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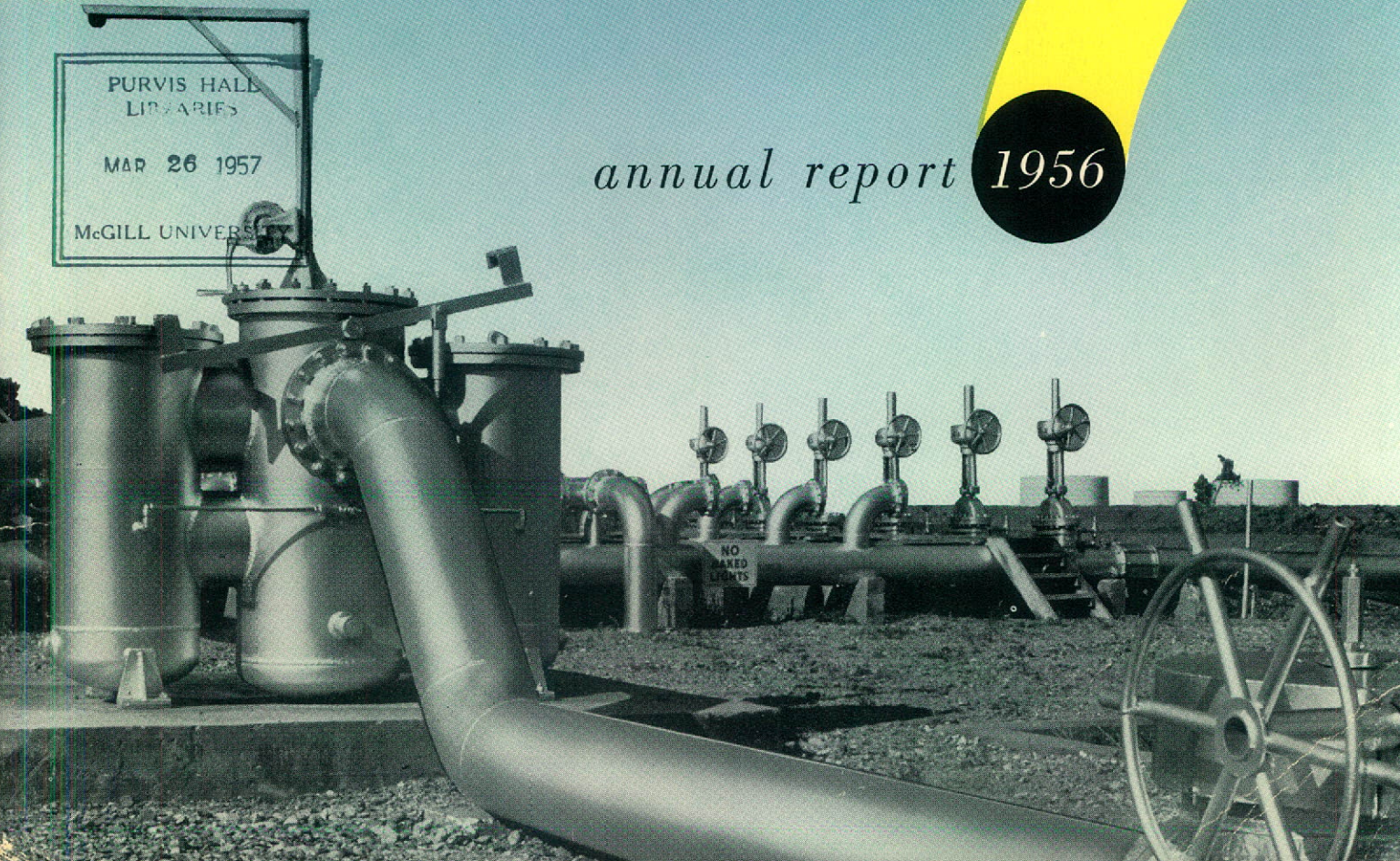
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1956-1957

INTERPROVINCIAL PIPE LINE COMPANY

annual report 1956

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INTERPROVINCIAL PIPE LINE COMPANY

annual report **1956**



Interprovincial Pipe Line Company

directors

C. E. CARSON	J. W. HAMILTON
T. S. JOHNSTON	F. C. LANTZ
E. D. LOUGHNEY	T. F. MOORE
W. HAROLD REA	R. H. REID
D. R. WALKER	

officers

T. S. JOHNSTON	- - - - -	<i>President</i>
D. R. WALKER	- - - - -	<i>Vice-President</i>
C. E. CARSON	- - - - -	<i>Vice-President</i>
W. A. HARE	- - - - -	<i>Secretary</i>
D. G. WALDON	- - - - -	<i>Treasurer</i>
J. M. COPELAND	- - - - -	<i>Comptroller and Assistant Secretary</i>

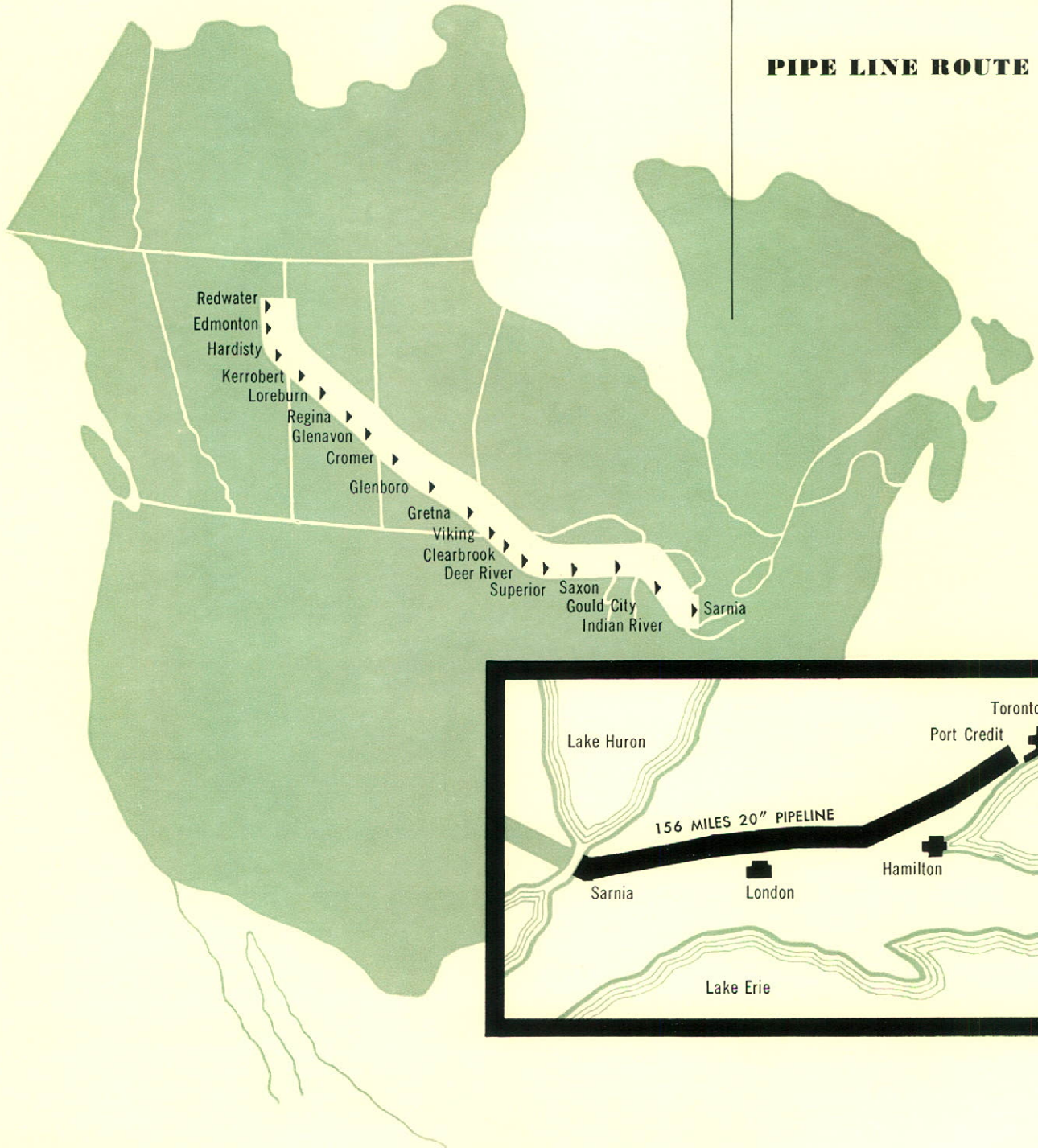
head office

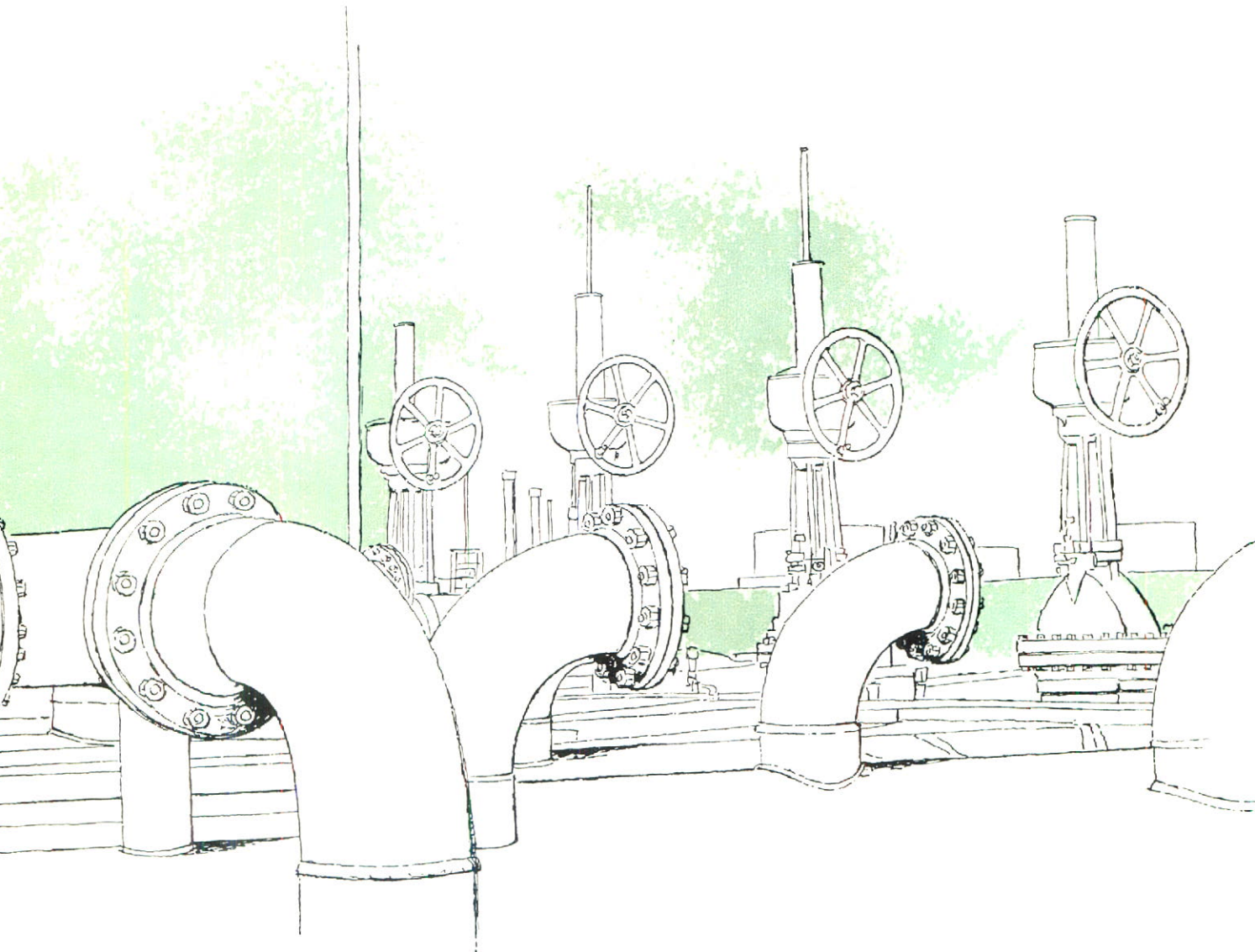
EDMONTON	- - - - -	<i>Alberta, Canada</i>
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executive office

TORONTO	- - - - -	<i>Ontario, Canada</i>
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PIPE LINE ROUTE





president's letter

Keeping pace with the generally successful year enjoyed by the petroleum industry, your Company continued its steady growth with new highs in both earnings and in the quantity of Canadian crude oil transported throughout 1956. The increased demand for crude petroleum resulted in Interprovincial moving 20% more oil in 1956 than in the previous year. Net income was 49% higher.

Interprovincial continued its planned expansion program during the past year. Approximately \$9.5 million was expended on projects to increase the system's carrying

capacity. For the greater part of the year the pipe line operated at near capacity. The policy of keeping abreast of petroleum demand will be continued in 1957 with expenditures of about \$26 million. It is gratifying that in these times of high interest rates the Company's financial position is such that further financing is unnecessary to meet either the 1956 capital expenditures or for those scheduled for 1957.

The increased production of Canadian crude and expanding market demand have resulted in Interprovincial's operations becoming more extensive and complex. Since this Company provides the transportation vital to economic development, your Management will continue to plan for the expansion of the pipe line system as the need appears.

During 1956 an upward adjustment was made in salaries and wages following the trend in the areas in which the Company operates. Considerable study also was devoted to a broader and more modern hospitalization and surgical benefit plan which was ready at the year-end for implementing in 1957. The number of employees remained practically constant in 1956 at 525.

Although Management continued to press vigorously for a conclusion of the Canadian income tax matter which has been in dispute for three years, no decision had been reached by the year-end. Again an appropriation has been made from the Company's earnings to cover the maximum possible liability for 1956. It is hoped that the Exchequer Court will hear this case within the next few months.

More detailed comments on the 1956 operations and financial results are contained elsewhere in this report.



President.

operations

Throughputs reached a new high in 1956. Approximately 20% more oil was transported than in 1955 and in terms of barrel-miles, throughputs increased from 81 billion to 100.5 billion.

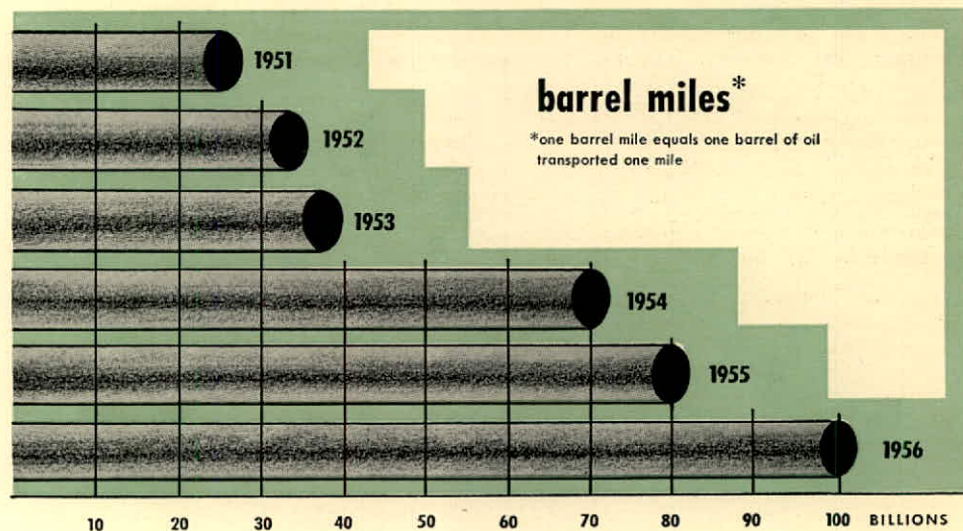
DELIVERIES OF OIL—millions of barrels

	<u>1956</u>	<u>1955</u>
Western Canada - - - - -	33.7	34.3
U.S. Refineries - - - - -	16.9	5.3
For tankers - - - - -	5.6	7.0
Eastern Canada - - - - -	40.5	33.9
	<u>96.7</u>	<u>80.5</u>

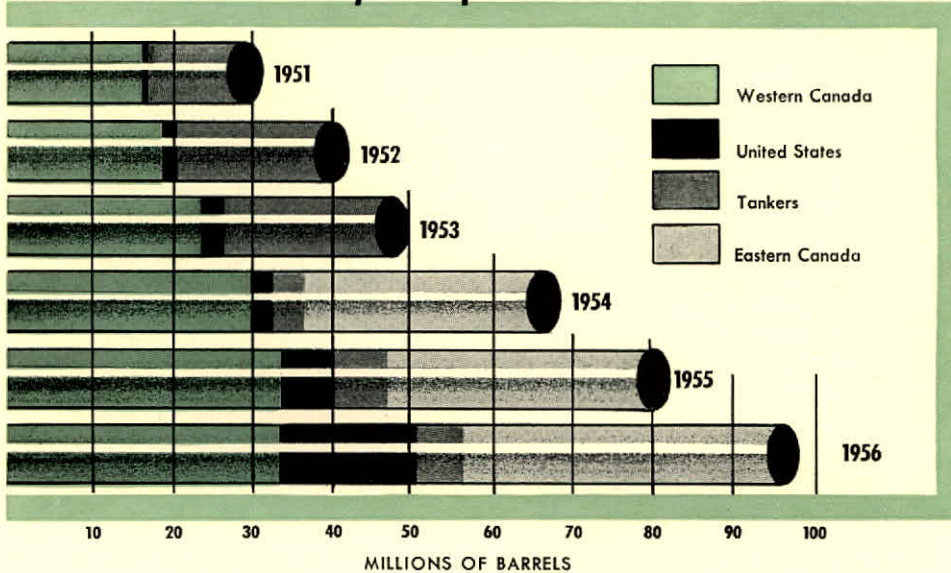
Deliveries to three refineries in the State of Michigan amounted to 1,628,335 barrels in 1956.

With the increase in production in south-eastern Saskatchewan more oil than ever before was tendered to Interprovincial at Cromer, Manitoba. As a result, 16% of the crude handled in 1956 was produced in Saskatchewan and Manitoba. Crude from this area entering the Interprovincial system had a marked effect on the Company's operation with Cromer becoming a major receiving point.

The physical operation of the pipe line system has become progressively complex due to the transportation of five types of crude oil. Special control and blending equipment has been installed to provide for segregation of these crudes while moving through the line.



crude oil deliveries by Interprovincial



construction

The 1956 construction program, which consisted of 67 miles of 24-inch loop in Manitoba and 52 miles of 26-inch loop in Minnesota and North Dakota, completed the looped sections of the system between Cromer, Manitoba and Clearbrook, Minnesota.

Added horsepower was installed at the Cromer pumping station and additional storage tanks were erected at this point to provide the necessary tankage for operating purposes.

Construction of a new electric-drive, remotely-operated pump station at Indian River, Michigan, was also started during the year. This will be the Company's first electric station—all the others are diesel operated.

Further expansion of the pipe line system is planned for 1957. Additional looping will be installed in the west to complete the looped sections between Regina and Superior, which include 32 miles of 24-inch loop in Saskatchewan and 78 miles of 26-inch loop in Minnesota and Wisconsin. Added horsepower will also be installed.

Construction of a second electric pump station at Gould City in northern Michigan will be started in 1957 for completion in 1958. This station will also be remotely controlled.

In the east the existing pipe line system will be extended in 1957 from its present terminus at Sarnia, Ontario to the Toronto area. This 156-mile extension will be of 20-inch diameter pipe with one pump station at Sarnia. During 1956 the Company acquired a portion of the right-of-way and completed all engineering details so that construction will commence in the spring. It is planned to have the new line in operation by fall of 1957. With this extension the Interprovincial pipe line system will extend 1930 miles through four provinces and four states.

Projects scheduled for 1957 construction total \$26 million. The funds for this expansion will be available from the Company's cash resources.

The extension of the pipe line system to the Toronto area will practically eliminate tanker movements from Superior and make it unnecessary to store large quantities of oil over the winter months. Accordingly, seven of the twenty-seven crude oil storage tanks at Superior were disposed of in 1956 and a further three tanks will probably be sold in 1957.

Upon completion of the 1957 construction program the capacity of the system will be as follows:

Edmonton-Regina -	235,000 barrels per day
Regina-Gretna -	331,000 barrels per day
Gretna-Superior -	343,000 barrels per day
Superior-Sarnia -	209,000 barrels per day
Sarnia-Toronto -	111,000 barrels per day

tariffs

The Company is engaged exclusively in the transportation of crude petroleum at established tariffs.

The rates in effect to delivery points in the United States, and for crude oil in transit through the United States, were reissued in Canadian and United States currencies effective January 1, 1956. All rates had been previously quoted in Canadian currency only.

All tariffs published by Interprovincial were reissued on July 16 limiting their application to light gravity crudes. Joint tariffs for the transportation of medium gravity crudes were later entered into with Westspur Pipe Line Company and Minnesota Pipe Line Company, two of the connecting carriers with the Interprovincial system.

financial

The financial statements that follow include the accounts of Interprovincial Pipe Line Company and its wholly-owned United States subsidiary, Lakehead Pipe Line Company, Inc.

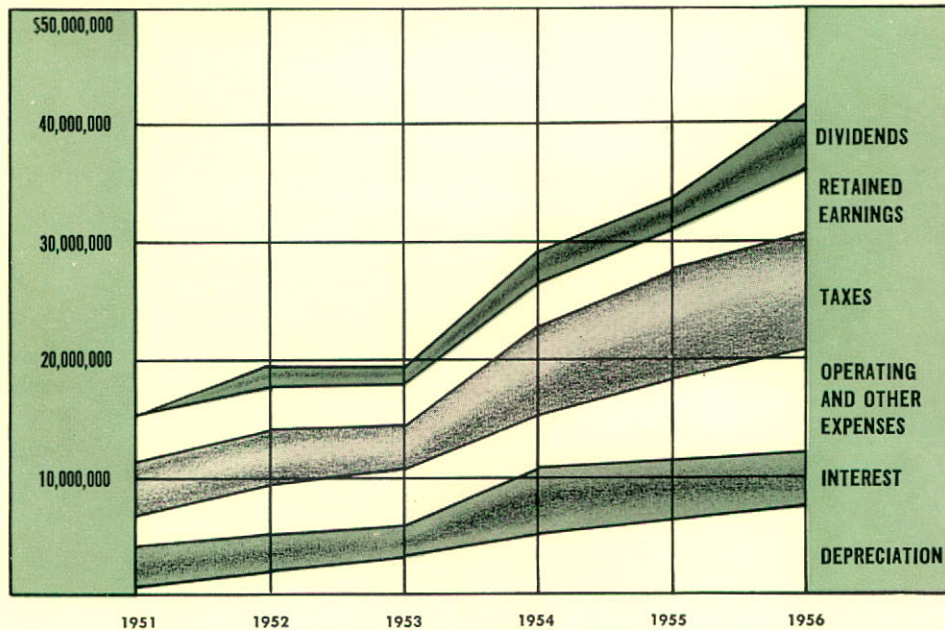
EARNINGS AND DIVIDENDS

After deducting all expenses, providing for normal income taxes and appropriating \$454,000 to cover income taxes that are in dispute, consolidated net income for the year 1956 amounted to \$9,720,247 equivalent to \$1.92 per share. The corresponding figure for 1955 was \$6,531,027 or \$1.30 per share.

The income taxes in dispute are the additional taxes that will be payable if the courts uphold the assessments handed down by the Canadian income tax authorities. Complete details are set out in Note 3 to Financial Statements.

Semi-annual dividends were paid during 1956 at the rate of 50¢ per share on March 1 and 60¢ per share on September 1.

disposition of gross income



INCOME AND EXPENSES

Operating revenue increased a further 23% in 1956 to \$41,807,800 as a result of the marked increase in the quantity of crude oil tendered for transportation.

Operating expenses, on the other hand, at \$6,837,985 were only 15% more than in 1955. An additional \$959,748 was charged to 1956 income, however, resulting from the sale of seven crude oil storage tanks at Superior which were surplus to the Company's operations.

CAPITAL EXPENDITURES AND FIXED ASSETS

A total of \$9,580,380 was expended on plant and equipment in 1956. This expenditure was largely in respect of the looping program that was completed during the year and expansion of the receiving facilities at Cromer, Manitoba. At the end of the year investment in fixed assets was as follows:

Land - - - - -	\$ 465,279
Rights-of-way - - - - -	2,051,003
Crude oil pipe line - - - - -	184,600,894
Building, tanks and equipment - - - - -	47,193,436
Incomplete construction - - - - -	250,373
	<u>\$234,560,985</u>



				96,700,000
			80,500,000	
	54,200,000	67,600,000		
	41,800,000			

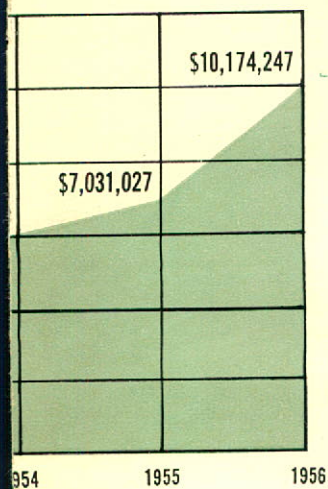
1952 1953 1954 1955 1956

BARRELS

	\$6,051,520
\$4,433,500	
\$4,107,689	

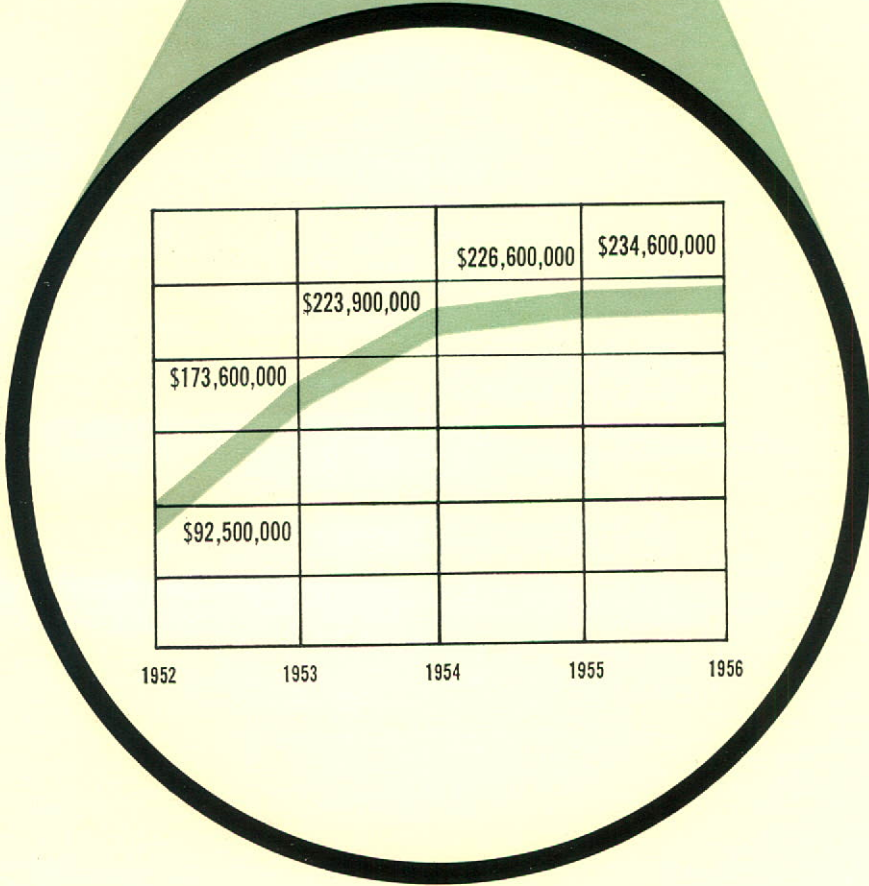
1952 1953 1954

EARN
(before app



1954 1955 1956

EARNINGS
(appropriation)



1952 1953 1954 1955 1956

INVESTMENT
plant and equipment

source and disposition of funds

	1956	1955
WORKING CAPITAL—JANUARY 1	\$14,295,847	\$ 7,418,364
SOURCE:		
Net income, before appropriation - - - - -	\$10,174,247	\$7,031,027
Depreciation - - - - -	7,406,864	6,919,250
Deferred income taxes - -	3,150,000	3,550,000
Capital stock issued - - -	278,795	—
Proceeds from sale of crude oil storage tanks - - - -	280,065	—
Loss on sale of tanks - - -	959,748	—
Other transactions (net) - -	166,294	225,319
	22,416,013	17,725,596
	\$36,711,860	\$25,143,960
DISPOSITION:		
Additions to carrier system -	\$ 9,580,380	\$2,871,711
Bond sinking fund requirements - - - - -	5,127,832	3,345,213
Dividends - - - - -	5,548,022	3,527,882
Disputed income taxes paid under protest - - - - -	675,734	20,931,968
	20,931,968	1,103,307
WORKING CAPITAL—DECEMBER 31	\$15,779,892	\$14,295,847

capital stock

A total of 10,511 shares of capital stock were issued for cash during 1956 under the terms of the Incentive Stock Option Plan. As at December 31 the outstanding shares of the Company were held as follows:

	1956		1955	
	Shareholders	Shares	Shareholders	Shares
Canada - - - - -	8,721	3,861,949	6,402	3,611,051
United States - - - - -	2,124	1,135,196	2,220	1,404,511
Other countries - - - - -	124	53,198	77	24,270
	10,969	5,050,343	8,699	5,039,832

auditors' report

to the shareholders of

INTERPROVINCIAL PIPE LINE COMPANY:

We have examined the consolidated balance sheet of Interprovincial Pipe Line Company and subsidiary companies as at December 31, 1956 and the statements of consolidated income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and related statements of consolidated income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1956 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

EDMONTON, February 12, 1957.


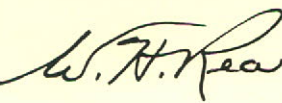
Interprovincial Pipe Line Company and subsidiary companies

ASSETS

	As at December 31	
	1956	1955
CURRENT ASSETS:		
Cash - - - - -	\$ 430,352	\$ 229,238
Deposits with bondholders' trustees and banks for interest and sinking fund payments - - - - -	1,421,407	1,503,937
Government and other marketable securities, at lower of cost or market value, plus accrued interest - - - - -	18,489,822	15,452,935
Accounts receivable—		
Transportation charges - - - - -	3,665,098	3,660,959
Claims and other accounts receivable - - - - -	298,216	114,498
Inventories—		
Crude oil (from pipe line allowance) at quoted market price - -	174,645	148,969
Materials and supplies, at cost - - - - -	931,549	1,286,078
Prepaid expenses - - - - -	224,238	118,767
	<u>\$ 25,635,327</u>	<u>\$ 22,515,381</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Mortgages receivable - - - - -	\$ 70,957	\$ 88,584
Unamortized premium and expense on long term debts (net) - - -	452,501	517,191
Other deferred charges - - - - -	46,873	75,022
	<u>\$ 570,331</u>	<u>\$ 680,797</u>
FIXED ASSETS: (Note 1)		
Carrier system and other physical properties, at cost - - - - -	\$234,560,985	\$226,561,154
Less—Accumulated depreciation - - - - -	26,877,343	19,774,971
	<u>\$207,683,642</u>	<u>\$206,786,183</u>
	<u>\$233,889,300</u>	<u>\$229,982,361</u>

CONSOLIDATED BALANCE SHEET (*Expressed in Canadian currency*)

LIABILITIES

	As at December 31	
	1956	1955
CURRENT LIABILITIES:		
Accounts payable and accrued - - - - -	\$ 568,028	\$ 668,378
Bond interest payable and accrued - - - - -	1,864,929	1,997,544
Accrued income and other taxes - - - - -	5,868,996	3,517,313
Bond sinking fund payments due within one year - - - - -	1,553,482	2,036,299
	<u>\$ 9,855,435</u>	<u>\$ 8,219,534</u>
LONG TERM DEBTS: (Note 2) - - - - -	<u>\$149,153,530</u>	<u>\$154,281,362</u>
PROVISIONS:		
For employee retirement benefits - - - - -	\$ 64,174	\$ 44,590
For disputed income taxes totalling \$2,054,000, less \$1,779,041 paid under protest (Note 3) - - - - -	274,959	496,693
	<u>\$ 339,133</u>	<u>\$ 541,283</u>
DEFERRED INCOME TAXES: (Note 1) - - - - -	<u>\$ 10,550,000</u>	<u>\$ 7,400,000</u>
CAPITAL STOCK AND RETAINED EARNINGS:		
Capital stock—(Note 4)		
Authorized—\$200,000,000 divided into 40,000,000 shares, par value \$5 each		
Issued—1956—5,050,343 shares;		
1955—5,039,832 shares - - - - -	\$ 25,251,715	\$ 25,199,160
Premium on shares - - - - -	18,941,167	18,714,927
Retained earnings, per statement attached - - - - -	19,798,320	15,626,095
	<u>\$ 63,991,202</u>	<u>\$ 59,540,182</u>
SIGNED ON BEHALF OF THE BOARD:		
 Director		
 Director		
	<u>\$233,889,300</u>	<u>\$229,982,361</u>

Interprovincial Pipe Line Company

and subsidiary companies

STATEMENT OF CONSOLIDATED INCOME

(Expressed in Canadian currency)

	For the years ended December 31	
	1956	1955
INCOME:		
Operating revenue - - - - -	\$41,807,800	\$33,966,143
Income from Government and other marketable securities - - - - -	424,787	140,454
Profit on foreign exchange (Note 5) - - - - -	127,443	215,087
Sundry income - - - - -	208,750	79,908
	<u>\$42,568,780</u>	<u>\$34,401,592</u>
CHARGES:		
Operating expense, other than below - - - - -	\$ 6,837,985	\$ 5,937,102
Taxes, other than income taxes - - - - -	1,970,500	1,865,503
Provision for depreciation (Note 1) - - - - -	7,406,864	6,919,250
Interest on long term debts - - - - -	5,569,436	5,710,710
Loss on sale of storage tanks (Note 1) - - - - -	959,748	—
	<u>\$22,744,533</u>	<u>\$20,432,565</u>
BALANCE BEFORE INCOME TAXES - - - - -	<u>\$19,824,247</u>	<u>\$13,969,027</u>
PROVISION FOR TAXES ON INCOME: (Note 1)		
Canada - - - - -	\$ 6,167,000	\$ 4,486,000
United States - - - - -	3,483,000	2,452,000
	<u>\$ 9,650,000</u>	<u>\$ 6,938,000</u>
NET INCOME FOR THE YEAR BEFORE APPROPRIATION -	<u>\$10,174,247</u>	<u>\$ 7,031,027</u>
APPROPRIATION FOR DISPUTED INCOME TAXES (Note 3) -	454,000	500,000
NET INCOME FOR THE YEAR AFTER APPROPRIATION -	<u>\$ 9,720,247</u>	<u>\$ 6,531,027</u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

(Expressed in Canadian currency)

	For the years ended December 31	
	1956	1955
BALANCE AT JANUARY 1 - - - - -	\$15,626,095	\$14,052,034
Add—Net income for the year after appropriation - -	9,720,247	6,531,027
	<u>\$25,346,342</u>	<u>\$20,583,061</u>
Deduct—		
Dividends (Note 7) - - - - -	\$ 5,548,022	\$ 3,527,882
Appropriation for prior years' disputed income taxes (Note 3) - - - - -	—	1,100,000
Organization and capital stock issue costs written off	—	329,084
	<u>\$ 5,548,022</u>	<u>\$ 4,956,966</u>
BALANCE AT DECEMBER 31 - - - - -	<u>\$19,798,320</u>	<u>\$15,626,095</u>

Interprovincial Pipe Line Company

and subsidiary companies

NOTES TO FINANCIAL STATEMENTS

1. FIXED ASSETS

PROVISION FOR DEPRECIATION

PROVISION FOR TAXES ON INCOME

During 1956 \$9,580,380 was spent on further looping of the pipe line and expansion of other facilities. It is estimated that expenditures in 1957 for additional looping, expansion of facilities and extension of the pipe line system from Sarnia to the Toronto area will amount to approximately \$26,000,000. The extension to the Toronto area will alleviate the storage problem at Superior. Accordingly, seven of the twenty-seven crude oil storage tanks at that location were sold in 1956 at a loss of \$959,748 and present indications are that three more tanks will be disposed of in 1957.

The companies' policy is to provide for depreciation of the Carrier System and Other Physical Properties on the straight line method at annual rates which will amortize the cost of depreciable properties over their estimated service lives after taking into account possible salvage values. The income tax provision charged to income is based on the amount of depreciation recorded on the books of the companies without reference to additional deductions permitted for income tax purposes referred to below.

The United States subsidiary has obtained Certificates of Necessity entitling it to amortize for income tax purposes over a five-year period a portion of the cost of certain physical properties constructed in 1953 and 1954. Also, under Canadian and United States income tax regulations greater deductions are permitted for tax purposes in respect of depreciable property than the Provision for Depreciation recorded on the books of the companies. The companies are taking advantage of the maximum deductions permitted for tax purposes and as a result income taxes payable in respect of 1956 will amount to \$6,500,000 whereas \$9,650,000 was charged to income. The difference of \$3,150,000 is applicable to future years when amounts deductible for tax purposes will be less than the depreciation recorded in the accounts and is accordingly carried on the Consolidated Balance Sheet, together with similar amounts in respect of prior years, under the heading Deferred Income Taxes.

2. LONG TERM DEBTS

Long term debts of \$149,153,530 at December 31, 1956 comprise First Mortgage and Collateral Trust Bonds of Interprovincial Pipe Line Company, authorized with no fixed limitation, issued and outstanding as follows:

	Series A 3½% due January 1 1970	Series B 3½% due January 1 1970	Series C 4% due April 1 1973	Series D 3½% due April 1 1974	
	<i>(Canadian dollars)</i>		<i>(United States dollars)</i>		
Issued - - - - -	\$37,000,000	35,000,000	60,000,000	30,000,000	
Redeemed - - - - -	4,524,000	3,971,000	833,000	—	
Bonds outstanding - - - - -	<u>\$32,476,000</u>	<u>31,029,000</u>	<u>59,167,000</u>	<u>30,000,000</u>	
Less—					
Bonds called for redemption - \$	—	305,000	—	—	
Bonds reacquired - - - - -	1,438,000	934,000	771,000	550,000	
Other sinking fund payments due within one year - - -	—	428,000	895,000	—	
	<u>\$ 1,438,000</u>	<u>1,667,000</u>	<u>1,666,000</u>	<u>550,000</u>	
Amount due after 1957 - - -	<u>\$31,038,000</u>	<u>29,362,000</u>	<u>57,501,000</u>	<u>29,450,000</u>	
Amount due after 1957 in terms of Canadian dollars (Note 5) -	<u>\$31,038,000</u>	<u>32,445,010</u>	<u>56,795,715</u>	<u>28,874,805</u>	<u>149,153,530</u>

Bond sinking fund payments due within one year are shown under Current Liabilities on the Consolidated Balance Sheet at \$1,553,482 Canadian currency (Note 5).

Bond sinking fund payments required from 1958 to 1961 are as follows:

	Series A	Series B	Series C	Series D
	<i>(Canadian dollars)</i>		<i>(United States dollars)</i>	
1958 - - - - -	\$1,438,000	1,362,000	1,833,000	832,000
1959 - - - - -	1,644,000	1,556,000	2,000,000	916,000
1960 - - - - -	1,644,000	1,556,000	2,167,000	1,000,000
1961 - - - - -	1,850,000	1,750,000	2,334,000	1,084,000

3. PROVISION FOR DISPUTED INCOME TAXES

The note and bond interest paid by the wholly-owned United States subsidiary to the Company is subject to a 15% withholding tax. The Company has claimed this tax as a foreign tax credit but the Canadian income tax authorities have disallowed the claim and have not allowed the withholding tax as a deduction from income. The assessments for additional income taxes have been appealed to the Exchequer Court of Canada.

Although the Company does not admit any liability, it has been considered prudent to provide for the maximum taxes in dispute. This has been done by appropriating \$454,000 from 1956 income; \$500,000 from 1955 income; and \$1,100,000 from Retained Earnings in respect of prior years.

In order to avoid accrual of possible interest penalties \$1,779,041 of the total amount appropriated has been paid under protest and the balance, namely \$274,959, is shown on the Consolidated Balance Sheet under the heading Provision for Disputed Income Taxes.

4. INCENTIVE STOCK OPTION PLAN

Under the Company's Incentive Stock Option Plan, options on 35,700 shares have been granted to December 31, 1956 at the market price on the date of option. During 1956 options on 10,511 shares were exercised leaving a balance of 25,189 shares under option.

5. FOREIGN EXCHANGE

The Series B, C and D Bonds of Interprovincial, payable in United States dollars, are stated in Canadian currency at the rate of exchange prevailing when the debts were incurred, except for the amount payable within one year which has been translated at the exchange rate in effect at December 31, 1956. The year-end rate was also used for United States cash held by the Company and for amounts receivable and payable in United States funds.

The accounts of the United States subsidiary company have been translated into Canadian dollars on the following bases:

Fixed assets, deferred charges and deferred income taxes, at historical rates of exchange;

Current and other assets, and current liabilities, at the rate in effect at December 31, 1956;

Accumulated depreciation, on the basis of equivalent Canadian dollar cost of the related fixed assets;

Income and expense accounts, except depreciation, loss on sale of storage tanks, and amortization of expense on long term debts, at the rate of exchange prevailing at the end of each month.

Profits and losses on foreign exchange arising from the foregoing methods are shown as Profit on Foreign Exchange on the Statement of Consolidated Income.

6. SALARIES OF EXECUTIVE OFFICERS, COUNSEL FEES AND DIRECTORS' FEES

The total amount deducted in the Statement of Consolidated Income in respect of salaries and other remuneration paid to counsel, solicitors and executive officers, including a salaried director, was \$136,711 in 1956. Fees paid to certain other non-salaried directors amounted to \$3,200 for the year.

7. DIVIDENDS

During the two years ended December 31, 1956 the Company declared and paid cash dividends which were charged to Retained Earnings as follows:

	Per share	1956	1955
March 1, 1955 - - - - -	30¢	\$ —	\$1,511,950
September 1, 1955 - - - - -	40¢	—	2,015,932
March 1, 1956 - - - - -	50¢	2,519,916	—
September 1, 1956 - - - - -	60¢	3,028,106	—
		<u>\$5,548,022</u>	<u>\$3,527,882</u>

INTERPROVINCIAL PIPE LINE COMPANY



