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NORTHERN AND CENTRAL GAS CORPORATION LIMITED

ANNUAL REPORT

1975



HOWARD ROSS LIBRARY
OF MANAGEMENT
MAY 26 1977
MCGILL UNIVERSITY

Officers

Edmund C. Bovey	<i>Chairman of the Board</i>
Jean J. Leroux	<i>President</i>
D. Stewart McIntosh	<i>Senior Vice-President and General Manager, Ontario</i>
Austin P. Rathke	<i>Senior Vice-President, Manitoba</i>
Alfred E. Sharp	<i>Senior Vice-President, Quebec</i>
Lawrence W. Blaine	<i>Vice-President, Finance and Treasurer</i>
Leslie L. Hartford	<i>Vice-President, Marketing and Development</i>
Robert T. Rhodes	<i>Vice-President, Gas Supply and Rates</i>
Robert B. Snyder	<i>Vice-President, Operations</i>
William T. Kilbourne	<i>Secretary</i>
Olga Boychuk	<i>Assistant Secretary</i>
Peter F. Scully	<i>Assistant Secretary</i>
Ronald W. Wasenda	<i>Assistant Treasurer</i>
Alick S. G. Duguid	<i>Assistant Treasurer</i>

Board of Directors

*Edward G. Battle	<i>Toronto</i>
Edmund C. Bovey	<i>Toronto</i>
C. Spencer Clark, Ph.D.	<i>Seattle, Washington</i>
Preston R. Cook	<i>Thunder Bay</i>
*Frederick A. M. Huycke, Q.C.	<i>Toronto</i>
**George E. Knowles	<i>Kapuskasing</i>
*Jean J. Leroux	<i>Toronto</i>
**D. Stewart McIntosh	<i>Toronto</i>
**Donald McKelvie	<i>New Liskeard</i>
*Austin P. Rathke	<i>Winnipeg</i>
*Alfred E. Sharp	<i>Montreal</i>
*Executive Committee	
**Audit Committee	

Head Office

245 Yorkland Boulevard
Willowdale, Ontario
M2J 1R1



Financial Highlights

	<u>1975</u>	<u>1974</u>
Sales & other revenues\$m	316,934	240,135
Consolidated net income\$m	28,342	23,590
Net income applicable to common shares\$m	23,820	19,003
Common shares outstandingm	13,431	13,420
Earnings per share\$	1.77	1.42

Gas Distribution Operations

contribution to consolidated net
income by company—\$m

	<u>Greater Winnipeg Gas</u>		<u>Northern and Central Gas</u>		<u>Gaz Métropolitain and Gaz du Québec</u>	
	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>	<u>1975</u>	<u>1974</u>
Sales & other revenues	56,740	43,060	124,657	93,152	135,537	103,923
Costs & expenses	54,050	39,998	121,139	89,454	129,528	95,704
Net income	<u>2,690</u>	<u>3,062</u>	<u>3,518</u>	<u>3,698</u>	<u>6,009</u>	<u>8,219</u>



Report to Shareholders

Consolidated net income for 1975 was \$28,342,000 compared to \$23,590,000 for the year 1974 including an extraordinary gain of \$8,730,000 on the sale of non-utility investments and extraordinary charges of \$3,417,000 from discontinued operations.

Total revenues for 1975 were \$317 million, an increase of \$76.8 million, or 32% over the previous year. These increases resulted mainly from rate increases to recover the cost of gas from the company's suppliers.

Gas sales volumes were 233.5 Bcf. compared to 239.6 Bcf. in 1974, reflecting the general economic slowdown, much warmer weather, labour strikes in the resource industries and a growing awareness on the part of our customers for the need for conservation. At year end the number of customers were 412,879 compared to 409,902 for the previous year.

During 1975 regulatory authorities approved rate increases to cover higher operating and gas costs. Higher gas costs were a result of higher rates approved by the National Energy Board for our main supplier. These became effective on April 1 and November 1, 1975 and reflect increased field prices including federal and provincial royalties and taxes. It is of continuing concern to the Company that rapid increases impose severe hardship on customers and even in circumstances where costs may be passed through in finished product prices it could have a significant impact on the competitive position of an enterprise. The Company will continue to do what it can to influence the development of an equitable energy policy in Canada.

The Company presently has under contract in excess of 800,000 Mcf per day of natural gas distributed as follows:

Northern and Central Gas	334,800 Mcf per day
Gaz Métropolitain	256,700 Mcf per day
Greater Winnipeg Gas	209,000 Mcf per day

The Company's main supplier has offered to renew existing long-term contracts as they expire, at the present delivery rate subject to availability of gas supply. It is anticipated that substantial supplies of natural gas from frontier regions will become available to ensure a secure long-term supply. It is important however, that governmental and regulatory proceedings now under way at the Federal level be accelerated to assure proper timing in development of Arctic gas reserves for delivery. As a member of Canadian Arctic Gas Study Limited, the Company fully supports this project and will invest a further \$1.6 million in 1976 towards the cost of the present hearings and the construction of the pipeline.

Higher labour, materials and financing costs affected earnings for the year. Capital expenditures for the gas distribution companies totalled \$37 million. On March 1,

1975 the Company issued \$25 million 11¼% First Mortgage Bonds which was used to retire bank loans and short term notes. The Company has negotiated a further private placement of \$25 million First Mortgage Bonds to be drawn down on May 1, 1976.

Earnings from Canadian Industrial Gas & Oil Ltd. (CIGOL) and Coleman Collieries Limited were \$10,812,000 for the 10 months prior to the sale of these operations. The improvement in net income from the previous year is the result of higher wellhead prices for oil, gas and coal, together with the major acquisition of Great Plains Development Company of Canada, Ltd. by CIGOL early in the year.

On October 27, 1975, the Company sold its investments in CIGOL and Coleman Collieries. The sale and reorganization to form Norcen Energy Resources Limited was approved by the shareholders of the companies and was effected through an exchange of the shares of Northern and Central and CIGOL. Northern and Central Gas Corporation Limited is now a wholly-owned subsidiary of Norcen Energy Resources Limited, but continues to hold an 82% ownership of Gaz Métropolitain, inc. and 99% ownership of Greater Winnipeg Gas Company.

The Company supports and will comply with the Anti-Inflation Act introduced by the Federal Government on October 14, 1975. It is understood however, that all natural gas utilities will be obliged to satisfy the provincial regulatory authorities of compliance with the provisions of the Act in setting customer rates rather than deal directly with the Anti-Inflation Board.

Following the reorganization and the sale of its non-utility investments to Norcen Energy Resources Limited, a new Board of Directors was appointed. Mr. Edmund C. Bovey continues as Chairman of the Board. Mr. J. J. Leroux was appointed President. Two new directors were elected representing areas served by the Company, Mr. George E. Knowles of Kapuskasing and Mr. Preston R. Cook of Thunder Bay.

To the 2,079 employees of the Company and its subsidiaries we extend our sincere appreciation for their efforts during the past year in serving the public and their communities and in contributing to the continued well-being of the Company.

On behalf of the Board

EDMUND C. BOVEY
Chairman of the Board

JEAN J. LEROUX
President

March 25, 1976.

Accounting Policies

The principal accounting policies followed by Northern and Central Gas Corporation Limited (NCgas) and its subsidiaries are summarized here to facilitate a review of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries; all inter-company transactions have been eliminated. The principal subsidiaries involved and percentage ownership by NCgas are as follows:

Gaz Métropolitain, inc.82%
Greater Winnipeg Gas Company99%

The financial statements for the year ended December 31, 1974 have been restated to account for the Company's investment in non-utility subsidiaries on an equity basis. See Note 2 for further details.

The excess of acquisition costs of shares of gas utility subsidiaries over the underlying book values of their net assets at dates of acquisition have been reflected as "Intangible assets arising from acquisitions". In the opinion of the Company no diminution in value of this item has occurred and accordingly these assets are not being amortized.

Properties, plant and equipment

Depreciation is provided on the straight-line method at rates approved by the respective provincial regulatory authorities. The application of such rates has been equivalent to an annual composite rate of approximately 2.75%.

Deferred charges

Costs of issuing 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, not in excess of 20 years.

Income taxes

The Companies' rates and revenues, established for regulatory purposes, include recovery of only such income taxes as are currently payable on their utility operations. Accordingly, the Companies provide income taxes on this basis and do not provide for income taxes which may be payable in future years as a result of current differences in timing of deductions, principally in respect of depreciation and amortization, for financial reporting and income tax purposes. Such income taxes not provided and not recovered in revenues amounted, before applicable minority interests, to \$6,600,000 in 1975; \$8,500,000 in 1974 and \$62,500,000 in total to December 31, 1975.

Consolidated Statement of Income

Years ended December 31, 1975 and 1974

(thousands of dollars)

	<u>1975</u>	<u>1974</u> (Restated—note 2)
Sales and other revenues	\$316,934	<u>\$240,135</u>
Costs and expenses		
Gas purchases	203,099	132,816
Production, operations and maintenance	59,053	52,088
Depreciation (a)	12,204	12,074
Interest—long-term debt	25,004	23,092
—other	2,122	1,178
Income taxes	1,095	1,307
	<u>302,577</u>	<u>222,555</u>
Income before minority interests	14,357	<u>17,580</u>
Minority interests in subsidiaries		
Preference share dividends	726	726
Common share earnings	1,414	1,875
	<u>2,140</u>	<u>2,601</u>
Income from continuing operations	12,217	14,979
Income from discontinued operations (note 2)	10,812	<u>8,974</u>
Income before extraordinary items	23,029	23,953
Extraordinary items		
Gain on sale of non-utility subsidiaries (note 2)	8,730	
Discontinued operations		
Reduction of a subsidiary's income taxes resulting from application of prior years' losses, after minority interests	622	1,051
Write-down of a subsidiary's investment (net of deferred income taxes)	(4,039)	(1,414)
Consolidated net income	28,342	23,590
Dividends on preference shares	4,522	<u>4,587</u>
Net income applicable to common shares	<u>\$ 23,820</u>	<u>\$ 19,003</u>

Consolidated Statement of Retained Earnings

Years ended December 31, 1975 and 1974

(thousands of dollars)

	<u>1975</u>	<u>1974</u> (Restated—note 2)
Balance at beginning of year		
As previously reported	\$33,501	\$22,679
Adjustment to prior years' depreciation and income taxes of discontinued operations	839	839
As restated	34,340	23,518
Consolidated net income	28,342	23,590
	<u>62,682</u>	<u>47,108</u>
Dividends		
Preference shares	4,522	4,587
Common shares	9,129	8,051
Other	(64)	130
	<u>13,587</u>	<u>12,768</u>
Balance at end of year	<u>\$49,095</u>	<u>\$34,340</u>

Auditors' Report

To The Shareholders of
Northern and Central Gas Corporation Limited

We have examined the consolidated balance sheet of Northern and Central Gas Corporation Limited as at December 31, 1975 and December 31, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Companies as at December 31, 1975 and December 31, 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 6, 1976

Thorne Riddell & Co.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Years ended December 31, 1975 and 1974

(thousands of dollars)

	<u>1975</u>	<u>1974</u>
		(Restated—note 2)
Source of funds		
From operations—continuing	\$28,206	\$32,142
—dividends received from non-utility subsidiaries accounted for on the equity basis (note 2)	3,147	1,967
	<u>31,353</u>	<u>34,109</u>
Increase in demand bank credits		21,439
Issue of long-term debt	25,000	
Advances from parent company	31,700	
Repayment of advances by non-utility subsidiaries	1,310	1,071
Proceeds from litigation on Coleman Collieries	5,037	
Issue of common shares for cash	30	33
	<u>94,430</u>	<u>56,652</u>
Application of funds		
Expenditures on properties, plant and equipment, net	35,898	36,824
Reduction in demand bank credits	1,539	
Retirement of long-term debt	18,398	11,415
Dividends—common shares	9,129	8,051
—preference shares	4,522	4,587
—minority shareholders of subsidiaries	1,830	1,556
Redemption of preference shares	811	736
Deferred charges and other, net	1,684	(740)
	<u>73,811</u>	<u>62,429</u>
Increase (decrease) in funds	20,619	(5,777)
Funds (deficiency) at beginning of year	(829)	4,948
Funds (deficiency) at end of year	<u>\$19,790</u>	<u>\$ (829)</u>
Summary of funds (deficiency)		
Current assets	\$83,709	\$50,052
Current liabilities, less demand bank credits and advance from parent company (note 7)	63,919	50,881
	<u>\$19,790</u>	<u>\$ (829)</u>



Consolidated Balance Sheet

as at December 31, 1975 and 1974

(thousands of dollars)

Assets

	<u>1975</u>	<u>1974</u> (Restated—note 2)
Current assets		
Cash and deposits	\$ 2,370	\$ 2,145
Accounts receivable and unbilled gas	50,380	36,218
Accrued interest on demand note	1,122	
Inventories (note 3)	25,744	10,632
Prepayments, advances and deposits	4,093	1,057
Total current assets	<u>83,709</u>	<u>50,052</u>
Demand note from parent company (note 2)	82,960	
Investments , at cost less amounts written off (note 4)	8,987	8,029
Investment in non-utility subsidiaries , at equity (note 2)		76,292
Properties, plant and equipment (note 5) and (a)	422,092	398,402
Deferred charges , at amortized cost (note 6) and (a)	13,842	15,205
Intangible assets arising from acquisitions , at cost (a)	35,820	35,820
	<u>\$647,410</u>	<u>\$583,800</u>

(a) See "Accounting Policies".

Approved by the Board

Director

Director

Liabilities

	1975	1974
		(Restated—note 2)
Current liabilities		
Accounts payable	\$ 45,853	\$ 33,309
Accrued interest	6,456	5,884
Income and other taxes (a)	712	641
Current maturities on long-term debt	10,898	11,047
	<u>63,919</u>	<u>50,881</u>
Demand bank credits (note 7)	30,825	32,364
Advances from parent company	31,700	
Total current liabilities	126,444	83,245
Long-term debt (note 8)	294,300	287,698
Total liabilities	<u>420,744</u>	<u>370,943</u>
Minority interests in subsidiaries (note 9)	22,930	22,623

Shareholders' Equity

Capital stock (note 10)

Authorized			
548,347	First preference shares \$50 each par value, issuable in series		
1,589,175	Second preference shares \$25 each par value, issuable in series		
4,000,000	Junior preference shares \$25 each par value, issuable in series		
30,452,153	Common shares without par value		
Issued			
	First preference shares		
113,921	\$2.60 cumulative, first series (128,321 in 1974)	5,696	6,416
34,218	\$2.70 cumulative, second series	1,711	1,711
	Second preference shares		
4,618	\$1.06 cumulative, series A (7,203 in 1974)	115	180
1,221,332	\$1.50 cumulative convertible, series B (1,245,117 in 1974)	30,533	31,128
	Junior preference shares		
1,500,000	\$1.50 cumulative convertible, first series	37,500	37,500
13,430,681	Common shares (13,420,392 in 1974)	79,086	78,959
Retained earnings (note 11)		49,095	34,340
Total shareholders' equity		<u>203,736</u>	<u>190,234</u>
		<u>\$647,410</u>	<u>\$583,800</u>

Notes to Consolidated Financial Statements

Years ended December 31, 1975 and 1974

(Tabular amounts are in thousands of dollars)

1. Accounting policies The summary of the principal accounting policies presented elsewhere is an integral part of these financial statements.

2. Disposition of non-utility subsidiaries Pursuant to a plan of reorganization approved by the shareholders, a new parent company Norcen Energy Resources Limited (Norcen) was formed through an exchange of shares by the shareholders of the Company (other than holders of First Preference Shares) and the minority shareholders of its 61% owned subsidiary, Canadian Industrial Gas & Oil Ltd. (CIGOL). All of the Second Preference Shares, Junior Preference Shares and Common Shares of the Company are now owned by Norcen.

As part of the reorganization, the Company sold, on October 27, 1975, its investment in non-utility subsidiaries (CIGOL and Coleman Collieries Limited) at their fair market value in consideration for a demand subordinated note of \$82,960,000 bearing interest at 7.6% per annum. Norcen has agreed, commencing in 1980, to make minimum annual repayments of \$4,128,000.

The consolidated financial statements for 1975 have been prepared in a manner which reflects the investment in the non-utility subsidiaries on an equity basis and the 1974 comparative figures have been restated to reflect this investment on this same basis. The Company's share of their earnings for 1974 and for 1975 to the date of disposition has been reflected in the statement of income as earnings from discontinued operations.

Summarized operating results are as follows:

	January 1, 1975 to October 27, 1975		Year ended December 31 1974	
	CIGOL	Coleman	CIGOL	Coleman
Sales and other revenue	\$100,301	\$30,440	\$80,876	\$24,090
Production, operations and maintenance	45,686	23,114	43,141	16,806
Depreciation and depletion	14,918	3,677	10,041	3,597
Interest	9,401	1,554	3,284	1,072
Income taxes	13,824	1,007	11,344	1,284
	<u>83,829</u>	<u>29,352</u>	<u>67,810</u>	<u>22,759</u>
Income before minority interests and extraordinary items	16,472	1,088	13,066	1,331
Minority interests	6,493	255	5,090	333
Income from discontinued operations before extraordinary items	<u>\$ 9,979</u>	<u>\$ 833</u>	<u>\$ 7,976</u>	<u>\$ 998</u>
3. Inventories			<u>1975</u>	<u>1974</u>
Materials and supplies, at lower of cost and replacement cost			\$ 5,048	\$ 4,133
Gas in storage, at cost			8,444	2,120
Coking coal and coke, at lower of cost and net realizable value			<u>12,252</u>	<u>4,379</u>
			<u>\$25,744</u>	<u>\$10,632</u>
4. Investments			<u>1975</u>	<u>1974</u>
Mortgages receivable			\$ 3,725	\$ 4,461
Canadian Arctic Gas Study Limited—1/15 participation			4,235	2,563
Shares of Panarctic Oils Ltd.			650	650
Other			<u>377</u>	<u>355</u>
			<u>\$ 8,987</u>	<u>\$ 8,029</u>

5. Properties, plant and equipment

	1975			1974
	Cost	Accumulated depreciation	Net	Net
Gas storage	\$ 30,281	2,906	\$ 27,375	\$ 21,846
Gas distribution	386,422	52,211	334,211	312,943
Rental equipment	42,736	14,249	28,487	28,947
General and other plant	<u>45,607</u>	<u>13,588</u>	<u>32,019</u>	<u>34,666</u>
	<u>\$505,046</u>	<u>\$82,954</u>	<u>\$422,092</u>	<u>\$398,402</u>

6. Deferred Charges

	Basis or period of amortization	1975	1974
Long-term debt issue expense	*	\$ 7,122	\$ 7,418
Contribution to customers for conversion to natural gas	5-20 years	928	1,202
Special gas costs	10-20 years	3,298	3,665
Extraordinary plant retirements	10 years	907	1,515
Special rental appliance expense	13½ years	560	644
Other		<u>1,027</u>	<u>761</u>
		<u>\$13,842</u>	<u>\$15,205</u>

*Amortized over term of applicable issue.

7. Obligations under bank lines of credit

	Average interest rate at year end	1975	1974
Demand bank credits			
Commercial paper	9¾%		\$15,339
Income debentures	6¾%	\$20,000	10,000
Bank loans	9¾%	<u>10,825</u>	<u>7,025</u>
		<u>\$30,825</u>	<u>\$32,364</u>

While advances from parent Company and demand bank credits are by their terms due within one year and therefore classified as current liabilities, the Companies have in the past retired and anticipate in the future retiring such obligations through the issue of long-term capital.

8. Long-term debt

	Due within one year	1975	1974
5½%-11¼% first mortgage bonds, 1976-1995	\$ 9,457	\$176,708	\$160,138
6% general mortgage bonds, 1988-1989	375	9,883	10,260
9¾% senior debentures, 1991		50,000	50,000
6% subordinated notes, 1977-1987		6,959	7,546
5½%-11¼% debentures, 1979-1991	1,444	61,572	70,592
Non-interest bearing note, 1982		<u>454</u>	<u>454</u>
		<u>\$11,276</u>	<u>298,990</u>
Deduct			
Long-term debt held for sinking funds purposes		378	245
Current maturities on long-term debt		<u>10,898</u>	<u>11,047</u>
		<u>11,276</u>	<u>11,292</u>
		<u>\$294,300</u>	<u>\$287,698</u>

Securities issued in U.S. funds are included above at their Canadian dollar equivalent at respective dates of issue. Translation of such issues at rates of exchange prevailing at year end would result in a reduction of long-term debt of \$2,428,000 at December 31, 1975 and \$4,821,000 at December 31, 1974.

Long-term debt maturities and sinking fund requirements for each of the four years subsequent to 1976 are as follows:

1977	\$15,025,000	1979	\$16,047,000
1978	16,456,000	1980	16,611,000

9. Minority interests in subsidiaries

	1975			1974
	Preference shares	Common share equity	Total	Total
Gaz Métropolitain	\$13,342	\$ 9,520	\$22,862	\$22,555
Greater Winnipeg Gas		68	68	68
	<u>\$13,342</u>	<u>\$ 9,588</u>	<u>\$22,930</u>	<u>\$22,623</u>

10. Capital stock

Preference shares

During 1975 the Company purchased for redemption 14,400 first preference shares, first series, 2,585 second preference shares, series A, and 19,900 second preference shares, series B.

First preference shares, first and second series, are currently redeemable at \$51.50 and \$50.50 per share, respectively, and do not presently have voting rights. The second preference shares, series A, are redeemable at \$27.50 per share and have voting rights. The second preference shares, series B (redeemable at \$26.50 per share after August 14, 1976) have voting rights and are convertible into 2,198,397 common shares to August 15, 1977. The junior preference shares, first series, (redeemable at \$26.25) have voting rights and are convertible into 2,586,206 common shares to June 30, 1977 and thereafter into 2,343,750 common shares to June 30, 1982.

Common shares

During 1975, 3,297 common shares were issued for a cash consideration of \$30,198 pursuant to the employees' share purchase plan and 6,992 common shares were issued on conversion of 3,885 second preference shares.

Unissued common shares are reserved as follows:

430,704 for the incentive stock option plan, of which options on 393,500 shares were outstanding at December 31, 1975, exercisable at prices from \$9.75 to \$15.88 and expiring in 1979. During 1975 options on 7,000 shares expired.

11. Dividend restrictions

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends. Under the most restrictive of these indentures, retained earnings available for dividends amounted to approximately \$14,350,000 at December 31, 1975.

12. Anti-inflation legislation

The Company is subject to the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of increases in profit margins, prices, dividends and compensation. There are many uncertainties as to the interpretation and application of this legislation.

Natural gas utilities are exempt from the provisions of the Act relating to profit margins and prices since they are regulated by other government legislation.

As presently understood by the Company, the provisions of this Act have had no significant effect on the Company's earnings for the year ended December 31, 1975.

13. Other information

Unfunded liabilities for past service pension benefits amounted to approximately \$2,100,000 at December 31, 1975 and are being funded and expensed over a maximum period of 15 years.

Remuneration of directors and senior officers paid by the Company was \$705,000 (\$667,000 in 1974) and paid by subsidiaries was \$346,000 (\$345,000 in 1974).

