L Westcoast Energy Inc.

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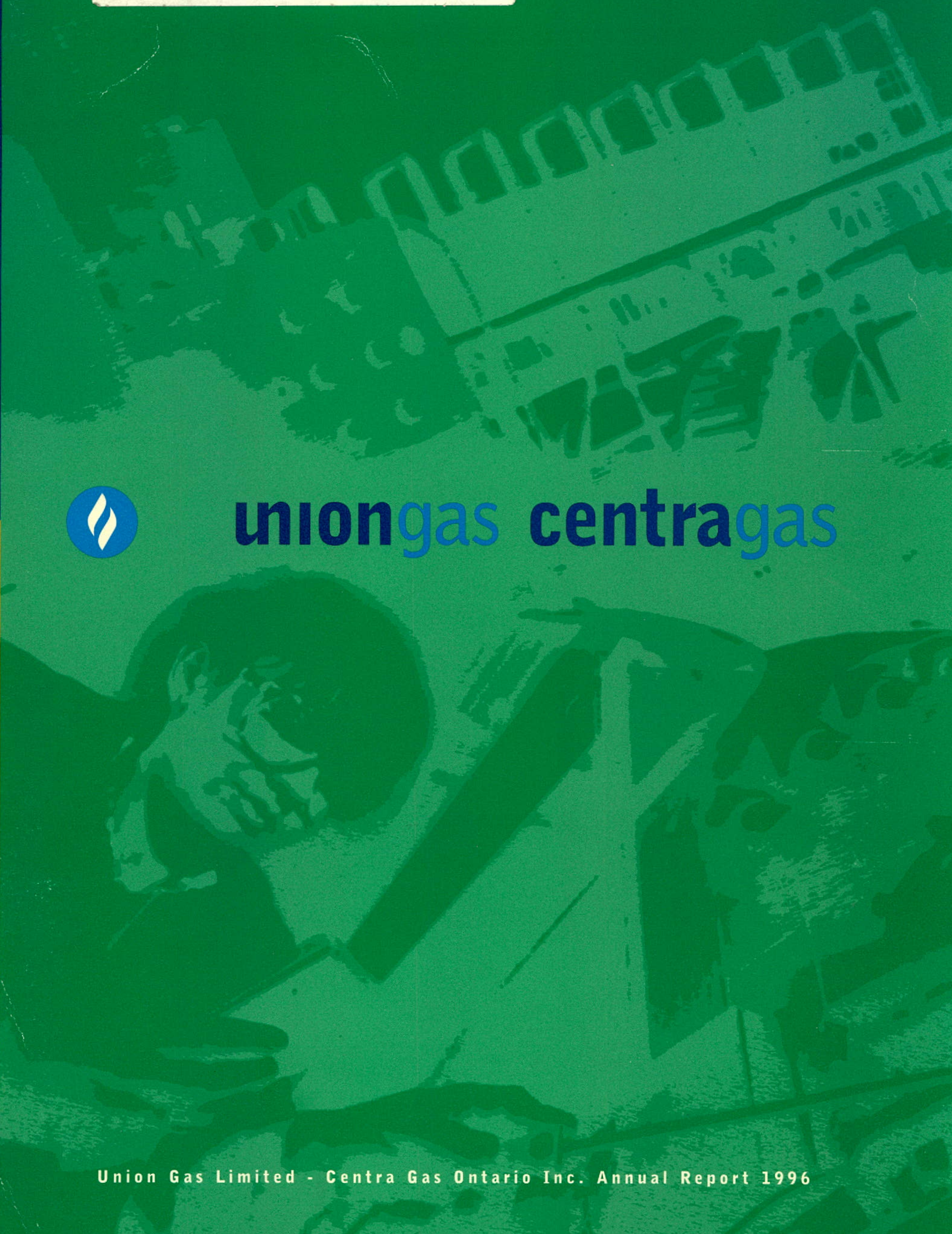


uniongas centragas

Union Gas Limited - Centra Gas Ontario Inc. Annual Report 1996

## Table of Contents

Union Gas Limited and Centra Gas Ontario Inc. are two major Ontario natural gas utilities which provide energy delivery and related services to a combined total of more than one million residential, commercial and industrial customers in over 400 communities in the province. Union Gas serves an area in southwestern Ontario from Windsor to just west of Toronto and also provides gas storage and transportation services for other utilities and energy companies in central Canada and the northeast U.S. Centra Gas serves northern Ontario from the Manitoba border to the North Bay/Muskoka area, and eastern Ontario from Port Hope to Cornwall.

Combined revenues for 1996 were $1.8 billion and combined net income was $129 million. Total throughput for the two companies was 32 billion cubic metres and assets totalled $3.9 billion. Together Centra and Union employ about 3,300 men and women.

Centra and Union are wholly-owned subsidiaries of Westcoast Energy Inc. of Vancouver, B.C., and operate under a shared services arrangement featuring a common senior management group and combined administrative functions. The companies are nevertheless separate legal entities with separate boards of directors. A legal merger is planned for January 1, 1998 pending approval of the Ontario Government. The companies' utility operations are regulated under the Energy Board Act and the Energy Act (Ontario).

# Financial and Operating Highlights

## Union Gas

| *Years Ended December 31* | 1996 | 1995 |
|---|---|---|
| **Financial** *(millions)* | | |
| Total revenue | $ 1,310.3 | $ 1,325.5 |
| Net income | $ 95.9 | $ 78.5 |
| Earnings applicable to common shares | $ 93.2 | $ 75.8 |
| Capital expenditures | $ 207.3 | $ 250.9 |
| Total assets | $ 2,986.6 | $ 2,829.0 |
| **Operating** | | |
| Volume of gas ($10^6 m^3$) | | |
| Distribution volume | 9 078 | 8 757 |
| Transportation volume | 18 414 | 19 659 |
| Total throughput | 27 492 | 28 416 |
| Customers | 755,257 | 728,471 |
| Degree day deficiency | 4 151 | 3 991 |

## Centra Gas

| *Years Ended December 31* | 1996 | 1995 |
|---|---|---|
| **Financial** *(millions)* | | |
| Total revenue | $ 527.5 | $ 541.2 |
| Income from continuing operations | $ 33.2 | $ 32.6 |
| Earnings applicable to common shares | $ 32.1 | $ 32.4 |
| Capital expenditures | $ 106.2 | $ 83.2 |
| Total assets | $ 904.4 | $ 819.7 |
| **Operating** | | |
| Gas distribution volume ($10^6 m^3$) | 4 665 | 4 576 |
| Customers | 246,740 | 236,585 |
| Degree day deficiency | 5 503 | 5 279 |

**For Centra Gas Ontario and Union Gas, 1996 was a year of solid growth. The number of customers we serve increased by 37,000 for a total surpassing one million. Our financial results were very strong, with combined net income increasing 15 percent over 1995 to $129 million. Higher gas usage due to colder weather and other factors, customer growth, and increased income from appliance rentals and service programs all contributed to these excellent results.**

We achieved this growth during a year of change within our companies, as we strategically repositioned our business in order to thrive in a rapidly transforming energy marketplace. This new business environment is driven by increasing competition in the provision of energy services, greater customer demand for choice and value, and a diminishing emphasis on regulation where competitive options exist.

As a consequence, we have begun the process of moving toward an unbundling, or separation, of our regulated gas delivery business from our retail energy services business. The delivery business would remain regulated and focus on offering safe, reliable and efficient distribution, storage and transmission services to natural gas customers. The retail energy services business, which provides customers with value-added products and services such as appliance sales and rentals, financing, service work, energy retailing and energy management, would eventually be pursued outside of regulation in a fully competitive market.

This new approach to our business will give us the flexibility to anticipate and respond quickly and efficiently to customers' specific needs for value and choice, and enhance the ability of the unbundled services business to compete on a level playing field with a growing number of unregulated energy service providers in the marketplace. We will continue to work with regulators and other stakeholders over the next two years on the implementation of these proposals. In the meantime we are currently shaping our organization and operations along these lines, albeit within regulation.

In addition, our plans to amalgamate the operations of Centra and Union by January 1, 1998, progressed during the year. Following public hearings on the proposal in January, 1997, the Ontario Energy Board (OEB) recommended the amalgamation to the Ontario Government and we are currently awaiting their approval. The amalgamation will further, by about $2 million a year, the efficiencies achieved through our shared services initiative which is providing ongoing annual savings to customers of approximately $14 million a year. Amalgamating Centra and Union will also streamline our operations to better serve our one million customers in northern, eastern and southwestern Ontario. Operating as a single corporate entity will also strengthen our presence in Ontario.

### DELIVERING THE ENERGY

In 1996 we delivered a record 13 743 million cubic metres ($10^6m^3$) or 486 billion cubic feet (Bcf) of natural gas to residential, commercial and industrial customers within the Centra and Union service areas. This 3 percent increase over last year was the result of colder weather, customer growth, and higher customer usage.

Our distribution systems were extended to 23 communities previously unserved by natural gas. Fifteen of those communities are in northern and eastern Ontario and eight in southwestern Ontario. Plans are currently underway to bring natural gas service to approximately ten more communities or township areas in 1997. System expansion to previously unserved communities is a key component of our companies' fuel substitution strategy and contributes significantly to overall customer growth. In both companies, conversion to natural gas from other fuels accounts for between 50 and 70 percent of new residential customers, reflecting the economic and environmental benefits of natural gas over other fuels in the marketplace.

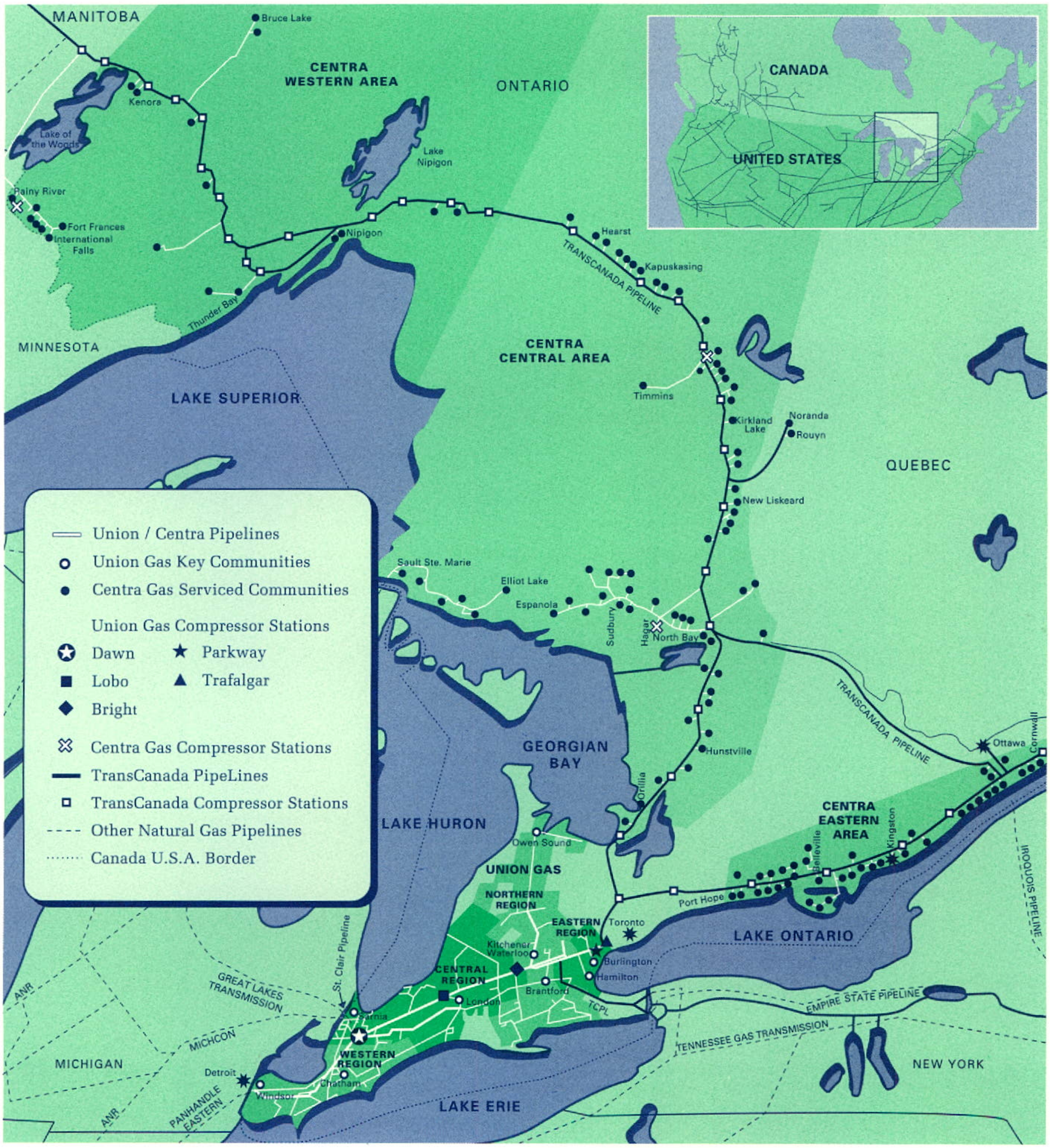
#### Recent Rate Impacts

The colder than normal weather experienced in 1996 in the Centra and Union service areas was also felt in many parts of North America. This resulted in sustained strong demand and higher gas commodity prices throughout the year and into the winter of 1996/97. Consequently, both Centra and Union had to increase the gas cost component of their rates for 1997. Gas cost increases were implemented in both January and March of 1997, totalling approximately 8 percent per year for the typical residential customer of both Centra and Union.

In addition, the recovery of higher than forecast gas costs for 1996 was approved by the OEB as part of its 1997 rates decision for both companies. The recovery of these 1996 deferral accounts results in a charge of about $30 for the typical Union Gas customer and about $20 for the typical Centra customer. In its decision, the OEB also approved new delivery rates for both companies. Union residential customers will see a decrease of about 1.5 percent while Centra residential customers will experience an approximate 4 percent increase, effective January 1, 1997.

Despite these recent overall increases, rates for residential customers remain similar to those in effect in 1994, as gas costs decreased by about 6 percent for Union customers, and 10 percent for Centra customers, in 1995. While natural gas still provides excellent energy value compared with other fuels, the extreme volatility of gas commodity prices on the North American market has resulted in recent price increases. This, combined with a trend to more stable electricity rates

## System Map


MANITOBA
Bruce Lake
CENTRA WESTERN AREA
ONTARIO
CANADA
UNITED STATES
Kenora
Lake of the Woods
Lake Nipigon
Rainy River
Fort Frances
International Falls
Nipigon
Hearst
Kapuskasing
TRANSCANADA PIPELINE
Thunder Bay
MINNESOTA
CENTRA CENTRAL AREA
LAKE SUPERIOR
Timmins
Kirkland Lake
Noranda
Rouyn
QUEBEC
New Liskeard
Union / Centra Pipelines
Union Gas Key Communities
Centra Gas Serviced Communities
Union Gas Compressor Stations
Dawn
Parkway
Lobo
Trafalgar
Bright
Centra Gas Compressor Stations
TransCanada PipeLines
TransCanada Compressor Stations
Other Natural Gas Pipelines
Canada U.S.A. Border
Sault Ste. Marie
Elliot Lake
Espanola
Sudbury
Hagar
North Bay
TRANSCANADA PIPELINE
Ottawa
Cornwall
Hunstville
GEORGIAN BAY
Orillia
LAKE HURON
CENTRA EASTERN AREA
Belleville
Kingston
IROQUOIS PIPELINE
Owen Sound
UNION GAS
NORTHERN REGION
EASTERN REGION
Toronto
Port Hope
LAKE ONTARIO
St. Clair Pipeline
Kitchener Waterloo
Burlington
Hamilton
CENTRAL REGION
Brantford
London
GREAT LAKES TRANSMISSION
ANR
Sarnia
TCPL
EMPIRE STATE PIPELINE
TENNESSEE GAS TRANSMISSION
MICHCON
MICHIGAN
WESTERN REGION
Detroit
Chatham
Windsor
PANHANDLE EASTERN
ANR
LAKE ERIE
NEW YORK

underlines the need for continued vigilance regarding operating costs, if future competitive advantage is to be maintained.

### Major Industrial Markets

In the large volume industrial markets, which account for about two thirds of all in-franchise deliveries for Centra and Union Gas, activity was strong in 1996, reflecting general economic strength, production increases, and the economic and environmental advantages of natural gas use. In this market we seek to meet individual customer requirements for energy efficient technologies, emissions reduction, cost savings and the substitution of gas for other fuels. A number of initiatives to provide value-added customer service were completed, or underway in 1996.

In the steelmaking sector, both Centra and Union have been working on multi-year projects with Algoma Steel of Sault Ste. Marie and Stelco's Lake Erie Steel Company in Nanticoke, to increase the level of natural gas used in their blast furnaces, thereby replacing coke or coal in the process. Increased use of natural gas improves product quality and productivity while reducing operating costs and atmospheric emissions.

In 1996 the second phase of the Algoma Steel project was completed increasing gas use by about 85 $10^6m^3$ (3 Bcf) a year. When the third phase is completed by late 1998, gas use will be increased by as much as 140 $10^6m^3$ (5 Bcf) a year. At Lake Erie Steel, the second phase of a three phase project completed in 1995 resulted in additional gas use of over 85 $10^6m^3$ (3 Bcf) a year. The final phase of the project, now in the planning stages, could increase gas usage by up to 140 $10^6m^3$ (5 Bcf) a year.

During 1996 facilities were completed to serve five new cogeneration plants. In Centra's service area these include the 107 megawatt Kingston Cogen plant, northwest of Kingston; the 100 megawatt Northland Power plant at Iroquois Falls; and two TransCanada PipeLine compressor station cogeneration plants of 40 megawatts each, at North Bay and Kapuskasing. In Union's service area, facilities were completed to the 50 megawatt TransAlta cogeneration plant at Chrysler Canada in Windsor. At full capacity, these facilities have the potential to increase gas load for Centra and Union by a total of approximately 500 $10^6m^3$ (18 Bcf) a year.

### Storage and Transportation Services

A key component of our delivery business involves providing natural gas storage, transportation, loans and other transactional services to utilities, marketers, shippers and power generators in Ontario, Quebec and the United States. More gas is moved for these out-of-franchise customers than is distributed to Union and Centra distribution customers combined. Storage and transportation volumes for 1996 totalled 18 414 $10^6m^3$ (650 Bcf) , and revenues increased by about 2 percent to $157 million as a result of higher short term hub service activities and other transactional services.

The storage and transportation system is strategically located in southwestern

Ontario near the major markets of Central Canada and between the pipeline grids of the U.S. Mid-West and fast-growing U.S. Northeast markets. The system has pipeline interconnections to most Canadian and U.S. supply basins and includes Canada's largest natural gas storage facility, with a working capacity of over 3.5 billion cubic metres (125 Bcf). The system operates as a key service hub in the North American natural gas delivery system. In 1996 the storage and transportation business continued to develop market opportunities to meet the growing service needs of its Canadian and U.S. customers.

To meet the growing demand from transportation customers, an 18-kilometre, 48-inch diameter loop of the Dawn-Trafalgar transmission system was completed in an area west of Cambridge, Ontario, at an approximate cost of $46 million.

Approval was granted by the OEB to further develop the Bentpath and Rosedale storage pools at an estimated cost of $28 million in order to enhance deliverability, reduce overall gas inventory requirements and increase storage space available for storage and transportation customers. The project is scheduled for completion in late 1997.

### Investment In Our System And Our Customers

In 1996, Centra and Union together invested more than $313 million in expanding and improving their facilities in order to provide better service to a growing number of customers. While much of the investment is for distribution, storage and transmission infrastructure, a substantial amount is dedicated to information technologies which help us manage our business processes more effectively and offer more choice, efficiency and convenience to customers.

During 1996 we implemented a new business information system to coordinate the business and financial operations of both Centra and Union, and a new customer information system is currently under development for introduction over the next two years.

Over the past five years, Centra and Union have made capital investments totalling $1.6 billion in Ontario, representing a significant commitment to our customers and communities. In 1997 capital investment is expected to total $290 million.

### Employee Safety Achievements

Employee and operational safety are priorities for our companies. Despite the pressures of growth and change over the year, employees achieved an enviable safety record in 1996. In Centra's Central Area, employees won the Industrial Accident Prevention Association of Ontario's safety award for achieving the milestone of one million hours worked without an injury resulting in time off the job. Centra's Western Area employees earned the same honour in 1995. In 1996 employees of both Union and Centra won Canadian Gas Association awards for five years of continuous improvement for both physical and vehicle-related safety records.

### ENERGY SOLUTIONS FOR CUSTOMERS

With a focus on customer choice and value we are committed to providing retail solutions to meet our customers' energy needs. We do this by offering, in concert with trade allies, a full range of competitively priced products and services, such as appliance sales and rentals, financing, service work and energy management programs. Eventually, when this part of our business operates outside of regulation, the gas commodity and other energy retailing will be part of the solutions mix.

In 1996, the merchandise sales area showed strong growth, as combined company and dealer unit sales of appliances such as furnaces, fireplaces, barbeques and air conditioners increased by 28 percent over last year at Union and 14 percent at Centra. The number of water heater rental units installed grew over last year by 5 percent at Union and 4 percent at Centra.

A number of new service programs were introduced in 1996 in response to specific needs of customers. A home heating protection plan and a summer home comfort or air-conditioning maintenance service offered by Union and an appliance service program offered by Centra, all exceeded expectations in terms of customer demand.

In Cornwall, Ontario, a new $1.2 million customer centre was opened to serve the area's 13,500 customers. The new facility features a retail sales store to test-market energy related products in Centra's service area.

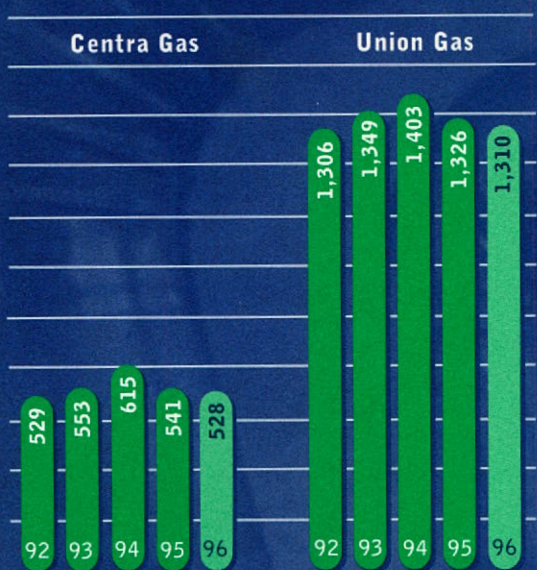
The solutions business will continue its emphasis on retail merchandise and service to satisfy customers' requirements for value, comfort, energy efficiency and convenience.

### LOOKING AHEAD

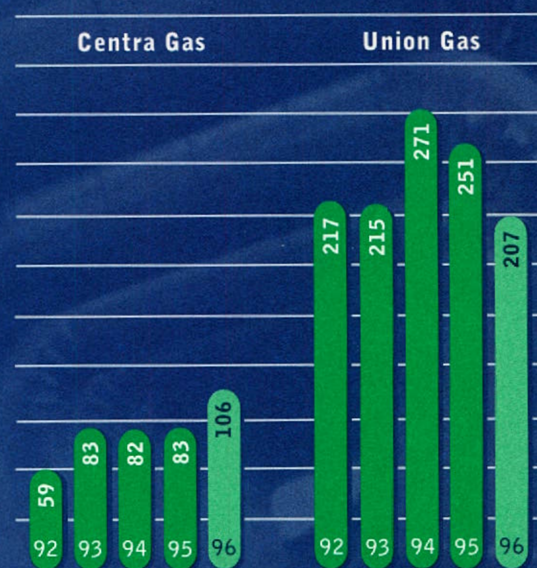
The outlook for the coming year is one of continued growth. We expect an increase in the number of our distribution customers through a combination of system expansions to previously unserved areas, fuel substitution in areas served by natural gas, and new housing. Continued emphasis on customer-focused marketing programs and customer service will also contribute to growth. Industrial markets are expected to perform well due to domestic economic improvements and strong export activities. Our storage and transportation business is expected to prosper as more energy delivery and transactional services are required by customers in Canada and the fast growing markets of the North-eastern United States.

We will continue to focus our efforts on our business restructuring plans, including the amalgamation of Union and Centra and the unbundling of the delivery and solutions components of our business. In this way we will be able to optimize our opportunities in a changing business environment.

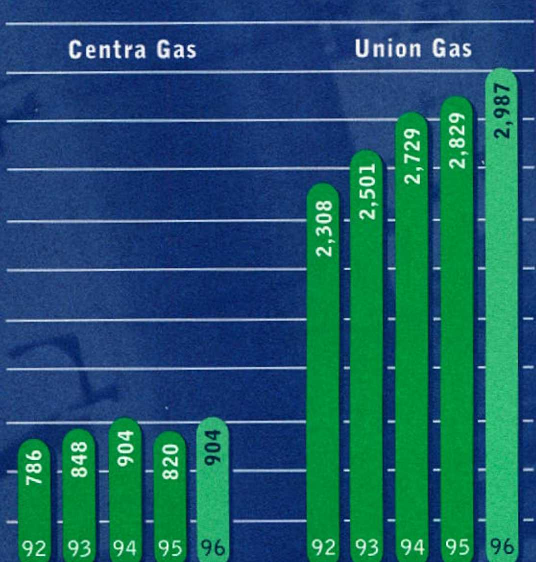
For there is no doubt that competition in energy services and commodity sales will intensify. Continuing convergence of gas and electricity into interchangeable energy sources will offer new business opportunities as well as new risks. Partnerships with other energy service providers could give us new ways



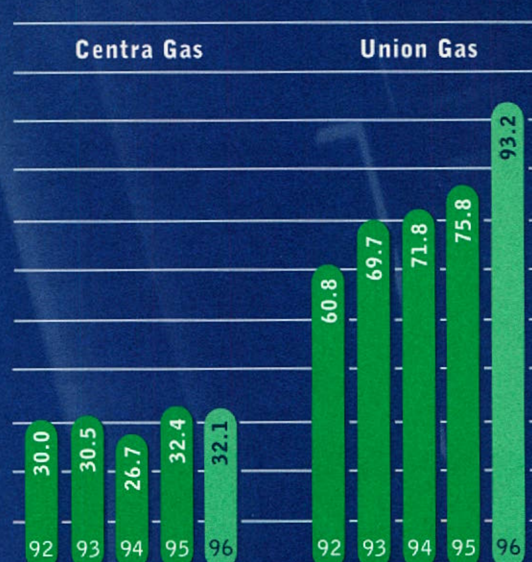
**Total Revenue** ($ Millions)



**Capital Expenditures** ($ Millions)



**Total Assets** ($ Millions)



**Earnings Applicable to Common Shares** ($ Millions) of offering more choice and value to current customers, while at the same time reaching new customers. And we will continue to work with regulators and other market participants in our province to encourage a more open market for our products and services, while at the same time maintaining adequate protection for consumers.

Of the factors influencing our future success, the abilities and efforts of our employees will be the most critical. Over the past few years much has been asked of them. Employees are involved in long-term change planning. They implement the innovations and master the new skills and behaviours needed to thrive in a more market-driven business environment. At the same time employees must strive to serve customers better and deliver the short-term business results. In the past year our employees have balanced all of these demands with singular success. This is not an easy task in an environment of change and uncertainty. The next several years will likely present even greater challenges, requiring a continued commitment to these high standards of achievement.

The solid performance of 1996 has set the stage for growth in our increasingly market-driven energy business. We believe that the new organization we are shaping will enable us to compete and perform with confidence, serve our customers better, and provide enhanced value to our shareholders. To all the employees who contributed to our success in 1996 I offer my sincere thanks. I am confident that by working together to meet the challenges of the coming year, our customers, our shareholders and our companies will benefit from our commitment to the principles of value, choice and service.

**John Bergsma,**
*President and Chief Executive Officer*
*April 22, 1997*

Centra Gas Ontario Inc.

Financial Report 1996

The following discussion and analysis has been prepared by management and is a review of the operating results, financial condition and outlook for the Company. This discussion should be read in conjunction with the financial statements and the accompanying notes.

## HIGHLIGHTS

| *Years Ended December 31* | **1996** | 1995 | 1994 |
|---|---|---|---|
| Earnings applicable to common shares (millions) | **$ 32.1** | $ 32.4 | $ 26.7 |
| Distribution volumes ($10^6m^3$) | **4 665** | 4 576 | 4 145 |
| Customers (000's) | **247** | 237 | 226 |

The Company distributes natural gas to approximately 247,000 residential, commercial and industrial customers in more than 160 communities in northern and eastern Ontario.

## RATE REGULATION

Utility earnings are regulated by the Ontario Energy Board (OEB) on the basis of a return on rate base for a future test year period. A rate application process leads to the implementation of new rates which are intended to provide a utility with the opportunity to earn an allowable rate of return. The allowable rate of return is established by determining the weighted average cost of the individual components of the capital structure.

In June 1995, the OEB issued its final decision with respect to 1995 rates. The decision confirmed a rate of return on common equity of 12.125% on a deemed 36% equity component of rate base. The Company continued with rates based on this structure throughout 1996.

The Company filed an application in March 1996 with the OEB for new rates effective January 1, 1997. In March 1997, the OEB issued a decision approving rates for the 1997 year. The OEB approved an 11.25% rate of return on common equity and maintained the common equity component of rate base at 36%. The OEB also approved recovery of the deferred gas costs receivable at December 31, 1996.

The Company, Union and Westcoast Energy Inc. filed a joint application in 1996 with the OEB for permission from the Ontario Government to proceed with a merger of the Company and Union no later than January 1, 1998. The OEB issued a decision in March 1997 recommending to the Ontario Government the approval of the merger. The Company is awaiting approval from the Ontario Government before proceeding with the merger, with a decision expected in the second quarter of 1997. The merger will further the operating efficiencies which were realized with the shared services arrangement under which the Company and Union have been operating since 1994.

## OPERATING RESULTS

### Earnings

| Years Ended December 31 (millions) | 1996 | 1995 | 1994 |
|---|---|---|---|
| Gas distribution margin | **$ 179.1** | $ 172.8 | $ 158.2 |
| Other revenue | **38.7** | 30.0 | 28.3 |
| Operating expenses | **116.9** | 110.6 | 103.4 |
| Interest expense | **44.2** | 43.9 | 41.0 |
| Income taxes | **23.5** | 15.7 | 12.7 |
| Income from continuing operations | **33.2** | 32.6 | 29.4 |
| Income from discontinued operations | **-** | 1.0 | (1.3) |
| Net income | **$ 33.2** | $ 33.6 | $ 28.1 |
| Earnings applicable to common shares | **$ 32.1** | $ 32.4 | $ 26.7 |

Income from continuing operations was $33.2 million in 1996 compared with $32.6 million in 1995 and $29.4 million in 1994. Income from the discontinued cogeneration operations amounted to $1.0 million in 1995 compared to a loss of $1.3 million in 1994. After deducting preference share dividends, earnings applicable to common shares were $32.1 million in 1996, $32.4 million in 1995 and $26.7 million in 1994.

An increase in earnings in 1996 over 1995 due to colder weather and customer growth, was offset by a higher effective income tax rate and a decrease in earnings related to the transfer of the Fort Frances cogeneration facility to Westcoast Power Inc. in 1995. The colder weather in 1996 compared to last year contributed to an increase in the earnings of $1.5 million.

The increase in earnings in 1995 compared to 1994 was due primarily to higher industrial volumes, colder weather, an increase in rates and higher earnings from the cogeneration operations. The colder weather in 1995 contributed to an increase in earnings of $2.1 million compared to 1994.

### Distribution Volumes

Total distribution volumes, including T-service, were 4 665 million cubic metres ($10^6m^3$) in 1996 compared with 4 576 $10^6m^3$ in 1995 and 4 145 $10^6m^3$ in 1994. The increase in volumes in 1996 compared to 1995 was due primarily to higher consumption levels by large industrial customers, colder weather and growth related to the net addition of 10,200 customers. The increase in volumes in 1995 over 1994 was due primarily to higher consumption levels by large industrial customers. There was also an increase in volumes in 1995 due to the net addition of 10,400 customers and the impact of colder weather.

The weather was 4.9% colder than normal in 1996 and 0.5% colder than normal in 1995. In 1994, the weather was 1.2% warmer than normal.

### Gas Distribution Margin

The gas distribution margin was $179.1 million in 1996 compared with $172.8 million in 1995 and $158.2 million in 1994. The increase in the margin in 1996 compared to last year was due primarily to the colder weather, customer growth and higher industrial volumes. The increase in the margin in 1995 over 1994 was due primarily to an increase in the delivery component of rates, higher industrial volumes, customer growth and colder weather.

Certain of the distribution customers have converted to transportation service from other direct purchase arrangements. This change from gas sales to transportation services does not impact the gas distribution margin.

### Other Revenue

Other revenue was $38.7 million in 1996, $30.0 million in 1995 and $28.3 million in 1994. The increase in other revenue in 1996 compared to last year was due primarily to higher rental revenue arising from an increase in rates, and an increase in finance contract revenue due to greater participation in the program. Rental rates were increased in 1996 to recover higher income taxes related to changes in the treatment of rental installation costs for income tax purposes. The increase in other revenue in 1995 over 1994 was due primarily to an increase in the number of rental units.

### Operating Expenses

The operating and maintenance expense was $72.2 million in 1996 compared with $69.7 million in 1995 and $64.3 million in 1994. The increase in expenses in 1996 compared to last year reflected higher costs related to customer growth and inflation. The increase in expenses in 1995 over 1994 was due primarily to customer growth, inflation and amortization of one-time shared services costs.

The depreciation and amortization expense was $34.5 million in 1996 compared to $31.0 million in 1995 and $29.4 million in 1994. The increase was due to a higher investment in property, plant and equipment required to serve the Company's expanding customer base.

### Interest Expense

Interest expense was $44.2 million in 1996 compared with $43.9 million in 1995 and $41.0 million in 1994. An increase in the interest expense in 1996 compared to 1995 due to higher average long-term debt levels, was partially offset by lower short-term interest rates. The increase in the interest expense in 1995 compared to the prior year was due primarily to higher average short-term and long-term debt levels which were required to finance the Company's continuing investment in property, plant and equipment.

### Income Taxes

The income tax expense was $23.5 million in 1996, $15.7 million in 1995 and $12.7 million in 1994. The increase in income tax expense in 1996 compared to 1995 was due to a higher effective income tax rate and an increase in earnings. The increase in the effective income tax rate was due primarily to changes in the treatment, for income tax purposes, of rental water heater installation costs, overheads and general costs capitalized. The increase in the income tax expense in 1995 compared to the prior year was due primarily to higher earnings.

### Discontinued Operations

In June 1995, the Company transferred the Fort Frances cogeneration facility to Westcoast Power Inc., a subsidiary of Westcoast Energy Inc., in accordance with its undertakings to the OEB. The Company's net assets related to the cogeneration operations were sold at fair market value and resulted in the recording of contributed surplus of $6.1 million. This contributed surplus was transferred to retained earnings in 1996.

## FINANCIAL CONDITION

### Operations

Funds provided by continuing operations were $51.9 million in 1996, $90.5 million in 1995 and $48.9 million in 1994. The decrease in operating funds in 1996 was due primarily to the impact of higher volumes of natural gas held in storage at December 31, 1996 compared to 1995, and other changes in working capital requirements. The increase in operating funds in 1995 over 1994 was due primarily to a decrease in the value of gas in storage related to reduced volumes and a lower cost of gas. The significant reduction in the levels of natural gas inventories at December 31, 1995 was a result of colder weather experienced late in the year.

### Investment Activities

Capital expenditures totalled $106.2 million in 1996, $83.2 million in 1995 and $81.9 million in 1994. The capital expenditures reflected the continuing growth in new business, system betterment and other expenditures necessary to meet the growth in customer demand for services. The higher capital spending in 1996 was due primarily to an increase in expenditures related to new business and system expansion, information technology projects, and construction of two new service centres. Capital expenditures are expected to be approximately $80 million in 1997.

The average rate base was $720.0 million in 1996 compared to $668.9 million in 1995 and $620.8 million in 1994.

### Liquidity and Capital Resources

The Company plans to meet future cash requirements through funds generated from operations, and short-term and long-term debt. The Company has operating credit facilities totalling $100.0 million with a Canadian chartered bank.

In October 1996, the Company issued $75 million aggregate amount of 7.8% senior debentures maturing December 1, 2006. The proceeds from these debentures were used to repay short-term indebtedness incurred by the Company to finance capital expenditures and for other corporate purposes. Long-term debt repayments totalled $8.7 million in 1996. In 1995, the Company issued debentures totalling $100 million. Long-term debt repayments in 1995 were $55.4 million. In addition, the Ontario Hydro loan of $46.9 million was assumed by Westcoast Power Inc. as part of the transfer of the cogeneration facility.

The Company's capital instruments are rated by Canadian Bond Rating Service at B++(High) for the senior debentures and P-3(High) for the preferred shares. Dominion Bond Rating Service has rated the senior debentures and preferred shares at A and Pfd-2 respectively. The Company expects to maintain these ratings in 1997.

### Gas Supply

The gas supply portfolio includes firm service gas supply contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. These contracts are indexed to either the New York Mercantile Exchange (NYMEX) natural gas futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. All of the Company's forecast firm service gas supply from January through October 1997 is subject to indexed prices.

The Company has implemented a risk management strategy to manage the price volatility of its firm service gas supply. Hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. During the year ended December 31, 1996, the Company hedged the purchase price applicable to 53% of its indexed firm service gas supply. At December 31, 1996, the Company had entered into natural gas swap contracts to effectively fix the purchase price for approximately 185 $10^6m^3$ or 65% of the indexed gas supply from January through October 1997.

Firm service gas supply contracts represent approximately 11% of the Company's total forecast gas supply including buy/sell volumes. Most of these contracts are subject to price redetermination as of November 1, 1997. Buy/sell volumes represent approximately 83% of the Company's total forecast gas supply. The remaining 6% of gas purchases include spot gas and short-term firm service contracts.

Gas costs are included in customer rates based on forecasts approved by the OEB. The difference between the OEB approved reference prices and the actual cost of gas purchased, including the impact of both the indexed purchase prices and any hedging activities, are deferred for disposition as approved by the OEB.

## OUTLOOK

### Market

The natural gas industry in North America continues to experience considerable growth. Natural gas is abundant, readily accessible through vast distribution systems and has significant environmental advantages compared to other fossil fuels. Natural gas also has competitive pricing advantages in most markets today.

The natural gas industry, and the energy industry in general, are in the process of significant transformation in how energy products and services are delivered to customers. Major factors contributing to this change include the following:

- Customers are becoming more sophisticated and are seeking new services, choice and other benefits related to a more open marketplace.
- Competition is increasing in the energy marketplace as both domestic and foreign based companies position themselves to deliver a variety of energy related services. Also, fuel suppliers and marketers are preparing to offer directly to customers a choice between natural gas, electricity, oil and other energy types. This will increase the level of inter-fuel competition.
- Customers, governments, regulators and utilities are looking for ways to increase the productivity of the regulatory process.
- The role of Ontario natural gas distribution companies as it relates to the sale of natural gas commodity is currently under review by the OEB. The review will address the degree to which additional deregulation should be permitted as a means to increase commodity competition, while continuing to protect the public.

The future success of the Company will be determined by its ability to offer greater choice, and respond more immediately to market dynamics caused by unregulated competitors and changing customer needs. To meet the challenges of this changing environment, the Company is pursuing changes to its organizational and operating structures. The Company is developing proposals, for submission in future rates applications, to unbundle and remove from regulation those activities where competitive market alternatives exist.

Although the changing marketplace will provide challenges, it will also provide significant opportunities for expanding traditional services and marketing new services to a large customer base. The Company's financial strength and market position will provide a sound basis for future growth.

## Business Risk

The Company's earnings are impacted by business risks inherent in the natural gas industry and energy marketplace. The earnings level is impacted by general economic conditions, the Company's ability to generate forecasted revenues, weather, interest rates, levels of cost inflation and the OEB's decisions with respect to rates.

The rates allowed by the OEB are based on forecasts assuming normal weather conditions. Since a large portion of the gas distributed to the higher margin residential and commercial market is used for space heating, differences from normal weather have a significant effect on the consumption of gas. Sales to industrial customers are impacted by economic conditions and the price of competitive energy sources. Many of these customers have the ability to switch to an alternative fuel.

## Environmental Management Program

The Company is committed to conducting its business in an environmentally responsible manner using the principles of sustainable development, by promoting the wise and efficient use of energy and by seeking ways to reduce the environmental impacts of its business. The Company continues to strengthen its environmental management program through a comprehensive audit program and additional environmental training for employees. As well, active participation in environmental research, development and technology transfer is important as a means to identify the most cost effective way of managing environmental issues to support the Company's business plans and operations.

# Management Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Their preparation necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined therein.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The system of internal controls is periodically reviewed by an independent internal audit function to ensure its effective operation.

Ernst & Young was appointed by the shareholders to conduct an independent examination of the financial statements in accordance with generally accepted auditing standards, which includes such tests and other procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for reporting and for final approval of the financial statements. An Audit Committee of non-management Directors is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The internal and external auditors have free access to the Audit Committee to discuss the results of their audit.

January 31, 1997

M. F. Bermon
Senior Vice-President
Finance and Regulatory Affairs

Janet Woodruff

J. P. Woodruff
Controller

# Auditors' Report

To the Shareholders of Centra Gas Ontario Inc.

We have audited the balance sheets of Centra Gas Ontario Inc. as at December 31, 1996 and 1995 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst + Young

Ernst & Young
Chartered Accountants

Toronto, Canada
January 31, 1997

# Statements of Income

| For the Years Ended December 31 (millions) | 1996 | 1995 |
|---|---|---|
| Gas sales (note 15) | $ 465.7 | $ 494.8 |
| Cost of gas (note 15) | 309.7 | 338.4 |
| Gas sales margin | 156.0 | 156.4 |
| Transportation service (note 15) | 23.1 | 16.4 |
| Gas distribution margin | 179.1 | 172.8 |
| Other revenue | 38.7 | 30.0 |
| | 217.8 | 202.8 |
| Expenses | | |
| Operating and maintenance (note 15) | 72.2 | 69.7 |
| Depreciation and amortization | 34.5 | 31.0 |
| Property and capital taxes | 10.2 | 9.9 |
| | 116.9 | 110.6 |
| Operating income | 100.9 | 92.2 |
| Interest expense | | |
| Long-term debt | 42.8 | 41.8 |
| Short-term debt | 1.8 | 2.4 |
| Interest capitalized | (0.4) | (0.3) |
| | 44.2 | 43.9 |
| Income before income taxes | 56.7 | 48.3 |
| Income taxes (notes 2 and 14) | 23.5 | 15.7 |
| Income from continuing operations | 33.2 | 32.6 |
| Income from discontinued operations (note 16) | - | 1.0 |
| **Net income** | 33.2 | 33.6 |
| Preference share dividend requirement | 1.1 | 1.2 |
| Earnings applicable to common shares | $ 32.1 | $ 32.4 |

*(See accompanying notes)*

# Statements of Retained Earnings

| For the Years Ended December 31 (millions) | 1996 | 1995 |
|---|---|---|
| Retained earnings, beginning of year | $ 127.9 | $ 139.3 |
| Net income | 33.2 | 33.6 |
| Dividends | | |
| First preferred shares | 0.2 | 0.2 |
| Second preferred shares - series A | 0.9 | 1.0 |
| Common shares | 18.5 | 43.8 |
| Contributed surplus (note 9) | 6.1 | - |
| Retained earnings, end of year | $ 147.6 | $ 127.9 |

*(See accompanying notes)*

# Balance Sheets

| *As at December 31 (millions)* | 1996 | 1995 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Accounts receivable (note 2) | **$ 67.2** | $ 78.5 |
| Inventory of gas in storage and supplies | **41.8** | 25.2 |
| Current portion of investments (note 5) | **1.5** | 1.5 |
| | **110.5** | 105.2 |
| Property, plant and equipment (note 3) | **732.8** | 661.8 |
| Other assets (note 4) | **13.8** | 11.9 |
| Investments (note 5) | **47.3** | 40.8 |
| | **$ 904.4** | $ 819.7 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Bank indebtedness (note 6) | **$ 71.6** | $ 54.2 |
| Accounts payable and accrued charges | **65.4** | 78.4 |
| Income and other taxes payable | **3.8** | 8.2 |
| Current portion of long-term debt (note 7) | **8.6** | 8.6 |
| | **149.4** | 149.4 |
| Long-term debt (note 7) | **473.2** | 406.9 |
| Deferred income taxes (note 14) | **4.5** | - |
| Shareholders' equity | | |
| Share capital (note 8) | **129.7** | 129.4 |
| Contributed surplus (note 9) | **-** | 6.1 |
| Retained earnings (note 10) | **147.6** | 127.9 |
| | **277.3** | 263.4 |
| | **$ 904.4** | $ 819.7 |

*(See accompanying notes)*

Approved by the Board

John Bergsma
Director

Preston R. Cook
Director

## Statements of Changes in Financial Position

| For the Years Ended December 31 (millions) | 1996 | 1995 |
|---|---|---|
| **Operating Activities** | | |
| Net income from continuing operations | $ 33.2 | $ 32.6 |
| Charges not affecting cash | | |
| Depreciation and amortization | 34.5 | 31.0 |
| Deferred income taxes (notes 2 and 14) | 4.5 | - |
| Operating cash flow from continuing operations | 72.2 | 63.6 |
| Change in non-cash working capital related to continuing operations | (20.3) | 26.9 |
| Cash provided by continuing activities | 51.9 | 90.5 |
| Change in operating activity of discontinued operations | - | 10.6 |
| | 51.9 | 101.1 |
| **Investing Activities** | | |
| Additions to property, plant and equipment | (106.2) | (83.2) |
| Other assets and investments | (10.0) | (4.5) |
| Proceeds from discontinued operations (note 16) | - | 18.7 |
| Investing activities of discontinued operations | - | (0.5) |
| | (116.2) | (69.5) |
| **Financing Activities** | | |
| Long-term debt | | |
| Issued | 75.0 | 100.0 |
| Retired | (8.7) | (55.4) |
| Redemption of preference shares | (7.8) | (1.0) |
| Common shares issued | 8.0 | - |
| Dividends | (19.6) | (45.0) |
| | 46.9 | (1.4) |
| Increase (decrease) in bank indebtedness | 17.4 | (30.2) |
| Bank indebtedness, beginning of year | 54.2 | 84.4 |
| Bank indebtedness, end of year | $ 71.6 | $ 54.2 |

*(See accompanying notes)*

## 1. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles. A summary of significant accounting policies follows:

### Regulation

The utility operations are subject to regulation under the Ontario Energy Board Act and the Energy Act (Ontario). Rate schedules are approved periodically by the Ontario Energy Board (OEB) and are designed to permit a fair and reasonable return on the utility investment after recovering the utility cost of service. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year.

### Gas Sales and Cost of Gas

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading date to the end of the month.

Cost of gas sold is recorded using prices approved by the OEB in the determination of customer sales rates. Differences between the OEB approved reference prices and those costs actually incurred are deferred for future disposition subject to approval by the OEB (note 2).

### Inventory of Gas in Storage and Supplies

Gas in storage is carried at cost at prices approved by the OEB. The cost includes transportation and storage. Supplies are carried at the lowest of average cost, replacement cost and net realizable value.

### Investments

Long-term investments are recorded at cost net of any estimated permanent impairment in value.

### Property, Plant and Equipment

Property, plant and equipment are carried at cost which includes direct costs, overhead attributable to construction and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from governmental bodies in support of specific transmission and distribution facilities.

The original cost of utility property retired is removed from plant accounts and charged to accumulated depreciation, which is credited with the salvage proceeds less removal costs. Under this method, no profit or loss is recognized on ordinary retirements of depreciable property.

Depreciation of utility property, plant and equipment is calculated on a straight-line method based on the original cost, which includes site restoration costs. Average annual depreciation rates are 2.4% for gas distribution, 7.6% for rental equipment, 7.9% for general and other plant, 2.7% for gas storage, and 20.4% for capital leases. The application of such rates is equivalent to a composite rate of approximately 4.0% (1995 - 3.9%).

### Other Assets

Goodwill is included in other assets and is not amortized. The goodwill represents the excess of acquisition costs over the underlying value of net assets at date of purchase in respect of companies amalgamated January 1, 1968. Management has reviewed the valuation of the goodwill. The determination as to whether there has been an impairment in the goodwill is made by comparing the carrying value of the goodwill to the projected undiscounted net cash flow generated by the related activity.

Discounts, premiums and expenses related to long-term debt are deferred in the year incurred and amortized against income over the term of the applicable issue.

The Company defers, in the year incurred, certain expenses which the regulatory authorities require or permit to be recovered from future revenues. Such charges are being amortized over various time periods.

### Income Taxes

Rates and revenues for utility operations, established for regulatory purposes, include recovery of only such income taxes as are currently payable or are recoverable through the rates charged to customers. Accordingly, the Company does not provide for income taxes deferred to future years as a result of timing differences between accounting income and taxable income (principally in respect of depreciation and amortization). The only exception is that the Company defers the income tax expense or recovery on differences between the approved cost and the actual cost of gas.

### Pension Plans

Pension costs and obligations are determined annually by independent actuaries using management's best estimate assumptions and the projected benefit method prorated on services. Adjustments arising from plan amendments, changes in assumptions and experience gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employee group.

### Natural Gas Swap and Other Contracts

The Company's gas supply portfolio includes contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. In order to manage price volatility, hedges are used to fix gas prices with respect to the underlying physical gas supply contracts. The hedges include the use of natural gas swaps and purchase price collars. The actual cost of gas purchased includes the impact of any hedging activities related to these contracts. The Company negotiates natural gas swap and purchase price collar contracts only with those institutions that have a credit rating of A or higher.

## 2. Tax Treatment of Gas Deferrals

Included in accounts receivable is an amount of $10.5 million (1995 - $0.2 million payable) which represents the deferral of the difference between the actual cost of gas and the OEB approved reference prices. The disposition of this amount is subject to approval by the OEB.

As a result of an agreement reached with tax authorities, the Company is required to deduct from taxable income the actual cost of gas rather than the cost of gas based on the OEB approved reference prices. The change in the gas deferral account balances during the year amounted to $10.7 million receivable (1995 - $0.2 million payable). The Company provided for deferred income taxes of $4.5 million with respect to these amounts. This change has not been applied retroactively since there is no material impact in prior periods.

## 3. Property, Plant and Equipment

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Cost | | |
| Gas distribution | **$ 740.7** | $ 653.6 |
| Rental equipment | **134.1** | 129.1 |
| General and other plant | **51.3** | 58.7 |
| Gas storage | **25.9** | 25.8 |
| Capital leases | **7.3** | 7.2 |
| | **959.3** | 874.4 |
| Accumulated Depreciation | | |
| Gas distribution | **173.1** | 156.8 |
| Rental equipment | **18.9** | 22.8 |
| General and other plant | **23.2** | 22.4 |
| Gas storage | **7.0** | 6.3 |
| Capital leases | **4.3** | 4.3 |
| | **226.5** | 212.6 |
| Net book value | **$ 732.8** | $ 661.8 |

Gas distribution plant is net of contributions in aid of construction of $71.2 million (1995 - $70.7 million). General and other plant is net of contributions toward leasehold improvements of $4.9 million (1995 - $4.9 million). Capital lease obligations of $3.3 million (1995 - $2.8 million) are included in accounts payable.

Capital expenditures during 1997 are expected to be approximately $80 million.

## 4. Other Assets

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Goodwill | **$ 8.8** | $ 8.8 |
| Long-term debt discount and issue costs | **4.3** | 3.8 |
| Other | **0.7** | (0.7) |
| | **$ 13.8** | $ 11.9 |

## 5. Investments

| *(millions)* | **1996** | 1995 |
|---|---|---|
| 10.6%-14.0% Centra Gas Manitoba Inc. debentures* (note 7) | **$ 21.6** | $ 23.1 |
| Less: current portion | **1.5** | 1.5 |
| | **20.1** | 21.6 |
| 13.9%-17.9% (1995 - 13.9%-19.9%) finance contracts (note 12) net of current portion included in accounts receivable of $4.5 million (1995 - $3.2 million) | **27.2** | 19.2 |
| | **$ 47.3** | $ 40.8 |

* Annual interest of $2.7 million (1995 - $2.8 million) is included in other revenue. Interest receivable of $0.8 million (1995 - $0.8 million) is included in accounts receivable.

Finance contracts represent advances to customers for the purchase of natural gas appliances and are due over periods of up to 120 months. The amounts due may be paid in advance at the option of the customer without penalty. The finance contracts commonly include interest free payment periods.

The estimated fair value of the Company's investment in Centra Gas Manitoba Inc. debentures at December 31, 1996 is $25.1 million (1995 - $26.6 million). The fair value is based on quoted market prices of securities having similar terms and conditions.

## 6. Bank Indebtedness

The Company has operating credit facilities totalling $100 million (1995 - $100 million) with a Canadian chartered bank. These operating credit facilities are subject to annual review. The bank indebtedness bears interest at a negotiated monthly rate which resulted in an effective rate of 5.2% (1995 - 7.8%). The bank indebtedness is unsecured.

## 7. Long-term Debt

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Sinking fund senior debentures | | |
| 14.0% debentures due November 29, 2002 | **$ 14.7** | $ 16.0 |
| 13.5% debentures due November 14, 2003 | **15.1** | 16.5 |
| 13.5% debentures due November 14, 2008 | **16.0** | 16.0 |
| 10.625% debentures due July 14, 2006 | **51.0** | 54.0 |
| 10.75% debentures due July 31, 2009 | **60.0** | 63.0 |
| Other | | |
| 9.7% senior debentures, due December 9, 2002 | **75.0** | 75.0 |
| 8.65% senior debentures, due October 19, 2018 | **75.0** | 75.0 |
| 8.85% senior debentures, due September 1, 2005 | **100.0** | 100.0 |
| 7.8% senior debentures, due December 1, 2006 | **75.0** | - |
| | **481.8** | 415.5 |
| Less: current portion | **8.6** | 8.6 |
| | **$ 473.2** | $ 406.9 |

Of the total debt of $481.8 million, $21.6 million represents financing arranged by the Company for Centra Gas Manitoba Inc., a commonly controlled company (note 5).

The weighted average cost of long-term debt for the year ended December 31, 1996 was 10.0% (1995 - 10.5%). Long-term debt maturities and sinking fund requirements during the next five years ending December 31 are as follows:

| | *($ millions)* |
|---|---|
| 1997 | 8.6 |
| 1998 | 12.6 |
| 1999 | 9.6 |
| 2000 | 9.6 |
| 2001 | 9.6 |

The estimated fair value of the Company's long-term debt is $556.5 million (1995 - $466.8 million). The fair value is based on the present value of expected cash flows using an estimate of rates currently available to the Company for debt with similar terms and conditions. Under the regulatory process, the Company recovers the weighted average cost of its long-term debt through cost of service. Accordingly, the Company cautions readers in the interpretation of the estimated fair values.

## 8. Share Capital

| *(dollar amounts in millions)* | **1996** | 1995 |
|---|---|---|
| Authorized: | | |
| First preferred shares issuable in series | **474,793 shs.** | 477,113 shs. |
| Second preferred shares issuable in series | **2,875,613 shs.** | 3,177,775 shs. |
| Junior preferred shares issuable in series | **2,400,000 shs.** | 2,400,000 shs. |
| Common shares | **31,044,885 shs.** | 31,044,885 shs. |
| Issued and outstanding: | | |
| First preferred shares | | |
| 55,720 $2.60 cumulative, first series without par value (1995 - 57,140) | **$ 2.8** | $ 2.9 |
| 14,765 $2.70 cumulative, second series without par value (1995 - 15,665) | **0.7** | 0.8 |
| Second preferred shares | | |
| 224,913 7.85% cumulative, series A without par value (1995 - 527,075) | **5.6** | 13.1 |
| | **9.1** | 16.8 |
| 14,613,850 Common shares without par value (1995 - 14,283,376) | **120.6** | 112.6 |
| | **$ 129.7** | $ 129.4 |

During the year, the Company issued 330,474 common shares for cash consideration of $8.0 million.

First preferred shares, first and second series, (redeemable at the Company's option at $50.50 per share) do not presently have voting rights. Under the terms of the issue, the Company is obliged to offer to purchase 3,200 first series shares and 900 second series shares per annum at a price not in excess of $50.00 per share.

Second preferred shares, series A, (redeemable at the Company's option at $25.00 per share) do not presently have voting rights. Under the terms of the issue, the Company is obliged to offer to purchase 56,000 shares per annum at a price not in excess of $25.00 per share.

The Company's annual purchase obligations are suspended when dividends on first preferred shares or second preferred shares are in arrears. Accordingly, the preferred shares continue to be classified as equity since the Company is not obligated to declare dividends.

The following shares were redeemed for cash approximating their carrying value and cancelled during the year:

| | **1996** | 1995 |
|---|---|---|
| First preferred shares, first series | **1,420** | 3,200 |
| First preferred shares, second series | **900** | 900 |
| Second preferred shares, series A | **302,162** | 32,300 |

## 9. Contributed Surplus

The contributed surplus of $6.1 million resulting from the disposition of the discontinued operations in 1995 (note 16) was transferred to retained earnings.

## 10. Dividend Restrictions

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends. The Company is in compliance with all such covenants.

## 11. Natural Gas Swap Contracts

The purchase price applicable to all (1995 - 80%) of the Company's forecast firm service gas supply from January through October 1997 is indexed to either the New York Mercantile Exchange Natural Gas Futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. At December 31, 1996, the purchase price applicable to 185 $10^6m^3$ or 65% (1995 - 30%) of this indexed supply has been effectively fixed through the use of natural gas swap contracts. These contracts have a fair value of $2.2 million receivable at December 31, 1996 (1995 - $1.3 million receivable). The fair value reflects the estimated amount that the Company would receive to terminate the contracts at December 31, 1996.

## 12. Fair Values of Financial Assets and Liabilities

The estimated fair value of accounts receivable, bank indebtedness, and accounts payable and accrued charges approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments. The estimated fair value of finance contracts is not readily determinable since the terms of the contracts are such that customers have the right to repay prior to maturity without penalty. The estimated fair values of other financial assets and liabilities are disclosed in their respective notes.

## 13. Pension Plans

The Company has non-contributory defined benefit plans covering substantially all employees. Normal retirement benefits under these plans are related to employees' remuneration and years of service.

Actuarial valuations of the union plans and the salaried plan were performed at January 1, 1995 and January 1, 1994 respectively. The pension expense for the year ended December 31, 1996 is $2.4 million (1995 - $2.5 million). The market related value of the pension fund assets and the actuarial present value of accrued pension benefits extrapolated to December 31 are set out below:

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Market related value of pension fund assets | **$ 41.7** | $ 37.5 |
| Actuarial present value of accrued pension benefits | **$ 43.6** | $ 40.8 |

## 14. Income Taxes

The provision for income taxes from continuing operations consists of the following:

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Current | **$ 19.0** | $ 15.7 |
| Deferred | **4.5** | - |
| | **$ 23.5** | $ 15.7 |

A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

| *(dollar amounts in millions)* | **1996** | 1995 |
|---|---|---|
| Income before income taxes from continuing operations | **$ 56.7** | $ 48.3 |
| Combined federal and Ontario provincial statutory tax rate | **43.5%** | 43.5% |
| Computed income taxes | **$ 24.7** | $ 21.0 |
| Increase (decrease) in income taxes resulting from: | | |
| Deferred charges and other items claimed for tax purposes in the year incurred | **(1.2)** | (6.6) |
| Capital cost allowance deducted for income tax purposes in excess of depreciation | **(0.7)** | (0.5) |
| Large corporations tax | **1.8** | 1.6 |
| Other | **(1.1)** | 0.2 |
| Actual income tax expense | **$ 23.5** | $ 15.7 |
| Effective income tax rate | **41.4%** | 32.5% |

Deferred income taxes relating to utility operations which have not been provided and are not yet recovered in revenues amounted to $1.9 million in 1996 (1995 - $7.1 million) and $119.4 million in total to December 31, 1996 (1995 - $117.5 million).

## 15. Related Party Transactions

The Company and Union Gas Limited (Union), a commonly controlled company, received approval from the OEB in August 1994 to proceed with a shared services plan. Under the plan, certain administrative departments were combined in 1995 to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of the companies' customers. During the year, the Company was charged $9.2 million (1995 - $4.0 million) by Union to recover net expenses incurred by Union on the Company's behalf. These charges are included in operating and maintenance expenses.

Transportation and purchases of natural gas of $21.9 million (1995 - $12.2 million) from commonly controlled companies are included in the cost of gas. These purchases are made under the same terms as purchases from unrelated parties.

Charges to the Company for administrative and general services provided by the parent, Westcoast Energy Inc. (Westcoast) and commonly controlled companies, were $1.4 million (1995 - $0.3 million). These charges are included in operating and administration expenses.

Sales of natural gas of $0.3 million (1995 - $0.5 million) to a commonly controlled company are included in gas sales revenue. Transportation of natural gas of $1.3 million (1995 - $1.2 million) to commonly controlled companies are included in transportation revenue.

The Company provides administrative, management and engineering services to certain commonly controlled companies. The cost of these services amounted to $0.4 million (1995 - $0.4 million). The Company also earns income on its investments in commonly controlled companies (note 5).

All related party transactions occur in the normal course of operations and reflect fair market values. The recovery of the net cost of related party transactions in the Company's cost of service is subject to the rate regulation process of the OEB.

Accounts receivable from commonly controlled companies of $1.2 million (1995 - $1.5 million) are included in accounts receivable. Accounts payable to Westcoast and commonly controlled companies of $8.6 million (1995 - $6.4 million) are included in accounts payable.

## 16. Discontinued Operations

On June 15, 1995, the Company, in accordance with its undertakings to the OEB, transferred the Fort Frances cogeneration facility to Westcoast Power Inc. (WPI), a commonly controlled company. The Company's net assets related to the cogeneration operations were sold at fair market value of $18.7 million and resulted in the recording of contributed surplus of $6.1 million. Cash retained by the Company with respect to the cogeneration operations was $7.3 million. All contractual agreements and obligations related to the cogeneration facility were assigned to and assumed by WPI.

The proceeds from the transfer of the cogeneration net assets consisted of preference shares of WPI of $44.0 million, net of a note to WPI from the Company of $25.3 million. Subsequent to the transaction, the preference shares were redeemed and the note was repaid.

Details of the discontinued cogeneration operations for the period January 1, 1995 to June 15, 1995 are as follows:

| *(millions)* | 1995 |
|---|---|
| Operating revenue | $ 20.4 |
| Operating costs | 17.5 |
| Operating income | 2.9 |
| Financial expenses | 0.8 |
| Income before income taxes | 2.1 |
| Income taxes | |
| Current | 2.9 |
| Deferred | (1.8) |
| | 1.1 |
| Earnings from discontinued operations | $ 1.0 |

## 17. Comparative Amounts

Certain of the 1995 amounts have been reclassified to conform with the presentation adopted in 1996.

## General

The Board believes that sound corporate governance practices are an essential element to the well being of the Corporation and its shareholders. Through its Corporate Governance Committee, the Board administers a program to develop and sustain suitable processes and structures to guide the direction and management of the business and affairs of the Corporation in the pursuit of enhanced corporate performance and shareholder value.

The bylaws of the Toronto Stock Exchange (TSE) and the policy statement of the Montreal Exchange require that the Corporation disclose its approach to corporate governance. The following is intended to address the principal matters contained in the guidelines for corporate governance established by the TSE.

## Board of Directors

The Board has the responsibility for supervising the management of the business and the affairs of the Corporation. The management of the Corporation is responsible for the day to day operations of the business. The Board has considered and does consider the principal risks to the Corporation and receives reports of the Corporation's assessment and management of those risks. The Board through management has put structures in place in the Corporation to allow effective communication with the Corporation's stakeholders and the public. The Board also periodically reviews the compensation of directors in light of risks and responsibilities.

## Composition of the Board

The Board is composed of six directors. Of the directors, John Bergsma, President and Chief Executive Officer, is a full-time officer of the Corporation, and Michael Phelps, Ken Rekrutiak and Wayne Bingham are full-time officers of the Corporation's parent, Westcoast Energy Inc. ("Westcoast"). Westcoast owns 100% of the voting common shares of the Corporation and is therefore considered a significant shareholder. Mr. Bingham, who is the Vice President, Finance and Comptroller of Westcoast also holds office as Treasurer of the Corporation. Neither Mr. Phelps, Mr. Rekrutiak nor Mr. Bingham are actively involved in the day-to-day management of the Corporation. The TSE guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary corporation. The TSE has indicated that an outside director is a director who is not an officer or employee of the Corporation or of any of its subsidiaries. The remaining two directors are not officers or employees of the Corporation, do not have interests in or relationships with the Corporation or its parent (other than interests and relationships which may arise from shareholdings) which could materially interfere, or could reasonably be perceived to materially interfere with such directors' ability to act with a view to the best interests of the Corporation. The Corporation does not have any subsidiaries. The Board has therefore concluded that a majority of the directors of the Corporation are outside and unrelated, as those terms are defined by the TSE.

## Committees of the Board

The Board has established and adopted terms of reference for each of the Audit, Corporate Governance and Independent Committees.

The Audit Committee is composed of three unrelated directors. A majority of the committee is composed of outside directors. This committee is broadly responsible for ensuring that the Corporation's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the financial statements of the Corporation, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The Corporate Governance Committee is composed of three directors, a majority of whom are unrelated and are outside directors. This committee's prime responsibility is for developing and monitoring the Corporation's overall approach to corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Corporation's obligations to its shareholders.

The Independent Committee is made up of two directors who are outside and unrelated directors. The mandate of the Independent Committee is to approve affiliate transactions and to monitor the Corporation's compliance with its written Undertakings to the Lieutenant Governor in Council for the Province of Ontario.

### Chairman

Michael Phelps, the Chief Executive Officer of Westcoast, which is the significant shareholder of the Corporation, is the Chairman of the Board of the Corporation. As such, while being responsible on behalf of the Board for the recruitment of the other directors and the assessment of performance, he reviews with the Board on-going assessment matters, the appointment and monitoring of senior management, and succession issues.

### Shareholder Feedback and Concerns

The Corporation provides annual and quarterly reports to its preference shareholders and responds to enquiries from those shareholders on a timely basis.

### Decisions Requiring Board Approval

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself.

### Expectations of Management

The Board reviews the Corporation's strategic plan with management at least annually. Members of the management team report to the Board on a regular basis to review the Corporation's financial and operational results and the Corporation's progress in fulfilling its strategic goals and objectives.

# Financial and Operating Statistics

| (millions of dollars) | 1996 | 1995 | 1994 | 1993 | 1992 |
|---|---|---|---|---|---|
| **Operating Results** *For the Year Ended December 31* | | | | | |
| Operating revenues | **$ 527.5** | $ 541.2 | $ 615.4 | $ 553.1 | $ 528.9 |
| Operating expenses | **426.6** | 449.0 | 532.3 | 471.9 | 440.6 |
| Income before interest and income taxes | **100.9** | 92.2 | 83.1 | 81.2 | 88.3 |
| Net interest expense | **44.2** | 43.9 | 41.0 | 38.8 | 38.7 |
| Income taxes | **23.5** | 15.7 | 12.7 | 11.7 | 17.5 |
| Income from continuing operations | **33.2** | 32.6 | 29.4 | 30.7 | 32.1 |
| Income (loss) from discontinued operations | **-** | 1.0 | (1.3) | 1.2 | (0.5) |
| Net income | **33.2** | 33.6 | 28.1 | 31.9 | 31.6 |
| Preference share dividend requirement | **1.1** | 1.2 | 1.4 | 1.4 | 1.6 |
| Earnings applicable to common shares | **$ 32.1** | $ 32.4 | $ 26.7 | $ 30.5 | $ 30.0 |
| **Balance Sheet** *As at December 31* | | | | | |
| **Assets** | | | | | |
| Current assets | **$ 110.5** | $ 105.2 | $ 150.2 | $ 139.8 | $ 123.5 |
| Investments | **47.3** | 40.8 | 37.9 | 39.4 | 45.7 |
| Property, plant and equipment | **732.8** | 661.8 | 699.3 | 652.7 | 602.1 |
| Other assets | **13.8** | 11.9 | 16.2 | 16.5 | 14.6 |
| Total | **$ 904.4** | $ 819.7 | $ 903.6 | $ 848.4 | $ 785.9 |
| **Capitalization** | | | | | |
| Current liabilities | **$ 149.4** | $ 149.4 | $ 241.1 | $ 133.0 | $ 130.8 |
| Long-term debt | **473.2** | 406.9 | 362.4 | 417.8 | 361.6 |
| Deferred income taxes | **4.5** | - | 30.4 | 33.0 | 37.8 |
| Shareholders' equity | **277.3** | 263.4 | 269.7 | 264.6 | 255.7 |
| Total | **$ 904.4** | $ 819.7 | $ 903.6 | $ 848.4 | $ 785.9 |
| **Cash Flow Data** *For the Year Ended December 31* | | | | | |
| Cash from operations | **$ 51.9** | $ 101.1 | $ 43.3 | $ 56.7 | $ 80.2 |
| Captial expenditures | **$ 106.2** | $ 83.2 | $ 81.9 | $ 82.6 | $ 58.6 |
| **Operating Statistics** | | | | | |
| Volumes ($10^6m^3$) | | | | | |
| Residential | **682** | 655 | 624 | 607 | 572 |
| Commercial | **509** | 497 | 496 | 516 | 488 |
| Industrial | **1 886** | 2 029 | 2 302 | 2 251 | 2 127 |
| Transportation service | **1 588** | 1 395 | 723 | 590 | 709 |
| | **4 665** | 4 576 | 4 145 | 3 964 | 3 896 |
| Customers at year-end | | | | | |
| Residential | **221,264** | 211,801 | 202,082 | 190,788 | 178,566 |
| Commercial | **25,018** | 24,361 | 23,607 | 23,111 | 22,189 |
| Industrial | **400** | 384 | 412 | 398 | 410 |
| Transportation service | **58** | 39 | 36 | 12 | 15 |
| | **246,740** | 236,585 | 226,137 | 214,309 | 201,180 |
| Kilometres of pipeline | **8 106** | 7 785 | 7 495 | 7 271 | 7 027 |

** Certain information has been restated to reflect the tranfer of the cogeneration operations.*

Union Gas Limited

# Financial Report 1996

The following discussion and analysis has been prepared by management and is a review of the operating results, financial condition and outlook for the Company. This discussion should be read in conjunction with the financial statements and the accompanying notes.

The financial statements reflect new reporting requirements applicable to financial instruments as discussed in note 2 to the financial statements. Accordingly, the comparative information for 1994 and 1995 was restated for the adoption of the new accounting rules.

## HIGHLIGHTS

| *Years Ended December 31* | **1996** | 1995 | 1994 |
|---|---|---|---|
| Earnings applicable to common shares (millions) | **$ 93.2** | $ 75.8 | $ 71.8 |
| Distribution volumes ($10^6m^3$) | **9 078** | 8 757 | 8 293 |
| Customers (000's) | **755** | 728 | 707 |

The Company is an integrated natural gas storage, transmission and distribution company. The Company distributes natural gas to 755,000 customers in southwestern Ontario and provides storage and transportation service for other energy companies in Ontario, Quebec and the United States.

## RATE REGULATION

Utility earnings are regulated by the Ontario Energy Board (OEB) on the basis of a return on rate base for a future test year period. A rate application process leads to the implementation of new rates which are intended to provide a utility with the opportunity to earn an allowable rate of return. The allowable rate of return is established by determining the weighted average cost of the individual components of the capital structure.

In July 1995, the OEB issued a decision which approved a rate of return on common equity of 11.75% for the years ending March 31, 1995 and 1996, while maintaining the deemed common equity component of rate base at 29% for both years. The Company continued with rates based on this structure throughout the remainder of calendar 1996. The Company changed to a December 31 year end effective December 31, 1995.

The Company filed an application in March 1996 with the OEB for new rates effective January 1, 1997. In March 1997, the OEB issued a decision approving rates for the 1997 year. The OEB approved an 11.0% rate of return on common equity and an increase in the common equity component of rate base from 29% to 34%. The OEB also approved recovery of the deferred gas costs receivable at December 31, 1996 and a change to flow through tax accounting from the deferred tax accounting methodology currently in use. Flow through tax accounting will result in an income tax expense which is recorded on the basis of income taxes currently payable.

The Company, Centra and Westcoast Energy Inc. filed a joint application in 1996 with the OEB for permission from the Ontario Government to proceed with a merger of the Company and Centra no later than January 1, 1998. The OEB issued a decision in March 1997 recommending to the Ontario Government the approval of the merger. The Company is awaiting approval from the Ontario Government before proceeding with the merger, with a decision expected in the second quarter of 1997. The merger will further the operating efficiencies which were realized with the shared services arrangement under which the Company and Centra have been operating since 1994.

## OPERATING RESULTS

### Earnings

| *Years Ended December 31 (millions)* | **1996** | 1995 | 1994 |
|---|---|---|---|
| Gas distribution margin | **$ 435.5** | $ 409.4 | $ 392.0 |
| Transportation and storage revenue | **157.0** | 153.6 | 146.9 |
| Other revenue | **106.1** | 91.0 | 79.2 |
| Operating expenses | **371.5** | 349.8 | 334.4 |
| Interest expense | **145.3** | 147.8 | 136.6 |
| Income taxes | **85.9** | 77.9 | 72.6 |
| Net income | **$ 95.9** | $ 78.5 | $ 74.5 |
| Earnings applicable to common shares | **$ 93.2** | $ 75.8 | $ 71.8 |

Net income for 1996 was $95.9 million compared with $78.5 million in 1995 and $74.5 million in 1994. After deducting preference share dividends, earnings applicable to common shares were $93.2 million in 1996, $75.8 million in 1995 and $71.8 million in 1994. Factors contributing to the increase in 1996 earnings compared to 1995 included colder weather, customer growth, higher usage and an increase in other revenue due to higher activity levels and an increase in rates. The colder weather in 1996 compared to last year contributed to an increase in earnings of $4.8 million.

The increase in earnings for 1995 over 1994 was due primarily to customer growth, higher industrial volumes and increases in demand for storage, transporation and other services. These increases were partially offset by the impact of warmer weather, which resulted in a decrease in earnings of $1.7 million compared to the prior year.

### Distribution Volumes

Total distribution volumes, including T-service, were 9 078 million cubic metres ($10^6m^3$), compared with 8 757 $10^6m^3$ in 1995 and 8 293 $10^6m^3$ in 1994. The increase in volumes in 1996 compared to 1995 was due primarily to colder weather, increased usage, and growth related to the net addition of 27,000 customers. The increase in volumes in 1995 over 1994 was due primarily to higher consumption levels by large industrial customers and the net addition of 22,000 customers, partially offset by the impact of warmer weather.

The weather in 1996 was 3.3% colder than normal, while the weather in 1995 approximated normal temperatures. The weather was 1.4% colder than normal in 1994.

### Gas Distribution Margin

The gas distribution margin was $435.5 million in 1996 compared with $409.4 million in 1995 and $392.0 million in 1994. The increase in the margin in 1996 compared to last year was due primarily to the colder weather, increased usage and customer growth. These increases were partially offset by higher gas costs related to the OEB's decision to deny the recovery of certain gas costs in its April 1996 cost of gas decision. The increase in the margin in 1995 over 1994 was due primarily to higher industrial volumes and customer growth, partially offset by the impact of warmer weather.

Certain of the distribution customers have converted to transportation service from other direct purchase arrangements. This change from contract gas sales to transportation services does not impact the gas distribution margin.

### Transportation and Storage Revenue

Revenue from the transportation and storage of gas was $157.0 million in 1996, $153.6 million in 1995 and $146.9 million in 1994. The increase in revenue in 1996 over 1995 was due primarily to an increase in short-term hub service activities and other transactional business. The increase in 1995 compared to 1994 was due primarily to an increase in demand for long-term transportation and storage services and higher rates.

The transportation and storage customers are primarily Canadian transmission and distribution companies. Approximately 90% of the Company's annual transportation and storage revenue is generated by fixed demand charges under contracts with remaining terms of up to 20 years and an average outstanding term of 10 years.

### Other Revenue

Other revenue was $106.1 million in 1996 compared with $91.0 million in 1995 and $79.2 million in 1994. The increase in other revenue in 1996 compared to last year was due primarily to higher rental revenue due to increases in the number of rental units and rates, and an increase in service work due to higher rates and activity levels. The increase in other revenue in 1995 over 1994 was due to increases in rental units and rates, higher service work activity and the gain on sale of certain storage rights.

### Operating Expenses

The operating and maintenance expense was $220.9 million in 1996 compared with $211.9 million in 1995 and $206.5 million in 1994. Significant factors contributing to the increase in 1996 over 1995 included a higher compressor fuel expense due to the increase in distribution volumes, and higher costs related to customer growth and inflation. The increase in expenses in 1995 compared with 1994 reflected higher costs related to customer growth, inflation and amortization of one-time shared services costs.

Depreciation and amortization expense was $115.7 million in 1996, $104.5 million in 1995 and $96.2 million in 1994. The increase was due to a higher investment in property, plant and equipment required to serve the Company's expanding customer base.

### Interest Expense

The net interest expense was $145.3 million in 1996 compared with $147.8 million in 1995 and $136.6 million in 1994. The decrease in the 1996 expense compared to 1995 was due primarily to lower short-term interest rates and a decrease in costs related to the redemption of the Class B Series 7 preference shares in January 1996. The increase in the interest expense in 1995 over 1994 was due primarily to higher average long-term debt.

## FINANCIAL CONDITION

### Operations

The cash flow from operations was $285.0 million in 1996 compared to $279.2 million in 1995 and $167.1 million in 1994. The increase in operating funds in 1996 was due primarily to higher earnings, largely offset by other changes in working capital requirements. The increase in operating cash flow in 1995 over 1994 was due primarily to a decrease in the value of gas in storage related to reduced volumes and a lower average cost of gas, and other changes in working capital requirements.

### Investment Activities

Capital expenditures totalled $207.3 million in 1996, $250.9 million in 1995 and $270.6 million in 1994. Of the total 1996 investment, 23% was spent on transmission and storage projects, 40% on distribution projects and 37% on projects of a general nature including rental and other equipment, and information technologies and systems. These investments were necessary to meet the growth in customer demand for services. Capital expenditures are expected to be approximately $210 million in 1997.

The average rate base was $2.09 billion in 1996 compared to $2.03 billion in 1995 and $1.89 billion in 1994.

### Liquidity and Capital Resources

The Company plans to meet future cash requirements through funds generated from operations, short and long-term debt, and common equity investment by the Company's parent.

The Company has bank lines of credit of $550 million that enable it to borrow directly from banks, issue bankers' acceptances and support a commercial paper program. Virtually all of the short-term cash requirements are funded through issuing commercial paper at rates generally below prime. The short-term borrowing levels fluctuate significantly during the year due to the funding of construction activities, the timing of long-term debt issues and the seasonality of the utility business. The peak borrowings for the year reached $344 million in November.

At December 31, 1996, the Company was party to an interest rate swap contract to fix the borrowing cost of $37.0 million (1995 - $75.0 million) of short-term borrowings at 10.9%. This contract will expire in December 1997. These borrowings are treated as long-term debt for purposes of the OEB approved utility capital structure.

The Company issued debentures totalling $125 million in 1995 and $275 million in 1994. The Company did not issue any long-term debt in 1996.

In 1996, the Company redeemed preference shares totalling $76.2 million. This included the redemption of the 8.65% Class B Series 7 preference shares in the amount of $75.0 million. The Company redeemed preference shares totalling $1.3 million in 1995 and $1.4 million in 1994.

Common equity is issued periodically to the Company's parent in order to maintain a common equity component of rate base as approved by the OEB. The Company issued common shares totalling $115.0 million on December 31, 1996. This common equity was issued to support the anticipated increase in the approved common equity component of rate base from 29% to 34% effective January 1, 1997. The Company issued common shares totalling $45.0 million in 1995 and $3.0 million in 1994.

The Company's capital instruments are rated as follows:

| | Canadian Bond Rating Service | Dominion Bond Rating Service |
|---|---|---|
| Commercial paper | A - 1 | R - 1 (Low) |
| Debentures | A (Low) | A |
| Preference shares | P - 2 | Pfd - 2 |

The Company expects to maintain these ratings in 1997, thereby having continued access to the short-term and long-term capital markets in Canada. The Company does not plan to issue either debentures or preference shares in 1997.

### Gas Supply

The gas supply portfolio includes long-term firm gas supply contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. These contracts are indexed to either the New York Mercantile Exchange (NYMEX) natural gas futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. Approximately 94% of the Company's forecast long-term firm gas supply from January through October 1997 is subject to indexed prices.

The Company has implemented a risk management strategy to manage the price volatility of its long-term firm gas supply. Hedges are used to fix gas prices with respect to the underlying physical gas supply contracts and include the use of natural gas swaps and purchase price collars. During the year ended December 31, 1996 the Company hedged the purchase price applicable to 31% of its indexed firm service gas supply. At December 31, 1996, the Company had entered into natural gas swap contracts to effectively fix the purchase price for approximately 280 $10^6m^3$ or 34% of the indexed gas supply from January through October 1997.

Long-term firm gas supply contracts represent approximately 42% of the Company's total forecast gas supply including buy/sell volumes. Most of these contracts are subject to price redetermination as of November 1, 1997. Buy/sell volumes represent approximately 47% of the Company's total forecast gas supply. The remaining 11% of gas purchases include spot gas and short-term firm service contracts.

Gas costs are included in customer rates based on forecasts approved by the OEB. The difference between the OEB approved price and the actual cost of gas purchased, including the impact of both the indexed purchase prices and any hedging activities, is deferred for disposition as approved by the OEB.

## OUTLOOK

### Market

The natural gas industry in North America continues to experience considerable growth. Natural gas is abundant, readily accessible through vast distribution systems and has significant environmental advantages compared to other fossil fuels. Natural gas also has competitive pricing advantages in most markets today.

The natural gas industry, and the energy industry in general, are in the process of significant transformation in how energy products and services are delivered to customers. Major factors contributing to this change include the following:

- Customers are becoming more sophisticated and are seeking new services, choice and other benefits related to a more open marketplace.
- Competition is increasing in the energy marketplace as both domestic and foreign based companies position themselves to deliver a variety of energy related services. Also, fuel suppliers and marketers are preparing to offer directly to customers a choice between natural gas, electricity, oil and other energy types. This will increase the level of inter-fuel competition.
- Customers, governments, regulators and utilities are looking for ways to increase the productivity of the regulatory process.
- The role of Ontario natural gas distribution companies as it relates to the sale of natural gas commodity is currently under review by the OEB. The review will address the degree to which additional deregulation should be permitted as a means to increase commodity competition, while continuing to protect the public.

The future success of the Company will be determined by its ability to offer greater choice, and respond more immediately to market dynamics caused by unregulated competitors and changing customer needs. To meet the challenges of this changing environment, the Company is pursuing changes to its organizational and operating structures. The Company is developing proposals, for submission in future rates applications, to unbundle and remove from regulation those activities where competitive market alternatives exist.

Although the changing marketplace will provide challenges, it will also provide significant opportunities for expanding traditional services and marketing new services to a large customer base. The Company is well positioned to take advantage of these opportunities. The Company is a full service supplier of energy services, ranging from traditional storage, transmission and local distribution, to value added products and services targeting individual customer needs. The Company's transmission system is strategically located between major U.S. markets in Michigan and New York State, and interconnects with major U.S. and Canadian pipelines at its eastern and western extremities. This enables the Company to be an integral part of the pipeline infrastructure of North America, with access to traditional and emerging markets. The Company's financial strength and market position provide a sound basis for future growth.

### Business Risk

The Company's earnings are impacted by business risks inherent in the natural gas industry and energy marketplace. The earnings level is impacted by general economic conditions, the Company's ability to generate forecasted revenues, weather, interest rates, levels of cost inflation and the OEB's decisions with respect to rates.

The rates allowed by the OEB are based on forecasts assuming normal weather conditions. Since a large portion of the gas distributed to the higher margin residential and commercial market is used for space heating, differences from normal weather have a significant effect on the consumption of gas. Sales to industrial customers are impacted by economic conditions and the price of competitive energy sources. Many of these customers have the ability to switch to an alternative fuel. The transportation and storage business is affected by competition for energy services in the North American energy marketplace as well as economic conditions.

### Environmental Management Program

The Company is committed to conducting its business in an environmentally responsible manner using the principles of sustainable development, by promoting the wise and efficient use of energy and by seeking ways to reduce the environmental impacts of its business. The Company continues to strengthen its environmental management program through a comprehensive audit program and additional environmental training for employees. As well, active participation in environmental research, development and technology transfer is important as a means to identify the most cost effective way of managing environmental issues to support the Company's business plans and operations.

# Management Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Their preparation necessarily involves the use of estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position, results of operations and changes in financial position, within reasonable limits of materiality and within the framework of the accounting policies outlined therein.

Management has established and maintains a system of internal controls which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate. The system of internal controls is periodically reviewed by an independent internal audit function to ensure its effective operation.

Price Waterhouse was appointed by the shareholders to conduct an independent examination of the financial statements in accordance with generally accepted auditing standards, which includes such tests and other procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for reporting and for final approval of the financial statements. An Audit Committee of non-management Directors is appointed by the Board to review the financial statements in detail and to report to the Directors prior to such statements being approved for publication. The Audit Committee meets with management, the internal auditors and the external auditors to discuss their evaluation of internal accounting controls, audit results and the quality of financial reporting. The internal and external auditors have free access to the Audit Committee to discuss the results of their audit.

February 13, 1997

M. F. Bermon
Senior Vice-President
Finance and Regulatory Affairs

Janet Woodruff

J. P. Woodruff
Controller

# Auditors' Report

To the Shareholders of Union Gas Limited:

We have audited the balance sheets of Union Gas Limited as at December 31, 1996 and 1995 and the statements of income, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Price Waterhouse

Price Waterhouse
Chartered Accountants

Toronto, Ontario
February 13, 1997

## Statements of Income

| For the Years Ended December 31 (millions) | 1996 | 1995 (note 2) |
|---|---|---|
| Gas sales | $ 1,006.6 | $ 1,047.2 |
| Cost of gas | 611.7 | 671.5 |
| Gas sales margin | 394.9 | 375.7 |
| Transportation service | 40.6 | 33.7 |
| Gas distribution margin | 435.5 | 409.4 |
| Transportation and storage revenue | 157.0 | 153.6 |
| Other revenue | 106.1 | 91.0 |
| | 698.6 | 654.0 |
| Expenses | | |
| Operating and maintenance | 220.9 | 211.9 |
| Depreciation and amortization (note 5) | 115.7 | 104.5 |
| Property and capital taxes | 34.9 | 33.4 |
| | 371.5 | 349.8 |
| Operating income | 327.1 | 304.2 |
| Interest expense | | |
| Long-term debt | 128.7 | 120.5 |
| Short-term debt | 14.4 | 19.5 |
| Redeemable preference shares (note 2) | 5.0 | 11.6 |
| Interest capitalized | (2.8) | (3.8) |
| | 145.3 | 147.8 |
| Income before income taxes | 181.8 | 156.4 |
| Income taxes (note 14) | 85.9 | 77.9 |
| **Net income** | 95.9 | 78.5 |
| Preference share dividend requirement | 2.7 | 2.7 |
| Earnings applicable to common shares | $ 93.2 | $ 75.8 |

*(See accompanying notes)*

## Statements of Retained Earnings

| For the Years Ended December 31 (millions) | 1996 | 1995 (note 2) |
|---|---|---|
| Retained earnings, beginning of year | $ 240.6 | $ 212.7 |
| Net income | 95.9 | 78.5 |
| Dividends | | |
| Preference shares | 2.7 | 2.7 |
| Common shares | 81.8 | 47.6 |
| Other | 0.3 | 0.3 |
| Retained earnings, end of year | $ 251.7 | $ 240.6 |

*(See accompanying notes)*

# Balance Sheets

| As at December 31 (millions) | 1996 | 1995 |
|---|---|---|
| | | (note 2) |
| **Assets** | | |
| Current assets | | |
| Accounts receivable (note 3) | $ 277.1 | $ 245.3 |
| Inventories (note 4) | 166.0 | 144.5 |
| Investment (note 15) | 105.5 | - |
| | 548.6 | 389.8 |
| Property, plant and equipment (note 5) | 2,333.2 | 2,244.1 |
| Other assets (note 6) | 104.8 | 89.6 |
| Investment (note 15) | - | 105.5 |
| | $ 2,986.6 | $ 2,829.0 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Short-term borrowings (note 7) | $ 288.4 | $ 280.7 |
| Accounts payable and accrued charges | 238.1 | 175.4 |
| Income taxes payable | 80.4 | 2.7 |
| | 606.9 | 458.8 |
| Long-term debt (note 8) | 1,198.9 | 1,257.5 |
| Redeemable preference shares (note 9) | 72.8 | 149.0 |
| Deferred income taxes | 341.2 | 323.0 |
| Shareholders' equity | | |
| Share capital (note 10) | 515.1 | 400.1 |
| Retained earnings | 251.7 | 240.6 |
| | 766.8 | 640.7 |
| | $ 2,986.6 | $ 2,829.0 |

Commitments and Contingencies (note 16)

*(See accompanying notes)*

Approved by the Board

John Bergsma
Director

Adrian B. Ryans
Director

# Statements of Changes in Financial Position

| For the Years Ended December 31 (millions) | 1996 | 1995 |
|---|---|---|
| | | (note 2) |
| **Operating Activities** | | |
| Net income | $ 95.9 | $ 78.5 |
| Charges not affecting cash | | |
| Depreciation and amortization | 118.7 | 107.1 |
| Deferred income taxes | 24.5 | 8.1 |
| | 239.1 | 193.7 |
| Non-cash working capital changes | | |
| Accounts receivable | (23.7) | (82.6) |
| Gas inventories | (21.0) | 99.9 |
| Accounts payable and other | 90.6 | 68.2 |
| | 285.0 | 279.2 |
| **Investing Activities** | | |
| Additions to property, plant and equipment | (207.3) | (250.9) |
| Additions to other assets and investments | (23.6) | (33.6) |
| | (230.9) | (284.5) |
| **Financing Activities** | | |
| Long-term debt | | |
| Issued | - | 125.0 |
| Retired | (16.1) | (10.2) |
| Preference shares redeemed and purchased for cancellation | (76.2) | (1.3) |
| Common shares issued | 115.0 | 45.0 |
| Dividends | (84.5) | (50.3) |
| | (61.8) | 108.2 |
| Increase (decrease) in short-term borrowings | 7.7 | (102.9) |
| Short-term borrowings, beginning of year | 280.7 | 383.6 |
| Short-term borrowings, end of year | $ 288.4 | $ 280.7 |

*(See accompanying notes)*

## 1. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. A summary of significant accounting policies follows:

### Regulation

The utility operations are subject to regulation under the Ontario Energy Board Act and the Energy Act (Ontario). Rate schedules are approved periodically by the Ontario Energy Board (OEB) and are designed to permit a fair and reasonable return on the utility investment after recovering the utility cost of service. Realization of the allowed rate of return is subject to actual operating conditions experienced during the year. The Company operates within southwestern Ontario under franchise agreements with individual municipalities.

### Inventories

Supplies of natural gas are costed into inventory at prices approved by the OEB in the determination of customer sales rates. The difference between the OEB approved price and the actual cost of the gas purchased is deferred for disposition subject to approval by the OEB.

The Company's gas supply portfolio includes contracts with pricing mechanisms that reflect monthly variations in the price of gas, rather than fixed prices. In order to manage price volatility, hedges are used to fix gas prices with respect to the underlying physical gas supply contracts. The hedges include the use of natural gas swaps and purchase price collars. The actual cost of gas purchased includes the impact of any hedging activities related to these contracts. The Company negotiates natural gas swap and purchase price collar contracts only with those institutions that have a credit rating of A or higher.

Inventories of merchandise, stores and spare equipment are valued at the lower of average cost and replacement cost.

### Property, Plant and Equipment and Depreciation

Property, plant and equipment is carried at cost which includes all direct costs, an allocation of overhead incurred and interest capitalized during construction. The cost of property, plant and equipment is reduced by contributions and grants in aid of construction received from customers and governmental bodies in support of specific transmission and distribution facilities. The original cost of depreciable units retired, together with the net cost of removal less salvage, is charged to accumulated depreciation.

Depreciation is provided on the straight-line basis at various rates based on the average service life of each class of property, ranging from 4 to 60 years, determined by periodic reviews and as approved by the OEB.

### Income Taxes

The Company uses the tax allocation method to account for income taxes. Income tax expense is the amount that would be payable if the timing of statutory tax deductions did not differ from those recorded for accounting purposes. This method recognizes the deferral of income taxes to future years when amounts deductible for income tax purposes will be less than those recorded in the accounts.

### Gas Sales and Cost of Gas

Gas sales revenue is recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading date to the end of the month.

In the matching of gas sales revenue and cost of gas sold, volumetric differences arise from the measurement process. The Company includes in the cost of gas sold an estimated amount of these volumetric differences based upon the methodology recognized by the OEB in the determination of customer sales rates. Annual fluctuations from the estimated level are deferred and amortized over a period of three years. The cost of gas sold includes both the estimated level of volumetric differences and the amortization of annual fluctuations.

### Pension Plans

Pension expense includes the actuarial costs of pension benefits for employee services for the year and the amortization of the cost of past service benefits and experience gains and losses. Past service benefits and experience gains and losses are amortized on a straight-line basis over the expected average remaining service life of pension plan members.

The Company also provides post-employment extended health care and life insurance benefits for all retired employees. The cost of these benefits are recorded during the year in which they become payable.

## 2. Change in Accounting for Financial Instruments

The Company has adopted the Canadian Institute of Chartered Accountant's (CICA) new accounting rules for the presentation and disclosure of financial instruments for 1996 and prior years. Preference shares with a mandatory redemption, which previously were classified as part of shareholders' equity, are now classified as liabilities. The related dividends are presented as interest expense in the Statements of Income. This change resulted in a reduction in income before income taxes and net income of $5.0 million in 1996 (1995 - $11.6 million), but had no effect on retained earnings.

## 3. Accounts Receivable

Included in accounts receivable is an amount of $46.8 million (1995 - $11.1 million) which represents the deferral of the difference between the actual cost of gas and the OEB approved price. The Company has applied to the OEB for recovery of the deferred gas costs.

## 4. Inventories

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Gas in storage | **$ 121.6** | $ 92.9 |
| Merchandise, stores and spare equipment | **37.8** | 37.3 |
| Other | **6.6** | 14.3 |
| | **$ 166.0** | $ 144.5 |

Other includes short-term loans of gas to other utilities and suppliers, and line pack gas.

## 5. Property, Plant and Equipment

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Cost | | |
| Storage | **$ 424.4** | $ 416.1 |
| Transmission | **901.1** | 867.8 |
| Distribution | **1,279.0** | 1,199.2 |
| General | **532.3** | 476.1 |
| | **3,136.8** | 2,959.2 |
| Accumulated depreciation | | |
| Storage | **85.1** | 74.0 |
| Transmission | **206.4** | 188.4 |
| Distribution | **373.2** | 340.5 |
| General | **138.9** | 112.2 |
| | **803.6** | 715.1 |
| Net book value | **$ 2,333.2** | $ 2,244.1 |

Depreciation rates provided during the year ended December 31, 1996 resulted in a composite rate of 4.06% (1995 - 4.02%). In 1996, $3.0 million (1995 - $2.6 million) of depreciation was allocated to operating and maintenance expense rather than to depreciation and amortization expense shown on the Statements of Income.

Property, plant and equipment includes assets that are not subject to depreciation totalling $88.6 million (1995 - $105.5 million). These assets include land, base pressure gas in storage reservoirs and assets under construction. Property, plant and equipment also includes rental equipment at a cost of $331.7 million (1995 - $303.3 million) and related accumulated depreciation of $70.0 million (1995 - $64.8 million). Rental revenue totalled $54.1 million (1995 - $45.2 million).

Capital expenditures during 1997 are expected to be approximately $210 million.

## 6. Other Assets

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Merchandise sales contracts | **$ 123.0** | $ 103.8 |
| Less: current portion | **52.1** | 43.7 |
| | **70.9** | 60.1 |
| Deferred charges and other | **33.9** | 29.5 |
| | **$ 104.8** | $ 89.6 |

Merchandise sales contracts represent advances to customers for the purchase of natural gas appliances and are due over periods of up to 120 months. The amounts due may be paid in advance at the option of the customer without penalty. The merchandise sales contracts, most of which bear interest at 13.9%, commonly include interest free payment periods.

## 7. Short-term Borrowings

The Company has bank lines of credit of $550 million that enable it to borrow directly from banks, issue banker's acceptances and support a commercial paper program. Virtually all of the short-term cash requirements are funded through issuing commercial paper at rates generally below prime. The effective interest rate on short-term borrowings, including the impact of interest rate swap contracts, was 6.0% (1995 - 7.3%). The bank lines of credit are unsecured.

At December 31, 1996, the Company was party to an interest rate swap contract to fix the borrowing cost of $37.0 million (1995 - $75.0 million) of short-term borrowings at 10.9% (1995 - 10.9%). This contract will expire in December 1997. The interest rate swap contract has no book value. The estimated fair value of the interest rate swap contract is $2.4 million payable at December 31, 1996 (1995 - $4.8 million payable). The fair value reflects the estimated amount that the Company would pay to terminate the contract at the reporting date, thereby taking into account current unrealized losses.

## 8. Long-term Debt

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Sinking fund debentures | | |
| 13.375% 1980 Series, due March 31, 2000 | **$ 40.5** | $ 42.0 |
| 17.5% 1981 Series, due November 30, 1996 | **-** | 7.5 |
| 14.25% 1982 Series, due November 1, 2002 | **11.5** | 12.9 |
| 13.0% 1983 Second Series, due June 30, 2003 | **16.5** | 18.2 |
| 11.55% 1988 Series II, due October 15, 2010 | **89.0** | 93.0 |
| Other long-term debt | | |
| 10.625% 1986 Series debentures, due December 15, 2005 * | **75.0** | 75.0 |
| 10.5% 1988 Series debentures, due May 31, 1998 | **50.0** | 50.0 |
| 10.625% 1989 Series debentures, due July 11, 2011 | **125.0** | 125.0 |
| 11.5% 1990 Series debentures, due August 28, 2015 | **150.0** | 150.0 |
| 8.8% 1992 Series debentures, due January 20, 1997 | **50.0** | 50.0 |
| 9.7% 1992 Series II debentures, due November 6, 2017 | **125.0** | 125.0 |
| 8.75% 1993 Series debentures, due August 3, 2018 | **125.0** | 125.0 |
| 7.90% 1994 Series debentures, due February 24, 2014 | **150.0** | 150.0 |
| 9.75% 1994 Series II debentures, due December 13, 2004 | **125.0** | 125.0 |
| 8.65% 1995 Series debentures, due November 10, 2025 | **125.0** | 125.0 |
| | **1,257.5** | 1,273.6 |
| Less: current portion | **58.6** | 16.1 |
| | **$ 1,198.9** | $ 1,257.5 |

* The 10.625% 1986 Series debentures are retractable at the option of the holder on December 15 each year at par plus accrued interest. Prior to each retraction date, the Company may at its option increase the interest rate for a period of one year effective from the retraction date. Unless further notice is given by the Company, the interest rate reverts to 10.625% thereafter.

Under the terms of the trust indenture related to the debentures, the Company has agreed to maintain certain interest coverage ratios. The Company is in compliance with all of its covenants.

The weighted average cost of long-term debt for the year ended December 31, 1996 was 10.14% (1995 - 10.25%).

Principal repayment requirements on long-term debt during the next five years ending December 31 are as follows:

| | *($ millions)* |
|---|---|
| 1997 | 58.6 |
| 1998 | 58.6 |
| 1999 | 8.6 |
| 2000 | 43.1 |
| 2001 | 7.1 |

The estimated fair value of the Company's long-term debt is $1,433.8 million (1995 - $1,424.3 million). The fair value is based on the present value of expected cash flows using an estimate of rates currently available to the Company for debt with similar terms and conditions. Under the regulatory process, the Company recovers the weighted average cost of its long-term debt through cost of service. Accordingly, the Company cautions readers in the interpretation of the estimated fair values.

## 9. Redeemable Preference Shares

Preference shares with a mandatory redemption at the option of the holder have been reclassified as liabilities in accordance with the new CICA accounting rules for presentation and disclosure of financial instruments. Redeemable preference shares with a mandatory redemption consist of the following:

| *(dollar amounts in millions)* | | **1996** | 1995 |
|---|---|---|---|
| **Authorized** | **Issued** | | |
| Preference shares | | | |
| Class A - 112,072 shares | | | |
| (1995 - 112,072) | 57,272 Series A, 5.5% (1995 - 57,272) | **$ 2.9** | $ 2.9 |
| | 54,800 Series C, 5% (1995 - 54,800) | **2.7** | 2.7 |
| Class B - unlimited shares | | | |
| | 920,000 Series 3, 7% (1995 - 980,000) | **18.4** | 19.6 |
| | Nil Series 7, 8.65% (1995 - 3,000,000) | **-** | 75.0 |
| | 2,000,000 Series 9, 6.74% (1995 - 2,000,000) | **50.0** | 50.0 |
| | | **74.0** | 150.2 |
| | Less: current portion | **1.2** | 1.2 |
| | | **$ 72.8** | $ 149.0 |

The Class A Preference Shares, Series A and C are cumulative and redeemable at $50.50 per share. Through the operation of a purchase fund the Company is obligated to offer to purchase $170,000 of Series A and $140,000 of Series C shares annually at the lowest price obtainable but not exceeding $50 per share. The Company may purchase shares for cancellation at a price not exceeding the then current redemption price. The Company did not purchase any Series A shares during the years ended December 31, 1995 and 1996. During the year ended December 31, 1996, the Company did not purchase any Series C shares. The Company purchased and cancelled 1000 Series C shares with an aggregate value of $50,000 during the year ended December 31, 1995.

The Class B Preference Shares, Series 3 are cumulative and redeemable. The Company may redeem these shares at $20 per share. The Company may purchase shares for cancellation at the lowest price obtainable but not exceeding the then current redemption price. Through the operation of a mandatory sinking fund 60,000 of these shares are redeemed on September 1 of each year at $20 per share.

The former Class B Preference Shares, Series 7 were cumulative, redeemable and retractable. On January 1, 1996 the Company redeemed all of the Class B Preference Shares, Series 7 at $25 per share for a total amount of $75.0 million.

The Class B Preference Shares, Series 9 are cumulative, redeemable and retractable. On and after January 31, 1998 the Company may redeem all or part of the outstanding shares at $25 per share. The holders have the option to require the Company to redeem all or part of the outstanding shares for $25 each on January 31, 1998. All or any of these shares may be converted by the holder into an additional series of Class B Preference Shares, if created by the Company, during the period beginning on January 31, 1998 and ending six months thereafter.

The estimated fair value of the redeemable preference shares, based on quoted market prices of securities having similar terms and conditions, is $74.4 million at December 31, 1996 (1995 - $144.8 million).

## 10. Share Capital

| *(dollar amounts in millions)* | | **1996** | 1995 |
|---|---|---|---|
| **Authorized** | **Issued** | | |
| Preference shares | | | |
| Class A - 90,000 shares (1995 - 90,000) | 90,000 Series B, 6% (1995 - 90,000) | **$ 4.5** | $ 4.5 |
| Class B - unlimited shares | 350 Series 8, 7% (1995 - 350) | **35.0** | 35.0 |
| Class C - unlimited shares | Nil | **-** | - |
| | | **39.5** | 39.5 |
| Common shares - unlimited shares | Common shares 41,866,400 (1995 - 37,684,590) | **475.6** | 360.6 |
| | | **$ 515.1** | $ 400.1 |

The Class A Preference Shares, Series B are cumulative and redeemable at $55 per share.

The Class B Preference Shares, Series 8 are cumulative and redeemable. After March 31, 1997 the Company may redeem all or part of the outstanding shares at $100,000 per share. On and after March 31, 1997, the rate at which dividends accrue will be subject to negotiation between the Company and the holders of the shares. Failing such dividend rate renegotiation, the rate and length of time the rate will be applied will be subject to a competitive bid by existing and potential holders of the shares at the time of the rate redetermination. The period to which the new rate would apply is a minimum of three months.

During the year ended December 31, 1996, the Company issued 4,181,810 (1995 - 2,131,652) common shares for cash consideration of $115.0 million (1995 - $45.0 million).

## 11. Natural Gas Swap Contracts

The purchase price applicable to approximately 94% (1995 - 93%) of the Company's forecast long-term gas supply from January through October 1997 is indexed to either the New York Mercantile Exchange Natural Gas Futures contracts or the Canadian Gas Price Reporter Alberta border average monthly price. At December 31, 1996, the purchase price applicable to 280 $10^6m^3$ or 34% (1995 - 216 $10^6m^3$ or 15%) of this indexed supply has been effectively fixed through the use of natural gas swap contracts. These contracts have a fair value of $4.1 million receivable at December 31, 1996 (1995 - $0.8 million receivable). The fair value reflects the estimated amount that the Company would receive to terminate the contracts at the reporting date.

## 12. Fair Values of Financial Assets and Liabilities

The estimated fair value of accounts receivable, short-term borrowings, and accounts payable and accrued charges approximate their carrying amounts in the financial statements due to the relatively short period to maturity of these instruments. The estimated fair value of the Company's investment in Westcoast Energy Inc. First Preferred Shares, based on quoted market prices of securities having the same terms and conditions, approximates its carrying amount. The estimated fair value of merchandise sales contracts is not readily determinable since the terms of the contracts are such that customers have the right to repay prior to maturity without penalty. The estimated fair values of other financial liabilities are disclosed in their respective notes.

## 13. Employee Pension Plans

The pension expense for the year ended December 31, 1996 amounted to $5.0 million (1995 - $4.8 million). As at December 31, 1996, the market related value of the pension fund assets is estimated to be $265.9 million (1995 - $244.3 million) and the actuarial present value of accrued pension benefits is estimated to be $252.6 million (1995 - $231.8 million).

## 14. Income Taxes

The provision for income taxes consists of the following:

| *(millions)* | **1996** | 1995 |
|---|---|---|
| Current | **$ 61.4** | $ 69.8 |
| Deferred | **24.5** | 8.1 |
| | **$ 85.9** | $ 77.9 |

A reconciliation of income tax expense to the amount that would be obtained by applying the combined Federal and Ontario statutory tax rates to income before income taxes follows:

| *(dollar amounts in millions)* | 1996 | | 1995 | |
|---|---|---|---|---|
| Combined statutory federal and provincial income tax rate | **$ 79.1** | **43.5%** | $ 68.0 | 43.5% |
| Dividend income | **(2.0)** | **(1.1)** | (2.8) | (1.8) |
| Preference share interest expense | **2.2** | **1.2** | 5.0 | 3.3 |
| Large corporations tax | **5.9** | **3.2** | 5.8 | 3.7 |
| Other | **0.7** | **0.4** | 1.9 | 1.1 |
| Effective income tax rate | **$ 85.9** | **47.2%** | $ 77.9 | 49.8% |

## 15. Related Party Transactions

a. The Company's investment comprises $105.5 million of Westcoast Energy Inc. (Westcoast) First Preferred Shares which are carried at cost. The Company may redeem all or part of the outstanding shares after January 1, 1995. Westcoast has the option to redeem all or part of the preferred shares at any time, with mandatory redemption on October 31, 1997. The Company is a wholly-owned subsidiary of Westcoast.

   Cumulative dividends accrue at a rate equal to the lesser of 9.5% and 70% of the average prime rate of Westcoast's principal banker for the dividend period. During the year ended December 31, 1996, the Company received dividends from Westcoast totalling $4.6 million (1995 - $6.4 million).

b. The Company and Centra Gas Ontario Inc. (Centra), a commonly controlled company, received approval from the OEB in August 1994 to proceed with a shared services plan. Under the plan, certain administrative departments were combined in 1995 to provide services to both companies, resulting in operating efficiencies and reductions in the total cost of service for the benefit of the companies' customers. During the year, the Company charged Centra $9.2 million (1995 - $4.0 million) to recover net expenses incurred on behalf of Centra.

c. The Company purchases natural gas and transportation services at prevailing market prices and under normal trade terms from commonly controlled companies. During the year ended December 31, 1996, these purchases totalled $20.8 million (1995 - $24.2 million). The Company also provides storage and transportation services to commonly controlled companies under normal trade terms. During the year, this revenue totalled $11.0 million (1995 - $10.9 million).

d. The Company provided administrative and other services to a commonly controlled company totalling $3.3 million (1995 - $2.7 million), which were recovered at cost. Westcoast charged the Company $4.1 million (1995 - $0.6 million) for administrative and other services.

e. At December 31, 1996, the Company had intercompany receivable balances of $14.3 million (1995 - $13.5 million) and intercompany payable balances of $4.9 million (1995 - $1.2 million).

## 16. Commitments and Contingencies

The Company, in the course of its operations, is subject to environmental and other claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities will be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its financial position.

## 17. Change in Year-End

The Company changed its year-end from March 31 to December 31, effective December 31, 1995. Accordingly, the 1995 comparative information has been presented for the twelve months ended December 31, 1995, as restated for the adoption of the new CICA accounting rules for presentation and disclosure of financial instruments. A summary of financial results for the nine months ended December 31, 1995 is provided for continuity with results disclosed as at March 31, 1995.

### Statement of Income

| *For the Nine Months Ended December 31, 1995 (millions)* | *(note 2)* |
|---|---|
| Gas sales | $ 612.4 |
| Cost of gas | 381.6 |
| Gas sales margin | 230.8 |
| Transportation service | 26.3 |
| Gas distribution margin | 257.1 |
| Transportation and storage revenue | 112.0 |
| Other revenue | 68.2 |
| | 437.3 |
| Expenses | |
| Operating and maintenance | 160.9 |
| Depreciation and amortization | 81.0 |
| Property and capital taxes | 24.9 |
| | 266.8 |
| Operating income | 170.5 |
| Interest expense | |
| Long-term debt | 91.1 |
| Short-term debt | 13.3 |
| Preference shares | 8.7 |
| Interest capitalized | (2.8) |
| | 110.3 |
| Income before income taxes | 60.2 |
| Income taxes | 34.9 |
| **Net income** | 25.3 |
| Preference share dividend requirement | 1.2 |
| Earnings applicable to common shares | $ 24.1 |

## Statement of Retained Earnings

| *For the Nine Months Ended December 31, 1995 (millions)* | |
|---|---|
| Retained earnings, beginning of period | $ 252.6 |
| Net income | 25.3 |
| Dividends | |
| Preference shares | 1.2 |
| Common shares | 36.0 |
| Other | 0.1 |
| Retained earnings, end of period | $ 240.6 |

## Statement of Changes in Financial Position

| *For the Nine Months Ended December 31, 1995 (millions)* | |
|---|---|
| **Operating Activities** | |
| Net income | $ 25.3 |
| Charges not affecting cash | |
| Depreciation and amortization | 83.1 |
| Deferred income taxes | (10.2) |
| | 98.2 |
| Non-cash working capital changes | |
| Accounts receivable | (28.8) |
| Gas inventories | (6.3) |
| Accounts payable and other | 12.2 |
| | 75.3 |
| **Investing Activities** | |
| Additions to property, plant and equipment | (199.6) |
| Additions to other assets and investments | (38.7) |
| | (238.3) |
| **Financing Activities** | |
| Long-term debt | |
| Issued | 125.0 |
| Retired | (8.7) |
| Preference shares redeemed and purchased for cancellation | (1.3) |
| Common shares issued | 25.0 |
| Dividends | (37.2) |
| | 102.8 |
| Increase in short-term borrowings | 60.2 |
| Short-term borrowings, beginning of period | 220.5 |
| Short-term borrowings, end of period | $ 280.7 |

## 18. Comparative Amounts

Certain of the 1995 amounts have been reclassified to conform with the presentation adopted in 1996.

## General

The Board believes that sound corporate governance practices are an essential element to the well being of the Corporation and its shareholders. Through its Corporate Governance Committee, the Board administers a program to develop and sustain suitable processes and structures to guide the direction and management of the business and affairs of the Corporation in the pursuit of enhanced corporate performance and shareholder value.

The bylaws of the Toronto Stock Exchange (TSE) and the policy statement of the Montreal Exchange require that the Corporation disclose its approach to corporate governance. The following is intended to address the principal matters contained in the guidelines for corporate governance established by the TSE.

## Board of Directors

The Board has the responsibility for supervising the management of the business and the affairs of the Corporation. The management of the Corporation is responsible for the day to day operations of the business. The Board has considered and does consider the principal risks to the Corporation and receives reports of the Corporation's assessment and management of those risks. The Board through management has put structures in place in the Corporation to allow effective communication with the Corporation's stakeholders and the public. The Board also periodically reviews the compensation of directors in light of risks and responsibilities.

## Composition of the Board

The Board is composed of nine directors. Of the directors, John Bergsma, as President and Chief Executive Officer, is a full-time officer of the Corporation, and four directors are full-time officers of the Corporation's parent, Westcoast Energy Inc. ("Westcoast"). Westcoast owns 100% of the voting common shares of the Corporation and is therefore considered a significant shareholder. None of the Westcoast directors are actively involved in the day-to-day management of the Corporation. The TSE guidelines provide that a director related to a significant shareholder should not be considered a related director of the subsidiary corporation. The TSE has indicated that an outside director is a director who is not an officer or employee of the Corporation or of any of its subsidiaries. The remaining three directors are not officers or employees of the Corporation or its subsidiaries and do not have interests in or relationships with the Corporation or its parent (other than interests and relationships which may arise from shareholdings) which could materially interfere, or could reasonably be perceived to materially interfere with such directors' ability to act with a view to the best interests of the Corporation. The Board has therefore concluded that a majority of the directors of the Corporation are outside and unrelated, as those terms are defined by the TSE.

## Committees of the Board

The Board has established and adopted terms of reference for each of the Executive, Audit, Human Resources, Corporate Governance and Independent Committees.

The Executive Committee is composed of three directors, a majority of whom are outside and unrelated directors. The committee is established to act as the reviewing body for urgent matters which cannot await the next Board meeting and to perform such functions and exercise such powers specifically delegated to the committee by the Board.

The Audit Committee is composed of three outside and unrelated directors. This committee is broadly responsible for ensuring that the Corporation's management has designed and implemented an effective system of internal financial controls, for reviewing and reporting on the integrity of the financial statements of the Corporation, for ensuring compliance with regulatory and statutory requirements as they relate to financial statements, taxation matters and the disclosure of material facts and for reviewing the appropriateness and effectiveness of the Corporation's policies and business practices which impact on the financial integrity of the Corporation, including those relating to internal auditing, insurance, accounting, information services and systems and financial controls, management reporting and risk management.

The Human Resources Committee is composed of three directors, a majority of whom are outside and unrelated. This committee is generally responsible for recommending to the Board human resources and compensation policies and guidelines for application to the Corporation and for implementing and overseeing human resources and compensation policies approved by the Board.

The Corporate Governance Committee is composed of four directors, a majority of whom are outside and unrelated directors. This committee's prime responsibility is for developing and monitoring the Corporation's overall approach to corporate governance issues and for administering a corporate governance system which is effective in the discharge of the Corporation's obligations to its shareholders.

The Independent Committee is made up of three directors who are outside and unrelated directors. The mandate of the Independent Committee is to approve affiliate transactions and to monitor the Corporation's compliance with its written Undertakings to the Lieutenant Governor in Council for the Province of Ontario.

### Chairman

Michael Phelps, the Chief Executive Officer of Westcoast, which is the significant shareholder of the Corporation, is the Chairman of the Board of the Corporation. As such, while being responsible on behalf of the Board for the recruitment of the other directors and the assessment of performance, he reviews with the Board on-going assessment matters, the appointment and monitoring of senior management, and succession issues.

### Shareholder Feedback and Concerns

The Corporation provides annual and quarterly reports to its preference shareholders and responds to enquiries from those shareholders on a timely basis.

### Decisions Requiring Board Approval

The Board operates by seeking the advice of and delegating powers, duties and responsibilities to committees of the Board, by delegating certain of its authorities to management and by reserving certain powers to itself.

### Expectations of Management

The Board reviews the Corporation's strategic plan with management at least annually. Members of the management team report to the Board on a regular basis to review the Corporation's financial and operational results and the Corporation's progress in fulfilling its strategic goals and objectives.

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| **Operating Results** | *Year Ended December 31 (millions)* | | |
| Operating revenues | **$ 1,310.3** | $ 1,325.5 | $ 1,402.9 |
| Operating expenses | **983.2** | 1,021.3 | 1,119.2 |
| Income before interest and income taxes | **327.1** | 304.2 | 283.7 |
| Net interest expense* | **145.3** | 147.8 | 136.6 |
| Income taxes | **85.9** | 77.9 | 72.6 |
| Net income | **95.9** | 78.5 | 74.5 |
| Preference share dividend requirement* | **2.7** | 2.7 | 2.7 |
| Earnings applicable to common shares | **$ 93.2** | $ 75.8 | $ 71.8 |
| **Balance Sheet** | *As at December 31 (millions)* | | |
| **Assets** | | | |
| Current assets ** | **$ 548.6** | $ 389.8 | $ 454.7 |
| Property, plant and equipment | **3,136.8** | 2,959.2 | 2,733.6 |
| Less accumulated depreciation | **803.6** | 715.1 | 633.3 |
| | **2,333.2** | 2,244.1 | 2,100.3 |
| Other assets ** | **104.8** | 89.6 | 66.4 |
| Investments | **-** | 105.5 | 107.6 |
| Total | **$ 2,986.6** | $ 2,829.0 | $ 2,729.0 |
| **Capitalization** | | | |
| Current liabilities | **$ 606.9** | $ 458.8 | $ 560.8 |
| Long-term debt | **1,198.9** | 1,257.5 | 1,149.6 |
| Redeemable preference shares | **72.8** | 149.0 | 150.3 |
| Deferred income taxes | **341.2** | 323.0 | 300.5 |
| Shareholders' equity | | | |
| Preference shares | **39.5** | 39.5 | 39.5 |
| Common equity | **727.3** | 601.2 | 528.3 |
| | **766.8** | 640.7 | 567.8 |
| Total | **$ 2,986.6** | $ 2,829.0 | $ 2,729.0 |
| **Cash Flow Data** | *Year Ended December 31 (millions)* | | |
| Operating cash flow | **$ 239.1** | $ 193.7 | $ 178.2 |
| Capital expenditures | **$ 207.3** | $ 250.9 | $ 270.6 |
| Common share dividends declared | **$ 81.8** | $ 47.6 | $ 44.8 |

* *The redeemable preference share dividends were reclassified from preference share dividend requirement to net interest expense.*

** *The amounts receivable on merchandise sales contracts due after one year were reclassified from accounts receivable to other assets for the year ended December 31, 1994 and thereafter.*

| 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|
| *Year Ended March 31 (millions)* | | | | | | |
| $ 1,362.6 | $ 1,429.4 | $ 1,290.0 | $ 1,289.3 | $ 1,218.6 | $ 1,216.3 | $ 1,241.0 |
| 1,089.6 | 1,135.5 | 1,031.5 | 1,058.4 | 1,020.3 | 1,025.2 | 1,060.4 |
| 273.0 | 293.9 | 258.5 | 230.9 | 198.3 | 191.1 | 180.6 |
| 141.5 | 126.9 | 124.3 | 118.9 | 111.4 | 100.4 | 87.6 |
| 64.1 | 80.5 | 65.6 | 54.9 | 40.1 | 38.2 | 43.0 |
| 67.4 | 86.5 | 68.6 | 57.1 | 46.8 | 52.5 | 50.0 |
| 2.7 | 2.7 | 2.7 | 2.7 | 0.3 | 0.3 | 0.3 |
| $ 64.7 | $ 83.8 | $ 65.9 | $ 54.4 | $ 46.5 | $ 52.2 | $ 49.7 |
| *As at March 31 (millions)* | | | | | | |
| $ 403.2 | $ 345.9 | $ 303.0 | $ 267.3 | $ 280.6 | $ 255.5 | $ 189.4 |
| 2,776.9 | 2,530.5 | 2,360.4 | 2,173.7 | 1,921.8 | 1,688.9 | 1,491.1 |
| 649.5 | 570.4 | 524.2 | 484.0 | 425.2 | 385.4 | 341.7 |
| 2,127.4 | 1,960.1 | 1,836.2 | 1,689.7 | 1,496.6 | 1,303.5 | 1,149.4 |
| 24.4 | 19.1 | 31.4 | 34.4 | 46.0 | 44.0 | 52.1 |
| 107.6 | 107.2 | 107.1 | 107.4 | 106.9 | 105.8 | 105.8 |
| $ 2,662.6 | $ 2,432.3 | $ 2,277.7 | $ 2,098.8 | $ 1,930.1 | $ 1,708.8 | $ 1,496.7 |
| | | | | | | |
| $ 409.0 | $ 372.6 | $ 548.3 | $ 420.2 | $ 286.2 | $ 307.0 | $ 268.9 |
| 1,148.1 | 1,032.3 | 766.5 | 749.1 | 805.2 | 679.5 | 572.2 |
| 150.2 | 152.7 | 155.2 | 157.5 | 166.4 | 115.8 | 118.2 |
| 327.6 | 286.0 | 267.7 | 253.1 | 265.9 | 236.8 | 217.3 |
| | | | | | | |
| 39.5 | 39.5 | 39.5 | 39.5 | 4.5 | 4.5 | 4.5 |
| 588.2 | 549.2 | 500.5 | 479.4 | 401.9 | 365.2 | 315.6 |
| 627.7 | 588.7 | 540.0 | 518.9 | 406.4 | 369.7 | 320.1 |
| $ 2,662.6 | $ 2,432.3 | $ 2,277.7 | $ 2,098.8 | $ 1,930.1 | $ 1,708.8 | $ 1,496.7 |
| *Year Ended March 31 (millions)* | | | | | | |
| $ 203.8 | $ 215.1 | $ 184.6 | $ 149.1 | $ 163.2 | $ 144.9 | $ 122.2 |
| $ 267.6 | $ 214.3 | $ 228.7 | $ 268.6 | $ 261.3 | $ 213.9 | $ 235.5 |
| $ 45.5 | $ 43.8 | $ 44.6 | $ 42.8 | $ 42.7 | $ 40.7 | $ 36.8 |

## Operating Statistics

| | 1996 | 1995 | 1994 |
|---|---|---|---|
| | *Year Ended December 31* | | |
| **Distribution Business** | | | |
| Customers (end of year) | | | |
| Residential | **680,900** | 656,036 | 634,740 |
| Commercial | **69,172** | 67,261 | 65,856 |
| Industrial | **5,177** | 5,166 | 6,104 |
| Other utilities | **7** | 8 | 7 |
| Total | **755,256** | 728,471 | 706,707 |
| Distribution volume ($10^6m^3$)* | | | |
| Residential | **2 095** | 1 947 | 1 882 |
| Commercial | **1 548** | 1 444 | 1 466 |
| Industrial | **2 082** | 2 498 | 3 109 |
| Other utilities | **300** | 294 | 285 |
| Total gas sales volume | **6 025** | 6 183 | 6 742 |
| T-service | **3 053** | 2 574 | 1 551 |
| Total distribution volume | **9 078** | 8 757 | 8 293 |
| Average gas use per customer ($m^3$)** | | | |
| Residential | **3 142** | 3 025 | 3 006 |
| Commercial | **22 841** | 21 839 | 22 665 |
| Degree day deficiency (celsius)*** | **4 151** | 3 991 | 4 050 |
| **Storage and Transmission Operation ($10^6m^3$)** | | | |
| Gas delivered for other utilities under transportation and storage contracts | **18 414** | 19 659 | 16 753 |
| Contracted peak storage capacity | **1 568** | 1 559 | 1 553 |
| Contracted peak daily transportation capacity | **93** | 90 | 89 |
| Gas into storage | **4 146** | 3 569 | 3 872 |
| Gas out of storage | **3 736** | 4 623 | 3 545 |
| Maximum day send out | | | |
| From storage | **52** | 50 | 54 |
| From total system | **130** | 136 | 131 |
| **Gas Supply ($10^6m^3$)** | | | |
| Source | | | |
| Firm supplies | **2 028** | 2 278 | 2 992 |
| Direct purchase | **3 069** | 3 174 | 3 358 |
| Ontario suppliers | **31** | 182 | 188 |
| Other supplies | **1 283** | 54 | 506 |
| Total | **6 411** | 5 688 | 7 044 |
| **System Facilities** | | | |
| Kilometres of pipelines | | | |
| Gathering and storage | **164** | 164 | 165 |
| Transmission | **3 271** | 3 223 | 3 188 |
| Distribution | **20 450** | 19 518 | 19 010 |
| Total | **23 885** | 22 905 | 22 363 |
| Compressor stations (kilowatts) | **270 315** | 271 505 | 271 505 |
| Working storage capacity ($10^6m^3$) | **3 544** | 3 544 | 3 534 |

* $10^6m^3$ (million cubic metres)

** $m^3$ (cubic metres)

| 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 |
|---|---|---|---|---|---|---|
| *Year Ended March 31* | | | | | | |
| 639,248 | 613,425 | 587,348 | 564,809 | 546,359 | 530,337 | 510,854 |
| 66,686 | 64,952 | 63,065 | 61,557 | 60,858 | 59,144 | 56,895 |
| 6,090 | 6,265 | 6,133 | 6,166 | 6,298 | 6,347 | 6,237 |
| 8 | 8 | 8 | 9 | 7 | 7 | 6 |
| 712,032 | 684,650 | 656,554 | 632,541 | 613,522 | 595,835 | 573,992 |
| 1 765 | 1 950 | 1 818 | 1 655 | 1 606 | 1 658 | 1 574 |
| 1 354 | 1 525 | 1 423 | 1 332 | 1 370 | 1 422 | 1 363 |
| 2 990 | 3 410 | 3 873 | 3 763 | 3 721 | 3 976 | 3 826 |
| 273 | 289 | 273 | 259 | 256 | 268 | 264 |
| 6 382 | 7 174 | 7 387 | 7 009 | 6 953 | 7 324 | 7 027 |
| 1 760 | 1 194 | 844 | 792 | 732 | 910 | 998 |
| 8 142 | 8 368 | 8 231 | 7 801 | 7 685 | 8 234 | 8 025 |
| 2 822 | 3 252 | 3 163 | 2 989 | 2 990 | 3 191 | 3 146 |
| 20 797 | 24 044 | 23 159 | 21 994 | 23 091 | 24 852 | 24 732 |
| 3 682 | 4 226 | 4 082 | 3 637 | 3 595 | 3 859 | 3 795 |
| 16 820 | 16 729 | 14 984 | 13 382 | 8 993 | 7 714 | 6 663 |
| 1 553 | 1 785 | 1 661 | 1 379 | 1 385 | 1 379 | 1 401 |
| 89 | 85 | 84 | 83 | 72 | 65 | 60 |
| 3 876 | 3 673 | 3 555 | 2 907 | 3 181 | 3 467 | 3 161 |
| 3 596 | 3 794 | 3 551 | 3 515 | 2 934 | 3 138 | 3 090 |
| 50 | 54 | 42 | 44 | 37 | 42 | 36 |
| 136 | 131 | 118 | 113 | 100 | 90 | 90 |
| 2 956 | 2 696 | 2 485 | 2 206 | 3 200 | 3 636 | 3 791 |
| 3 528 | 3 597 | 4 601 | 4 156 | 3 205 | 2 827 | 2 183 |
| 205 | 172 | 158 | 135 | 129 | 155 | 153 |
| 320 | 570 | 324 | 334 | 548 | 1 221 | 986 |
| 7 009 | 7 035 | 7 568 | 6 831 | 7 082 | 7 839 | 7 113 |
| 165 | 165 | 177 | 256 | 279 | 282 | 288 |
| 3 199 | 3 183 | 3 166 | 3 185 | 3 140 | 3 108 | 3 047 |
| 19 199 | 18 722 | 18 086 | 17 733 | 17 332 | 16 889 | 16 393 |
| 22 563 | 22 070 | 21 429 | 21 174 | 20 751 | 20 279 | 19 728 |
| 271 505 | 273 445 | 273 070 | 245 205 | 242 880 | 159 831 | 159 441 |
| 3 516 | 3 568 | 3 497 | 3 307 | 3 291 | 3 161 | 2 968 |

*** Normal degree day deficiency is 3 994 (365 day year) 4 018 (366 day year)

# Corporate Directory

## Union Gas Limited Directors

**Michael E. J. Phelps** [2,3]
Chairman of the Board
Chairman and Chief Executive Officer
Westcoast Energy Inc.

**James R. Anderson**
Executive Vice President and Chief Operating Officer
Union Gas Limited and
Centra Gas Ontario Inc.

**John Bergsma** [2,3,5]
President and Chief Executive Officer
Union Gas Limited and
Centra Gas Ontario Inc.

**Maurice J. Closs** [1,3,4]
Corporate Director

**Adrian B. Ryans** [1,4,5]
Professor, Business Administration
University of Western Ontario

**E. B. (Betty) Sims** [4,5]
President and General Manager
Chicopee Manufacturing Limited

**David G. Unruh** [5]
Senior Vice President,
Law and Corporate Secretary
Westcoast Energy Inc.

**Arthur H. Willms**
President and Chief Operating Officer
Westcoast Energy Inc.

**Graham M. Wilson** [1,2]
Executive Vice President and Chief Financial Officer
Westcoast Energy Inc.

## Centra Gas Ontario Inc. Directors

**Michael E. J. Phelps**
Chairman of the Board
Chairman and Chief Executive Officer
Westcoast Energy Inc.

**John Bergsma** [5]
President and Chief Executive Officer
Union Gas Limited and
Centra Gas Ontario Inc.

**Wayne M. Bingham** [1]
Vice President, Finance and Comptroller
Westcoast Energy Inc.

**Preston R. Cook** [1,4,5]
Consultant
Thunder Bay, Ontario

**Murray W. Cooper** [1,4,5]
Corporate Director
New Liskeard, Ontario

**Kenneth E. Rekrutiak**
Senior Vice President and
Chief Administrative Officer
Westcoast Energy Inc.

Committees of the Board
(1) Audit
(2) Executive
(3) Human Resources
(4) Independent
(5) Corporate Governance

## Officers-Union Gas Limited and Centra Gas Ontario Inc.

**Michael E. J. Phelps**
Chairman of the Board

**John Bergsma**
President and Chief Executive Officer

**James R. Anderson**
Executive Vice President and Chief Operating Officer

**Michael F. Bermon**
Senior Vice President, Finance and Regulatory Affairs

**Wayne M. Bingham**
Treasurer

**Bohdan Bodnar**
Vice President, Human Resources

**James B. Bracken**
Vice President, Marketing-Storage and Transportation

**Anthony Haines**
Vice President, Distribution Strategic Development

**Donald S. Heath**
Vice President, Retail Energy Solutions

**George R. Laidlaw**
Corporate Secretary

**Robert W. Little**
Vice President, Engineering and Gas Supply Operations

**John W. Wellard**
Vice President, Operations, Ontario

**Janet P. Woodruff**
Controller

## Corporate Information

Transfer Agent and Registrar:
The R-M Trust Company

Stock Exchange listings and symbols:
Preference shares: Class A – 5 1/2% (UNG.PR.C),
Class A – 6% (UNG.PR.D),
The Toronto Stock Exchange;

Class B - 6.74% (UNG.PR.B),
The Toronto Stock Exchange,
The Montreal Exchange

Registered Office - Union Gas:
50 Keil Drive North, Chatham, Ontario
N7M 5M1

## Corporate Information

Transfer Agent and Registrar:
Montreal Trust

Stock Exchange listings and symbols:
First preferred shares:
$2.60 First series (CGE.PR.A),
$2.70 Second series (CGE.PR.B),
The Toronto Stock Exchange

Second preferred shares:
Series A - 7.85% (CGE.PR.C)
The Toronto Stock Exchange,
The Montreal Exchange

Registered Office - Centra Gas:
200 Yorkland Boulevard
North York, Ontario M2J 5C6

## Officers-Union Gas Limited

**Lawrence W. Fedchun**
Assistant Secretary

**Ross S. Valdis**
Assistant Secretary

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Westcoast Energy Companies