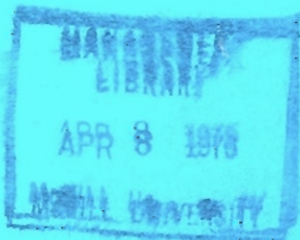


ALBERTA NATURAL GAS COMPANY LTD



Annual Report 1974



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. W. Brooks, *San Francisco, California*
President, Pacific Gas Transmission Company

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

Officers

R. A. MacKimmie, *Chairman of the Board*
H. Booth, *President and Chief Executive Officer*
C. K. Orr, *Executive Vice-President*
H. A. Danielson, *Vice-President, Pipeline Operations*
D. R. Fenton, *Vice-President, Planning and Development*
J. E. Goudie, *Treasurer*
F. G. Homer, *Secretary*
H. B. Sanderson, *Assistant Treasurer*

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

	<u>1974</u>	<u>1973</u>
Operating revenue	\$30,940,000	\$23,853,000
Net income	3,456,000	2,144,000
Income per average outstanding common share	2.90	1.80
Dividends paid per common share — annual rate	1.10	1.10
Common equity — total at year-end	22,832,000	20,688,000
— per share	19.14	17.34
Construction expenditures	314,000	357,000

Annual Meeting

The Annual Meeting of Shareholders will be held at the Calgary Inn, Calgary, Alberta on Thursday, the 15th day of May, 1975, at 9:30 a.m.

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

View of the fractionation plant at Sarnia, Ontario where the final separation of Cochrane plant liquid products is made prior to reaching market.



To Our Shareholders

Financial

Net income for 1974 was \$3,456,000, a record high and compares with net income of \$2,144,000 in 1973. Earnings per common share advanced to \$2.90, a gain of \$1.10 over the prior year.

The increase in earnings occurred primarily as a result of Alberta Natural's participation in cumulative net marketing profits from natural gas liquids extraction operations. Alberta Natural recovers from the liquids buyers all of its cost of service, including a return on its total investment in the Cochrane extraction facility. In addition, it receives 25% of the amount by which the cumulative net proceeds from the sale of the liquids after fractionation exceeds the cumulative aggregate of all costs required to bring the liquids and products to market. For the first time since liquids extraction operations began in 1970, such cumulative revenues exceeded costs.

In order to assure an adequate earnings level on the equity investment of the Company dedicated to gas transmission service and also to assure the debt-service coverage necessary for future financing, the Company has negotiated a change in rate of return with the shippers, Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited. Effective January 1, 1975, the rate of return to be applied to the transmission rate base was increased from 9% per annum to 9½% per annum.

Gas Pipeline and Liquids Extraction Operations

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 1,111 million cubic feet per day during 1974. This volume of throughput is less than that of previous years and results in part from certain unforeseen production and environmental problems experienced by several producers that in turn resulted in temporary delivery rate reductions. The peak delivery of 1,349.5 million cubic feet per day achieved at Kingsgate on January 1, 1974 was

slightly higher than that reached in previous years. Deliveries of gas for distribution in the East Kootenay district of British Columbia averaged 18 million cubic feet per day during 1974.

Minor modifications and additions to the pipeline system in 1974 resulted in capital expenditures of \$194,000.

Liquids production at the Cochrane liquids extraction plant averaged 13,300 barrels per day during 1974. Modifications and additions to the plant in 1974 resulted in capital expenditures of \$120,000.

Proposed Expansion of the Pipeline System

Alberta Natural continues to be an active participant in the Gas Arctic-Northwest Project Study Group which is engaged in the engineering design, environmental and financial planning, and the preparation and filing of material seeking approval for construction of a gas pipeline from the Mackenzie Delta and Alaska to existing Canadian and United States markets. Applications have now been filed with Canadian and United States governmental and regulatory authorities to construct the required facilities. Recognizing the urgency required in dealing with the connection of new energy supplies, the United States Federal Power Commission has scheduled a formal hearing to commence May 5, 1975. Applications from Alaskan and other United States companies, including Pacific Gas Transmission Company, related to transportation of the northern gas, will be heard at that time. It is to be hoped that Canadian authorities will take the same view as to the urgency of the project and that the necessary regulatory review will be expedited.

Alberta Natural has made a companion filing with the National Energy Board for approval to expand its facilities to transport prospective Arctic gas purchases destined for the market of Pacific Gas and Electric Company, through its pipeline system in southeastern British Columbia.

Negotiations with Pan-Alberta Gas Ltd. for gas transportation, which were being conducted last year, have been ended because of advice from Pan-Alberta that their export sale agreement has been terminated.

Personnel

Alberta Natural suffered a significant loss with the sudden death of Mr. C. P. Smith in August, 1974. Mr. Smith was Vice-Chairman of the Board of Directors of Alberta Natural and President and Chief Executive Officer of Pacific Gas Transmission Company. His initiative, advice and encouragement will be sadly missed.

In April, 1974, Mr. D. R. Fenton was appointed Vice-President, Planning and Development, and Mr. H. B. Sanderson was appointed Assistant Treasurer. In December, 1974, Mr. R. W. Brooks, President of Pacific Gas Transmission, was appointed a director of Alberta Natural.

The continued high degree of efficiency and dedication of our employees and their contribution to the success of Alberta Natural is gratefully acknowledged.

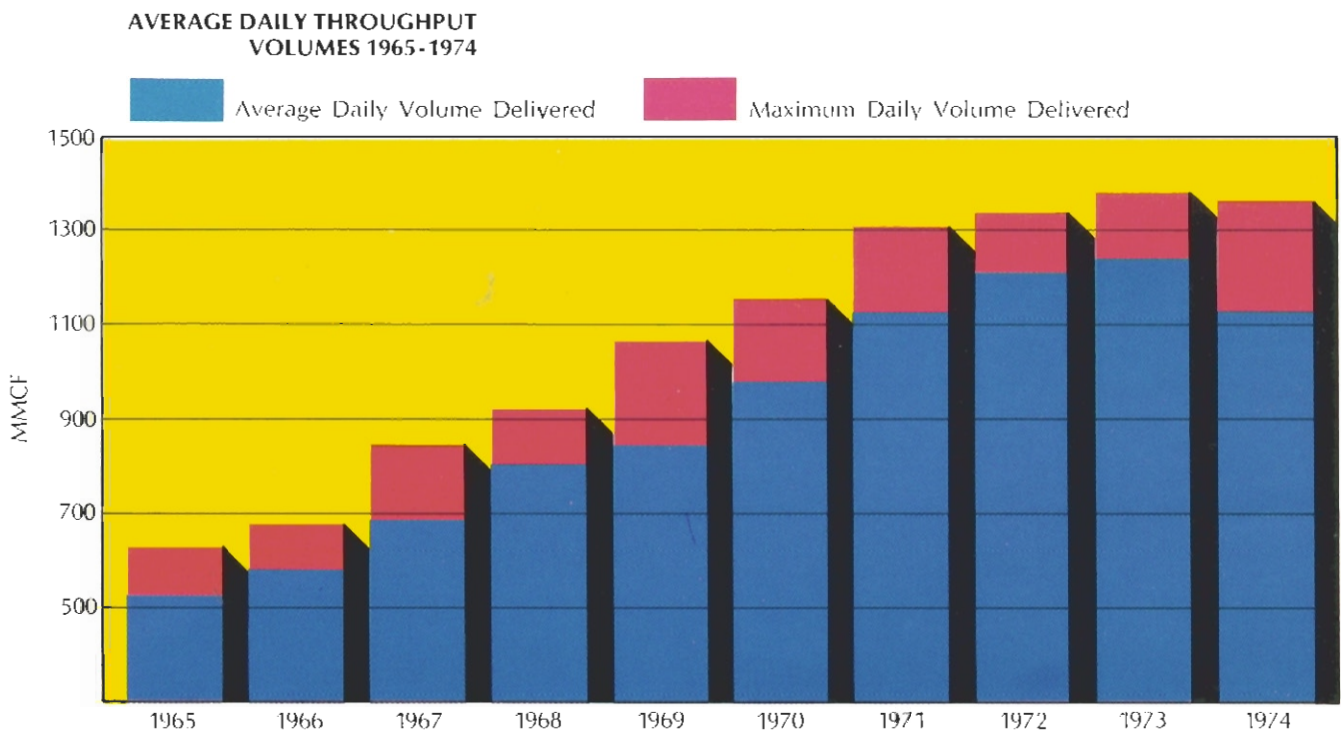
FOR THE BOARD OF DIRECTORS

R. Mackinnon

Chairman of the Board

R. W. Brooks

President and Chief Executive Officer





Aerial view of Alberta Natural's Cochrane liquids extraction plant.

View of the storage facility at Superior, Wisconsin which holds the Cochrane plant liquid products at time of transmission transfer between pipeline systems.



ALBERTA NATURAL GAS COMPANY LTD

Statement of Income

for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
OPERATING REVENUE (Note 1):		
Transportation of gas	\$14,037,000	\$12,937,000
Liquids extraction	16,903,000	10,916,000
Total operating revenue	30,940,000	23,853,000
OPERATING EXPENSES:		
Operating and maintenance	17,158,000	12,376,000
Administrative	693,000	612,000
Depreciation (Note 1)	3,061,000	3,026,000
Property taxes	821,000	728,000
Total operating expenses	21,733,000	16,742,000
OPERATING INCOME (Note 1)	9,207,000	7,111,000
OTHER INCOME	480,000	222,000
INCOME BEFORE INCOME DEDUCTIONS	9,687,000	7,333,000
INCOME DEDUCTIONS:		
Interest on long term debt	2,664,000	2,829,000
Interest on other debt	41,000	103,000
Other	48,000	49,000
Total income deductions	2,753,000	2,981,000
INCOME BEFORE INCOME TAXES	6,934,000	4,352,000
PROVISION FOR INCOME TAXES (Note 1)	3,478,000	2,208,000
NET INCOME FOR THE YEAR	\$ 3,456,000	\$ 2,144,000
EARNINGS PER COMMON SHARE	\$2.90	\$1.80

See accompanying notes.

ALBERTA NATURAL GAS COMPANY LTD

Statement of Reinvested Earnings

for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
BALANCE AT BEGINNING OF THE YEAR	\$6,374,000	\$5,482,000
NET INCOME FOR THE YEAR	3,456,000	2,144,000
DIVIDENDS PAID ON COMMON SHARES	9,830,000	7,626,000
	1,312,000	1,252,000
BALANCE AT END OF THE YEAR (Note 3)	\$8,518,000	\$6,374,000

Statement of Changes in Financial Position

for the year ended December 31, 1974
(with 1973 figures for comparison)

	1974	1973
FUNDS PROVIDED:		
Net income	\$ 3,456,000	\$2,144,000
Depreciation	3,063,000	3,026,000
Income taxes	3,478,000	2,208,000
Other income deductions	48,000	49,000
Total	\$10,045,000	\$7,427,000
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 303,000	\$ 356,000
Reduction of long term debt	2,374,000	2,373,000
Dividends	1,312,000	1,252,000
Gas Arctic-Northwest Project expenditures	1,060,000	823,000
Decrease in short term borrowings	475,000	1,750,000
Increase in working capital other than short term borrowings	4,521,000	873,000
Total	\$10,045,000	\$7,427,000

See accompanying notes.

ALBERTA NATURAL GAS COMPANY LTD

Balance Sheet

December 31, 1974
(with 1973 figures for comparison)

ASSETS	1974	1973
PLANT, PROPERTY AND EQUIPMENT — at cost (Note 2)	\$74,183,000	\$73,911,000
Less accumulated depreciation (Note 1)	21,592,000	18,569,000
Net plant, property and equipment	52,591,000	55,342,000
CURRENT ASSETS:		
Cash and interest bearing deposits	3,382,000	696,000
Accounts receivable	5,140,000	2,215,000
Materials and supplies — at cost	908,000	866,000
Prepayments and other	39,000	25,000
Total current assets	9,469,000	3,802,000
DEFERRED CHARGES:		
Unamortized organization and capital stock expense	147,000	155,000
Unamortized debt expense	671,000	711,000
Gas Arctic-Northwest Project expenditures (Note 1)	2,875,000	1,815,000
Total deferred charges	3,693,000	2,681,000
APPROVED BY THE BOARD:		
<i>Richard H Peterson</i> Director		
<i>A. J. Scott</i> Director		
TOTAL	\$65,753,000	\$61,825,000

SHAREHOLDERS' EQUITY AND LIABILITIES	1974	1973
SHAREHOLDERS' EQUITY (Note 3)		
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	8,518,000	6,374,000
Total shareholders' equity	22,832,000	20,688,000
LONG TERM DEBT (Note 4)	32,746,000	35,120,000
DEFERRED INCOME TAXES (Note 1)	5,686,000	2,208,000
CURRENT LIABILITIES:		
Notes payable	—	475,000
Accounts payable	1,831,000	1,146,000
Interest accrued	483,000	511,000
Sinking fund instalments due within one year	2,075,000	1,586,000
Total current liabilities	4,389,000	3,718,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	100,000	91,000
TOTAL	\$65,753,000	\$61,825,000

See accompanying notes.

Notes to the Financial Statements

December 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) 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 Westcoast 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.

(B) 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.

(C) 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 \$2,875,000 to December 31, 1974. The ultimate form that this investment will take has still to be determined.

(D) Income Taxes:

It is 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, 1974.

Since the gas transportation contract and the liquids extraction agreement provide for recovery of income taxes, as explained above, Alberta Natural makes provision in its accounts for such taxes included in billings to its customers. Since January 1, 1973, billings to the gas shippers have included an income tax component. Income taxes have not been included in billings to the liquids buyers. Full provision has been made for income taxes applicable to marketing profits included in revenues.

While it has no effect on the net income of Alberta Natural, accumulated taxes deferred to December 31, 1974 amount to approximately \$18.8 million of which \$4.6 million has been received from the gas shippers.

2. PLANT, PROPERTY AND EQUIPMENT:

	1974	1973
Gas transmission plant	\$56,656,000	\$56,504,000
Less accumulated depreciation	19,885,000	17,296,000
Net gas transmission plant	36,771,000	39,208,000
Natural gas liquids extraction plant	17,527,000	17,407,000
Less accumulated depreciation	1,707,000	1,273,000
Net natural gas liquids extraction plant	15,820,000	16,134,000
Net plant, property and equipment	\$52,591,000	\$55,342,000

Included in the amounts shown is plant under construction of \$172,000 at December 31, 1974 (\$4,000 at December 31, 1973).

3. 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, 1974, \$3,082,000 otherwise available for dividends was restricted in this manner.

4. LONG TERM DEBT:

First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1974	1973
5 ¾% Series A	1961	1986	\$12,500,000	\$13,587,000
8 ¾% Series B (\$8,500,000 U.S.)	1969/1970	1991	9,120,000	9,656,000
8 ½% Series C	1971	1992	13,250,000	13,500,000
			34,870,000	36,743,000
Less sinking fund instalments due within one year			2,124,000	1,623,000
			\$32,746,000	\$35,120,000

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 1976 to 1979. A portion of the 1975 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation in 1974 of \$250,000 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.

5. DIRECTORS AND OFFICERS:

At December 31, 1974, Alberta Natural had nine directors and eight officers. Three of the officers were also directors. Directors' fees of \$1,900 were paid in 1974 (1973 - \$1,700) 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, 1974 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, 1974 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.

Calgary, Alberta
March 3, 1975.

DELOITTE, HASKINS & SELLS
Chartered Accountants.

ALBERTA NATURAL GAS COMPANY LTD

Five Year Review Comparative Highlights

	1974	1973	1972	1971	1970
Operating revenue (\$000's)	30,940	23,853	17,291	14,170	7,797
Net income (\$000's)	3,456	2,144	1,977	1,770	1,612(1)
Average number of common shares outstanding	1,192,822	1,192,822	1,192,822	1,192,822	942,334
Earnings per average outstanding common share (\$)	2.90	1.80	1.66	1.48	1.71(1)
Annual dividend rate per common share (\$)	1.10	1.10	1.00	1.00	1.00
Dividend payout ratio (%)	38.0	58.4	60.3	67.4	58.1
Common equity					
— total (\$000's)	22,832	20,688	19,796	19,012	18,435
— \$ per share	19.14	17.34	16.60	15.94	15.45
Total gas plant at year end (\$000's)					
— original cost	74,183	73,911	73,544	72,999	68,378
— depreciated cost	52,591	55,342	58,012	60,439	57,969
Construction expenditures (\$000's)	314	357	564	4,673	16,838
Average daily volume of gas delivered					
— Thousands of cubic feet (MCF)	1,128,000	1,219,000	1,206,000	1,124,000	980,000
Maximum day volume of gas delivered — thousands of cubic feet (MCF)	1,369,000	1,372,000	1,332,000	1,303,000	1,168,000
Compressor horsepower	88,600	88,600	88,600	88,600	62,400
Average daily production of natural gas liquids	13,300	15,500	13,100	9,100	6,200

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

ALBERTA NATURAL GAS COMPANY LTD

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