

Annual
Report

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1976



Alberta Natural Gas Company Ltd

Alberta Natural Gas Company Ltd

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

Directors

J. F. Bonner, *San Francisco, California*
President and Chief Executive Officer,
Pacific Gas and Electric Company

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

D. R. Fenton, *Calgary, Alberta*
Senior Vice-President,
Alberta and Southern Gas Co. Ltd.

H. L. Lepape, *Los Angeles, California*
President,
Pacific Interstate Transmission Company

R. A. MacKimmie, *Q.C., Calgary, Alberta*
Partner,
MacKimmie Matthews

C. O. Nickle, *Calgary, Alberta*
President,
Conventures Limited

R. H. Peterson, *San Francisco, California*
Chairman of the Board,
Pacific Gas and Electric Company

J. S. Poyen, *Calgary, Alberta*
Oil and Gas Management Consultant

Officers

R. A. MacKimmie, *Chairman of the Board*
H. Booth, *President and Chief Executive Officer*
D. R. Fenton, *Senior Vice-President*
J. E. Goudie, *Vice-President, Finance and Administration*
G. D. Barnes, *Vice-President, Operations*
G. W. Sinclair, *Vice-President, Engineering and Construction*
F. G. Homer, *Secretary*
H. B. Sanderson, *Treasurer*
G. J. Clark, *Comptroller*

Auditors

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

Transfer Agent & 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

Alberta, Toronto, Montreal and Vancouver Stock Exchanges



Financial Highlights



	<u>1976</u>	<u>1975</u>
Operating revenue	\$47,317,000	\$41,063,000
Net income	5,701,000	4,563,000
Income per average outstanding common share	4.78	3.83
Dividends paid per common share — annual rate	1.62 (1)	1.50
Common equity		
— total at year end	29,601,000	25,725,000
— per share	24.82	21.57
Construction expenditures	271,000	946,000

Note: (1) Effective December, 1976

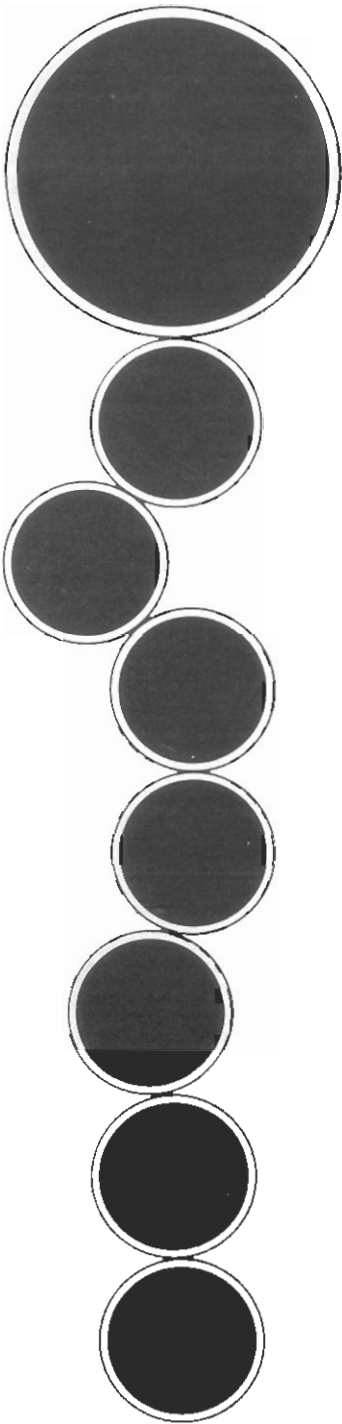
Annual Meeting

The Annual Meeting of Shareholders will be held at the Calgary Inn, Calgary, Alberta, on Friday, the 29th day of April, 1977, at 9:30 a.m.

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

Cover: Upper Photograph — Compressor station #1 near Crowsnest, British Columbia.

Lower Photograph — Cochrane liquids extraction plant near Calgary, Alberta.



To Our Shareholders



Financial

Net income of the Company in 1976 was \$5,701,000, equivalent to \$4.78 per common share, which compares with \$4,563,000 in 1975, equivalent to \$3.83 per common share.

Improved results from your Company's natural gas liquids extraction operations and an increase in income from the investment of surplus funds are the major items contributing to the twenty-five percent increase in earnings over the previous year.

The rate of dividends paid on the Company's common shares was increased eight percent, the maximum permitted by Anti-Inflation Guidelines, to an annual rate of \$1.62 per share, effective with the December 30, 1976 dividend payment.

Gas Pipeline and System Operations

During 1976, on behalf of Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited, deliveries of gas for export at the international boundary at Kingsgate, British Columbia, averaged 1,203 million cubic feet per day, compared with 1,179 million cubic feet per day during 1975. Deliveries of gas for distribution in the East Kootenay area of British Columbia averaged 17 million cubic feet per day in 1976.

Capital expenditures for minor additions and modifications to the pipeline during 1976 amounted to \$143,000.

Proposed Expansion of the Pipeline System

Throughout the year, the National Energy Board continued hearings on the application of Alberta Natural and the competitive applications of Canadian Arctic Gas Pipeline Limited and the Alaska Highway - Foothills Groups for certificates of public convenience and necessity to permit the construction of pipeline facilities to transport natural gas from the Mackenzie Delta area and Alaska to Canadian and United States markets.

Your Company's application seeks the approval of the National Energy Board to expand its pipeline system in southeastern British Columbia to transport such Alaskan gas as may be contracted by Natural Gas Corporation of California, a wholly owned subsidiary of Pacific Gas and Electric Company of San Francisco, and Pacific Interstate Transmission Company, a wholly owned subsidiary of Pacific Lighting Corporation of Los Angeles. Such supplies of Alaskan gas would augment present deliveries to California markets. The proposed expansion, estimated to cost \$74 million, consists of approximately 102 miles of 36-inch pipeline which, together with certain short sections now in place, will provide complete paralleling of the existing pipeline.



During 1976, representatives of your Company supported the application to the National Energy Board with testimony as to engineering design, cost of facilities, the financial plan and proposed tariffs for transportation of Alaskan gas. During 1977, your Company will testify on the Canadian content and environmental impact of expanding the existing pipeline. The National Energy Board will forward a report to the Canadian government following the conclusion of the hearings, which are expected to be completed by late spring.

In addition to proceedings before the National Energy Board, hearings relative to the Canadian Arctic Gas application were concluded before the Berger Inquiry in Canada and the Federal Power Commission in the United States during 1976. A report from Mr. Justice Berger to the Department of Indian Affairs and Northern Development, relative to the terms and conditions that should be imposed in respect of the use of northern land for pipeline purposes, is expected in the spring of 1977. Administrative Law Judge Nahum Litt, who presided over the Federal Power Commission hearings in the United States, issued his report to the Federal Power Commission on February 1, 1977. This report strongly favoured the Arctic Gas application over the applications of the Alaska Highway-Foothills Groups and of El Paso Alaska Company. The Federal Power Commission is required to submit its recommendation to the President of the United States by May 1, 1977. The President is required to transmit his decision on the choice of a transportation system to the Congress by September 1, 1977 (although this date may be extended for up to 90 days). Congress has a specified limited period in which to deal with the President's decision.

Liquids Extraction Operations

Liquids production at the Cochrane extraction plant averaged 12,700 barrels per day during 1976, compared to 13,900 barrels per day during 1975.

The most significant reason for the lower average daily production in 1976 was a reduction in volumes available for processing because of their displacement by increased volumes entering the pipeline system

downstream from the plant. In addition, the average propane content in the gas stream was lower in 1976 than in the previous year.

Minor additions and modifications to the Cochrane plant in 1976 resulted in capital expenditures of \$119,000.

Plant operating personnel received safety awards for the year 1976 from both the Workers' Compensation Board of Alberta and the Canadian Natural Gas Processing Association to recognize another year in which no time was lost because of accidents. The Cochrane plant has now operated five consecutive years without a lost-time accident.

Proposed Expansion of the Liquids Extraction Plant

During 1976, your Company continued discussions with The Alberta Gas Ethylene Company Ltd. concerning expansion of the Cochrane plant to provide ethane feedstock to the petrochemical development planned in Alberta. While Alberta Natural has not yet concluded an agreement with Alberta Gas Ethylene, preliminary engineering and planning work has been undertaken so that the necessary expansion at Cochrane may be completed in a timely manner. The costs associated with this preliminary work are being underwritten by Alberta Gas Ethylene. Assuming conclusion of an agreement with Alberta Gas Ethylene and receipt of all necessary authorizations, it is expected that construction at Cochrane would start in May of 1977, with completion of the work early in 1979. The cost of the expansion is presently estimated to be approximately \$58 million.

Personnel

It is with profound regret that the Directors record the death, on July 16, 1976, of Shermer L. Sibley, Chairman of the Board and Chief Executive Officer of Pacific Gas and Electric Company. Since first becoming a Director of Alberta Natural in 1963, Mr. Sibley's experience and advice had been invaluable in

his subsequent capacities as Vice-President, President and Vice-Chairman of the Board.

In September, 1976, John F. Bonner, President and Chief Executive Officer of Pacific Gas and Electric Company and Harry L. Lepape, President of Pacific Interstate Transmission Company, were elected to the Board of Directors of your Company following the retirements of Robert H. Gerdes and Sidney M. Blair, whose invaluable contributions as members of the Board of Directors since the inception of the Company's operations is gratefully acknowledged. On March 2, 1977, John S. Poyen of Calgary, Alberta, an oil and gas management consultant, was elected to the Board of Directors.

On April 30, 1976, John E. Goudie was appointed Vice-President, Finance and Administration, H. Barry

Sanderson was appointed Treasurer and Gerald J. Clark was appointed Comptroller.

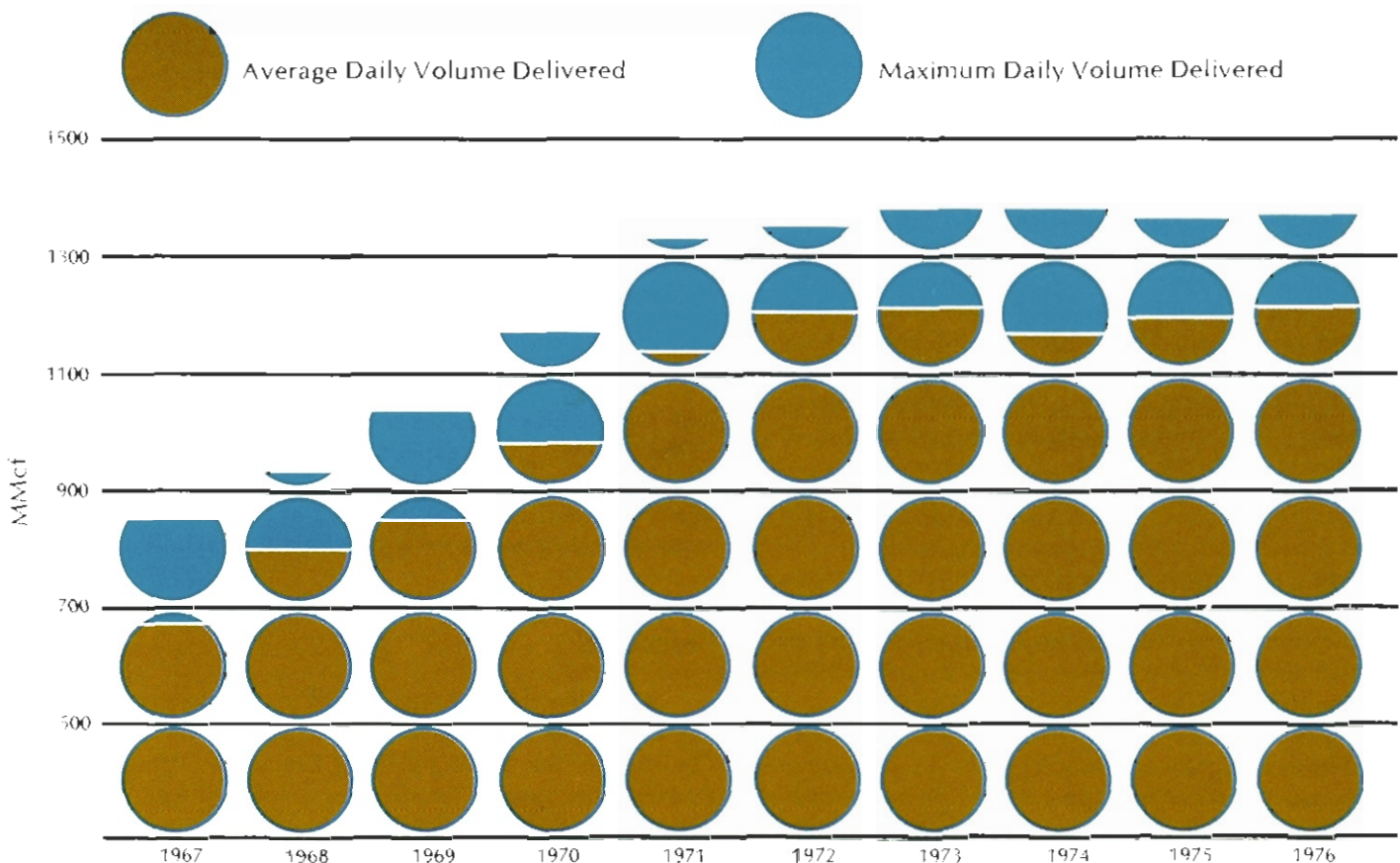
The Board of Directors wish to take this opportunity to express their sincere thanks to the employees of Alberta Natural, whose skill and dedication have contributed significantly to the continued success of the Company during the past year.

FOR THE BOARD OF DIRECTORS

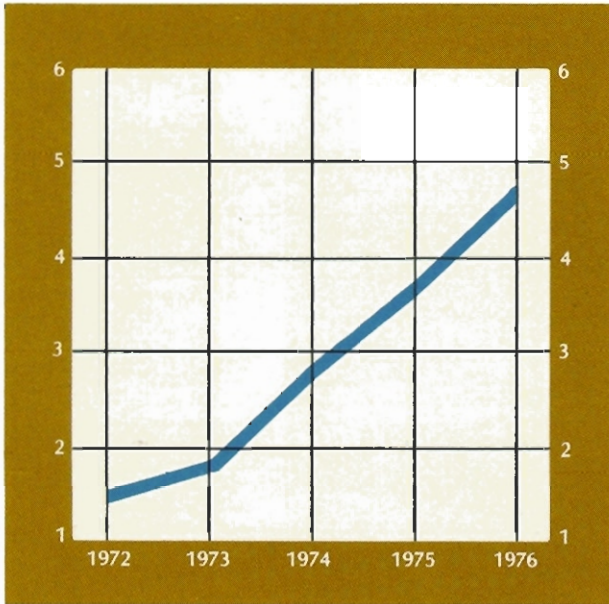
R. A. MacKinnon
Chairman of the Board

A. Goudie
President and Chief Executive Officer

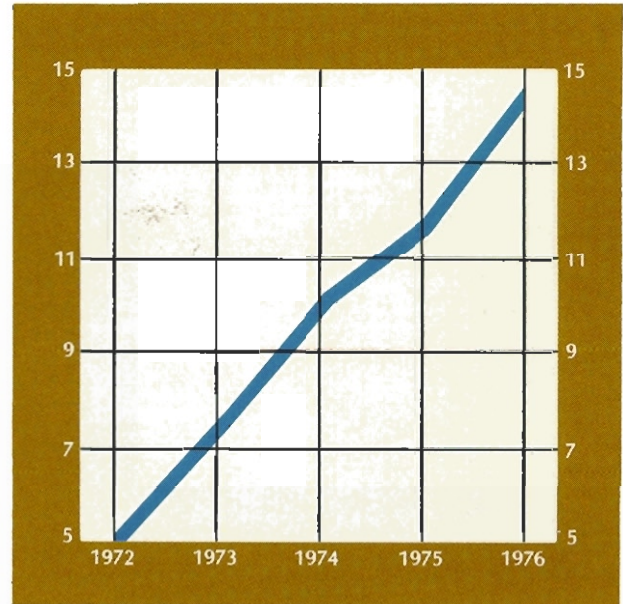
Average Daily Throughput Volumes 1967 - 1976



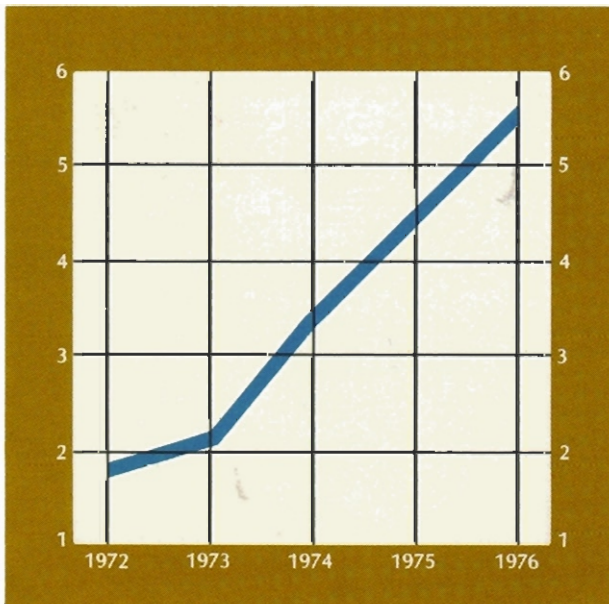
Alberta Natural Gas Company Ltd



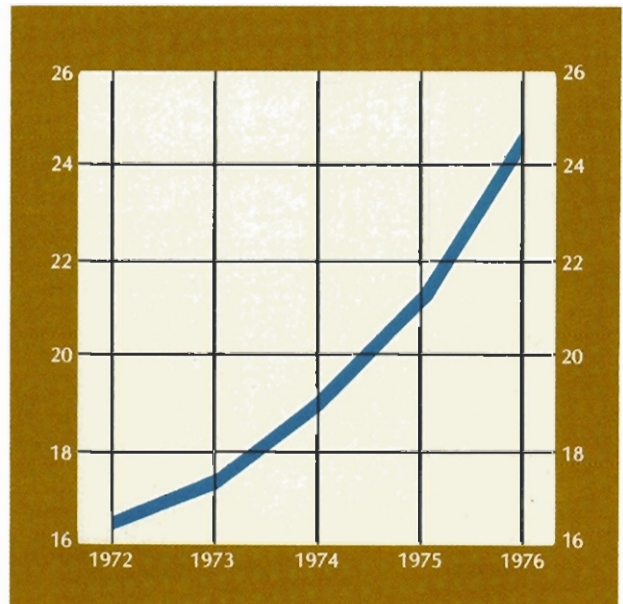
EARNINGS PER COMMON SHARE (dollars)



CASH FLOW (millions of dollars)

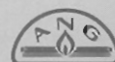


NET INCOME (millions of dollars)



SHAREHOLDER'S EQUITY PER COMMON SHARE (dollars)

Alberta Natural Gas Company Ltd



Statement of Income

for the year ended December 31, 1976 (with 1975 figures for comparison)

1976

1975

OPERATING REVENUE (Note 1):		
Transportation of gas	\$20,818,000	\$16,868,000
Liquids extraction	<u>26,499,000</u>	<u>24,195,000</u>
Total operating revenue	<u>47,317,000</u>	<u>41,063,000</u>
OPERATING EXPENSES:		
Operating and maintenance	29,377,000	25,995,000
Administrative	1,236,000	856,000
Depreciation (Note 1)	3,365,000	3,067,000
Property taxes	<u>1,070,000</u>	<u>906,000</u>
Total operating expenses	<u>35,048,000</u>	<u>30,824,000</u>
OPERATING INCOME (Note 1)	12,269,000	10,239,000
OTHER INCOME	<u>1,483,000</u>	<u>908,000</u>
INCOME BEFORE INCOME DEDUCTIONS	<u>13,752,000</u>	<u>11,147,000</u>
INCOME DEDUCTIONS:		
Interest on long term debt	2,319,000	2,460,000
Interest on other debt	50,000	49,000
Other	<u>49,000</u>	<u>49,000</u>
Total income deductions	<u>2,418,000</u>	<u>2,558,000</u>
INCOME BEFORE INCOME TAXES	<u>11,334,000</u>	<u>8,589,000</u>
PROVISION FOR INCOME TAXES (Note 1)	<u>5,633,000</u>	<u>4,026,000</u>
NET INCOME FOR THE YEAR	<u>\$ 5,701,000</u>	<u>\$ 4,563,000</u>
EARNINGS PER COMMON SHARE	<u>\$4.78</u>	<u>\$3.83</u>

See accompanying notes

Alberta Natural Gas Company Ltd



Statement of Reinvested Earnings

for the year ended December 31, 1976 (with 1975 figures for comparison)

	1976	1975
BALANCE AT BEGINNING OF THE YEAR	\$11,411,000	\$ 8,518,000
NET INCOME FOR THE YEAR	<u>5,701,000</u>	<u>4,563,000</u>
	17,112,000	13,081,000
DIVIDENDS PAID ON COMMON SHARES	<u>1,825,000</u>	<u>1,670,000</u>
BALANCE AT END OF THE YEAR (Note 3)	<u>\$15,287,000</u>	<u>\$11,411,000</u>

Statement of Changes in Financial Position

for the year ended December 31, 1976 (with 1975 figures for comparison)

	1976	1975
FUNDS PROVIDED:		
Net income	\$ 5,701,000	\$ 4,563,000
Depreciation	3,365,000	3,067,000
Provision for income taxes	5,633,000	4,026,000
Other income deductions	<u>49,000</u>	<u>49,000</u>
TOTAL	<u>\$14,748,000</u>	<u>\$11,705,000</u>
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 129,000	\$ 930,000
Reduction of long term debt	2,374,000	2,373,000
Income taxes paid or payable	4,314,000	1,500,000
Dividends	1,825,000	1,670,000
Gas Arctic-Northwest Project expenditures	2,390,000	1,944,000
Other deferred charges	442,000	—
Increase in working capital	<u>3,274,000</u>	<u>3,288,000</u>
TOTAL	<u>\$14,748,000</u>	<u>\$11,705,000</u>

See accompanying notes

Alberta Natural Gas Company Ltd

Assets	1976	1975
PLANT, PROPERTY AND EQUIPMENT — at cost (Note 2)	\$75,213,000	\$75,105,000
Less accumulated depreciation (Note 1)	<u>27,993,000</u>	<u>24,649,000</u>
Net plant, property and equipment	<u>47,220,000</u>	<u>50,456,000</u>
CURRENT ASSETS:		
Cash and interest bearing deposits	10,315,000	7,022,000
Accounts receivable	7,493,000	6,069,000
Materials and supplies — at cost	1,090,000	980,000
Prepayments and other	<u>40,000</u>	<u>104,000</u>
Total current assets	<u>18,938,000</u>	<u>14,175,000</u>
DEFERRED CHARGES:		
Unamortized organization and capital stock expense	131,000	139,000
Unamortized debt expense	590,000	630,000
Gas Arctic-Northwest Project expenditures (Note 1)	7,209,000	4,819,000
Other	<u>442,000</u>	<u>—</u>
Total deferred charges	<u>8,372,000</u>	<u>5,588,000</u>
Approved by the Board:		
<i>Richard H Peterson</i>	Director	
<i>A. Scott</i>	Director	
Total	<u><u>\$74,530,000</u></u>	<u><u>\$70,219,000</u></u>
See accompanying notes		

Balance Sheet

December 31, 1976 (with 1975 figures for comparison)



Shareholders' Equity and Liabilities

1976

1975

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

Contributed surplus

Reinvested earnings

Total shareholders' equity

LONG TERM DEBT (Note 4)

DEFERRED INCOME TAXES (Note 1)

CURRENT LIABILITIES:

Accounts payable

Income taxes payable (Note 1)

Interest accrued

Sinking fund instalments due within one year

Total current liabilities

CONTRIBUTIONS IN AID OF CONSTRUCTION

Total

\$11,928,000

2,386,000

15,287,000

29,601,000

27,999,000

9,530,000

2,419,000

2,855,000

417,000

1,605,000

7,296,000

104,000

\$74,530,000

\$11,928,000

2,386,000

11,411,000

25,725,000

30,373,000

8,212,000

2,243,000

1,500,000

452,000

1,612,000

5,807,000

102,000

\$70,219,000

See accompanying notes



Notes to the Financial Statements



December 31, 1976

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:



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 sale 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. Such profits included in Alberta Natural's operating revenue for 1976 are based upon actual results to October 31, 1976 and estimated results for the months of November and December, 1976.



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.



GAS ARCTIC: Alberta Natural is a member of the Gas Arctic - Northwest Project Study Group, which has completed the development of detailed plans for construction of a large diameter gas pipeline from Alaska and the Mackenzie Delta area to major Canadian and United States market areas. Applications for approval of the pipeline system have been made to the appropriate Canadian and United States regulatory authorities and public hearings commenced in 1975 and have continued through 1976. The cost of Alberta Natural's participation in this project, including an allowance for funds advanced, amounted to \$7,209,000 to December 31, 1976.

Alberta Natural has concluded an agreement with its related companies, Pacific Gas Transmission Company and Pacific Gas and Electric Company and with The Montana Power Company with respect to the obligations of Alberta Natural to make certain payments and its rights to acquire shares or other securities connected with this project. The agreement provides that Alberta Natural will continue to make contributions to the project on behalf of itself and these companies, but in the event that such contributions become irrecoverable, or an opportunity to acquire ownership interests in the project is made available to Alberta Natural, the parties will share such contributions and benefits. In these events, Alberta Natural's share will be approximately 18.5% and the remainder will be shared by Pacific Gas Transmission Company, Pacific Gas and Electric Company and The Montana Power Company.



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INCOME TAXES: It is Alberta Natural's practice to claim for taxation purposes, capital cost allowances and other deductions at maximum rates permitted in accordance with the Income Tax Act.

Since the gas transportation contract and the liquids sale agreement provide for recovery of income taxes, as explained in (A) above, Alberta Natural makes provision in its accounts for such income taxes included in billings to its customers, as well as providing for income taxes on marketing and other profits included in revenues, to the extent that they are not recoverable. 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.

While it has no effect on the net income of Alberta Natural, accumulated taxes deferred to December 31, 1976 amount to approximately \$25 million of which a provision of \$15.3 million has been recorded in the accounts. \$2.8 million of the taxes provided have been paid with an additional \$2.8 million being payable at December 31, 1976.

	1976	1975
2. PLANT, PROPERTY AND EQUIPMENT:		
Gas transmission plant	\$57,130,000	\$57,130,000
Less: Accumulated depreciation	<u>25,398,000</u>	<u>22,502,000</u>
Net gas transmission plant	<u>31,732,000</u>	<u>34,628,000</u>
Natural gas liquids extraction plant	18,083,000	17,975,000
Less: Accumulated depreciation	<u>2,595,000</u>	<u>2,147,000</u>
Net natural gas liquids extraction plant	<u>15,488,000</u>	<u>15,828,000</u>
Net Plant, Property and Equipment	<u>\$47,220,000</u>	<u>\$50,456,000</u>

Included in the amounts shown is plant under construction of \$25,000 at December 31, 1976 (\$146,000 at December 31, 1975).

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, 1976 \$3,082,000 otherwise available for dividends was restricted in this manner. Payment of dividends in 1977 will be subject to the restrictions imposed by the anti-inflation controls on dividends.

4. LONG TERM DEBT:

First Mortgage Pipe Line Bonds:

	Year Issued	Maturity	1976	1975
5 ¾ % Series A	1961	1986	\$10,326,000	\$11,413,000
8 ¾ % Series B (\$7,500,000 U.S.)	1969/1970	1991	8,046,000	8,583,000
8 ½ % Series C	1971	1992	<u>11,250,000</u>	<u>12,000,000</u>
			29,622,000	31,996,000
Less sinking fund instalments due within one year			<u>1,623,000</u>	<u>1,623,000</u>
			<u>\$27,999,000</u>	<u>\$30,373,000</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 1978 to 1981. The 1977 sinking fund requirement for the Series C Bonds has been provided for by the purchase and cancellation 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.

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5. DIRECTORS AND OFFICERS: At December 31, 1976 Alberta Natural had eight directors and nine officers. Three of the officers were also directors. Directors' fees of \$2,000 were paid in 1976 (1975 \$2,500) 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, 1976 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 and other 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, 1976 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
January 31, 1977

DELOITTE, HASKINS & SELLS
Chartered Accountants

Five Year Review Comparative Highlights

	1976	1975	1974	1973	1972
Operating revenue (\$000's)	47,317	41,063	30,940	23,853	17,291
Net income (\$000's)	5,701	4,563	3,456	2,144	1,977
Average number of common shares outstanding	1,192,822	1,192,822	1,192,822	1,192,822	1,192,822
Earnings per average outstanding common share (\$)	4.78	3.83	2.90	1.80	1.66
Annual dividend rate per common share (\$)	1.62(1)	1.50	1.10	1.10	1.00
Dividend payout ratio (%)	32.0	36.6	38.0	58.4	60.3
Common equity					
— total (\$000's)	29,601	25,725	22,832	20,688	19,796
— \$ per share	24.82	21.57	19.14	17.34	16.60
Total gas plant at year end (\$000's)					
— original cost	75,213	75,105	74,183	73,911	73,544
— depreciated cost	47,220	50,456	52,591	55,342	58,012
Construction expenditures (\$000's)	271	946	314	357	564
Average daily volume of gas delivered (Mcf)	1,220,000	1,198,000	1,128,000	1,219,000	1,206,000
Maximum day volume of gas delivered (Mcf)	1,358,000	1,340,000	1,369,000	1,372,000	1,332,000
Compressor horsepower	88,600	88,600	88,600	88,600	88,600
Average daily production of natural gas liquids (Bbls.)	12,700	13,900	13,300	15,500	13,100

Note: (1) Dividend rate increased
December, 1976.



MC GILL UNIVERSITY
1977
HOWARD ROSS LIBRARY
OF MANAGEMENT



Alberta Natural Gas Company Ltd