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1984 ANNUAL REPORT



NORTHWESTERN UTILITIES LIMITED

APR 9 1985
MILL UNIVERSITY

Report to Shareholders

Northwestern Utilities Limited achieved a customer growth rate of 3.3% in 1984 with 10,219 customers added. This number includes 5,586 new customers added when Northwestern purchased all shares of The Lloydminster Gas Company Limited. Lloydminster Gas was subsequently amalgamated into Northwestern. Lloydminster Gas provided service to customers in the City of Lloydminster and the communities of Kitscoty and Blackfoot as well as rural customers in Alberta and Saskatchewan. At year-end Northwestern was serving 316,412 customers in 179 communities.

As the adverse economic environment continued to affect Northwestern's service territory, new operational objectives were introduced and restraint measures affecting expenditures were tightened. During 1984, Northwestern reorganized its operating and engineering functions to improve the effectiveness of its resources. Through these actions Northwestern was able to achieve cost savings and improve productivity. Although customer growth continued during the year, the number of employees decreased from 1,350 to 1,299.

Earnings attributable to common shares were \$19.6 million (\$6.76 per common share) compared to \$15.6 million (\$5.37 per common share) in 1983. The 1984 earnings were favourably affected in the amount of \$5.0 million by lower natural gas costs, principally due to adjustments made by the Provincial Government of production gas cost allowances, and by the gain realized from the sale of non-utility assets. Historically, after taking into consideration the effects of weather and rate changes, Northwestern has achieved earnings growth consistent with the rate of asset growth and changes in the costs of capital.

Effective February 1, 1984, the Public Utilities Board of Alberta approved a reduction in rates. In spite of an increase in the cost of natural gas supply, lower rates were made possible by increased shielding through the Alberta Natural Gas Price Protection Plan and reduction of the Natural Gas and Gas Liquids Tax by the Federal Government.

In May 1984, Northwestern filed an application with the Public Utilities Board to recover projected shortfalls in revenue for 1984 and 1985. The application for interim refundable rates to be effective June 1, 1984 was subsequently denied. Upon reviewing Northwestern's complete application in October, the Board approved an interim refundable rate increase, effective November 1, 1984. The decision allows Northwestern to collect \$10.0 million of its 1984 revenue shortfall during the period November 1, 1984 to June 30, 1985 and \$25.0 million for 1985 in that year. Approximately \$5.0 million of the \$10.0 million allowed was recorded in 1984. Northwestern had projected revenue shortfalls of \$23.3 million in 1984 and \$42.5 million in 1985. A final decision on the application is expected during 1985.

The British Columbia Utilities Commission acted expeditiously to change the rates of Northland Utilities (B.C.) Limited on February 1, 1984 and August 1, 1984. In February, rates were reduced as the Natural Gas and Gas Liquids Tax was reduced, partially offset by an increase in gas costs. Rates were increased in August due to an increase in the wholesale cost of gas in British Columbia.

The combined total of natural gas sold and transported was 303.4 petajoules (PJ), up from 277.8 PJ in 1983. Northwestern transports gas within the Province for exporting companies for delivery to the NOVA system and for industrial and other customers who have contracted for their gas supplies directly with brokers or producers. Sales and transportation for industrial customers increased by 16.8 PJ resulting mainly from an increase of 27.5 PJ for petrochemical and refinery customers offset by a 10.0 PJ reduction in demand for gas-fired power generation. Transportation of natural gas for exporting companies increased by 5.3 PJ. In addition, sales to residential and commercial customers increased by 3.5 PJ. In terms of degree days — a measure of space heating requirements — 1984 was comparable to 1983 as both years were 4% warmer than normal. The degree days experienced in 1984 were 5,349 compared to 5,362 in 1983. An increase in sales resulting from growth in customers in the residential and commercial market sectors was largely offset by a decline in sales per customer due to increased energy conservation.

Consolidated revenues for 1984 were \$455.4 million, \$31.6 million lower than in 1983, attributable to reductions to the Federal Natural Gas and Gas Liquids Tax and lower sales to power plants and other industrial customers.

In addition, the substitution of transportation service for sales to industrial customers resulted in lower revenue. Total operating expenses, which include the cost of natural gas supply, operations, maintenance, taxes other than income taxes, income taxes and depreciation, amounted to \$415.3 million down \$42.1 million from 1983.

Natural gas supply costs decreased by \$5.2 million to \$262.4 million, net of rebates, as a result of reduced sales. Rebates of \$51.1 million received from the Alberta Government under the Natural Gas Rebates Act shielded eligible Alberta consumers from the full cost of natural gas purchased. Rebates totalled \$48.1 million in 1983.

Total taxes paid to all levels of government decreased \$46.5 million to \$72.4 million in 1984, and amounted to 15.9% of total revenue compared to 24.4% in 1983. Federal taxes resulting from the National Energy Program amounted to \$24.3 million, a decrease of \$55.3 million from 1983.

World oil prices remained relatively stable during 1984. Accordingly, to maintain the price differential between oil and natural gas at the Toronto gate, the Natural Gas and Gas Liquids Tax was reduced on February 1, 1984

coincident with the scheduled increase in the Alberta border price. Northwestern continues to pay the Federal Canadian Ownership Tax of 14¢ per gigajoule (GJ). The Petroleum and Natural Gas Revenue Tax on net production revenue remained at 12% during 1984.

Property and franchise taxes paid to municipalities were \$26.6 million of which \$18.1 million was paid to the City of Edmonton. Provincial mineral taxes decreased from \$1.6 million to \$1.1 million in 1984 due to reduced production from Northwestern's owned reserves.

Northwestern's capital additions to provide for customer growth and to meet the needs of its existing customers were \$52.1 million. The capital program was partially financed by an issue of long-term debt in the amount of \$44.0 million. Net property, plant and equipment required to serve customers increased to \$458.5 million at year-end. During 1984, the Public Utilities Board approved the sale of certain non-utility oil properties to an affiliated company.

During 1984, Northwestern commissioned two of the five salt caverns under development near Fort Saskatchewan in the County of Strathcona. These caverns and related gas handling facilities are available to meet customers' peak demand requirements. The project is the most cost effective method of meeting current peaking requirements. The total cost of the first five caverns is estimated at \$36.2 million.

Construction was completed on the \$3.2 million transmission line to loop the Esso lateral in 1984. This line serves the Shell Scotford refinery, Shell styrene plant and connects the existing Esso chemical lateral to the new salt cavern facilities.

In the new coal mining community of Tumbler Ridge served by Northland Utilities (B.C.) Limited, 659 new customers were added and by year-end 1,206 customers in the community were served with natural gas. Gas processing and transmission facilities required to serve Tumbler Ridge were commissioned in 1984.

During 1985, Northwestern will continue to seek opportunities to profit from growth within its service territory. Although only moderate growth is expected in the near term, Northwestern is well positioned to participate in the benefits from construction of energy related projects proposed for the areas of Cold Lake, Lloydminster, Fort McMurray and Peace River.

Staff covered under agreements with the Employee Association received no pay increases during 1984. New two-year agreements were signed with the Association

early in 1985 providing the equivalent of a 3% pay raise for permanent employees in 1985 and provision to negotiate salaries in the second year of the agreements.

The achievements of the past year were made possible through the diligent and cooperative efforts of Northwestern's employees. Northwestern gratefully acknowledges the dedication of its employees to the tradition of providing safe and dependable service to customers at reasonable cost.

E. W. King retired as President and Chief Executive Officer in June, 1984. The Board wishes to express its gratitude for his respected service and enthusiastic contributions as an officer since he became associated with Northwestern in 1969. Mr. King continues as a member of the Board. The Board also wishes to extend its appreciation to W. D. Grace, who resigned as a Vice-President and Director on March 1, 1985, and to A. Schieman, who served on the Board until April 18, 1984.

W. A. Elser, President and Chief Executive Officer, ATCOR Resources Limited, W. R. Horton, Executive Vice-President, Utilities, Canadian Utilities Limited and C. S. Richardson, Senior Vice-President, Finance, ATCO Ltd. were appointed Directors on April 18, 1984.

On June 1, 1984 R. D. Southern was appointed Chairman of the Board and Chief Executive Officer and W. R. Horton was appointed President and Chief Operating Officer of Northwestern.

On Behalf of the Board of Directors,



R. D. SOUTHERN
Chairman of the Board and
Chief Executive Officer



W. R. HORTON
President and
Chief Operating Officer

March 11, 1985

Highlights in Review

	<u>*1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1974</u>
STATISTICAL						
Customers at year-end	316,412	306,193	297,557	290,658	276,295	186,493
Natural gas sales — TJ†	147,257	163,949	193,815	224,316	231,944	164,680
Transportation of natural gas — TJ	156,147	113,831	67,722	41,394	37,091	13,556
Total sales and transportation — TJ	303,404	277,780	261,537	265,710	269,035	178,236
Kilometres of pipeline	16,952	16,326	15,818	15,163	14,474	9,162
Maximum daily demand — TJ	1,346	1,253	1,253	1,258	1,198	820
Communities served	179	175	171	161	161	153
Population served — thousands	1,035	998	988	948	906	727
Degree days — % normal	96	96	108	82	97	96
Owned gas reserves — PJ	***637	718	746	731	790	803
FINANCIAL						
(thousands of dollars except per share data)						
Revenue	455,388	487,037	517,715	458,619	341,105	53,081
Earnings attributable to common shares	19,601	15,581	21,295	13,062	10,391	**5,205
Earnings per common share	6.76	5.37	8.77	5.54	4.44	**2.65
Capital additions	52,081	80,169	81,646	48,402	45,075	16,159
Gross plant	580,160	532,000	453,417	373,254	325,515	153,621

* Includes operating results of The Lloydminster Gas Company Limited since June 1, 1984.

** Includes an Extraordinary Gain, net of tax of \$326,000 (\$0.18 per common share) on the sale of utility distribution facilities to the Town of High Prairie.

*** Reserves re-evaluated in 1984.

† The metric unit for measurement of energy is the joule (J) and its multiples. Large amounts of energy are reported in gigajoules (GJ), billions of joules; in terajoules (TJ), trillions of joules; and in petajoules (PJ) quadrillions of joules. One joule is equivalent to .00095 British Thermal Units.

To the Shareholders of
Northwestern Utilities Limited:

We have examined the consolidated balance sheet of Northwestern Utilities Limited as at December 31, 1984 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then

ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


Chartered Accountants

Edmonton, Canada
February 1, 1985

Consolidated Statement of Earnings and Retained Earnings

	Note	Year ended December 31	
		1984	1983
		(Thousands)	
Revenues		\$455,388	\$487,037
Operating Expenses			
Natural gas supply	1	262,351	267,646
Operation and maintenance		65,761	61,107
Taxes — other than income	2	51,962	107,317
Taxes — income	3	20,458	11,601
Depreciation		14,792	9,763
		<u>415,324</u>	<u>457,434</u>
		40,064	29,603
Allowance for Funds Used During Construction		6,072	8,630
Dividend Income from Affiliate		229	184
Other Income	4	<u>2,989</u>	<u>2,208</u>
		49,354	40,625
Interest on Loans from Parent Company		16,509	13,440
Interest Expense		2,162	2,054
Dividends on Preferred Shares	10	<u>11,082</u>	<u>9,550</u>
		<u>29,753</u>	<u>25,044</u>
Earnings Attributable to Common Shares		19,601	15,581
Retained Earnings at Beginning of Year		<u>67,042</u>	<u>61,962</u>
		86,643	77,543
Deduct			
Dividends on common shares		<u>10,355</u>	<u>10,501</u>
Retained Earnings at End of Year		<u>\$ 76,288</u>	<u>\$ 67,042</u>
Earnings per Common Share		\$ 6.76	\$ 5.37

Consolidated Balance Sheet

	Note	December 31	
		1984	1983
		(Thousands)	
ASSETS			
Current Assets			
Accounts receivable	5	\$ 69,415	\$ 72,210
Owing by parent and affiliated companies		14,280	109
Materials and supplies		3,951	5,047
Natural gas stored		2,124	
Income tax recoverable			1,137
Prepaid expenses		1,703	678
		<u>91,473</u>	<u>79,181</u>
Investment in Affiliated Company — at cost			2,158
Property, Plant and Equipment	6	458,454	425,000
Deferred Expenses	7	18,855	20,384
		<u>\$568,782</u>	<u>\$526,723</u>
LIABILITIES AND CAPITALIZATION			
Current Liabilities			
Due to bank		\$ 9,836	\$ 7,354
Accounts payable and accrued liabilities		61,473	72,666
Income and other taxes		17,885	13,924
Dividends payable		2,165	2,196
Owing to parent and affiliated companies		6,782	11,626
Long-term debt — current maturities		5,730	3,050
		<u>103,871</u>	<u>110,816</u>
Deferred Credits			
Contributions for extensions to plant		56,328	53,963
Deferred income taxes		279	2,437
Other	8	33,249	30,583
		<u>89,856</u>	<u>86,983</u>
Capitalization			
Long-term debt	9	152,748	115,280
Preferred shares	10	104,343	104,926
Common shareholders' equity	11	117,964	108,718
		<u>375,055</u>	<u>328,924</u>
		<u>\$568,782</u>	<u>\$526,723</u>

Approved by the Board:



B. M. Dafoe, Director



R. G. Lock, Director

Consolidated Statement of Changes in Financial Position

	Year ended December 31	
	1984	1983
	(Thousands)	
Sources of Funds		
Internal sources		
Earnings attributable to common shares	\$19,601	\$15,581
Depreciation	14,792	9,763
Other	(423)	1,754
Allowance for funds used during construction — shareholders' equity	(2,383)	(3,349)
Provided by operations	31,587	23,749
Deduct dividends on common shares	10,355	10,501
Provided internally	21,232	13,248
External sources		
Issue of long-term debt	44,000	
Issue of preferred shares	2,700	22,000
Investment in affiliated company — held for redemption	2,158	
Contributions for extensions to plant	3,475	7,418
Disposition of property, plant and equipment	6,499	78
Other	635	5,164
Provided externally	59,467	34,660
	<u>\$80,699</u>	<u>\$47,908</u>
Disposition of Funds		
Additions to property, plant and equipment	\$52,081	\$80,169
Decrease in deferred expenses for natural gas exploration — net	(1,378)	(7,659)
Allowance for funds used during construction — shareholders' equity	(2,383)	(3,349)
	48,320	69,161
Acquisition of The Lloydminster Gas Company Limited (Note 12)	1,548	
Reduction in long-term debt	6,532	3,564
Preferred shares redeemed	2,643	
Preferred shares purchased for cancellation	640	485
Increase in other deferred expenses	1,779	2,804
Increase (decrease) in working capital	19,237	(28,106)
	<u>\$80,699</u>	<u>\$47,908</u>

Summary of Significant Accounting Policies

December 31, 1984

Consolidated Financial Statements

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and conform in all material respects with the International Accounting Standards adopted by the International Accounting Standards Committee.

The consolidated financial statements include the accounts of the Company and its subsidiary companies Northland Utilities (B.C.) Limited and The Lloydminster Gas Company Limited.

The preferred dividends are recorded in the same manner as interest expense in the consolidated statement of earnings and retained earnings. The capitalization segment of the consolidated balance sheet and the consolidated statement of earnings and retained earnings reflect the financing and cost of capital policies of the Company as a regulated utility in Alberta.

Regulation

The Company is regulated primarily by the Public Utilities Board of Alberta and the Energy Resources Conservation Board of Alberta, which administer acts and regulations covering such matters as rates, financing, accounting, construction, operation and service area. The Public Utilities Board may award interim rates, subject to final determination. Decisions made by these authorities which impact on operating results or accounting policies are reflected in the consolidated financial statements from the date of decision.

Revenue Recognition

Revenues are recognized on the basis of cycle billings and are recorded when customers are billed.

Property, Plant and Equipment

The Company includes in the cost of additions, an allowance for funds used during construction, at a rate approved by the Public Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply the customers' specific requirements. These contributions are amortized on the same basis as, and offset the depreciation charge of, the assets to which they relate.

On retirement of depreciable assets, the accumulated depreciation is charged with the cost of the retired unit less net salvage. Gains and losses on extraordinary

retirements are recognized in earnings as extraordinary items.

Included in the Company's Property, Plant and Equipment are gas wells that have been drilled, tested and capped and remain unconnected to the utility system. The Public Utilities Board has directed that the costs of such wells, including an allowance for funds, be accounted for as plant held for future use. If, after a period of five years, these wells have not been added to the utility system, the costs are written off against funds received under The Natural Gas Price Administration Act. If at a future date a gas well is placed in service or is required to be used, the amount written off will be reinstated in Property, Plant and Equipment.

Depreciation is provided on assets on a straight-line basis over their estimated useful lives. The major assets are depreciated using rates approved by the Public Utilities Board varying from 1.8% to 5.8%. All resource properties are depleted on a unit of production basis. Dedicated and shared facilities are depreciated over the life of the contract.

Leases

The Public Utilities Board requires that application be made for the capitalization of leases in the determination of customer rates. Prior to such approval, leases that would otherwise be treated as capital leases are accounted for as operating leases.

Inventories

Inventories are valued at the lower of cost or net realizable value. Costs for materials and supplies are determined on an average basis, whereas the cost of natural gas stored is determined on a first in, first out basis.

Deferred Expenses

The Company includes in gas exploration all costs, including an allowance for funds, related to the development of gas reserves. These costs are recorded net of income taxes. Costs related to a successful venture are capitalized as plant and equipment. The costs of an unsuccessful venture are charged against amounts received under The Natural Gas Price Administration Act included in other deferred credits.

Expenses of issue of long-term debt are amortized over the weighted average life of the debt and expenses of issue of preferred shares are amortized over the expected life of the issue.

Other deferred expenses are amortized over various periods not exceeding 5 years.

Deferred Credits

As an Alberta gas producer, the Company receives a pro rata share of monies available under The Natural Gas Price Administration Act. The amounts received, net of royalties and income taxes, are deferred and, subject to Public Utilities Board approval, are reduced by the costs of unsuccessful natural gas exploration.

Taxes — Income

Income taxes are provided by the Company, using the normalized — all taxes paid method approved by the Public Utilities Board. This method eliminates differences between accounting earnings and taxable income which cause deferral of income taxes. The major portion of income taxes paid are refunded for rebate to customers under the Public Utilities Income Tax Transfer Act and the Utility Companies Income Tax Rebates Act.

Prior to adoption of this method, the Company provided for income taxes on the flow-through method which caused a deferral of income taxes. As the income tax component of rates is designed to recover only income taxes currently payable, no provision has been made in the consolidated financial statements for this deferral of income taxes. The customer in future years will bear an additional charge in the event of a drawdown of these unbooked deferred income taxes. A significant drawdown is not expected in the foreseeable future.

Natural Gas Supply

The Province of Alberta enacted the Natural Gas Rebates Act effective January 1, 1974 to shelter the majority of Alberta natural gas customers from the full impact of significant price increases for natural gas. Under the provisions of the Act, the Company incurs a lower effective cost for natural gas in that it is reimbursed for the portion of the price paid to its suppliers which exceeds the support price.

Notes to Consolidated Financial Statements

December 31, 1984

1. Natural gas supply

The natural gas supply expense is net of a rebate from the Province of Alberta of \$51,106,000 (1983 — \$48,126,000).

2. Taxes — other than income

	Year ended December 31	
	1984	1983
	(Thousands)	
Federal natural gas and gas liquids taxes	\$ 5,249	\$ 53,129
Federal petroleum and natural gas revenue taxes	3,922	5,570
Federal Canadian ownership taxes	15,105	20,880
	24,276	79,579
Franchise taxes — City of Edmonton	17,785	18,045
Franchise taxes — other	5,577	5,269
Property taxes	3,242	2,870
Provincial mineral taxes	1,082	1,554
	\$51,962	\$107,317

Since February 1, 1984 no natural gas and gas liquids taxes have been levied.

3. Taxes — income

A deferred income tax credit of \$2,278,000 (1983 — an income tax expense of \$1,310,000) has been provided for timing differences in the Company. Under the normalized - all taxes paid method of accounting for income taxes the expected rate of income tax on accounting earnings would equal the statutory rate in the absence of permanent differences. The following table describes the permanent differences and their effect on the statutory rate:

	Year ended December 31	
	1984	1983
Statutory income tax rate	47.0%	47.9%
Capital cost allowance and resource expenditures claimed in excess of depreciation		(2.3)
Allowance for funds used during construction	(3.5)	(7.9)
Crown royalties and other non-deductible Crown payments	9.5	23.3
Earned depletion and resource allowance	(9.8)	(18.9)
Alberta royalty tax credit	(1.9)	(7.2)
Other	(1.3)	(3.3)
Actual income tax rate	40.0%	31.6%

A provision for certain deferred income taxes is not included in the consolidated financial statements. Unbooked deferred income taxes increased during the year by \$343,000 (1983 — \$1,134,000) to an accumulated amount of \$35,865,000.

4. Other income

	Year ended December 31	
	1984	1983
	(Thousands)	
Interest	\$2,538	\$2,438
Other	451	(230)
	<u>\$2,989</u>	<u>\$2,208</u>

5. Accounts receivable

	December 31	
	1984	1983
	(Thousands)	
Customer accounts	\$51,655	\$51,807
Receivable from the Province of Alberta	14,942	17,330
Other receivables and deposits	2,818	3,073
	<u>\$69,415</u>	<u>\$72,210</u>

6. Property, plant and equipment

	December 31			
	1984		1983	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
	(Thousands)		(Thousands)	
Plant and equipment	\$569,264	\$121,706	\$508,784	\$107,000
Construction work in progress	5,718		18,148	
Land	5,178		5,068	
	<u>\$580,160</u>	<u>\$121,706</u>	<u>\$532,000</u>	<u>\$107,000</u>
Net property, plant and equipment		<u>\$458,454</u>		<u>\$425,000</u>

Plant held for future use in the amount of \$27,099,000 (1983 — \$20,226,000) is included in plant and equipment.

7. Deferred expenses

	December 31	
	1984	1983
	(Thousands)	
Gas exploration — net	\$15,740	\$16,999
Unamortized debt and preferred share issue expenses	2,729	2,852
Other	386	533
	<u>\$18,855</u>	<u>\$20,384</u>

8. Other deferred credits

	December 31	
	1984	1983
	(Thousands)	
Funds received under The Natural Gas Price Administration Act — net	\$30,429	\$27,936
Other	2,820	2,647
	<u>\$33,249</u>	<u>\$30,583</u>

During the year there were no unsuccessful gas exploration costs charged against monies received under The Natural Gas Price Administration Act (1983 — \$1,577,000, net of related income taxes).

9. Long-term debt

Long-term debt outstanding, net of current maturities, is as follows:

	December 31	
	1984	1983
	(Thousands)	
First mortgage sinking fund bonds 5% to 9% due to 1994	\$ 12,009	\$ 12,942
Sinking fund debentures 7 1/4% due 1985		2,070
Sinking fund debentures payable to parent company 8.57% to 17.50% due to 2002	140,739	100,268
	<u>\$152,748</u>	<u>\$115,280</u>

During 1984 the Company issued for cash \$44,000,000 of 13.10% Debentures 1984 Series.

Annual repayment of maturing issues and sinking fund requirements for each of the following years are:

	Maturing Issues	Sinking Fund		Total
		Requirements	Purchased in Advance	
		(Thousands)		
1985	\$ 2,070	\$4,183	\$(523)	\$ 5,730
1986		5,083	(393)	4,690
1987	20,000	5,083		25,083
1988	4,440	4,768		9,208
1989		4,768		4,768

10. Preferred shares

Authorized:

105,000 4% Cumulative Redeemable Preferred Shares; voting, non-participating.

An unlimited number of Series Second Preferred Shares, issuable in series, which have been designated as Cumulative Redeemable Second Preferred Shares.

Issued:

	December 31			
	1984		1983	
	Shares	Amount (Thousands)	Shares	Amount (Thousands)
Cumulative Redeemable Preferred Shares				
4%	105,000	\$ 10,500	105,000	\$ 10,500
Cumulative Redeemable Second Preferred Shares				
Non-retractable				
10¼% Series A			105,700	2,643
9.24% Series B	434,877	10,872	443,938	11,098
7.30% Series C	198,720	4,968	204,680	5,117
		26,340		29,358
Retractable				
10.12% Series E	463,441	11,586	463,441	11,586
14.00% Series F	1,199,240	29,981	1,199,280	29,982
14.50% Series G	480,000	12,000	480,000	12,000
8.74% Series I	869,462	21,736	880,000	22,000
8.375% Series J	108,000	2,700		
		78,003		75,568
		<u>\$104,343</u>		<u>\$104,926</u>

All of the Cumulative Redeemable Second Preferred Shares are held by the parent company, Canadian Utilities Limited.

During 1984 the Company redeemed the 10¼% Cumulative Redeemable Second Preferred Shares Series A. The redemption price was \$25.25 per share, plus \$0.45 of accrued dividends. The redemption was funded by a \$2,700,000 issue of Cumulative Redeemable Second Preferred Shares Series J.

Stated values, redemption premiums and dividends:

	Stated Value	1985 Redemption Premium	Dividends	
			Year ended December 31	
			1984	1983
			(Thousands)	
Cumulative Redeemable Preferred Shares				
4%	\$100	4%	\$ 420	\$ 420
Cumulative Redeemable Second Preferred Shares				
Non-retractable				
10¼% Series A	\$ 25		47	271
9.24% Series B	\$ 25	2%	1,016	1,045
7.30% Series C	\$ 25	2.4%	369	381
			1,852	2,117
Retractable				
10.12% Series E	\$ 25		1,173	1,174
14.00% Series F	\$ 25		4,197	4,198
14.50% Series G	\$ 25		1,740	1,740
8.74% Series I	\$ 25		1,913	321
8.375% Series J	\$ 25		207	
			9,230	7,433
			<u>\$11,082</u>	<u>\$9,550</u>

Redemption

The preferred shares of the Company are redeemable subject to premiums listed above plus accrued dividends. The Cumulative Redeemable Preferred Shares and the non-retractable Cumulative Redeemable Second Preferred Shares are redeemable at the option of the Company at any time. The retractable Cumulative Redeemable Second Preferred Shares will be subject to redemption at the option of the Company commencing at the dates specified and with an initial premium as stated below:

		<u>Redemption Premium</u>
Series E	March 1, 1986	4%
Series F	October 1, 1986	4%
Series G	May 1, 1987	4%
Series I	November 1, 1988	4%
Series J	January 31, 1992	Nil

Purchase obligations

The Company's parent company, Canadian Utilities Limited, is required in each year to make all reasonable efforts to purchase for cancellation a number of shares of each series of Cumulative Redeemable Second Preferred Shares issued by it at a price not exceeding \$25 per share plus costs of purchase. If after all reasonable efforts the parent company is unable to do so, the obligation to purchase shares in such year is extinguished. The Company's requirement to purchase will be limited to its proportionate share of the corresponding issue that the parent company has been able to acquire.

	<u>1984 Share Purchase Obligations</u>	<u>Purchased in 1984 Shares</u>	<u>Amount</u> (Thousands)
Series B	15,000	9,061	\$227
Series C	7,200	5,960	149
Series E	9,600		
Series F	47,993	40	1
Series G	19,200		
Series I	26,400	10,538	263
			<u>\$640</u>

Retraction privileges

Certain series of the Cumulative Redeemable Second Preferred Shares have retraction privileges on specified dates at the option of the holder at the stated value plus accrued dividends. The series and retraction dates are shown below:

Series E	March 1, 1988
Series F	September 29, 1989
Series G	May 1, 1987
Series I	November 1, 1991
Series J	January 31, 1992

11. Common shareholders' equity

	<u>December 31</u>	
	<u>1984</u>	<u>1983</u>
	(Thousands)	
Common shares	\$ 41,676	\$ 41,676
Retained earnings	76,288	67,042
	<u>\$117,964</u>	<u>\$108,718</u>

Common shares

Authorized: An unlimited number of shares without nominal or par value.

Issued: 2,900,528 shares.

Retained earnings

The bond and debenture indentures place certain limitations on the Company which include restrictions on the payment of dividends on common shares. Consolidated retained earnings in the amount of \$21,544,000 was free from such restrictions.

12. Acquisition

During 1984 all of the shares of The Lloydminster Gas Company Limited were acquired for cash in the amount of \$1,548,000. Effective June 1, 1984 the results of operations are included in the consolidated financial statements. On January 1, 1985 The Lloydminster Gas Company Limited was amalgamated with the Company.

13. Commitments

Minimum non-capitalized lease payments, which extend over periods not exceeding ten years, are \$1,534,000, \$1,300,000, \$1,068,000, \$834,000 and \$131,000 for the years 1985-1989, respectively.

The Company and its subsidiaries have a defined benefit pension plan covering substantially all employees. Pension costs for the year amounted to \$3,253,000 (1983 — \$3,743,000) including costs of unfunded liabilities of \$1,251,000 (1983 — \$1,337,000). Based on the most recent actuarial evaluation, December 31, 1983, the estimated unfunded liabilities at December 31, 1984 amount to approximately \$10,600,000 which will be funded over a period not exceeding 14 years.

The Company purchases natural gas from approximately 195 producers under approximately 390 purchase contracts. Substantially all of these contracts have provisions requiring payment by the Company when it is unable to nominate specified minimum annual quantities for delivery. The available market has exceeded the minimum contract supply quantities and the Company has not been required to make "take-or-pay" payments. The Company is not forecasting "take-or-pay" payments in 1985.

14. Amount held in trust

The amount held in trust for income tax rebates, which is not included in the consolidated financial statements, is \$2,972,000 (1983 — \$6,379,000).

15. Related party transactions

Certain costs of administration, systems development, financial management, and equipment and leasehold improvements are provided by the parent company, Canadian Utilities Limited. These costs are allocated to the Company on the basis of usage and on the basis of assets and employees. Total charges amounted to \$10,002,000 (1983 — \$7,558,000). The above charges and inter-company financing transactions are subject to review by the Public Utilities Board.

Transactions with affiliated companies include the purchase of natural gas for \$2,116,000 (1983 — \$3,010,000), revenue from the sale of natural gas of \$16,260,000 (1983 — \$18,208,000), revenue from transportation of natural gas of \$6,097,000 (1983 — \$3,999,000) and payments for engineering services of \$3,000 (1983 — \$176,000). During 1984 the Company sold oil properties to an affiliated company for \$6,392,000. Payments were made to ATCO Ltd., an affiliated company, for management fees of \$85,000 (1983 — \$175,000). The Company participates in oil and natural gas joint ventures. When the Company acts as operator it has, in some instances, contracted ATCO Ltd. subsidiaries for well drilling and servicing, equipment purchases and related services, the total amount being approximately \$487,000 (1983 — \$1,700,000). A portion of these expenditures is reimbursed by the other participants in the joint ventures. A subsidiary of ATCO Ltd. acted as a general contractor for the construction of a fleet repair shop and an operation warehouse complex. Fees of \$79,000 (1983 — \$159,000) charged by the subsidiary include the recovery of certain administrative costs. These transactions are considered to be in the normal course of business and at fair value.

16. Rate application

The Company received an interim rate decision effective October 1984. The application was for an additional \$23,000,000 of revenue in 1984. The Public Utilities Board approved interim rates which were estimated to allow the Company to recover \$10,000,000 in the period November 1, 1984 to June 30, 1985, of which approximately \$5,000,000 was recorded in 1984.

17. Financial statements

Certain of the 1983 figures have been reclassified to conform with the consolidated financial statement presentation adopted in 1984.

Management's Responsibility for Financial Reporting

The consolidated financial statements and other financial information relating to the Company contained in this annual report have been prepared by management, which is responsible for the integrity and objectivity of this information. The financial information contained elsewhere in this annual report is consistent with that in the financial statements. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles as applied to regulated utilities and conform in all material respects with International Accounting Standards. These consolidated financial statements necessarily include some amounts that are based on informed judgements and best estimates of management.

Management depends upon a system of internal

accounting controls to meet its responsibility for reliable and accurate reporting which includes periodic reviews by the internal audit function. Management modifies and improves its system of internal accounting controls in response to changes in business conditions. The Board of Directors oversees management's responsibilities for financial reporting.

Price Waterhouse, the Company's independent auditors, are engaged to express a professional opinion on the consolidated financial statements. The examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow the auditors to report on the fairness of the consolidated financial statements prepared by management.

TRANSFER AGENT AND REGISTRAR

Montreal/Toronto/
Edmonton/Calgary

Preferred Shares
Guaranty Trust Company of Canada

TRUSTEES AND REGISTRARS

Halifax/Montreal/Toronto/
Winnipeg/Regina/Edmonton/
Vancouver

Bonds
Montreal Trust Company

Montreal/Toronto/
Edmonton/Vancouver

Debentures
Canada Permanent Trust Company

AUDITORS

Price Waterhouse
2401 Toronto Dominion Tower
Edmonton Centre
Edmonton, Alberta T5J 2Z1

ANNUAL MEETING

The annual meeting of shareholders will be held in
Edmonton, Alberta on April 17, 1985

Board of Directors

J. E. Barrett, Calgary
Vice-President and General Manager
ATCO Metal/ATCO Components

B. M. Dafoe, Edmonton
Senior Vice-President
Northwestern Utilities Limited
and Canadian Western Natural Gas
Company Limited

W. A. Elser, Calgary
President and Chief Executive Officer
ATCOR Resources Limited

H. Hole, Edmonton
General Manager
Lockerbie and Hole Western Limited

W. R. Horton, Edmonton
Executive Vice-President, Utilities
Canadian Utilities Limited

E. W. King, Edmonton
Corporate Director

R. G. Lock, Edmonton
Vice-President and General Manager
Northwestern Utilities Limited

A. R. McBain, Edmonton
President, McBain Camera Ltd.

A. H. Mitchell, Edmonton
President, Mitchell & Associates Ltd.

C. S. Richardson, Calgary
Senior Vice-President, Finance
ATCO Ltd.

J. L. Schlosser, Edmonton
President, Tri-Jay Investments Ltd.

R. D. Southern, Calgary
Deputy Chairman of the Board
and Chief Executive Officer
ATCO Ltd.

J. D. Wood, Calgary
President and Chief Operating Officer
Canadian Utilities Limited

Officers

R. D. Southern
Chairman of the Board
and Chief Executive Officer

J. D. Wood
Deputy Chairman of the Board

W. R. Horton
President and Chief Operating Officer

B. M. Dafoe
Senior Vice-President

R. G. Lock
Vice-President and General Manager

W. L. Graburn
Vice-President, Gas Supply

D. B. Mitchell
Vice-President, Human Resources

A. M. Anderson
Secretary/Treasurer

H. R. Lewis
Controller

J. H. Cook
Assistant Secretary

C. K. Sheard
Assistant Secretary

D. P. Wood
Assistant Secretary



NORTHWESTERN UTILITIES LIMITED
A Subsidiary of Canadian Utilities Limited
An ATCO Company