



Northern Pipeline Agency Canada

Performance Report

For the period ending
March 31, 1999

Canada

Improved Reporting to Parliament Pilot Document

The Estimates of the Government of Canada are structured in several parts. Beginning with an overview of total government spending in Part I, the documents become increasingly more specific. Part II outlines spending according to departments, agencies and programs and contains the proposed wording of the conditions governing spending which Parliament will be asked to approve.

The *Report on Plans and Priorities* provides additional detail on each department and its programs primarily in terms of more strategically oriented planning and results information with a focus on outcomes.

The *Departmental Performance Report* provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the spring *Report on Plans and Priorities*.

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Foreword

On April 24, 1997, the House of Commons passed a motion dividing on a pilot basis what was known as the annual *Part III of the Estimates* document for each department or agency into two documents, a *Report on Plans and Priorities* and a *Departmental Performance Report*.

This initiative is intended to fulfil the government's commitments to improve the expenditure management information provided to Parliament. This involves sharpening the focus on results, increasing the transparency of information and modernizing its preparation.

This year, the Fall Performance Package is comprised of 82 Departmental Performance Reports and the government's report *Managing for Results - Volumes 1 and 2*.

This *Departmental Performance Report*, covering the period ending March 31, 1999, provides a focus on results-based accountability by reporting on accomplishments achieved against the performance expectations and results commitments as set out in the department's pilot *Report on Plans and Priorities* for 1998-99. The key result commitments for all departments and agencies are also included in Volume 2 of *Managing for Results*.

Results-based management emphasizes specifying expected program results, developing meaningful indicators to demonstrate performance, perfecting the capacity to generate information and reporting on achievements in a balanced manner. Accounting and managing for results involve sustained work across government.

The government continues to refine and develop both managing for and reporting of results. The refinement comes from acquired experience as users make their information needs more precisely known. The performance reports and their use will continue to be monitored to make sure that they respond to Parliament's ongoing and evolving needs.

This report is accessible electronically from the Treasury Board Secretariat Internet site:
<http://www.tbs-sct.gc.ca/tb/key.html>

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Northern Pipeline Agency

Performance Report

**For the
period ending
March 31, 1999**

**The Honourable Pierre Pettigrew
Minister responsible for the
Northern Pipeline Agency**

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Section I: Executive Summary

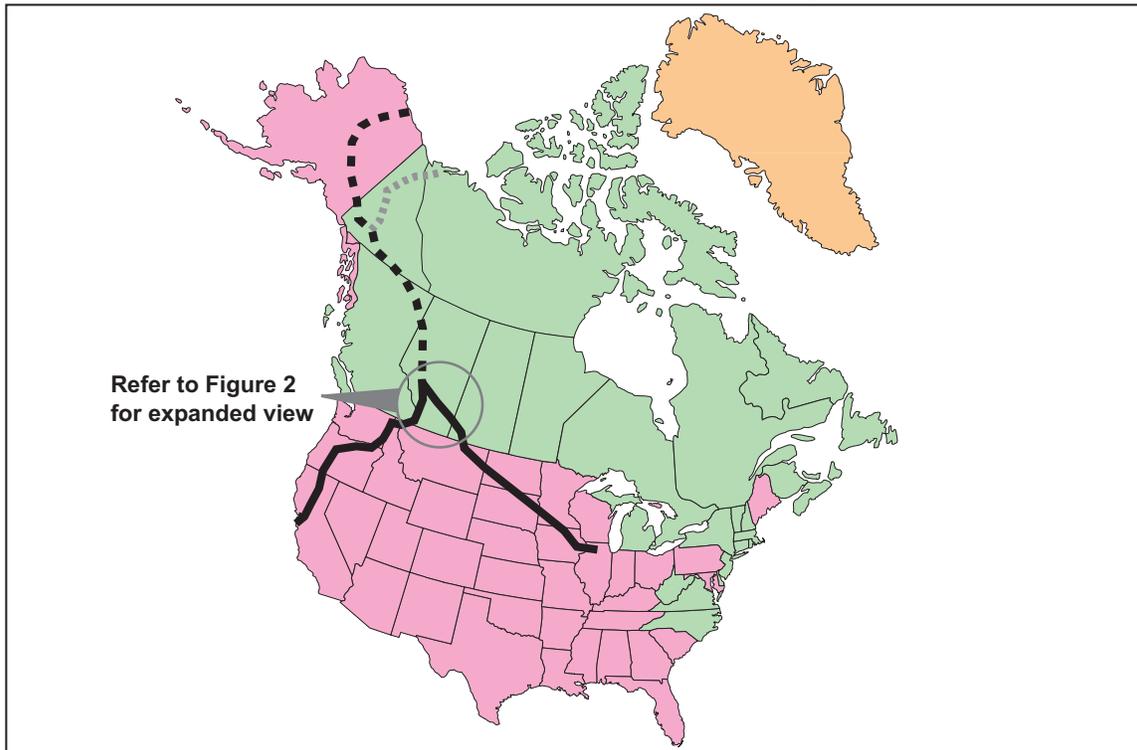
The Northern Pipeline Agency (the Agency) was created by the *Northern Pipeline Act* (the *Act*) in 1978 to oversee the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Highway Gas Pipeline Project, known in the United States as the Alaska Natural Gas Transportation System (ANGTS). The ANGTS is a pipeline mega-project intended to transport Alaskan and Northern Canadian natural gas to southern markets in Canada and the United States.

Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS, and consequently, the Agency's activities have been limited. In recent years the Agency's primary role has been to oversee the expansion of the southern portion of the pipeline system, referred to as the Prebuild. The Prebuild first went into operation in 1981-82 for the initial purpose of transporting gas sourced from western Canada. Because of continuing adverse economic factors, it is not expected that second-stage construction of the project will become viable for many years. The second stage would link the prebuilt Western and Eastern Legs of the pipeline with the United States reserves at Prudhoe Bay and possibly also the Canadian reserves in the Mackenzie Delta region.

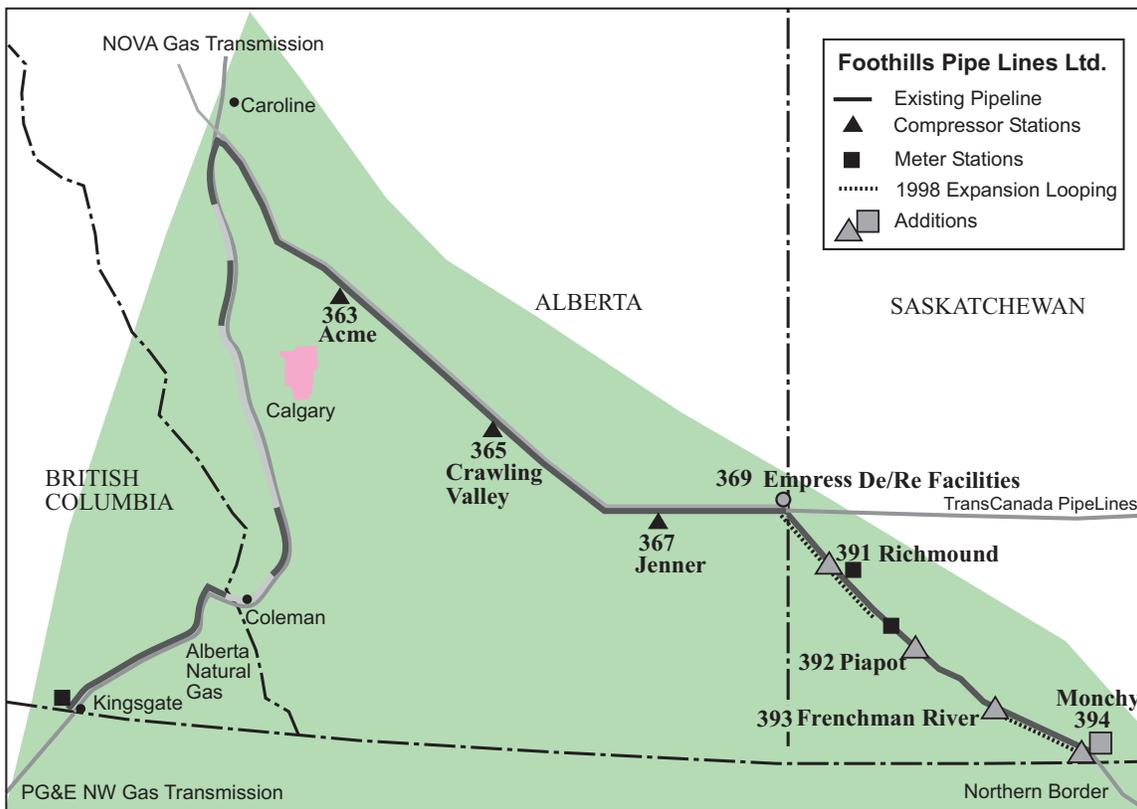
In response to growing export demands, the flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate provided for in the agreement between Canada and the United States underpinning the ANGTS. The latest expansion of the Prebuild, which came into service in December 1998, has raised its current capacity to about 94 million cubic metres (3.3 billion cubic feet) per day. Approximately one-third of all Canadian natural gas exports to the United States are transported through the Prebuild.

Figures 1 and 2 on the following page show the prepared route of the ANGTS in Canada and the United States and details of the existing Prebuild in Canada.

**Figure 1:
The Alaska Natural Gas Transportation System**



**Figure 2:
The Foothills Prebuild**



Section II: Departmental Overview

A. Mandate and Mission

In 1977, following extensive regulatory hearings in both countries, the Governments of Canada and the United States executed an "Agreement on Principles Applicable to a Northern Natural Gas Pipeline". This agreement provided a framework for the construction and operation of the ANGTS.

In 1978, Parliament enacted the *Northern Pipeline Act* to:

- (i) give effect to the agreement; and
- (ii) establish the Northern Pipeline Agency to oversee the planning and construction of the Canadian portion of the project by Foothills Pipe Lines Ltd.

Implementing legislation was also passed by the United States in the form of the *Alaska Natural Gas Transportation Act*.

Prior to the commencement of construction of any particular section of the pipeline, Foothills is required to obtain a series of specific approvals from the Agency pursuant to the *Act* and the terms and conditions specified under the *Act*. These approvals relate to socio-economic and environmental factors, routing issues, technical design, and other matters such as demonstration of financing. Approval authority rests with the Agency's Commissioner and Designated Officer (the former having been delegated authority for those items requiring the approval of the Minister responsible for the Agency). In some cases, approval from the National Energy Board (the Board) is also necessary.

On behalf of the Government of Canada, the Agency coordinates implementation of the agreement reached with the United States in 1980 respecting the procurement of certain designated items such as compressors and large-diameter line pipe, valves, and fittings for the construction of the ANGTS. This agreement provides that both Canadian and American suppliers be afforded the opportunity to bid on a generally competitive basis. Canada suspended implementation of the agreement for the latest Foothills expansion due to the lack of U.S. reciprocity.

The Agency also monitors the actual construction by Foothills for compliance with its various undertakings and for sound environmental and engineering practices.

B. Operating Environment

1. External Factors and Chronology of Events

The Agency's activities are dictated by the timing and pace of the construction of the ANGTS in Canada. As noted in the Executive Summary, the Agency's activities have

been limited in recent years due to continued delays in the completion of the pipeline system. The following provides a brief description and chronology of the ANGTS project.

The ANGTS is the largest proposed pipeline project in North America, encompassing approximately 7 700 kilometres (4,800 miles) of large-diameter mainline pipe, about 42% of which would be located in Canada. The route for the pipeline through Canada and the U.S. is depicted in Figure 1. Once in full operation, the ANGTS would be capable of transporting 68 million cubic metres (2.4 billion cubic feet) per day of Alaskan gas. The system is also designed to accommodate the receipt and onward delivery of 34 million cubic metres (1.2 billion cubic feet) per day of northern Canadian gas by way of a connecting pipeline from the Mackenzie Delta / Beaufort Sea region. This lateral line would be some 2 000 km (740 miles) in length, connecting with the main line at Whitehorse.

As far back as 1977, the concept of prebuilding the southern portions of the ANGTS was identified as a benefit of the project, providing Canadian natural gas producers with additional export opportunities and supplying U.S. consumers with much-needed gas. This Prebuild, which constituted Phase I of the ANGTS project, included a Western Leg to transport Canadian gas to markets in California and the Pacific Northwest and an Eastern Leg to serve primarily the U.S. Midwest market. At the same time it was contemplated that Phase II of the project, consisting of the northern portions and the remaining sections to be constructed in southern Canada and the lower 48 regions, would follow in the near term.

The construction of the Prebuild went ahead as planned and Canadian gas started flowing through the system for export in the 1981-82 time frame. The Agency's activity level reached its peak during the construction of the Prebuild, with a corresponding staff complement of over 100 employees.

In 1982, at about the same time the Prebuild was completed, adverse market conditions led the sponsors of the ANGTS to put a hold on Phase II of the project. The adverse market conditions were a result of:

- a decline in demand for natural gas due to economic recession and energy conservation measures;
- an increase in U.S. supply in response to higher wellhead prices; and
- escalating forecast costs of construction due to inflation and rising interest rates.

Originally, it was anticipated that the completion of the project would be delayed by approximately two years. However, as time passed, it became increasingly apparent that Phase II would be delayed indefinitely. In response to this development, the Agency downsized to a skeleton organization in the mid-1980s.

Phase II of the ANGTS remains on hold, and the consensus continues to be that the completion of the project is a number of years away. Also, there is a question as to

whether the ANGTS project is the most viable means of initially bringing Alaskan North Slope gas to market. Foothills is currently a member of a consortium studying the feasibility of accessing a portion of those gas reserves for shipment by tanker (in the form of liquefied natural gas) from the Alaskan coast to the Pacific Rim.

In recent years, the Agency has focussed on a series of expansions of the Prebuild which were deemed to fall within the mandate of the *Northern Pipeline Act*. There have been five expansions since 1988, all of which were designed to either increase system capacity or enhance system reliability.

The flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate provided for in the underlying ANGTS agreement between Canada and the U.S. The fifth and latest expansion of the Prebuild, which came into service in December 1998, has raised its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day. This is about triple the Prebuild's initial capacity.

2. Objectives

The objectives of the Agency as stated in the *Act* are to:

- carry out and give effect to the 1977 agreement between Canada and the United States underpinning the project;
- carry out, through the Agency, federal responsibilities in relation to the pipeline;
- facilitate the efficient and expeditious planning and construction of the pipeline;
- facilitate consultation and co-ordination with the governments of the provinces and territories traversed by the pipeline;
- maximize the social and economic benefits of the pipeline while minimizing any adverse social and environmental impacts; and
- advance national economic and energy interests and to maximize related industrial benefits by ensuring the highest possible degree of Canadian participation.

3. Strategic Priorities

The key goals of the Agency are to:

- effectively administer the *Act* in respect of Prebuild expansions; and
- respond to Phase II of the ANGTS if it becomes viable.

4. Challenges

During 1998-99 the challenges for the Agency were minimal due to Phase II of the pipeline project remaining on hold. Agency demands related to the Prebuild expansion were managed through an arrangement the Agency has with the Board for technical and legal advice in areas of pipeline safety and engineering, environmental protection, and socio economic matters.

The longer-term challenge for the Agency is to be in a state of readiness in the event Phase II of the ANGTS project comes to reality.

C. Organization

The Northern Pipeline Agency has been designated as a Department for the purposes of the *Financial Administration Act*. The Agency reports to Parliament through the Minister for International Trade who is responsible for the management and direction of the Agency. The Agency has two senior officers, namely a Commissioner and an Administrator & Designated Officer. The Commissioner of the Agency, currently the Deputy Minister for International Trade, is appointed by the Governor in Council. The Administrator & Designated Officer is currently the Chairman of the National Energy Board.

The administration of the Agency is managed from Ottawa with ongoing administrative support and professional services provided by the Board on a cost-recoverable basis. In light of continued delays in the construction of Phase II of the ANGTS, staff levels are minimal.

To further assist the Minister responsible for the Agency in carrying out the Agency's mandate, there is provision for two federally-appointed advisory councils. The Councils consist of Aboriginal, business and other interested parties representing communities in Northern British Columbia and the Yukon Territory. Membership in these Councils has lapsed over the years in view of the dormant state of the second phase of this project.

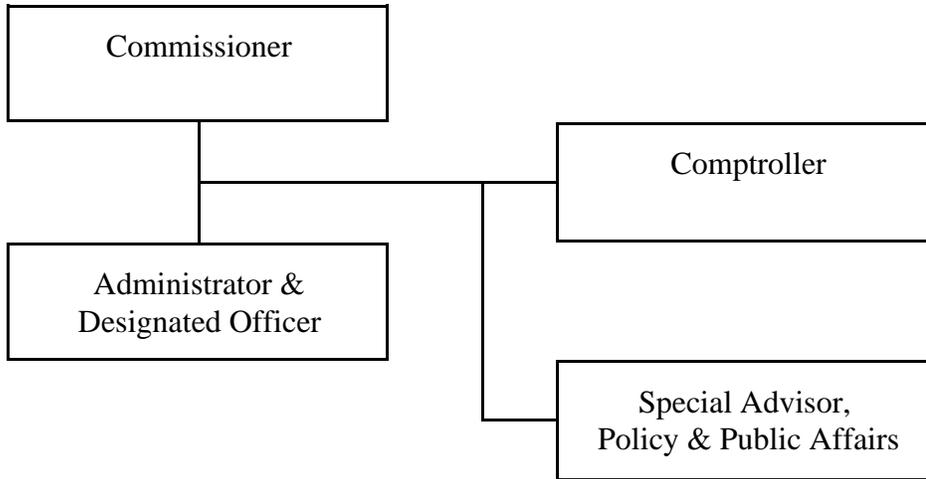
As a Separate Employer, the Agency conforms closely with the principles of personnel administration that apply in the Public Service of Canada and has developed various systems to implement policy appropriate to the Agency's operating requirements.

Figure 3 on the following page provides a schematic of the reporting relationships of the key officers of the Agency.

Figure 3

Organization Chart

Northern Pipeline Agency



Section III: Departmental Performance

Northern Pipeline Agency	
Planned Spending	\$259,000
Total Authorities	\$259,000
1998-99 Actual	\$142,720

(for explanation of variances, see pages 11-15)

A. Performance Expectations

The Agency's principal task for the 1998/99 fiscal year was to oversee the completion of construction of Foothills' 1998 Eastern Leg Expansion Project and ensure compliance with the *Act*. This expansion involved the installation of approximately 113 kilometres of 1067 millimetre diameter pipe and various compression and metering facilities at a capital cost of about \$150 million.

B. Performance Accomplishments

With the assistance of the Board, the Agency was able to respond effectively to regulatory filings made by Foothills pursuant to the *Act* in respect of its 1998 Eastern Leg Expansion Project. The management of these filings ensured that the expansion was constructed in a safe manner and with due regard for the environment. The regulatory process facilitated consultation with provincial governments and other interested persons as well as promoting maximization of social and economic benefits for Canadians.

The Board actively monitored the construction of the Foothills 1998 Eastern Leg Expansion Project for compliance with its own regulations and on behalf of the Agency for compliance with the requirements imposed by the *Act*.

The agreements that are currently in place with the Board and other government departments continue to facilitate efficiencies in the administration of the *Act*. An easement agreement exists among the Yukon Government, the Agency, and Indian and Northern Affairs Canada (INAC) to facilitate the collection of an easement fee related to land access rights on Indian Reserves and Crown land granted to Foothills for the pipeline project. The Agency collected the annual fee of \$30,400 on behalf of INAC and redistributed an appropriate share to the Yukon Territory Government. These transactions are excluded from the calculations of recoverable costs mentioned in Section V: Financial Performance.

Section IV: Consolidated Reporting

A. Year 2000 Readiness

As the Agency is fully reliant upon the Board for administrative and technical support, it is also reliant upon the Board's readiness for the Year 2000. Details of the Board's Y2K readiness can be found in their Departmental Performance Report.

Section V: Financial Performance

A. Overview

The Agency's operating budget of \$259,000 is directly affected by the level of construction activity of the ANGTS. All costs incurred are fully recovered from Foothills through a cost recovery mechanism administered by the Board.

Each year the Agency's operating budget includes contingencies to mitigate any requirement to return to Parliament for increased funding in the event construction activity occurs related to the start-up of Phase II. Agency operating expenditures are kept to a minimum unless Foothills initiates some action or formal request of the Agency, in which case operating expenditures may increase proportionately.

B. Fixed and Variable Costs

Fixed costs relate to the Commissioner's salary, the administration of the Leasehold Agreement by INAC and the office accommodations managed by Public Works and Government Services Canada.

Variable costs of the Agency relate to costs of service provided by the Board including fees for the Special Advisor, Policy and Public Affairs, administrative support and technical advice and other services provided by contract. While these costs have remained fairly stable over time, the Board's cost of technical service can vary substantially depending on the timing and magnitude of Foothills' Prebuild expansion activities.

C. Cost Recovery

Agency expenditures related to the administration of the *Act* are fully recoverable, including those costs related to services provided by other government departments and the Board.

In accordance with Section 29(1) of the *Act*, the Agency recovers 100% of its costs based on the Board's *Cost Recovery Regulations*. Cost recovery is based on an estimate and adjusted in future years upon completion of an audit of the actual costs. Foothills is responsible for full cost recovery based on quarterly billings from the Board on behalf of the Agency. Details of cost recovery and the respective adjustments can be found in Cost Recovery Table 1 on the following page.

Cost Recovery Table 1

Historical Comparison of NPA Cost Recovery (thousands of dollars)

	1996	1997	1998	1999	2000
Estimated recoverable costs	250	251	258	259	259
Actual recoverable costs	(133)	(124)	(143) ⁽¹⁾	-	-
Adjustment in future year	117	127	115	-	-
Estimated recoverable costs	250	251	258	259	259
Adjustment for prior year	(162)	(120)	(117)	(128)	(115)
Total Cost Recovery	88	131	141	131	144

- (1) Based on information available as of July 31, 1999. The *Northern Pipeline Act* stipulates that an audit be performed annually by the Auditor General of Canada. Information is not available until the completion of the audits for the corresponding calendar year.

Financial Tables

The following list and Financial Tables represent an overview of the Northern Pipeline Agency's 1998-99 financial performance.

Table 1 - Summary of Voted Appropriations

Table 2 - Comparison of Total Planned Spending to Actual Spending

Table 3 - Historical Comparison of Total Planned Spending to Actual Spending

Table 7 - Non-respendable Revenues

Table 1

Summary of Voted Appropriations

Financial Requirements by Authority (\$thousands)				
<u>1998-99</u>				
Vote	Northern Pipeline Agency	Planned Spending	Total Authorities	Actual
55	Program expenditures	235.0	235.0	118.7
	Contributions to employee benefit plans	24.0	24.0	24.0
Total NPA		259.0	259.0	142.7

Table 2**Comparison of Total Planned Spending to Actual Spending**

Agency Planned versus Actual Spending			
(\$thousands)			
1998-99			
Northern Pipeline Agency	Planned	Total Authorities	Actual
FTE's ⁽¹⁾	2	2	2
Operating ⁽²⁾	259.0	259.0	142.7
Capital	-	-	-
Voted Grants & Contributions	-	-	-
Total Gross Expenditures	259.0	259.0	142.7
Less:			
Responsible Revenues ⁽³⁾	-	-	-
Total Net Expenditures	259.0	259.0	142.7
Other Revenues & Expenditures			
Non-responsible Revenues ⁽⁴⁾	(259.0)	(259.0)	140.6
Cost of Services Provided by Other Departments ⁽⁵⁾	-	-	-
Net Cost of Program	0.0	0.0	2.1

- (1) Full-time equivalent (FTE) is a measure of human resource consumption based on average levels of employment. FTE factors the length of time that an employee works during each week by calculating the rate of assigned hours of work over scheduled hours of work.
- (2) Operating includes contributions to employee benefit plans and costs of services provided by other departments.
- (3) These revenues were formerly called "Revenues Credited to the Vote".
- (4) These revenues were formerly called "Revenues Credited to the CRF".
- (5) Cost of services provided by National Energy Board is included in the Agency's Actual Operating Spending.

Table 3**Historical Comparison of Total Planned Spending to Actual Spending**

Agency Planned Spending versus Actual Spending ((\$thousands))					
	Actual 1996-97	Actual 1997-98	1998-99		
			Planned Spending	Total Authorities	Actual
Northern Pipeline Agency	128.0	170.3	259.0	259.0	142.7
Total	128.0	170.3	259.0	259.0	142.7

Table 7**Non-respendable Revenues**

Non-respendable Revenues ((\$thousands))					
	Actual 1996-97	Actual 1997-98	1998-99		
			Planned Revenues	Total Authorities	Actual
Northern Pipeline Agency	117.9	129.7	258.0	258.0	140.6
Total Non-respendable Revenues ⁽¹⁾	117.9	129.7	258.0	258.0	140.6

⁽¹⁾ These revenues were formerly called "Revenues Credited to the CRF".

Section VI: Other Information

A. Contacts for Further Information Contact:

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Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2

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444 - 7th Avenue S.W.
Calgary, Alberta, T2P 0X8

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Fax: (613) 998-8787

Telephone: (403) 292-4800

Fax: (403) 292-5503

B. Legislation and Associated Regulations Administered

Acts

Northern Pipeline Act

RSC 1977-78, c. 20,s.1

Socio-Economic and Environmental Terms and Conditions (1980-81)

Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Province of Alberta (Order NP-MO-1-80 dated 12 June, 1980)

Northern Pipeline Socio-Economic and Environmental Terms and Conditions for Southern British Columbia (Order NP-MO-2-80 dated 12 June, 1980)

Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Swift River Portion of the Pipeline in the Province of British Columbia (Order NP-MO-11-80 dated 29 August, 1980)

Northern Pipeline Socio-Economic and Environmental Terms and Conditions for Northern British Columbia(Order NP-MO-12-80 dated 29 August, 1980)

Northern Pipeline Socio-Economic and Environmental Terms and Conditions for the Province of Saskatchewan (Order NP-MO-13-80 dated 29 August, 1980)

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