

## INDEPENDENT AUDITOR'S REPORT

To the Chair of the National Energy Board

### Report on the Financial Statements

I have audited the accompanying financial statements of the National Energy Board, which comprise the statement of financial position as at 31 December 2012, and the statement of operations and net financial position, statement of change in net debt and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Energy Board as at 31 December 2012, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

**Report on Other Legal and Regulatory Requirements**

In my opinion, the transactions of the National Energy Board 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.

***Original signed by***

Terrance DeJong, CA  
Assistant Auditor General  
for the Auditor General of Canada

22 April 2013  
Edmonton, Canada



## Statement of Management Responsibility for Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended December 31, 2012 and all information contained in these statements rests with the management of the National Energy Board (NEB or the Board). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management 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 and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the NEB's financial transactions.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout the NEB and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

Management prepares these statements for the purposes allowed under the National Energy Board Cost Recovery Regulations and is responsible for the accuracy of the levies charged to the companies whose facilities are subject to its regulation. In order to fulfil its accounting, reporting and allocations of cost recovery, management maintains a weekly time reporting system that records the efforts of its staff with respect to the regulated commodities. The Board's costs are allocated to the commodities on the basis of the preceding fiscal year's accumulated time.

The Office of the Auditor General of Canada, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the 2012 financial statements of the NEB.

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Gaétan Caron, Chair and CEO

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Ed Jansen, CA, Chief Financial Officer

Calgary, Canada  
April 22, 2013

# National Energy Board

## Statement of Financial Position

As at December 31

(in thousands of dollars)

|  | <b>2012</b>       | <b>2011</b>                  |
|--|-------------------|------------------------------|
|  |                   | <i>Restated</i><br>(Note 15) |
| <b>Liabilities</b>   |                   |                              |
| Accounts payable and accrued liabilities (Note 4)          | \$ 7,154          | \$ 5,328                     |
| Due to Consolidated Revenue Fund                           | 648               | 486                          |
| Other payables (Note 5)                                    | 850               | 15,700                       |
| Vacation pay and compensatory leave                        | 2,544             | 2,379                        |
| Employee future benefits (Note 6)                          | 7,085             | 7,517                        |
| <b>Total liabilities</b>                                   | <b>18,281</b>     | <b>31,410</b>                |
| <b>Financial Assets</b>                                    |                   |                              |
| Due from Consolidated Revenue Fund                         | 7,154             | 5,327                        |
| Accounts receivable and advances (Note 7)                  | 28,871            | 30,011                       |
| <b>Total gross financial assets</b>                        | <b>36,025</b>     | <b>35,338</b>                |
| <b>Financial assets held on behalf of Government</b>       |                   |                              |
| Accounts receivable and advances (Note 7)                  | (28,223)          | (29,525)                     |
| <b>Total financial assets held on behalf of Government</b> | <b>(28,223)</b>   | <b>(29,525)</b>              |
| <b>Total net financial assets</b>                          | <b>7,802</b>      | <b>5,813</b>                 |
| <b>Net debt</b>  | <b>10,479</b>     | <b>25,597</b>                |
| <b>Non-financial assets</b>                                |                   |                              |
| Prepaid expenses   | 249               | 208                          |
| Tangible capital assets (Note 8)                           | 5,334             | 5,736                        |
| <b>Total non-financial assets</b>                          | <b>5,583</b>      | <b>5,944</b>                 |
| <b>Net financial position</b>                              | <b>\$ (4,896)</b> | <b>\$ (19,653)</b>           |

Contractual obligations and contingent liabilities (Note 12)

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

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Gaétan Caron, Chair and CEO

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Ed Jansen, CA, Chief Financial Officer

Calgary, Canada  
April 22, 2013

# National Energy Board

## Statement of Operations and Net Financial Position

### For the Year Ended December 31

(in thousands of dollars)

|  | <b>2012</b><br><i>Planned<br/>Results</i> | <b>2012</b>       | <b>2011</b><br><i>Restated<br/>(Note 15)</i> |
|--|---|-------------------|--|
| <b>Expenses</b>  |   |                   |  |
| Energy Regulation  | \$ 41,710                                 | \$ 47,273         | \$ 41,101                                    |
| Energy Information   | 7,251                                     | 7,393             | 9,366  |
| Internal Services  | 23,540                                    | 21,783            | 20,865                                       |
| <b>Total Expenses</b>  | <b>\$ 72,501</b>                          | <b>\$ 76,449</b>  | <b>\$ 71,332</b>                             |
| <b>Revenues</b>  |   |                   |  |
| Regulatory Revenue   | \$ 65,162                                 | 69,241            | 65,161                                       |
| Miscellaneous Revenue  | 44  | 9                 | 30   |
| Revenues earned on behalf of Government                                      | (65,206)                                  | (69,250)          | (65,191)                                     |
| <b>Total Revenues</b>  | <b>\$ -</b>                               | <b>\$ -</b>       | <b>\$ -</b>                                  |
| <b>Net cost of operations before government funding and transfers</b>        |   | <b>76,449</b>     | <b>71,332</b>                                |
| <b>Government funding and transfers</b>                                      |   |                   |  |
| Net cash provided by Government  |   | 81,218            | 46,282                                       |
| Change in due to/from the Consolidated Revenue Fund                          |   | 1,665             | 1,026  |
| Services received without charge from other government departments (Note 13) |   | 8,323             | 8,377  |
| <b>Net cost of operations after government funding and transfers</b>         |   | <b>(14,757)</b>   | <b>15,647</b>                                |
| <b>Net financial position - Beginning of year</b>                            |   | <b>(19,653)</b>   | <b>(4,006)</b>                               |
| <b>Net financial position - End of year</b>                                  |   | <b>\$ (4,896)</b> | <b>\$ (19,653)</b>                           |

Segmented information (Note 14)

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

# National Energy Board

## Statement of Change in Net Debt

For the Year Ended December 31

(in thousands of dollars)

|  | 2012               | 2011             |
|--|--------------------|------------------|
| <b>Net cost of operations after government funding and transfers</b> | <b>\$ (14,757)</b> | <b>\$ 15,647</b> |
| Change due to tangible capital assets                                |                    |                  |
| Acquisition of tangible capital assets                               | 1,935              | 2,316            |
| Amortization of tangible capital assets                              | (2,055)            | (1,469)          |
| Net (loss) gain on disposal of capital assets                        | (282)              | -                |
| Transfer of capital asset to other government department             | -                  | (10)             |
| <b>Total change due to tangible capital assets</b>                   | <b>(402)</b>       | <b>837</b>       |
| Change due to prepaid expenses                                       | 41                 | 78               |
| <b>Net increase (decrease) in net debt</b>                           | <b>(15,118)</b>    | <b>16,562</b>    |
| <b>Net debt - Beginning of year</b>                                  | <b>25,597</b>      | <b>9,035</b>     |
| <b>Net debt – End of year</b>  | <b>\$ 10,479</b>   | <b>\$ 25,597</b> |

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

# National Energy Board

## Statement of Cash Flow

For the Year Ended December 31

(in thousands of dollars)

|  | <b>2012</b>      | <b>2011</b>                  |
|--|------------------|------------------------------|
|  |                  | <i>Restated</i><br>(Note 15) |
| <b>Operating activities</b>  |                  |                              |
| Net cost of operations before government funding and transfers             | \$ 76,449        | \$ 71,332                    |
| Non-cash items:  |                  |                              |
| Amortization of capital assets   | (2,055)          | (1,469)                      |
| Gain (loss) on disposal of capital assets                                  | (282)            | -                            |
| Transfer of asset to other government departments                          | -                | (10)                         |
| Services provided without charge by other government departments (Note 13) | (8,323)          | (8,377)                      |
| Variations in Statement of Financial Position:                             |                  |                              |
| Increase (decrease) in accounts receivables and advances                   | 162              | 78                           |
| Increase (decrease) in prepaid expenses                                    | 41               | 78                           |
| Decrease (increase) in accounts payables and accrued liabilities           | (1,826)          | (1,105)                      |
| Decrease (increase) in other payables                                      | 14,850           | (15,700)                     |
| Decrease (increase) in vacation pay and compensatory leave                 | (165)            | (256)                        |
| Decrease (increase) in employee future benefits                            | 432              | (605)                        |
| <b>Cash used in (provided by) operating activities</b>                     | <b>79,283</b>    | <b>43,966</b>                |
| <b>Capital investing activities</b>  |                  |                              |
| Acquisitions of tangible capital assets                                    | 1,935            | 2,316                        |
| <b>Cash used in (provided by) investing activities</b>                     | <b>1,935</b>     | <b>2,316</b>                 |
| <b>Net cash provided by (to) Government of Canada</b>                      | <b>\$ 81,218</b> | <b>\$ 46,282</b>             |

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

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**1. Authority, Objectives and Operations**

The National Energy Board (NEB or the Board) is an independent federal regulator established in 1959 to promote safety and security, environmental protection and economic efficiency in the Canadian public interest for the regulation of pipelines, energy development and trade. The Board reports to Parliament through the Minister of Natural Resources. The NEB was established under the *National Energy Board Act* (NEB Act) and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*.

The Board's responsibilities can be framed into the following program activity architecture which is also the basis for its segmented Statement of Operations:

**I. Energy Regulation**

The Board's responsibilities include regulating the construction and operation of interprovincial and international oil and gas pipelines, international power lines, and designated interprovincial power lines. The Board also regulates the tolls and tariffs of the pipelines under its jurisdiction as well as the export of natural gas, oil, natural gas liquids and electricity, and the import of natural gas. Additionally, the Board regulates oil and gas exploration and development on frontier lands and offshore areas not covered by provincial or federal management agreements.

**II. Energy Information**

The Board monitors aspects of energy supply, demand, production, development and trade of all energy commodities that fall within the jurisdiction of the federal government. The Board publishes periodic assessments of Canadian supply and demand of energy and natural gas markets to inform Canadians on trends, events and issues which may affect Canadian energy markets.

**III. Internal Services**

The Board ensures that it has the capacity to deliver on its mandate by its commitment to enhancing its organizational performance by developing, nurturing and maintaining expertise in its people strategy.

The NEB is an independent, federal, quasi-judicial regulatory tribunal guided by the principles of natural justice and procedural fairness. The Board is a court of record and has certain powers of a superior court with respect to the attendance, swearing and examination of witnesses; the production and inspection of documents; the enforcement of its orders; the entry on and inspection of property; and other matters necessary or proper for the due exercise of its jurisdiction. Aside from rare exceptions, the Board's regulatory decisions and the accompanying Reasons for Decision are issued as public documents.

**2. Significant Accounting Policies and Provisions of the Regulations**

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards. Significant accounting policies are as follows:

a) Parliamentary authorities

The NEB is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the NEB do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. In addition the year-end date of these statements (December 31) is different than the Government of Canada's year end date (March 31). Therefore funding



**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

for the period January to December 2012 is determined by prorating portions of appropriations from two Government fiscal years. Note 3 provides a high-level reconciliation between the bases of reporting.

The planned results amounts in the Statement of Operations have been provided for comparison purposes and are not audited.

b) Net cash provided by/to Government

The NEB operates within the Consolidated Revenue Fund (CRF), which 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. The net cash provided by/ to Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Amounts due from or to the Consolidated Revenue Fund

Amounts due from/to the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the NEB is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- The NEB has the authority to charge those companies that it regulates, in accordance with sub-section 24.1 of the NEB Act, the costs attributable to the NEB's operations in carrying out its responsibilities. Under the National Energy Board Cost Recovery Regulations (Regulations) approved by Treasury Board, the NEB recovers, from the companies that it regulates, the cost of its operations, effective January 1, 1991. Revenues from regulatory levies are recognized in the accounts when they are invoiced and, in accordance with the Regulations, are based on the estimated cost of operations for the calendar year, with a billing adjustment to actual costs once the costs are known. The recoverable costs for a given calendar year are allocated to the oil, gas and electricity commodities proportionately on the basis of the actual time spent by Board members and employees during the preceding fiscal year (April 1 to March 31).
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- Revenues that are non-respendable are not available to discharge the NEB's liabilities. While the Chair is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

e) Expenses

Expenses are recorded on the accrual basis.

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal and audit services are recorded as operating expenses at their estimated cost. These estimated amounts for services received without charge are recoverable costs under the Regulations.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

- Expenditures of the Board that are excluded from the Regulations are those related to the regulation of, exploration for, and the development of oil and gas on frontier lands and offshore areas. These amounts are disclosed in Note 9 as non-recoverable costs.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program.
- Program activity cost that support the NEB's mandate to deliver Energy Regulation, Energy Information and Internal Services (as reported on the Statement of Operations) are allocated based on actual salary expenditures for each activity.

f) Employee future benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan (Plan), a multiemployer pension plan administered by the Government of Canada. The NEB's contributions to the Plan are charged to expenses in the year incurred and represent the total departmental obligation to the Plan. The NEB's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.
- ii. Severance benefits: Certain employees are entitled to severance benefits under labour contracts or conditions of employment and these benefits are earned as services necessary to earn them are rendered. The obligation relating to 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.

g) Accounts receivables

Accounts receivable are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain. In addition, a distinction is made between financial assets that are available to discharge the NEB's liabilities versus the ones that are not. Accounts receivable that pertain to non-respendable revenues earned on behalf of government are considered to be held on behalf of the Government of Canada and are therefore presented in the Statement of Financial Position as a reduction of the entity's gross financial assets.

h) Contingent liabilities

Contingent liabilities are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

i) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more per unit, per bundle or purchased in bulk, are recorded at their acquisition cost.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

| <b>Asset class</b>             | <b>Amortization period</b>   |
|--------------------------------|--|
| Informatics hardware:          |  |
| PCs and accessories            | 3 years  |
| Computer servers & accessories | 5 years  |
| Informatics software           |  |
| Commercial software            | 2 years  |
| In-house developed software    | 5 years  |
| Equipment                      | 5 years  |
| Furniture                      | 10 years   |
| Motor vehicles                 | 5 years  |
| Leasehold improvements         | Lesser of the remaining term of the lease<br>or useful life of the improvement |

The cost of software development not yet implemented forms the basis of Assets under Development account. Salaries, wages and benefits directly related to in-house developed software are included in the asset's costs. Assets under development are recorded in the applicable capital asset class and amortized when they become available for use.

j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are contingent liabilities, the liability for employee future benefits, allowance for doubtful accounts and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**3. Parliamentary Authorities**

The NEB receives most of its funding through annual parliamentary authorities. The majority of these expenditures are subsequently recovered from the companies regulated by the NEB and the funds are deposited in the Consolidated Revenue Fund of the Government of Canada. Items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the NEB has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

**(a) Reconciliation of net cost of operations to current year authorities used:**

|   | <b>2012</b>               | <b>2011</b>      |
|---|---------------------------|------------------|
|   | (in thousands of dollars) |                  |
| <b>Net cost of operations before government funding and transfers</b>                 | <b>\$ 76,449</b>          | <b>\$ 71,332</b> |
| Adjustments for items affecting net cost of operations but not affecting authorities: |                           |                  |
| Services provided without charge by other government departments (Note 13)            | (8,323)                   | (8,377)          |
| Amortization of tangible capital assets   | (2,055)                   | (1,469)          |
| Gain (loss) on disposal of tangible capital assets                                    | (282)                     | -                |
| Transfer of capital asset to other government department                              | -                         | (10)             |
| Increase in vacation pay and compensatory leave                                       | (165)                     | (256)            |
| Increase in employee future benefits  | 432                       | (605)            |
| <b>Total items affecting net cost of operations but not affecting authorities</b>     | <b>(10,393)</b>           | <b>(10,717)</b>  |
| Adjustments for items not affecting net cost of operations but affecting authorities: |                           |                  |
| Acquisition of tangible capital assets  | 1,935                     | 2,316            |
| Increase (Decrease) in prepaid expenses   | 41                        | 78               |
| <b>Total items not affecting net cost of operations but affecting authorities</b>     | <b>1,976</b>              | <b>2,394</b>     |
| <b>Current year authorities used</b>  | <b>\$ 68,032</b>          | <b>\$ 63,009</b> |

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**(b) Authorities provided and used**

|                                      | <b>2012</b>               | <b>2011</b>      |
|--------------------------------------|---------------------------|------------------|
|                                      | (in thousands of dollars) |                  |
| Vote 25 – Program expenditures       | \$ 65,015                 | \$ 59,706        |
| Statutory amounts                    | 7,294                     | 6,646            |
| <i>Less:</i>                         |                           |                  |
| Lapsed authorities: Operating        | (4,277)                   | (3,343)          |
| <b>Current year authorities used</b> | <b>\$ 68,032</b>          | <b>\$ 63,009</b> |

**4. Accounts Payable and Accrued Liabilities**

The following table presents details of accounts payable and accrued liabilities:

|   | <b>2012</b>               | <b>2011</b>     |
|---|---------------------------|-----------------|
|   | (in thousands of dollars) |                 |
| Accounts payable to other government departments and agencies | \$ 784                    | \$ 47           |
| Accounts payable to external parties                          | 1,261                     | 1,180           |
| <b>Total accounts payable</b>                                 | <b>2,045</b>              | <b>1,227</b>    |
| Accrued liabilities   | 5,109                     | 4,101           |
| <b>Total accounts payable and accrued liabilities</b>         | <b>\$ 7,154</b>           | <b>\$ 5,328</b> |

**5. Other Payables**

Other payables represents the levies collected from newly regulated parties under Section 5.2(1) of the National Energy Board Cost Recovery Regulations. These amounts will reduce the cost recovery levies payable by other regulated parties and is included as an adjustment to billings to other regulated parties in the year after the Section 5.2(1) levies have been invoiced.

**6. Employee Future Benefits**

**a) Pension benefits**

The NEB's employees participate in the Public Service Pension Plan (the Plan), which is sponsored and administered by the Government. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and the NEB contribute to the cost of the Plan. The 2012 expense amounts to \$5,438,425 (\$5,274,000 in 2011), which represents approximately 1.9 times (1.9 in 2011) the contributions by employees.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

The NEB's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

**b) Severance benefits**

The NEB provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded and will be paid from future authorities.

Commencing in 2012, and due to changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation and reflect management's best estimate of these future events.

Details of the severance benefits, measured as at December 31, are as follows:

|  | <b>2012</b>               | <b>2011</b>     |
|--|---------------------------|-----------------|
|  | (in thousands of dollars) |                 |
| Accrued benefit obligation, beginning of year  | \$ 7,517                  | \$ 6,912        |
| Expense for the year                           | 774                       | 1,036           |
| Benefits paid during the year                  | (1,206)                   | (431)           |
| <b>Accrued benefit obligation, end of year</b> | <b>\$ 7,085</b>           | <b>\$ 7,517</b> |

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**7. Accounts Receivable and Advances**

The following table presents details of the NEB's accounts receivable and advances balances:

|  | <b>2012</b>               | <b>2011</b>   |
|--|---------------------------|---------------|
|  | (in thousands of dollars) |               |
| Receivables - External parties                                       |                           |               |
| Outstanding provisional billings for current year                    | \$ 11,501                 | \$ 18,515     |
| Billing adjustments: current year                                    | 10,883                    | 5,818         |
| prior years (Note 10)  | 5,818                     | 5,194         |
| Prior year's outstanding balance                                     | 1,752                     | 1,728         |
| Receivables - Other government departments and agencies              | 506                       | 416           |
| Employee advances  | 142                       | 70            |
| <b>Subtotal</b>  | <b>30,602</b>             | <b>31,741</b> |
| Allowance for doubtful accounts on receivables from external parties | (1,731)                   | (1,730)       |
| <b>Gross accounts receivable</b>                                     | <b>28,871</b>             | <b>30,011</b> |
| Accounts receivable held on behalf of Government                     | (28,223)                  | (29,525)      |
| <b>Net accounts receivable</b>                                       | <b>\$ 648</b>             | <b>\$ 486</b> |

**8. Tangible Capital Assets**

(in thousands of dollars)

| Capital asset class      | Cost            |                              |             |                        |                 |
|--------------------------|-----------------|------------------------------|-------------|------------------------|-----------------|
|                          | Opening balance | Acquisitions and adjustments | Transfers   | Disposals & write-offs | Closing balance |
| Furniture & equipment    | \$2,396         | \$ 230                       | \$ 0        | \$ 0                   | \$2,626         |
| Informatics hardware     | 2,713           | 464                          | 0           | 0                      | 3,177           |
| Informatics software     | 6,279           | 614                          | 113         | (460)                  | 6,546           |
| Motor vehicles           | 37              | 0                            | 0           | 0                      | 37              |
| Leasehold improvements   | 1,786           | 0                            | 0           | 0                      | 1,786           |
| Assets under development | 305             | 627                          | (113)       | 0                      | 819             |
| <b>Total</b>             | <b>\$13,516</b> | <b>\$1,935</b>               | <b>\$ 0</b> | <b>\$ (460)</b>        | <b>\$14,991</b> |

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

| Capital asset class      | Accumulated amortization |                      |                       |                 | Net book value |                |
|--------------------------|--------------------------|----------------------|-----------------------|-----------------|----------------|----------------|
|                          | Opening balance          | Amortization expense | Disposals & writeoffs | Closing balance | 2012           | 2011           |
| Furniture & equipment    | \$ 959                   | \$ 333               | \$ 0                  | \$1,292         | \$1,334        | \$1,437        |
| Informatics hardware     | 1,820                    | 402                  | 0                     | 2,222           | 955            | 893            |
| Informatics software     | 3,603                    | 1,076                | (178)                 | 4,501           | 2,045          | 2,676          |
| Motor vehicles           | 5                        | 7                    | 0                     | 12              | 25             | 32             |
| Leasehold improvements   | 1,393                    | 237                  | 0                     | 1,630           | 156            | 393            |
| Assets under development | 0                        | 0                    | 0                     | 0               | 819            | 305            |
| <b>Total</b>             | <b>\$7,780</b>           | <b>\$2,055</b>       | <b>\$(178)</b>        | <b>\$9,657</b>  | <b>\$5,334</b> | <b>\$5,736</b> |

**9. Allocation of Recoverable Operating Costs**

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

|   | 2012                      | 2011            |
|---|---------------------------|-----------------|
|   | (in thousands of dollars) |                 |
| Total expenses  | \$76,449                  | \$71,332        |
| Less: non-recoverable costs related to the regulation of Frontier Lands and review of Arctic safety and offshore drilling | (7,208)                   | (6,171)         |
| <b>Recoverable operating costs (Note 10)</b>  | <b>\$69,241</b>           | <b>\$65,161</b> |



**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

The allocation of recoverable operating costs to the commodities is based on actual time spent by Board members, officers and employees during the 2010/11 fiscal year (2009/10 for 2011):

|                                    | <b>2012</b>               |                 | <b>2011</b> |                 |
|------------------------------------|---------------------------|-----------------|-------------|-----------------|
|                                    | (in thousands of dollars) |                 |             |                 |
| Gas                                | 54.9%                     | \$37,989        | 52.8%       | \$34,387        |
| Oil                                | 38.2%                     | 26,459          | 39.3%       | 25,626          |
| Electricity                        | 6.9%                      | 4,771           | 7.9%        | 5,126           |
|                                    | 100.0%                    | 69,219          | 100.0%      | 65,139          |
| Commodity pipelines                |                           | 22              |             | 22              |
| <b>Recoverable operating costs</b> |                           | <b>\$69,241</b> |             | <b>\$65,161</b> |

**10. Billing Adjustment**

|                                      | <b>2012</b>               | <b>2011</b>     | <b>2010</b>     |
|--------------------------------------|---------------------------|-----------------|-----------------|
|                                      | (in thousands of dollars) |                 |                 |
| Recoverable operating costs (Note 9) | \$69,241                  | \$65,161        | \$58,507        |
| Deduct: provisional billing          | (58,358)                  | (59,343)        | (53,313)        |
| <b>Billing adjustment</b>            | <b>\$10,883</b>           | <b>\$ 5,818</b> | <b>\$ 5,194</b> |

The billing adjustment represents the difference between the provisional billing and the actual recoverable operating costs. In accordance with Section 19 of the Regulations, the billing adjustment of \$10,883,000 for the current year and \$5,818,000 for the prior year will be applied to the provisional billings of 2014 and 2013 respectively. The portion of the 2009 billing adjustment of \$8,139,000 that relates to the oil and gas commodity pipelines amounts to \$7,214,000 and has been applied to the 2011 provisional billings. The remaining \$925,000 relates to the electricity commodity and this amount along with the 2008 electricity commodity billing adjustment of \$857,000 was invoiced to electricity exporters in 2011 to finalize their accounts. Effective January 1, 2010, amendments to the National Energy Board Cost Recovery Regulations took effect resulting in a change in the obligation for cost recovery from electricity exporters to international and inter-provincial power lines. The billing adjustments for 2012 and 2011 are included in the accounts receivable.

**11. Fair Value of Financial Instruments**

The carrying amounts of the Board's financial instruments, including accounts receivable, accounts payable and accrued 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.

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**12. Contractual Obligations and Contingent Liabilities**

**a) Contractual obligations**

The nature of the NEB's activities can result in some large multi-year contracts and obligations whereby the NEB will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

|                           | 2013     | 2014   | 2015  | 2016  | 2017 and thereafter | Total    |
|---------------------------|----------|--------|-------|-------|---------------------|----------|
| (in thousands of dollars) |          |        |       |       |                     |          |
| Vendor contracts          | \$ 4,279 | \$ 383 | \$ 49 | \$ 25 | \$ 25               | \$ 4,761 |

**b) Claims and litigation**

Claims have been made against the NEB in the normal course of operations. These claims include items with pleading amounts and other for which no amount is specified. Based on the NEB's assessment, legal proceedings for claims estimated at \$4,200,000 were pending at December 31, 2012 (\$4,240,000 in 2011). Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

**13. Related Party Transactions**

The NEB is related as a result of common ownership to all government departments, agencies, and Crown Corporations. The NEB enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the NEB received services which were obtained without charge from other government departments as discussed below.

**a) Common services provided without charge by other government departments:**

|  | 2012            | 2011            |
|--|-----------------|-----------------|
| (in thousands of dollars)  |                 |                 |
| Accommodation from Public Works and Government Services Canada   | \$ 4,727        | \$ 4,803        |
| Contributions covering the employer's share of employees medical and dental insurance premiums from Treasury Board Secretariat | 3,301           | 3,307           |
| Audit services from the Office of the Auditor General  | 153             | 150             |
| Legal services from Department of Justice  | 95              | 94              |
| Payroll and banking services from Public Works and Government Services Canada  | 47              | 23              |
| <b>Total</b>   | <b>\$ 8,323</b> | <b>\$ 8,377</b> |

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**b) Other transactions with related parties:**

|  | 2012                      | 2011     |
|--|---------------------------|----------|
|  | (in thousands of dollars) |          |
| Accounts receivable from other government departments and agencies | \$ 506                    | \$ 416   |
| Accounts payable to other government departments and agencies      | 784                       | 46       |
| Expenses - Other government departments and agencies               | \$ 8,404                  | \$ 8,130 |

**14. Segmented Information**

Presentation by segment is based on the NEB's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in Note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expense and by major type of revenues. The segment results for the period are as follows:

| (in thousands of dollars)   | 2012                 |                       |                      | 2011             |                  |
|---|----------------------|-----------------------|----------------------|------------------|------------------|
|   | Energy<br>Regulation | Energy<br>Information | Internal<br>Services | Total            | Total            |
| Transfer Payments   | \$ 325               | \$ -                  | \$ -                 | \$ 325           | \$ -             |
| Operating Expenses  |                      |                       |                      |                  |                  |
| Salaries and employee benefits  | 34,584               | 5,445                 | 16,048               | 56,077           | 53,454           |
| Professional and special services                                     | 3,911                | 617                   | 1,814                | 6,342            | 5,906            |
| Accommodation   | 3,226                | 508                   | 1,497                | 5,231            | 5,908            |
| Travel  | 2,064                | 325                   | 957                  | 3,346            | 2,762            |
| Amortization  | 1,267                | 200                   | 588                  | 2,055            | 1,469            |
| Communication   | 860                  | 135                   | 399                  | 1,394            | 936              |
| Utilities, materials and supplies                                     | 816                  | 128                   | 378                  | 1,322            | 871              |
| Other   | 220                  | 35                    | 102                  | 357              | 26               |
| <b>Total expenses</b>   | <b>47,273</b>        | <b>7,393</b>          | <b>21,783</b>        | <b>76,449</b>    | <b>71,332</b>    |
| Revenues  |                      |                       |                      |                  |                  |
| Regulatory revenue  | 42,679               | 6,720                 | 19,803               | 69,202           | 65,161           |
| Miscellaneous revenue   | 5                    | 1                     | 3                    | 9                | 30               |
| Revenue earned on behalf of Government                                | (42,684)             | (6,721)               | (19,806)             | (69,211)         | (65,191)         |
| <b>Total revenues</b>   | <b>-</b>             | <b>-</b>              | <b>-</b>             | <b>-</b>         | <b>-</b>         |
| <b>Net Cost of Operations before government funding and transfers</b> | <b>\$ 47,273</b>     | <b>\$ 7,393</b>       | <b>\$ 21,783</b>     | <b>\$ 76,449</b> | <b>\$ 71,332</b> |

**NATIONAL ENERGY BOARD**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2012**

**15. Accounting Changes**

During 2011, amendments were made to *Treasury Board Accounting Standard 1.2 – Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to the NEB’s financial statements are described below. These changes have been applied retroactively and comparative information for 2011 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Statement of Financial Position. Accompanying this change, the NEB now presents a Statement of Change in Net Debt and no longer presents a Statement of Equity.

Revenue and related accounts receivable are now presented net of non-respendable amounts in the Statement of Operations and Net Financial Position and Statement of Financial Position. The effect of this change was to increase the net cost of operations after government funding and transfers by \$69,250,000 for 2012 (\$65,191,000 for 2011) and decrease total financial assets by \$28,223,000 for 2012 (\$29,525,000 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Statement of Operations and Net Financial Position below “Net cost of operations before government funding and transfers”. In previous years, the NEB recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by \$91,206,000 for 2012 (\$55,685,000 for 2011).

| (in thousands of dollars)  | <b>2011</b><br>As previously<br>stated | Effect of<br>Change | <b>2011</b><br>Restated |
|--|--|---------------------|-------------------------|
| <b>Statement of Financial Position</b>                             |  |                     |                         |
| Assets held on behalf of Government                                | \$ -                                   | \$ (29,525)         | \$ (29,525)             |
| Net financial position   | (9,872)                                | (29,525)            | (19,653)                |
| <b>Statement of Operations and Net Financial Position</b>          |  |                     |                         |
| Revenues   | 65,191                                 | (65,191)            | -                       |
| Expenses   | 71,332                                 | -                   | 71,332                  |
| Government funding and Transfers                                   |  |                     |                         |
| Net cash provided by Government                                    | -                                      | 46,282              | 46,282                  |
| Change in due to/from Consolidated Revenue Fund                    | -                                      | 1,026               | 1,026                   |
| Services received without charge from other government departments | \$ -                                   | \$ 8,377            | \$ 8,377                |

**16. Comparative Information**

Comparative figures have been reclassified to conform to the current year’s presentation.