



Northern Pipeline Agency Canada

2001-2002
Estimates

Part III – Report on Plans and Priorities

Canada

The Estimates Documents

Each year, the government prepares Estimates in support of its request to Parliament for authority to spend public monies. This request is formalized through the tabling of appropriation bills in Parliament. The Estimates, which are tabled in the House of Commons by the President of the Treasury Board, consist of three parts:

Part I – The Government Expenditure Plan provides an overview of federal spending and summarizes both the relationship of the key elements of the Main Estimates to the Expenditure Plan (as set out in the Budget).

Part II – The Main Estimates directly support the *Appropriation Act*. The Main Estimates identify the spending authorities (votes) and amounts to be included in subsequent appropriation bills. Parliament will be asked to approve these votes to enable the government to proceed with its spending plans. Parts I and II of the Estimates are tabled concurrently on or before 1 March.

Part III – Departmental Expenditure Plans which is divided into two components:

- (1) **Reports on Plans and Priorities (RPPs)** are individual expenditure plans for each department and agency (excluding Crown corporations). These reports provide increased levels of detail on a business line basis and contain information on objectives, initiatives and planned results, including links to related resource requirements over a three-year period. The RPPs also provide details on human resource requirements, major capital projects, grants and contributions, and net program costs. They are tabled in Parliament by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*. These documents are to be tabled on or before 31 March and referred to committees, which then report back to the House of Commons pursuant to Standing Order 81(4).
- (2) **Departmental Performance Reports (DPRs)** are individual department and agency accounts of accomplishments achieved against planned performance expectations as set out in respective RPPs. These Performance Reports, which cover the most recently completed fiscal year, are tabled in Parliament in the fall by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies identified in Schedules I, I.1 and II of the *Financial Administration Act*.

The Estimates, along with the Minister of Finance's Budget, reflect the government's annual budget planning and resource allocation priorities. In combination with the subsequent reporting of financial results in the Public Accounts and of accomplishments achieved in Departmental Performance Reports, this material helps Parliament hold the government to account for the allocation and management of public funds.

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NORTHERN PIPELINE AGENCY

**2001 - 2002
Estimates**

Part III - Report on Plans and Priorities

The Honourable Pierre Pettigrew,
Minister Responsible for the Northern Pipeline Agency

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Section I: Messages

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. The project is also referred to as the Alaska Natural Gas Transportation System (ANGTS). The ANGTS is a pipeline mega-project intended to transport Alaskan and possibly Northern Canadian natural gas to southern markets in Canada and the United States.

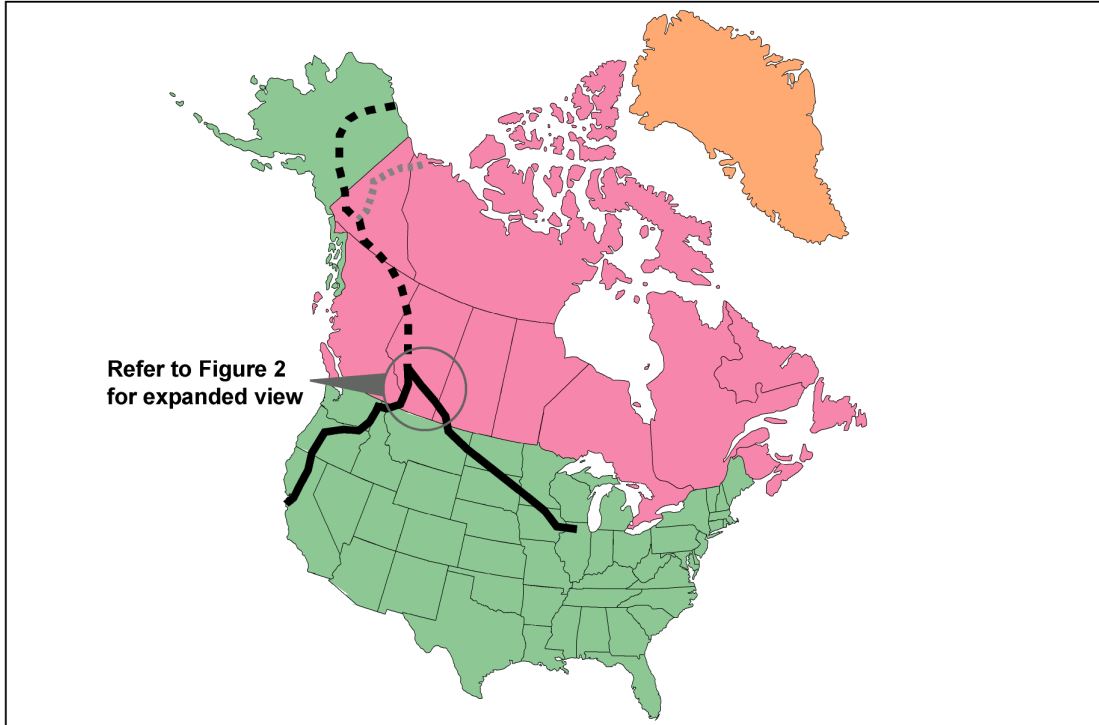
Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS, and consequently, the Agency's activities have been limited. In recent years the Agency's primary role has been to oversee the expansion of the southern portion of the pipeline system, referred to as the Prebuild. The Prebuild first went into operation in 1981-1982 for the initial purpose of transporting Canadian gas principally sourced from south of the 60th parallel. As conceptualized, the second stage of the project would link the prebuilt Western and Eastern legs of the pipeline with the United States reserves at Prudhoe Bay and possibly 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 metres (3.6 billion cubic feet) per day rate provided for in the agreement between Canada and the United States underpinning the ANGTS. The last expansion of the Prebuild, in 1998, raised the current capacity to about 94 million cubic metres (3.3 billion cubic feet) per day.

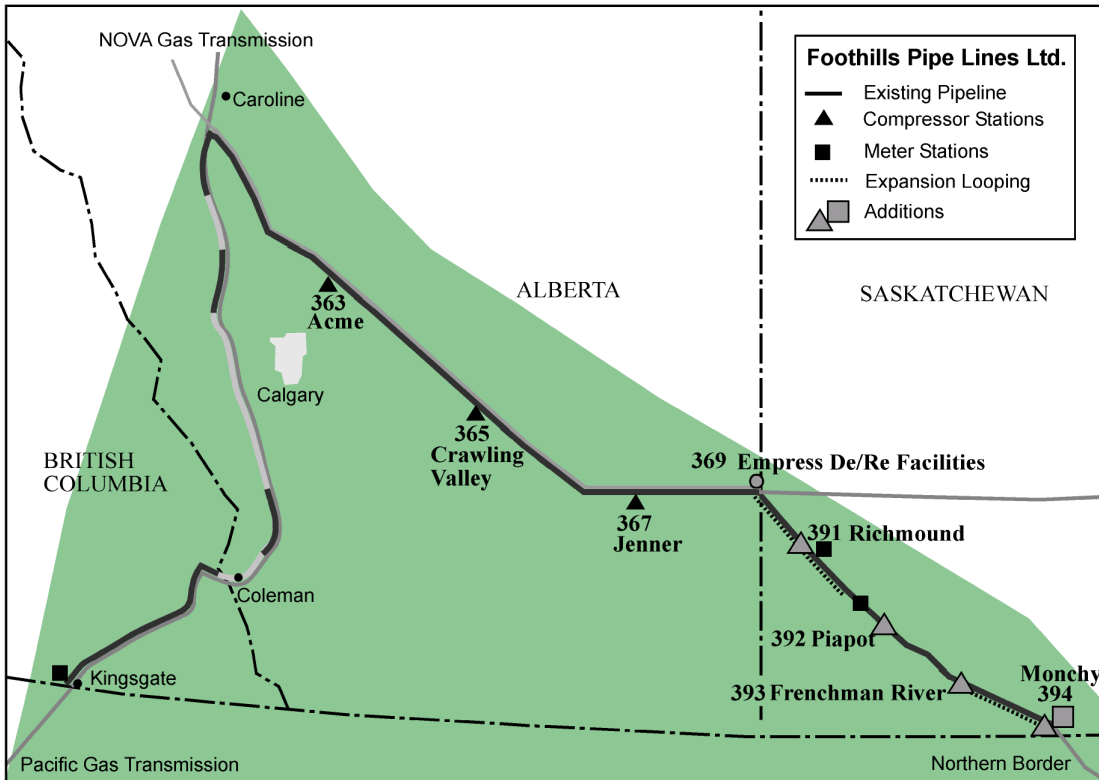
The determination of the Agency's budget of \$ 260,000 for 2001-2002 includes sufficient funding to cover the cost of key operational components which are costs fully recovered through a cost recovery mechanism.

Figures 1 and 2 on the following page show the proposed route of the ANGTS 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, Roles, and Responsibilities

In 1977, following extensive regulatory hearings in both countries, the Governments of Canada and the United States of America 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, a pipeline mega-project capable of transporting Alaskan and northern Canadian natural gas to southern markets in the United States and Canada. The Agency co-ordinates on behalf of the Government of Canada the implementation of an agreement reached with the United States in 1980 respecting the procurement of certain designated items, including compressors and large-diameter line pipe, valves, and fittings for the construction of the ANGTS. This agreement provides that suppliers on either side of the border be afforded the opportunity to bid on a generally competitive basis. The Agency also monitors the actual construction for compliance by Foothills with its various undertakings and with sound environmental and engineering practices.

In 1978, the Canadian Parliament enacted the *Northern Pipeline Act (the Act)* to both (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.

Prior to commencing 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 associated regulations and technical orders. These approvals relate to socio-economic and environmental requirements, routing matters, technical design, and other matters such as demonstration of financing.

Organization and Program Composition

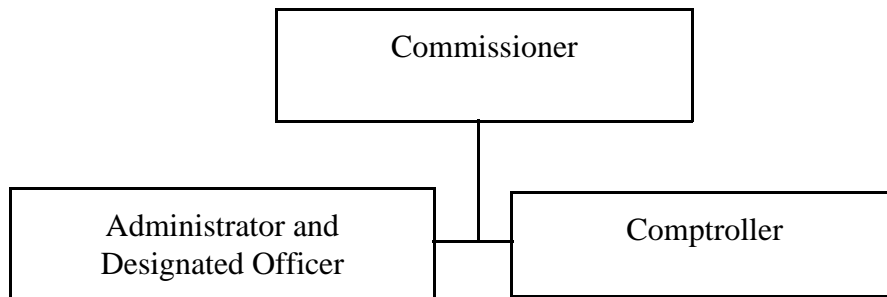
The Northern Pipeline Agency has one Business Line, namely, the Regulation of Construction of the Alaska Highway Gas Pipeline Project.

The Northern Pipeline Agency reports to Parliament through the Minister responsible for the Agency, currently the Minister for International Trade. The Agency has two senior officers, namely a Commissioner and an Administrator and Designated Officer. The Commissioner of the Agency, currently the Deputy Minister of International Trade, is appointed by the Governor in Council to be the deputy of the Minister responsible for the Agency. The Administrator and Designated Officer is currently a member of the National Energy Board and is based in Calgary.

The Agency relies largely on the National Energy Board for administrative services and technical advice and on Natural Resources Canada for policy advice.

To further assist the Minister responsible for the Agency in carrying out the program's mandate, there is provision for two federally-appointed advisory councils, made up of Aboriginals, business and other interested parties who are representatives of their communities in northern British Columbia and the Yukon Territory. Membership of the councils has been allowed to lapse in view of the dormant state of the second phase of the project.

Figure 3: Organization Chart - Northern Pipeline Agency



B. Departmental/Program Objectives

The objective is: to facilitate the efficient and expeditious planning and construction of the Alaska Highway Gas Pipeline in a manner consistent with the best interests of Canada as defined in the *Northern Pipeline Act*.

C. Planning Context

The Agency's activities are dictated by the timing and pace of the construction of the ANGTS in Canada. A brief description and chronology of the ANGTS project is as follows.

The ANGTS is the largest proposed pipeline project in North America. It includes the construction of approximately 7,700 kilometres (4,800 miles) of large-diameter mainline pipe, about 42 percent of which would be located in Canada. The route for the pipeline through Canada and the United States is depicted in Figure 1 on page 2. Once in full operation, the ANGTS would be capable of transporting an initial 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 via a connecting pipeline from the Mackenzie Delta / Beaufort Sea region.

As far back as 1977, the concept of prebuilding the southern portions of the ANGTS was identified as a benefit of the project, providing United States consumers with the opportunity to obtain additional surplus Canadian gas in advance of Alaskan 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 United States midwest market. It was contemplated at the time 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 region, 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 timeframe. The Agency's activity level reached its peak during the construction of the Prebuild, with a corresponding staff level of approximately 100.

In 1982, at about the same time the Prebuild was completed, adverse market conditions led the sponsors of the ANGTS to put Phase II of the project on hold. The adverse market conditions were a result of (i) a decline in demand for natural gas due to economic recession and energy conservation measures; (ii) an increase in United States supply in response to higher wellhead prices; and (iii) escalating forecast costs of construction due to inflation and rising interest rates.

It was originally anticipated that the completion of the project would be delayed by only about two years. Phase II of the ANGTS remains on hold to this day, and the Agency's role has been confined to overseeing expansions of the Eastern and Western Legs. In response, the Agency shrank to a skeleton organization in the mid-1980's. At this juncture the Agency has one full-time staff member. Arrangements are in place whereby the Agency relies largely on the National Energy Board for administrative and technical assistance and on Natural Resources Canada for policy advice.

There have been five expansions completed since 1988, all of which were designed to either increase system capacity or enhance system reliability. The most significant of these expansion projects involved (i) the addition of two new compressor stations on the Eastern Leg in Alberta and of an additional compressor station and a further compressor unit in Saskatchewan, (ii) the completion of the Western Leg mainline in southeastern BC; and (iii) a further expansion of the Eastern Leg in 1998.

The flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate that was provided for in the underlying agreement between Canada and the United States relating to the ANGTS. The 1998 expansion of the Prebuild raised its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day.

Perception of a growing North American market for gas, limitations on supply from traditional sources, strong gas prices and a possible change in ownership of Prudhoe Bay gas reserves have rekindled interest in exploring options for bringing Alaskan and Delta gas to market. During 2001, the NPA may be required to address questions about regulatory process with respect to northern pipelines, the status of the Foothills certificate, the need for further assessments, and related matters.

In addition, the Agency may also be called on to respond to an application from Foothills to proceed with Phase II of the ANGTS.

D. Departmental Planned Spending

The following table is used to make the reader aware that the program cost is not borne by the taxpayer. Recoveries are not necessarily completed in the same fiscal year that the corresponding expenditures are incurred.

Financial Spending Plan

(\$ thousands)	Forecast Spending 2000-2001	Planned Spending 2001-2002	Planned Spending 2002-2003	Planned Spending 2003-2004
Budgetary Main Estimates	259	260	260	260
Total Main Estimates	259	260	260	260
Adjustments	-132.2	0	0	0
Net Planned Spending	126.8	260	260	260
Less: Non-respendable revenue	126.8	260	260	260
Plus: Cost of Services Received Without Charge	2.4	2.4	2.4	2.4
Net Cost of Program	2.4	2.4	2.4	2.4
Full Time Equivalent	2	2	2	2

Section III: Plans, Results and Resources

A. Planned Spending and Full Time Equivalentents

Net Planned Spending (\$ thousands) and Full Time Equivalentents (FTE)

Business Line: Regulation of Construction of the Alaska Highway Gas Pipeline

Forecast Spending 2000-2001	Planned Spending 2001-2002	Planned Spending 2002-2003	Planned Spending 2003-2004
126.8	260	260	260
2 FTE	2 FTE	2 FTE	2 FTE

B. Business Line Objective

To facilitate the efficient and expeditious planning and construction of the Alaska Highway Gas Pipeline in a manner consistent with the best interests of Canada as defined in the *Northern Pipeline Act*.

C. Business Line Description

Regulation of the Planning and Construction of the Alaska Highway Gas Pipeline

To carry out and give effect to the Agreement of 20 September 1977, between Canada and the United States; to facilitate the efficient and expeditious planning and construction of the pipeline, taking into account local, regional and national interests, including those of the native people, and carrying out federal responsibilities in relation to the pipeline; to facilitate consultation and co-ordination with the governments of the provinces and the territories; to maximize social and economic benefits while minimizing any adverse social and environmental effects; to advance national economic and energy interests and to ensure the highest possible degree of Canadian participation in all aspects of the planning, construction and procurement for the pipeline, while ensuring that the procurement of goods and services for the pipeline will be on generally competitive terms.

D. Key Results Commitments, Planned Results, Related Activities and Resources

Key Results Commitment - To provide Canadians with an overview of planning and construction of the Canadian portion of the Alaska Natural Gas Transportation System.

Planned Results - Co-operation with and among stakeholders to ensure that the *Act* is effectively carried out.

Related Activities

The Agency has been designated as a Department for the purpose of the *Financial Administration Act*. The Operating Budget is voted by Parliament annually.

The Agency currently operates within the existing budget by working in co-operation with other departments including, principally, the National Energy Board. This budget amount is in excess of the forecasted expenditures to provide for unexpected miscellaneous expenditures. Should increased Agency activity lead to an increase in required reference levels, the appropriate process(es) will be followed.

Pursuant to subsection 29(1) of the *Northern Pipeline Act*, cost recovery charges are determined in accordance with regulations made under the *National Energy Board Act*. Annual charges are based on an estimated budget plus or minus an adjustment for prior year actual expenditures. Billing takes place on a quarterly basis. For further information, refer to page 12.

Easement fees collected by the Agency on behalf of Indian and Northern Affairs Canada in the amount of \$30,400 annually are deposited directly into the Consolidated Revenue Fund. The Yukon Government's share, paid out of the Agency's appropriation, is \$2,806. Both receipt and expense are omitted from the calculation of recoverable costs.

Expected Results

The Agency will effectively respond to Foothills' regulatory filings and make certain that the *Act* is properly administered. Agreements are in place with the National Energy Board, Natural Resources Canada, and other government departments to achieve this result.

All of the costs incurred by the Agency in the administration of the *Act* will be fully recovered, including those costs related to services provided by other government departments.

Those costs (\$33.1K) that are fixed in nature relate to the Commissioner's salary, the administration of the Leasehold Agreement by Indian and Northern Affairs Canada and the accommodations managed by Public Works and Government Services Canada.

The remainder of the costs of the Agency relate to services provided by others, including the administrative and technical support of the National Energy Board. While these costs have remained fairly stable over time, the Board's technical support service costs can vary substantially depending upon the timing and magnitude of Foothills' activities falling under the *Act*.

Resources - Northern Pipeline Agency Canada has a budget of \$260,000 in 2001-2002.

Section V: Financial Information

Table 5.1: Non-respondable Revenue

(\$ thousands)	Forecast Revenue 2000-2001	Planned Revenue 2001-2002	Planned Revenue 2002-2003	Planned Revenue 2003-2004
Northern Pipeline Agency				
Regulation of Construction the Alaska Highway Gas Pipeline	126.8	260	260	260
Total Non-Respondable Revenue	126.8	260	260	260

Table 5.2: Net Cost of Program for the Estimates Year

(\$ thousands)	Total
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	260.0
<i>Plus: Services received without charge</i>	
Accommodation provided by Public Works and Government Services Canada (PWGSC) ¹	0
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	0
Workmen's compensation, cost recovery audit costs and miscellaneous costs provided by other departments	2.4
	2.4
<i>Less: Non-respondable Revenue</i>	260
2001-2002 Net Cost of Program	2.4

1 On September 1, 1999, the NPA office area in Ottawa was closed. The occupancy instrument was renegotiated to keep the 'storage' area. The full occupancy lease (office and storage) may cost NPA approximately \$19.6K. NPA remits accommodation charges to PWGSC regularly.

Section VI: Other Information

Table 6.1 Cost Recovery and Billing Information

Cost Recovery and Billing Information					
(\$ thousands)	1999	2000	2001	2002	2003
Estimated recoverable costs	259.0	257.5	259.0	260.0	260.0
Actual recoverable costs	159.4	202.5	N/A	N/A	N/A
Adjustment in future year	99.6	55.0	N/A	N/A	N/A
Estimated recoverable costs	259.0	257.5	259.0	260.0	260.0
Adjustment for prior year	(127.8)	(95.6)	(99.6)	(55.0)	N/A
Total billings	131.2	161.9	159.4	205.0	N/A

N/A Information is not available until the completion of the audits for the corresponding fiscal years. The *Northern Pipeline Act* stipulates that an audit be performed annually by the Auditor General of Canada. Currently the audit is based on the fiscal year in order for the Agency to meet its obligations to Parliament.

Legislation Administered by the Northern Pipeline Agency

The Minister has sole responsibility to Parliament for the following Act:

Northern Pipeline Act (R.S.C., 1977-78,c.20,s.1)

The Minister shares responsibility to Parliament for the following regulations:

National Energy Board Cost Recovery Regulations (SOR/91-7, 1991 Canada Gazette Part II, p.15.)

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