



Northern Pipeline Agency Canada

2002-2003
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 tabled in the spring 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

**2002 - 2003
Estimates**

Part III - Report on Plans and Priorities

The Honourable Pierre Pettigrew, R.C.M.P.
Minister Responsible for the Northern Pipeline Agency

Table of Contents

Section I: Messages	1
Executive Summary	1
Figure 1: The Alaska Natural Gas Transportation System	2
Figure 2: The Foothills Prebuild	2
Section II: Raison d'être	3
2.1 Mandate, Roles, and Responsibilities	3
Section III: Strategic Outcome	5
3.1 Introduction	5
3.2 External Factors and Chronology of Events	5
3.3 Challenges	6
3.4 Plans and Priorities	7
3.5 Planned Spending	7
Section IV: Organization	9
4.1 Strategic Outcome and Business Line	9
4.2 Accountability	9
Figure 3: Organization Structure	10
4.3 Departmental Planned Spending	10
Section V: Annexes	11
Table 5.1: Source of Non-Respendable Revenue	11
Table 5.2: Net Cost of Program for the Estimates Year	11
Table 5.3: Legislation Administered by the Northern Pipeline Agency ..	12
Section VI: Other Information	
References and NPA Website	13

MANAGEMENT REPRESENTATION STATEMENT

I submit, for tabling in Parliament, the 2002-2003 Report on Plans and Priorities (RPP) for the
NORTHERN PIPELINE AGENCY CANADA

To the best of my knowledge the information in this document:

- Accurately portrays the organization's plans and priorities.
- Is consistent with the reporting principles contained in the *Guide to the preparation of the 2002-2003 Report on Plans and Priorities*.
- Is comprehensive and accurate.
- Is based on sound underlying departmental information and management systems.

I am satisfied as to the quality assurance processes and procedures used for the RPP production.

The reporting structure, on which this document is based, has been approved by Treasury Board Ministers and is the basis for accountability for the results achieved with the resources and authorities provided.

Name: _____

Date: _____

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.

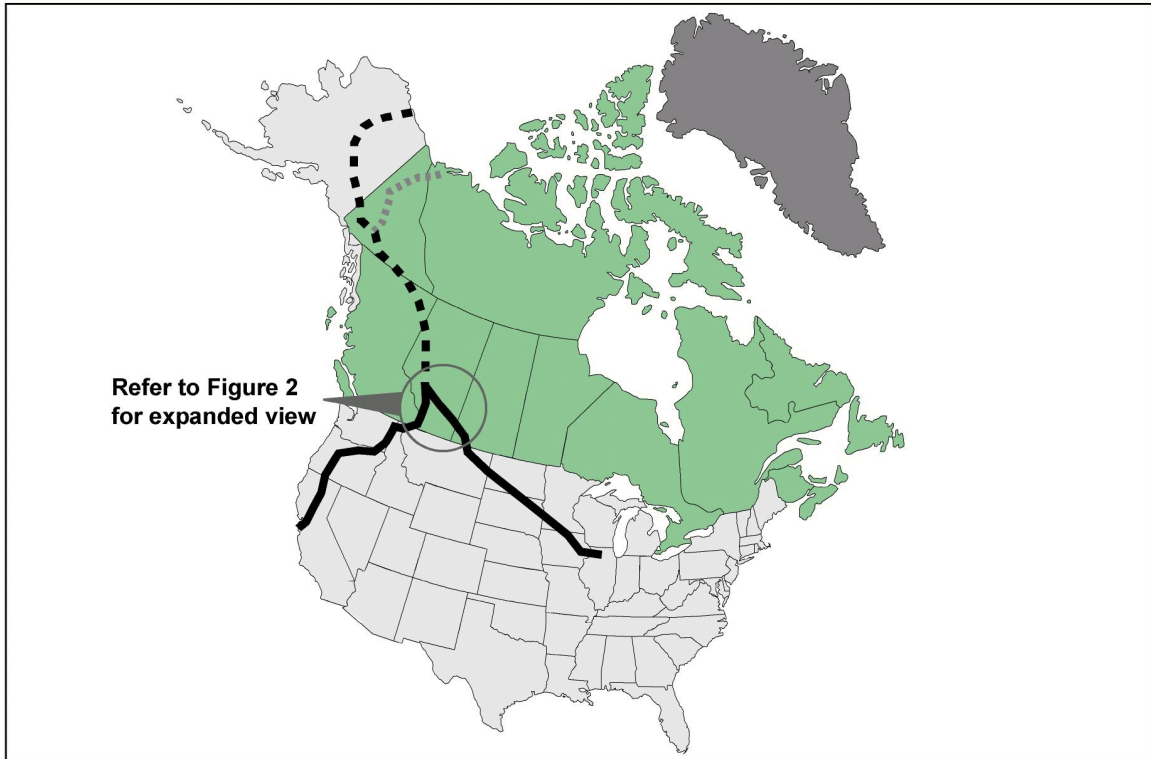
Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS, and consequently, the Agency's activities have been limited. In recent years the Agency's primary role has been to oversee the expansion of the southern portion of the pipeline system, referred to as the Prebuild. 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 contemplated 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.

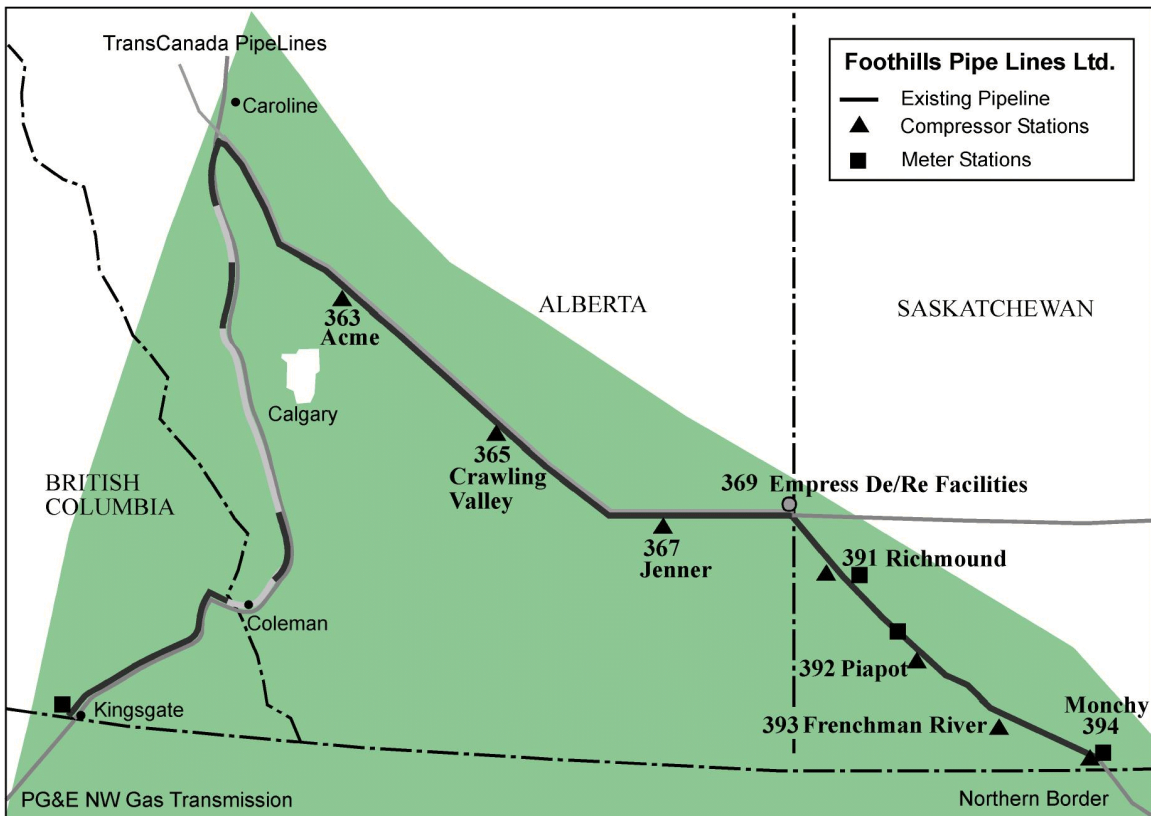
In 2002-2003 the Agency will implement the next steps in its plan to respond to an anticipated Foothills' submission. To do this the Agency will be seeking an increase in its reference levels.

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: Raison d'être

2.1 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.

In 1978, the Canadian Parliament enacted the *Northern Pipeline Act (the 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 commencing 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. In some cases, approval from the National Energy Board (the Board) is also necessary.

On behalf of the Government of Canada, the Agency is responsible for coordinating 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 last Foothills expansion due to the lack of U.S. reciprocity.

In addition to planning considerations, the Agency is also responsible for monitoring the actual construction by Foothills for compliance with its various undertakings and for sound environmental and engineering practices.

Section III: Strategic Outcome

3.1 Introduction

The Northern Pipeline Agency has one strategic outcome:

Regulatory oversight of the planning and construction of the Canadian portion of the Alaska Natural Gas Transportation System.

The main objective associated with achieving this outcome 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 *Act*.

3.2 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. 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 percent of which would be located in Canada. A certificate of public convenience and necessity for the pipeline was declared to be issued by the *Act*. The route for the pipeline through Canada and the U.S. is depicted in Figure 1. The initial capacity of the pipeline would be sufficient to meet, when required, the contractual requirements of United States shippers and of Canadian shippers. It is contemplated that this capacity would be 68 million cubic metres (2.4 billion cubic feet) per day for Alaska gas and 34 million cubic metres (1.2 billion cubic feet) for 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 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 United States 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 1981-1982 time frame. The Agency's activity level reached its peak during the construction of the Prebuild, with a corresponding staff compliment 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.

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. 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 contemplated in the underlying agreement between Canada and the U.S. The fifth and latest expansion of the Prebuild, which came into service in 1998, 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 and strong gas prices have rekindled interest in exploring options for bringing northern gas to market. During 2001-2002, the Agency's focus was on addressing questions about the need for further assessments, regulatory process, staffing requirements, Agency structure and related matters with respect to the ANGTS project.

3.3 Challenges

During 2001-2002 the challenges for the Agency increased due to renewed interest in Phase II of the pipeline project. Agency demands were managed through an arrangement the Agency has with the Board for technical and administrative advice in areas of pipeline safety and engineering, environmental protection, and socio-economic matters and through consultation with other federal departments and agencies.

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

3.4 Priorities and Plans

Strategic Priority:

To achieve results for Canadians over the period of this three-year financial plan, the Agency will employ two strategic priorities:

- effectively administer the *Act* in respect of Prebuild expansions; and
- respond to Phase II of the ANGST when required.

Planned Result:

The planned result for these priorities is the co-operation with and among stakeholders to ensure the *Act* is effectively carried out.

Planned Activities for 2002-2003:

- The Agency will effectively respond to Foothills' regulatory filings and make certain that the *Act* is properly administered.
- The Agency will implement the next steps in its plan to respond to anticipated Foothills' submissions pertaining to Phase II. These steps may include the appointment of a full time Administrator and, if necessary, hiring additional staff, to respond to the increased resource demands being placed on the Agency. This will allow the Agency to exercise appropriate due diligence, further refine its plans to respond to Phase II, and to enhance its engagement with other stakeholders involved in the construction of Phase II.

3.5 Planned Spending

Historically, the Agency's annual planned spending has been in excess of its expenditures. This has been accomplished by working in cooperation with other federal departments, principally, the National Energy Board. In 2002-2003, it is anticipated that the planned spending of \$265,000 will be fully utilized with additional funding required to meet increased Agency activities mentioned in Subsection 3.4, Planned Activities for 2002-2003. Appropriate action will be initiated to secure additional funding.

Section IV: Organization

4.1 Strategic Outcome and Business Line

The Northern Pipeline Agency has one strategic outcome: “Regulatory oversight of the planning and construction of the Canadian portion of the Alaska Natural Gas Transportation System” and one business line: “Regulation of the Planning and Construction of the Alaska Highway Gas Pipeline”.

4.2 Accountability

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 Associate Deputy Minister of Foreign Affairs and 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.

Given the continued low level of Agency activity, arrangements are in place whereby the Agency relies largely on the Board for administrative and technical assistance. In addition, Natural Resources Canada provides policy advice for the Agency. The Agency has provision for two full time equivalents at this juncture.

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 Phase II of this project.

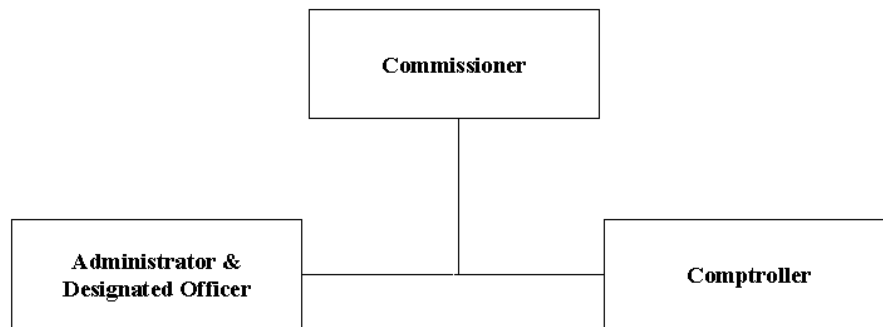
Expenditures related to the administration of the Agency are fully cost recoverable from Foothills Pipe Lines Ltd., including those costs related to services provided by other federal departments and the Board.

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.

As a Separate Employer, the Agency conforms closely with the principles of personnel administration that apply in the Public Service of Canada.

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

Figure 3: Northern Pipeline Agency Organization Structure



4.3 Departmental Planned Spending

Expenditures and human resource requirements for the planning period are summarized in the following table. It should be noted 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.

Table 4.1 Departmental Planned Spending

(\$ thousands)	Forecast Spending 2001-2002	Planned Spending 2002-2003	Planned Spending 2003-2004	Planned Spending 2004-2005
Regulation of the Planning and Construction of the Alaska Highway Gas Pipeline				
Budgetary Main Estimates	260.0	265.0	265.0	265.0
Total Main Estimates	260.0	265.0	265.0	265.0
Adjustments	-80.0*	-	-	-
Net Planned Spending	180.0**	265.0	282.1	282.1
Less: Non-responsible revenue	180.0	282.1	282.1	282.1
Plus: Cost of services received without charge	-	17.1	17.1	17.1
Net Cost of Program	0	0	0	0
Full Time Equivalents	2	2	2	2

*This adjustment reflects a potential surplus to the planned spending in 2001-2002.

**Reflects the forecast of total planned spending to the end of the fiscal year.

Section V: Annexes

Table 5.1: Non-responsible Revenue

(\$ thousands)	Forecast Revenue 2001-2002	Planned Revenue 2002-2003	Planned Revenue 2003-2004	Planned Revenue 2004-2005
Northern Pipeline Agency				
Regulation of Construction the Alaska Highway Gas Pipeline	180.0	282.1	282.1	282.1
Total Non-Responsible Revenue	180.0	282.1	282.1	282.1

Table 5.2: Net Cost of Program for the Estimates Year

(\$ thousands)	Total
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	265.0
<i>Plus: Services received without charge</i>	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	0
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	0
Costs provided by other departments	17.1
	17.1
<i>Less: Non-responsible Revenue</i>	282.1
2002-2003 Net Cost of Program	0

Table 5.3: Legislation Administered by the Northern Pipeline Agency

The Minister has sole responsibility to Parliament for the following Act:	
<i>Northern Pipeline Act</i>	(R.S.C., 1977-78,c.20,s.1)
The Minister shares responsibility to Parliament for the following regulations:	
<i>National Energy Board Cost Recovery Regulations</i>	(SOR/91-7, 1991 Canada Gazette Part II, p.15.)

Section VI: Other Information

References and NPA Website

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