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**ALBERTA NATURAL GAS COMPANY LTD**

**1973  
Annual  
Report**

# ALBERTA NATURAL GAS COMPANY LTD

240 - 4th AVENUE S.W., CALGARY, ALBERTA T2P 0H5

## Directors

- S. M. BLAIR, Bolton, Ontario  
Company Director
- 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

	<b>1973</b>	<b>1972</b>
Operating revenue .....	\$23,853,000	\$17,291,000
Net income .....	2,144,000	1,977,000
Income per average outstanding common share .....	1.80	1.66
Dividends paid per common share — annual rate .....	1.10(1)	1.00
Common equity - total at year-end .....	20,688,000	19,796,000
- per share .....	17.34	16.60
Construction expenditures .....	357,000	564,000

Note (1) Effective September, 1973

## Annual Meeting

The Annual Meeting of Shareholders will be held at the Calgary Inn, Calgary, Alberta on Friday, the 26th day of April, 1974 at 2:00 p.m.

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

**1973  
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Report**

# Pipeline System Map

- — — Proposed Pipeline Facilities for Movement of Mackenzie Delta and Alaska Gas Supplies
- — — Existing Pipeline Facilities



*Drilling rig in the Mackenzie River Delta area*



*Kingsgate Meter Station at the international boundary*

# To Our Shareholders

**FINANCIAL** The net income of Alberta Natural was \$2,144,000 (\$1.80 per share) in 1973 compared to \$1,977,000 (\$1.66 per share) in 1972. 1973 net income was 8% above the level achieved in 1972 and reflected the increase in annual rate of return on transmission facilities that became effective April 1, 1973. Commencing with the dividend paid September 29, 1973, the regular quarterly dividend paid on Alberta Natural common shares was increased by 10%, from 25¢ to 27½¢ per share.

**GAS PIPELINE DELIVERIES AND SYSTEM OPERATION** Deliveries of gas for export at the international boundary at Kingsgate, British Columbia on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited averaged 1,198 million cubic feet per day, up slightly compared to 1972. A new record peak day delivery of 1,347 million cubic feet per day was achieved at Kingsgate on December 31, 1973. Deliveries of gas for distribution in the East Kootenay district of British Columbia increased to an average of 19.1 million cubic feet per day from 17.7 million cubic feet in 1972.

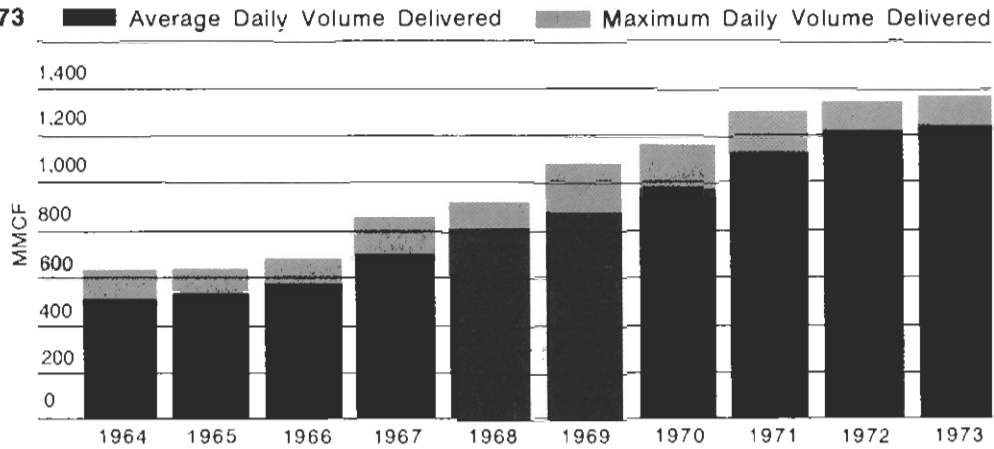
Minor modifications and additions to the pipeline system in 1973 resulted in capital expenditures of \$214,000.

**LIQUIDS EXTRACTION OPERATIONS** Liquids production at the Cochrane liquids extraction plant averaged 15,500 barrels per day in 1973, an increase of 18% over the average daily production achieved during the previous year. The plant continued to operate satisfactorily during the year.

**PROPOSED EXPANSION OF PIPELINE SYSTEM** The Gas Arctic-Northwest Project Study Group, of which Alberta Natural is a member, has been engaged in completing detailed plans for construction of a natural gas pipeline from the Mackenzie River Delta and Alaska to major market areas in Canada and the United States. Applications for authorizations to construct the required facilities are in the final stages of preparation for filing with Canadian and United States governmental and regulatory authorities.

Alberta and Southern, the principal shipper of gas transported by Alberta Natural, has concluded agreements with Shell Canada Limited and Shell Explorer Limited and with Gulf Oil Canada Limited to buy up to 11 trillion cubic feet in total from gas reserves that these companies are exploring for and developing in the Mackenzie Delta. These purchases are in quantity blocks alternating with quantity blocks that the producers have retained and which would be available for sale to other markets. Alberta and Southern will apply to the National Energy Board for authority to export the volumes of gas that it has purchased and must then satisfy the Board that there are gas reserves available to meet the foreseeable requirements of Canadian markets. In this way the economic viability of the Arctic Gas pipeline, enhanced by the combination of Alaskan reserves and some Mackenzie Delta reserves to export markets, would be assured for the benefit of the Canadian markets on a timely basis.

**AVERAGE DAILY THROUGHPUT  
VOLUMES 1964-1973**



Alberta and Southern has requested Alberta Natural to design and obtain the necessary regulatory authorizations to construct facilities to transport one billion cubic feet per day of Arctic gas from an interconnection with the proposed Arctic Gas pipeline near Coleman, Alberta to Kingsgate, British Columbia. Accordingly, Alberta Natural will make a companion filing with the National Energy Board for approval to construct additional facilities to transport the prospective Arctic gas purchases of Alberta and Southern through Alberta Natural's pipeline system in southeastern British Columbia.

The above application also will include the facilities required to transport an additional 200 million cubic feet per day of Alberta gas, for Alberta and Southern, that is currently pending export authorization.

In addition to the proposed expansion for Alberta and Southern, Pan-Alberta Gas Ltd. is negotiating with Alberta Natural for the transportation of approximately 400 million cubic feet per day through the facilities of Alberta Natural. Pan-Alberta has applications pending before both the Alberta Energy Resources Conservation Board and the National Energy Board for approval to export this volume. Alberta Natural will seek authority from the National Energy Board to construct the facilities for movement of the Pan-Alberta gas when the export licence and other necessary authorizations and consents have been obtained.

Engineering estimates indicate that the additional facility investment required by Alberta Natural to transport all of these volumes will be in the order of \$100 million.

For the Board of Directors,

*R. Mackinnon*  
Chairman of the Board

*A. Scott*  
President and Chief Executive Officer

# Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 1973

	<b>1973</b>	<b>1972</b>
(with 1972 figures for comparison)		
<b>OPERATING REVENUE (Note 1):</b>		
Transportation of gas .....	\$12,937,000	\$ 9,682,000
Liquids extraction .....	10,916,000	7,609,000
Total operating revenue .....	<u>23,853,000</u>	<u>17,291,000</u>
 <b>OPERATING EXPENSES:</b>		
Operating and maintenance .....	12,376,000	7,884,000
Administrative .....	612,000	651,000
Depreciation (Note 3) .....	3,026,000	2,982,000
Property taxes .....	728,000	700,000
Income taxes (Note 7) .....	2,208,000	—
Total operating expenses .....	<u>18,950,000</u>	<u>12,217,000</u>
<b>OPERATING INCOME</b> .....	<u>4,903,000</u>	<u>5,074,000</u>
<b>OTHER INCOME</b> .....	<u>222,000</u>	<u>93,000</u>
<b>INCOME BEFORE INCOME DEDUCTIONS</b> .....	<u>5,125,000</u>	<u>5,167,000</u>
 <b>INCOME DEDUCTIONS:</b>		
Interest on long term debt .....	2,829,000	3,019,000
Interest on other debt .....	103,000	122,000
Other .....	49,000	49,000
Total income deductions .....	<u>2,981,000</u>	<u>3,190,000</u>
<b>NET INCOME FOR THE YEAR</b> .....	<u>\$ 2,144,000</u>	<u>\$ 1,977,000</u>
<b>EARNINGS PER COMMON SHARE</b> .....	<u>\$1.80</u>	<u>\$1.66</u>

See accompanying notes.

# Balance Sheet

DECEMBER 31, 1973

	<b>1973</b>	<b>1972</b>
(with 1972 figures for comparison)		
<b>ASSETS</b>		
PLANT, PROPERTY AND EQUIPMENT — at cost		
(Note 2) .....	\$73,911,000	\$73,544,000
Less accumulated depreciation (Note 3) ..	<u>18,569,000</u>	<u>15,532,000</u>
Net plant, property and equipment .....	<u>55,342,000</u>	<u>58,012,000</u>
CURRENT ASSETS:		
Cash and interest bearing deposits .....	696,000	605,000
Accounts receivable .....	2,215,000	1,782,000
Materials and supplies — at cost .....	866,000	864,000
Prepayments and other .....	<u>25,000</u>	<u>52,000</u>
Total current assets .....	<u>3,802,000</u>	<u>3,303,000</u>
DEFERRED CHARGES:		
Unamortized organization and capital stock expense .....	155,000	163,000
Unamortized debt expense .....	711,000	752,000
Gas Arctic-Northwest Project expenditures (Note 4) .....	<u>1,815,000</u>	<u>992,000</u>
Total deferred charges .....	<u>2,681,000</u>	<u>1,907,000</u>
Approved by the Board:		
<i>Richard H Peterson</i> Director		
<i>A. J. Scott</i> Director		
TOTAL .....	<u>\$61,825,000</u>	<u>\$63,222,000</u>



1973

1972

## SHAREHOLDERS' EQUITY AND LIABILITIES

## 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 .....	6,374,000	5,482,000
Total shareholders' equity .....	<u>20,688,000</u>	<u>19,796,000</u>
LONG TERM DEBT (Note 6) .....	35,120,000	<u>37,493,000</u>
DEFERRED INCOME TAXES (Note 7) .....	<u>2,208,000</u>	<u>—</u>
CURRENT LIABILITIES:		
Notes payable .....	475,000	2,225,000
Accounts payable .....	1,146,000	717,000
Interest accrued .....	511,000	567,000
Sinking fund instalments due within one year .....	1,586,000	2,333,000
Total current liabilities .....	<u>3,718,000</u>	<u>5,842,000</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION .	<u>91,000</u>	<u>91,000</u>
TOTAL .....	<u>\$61,825,000</u>	<u>\$63,222,000</u>

See accompanying notes.

# Statement of Reinvested Earnings

FOR THE YEAR ENDED DECEMBER 31, 1973

	<b>1973</b>	<b>1972</b>
(with 1972 figures for comparison)		
BALANCE AT BEGINNING OF THE YEAR . . . .	\$5,482,000	\$4,698,000
NET INCOME FOR THE YEAR . . . . .	<u>2,144,000</u>	<u>1,977,000</u>
	7,626,000	6,675,000
DIVIDENDS PAID ON COMMON SHARES . . . .	<u>1,252,000</u>	<u>1,193,000</u>
BALANCE AT END OF THE YEAR (Note 5) . . . .	<u><u>\$6,374,000</u></u>	<u><u>\$5,482,000</u></u>

# Statement of Changes in Financial Position

FOR THE YEAR ENDED DECEMBER 31, 1973

	<b>1973</b>	<b>1972</b>
(with 1972 figures for comparison)		
<b>FUNDS PROVIDED:</b>		
Net income . . . . .	\$2,144,000	\$1,977,000
Depreciation . . . . .	3,026,000	2,982,000
Income taxes . . . . .	2,208,000	—
Other income deductions . . . . .	<u>49,000</u>	<u>49,000</u>
Total funds derived from operations . . . . .	7,427,000	5,008,000
Miscellaneous items . . . . .	<u>—</u>	<u>2,000</u>
Total . . . . .	<u><u>\$7,427,000</u></u>	<u><u>\$5,010,000</u></u>
<b>FUNDS APPLIED:</b>		
Net additions to plant, property and equipment . . . . .	\$ 356,000	\$ 556,000
Reduction of long term debt . . . . .	2,373,000	2,373,000
Dividends . . . . .	1,252,000	1,193,000
Debt and capital stock issue expense . . . . .	—	8,000
Gas Arctic-Northwest Project expenditures . . . . .	823,000	992,000
Decrease in short term borrowings . . . . .	1,750,000	225,000
Increase (Decrease) in working capital other than short term borrowings . . . . .	<u>873,000</u>	<u>(337,000)</u>
Total . . . . .	<u><u>\$7,427,000</u></u>	<u><u>\$5,010,000</u></u>

See accompanying notes.

# Notes to the Financial Statements

DECEMBER 31, 1973

## NOTE 1. OPERATIONS:

Alberta Natural owns and operates a 36-inch pipeline from a point near Coleman, Alberta, to Kingsgate, on the British Columbia-Idaho border for the transportation of gas owned by Alberta and Southern Gas Co. Ltd. and West-coast Transmission Company Limited. Alberta Natural also owns and operates a natural gas liquids extraction plant near Cochrane, Alberta, which removes 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 for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. 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:

	1973	1972
Gas transmission plant .....	\$56,504,000	\$56,298,000
Less accumulated depreciation .....	<u>17,296,000</u>	<u>14,712,000</u>
Net gas transmission plant .....	<u>39,208,000</u>	<u>41,586,000</u>
Natural gas liquids extraction plant .....	17,407,000	17,246,000
Less accumulated depreciation .....	<u>1,273,000</u>	<u>820,000</u>
Net natural gas liquids extraction plant .....	<u>16,134,000</u>	<u>16,426,000</u>
Net plant, property and equipment .....	<u>\$55,342,000</u>	<u>\$58,012,000</u>

Included in the amounts shown is plant under construction of \$4,000 at December 31, 1973 (\$20,000 at December 31, 1972).

## NOTE 3. DEPRECIATION:

Gas transmission plant 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. GAS ARCTIC —  
NORTHWEST PROJECT EXPENDITURES:**

Alberta Natural is a member of the Gas Arctic-Northwest Project Study Group, which is completing the development of detailed plans for construction of a large-diameter 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 \$1,815,000 to December 31, 1973. The ultimate form that this investment will take has still to be determined.

**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, 1973, \$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	1973	1972
5 <sup>3</sup> / <sub>4</sub> % Series A . . . . .	1961	1986	\$13,587,000	\$14,674,000
8 <sup>3</sup> / <sub>4</sub> % Series B . . . . .				
(\$9,000,000 U.S.) . . . . .	1969/1970	1991	9,656,000	10,192,000
8 <sup>1</sup> / <sub>2</sub> % Series C . . . . .	1971	1992	13,500,000	15,000,000
			<u>36,743,000</u>	<u>39,866,000</u>
Less sinking fund instalments due within one year . . . . .			<u>1,623,000</u>	<u>2,373,000</u>
			<u>\$35,120,000</u>	<u>\$37,493,000</u>

The Series A Bonds are payable in United States dollars. As provided by the gas transportation contract, 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.

Sinking fund requirements amount to approximately \$2,337,000 (\$1,587,000 (U.S.) and \$750,000 (Cdn.)) in each of the years 1975 to 1978. The 1974 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation in 1973 of \$750,000 principal amount of such Bonds, and consequently the liability for sinking fund instalments due within one year has been reduced by this amount.

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

#### **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 provision in its accounts for such taxes included in billings to its customers. Commencing in January, 1973, billings to the gas shippers in accordance with the gas transportation contract have included an income tax component. 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 payment of income taxes exists at December 31, 1973. While it has no effect on the net income of Alberta Natural, accumulated taxes deferred to December 31, 1973, amount to approximately \$16 million of which \$2,208,000 has been received from the gas shippers.

#### **NOTE 8. DIRECTORS AND OFFICERS:**

At December 31, 1973, Alberta Natural had nine directors and seven officers. Four of the officers were also directors. Director's fees of \$1,700 were paid in 1973 (1972 - \$1,900) 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.

## **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, 1973 and the statements of reinvested earnings, income and changes in financial position for the year 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 financial statements present fairly the financial position of the company as at December 31, 1973 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.

DELOITTE, HASKINS & SELLS  
Chartered Accountants

January 31, 1974

**Five Year Review**

## COMPARATIVE HIGHLIGHTS

	<b>1973</b>	<b>1972</b>	<b>1971</b>	<b>1970</b>	<b>1969</b>
Operating revenue (\$000's).....	23,853	17,291	14,170	7,797	5,676
Net income (\$000's) .....	2,144	1,977	1,770	1,612 (1)	1,216
Average number of common shares outstanding.....	1,192,822	1,192,822	1,192,822	942,334	852,016
Earnings per average outstanding common share (\$)	1.80	1.66	1.48	1.71 (1)	1.43
Annual dividend rate per common share (\$)	1.10 (2)	1.00	1.00	1.00	1.00
Dividend payout ratio (%).....	58.4	60.3	67.4	58.1	70.1
Common equity					
— total (\$000's).....	20,688	19,796	19,012	18,435	11,966
— \$ per share.....	17.34	16.60	15.94	15.45	14.04
Total gas plant at year end (\$000's)					
— original cost.....	73,911	73,544	72,999	68,378	51,552
— depreciated cost.....	55,342	58,012	60,439	57,969	42,466
Construction expenditures (\$000's).....	357	564	4,673	16,838	9,440
Average daily volume of gas delivered thousands of cubic feet (MCF) .....	1,219,000	1,206,000	1,124,000	980,000	864,000
Maximum day volume of gas delivered thousands of cubic feet (MCF) .....	1,372,000	1,332,000	1,303,000	1,168,000	1,076,000
Compressor horsepower.....	88,600	88,600	88,600	62,400	49,900
Average daily production of natural gas liquids.....	15,500	13,100	9,100	6,200	—

Note (1) including foreign exchange gain of 27¢ per average share.

Note (2) Dividend rate increased September, 1973.





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