



AUDITOR'S REPORT

To the Audit and Evaluation Committee of the National Energy Board

I have audited the statement of financial position of the National Energy Board as at 31 December 2007 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 31 December 2007 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.

Michael Pickup, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
4 April 2008



Management's Responsibility for Financial Reporting

Management of the National Energy Board is responsible for the integrity and objectivity of the financial statements. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles for the public sector. 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.

Management maintains financial and management control systems and practices which are designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded, liabilities are recognized, proper records are maintained, and the Board complies with applicable laws and conflict of interest rules.

In order to fulfil its accounting and reporting responsibilities on cost recovery, management also 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 Board's costs are allocated to the commodities on the basis of the preceding fiscal year's accumulated time. The Board is responsible for the accuracy of billings to companies within the commodity groups.

The Auditor General of Canada annually provides an independent objective opinion on the transactions and the financial statements of the Board.

Glenn Booth
A/Chief Operating Officer

Eric Bach
A/Business Leader, Integrated Solutions and
Senior Financial Officer

4 April 2008
Calgary, Canada

NATIONAL ENERGY BOARD
Statement of Financial Position

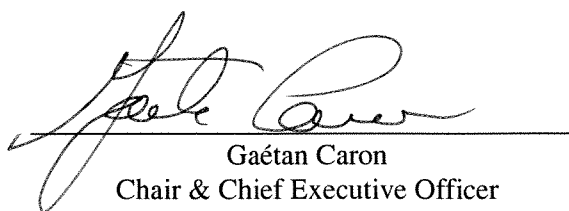
As at 31 December
(In thousands)

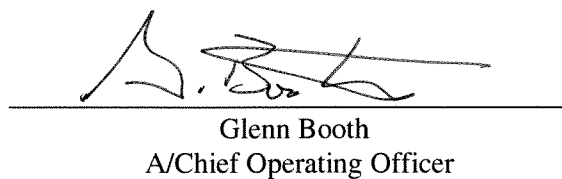
	2007	2006
Assets		
Current assets:		
Accounts receivable (Note 5)	\$ 24,156	\$ 17,018
GST refundable advance	279	370
Prepayments and advances	176	258
	<u>24,611</u>	<u>17,646</u>
Property and equipment (Note 6)	<u>2,113</u>	<u>2,323</u>
Total assets	\$ 26,724	\$ 19,969
Liabilities and Equity of Canada		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,469	\$ 3,179
Vacation pay and compensatory leave	1,579	1,464
Employee severance benefits (Note 9)	789	674
	<u>5,837</u>	<u>5,317</u>
Employee severance benefits (Note 9)	<u>4,542</u>	<u>4,539</u>
Equity of Canada	<u>16,345</u>	<u>10,113</u>
Total Liabilities and Equity of Canada	\$ 26,724	\$ 19,969

Commitments and Contingent liabilities (Note 12)

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

Approved by:


Gaétan Caron
Chair & Chief Executive Officer


Glenn Booth
A/Chief Operating Officer

NATIONAL ENERGY BOARD
Statement of Operations and Equity of Canada

Year Ended 31 December
(In thousands)

	2007	2006
Revenue		
Regulatory revenue	\$ 44,221	\$ 43,730
Miscellaneous revenue	10	6
	44,231	43,736
Expenses		
Salaries and wages	28,358	28,107
Employee benefits	6,889	6,532
Professional and special services	4,063	4,582
Office rental	4,085	4,107
Transportation and communication	2,510	2,634
Materials and supplies	926	1,180
Amortization	843	676
Equipment rentals	404	519
Repairs and maintenance	510	434
Information services	317	275
Miscellaneous	50	41
	48,955	49,087
Net loss for the year	(4,724)	(5,351)
Equity of Canada, beginning of year	\$ 10,113	5,036
Cost of services received without charge from Other Government departments (Note 11)	5,924	5,932
Net cash provided by Government	5,032	4,496
Equity of Canada, end of year	\$ 16,345	\$ 10,113

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

NATIONAL ENERGY BOARD
Statement of Cash Flows

Year Ended 31 December
(In thousands)

	2007	2006
Operating Activities:		
Net loss for the year	\$ (4,724)	\$(5,351)
Non-cash items:		
Amortization	843	676
Cost of services received without charge from other Government departments (Note 11)	5,924	5,932
	2,043	1,257
Statement of Financial Position adjustments:		
Change in accounts payable and accrued liabilities	290	2,322
Change in vacation pay and compensatory leave	115	151
Change in employee severance benefits	118	(149)
Change in accounts receivable	(7,138)	(7,456)
Change in prepayments and advances	82	(27)
Change in GST refundable advance	91	(32)
	(6,442)	(5,191)
Cash used by operating activities	(4,399)	(3,934)
Investing activities:		
Acquisition of property and equipment (Note 6)	(633)	(562)
Cash used by investing activities	(633)	(562)
Net cash provided by Government	\$ (5,032)	\$(4,496)

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

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

1. Authority, objectives and operations

The National Energy Board (NEB or Board) 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:

- the construction and operation of international and interprovincial pipelines;
- the construction and operation of international and designated interprovincial power lines;
- traffic, tolls and tariffs of international and interprovincial pipelines;
- exports of oil, gas and electricity and imports of oil and gas; and
- 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.

The NEB's corporate purpose is to promote safety and security, 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.

2. Significant accounting policies and provisions of the Regulations

The financial statements have been prepared in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles for the public sector requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ significantly from these estimates. The more significant estimates include the provision for employee severance benefits, accounts payable and accrued liabilities related to performance pay, the determination of the allowance for doubtful accounts, the valuation of property and equipment and the determination of the cost of services received without charge from other government departments.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

a) Parliamentary appropriations

The NEB is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the NEB do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the different bases of reporting.

b) Net cash provided by the Government

The NEB operates within the Consolidated Revenue Fund (CRF). All cash received by the NEB is deposited to the CRF and all cash disbursements made by the NEB are paid from the CRF. The net cash provided by the Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Revenue

i) Regulatory authority

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 Treasury Board, the NEB recovers from the companies it regulates the cost of its operations, effective 1 January 1991. The Board also has the delegated authority to determine what costs will be excluded from program expenditures for cost recovery purposes.

ii) Non-recoverable costs

The NEB 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.

iii) Allocation of recoverable operating costs

In accordance with Sections 12 and 13 of the *Regulations*, the recoverable costs for a given calendar year are allocated to the oil, gas 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).

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

d) Employee future benefits

i) Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The NEB's contributions reflect the full cost as employer. This amount is currently based on a multiple of an 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 obligation of the Board. The NEB is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

ii) 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. The cost of the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

e) Cost of services received without charge from other government departments

Services received without charge from other government departments for accommodation, the employer's contributions to the health and dental insurance plans, banking and audit services are recorded as operating expenses based on their estimated costs. Amounts for services received without charge from other government departments are recoverable costs for the purpose of the Regulations.

f) Accounts receivable

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

g) Property and equipment

Property and equipment 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

h) Assets under development – Software

The capitalization of software costs has been performed prospectively as of 1 April 2002. Any costs prior to this date have been expensed. The cost of software not yet in service forms the basis of the Assets under development account.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

3. 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.

Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. The differences are reconciled in the following tables:

a) Reconciliation of expenditures to appropriations used

	2007	2006
Total expenses	\$48,955	\$49,087
Less items not funded by parliamentary appropriations:		
Amortization	(843)	(676)
Cost of services received without charge from other Government departments (Note 11)	(5,924)	(5,932)
Change in employee severance benefits	(118)	149
Change in vacation pay and compensatory leave	(115)	(151)
Add items funded by parliamentary appropriations:		
Net acquisition of property and equipment	633	562
Total appropriations used	\$42,588	\$43,039

b) Reconciliation of net cash provided by government to appropriations used

	2007	2006
Net cash provided by government	\$ 5,032	\$ 4,496
Revenue not available for spending	44,231	43,736
Change in accounts payable and accrued liabilities	290	2,322
Change in accounts receivable	(7,138)	(7,456)
Change in prepayments and advances	82	(27)
Change in GST refundable advance	91	(32)
Total appropriations used	\$42,588	\$43,039

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

4. Northern Gas Project Secretariat

The concept of the Northern Gas Project Secretariat (NGPS) 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 2007 in the amount of \$250 (2006: \$250).

5. Accounts receivable

	2007	2006
External Parties		
Provisional Billing	\$ 12,373	\$11,649
Billing Adjustment - Current Year	6,470	8,229
Billing Adjustment - Prior Year	8,229	56
Less: allowance for Doubtful accounts	(2,916)	(2,916)
	\$ 24,156	\$17,018

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

6. Property and equipment

	Cost				Accumulated Amortization		Net Book Value	
	Opening balance	Acquisitions	Transfers and adjustments	Closing balance	Opening balance	Amortization Expense	2007	2006
Furniture and equipment	\$313	\$17		\$330	\$169	\$21	\$140	\$144
Informatics hardware	1,990			1,990	1,719	92	179	271
Informatics software (in house)	2,306		418	2,724	1,074	379	1,271	1,232
Motor Vehicles	25			25	19	5	1	6
Leasehold improvements	899	44		943	252	346	345	647
Assets under Development	23	572	(418)	177			177	23
	\$5,556	\$633		\$6,189	\$3,233	\$843	\$2,113	\$2,323

7. Allocation of recoverable operating costs

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

	2007	2006
Total expenses	\$48,955	\$49,087
Less: non-recoverable costs	(4,724)	(5,351)
Recoverable operating costs	\$44,231	\$43,736

The distribution of recoverable operating costs to the industry is based on the 2005-2006 fiscal year allocation of the officers and staff time of the Board:

	2007	2006
Gas	60.73% \$26,842	62.90% \$27,492
Oil	26.25% 11,602	25.11% 10,974
Electricity	13.02% 5,755	11.99% 5,241
	100.00% 44,199	100.00% 43,707
Commodity Pipelines	22	23
Miscellaneous Revenue	10	6
Recoverable Operating costs	\$44,231	\$43,736

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

8. Billing adjustment

	2007	2006	2005
Recoverable operating costs	\$ 44,231	\$ 43,736	\$ 39,869
Deduct provisional billing	(37,761)	(35,507)	(39,813)
Billing adjustment	\$ 6,470	\$ 8,229	\$ 56

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 \$6,470 for the current year and \$8,229 for the prior year will be applied to the provisional billings of 2009 and 2008 respectively. The 2005 billing adjustments of \$56 has been applied to the 2007 provisional billings. The billing adjustments for 2006 and 2007 are included in the accounts receivable.

9. Employee future benefits

i) 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:

	2007	2006
Employer's contributions	\$3,525	\$3,391
Employees' contributions	\$1,804	\$1,602

ii) 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. Benefits will be paid out of future appropriations. Information about the plan, measured as at the balance sheet date, is as follows:

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

9. Employee future benefits (continued)

	2007	2006
Accrued benefit obligation, beginning of year	\$ 5,213	\$5,362
Cost for the year	811	648
Benefits paid during the year	(693)	(797)
Accrued benefit obligation, end of year	\$5,331	\$5,213
Short-term portion	\$ 789	\$ 674
Long-term portion	4,542	4,539
	\$5,331	\$5,213

10. 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. There is no concentration of accounts receivable, and, therefore, there is no significant credit risk.

11. Related party transactions – Services received without charge

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. As shown below, these services are received 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.

NATIONAL ENERGY BOARD
Notes to the Financial Statements
For the year ended 31 December 2007
(thousands)

11. Related party transactions – Services received without charge (continued)

The cost of services received without charge by other Government departments is as follows:

	2007	2006
Accommodations received from Public Works and Government Services Canada	\$3,977	\$3,917
Contributions covering the employer's share of employees medical and dental insurance premiums received from Treasury Board Secretariat	1,854	1,942
Audit services received from the Office of the Auditor General of Canada	80	60
Payroll and banking services received from Public Works and Government Services Canada	13	13
	\$5,924	\$5,932

12. Commitments and Contingent liabilities

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

Within 1 year	\$ 1,807
From 1 – 2 years	478
From 2 – 3 years	18
From 3 – 4 years	7
Over 4 years	-
	\$ 2,310

b. Contingent liabilities

In the normal course of operations, NEB has become involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at December 31, 2007 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on NEB's financial position or results of operations.