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ANNUAL REPORT 1980



Alberta Natural Gas Company Ltd

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 31 1981
SHELL UNIVERSITY

CORPORATE INFORMATION

DIRECTORS

John F. Bonner,
San Francisco, California
*Executive Consultant, Director,
former President and Chief
Executive Officer, Pacific Gas
and Electric Company*

Harry Booth,
Calgary, Alberta
*President and Chief Executive
Officer, Alberta and
Southern Gas Co. Ltd.*

D. R. Fenton,
Calgary, Alberta
*Executive 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

Frederick W. Mielke, Jr.,**
San Francisco, California
*Chairman of the Board and
Chief Executive Officer,
Pacific Gas and
Electric Company*

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

R. H. Peterson,
San Francisco, California
*Utility Consultant, Lawyer,
Director, former Chairman of the
Board, Pacific Gas and
Electric Company*

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

John A. Sproul,
San Francisco, California
*Executive Vice President,
Pacific Gas and Electric Company*

* Resigned March 4, 1981

**Appointed March 4, 1981

OFFICERS

R. A. MacKimmie,
Chairman of the Board

Harry Booth,
*President and
Chief Executive Officer*

D. R. Fenton,
Executive Vice-President

J. E. Goudie,
Executive Vice-President

D. McMorland,
*Vice-President,
Regulatory Affairs*

E. W. Mychaluk,
*Vice-President,
Engineering and Construction*

G. T. Noland,
*Vice-President,
Planning and Development*

F. G. Homer,
Secretary and General Counsel

H. B. Sanderson,
Treasurer

G. J. Clark,
Comptroller

COMMON SHARES LISTED

Alberta, Montreal, Toronto and Vancouver Stock Exchanges

TRANSFER AGENT AND REGISTRAR

(Capital Stock and 8½% First Mortgage Pipe Line Bonds, Series C)

Montreal Trust Company,

Calgary, Montreal, Regina, Toronto, Vancouver, Winnipeg

Notice of change of address should be sent to the Transfer Agent.

AUDITORS

Deloitte Haskins & Sells
Chartered Accountants,
Calgary, Alberta

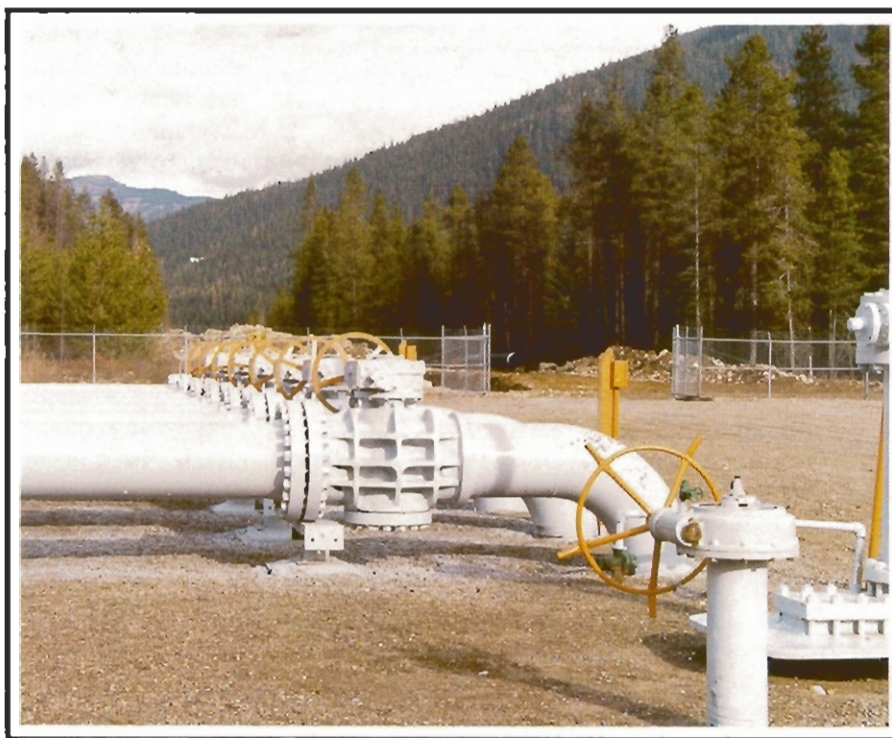
ANNUAL MEETING

THE ANNUAL MEETING of Shareholders will be held in the Glangarry Room, Calgary Convention Centre, Calgary, Alberta, on Wednesday, the 22nd day of April, 1981 at 9:30 a.m.

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

ALBERTA NATURAL GAS COMPANY LTD

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



View of meter runs at Kingsgate metering facilities.

FINANCIAL HIGHLIGHTS

	<u>1980</u>	1979
Operating revenue	\$116,135,000	\$110,207,000
Net income	12,304,000	10,057,000
Income per average outstanding common share	2.06	1.69
Dividends paid per common share — annual rate84	.68 (1)
Common equity		
— total at year end	52,335,000	45,040,000
— per share	8.77	7.55
Construction expenditures	1,499,000	5,073,000

NOTE: (1) Effective September, 1979.

TO OUR SHAREHOLDERS

Your Directors are pleased to report an increase in net income of 22% over that recorded for 1979. Earnings increased to \$2.06 per share in 1980 from \$1.69 per share in 1979. An increase in profits from the sale of natural gas liquids is the major factor contributing to the increase in earnings.

The National Energy Program introduced in conjunction with the federal budget in October of last year focused on increasing Canadian ownership and control in the oil and gas industry (through public as well as private sector involvement); on achieving energy security within a decade; and, on increasing the federal government's share of taxes and revenues. The program has been subjected to the most severe criticism by the western producing provinces and by the oil and gas industry. Your Directors share the concerns expressed as to the prospects of appropriate national goals being achieved through this program.

While the National Energy Program impacts most directly on the exploration and producing sector of the industry, a new tax included in the measures is of specific concern to your Company. This new excise tax levied on the sale of natural gas and natural gas liquids was imposed on November 1, 1980 at a rate of 30¢ per thousand cubic feet of natural gas (which translates to an average of approximately \$6.00 per cubic metre on natural gas liquids) and will be increased in stages to 75¢ per thousand cubic feet by January 1, 1983. This tax on the natural gas liquids produced and sold at the Cochrane plant is a direct charge to the purchasers of the plant liquids and will reduce the profits realized on the downstream sale of liquids. Approximately half of the natural gas liquids produced at Cochrane are sold in the United States and we are hopeful that the impact from this new tax will be mitigated by higher product prices that should result as a companion to the deregulation of crude oil and gasoline prices in that market.

Major developments undertaken by your Company in 1980 include the construction for Foothills Pipe Lines (South B.C.) Ltd. of Phase I of the Alaska Highway Pipeline Project paralleling Alberta Natural's pipeline in British Columbia and the commencement of detailed engineering studies to expand the Cochrane plant to increase production of ethane. In addition, your Company announced the proposed development of the Calgary office building site jointly with Olympia & York Developments Limited.

In order to enable Alberta Natural to take advantage of future opportunities for diversification and expansion, it became necessary during 1980 to obtain the approval of our bondholders to amend the Deed of Mortgage and Trust. The amendments, which became effective January 1, 1981, will give the Company greater flexibility in the financing of future investment opportunities. Essentially, we will now be able to finance projects outside of traditional operating areas and to finance new

developments on a project financing basis. In return for agreement from the bondholders to the amendments, Alberta Natural agreed to increase the interest rate on each series of bonds by $\frac{1}{2}$ of 1% per annum.

Following the Annual Meeting in April, 1980, Messrs. D. R. Fenton and J. E. Goudie were both appointed to the positions of Executive Vice-President. Mr. E. W. Mychaluk was appointed Vice-President, Engineering and Construction.

On March 4, 1981, Mr. Frederick W. Mielke, Jr., Chairman of the Board and Chief Executive Officer of Pacific Gas and Electric Company, was appointed to the Board of Directors of Alberta Natural following the resignation of Mr. H. I. Lepape. Mr. Lepape has been a Director since September, 1976, and his contributions particularly in relationship to your Company's interests in the Alaska Highway Pipeline Project are very much appreciated.

We sincerely thank our employees for their loyalty and dedication to good work without which your Company could not succeed. Pipeline employees have achieved five years without a lost-time accident and plant employees have concluded nine consecutive years of accident-free operations.

For the Board of Directors



Chairman of the Board



President and Chief Executive Officer

March 4, 1981



R. A. MacKimmie, Q.C.
Chairman of the Board

Harry Booth
President and Chief Executive Officer

REVIEW OF OPERATIONS

Financial

At the Annual Meeting on April 25, 1980, the shareholders approved a special resolution authorizing the splitting of the Company's shares on a five-for-one basis, effective May 16, 1980. The shareholders' proportionate equity in the Company remained unaffected as a result of the split.

Effective with the quarterly payment in March, 1980, the annual rate of dividends paid on the Company's common shares was increased from \$.68 to \$.84 per share and was further increased to \$1.00 per share effective with the quarterly payment in March, 1981.

The Company's net income for 1980 was \$12,304,000, or \$2.06 per outstanding common share. In 1979, net income was \$10,057,000, or \$1.69 per common share.

An increase in profits arising from participation in the downstream sale of natural gas liquids (NGL) contributed significantly to the increase in net income over 1979.

During 1980, negotiations were held with the Company's bondholders to relieve Alberta Natural from certain restrictions in the Deed of Mortgage and Trust. Under the original Trust Deed, the bondholders have had the security of all fixed assets, whether presently owned or thereafter acquired. However, investments other than additions to the pipeline system and the Cochrane plant were not recognized as bondable property additions. Rather than seek amendments to the existing Trust Deed to permit the continued use of First Mortgage Pipeline Bonds secured by assets which might not be in traditional cost-of-service projects, Alberta Natural agreed not to issue any additional bonds under the Trust Deed. Future external borrowing requirements will be met from proceeds of debenture issues ranking junior to the presently outstanding bonds or from project financing arrangements. In return for bondholder approval, the amended Trust Deed provides for an increase of $\frac{1}{2}$ of 1% in the annual interest rate on all series of bonds, effective January 1, 1981.



Preparation for crossing at McEvoy Creek.

Liquids Extraction Operations

During 1980, production of NGL at the Cochrane plant averaged $1\,705\text{m}^3$ (10,730 barrels) per day, which is a reduction of 12% from 1979. Production of ethane during 1980 averaged $3\,480\text{m}^3$ (21,800 barrels) per day compared with $3\,485\text{m}^3$ in 1979.

The Cochrane plant operated during 1980 at approximately 75% capacity as a result of the significant reduction in available feed gas entering the plant due to reduced demand for natural gas in the California market. However, relaxation of the carbon dioxide specifications in the ethane product allowed approximately the same volume to be produced despite the reduced volumes of feed gas.

Cochrane Plant Ethane Expansion

Early in 1980, Alberta Natural, at the request of The Alberta Gas Ethylene Company Ltd., initiated a study of the feasibility of increased ethane recovery at the Cochrane extraction plant. The additional ethane would provide a portion of the feedstock for a second worldscale ethylene plant to be constructed by Alberta Gas Ethylene. Fish International Canada Limited, the contractor for the first ethane expansion completed in 1978, has prepared cost estimates for various process configurations. The design required to produce the necessary volume of ethane consists of two new turbo-expander units to operate in parallel with the existing turbo-expander unit. Bids for the major equipment have been received and are being reviewed. It is expected that detailed contractual arrangements between Alberta Natural and Alberta Gas Ethylene will be finalized in 1981. Subject to the receipt of necessary regulatory approvals, and appropriate financial commitments from Alberta Gas Ethylene, major equipment items will be ordered and site work started in the spring of 1981. The expansion should be completed by the end of 1982.

*View of welding operations
near the top of
Flathead Ridge.*



Pipeline Operations

Continued good performance was obtained from turbine-driven compressor units during 1980, which contributed to the efficient operation of the pipeline system.

Average gas deliveries were lower than in the previous year, primarily as a result of the effect of higher priced Canadian gas in export markets. The price of gas at the international border was increased in February, 1980 to \$4.47 (U.S.) per million Btu's from the previous \$3.45 (U.S.) and will be raised to \$4.94 (U.S.) on April 1, 1981. Demand for Canadian gas in the California market was reduced because of the availability of lower priced United States gas and alternative fuels.

A new sales tap was added to the system in southeastern British Columbia at Galloway to supply natural gas to a local industry.

The Company has received approval from the National Energy Board to replace four reciprocating compressors, originally placed in service in 1961, at the Crowsnest compressor station with a centrifugal turbine-compressor installation. The new equipment is expected to be installed during the summer of 1981 at a cost of approximately \$6 million.



View of lowering-in a section of new pipeline on Flathead Ridge.

Alaska Highway Pipeline Project

In July, 1980, final approval was received for commencement of construction by Alberta Natural of Phase I of the Alaska Highway Pipeline Project to transport additional natural gas produced in Alberta to United States markets prior to the commencement of delivery of Alaskan gas. The southeastern British Columbia portion of Phase I consists of approximately 88.5 km (55 miles) of pipeline loops located parallel to the Company's existing pipeline. Alberta Natural has committed to subscribe for 49% of the shares to be issued by Foothills Pipe Lines (South B.C.) Ltd., the owner of the new facilities.

Extremely wet weather throughout August and September forced the contractor to use a heavy duty all-terrain vehicle specially designed for Arctic conditions to aid the pipe-stringing operation. At year-end 1980, construction of Phase I facilities in British Columbia was essentially complete. Mainline work such as ditching, welding, taping, lowering-in and back-fill was completed by mid-December. Hydro-testing and the installation of three river crossings were completed in early 1981. Final cleanup will be completed during the summer of 1981 in accordance with the planned schedule.

*View of pipe prior to connection
at the Kingsgate meter station.*



Regulatory Affairs

In March of 1980, Alberta Natural participated in a National Energy Board public hearing respecting its tolls and tariffs. The hearing resulted from the Board's concern that Alberta Natural's pipeline system be actively regulated because of its integration with the Alaska Highway Pipeline Project. The Board issued its decision at the end of May, 1980. Essentially, the Board agreed to a continuation of the current cost-of-service type of tariff, and found a rate of return on rate base of 11.5% per annum, effective July 1, 1980 (compared to the prior rate of 9.5%), to be just and reasonable. The decision also required the Company to calculate income taxes on a flow-through basis for rate making purposes rather than the normalized basis which was being followed. The overall effect of the Board's decision on earnings was not material.

The National Energy Board conducted a general inquiry into the supply of and demand for oil, natural gas and other forms of energy. The hearing commenced in Vancouver in November, 1980, and was continued in other Canadian centres, concluding in Ottawa during February, 1981. As operator of the Cochrane plant, Alberta Natural appeared at the Calgary phase of the hearing in November, 1980 and provided testimony to that portion of the inquiry relating to the production of NGL and ethane.

Calgary Property Development

Alberta Natural, jointly with Olympia & York Developments Limited, plans to develop its downtown Calgary property through the construction of a new high-rise office tower. Approval has been received from the City of Calgary for the proposed development. The total cost of this joint development is estimated to be \$80 million. Construction is expected to start in mid 1981 and to be completed in 1983.

ALBERTA NATURAL GAS COMPANY LTD

STATEMENT OF INCOME

For the year ended December 31, 1980
(with 1979 figures for comparison)


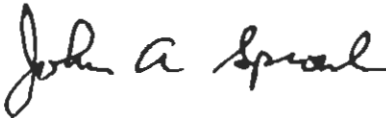
	<u>1980</u>	<u>1979</u>
	(thousands of dollars)	
OPERATING REVENUE:		
Transportation of gas	\$ 20,937	\$ 25,294
Liquids extraction	94,671	84,433
Other facilities	<u>527</u>	<u>480</u>
Total operating revenue	<u>116,135</u>	<u>110,207</u>
OPERATING EXPENSES:		
Operating and maintenance	81,892	80,524
Administrative	2,887	2,253
Depreciation	5,810	5,860
Property and other taxes	<u>4,088</u>	<u>1,839</u>
Total operating expenses	<u>94,677</u>	<u>90,476</u>
OPERATING INCOME	21,458	19,731
OTHER INCOME	<u>1,751</u>	<u>167</u>
INCOME BEFORE INCOME DEDUCTIONS	<u>23,209</u>	<u>19,898</u>
INCOME DEDUCTIONS:		
Interest on long term debt	1,723	1,887
Interest on other debt	143	679
Other	<u>49</u>	<u>49</u>
Total income deductions	<u>1,915</u>	<u>2,615</u>
INCOME BEFORE INCOME TAXES	21,294	17,283
PROVISION FOR INCOME TAXES	<u>8,990</u>	<u>7,226</u>
NET INCOME FOR THE YEAR	<u>\$ 12,304</u>	<u>\$ 10,057</u>
EARNINGS PER COMMON SHARE	<u>\$ 2.06</u>	<u>\$ 1.69</u>

See accompanying summary of accounting policies and notes.

ALBERTA NATURAL GAS COMPANY LTD

BALANCE SHEET — December 31, 1980 (with 1979 figures for comparison)

ASSETS

	<u>1980</u>	<u>1979</u>
	(thousands of dollars)	
PLANT, PROPERTY AND EQUIPMENT (Note 1)	\$120,921	\$119,449
Less accumulated depreciation	<u>46,937</u>	<u>41,141</u>
Net plant, property and equipment	<u>73,984</u>	<u>78,308</u>
CURRENT ASSETS:		
Cash and interest bearing deposits	7,082	2,353
Accounts receivable	22,614	14,758
Materials and supplies	1,818	1,567
Prepayments and other current assets	<u>89</u>	<u>94</u>
Total current assets	<u>31,603</u>	<u>18,772</u>
DEFERRED CHARGES (Note 2)	<u>5,094</u>	<u>3,451</u>
Approved by the Board:		
 Director		
 Director		
TOTAL	<u>\$110,681</u>	<u>\$100,531</u>

See accompanying summary of accounting policies and notes.

SHAREHOLDERS' EQUITY AND LIABILITIES

	<u>1980</u>	<u>1979</u>
	(thousands of dollars)	
SHAREHOLDERS' EQUITY (Note 3):		
Capital stock:		
5,964,110 common shares	\$ 11,928	\$ 11,928
Contributed surplus	2,386	2,386
Reinvested earnings	<u>38,021</u>	<u>30,726</u>
Total shareholders' equity	<u>52,335</u>	<u>45,040</u>
LONG TERM DEBT (Note 4)	<u>18,505</u>	<u>20,879</u>
DEFERRED INCOME TAXES	<u>20,475</u>	<u>22,476</u>
CURRENT LIABILITIES:		
Accounts payable	11,420	7,971
Income taxes payable	5,923	2,110
Interest accrued	296	328
Sinking fund instalments due within one year	<u>1,623</u>	<u>1,623</u>
Total current liabilities	<u>19,262</u>	<u>12,032</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>104</u>	<u>104</u>
TOTAL	<u>\$110,681</u>	<u>\$100,531</u>

See accompanying summary of accounting policies and notes.

ALBERTA NATURAL GAS COMPANY LTD

STATEMENT OF REINVESTED EARNINGS

For the year ended December 31, 1980
(with 1979 figures for comparison)

	<u>1980</u>	<u>1979</u>
	(thousands of dollars)	
BALANCE AT BEGINNING OF THE YEAR	\$30,726	\$24,128
NET INCOME FOR THE YEAR	<u>12,304</u>	<u>10,057</u>
	43,030	34,185
DIVIDENDS PAID ON COMMON SHARES	<u>5,009</u>	<u>3,459</u>
BALANCE AT END OF THE YEAR	<u>\$38,021</u>	<u>\$30,726</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1980
(with 1979 figures for comparison)

	<u>1980</u>	<u>1979</u>
	(thousands of dollars)	
FUNDS PROVIDED:		
From operations:		
Net income	\$12,304	\$10,057
Add (deduct) non-cash items:		
Depreciation	5,810	5,860
Provision for deferred income taxes	(2,001)	3,502
Other income deductions	49	49
Total	<u>\$16,162</u>	<u>\$19,468</u>
FUNDS APPLIED:		
Net additions to plant, property and equipment	\$ 1,486	\$ 5,056
Reduction of long term debt	2,374	2,373
Dividends	5,009	3,459
Deferred charges	1,692	290
Decrease in notes payable	—	11,011
Increase (decrease) in working capital other than notes payable	<u>5,601</u>	<u>(2,721)</u>
Total	<u>\$16,162</u>	<u>\$19,468</u>

See accompanying summary of accounting policies and notes.

ALBERTA NATURAL GAS COMPANY LTD

SUMMARY OF ACCOUNTING POLICIES

DECEMBER 31, 1980

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 an extraction plant near Cochrane, Alberta, which removes propane and heavier liquids (NGL) and ethane from the gas stream of Alberta and Southern.

The gas transportation contract with the gas shippers and the sale agreements with the purchasers of NGL and ethane 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 the NGL by each of the buyers, Dome Petroleum Limited and Amoco Canada Petroleum Company Ltd., and a share of the annual net profit realized by the buyer, The Alberta Gas Ethylene Company Ltd., on the sale outside Alberta of ethane surplus to ethylene plant requirements.

REGULATION:

The gas transmission segment of Alberta Natural's operations is subject to the National Energy Board Act and to the jurisdiction of the Board created thereby. This Board regulates accounting matters, export of gas, construction and operation of gas pipelines and rates, tolls and tariffs charged for such operations. In response to a request from the Board, Alberta Natural filed material to permit the determination of the justness and reasonableness of its tariff. The Board held a public inquiry into the matter in March, 1980. The Board in its decision of May, 1980, found a rate of return on rate base of 11.5% per annum, effective July 1, 1980, (compared to the prior rate of 9.5%), to be just and reasonable. The decision also required the Company to use "flow-through" income tax accounting for rate making purposes rather than "normalized" tax accounting.

PLANT, PROPERTY AND EQUIPMENT:

Plant, property and equipment is carried at cost.

An allowance for funds used during construction is capitalized for plant under construction. The rate used is normally equivalent to the annual rate of return. Any such allowance recorded is included in other income.

Gas transmission plant is being amortized at an annual rate (approximately 4.72%) 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 the portion of the extraction plant used for the removal of NGL is calculated at an annual rate of 2.5% on a straight-line basis. The ethane portion of the extraction facility is being depreciated at an initial rate of approximately 6.25% decreasing to 1.25% in 1993.

INVENTORIES:

Inventories of materials and supplies are carried at cost.

INCOME TAXES:

Alberta Natural follows the tax allocation basis of recording income taxes on all income except for gas transportation and liquids extraction operations which are subject to cost of service contracts. Income taxes are provided on this source of income only to the extent that they are included in costs of service under such contracts.

UNAMORTIZED DEBT EXPENSES:

Debt expense applicable to each series of bonds is being amortized over the term of such series.

UNAMORTIZED ORGANIZATION AND CAPITAL STOCK EXPENSE:

Organization and capital stock expense is being amortized over the life of the last expiring export licence (presently October 31, 1993).

DEFERRED CHARGES:

Project costs are initially recorded as deferred charges pending evaluation of the projects. Deferred charges applicable to projects which have been terminated are expensed.

ALBERTA NATURAL GAS COMPANY LTD

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 1980

(Tabular amounts shown in thousands of dollars)

1. PLANT, PROPERTY AND EQUIPMENT:

	<u>1980</u>	<u>1979</u>
Gas Transmission Plant	\$ 54,812	\$ 54,812
Extraction Plant	62,408	61,905
Other Plant	2,631	2,631
Plant Under Construction	1,070	101
	<u>120,921</u>	<u>119,449</u>
Less: Accumulated Depreciation	46,937	41,141
Net Plant, Property and Equipment	<u>\$ 73,984</u>	<u>\$ 78,308</u>

During 1980, an allowance for funds used during construction of \$76,000 (1979 Nil) has been capitalized in the amounts shown above and included in other income.

2. DEFERRED CHARGES:

	<u>1980</u>	<u>1979</u>
Alaska Highway Pipeline Project	\$ 4,383	\$ 2,821
Unamortized debt expense	426	467
Unamortized organization and capital stock expense	100	108
Other	185	55
	<u>\$ 5,094</u>	<u>\$ 3,451</u>

Alaska Highway Pipeline Project costs have been approved by the National Energy Board for inclusion in the rate base of the Foothills group of companies at such time as they are transferred to the books of account of these companies.

During 1980, an allowance for funds used to finance the preliminary expenditures in the amount of \$1,048,000 has been capitalized and included in other income. This represents a pre-tax allowance on these charges from 1974 to date.

3. SHAREHOLDERS' EQUITY:

The classes of shares Alberta Natural is authorized to issue consist of an unlimited number of preference shares, having such rights and privileges attached to them as the Directors may by resolution determine, and an unlimited number of common shares.

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, 1980 \$3,082,000 otherwise available for dividends was restricted in this manner.

On May 16, 1980 the Company issued additional shares of common stock in connection with a five-for-one stock split to shareholders of record as of May 16, 1980. All per share amounts and quantities of shares have been restated to reflect this stock split.

4. LONG TERM DEBT:

First Mortgage Pipe Line Bonds:

	<u>Year Issued</u>	<u>Maturity</u>	<u>1980</u>	<u>1979</u>
5 3/4 % Series A	1961	1986	\$ 5,978	\$ 7,065
8 3/4 % Series B (\$5,500,000 U.S.)	1969/1970	1991	5,900	6,437
8 1/2 % Series C	1971	1992	8,250	9,000
			<u>20,128</u>	<u>22,502</u>
Less sinking fund instalments due within one year			<u>1,623</u>	<u>1,623</u>
			<u>\$18,505</u>	<u>\$20,879</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 (under the original terms of the Deed of Mortgage and Trust). 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 1982 to 1985. The 1981 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.

In connection with certain changes made to the Deed of Mortgage and Trust the interest rate attached to each series of bonds is increased by 1/8 of 1%, effective January 1, 1981. Interest on the Series A Bonds will henceforth be at the rate of 6 7/8% per annum, on the Series B Bonds at the rate of 9 1/8% and on the Series C Bonds at the rate of 8 3/8%.

5. CLASSES OF BUSINESS OPERATIONS:

December 31, 1980:

	<u>Natural Gas Processing</u>	<u>Pipeline Transport</u>	<u>Other</u>	<u>Total</u>
Operating Revenue	\$94,671	\$20,937	\$ 527	\$116,135
Operating Expenses:				
Operating and Maintenance	70,536	10,988	368	81,892
Administrative	1,638	1,243	6	2,887
Depreciation	3,153	2,591	66	5,810
Property and Other Taxes	2,626	1,350	112	4,088
	<u>77,953</u>	<u>16,172</u>	<u>552</u>	<u>94,677</u>
Operating Income (Loss)	<u>\$16,718</u>	<u>\$ 4,765</u>	<u>\$ (25)</u>	<u>\$ 21,458</u>
Total Assets	<u>\$71,885</u>	<u>\$22,935</u>	<u>\$15,861</u>	<u>\$110,681</u>
Total Capital Expenditures During The Year	<u>\$ 498</u>	<u>\$ 983</u>	<u>\$ 5</u>	<u>\$ 1,486</u>

December 31, 1979:

	<u>Natural Gas Processing</u>	<u>Pipeline Transport</u>	<u>Other</u>	<u>Total</u>
Operating Revenue	\$84,433	\$25,294	\$ 480	\$110,207
Operating Expenses:				
Operating and Maintenance	65,836	14,443	245	80,524
Administrative	1,203	946	104	2,253
Depreciation	2,942	2,899	19	5,860
Property and Other Taxes	552	1,249	38	1,839
	<u>70,533</u>	<u>19,537</u>	<u>406</u>	<u>90,476</u>
Operating Income	<u>\$13,900</u>	<u>\$ 5,757</u>	<u>\$ 74</u>	<u>\$ 19,731</u>
Total Assets	<u>\$67,935</u>	<u>\$27,851</u>	<u>\$ 4,745</u>	<u>\$100,531</u>
Total Capital Expenditures During The Year	<u>\$ 196</u>	<u>\$ 4,860</u>	<u>\$ —</u>	<u>\$ 5,056</u>

6. RELATED PARTY TRANSACTIONS:

Alberta Natural is related to Pacific Gas Transmission Company, which company owns 45% of Alberta Natural's outstanding capital stock. Pacific Gas Transmission in turn is a subsidiary of Pacific Gas and Electric Company, which company owns 50.17% of the outstanding capital stock of Pacific Gas Transmission. Alberta and Southern Gas Co. Ltd. is a wholly owned subsidiary of Pacific Gas and Electric Company. Significant transactions with these related companies, not disclosed in the accompanying financial statements, were as follows:

(1) Net charges for personnel and related administrative costs from:		
	<u>1980</u>	<u>1979</u>
Alberta and Southern	\$ 2,462	\$ 1,298
Pacific Gas Transmission	119	108
Pacific Gas and Electric	12	16
(2) Charges for liquids extraction feedstock and fuel purchased from Alberta and Southern	67,242	62,957
(3) Net charge to Alberta and Southern for transportation of gas	11,204	13,026
(4) Amounts outstanding at December 31:		
Payable to Alberta and Southern	7,115	7,700
Receivable from Alberta and Southern	1,613	2,138

7. DIRECTORS AND OFFICERS:

At December 31, 1980, Alberta Natural had nine directors and eleven officers. Three of the officers were also directors. Directors' fees of \$44,600 were paid in 1980 (1979 - \$42,300) which represents 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 a related company, Alberta Natural pays a service charge to the related company.

8. COMMITMENTS AND CONTINGENT LIABILITY:

Alaska Highway Pipeline Project

Alberta Natural is responsible for the construction and operation of the segment of the Alaska Highway Pipeline in southeastern British Columbia parallel to the Alberta Natural pipeline and has undertaken to subscribe for 49% of the shares to be issued by Foothills Pipe Lines (South B.C.) Ltd., which company owns that segment of the Alaska Highway Pipeline. The amount of this investment is not yet determinable.

Calgary Property Development

Preliminary agreement has been reached with Olympia & York Developments Limited for the joint development of Alberta Natural's property in downtown Calgary. Subject to the necessary approvals, the development will comprise a high-rise office tower, to cost approximately \$80 million.

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, 1980 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, 1980 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

Calgary, Alberta
February 6, 1981

COMMON SHARE MARKET INFORMATION
(Toronto Stock Exchange)

	<u>High</u>	<u>Low</u>	<u>Close</u>	<u>Shares Traded</u>	<u>Dividends Paid</u>
1980					
First Quarter	\$18.00	\$13.50	\$16.75	28,586	\$0.21
Second Quarter	21.38	16.00	20.00	323,098	0.21
Third Quarter	26.00	20.00	22.00	131,245	0.21
Fourth Quarter	25.38	18.00	19.25	70,948	0.21
Year	26.00	13.50	19.25	553,877	0.84
1979	\$14.70	\$ 9.00	\$14.00	69,031	\$0.58

Adjusted for five-for-one stock split of May 16, 1980.

METRIC CONVERSION FORMULAE

1 MMcf (million cubic feet)	=	.028 10 ⁶ m ³ (million cubic metres)
1 barrel	=	.159 m ³ (cubic metres)
1 mile	=	1.609 km (kilometres)

ALBERTA NATURAL GAS COMPANY LTD

TEN YEAR COMPARATIVE HIGHLIGHTS

	<u>1980</u>	<u>1979</u>	<u>1978</u>
FINANCIAL AND SHARE DATA			
Operating revenue (\$000's)	116,135	110,207	62,150
Net income (\$000's)	12,304	10,057	7,271
Common shareholders' equity			
total (\$000's)	52,335	45,040	38,442
per share (\$)	8.77	7.55	6.45
Average equity outstanding (\$000's)	48,687	41,741	35,934
Earnings per outstanding common share (\$)	2.06	1.69	1.22
Return on average common shareholders' equity (%)	25.27	24.09	20.23
Average number of common shares outstanding	5,964,110	5,964,110	5,964,110
Cash dividends (\$000's)	5,009	3,459	2,255
Annual dividend rate			
per common share (\$) — year end84	.68	.48
Dividend payout ratio (%)	40.7	34.4	31.0
GAS PLANT			
At year end (\$000's)			
original cost	120,921	119,449	114,419
depreciated cost	73,984	78,308	79,112
CAPITAL EXPENDITURES (\$000's)	1,499	5,073	23,926
OPERATIONAL			
Daily volume of gas delivered			
average (10 ⁶ m ³)	27.82	33.99	30.57
(MMcft)	982	1,200	1,079
maximum (10 ⁶ m ³)	38.04	37.17	36.66
(MMcft)	1,343	1,312	1,294
Daily production (average)			
NGL (m ³)	1 705	1 930	1 680
(Bbls)	10,730	12,160	10,540
Ethane (m ³)	3 480	3 485	2 630
(Bbls)	21,800	21,920	16,530

NOTE: Share information is adjusted to reflect the five-for-one stock split on May 16, 1980.

<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>
52,387	47,317	41,063	30,940	23,853	17,291	14,170
5,787	5,701	4,563	3,456	2,144	1,977	1,770
33,426	29,601	25,725	22,832	20,688	19,796	19,012
5.60	4.96	4.31	3.83	3.47	3.32	3.19
31,513	27,663	24,278	21,760	20,242	19,404	18,723
.97	.96	.77	.58	.36	.33	.30
18.36	20.61	18.79	15.88	10.59	10.19	9.45
5,964,110	5,964,110	5,964,110	5,964,110	5,964,110	5,964,110	5,964,110
1,962	1,825	1,670	1,312	1,252	1,193	1,193
.34	.32	.30	.22	.22	.20	.20
33.9	32.0	36.6	38.0	58.4	60.3	67.4
90,503	75,213	75,105	74,183	73,911	73,544	72,999
59,162	47,220	50,456	52,591	55,342	58,012	60,439
15,318	271	946	314	357	564	4,673
35.13	34.56	33.94	31.95	34.53	34.16	31.84
1,240	1,220	1,198	1,128	1,219	1,206	1,124
39.77	38.47	37.96	38.78	38.87	37.73	36.91
1,404	1,358	1,340	1,369	1,372	1,332	1,303
1 840	2 020	2 210	2 110	2 460	2 080	1 450
11,600	12,700	13,900	13,300	15,500	13,100	9,100
—	—	—	—	—	—	—
—	—	—	—	—	—	—

ALBERTA NATURAL GAS COMPANY LTD

1980 Annual Report

