

**ANNUAL  
REPORT  
1972**

**ALBERTA NATURAL GAS COMPANY LTD**



# ALBERTA NATURAL GAS COMPANY LTD

240 - 4th Avenue S.W., Calgary, Alberta T2P 0H5

## ANNUAL REPORT 1972

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### DIRECTORS

- S. M. BLAIR, Bolton, Ontario  
Chairman of the Board, Canadian Bechtel Limited
- H. BOOTH, Calgary, Alberta  
President and Chief Executive Officer, Alberta and Southern Gas Co. Ltd.
- R. H. GERDES, San Francisco, California  
Chairman of the Executive Committee, Pacific Gas and Electric Company
- R. A. MacKIMMIE, Q.C., Calgary, Alberta  
Partner, MacKimmie Matthews
- C. O. NICKLE, Calgary, Alberta  
President, Conventures Limited
- C. K. ORR, Calgary, Alberta  
Executive Vice-President, Alberta and Southern Gas Co. Ltd.
- R. H. PETERSON, San Francisco, California  
Vice-Chairman of the Board, Pacific Gas and Electric Company
- S. L. SIBLEY, San Francisco, California  
Chairman of the Board and Chief Executive Officer, Pacific Gas and Electric Company
- C. P. SMITH, San Francisco, California  
President and Chief Executive Officer, Pacific Gas Transmission Company

### OFFICERS

- R. A. MacKIMMIE, Chairman of the Board
- C. P. SMITH, Vice-Chairman of the Board
- H. BOOTH, President and Chief Executive Officer
- C. K. ORR, Executive Vice-President
- H. A. DANIELSON, Vice-President, Pipeline Operations
- J. E. GOUDIE, Treasurer
- F. G. HOMER, Secretary

### AUDITORS

Deloitte, Haskins & Sells,  
Chartered Accountants, Calgary, Alberta

### TRANSFER AGENT AND REGISTRAR

(Capital Stock and 8½% First Mortgage Pipe Line Bonds, Series C)  
Montreal Trust Company,  
Montreal, Toronto, Winnipeg, Regina, Calgary, Vancouver  
Notice of change of address should be sent to the Transfer Agent.

### COMMON SHARES LISTED

Toronto, Montreal and Vancouver Stock Exchanges

# FINANCIAL HIGHLIGHTS

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	1972	1971
Operating revenue	\$17,291,000	\$14,170,000
Net income	1,977,000	1,770,000
Income per average outstanding common share	1.66	1.48
Dividends paid per common share —annual rate	1.00	1.00
Common equity — total at year-end	19,796,000	19,012,000
— per share	16.60	15.94
Construction expenditures	564,000	4,673,000

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## ANNUAL MEETING

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*The Annual Meeting of Shareholders will be held at the Calgary Inn, Calgary, Alberta on Friday, the 27th day of April, 1973 at 2:00 p.m.*

*The notice of meeting and proxy form are being mailed with this report to all shareholders of record.*

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# TO OUR SHAREHOLDERS

March 6, 1973

## FINANCIAL

The net income of Alberta Natural in 1972 amounted to \$1,977,000, an increase of \$207,000 or 12% above the 1971 level. Stated on the basis of net income per common share, earnings were \$1.66 compared to \$1.48 in 1971. The increase results primarily from the full-year effect of the increase in annual rate of return on gas transmission investment, to 8¾% per annum from 8%, which became effective October 1, 1971.

In November, 1972, Pacific Gas Transmission Company contracted to sell 260,000 common shares of Alberta Natural to Conventures Limited of Calgary, Alberta. As a consequence of this sale, Pacific Gas Transmission Company's equity interest in Alberta Natural has been reduced to 45% from 66⅔%, and results in the majority of the issued shares of Alberta Natural being held by residents of Canada.

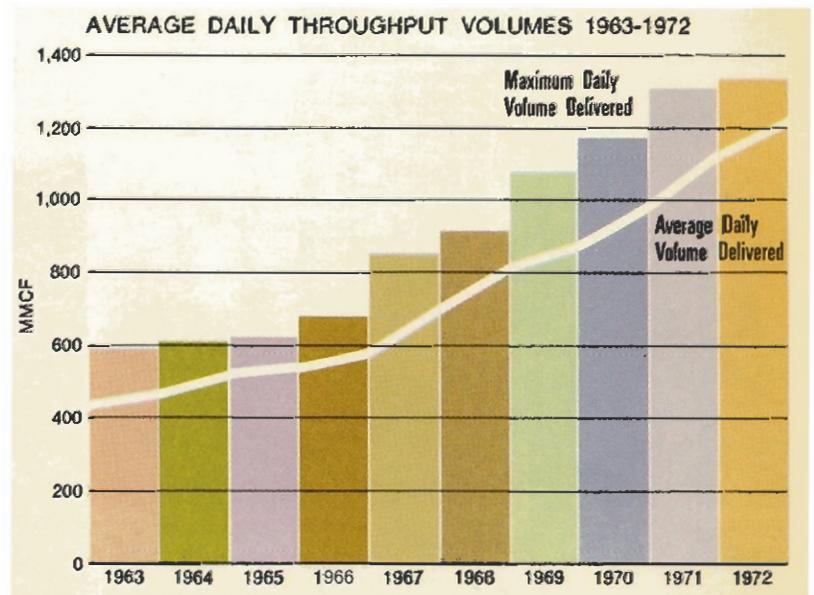
## GAS DELIVERIES AND SYSTEM OPERATION

During 1972, gas deliveries for export at the international boundary near Kingsgate, British Columbia, on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited, averaged 1,188 million cubic feet per day. Compared to 1971, gas deliveries increased by 78 million cubic feet per day or 7%. Deliveries of gas for distribution in the East Kootenay area of British Columbia increased 23% over 1971 to 18 million cubic feet per day.

During 1972, minor modifications and additions amounting to \$354,000 were made to the pipeline system including a sales tap to supply the community of Yahk, British Columbia.

## LIQUIDS EXTRACTION OPERATION

The Cochrane liquids extraction plant operated satisfactorily throughout 1972. Liquids production averaged 13,000 barrels per day, an increase of 43% over the average daily production during the previous year. On December 20, 1972, a one-day production record of 17,767 barrels of liquids was achieved. This record substantially exceeded the 1971 maximum day production of 15,484 barrels of liquids.



## ARCTIC GAS PIPELINE PROJECT

In November, 1972, Alberta Natural became a participant in the Gas Arctic-Northwest Project Study Group. The principal purpose of this group is to conduct the research, experimental and feasibility study, testing and planning in connection with the proposed construction and operation of a large-diameter gas pipeline from Northern Alaska and Northwestern Canada to major Canadian and United States market areas. The Study Group is considering all reasonably feasible pipeline configurations, routes and facilities and ownership, including entirely new facilities and the utilization of the whole or any portion of presently existing systems. As a participant, Alberta Natural will receive all information resulting from studies relating to the project and will own an equal interest in all property, rights and assets acquired by the Study Group in the course of the related activities together with the other participants. The cost of participation to the end of 1972 amounted to \$992,000, which is being deferred until the final status of the project has been determined.

Environmental studies being conducted in the Northwest Territories to assess vegetation growth over buried pipe.



## PERSONNEL

Mr. C. K. Orr, Executive Vice-President of Alberta Natural, was appointed a Director in December, 1972, following the retirement of Mr. R. L. Winton. Also, in December, 1972, Mr. F. G. Homer was appointed Secretary.

Alberta Natural's employees deserve credit for the accomplishments of the past year. Their professional competence and dedication plays an important role in the Company's success.

For the Board of Directors

Chairman of the Board

President and  
Chief Executive Officer

A view of a drilling site in the Yukon; one of the areas where exploration activity is being conducted in the Canadian North.



**STATEMENT OF INCOME**

FOR THE YEAR ENDED DECEMBER 31, 1972

(with 1971 figures for comparison)

	1972	1971
OPERATING REVENUE (Note 1):		
Transportation of gas	\$ 9,682,000	\$ 7,999,000
Liquids extraction	7,609,000	6,171,000
Total operating revenue	17,291,000	14,170,000
OPERATING EXPENSES:		
Operating and maintenance	7,884,000	6,079,000
Administrative	651,000	523,000
Depreciation (Note 3)	2,982,000	2,198,000
Property taxes	700,000	624,000
Total operating expenses	12,217,000	9,424,000
OPERATING INCOME	5,074,000	4,746,000
OTHER INCOME:		
Allowance for funds used during construction	4,000	81,000
Other	89,000	79,000
Total other income	93,000	160,000
INCOME BEFORE INCOME DEDUCTIONS	5,167,000	4,906,000
INCOME DEDUCTIONS:		
Interest on long term debt	3,019,000	2,734,000
Interest on other debt	122,000	364,000
Other	49,000	38,000
Total income deductions	3,190,000	3,136,000
NET INCOME FOR THE YEAR	\$ 1,977,000	\$ 1,770,000
EARNINGS PER COMMON SHARE	\$1.66	\$1.48

See accompanying notes.

**BALANCE SHEET - DECEMBER 31, 1972**

(with 1971 figures for comparison)

<b>ASSETS</b>	1972	1971
PLANT, PROPERTY AND EQUIPMENT - at cost (Note 2)	\$73,544,000	\$72,999,000
Less accumulated depreciation (Note 3)	15,532,000	12,560,000
Net plant, property and equipment	58,012,000	60,439,000
<b>CURRENT ASSETS:</b>		
Cash and interest bearing deposits	605,000	579,000
Accounts receivable	1,782,000	1,465,000
Materials and supplies - at cost	864,000	750,000
Prepayments and other	52,000	97,000
Total current assets	3,303,000	2,891,000
<b>DEFERRED CHARGES:</b>		
Unamortized organization and capital stock expense	163,000	163,000
Unamortized debt expense	752,000	793,000
Other (Note 4)	992,000	—
Total deferred charges	1,907,000	956,000
Approved by the Board:		
<i>Richard H Peterson</i> Director		
<i>A. J. Scott</i> Director		
<b>TOTAL</b>	<b>\$63,222,000</b>	<b>\$64,286,000</b>

<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>1972</b>	<b>1971</b>
SHAREHOLDERS' EQUITY (Note 5):		
Capital Stock:		
Preferred shares:		
Authorized - 2,000,000 shares of \$25 par value each		
Common shares:		
Authorized - 2,500,000 shares of \$10 par value each		
Issued - 1,192,822 shares	\$11,928,000	\$11,928,000
Contributed surplus	2,386,000	2,386,000
Reinvested earnings	5,482,000	4,698,000
Total shareholders' equity	19,796,000	19,012,000
LONG TERM DEBT (Note 6)	37,493,000	39,866,000
CURRENT LIABILITIES:		
Notes payable	2,225,000	2,450,000
Accounts payable	717,000	684,000
Interest accrued	567,000	592,000
Sinking fund instalments due within one year	2,333,000	1,592,000
Total current liabilities	5,842,000	5,318,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	91,000	90,000
<b>TOTAL</b>	<b>\$63,222,000</b>	<b>\$64,286,000</b>

See accompanying notes.

ALBERTA NATURAL GAS COMPANY LTD

## STATEMENT OF REINVESTED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1972

(with 1971 figures for comparison)

	1972	1971
BALANCE AT BEGINNING OF THE YEAR	\$ 4,698,000	\$ 4,121,000
NET INCOME FOR THE YEAR	1,977,000	1,770,000
	6,675,000	5,891,000
DIVIDENDS PAID ON COMMON SHARES	1,193,000	1,193,000
BALANCE AT END OF THE YEAR (Note 5)	\$ 5,482,000	\$ 4,698,000

## STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1972

(with 1971 figures for comparison)

	1972	1971
FUNDS PROVIDED:		
Net income	\$ 1,977,000	\$ 1,770,000
Depreciation	2,982,000	2,198,000
Other income deductions	49,000	38,000
Total funds derived from operations	5,008,000	4,006,000
Issue of bonds	—	15,000,000
Miscellaneous items	2,000	12,000
Decrease (Increase) in working capital other than short term borrowings	337,000	(592,000)
Total	\$ 5,347,000	\$18,426,000
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 556,000	\$ 4,667,000
Reduction in long term debt	2,373,000	1,624,000
Dividends	1,193,000	1,193,000
Debt and capital stock issue expense	8,000	592,000
Other deferred charges	992,000	—
Decrease in short term borrowings	225,000	10,350,000
Total	\$ 5,347,000	\$18,426,000

See accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 1972

### NOTE 1. OPERATIONS:

Alberta Natural owns and operates a 36-inch pipeline across southeastern British Columbia for the transportation of gas owned by the gas shippers, Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Alberta Natural also owns and operates a natural gas liquids extraction plant near Cochrane, Alberta, which removes certain liquid hydrocarbons from the gas stream of Alberta and Southern.

The gas transportation contract with the gas shippers and the liquids extraction agreement with the liquids buyers both provide that Alberta Natural will recover all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment at an annual rate of 8¾% on transmission investments and 7½% on extraction investments. In addition, Alberta Natural is entitled to 25% of the cumulative net marketing profits arising from the sale of liquids by the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd.

### NOTE 2. PLANT, PROPERTY AND EQUIPMENT:

	1972	1971
Gas transmission plant	\$56,298,000	\$55,963,000
Less accumulated depreciation	14,712,000	12,166,000
Net gas transmission plant	41,586,000	43,797,000
Natural gas liquids extraction plant	17,246,000	17,036,000
Less accumulated depreciation	820,000	394,000
Net natural gas liquids extraction plant	16,426,000	16,642,000
Net plant, property and equipment	\$58,012,000	\$60,439,000

Included in the amounts shown is plant under construction of \$20,000 at December 31, 1972 (\$92,000 at December 31, 1971).

### NOTE 3. DEPRECIATION:

The net gas transmission plant, less estimated net salvage is being amortized at an annual rate equal to the proportion that the annual volume of throughput authorized for export by the shippers bears to the total volume remaining under the licences granted by the National Energy Board.

Depreciation on extraction plant is calculated at an annual rate of 2½% on a straight-line basis.

NOTE 4. OTHER DEFERRED CHARGES:

During 1972 Alberta Natural joined the Gas Arctic-Northwest Project Study Group, the purpose of which is to determine the feasibility of constructing and operating a gas pipeline from Alaska and Northwestern Canada to major Canadian and United States market areas. The cost of Alberta Natural's participation in this project, including an allowance for funds advanced, amounted to \$992,000 to December 31, 1972.

NOTE 5. SHAREHOLDERS' EQUITY:

Restrictions on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing Alberta Natural's bonds. At December 31, 1972, \$3,082,000 otherwise available for dividends was restricted in this manner.

NOTE 6. LONG TERM DEBT:

First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1972	1971
5¾% Series A	1961	1986	\$14,674,000	\$15,761,000
8¾% Series B (\$9,500,000 U.S.)	1969/1970	1991	10,192,000	10,729,000
8½% Series C	1971	1992	15,000,000	15,000,000
			39,866,000	41,490,000
Less sinking fund instalments due within one year			2,373,000	1,624,000
			\$37,493,000	\$39,866,000

The Series A Bonds are payable in United States dollars. As provided by its gas transportation contract with Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited, Alberta Natural is required to accept from the gas shippers in substitution for an equal number of Canadian dollars the number of United States dollars required to make the annual principal and interest payments on the bonds. Accordingly, the principal amount of the Series A Bonds and associated interest expense are recorded in Alberta Natural's accounts on the basis of the two currencies being equal in value. The Series B Bonds are payable in United States dollars. The principal amount of the Series B Bonds is recorded in Alberta Natural's accounts at the amount of Canadian funds received on conversion of United States funds received on issue.

Substantially all of the properties of Alberta Natural are pledged under the Deed of Mortgage and Trust securing the bonds.

Sinking fund requirements amount to approximately \$2,337,000 (\$1,587,000 (U.S.) and \$750,000 (Cdn.)) in each of the years 1974 to 1977.

NOTE 7. INCOME TAXES:

As explained in Note 1, the gas transportation contract and the liquids extraction agreement provide for recovery of income taxes and Alberta Natural therefore makes no provision for such taxes in its accounts. It is also Alberta Natural's practice to claim for taxation purposes capital cost allowances and other deductions in excess of related charges recorded in the accounts, and therefore no liability for income taxes exists at December 31, 1972. While it has no effect on the net income of Alberta Natural, accumulated taxes deferred to December 31, 1972 amount to approximately \$14 million.

NOTE 8. DIRECTORS AND OFFICERS:

At December 31, 1972 Alberta Natural had nine directors and seven officers. Four of the officers were also directors. Directors' fees of \$1,900 were paid in 1972 (1971 - \$2,600) which represented the only remuneration received from Alberta Natural by the directors and officers. In respect of services rendered to it by some of its officers who are also officers of related companies, Alberta Natural pays a service charge to the related company.

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## AUDITORS' REPORT

To the Shareholders of

ALBERTA NATURAL GAS COMPANY LTD:

We have examined the balance sheet of Alberta Natural Gas Company Ltd as at December 31, 1972 and the statements of reinvested earnings, income 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1972 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.

January 31, 1973.

DELOITTE, HASKINS & SELLS  
Chartered Accountants

## FIVE YEAR REVIEW

### COMPARATIVE HIGHLIGHTS

	1972	1971	1970	1969	1968
Operating revenue (\$000's)	17,291	14,170	7,797	5,676	5,156
Net income (\$000's)	1,977	1,770	1,612 (1)	1,216	1,177
Average number of common shares outstanding	1,192,822	1,192,822	942,334	852,016	852,016
Earnings per average outstanding common share (\$)	1.66	1.48	1.71 (1)	1.43	1.38
Annual dividend rate per common share (\$)	1.00	1.00	1.00	1.00	1.00
Dividend payout ratio (%)	60.3	67.4	58.1	70.1	72.4
Common equity - total (\$000's)	19,796	19,012	18,435	11,966	11,602
- \$ per share	16.60	15.94	15.45	14.04	13.62
Total gas plant at year end (\$000's) - original cost	73,544	72,999	68,378	51,552	42,275
- depreciated cost	58,012	60,439	57,969	42,466	34,201
Construction expenditures (\$000's)	564	4,673	16,838	9,440	3,440
Average daily volume of gas delivered thousands of cubic feet (MCF)	1,206,000	1,124,000	980,000	864,000	802,000
Maximum day volume of gas delivered thousands of cubic feet (MCF)	1,332,000	1,303,000	1,168,000	1,076,000	917,000
Compressor horsepower	88,600	88,600	62,400	49,900	37,800
Average daily production of natural gas liquids	13,100	9,100	6,200	—	—

Note (1) Including gain on foreign exchange of \$258,000 or 27c per average share.





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