
Northern Pipeline Agency

ANNUAL REPORT

**Fiscal Year Ending
31 March 2003**

Ottawa, Ontario,
December 31, 2003.

Dear Sir:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 2003, together with the report of the Auditor General on the accounts and financial transactions of the Agency for the same period, for submission by you to Parliament as required under Sections 13 and 14 of the *Northern Pipeline Act*.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'G. Anderson', with a large, stylized flourish above the name.

George Anderson,
Commissioner,
Northern Pipeline Agency

The Honourable R. John Efford, P.C., M.P.,
Minister of Natural Resources and
Minister Responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

Annual Report
for Fiscal Year Ending
31 March 2003

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represented by the National Energy Board

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Table of Contents

| | |
|--------------------------------|---|
| Overview | 1 |
| Background Information | 3 |
| Key 2002/2003 Activities | 3 |
| Organization | 4 |
| Expenditures | 4 |
| Appendix | 5 |

List of Figures

| | | |
|---|---|---|
| 1 | The Alaska Natural Gas Transportation System..... | 2 |
| 2 | The Foothills Prebuild..... | 2 |

Overview

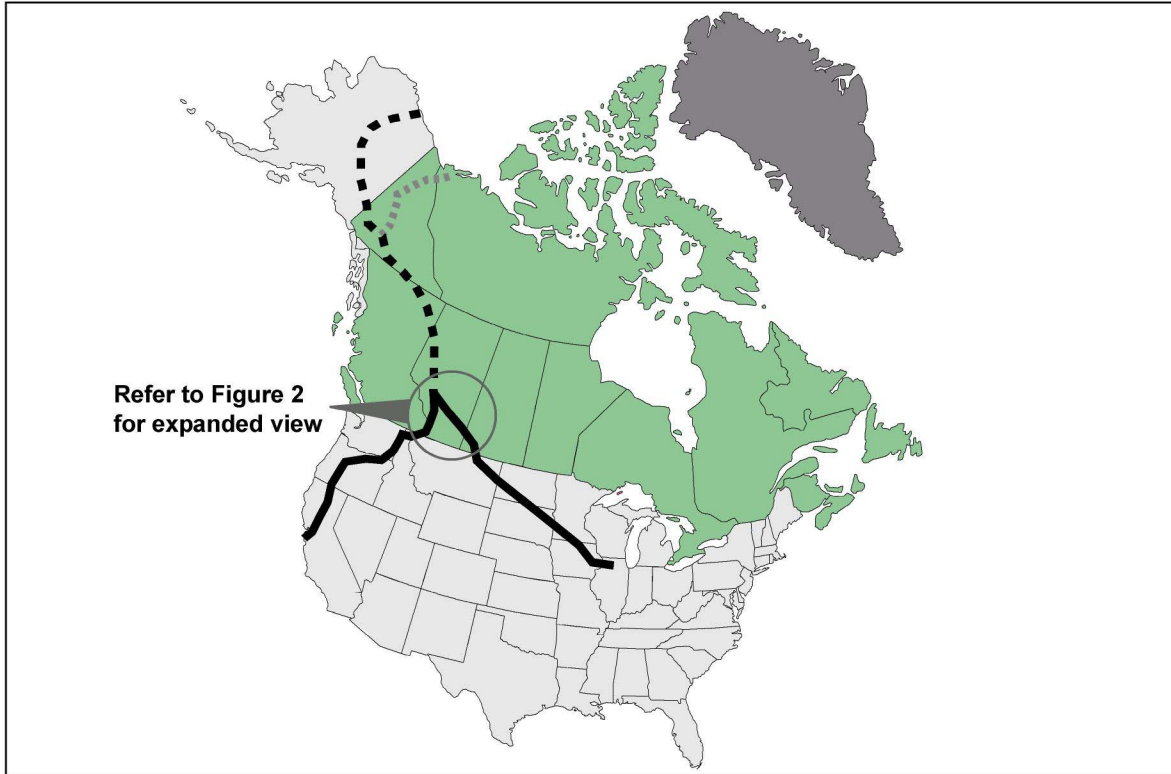
The Northern Pipeline Agency (the “Agency”) was established by the *Northern Pipeline Act* in 1978 to carry out federal responsibilities in respect of the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Natural Gas Transportation System (ANGTS), a pipeline project intended to transport Alaskan and northern Canadian gas to markets in southern Canada and the Lower 48 States. The project, also referred to as the Alaska Highway Gas Pipeline Project, is the subject of the *1977 Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline*.

Phase I of the project (the “Prebuild”) was constructed in the early 1980's for the initial purpose of transporting gas sourced from western Canada. The current flow capacity of the Prebuild is about 94 million cubic metres (3.3 billion cubic feet) per day.

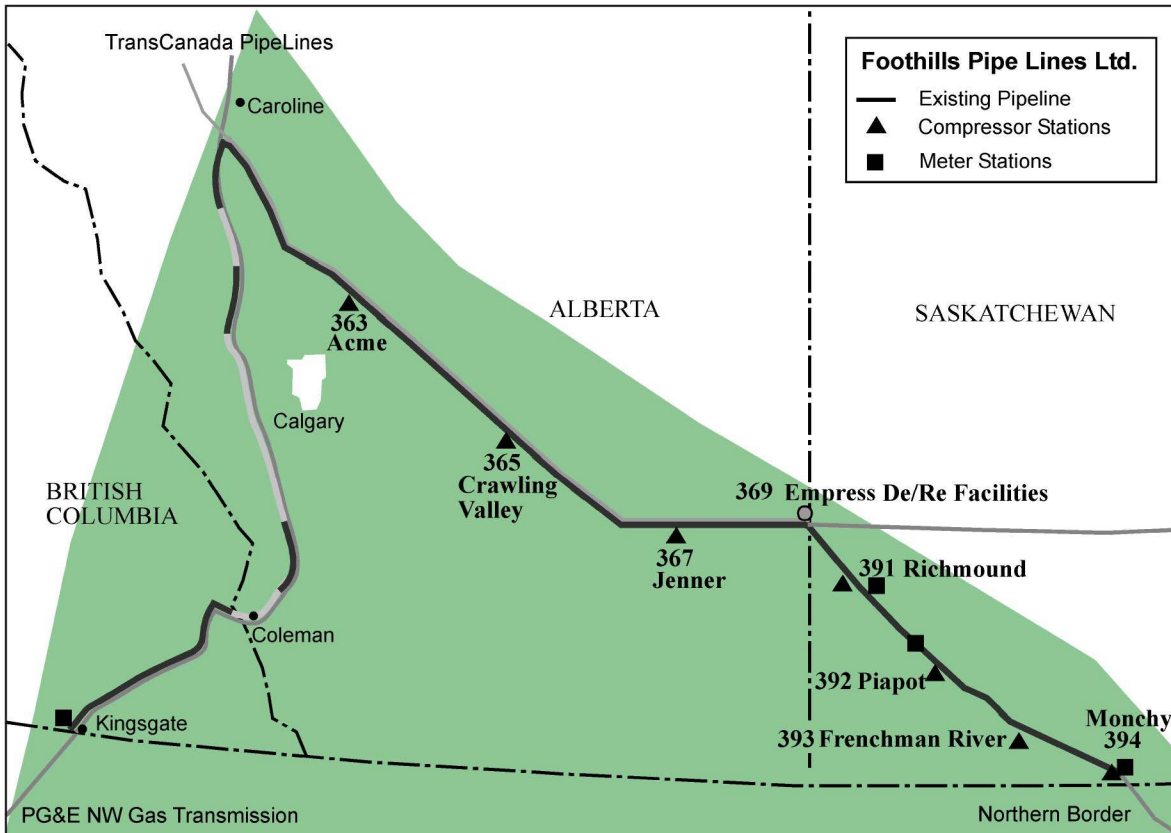
As conceptualized, the second stage of the project would link the prebuilt Western and Eastern Legs of the pipeline system with United States reserves at Prudhoe Bay in Alaska and possibly also Canadian reserves in the Mackenzie Delta region. Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS and a prolonged period of low activity for the Agency.

Figures 1 and 2 show the proposed 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**



Background Information

For more complete background information on the ANGTS and the Agency's roles and responsibilities, reference may be made to the Agency's *Performance Report* for the period ending 31 March 2003.

This report may be accessed through the Treasury Board Secretariat's Internet site at <http://www.tbs-sct.gc.ca/rma> or obtained in hardcopy format by contacting the National Energy Board's Publications Coordinator toll-free at 1-800-899-1265 or direct at (403) 299-3562. Requests may also be forwarded to the Publications Coordinator by fax at (403) 292-5576, by E-mail at publications@neb-one.gc.ca, or by mail to National Energy Board, 444 Seventh Avenue S.W., Calgary, Alberta, T2P 0X8.

Key 2002/2003 Activities

Perceptions of a growing North American market for natural gas and declining supply from traditional sources maintained the interest in exploring options for bringing Alaska and Mackenzie Delta gas to market that had resurfaced in 2000. In addition, the United States continued to consider measures to expedite the construction of a pipeline to deliver Alaskan natural gas to the lower 48 states, including a streamlined regulatory process and financial support. These measures were being considered as part of broader U.S. energy legislation designed to enhance domestic energy production and security of supply. In this environment, the Agency was called on to respond to a number of queries related to the *Northern Pipeline Act* and the ANGTS project. During 2002/2003 work continued to prepare the Agency to meet commitments set out in the *Northern Pipeline Act* should Foothills decide to proceed with the second stage of the project.

Organization

During the reporting period the Agency reported to Parliament through the Minister for International Trade, the Honourable Pierre Pettigrew. The Minister is responsible for the management and direction of the Agency.

The *Northern Pipeline Act* provides for senior management of the Agency to be appointed by Governor in Council. During the reporting period the Agency had two senior officers, a Commissioner and an Administrator. The Commissioner of the Agency was Leonard J. Edwards, Deputy Minister for International Trade. Kenneth W. Vollman, Chairman of the National Energy Board, was the Administrator and Designated Officer of the Agency until Robert G. Skinner was appointed as the Agency's Administrator on the 26 November 2002.

Given the continuing low level of Agency activity, 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. The Agency is also supported by the Department of Foreign Affairs and International Trade and Justice Canada.

Expenditures

In September of 2002 the Treasury Board Secretariat approved an increment in the Agency's reference levels in the amount of \$455,000 for 2002-2003 and \$1,142,000 for fiscal years 2003-2004 and 2004-2005. The increment was based on anticipated increased activities on the part of the Agency, as forecasted in consultation with Foothills.

While the Agency did experience a slightly higher level of activity in 2002/2003, the full extent of the forecasted increase did not occur. Increased expenditures over the previous year are primarily attributed to expenses associated with the appointment of the new Administrator who, unlike the previous Administrator, did not already hold a position with the public service.

The report of the Auditor General on the accounts and financial transactions of the Agency for the 2002/2003 fiscal year follows. As shown by the report, the Agency's expenditures for the fiscal year totalled approximately \$337,000.

Appendix



AUDITOR'S REPORT

To the Minister for International Trade

I have audited the statement of financial position of the Northern Pipeline Agency for the year ended 31 March 2003 and the statements of operations and surplus of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at 31 March 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Section 29 of the *Northern Pipeline Act* and the *National Energy Board Cost Recovery Regulations*.

Roger Simpson, FCA
Principal
for the Auditor General of Canada

Edmonton, Canada
17 October 2003



17 October 2003


Management's Responsibility for Financial Reporting

The management of the Northern Pipeline Agency (the Agency) is responsible for the preparation of all information included in its financial statements. The accompanying statements have been prepared in accordance with Canadian generally accepted accounting principles. Management of the Agency 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. Management has determined such amounts on a reasonable basis in order to ensure that the financial information is presented fairly in all material respects. The financial statements also include certain expenditures supplied by government central agencies which are based on estimates.

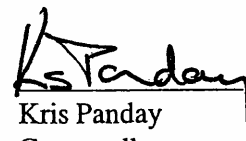
The Agency maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial management information is available on a timely basis, and that assets are acquired economically, used to further the Agency's aims, and protected from loss or unauthorized use. The Agency's management recognizes its responsibility for conducting the Agency's affairs in accordance with the requirements of applicable laws of Canada using sound business principles, and for maintaining standards of conduct that are appropriate to the public interest.

Management of the Agency believes that the system of internal controls and approved policies, practices and procedures are designed to provide reasonable assurance that the operations are in compliance with applicable laws and conform to a high standard of business conduct. Management also seeks to ensure the objectivity and integrity of data in its financial statements and that, regulations, policies, standards and managerial authorities are understood throughout the Agency. The Agency relies on the National Energy Board to provide administrative support for its operation.

The Auditor General of Canada annually provides an independent objective audit for the purpose of expressing an opinion on these financial statements in accordance with the applicable provisions of the *Northern Pipeline Act* and of the *National Energy Board Cost Recovery Regulations*.



Leonard J. Edwards
Commissioner



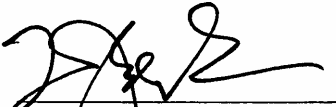
Kris Panday
Comptroller

**Northern Pipeline Agency
Statement of Financial Position**

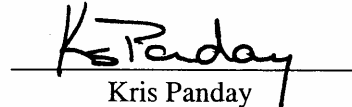
As at 31 March

| | 2003 | Opening Balance 1 April 2003 |
|--|-------------------------|------------------------------------|
| Assets | | |
| Current Assets: | | |
| Due from Consolidated Revenue Fund | \$ 87,330 | \$115,941 |
| Receivables | 302,821 | 36,309 |
| Prepayments | <u>4,750</u> | <u>14,112</u> |
| TOTAL ASSETS | <u>\$394,901</u> | <u>\$166,362</u> |
| Liabilities | | |
| Current liabilities | \$ 44,497 | \$ 38,658 |
| Deferred Revenue | <u>302,218</u> | <u>104,185</u> |
| TOTAL LIABILITIES | <u>346,715</u> | <u>142,843</u> |
| Surplus of Canada | <u>48,186</u> | <u>23,519</u> |
| TOTAL LIABILITIES and SURPLUS OF CANADA | <u>\$394,901</u> | <u>\$166,362</u> |

Approved by:



Leonard J. Edwards
Commissioner



Kris Panday
Comptroller

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

**Northern Pipeline Agency
Statement of Operations and Surplus of Canada**

Year Ended 31 March

| | |
|---|-------------------------|
| | 2003 |
| <hr/> | |
| REVENUE: | |
| Regulatory Revenue | \$336,969 |
| Easement Fee | <u>27,594</u> |
| TOTAL REVENUE | <u>364,563</u> |
| EXPENSES: | |
| Salaries and Wages | 156,001 |
| Professional and Special Services | 122,551 |
| Transportation and Communication | 29,010 |
| Repairs and Maintenance | 9,500 |
| Rentals | 9,418 |
| Other subsidies and Payments | 9,423 |
| Information | <u>1,066</u> |
| TOTAL EXPENSES | <u>336,969</u> |
| NET OPERATING RESULTS OF THE YEAR | 27,594 |
| Fees collected on behalf of Canada | (27,594) |
| Surplus of Canada, Beginning of Year | 23,519 |
| Services provided without charge by a government department | <u>24,667</u> |
| SURPLUS OF CANADA, End of Year | <u>\$ 48,186</u> |

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

**Northern Pipeline Agency
Statement of Cash Flows**

Year Ended 31 March

2003

Cash flows from operating Activities:

| | |
|--|-------------------------|
| Net operating results of the year | \$ 27,594 |
| Less: Fees collected on behalf of Canada | <u>(27,594)</u> |
| | |
| Non-cash transactions | |
| Services provided without charge by a government department | <u>24,667</u> 24,667 |
| Changes in non-cash working capital | <u>(53,278)</u> |
| Decrease in Due from Consolidated Revenue Fund | (28,611) |
| Consolidated Revenue Fund, Beginning of Year | <u>115,941</u> |
| Consolidated Revenue Fund, End of Year | <u>\$ 87,330</u> |

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

**Northern Pipeline Agency
Notes to the Financial Statements
Year ending 31 March 2003**

1. Authority, objectives and operations

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

- give effect to an Agreement on Principles Applicable to a Northern Natural Gas Pipeline (*the Agreement*) between the Governments of Canada and the United States;
- establish the Northern Pipeline Agency (the Agency) to oversee the planning and construction of the Canadian portion of the project.

The Agency is designated as a department and named under *Schedule I.1 of the Financial Administration Act*, reporting to Parliament through the Minister for International Trade.

The objectives of the Agency are to:

- 1) carry out and give effect to the Agreement of 20 September 1977 between Canada and the United States underpinning the project;
- 2) carry out, through the Agency, federal responsibilities in relation to the pipeline;
- 3) facilitate the efficient and expeditious planning and construction of the pipeline, taking into account local and regional interests;
- 4) facilitate consultation and coordination with the governments of the provinces and the territories traversed by the pipeline;
- 5) maximize the social and economic benefits of the pipeline while minimizing any adverse social and environmental effects; and
- 6) advance national economic and energy interests and to maximize related industrial benefits by ensuring the highest possible degree of Canadian participation.

On 1 May 1982, the United States, sponsors for the Alaska Highway Gas Pipeline and Foothills Pipe Lines Ltd., announced that the target date for completion had been set back until further notice and all parties scaled down their activities. Work continues to prepare the Agency to meet commitments set out in the *Northern Pipeline Act* should Foothills decide to proceed with the second stage of the Alaskan Natural Gas Transportation System.

In accordance with Section 29 of the *Northern Pipeline Act* and with the *National Energy Board Cost Recovery Regulations*, the Agency is required to recover all its annual operating costs from the companies holding certificates of public convenience and necessity issued by the Agency. Currently, Foothills Pipe Lines Ltd. is the sole holder of such certificates. The Government of Canada provides funds for working capital through an annual Parliamentary appropriation.

2. Significant accounting policies and provisions of the Regulations

These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board of Canada Accounting Standards based on Canadian generally accepted accounting principles.

a) Consolidated Revenue Fund:

The Agency operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements are paid from the CRF. Due from CRF represents the amount of cash that the NPA is entitled to draw from the CRF, without further appropriations, in order to discharge its liabilities.

b) Revenue Recognition:

Revenues are recognized on accrual basis. Deferred revenues represent the accumulation of excess billings over the actual expenses for the last two fiscal years.

c) Expenses:

Expenses are recorded on the accrual basis.

d) Services provided without charge by other government departments:

Amounts for services provided without charge by other government departments are recorded as operating expenses by the Agency.

e) Receivables:

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

f) Measurement uncertainty:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Prepayments are the most significant items where estimates are used. Actual amounts could differ from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

**Northern Pipeline Agency
Notes to the Financial Statements
Year ending 31 March 2003**

3. Changes in Accounting Policies

In previous years, the Agency prepared only a Schedule of Expenditures and Receipts on a modified cash basis. This is the first year that a set of financial statements including a Statement of Financial Position, Statement of Operations and Surplus of Canada, and Statement of Cash Flows has been prepared on a full accrual accounting basis. It is neither practical nor possible for the Agency to show comparative amounts because the information is not available and any estimation of previous years' amounts would be impossible to be substantiated with any degree of precision.

4. Billing Adjustment

| | <u>2002</u> | <u>2001</u> |
|-----------------------------|--------------------|-------------------|
| Recoverable operating costs | \$355,115 | \$220,637 |
| Deduct: Provisional Billing | <u>(413,685)</u> | <u>(258,792)</u> |
| Billing Adjustment | <u>\$ (58,570)</u> | <u>\$(38,155)</u> |

The billing adjustment represents the difference between the provisional billing and the actual recoverable operating costs, on a calendar year basis in accordance with Section 19 of the *National Energy Board Cost Recovery Regulations*. The recoverable operating costs for the calendar year is calculated using three quarters of the current fiscal year and one quarter of the previous fiscal year's operating costs. The billing adjustment of \$58,570 for 2002 and \$38,155 for 2001 will be applied to the provisional billings of 2004 and 2003 respectively.

5. Easement Fee

In 1983, the Government of Canada, pursuant to Subsection 37(3) of the *Northern Pipeline Act*, granted Foothills Pipe Lines Ltd. a twenty-five year easement upon and under lands in the Yukon Territory. For the right of easement, Foothills Pipe Lines Ltd. is to pay the Agency an annual amount of \$30,400. \$2,806 of this annual amount is collected on behalf of and forwarded directly to the Government of the Yukon Territory.

6. Use of Parliamentary Appropriations

The Government of Canada funds the expenses of the Agency through Parliamentary appropriations. All of these expenses are subsequently recovered from Foothills Pipe Lines Ltd. and are deposited in the Consolidated Revenue Fund of the Government of Canada. As a result and reflected in the financial statements, the net cash provided by the Government is zero.

7. Related Party Transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises except that certain services, as defined previously, are provided without charge.

During the year, the Agency received services without charge from the Department of Foreign Affairs and International Trade. These include management, accounting and administrative services for an estimated value of \$24,667.