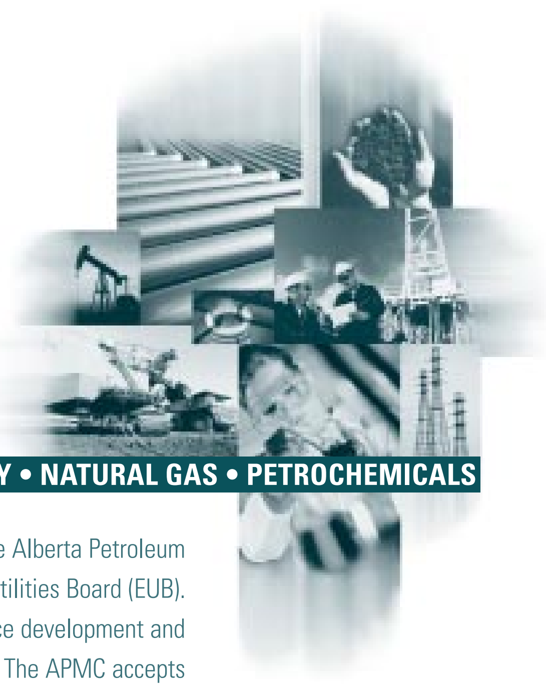
In fulfilling my responsibilities for the Ministry, I have relied, as necessary, on the executive of the individual entities within the Ministry.

Original signed by

Ken Smith

Deputy Minister

Department of Energy.



MINISTRY OF ENERGY ORGANIZATIONAL STRUCTURE

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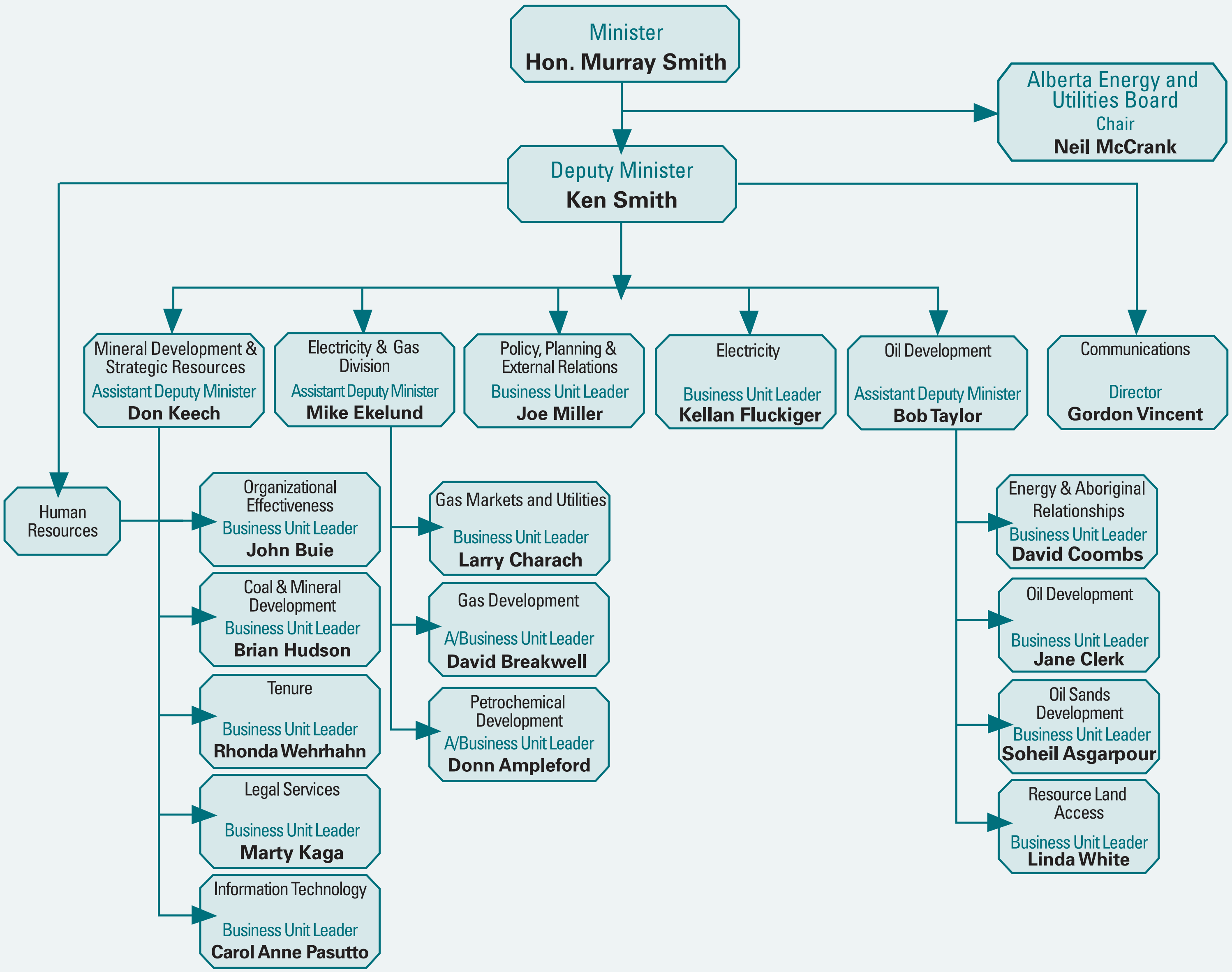
The Ministry of Energy consists of the Department of Energy, the Alberta Petroleum Marketing Commission (APMC), and the Alberta Energy and Utilities Board (EUB). The department is primarily responsible for matters related to resource development and the assessment and collection of non-renewable resource revenues. The APMC accepts delivery of the Crown's royalty share of crude oil and sells it at current market value. The department and the APMC's operations are integrated and fully funded by the Crown.

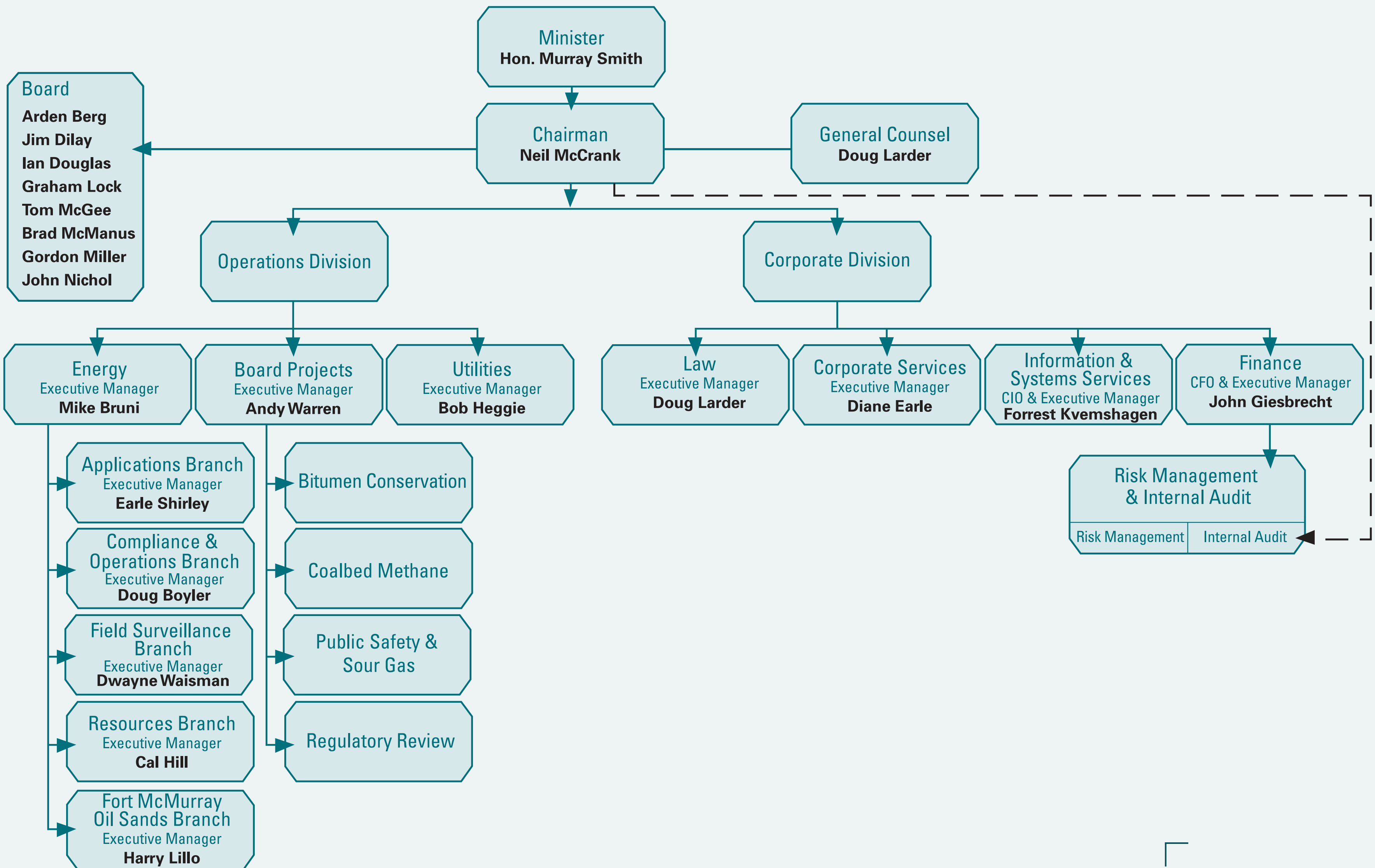
The EUB is an independent, quasi-judicial agency of the Government of Alberta with responsibility to regulate Alberta's energy resource and utility sectors. While the EUB reports to the Alberta Minister of Energy, it makes its formal decisions independently in accordance with various statutes and regulations. The EUB's operations are jointly funded by the Crown and by industry.

Alberta
ENERGY

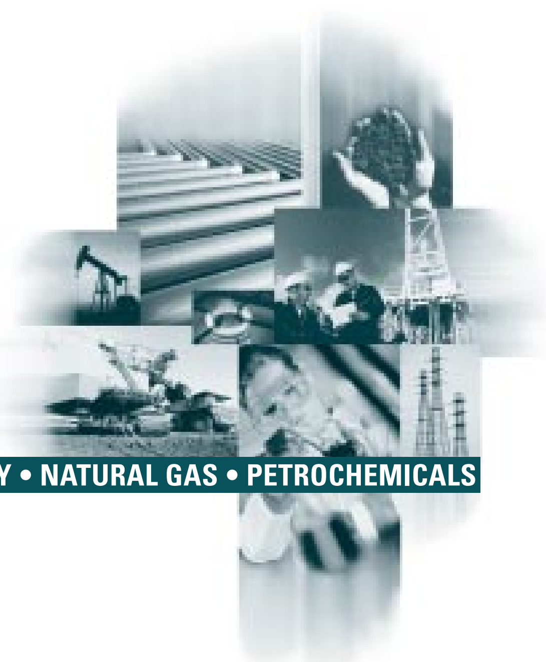
Department of Energy (as of March 31, 2004)



Alberta Energy and Utilities Board (as of March 31, 2004)



DEPARTMENT OF ENERGY
OPERATIONAL OVERVIEW



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Department Operational Overview

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

The Department of Energy has responsibility for a diverse resource development portfolio that includes natural gas, conventional oil, oil sands, petrochemicals, electricity, coal and minerals. To effectively manage the development of these commodities, the department has organized itself along commodity business lines. This structure builds knowledge and strengthens communication between business areas and Alberta's resource industries. Over 500 employees effectively manage a diverse group of functions including revenue calculation and collection, the sale and administration of agreements, aboriginal relationships, policy development and external relationships. The department works within the province's framework of sustainable development to maintain or enhance resource exploration and development opportunities.

Department Core Businesses

Our core businesses are:

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

Resource Development – Ensure Alberta's energy and mineral resources remain competitive and attractive to investment and development.

Awareness and Understanding – Inform Albertans about energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy.

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

High levels of industry activity and near record prices for natural resources enabled the department to collect non-renewable natural resource revenues in excess of $7.6 billion this fiscal year, the second highest year in the province's history. This represented approximately 30 per cent of total provincial government revenues. Department operations experienced record levels of activity. Well licenses issued and reviewed increased by 25 per cent and petroleum and natural gas land sale bonuses exceeded forecast by 30 per cent.

Industry investment was again strong with an estimated $15 billion invested in 2003 in conventional oil and gas development, and $5.5 billion in oil sands development.

Department Highlights from 2003-04

($ Cdn millions)	Actual 2003-04	Actual *2002-03	Actual *2001-02	Actual *2000-01	Actual *1999-00	Actual *1998-99
Natural gas and by-products	$ 5,450	5,125	4,030	7,200	2,441	1,467
Crude oil royalties	981	1,177	987	1,500	1,103	450
Bonuses for sale of crown leases	967	566	970	1,159	743	464
Synthetic crude oil and bitumen	197	183	185	712	426	59
Rentals and fees	154	153	148	147	141	142
Coal	9	10	17	12	15	17
Alberta royalty tax credit	-82	-83	-109	-144	-188	-249
Total Non-Renewable Resource Revenue	7,676	7,130	6,228	10,586	4,681	2,350
Freehold mineral tax	288	202	319	256	134	112
Other revenue	5	10	15	4	12	3
Total Revenue	7,969	7,342	6,562	10,846	4,827	2,465
Operating expenses**	109	91	87	72	70	74
Write-Down of Capital Assets	–	1	–	–	–	–
Net Dept of Energy Revenue	$ 7,860	7,250	6,475	10,774	4,757	2,391

* Effective April 1, 2003, responsibility for the Rural Utilities program was transferred to the Ministry of Agriculture, Food and Rural Development. Comparatives for 1998-1999 to 2002-2003 have been restated as if the department had always been assigned its current responsibilities.

** Includes Grant to EUB.

Strategic Priorities

In 2003-2004, the department made significant progress on a number of strategic priorities, positioning the department to move forward in the coming years:

Royalty Review – A review of Alberta's royalty structure and competitiveness was completed. This review compared Alberta's royalty competitiveness against other North American and international jurisdictions. Alberta's conventional oil and natural gas regime was ranked as among the most rigorous regimes in Canada and the world, successfully encouraging continued development while collecting a fair share of resource development profits. Alberta's oil sands regime was reviewed and continues to function as designed by successfully attracting capital investment and increased production.

Electricity and Natural Gas Customer Choice – The department concluded work on the new *Electric Utilities Act* .The new Act provides a refined industry framework, strengthens competition in the retail market, aligns marketing for electricity and natural gas, and ensures a more level playing field with more efficient oversight of regulated services. For the 2003 calendar year Albertans paid on average 30 per cent less for residential natural gas compared to other Canadian households. Albertans are seeing the results of a more competitive electricity market. Market restructuring has brought new supply, products, service options and competitive prices. Eight hundred and thirty (830) megawatts (MW) of new power came on stream during the 2003 calendar year bringing the total to 11,638 MW of installed capacity. After two challenging years for many Alberta consumers, most electricity rate riders were removed and the regulated rate option for electricity was extended to the summer of 2006.

The department completed an amendment regulation for the *Natural Gas Price Protection Act* with Agriculture, Food and Rural Development, and Infrastructure, setting out clear and easily understood rules, and making the program more responsive to gas prices on utility bills. Natural gas consumers benefited from the natural gas rebate program, which provided rebates for three of the five eligible months during the winter heating season.

Land Access – The department continues to be a key participant in integrated resource management with other government departments, the public and industry stakeholders. The Western Sedimentary Basin (WSB) is becoming a mature basin for conventional oil and gas. As a result, pool sizes are becoming smaller and harder to find. To sustain future production from these sources, the department works to ensure surface access levels throughout the province are maintained or increased. The department also encourages exploration and development in areas where, to date, there is limited development. In 2003, the department made available approximately three million hectares for industry development and received $967 million from the sale of oil sands, petroleum and natural gas rights. The department is leading a cross-government review and external consultation process with the public and industry on future natural gas in coal (NGC) development, a potentially important future resource for the province.

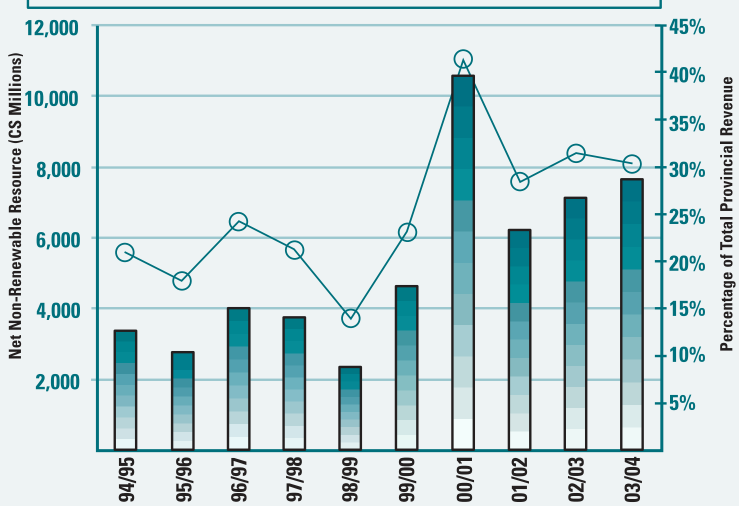
The department was actively involved in the implementation of the Government of Alberta's *Water for Life: Alberta's Strategy for Sustainability*. The department will continue to be involved in the implementation of this strategy through strong support and participation on the Advisory Committee on Water Use Practise and Policy, the provincial advisory council and in water basin planning initiatives.

Resource Development Regulatory Framework – The department led a cross-ministry review of the environmental and resource regulatory framework used by the Government of Alberta to develop and manage Alberta's natural resources. Future revisions to Alberta's regulatory approval framework are aimed at collaborative direction setting and management, improved delivery of regulations, and reduced costs of regulatory requirements for all parties, while maintaining Alberta's high environmental standards and improving Alberta's business climate.

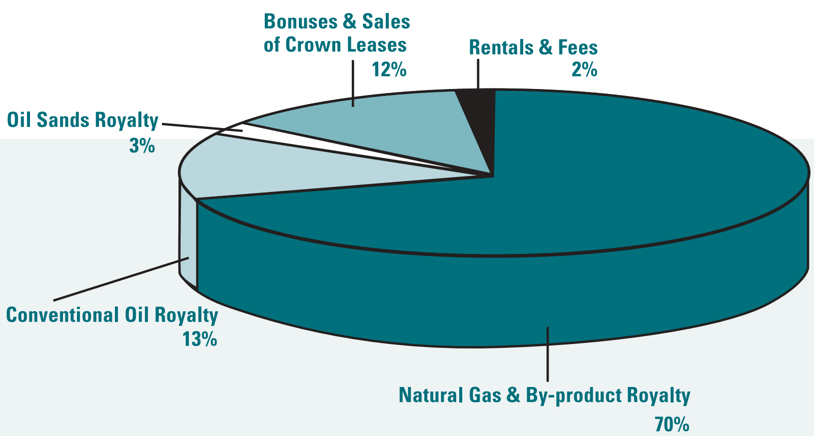
Aboriginal Relations – The department played a key role with Aboriginal Affairs and Northern Development and other departments in the development of a draft aboriginal consultation policy and guidelines, and in supporting negotiations on treaty land entitlement.

Climate Change Action Plan – The department continued to work in co-operation with the energy industry, other ministries, Climate Change Central and the federal government to develop solutions for the capture, transport, storage and use of CO_2. During the year, the department announced the CO_2 Projects Royalty Credit Program, encouraging the development of industry projects that demonstrate value added uses of CO_2 and improve oil and natural gas recovery.

Net Non-Renewable Resource Revenue as Percent of Total Provincial Revenue



Fiscal 2003-04 Resource Royalty Sources



Resources – by the numbers

Natural Gas

- Marketable natural gas production declined slightly in 2003 to 4.98 trillion cubic feet (Tcf), from 5.02 Tcf in 2002. As a result of high prices and record industry activity, natural gas royalties were $5.45 billion, up from $5.13 billion in the previous year. This accounted for 70 per cent of Alberta's 2003-2004 non-renewable resource royalty revenue.
- Natural gas reserves declined in 2003, as record drilling did not offset the reduced output from Alberta's maturing conventional reserves. Natural gas reserves fell from 42 Tcf in 2002 to 40 Tcf in 2003.

Conventional Crude Oil and Oil sands

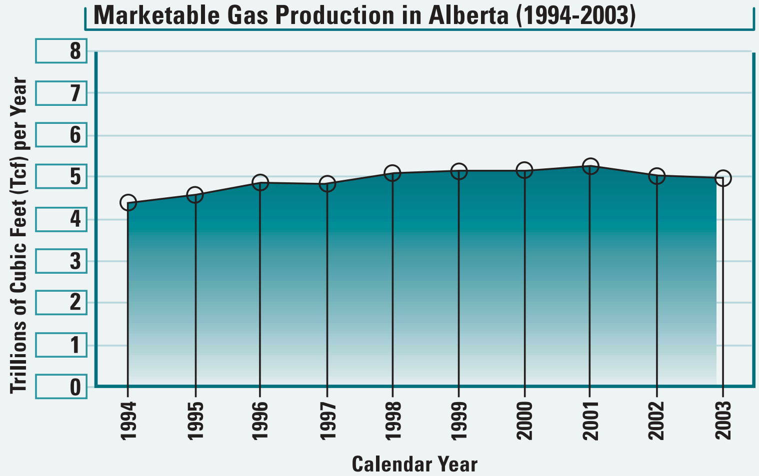
Alberta's oil royalties, from both conventional oil and oil sands, exceeded one billion dollars in this fiscal year.

Crude oil reserves declined by 2.5 per cent in 2003 to 1.6 billion barrels. Bitumen reserves remained stable at the levels reported in 2002. There were 174.5 billion barrels of bitumen reserves reported in 2003.

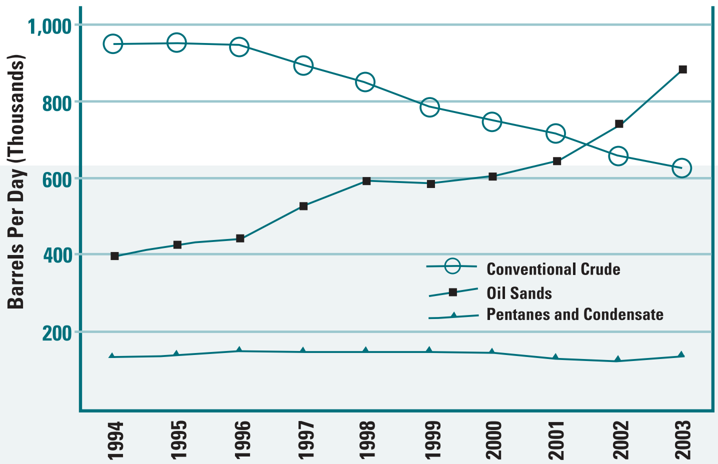
Oil sands investment was $5.5 billion in 2003 (2002 was $6.7 billion). Oil sands production of marketable bitumen and synthetic crude oil (upgraded from bitumen) reached a new all time high of 854,000 barrels per day (bbl/d), up from the 2002 peak of 740,000 bbl/d.

The province issued 19,212 well licences in 2003, an increase of over 5,000 from 2002. A record high 14,966 conventional oil and gas wells were completed in 2003, an increase from 10,384 in 2002.

Marketable Gas Production in Alberta (1994-2003)



Marketable Oil Production in Alberta (1994-2003)



Electricity

Due to Alberta's strong economic growth, peak demand for electricity in 2003 increased by 397 MW to a new high of 8,967 MW, over 50 per cent higher than expected.

Also, 830 MW of new generation came on-line in 2003 and one older coal-fired generating unit with a capacity of 139 MW was decommissioned, resulting in a net increase of 741 MW.

Coal

Coal royalties in 2003-2004 were $8.6 million.

Marketable coal production in 2003 was 28.2 million tonnes. Of this, 24.9 million tonnes was sub-bituminous coal, used mainly for electricity generation within the province. An additional two million tonnes of bituminous thermal coal and 1.3 million tonnes of bituminous metallurgical coal were exported to Mexico, South America, Japan, Korea, Spain, Turkey and the United States.

Alberta has enough coal to meet current consumption levels for the next 1,000 years.

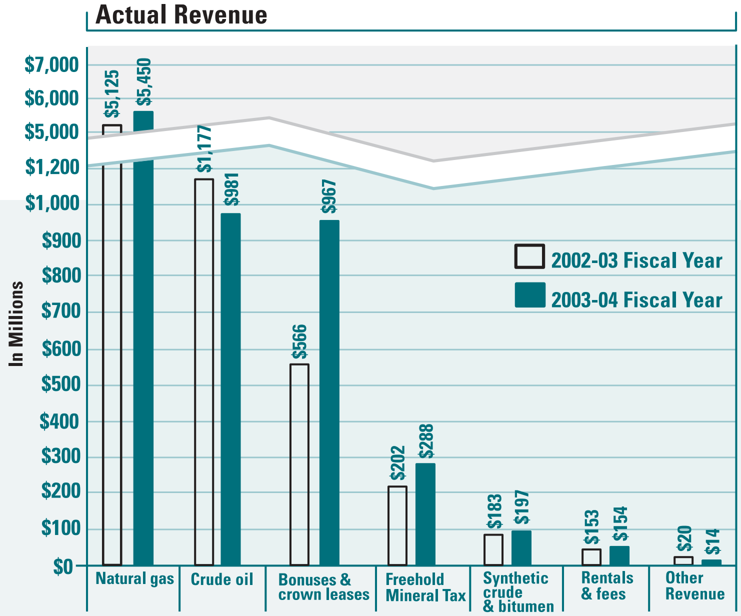
In 2003-2004, there were six major coal mines operating in Alberta.

Minerals

Alberta collected just under $1 million in royalty revenue from limestone, salt, gold and shale operations.

Minerals of interest for exploration purposes were mainly diamonds and precious metals, while minerals of interest for production purposes were industrial minerals, particularly lime and limestone, and base metals, particularly iron and magnetite.

Revenue



Revenue for the year ended March 31, 2004 exceeded $7.6 billion. This was $627 million greater than revenue for the year ended March 31, 2003.

Change in Actual Revenue from Prior Year*

Natural gas and by-products royalty (+$325 million)
The ARP averaged $5.75/Mcf for the fiscal year ended March 31, 2004, $0.75 Mcf higher than the average ARP of $4.75/Mcf for the fiscal year ended March 31, 2003. The effect of the higher price was partially offset by a decline of 143 Bcf in production from 5,361 Bcf in the fiscal year ended March 31, 2003 to 5,218 Bcf in the fiscal year ended March 31, 2004.

Crude oil royalty (-$196 million)
The price of WTI averaged US$29.13 during the year ended March 31, 2003 and US$31.36 for the year ended March 31, 2004. This increase in price was offset by a decrease in production and an increase in the exchange rate between Canadian and United States dollars.

Bonuses and sales of crown leases (+$401 million)
The increase in revenue is due to an average higher price per hectare and more hectares being sold in the fiscal year ended March 31, 2004, compared to the fiscal year ended March 31, 2003. The average price per hectare paid at land sales was $211 for the year ended March 31, 2003 and $306 for the year ended March 31, 2004. There were 2.72 million hectares sold at public auction in the year ended March 31, 2003 and 3.1 million hectares were sold in the year ended March 31, 2004.

Freehold Mineral Tax (+86 million)
The increase in revenue is due to higher oil and gas prices in the 2003-04 fiscal year compared to the 2002-03 fiscal year.

* Change in actual versus budget: see Government of Alberta 2003 - 2004 Annual Report

Expenses by Core Business

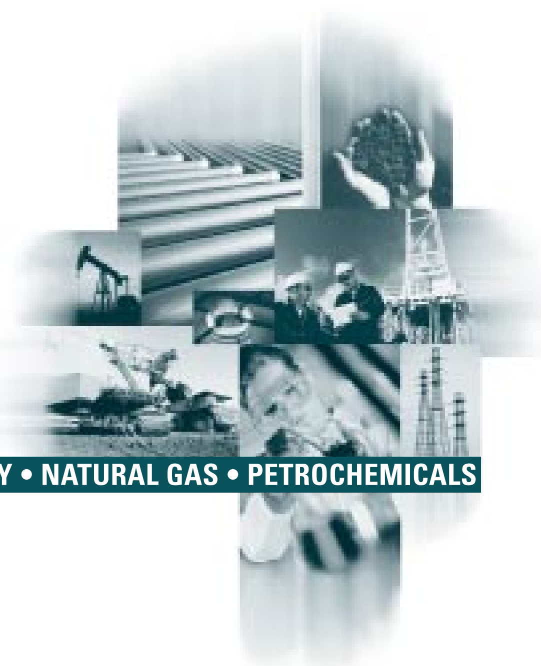
(in thousands of dollars)

Expense	2003-04 Budget	2003-04 Actual	2002-03 Actual
Core Business			
Securing Benefits for Albertans	34,969	36,845	36,380
Resource Development	28,071	27,745	19,761
Awareness and Understanding	2,515	2,520	2,136
Energy for Albertans	4,711	4,186	4,814

Actual expense for the department for the year ended March 31, 2004 was $8.2 million greater than expenses for the year ended March 31, 2003.

Resource development expenses increased by $8.0 million and made up 98 per cent of the $8.2 million increase in total department expenses over the previous fiscal year. Increased spending included an additional $1 million for the Aboriginal Consultation Initiative and the department's share of the cost to operate the petroleum registry (PRA) increased by $2 million. Other contributing items included negotiated salary settlements, amortization increases associated with the department's investment in the PRA, and higher costs arising from increased oil sands industry activity.

DEPARTMENT OF ENERGY
RESULTS ANALYSIS



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Alberta
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AUDITOR'S REPORT

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

To the Members of the Legislative Assembly

In connection with the Ministry of Energy's performance measures included in the *2003 - 2004 Annual Report of the Ministry of Energy*, I have:

1. Agreed information from an external organization to reports from the organization or where information is reported as not available, confirmed that the information is not available.
2. Agreed information from reports that originated from organizations included in the consolidated financial statements of the Ministry to source reports. In addition, I tested the procedures used to compile the underlying data into the source reports.
3. Checked that the presentation of results is consistent with the stated methodology.
4. Checked that the results presented are comparable to stated targets, and information presented in prior years.
5. Checked that the key performance measures, as well as targets, agree to and include results for all of the measures presented in Budget 2003.

These procedures, however, do not constitute an audit and therefore I express no opinion on the performance measures included in the *2003-2004 Annual Report of the Ministry of Energy*.

Original signed by

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

August 2, 2004

Core Business 1: Securing Benefits for Albertans

Albertans own the majority of the province's oil, natural gas and other mineral resources. The Department of Energy manages the sustainable development of these resources in a responsible manner that maximizes long-term benefits to the province and the people of Alberta. Albertans receive their share of energy and mineral resource development through royalties, freehold mineral taxes, rentals and bonuses paid by industry and collected by the department.

Goal 1.1:

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

Introduction

The Department of Energy has created one of the most respected resource royalty regimes in the world. It is price sensitive and accounts for geological and economic characteristics unique to Alberta's oil, gas and oil sands resources. The department collects a fair share of revenues generated from mineral resource development on behalf of the people of Alberta.

Highlights

Non-renewable resource revenue collected by the department reached $7.68 billion in 2003-2004, the second highest level ever recorded in Alberta. Non-renewable resource revenue in 2003-2004 represented approximately one-third of total revenues paid to the Alberta government in the fiscal year, providing a significant portion of the funds necessary to deliver public programs and services important to Albertans. Commodity prices were high in 2003-2004. Over the past 20 years, non-renewable resource revenues have averaged over $3.5 billion per year, and comprise between 14 and 42 per cent of total annual government revenues.

A review of Alberta's royalty structure and competitiveness was completed. This review ranked Alberta's royalty competitiveness in terms of other North American and international jurisdictions. It also compared the attractiveness of Alberta's natural resources with other western Canadian jurisdictions. Findings of external reviewers were considered. Based on this review, Alberta's conventional oil and natural gas regime was ranked as among the most rigorous in Canada and the world. It balances the need for continued development with collecting a fair share of resource development profits in the form of royalty. A review of Alberta's oil sands regime determined that it is functioning as it was designed, successfully attracting capital investment resulting in increased production.

A new royalty program is under consideration to promote the application of new and innovative technologies that will enhance resource recovery and contribute to increased investment and royalties.

The department's Internet based Petroleum Registry of Alberta (PRA) celebrated a successful first year of operations. The PRA is a shared, secure, interactive database. It is accessed through the Internet and streamlines industry reporting to the Ministry of Energy and between industry partners. Registry performance has successfully met stakeholder expectations.

Performance Measure:

Sharing the Profits from Resource Development

Target:

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

Results:

Revenue Share	Actual						
(Three year moving average - calendar year)	1996	1997	1998	1999	2000	2001	2002
	23%	*23%	22%	21%	22%	24%	24%

Source: Ross Smith Energy

*1997 Revenue Share revised from actual reported in 2002-03 Annual Report due to historical revision in the source data used by Ross Smith Energy

Discussion of Results

Alberta's resource development system is intended to capture a fair share of the revenue from the development of resources, for the benefit of Albertans, while encouraging continued industry investment in, and development of, Alberta's resources. For oil and natural gas, an indicator of this balance is the portion of industry's annual net operating revenue that is paid to the Crown as royalty.

Alberta collected 24 per cent of conventional oil and gas, and oil sands industry net operating revenue in 2002. This is unchanged from 2001 and is the percentage collected after operating costs, administration expenses and taxes were deducted from gross revenues. This falls within the department's target range of 20-25 per cent.

Strong prices for non-renewable resource commodities over the past several years, and high levels of industry activity have resulted in increased industry net operating revenues and correspondingly higher Crown royalties. This measure is reported on a three-year moving average. Record high royalties collected in 2001 significantly influence the three-year average reported in 2001 and 2002. The 2002 crown revenue share was less than the 2001 share, but the three-year average remains at 24 per cent due to the previous year's influence.

The Department of Energy's royalty regime is price and production sensitive. Commodity prices and industry operating costs are beyond the control of the department.

Methodology

The *Sharing the Profits* measure reports Alberta's fair share of resource development profits. The performance measure is the three-year moving average of the following formula:

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

Data from Ross Smith Energy is used in the compilation of the *Sharing the Profits* performance measure. Ross Smith derives the operating costs and royalties of conventional oil and natural gas, and oil sands producers from the *Canadian Association of Petroleum Producer Statistical Handbook* (CAPP). Revenue is based on CAPP data collected by Statistics Canada through an industry survey. Ross Smith calculates the current income tax and large corporation taxes based on its industry database of 190 exploration and production companies. The Alberta Royalty Tax Credit (ARTC) figures are received from the Department of Energy and translated by Ross Smith Energy from a fiscal year to a calendar year basis.

The *Sharing the Profits* measure is revised in the 2004-07 Business Plan to rely directly on CAPP data instead of Ross Smith Energy data. This change is made to allow the department to report the fair share results closer to the time when CAPP releases its industry statistics and provides the department greater understanding of the factors that affect this measure.

The results of the *Sharing the Profits* measure are subject to amendment due to historical revisions to CAPP industry source data.

Performance Measure:
Crown Revenue Assurance

Target:
To ensure the completeness and accuracy of Albertans resource revenues - audit adjustments to be less than 2.0 per cent.

Results:

	Actual for the Year Ending March 31					
Indicator	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Audit Adjustments as a Percentage of Department Resource Revenues (three-year moving average)	2.0%	2.2%	1.7%	1.6%	1.9%	4.1%

Source: Compliance and Assurance, Alberta Department of Energy

Discussion of Results
The department audits Crown resource revenues and allowable costs to ensure these are complete, accurate and fairly valued. As a result of these audits, adjustments may be made resulting in a refund to industry or the assessment of additional revenue to the Crown.

Audits completed in the current fiscal year resulted in a percentage of absolute value audit adjustments of 4.1 per cent, exceeding the 2.0 per cent target. The year over year increase in the percentage of absolute value audit adjustments was in large part due to an increase in audit adjustments related to the Alberta Gas Reference Price used to calculate natural gas royalties. For the current fiscal year, 89 per cent of the estimated absolute value audit adjustments were related to audits of companies' filings used to calculate the Alberta Gas Reference Price. Excepting this issue, the crown revenue assurance level would have been within the target range.

The increase in audit adjustments in this area can be attributed to an increase in the number of natural gas royalty reference price audits conducted and increased error rates. Increased error rates result from new industry staff turnover and because many industry filers are having difficulty understanding how to transfer their complex business information into reporting requirements. To address this issue, the department is conducting periodic information workshops to increase filer knowledge. As well, the department is increasing the frequency of audits, which may reduce the potential significance of filing errors by identifying and correcting errors before they compound. Finally, the department has established a joint government and industry sub-team to review and recommend simplification opportunities for the gas reference price reports. This should reduce future audit adjustments by clarifying and simplifying Crown reporting requirements.

Methodology
This performance measure expresses the annual total absolute dollar value of audit adjustments as a percentage of reported Department of Energy resource revenues from conventional oil, natural gas, oil sands, coal and Freehold Mineral Tax. The absolute value of audit adjustments is the sum of all adjustments, both in the Crown's favour and in industry's favour. Audit adjustments are accumulated on the basis of audits completed in the current year and include prior years' filings, subject to statutory limitations. Audit adjustments include actual royalty assessments made and the projected royalty effect of amendments that have yet to be received and processed. The audit result is a measure of industry's understanding of, and compliance with, the department's resource revenue regime. Crown royalty revenues are influenced by commodity prices and production that are beyond the control of the department. The results of the *Crown Revenue Assurance* measure are subject to amendment due to the possibility of revisions to royalty production reported to the department.

Core Business 2: Resource Development

Alberta maintains competitive fiscal and regulatory regimes that attract industry investment. Predictability, certainty, stability and a well-developed infrastructure are all features that continue to make Alberta's resource development system a strong competitor for industry investment. Industry investment creates economic growth and prosperity for Albertans in the form of new business opportunities and employment.

Goal 2.1:

Maintain the competitiveness of Alberta's energy and mineral resources.

Introduction

The department maintains a fiscal regime that aims, over the long term, to generate continued development of Alberta's energy resources, while collecting a fair share of resource development profits for Albertans. From 1997 to 2002, upstream oil and gas industry investment (including oil sands) averaged $15 billion per year. Investment increased dramatically in recent years as high commodity prices, combined with Alberta's favourable investment climate, led to increased levels of exploration, drilling and development. The department assesses the current and future state of Alberta's resource commodities, identifies opportunities for development and industrial integration and encourages maximization of in-province resource upgrading.

Highlights

Investment in Alberta's oil and gas industry remained at or near records set in 2002. Alberta's conventional oil and gas industry capital investment in 2002 was $11.7 billion, and oil sands investment reached a record $6.7 billion. Total upstream oil and gas investment accounted for more than 40 per cent of Alberta's total capital investment in 2002. For 2003, the level of conventional oil and gas capital expenditures is estimated at $15 billion. In 2003, oil sands investment was $5.5 billion. Continued high oil and natural gas prices, along with Alberta's clearly outlined development rules and regulations combine to sustain high levels of energy industry activity.

Drilling activity, which makes up the bulk of conventional capital expenditures, reached record highs in 2003. A record 19,212 well licences were issued by the province in 2003, an increase of over 5000 from 2002. A record high 14,966 conventional oil and gas wells were completed in 2003, compared to 10,384 in 2002.

In 2003, the department made available approximately 3.1 million hectares for industry development and received $967 million from the sale of oil sands, petroleum and natural gas rights. Rights to develop Alberta's Crown petroleum and natural gas resources are issued by the department, in the form of licences or leases, through a competitive sealed bid auction system held by the department approximately every two weeks. Any company may request specific oil and gas rights be posted for sale. All wells must be reviewed, approved and licensed by the Alberta EUB prior to drilling. Every well drilled must be accounted for in the department's system of leases and royalty records.

The Department of Energy is working with the oil and gas industry and leaseholders affected by EUB conservation decisions related to natural gas in association with bitumen in the north-east area of Alberta. This is a unique situation and the department is seeking fair and equitable solutions to issues raised by these decisions. The department has formed a joint industry/government committee aimed at finding technical solutions that will allow for economic and expedient production of both resources.

The department played a key role with Alberta Aboriginal Affairs and Northern Development and other ministries in the development of a made-in-Alberta aboriginal consultation process and supporting treaty land entitlement negotiations. The department focused on bringing parties together, avoiding resource access disruptions and facilitating resolutions. This process aimed at resolving issues and maintaining industry access to energy resources. Agreements were signed with 38 First Nations to integrate aboriginal cultural uses of Crown land into existing or new government databases so these traditional uses are considered in land use decision-making.

The Department of Energy participated in a cross-ministry review of the environmental and resource regulatory framework used by the Government of Alberta to develop and manage Alberta's natural resources. Future revisions to Alberta's regulatory approval framework will focus on collaborative direction setting and management, improved delivery of regulations, and reduced costs of regulatory requirements for all parties. These revisions will maintain Alberta's high environmental standards and improve Alberta's business climate.

The department worked with other ministries, Canadian Embassy and Consular staff (Washington, Dallas), and industry, to plan and organize numerous executive tours of major oil sands projects for senior US decision-makers. These included the US Undersecretary of Energy, Energy Council executive and legislators, members of the Pacific Northwest Economic Region, California Energy Commission, Moody's and senior US Congressional staffers. Positive recognition of Alberta oil sands reserves as a long-term, secure supply has expanded from industry and government publications, such as the Oil & Gas Journal and the US Energy Information Administration, to include frequent coverage by influential, international public media (The Economist, the Wall Street Journal, the Washington Post, etc., and the India Economic Times).

Performance Measure:

Resource Development

Target:

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

Results:

	Year Ending December 31	
	Actual 2001	**Actual 2002**
Upstream Industry Investment	$20.6 billion	$18.5 billion

Source: Canadian Association of Petroleum Producers

Discussion of Results

Alberta's historical oil and gas and oil sands investment remained at high levels in 2002, exceeding target expectations. High commodity prices combined with Alberta's favourable investment climate led to high levels of exploration, drilling and development. A greater number of oil and natural gas wells are being drilled due to the smaller yields from new wells. Frontier areas with higher drilling costs are being developed. Both reflect Alberta's maturing conventional oil and gas basin. Capital expenditures in 2002 declined from the record high in 2001 due to the relatively lower commodity prices experienced in late 2001 and early 2002. Post September 11, 2001 price shocks gripped the market just as industry drilling programs and budgets were being finalized in late 2001. Oil and gas prices recovered later in 2002 to the high levels seen before the September 11 attacks. The year-to-year decline in investment was confined to conventional oil and gas drilling. Meanwhile, oil sands investment reached a new record of $6.7 billion in 2002.

Commodity prices for oil and natural gas are the most significant factors in determining the amount of drilling (drilling makes up most conventional exploration and development capital expenditures). Lower prices reduce drilling and corresponding investment. Investment by the oil and gas industry is affected by a number of other considerations, including accessibility of the resource, the costs of finding the resource, royalty rates, approval processes, corporate tax rates, environmental impacts, workforce skills and costs, infrastructure (highways, housing), accessibility to refining and upgrading, pipelines and markets. The department has the ability to influence industry investment decisions to varying degrees through royalty policy, land and market access, and the regulatory environment. Industry decisions regarding investment also vary due to cash flow levels and commodity prices over which the department has no influence.

Methodology

This measure relies on the Canadian Association of Petroleum Producers (CAPP) annual investment expenditures (finding and development capitalized costs) by the upstream Alberta petroleum industry. The data set is collected by Statistics Canada through a survey of industry, which includes 95 per cent of the industry by production.

Upstream Investment includes costs and expenses incurred during the exploration and development of the resource. These costs include geological and geophysical, land, drilling, field equipment, enhanced oil recovery, plants and miscellaneous development expenses. The target will be reviewed annually.

Continued investment in Alberta's energy sector demonstrates the competitiveness and attractiveness of resource development in the province.

Goal 2.2:

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

Introduction

Alberta has long enjoyed abundant sources of conventional oil and gas. In the future, as conventional sources decline, other sources of energy must be developed to ensure Alberta has a continued supply of energy. These may include natural gas in coal (coalbed methane), expanded oil sands development and cogeneration of electricity, the application of clean burning technologies to coal, and the development of alternative sources of energy (wind, small scale hydro, biomass). The department works within the province's framework of sustainable development to maintain or enhance resource exploration and development opportunities, while ensuring that development occurs in a responsible manner that protects the environment and public safety.

Highlights

The department continues to encourage industry to develop new technologies that will result in increased recovery from maturing pools of conventional oil. Due to the limitations of present day technology, it is estimated that only 26 per cent of available oil is currently recovered, leaving 74 per cent of the resource in the ground. The current level of natural gas recovery is 69 per cent.

New technologies are needed for the capture, transport, storage and use of CO_2. During the year, the department announced the CO_2 Projects Royalty Credit Program to encourage industry projects that demonstrate value-added uses of CO_2 and improve oil and natural gas recovery. A new royalty program is also being considered to help promote the application of new and innovative technologies to enhance resource recovery and contribute to increased investment and royalties.

Oil sands production surpassed conventional oil production in 2003. Marketable oil sands production averaged 854,000 barrels per day (bbl/d). Future oil sands investment levels are expected to reach $80 billion between 2003 and 2020 and could increase oil sands production to 1.9 million bbl/d by 2010, and three million bbl/d by 2020. As conventional oil supplies decline, oil sands investment increases in importance to both Alberta and Canada.

Growth in electricity capacity is an indication of investor confidence in Alberta's new competitive market. In 2003, 830 megawatts (MW) of new generation came on-line and one coal-fired generating unit with a capacity of 139 MW was decommissioned. This resulted in a net increase of 741 MW after taking into account the re-rating of some generating units.

The department is leading a cross-government review and external consultation process with the public, industry and other affected stakeholders on current provincial rules and regulations that apply to natural gas in coal (NGC) development. NGC is seen as a potentially key resource that could add significant gas supply and subsequent benefits to Albertans. The EUB estimates the province's NGC resource to be as much as 500 trillion cubic feet, which is greater than Alberta's proven conventional natural gas reserves. Production of NGC is in its infancy and the amount of gas that can be produced from Alberta's coals is still unknown. The department is conducting information sharing sessions in eight communities where NGC activity is ongoing or expected. These sessions provide an opportunity for Albertans to learn more about the resource, regulations and consultation process and provide input on the future development of this resource. By December 31, 2003, there had been 1,015 NGC wells drilled, of which 416 had some production. Seventy eight per cent of the total NGC wells were drilled in the Horseshoe Canyon formation in south central Alberta - a coal formation that has no associated saline or non-saline water production.

Performance Measure:
Energy Resource Portfolio Diversification

Target:
Diversification of Energy Production

Results:

				Year Ending December 31	
	Baseline	**Actual**	**Actual**	**Actual**	**2003-06 Business Plan Target**
	2000	**2001**	**2002**	**2003**	**2003**
Oil Production *					
Conventional	50%	48%	43%	39%	37%
Non-conventional (oil sands, pentanes/condensate)	50%	52%	57%	61%	63%
Natural Gas Production *					
Conventional	100%	100%	99.99%	99.9%	99.5%
Non-conventional Natural Gas in Coal (NGC)	0%	0%	0.01%	ΔΔ0.1%	0.5%
Electricity Installed Capacity (MW)**					
Coal	Δ58.3%	Δ53.8%	Δ52.0%	47.5%	45.1%
Natural Gas (cogeneration)	Δ17.2%	Δ23.0%	Δ25.4%	27.7%	27.8%
Natural Gas (conventional)	Δ13.7%	Δ12.6%	Δ12.4%	14.3%	15.7%
Renewable Energy Sources***	Δ10.8%	Δ10.6%	Δ10.2%	10.5%	11.4%

Sources:

* Oil and natural gas production: EUB

** Alberta Department of Energy, April 2004. MW = Megawatts. Electricity Generating Capacity is compiled by the Department of Energy based on EUB, Independent System Operator (ISO) and industry information.

*** Renewable Energy Sources are Wind, Hydro and Biomass.

Δ The installed capacity actuals for 2000, 2001 and 2002 have been restated from that reported in the 2003-06 Business Plan and 2002-03 Annual Report to reflect revisions to the historical source data.

ΔΔ 2003 NGC production estimate: EUB, DOE.

Note: Percentage indicates proportion of each commodity's production to total production.

Discussion of Results
The energy resource portfolio is being tracked to reflect the need for increasing diversification of Alberta's energy resources to meet future energy demands. The department can influence development through the adoption of specific royalty features that encourage improved resource recovery, the development of new energy sources, or the application of new technologies.

In 2003, non-conventional oil production accounted for 61 per cent of total Alberta oil production, just under the 63 per cent targeted. This was driven by oil sands production, which increased from 740,000 bbl/d to 854,000 bbl/d. At the same time, conventional production declined. The department continues to encourage additional recovery of conventional oil from existing pools through the application of technology and use of CO_2 injection.

Alberta's conventional natural gas production reached an all time high in 2001 at 5.22 trillion cubic feet (Tcf) and has since declined slightly to 4.98 Tcf in 2003. Natural gas in coal (NGC) holds significant future potential, but the size of this resource is unproven at this point. The 2003 NGC production estimate was lower than the target because NGC is still in the early stages of development.

Natural gas cogeneration of electricity has been significantly associated with oil sands development. Natural gas cogeneration increased from 25.4 per cent of Alberta's generating capacity in 2002, to 27.7 per cent in 2003. Additional oil sands cogeneration was responsible for the increase as a result of expanded oil sands activity. Renewable energy, wind power in particular, continues to play an important role in electricity generation for the province. Alberta had 172 MW of installed wind capacity, the largest installed capacity of wind power in Canada in 2003. While the proportion of renewable generation increased from 10.2 per cent in 2002 to 10.5 per cent in 2003, it was less than targeted as a result of growth from other sources. The proportion of renewable energy sources contributing to total capacity has remained stable. In other words, the actual amount of renewable generation has increased substantially to keep up with the large-scale conventional electricity generation projects that have come on line since 2000. Conventional natural gas generating capacity rose by 1.9 per cent as new capacity came on-line, though it did not make up as much of a share of overall capacity as expected. Coal capacity fell to 47.5 per cent of the total capacity in the province, down from 52 per cent in 2002 as no new coal plants were commissioned and growth from other sources increased.

Oil and gas production is influenced by commodity prices and the geological characteristics of production zones. Decisions to build new electricity capacity are determined by the private investor market.

Methodology

Crude oil and natural gas production reports using volumetric data submitted by industry to the EUB are used for conventional and non-conventional oil and natural gas production. Conventional crude is classified as light, medium and heavy crude oil, and non-conventional crude products include bitumen, synthetic crude oil (upgraded from bitumen) and pentanes and condensates. Both conventional and non-conventional natural gas production data is obtained from the EUB. Natural gas and oil results are subject to amendment due to revisions to volumetric data supplied to the EUB and department. The department and the EUB monitor electricity capacity. New capacity is added to existing generation as approvals, announcements, and updates are submitted to both the EUB and the department. Information regarding new electrical generation facilities connected to the Alberta Interconnected Electric System (AIES) is made available to the department and EUB by the Independent System Operator (ISO). The installed capacity data reported is subject to amendment based on re-ratings by facility operators. Renewable energy sources include wind, hydro and biomass.

In the future, energy production numbers will be reported as actual production volumes instead of the percentages shown here. The production data itself does not change. This ensures production or capacity changes from individual energy sources will not be masked by any increase or decrease to total production or generation. Use of actual data makes year-to-year changes in production and capacity clear.

Installed electricity capacity statistics from 2000-2002 have been revised following an extensive review and consultation with the EUB.

Core Business 3: Awareness and Understanding

This core business underscores the department's role in informing Albertans about energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy.

Goal 3.1:

Increase public awareness about Alberta's energy and mineral resources.

Introduction

As resource owners, Albertans need to be aware of Alberta's supply of energy and mineral resources and the importance of these resources to Alberta's economy and society. Albertans also need to be informed about the critical importance of ongoing resource development, the need to access future resources, and technological advances made by the energy industry.

Highlights

The department worked with stakeholders to establish a Utilities Consumer Advocate responsible for consumer education and awareness about retail natural gas and electricity in the province. The Utilities Consumer Advocate reports to the minister of Government Services.

The Department of Energy is a member of the Canadian Centre for Energy Information, an alliance of industry, government and others committed to fostering awareness and understanding about the Canadian energy sector. The Centre operates a Web site portal located at: http://www.centreforenergy.com.

The department is a founding member and champion of the Energy Education Forum. The Forum, whose members include government, educators, industry, and non-profit associations, met for the second time in November 2003 to develop an action plan and strategies to improve energy education in Alberta schools. The Forum, through the department, commissioned an *Energy Education Actions* report and Alberta Learning has agreed to consult with the Energy Education Forum on energy content of future curriculum development.

The department partnered with Inside Education (formerly known as Friends of Environmental Education Society of Alberta) to review, develop and distribute student and teacher materials about oil sands and electricity for classroom use.

A public consultation process for development of natural gas in coal was designed and implemented by the department. Public meetings were held in Rocky Mountain House and Wetaskiwin in March 2004 and six additional meetings are underway. These sessions provide Albertans interested in natural gas in coal development an opportunity to learn more about the resource, local development, provincial regulations and the consultation process. Participants are invited to share suggestions and provide input on natural gas in coal issues. To accommodate those unable to attend a meeting, the new publication *Natural Gas in Alberta's Coal Seams*, is now available to all Albertans upon request.

Department communications focused on increasing Albertans' awareness of the Natural Gas Rebate Program. Extensive media relations activities were undertaken, including monthly news releases (November – March) and media interviews. As well, the department co-ordinated public access to rebate information across several Alberta government web sites and distributed the new *Alberta's Natural Gas Rebate Program* brochure through government offices.

The Public Information Centre (PIC), a central department source of information for Albertans, responded to more than 3,200 letters, 2,200 e-mails and 6,900 telephone calls on topics related to electricity restructuring, natural gas, rebate programs, utility billing problems and general department information.

In conjunction with the electricity industry, the department published the brochure *New Options for Purchasing Electricity*. The brochure was delivered to small/medium commercial electricity customers. A comprehensive publication, *Plain Talk About Alberta's Electricity*, was also developed for the Internet. Advertisements across the province encouraged Albertans to download the on-line version or phone for a copy by mail.

The department advertised for public input to the Advisory Council on Electricity (ACE) review and subsequently released the report and government response to the recommendations. The department supported implementation of the ACE recommendation to establish the Utilities Consumer Advocate, and assisted in the creation of a public information centre and Internet site, and development of a consumer education and awareness program regarding retail natural gas and electricity in the province.

The department created and distributed the *Alberta Energy Overview and Oil Reserves and Production* brochures. The diversity and benefits of Alberta's energy sector were promoted by participating in three feature supplements in major daily newspaper features focusing on energy development.

Performance Measure:
Albertans' Understanding of Alberta's Energy and Mineral Resources and their Economic Significance

Target:
To increase Albertans' awareness and understanding of energy resources.

Results:

	Year Ending December 31	
	Baseline* 2001	**Actual ** 2003**
Albertans' knowledge of the role of energy and mineral resources in Alberta's economy.	36% *	37%
The provincial government is doing a good or very good job of providing Albertans with energy information.	62%	60%

Source: *IPSOS Reid Survey, **Banister Research Group Survey.

*Restated due to error in original calculation

Discussion of Results
The department's target is to increase awareness over the long-term. However, increasing public awareness and knowledge is neither an easy nor a short-term task as current results indicate. Thirty seven per cent of those surveyed in 2003 were knowledgeable about the role of energy and mineral resources in Alberta's economy, up one per cent from 2001. Sixty per cent of Albertans felt the provincial government was doing a good or very good job of providing Albertans with energy information, down slightly (two per cent) from the previous survey. An additional element will be added to the measure in the 2004-2007 business plan to track public recognition of the importance of the energy sector to Alberta's economic health.

Methodology
In November 2003, Banister Research Group telephoned 800 randomly selected Albertans aged 18 years and older. Results are considered accurate to within +/- 3.5 per cent, 19 times out of 20. Albertans' knowledge of the role of energy and mineral resources in Alberta's economy represents the weighted average response to five questions. Questions sampled overall knowledge of the industry, ownership of Alberta's resources, how much the province's resources contribute to the Alberta economy, total number of people employed in the energy industry, and sources used by Albertans for information on natural resources. The rating on the provision of information to Albertans is based on a single question. Surveying for this measure is conducted every second year.

Core Business 4: Energy for Albertans

The department works to ensure Albertans have a choice of reliable and competitively priced energy.

Goal 4.1:

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

Introduction

Alberta has restructured its electric industry to provide an efficient, competitive marketplace for electricity that encourages the development of new power generation and offers all consumers choice and reliability of supply. Retail natural gas has been open to choice since 1996 and retail electrical has been open to choice since 2001. The department continues to strengthen the provisions for retail customer choice, having recently established similar rules for both the natural gas and electricity retail markets.

Highlights

The *Natural Gas Price Protection Act* was passed in 2001, and was followed by the Natural Gas Price Protection Regulation. The regulation outlines provisions for rebates to natural gas consumers when natural gas prices and consumption are high. During 2003-2004, the departments of Energy, Agriculture, Food and Rural Development (AFRD), and Infrastructure drafted an amendment regulation. The amended regulation established clear and easily understood natural gas rebate program rules, and made the program more responsive to gas prices on utility bills. Rebates for most consumers were issued in January 2004 ($2.50/GJ), February 2004 ($1.50/GJ) and March 2004 ($1.50/GJ).

The department developed and received government approval of an electric transmission development policy to ensure the province will have a robust transmission network and Albertans continue to receive safe, reliable and efficient transmission service. The new policy will support continued economic growth and the next wave of generation development.

A new *Electric Utilities Act* (EUA) and regulations were passed in 2003. This Act provides a refined industry framework, strengthens competition in the retail market, aligns marketing for electricity and natural gas, and ensures a more level playing field with more efficient oversight of regulated services. The policies reflected in the EUA and accompanying regulations are the result of two years of policy development and stakeholder consultation by the department. The EUA and regulation development process reflected strong commitment by the department to consultation with consumers and industry stakeholders.

In May 2003, the Advisory Council on Electricity (ACE) was tasked to review electricity-billing problems and prepare recommendations for improvement. The Council includes a broad range of industry experts, consumer representatives, and two MLAs. Over 700 Albertans provided submissions. The ACE submitted its report to government in September 2003, and recommended the establishment of a Utilities Consumer Advocate to represent small consumers in the regulatory process and to serve as a facilitator for consumer complaints on service. In its report, the ACE also called for more consumer education about customer choice in the retail electricity and natural gas markets. The Utilities Consumer Advocate has been established and will lead consumer education and awareness activities. Progress has been made on a number of other ACE report recommendations to enhance the retail market for smaller consumers and to provide additional transition time by extending the current regulated rate option to July 2006.

Alberta's improved framework for retail electrical competition enabled three new retailers to enter the Alberta market to serve small customers. Direct Energy is offering contracts to small commercial, residential and farm customers. Battle River Rural Energy Ltd. and Southern Energy Ltd. established themselves as retail affiliates to their respective Rural Electrical Associations.

Performance Measure:
New Power Generation

Target:
Alberta's net supply of electricity will increase through industry investment.

Results:

Year Ending December 31

Indicator	Actual 2000 Total	Actual 2001 Total	Actual 2002 Total	Actual 2003 Total	2003-06 Business Plan Target 2003 Total
Installed Capacity* (MW)	+9,669	+10,451	+10,897	11,638	11,440
Peak Demand (MW)**	7,785	7,934	8,570	8,967	8,834
Margin (MW)	+1,884	+2,517	+2,327	2,671	2,606

Source: Alberta Department of Energy, April 2004. MW = Megawatts. Electricity Generating Capacity is compiled by the Department of Energy based on EUB, Independent System Operator (ISO) and industry information.

* Installed Capacity: The sum of the maximum continuous ratings of all electricity generation facilities that are connected to the Alberta interconnected electric system, excluding the capacity of the interties with British Columbia and Saskatchewan.

** Peak Demand is the highest recorded system demand (in Megawatt-hours/hour) in a climatic year as recorded by the Alberta Independent System Operator (ISO). See methodology for climatic year description.

\+ The Installed Capacity actuals for 2000, 2001 and 2002 have been restated from that reported in the 2003-06 Business Plan and 2002-03 Annual Report to reflect revisions to the historical source data.

Discussion of Results
Investment in new electricity generation reflects investor confidence in Alberta's restructured electric industry. Growth in new generation will support Alberta's ability to reliably meet a growing demand for electricity in the province. The department is undertaking initiatives to streamline approval processes involved in the construction of new electricity generation and transmission in Alberta.

Peak demand for electricity in 2003 was projected to grow by 250 megawatts (MW). The actual increase was 397 MW - over 50 per cent higher than expected. This is a reflection of Alberta's vibrant economic growth in 2003. New generation of 830 MW came on-line in 2003 and one coal-fired generating unit with a capacity of 139 MW was decommissioned. The net increase of 741 MW from 2002 (taking into account the re-rating of some generating units) significantly exceeded the projected 400 MW increase that was targeted in the 2003-2006 Business Plan. Co-generation accounts for 82 per cent of all new generation added since 1998. Highly efficient co-generation associated with oil sands development is responsible for almost 50 per cent of all new co-generation. The increase in gas co-generation was higher than projected as oil sands development and associated co-generation have expanded at an accelerated rate.

Methodology
Information about new electrical generation facilities connected to the Alberta Interconnected Electric System (AIES) is made available to the department and the EUB by the Independent System Operator (ISO). The generating capacity and start-up dates are included in regulatory filings with the EUB required under the Hydro and Electric Energy Act and interconnection applications to the ISO. The installed capacity data reported is subject to amendment based on re-ratings by facility operators.

Electricity demand reported for 2002 and future years has been adjusted upward by about 400 MW to reflect a change in reporting of demand by the ISO, effective June 2002. This has not affected the actual growth in peak demand. Alberta's peak demand occurs in the winter. Peak demand is reported for the winter period of the climatic year, the winter months of October through March. A peak demand of 8,967 MW for the climatic year 2003-2004 occurred in January 2004.

Installed capacity statistics from 2000-2002 have been revised following an extensive review and consultation with the EUB.

Performance Measure: Electricity Restructuring

Centre for Advancement of Energy Markets (CAEM) Retail Electricity Deregulation (RED) Index

Target:

Alberta will remain a leader in implementing a competitive marketplace for electricity.

Results:

Year Ending December 31

	Actual 2001	Actual 2002	Actual 2003	2003-06 Business Plan Target
CAEM - RED Index*				
Ranking of Alberta's Restructuring In North America	1	5	4	Top 10

*Source: The Centre for the Advancement of Energy Markets (CAEM) compiles The RED (Retail Electricity Deregulation) Index, April 2003.

Discussion of Results

The RED (Retail Electricity Deregulation) Index compiled by the Center for the Advancement of Energy Markets (CAEM), ranked Alberta as first in Canada, fourth in North America and sixth in the world, as of April 2003, for electric industry restructuring performance. A total of 64 US and Canadian jurisdictions were assessed in 2003. Alberta's ranking is affected by changes to the methodology and progress made in other jurisdictions.

Methodology

The next RED Index is scheduled for release in fall 2004. CAEM continues to refine its RED Index methodology. In 2002, changes were made to the characterization and weights assigned to some of its measured attributes.

CAEM is again reviewing its measured attributes, in a consultative process with jurisdictions. A new index is expected to be published in fall 2004.

The RED Index is an external review of all jurisdictions in North America by an independent think tank organization. For further information, refer to the CAEM website: www.CAEM.org

Performance Measure:

Annual Residential Natural Gas Price

Target:

Annual average residential natural gas price for Alberta is less than the annual average national residential price.

Results:

Year Ending December 31	Actual 2001	Actual 2002	Actual 2003
Alberta Annual Average ARGP ($/GJ)	*9.03	*6.23	8.63
National Annual Average NRGP ($/GJ)	*10.63	*9.11	11.03

Sources: ATCO Gas North, ATCO Gas South, AltaGas Utilities, Terasen, SaskEnergy, Manitoba Hydro, Enbridge Consumers Gas, Union Gas

* The ARGP and NRGP prior year comparatives have been restated due to a change in methodology. Fixed costs for the ARGP and NRGP are applied using an annual residential consumption of 135 GJ instead of 150 GJ to more accurately reflect consumption.

Discussion of Results

This measure compares the price Albertans are paying for natural gas with other jurisdictions. This is done by comparing the annual average Alberta Residential Natural Gas Price (ARGP) with the annual average National Residential Natural Gas Price (NRGP). To remain competitive, Alberta's average price should not exceed the average national price. The average price paid by residential users in 2003 remained significantly below the national average residential price by $2.40 per gigajoule. In 2002, the difference was $2.88. Alberta's residential natural gas price has remained lower than the national annual residential gas price mainly due to differences in transportation costs. Alberta has the lowest transportation costs due to our proximity to the resources. Generally, natural gas prices were higher in 2003 than 2002 as natural gas inventory levels were low entering the 2003 demand season, and high oil prices and increased gas demand in the United States applied upward price pressure on the continental natural gas market.

Methodology

The ARGP is determined using an average of the delivered cost of natural gas from the major utilities to Alberta residents. The average cost is determined annually and excludes taxes and franchise fees. The NRGP excludes Alberta and is determined using an average of the delivered cost of natural gas, excluding taxes and franchise fees, from utilities serving the cities of Toronto, Sarnia, Winnipeg, Regina and Vancouver.

Numbers are quoted in $/gigajoule (GJ) and are inclusive of gas cost recovery rates (commodity charge), and variable and fixed delivery rates. Rates include various rate riders (i.e., company owned storage and production rate riders). Rates exclude GST, PST, franchise fees and government rebates. Information for the chart was obtained from utility company Web site pages or directly from the utilities. ARGP and NRGP formerly appeared as ARGRP and NRGRP. This measure is calculated on a calendar year basis using a simple average of monthly rates and annual consumption of 135 GJ.

The methodology for applying fixed costs for the ARGP and NRGP has been revised to use an annual residential consumption of 135 GJ instead of 150 GJ. This revision has been applied to all reported actuals for the measure. This change more accurately reflects natural gas consumption by a typical residential consumer in Alberta.

The performance measure data reported is subject to amendment from revisions to the industry source data.

Organizational Capacity and Effectiveness

Successful delivery of the department's core business is dependent on maintaining and building a strong organization with the knowledge and capacity to respond to changing future business and economic circumstances affecting the development of Alberta's energy and mineral resources.The department has established a seperate organizational capacity goal, which supports all of the department's core businesses to address this requirement.

Goal 5.1:

Build an organizational environment for success

Introduction

The department recognizes the challenge and importance of maintaining and building organizational capacity to respond effectively to changing business needs. Organizational capacity means having the right resources, people, processes and tools to deliver our core businesses.

Highlights

The Internet based Petroleum Registry of Alberta (PRA) was recognized for its innovative approach and achievements in 2003-2004. The registry was awarded the prestigious Technology in Manufacturing (TIM) Award, winning in the

"Most Innovative Software Implementation" category. The department's commitment to developing the PRA required extensive consultation with its stakeholders and demonstrates its strong working relationship with industry.

The department received a Premier's Award of Excellence (Bronze), for its work with Alberta Economic Development on the 17th World Petroleum Congress. The department also submitted two nominations for the Premier's Award of Excellence for 2003-2004 for the PRA and for Organizational Effectiveness Service Excellence.

The Department of Energy is a leader in government in supporting e-business opportunities and e-business use by industry. During the year, mineral rights e-transfers were implemented, providing industry with the ability to transfer ownership electronically. By 2006, tenure business related to the acquisition of petroleum and natural gas and oil sands agreements will be conducted electronically.

The department encourages staff to participate in the Corporate Executive Development Program. Compared to overall government, the department is near the top in terms of percentage of staff in the Corporate Executive Development Program, and development plans are in place for all participants.

The 2003 Government of Alberta Corporate Employee Survey demonstrated that the department continued to support and develop its staff. Our employees consistently rank the Department of Energy as one of the best departments in the Government of Alberta. Year after year, the department continues to be one of the top performers within government. It has a significantly lower turnover rate and lost time due to illness rate than overall government. In December 2003, the department was acknowledged by the Capital Region United Way Committee for having the highest per capita average gift in the 251-500 staff category. It also exceeded the department's United Way fund raising goal by nearly 25 per cent.

Performance Measure:
Industry Satisfaction

Target:
Industry satisfaction 80 per cent or higher.

Results:

				Year Ending December 31	
	Actual 1998	**Actual 1999**	**Actual 2000**	**Actual 2001**	**Actual 2003**
Average Satisfaction	75%	79%	76%	81%	84%

Source: Environics Research Group.

Discussion of Results
The department monitors industry satisfaction in order to identify opportunities for improvement, and to ensure that its services keep pace with changing requirements in the energy sector. Industry satisfaction is an indicator of staff competence, knowledge, satisfaction and service. An overall satisfaction rating of 84 per cent was achieved, exceeding our target. This compares very favourably to the results of the Citizens First Survey conducted in 2000 by Erin Research Inc., which measured satisfaction with Canadian public and private sector services. The average general rating from the Citizens First Survey was 51 per cent for public sector services and 63 per cent for private sector services. The department's overall industry satisfaction ratings are significantly higher. In particular, a rating of 86 per cent was assessed for the helpfulness and professionalism of department staff.

Methodology
In November 2003, Environics Research Group, a nationally recognized survey firm, conducted telephone interviews with 545 of our industry clients to gauge their satisfaction with the department. Overall satisfaction

with the department was 84 per cent (+/- 4.2 per cent, 95 per cent confidence interval). Surveying for this measure is conducted every second year. The department applies the Government of Alberta's service excellence framework focusing on courteous, competent and timely service to clients. In the 2004-07 Business Plan, the Industry Satisfaction and Information Management results are combined and will be reported in the 2004-05 Annual Report as a single measure called Industry Satisfaction.

Performance Measure:

Information Management

Target:

Maintain the level of industry satisfaction with e-business conducted with the department (90 per cent or higher).

Results:

	Year Ending December 31	
	Baseline 2001	**Actual 2003**
Industry Satisfaction with energy and mineral development information management	92%	94%

Source: Environics Research Group.

Discussion of Results

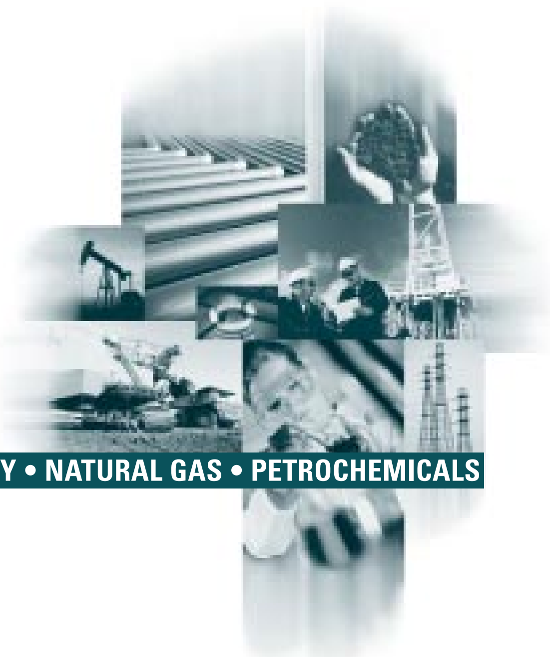
In an increasingly global business environment, where partnerships and information sharing are keys to success, effective use of information technology to deliver business products/services and manage information is essential. The department monitors industry satisfaction with electronic information management including: system availability, accuracy, timeliness of information, security, and ease of use of services. A satisfaction rate of 94 per cent was achieved in 2003, which exceeded our target.

Methodology

In November 2003, Environics Research Group conducted a series of telephone interviews with 272 randomly selected industry companies. The survey focused on how the department conducts business electronically with industry and measured overall satisfaction with six electronic processing systems. An overall satisfaction rating of 94 per cent (+/-5.5, 19 times in 20) was achieved. This is based on the mean average of a series of questions. Surveying for this measure is conducted every second year.

In the 2004-07 Business Plan, the Industry Satisfaction and Information Management results have been combined and will be reported in the 2004-05 Annual Report as a single measure called Industry Satisfaction. The department applies the Government of Alberta's service excellence framework focusing on courteous, competent and timely service to clients.

1 All dollars are in Canadian currency unless otherwise indicated.
2 All dollars in Canadian currency unless otherwise indicated



ALBERTA ENERGY AND UTILITIES BOARD

OPERATIONAL OVERVIEW

OIL • PIPELINES • MINERALS • OIL SANDS • ELECTRICITY • NATURAL GAS • PETROCHEMICALS

EUB

Alberta Energy and Utilities Board

EUB Operational Overview

The Alberta Energy and Utilities Board (EUB or Board) is a quasi-judicial agency of the Alberta government that regulates Alberta's energy resources and utilities. The Mission of the EUB is to ensure that the discovery, development, and delivery of Alberta's resources and utilities services take place in a manner that is fair, responsible, and in the public interest.

The Board also regulates investor-owned natural gas, electric, and water utilities and, as of January 1, 2004, certain municipally owned electric utilities to ensure that customers receive safe and reliable service at just and reasonable rates.

It implements regulations based on policies set by the Government of Alberta. The Board's vision is to continue building a regulatory framework that inspires public confidence.

Although the EUB works independently from the rest of government, the agency falls under the Alberta Minister of Energy. The EUB has approximately 800 staff in 14 locations across the province, with the main office in downtown Calgary.

Core Business

The EUB regulates Alberta's energy resources and utilities through its two core businesses:

- Adjudication and Regulation; and
- Information and Knowledge.

In addition to these core businesses, the Board is focused on four key strategic priorities:

- Public Safety and Compliance
- Utility Regulation
- Application and Hearing Process; and
- Investing in People.

Strategic Priorities

Highlights

1. Public Safety and Compliance

- Public Safety and Sour Gas Initiative – In its commitment to provide a regulatory environment that allows the safe development of Alberta's resources, the EUB is constantly looking for ways to improve regulations for sour gas development. This year the EUB continued working with its stakeholders to address the 87 recommendations made by the Provincial Advisory Committee on Public Safety and Sour Gas. By March 31, 2004, 35 recommendations were completed and work had begun on the remaining 52. The following points highlight some of the work done in this year.

- In October 2003, the EUB released an updated version of *Guide 56: Energy Development Applications and Schedules*. This guide with user-friendly documentation assists the public in understanding energy industry proposals. It is the EUB's main guide to oil and gas applications for development. Within *Guide 56* is *A Landowner's Guide*, which includes a list of sample questions the public may ask about a proposed energy development project and provides answers. This enhanced public communications program is a part of the Public Safety and Sour Gas initiative. Public information materials were also developed on various topics relating to oil and gas development, such as setbacks, pipelines, inspections and enforcement, and EUB public hearings.
- In January 2004, the Advisory Committee on Public Safety and Sour Gas released a report entitled *Evaluation of EUB's Implementation Progress to October 2003*. In the report, the committee commented on "the good progress made to date by the EUB and partners, and the recognition of the personal commitment and hard work demonstrated by staff involved in the implementation work." The Committee also noted the exceptional implementation achievements by the EUB's Field Surveillance Branch, particularly as they relate to improved communications with aboriginal communities. As part of the Public Safety and Sour Gas initiative, EUB staff visited 44 aboriginal communities with as many as ten follow-up visits by March 31, 2004. This is an on-going program to examine energy development issues within aboriginal communities.

- Peace River Well Abandonment – On September 9, 2003, the EUB successfully abandoned the Peace River Oil Company No. 1 well, drilled in 1916, along with two relief wells drilled in 1955 and 1982. The wells are located on the bank of the Peace River, just east of the town of Peace River. The original well, licensed under federal jurisdiction, blew out during drilling and began to flow salt water and associated gas. Relief wells drilled in 1955 and 1982 failed to stop the flow. In the following years, the EUB and its predecessors, the Petroleum and Natural Gas Conservation Board, and the Energy Resources Conservation Board, monitored the status of the wells for public safety and environmental impact and the likelihood of successful abandonment. Through a unique collaborative process established by the EUB, in conjunction with industry and the provincial and federal authorities, a well-control program was implemented and the three wells were successfully abandoned. Industry funded most of the $5-million project.

2. Utility Regulation

- An audit section was established within the EUB's Utilities Branch in 2003 to provide assurance to the EUB and other stakeholders regarding the integrity of regulated utility company finances and operations. The Utility Audit and Compliance group began by developing and implementing a program of audits to ensure effective and comprehensive monitoring. In addition, the group is responsible for monitoring utility company compliance with code of conduct regulations and decisions and for monitoring and analyzing financial reporting by utility companies.
- The EUB also implemented the first phase of its service quality plans for regulated gas and electric rate tariff providers and electric wire owners. These plans were created following implementation of the Alberta Government's policy on the restructuring of Alberta's electric industry and in response to complaints from customers about metering, billing, and customer-care issues. Its goal is to promote better customer service by ensuring that customer bills are accurate and timely and that complaints are resolved promptly and fairly.

  During 2004, utility companies will compile and file data with the EUB, enabling the EUB to determine how they perform against the established service quality benchmarks. In the future, penalties may apply for nonperformance.
- In addition, the EUB established a customer call line to help customers address any concerns or disputes with their utility service provider or if errors are not being adequately addressed. In calendar year 2003, the EUB handled 3,902 utility complaints, compared to 2,609 in 2002 and 1,342 in 2001.
- In January 2004 the EUB began regulating EPCOR and ENMAX to approve distribution and default electricity and electricity rates. This was a result of changes made to the *Electric Utilities Act* and the *Gas Utilities Act*. Previous approvals for EPCOR were done by Edmonton City Council and by Calgary's regulatory commission for ENMAX.
- In fiscal 2003-04 the Market Surveillance Administrator (MSA) began reporting directly to the office of the EUB Chairman. The MSA monitors Alberta's electricity market for fairness and balance in the public interest and oversees the performance of Alberta's electricity market to ensure that it operates fairly, efficiently, and in an openly competitive manner.

3. Application and Hearing Process

- The scale and pace of the development of Alberta's oil sands resources have increased dramatically in recent years. The EUB must respond to this increased industry activity in an effective and timely manner. Recognizing that oil sands are playing a larger role in Alberta's future, the EUB opened a regional office in Fort McMurray in August 2003. This office manages mineable oil sands applications, operational surveillance, field surveillance, environmental services, aboriginal relations, and geology and resource appraisals. The establishment of this office demonstrates the EUB's commitment to the ongoing, orderly development of the Athabasca oil sands.

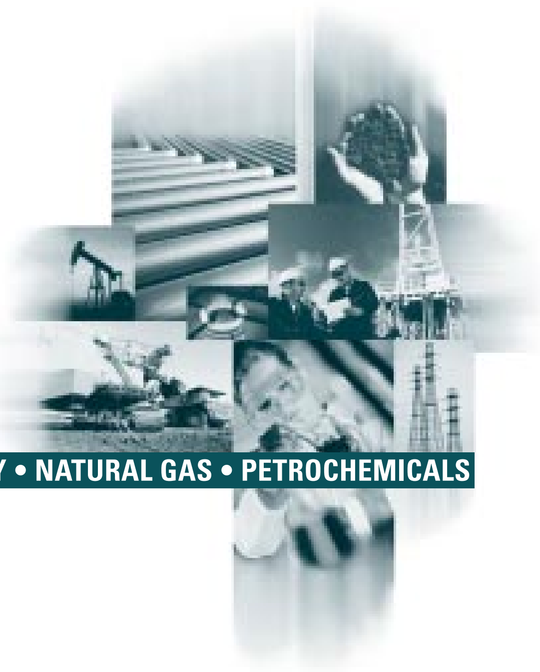
- In January 2004, the EUB completed a regional geological study to address concerns regarding natural gas production in oil sands areas and to ensure that Alberta's resources are protected and managed for future generations of Albertans. The study assessed whether the Wabiskaw-McMurray gas zones of the Athabasca oil sands were associated with potentially recoverable bitumen. The EUB-funded study included a team of 27 full-time EUB staff and 15 geologists and engineers from 11 companies. Data from 3,600 well logs and 6,600 boxes of core samples covering 136 townships were reviewed and interpreted. The study provided a detailed analysis of the regional geology and bitumen and gas resources of the area.

  At a Board hearing held in March 2004, an independent EUB Staff Submission Group used this study to submit recommendations regarding the production status of specified gas wells in the study area. A decision report will be issued in June 2004. If required, a final Board hearing will be held to decide the production status of wells that continue to be in dispute in the region.

4. Investing in People

The EUB recognizes the need to sustain a work environment that attracts and retains talented staff, and offers a fair and competitive compensation structure and benefits package for its employees.

- The EUB is actively involved in creating and applying strategies that improve and sustain employee satisfaction. The results of the 2003 Government of Alberta Corporate Employee Survey indicate that overall, EUB employees are satisfied with the EUB and recognize that they are valued employees. The survey had a 96 per cent staff participation rate.
- The annual Chairman's Award of Distinction was awarded to an EUB staff member in recognition of outstanding contribution to regulatory excellence. Recipients of the award exemplify all of the qualities that make EUB staff a strong positive force in the province of Alberta. This is the award's fifth year.
- In February 2004, the EUB launched an in-house leadership development program entitled "Leading Your Way." The positive feedback from the training and the momentum that is building and transferring to the Board's workplace will continue to enhance internal capacity, while also identifying areas for continued growth and development.



ALBERTA ENERGY AND UTILITIES BOARD

RESULTS ANALYSIS

OIL • PIPELINES • MINERALS • OIL SANDS • ELECTRICITY • NATURAL GAS • PETROCHEMICALS

EUB

Alberta Energy and Utilities Board

Core Business 1: Adjudication and Regulation

The EUB adjudicates and regulates matters related to energy and utilities within Alberta to ensure that the development, transportation and monitoring of the province's energy resources are in the overall public interest. In addition, the EUB balances the interests of consumers and utilities in establishing regulated utility rates and terms and conditions of service. This is accomplished through the following processes:

- Hearings
- Regulation, Monitoring, Surveillance and Enforcement
- Applications

Hearings

Each year the EUB reviews and approves thousands of applications on a routine basis. When an application cannot be resolved due to concerns or objections, a public hearing is conducted to reach a fair and balanced decision. After hearing all evidence, a panel of EUB Board members or acting Board members, issues its decision through a decision report. These reports are available on the EUB Web site at www.eub.gov.ab.ca.

Highlights

Decision reports of note during fiscal year 2003-04 include the following:

Energy

Oil sands area – gas over bitumen

Decision 2003-023 reviewed 26 applications for 145 gas wells in the Chard area and Leismer Field, located 80 kilometres south of Fort McMurray, Alberta. Issues reviewed in the decision report included the extent of affected resources and reserves, reservoir and aquifer continuity, and the effect of associated gas production on steam-assisted gravity drainage (SAGD) bitumen recovery. Gas producers argued that their wells would not affect future bitumen production, but bitumen producers in the area maintained that they would.

The Board concluded that certain gas production from within the geological strata known as the Wabiskaw-McMurray would present a high risk to future bitumen recovery, but other gas production in the area would not. As a result, the Board ordered the shut-in of gas production from specific perforated intervals (in other words, production from different specific geological zones that a well penetrates). This shut-in took place within the Wabiskaw-McMurray in 39 wells, effective May 1, 2003. The Board also denied gas production from specific perforated intervals within the Wabiskaw-McMurray in 21 wells but allowed other specific perforated intervals in those wells to produce.

Decision 2003-080 denied an application by Stylus Exploration Inc. to produce gas from four wells in the Hardy area, about 100 km southeast of Fort McMurray. It also determined that gas production from five other wells operated by other companies in the same area must also be shut in. All of the wells would be producing gas from the Wabiskaw-McMurray geological strata and therefore could affect the potential recovery of bitumen in the area. The Board also decided that previously approved gas production from other Stylus wells in the Hardy area could continue, as the risk of gas being in communication with potentially recoverable bitumen was low.

Oil sands area – bitumen

The Board and the Canadian Environmental Assessment Agency issued Joint Panel Reports for Canadian Natural Resources Limited's Horizon oil sands project and Shell Canada Limited's Jackpine oils sands project.

Joint Panel Report Board *Decision 2004-005* approved, with 19 conditions, Canadian Natural Resource Limited's Horizon project to build an oil sands mine, a bitumen extraction plant, a bitumen upgrader, and associated facilities located 70 kilometres north of Fort McMurray. Joint Panel Report Board *Decision 2004-009* approved, with 17 conditions, Shell's Jackpine Project, which includes an oil sands mine, a bitumen extraction plant, cogeneration plant, and a water pipeline. The project is located 70 kilometres north of Fort McMurray.

Public hearings were held in Fort McMurray for both projects, during which participants raised a variety of issues, mostly centred on the anticipated environmental and socioeconomic impacts of the projects. The Joint Panel concluded that the projects are unlikely to result in significant adverse environmental effects provided that the mitigation measures proposed by the applicants and the recommendations of the Joint Panel are implemented.

Sour gas

Decision 2003-101 denied an application by Polaris Resources Ltd. to drill a level-3 critical sour gas well near Maycroft, Alberta. The decision also denied the company's applications for special gas well spacing, compulsory pooling, and a flaring permit. Areas of concern included the company's inability to provide detailed information about mitigation of potential environmental effects, the company's emergency response plan, the company's overall ability to deal with the challenges presented by this well, and certain technical aspects of the well application. As well, the Board determined that the Company did not conduct effective communication and consultation with the community.

Utilities

Transmission lines

In November, 2002 ATCO Electric Ltd. submitted three applications to construct and operate a 240 kilovolt (kV) transmission line and three substations from Dover (Fort McMurray area) to McMillan, McMillan to Charron, and Charron to Deerland (Fort Saskatchewan area).

After holding a public hearing, the Board issued *Decision 2003-027* approving the need for a 240 kV transmission line south from Fort McMurray to the Fort Saskatchewan area. The line would increase transmission capacity to 610 megawatts (MW) from 370 MW. The decision also determined that an alternative route terminating in Whitefish instead of Deerland appeared to be superior.

Decision 2003-043 approved the first leg of this transmission project from Dover to McMillan. In the summer of 2003, ATCO resubmitted its application with Whitefish as the end point. This application drew no objections and was approved by the Board.

Sale of retail assets

Decision 2003-098 approved the transfer of ATCO Gas North and ATCO Gas South, as well as ATCO Electric Ltd. retail assets, to Direct Energy. The Board appointed Direct Energy as the provider of the electricity Regulated Rate Tariff and the natural gas Default Rate Tariff in the ATCO service territories.

Decision 2003-106 and *Decision 2003-108* approved the tariff rate structure of Direct Energy, ATCO Gas North, ATCO Gas South, and ATCO Electric Ltd. These decisions were structured to ensure a smooth transition of service and avoid billing problems for customers. The Board also ordered Direct Energy to undertake a comprehensive benchmarking study to demonstrate that its billing costs represent fair market value. The costs will be fully reviewed in a future proceeding once actual numbers are filed with the EUB by Direct Energy. The EUB also approved the use of various deferral accounts so that customers will only pay for actual costs incurred by Direct Energy.

ENMAX and EPCOR regulation

Decision 2003-084 and *Decision 2003-085* approved interim distribution tariffs for ENMAX Power Corporation and EPCOR Distribution Inc. respectively.

Decision 2003-086 and *Decision 2003-087* approved interim electricity regulated rate tariffs for ENMAX Energy Corporation, and EPCOR Energy Services Inc., respectively. The tarrifs apply to eligible regulated rate customers who have not switched to nonregulated retailers for their electricity services.

In both of these decisions, the Board noted that these were interim rates, based on an abbreviated process to ensure that approved rates were in place January 1, 2004, as required by provincial legislation. A public hearing to fully review the applications and set final rates began in March 2004.

Goal 1.1:
A fair and responsible regulatory framework for the energy and utility sectors.

Performance Measure:
Timeliness of hearing decisions.

Target:
Maintain at least 95 per cent of decisions issued in 90 days or less from the end of the hearing.

Results:
(Year ending March 31)

	2001	2002	2003	2004
% of decisions issued in 90 days or less from the end of the hearing	94%	99%	97%	100%

Source: EUB Decisions Issued to Date report

Discussion of Results
Tracking the time it takes to issue hearing decisions measures the EUB's ability to improve the timeliness of the application and hearing processes. This helps to ensure that all parties to the adjudicative process are satisfied with it and can expect decisions to be consistently issued within a prescribed timeframe without compromising quality.

Actual performance of 100 per cent of hearing decisions issued in less than 90 days exceeded the target of 95 per cent. Performance was made possible by effective file management, with the panel chair, counsels and lead application officer managing a file from beginning to end. Success can also be attributed to regular monitoring by the Board and management involvement at the branch levels to assign appropriate staff resources to the process.

Methodology
An EUB spreadsheet identifies ongoing and pending EUB hearings. Once a hearing is finished, the panel chair, counsel or hearing coordinator provides the completion date to be entered into the spreadsheet, which is considered the date of the submission of final evidence. The formal issue date for all decisions, except joint panel hearings, is the release date to the EUB web site for public access. For joint panel hearings, the date for the EUB decision is the date the report is released for French translation.

Regulation, Monitoring, Surveillance and Enforcement
The EUB ensures public safety and environmental protection through regulatory requirements, monitoring, surveillance and enforcement. Operating out of eight EUB Field Centres throughout Alberta, field staff enforce standards and conditions set out in EUB licences, approvals, regulations and requirements.

Highlights

- In fiscal year 2003-04, the EUB initiated a review to update, clarify and streamline requirements contained in interim directives, informational letters, and guides. An updated list of current interim directives, informational letters, and guides can be found in *Bulletin 2004-02: Streamlining EUB Documents on Regulatory Requirements.*
- In fiscal year 2003-04, the EUB began the process of formulating a new set of compliance principles as guidelines for the next generation of EUB compliance.
- The EUB reported that flaring of solution gas has been reduced by 70 per cent since 1996 and solution gas venting has been reduced by 38 per cent since 2000 in its 2003 *Statistical Series (ST) 2004-60B: Upstream Petroleum Industry Flaring and Venting Report*. The reductions in solution gas flaring and venting can be

attributed to the cooperative efforts of the Clean Air Strategic Alliance (CASA) Flaring/Venting Project Team, the petroleum industry, and the EUB. The complete report is found on the EUB Web site.

- The EUB published its annual *Statistical Series (ST) 2004-57: Field Surveillance Provincial Summary,* which provides information on industry compliance, EUB enforcement actions, and the wide range of activities carried out by EUB field staff. The following highlights some of the key points from the January - December report (the complete report is on the EUB Web site):
  - Despite record-breaking levels of activity, the EUB recorded improved overall industry performance, including a 23 per cent decrease in major unsatisfactory inspections. The EUB is encouraged by the improvement in industry's overall compliance rate.
  - The EUB's two mobile air-monitoring units conducted a total of 695 inspections, compared with 461 the previous year. The percentage of unsatisfactory inspections decreased from 8.7 per cent in 2002 to 4.7 per cent in 2003, a 47 per cent improvement. Industry continues to improve its compliance record with respect to reducing emissions from oil and gas facilities. The leading sources of emissions were leaking tank hatches, tank truck loading and unloading, and inadequate maintenance.
  - EUB field staff received and responded to 817 public complaints in 2003, compared to 869 in 2002, a decrease of 6 per cent. Since a number of complaints involved more than one concern, the EUB identified 921 issues associated with the 817 complaints, compared to 1019 issues in 2002. Last year, 88 per cent of individuals surveyed were satisfied with the response from the EUB, compared to 91 per cent in 2002.

EUB Field Inspections in 2003

	Initial	Satisfactory	Minor unsatisfactory	Major unsatisfactory	Serious unsatisfactory	Reinspection
Drilling rigs	400	354	30	14	2	0
Service rigs	233	202	19	2	0	0
Oil production facilities	3,483	2,228	1,177	77	1	1,261
Gas production facilities	1,766	1,181	557	28	0	548
Pipeline construction/ testing	439	405	25	8	1	19
Pipeline failure inspections	468	451	4	12	1	70
Pipeline operations inspections	421	256	148	17	0	140
Pipeline contact damage inspections	68	30	1	36	1	34
Spill inspections	506	474	12	20	0	0
Waste management facilities	72	36	31	4	1	4
Drilling waste management						
-Nonroutine inspections	12	8	3	1	0	4
-Routine inspections	52	30	4	18	0	0
Total	7,910	5,655	2,011	237	7	2,116

Source: EUB Statistical Series (ST) 2004-57: Field Surveillance Provincial Summary, January – December 2003.

Goal 1.2:
Industry complies with energy and utility regulatory requirements.

Performance Measure 1:
Reduction in percentage of incidents of regulatory noncompliance.

Target:
Maintain less than 3.5 per cent major and serious unsatisfactory incidents of regulatory noncompliance as identified by field inspections.

Results:
(Year ending March 31)

	2001	2002	2003	2004
% of major and serious unsatisfactory incidents of non-compliance related to field inspection results	3.3%	4.4%	3.8%	2.7%

Source: EUB Statistical Series (ST) 2004-57: Field Surveillance Provincial Summary, January – December 2003.

Discussion of Results
There were 7,762 inspections in fiscal year 2003-04. Only 2.7 per cent of these inspections were categorized as major or serious, which was better than the target of 3.5 per cent.

Despite increased industry activity, fiscal year 2003-04 saw a significant decrease in noncompliance from 2002-03. Overall, industry performance has improved, with a significant decrease in major unsatisfactory inspections for pipelines. This decrease can be attributed to failure mechanisms being investigated and mitigation measures being implemented by licensees. The implementation of *Guide 66: Pipeline Inspection Manual*, which details EUB requirements and enforcement action when noncompliance occurs, is also credited for the decrease.

In addition, improved industry compliance is due to industry's improved understanding of EUB requirements, self-audits, operator awareness sessions and presentations by EUB staff. The EUB continually works with industry to increase awareness of the EUB's expectations and of new regulatory requirements.

Field staff will continue to focus on pipeline corrosion, noncompliant licensees, air monitoring activities, facilitation, reduction of odours, and improving communication with synergy groups and communities throughout the province.

Methodology
This indicator measures the EUB's ability to ensure industry's compliance with regulatory requirements.

The EUB Field Surveillance Branch inspects operations of the upstream oil and gas industry with respect to the exploration, production and disposition of hydrocarbons and associated wastes. All inspection results are recorded as either satisfactory, minor unsatisfactory, major unsatisfactory or serious unsatisfactory and are entered into the Field Inspection System database. Prior to January 2004, results were recorded in various databases. This information is then reported in the *EUB Field Surveillance Provincial Summary*.

A major unsatisfactory event/inspection/audit finds a contravention of regulation(s) and/or requirement(s) that an operator has failed to address and/or that has the potential to cause an adverse impact on the public and/or environment. A serious unsatisfactory event/inspection/audit is defined as a major noncompliance combined with demonstrated disregard for the regulation(s)/requirements(s).

For next fiscal year, this measure will be on a calendar basis to coincide with information collected and published in the *Field Surveillance Provincial Summary*.

Performance Measure 2:
Flaring and venting reduction.

Target:
Reduction in solution gas flared and vented in accordance with current and future Clean Air Strategic Alliance (CASA) recommendations.

Results:
(Year ending December 31)

	2000	2001	2002	2003
Reduction in solution gas flared (base year 1996)	38%	53%	62%	70%
Reduction in solution gas vented (base year 2000)	n/a	15%	29% *	38%

Source: EUB Statistical Series (ST) 2004-60B: Upstream Petroleum Industry Flaring and Venting Report, 2003

* 2002 actual restated from 30% as identified in 2002-03 Annual Report. The final venting number was published in the Statistical Series in September 2003 after the 2002-03 Annual report was released.

Discussion of Results
The measure demonstrates the effectiveness of an appropriate consultation program and how it can result in regulatory requirements and industry practices that achieve an appropriate degree of conservation of solution gas and environmental protection by reducing flaring and venting from crude oil and crude bitumen batteries.

The 2002 CASA target reduction level for flaring was 50 per cent. CASA did not establish flaring reduction targets or venting reduction targets for 2003. The CASA Flaring/Venting Project Team is finalizing its latest set of proposals for solution gas flaring and venting reduction. The team intends to issue its final report and recommendations to the CASA Board in September 2004.

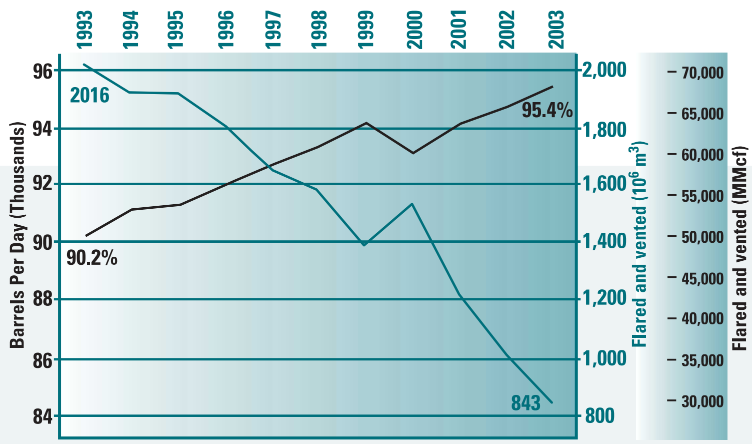
In addition to significant flaring reductions already achieved, solution gas flaring levels were driven downward even further for the year 2003. Solution gas flaring reduction from 1996 levels was 70 per cent, with an 8 per cent reduction from 2002.

Although CASA did not specify a reduction target for solution gas venting, solution gas venting volumes for 2003 achieved a 38 per cent reduction from 2000 levels. This is a continued improvement from the 29 per cent reduction level seen in 2002.

These reductions, along with an all-time high solution gas conservation rate of 95.4 per cent, represent the best year in the EUB's history for solution gas flaring and venting reduction. This was achieved as the result of continued concerted efforts by industry, CASA and the EUB, which included evaluating the economic viability of conserving existing flares and vents, restricting flared volumes under the EUB-run program, New Oil Well Productions Period, and eliminating flaring on new development wells in conserving pools.

Methodology
The flaring and venting data is collected through the Petroleum Registry, which captures volumes from every producing property. This information is then reported in the *EUB Statistical Series (ST) 2004-60B: Upstream Petroleum Industry Flaring and Venting Report*. Volumes in the Statistical Series represent the data captured at that point in time. The percentage reduction is calculated as the difference between the base year (1996 for flared solution gas and 2000 for vented solution gas) and the volumes for the current calendar year over the base year.

Solution gas conserved, flared and vented



Source: EUB Statistical Series (ST) 2004-60B: Upstream Petroleum Industry Flaring and Venting Report.

Solution Gas Conservation: Solution gas conservation for 2003 was 95.4 per cent, the highest conservation level achieved to date.

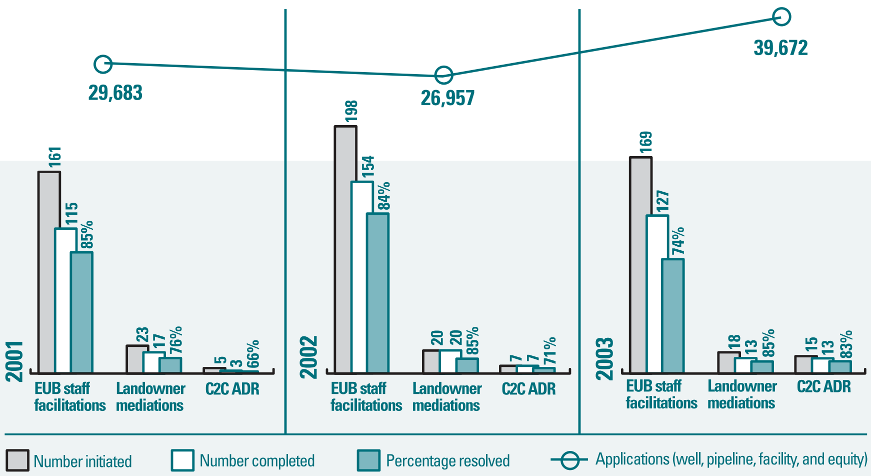
Applications:

The Adjudication and Regulation core business also includes the application process, which involves handling, processing, and ruling on new applications for energy and utility activities and amending existing approvals.

Highlights

- The Electronic Application System (EAS) was implemented in October 2003 to coincide with the release of revised *Guide 56: Energy Development Applications and Schedules*. Well licence applications can be submitted electronically in this first phase of a multi-year project. The inclusion of electronic submissions for utility applications will begin in June 2004, and resources applications later in the year. More than 80 per cent of well licence applications are received electronically.
- In spite of record level activity, the average turnaround time for routine facility applications was 2.5 working days compared to 2.7 working days the previous year. This exceeded the EUB target turnaround time of 3-3.5 working days for routine facility applications.
- In fiscal year 2003-04, the EUB initiated a review of its regulatory and application processes. This review will result in more streamlined and efficient application turnaround times, particularly in the area of enhanced oil recovery.
- The EUB's Appropriate Dispute Resolution (ADR) program completed its third year of operation in 2003. This program has become the standard for encouraging participation in open dialogue to resolve conflict regarding energy issues in Alberta. It provides an option for applicants and interveners to settle difficult disputes prior to going to a hearing. Results show an improvement in landowner-industry relations and more face-to-face discussions between affected landowners and operators. Since the program's implementation, approximately 80 per cent of disputes addressed by the program were resolved, and 95 per cent of participants said they would use the Appropriate Dispute Resolution program again.

ADR Results from 2001 to 2003



Source: EUB 2003 Year in Review

Goal 1.3:

Prompt and appropriate resolution of landowner, public and industry conflicts.

Performance Measure:

Percentage of applications filed without landowner/public objections.

Target:

Maintain at least 95 per cent of applications filed without objections related to new facilities.

Results:

(Year ending March 31)

2001	2002	2003	2004
98% (energy applications only)	98% (energy applications only)	98%	99%

Source: Integrated Application Registry (IAR)

Discussion of Results

The actual performance of 99 per cent is above target. The target was based on previous years' energy facility applications only. This was achieved despite a 50 per cent increase in energy applications (about 36,000 energy applications filed, compared to 24,000 filed in fiscal 2003). Throughout this increased activity, staff resources have remained the same. Success can be attributed to a more efficient application process, with industry using electronic applications. In fiscal year 2003-04, the EUB introduced the Electronic Application System (EAS), which allows industry to file well applications electronically through the EUB Web site. The EUB also revised the application requirements identified in *Guide 56* and *Directive 28* to help further clarify EUB requirements.

Success is also due to the EUB responding to heightened public concern in new ways:

- EUB field staff are available to attend meetings between landowners and companies to discuss new oil and gas well and facility projects in order to help identify and resolve conflicts before they intensify;
- The EUB is testing other mediation tools, such as company-sponsored consultation, negotiation and third-party mediation.

- The EUB encourages senior company officials to meet with affected landowners during mediations.
- The EUB provides for senior technical staff or a Board member to be available in landowner discussions, if appropriate.

The EUB expects an even higher level of application activity in fiscal year 2004-05 and is working to expand EAS to include facility, pipeline, and resource applications. Utility applications will be filed on EAS in June 2004.

This measure will not be reported in next fiscal year as it is not included in the 2004-07 business plan.

Methodology

The EUB believes that everyone—landowners, communities, local governments, environmental groups, and companies—must work together from the beginning of a project to ensure good relations throughout the life of energy facilities. This measure gauges the ability to facilitate and resolve landowner, public, and industry objections prior to the filing of applications for new energy and utility facilities and resource developments. Information is taken from the EUB's Integrated Applications Registry (IAR) system to identify the number of energy, resource and utility facility applications with and without linked objections. Additional data on utility facility and resource development applications are being sought to help refine the measure.

By The Numbers (Year ending December 31, 2003)

2003 Applications

Wells

21,075 new approvals (sweet single well, sweet multiwell pad, sour single well, sour multiwell pad, sour well, critical sour well)

Production Facilities

2,753 new sweet and sour facilities: oil and gas batteries, satellites, compressor stations, tank farms, pump stations

590 modifications to the above facilities

11 modifications to sulphur recovery gas processing plants

– No new sulphur recovery gas processing plants

Pipelines

11,989 pipeline permits for new construction and amendments to existing pipeline licences

In-Situ Oil Sands

11 modifications to sulphur recovery gas processing plants

169 gas production applications

40 new and amended primary recovery scheme applications

28 new and amended commercial scheme applications

23 new and amended experimental scheme applications

14 commingling applications

Mineable Oil Sands

3 applications for new or expansion of existing mining or plant projects

Environmental Review

509 sour gas flare permits

Coal

3 applications for new or expansion of existing mining or plant projects

15 registered applications for new or modified coal projects and relating to mining operations

9 industrial development permits registered

– Refineries (oil sands, oil, or gas)

Reservoir Development

3,369 applications received for conventional oil and gas reservoir schemes (spacing, commingling, enhanced recovery and others).

Utilities

132 electric facility applications (applications for transmission lines and substations, power plants, industrial system designations, electrification association and service area change)

96 gas utilities applications

55 electric utility applications

28 municipal government act applications (franchise agreements)

37 other types of applications (sale of assets, milk price orders, exemptions)

1 non-routine complaint

EUB Hearings

106 total hearings

19 energy-related hearings

87 utilities-related hearings

Appropriate Dispute Resolution Program

169 EUB staff facilitations initiated

18 mediations between landowners and companies

15 mediations between companies

Core Business 2: Information and Knowledge

The EUB is responsible for the collection, storage, analysis, appraisal, and dissemination of information about energy and utility matters and the knowledge associated with it. Open access to information develops awareness, understanding and responsible behaviour, which ultimately allows the EUB and its stakeholders to make informed decisions.

The EUB's Alberta Geological Survey group provides geoscience information and expertise needed by government, industry, and the public for Alberta's earth-resources stewardship and sustainable development. The Survey group's expertise and activities have further developed Alberta's information base regarding areas such as coalbed methane, groundwater, and mineral deposits and occurrences.

The EUB's Core Research Centre is a state-of-the-art facility that provides the most complete drilling history of any area in the world. It is available for those looking for detailed information about Alberta's geology. Core samples date back as far as 1911.

Highlights

- The EUB issued its annual *Alberta's Reserves 2003 and Supply/Demand Outlook 2004-2013 report*. This report is one of the most reliable sources of information on the state of reserves. It also details the supply and demand for Alberta's diverse energy resources—crude bitumen, crude oil, natural gas, natural gas liquids, coal, and sulphur. It includes estimates of reserves and production volumes for calendar year 2003 and a 10-year supply/demand forecast for each resource.

  The report notes the following for the calendar year 2003:

  - Crude bitumen (oil sands) production surpassed provincial conventional oil production by over 50 percent. Bitumen production averaged 964,000 barrels (153,000 m^3) per day (up 17 per cent over the previous year), compared to conventional oil production of 629,300 barrels (100,000 m^3) per day.
  - Alberta's total remaining bitumen and conventional oil reserves total 176 billion barrels (28.0 billion m^3), consisting of bitumen at 174.5 billion barrels (27.7 billion m^3) and conventional oil at 1.6 billion barrels (254 million m^3).
  - Remaining established marketable gas reserves stood at 40 trillion cubic feet (1,122 billion m^3).
  - Despite record drilling in 2003, gas production declined by 2 per cent compared to 2002. Natural gas production is expected to remain flat in 2004 and gradually decline over time as the basin continues to mature.

Reserves and Production Summary 2003

	Crude Bitumen		Crude Oil		Natural Gas		Coal	
	million cubic metres	billion barrels	million cubic metres	billion barrels	billion cubic metres	trillion cubic feet	billion tonnes	billion tons
Initial in-place	258,900	1,629	9,878	62.0	7,504	266	94	103
Initial established	28,392	179	2,634	16.6	4,401	156	35	38
Cumulative production	667	4.2	2,380	15.0	3,279	116	1.21	1.30
Remaining established	27,726	175	254	1.6	1,122	40	34	37
Annual production	56	0.352	37	0.230	135	4.8	0.029	0.032
Ultimate potential (recoverable)	50,000	315	3,130	19.7	5,600	200	620	683

Source: EUB's Alberta's Reserves 2003 and Supply/Demand Outlook 2004-2013

- In May 2003, the EUB and the National Energy Board hosted the annual Conference of the Canadian Association of Members of Public Utility Tribunals (CAMPUT). At the conference, North America's key energy regulators converged to discuss the theme "Markets in Transition – the Changing Face of Regulation."
- The EUB's success in reducing solution gas flaring and venting is so significant that it is being recognized on the world stage. Beginning in 2003, the World Bank (the development arm of the United Nations) has requested and received the EUB's regulatory expertise and guidance to help other jurisdictions around the globe develop their solution gas flaring and venting programs. In October 2003, the World Bank and the EUB co-hosted a workshop on flaring reduction in Calgary, and in March 2004, the EUB participated in a World Bank flaring reduction workshop in Indonesia.
- In October 2003, the EUB and the Canadian Association of Petroleum Producers cosponsored a two-day synergy round-table in Red Deer, called Synergy Supporting Synergy. This was the second conference held for synergy groups across the province. Nearly 200 representatives from the public, industry and the EUB met to discuss issues related to oil and gas. One of the outcomes of the roundtable was the commitment to develop a framework for a centralized information centre and synergy support system.
- In February 2004, the EUB launched *Power Play*, an activity-based Web site and 24-page booklet for children about electricity. *Power Play* is the second phase of a provincial cross-ministry initiative to help educate Alberta youth about energy development. As a supplement to the mandatory requirements of the Alberta Learning science curricula, it targets grade five students. RO-VR the enerbot and his enerbuddies Emmy and Nick teach children about electricity generation, transmission, and distribution. The EUB launched *Petroleum Play*, the first children's activity-based Web site and booklet, in 2002.
- Throughout the year, the EUB continued its work to increase awareness and understanding of the EUB and the energy and utilities industries in this province. Field staff attended community open houses, met with aboriginal communities and groups, and attended synergy group meetings across the province.

Goal 2:

Ensure that accurate, comprehensive and current information is readily available to stakeholders.

Performance Measure 1:

Increase stakeholders' satisfaction with EUB information.

Target:

Increase the business value of information to stakeholders.

Results:

(Year ending March 31)

	2003	2004
Stakeholder Satisfaction with EUB	71%	70%

Source: External EUB Satisfaction Survey

Discussion of Results

The results from the survey were 1 per cent below the target of 71 per cent. The EUB has already taken measures to meet the target for next year. For example, the EUB has implemented a new system of handling bulk customer orders. Orders that can be completed and billed by staff are now completed the day they are received or by the next day if they are orders of substantial volume. The EUB has already received positive feedback from these customers. The EUB has also allowed walk-in customers to place orders without the previous order limit, and are anticipating a faster turnaround time per customer with these new changes.

For fiscal year 2004-05, the EUB plans to have revised search capabilities to search the IAR database for energy application documents. The new system will allow for faster and more efficient data retrieval. The EUB is also in the planning stages of developing information portal technology. This will be a one-window approach for EUB Information Services staff to access and retrieve all relevant EUB data.

Methodology

This measure encourages the EUB to provide useful and reliable information to stakeholders to assist in long-term planning and aid in making more informed decisions. To increase the number of respondents for fiscal year 2003-04, the Satisfaction Survey was made available on-line via the EUB's Web site, in addition to being mailed out to stakeholders. Four populations were sampled to represent the major recipients of EUB data dissemination. These included the general public, information service customers, *Guide 44* which identifies an EUB licensee agent list (this includes industry) and consultants from the Oil Register. This sample will approximate the general population 19 times out of 20 +/- 5 per cent. Questions were again graded on a scale from 1 (strongly disagree) to 5 (strongly agree). Satisfaction is defined as the number of "strongly agree" plus "agree" responses as a percentage of total responses.

Organizational Capacity and Effectiveness

Successful delivery of the EUB's core businesses is dependent on building and maintaining a strong organization with the knowledge and capacity to respond to changing future business and economic circumstances. Organizational capacity means having the right resources, people, processes, and tools to deliver our two core business.

Highlights

- In August 2003, the EUB added recognition cards to its Rewards and Recognition program. With recognition cards, every employee has the power to recognize something special about other employees or reward individual contributions. Recognition cards are one component of the EUB's Investing in People initiative, which also includes the Chairman's Award of Distinction, On-the-Spot Awards, Safe Driving Awards, and the Service Recognition program. All of these awards acknowledge the dedication and commitment of staff to the EUB.
- In October 2003, the EUB was awarded the Oilweek Magazine and June Warren Publishing's 28th Annual Report Award for its *2002 Year-End Review* in the Government/Public Sector category. The EUB also received a reward for Best in Class Web Site in the Government/Public Sector category. All EUB publications are available at www.eub.gov.ab.ca.
- The Petroleum Registry of Alberta (Registry) was awarded a Gold Award for the 2004 Premier's Award of Excellence. The Registry was developed by a joint industry, EUB, and Department of Energy team to collect, validate and record all data related to volumetric reporting of oil, gas and water at all producing wells and facilities in the province. These data are used by the EUB in many ways, such as the determining of reserves in the Province. This project is an excellent example of EUB people working professionally and collaboratively with our industry and Department of Energy stakeholders to make a major change to joint business processes.

Goal 3:

Build an organizational environment for success.

Performance Measure:

Staff retention.

Target:

By 2005-06 contain the level of regrettable turnover to 150 person-years annually.

Results:

(Year ending March 31)

	2001	2002	2003	2004
Person years of regrettable turnover	167	122	147	149

Source: EUB personnel files

Discussion of Results

Fulfillment of EUB core business commitments is hindered if appropriate staff expertise is not in place.

The EUB began tracking regrettable turnover in fiscal year 1999-00, with the goal of reducing it each year to a target of not more than 50 per cent of the total turnover experienced in 1997 and 1998, when it was extremely high, at 1,250 person-years of experience. The target in the 2003-06 business plan was changed to 150 from 250, as indentified in the 2002-05 business plan based on actual performance.

To date, regrettable turnover of 149 person-years is below our targeted threshold level of 150 person-years of EUB experience and well below regrettable turnover experienced in fiscal year 1999-00. The 149 person-years equates to 29 EUB staff with an average experience of 5 years or 3.6 per cent of the 801-person EUB workforce. Overall this performance is consistent with the prior year turnaround of 3.7 per cent.

Next year, this measure will be reported as a percentage of voluntary turnover in comparison to that reported by industry.

Methodology

An EUB spreadsheet is maintained identifying terminated employees. The number of person-years is the difference between the service date, as identified in the personnel files, and the termination date. Regrettable turnover is defined as all terminations of permanent employees for reasons other than retirements, EUB-initiated terminations, resignations of staff with performance issues, and resignations or terminations of staff in positions targeted for downsizing.

Financial Highlights

The EUB manages its operations in accordance with the *Alberta Energy and Utilities Board Act* and other applicable Alberta government legislation and policies. The operations are managed as two distinct programs.

Energy Regulation Program

This program delivers the EUB's two core businesses:

- Adjudication and Regulation, and
- Information and Knowledge.

The majority of this program's funding is derived from the combination of an Alberta government grant and a general industry levy. The ratio of funding provided by the Alberta government has increased over the last five years from 25 to 38 per cent and is approved to reach 40 per cent in fiscal 2004-05. This change is in response to efforts to return to a 50/50 ratio.

Fiscal 2003-04 expenditures totalled $114.4 million ($109.4 operating expenses and $5.0 net capital investment), being an increase of $14.8 million from fiscal 2002-03. This increase addressed public safety and compliance concerns, fulfilled additional utility regulatory responsibilities, and responded to the increasing pace and scale of Alberta's oil sands resource development.

The following are estimated percentage allocations of this program's operating expenses by core business:

	2004		2003
	Budget	**Actual**	**Actual**
Adjudication and Regulation	60%	64%	67%
Information and Knowledge	40%	36%	33%
	100%	100%	100%

In fiscal 2003-04, the original budget estimate of $110.5 million was increased by $3.0 million to address higher public safety and compliance costs associated with the closure of three Peace River wells.

Orphan Abandonment Program

This program manages the abandonment and reclamation of Alberta upstream oil and gas orphan wells, pipelines, facilities, and associated sites. The EUB declares the well, pipeline, or facility of a defunct licensee to be an orphan, and then the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (the Orphan Association) manages the subsequent abandonment and reclamation operation.

All funding for this program is provided by the oil and gas industry by way of first-time licensee fees and an orphan program levy. These funds are collected by the EUB and then contributed directly to the Orphan Association.

During fiscal 2003-04, the EUB collected both the 2003 and 2004 calendar year levies, resulting in an increase of $9.9 million from original budget. This increase is reflected in the actual expenditures when comparing fiscal 2002-03 to 2003-04. The timing of the levies enabled the Orphan Association to have sufficient operating funds available April 1, 2004.

FINANCIALS

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Alberta ENERGY

EUB Alberta Energy and Utilities Board

Ministry of Energy: Financial Statements

March 31, 2004

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, 2004 and the consolidated statements of operations and cash flow for the year then ended. These financial statements are the responsibility of the management of the Ministry. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Ministry as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

May 21, 2004

Ministry of Energy

Consolidated Statement of Operations

For the year ended March 31, 2004
(in thousands)

	2004 Budget	2004 Actual	2003 Actual (Restated - Note 14)
Revenue: (Schedule 1)			
Non-renewable resource revenue	$ 4,776,000	$ 7,675,603	$ 7,130,327
Freehold mineral rights tax	214,000	287,912	201,556
Industry levies and licences	70,511	79,566	78,440
Other revenue	10,748	21,123	11,504
	5,071,259	8,064,204	7,421,827
Expense: (Schedule 2)			
Energy and utility resources	114,501	127,840	101,868
Ministry support services	2,355	1,963	2,028
Resource development and management	67,911	69,333	60,917
	184,767	199,136	164,813
Net operating results	$ 4,886,492	$ 7,865,068	$ 7,257,014

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

Ministry of Energy

Consolidated Statement of Financial Position

As at March 31, 2004

(in thousands)

	2004	2003
		(Restated - Note 14)
Assets:		
Cash (Note 3)	$ 496,744	$ 528,796
Accounts receivable	1,053,738	1,912,786
Inventory held for resale	17,125	32,090
Prepaid expenses	1,567	1,245
Accrued pension asset (Note 6)	6,268	5,899
Capital assets (Note 4)	55,697	55,397
	$ 1,631,139	$ 2,536,213
Liabilities and Net Assets:		
Accounts payable and accrued liabilities	$ 56,950	$ 96,500
Unearned revenue	71,336	70,645
Gas royalty deposits	552,415	563,183
Security deposits (Note 5)	12,540	11,754
Accrued pension liability (Note 6)	–	661
Tenant incentives	4,697	5,423
	697,938	748,166
Net Assets:		
Net assets, beginning of year	1,788,047	89,568
Net operating results	7,865,068	7,257,014
Net transfer to General Revenue	(8,719,914)	(5,558,535)
Net assets, end of year (Note 7)	933,201	1,788,047
	$ 1,631,139	$ 2,536,213

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

Ministry of Energy

Consolidated Statement of Cash Flow

For the year ended March 31, 2004

(in thousands)

	2004	2003
		(Restated - Note 14)
Operating Transactions:		
Net operating results	$ 7,865,068	$ 7,257,014
Non-cash items		
Amortization	13,137	10,871
Pension expense	4,418	3,243
Grants in kind	–	742
Write down of capital assets	–	1,205
	7,882,623	7,273,075
Changes in operating non-cash working capital		
Decrease (increase) in accounts receivable	859,048	(1,524,463)
Decrease in inventory	14,965	6,910
Increase in prepaid expenses	(322)	(239)
Increase (decrease) in accounts payable and accrued liabilities	(39,550)	39,466
Increase (decrease) in unearned revenues	691	(1,015)
Decrease in tenant incentives	(726)	(726)
Cash provided by operating transactions	8,716,729	5,793,008
Financing Transactions:		
Decrease in gas royalty deposits	(10,768)	(4,288)
Net transfer to General Revenue	(8,719,914)	(5,558,535)
Pension obligations funded	(5,448)	(4,321)
Increase (decrease) in security deposits	786	(18,392)
Cash used by financing transactions	(8,735,344)	(5,585,536)
Investing Transactions:		
Purchase of tangible capital assets	(13,537)	(19,000)
Transfer of tangible capital assets	100	–
Cash used by investing transactions	(13,437)	(19,000)
Net Cash (Used) Provided	(32,052)	188,472
Cash, Beginning of Year	528,796	340,324
Cash, End of Year	$ 496,744	$ 528,796

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

Ministry of Energy

Notes to the Consolidated Financial Statements

For the year ended March 31, 2004

(In thousands)

Note 1

Authority

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

Organization	Authority
Department of Energy	Government Organization Act
Alberta Energy and Utilities Board (The Board)	Alberta Energy and Utilities Board Act
Alberta Petroleum Marketing Commission (The Commission)	Petroleum Marketing Act and the Natural Gas Marketing Act

Note 2

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.

Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the Board and the 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.

The reporting period of the Commission is December 31. Transactions that have occurred during the period to March 31, 2004 and that significantly affect the consolidation have been recorded.

Revenues

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

Expenses

Directly Incurred

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

Directly incurred expenses include:

- amortization of capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- current service costs for the defined benefit pension plans. The Board has defined benefit pension plans. The Board's pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service lives of the related employee group (8 years). For the purpose of calculating the expected return, plan assets are valued at fair value.

Incurred by Others

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

Assets

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

Capital assets are recorded at historical cost and are amortized over their estimated useful lives. The Department threshold for capitalizing new systems development is $100 and the threshold for all other capital assets is $15.

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

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

Liabilities

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

Valuation of Financial Assets and Liabilities

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

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

Note 3

Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund, which is managed by the province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective market yield for fiscal 2004 was 2.11% (2003 – 3.23%).

Note 4

Tangible Capital Assets

		2004			2003
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	3-10 years	$ 110,722	$ 65,272	$ 45,450	$ 46,663
Equipment	3-20 years	11,948	7,639	4,309	3,634
Leasehold Improvement	Term of Lease	7,820	2,202	5,618	4,780
Land	–	320	–	320	320
		$ 130,810	$ 75,113	$ 55,697	$ 55,397

Note 5

Security Deposits

The Board encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste facilities by holding various forms of security.

At March 31, 2004, the Board held $12,540 (2003 - $11,754) in security deposits, and an additional $8,884 (2003 - $9,212) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

If a licensee is reluctant, or unable, to complete proper abandonment and operations when required, the Board has the authority to enforce compliance. For the year ended March 31, 2004, the Board completed $7,981 (2003 - $2,666) of abandonment operations, and contributed $18,382 (2003 - $8,439) to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association. This Association has been delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees.

Note 6

Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Ministry also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $5,696 for the year ended March 31, 2004 (2003 - $4,555). At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 – deficit $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 – deficit $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 - $6,472).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 – $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 – deficit $3,053). The expense for these two plans is limited to employer's annual contributions for the year.

In addition, the Board maintains a defined benefit Senior Employees Pension Plan and Supplementary Benefit Plans to compensate senior staff who do not participate in the government management pension plans. Pension fund assets for these plans are invested in high quality bonds and Canadian equities. The significant actuarial assumptions adopted in measuring the accrued benefit obligations for these plans are as follows:

	2004	2003
Discount rate	6.1%	7.1%
Expected long-term rate of return on plan assets	3.6% to 7.1%	3.9% to 7.8%
Rate of compensation increase	3.5%	4.5%

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

	Senior Employees Pension Plan		Supplementary Benefit Plans	
	2004	2003	2004	2003
Plan assets at fair value	$ 15,773	$ 13,084	$ 4,502	$ 2,500
Accrued benefit obligation	16,546	12,373	3,871	3,442
Plan surplus (liability)	(773)	711	631	(942)
Unamortizated amounts	6,291	5,188	119	281
Accrued pension asset (liability)	$ 5,518	$ 5,899	$ 750	$ (661)

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

	2004	2003
The Board's contribution	$ 2,110	$ 1,651
The Board employees' contribution	248	250
Benefit paid	637	675
Pension expense	1,080	573

Note 7

Net Assets

Net assets are comprised of:

	2004	2003 (Restated - Note 14)
Department of Energy	$ 887,470	$ 1,747,583
Alberta Energy and Utilities Board	45,731	40,464
Total	$ 933,201	$ 1,788,047

Note 8

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:

	2004	2003
Mines and Minerals Act Securities Trust	$ 2	$ 21
Oil and Gas Conservation Trust	255	30
Total	$ 257	$ 51

Note 9

Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2004 amount to $44,035 (2003 - $46,151). 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:

2004/05	$ 5,065
2005/06	5,100
2006/07	5,054
2007/08	4,995
2008/09	4,999
Thereafter	11,914
	$ 37,127

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, 2004, the commitment was estimated at $68,902 (2003 - $107,931). The commitment was estimated using the current gas price, royalty rate and volumes being amortized to 2008.

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements expiring in March 2012. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2003 is $72,312 (2002 - $97,180). 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 10

Contingencies

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

(a) Requests for the Review of Royalty Assessments

In the normal course of business, the Department may be requested by royalty payers, to review the assessments made against them. At March 31, 2004, the Department was in the process of reviewing 4 such requests with a total royalty value of $108,761 (2003 – 10 requests $115,500). The likely result of these reviews 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.

(c) Legal Claims

At March 31, 2004 the Department is a defendant in 5 legal claims (2003 - 1 legal claim). 4 of these claims have specified amounts totaling $10,600,000 and the remaining claim has no specified amount (2003 – 1 claim with no specified amount). Included in the total legal claims are 3 claims amounting to $10,572,500 in which the Department has been jointly named with other entities.

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

Note 11

Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Revenue, recorded as $8,064,204 in these financial statements, includes non-renewable resource revenue and freehold mineral rights tax, in the amount of $7,963,515, which is subject to measurement uncertainty. Revenue is calculated based on production volumes reported to the Department by royalty payers. These volumes could vary significantly from that initially reported.

Accounts receivable, recorded as $1,053,738 in these statements, is subject to measurement uncertainty. Estimates are used in accruing revenues in circumstances where the actual accrued revenues are unknown at the time these financial statements are prepared. The actual amount collected could vary significantly from that estimated.

Note 12

Related Party Transactions

The Ministry paid $10,304 (2003 - $9,171) to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year and received $371 (2003 - $780) as revenue. Included in these services was a payment of $412 (2003 - $412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is 82 years and the future payments are $412 to 2009 and $48 to 2086 annually.

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

Note 13

Royalty Reduction Programs

The Department provides 5 oil and 4 gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2004, the royalties received under these programs were reduced by $517,000 (2003 - $427,000).

Note 14

Transfer of Administration

Pursuant to the Order in Council (O.C. 472/2003) approved on October 21, 2003, the responsibility for the Rural Utilities program was transferred to the Ministry of Agriculture, Food and Rural Development effective April 1, 2003. Comparatives for 2003 have been restated as if the Department had always been assigned its current responsibilities.

	2003
Net asset balances as previously reported at March 31, 2002	$88,160
Transfer to Ministry of Agriculture, Food and Rural Development	1,408
Restated net asset balance at April 1, 2002	$89,568
Net operating results as previously reported at March 31, 2003	$7,251,281
Less revenue transferred to Ministry of Agriculture, Food and Rural Development	(709)
Add program expenses transferred to Ministry of Agriculture, Food and Rural Development	6,442
Restated net operating results at March 31, 2003	$7,257,014

Note 15

Approval of Financial Statements

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

Ministry of Energy

Consolidated Schedule of Revenue

Schedule 1

For the year ended March 31, 2004
(in thousands)

	2004 Budget	2004 Actual	2003 Actual
Non-renewable resource revenue			(Restated - Note 14)
Natural gas and by-products	$ 3,480,000	$ 5,449,575	$ 5,125,486
Crude oil royalties	502,000	981,268	1,176,633
Bonuses and sale of crown leases	679,000	966,735	565,550
Synthetic crude oil and bitumen	103,000	196,775	183,242
Rentals and fees	144,000	154,280	152,711
Coal	11,000	8,577	9,991
Alberta royalty tax credit	(143,000)	(81,607)	(83,286)
	4,776,000	7,675,603	7,130,327
Freehold mineral rights tax	214,000	287,912	201,556
Industry levies and licenses	70,511	79,566	78,440
Other revenue			
Other	9,498	19,723	10,353
Interest	1,250	1,400	1,151
	10,748	21,123	11,504
Total Revenue	$ 5,071,259	$ 8,064,204	$ 7,421,827

Ministry of Energy

Consolidated Schedule of Expenses Detailed by Object

Schedule 2

For the year ended March 31, 2004
(in thousands)

	2004 Budget	2004 Actual	2003 Actual
			(Restated - Note 14)
Salaries, wages and employee benefits	$ 99,374	$ 103,385	$ 93,451
Supplies and services	66,236	62,437	50,528
Grants	1,000	1,802	268
Amortization of capital assets	10,588	13,137	12,076
Well abandonment	8,000	18,382	8,439
Valuation adjustments	35	464	584
Financial transactions and other	80	79	77
Gross expenses for operations	185,313	199,686	165,423
Less: Recovery from support service agreements with related parties	(546)	(550)	(610)
Total Net Expenses	$ 184,767	$ 199,136	$ 164,813

Ministry of Energy

Schedule of Allocated Costs

Schedule 3

For the year ended March 31, 2004

(in thousands)

	2004				2003
		Expenses Incurred by Others			
Program	Directly Incurred Expenses [(1)]	Accommodation Costs	Other Services	Total Expenses	Total Expenses
					(Restated - Note 14)
Energy and utility resources	$ 127,840	$ –	$ –	$ 127,840	$ 101,936
Ministry support services	1,963	197	100	2,260	2,231
Resource development and management	69,333	3,734	1,236	74,303	65,935
	$ 199,136	$ 3,931	$ 1,336	$ 204,403	$ 170,102

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

Ministry of Energy

Consolidated Schedule of Intra-Ministry Transactions

Schedule 4

For the year ended March 31, 2004

(in thousands)

	2004 Budget	2004 Actual	2003 Actual
Assets			
Alberta Petroleum Marketing Commission	$ –	$ (10,986)	$ (35,190)
Total net assets	$ –	$ (10,986)	$ (35,190)
Liabilities			
Alberta Petroleum Marketing Commission	$ –	$ (10,986)	$ (35,190)
Total net liabilities	$ –	$ (10,986)	$ (35,190)
Revenue			
Alberta Energy and Utilities Board funding from the Department	$ (37,742)	$ (37,742)	$ (28,884)
Total net revenue	$ (37,742)	$ (37,742)	$ (28,884)
Expense			
Funding to Alberta Energy and Utilities Board	$ (37,742)	$ (37,742)	$ (28,884)
Total net expense	$ (37,742)	$ (37,742)	$ (28,884)

Department of Energy: Financial Statements

March 31, 2004

AUDITOR'S REPORT

To the Minister of Energy

I have audited the statement of financial position of the Department of Energy as at March 31, 2004 and the statements of operations and cash flow 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 Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

May 21, 2004

Department of Energy

Statement of Operations

For the year ended March 31, 2004

(in thousands)

	2004		2003
	Budget (Schedules 1 & 3)	Actual	Actual
			(Restated - Note 12)
Revenues: (Schedule 1)			
Non-renewable resource revenue	$ 4,776,000	$ 7,675,603	$ 7,130,327
Freehold mineral rights tax	214,000	287,912	201,556
Other revenue	500	5,324	10,352
	4,990,500	7,968,839	7,342,235
Expenses - directly incurred (Note 2b and Schedule 6)			
Voted (Schedules 2 and 3)			
Ministry support services	2,355	1,963	2,028
Resource development and management	67,876	68,869	60,479
Energy and utilities regulation	37,742	37,742	27,532
	107,973	108,574	90,039
Statutory (Schedule 2 and 3)			
Valuation adjustments			
Provision for doubtful accounts	35	105	263
Provision for vacation pay	–	359	321
	35	464	584
	108,008	109,038	90,039
Write down of capital assets	–	–	1,205
Net Operating Results	$ 4,882,492	$ 7,859,801	$ 7,250,407

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

Department of Energy

Statement of Financial Position

As at March 31, 2004

(in thousands)

	2004	2003
		(Restated - Note 12)
Assets:		
Cash	$ 462,084	$ 493,159
Accounts receivable (Note 3)	1,050,620	1,875,610
Inventories held for resale (Note 2)	17,125	32,090
Tangible capital assets (Note 4)	17,630	22,281
	$ 1,547,459	$ 2,423,140
Liabilities:		
Accounts payable and accrued liabilities	$ 38,181	$ 41,729
Gas royalty deposits	552,415	563,183
Unearned revenue	69,393	70,645
	659,989	675,557
Net Assets:		
Net assets, beginning of year	1,747,583	55,711
Net operating results	7,859,801	7,250,407
Net transfer to general revenues	(8,719,914)	(5,558,535)
Net assets, end of year	887,470	1,747,583
	$ 1,547,459	$ 2,423,140

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

Department of Energy

Statement of Changes in Cash Flow

For the year ended March 31, 2004

(in thousands)

	2004	2003
		(Restated - Note 12)
Operating Transactions:		
Net operating results	$ 7,859,801	$ 7,250,407
Non-cash items included in net operating results		
Amortization	5,247	4,736
Valuation adjustments	464	548
Write down of capital assets	–	1,205
Grants in kind	–	742
	7,865,512	7,257,674
Decrease (increase) in accounts receivable	824,885	(1,503,442)
Decrease in inventories held for resale	14,965	6,910
Increase (decrease) in accounts payable and accrued liabilities	(3,907)	12,286
Decrease in unearned revenue	(1,252)	(1,015)
Cash provided by operating transactions	8,700,203	5,772,413
Financing Transactions:		
Net transfer to General Revenues	(8,719,914)	(5,558,535)
Decrease in gas royalty deposits	(10,768)	(4,288)
Cash used by financing transactions	(8,730,682)	(5,562,823)
Capital Transactions:		
Purchase of tangible capital assets (Schedule 3)	(695)	(6,679)
Transfer of tangible capital assets	99	–
Cash used by investing transactions	(596)	(6,679)
Increase (decrease) in cash	(31,075)	202,911
Cash, beginning of year	493,159	290,248
Cash, end of year	$ 462,084	$ 493,159

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

Department of Energy

Notes to the Financial Statements

For the year ended March 31, 2004

(In thousands)

Note 1

Authority and Purpose

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

The Department of Energy has responsibility for a diverse resource development portfolio that includes natural gas, conventional oil, oil sands, petrochemicals, electricity, coal, and minerals. The Department of Energy manages the development of these resources to optimize the sustained contribution from Alberta's energy and mineral resources in the interests of Albertans.

Note 2

Summary of Significant Accounting Policies and Reporting Practices

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.

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments.

(a) Reporting Entity

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

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of 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

Revenues

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

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Expenses

Directly Incurred

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

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

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

Incurred by Others

Services contributed by other entities in support of the department operations are disclosed in schedule 6.

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 of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $100 and the threshold for all other capital assets is $15. Assets acquired by right, such as mineral resources, are not included.

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

Liabilities

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

Net Assets

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

Note 3

Accounts Receivable

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

Note 4

Tangible Capital Assets

		2004			2003
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	10 years	$ 60,262	$ 43,165	$ 17,098	$ 22,045
Equipment	5 years	5,301	4,769	532	236
		$ 65,564	$ 47,934	$ 17,630	$ 22,281

Note 5

Commitments

As at March 31, 2004, the Department has commitments totaling $6,908 (2003 - $9,946). 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.

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, 2004, the commitment was estimated at $68,902 (2003 - $107,931). The commitment was estimated using the current gas price, royalty rates and volumes being amortized to 2008.

Note 6

Contingencies

At March 31, 2004, the Department has been named in administrative appeals and litigation.

(a) Administrative Appeals

In the normal course of business, the Department may be requested by royalty payers, to review the assessments made against them. At March 31, 2004, the Department was in the process of reviewing 4 such requests with a total royalty value of $108,761 (2003 – 10 requests $115,500). The likely result of these reviews cannot be determined at this time.

(b) Land Claims

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

(c) Legal Claims

At March 31, 2004 the Department is a defendant in 5 legal claims (2003 - 1 legal claim). 4 of these claims have specified amounts totaling $10,600,000 and the remaining claim has no specified amount (2003 – 1 claim with no specified amount). Included in the total legal claims are 3 claims amounting to $10,572,500 in which the Department has been jointly named with other entities.

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

Note 7

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, 2004, trust funds under administration were as follows:

	2004	2003
Mines and Minerals Act Securities Trust	$ 2	$ 21
Oil and Gas Conservation Trust	255	30
Total	$ 257	$ 51

Note 8

Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Revenue, recorded as $7,968,839 in these financial statements, includes non-renewable resource revenue and freehold mineral rights tax, in the amount of $7,963,515, which is subject to measurement uncertainty. Revenue is calculated based on production volumes reported to the Department by royalty payers. These volumes could vary significantly from that initially reported.

Accounts receivable, recorded as $1,050,620 in these statements, is subject to measurement uncertainty. Estimates are used in accruing revenues in circumstances where the actual accrued revenues are unknown at the time these financial statements are prepared. The actual amount collected could vary significantly from that estimated.

Note 9

Defined Benefits Plans

The Department participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Department also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $2,358 for the year ended March 31, 2004 (2003 - $1,885).

At December 31, 2003, the Management Employees Pension Plan reported a deficiency of $290,014 (2002 – deficiency $301,968) and the Public Service Pension Plan reported an actuarial deficiency of $596,213 (2002 – actuarial deficiency $175,528). At December 31, 2003, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $9,312 (2002 – actuarial surplus $6,472).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2004, the Bargaining Unit Plan reported an actuarial deficiency of $9,766 (2003 – $14,434) and the Management, Opted Out and Excluded Plan an actuarial surplus of $1,298 (2003 – actuarial deficiency of $3,053). The expense for these two plans is limited to employer's annual contributions for the year.

Note 10

Royalty Reduction Programs

The Department provides five oil and four gas royalty reduction programs. These programs reduce Crown royalties to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2004, the royalties received under these programs were reduced by $517,000 (2003 - $427,000).

Note 11

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, and gas royalty deposits are estimated to approximate their book values because of the short-term nature of these instruments. Fair values of loans are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

Note 12

Transfer of Administration

Pursuant to the Order in Council (O.C. 472/2003) approved on October 21, 2003, the responsibility for the Rural Utilities program was transferred to the Ministry of Agriculture, Food and Rural Development effective April 1, 2003. Comparatives for 2003 have been restated as if the Department had always been assigned its current responsibilities.

	2003
Net asset balances as previously reported at March 31, 2002	$ 54,303
Transfer to Ministry of Agriculture, Food and Rural Development	1,408
Restated net asset balance at April 1, 2002	$ 55,711
Net operating results as previously reported at March 31, 2003	$ 7,244,674
Less revenue transferred to Ministry of Agriculture, Food and Rural Development	(709)
Add program expenses transferred to Ministry of Agriculture, Food and Rural Development	6,442
Restated net operating results at March 31, 2003	$ 7,250,407

Note 13

Approval of Financial Statements

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

Department of Energy

Revenue

Schedule 1

For the year ended March 31, 2004
(in thousands)

	2004 Budget	2004 Actual	2003 Actual (Restated - Note 12)
Non-renewable resource revenue:			
Natural gas and by-products royalty	$ 3,480,000	$ 5,449,575	$ 5,125,486
Crude oil royalty	502,000	981,268	1,176,633
Bonuses and sale of crown leases	679,000	966,735	565,550
Synthetic crude oil and bitumen royalty	103,000	196,775	183,242
Rentals and fees	144,000	154,280	152,711
Coal royalty	11,000	8,577	9,991
Royalty Tax Credit	(143,000)	(81,607)	(83,286)
	4,776,000	7,675,603	7,130,327
Freehold mineral rights tax	214,000	287,912	201,556
Other revenue	500	5,324	10,352
Total Revenue	$ 4,990,500	$ 7,968,839	$ 7,342,235

Department of Energy

Expense Directly Incurred - Detailed by Object

Schedule 2

For the year ended March 31, 2004

(in thousands)

	2004 Budget	2004 Actual	2003 Actual
			(Restated - Note 12)
Voted:			
Salaries, Wages & Employee Benefits	$ 33,576	$ 37,203	$ 34,091
Supplies and Services	32,148	27,051	22,888
Grants	38,127	39,544	28,857
Financial Transactions and Other	80	79	77
Amortization Of Tangible Capital Assets	4,588	5,247	4,736
Total Voted Expenses before Recoveries	108,519	109,124	90,649
Less: Recovery from Support Service Arrangements			
with Related Parties [a]	(546)	(550)	(610)
Total Voted Expenses	$ 107,973	$ 108,574	$ 90,039
Statutory:			
Valuation adjustments			
Provision for doubtful accounts	35	105	263
Provision for vacation pay	–	359	321
Total Statutory Expenses	$ 35	$ 464	$ 584

(a) The Department provides financial services to Alberta Agriculture Food and Rural Development, Community Development, Alberta Environment and Sustainable Resource Development. Costs incurred for these services are recovered from Alberta Environment and Sustainable Resource Development.

Department of Energy

Comparison of Expense – Directly Incurred and Capital Investments, by Element to Authorized Budget

Schedule 3

For the year ended March 31, 2004

(in thousands)

	Estimates (Authorized Budget)[b]	Actual Expense[a]	Unexpended (Over Expended)
Expenses:			
Voted			
Program 1 - Ministry Support Services			
1.0.1 Minister's Office	$ 290	$ 288	$ 2
1.0.2 Standing Policy Committee on Energy and Sustainable Development	114	99	15
1.0.3 Deputy Ministers' Office	375	372	3
1.0.4 Corporate Services	800	528	272
1.0.5 Communications	776	676	100
	2,355	1,963	392
Program 2 - Resource Development and Management			
2.1 Program Support			
2.1.1 Program Support			
- Operating Expense	17,157	19,072	(1,915)
2.1.2 Information Systems			
- Operating Expense	18,013	19,030	(1,017)
- Capital Expense	555	695	(140)
2.1.3 Amortization of Capital Assets	4,588	5,247	(659)
	40,313	44,044	(3,731)
2.2 Mineral Development			
2.2.1 Resource Development	602	579	23
	602	579	23

(continued)

Department of Energy

Comparison of Expense Directly Incurred and Capital Investments, by Element to Authorized Budget (continued)

Schedule 3 (continued)

For the year ended March 31, 2004

(in thousands)

	Estimates (Authorized Budget)[b]	Actual Expense[a]	Unexpended (Over Expended)
Expenses:			
Voted			
Program 2 - Resource Development and Management			
2.3 Gas and Alberta Markets Development			
2.3.1 Resource Development			
- Operating Expense	10,658	9,534	1,124
- Capital Expense	760	–	760
	11,418	9,534	1,884
2.4 Oil Development			
2.4.1 Resource Development	16,858	15,407	1,451
	16,858	15,407	1,451
	69,191	69,564	(373)
Program 3 - Energy and Utilities Regulation			
3.0.1 Assistance to the Alberta Energy and Utilities Board			
	37,742	37,742	–
	37,742	37,742	–
Total Voted Expenses	$ 109,288	$ 109,269	$ 19
Program Operating Expense	$ 107,973	$ 108,574	$ (601)
Program Capital Investment	1,315	695	620
Total Voted Expenses	$ 109,288	$ 109,269	$ 19

(a) Includes achievement bonus of $975.
(b) Adjusted for transfer of Rural Utilities program in the amount of $5,968 to the Ministry of Agriculture..

Department of Energy

Salaries and Benefits Disclosure

Schedule 4

For the year ended March 31, 2004

(in thousands)

	2004				2003
	Salary [1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Deputy Minister [4]	$ 164	$ 38	$ 47	$ 249	$ 230
Executives					
Assistant Deputy Minister - Oil Development	159	23	5	187	143
Assistant Deputy Minister - Mineral Development	128	19	29	176	177
Assistant Deputy Minister - Electricity and Gas	116	18	28	162	155
Business Unit Leader - Organizational Effectiveness [5]	110	16	24	150	–
Business Unit Leader - Policy, Planning & External Relations [5]	105	20	22	147	–

Total salary and benefits relating to a position are disclosed.

(1) Salary includes pensionable base pay.

(2) Other cash benefits include bonuses, overtime, vacation payout and lump sum payments.

(3) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short term disablility plan, professional memberships tuition.

(4) Automobile provided, no dollar amount included in benefits and allowances figure.

(5) This position is a member of the Executive Committee effective April 1, 2003.

Department of Energy

Related Party Transactions

Schedule 5

For the year ended March 31, 2004

(in thousands)

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

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

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

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
Expenses - Directly Incurred:				
Grants	$ 37,742	$ 27,532	$ –	$ –
Other services	2,234	1,056	5,406	5,151
	$ 39,976	$ 28,588	$ 5,406	$ 5,151

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

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

	Entities in the Ministry		Other Entities	
	2004	2003	2004	2003
Expenses - Incurred by Others:				
Accommodation	$ –	$ –	$ 3,986	$ 4,065
Other services	–	–	1,336	1,156
	$ –	$ –	$ 5,322	$ 5,221

Department of Energy

Allocated Costs

Schedule 6

For the year ended March 31, 2004

(in thousands)

	2004						2003
		Expenses Incurred by Others		Valuation Adjustments			
Program	Directly Incurred Expenses (1)	Accommodation Costs	Legal Services	Vacation Pay	Doubtful Accounts	Total Expenses	Total Expenses (Restated - Note 12)
Ministry Support Services	$ 1,963	$ 199	$ 100	$ 10	$ –	$ 2,272	$ 2,240
Resource Development and Management	68,869	3,787	1,236	349	105	74,346	66,072
Energy and Utilities Regulation	37,742	–	–	–	–	37,742	27,532
	$ 108,574	$ 3,986	$ 1,336	$ 359	$ 105	$ 114,360	$ 95,844

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

Alberta Energy and Utilities Board: Financial Statements

March 31, 2004

AUDITOR'S REPORT

To the Members of the Alberta Energy and Utilities Board

I have audited the statement of financial position of the Alberta Energy and Utilities Board as at March 31, 2004 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

April 30, 2004

Alberta Energy and Utilities Board

Statement of Operations

For the year ended March 31, 2004

(thousands of dollars)

	2004 Budget (Schedule 3)	2004 Actual	2003 Actual
Revenues			
Industry levies and assessments	$ 70,511	$ 79,566	$ 70,936
Provincial grants	37,742	37,742	28,601
Information, services and fees	8,998	14,402	7,787
Investment	1,250	1,395	1,151
	118,501	133,105	108,475
Expenses			
Energy regulation (Schedule 1)	106,501	109,458	93,429
Orphan abandonment (Note 3)	8,000	18,382	8,439
	114,501	127,840	101,868
Net operating results	$ 4,000	$ 5,265	$ 6,607

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

Alberta Energy and Utilities Board

Statement of Financial Position

As at March 31, 2004

(thousands of dollars)

	2004	2003
Assets		
Current		
Cash (Note 4)	$ 16,621	$ 16,908
Security deposits (Note 3)	12,540	11,754
Accounts receivable	2,859	1,977
Prepaid expenses	1,567	1,245
	33,587	31,884
Computer software (Note 5)	24,229	21,200
Property and equipment (Note 6)	13,838	11,916
Accured pension asset (Note 7)	6,268	5,899
	$ 77,922	$ 70,899
Liabilities		
Current		
Accounts payable and accured liabilities	$ 10,804	$ 10,039
Security deposits (Note 3)	12,540	11,754
Unearned revenue	1,945	–
Accrued vacation	2,207	2,558
Current portion of deferred lease incentives	725	725
	28,221	25,076
Deferred lease incentives	3,972	4,698
Accrued pension liability (Note 7)	–	661
Total liabilities	32,193	30,435
Net Assets		
Net assets, beginning of year	40,464	33,857
Net operating results	5,265	6,607
Net assets, end of year	45,729	40,464
	$ 77,922	$ 70,899

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

Alberta Energy and Utilities Board

Statement of Cash Flows

For the year ended March 31, 2004

(thousands of dollars)

	2004	2003
Operating Activities		
Net operating results	$ 5,265	$ 6,607
Non-cash expenses		
Amortization	7,890	6,135
Pension (Note 7)	4,418	3,243
Changes in operating non-cash working capital		
(Increase) decrease in accounts receivable	(882)	46
(Increase) in prepaid expenses	(322)	(239)
Increase in accounts payable and accured liabilities	765	1,381
Increase in unearned revenue	1,945	–
(Decrease) in accrued vacation	(351)	(386)
	18,728	16,787
Investing Activities		
Investment in computer software	(7,503)	(9,014)
Investment in property and equipment	(5,338)	(3,307)
	(12,841)	(12,321)
Financing Activities		
Pension obligations funded (Note 7)	(5,448)	(4,321)
Lease incentives repaid	(726)	(726)
Lease incentives received	–	650
	(6,174)	(4,397)
Net cash provided (used)	(287)	69
Cash, beginning of year	16,908	16,839
Cash, end of year	$ 16,621	$ 16,908

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

Alberta Energy and Utilities Board

Notes to the Financial Statements

March 31, 2004
(thousands of dollars)

Note 1

Authority and Purpose

The Alberta Energy and Utilities Board (EUB) operates under the authority of the Alberta Energy and Utilities Board Act, Chapter A-17, Revised Statutes of Alberta, 2000, as amended. The EUB's mission is to ensure that the discovery, development, and delivery of Alberta's resources takes 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 the following significant accounting policies:

(a) Computer software, and property and equipment

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

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

(b) Pension expense

i) EUB pension plans

Pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of the related employee group (8 years). For the purpose of calculating the expected return, plan assets are valued at fair value.

ii) Multi-employer pension plans

Multi-employer defined benefit plans are accounted for as defined contribution plans as the EUB has insufficient information to apply defined benefit plan accounting.

(c) Deferred lease incentives

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

(d) Valuation of financial assets and liabilities

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

(Note 2 continued)

(e) Revenue Recognition

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

Note 3

Abandonment and Enforcement

The EUB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At March 31, 2004, the EUB held $12,540 (2003: $11,754) in security deposits, and an additional $8,884 (2003: $9,212) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

If a licensee is reluctant, or unable, to complete proper abandonment operations when required, the EUB has the authority to enforce compliance. For the year ended March 31, 2004 the EUB completed $7,981 (2003: $2,666) of abandonment operations, and contributed $18,382 (2003: $8,439) to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association. This association has been delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees.

Note 4

Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. The average effective yield for fiscal 2004 was 2.11% (2003: 3.23%).

Note 5

Computer Software

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer software	$ 38,407	$ 17,542	$ 20,865	$ 17,104
Software under development	3,364	–	3,364	4,096
	$ 41,771	$ 17,542	$ 24,229	$ 21,200

Note 6

Property and Equipment

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 8,688	$ 4,565	$ 4,123	$ 3,418
Leasehold improvements	7,820	2,202	5,618	4,780
Furniture and equipment	6,647	2,870	3,777	3,398
Land	320	–	320	320
	$ 23,475	$ 9,637	$ 13,838	$ 11,916

Note 7

Pension

The EUB participates in the Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers, which are government multi-employer pension plans. The expense for these pension plans is equal to the annual contribution of $3,338 for the year ended March 31, 2004 (2003: $2,670).

In addition, the EUB maintains a defined benefit Senior Employees Pension Plan and Supplementary Benefit Plans to compensate senior staff who do not participate in the government management pension plans. Pension fund assets for these plans are invested in high quality bonds and equities. The significant actuarial assumptions adopted in measuring the accrued benefit obligations for these plans are as follows:

	2004	2003
Discount rate	6.1%	7.1%
Expected return on plan assets	3.6% to 7.1%	3.9% to 7.8%
Rate of compensation increase	3.5%	4.5%

Additional information about the defined benefit plans are as follows:

	2004	2003
EUB contribution	$ 2,110	$ 1,651
Employees' contribution	248	250
Benefits paid	637	675
Pension expense	1,080	573

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

	2004	2003
Senior Employees Pension Plan		
Plan assets at fair value	$ 15,773	$ 13,084
Accrued benefit obligation	16,546	12,373
Plan (liability) surplus	(773)	711
Unamortized amounts	6,291	5,188
Accrued pension asset	5,518	5,899
Supplementary Benefit Plans		
Plan assets at fair value	4,502	2,500
Accrued benefit obligation	3,871	3,442
Plan surplus (liability)	631	(942)
Unamortized amounts	119	281
Accrued pension asset (liability)	750	(661)
	$ 6,268	$ 5,238

The values of accrued pension asset, accrued pension liability, and the amount of pension expense for the above pension plans depend on actuarial and economic assumptions.

Note 8

Future Operating Lease Commitments

The EUB leases office premises under operating leases that expire on various dates. The EUB has received cash incentives as a component of certain leases, and these incentives will reduce future lease expense. The future minimum lease payments, net of lease incentives, are as follows:

2004 - 2005	$ 5,065
2005 - 2006	5,100
2006 - 2007	5,054
2007 - 2008	4,995
2008 - 2009	4,999
Thereafter	11,914
	$ 37,127

Note 9

Related Party Transactions

The EUB paid $4,898 (2003: $3,952) to various other Government of Alberta organizations for supplies and services during the fiscal year. Included in these services was a payment of $412 (2003: $412) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is eighty-two years and the future annual payments are $412 to 2009 and $48 to 2086.

The EUB received $37,742 (2003: $28,601) in grants and $371 (2003: $780) in service revenue from other Government of Alberta organizations.

Note 10

Comparative Figures

Certain 2003 figures have been reclassified to conform to the 2004 presentation.

Note 11

Approval of Financial Statements

These financial statements were approved by the Board of the EUB on May 14, 2004.

Alberta Energy and Utilities Board

Schedule of Energy Regulation Expenses

Schedule 1

For the year ended March 31, 2004

(thousands of dollars)

	2004	2003
Personnel	$ 66,182	$ 59,360
Buildings	8,235	7,943
Abandonment and enforcement (Note 3)	7,981	2,666
Consulting services	6,578	6,681
Computer services	5,523	4,526
Amortization - computer software	4,474	2,998
Travel and transportation	3,503	2,924
Amortization - property and equipment	3,416	3,137
Administrative	2,923	2,445
Equipment rent and maintenance	602	601
Other	41	148
	$ 109,458	$ 93,429

Alberta Energy and Utilities Board

Schedule of Salary and Benefits for Board Members

Schedule 2

For the year ended March 31, 2004

(thousands of dollars)

	2004			2003
	Salary (a)	Benefits and Allowances (b)	Total	Total
Chairman	$ 227	$ 67	$ 294	$ 291
Board Member 1	146	55	201	201
Board Member 2	146	43	189	181
Board Member 3	146	43	189	164
Board Member 4	146	39	185	185
Board Member 5	146	39	185	181
Board Member 6	146	39	185	178
Board Member 7	146	30	176	168
Board Member 8	146	26	172	165

(a) Includes all paid and payable salary and bonuses.

(b) Includes the EUB's share of all payments to, or on behalf of, Board Members, including pension, insurance, health benefits, professional membership, and payments in lieu of vacation. Automobiles were provided, but no amount is included in these figures.

Alberta Energy and Utilities Board

Schedule of Revenues and Expenditures

Schedule 3

For the year ended March 31, 2004

(thousands of dollars)

	Plan			
	Budget (Estimate)	Changes	Authorized Budget	Actual
Revenues				
Industry levies and assessments	$ 70,511	$ 9,000	$ 79,511	$ 79,566
Provincial grants	37,742	–	37,742	37,742
Information, services and fees	8,998	3,900	12,898	14,402
Investment	1,250	–	1,250	1,395
	118,501	12,900	131,401	133,105
Expenditures				
Energy regulation	106,501	3,200	109,701	109,458
Orphan abandonment	8,000	9,900	17,900	18,382
	114,501	13,100	127,601	127,840
Net capital investment	4,000	(200)	3,800	4,951
	118,501	12,900	131,401	132,791
Revenues in Excess of Expenditures	$ –	$ –	$ –	$ 314

Note: The Budget is based on the EUB Business Plan for the year ended March 31, 2004. The Budget and Changes have been authorized by the Treasury Board of the Government of Alberta.

Alberta Petroleum Marketing Commission: Financial Statements

December 31, 2003

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, 2003 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 Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Original signed by

Fred J. Dunn, FCA

Auditor General

Edmonton, Alberta

April 14, 2004

Alberta Petroleum Marketing Commission:

Statement of Operations

For the year ended December 31, 2003

(in thousands)

	2003	2002
Crude oil revenue	$ 1,201,155	$ 1,329,006
Expense		
Other crude oil purchases	107,517	114,873
Purchases under exchange agreements	476	127,444
Transportation	39,559	52,939
Marketing fees	1,751	1,648
	149,303	296,904
Excess of revenue over expense	1,051,852	1,032,102
Other revenue		
Interest earned	191	154
Other	7	2
	198	156
Net revenue to transfer to the Province of Alberta	1,052,050	1,032,258
Due to the Province of Alberta, beginning of year	122,669	73,846
Cash transferred to the Province of Alberta	(1,088,190)	(983,435)
Due to the Province of Alberta, end of year	$ 86,529	$ 122,669

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission:
Statement of Financial Position

As at December 31, 2003

(in thousands)

	2003	2002
Assets		
Cash and short-term investments (Note 3)	$ 4,786	$ 6,015
Accounts receivable	92,860	128,742
Inventory	15,489	29,779
	$ 113,135	$ 164,536
Liabilities		
Accounts Payable (Note 4)	$ 26,606	$ 41,867
Due to the Province of Alberta	86,529	122,669
	$ 113,135	$ 164,536

Alberta Petroleum Marketing Commission:
Statement of Cash Flow

For the year ended December 31, 2003

(in thousands)

	2003	2002
Cash provided by operating activities		
Net revenue to transfer to the Province of Alberta	$ 1,052,050	$ 1,032,258
Change in non-cash working capital		
Decrease (increase) in accounts receivable	35,882	(64,044)
Decrease (increase) in Inventory	14,290	(563)
Decrease (increase) accounts payable	(15,261)	17,818
Cash provided	1,086,961	985,469
Cash transferred to the Province of Alberta	(1,088,190)	(983,435)
Net (decrease) increase in Cash	(1,229)	2,034
Cash at beginning of year	6,015	3,981
Cash at end of year	$ 4,786	$ 6,015

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

Alberta Petroleum Marketing Commission:

Notes to the Financial Statements

For the year ended December 31, 2003

(in thousands)

Note 1

Authority

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

Note 2

Significant Accounting Policies

(a) Crude Oil Revenue

Revenue is recognized when the Commission accepts delivery of crude oil.

(b) Crude Oil Valuation

The Crown Royalty share of crude oil is combined with Agents' supply of like crude. The value of Crown Royalty crude oil is based on a pro-rata share of the net results of the Agents' marketing activities, which may include the sale, purchase, and transportation of crude oil.

(c) Inventory

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

(d) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. 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, 2003.

Note 3

Cash and Short-term Investments

Cash and short-term investments consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2003, securities held by the Fund have an average effective market yield of 2.38% per annum.

Note 4

Accounts Payable

	2003	2002
Transportation and purchases	$ 16,962	$ 29,064
Goods and services tax	9,644	12,803
	$ 26,606	$ 41,867

Note 5

Commitments

The Commission has entered into transportation agreements for the ensuing eight and one quarter years for a portion of its anticipated pipeline requirements. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2003 is $72,315 (2002 - $97,180). This commitment will be paid from future oil sales revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

Note 6

Related Party Transactions

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

Note 7

Measurement Uncertainty

Crude Oil Revenue and Other Crude Oil Purchases include royalty revisions. As royalty calculations are open to revisions for four years following production, royalty values are subject to measurement uncertainty.

Note 8

Comparative Figures

Certain 2002 figures have been reclassified to conform to 2003 presentation.

Note 9

Approval of Financial Statements

The Members of the Commission have approved these financial statements.

Alphabetical List Of Entities' Financial Statements In Ministry 2001-02 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 Alcohol and Drug Abuse Commission	Health and Wellness
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	Gaming
Alberta Government Telephones Commission, The	Finance
Alberta Heritage Foundation for Medical Research Endowment Fund	Revenue
Alberta Heritage Savings Trust Fund	Revenue
Alberta Heritage Scholarship Fund	Revenue
Alberta Heritage Science and Engineering Research Endowment Fund	Revenue
Alberta Historical Resources Foundation, The	Community Development
Alberta Insurance Council	Finance
Alberta Municipal Financing Corporation	Finance
Alberta Opportunity Company	Agriculture, Food and Rural Development
Alberta Pensions Administration Corporation	Finance
Alberta Petroleum Marketing Commission	Energy
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Revenue
Alberta School Foundation Fund	Learning
Alberta Science and Research Authority	Innovation and Science
Alberta Securities Commission	Revenue
Alberta Social Housing Corporation	Seniors
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Finance
ATB Investment Services Inc.	Finance
Child and Family Services Authorities:	Children's Services
Awasak Child and Family Services Authority	
Calgary Rocky View Child and Family Services Authority	
Child and Family Services Authority Region 13	
Child and Family Services Authority Region 14	
Diamond Willow Child and Family Services Authority	
Hearthstone Child and Family Services Authority	
Keystone Child and Family Services Authority	
Ma' Mowe Capital Region Child and Family Services Authority	
Metis Settlements Child and Family Services Authority	
Neegan Awas'sak Child and Family Services Authority	
Ribstone Child and Family Services Authority	
Sakaigun Asky Child and Family Services Authority	
Sakaw-Askiy Child and Family Services Authority	
Silver Birch Child and Family Services Authority	
Southeast Alberta Child and Family Services Authority	
Sun Country Child and Family Services Authority	
West Yellowhead Child and Family Services Authority	
Windsong Child and Family Services Authority	

Alphabetical List of Entities

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

2 Dissolved June 2001.

1 Ministry includes only the Department so separate Department financial statements are not necessary.

Additional Information

For additional copies, contact:

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The Ministry of Energy Annual Report 2003-2004 is available on the following Web site:
www.energy.gov.ab.ca/AboutUs/Publications/AnnualReports.htm

Current information about the organizations that were part of the Ministry of Energy in 2003-2004 is available at the following Web sites:

For the Alberta Department of Energy:

www.energy.gov.ab.ca
e-mail: www.energy.gov.ab.ca/depart/fback/index.htm

For the Alberta Energy and Utilities Board:

www.eub.gov.ab.ca;
e-mail: eub.info_services@eub.gov.ab.ca

www.energy.gov.ab.ca

www.eub.gov.ab.ca

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2003-2004

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