



AUDITOR'S REPORT

To the Chairman of the National Energy Board

I have audited the statement of financial position of the National Energy Board as at December 31, 2005 and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Section 24.1(1) of the *National Energy Board Act* and the National Energy Board Cost Recovery Regulations.

Roger Simpson, FCA
Principal
for the Auditor General of Canada

Edmonton, Canada
February 24, 2006



24 February 2006


Management's Responsibility for Financial Reporting


The management of the National Energy Board is responsible for the preparation of all information included in its financial statements. The accompanying statements have been prepared in accordance with Canadian generally accepted accounting principles. Management of the Board is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial information is presented fairly in all material respects. The financial statements also include certain expenditures supplied by government central agencies which are based on estimates. To fulfil its accounting and reporting responsibilities on cost recovery, the Board maintains a weekly time reporting system that records the efforts of all staff among the regulated commodities. In accordance with the National Energy Board Cost Recovery Regulations (the Regulations), the Board's costs are allocated to the commodities on the basis of the preceding fiscal year's accumulated time.

The Board maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial management information is available on a timely basis, and that assets are acquired economically, used to further the Board's aims, and protected from loss or unauthorized use. The Board's management recognizes its responsibility for conducting the Board's affairs in accordance with the requirements of applicable laws of Canada using sound business principles, and for maintaining standards of conduct that are appropriate to the public interest.

Management of the Board believes that the system of internal controls and approved policies, practices and procedures are designed to provide reasonable assurance that the operations are in compliance with applicable laws and conform to a high standard of business conduct. Management also seeks to ensure the objectivity and integrity of data in its financial statements by the careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate division of responsibilities, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Board.

The Auditor General of Canada annually provides an independent objective audit for the purpose of expressing an opinion on these financial statements in accordance with the significant provisions of the Regulations. The Board is responsible for the accuracy of billings to companies within the commodity groups.


Jim Donihee
Chief Operating Officer


Denis Roy
Business Leader, Integrated Solutions and
Senior Financial Officer

NATIONAL ENERGY BOARD
Statement of Financial Position

As at 31 December
(In thousands)

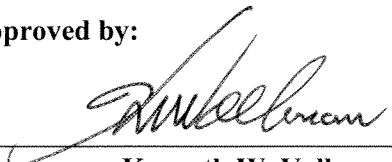
	2005	2004
Assets		
Current Assets:		
Accounts receivable (Note 5)	\$ 9,562	\$ 10,106
Advances	29	30
GST refundable advance	338	352
Prepayments	<u>202</u>	<u>95</u>
	<u>10,131</u>	<u>10,583</u>
Other Assets:		
Capital assets (Note 6)	<u>2,437</u>	<u>1,372</u>
TOTAL ASSETS	<u>\$12,568</u>	<u>\$11,955</u>

Liabilities and Equity of Canada


Current Liabilities:		
Accounts payable and accrued liabilities	\$ 857	\$ 1,876
Contractors' holdback	-	70
Employee leave pay	1,313	1,101
Employee severance benefits (Note 9)	<u>606</u>	<u>459</u>
	<u>2,776</u>	<u>3,506</u>
Long Term Liability:		
Employee severance benefits (Note 9)	4,756	4,598
Equity of Canada	<u>5,036</u>	<u>3,851</u>
TOTAL LIABILITIES AND EQUITY OF CANADA	<u>\$12,568</u>	<u>\$11,955</u>

Commitments (Note 11)

Approved by:



Kenneth W. Vollman
Chairman & Chief Executive Officer



Jim Donihee
Chief Operating Officer

The accompanying notes form an integral part of the financial statements.

NATIONAL ENERGY BOARD
Statement of Operations and Equity of Canada

Year Ended 31 December
(In thousands)

	2005	2004
REVENUE:		
Regulatory revenue	\$39,861	\$36,709
Miscellaneous revenue	<u>8</u>	<u>13</u>
TOTAL REVENUE	<u>39,869</u>	<u>36,722</u>
EXPENSES:		
Salaries and wages	25,038	23,407
Employee benefits	6,148	6,093
Professional and special services	4,018	2,821
Office rental	4,007	3,705
Transportation and communication	2,392	2,300
Materials and supplies	1,195	1,311
Amortization expense – capital assets	443	234
Equipment rentals	436	392
Information services	198	172
Repairs and upkeep	127	464
Miscellaneous	<u>32</u>	<u>54</u>
TOTAL EXPENSES	<u>44,034</u>	<u>40,953</u>
Net results for the year	(4,165)	(4,231)
Equity of Canada, beginning of year	3,851	3,887
Cost of services provided without charge by other Government departments (Note 10)	5,728	5,592
Net cash remitted to Government	<u>(378)</u>	<u>(1,397)</u>
Equity of Canada, end of year	<u>\$ 5,036</u>	<u>\$ 3,851</u>

The accompanying notes form an integral part of the financial statements.

NATIONAL ENERGY BOARD

Statement of Cash Flows

Year Ended 31 December

(In thousands)

	2005	2004
Operating Activities:		
Net results for the year	\$(4,165)	\$(4,231)
Non-Cash Items:		
Amortization of capital assets	443	234
Cost of services provided without charge by other Government departments	<u>5,728</u>	<u>5,592</u>
	<u>2,006</u>	<u>1,595</u>
Statement of Financial Position Adjustments:		
Change in accounts payable and accrued liabilities	(1,019)	936
Change in contractors' holdback	(70)	29
Change in employee leave pay	212	(129)
Change in employee severance benefits	305	118
Change in accounts receivable	544	(338)
Change in advances and prepayments	(106)	10
Change in GST refundable advance	<u>14</u>	<u>13</u>
	<u>(120)</u>	<u>639</u>
Cash provided by operating activities	<u>1,886</u>	<u>2,234</u>
Investing Activities:		
Acquisition of capital assets (Note 6)	<u>(1,508)</u>	<u>(837)</u>
NET CASH REMITTED TO GOVERNMENT	<u>\$ 378</u>	<u>\$ 1,397</u>

The accompanying notes form an integral part of the financial statements.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

1. Authority, objectives and operations

The National Energy Board (NEB) is an independent regulatory agency, established in 1959 under the *National Energy Board Act* and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*, reporting to Parliament through the Minister of Natural Resources.

The NEB regulates the following specific aspects of the energy industry:

- a) the construction and operation of international and interprovincial pipelines;
- b) the construction and operation of international and designated interprovincial power lines;
- c) traffic, tolls and tariffs of international and interprovincial pipelines;
- d) exports of oil, gas and electricity and imports of gas and oil; and
- e) oil and gas activities on frontier lands not subject to a federal/provincial accord.

Other responsibilities of the NEB include providing advice to the Minister of Natural Resources Canada on the development and use of energy resources.

NEB's corporate purpose is to promote safety, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament in the regulation of pipelines, energy development and trade. This principle guides the NEB in carrying out and interpreting its regulatory responsibilities. The companies that are regulated by the Board create wealth for Canadians through the transport of oil, natural gas and natural gas liquids, and through the export of hydrocarbons and electricity. As a regulatory agency, the Board's role is to help create a framework which allows these economic activities to occur when they are in the public interest.

The NEB operates in a manner similar to a civil court. For major applications and inquiries, the Board holds public hearings at which applicants and interested parties have full rights of participation.

The NEB has the authority to charge those companies it regulates, in accordance with sub-section 24.1(1) of the *National Energy Board Act*, the total costs attributable to the NEB's operations in carrying out its related responsibilities.

Under the National Energy Board Cost Recovery Regulations (the Regulations) approved by the Treasury Board, the National Energy Board recovers from the companies it regulates the cost of its operations effective 1 January 1991. It has the delegated authority to determine what costs will be excluded from program expenditures for cost recovery purposes.

The NEB operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the NEB is deposited to the CRF and all cash disbursements made by the NEB are paid from the CRF.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

2. Significant accounting policies and provisions of the Regulations

- a) These financial statements have been prepared on an accrual basis of accounting in accordance with Canadian generally accepted accounting principles.

- b) Employee Future Benefits:

Pension Benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The NEB's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change over time depending on the experience of the Plan. The NEB's contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Board. The NEB is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Employee Severance Benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as the employees render the services necessary to earn them. Management determined the accrued benefit obligation using a method based upon assumptions and its best estimates of the accrued obligations at the year-end. These benefits represent the only obligation of the NEB that entails settlement by future payment.

- c) Cost of Services Provided Without Charge by Other Government Departments:

Amounts for services provided to the NEB without charge by other Government departments are recorded as operating expenses by the NEB and are recoverable.

- d) Receivables:

Receivables are stated at amounts expected to be ultimately realized. A provision is made for receivables where recovery is considered uncertain.

- e) Capital Assets:

Capital assets with a cost of placing in service of \$10 per unit or more are capitalized at cost. Amortization is calculated over their estimated useful lives on a straight-line basis as follows:

- | | |
|---|-------------------------|
| • Furniture and Equipment | 10 Years |
| • Informatics Hardware (Computer Servers & Accessories) | 5 Years |
| • Informatics Software (Developed In-House) | 5 Years |
| • Motor Vehicles | 5 Years |
| • Leasehold Improvements | remaining term of lease |

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

f) Work in Progress – Software:

The capitalization of software costs has been performed prospectively as of 1 April 2002. Any costs incurred prior to this date have been expensed. Software that is not yet in service will form the basis of the Software Work in Progress account.

g) Non-recoverable Costs:

The Board approved the exclusion of costs related to the regulation of exploration for and development of oil and gas in the Frontier Lands, and therefore, these costs are non-recoverable. These amounts are included in the determination of the Equity of Canada account.

h) Cost Allocation:

In accordance with Sections 12 and 13 of the Regulations, the recoverable costs for a given calendar year are allocated to the gas, oil and electricity commodities and commodity pipelines on the basis of the actual time spent by Board members and employees during the preceding fiscal year (1 April to 31 March).

i) Net Cash Remitted to Government:

Net cash remitted to the Government is the difference between the amount of parliamentary appropriation used and all cash received by the Board.

j) Measurement Uncertainty:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, the valuation of capital assets and the cost of services provided without charge by other government departments are the most significant items where estimates are used. Actual amounts could differ from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

3. Fair Value of Financial Instruments

The carrying amounts of the Board's financial instruments included in current assets and current liabilities approximate the fair value because of the short term to maturity.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

4. Northern Gas Project Secretariat (NGPS)

The concept of the Northern Gas Project Secretariat was first unveiled in the Cooperation Plan, a document produced by the Northern Pipeline Environmental Impact Assessment and Regulatory Chairs' Committee in June 2002.

This Plan describes the framework that the authorities with environmental impact assessment and regulatory mandates, called the Agencies, will follow to implement coordinated environmental impact assessment and regulatory processes for a proposed major northern gas pipeline project and associated developments. It outlines methods of cooperation between the Agencies that will avoid duplication of effort and provides clarity and certainty of process for the public, companies and other stakeholders.

The environmental review process commenced with the filing of the Preliminary Information Package in June 2003. The regulatory processes commenced with the filing of the five applications for the construction and operation of the Mackenzie Gas Project in October 2004.

The Northern Gas Project Secretariat office was officially opened in December 2003. With offices in Yellowknife and Inuvik, staff at the Project Secretariat will help northerners and interested public effectively participate in the environmental review and regulatory processes.

According to the Treasury Board submission approved on 1 December 2003, the operating costs of NGPS incurred by NEB are recoverable under the *National Energy Board Act* since the Secretariat functions are classified as part of the application process of the Act. Included in the financial statements are NGPS costs for 2005 in the amount of \$705 (2004: \$240).

5. Accounts Receivable

	<u>2005</u>	<u>2004</u>
External Parties	\$12,478	\$12,981
Other Government Departments	<u>-</u>	<u>41</u>
Sub-total	12,478	13,022
Less:		
Allowance for Doubtful accounts	<u>(2,916)</u>	<u>(2,916)</u>
TOTAL	<u>\$ 9,562</u>	<u>\$10,106</u>

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

6. Capital Assets

Cost:	January 1 2005	Additions/ Amortization	December 31 2005
Furniture and equipment	\$ 61	\$ 46	\$ 107
Informatics Hardware (Computer Servers & Accessories)	393	188	581
Informatics Software (Developed In-House)	873	1,064	1,937
Motor Vehicles	25	-	25
Leasehold Improvements	190	324	514
Work in Progress	330	(114)	216
Sub-Total	1,872	1,508	3,380
Accumulated amortization:			
Furniture and equipment	7	10	17
Informatics Hardware (Computer Servers & Accessories)	142	101	243
Informatics Software (Developed In-House)	318	235	553
Motor Vehicles	9	5	14
Leasehold Improvements	24	92	116
Sub-Total	500	443	943
Net book value	\$ 1,372	\$ 1,065	\$ 2,437

7. Allocation of Recoverable Operating Costs

The recoverable operating costs for the year are calculated as follows:

Total expenses	\$ 44,034
Less: non-recoverable costs	<u>(4,165)</u>
Recoverable operating costs	<u>\$ 39,869</u>

The distribution of recoverable operating costs to the industry is based on the 2003-2004 fiscal year allocation of the officers and staff time of the Board:

Gas	59.33%	\$ 23,636
Oil	26.60%	10,597
Electricity	14.07%	<u>5,605</u>
		39,838
Commodity Pipelines		23
Miscellaneous revenue		<u>8</u>
TOTAL		<u>\$ 39,869</u>

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

8. Billing Adjustment

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Recoverable Operating Costs	\$39,869	\$36,722	\$37,465
Deduct: Provisional Billing	<u>(39,813)</u>	<u>(37,249)</u>	<u>(37,294)</u>
Billing Adjustment	<u>\$ 56</u>	<u>\$ (527)</u>	<u>\$ 171</u>

The billing adjustment represents the difference between the provisional billing and the actual recoverable expenditures. In accordance with Section 19 of the National Energy Board Cost Recovery Regulations, the billing adjustment of \$56 for the current year and \$(527) for the prior year will be applied to the provisional billings of 2007 and 2006 respectively. The 2003 billing adjustments of \$171 has been applied to the 2005 provisional billings.

9. Employee Benefits

Pension Benefits

The NEB and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The NEB's and employees' contributions to the Public Service Pension Plan for the year were as follows:

	<u>2005</u>	<u>2004</u>
Employer's contributions	\$3,103	\$3,125
Employees' contributions	\$1,466	\$1,460

Employee Severance Benefits

The NEB provides severance benefits to its employees based on their years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Future benefits will be paid out of future appropriations. Information about the plan, measured as at the balance sheet date, is as follows:

	<u>2005</u>	<u>2004</u>
Accrued benefit obligation, beginning of year	\$5,057	\$4,939
Cost for the year	1,181	466
Benefits paid during the year	<u>(876)</u>	<u>(348)</u>
Accrued benefit obligation, end of year	<u>\$5,362</u>	<u>\$5,057</u>
Short-term portion	\$ 606	\$ 459
Long-term portion	<u>4,756</u>	<u>4,598</u>
Total accrued benefit obligation	<u>\$5,362</u>	<u>\$5,057</u>

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

10. Related Party Transactions

The Board is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Board enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises. As shown below, these services are provided without charge to the NEB. For cost recovery purposes, the Board includes the value of these services which are estimated and recorded in the financial statements as follows:

	<u>2005</u>	<u>2004</u>
Accommodations provided by Public Works and Government Services Canada	\$3,706	\$3,678
Payroll and banking services provided by Public Works and Government Services Canada	13	16
Contributions covering the employer's share of employees medical and dental insurance premiums provided by Treasury Board Secretariat	1,949	1,838
Audit services provided by the Office of the Auditor General of Canada	<u>60</u>	<u>60</u>
TOTAL – Other Government Department Costs	<u>\$5,728</u>	<u>\$5,592</u>

11. Commitments

Future commitments under the NEB's operating leases and service contracts are as follows:

2006	\$ 860
2007	639
2008	296
2009	160
2010 and thereafter	<u>10</u>
	<u>\$ 1,965</u>

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2005
(thousands)

12. Parliamentary appropriations

The Government of Canada funds the expenses of the NEB through Parliamentary appropriations. The majority of these expenses are subsequently recovered from the companies regulated by the NEB, and are deposited in the Consolidated Revenue Fund of the Government of Canada.

Expenses funded by Parliamentary appropriation are not necessarily the same as those recognized in the NEB's statement of operations because appropriations are provided on a modified cash basis while the NEB's expenses are recorded on the accrual basis. The NEB's use of Parliamentary appropriations during the year was as follows:

	<u>2005</u>	<u>2004</u>
Total expenses	\$44,034	\$40,953
Less: Expenses not funded by parliamentary appropriations		
Amortization	(443)	(234)
Cost of services provided without charge by other Government departments	(5,728)	(5,592)
Change in employee severance benefits	(305)	(118)
Change in employee leave pay	(212)	129
Add: Acquisition of capital assets	<u>1,508</u>	<u>837</u>
Parliamentary appropriations used	<u>\$38,854</u>	<u>\$35,975</u>