Energy

Annual Report
2012-2013

Government

Energy

Annual Report 2012-2013

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 18 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and the *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

On May 8, 2012, the government announced new ministry structures. The 2012-13 ministry annual reports and financial statements have been prepared based on the new ministry structure. The Ministry of Energy now includes the Oil Sands Sustainable Development Secretariat.

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

- **the financial statements of entities making up the ministry including the Department of Energy (DOE), the Energy Resources Conservation Board (ERCB), the Alberta Utilities Commission (AUC), the Alberta Petroleum Marketing Commission (APMC) and the Post-Closure Stewardship Fund;**
- **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.**

Minister's Accountability Statement

The Ministry's annual report for the year ended March 31, 2013, 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 June 12, 2013 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

Original signed by the Honourable Ken Hughes
Minister of Energy

Minister's Message 2012-2013 Annual Report

Alberta Energy's mission is to assure sustained prosperity in the best interest of Albertans through the stewardship of energy and mineral resource systems, responsible development and wise use of energy. This includes a focus on the social, economic and environmental impacts of Alberta's resource development.

The past year brought economic challenges to Alberta in the form of lower prices for our oil. As government worked aggressively to reach global markets to get world prices for our resources, Alberta Energy continued to show energy leadership by supporting market access and a Canadian Energy Strategy, new technologies, electricity enhancement, habitat protection, action on climate change, and regulatory enhancement for efficient and responsible energy development.

Oil sands once again made up most of Alberta's non-renewable resource revenue, accounting for almost half of the $7.6 billion in non-renewable resource revenue Alberta received in 2012-13. Alberta produced more than 1.9 million barrels per day in this timeframe.

On top of having one of the largest heavy oil deposits in the world, Alberta continues to encourage investment and job creation by being in the top three North American jurisdictions for having a competitive royalty and tax rate, along with Saskatchewan and British Columbia. Advanced processes ensure the revenues are accurately calculated and collected so that they can be used to build Alberta and provide services to Albertans.

We also facilitated the Regulatory Enhancement Project to create a single regulator for oil, oil sands, natural gas and coal projects. This "one-stop-shop" will ensure that Alberta will responsibly develop its resources while maintaining the province's strong commitment to the environment and public safety.

Our job is to tell Alberta's energy story in Canada and across the world, and build partnerships that will ensure more prosperity for the province. Alberta supported missions to the United States, Asia and Europe to open new markets for Alberta's resources, and is leading a Canadian Energy Strategy to help ensure more secure energy production, supply and transportation, job creation, economic expansion, manufacturing opportunities and advanced research and technological innovations.

Here at home, Alberta Energy continues to monitor the province's electricity system so it continues to benefit Albertans. The Alberta Utilities Commission will have more authority to scrutinize the costs of transmission lines and, to protect Albertans against high electricity costs, the government has reduced the month-to-month price volatility for consumers and lifted the freeze on applications for new distribution charges.

Being an energy leader also means supporting environmental protection and cleaner energy technologies. Helping to fund bioenergy and carbon capture and storage projects creates private sector investment and shows the world that Alberta is serious about taking action on climate change. We are also supporting a land-use plan for the oil sands, which sets aside roughly five million acres of mostly boreal forest for conservation.

Ensuring the effective stewardship of Alberta's energy resources and regulatory systems is achieved through leadership and engagement with Albertans, their communities, industry and governments. Through responsible energy development, Alberta will continue to demonstrate that it is a safe, reliable and forward-thinking energy supplier.

Original signed by the Honourable Ken Hughes
Minister of Energy

Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (DOE/department)
- Energy Resources Conservation Board (ERCB)
- Alberta Utilities Commission (AUC)
- Alberta Petroleum Marketing Commission (APMC)
- Post-closure Stewardship Fund

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

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

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Energy. Under the direction of the minister, we oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The 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 Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability - information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability - the performance measure methodologies and results are presented clearly.
- Comparability - the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness - goals, performance measures and related targets match those included in the Ministry's Budget 2012.

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

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

In fulfilling our responsibilities for the ministry, we have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Jennifer Steber
Acting Deputy Minister
Department of Energy

[Original signed by]

Brad McManus
Acting Chairman,
Energy Resources
Conservation Board

[Original signed by]

Willie Grieve
Chair,
Alberta Utilities
Commission

Ministry Overview

The Alberta Crown owns approximately 81 per cent of Alberta's minerals – including oil, natural gas, oil sands, coal and other mineral resources. The remaining 19 per cent are freehold mineral rights owned by the federal government on behalf of First Nations or in National Parks, and by individuals and companies.

The Ministry of Energy manages Alberta's energy resources for the benefit of Albertans, helping ensure they are developed in environmentally responsible ways that bring value to Albertans.

The ministry consists of the Department of Energy (DOE), the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC). The Minister of Energy is also accountable for the Alberta Petroleum Marketing Commission (APMC), which is fully integrated operationally within the department. Each plays important roles in overseeing the orderly development of Alberta's energy resources.

The Oil Sands Sustainable Development Secretariat moved to the Department of Energy on May 8, 2012, as part of the government reorganization.

DOE	▪ Acts as the steward of Alberta's energy system on behalf of all Albertans. ▪ Develops policy for and manages development of Alberta's non-renewable resources (including natural gas, conventional oil, oil sands, coal and petrochemicals) and renewable energy. ▪ Grants industry the right to explore for and develop Alberta's energy and mineral resources. ▪ Establishes, administers and monitors the effectiveness of Alberta's fiscal and royalty systems regarding Crown minerals. ▪ Collects revenues from the development of Alberta's energy and mineral resources on behalf of Albertans. ▪ Promotes energy efficiency and conservation by Albertans and industry. ▪ Encourages investment in Alberta's energy industry to create jobs and economic prosperity for Albertans. ▪ Establishes the framework for responsible industry-led investment in electricity infrastructure and markets for the reliable delivery of electricity to all consumers.

ERCB	▪ Regulates the safe, responsible and efficient development of Alberta's energy resources: oil, natural gas, oil sands and coal. ▪ Independently makes decisions regarding resource development in accordance with applicable legislation and within the framework of Alberta's overall energy policy. ▪ Establishes and applies technical standards for the safe and reliable operation of energy facilities in the province. ▪ Ensures that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest.

AUC	▪ Regulates investor-owned electric, natural gas and water utilities, and certain municipally-owned electricity utilities to ensure Albertans receive safe and reliable utility service at just and reasonable rates. ▪ Independently makes decisions on the need, siting, construction, alteration, operation and decommissioning of natural gas and certain electricity transmission facilities. ▪ Regulates power plants in a similar fashion, except the need for new power plants is determined by market forces. ▪ Develops and amends rules that support the orderly operation of the retail natural gas and electricity markets and adjudicates on market and operational rule contraventions that the Market Surveillance Administrator may bring before the AUC. ▪ Ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible and in the public interest.

The Energy Story 2012-2013

Energy development builds the foundation for Alberta's future. The Ministry of Energy works to position Alberta as a Canadian and global energy leader, responsible world-class energy supplier, energy technology champion, sophisticated energy consumer and a solid global environmental citizen.

In 2012-13, Alberta saw record bitumen production, investments in new technologies, action on climate change, global missions to market our resources, collaboration with other provinces on energy initiatives and regulatory enhancement.

Above all, the ministry's mission is to ensure that Alberta's resources are developed responsibly and in the best interests of our most valuable resource: the people of Alberta.

Alberta's Accomplishments

Record Production

Crude bitumen production in Alberta in 2012-13 reached its highest level ever. With more than 1.9 million barrels per day (bbl/d), Alberta demonstrated that despite market challenges, the province's oil industry is vibrant.

For the fourth fiscal year in a row, oil sands made up most of Alberta's non-renewable resource royalty revenue. It accounted for about $3.6 billion of $7.6 billion non-renewable resource royalty revenue in 2012-13. Petroleum and natural gas agreements reached $1.0 billion and revenue from mineral rights sales in the oil sands was $26 million. There was also a record-setting 53 per cent increase in the number of coal lease applications.

Alberta continues to have a combined royalty and tax rate that is in the top quartile of investment opportunities when compared to similar jurisdictions. Business processes, systems and controls continue to result in accurate assessment, calculation and collection of revenues.

Canadian Energy Strategy

The Canadian Energy Strategy will help Canada remain a leader in sustainable and secure energy production, supply and transportation by having provinces and territories work together to create jobs, expand their economies, build manufacturing opportunities, and advance research and technological innovations.

Alberta, Manitoba, and Newfoundland and Labrador are leading the development of the Canadian Energy Strategy. The Government of Alberta has established a secretariat to lead the initiative through work with the provinces and territories.

Cross-provincial and territorial teams are beginning work on 10 areas of focus. Alberta is leading four of the teams and is participating on the other six.

Market Access for Alberta's Resources

The department supported missions to the United States, Europe and Asia to establish new markets for Alberta's resources and showcase the province as a secure and responsible energy supplier.

The ministry participated in several initiatives including investor roundtables, the Canada-China Energy and Environment Forum and research studies at the University of Alberta China Institute. The department also established a dedicated branch, which is responsible for developing and implementing approaches to support government's efforts to secure market access for Alberta's oil.

Securing market access requires working with industry and other stakeholders to develop a shared understanding of the value and importance of energy transportation infrastructure and engaging with Canadian and foreign governments on energy policy issues.

A New Single Regulator

Working with Environment and Sustainable Resource Development, the department continued work on the Regulatory Enhancement Project and, after targeted consultation, the *Responsible Energy Development Act* was passed to create the Alberta Energy Regulator (AER).

The new regulator ensures that Alberta will responsibly develop its resources while maintaining the province's strong commitment to the environment and public safety. The AER will be responsible for all oil, gas, oil sands and coal projects, from application to reclamation, and will enforce all legislation related to these projects.

Innovation and Research

The department continued to establish Alberta as a world-class centre for responsible energy development through support for the Innovative Energy Technologies Program (IETP).

The program funded 37 projects through the first 5 IETP rounds and, in 2012-13, there were 14 active projects with 5 being completed during the year. These projects look at innovative ways to better understand coalbed methane production, improve extraction efficiency, advance production technologies, and expand enhanced oil and gas recovery technologies to inaccessible or challenging oil and gas deposits.

The Incremental Ethane Extraction Program (IEEP) continued to encourage increased petrochemical production in Alberta by providing incentives through royalty credits to help offset the high capital costs of recovering incremental barrels of ethane feedstock. In 2012, the program supported eight new ethane recovery projects. The IEEP is now fully allocated and will facilitate more than 92,000 bbl/d of ethane.

The ministry supported research studies that advance knowledge related to resource policy development. Studies funded by the ministry covered a wide range of topics such as the lifecycle of crude oils, alternative energy and greenhouse gas (GHG) reduction.

Action on Climate Change

More than 45 per cent of Alberta's electricity generating capacity comes from alternative and renewable energy sources including wind, hydro, biomass and natural gas cogeneration. The department is moving forward on developing an Alternative and Renewable Energy Policy Framework.

Since 2011, the department's Renewable Fuels Standard has reduced GHG emissions by one million tonnes per year. Four biofuel facilities are currently under development and will increase Alberta's biofuel capacity from approximately 85 million litres to 464 million litres of biofuel annually by 2015.

The department continues to support carbon capture and storage (CCS) projects, such as the Alberta Carbon Trunk Line and Shell Quest Project. These projects can reduce Alberta's GHG emissions by about 2.8 million tonnes per year by 2016: the equivalent of taking 550,000 cars off the road.

Electricity Enhancements for Albertans

Government continues to monitor Alberta's electricity system to manage transmission costs, system planning including connections with neighbouring jurisdictions, and transmission line losses and congestion.

To protect Albertans against high electricity costs, the Government of Alberta accepted in principle 33 recommendations of the independent Retail Market Review Committee's (RMRC) 2012 report. Two recommendations were implemented immediately to reduce month-to-month price volatility for consumers and lift the freeze on applications for new distribution charges. The remaining recommendations have been referred to a Member of the Legislative Assembly (MLA) committee for an implementation plan.

The Alberta Utilities Commission will have more authority to scrutinize the costs of transmission lines and the Utilities Consumer Advocate will be made into an independent agency with a stronger mandate to continue to advocate for Albertans.

Protecting our Natural Habitats

After three rounds of extensive consultation with over 10,000 Albertans, the Government of Alberta released the Lower Athabasca Regional Plan (LARP) in August 2012. This is the first of seven regional plans under the Land-Use Framework (LUF): a new approach to managing Alberta's land and natural resources to achieve long-term economic, environmental and social goals. The ministry is teaming up with Environment and Sustainable Resource Development to support plans for these watershed-based regions.

Conservation areas protected under LARP promote biodiversity by protecting habitats for wildlife, such as caribou populations. Work on the South Saskatchewan Regional Plan and Lower Peace Regional Plan is underway.

Conclusions

The ministry plays an important role as the steward of Alberta's energy and natural resource systems, facilitating the development and use of resources in a sustainable manner for the benefit of all Albertans. The initiatives identified above are only a select few of the actions undertaken by the ministry, with additional items identified in the 2012-15 Energy Business Plan. The development and successful implementation of these initiatives will be critical to the long-term success of Alberta as a global energy leader.

Energy Highlights

Resource		2012-13	2011-12
Natural Gas and By-Product Royalty	Revenue	$0.95 billion	$1.30 billion
	Percentage of non-renewable resource revenue	13 per cent	11 per cent
	Average Alberta Gas Reference Price (ARP)	$2.28/GJ	$2.98/GJ
	Number of conventional natural gas wells drilled	983 (2012)	2,085 (2011)
	Total marketable natural gas production including Coalbed Methane (CBM)	3.7 Tcf (2012)	3.9 Tcf (2011)
	CBM production (excluding comingled gas)	200 Bcf (2012)	213 Bcf (Revised)
	Total natural gas deliveries	3.7 Tcf (2012)	3.9 Tcf (2011)
Conventional Crude Oil	Revenue	$1.88 billion	$2.28 billion
	Percentage of non-renewable resource revenue	25 per cent	19 per cent
	Average price for West Texas Intermediate (WTI)	US$92.07/bbl	US$97.33/bbl
	Crude oil production	556,300 bbl/d	490,000 bbl/d
	Pentanes and condensate production	120,200 bbl/d (2012)	124,000 bbl/d (2011)
	Crude oil wells drilled	2,817 (2012)	3,115 (2011)
Oil Sands	Revenue	$3.56 billion	$4.51 billion
	Percentage of non-renewable resource revenue	47 per cent	39 per cent
	Bitumen wells drilled	3,837 (2012)	4,121 (2011)
	Oil sands production:		
	▪ total bitumen	1.92 10^6 bbl/d (2012)	1.74 10^6 bbl/d (2011)
	▪ marketable bitumen and Synthetic Crude Oil (SCO)	1.78 10^6 bbl/d (2012)	1.62 10^6 bbl/d (2011)
Total Crude and Equivalent	Revenue	$5.44 billion	$6.79 billion
	Production (conventional, marketable bitumen and SCO, pentanes and condensates)	2.47 10^6 bbl/d (2012)	2.24 10^6 bbl/d (2011)
	Total crude oil deliveries	2.36 10^6 bbl/d (2012)	2.24 10^6 bbl/d (2011)
Bonuses From the Sale of Crown Leases	Revenue (bonus, plus application fees, plus first year's rent)	$1.05 billion	$3.31 billion
	Average price per hectare paid at petroleum and natural gas rights sales	$334.93	$827.80
	Petroleum and natural gas hectares sold at auction	3,068,907 hectares	3,880,862 hectares
	Average price per hectare paid for oil sands mineral rights	$151.84	$253.32
	Oil sands hectares sold at auction	90,385 hectares	309,091 hectares
	Bonus (total amount bid on parcels of land) received from public offering of Crown petroleum and natural gas and oil sands rights	$1.04 billion	$3.29 billion

Resource		2012-13	2011-12
Freehold Mineral Tax	Revenue	$119 million	$129 million
Wells and Licenses	Well Licenses issued	10,884 (2012)	12,120 (2011)
	Industry drilling	8,422 (2012)	9,894 (2011)
Coal	Revenue	$13.3 million*	$29 million
	Established coal reserves (estimate)	33.3 billion tonnes 36.7 billion tons (2012)	33.3 billion tonnes 36.7 billion tons (2011)
	Raw coal production	34.7 million tonnes	36.9 million tonnes
	Total marketable coal deliveries	28.3 million tonnes (2012)	30 million tonnes (2011)
	Percentage of total coal deliveries exported out of province	22 per cent (2012)	22.4 per cent (2011)
Electricity	Total generation capacity	13,898 MW (2012)	13,111 MW (2011)
	Total generation capacity from renewable sources	2,427 MW (2012)	2,155 (2011)
	Total generation capacity from coal	5,690 MW (2012)	5,632 MW (2011)
	Total generation of electricity	72,918 GWh (2012)	70,685 GWh (2011)
	Amount of Alberta's electricity supplied by renewable resources	9.7 per cent (2012)	9.1 per cent (2011)
	Amount of Alberta's electricity supplied by coal	52 per cent (2012)	55 per cent (2011)
Metallic and Industrial Minerals	Metallic and Industrial minerals Royalty Revenues (MINRS)	$684,759	$492,376
	Hectares of mineral permits issued to exploration companies (LAMAS, MIM Permits and New Application Issued)	968,963 hectares	3,583,642 hectares

Data sources: *ERCB's ST98-2013: Alberta's Energy Reserves 2012 and Supply/Demand Outlook 2013-2022* report and the Department of Energy

* Net revenue for the fiscal year was negative $2.7 million due to a $16 million refund for production in the prior year

RESULTS ANALYSIS

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as reviewed by the Office of the Auditor General in the Ministry of Energy's Annual Report 2012-2013. The reviewed performance measures are the responsibility of the ministry and are prepared based on the following criteria:

- Reliability – The information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability – The performance measure methodologies and results are presented clearly.
- Comparability – The methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – The goals, performance measures and related targets match those included in the ministry's budget 2012.

My review was made in accordance with Canadian generally accepted standards for review engagements and, accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by the ministry.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures. Further, my review was not designed to assess the relevance and sufficiency of the reviewed performance measures in demonstrating ministry progress towards the related goals.

Based on my review, nothing has come to my attention that causes me to believe that the performance measures identified as reviewed by Office of the Auditor General in the ministry's annual report 2012-2013 are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability and completeness as described above.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 23, 2013
Edmonton, Alberta

Performance Measures Summary Table

	Goals/Performance Measures	Prior Year's Results Actual				Target	Current
1.	**Albertans are assured of the benefits from energy and mineral resource development**						
1.a	Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions*	n/a (2007)	n/a (2008)	Alberta within first quartile (2009) 39.73% (Natural Gas) 43.02% (Conventional Oil)	Alberta within first quartile (2010) 37.37% (Natural Gas) 41.34% (Conventional Oil)	Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions	Alberta within first quartile (2011) 34.73% (Natural Gas) 38.97% (Conventional Oil)
1.b	Revenues from oil, oil sands, gas and land sale bonuses are fully collected: Percentage of amounts collected compared to amounts owed	n/a (2007)	100% (2008)	100% (2009)	100% (2010)	100%	100% (2011)
1.c	Alberta's oil sands supply share of global oil consumption	n/a (2008)	n/a (2009)	1.8% (2010)	2.0% (2011)	2.0%	2.1% (2012)
2.	**Effective stewardship of Alberta's energy resources and regulatory systems is achieved through leadership and engagement with citizens, communities, industry and governments**						
2.a	Albertans' assessment of their energy knowledge (biennial)	n/a (2008)	70% (2009)	n/a (2010)	63% (2011)	n/a	n/a (2012)
2.b	Regulatory Noncompliance (ERCB): Percentage of field inspections finding High Risk regulatory noncompliance*	2.1% (2008)	1.7% (2009)	1.7% (2010)	3.2% (2011)	Less than or equal to 3.0%	3.6% (2012)
3.	**Development of energy related infrastructure and cleaner energy technologies is actively led and supported**						
3.a	Transmission Losses (%)	3.8% (2008)	3.6% (2009)	3.8% (2010)	3.4% (2011)	3.7%	3.0% (2012)
3.b	Power generation: Margin (MW) between Firm Generating Capacity and peak demand*	20% (2008)	18% (2009)	17% (2010)	12% (2011)	Maintain a minimum 7% margin over peak load	18% (2012)

	Goals/Performance Measures	Prior Year's Results Actual				Target	Current
3.c	Timeliness of the Needs and Facility Applications (AUC): Percentage of needs and facility applications determined within 180 days of the application being deemed complete	100% (2008)	92% (2009)	100% (2010)	98.7% (2011)	100%	93.1% (2012)

* Indicates Performance Measures that have been reviewed by the Office of the Auditor General.

The performance measures indicated with an asterisk were selected for review by ministry management based on the following criteria established by government:

- Enduring measures that best represent the goal;
- Measures for which new data is available; and
- Measures that have well established methodology.

For more detailed information, see the "Performance Measure Methodologies" section in Appendix A.

Discussion and Analysis of Results

Expense by Function

In accordance with the Government of Alberta accounting principles, the Ministry of Energy classifies its expenses into five functions. Each of these functions identifies the principle purpose for which ministry expenditures are incurred.

Expense by Function by Dollars (in thousands)	2012-13 Budget (Estimates)	2012-13 Actual	Comparable 2011-12 Actual
Agriculture, Resource Management and Economic Development	$421,891	$427,293	$289,243
Transportation, Communications and Utilities	$38,514	$36,143	$34,528
Environment	$13,000	$13,001	$13,116
General Government	$66,000	$57,025	$58,016
Regional Planning and Development	$3,089	$1,736	$2,199
TOTAL MINISTRY	**$542,494**	**$535,198**	**$397,102**

Overall expenses were $7 million lower than originally budgeted, due to grants deferred to future years for the carbon capture and storage (CCS) initiative, and a reduction in bioenergy grants as a result of lower production than forecasted. This was partially offset by an increase in expenses for settlements related to the Land-Use Framework (LUF).

Expenses increased by $138 million from the prior year, primarily due to CCS program grant disbursements in 2012-13, and settlements related to the LUF.

Overall, approximately 80 per cent of the ministry's expenditures support the function of Agriculture, Resource Management and Economic Development. A significant amount of actual expenses for 2012-13 relate to energy regulation expenses ($186 million or 35 per cent).

Financial Highlights

(Cdn $ Millions)	2012-13	2011-12	2010-11	2009-10	2008-09
Bitumen	3,560	4,513	3,723	3,160	2,973
Conventional crude oil royalties	1,881	2,284	2,236	1,848	1,800
Bonuses from the sale of Crown Leases	1,053	3,312	2,635	1,165	1,112
Natural gas and by-products	955	1,304	1,416	1,525	5,834
Rentals and Fees	176	169	161	158	160
Coal	(3)	29	31	31	36
Drilling Stimulus initiatives	-	25	(1,774)	(1,119)	-
Total Non-Renewable Resource Revenue	7,622	11,636	8,428	6,768	11,915
Freehold Mineral tax	119	129	127	124	261
Other Revenue*	191	179	157	188	183
Total Revenue	7,932	11,944	8,712	7,080	12,359
Expenses*	535	396	352	388	395
Net Ministry of Energy Revenue	7,397	11,548	8,360	6,692	11,964

* Revenue and expenses are for the Department of Energy, Energy Resources Conservation Board and Alberta Utilities Commission

GOAL 1 - Albertans are assured of the benefits from energy and mineral resource development

Alberta maintains a royalty regime that attracts industry investment and provides jobs, business opportunities, tax revenue and numerous other benefits to provincial and national economies. Success is measured by sustaining vibrant industry activity and a competitive fiscal regime that attracts investment, which supports provincial services and infrastructure. Alberta's competitiveness is achieved by ensuring energy transportation infrastructure is in place, supply costs are minimized and consumer market demand is sustained.

Adding value to raw resources is a high priority for Alberta. Our world-class petrochemical industry, oil sands and minerals create significant potential for achieving additional benefits by upgrading resources into higher-value commodities and products.

Investment in future energy development aims to promote clean energy production to protect the environment and public safety, while integrating broader considerations of social, economic, resource, environmental and cumulative effects.

Key Achievements

Alberta maintains a competitive and effective royalty framework that encourages responsible resource development, provides a favourable climate for industry growth and maximizes benefits to Albertans. Alberta has attracted industry investment with a combined tax and royalty rate that is in the top quartile of investment opportunities compared to similar jurisdictions in North America, while assuring that Albertans collect a fair share of the revenues.

In 2012-13, a total of 5,149 petroleum and natural gas agreements were issued for a total bonus of $1.0 billion on 3.1 million hectares. The October 3, 2012 sale brought in the highest bonus at $86.6 million with an average price of $499.96 per hectare. The revenue from the mineral rights leases in the oil sands areas was $26 million. Coal lease application records were also set in 2012 with a 53 per cent increase in the number of applications received (a total increase of 312 applications).

Alberta competes for investment with other resource-rich jurisdictions to ensure development of its energy industry. Non-renewable resource revenues provide a vital contribution to Alberta's provincial budget. For the fourth fiscal year in a row, oil sands were the largest contributor to provincial royalty revenues, approximately $3.6 billion, which was just under half of Alberta's non-renewable resource revenue of $7.6 billion. Despite significant external challenges, such as price differentials, Alberta's oil industry continues to prosper. Alberta provides a stable political environment and favourable business climate, which is attractive to investors and conducive to the sustainable development of Alberta's non-renewable resources.

The Department of Energy's information technology infrastructure, business systems, security and processes continue to ensure accurate, timely and effective resource revenue assessment and collection for Albertans. Ongoing business solutions, process reviews and technology are implemented to meet emerging business priorities and to support essential business operations.

As the steward of our energy resources, the Government of Alberta supports the production of higher-value products from raw resources. Working with industry and other stakeholders, the government facilitates multiple market solutions across and down the energy value chain to generate sustainable, long-term benefits for present and future generations of Albertans.

- In late 2012, the North West Redwater Partnership's $5 billion Sturgeon Refinery was sanctioned by Canadian National Resources Limited and North West Upgrading with construction to begin in the spring of 2013. The Alberta Petroleum Marketing Commission (APMC) signed a 30-year (plus rights to extend) capacity commitment agreement to supply 75 per cent of the refinery's feedstock, or 37,500 barrels per day (bbl/d) of bitumen (with additional diluent) out of bitumen the APMC acquires under the bitumen royalty-in-kind initiative. The bitumen is planned to be refined primarily into diesel and diluent beginning in mid-2016.
- The Incremental Ethane Extraction Program (IEEP) provides incentives through royalty credits to help offset the high capital costs associated with recovering incremental barrels of ethane feedstock. In 2012, the IEEP program supported eight new ethane recovery projects, which when operational, are expected to produce up to 52,000 bbl/d of ethane for further value-added processing in Alberta. In total, the IEEP will facilitate more than 92,000 bbl/d of ethane, exceeding its original target of 60-85,000 bbl/d. No new requests for project proposals are planned for 2013. The program was fully allocated in 2012.

The government is reviewing options to increase the amount of downstream gas processing completed in Alberta. Ministries are collaborating to understand how to support energy value-chain opportunities through new product development, new markets and made in Alberta technologies to make the province a more competitive destination for investment capital by the downstream energy processing sector.

The Ministry of Energy collaborated with other ministries and provinces during 2012-13 to ensure that appropriate policies, regulations and information were available and implemented for continued responsible development of Alberta's unconventional oil and gas resources. Some examples include:

- Working with the ERCB and the Ministries of Environment and Sustainable Resource Development (formerly Environment and Water and Sustainable Resource Development), Health, International and Intergovernmental Relations (formerly Intergovernmental, International and Aboriginal Relations) and Agriculture and Rural Development as part of an integrated management approach for unconventional oil and gas development. This involved the coordination and alignment of policies and regulatory enhancements related to water use and protection, operations and surface impacts from developing these types of resources.
- Participating in the Collaboration and Information Sharing, Industry Water Use and Hydraulic Fracture Technology Working Group under the New West Partnership with British Columbia and Saskatchewan. As a result, Alberta content was added to the www.fracfocus.ca website, a publicly accessible registry designed to disclose chemicals and water usage in hydraulically-fractured wells.
- Providing funding for the ERCB to undertake a resource characterization study of key Alberta shale formations. The study, released in November 2012, indicates a large potential endowment of unconventional oil and gas resources. These findings will guide future government policy and regulatory development, and assist industry to identify future investment opportunities.

The department continued its role in developing sustainable cooperation frameworks and relations with key potential new energy markets. During 2012-13, the department held discussions with key international partners to develop a high-level plan for long-term relations with energy markets in Asia; studied the implication of increasing investment flows from the Asia-Pacific region; supported negotiations and implementation of energy-related trade and intergovernmental agreements; and strengthened Alberta's image as a secure and reliable energy partner through Alberta Energy Week and other initiatives.

To build upon these relationships, the department began work to secure additional market access for Alberta's oil products. This involved working with industry and other key stakeholders to develop a shared understanding of the value and importance of energy transportation infrastructure development, as well as engaging with Canadian and foreign governments on energy policy issues.

Performance Measure:

1.a Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions.

Target:

Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions.

Results:

Year Ending December 31

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions	n/a	n/a	Alberta within First Quartile 39.73% (Natural Gas) 43.02% (Conventional Oil)	Alberta within First Quartile 37.37% (Natural Gas) 41.34% (Conventional Oil)	Alberta within First Quartile[1] 34.73% (Natural Gas) 38.97% (Conventional Oil)

Source: Department of Energy

Note:

[1] First quartile threshold: natural gas, up to 46.86 per cent; conventional oil, up to 47.91 per cent

Discussion of Results

This indicator will enable the Government of Alberta to monitor and evaluate whether or not Alberta has a competitive royalty regime in place to attract industry investment, and to determine if the appropriate shares of royalty revenue are being collected from the development of these resources on behalf of Albertans.

During 2010, the Alberta government unveiled a number of initiatives to address the long-term competiveness of Alberta's natural gas and conventional oil sectors. Conventional oil and natural gas royalty rates were modified to encourage innovation and promote the use of new technologies and the Regulatory Enhancement Project was undertaken to streamline the oil and gas policy and regulatory systems. These changes were deemed necessary to address the new reality of increased supply competition from unconventional resources (e.g., shale gas and tight oil) located near Alberta's traditional export markets in eastern Canada and the United States.

With a focus on unconventional oil and liquids rich gas resources in Alberta, both land sales and drilling activity rebounded from 2009 levels. Land sales for petroleum and natural gas generated $1.0 billion in 2012-13 and have remained at a high level since the land sale records established in 2011-12. After seeing production declines for years, conventional oil production in Alberta has also begun to grow again since Alberta adjusted its royalty regime in 2010, which is also attributable to the advent of tight oil. In 2012, Alberta experienced production growth of 14 per cent for conventional oil and 11 per cent for oil sands.

In 2011, Alberta remained in the first quartile (top three) of investment opportunities compared to similar jurisdictions based on the combined tax and royalty rates for natural gas and conventional oil.

Performance Measure:

1.b Revenues from oil, oil sands, gas and land sale bonuses are fully collected.

Target:

100 per cent of amounts owed are collected.

Results:

Year Ending December 31

	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Revenues from oil, oil sands, gas, and land sale bonuses are fully collected: Percentage of amounts collected compared to amounts owed[1]	n/a	100%	100%	100%	100%

Sources: Alberta Petroleum and Marketing Commission (APMC); Department of Energy

Note:
[1] Excludes disputed amounts

Discussion of Results

One of the Department of Energy's mandates is to collect the Crown's share of the resources on behalf of Albertans. This measure gauges the ability of the department to collect amounts owed through the development of Alberta's resources.

The department requires all royalty amounts owed to be calculated and paid in cash, or delivered in kind, by a prescribed due date. Systems and processes are in place to collect royalties and to identify and expeditiously follow up on overdue accounts. For overdue accounts and any related interest and penalties, processes are in place to collect the unpaid amounts.

The results reported in this measure are based on financial obligations over which there are no disputes between the Government of Alberta and entities that owe funds to the Crown. In the case of disputes over funds owed to the Crown, the disputed amounts are excluded from the results, until all outstanding matters are resolved. Upon resolution, historical results will be reviewed, and if necessary, retroactively adjusted.

During the year, all amounts were collected or are in the process of being collected, and no write-offs have been made. In 2011, the result was 100 per cent, as in the previous three years.

Performance Measure:

1.c Alberta's oil sands supply share of global oil consumption.

Target:

Two per cent of global oil consumption is supplied by Alberta's oil sands.

Results:

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
					Year Ending December 31
Alberta's oil sands supply share of global oil consumption	n/a	n/a	1.8%	2.0%	2.1%

Sources: Energy Resources Conservation Board (ERCB) ST-39 and ST-53 Reports; International Energy Agency (IEA): Oil Market Report

Discussion of Results

Alberta's oil sands supply share of global oil consumption performance measure was introduced for the first time in the 2012-15 Energy Business Plan. Therefore, this is the first Annual Report to present the results of this measure.

Development of Alberta's oil sands, and the oil sands' role in the global energy mix, is a highly complex system over which policy must both balance multiple priorities and adapt to changing global dynamics.

There are several levers available to the Government of Alberta, which indirectly impact the results of the measure. Key levers are the fiscal and royalty regimes, which directly act to incent industry's resource development activities, while ensuring that Albertans receive direct financial benefits in the form of taxes and royalties. In addition, there are other government policies that influence industry performance, and therefore oil sands production levels, including promotion of market access, intergovernmental relations, energy research and development, and environmental regulations.

Alberta's oil sands supply share of global oil consumption has been increasing over the examined period, from 1.8 per cent in 2010, to 2 per cent in 2011 and to 2.1 per cent in 2012. This increase has been primarily driven by increases in total oil sands production in Alberta, rather than disruptions in global oil demand. From 2010 to 2011, oil sands production increased by 8 per cent, from about 1.61 million bbl/d in 2010 to about 1.74 million bbl/d in 2011. Alberta oil sands production further increased to about 1.92 million bbl/d in 2012, a 10 per cent increase compared to 2011.

GOAL 2 - Effective stewardship of Alberta's energy resources and regulatory systems is achieved through leadership and engagement with citizens, communities, industry and governments

The Department of Energy invests in advances for energy efficiency and conservation to help mitigate rising energy costs and environmental impacts, and to reduce energy requirements within the province. Initiatives such as carbon capture and storage (CCS) help reduce impacts on the environment by reducing carbon dioxide emissions. Working with stakeholders to streamline and rationalize the natural resource regulatory system achieves the significant benefits of a lessened impact on the environment, reduced costs to residents, improved industry competitiveness and new innovation.

The department is committed to investing in research and development to identify energy trends, new energy sources and issues related to the development of energy. Understanding current and future trends allows the province to position itself to take advantage of new markets. This also enables the ministry to improve awareness provincially, federally and globally as to how the province develops energy, what economic benefits result, and what measures are taken to ensure the environment is protected for future generations.

The Government of Alberta has established, in legislation and policy, a regulatory framework intended to ensure that the discovery, development and delivery of Alberta's energy resources and the development of Alberta's utility system take place in a manner that is fair, responsible and in the public interest.

The Energy Resources Conservation Board (ERCB) regulates the discovery and development of Alberta's energy resources, including oil, natural gas, oil sands and coal, and all pipelines used for their delivery. The ERCB ensures that development takes place in the public interest, having regard for social, economic and environmental impacts, including resource conservation. The ERCB consistently reexamines its regulatory requirements and improves them wherever needed by engaging its stakeholders. As the development of Alberta's unconventional and newer resources is growing, the ERCB will be proactive in identifying and addressing emerging issues while continuing to deliver safe, responsible and effective regulation.

The Alberta Utilities Commission (AUC) regulates the utilities sector, natural gas and electricity markets to protect social, economic and environmental interests of Alberta where competitive market forces do not. The AUC makes timely decisions on regulated utility rates, and electricity and natural gas transmission and distribution facilities, which are needed to attract investment, meet future needs and ensure fair pricing. The AUC adjudicates market contraventions to ensure that business is conducted in a fair, efficient and openly competitive manner. The AUC has rule-making responsibility related to data communications transactions and the delivery of these transactions to market participants to support well-functioning electricity and natural gas markets.

Key Achievements

Under the direction of the Council of the Federation, a working group from the co-lead provinces, Alberta, Manitoba and Newfoundland and Labrador, was formed in 2012 to coordinate the development of a Canadian Energy Strategy.

This working group collaborates with provincial and territorial energy ministers to build upon the vision and principles of the Council's 2007 strategy: *A Shared Vision for Energy in Canada*. The participating premiers agreed to develop the vision and principles and move forward with 10 action items. Ten cross-provincial and territorial teams have been formed to further refine the areas of focus and identify areas to be addressed. Alberta is steering four of the teams, has delegated officials participating on the other six, and has established a secretariat to lead the department's work on this initiative.

The Canadian Energy Strategy will enhance Canada's profile as a recognized leader in sustainable and secure energy production, supply and transportation. Canada's provinces and territories will continue to work together to create jobs, grow the national economy, provide manufacturing opportunities, and advance research and technological innovation.

The department continued to participate in the Federal/Provincial/Territorial Steering Committee on Energy Efficiency, which is responsible for implementing priority energy efficiency actions approved at the 2012 Energy and Mines Ministers' Conference. The committee promotes the increase of energy efficiency within each jurisdiction by sharing information and resources that improve program design and policy development.

The *Responsible Energy Development Act* (REDA) received royal assent on December 10, 2012. The act established the new Alberta Energy Regulator (AER), which began operating in June 2013 and will take over regulatory functions concerning upstream resource development previously conducted by the ERCB and the Ministry of Environment and Sustainable Resource Development over the course of a year. By integrating these functions, the government will address landowners' concerns and enhance their ability to participate in the regulatory and approval process for new and existing development projects. At the same time, the new approach will provide industry with an effective, transparent and streamlined process to approve new projects and engage with stakeholders.

The Policy Management Office (PMO), established in September 2012 and jointly reporting to Energy and Environment and Sustainable Resource Development, ensures integration of natural resource policies by acting as an interface between government policy development in departments and policy assurance in the AER.

The PMO is responsible for leading implementation of the six Enhancing Assurance recommendations, which include: establishing a single regulatory body for upstream oil and gas; oil sands and coal development activities; providing a clear engagement process at the policy development and assurance stages; ensuring a common risk assessment and management approach; adopting a performance-measurement framework and public reporting function; and ensuring an effective mechanism to address landowners' concerns.

Starting in February 2013, the PMO began holding public consultation sessions and First Nations' and Metis consultation sessions. Input from these sessions, and from an online survey, will inform the development of regulations to support REDA.

To help provide an interface between policy development and assurance, the PMO began to develop a policy access system, called the Alberta Responsible Energy Policy System (AREPS). This system will provide a single source for locating policies related to and affecting the development of upstream oil, gas, oil sands and coal resources.

The Lower Athabasca Regional Plan (LARP), the first of seven regional plans across the province, was approved by the Government of Alberta on August 22, 2012, and the regulatory components of the plan came into force on September 1, 2012.

The LARP provides strategic direction to balance long-term opportunities for oil sands development with important environmental and social considerations. Implementation of key environmental strategies under the LARP is now underway, including management frameworks, new conservation areas and provincial recreation areas. To achieve the management intent of the new conservation areas and provincial recreation areas designated under the plan, the ministry sent “Notice of Intent to Cancel” letters to oil sands and metallic and industrial minerals agreement holders in these areas in March 2013.

Background preparation work continued during 2012-13 on the North Saskatchewan Regional Plan and the Upper and Lower Peace Regional Plans. The department provided technical analyses of energy and mineral resources in these regions to the Land Use Secretariat, which leads a Cross-Ministry Planning team’s efforts to support and provide policy guidance for the development and implementation of regional plans under the government’s Land-Use Framework. The first and second phases of public consultation for the South Saskatchewan Regional Plan were completed as of December 21, 2012. The government will consult with Albertans again before the final plan is developed.

On May 8, 2012, the Oil Sands Sustainable Development Secretariat moved to the Ministry of Energy. The secretariat collaborates with ministries, industry, communities and stakeholders to advance the implementation of *Responsible Actions: A Plan for Alberta’s Oil Sands*, Alberta’s 20-year strategic plan to address environmental, social and economic issues and opportunities in the oil sands regions.

Many of these issues and opportunities are being addressed under the Comprehensive Regional Infrastructure Sustainability Plans (CRISP). These plans are a long-term, flexible and integrated approach to planning for growth and investment in oil sands areas, requiring coordination between the Government of Alberta, municipalities, non-governmental organizations, industry and Aboriginal communities. CRISPs are intended to optimize economic growth, reduce the environmental footprint and increase the quality of life for Albertans today and in the future by focusing on urban expansion, transportation, schools, health and correctional facilities, water and wastewater treatment facilities and utilities.

In 2012-13, work continued on the Athabasca Oil Sands Area (AOSA) CRISP. Key stakeholders were consulted to develop new guidelines for future approvals of work camps in the AOSA, and they were also engaged to review transportation infrastructure and legislation to identify new road corridors, prioritize infrastructure projects, and draft preliminary amendments for greater usage of bus rapid transit in the region. Finally, an Aviation Advisory Group was established to provide recommendations for future air transportation planning and development.

Work on the Cold Lake Oil Sands Area (CLOSA) CRISP concluded in February 2012. During 2012-13, this plan went through a review process in preparation for public release.

In 2012-13, work also began on the Peace River Oil Sands Area (PROSA) CRISP. Preliminary data gathering was started, and invitations were sent to stakeholders in the region to help support development of the CRISP, with meetings held in January and March 2013.

Stakeholder consultations were also conducted for the Urban Development Sub-Region (UDSR). The UDSR will be an area of Crown land surrounding Fort McMurray where the primary intended land use will be urban development.

The department’s $6.5 million consumer rebate grant agreement with C3 (previously Climate Change Central) concluded at the end of 2012. Rebates were provided for energy efficient furnaces, clothes washers, hybrid taxis and home evaluations. Together with funding provided by Environment and Sustainable Resource Development, the consumer rebate program is expected to reduce greenhouse gas emissions by 2.5 megatonnes over the lifetime of the equipment that was installed.

The ERCB continued to ensure energy development in Alberta is regulated in a fair and responsible manner by:

- releasing a Draft Hydraulic Fracturing Directive for public feedback that addresses sub-surface issues related to the increasing use of hydraulic fracturing with horizontal drilling, such as interwellbore communication impacts, wellbore integrity and requirements for wells in shallow zones to protect groundwater; and
- publishing a discussion paper for public feedback on a new approach to oil and gas regulation that will encourage early and meaningful stakeholder engagement, minimize surface impacts, protect water and maximize resource recovery.

To preserve high standards of public safety, environmental protection and resource conservation, the ERCB updated and enforced compliance with regulations by:

- Issuing *Directive 059: Well Drilling and Completion Data Filing Requirements*, which clarified and established specific requirements for industry disclosure of hydraulic fracturing fluids. This included the disclosure of fracture fluid information online at www.fracfocus.ca. Specific chemicals and additives, volume and concentration, as well as carrier fluid water volumes are collected and posted online.
- Issuing four high risk enforcement actions against Plains Midstream Canada in relation to a 2011 oil spill from the NPS20 Rainbow Pipeline in Northern Sunrise County. Following the spill, the ERCB launched a comprehensive investigation that included a technical review of the causes of the incident and emergency response activities, and identified specific areas for company improvement and recommendations for enforcement action. The ERCB also issued a high risk enforcement action against Pembina Pipeline Corporation and a low risk enforcement action against Pengrowth Energy for pipeline spills that occurred in 2011.
- Introducing amendments to *Directive 006: Licensee Liability Rating (LLR) Program and Licence Transfer Process* and *Directive 011: Licensee Liability Rating (LLR) Program – Updated Industry Parameters and Liability Costs*. These amendments resulted in a more accurate assessment of the costs to abandon and reclaim oil and gas wells, facilities, pipelines and associated sites. The changes will also help minimize financial risk to the Orphan Well Fund and protect Albertans from the costs of reclaiming upstream oil and gas wells, facilities and pipelines arising from defunct licensees.

Regulatory processes within the AUC continued to be enhanced to introduce shorter application cycles and reduce regulatory burden through the elimination of routine, low risk applications:

- The AUC developed guidelines to aid applicants when determining what type of application is required for minor alterations to power plants, substations or transmission lines, or streamlining the application process by allowing applicants to file using a letter of inquiry.
- Through a flexible and collaborative consultation process, AUC Rule 012 was amended to address wind noise masking issues, allowing wind farm operators to adjust permissible sound levels under certain circumstances. Also, stakeholders received revisions to the wind regulatory review process to suggest introduction of a buildable area concept. This would allow applicants greater flexibility to consider alternative technologies or equipment pricing for applications in progress.
- A review of gas utility pipeline integrity management and emergency response plans was conducted by the AUC to evaluate existing practices to detect potential pipeline failures and to evaluate the protocols in place should an emergency situation arise.

Performance Measure:
2.a Albertans' assessment of their energy knowledge.

Target:
To increase Albertans' assessment of their knowledge of the energy industry in Alberta.

Results:

Year Ending December 31

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
Albertans' Assessment of their Energy Knowledge	n/a	70%	n/a[1]	63%	n/a[1]

Source: 2011 OmniAlberta Survey

Note:
[1] This survey is conducted every second year (biennially)

Discussion of Results

The Government of Alberta's long-term vision for energy development in the province identifies the need for Albertans to increase their knowledge and awareness about Alberta's energy resources and how these resources contribute to Alberta's economy and prosperity. Substantive improvements for increased energy knowledge among Albertans is a long-term goal and in the early years the results may fluctuate. This performance measure tracks Albertans' assessments of their knowledge of energy through a biennial survey.

Since the last survey was conducted in April 2011, the department has been laying the foundations to enhance Albertans' energy knowledge. The following are just a few examples: assisting with the development of the Oil Sands Information Portal, launched in 2011; providing project grant funding to fact-based energy literacy providers; obtaining representation on Synergy Alberta's Board of Directors; engaging in cross-ministry initiatives to address gaps in energy information; and participating in pan-Canadian Energy Information and Awareness dialogues.

There are many factors that can influence how Albertans rate their knowledge of the energy industry, including conflicting stories in the media, ease of access to energy information or even an individual's personal interest in energy information.

Performance Measure:
2.b Regulatory noncompliance.

Target:
Less than or equal to three per cent of field inspections finding high risk regulatory noncompliance.

Results:

Year Ending December 31

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
Regulatory noncompliance (ERCB): Percentage of field inspections finding high risk regulatory noncompliance	2.1%	1.7%	1.7%	3.2%	3.6%

Source: Field Surveillance Inspection System database and Energy Resources Conservation Board Waste Plant Spreadsheet, March 2013

Discussion of Results

High risk noncompliance is when a contravention of regulation(s)/requirement(s) is found that the licensee has failed to address and/or that has the potential to cause a significant impact on the public and/or environment and/or resource conservation. This performance measure helps indicate industry's compliance with regulatory requirements.

In calendar year 2012, there were 12,481 initial inspections. Of these inspections, 447 found high risk noncompliances, with 174 relating to pipelines.

Year	Number of high risk regulatory noncompliance inspections	Total number of inspections	Percentage of field inspections finding high risk regulatory noncompliance
2012	447	12,481	3.6%
2011	438	13,832	3.2%

The 2012 result was 0.6 per cent above the 2012-13 target of 3.0 per cent. The target has been established based on historical data and is the expected percentage of field inspections finding high risk regulatory noncompliance. The target was established prior to 2011 when the board of the ERCB adopted the use of an Integrated Risk Management (IRM) framework. This risk management tool has been integrated into the ERCB's field inspections over the past year – with inspectors focusing on higher risk, higher value inspections as determined by the Field Operations Technical Specialist in each inspection discipline and by the Team Leaders in each Field Centre area. The percentage of field inspections finding high risk regulatory noncompliance is driven by both the number of high risk noncompliance inspections and the total number of initial inspections conducted. The reduction in the total number of inspections and the increase in the number of high risk regulatory noncompliance inspections led to a higher percentage of field inspections finding high risk regulatory noncompliance in 2011.

ERCB works with industry on the prevention of regulatory noncompliance. To ensure that industry operations staff better understand regulatory requirements, the ERCB continues to educate industry through presentations and operator awareness sessions.

GOAL 3 - Development of energy related infrastructure and cleaner energy technologies is actively led and supported

Alberta's electricity system requires a transmission system with enough capacity to meet increasing demand. Natural gas and oil pipelines are needed to access new markets and infrastructure is needed to support the development of carbon capture and storage (CCS) technology. The Ministry of Energy works with other ministries to encourage development of energy infrastructure and broader social/community infrastructure in support of future economic prosperity.

Reliable and efficient energy markets are vital to the social and economic foundation of Alberta. Through policy and market design for wholesale and retail electricity and natural gas markets, reliable energy supplies and competitive prices for Alberta consumers are assured.

The Government of Alberta has established, in legislation and policy, a regulatory framework intended to ensure that the discovery, development and delivery of Alberta's energy resources, and the development of Alberta's utility system, take place in a manner that is fair, responsible and in the public interest.

The Alberta Utilities Commission (AUC) regulates the utilities sector, natural gas and electricity markets to protect social, economic and environmental interests of Alberta where competitive market forces do not. The AUC makes timely decisions on regulated utility rates, and electricity and natural gas transmission and distribution facilities, which are needed to attract investment, meet future needs and ensure fair pricing. The AUC adjudicates market contraventions to ensure that business is conducted in a fair, efficient and openly competitive manner. The AUC has rule-making responsibility related to data communications transactions and the delivery of these transactions to market participants to support well-functioning electricity and natural gas markets.

Using new or improved technologies will help decrease emissions, minimize development costs, and reduce the use of natural gas and water in energy development, while realizing large-scale carbon capture, increased resource recovery and expansion of Alberta's renewable energy production capacity. This requires partnering and working with stakeholders to support and encourage energy research by industry, government, universities and research organizations.

Sustaining and building organizational capacity is fundamental to the ministry's effectiveness. To optimally position the ministry to respond to current and evolving business requirements, there is focus on having the right resources, people, finances, information, technology, processes and tools in place.

Key Achievements

The Critical Transmission Review Committee (CTRC) was established to review the two high-voltage, direct current (HVDC) transmission facilities and the *Electric Statutes Amendment Act,* 2009. The CTRC, an expert panel, consulted with over 40 organizations in developing its recommendations and conclusions.

Based on the information received, the CTRC recommended proceeding with the development of the two 500 kV HVDC transmission lines as soon as possible. The AUC, after extensive public hearings, approved the routing of the two lines in 2012-13. In its decisions, the AUC utilized landowner-generated and environmentally-favourable route selections as those were found to be in the public interest and superior to other potential routes. Construction of infrastructure for the lines has begun.

The CTRC also recommended the Government of Alberta amend legislation authorizing it to designate future proposed critical transmission infrastructure. Accordingly, the Alberta Legislature passed changes to that effect in the *Electric Utilities Amendment Act* in December 2012.

The Department of Energy worked with Environment and Sustainable Resource Development to provide the federal government with an understanding of Alberta's electricity system and the potential economic and policy impacts to Alberta associated with the proposed federal coal regulations.

Released in September 2012, this analysis provided context for several changes to the final version of the federal regulations, which will reduce the impacts on Alberta's consumers, the electric system and the economy. The department continues to work with Environment and Sustainable Resource Development to evaluate the potential benefits of pursuing an equivalency agreement.

The ministry developed and continued its implementation of six transmission cost management initiatives announced by the Minister of Energy on January 29, 2013. Implementation will continue throughout 2013-14. The six cost management initiatives are:

- AUC Cost Oversight;
- Cost Oversight Manager Function;
- AUC Transmission Cost Recovery Review;
- Competitive Procurement Process;
- Transmission Connection Process Review; and
- Transmission Facilities Cost Monitoring Committee (TFCMC).

The Transmission Regulation was amended in September 2012 to facilitate a competitive procurement process for contracts, allowing successful proponents to build and operate certain transmission facilities. The department continues to monitor the Alberta Electric System Operator's (AESO) activities, with respect to transmission cost management initiatives, transmission system planning (including connections with neighbouring jurisdictions), transmission line losses and transmission congestion. There is also continued support of the TFCMC as it reviews records relating to the cost, scope and schedule of transmission facility projects in Alberta that are expected to cost more than $100 million.

In January 2013, the first stage of performance-based regulation (PBR), intended to reform utility rate setting in Alberta, came into effect. The AUC is changing the way distribution utility rates are set to incent companies to be more efficient. This change will mean rates can be lowered over time when compared to the traditional cost-of-service model, while still safeguarding system reliability and service quality. PBR is also designed to reduce the number, length, cost and complexity of regulatory hearings.

The AUC also streamlined the notification process by developing protocols to ensure potentially affected Albertans are provided a variety of opportunities for input into the public review process. As part of this process, the AUC also revised its mapping templates to clearly identify proposed development areas and updated processes for smaller routine applications (such as substations) in more remote areas. The AUC expanded information sessions to include gas transmission pipeline need applications in anticipation of an increase in these applications.

The ministry supported the establishment of the independent Retail Market Review Committee (RMRC) in early 2012. The RMRC produced a 391-page report with 41 recommendations. The Government of Alberta drafted a response to the RMRC report, which was released by the Minister of Energy on January 29, 2013, accepting 33 of the recommendations in principle. When implemented, the recommendations will provide consumers with improved retail choices and enhanced information to protect vulnerable Albertans and strengthen consumer advocacy. Two of these recommendations have already been implemented: a reduction in month-to-month price volatility for consumers by improving rules governing the purchase of electricity by regulated rate providers and lifting the freeze on applications for new distribution charges.

The remaining recommendations will be implemented by the MLA RMRC Implementation Team (MLA RIT), established in the spring of 2013.

The Innovative Energy Technologies Program (IETP) continues its commitment to establish the province as a world-class centre for responsible energy development. Prior to 2012, the program funded 37 projects through the first 5 calls for proposals. These projects address a variety of research interests, such as improvement in extraction efficiency, advancing production technologies to produce bitumen in reservoirs (that are not yet commercial), increasing understanding of coalbed methane production, and expansion of new enhanced oil and gas recovery technologies into previously inaccessible or challenging oil and gas deposits. In 2012-13, there were 14 active projects, with 5 being completed during the year.

The IETP has contributed to successes in enhanced oil recovery through its support of the first field-wide polymer flood in Canada. To date, the incremental royalties from that project have exceeded $23 million. Based on production projections, it is anticipated to continue to pay upwards of $50 million in incremental royalties through the end of the project. Additionally, the IETP funded the first steam assisted gravity drainage project in a carbonate formation in Alberta with the potential to reach an additional 300 billion barrels of bitumen.

The department continues to support and collaborate with research organizations on the following:

- funding and leadership of initiatives led by the Petroleum Technology Alliance of Canada (PTAC);
- funding and leadership of the Gas Over Bitumen Technical Committee;
- funding for initiatives led by Alberta Innovates: Technology Futures;
- funding of studies led by Alberta Innovates: Energy and Environment Solutions;
- funding and participation in the Canadian Energy Research Institute (CERI); and
- funding for the Canadian Oil Sands Dialogue.

Support continues for research studies that advance knowledge related to resource policy development covering a wide range of topics such as furthering the understanding of the lifecycle of crude oils, bitumen, alternative energy, greenhouse gas (GHG) reduction and others.

The ministry continues to advance the development of an Alternative and Renewable Energy Policy Framework for the province. The framework is closely linked with the Government of Alberta's Climate Change Strategy and will help guide the province in achieving its 2050 GHG emissions reduction target. More than 45 per cent of the province's electricity generating capacity comes from alternative and renewable energy sources including wind, hydro, biomass and natural gas cogeneration.

Alberta's renewable energy sources are not limited to electricity. As of the end of 2012-13, two liquid biofuels facilities were operating with a combined annual capacity of 85 million litres. Currently, there are an additional six liquid biofuels facilities under development, which will increase Alberta's biofuel capacity to 464 million litres annually by 2015. These facilities currently are being supported under the Bioenergy Production Credit Program through until 2016, and they also were recipients of past grants under the department's bioenergy legacy programs, which ended in 2011. Alberta's Renewable Fuels Standard has required an annual average of two per cent renewable diesel in diesel fuel and five per cent renewable alcohol in gasoline sold in Alberta. This has reduced GHG emissions by at least one million tonnes per year, which is the equivalent of removing 200,000 cars from Alberta roads.

The Government of Alberta is a world leader in taking action to support the development of CCS technology and has committed almost $1.3 billion over 15 years to two commercial-scale CCS projects in the province: the Shell Quest Project and the Alberta Carbon Trunk Line. These projects will reduce the province's GHG emissions by approximately 2.8 million tonnes per year by 2016 and represent the largest per capita investment in CCS technology in the world.

The Government of Alberta completed a Regulatory Framework Assessment in December 2012 to prepare for full-scale operational CCS projects. This assessment focused on regulations that currently apply to CCS in Alberta as well as regulations and leading practices in other jurisdictions. The process also examined in detail the technical, environmental, safety, monitoring and closure requirements that apply to a CCS project. Canadian and international experts from industry, universities, research organizations, environmental groups, and provincial and national governments participated. The Regulatory Framework Assessment resulted in 71 individual recommendations and 9 conclusions.

Performance Measure:

3.a Transmission losses (per cent).

Target:

To show improvement year over year (improvement is indicated by a reduction in numbers). The target for 2012-13 was 3.7 per cent or less.

Results:

Year Ending December 31

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
Transmission Losses (%)	3.8%	3.6%	3.8%	3.4%	3.0%

Source: Alberta Electric System Operator (AESO)

Discussion of Results

Electricity is a facilitator of economic development in Alberta. A robust, reliable and efficient electricity transmission system is required to ensure electricity can be delivered where and when it is needed. By ensuring development of a robust transmission system, generation developers will know that they will be able to efficiently move their product to market. In turn, they will have confidence to develop new generation ensuring an adequate, reliable supply of electricity to Albertans. Until transmission is improved, potential renewable or low-emission electricity generation in Alberta will remain constrained by location. There are hydroelectric resources in the north, wind and solar in the south, and biomass in the northwest. Optimal use of power from these sources depends on our ability to bring it to where it is needed.

Transmission losses are an indicator of the efficiency of the transmission system. A transmission system with adequate capacity will have lower losses than a system that requires upgrading. According to the AESO, line loss volumes decreased in 2012 due to more generation from wind generation facilities in southern Alberta, reinforcements and improvements to the transmission system and higher supply from imports.

Performance Measure:
3.b Power generation.

Target:
Maintain a minimum seven per cent margin over peak demand.

Results:

Year Ending December 31

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
Power Generation: Margin (MW) between Firm Generating Capacity[1] and Peak Demand	20%	18%	17%	12%	18%

Sources: Energy Resources Conservation Board (ERCB); Alberta Electric System Operator (AESO); Department of Energy

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

[1] Firm Generating Capacity excludes:

- wind power, which is not dispatchable on a consistent basis;
- small hydro, which has minimal storage capability for operation during winter, when peak demand occurs;
- 25 per cent of large hydro, to reflect limitations on its output during winter, when peak demand occurs; and
- tie line capacity, which is not dispatchable on a consistent basis.

Discussion of Results
Alberta's economic prosperity and high standard of living relies on access to reliable and plentiful electricity. The Government of Alberta has created a framework that facilitates a competitive wholesale power market. This framework has resulted, over the long term, in electricity supply keeping pace with Alberta's growing demand for power.

For this measure, the seven per cent margin is a specific identifiable reliability requirement set by the Western Electricity Coordinating Council (WECC), the regional entity responsible for coordinating electric system reliability in the Western Interconnection that extends from Canada to Mexico.

Firm electricity generating capacity was calculated at 12,481 megawatts (MW) for 2012. This was a 4.8 per cent increase from the 2011 level. The peak demand in the winter period of the climatic year (October 1, 2012 to March 31, 2013) was 10,599 MW. This was 10 MW (or 0.1 per cent) lower than the all-time high of 10,609 MW set in the previous winter climatic year (October 1, 2011 to March 31, 2012). In 2012, the margin between the firm electricity generating capacity and peak demand increased to 18 per cent from the 2011 level of 12 per cent. The increase in reserve margin was the result of a substantially higher than expected increase in the firm generating capacity and an actual decrease, instead of an expected increase, in the annual peak demand for 2012.

Performance Measure:
3.c Timeliness of the needs and facility applications.

Target:
100 per cent of needs and facility applications determined within 180 days of the application being deemed complete.

Results:

	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Current Actual 2012
					Year Ending December 31
Timeliness of the needs and facility Applications (AUC): Percentage of needs and facility applications determined within 180 days of the application being deemed complete	100%	92%[1]	100%	98.7%	93.1%

Source: Alberta Utilities Commission (AUC)

Notes:

[1] The 2009 actual was revised from 97.8% to 92% to capture only needs and facility applications. The previously recorded results included applications for power plants and other minor facility applications which do not have the 180-day legislative deadline

Discussion of Results

In accordance with standards established in Alberta law, the AUC, when considering an application for an approval, permit or licence in respect of a needs identification document, transmission line or part of a transmission line, must make a decision in a timely manner, and if possible, within 180 days after receipt of a complete application.

For 2012, the AUC met this standard 93.1 per cent of the time as 81 of 87 decisions were issued within the 180-day timeline. Two of the decisions that missed the 180-day timeline were related to the western and eastern Alberta critical transmission infrastructure proceedings, which had lengthy hearings and utilized an enhanced public process. The other four decisions missed the 180-day timeline due to a variety of factors.

Appendix A: Performance Measure Methodologies

Performance Measure:

1.a Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions.

Methodology

Combined royalty and tax rate includes the following:

- Royalties;
- Corporate income taxes (federal and state/provincial);
- Severance taxes; and
- Ad valorem taxes.

Comparator jurisdictions for Alberta include British Columbia, Saskatchewan and the following U.S. states: Texas, Louisiana, Wyoming, Colorado, New Mexico, California, Pennsylvania, Oklahoma and New York.

This measure was chosen as a proxy for government share. The combined royalty and tax rate is a) measurable, b) commonly understood, c) proactive and timely, d) comparable with other jurisdictions, and e) consistent with other measures of competiveness.

This measure should be treated as an “early warning” signal to indicate whether the royalty system requires amendment. If comparison of combined royalty and tax rate is indicating possible fiscal system change, closer attention to the other indicators such as government share, investor rate of return and net present value would be required. This is more appropriately addressed through special studies that are future focused and account for the many factors that influence investment decisions.

The combined royalty and tax rates from all 12 comparator jurisdictions are manually calculated from data obtained from reliable third-party external sources, except for the Alberta effective royalty rate, which is provided from within the ministry. Combined royalty and tax values for each jurisdiction represent a summation of the various fiscal terms with some adjustments made to account for the deductibility of a fiscal term in the calculation of another.

The combined royalty and tax rates for each jurisdiction are then ranked with the lowest three comprising the first quartile.

Performance Measure:

1.b Revenues from oil, oil sands, gas and land sale bonuses are fully collected.

Methodology

Oil:

Oil royalty volumes owed to the Crown are calculated in the Royalty and Marketing (RAM) system. The volumes owed to the Crown are taken in kind. The volumes owed are imported from RAM into the Crude Oil Operation (COO) system. Reconciliations between the volumes calculated by RAM and the volumes actually delivered by industry are performed by the department and any discrepancies are followed up and resolved. The department collects the revenue for the Crown’s volumes marketed either directly or by the Crown’s agents, calculates the net value of all royalty sales and then remits the proceeds to Treasury.

Oil Sands Royalty:
The database, Oil Sands Calculation and Registry system (OSCAR), calculates the monthly amount to be collected based on the monthly Good Faith Estimates (GFE) and the Monthly Royalty Calculation (MRC) reporting forms. The OSCAR system then sends the revenue data to the Corporate Accounting Revenue System (CARS2). There are no manual interfaces and the data is reconciled monthly between these two systems. The monthly Non-Project Well Royalty (NPR) spreadsheets for oil sands wells that are not in an approved oil sands project are received and manually processed in spreadsheets.

Oil Sands Tenure and Land Sale Bonuses:
The majority of oil sands and petroleum and natural gas agreements are acquired through a public tender process. Each year the department holds an average of 24 public sales, referred to as "public offerings." The word "sale" is used by tradition, although it is a misnomer, since the Crown always retains title to its minerals. The rights are leased, not sold. The process is an auction, in which companies or individuals submit bids on a parcel of oil sands rights. The highest bidder for each parcel is awarded an agreement.

Any company or individual who wants to acquire an oil sands or petroleum and natural gas agreement may submit a posting request electronically to the department, using the Electronic Transfer System (ETS). The requested rights are examined to ensure availability for disposition. The requested lands are referred to the multi-agency Crown Mineral Disposition Review Committee to review for any surface access restrictions. The Committee provides the department with full information on the nature of any restriction (e.g., seasonal access restrictions for the protection of wildlife habitats). A description of the restriction and contact information, in the form of an addendum, is attached to the parcel of rights when posted in the Public Offering Notice. The Public Offering Notice is published eight weeks in advance of the sale date and is available on the department's website. After the sale is completed, the surface restriction on a parcel is recorded in the Notice to Lessee as an attachment to the agreement document upon issuance.

Bids for sale parcels are created and submitted electronically through ETS until noon on sale day after which the sale is closed and ETS will not allow a user to submit or withdraw a bid after that time. Sale days always occur on a Wednesday. The total bid request for each parcel must include a $625 agreement issuance fee, the first year annual rental of $3.50 per hectare and a bonus amount. There is a standard minimum bonus bid of $2.50 per hectare for leases and $1.25 per hectare for permits. The form of payment accepted for winning bids is by electronic funds transfer (EFT). The bidder must have an ETS account before creating and submitting a bid.

The sale results are published on the department's website, by 3:30 in the afternoon on the same day that the sale is conducted. The results include the parcel number, the name of each successful lessee and the bonus amount paid for each parcel.

Gas:
The Mineral Revenues Information System (MRIS) receives the data to perform monthly royalty calculations and generates a Gas Royalty Invoice on a monthly basis. MRIS passes a file to the CARS2 and a Statement of Account is generated on or before the fifteenth of each month in MRIS and issued to industry. Payments are due on the last day of the month. Aged Analysis reports are generated monthly on the CARS2 system. Collection action occurs on accounts that are past due.

Performance Measure:
1.c Alberta's oil sands supply share of global oil consumption.

Methodology

This measure is calculated as the annual ratio of the total number of barrels of Alberta oil sands production over the total number of barrels of world oil consumption:

$$\frac{\textit{Annual Barrels of Alberta Oil Sands Production}}{\textit{Barrels of World Oil Consumption}}$$

The total for annual barrels of Alberta oil sands production is the sum of total mined and in-situ bitumen production in any given calendar year. Bitumen production data is calculated the ERCB's reports. Global oil consumption data is based on the Oil Market Report, published by the International Energy Agency.

Performance Measure:

2.a Albertans' Assessment of their Energy Knowledge.

Methodology

This performance measure was introduced in the 2010-13 Energy Business Plan, with the first results obtained in the fall of 2009. The survey question for the new performance measure was the second of 16 energy-related questions included in the OmniAlberta Survey conducted by Leger Marketing. In April 2011, the survey was restricted to a single question within the OmniAlberta survey, with the rationale being that the statistical reliability would remain the same. There is no way to explain with absolute certainty whether the reduction in the number of questions impacted the 2011 results or whether there is any correlation between the number of questions asked and Albertans' assessment of their energy knowledge. Moving forward, a reintroduction of additional survey questions will be considered when the survey is conducted again in 2013.

Performance Measure:

2.b Regulatory Noncompliance.

Methodology

The ERCB established a three per cent target for this measure based on historical data. The target is the expected percentage of field inspections finding high risk regulatory noncompliance.

The ERCB uses a risk-based inspection strategy that focuses on higher value inspection work. The ERCB selects a sample for inspections based on both internally defined risk criteria and external factors such as incidents or complaints.

ERCB Field Operations staff inspect operations of the upstream oil and gas industry with respect to the drilling, production, and disposition of hydrocarbons and associated wastes. All inspection results are recorded as satisfactory, low risk noncompliant or high risk noncompliant and are entered into the Field Surveillance Inspection System database, with the exception of inspections of waste plants. These are tracked manually because the waste plants do not have licence numbers. Inspections and investigations are counted for the year that the event was initiated. Field inspections for this measure are initial inspections for drilling, gas facility, oil facility, pipeline, well service, drilling waste, well sites, and waste management operations completed in the calendar year.

Incidents or complaints change the focus of the inspection strategy from year to year as the ERCB expands the inspections to see if the problem is occurring at other sites. The findings of these inspections can have significant impact on the reported result.

Performance Measure:

3.a Transmission losses (per cent).

Methodology

Every year the Alberta Electric System Operator (AESO) publishes two data points required for transmission line loss calculations: the Alberta's annual internal load (in gigawatt hours) and line losses (in gigawatt hours). The calculation for this performance measure is:

$$\textit{Transmission Losses (\%)} = \frac{\textit{Line losses}}{\textit{Alberta's annual internal load}} \times 100\%$$

Performance Measure:

3.b Power generation.

Methodology

The intent of the measure is to demonstrate that there is sufficient margin between firm electricity generating capacity and peak demand. The margin for the measure is reported as the percentage MW difference between firm generating capacity and peak demand. For this performance measure, all wind and a portion of the hydro capacity, which are not dispatchable on a consistent basis, have been removed from the total installed generating capacity. Peak demand is defined as the highest recorded system demand (in megawatt hours) in the climatic year (October 1, 2012 through to March 31, 2013) as recorded by the AESO.

Methodology for calculating the margin was adjusted for the 2009-10 Annual Report. Previously, the margin was reported as the difference between total installed generating capacity (net of wind capacity) and peak demand. As a further refinement to the method, a portion of the hydro capacity has also been excluded from the calculation of the firm generating capacity. From an operational point of view, some portion of the hydro capacity may not be available at all times, especially when the peak demand occurs in the winter, due to the limited water storage capacity in the reservoirs. This aspect of the hydro units may put limitations on the amount of generation that can be dispatched from these units on a consistent basis. This adjustment helps further refine the calculation of the margin and makes it more representative of the situations where the full hydro capacity may not be available.

Performance Measure:

3.c Timeliness of the needs and facility applications.

Methodology

The statutory deadline for issuing decision reports is 180 days, with possible 90-day extensions under certain circumstances. These statutory timelines begin on the date when the AUC deems the application complete. The status of applications is tracked daily.

MINISTRY OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2013

Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements
I have audited the accompanying consolidated financial statements of the Ministry of Energy, which comprise the consolidated statement of financial position as at March 31, 2013, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Energy as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

June 3, 2013
Edmonton, Alberta

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2013

	(in thousands)		
	2013		2012
	Budget	Actual	Actual (Restated Note 3)
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 11,198,000	$ 7,622,387	$ 11,635,880
Freehold Mineral Rights Tax	152,000	119,047	128,952
Industry Levies and Licences	162,419	159,302	158,632
Other Revenue	12,759	31,799	20,248
	11,525,178	7,932,535	11,943,712
Expenses - Directly Incurred (Note 2 and Schedules 2 and 3)			
Ministry Support Services	6,832	6,762	7,485
Resource Development and Management	101,102	112,990	97,612
Bioenergy Initiatives	66,000	44,329	41,682
Energy Regulation	173,957	173,726	178,999
Utilities Regulation	38,514	36,143	34,528
Carbon Capture and Storage	140,000	116,011	21,481
Orphan Well Abandonment	13,000	13,001	13,116
Oil Sands Sustainable Development Secretariat	3,089	1,736	2,199
Settlements Related to the Land-Use Framework	-	30,500	-
	542,494	535,198	397,102
Net Operating Results	$ 10,982,684	$ 7,397,337	$ 11,546,610

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

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2013

	(in thousands) 2013	2012 (Restated Note 3)
Assets		
Cash and Cash Equivalents (Notes 4 and 8)	$ 343,554	$ 428,585
Accounts Receivable (Note 5)	981,794	1,036,899
Inventory Held for Resale	13,430	27,984
Prepaid Expenses	11,269	9,096
Tangible Capital Assets (Note 6)	94,406	101,806
	$ 1,444,453	$ 1,604,370
Liabilities		
Accounts Payable and Accrued Liabilities	$ 321,760	$ 721,385
Gas Royalty Deposits (Note 7)	337,467	406,192
Unearned Revenue	79,127	78,637
Security Deposits (Note 8)	52,520	46,424
Tenant Incentives	24,284	25,694
Pension Obligations (Note 9)	4,025	4,011
	819,183	1,282,343
Net Assets (Liabilities):		
Net Assets (Liabilities) at Beginning of Year	322,027	(31,453)
Net Operating Results	7,397,337	11,546,610
Net Financing Provided from (for) General Revenues	(7,094,094)	(11,193,130)
Net Assets (Liabilities) at End of Year	625,270	322,027
	$ 1,444,453	$ 1,604,370

Contractual Obligations and Contingent Liabilities (Notes 11 and 12)

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

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2013

	(in thousands) 2013	2012 (Restated Note 3)
Operating Transactions		
Net Operating Results	$ 7,397,337	$ 11,546,610
Non-cash items included in Net Operating Results		
Amortization	21,046	22,692
Loss on Disposal of Tangible Capital Assets	971	6,288
	7,419,354	11,575,590
Decrease (Increase) in Accounts Receivable	55,105	(69,160)
Decrease (Increase) in Inventory	14,554	(10,456)
(Increase) Decrease in Prepaid Expenses	(2,173)	1,802
Decrease in Accrued Pension Asset	-	7,524
Decrease in Accounts Payable and Accrued Liabilities	(399,625)	(254,252)
Increase in Unearned Revenue	490	3,285
Decrease in Tenant Incentives	(1,410)	(1,411)
Increase in Pension Obligation	14	4,011
Reduced Rent Benefits	-	589
Cash Provided by Operating Transactions	7,086,309	11,257,522
Capital Transactions		
Acquisition of Tangible Capital Assets	(14,617)	(19,951)
Cash Applied to Capital Transactions	(14,617)	(19,951)
Financing Transactions		
Net Financing Provided from (for) General Revenues	(7,094,094)	(11,193,130)
Decrease in Gas Royalty Deposits	(68,725)	(67,228)
Increase in Security Deposits	6,096	2,846
Adjustment to Net Opening Assets	-	(11,549)
Cash Applied to Financing Transactions	(7,156,723)	(11,269,061)
Decrease in cash and cash equivalents	(85,031)	(31,490)
Cash and cash equivalents at Beginning of Year	428,585	460,075
Cash and cash equivalents at End of Year	$ 343,554	$ 428,585
Non-cash transactions:		
Additions to property and equipment received as a lease incentive	$ -	$ 1,301

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

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 (The Department)	*Government Organization Act*
Energy Resources Conservation Board (The ERCB)	*Energy Resources Conservation Act*
Alberta Utilities Commission (The AUC)	*Alberta Utilities Commission Act*
Alberta Petroleum Marketing Commission (The Commission)	*Petroleum Marketing Act* and the *Natural Gas Marketing Act*
Post-Closure Stewardship Fund	*Mines and Minerals Act*

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

Basis of Financial Reporting

Basis of Consolidation

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

The reporting period of the Commission is December 31. Transactions that have occurred during the period January 1 to March 31 and that significantly affect the consolidation have been recorded.

In December 2012, the Lieutenant Governor in Council gave Royal Assent to Bill 2, the *Responsible Energy Development Act*. Bill 2 will come into force on proclamation and will establish the Alberta Energy Regulator (AER) to oversee oil, gas, oil sands and coal development in the province. The AER will supersede the ERCB and will be responsible for the existing regulatory functions of the ERCB as well as certain functions of Alberta Environment and Sustainable Resource Development. These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

The Bill is expected to be proclaimed in part in June 2013. Upon proclamation of the Bill, the ERCB will be dissolved and all ERCB assets, liabilities, obligations, commitments and contingencies will be transferred to the AER. The remainder of the Bill is expected to be proclaimed by June 2014, transferring additional jurisdictions to the AER.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

Basis of Financial Reporting (cont'd)

Revenues

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

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

Bitumen royalty is determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

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

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

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

Expenses

Directly Incurred

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

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

- amortization of tangible capital assets.

- pension costs which comprise the cost of employer contributions for current service of employees during the year.

- current service costs for the defined benefit pension plans. The ERCB and the AUC have their own defined benefit pension plans. The ERCB's and the AUC'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 retirement age of employees. Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 7 years. For the purpose of calculating the expected return, plan assets are valued at fair value. Past service costs arising from plan amendments are accounted for in the period of the plan amendment.

- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

Basis of Financial Reporting (cont'd)

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

Incurred by Others

Services contributed by other entities in support of the Ministry operations are disclosed in Schedule 3 and are not reflected in the consolidated statements of operations.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Ministry 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 $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

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

When physical assets are gifted or sold for a nominal sum, the net book values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

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

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

Valuation of Financial Assets and Liabilities

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

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

Net Assets (Liabilities)

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

Canadian Public Sector Accounting Standards require a "net asset/debt" presentation for the statement of financial position in the summary financial statements of governments. Net asset/debt presentation reports the difference between financial assets and liabilities as "net asset" or "net financial debt" as an indicator of the future revenues required to pay for past transactions and events. The Ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net asset/debt indicator.

(in thousands)

Note 3 Government Reorganization

As a result of restructuring of government ministries announced on May 8, 2012 and other transfer of responsibilities to and from other Ministries, the Ministry was assigned the Alberta Oil Sands Sustainable Development Secretariat program, and it assigned SREM Aboriginal Affairs Branch to the Ministry of Environment and Sustainable Resource Development. The comparatives for 2012 have been restated as if the Oil Sands Sustainable Development Secretariat program had always been assigned to the Ministry. Net assets on March 31, 2012 are made up as follows:

Net Assets (liabilities) as previously reported	$ 322,145
Transfer from the Department of Infrastructure	(173)
Transfer to the Department of Environment and Sustainable Resource Development	55
Net Assets (liabilities) at March 31,2012	$ 322,027

Note 4 Cash and cash equivalents

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta with the objective of providing competitive interest income to depositors while maintaining appropriate 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 March 31, 2013, securities held by the Fund have a time-weighted rate of return of 1.3% per annum (2012 - 1.3% per annum). Deposits received by the Ministry as security against leases are included in cash.

Note 5 Accounts Receivable

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

(in thousands)

Note 6 Tangible Capital Assets

	Land	Equipment	Computer hardware and software	Total
Estimated Useful Life	Indefinite	3 to 10 years	3 to 10 years	
Historical Cost				
Beginning of Year	$ 282	$ 71,551	$ 199,288	$ 271,121
Additions	-	3,867	10,750	14,617
Disposals, Including Write-Downs	-	(9,460)	(1,588)	(11,048)
	$ 282	$ 65,958	$ 208,450	$ 274,690
Accumulated Amortization				
Beginning of Year	$ -	$ 34,274	$ 135,041	$ 169,315
Amortization Expense	-	4,916	16,130	21,046
Effect of Disposals	-	(9,345)	(732)	(10,077)
	$ -	$ 29,845	$ 150,439	$ 180,284
Net Book Value, March 31, 2013	$ 282	$ 36,113	$ 58,011	$ 94,406
Net Book Value, March 31, 2012	$ 282	$ 37,277	$ 64,247	$ 101,806

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

Historical cost includes work-in-progress at March 31, 2013 totaling $1,567 (2012 - $3,387) comprised of computer hardware and software.

Note 7 Gas Royalty Deposits

The Ministry requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Ministry does not pay interest on the deposits.

Note 8 Security Deposits

The Ministry 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, 2013, the Ministry held $52,520 (2012 - $46,424) in cash and an additional $112,580 (2012 - $137,922) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 9 Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $20,931 for the year ended March 31, 2013 (2012 - $18,243). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303,423 (2011 - deficiency $517,726) and the Public Service Pension Plan reported a deficiency of $1,645,141 (2011 deficiency - $1,790,383). At December 31, 2012, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $51,870 (2011 - deficiency $53,489).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported an actuarial surplus of $51,717 (2012 - surplus $9,136) and the Management, Opted Out and Excluded Plan an actuarial surplus of $18,327 (2012 - surplus $10,454). The expense for these two plans is limited to the employer's annual contributions for the year.

In addition, the ERCB and the AUC maintain their own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2013. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2012. The effective date of the next required funding valuation for SEPP is December 31, 2014.

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

(in thousands)

Note 9 Employee Future Benefits (cont'd)

a) ERCB

	2013	2012
Accrued benefits obligations		
Discount rate	5.0%	5.0%
Rate of compensation increase	3.8%	3.8%
Long – term inflation rate	2.3%	2.3%

Pension benefit costs for the year	2013	2012
Discount rate	5.0%	5.5%
Expected rate of return on plan assets	5.0%	5.5%
Rate of compensation increase	3.8%	3.5%

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

	2013	2012
Market value of plan assets	$ 34,568	$ 31,788
Accrued benefit obligation	39,732	37,432
Plan (deficit) surplus	(5,164)	(5,644)
Unamortized net actuarial loss	1,904	2,400
Pension obligations	$ (3,260)	$ (3,244)

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

	2013	2012
Equity securities	50.9%	49.8%
Debt securities	38.0%	38.5%
Other	11.1%	11.7%
	100.0%	100%

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

	2013	2012
ERCB contribution	$ 2,468	$ 1,491
Employees' contribution	444	411
Benefit paid	1,859	2,551
Pension benefit costs	2,484	1,502

(in thousands)

Note 9 Employee Future Benefits (cont'd)

b) AUC

	2013	2012
Accrued benefits obligations		
Discount rate (weighted average)	4.82%	4.80%
Rate of compensation increase	3.75%	3.75%
Benefit costs for the year		
Expected rate of return on plan assets	4.82%	5.32%
Rate of compensation increase	3.75%	3.50%

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

	2013	2012
Market value of plan assets	$ 5,917	$ 4,925
Accrued benefit obligation	7,175	6,331
Plan deficit	(1,258)	(1,406)
Unamortized actuarial losses	493	639
Pension liability	$ (765)	$ (767)

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

	2013	2012
AUC contribution	$ 715	$ 455
Employees' contribution	111	105
Benefit paid	126	119
Pension benefit costs	713	456

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

	2013	2012
Equity securities	51.90%	50.83%
Debt securities	30.40%	31.22%
Other	17.70%	17.95%
	100.00%	100.00%

Note 10 Trust Funds under Administration

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

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

	2013	2012
Oil and Gas Conservation Trust	$ 4,201	$ 4,062

(in thousands)

Note 11 Contractual Obligations

Contractual obligations to outside organizations in respect of contracts entered into before March 31, 2013 amount to $1,609,641 (2012 - $2,006,257). These contractual obligations will become expenses of the Ministry when terms of the contracts are met.

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

	Grant Agreements	Service Contracts	Long-term Leases	Total
2014	$ 272,101	$ 20,895	$ 10,021	$ 303,017
2015	273,951	4,345	10,466	288,762
2016	345,337	3,882	10,683	359,902
2017	59,290	3,671	10,976	73,937
2018	49,600	4	10,932	60,536
Thereafter	411,860	7	111,620	523,487
	$ 1,412,139	$ 32,804	$ 164,698	$ 1,609,641

Alberta Petroleum Marketing Commission

On November 8th, 2012 the North West Redwater Partnership (Partnership), announced the sanctioning of the construction of Phase 1 of the Sturgeon Refinery which it will build, own and operate. The Commission has entered into agreements whereby the Partnership will process and market Crown royalty bitumen, or equivalent volumes, collected pursuant to the Bitumen Royalty in Kind initiative in order to capture additional value within Alberta. The Partnership will market the refined products (primarily ultra low sulphur diesel and low sulphur vacuum gas oil) on behalf of the Commission. There is financial risk to the Commission under these agreements related to the price differential between bitumen supplied as feedstock and marketed refined products, relative to the costs of the processing.

Under the processing agreement (available on the Department of Energy website) the Commission is obligated to pay a monthly toll comprised of operating, debt, equity, and profit share components on 37,500 barrels per day of bitumen (75% of the project's feedstock) for 30 years. The toll includes both flow through costs as well as costs that are capped at certain levels, such as the $6.5 billion cap on Facility Capital Costs, which are the key determinant of the debt and equity components of the toll. The Commission has very restricted rights to terminate the agreement, and if it is terminated the Commission remains obligated to pay the debt component of the toll. The term begins upon commencement of commercial operations, which is expected to be July 1st 2016.

The toll under the processing agreement, assuming a $5.7 billion Facility Capital Cost, market interest rates and 2% operating cost inflation rate, is estimated to be:

2013	$ 0
2014	$ 0
2015	$ 0
2016	$ 248,000
2017	$ 532,000
Beyond 2017	$ 18,316,000

On March 21st, 2013 the Commission signed a Memorandum of Understanding (MOU) with Energy East Pipeline Limited Partnership to purchase firm capacity of up to 100,000 barrels per day for a term of 20 years on TransCanada Pipelines' Eastern Mainline Conversion Project. Depending upon approval to construct the pipeline and the Commission's final capacity commitment, under the take-or-pay obligation, the Commission would pay up to approximately $5 billion in tolls over the 20 year term. The pipeline is expected to be in service as early as 2017.

Note 12 Contingent and Other Liabilities

The Ministry is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

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

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

The Ministry is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Ministry has been named in three (2012 Restated - three) claims of which the outcome is not determinable. Of these claims, two (2012 Restated - two) have specified amounts totaling $300,030 (2012 Restated - $300,110). The remaining one (2012 Restated - one) claim has no amounts specified. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the “BVM Regulation”) was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of a significant amount of bitumen through non-arm’s length transactions. Part of the method established by the BVM Regulation involves the use of a floor price which is calculated using the Maya heavy crude oil benchmark less \$250 dollars per m^3. The price ultimately determined by the BVM Regulation factors into the calculation of royalties due to the Province from oil sands projects.

The Province has “Royalty Amending Agreements” with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology (“BVM”) applicable to the project will include “reasonable adjustments” to reflect quality differences between the project’s bitumen and the reference price used in the BVM, and also to reflect transportation costs to the reference price location. The Province has designated a modified version of the BVM Regulation as the BVM to be used pursuant to the RAAs. Non-renewable resource revenue reported in 2013 on the statements of operations includes an estimate of the royalties that the Ministry expects to recover from Suncor and Syncrude.

Note 12 Contingent and Other Liabilities (cont'd)

(c) Bitumen Royalties (cont'd)

The Royalty Amending Agreements include provisions which allow Suncor and Syncrude to dispute the Province's compliance with these agreements through issuing notices of non-compliance. During 2010, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not address the reasonable quality and transportation adjustments required by their respective RAAs. In July 2012, Syncrude filed a non-compliance notice with respect to the floor price. The Ministry has forwarded letters advising Suncor and Syncrude to pay their royalty amounts according to their designated BVMs.

If the notices of non-compliance are not resolved, arbitration may result in one instance and court proceedings in the other. Currently, one party has initiated a dispute resolution proceeding. There may be potentially significant adjustments to the bitumen royalties reported following resolution of these issues.

The Province amended the Oil Sands Royalty Regulation, 1997 in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional crude bitumen. This royalty was due April 30, 2010. Suncor and Syncrude have indicated that no amounts are owing for this inventory because of their RAAs.

Note 13 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the consolidated financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $954,492 and bitumen royalty recorded as $3,559,924 in these financial statements are subject to measurement uncertainty.

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

For projects from which synthetic crude oil and bitumen royalties are paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Note 14 Related Party Transactions

The Ministry paid $5,438 (2012 - $7,022) to various other Government of Alberta departments, agencies or funds for grants, supplies and/or services during the fiscal year and received $148 (2012 - $242) as revenue.

Accommodations, legal, telecommunications, personnel, internal 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 15 Royalty Reduction Programs

The Ministry provides twelve oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2013, the royalties received under these programs were reduced by $682,403 (2012 - $428,748).

Note 16 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $35,079 (2012 - $53,745).

Note 17 Comparative Figures

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

Note 18 Approval of Financial Statements

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

MINISTRY OF ENERGY — Schedule 1

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Revenues

Year ended March 31, 2013

	2013		2012
	Budget	Actual	Actual
		(in thousands)	
Non-Renewable Resource Revenue			
Bitumen Royalty (Note 12c)	$ 5,653,000	$ 3,559,924	$ 4,512,990
Crude Oil Royalty	2,100,000	1,881,031	2,283,711
Natural Gas and By-Products Royalty	1,222,000	954,492	1,303,852
Bonuses and Sales of Crown Leases	2,037,000	1,053,401	3,312,331
Rentals and Fees	151,000	176,263	168,775
Coal Royalty *	35,000	(2,724)	29,089
Energy Industry Drilling Stimulus Program	-	-	25,132
	11,198,000	7,622,387	11,635,880
Freehold Mineral Rights Tax	152,000	119,047	128,952
Industry Levies and Licenses	162,419	159,302	158,632
Other Revenue			
Other	9,859	30,662	19,002
Interest	2,900	1,137	1,246
	12,759	31,799	20,248
Total Revenue	$ 11,525,178	$ 7,932,535	$ 11,943,712

* The negative revenue for Coal Royalty revenue in 2012-13 is primarily due to a large refund of $16 million for production in prior year.

MINISTRY OF ENERGY Schedule 2

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Expenses - Directly Incurred Detailed by Object

Year ended March 31, 2013

	2013		2012
	Budget	Actual	Actual (Restated)
		(in thousands)	
Salaries, Wages and Employee Benefits	$ 214,130	$ 215,731	$ 206,443
Supplies and Services	86,961	84,327	80,795
Grants	208,000	170,310	68,163
Amortization of Tangible Capital Assets	21,088	21,046	22,692
Orphan Well Abandonment	13,000	13,001	13,116
Financial Transactions and Other	120	31,538	6,417
Total Expenses before Recoveries	543,299	535,953	397,626
Less Recovery from Support Service Arrangements with Related Parties (a)	(805)	(755)	(524)
Total Expenses	$ 542,494	$ 535,198	$ 397,102

(a) The Ministry provides financial services to the Ministry of Tourism, Parks and Recreation and the Ministry of Environment and Sustainable Resource Development. Costs incurred by the Ministry for these services are recovered from the Ministry of Environment and Sustainable Resource Development.

MINISTRY OF ENERGY

Schedule 3

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Allocated Costs

Year ended March 31, 2013

(in thousands)

	2013								2012
		Expenses Incurred by Others							
Program	Expenses [1]	Accommodation Costs [2]	Transportation Costs	Service Alberta	GOA Learning Centre	Legal Services	Internal Audit Services	Total Expenses	Total Expenses (Restated)
Ministry Support Services	$ 6,762	$ 482	$ -	$ -	$ -	$ 58	$ -	$ 7,302	$ 7,632
Resource Development and Management	112,990	6,202	178	4,882	33	4,681	26	128,992	113,647
Bioenergy Initiatives	44,329	44	-	-	-	-	-	44,373	41,723
Energy and Utilities Regulation	173,726	87	-	-	-	-	-	173,813	178,999
Utilities Regulation	36,143	-	-	-	-	-	-	36,143	34,528
Carbon Capture and Storage	116,011	-	-	-	-	-	-	116,011	21,563
Orphan Well Abandonment	13,001	97	-	-	-	-	-	13,098	13,116
Oil Sands Sustainable Development Secretariat	1,736	-	-	-	-	-	-	1,736	2,199
Settlements Related to the Land-Use Framework	30,500	-	-	-	-	-	-	30,500	-
	$ 535,198	$ 6,912	$ 178	$ 4,882	$ 33	$ 4,739	$ 26	$ 551,968	$ 413,407

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

(2) Costs shown for Accommodation are allocated by budgeted Full-Time Equivalent Employment.

DEPARTMENT OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2013

Independent Auditor's Report

To the Minister of Energy

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Energy, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Energy as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

June 3, 2013
Edmonton, Alberta

DEPARTMENT OF ENERGY

STATEMENT OF OPERATIONS

Year ended March 31, 2013

	2013 Budget (Schedule 3)	2013 Actual	2012 Actual (Restated Note 3)
	(in thousands)		
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 11,198,000	$ 7,622,387	$ 11,635,880
Freehold Mineral Rights Tax	152,000	119,047	128,952
Other Revenue	500	23,620	11,285
	11,350,500	7,765,054	11,776,117
Expenses - Directly Incurred (Note 2 and Schedule 7) (Schedules 2 and 4)			
Ministry Support Services	6,832	6,762	7,485
Resource Development and Management	101,102	120,070	103,819
Bioenergy Initiatives	66,000	44,329	41,682
Carbon Capture and Storage	140,000	116,011	21,481
Energy Regulation	44,793	47,543	46,993
Oil Sands Sustainable Development Secretariat	3,089	1,736	2,199
Settlements Related to the Land-Use Framework	-	30,500	-
	361,816	366,951	223,659
Net Operating Results	$ 10,988,684	$ 7,398,103	$ 11,552,458

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

DEPARTMENT OF ENERGY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2013

	(in thousands) 2013	2012 (Restated Note 3)
Assets		
Cash and Cash Equivalents	$ 231,344	$ 318,787
Accounts Receivable (Note 4)	976,646	1,042,264
Tangible Capital Assets (Note 5)	35,452	37,359
	$ 1,243,442	$ 1,398,410
Liabilities		
Accounts Payable and Accrued Liabilities (Note 7)	$ 263,441	$ 654,221
Gas Royalty Deposits (Note 8)	337,467	406,192
Unearned Revenue	77,642	77,114
	678,550	1,137,527
Net Assets (Liabilities):		
Net (Liabilities) Assets at Beginning of Year	260,883	(98,445)
Net Operating Results	7,398,103	11,552,458
Net Financing Provided for General Revenues	(7,094,094)	(11,193,130)
Net Assets (Liabilities) at End of Year	564,892	260,883
	$ 1,243,442	$ 1,398,410

Contractual Obligations and Contingent Liabilities (Notes 9 and 10)

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

DEPARTMENT OF ENERGY

STATEMENT OF CASH FLOWS

Year ended March 31, 2013

	(in thousands) 2013	2012 (Restated Note 3)
Operating Transactions		
Net Operating Results	$ 7,398,103	$ 11,552,458
Non-cash items included in Net Operating Results		
Amortization	7,692	7,561
	7,405,795	11,560,019
Decrease (Increase) in Accounts Receivable	65,618	(77,514)
Decrease in Prepaid Expenses	-	1,937
Decrease in Accounts Payable and Accrued Liabilities	(390,780)	(258,774)
Increase in Unearned Revenue	528	3,379
Cash Provided by Operating Transactions	7,081,161	11,229,047
Capital Transactions		
Acquisition of Tangible Capital Assets	(5,785)	(6,852)
Cash Applied to Capital Transactions	(5,785)	(6,852)
Financing Transactions		
Net Financing Provided for General Revenues	(7,094,094)	(11,193,130)
Decrease in Gas Royalty Deposits	(68,725)	(67,228)
Cash Applied to Financing Transactions	(7,162,819)	(11,260,358)
Decrease in Cash and Cash Equivalents	(87,443)	(38,163)
Cash and Cash Equivalents at Beginning of Year	318,787	356,950
Cash and Cash Equivalents at End of Year	$ 231,344	$ 318,787

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

Note 1 Authority

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

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(a) Reporting Entity

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

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

(b) Basis of Financial Reporting

Revenues

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

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

Bitumen royalty is determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

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

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

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(b) Basis of Financial Reporting (cont'd)

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 such as salaries, supplies, etc., directly incurred expenses also include:

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

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

Incurred by Others

Services contributed by other entities in support of the Department operations are not recognized and are disclosed in Schedule 6 and allocated to programs in Schedule 7.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

Liabilities

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

Net Assets/Net Liabilities

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

Canadian Public Sector Accounting Standards require a "net asset/debt" presentation for the statement of financial position in the summary financial statements of governments. Net asset/debt presentation reports the difference between financial assets and liabilities as "net asset" or "net financial debt" as an indicator of the future revenues required to pay for past transactions and events. The Department operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net asset/debt indicator.

(in thousands)

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(b) Basis of Financial Reporting (cont'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 cash, accounts receivable, accounts payable and accrued liabilities, and gas royalty deposits are estimated to approximate their carrying values because of the short-term nature of these instruments.

Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $954,492 and bitumen royalty recorded as $3,559,924 in these financial statements are subject to measurement uncertainty.

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

For projects from which bitumen royalty is paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Note 3 Government Reorganization

As a result of restructuring of government ministries announced on May 8, 2012 and other transfer of responsibilities to and from other Ministries, the Department was assigned the Alberta Oil Sands Sustainable Development Secretariat program, and transferred Sustainable Resource and Environmental Management (SREM) Aboriginal Affairs Branch to the Ministry of Environment and Sustainable Resource Development. The comparatives for 2012 have been restated as if the Oil Sands Sustainable Development Secretariat program had always been assigned to the Department. Net assets on March 31, 2012 are made up as follows:

Net Assets as previously reported	$ 261,001
Transfer from the Department of Infrastructure	(173)
Transfer to the Department of Environment and Sustainable Resource Development	55
Net Assets at March 31,2012	$ 260,883

(in thousands)

Note 4 Accounts Receivable

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

Note 5 Tangible Capital Assets

	Equipment	Computer hardware and software	Total
Estimated Useful Life	3 to 10 years	10 years	
Historical Cost			
Beginning of Year	$ 20,428	$ 88,390	$ 108,818
Additions	2,744	3,041	5,785
Disposals, Including Write-downs	-	-	-
	$ 23,172	$ 91,431	$ 114,603
Accumulated Amortization			
Beginning of Year	13,128	58,331	71,459
Amortization Expense	2,398	5,294	7,692
Effect of Disposals	-	-	-
	15,526	63,625	79,151
Net Book Value at March 31, 2013	$ 7,646	$ 27,806	$ 35,452
Net Book Value at March 31, 2012	$ 7,300	$ 30,059	$ 37,359

Historical cost includes work-in-progress at March 31, 2013 totaling $732 (2012 - $2,534) for computer software.

Note 6 Over Expenditure of Authorized Spending

The Department's total of actual voted capital investment exceeded the authorized voted capital investment by $537 for the year ended March 31, 2012. As required by the *Financial Administration Act,* this amount must be charged against the voted appropriation for the year ending March 31, 2013. See Schedule 3 to the financial statements.

Note 7 Accounts Payable and Accrued Liabilities

	2013	2012 - Restated
Trade	$ 129,345	$ 45,220
Overpayments of Royalties	133,596	607,451
Alberta Royalty Tax Credit	500	1,550
	$ 263,441	$ 654,221

Note 8 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Department does not pay interest on the deposits.

Note 9 Contingencies and Other Liabilities

The Department is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

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

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

The Department is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Department has been named in three (2012 Restated - three) claims of which the outcome is not determinable. Of these claims, two (2012 Restated - two) have specified amounts totaling $300,030 (2012 Restated - $300,110). The remaining one (2012 Restated - one) claim has no amounts specified. The resolution of indeterminable claims may result in a liability, if any, that may be significantly lower than the claimed amount.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the “BVM Regulation”) was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of a significant amount of bitumen through non-arm’s length transactions. Part of the method established by the BVM Regulation involves the use of a floor price which is calculated using the Maya heavy crude oil benchmark less $250 dollars per m^3. The price ultimately determined by the BVM Regulation factors into the calculation of royalties due to the Province from oil sands projects.

The Province has “Royalty Amending Agreements” with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology (“BVM”) applicable to the project will include “reasonable adjustments” to reflect quality differences between the project’s bitumen and the reference price used in the BVM, and also to reflect transportation costs to the reference price location. The Province has designated a modified version of the BVM Regulation as the BVM to be used pursuant to the RAAs. Non-renewable resource revenue reported in 2013 on the statements of operations includes an estimate of the royalties that the Department expects to recover from Suncor and Syncrude.

(in thousands)

Note 9 Contingencies and Other Liabilities (cont'd)

(c) Bitumen Royalties (cont'd)

The Royalty Amending Agreements include provisions which allow Suncor and Syncrude to dispute the Province's compliance with these agreements through issuing notices of non-compliance. During 2010, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not address the reasonable quality and transportation adjustments required by their respective RAAs. In July 2012, Syncrude filed a non-compliance notice with respect to the floor price. The Department has forwarded letters advising Suncor and Syncrude to pay their royalty amounts according to their designated BVMs.

If the notices of non-compliance are not resolved, arbitration may result in one instance and court proceedings in the other. Currently, one party has initiated a dispute resolution proceeding. There may be potentially significant adjustments to the bitumen royalties reported following resolution of these issues.

The Province amended the Oil Sands Royalty Regulation, 1997 in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional crude bitumen. This royalty was due April 30, 2010. Suncor and Syncrude have indicated that no amounts are owing for this inventory because of their RAAs.

Note 10 Contractual Obligations

As at March 31, 2013, the Department had contractual obligations totaling $1,444,943 (2012 - $1,827,840). Contractual obligations are obligations of the Department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

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

	Grant Agreements	Service Contracts	Total
2014	$ 272,101	$ 20,895	$ 292,996
2015	273,951	4,345	278,296
2016	345,337	3,882	349,219
2017	59,290	3,671	62,961
2018	49,600	4	49,604
Thereafter	411,860	7	411,867
	$ 1,412,139	$ 32,804	$ 1,444,943

Note 11 Trust Funds under Administration

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

As at March 31, 2013, the funds in the Oil and Gas Conservation Trust was $4,201 (2012 - $4,062).

Note 12 Benefits Plans

The Department participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $8,939 for the year ended March 31, 2013 (2012 - $7,624). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2012, the Management Employees Pension Plan reported a deficiency of $303,423 (2011 - deficiency $517,726) and the Public Service Pension Plan reported a deficiency of $1,645,141 (2011 deficiency - $1,790,383). At December 31, 2012, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $51,870 (2011 - deficiency $53,489).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2013, the Bargaining Unit Plan reported an actuarial surplus of $51,717 (2012 - surplus $9,136) and the Management, Opted Out and Excluded Plan an actuarial surplus of $18,327 (2012 - surplus $10,454). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 13 Royalty Reduction Programs

The Department provides twelve oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2013, the royalties received under these programs were reduced by $682,403 (2012 - $428,748).

Note 14 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $35,079 (2012 - $53,745).

Note 15 Comparative Figures

Certain 2012 figures have been reclassified to conform to the 2013 presentation.

Note 16 Approval of Financial Statements

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

DEPARTMENT OF ENERGY

Schedule 1

SCHEDULE TO FINANCIAL STATEMENTS

REVENUES

Year ended March 31, 2013

	2013		2012
	Budget	Actual	Actual
		(in thousands)	
Non-Renewable Resource Revenue (Note 13)			
Bitumen Royalty (Note 9c)	$ 5,653,000	$ 3,559,924	$ 4,512,990
Bonuses and Sales of Crown Leases	2,037,000	1,053,401	3,312,331
Crude Oil Royalty	2,100,000	1,881,031	2,283,711
Natural Gas and By-Products Royalty (Note 14)	1,222,000	954,492	1,303,852
Rentals and Fees	151,000	176,263	168,775
Coal Royalty*	35,000	(2,724)	29,089
Energy Industry Drilling Stimulus Program	-	-	25,132
	11,198,000	7,622,387	11,635,880
Freehold Mineral Rights Tax	152,000	119,047	128,952
Other Revenue	500	23,620	11,285
Total Revenue	$ 11,350,500	$ 7,765,054	$ 11,776,117

* The negative revenue for Coal Royalty revenue in 2012-13 is primarily due to a large refund of $16 million for production in prior year.

DEPARTMENT OF ENERGY

Schedule 2

SCHEDULE TO FINANCIAL STATEMENTS

EXPENSES - DIRECTLY INCURRED DETAILED BY OBJECT

Year ended March 31, 2013

	2013		2012
	Budget	Actual	Actual (Restated)
		(in thousands)	
Grants	$ 252,793	$ 224,853	$ 120,156
Salaries, Wages and Employee Benefits	76,702	77,859	69,813
Supplies and Services	28,418	26,734	26,524
Amortization of Tangible Capital Assets	4,588	7,692	7,561
Financial Transactions and Other	120	30,568	129
Total Expenses before Recoveries	362,621	367,706	224,183
Less Recovery from Support Service Arrangements with Related Parties [(a)]	(805)	(755)	(524)
	$ 361,816	$ 366,951	$ 223,659

(a) The Department provides financial services to the Department of Tourism, Parks and Recreation and the Department of Environment and Sustainable Resource Development. Costs incurred by the Department for these services are recovered from the Department of Environment and Sustainable Resource Development.

Severance and termination payments amounting to $309 for eligible executive management positions are included in salaries, wages and employee benefits and supplies and services.

DEPARTMENT OF ENERGY — Schedule 3

SCHEDULE TO FINANCIAL STATEMENTS

LAPSE/ENCUMBRANCE

Year ended March 31, 2013

	Voted Estimates [1]	Adjustments [2]	Adjusted Voted Estimates	Actuals [3]	Unexpended (Over Expended)
			(in thousands)		
Program Operating					
Program - Ministry Support Services					
1.1 Minister's Office	$ 510	-	$ 510	$ 507	$ 3
1.2 Deputy Minister's Office	511	-	511	513	(2)
1.3 Communications	1,269	-	1,269	960	309
1.4 Corporate Service	4,542	-	4,542	4,782	(240)
	6,832	-	6,832	6,762	70
Program - Resource Development and Management					
2.1 Revenue Collection	47,600	-	47,600	44,551	3,049
2.2 Resource Development	41,879	-	41,879	57,556	(15,677)
2.3 Regulatory Enhancement	7,000	-	7,000	9,753	(2,753)
	96,479	-	96,479	111,860	(15,381)
Program - Bioenergy Initiatives					
3.1 Bioenergy Initiatives	66,000	-	66,000	44,329	21,671
	66,000	-	66,000	44,329	21,671
Program - Energy Regulation					
4.1 Energy Regulation	44,793	-	44,793	47,543	(2,750)
	44,793	-	44,793	47,543	(2,750)
Program - Oil Sands Secretariat					
6.1 Oil Sands Sustainable Development Secretariat	3,085	-	3,085	1,736	1,349
	3,085	-	3,085	1,736	1,349
Total	$ 217,189	$ -	$ 217,189	$ 212,230	$ 4,959
Lapse/(Encumbrance)					$ 4,959
Program - Capital Investments					
Program - Ministry Support Services	$ -	$ -	$ -	$ 176	$ (176)
Program - Resource Development and Management	6,315	(537)	5,778	5,609	169
Total	$ 6,315	$ (537)	$ 5,778	$ 5,785	$ (7)
Lapse/(Encumbrance)					(7)

(1) As per "Voted Expenses by Program" and Voted Capital Investment by Program" page of 2012-13 Governments estimates.

(2) Adjustments includes encumbrance approved by Treasury Board. An encumbrance is incurred when, on a vote by vote basis, the total of actual disbursements in the prior year exceed the total adjusted estimate. All calculated encumbrances from the prior year are reflected as an adjustment to reduce the corresponding Voted Estimate in the current year.

(3) Actuals exclude non-voted amounts such as statutory programs, amortization and valuation adjustments.

DEPARTMENT OF ENERGY
SCHEDULE TO FINANCIAL STATEMENTS
COMPARISON OF ACTUAL AND BUDGET
Year ended March 31, 2013

Schedule 4

	Estimates [1]	Actual Voted	Actual Not Voted [2]	Actual Total	Difference
			(in thousands)		
Expenses					
Expenses by Program					
Ministry Support Services	$ 6,832	$ 6,762	$ -	$ 6,762	$ 70
Resource Development and Management	101,102	111,860	8,210	120,070	(18,968)
Bioenergy Initiatives	66,000	44,329	-	44,329	21,671
Carbon Capture and Storage	140,000	-	116,011	116,011	23,989
Energy Regulation	44,793	47,543	-	47,543	(2,750)
Oil Sands Sustainable Development Secretariat	3,089	1,736	-	1,736	1,353
Settlements Related to the Land-Use Framework	-	-	30,500	30,500	(30,500)
	$ 361,816	$ 212,230	$ 154,721	$ 366,951	$ (5,135)
Expense by Fiscal plan category					
Operating Expense	219,228	212,230	32,029	244,259	(25,031)
Capital Grants and Support	138,000	-	115,000	115,000	23,000
Amortization of Tangible Capital Assets	4,588	-	7,692	7,692	(3,104)
	$ 361,816	$ 212,230	$ 154,721	$ 366,951	$ (5,135)
Capital investment by program					
Ministry Support Services	-	176	-	176	(176)
Resource Development and Management	6,315	5,609	-	5,609	706
	$ 6,315	$ 5,785	$ -	$ 5,785	$ 530

(1) As per page 77 to 85 of 2012-2013 Government Estimates

(2) These amounts are not included in any supply vote either because no cash disbursement is required or because the Legislative Assembly has already provided funding authority pursuant to a status other than an appropriation act.

DEPARTMENT OF ENERGY

Schedule 5

SCHEDULE FOR FINANCIAL STATEMENTS

SALARY AND BENEFITS DISCLOSURE

Year ended March 31, 2013

	2013				2012
	Base Salary [1]	Other Cash Benefits [2]	Other Non-cash Benefits [3]	Total	Total
	(in thousands)				
Deputy Minister [4]	$ 292	$ -	$ 91	$ 383	$ 341
Executives					
Chief Assistant Deputy Minister - Oil Sands and Energy Operations [5]	206	15	60	281	290
Chief Assistant Deputy Minister - Strategy [6]	192	-	56	248	90
Assistant Deputy Minister - Corporate Services [7]	147	-	43	190	-
Assistant Deputy Minister - Electricity & Alternative Energy	192	-	56	248	215
Assistant Deputy Minister - Policy Management Office[8]	94	-	28	122	-
Assistant Deputy Minister - Regulatory Enhancement Project	192		56	248	230
Assistant Deputy Minister - Resource Development Policy[9]	189	-	56	245	231
Assistant Deputy Minister - Resource Revenue & Operations	192	-	55	247	230
Assistant Deputy Minister - Strategic Initiatives	192	-	56	248	238
Assistant Deputy Minister - Strategic Services[10]	35	-	9	44	225
Executive Director - Human Resources[11]	42	-	11	53	187

Prepared in accordance with Treasury Board Directive 12/98 as amended.

Total salary and benefits relating to a position are disclosed.

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include vacation payout. There were no bonuses paid in 2013.

(3) Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, car allowances, health spending account expense, and professional memberships and tuition fees.

(4) Automobile provided, no dollar amount included in other non-cash benefits.

(5) This position was occupied by two individuals at different times during the year.

(6) On November 10, 2011 the Deputy Minister announced the creation of this position. This position commenced on November 21, 2011.

(7) On June 20, 2012, the Deputy Minister announced a revised executive team structure creating this position.This position was occupied by one individual and one acting at different times during the year.

(8) On September 12, 2012 the Deputy Minister announced the creation of this position. This position commenced on September 17, 2012.

(9) This position was occupied by two individuals and one acting at different times during the year.

(10) On June 20, 2012, the Deputy Minister announced a revised executive team structure. This position no longer exists.

(11) On July 9, 2012 the Deputy Minister announced a revised executive team structure. This position is no longer part of the executive team.

DEPARTMENT OF ENERGY Schedule 6

SCHEDULE TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS

Year ended March 31, 2013
(in thousands)

Related parties are those entities consolidated or accounted for on the 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 and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities	
	2013	2012	2013	2012
Accounts Receivable				
ERCB	$ 4,495	$ 4,050	$ 11	$ -
APMC	2,628	12,006	-	-
	$ 7,123	$ 16,056	$ 11	$ -
Accounts Payable	$ -	$ -	$ 745	$ 1,700
Expenses - Directly Incurred				
Grants	54,543	51,993	1,129	2,463
Other services	80	1,207	1,300	3,068
	$ 54,623	$ 53,200	$ 2,429	$ 5,531
Contractual Obligations	$ -	$ -	$ 15	$ 15

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	
	2013	2012	2013	2012
Expenses - Incurred by Others				
Accommodation	$ -	$ -	$ 6,912	$ 6,165
Air Transportation	-	-	178	124
Service Alberta	-	-	4,882	5,409
GOA Learning Centre	-	-	33	29
Legal	-	-	4,739	4,479
Audit	-	-	26	99
	$ -	$ -	$ 16,770	$ 16,305

DEPARTMENT OF ENERGY

Schedule 7

SCHEDULE TO FINANCIAL STATEMENTS

ALLOCATED COSTS

Year ended March 31, 2013

(in thousands)

	2013								2012
		Expenses Incurred by Others							
Program	Expenses (1)	Accommodation Costs (2)	Transportation Costs (3)	Service Alberta (4)	GOA Learning Centre (5)	Legal Services (6)	Internal Audit Services (7)	Total Expenses	Total Expenses (Restated)
Ministry Support Services	$ 6,762	$ 482	$ -	$ -	$ -	$ 58	$ -	$ 7,302	$ 7,632
Resource Development and Management	120,070	6,202	178	4,882	33	4,681	26	136,072	119,854
Bioenergy Initiatives	44,329	44	-	-	-	-	-	44,373	41,723
Carbon Capture and Storage	116,011	87	-	-	-	-	-	116,098	21,563
Energy Regulation	47,543	-	-	-	-	-	-	47,543	46,993
Oil Sands Sustainable Development Secretariat	1,736	97	-	-	-	-	-	1,833	2,199
Settlements Related to the Land-Use Framework	30,500	-	-	-	-	-	-	30,500	-
	$ 366,951	$ 6,912	$ 178	$ 4,882	$ 33	$ 4,739	$ 26	$ 383,721	$ 239,964

(1) Expenses - Directly Incurred as per Statement of Operations.
(2) Costs shown for Accommodation on Schedule 5, allocated by budgeted Full-Time Equivalent Employment.
(3) Costs shown for Air Transportation Costs on Schedule 5, allocated by estimated costs incurred by each program.
(4) Costs shown for Service Alberta costs on Schedule 5, allocated by estimated costs incurred by each program.
(5) Costs shown for Learning Centre on Schedule 5, allocated by estimated costs incurred by each program.
(6) Costs shown for Legal Services on Schedule 5, allocated by estimated costs incurred by each program.
(7) Costs shown for Audit Services on Schedule 5, allocated by estimated costs incurred by each program.

ENERGY RESOURCES CONSERVATION BOARD

FINANCIAL STATEMENTS
For the year ended March 31, 2013

AUDITOR GENERAL Alberta

Independent Auditor's Report

To the Members of the Energy Resources Conservation Board

Report on the Financial Statements
I have audited the accompanying financial statements of the Energy Resources Conservation Board, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the years ended March 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Energy Resources Conservation Board as at March 31, 2013 and the results of its operations, its remeasurement gains and losses, and its cash flows for the year ended March 31, 2013 in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 13, 2013
Edmonton, Alberta

ENERGY RESOURCES CONSERVATION BOARD

STATEMENT OF OPERATIONS

Year ended March 31

(in thousands)

	2013		2012
	Estimates (Schedule 3)	Actual	Actual
Revenues			
Industry levies and assessments	$ 124,705	$ 124,881	$ 124,799
Provincial grant	44,793	54,543	51,993
Information, services and fees	9,259	6,994	8,849
Investment	2,500	895	1,002
	181,257	187,313	186,643
Expenses			
Energy regulation (Schedule 1)	173,957	173,726	178,999
Orphan abandonment (Note 4)	13,000	13,001	13,116
	186,957	186,727	192,115
Net operating results	$ (5,700)	$ 586	$ (5,472)

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

ENERGY RESOURCES CONSERVATION BOARD
STATEMENT OF FINANCIAL POSITION
(in thousands)

	March 31, 2013	March 31, 2012
Assets		
Cash and cash equivalents (Note 5)	$ 36,647	$ 36,851
Security deposits (Note 6)	52,520	46,424
Accounts receivable	3,480	4,252
Prepaid expenses and other assets	10,091	8,045
Tangible capital assets (Note 7)	53,147	57,487
	$ 155,885	$ 153,059
Liabilities		
Accounts payable and accrued liabilities	$ 18,981	$ 21,161
Grant payable to Orphan Well Association	8,972	9,259
Security deposits (Note 6)	52,520	46,424
Deferred revenue	1,485	1,523
Deferred lease incentives (Note 9)	24,157	25,524
Pension obligations (Note 8)	3,260	3,244
	109,375	107,135
Net Assets		
Net assets at beginning of year	45,924	51,396
Net operating results	586	(5,472)
Net assets at end of year	46,510	45,924
	$ 155,885	$ 153,059

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

ENERGY RESOURCES CONSERVATION BOARD
STATEMENT OF CASH FLOWS
Year ended March 31
(in thousands)

	2013	2012
Operating transactions		
Net operating results	$ 586	$ (5,472)
Non-cash items included in net operating results		
Amortization of tangible capital assets	11,667	13,205
Loss on disposal and write-down of tangible capital assets	121	6,233
Change in pension obligations	16	(15)
Amortization of deferred lease incentives	(1,367)	(1,367)
	11,023	12,584
Decrease in accounts receivable	772	415
(Increase) in prepaid expenses and other assets	(2,046)	(136)
(Decrease) in accounts payable and accrued liabilities	(2,180)	(260)
(Decrease) in grant payable to Orphan Well Association	(287)	(1,559)
(Decrease) in deferred revenue	(38)	(94)
Reduced rent benefits	-	589
Cash provided by operating transactions	7,244	11,539
Capital transactions		
Acquisition of tangible capital assets	(7,448)	(11,743)
Cash applied to capital transactions	(7,448)	(11,743)
(Decrease) in cash and cash equivalents	(204)	(204)
Cash and cash equivalents at beginning of year	36,851	37,055
Cash and cash equivalents at end of year	$ 36,647	$ 36,851
Non-cash transactions:		
Additions to tangible capital assets received as a lease incentive	$ -	$ 1,301

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

ENERGY RESOURCES CONSERVATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority and purpose

The Energy Resources Conservation Board (ERCB) is an independent and quasi-judicial agency of the Government of Alberta. The ERCB's mission is to ensure that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest. The ERCB operates under the *Energy Resources Conservation Act* , RSA 2000, Chapter E-10.

Note 2 Restructuring

In December 2012, the Lieutenant Governor in Council gave Royal Assent to Bill 2, the *Responsible Energy Development Act .* Bill 2 will come into force on proclamation and will establish the Alberta Energy Regulator (AER) to oversee oil, gas, oil sands and coal development in the province. The AER will supersede the ERCB and will be responsible for the existing regulatory functions of the ERCB as well as certain functions of Alberta Environment and Sustainable Resource Development.

The Bill is expected to be proclaimed in part in June 2013. Upon proclamation of the Bill, the ERCB will be dissolved and all ERCB assets, liabilities, obligations, commitments and contingencies will be transferred to the AER. The remainder of the Bill is expected to be proclaimed by June 2014, transferring additional jurisdictions to the AER.

Note 3 Significant accounting policies

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

(a) Revenues

All revenues are reported on the accrual basis of accounting. All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the period receivable.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

(c) Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the ERCB are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Tangible capital assets are recorded at historical cost and amortized using the following methods:

Leasehold improvements	Straight line
Furniture and equipment	Straight line
Computer hardware	Straight line
Computer software - purchased	Straight line
Computer software - developed	Declining balance

Work-in-progress, which includes developed computer software, is not amortized until a project is complete.

(d) Liabilities

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

Note 3 Significant accounting policies (continued)

(e) Net assets

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

PSAS requires a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The ERCB operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

(f) Valuation of financial assets and liabilities

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

(g) Pension

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

The expected return on plan assets is determined using market values of plan assets.

Actuarial gains and losses are amortized over the average remaining service period of the active employees, which is 7 years.

Past service cost arising from plan amendments is accounted for in the period of the plan amendments.

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

(h) Deferred lease incentives

Deferred lease incentives, consisting of leasehold improvement costs and reduced rent benefits, are amortized on a straight-line basis over the term of the lease.

Note 4 Orphan abandonment

The ERCB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The ERCB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2013, the ERCB collected $12,151 (2012 - $12,076) in levies and $850 (2012 - $1,040) in application fees.

Note 5 Cash and cash equivalents

Cash and cash equivalents consist 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' principal. 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 March 31, 2013, securities held by the Fund have a time-weighted return of 1.3% per annum (2012 - 1.3%).

(in thousands)

Note 6 Security deposits

The ERCB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines and oilfield waste management facilities by holding various forms of security. At March 31, 2013, the ERCB held $52,520 (2012 - $46,424) in cash and an additional $112,580 (2012 - $137,922) in letters of credit. The security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria.

Note 7 Tangible capital assets

	Land	Leasehold improvements	Furniture and equipment	Computer hardware and software	Total
Estimated useful life	Indefinite	Term of the lease	3-20 years	3-5 years	
Historical cost					
Beginning of year	$ 282	$ 34,818	$ 11,024	$ 100,413	$ 146,537
Additions	-	131	656	6,661	7,448
Disposals, including write-downs	-	(8,995)	(389)	(1,112)	(10,496)
	282	25,954	11,291	105,962	143,489
Accumulated amortization					
Beginning of year	$ -	$ 12,338	$ 6,990	69,722	89,050
Amortization expense	-	1,310	681	9,676	11,667
Disposals, including write-downs	-	(8,995)	(276)	(1,104)	(10,375)
	-	4,653	7,395	78,294	90,342
Net book value at March 31, 2013	$ 282	$ 21,301	$ 3,896	$ 27,668	$ 53,147
Net book value at March 31, 2012	$ 282	$ 22,480	$ 4,034	$ 30,691	$ 57,487

Historical cost of computer hardware and software as at March 31, 2013 includes work-in-progress totaling $835 (March 31, 2012 - $853).

Note 8 Pension

The ERCB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2013, the expense for these pension plans is equal to the contribution of $10,229 (2012 - $9,056).

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

The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2011. The accrued benefit obligation as at March 31, 2013 is based on the extrapolation of the results of this valuation. The effective date of the next required funding valuation for SEPP is December 31, 2014.

Pension plan assets are valued at market values. During the year ended March 31, 2013 the weighted average actual return on plan assets was 5.4% (2.8% in 2012).

(in thousands)

Note 8 Pension (continued)

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

	March 31, 2013	March 31, 2012
Accrued benefit obligations		
Discount rate	5.0%	5.0%
Rate of compensation increase	3.8%	3.8%
Long-term inflation rate	2.3%	2.3%

Pension benefit costs for the year	2013	2012
Discount rate	5.0%	5.5%
Expected rate of return on plan assets	5.0%	5.5%
Rate of compensation increase	3.8%	3.5%

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

	March 31, 2013	March 31, 2012
Market value of plan assets	$ 34,568	$ 31,788
Accrued benefit obligations	39,732	37,432
Plan (deficit)	(5,164)	(5,644)
Unamortized actuarial loss	1,904	2,400
Pension obligations	$ (3,260)	$ (3,244)

The pension benefit costs for the year include the following components:

	2013	2012
Current period benefit cost	1,921	1,565
Interest cost	1,900	1,912
Expected return on plan assets	(1,671)	(1,840)
Amortization of actuarial losses/ (gains)	334	(135)
	$ 2,484	$ 1,502

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

	2013	2012
ERCB contribution	$ 2,468	$ 1,491
Employees' contribution	444	411
Benefits paid	1,859	2,551

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

	March 31, 2013	March 31, 2012
Equity securities	50.9%	49.8%
Debt securities	38.0%	38.5%
Other	11.1%	11.7%
	100.0%	100.0%

(in thousands)

Note 9 Deferred lease incentives

Deferred lease incentives are related to the Calgary Head Office lease agreement. The term of the agreement is 20 years terminating on November 30, 2030. The lease agreement provides for lease incentives totaling $27,315, comprised of leasehold improvement costs in the amount of $22,726 and reduced rent benefits in the amount of $4,589. These amounts are included in deferred lease incentives and are amortized on a straight line basis over the term of the lease.

	2013			2012
	Leasehold improvement costs	Reduced rent benefits	Total	Total
Balance at beginning of year	$ 21,232	$ 4,292	$ 25,524	$ 25,001
Additions during the year	-	-	-	1,890
Amortization	(1,137)	(230)	(1,367)	(1,367)
Balance at end of year	$ 20,095	$ 4,062	$ 24,157	$ 25,524

Note 10 Contractual obligations

Contractual obligations are obligations of the ERCB to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The ERCB leases office and research storage facilities with the following future minimum annual operating lease commitments:

2014	$ 7,350
2015	7,727
2016	7,940
2017	8,375
2018	8,326
2019 - 2086	111,403
	$ 151,121

Note 11 Related party transactions

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

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

	Entities in the Ministry		Other entities	
	2013	2012	2013	2012
Revenues				
Provincial grant	$ 54,543	$ 51,993	$ -	$ -
Information, services and fees	161	1,272	149	302
	$ 54,704	$ 53,265	$ 149	$ 302

(in thousands)

Note 11 Related party transactions (continued)

	Entities in the Ministry		Other entities	
	2013	2012	2013	2012
Expenses				
Computer services	$ 2,043	$ 1,875	$ 1,483	$ 2,259
Buildings	-	9	548	548
Administrative	-	-	636	611
Consulting services	44	-	424	277
	$ 2,087	$ 1,884	$ 3,091	$ 3,695
Receivable from	$ 132	$ 56	$ 21	$ 22
Payable to	$ 4,494	$ 4,452	$ 188	$ 725

Note 12 Contingent liabilities

Accruals have been made in specific instances where it is likely that losses will be incurred based on a reasonable estimate.

Note 13 Approval of financial statements

These financial statements were approved by the Board of the ERCB on May 13, 2013.

ENERGY RESOURCES CONSERVATION BOARD

SCHEDULE TO THE FINANCIAL STATEMENTS

Energy Regulation Expenses

Year ended March 31

(in thousands)

Schedule 1

	2013	2012
Personnel	$ 114,682	$ 114,688
Consulting services	14,247	13,326
Buildings	13,994	13,591
Amortization of tangible capital assets	11,667	13,205
Computer services	10,719	9,159
Travel and transportation	3,946	4,173
Administrative	2,814	2,933
Equipment rent and maintenance	946	669
Abandonment and enforcement	590	1,022
Loss on disposal and write-down of tangible capital assets	121	6,233
	$ 173,726	$ 178,999

ENERGY RESOURCES CONSERVATION BOARD

SCHEDULE TO THE FINANCIAL STATEMENTS

Salaries and Benefits Disclosure

Year ended March 31

(in thousands)

Schedule 2

	2013				2012
	Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Chairman [d]	$ 229	$ 71	$ 10	$ 310	$ 360
Vice-Chairman [d]	213	48	22	283	255
Board Member 1	187	40	39	266	225
Board Member 2	187	8	70	265	244
Board Member 3	187	4	55	246	235
Board Member 4	187	5	53	245	233
Board Member 5	187	1	54	242	244
Board Member 6	187	10	16	213	198

(a) Pensionable base pay.

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

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

(d) The Chairman's position became vacant on December 31, 2012. The Vice-Chairman served the ERCB as Acting Chairman effective January 1, 2013.

ENERGY RESOURCES CONSERVATION BOARD
SCHEDULE TO THE FINANCIAL STATEMENTS
Estimates
Year ended March 31, 2013
(in thousands)

Schedule 3

	Plan			
	Estimates[a]	Adjustments [b]	Adjusted Estimates	Actual
Revenues				
Industry levies and assessments	$ 124,705	$ -	$ 124,705	$ 124,881
Provincial grant	44,793	9,750	54,543	54,543
Information, services and fees	9,259	-	9,259	6,994
Investment	2,500	-	2,500	895
	181,257	9,750	191,007	187,313
Expenses				
Energy regulation	173,957	9,750	183,707	173,726
Orphan abandonment	13,000	-	13,000	13,001
	186,957	9,750	196,707	186,727
Net operating results	(5,700)	-	(5,700)	586
Capital				
Capital investment	9,000	-	9,000	7,448
Less: Amortization	(14,700)	-	(14,700)	(11,667)
Loss on disposal and write-down of tangible capital assets	-	-	-	(121)
Net capital investment	(5,700)	-	(5,700)	(4,340)
	$ -	$ -	$ -	$ 4,926

(a) Estimates are based on the ERCB Business Plan for the year ended March 31, 2013. The Estimates have been approved by the Treasury Board of the Government of Alberta.

(b) Adjustments include additional grant money received from the Department of Energy for the implementation of the AER and other operating expenses.

ALBERTA UTILITIES COMMISSION

FINANCIAL STATEMENTS
For the year ended March 31, 2013

Independent Auditor's Report

To the Members of the Alberta Utilities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Utilities Commission, which comprise the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Utilities Commission as at March 31, 2013, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 6, 2013
Edmonton, Alberta

ALBERTA UTILITIES COMMISSION
STATEMENT OF OPERATIONS
YEAR ENDED MARCH 31
(thousands of dollars)

	2013		2012
	Budget	**Actual**	**Actual**
	(Schedule 3)		
Revenues			
Administration fees	$ 37,714	$ 34,494	$ 33,858
Investment	400	242	244
Professional services	100	136	75
	38,214	34,872	34,177
Expenses			
Utility regulation (Schedule 1)	38,514	36,224	34,553
Operating (deficit) surplus	(300)	(1,352)	(376)
Accumulated surplus, beginning of year	15,220	15,220	15,596
Accumulated surplus, end of year	$ 14,920	$ 13,868	$ 15,220

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

ALBERTA UTILITIES COMMISSION
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31
(thousands of dollars)

		2013		2012
Assets				
Cash and cash equivalents (Note 3)	$	11,825	$	11,513
Accounts receivable		398		289
Prepaid expenses		1,178		1,051
Capital assets (Note 4)		5,806		6,959
	$	19,207	$	19,812
Liabilities				
Accounts payable and accrued liabilities	$	4,447	$	3,655
Accrued pension liability (Note 5)		765		767
Deferred lease incentive		127		170
		5,339		4,592
Net Assets				
Accumulated surplus		13,868		15,220
	$	19,207	$	19,812

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

ALBERTA UTILITIES COMMISSION
STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31
(thousands of dollars)

	2013	2012
Operating transactions		
Operating (deficit)	$ (1,352)	$ (376)
Non-cash items		
Amortization	1,687	1,926
Pension	713	456
Loss on write down and disposal of capital assets	850	55
(Increase) decrease in accounts receivable	(109)	563
Increase in prepaid expenses	(127)	(251)
Increase (decrease) in accounts payable and accrued liabilities	792	(332)
	2,454	2,041
Capital transactions		
Investment in capital assets	(1,384)	(1,356)
	(1,384)	(1,356)
Financing transactions		
Pension obligations funded	(715)	(455)
Lease incentive paid	(43)	(44)
	(758)	(499)
Net cash provided	312	186
Cash and cash equivalents, beginning of year	11,513	11,327
Cash and cash equivalents, end of year	$ 11,825	$ 11,513

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

ALBERTA UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(thousands of dollars)

Note 1 Authority

The Alberta Utilities Commission (AUC) operates under authority of the Alberta Utilities Commission Act, Chapter A-37.2. The AUC also exercises powers and authorities under a number of other statutes. The AUC is an independent, quasi-judicial agency of the government of Alberta that ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible, and in the public interest. The AUC regulates investor owned electric, natural gas and water utilities, and certain municipally owned electricity utilities to ensure customers receive safe and reliable service at just and reasonable rates. The AUC is responsible for making timely decisions on the need, siting, construction, alteration, operation and decommissioning of natural gas and certain electricity transmission facilities. The AUC also regulates power plants in a similar fashion except the need for new power plants is determined by market forces. The AUC develops and amends rules that support the orderly operation of the retail natural gas and electricity markets, and adjudicates on market and operational rule contraventions that the Market Surveillance Administrator may bring before the AUC.

Note 2 Summary of significant accounting policies and reporting practices

Basis of financial reporting

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards. Significant accounting policies are as follows:

Revenues
All revenues are reported on the accrual basis of accounting. Administration fees are recognized as revenue in the period receivable.

Expenses
Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Contributed services are recorded as expenses at the exchange amounts.

Foreign currency translation
Foreign currency transactions are translated at the exchange rate prevailing at the date of transaction. Monetary liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at year-end.

Capital assets
Capital assets of the AUC are recorded at historical cost and amortized using the following methods:

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

Contributed assets are recorded at their fair value. The threshold for capitalizing all capital assets is $1.5 unless they are included in certain capital asset pools.

Valuation of financial assets and liabilities
The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. 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.

Note 2 Summary of significant accounting policies and reporting practices (continued)

Deferred lease incentive

Lease incentive benefits are amortized on a straight line basis over the term of lease as a reduction to rental expense.

Net assets/net liabilities

Net assets/net liabilities represent the difference between the carrying value of assets held by the AUC and its liabilities.

Canadian public sector accounting standards require a “net debt” presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as “net debt” or “net financial assets” as an indicator of the future revenues required to pay for past transactions and events. The AUC operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Pension

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

For the purpose of calculating pension benefit liability and pension expense, the AUC uses the expected future rate of return on plan assets as its discount rate. For the purpose of calculating the expected return, plan assets are valued at market-related values.

Past service costs arising from plan amendments are expensed in the period of the plan amendment. Any actuarial gain or loss is amortized over the average remaining service period of the active employees, which is seven years.

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

Note 3 Cash and cash equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining appropriate 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 March 31, 2013, securities held by the Fund have a time-weighted return of 1.3 per cent per annum (2012: 1.3 per cent).

ALBERTA UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(thousands of dollars)

Note 4 Capital assets

	Leasehold improvement and equipment	Computer hardware and software	Total
Historical cost			
Beginning of year	$ 5,279	$ 10,484	$ 15,763
Additions	336	1,048	1,384
Write-down and disposals	(76)	(476)	(552)
	$ 5,539	$ 11,056	$ 16,595
Accumulated amortization			
Beginning of year	$ 1,817	$ 6,987	$ 8,804
Amortization expense	527	1,160	1,687
Write-down and disposals	(74)	372	298
	$ 2,270	$ 8,519	$ 10,789
Net book value at March 31, 2013	$ 3,269	$ 2,537	$ 5,806
Net book value at March 31, 2012	$ 3,462	$ 3,497	$ 6,959

Note 5 Pension

The AUC participates in the government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the contribution of $1,763 for the year ended March 31, 2013 (2012: $1,563).

In addition, the AUC is a participating member of the defined benefit pension plans of Senior Employees Pension Plan (SEPP) and two supplementary pension plans. These multi-unit pension plans compensate senior staff who do not participate in the government's management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure these pension plan assets and accrued benefit obligations was March 31, 2013. The effective date of the most recent actuarial funding valuation for the plans was December 31, 2011. The effective date of the next required funding valuation for SEPP is December 31, 2014.

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

	2013	2012
Discount rate (weighted average)	4.82%	4.82%
Rate of compensation increase	3.75%	3.75%
Rate of inflation	2.25%	2.25%

(thousands of dollars)

Note 5 Pension (continued)

The weighted average actual rate of return on plan assets for the year ended March 2013 was 5.27% (2012: 3.82%). Also, the funded status and amounts recognized in the Statements of Financial Position are as follows:

	2013	2012
Market value of plan assets	$ 5,917	$ 4,925
Accrued benefit obligations	7,175	6,331
Plan deficit	(1,258)	(1,406)
Unamortized actuarial losses	493	639
Pension liability	$ (765)	$ (767)

Significant actuarial and economic assumptions used to calculate pension benefit costs are as follows:

	2013	2012
Discount rate (weighted average)	4.82%	5.32%
Expected rate of return on plan assets	4.82%	5.32%
Rate of compensation increase	3.75%	3.50%

The total pension benefit costs related to these plans include the following components:

	2013	2012
Employer current period benefit costs	$ 556	$ 460
Interest cost	330	279
Expected return on plan assets	(262)	(248)
Amortization of net actuarial loss (gain)	89	(35)
Pension expense	$ 713	$ 456

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

	2013	2012
AUC contribution	$ 715	$ 455
Employees' contribution	111	105
Benefits paid	126	119

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

	2013	2012
Equity securities	51.90%	50.83%
Debt securities	30.40%	31.22%
Other	17.70%	17.95%
	100.00%	100.00%

ALBERTA UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(thousands of dollars)

Note 6 Future operating lease commitments

The AUC leases office space with the following future minimum payments:

2014	$	2,671
2015		2,739
2016		2,743
2017		2,601
2018		2,606
Thereafter		217
	$	13,577

Note 7 Related party transactions

For the year ended March 31, 2013 the AUC received $118 (2012: $93) of services from, and provided no services (2012: $9) to other government of Alberta organizations. All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 8 Approval of financial statements

These financial statements were approved by the Commission Members.

ALBERTA UTILITIES COMMISSION Schedule 1

UTILITY REGULATION EXPENSES BY OBJECT

YEAR ENDED MARCH 31

(thousands of dollars)

	2013		2012
	Budget	**Actual**	**Actual**
Salaries, wages and employee benefits	$ 23,900	$ 23,190	$ 21,942
Supplies and services	12,814	10,497	10,630
Amortization of capital assets	1,800	1,687	1,926
Loss on write down and disposal of capital assets	-	850	55
	$ 38,514	$ 36,224	$ 34,553

ALBERTA UTILITIES COMMISSION Schedule 2

SALARIES AND BENEFITS DISCLOSURE

YEAR ENDED MARCH 31

(thousands of dollars)

	2013				2012
	Base Salary [(a)]	Other Cash Benefits [(b)]	Other Non-cash Benefits [(c)]	Total	Total
Chair	$ 331	$ 46	$ 104	$ 481	$ 466
Vice-Chair 1 [(d)]	208	41	15	264	-
Vice-Chair 2 [(e)]	64	23	20	107	288
Commission Member 1	187	17	56	260	244
Commission Member 2	187	11	50	248	235
Commission Member 3	187	40	15	242	230
Commission Member 4	187	36	14	237	229
Commission Member 5	187	39	9	235	225
Commission Member 6 [(f)]	141	52	6	199	239
Commission Member 7 [(g)]	-	-	-	-	235

(a) Includes pensionable base pay.

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

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, health benefits, professional memberships and tuition fees. Automobiles were provided but no amount is included in these figures.

(d) Appointment effective April 1, 2012.

(e) Position has been vacant as of July 20, 2012.

(f) Position was vacant from October 3, 2012 to January 3, 2013.

(g) Position has been vacant as of April 1, 2012.

ALBERTA UTILITIES COMMISSION Schedule 3
AUTHORIZED BUDGET
YEAR ENDED MARCH 31, 2013
(thousands of dollars)

	Plan			
	Budget (Estimate)	**Authorized Changes**	**Authorized Budget**	**Actual**
Revenues				
Administration fees	$ 37,714	$ (1,000)	$ 36,714	$ 34,494
Investment	400	-	400	242
Professional services	100	-	100	136
	38,214	(1,000)	37,214	34,872
Expenses				
Utility regulation	38,514	700	39,214	36,224
Net capital investment				
Capital investment	1,500	-	1,500	1,384
Less:				
Amortization	(1,800)	-	(1,800)	(1,687)
Loss on write down and disposal of capital assets	-	(700)	(700)	(850)
	(300)	(700)	(1,000)	(1,153)
	$ -	$ (1,000)	$ (1,000)	$ (199)

Note:

The Budget is based on the AUC Business Plan for the year ended March 31, 2013. The Budget and Authorized Changes have been approved by the government of Alberta.

ALBERTA PETROLEUM MARKETING COMMISSION

FINANCIAL STATEMENTS
For the year ended December 31, 2012

AUDITOR GENERAL Alberta

Independent Auditor's Report

To the Members of the Alberta Petroleum Marketing Commission:

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Petroleum Marketing Commission, which comprise the statement of financial position as at December 31, 2012, and the statements of revenue and expenses and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Petroleum Marketing Commission as at December 31, 2012, and the results of its operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

May 31, 2013
Edmonton, Alberta

Alberta Petroleum Marketing Commission

Statement of Operations

Year Ended December 31, 2012

	2012	2011
	(in thousands)	
Revenue (Note 1)		
Crude oil sales	$ 2,196,230	$ 2,302,130
Interest earned	203	197
Penalties collected	260	353
Fees on marketing	300	238
Other	-	-
	2,196,993	2,302,918
Expense (Note 1)		
Crude oil purchases (Note 2c)	190,711	212,120
Transportation	28,341	28,208
Marketing fees	2,870	2,599
General & Administrative	5,509	933
	227,431	243,860
Net operating results before transfer	1,969,562	2,059,058
Amount to be transferred to the Department of Energy (Note 5)	(1,969,562)	(2,059,058)
Excess of revenue over expense	$ -	$ -

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission

Statement of Financial Position

As At December 31, 2012

		2012		2011
		(in thousands)		
Assets (Note 1)				
Cash and short-term investments (Note 3)	$	13,567	$	14,852
Accounts receivable		157,696		219,668
Inventory		15,778		29,798
	$	187,041	$	264,318
Liabilities (Note 1)				
Accounts payable (Note 4)	$	43,289	$	59,514
Liability to the Department of Energy for inventory held		15,778		29,798
Due to the Department of Energy (Note 5)		127,974		175,006
		187,041		264,318
Net Assets (Note 1)		-		-
	$	187,041	$	264,318

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statement of Cash Flow
Year Ended December 31, 2012

	2012	2011
	(in thousands)	
Operating transactions		
Excess of revenue over expense	$ -	$ -
Change in non-cash working capital		
(Increase) decrease in Accounts receivable	61,972	(46,922)
(Increase) decrease in Inventory	14,020	(15,301)
Increase (decrease) in Accounts payable	(16,225)	22,406
Increase (decrease) in Liability to the Department of Energy for inventory held	(14,020)	15,301
Decrease in Due to the Department of Energy	(47,032)	24,256
Cash provided by operating transactions and net decrease in cash	(1,285)	(260)
Cash and short term investments at beginning of year	14,852	15,112
Cash and short term investments at end of year	$ 13,567	$ 14,852

The accompanying notes are part of these financial statements.

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 (as represented by the Department of Energy) to accept delivery of and market the Province's royalty share of crude oil. This is achieved through the Commission receiving crude oil in kind from producers on behalf of the Department of Energy and transferring the proceeds received from the sale of the crude oil back to the Department. These financial statements disclose the transactions the Commission incurs while acting as agent on behalf of the Department.

Note 2 Significant Accounting Policies

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

The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in the Commission's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Sales of Crude Oil

Crude oil sales are recognized when title passes to the customer or agent. When producers under-deliver the Department's royalty share, and that under-delivered volume is not subsequently delivered, the Commission deems a sale of crude oil to have occurred. These sales are included in Crude oil sales on the Statement of Revenue and Expense.

The Commission has an agency agreement with Nexen Marketing (Nexen) to market approximately 90% of the royalty share of crude oil. The royalty share is combined with Nexen's supply of like crude. The value of the royalty crude oil is based on a pro-rata share of the net results of Nexen's marketing activities, which may include the sale, purchase, and transportation of crude oil. The Commission currently markets the balance of the royalty share, the results of which are included in crude oil sales on the Statement of Revenue and Expense.

(b) Inventory

Inventory represents the royalty oil in feeder and trunk pipelines and consists of both purchased oil and royalty share oil. The Commission purchases oil to fulfill pipeline and quality requirements as part of the crude oil marketing process. Purchased inventory is measured at the lower of cost or net realizable value. Cost for purchased inventory is recorded using the first in first out method.

Inventory for the royalty share is recorded at the lower of cost and net realizable value. The cost of the inventory is the carrying value at which inventory is transferred from the Department to the Commission. Net realizable value is the selling price in the ordinary course of business less the costs necessary to make the sale.

(c) Financial Instruments

Currency, credit and price risks are inherent in the sale and purchase of crude oil. The proceeds of sales transacted by our agent are remitted to the Commission in Canadian funds (Agent sales in foreign currencies are converted to Canadian funds at the average monthly rates for the month of sale.) Proceeds of sale received by the Commission in foreign currencies are valued at average monthly rates for the month of sale. Operational oil price hedging may be used to address risk.

Credit risk is the risk of financial loss to the Commission if a customer or party to a financial instrument fails to meet its contractual obligation and arises principally from the Commission's cash and short-term investments and accounts receivable. The maximum amount of credit risk exposure is limited to the carrying value of the balances disclosed in these financial statements.

The Commission manages its exposure to credit risk on cash and short-term investments by placing these financial instruments with the Consolidated Cash Investment Trust Fund (Note 3).

The Commission monitors the credit risk and credit rating of all customers on a regular basis. Aged receivable balances are monitored and an allowance for credit losses is provided in the period in which losses become known.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission is subject to interest rate risk arising primarily from fluctuations in rates on its cash balance.

The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 2012.

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 and Enterprise 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, 2012, securities held by the Fund have a rate of return of 1.23% per annum (2011 1.26%).

Note 4 Accounts Payable

(in thousands)

	2012	2011
Transportation and purchases	$ 21,902	$ 33,882
Goods and services tax	21,387	25,632
	$ 43,289	$ 59,514

Note 5 Due to the Department of Energy

(In thousands)

	2012	2011
Due to Department of Energy beginning of year	$ 175,006	$ 150,750
Amount to be transferred to the Department of Energy	1,969,562	2,059,058
Amount remitted to the Department of Energy	(2,016,594)	(2,034,802)
Due to the Department of Energy at end of year	$ 127,974	$ 175,006

Note 6 Commitments
(in thousands)

On November 8th, 2012 the North West Redwater Partnership (Partnership), announced the sanctioning of the construction of Phase 1 of the Sturgeon Refinery which it will build, own and operate. The Commission has entered into agreements whereby the Partnership will process and market Crown royalty bitumen, or equivalent volumes, collected pursuant to the Bitumen Royalty in Kind initiative in order to capture additional value within Alberta. The Partnership will market the refined products (primarily ultra low sulphur diesel and low sulphur vacuum gas oil) on behalf of the Commission. There is financial risk to the Commission under these agreements related to the price differential between bitumen supplied as feedstock and marketed refined products, relative to the costs of the processing.

Under the processing agreement (available on the Department of Energy website) the Commission is obligated to pay a monthly toll comprised of operating, debt, equity, and profit share components on 37,500 barrels per day of bitumen (75% of the project's feedstock) for 30 years. The toll includes both flow through costs as well as costs that are capped at certain levels, such as the $6.5 billion cap on Facility Capital Costs, which are the key determinant of the debt and equity components of the toll. The Commission has very restricted rights to terminate the agreement, and if it is terminated the Commission remains obligated to pay the debt component of the toll. The term begins upon commencement of commercial operations, which is expected to be July 1st 2016.

The toll under the processing agreement, assuming a $5.7 billion Facility Capital Cost, market interest rates and 2% operating cost inflation rate, is estimated to be:

2013	$	0
2014	$	0
2015	$	0
2016	$	248,000
2017	$	532,000
Beyond 2017	$	18,316,000

Note 7 Related Party Transactions

The Department of Energy incurs costs for salaries on behalf of the Commission. These costs are included in the Statements of Revenue and Expense under General and Administrative expenses and amount to $2.1 million (2011 $0).

Note 8 Disclosure of Chief Executive Officer's Salary and Benefits
(in thousands)

The Chief Executive Officer was hired June 1st, 2012.

Base Salary	$ 296
Other Cash Benefits	$ 58
Other Non-cash Benefits	$ 1
Total Compensation	$ 355

Included in Other Cash Benefits is a performance bonus. Other Non-cash Benefits consists of reimbursement of parking and fitness facility membership costs.

Note 9 Comparative Figures

Certain 2011 figures have been reclassified to conform to 2012 presentation.

Note 10 Subsequent Events

On March 21st, 2013 and April 18th, 2013 the Commission signed agency agreements with Shell Trading Canada, a division of Pennzoil-Quaker State Canada Incorporated and Nexen respectively. The two agents will purchase approximately 90% of the royalty share of crude oil at index-based pricing and manage the transportation logistics for these barrels. Both agreements have a two year term. The Commission will continue to market approximately 10% of the royalty share.

On March 21st, 2013 the Commission signed a Memorandum of Understanding (MOU) with Energy East Pipeline Limited Partnership to purchase firm capacity of up to 100,000 barrels per day for a term of 20 years on TransCanada Pipelines' Eastern Mainline Conversion Project. Depending upon approval to construct the pipeline and the Commission's final capacity commitment, under the take-or-pay obligation, the Commission would pay up to approximately $5 billion in tolls over the 20 year term. The pipeline is expected to be in service as early as 2017.

Note 11 Approval of Financial Statements

The Chief Executive Officer and Director of Finance have approved these financial statements.

POST-CLOSURE STEWARDSHIP FUND

FINANCIAL STATEMENTS
For the year ended March 31, 2013

Auditor's Report

Statement of Operations

Notes to the Financial Statements

AUDITOR GENERAL Alberta

Independent Auditor's Report

To the Minister of Energy

Report on the Financial Statements

I have audited the accompanying financial statements of the Post-closure Stewardship Fund, which comprise the statement of financial position as at March 31, 2013 and the statement of operations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Post closure Stewardship Fund as at March 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher, FCA]
Auditor General

June 3, 2013
Edmonton, Alberta

POST-CLOSURE STEWARDSHIP FUND

STATEMENT OF OPERATIONS

Year ended March 31, 2013

	2013	2012
Revenue	$ -	$ -
Expenses	-	-
Net Operating Results	$ -	$ -

STATEMENT OF FINANCIAL POSITION

As at March 31, 2013

Assets	$ -	$ -
Liabilities	$ -	$ -
Net Assets	-	-
	$ -	$ -

The accompanying notes are part of these financial statements.

POST-CLOSURE STEWARDSHIP FUND
NOTES TO THE FINANCIAL STATEMENTS

Note 1 Authority and Purpose

The Post-Closure Stewardship Fund operates under the Mines and Minerals Act, chapter M-17.

The fund was established to address any long-term liabilities that may arise from approved projects. Approved projects would inject captured carbon dioxide into subsurface reservoirs for sequestration. No projects have been approved by the Minister of Energy. The fund will be financed by operators of approved projects. The funds would be used for ongoing monitoring costs and any required remediation costs incurred by the Province of Alberta.

The financial statements have nil balances as no projects have been approved by the Minister of Energy for operation.

Note 2 Financial Statement Presentation

A cash flow statement is not provided due to the limited nature of the fund's operations.

Note 3 Approval of Financial Statements

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

Other Information

For additional copies, contact:

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Business Planning and Reporting
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9945 - 108 Street
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The Ministry of Energy Annual Report 2012-2013 is available on the following website: **www.energy.alberta.ca/About_Us/1001.asp**

Current information about the organizations that were part of the Ministry of Energy in 2012-13 is available at the following websites:

For the Alberta Department of Energy:
www.energy.alberta.ca
E-mail: library.gwl@gov.ab.ca

For the Energy Resources Conservation Board:
www.ercb.ca
E-mail: infoservices@ercb.ca

For the Alberta Utilities Commission:
www.auc.ab.ca
E-mail: info@auc.ab.ca

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