



National Energy
Board

Office national
de l'énergie

2008-2009 Financial Statements - Unaudited

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2009 and all information contained in these statements rests with National Energy Board's (NEB's) management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the NEB's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the NEB's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the department.

The financial statements of the NEB have not been audited for the March 31, 2009 fiscal year. However, the National Energy Board also produces financial statements on a calendar year basis that are audited by the Office of the Auditor General, the independent auditor for the Government of Canada.

S. Leggett
for Gaétan Caron, Chair and CEO
(Calgary, Canada)
(6 August 2009)

Susan W Allen
Susan W. Allen, CA, Chief Financial Officer

National Energy Board
Statement of Operations - *Unaudited*
For the Year Ended March 31
(in thousands of dollars)

	2009	2008
REVENUES		
Regulatory levies	52,178	41,591
Miscellaneous revenue	1	4
Total Revenues	52,179	41,595
EXPENSES		
Salaries and employee benefits	44,460	34,352
Accommodation	4,618	4,732
Professional and special services	4,364	4,908
Travel and tele-communication	3,076	2,787
Amortization (Note 5)	977	951
Utilities, materials and supplies	588	254
Machinery and equipment	485	1,115
Repairs and maintenance	479	363
Communication	423	359
Other expenses	(41)	4
Total Operating Expenses	59,429	49,825
Net Cost of Operations	(7,250)	(8,230)

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

National Energy Board
Statement of Financial Position - *Unaudited*
At March 31
(in thousands of dollars)

	2009	2008
ASSETS		
Financial assets		
Cash	13	-
Accounts receivable and advances (Note 4)	12,666	13,886
	<hr/>	<hr/>
Total financial assets	12,679	13,886
Non-financial assets		
Prepaid expenses	-	211
Tangible capital assets (Note 5)	2,912	2,806
	<hr/>	<hr/>
Total non-financial assets	2,912	3,017
	<hr/>	<hr/>
TOTAL	15,591	16,903
	<hr/>	<hr/>
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities	6,383	8,018
Vacation pay and compensatory leave	1,961	1,390
Employee severance benefits (Note 6)	6,667	5,342
	<hr/>	<hr/>
Total liabilities	15,011	14,750
	<hr/>	<hr/>
Equity of Canada	580	2,153
	<hr/>	<hr/>
TOTAL	15,591	16,903
	<hr/>	<hr/>

Contingent liabilities (Note 7)

Contractual obligations (Note 8)

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

National Energy Board
Statement of Equity of Canada - *Unaudited*
At March 31
(in thousands of dollars)

	2009	2008
Equity of Canada, beginning of year	2,153	555
Net cost of operations	(7,250)	(8,230)
Current year appropriations used (Note 3)	50,417	45,357
Revenue not available for spending	(52,179)	(41,595)
Change in net position in the Consolidated Revenue Fund (Note 3)	356	92
Services received without charge from other government departments (Note 9)	7,083	5,974
Equity of Canada, end of year	580	2,153

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

National Energy Board
Statement of Cash Flow - *Unaudited*
For the Year Ended March 31
(in thousands of dollars)

	2009	2008
Operating activities		
<i>Cash received from:</i>		
Regulatory levies and Miscellaneous revenue	53,539	37,680
Other expenses	108	-
	53,647	37,680

National Energy Board
Statement of Cash Flow - Unaudited, continued
For the Year Ended March 31
(in thousands of dollars)

Cash paid for:

Salaries and employee benefits	(40,057)	(32,143)
Accommodation	(351)	(757)
Professional and special services	(5,270)	(2,949)
Travel and tele-communication	(3,075)	(2,737)
Utilities, materials and supplies	(569)	(511)
Machinery and equipment	(830)	(164)
Repairs & maintenance	(517)	(363)
Communications	(478)	(359)
Other expenses	-	(88)
	<hr/>	<hr/>
	(51,147)	(40,071)
	<hr/>	<hr/>
<i>Cash provided (used) by operating activities</i>	2,500	(2,391)
	<hr/>	<hr/>
Capital investment activities		
Acquisitions of tangible capital assets	(1,081)	(1,463)
	<hr/>	<hr/>
Financing activities		
Net cash provided by (to) Gov't of Canada (Note 3)	(1,406)	3,854
	<hr/>	<hr/>
Net Cash Provided (Used)	13	-
Cash, beginning of year	-	-
Cash, end of year	13	-
	<hr/>	<hr/>

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

**National Energy Board
Notes to the Financial Statements - Unaudited**

1. Authority and Objectives

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

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

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

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

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

The NEB operates as a quasi-judicial tribunal. The Board may hold public hearings at which applicants and interested parties have full rights of participation.

The NEB has the authority to charge those companies it regulates, in accordance with sub-section 24.1(1) of the *National Energy Board Act*, the total costs attributable to the NEB's operations in carrying out its related responsibilities.

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

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

Significant accounting policies are as follows:

- (a) Parliamentary appropriations – the NEB is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the NEB do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through

National Energy Board
Notes to the Financial Statements - Unaudited

appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

(b) Net Cash Provided by (to) Government – The NEB operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the department is deposited to the CRF and all cash disbursements made by the department are paid from the CRF. The net cash provided by (to) Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

(c) Change in net position in the CRF is the difference between the net cash provided by Government and appropriations used in a year, excluding the amount of non-responsible revenue recorded by the NEB. It results from timing differences between when a transaction affects appropriations and when it is processed through the CRF.

(d) Revenues:

- Revenues from regulatory levies are recognized in the accounts when they meet the definition of revenue, and are based on the estimated cost of operations for the year, with adjustment to actual costs once they are known, in accordance with the *National Energy Board Cost Recovery Regulations*.
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.

(e) Expenses – Expenses are recorded on the accrual basis:

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, and legal services are recorded as operating expenses at their estimated cost.

(f) Employee future benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. The NEB contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. Current legislation does not require the department to make contributions for any actuarial deficiencies of the Plan.
- ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(g) Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

(h) Contingent liabilities – Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future

**National Energy Board
Notes to the Financial Statements - Unaudited**

event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

(i) Tangible capital assets – All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. The department does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value, assets located on Indian Reserves and museum collections.

Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset as follows:

Asset class	Amortization period
Informatics hardware:	
PCs and accessories	3 years
Computer servers & accessories	5 years
Informatics software	
Commercial software	2 years
In-house developed software	5 years
Machinery and equipment:	
Furniture	10 years
Audio visual equipment	5 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction/development	Once in service, in accordance with asset type

(k) Measurement uncertainty —The preparation of these financial statements in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee severance benefits and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3. Parliamentary Appropriations

The NEB receives most of its funding through annual Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the NEB has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

National Energy Board
Notes to the Financial Statements - Unaudited

(a) Reconciliation of net cost of operations to current year appropriations used:

	2009	2008
	<u> </u>	<u> </u>
	(in thousands of dollars)	
Net cost of operations	7,250	8,230
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services provided without charge	(7,083)	(5,974)
Amortization of tangible capital assets	(977)	(951)
Revenue not available for spending	52,179	41,595
Vacation pay and compensatory leave	(571)	-
Employee severance benefits	(1,325)	269
Other	(102)	432
	<u>49,371</u>	<u>43,601</u>
Adjustments for items not affecting net cost of operations but affecting appropriations		
Add (Less):		
Acquisitions of tangible capital assets	915	1,463
Prepaid expenses	131	293
	<u>50,417</u>	<u>45,357</u>
Current year appropriations used		

(b) Appropriations provided and used

	2009	2008
	<u> </u>	<u> </u>
	(in thousands of dollars)	
Vote 25 – Program expenditures (Vote 30 in 2008)	49,672	43,690
Statutory amounts	5,353	4,692
Less:		
Lapsed appropriations: Operating	(4,608)	(3,025)
	<u>50,417</u>	<u>45,357</u>
Current year appropriations used		

National Energy Board
Notes to the Financial Statements - Unaudited

c) Reconciliation of net cash provided by Government to current year appropriations used

	2009	2008
	(in thousands of dollars)	
Net cash provided by (to) Government	(1,406)	3,854
Revenue not available for spending	52,179	41,595
Change in net position in the Consolidated Revenue Fund:		
Variation in accounts receivable and advances	1,220	(4,235)
Variation in accounts payable and accrued liabilities	(1,635)	3,419
Other adjustments	59	724
	(356)	(92)
Current year appropriations used	50,417	45,357

4. Accounts Receivable and Advances

The following table presents details of accounts receivable and advances:

	2009	2008
	(in thousands of dollars)	
Receivables from other Federal Government departments and agencies	273	635
Receivables from external parties	15,299	16,164
Employee advances	10	3
	15,582	16,802
Less: allowance for doubtful accounts on external receivables	(2,916)	(2,916)
Total	12,666	13,886

National Energy Board
Notes to the Financial Statements - Unaudited

5. Tangible Capital Assets

(in thousands of dollars)

Capital asset class	Cost				
	Opening balance	Acquisitions	Transfers	Disposals & write-offs	Closing balance
Informatics hardware	2,175			(779)	1,396
Informatics software	2,656		1,143		3,799
Machinery and equipment	524	43		(29)	538
Other mach. & equip (incl. furniture)	180	234			414
Vehicles	25	26		-	51
Leasehold improvements	943	114	49		1,106
Assets under construction / development	554	665	(1,192)		27
Total	7,057	1,081	-	(808)	7,331

Capital asset class	Accumulated amortization				Net book value	
	Opening balance	Amortization	Disposals & write-offs	Closing balance	2009	2008
Informatics hardware	1,828	168	(779)	1,217	179	347
Informatics software	1,511	466	-	1,977	1,822	1145
Machinery and equipment	136	82	(29)	189	349	388
Other mach. & equip (incl. furniture)	58	16	-	74	340	122
Vehicles	25	5	-	30	21	-
Leasehold improvements	693	240	-	933	173	250
Assets under construction / development	-	-	-	-	27	554
Total	4,251	977	(808)	4,420	2,912	2,806

Amortization expense for the year ended March 31, 2009 is \$976,660 (2008 - \$950,716). The amount of \$1,081 thousand shown for acquisitions above differs from the amount of \$915 thousand used in Note 3(a). The \$915 thousand reflects actual cash outflow in the current year, whereas the \$1,081 thousand includes adjustments relating to previous years' transactions.

**National Energy Board
Notes to the Financial Statements - Unaudited**

6. Employee Benefits

(a) Pension benefits: The NEB's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the NEB contribute to the cost of the Plan. The 2008-09 expense amounts to \$3,865,130 (\$3,420,243 in 2007-08), which represents approximately 2.0 times (2.1 in 2007-08) the contributions by employees.

The NEB's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

(b) Severance benefits: The NEB provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2009	2008
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	5,342	5,611
Expense for the year	1,675	329
Benefits paid during the year	(350)	(622)
Accrued benefit obligation, end of year	6,667	5,342

7. Contingent liabilities

Claims and litigation

Claims have been made against the NEB in the normal course of operations. Legal proceedings for claims totalling approximately \$785,913 (\$831,000 in 2008) were still pending at March 31, 2009. Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. The likelihood of these claims being realized cannot be determined so no amount has been accrued in the financial statements.

**National Energy Board
Notes to the Financial Statements - Unaudited**

8. Contractual Obligations

The nature of the NEB's activities can result in some large multi-year contracts and obligations whereby the department will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(thousands of dollars)	2010	2011	2012	2013 and thereafter	Total
Vendor contracts	1,167	663	453	88	2,371

9. Related party transactions

The NEB is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The NEB enters into transactions with these entities in the normal course of business and on normal trade terms. Also, during the year, the department received services which were obtained without charge from other Government departments as presented in part (a).

(a) Services provided without charge:

During the year the NEB received without charge from other departments, accommodation, legal fees and the employer's contribution to the health and dental insurance plans. These services without charge have been recognized in the department's Statement of Operations as follows:

	2009	2008
	(thousands of dollars)	
Accommodation	4,198	3,975
Employer's contribution to the health / dental insurance plans	2,773	1,999
Legal Services	112	-
Total	7,083	5,974

The Government has structured some of its administrative activities for efficiency and cost-effectiveness purposes so that one department performs these on behalf of all without charge. The costs of these services, which include payroll and cheque issuance services provided by Public Works and Government Services Canada and audit services provided by the Office of the Auditor General, are not included as an expense in the department's Statement of Operations.

National Energy Board
Notes to the Financial Statements - Unaudited

(b) Payables and receivables outstanding at year-end with related parties:

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Accounts receivable with other government departments and agencies	273	500
Accounts payable to other government departments and agencies	300	652

(c) Administration of programs on behalf of other government departments

The National Energy Board administers the Northern Gas Project Secretariat (NGPS) and Environmental Studies Research Funds (ESRF). NGPS expenses are part of the NEB's appropriation whereas ESRF expenses are not.

The concept of the Northern Gas Project Secretariat was first unveiled in the Cooperation Plan, a document produced by the Northern Pipeline Environmental Impact Assessment and Regulatory Chairs' Committee in June 2002.

This Plan describes the framework that the authorities with environmental impact assessment and regulatory mandates, called the Agencies, will follow to implement coordinated environmental impact assessment and regulatory processes for a proposed major northern gas pipeline project and associated developments. It outlines methods of cooperation between the Agencies that will avoid duplication of effort and provides clarity and certainty of process for the public, companies and other stakeholders.

The environmental review process commenced with the filing of the *Preliminary Information Package* in June 2003. The regulatory processes commenced with the filing of the five applications for the construction and operation of the Mackenzie Gas Project in October 2004.

The Northern Gas Project Secretariat office was officially opened in December 2003. With offices in Yellowknife and Inuvik, staff at the Project Secretariat will help northerners and interested public effectively participate in the environmental review and regulatory processes.

According to the Treasury Board submission approved on 1 December 2003, the operating costs of NGPS incurred by NEB are recoverable under the *National Energy Board Act* since the Secretariat functions are classified as part of the application process of the Act.

The NEB administers the Environmental Studies Research Funds. These funds are provided by Indian and Northern Affairs Canada (INAC) and Natural Resources Canada (NRCAN) for use by the NEB. Any unused balances in the ESRF accounts are transferred to the partner departments at year end. ESRF expenses are reflected in the financial statements of INAC and NRCAN.