



NORTHERN PIPELINE AGENCY

1999 - 2000 Estimates

Part III - Report on Plans and Priorities

Canada

NORTHERN PIPELINE AGENCY

**1999 - 2000
Estimates**

Part III - Report on Plans and Priorities

Approved

The Honourable Sergio Marchi,
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. The Agency oversees the planning and construction by Foothills Pipe Lines Ltd. ("Foothills") of the Canadian portion of 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, the project is also referred to as the Alaska Highway Gas Pipeline Project.

Unfavourable economics have led to indefinite delays in the completion of the ANGTS. In recent years, the Agency's workload has been limited to overseeing major expansions of the southern portion of the pipeline system, referred to as the Prebuild. The Prebuild first went into operation in the 1981-82 timeframe for the initial purpose of transporting Canadian gas principally sourced from south of the 60th parallel. 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 United States reserves at Prudhoe Bay and Canadian reserves in the Mackenzie Delta area.

The flow capacity of the Prebuild continues to approach the 102 million cubic metres (3.6 billion cubic feet) per day rate that was 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 late 1998, raised the capacity to about 94 million cubic metres (3.3 billion cubic feet) per day, a reflection of the growing export demand. Approximately one-third of all Canadian natural gas exports to the United States are transported through the Prebuild.

The determination of the Agency's budget of \$259,000 for 1999-00 includes sufficient funding to cover the cost of key operational components which are costs fully recovered through a cost recovery mechanism.

The following two figures depict the overall ANGTS project and the Canadian Prebuild.

Figure 1: The Alaska Natural Gas Transportation System

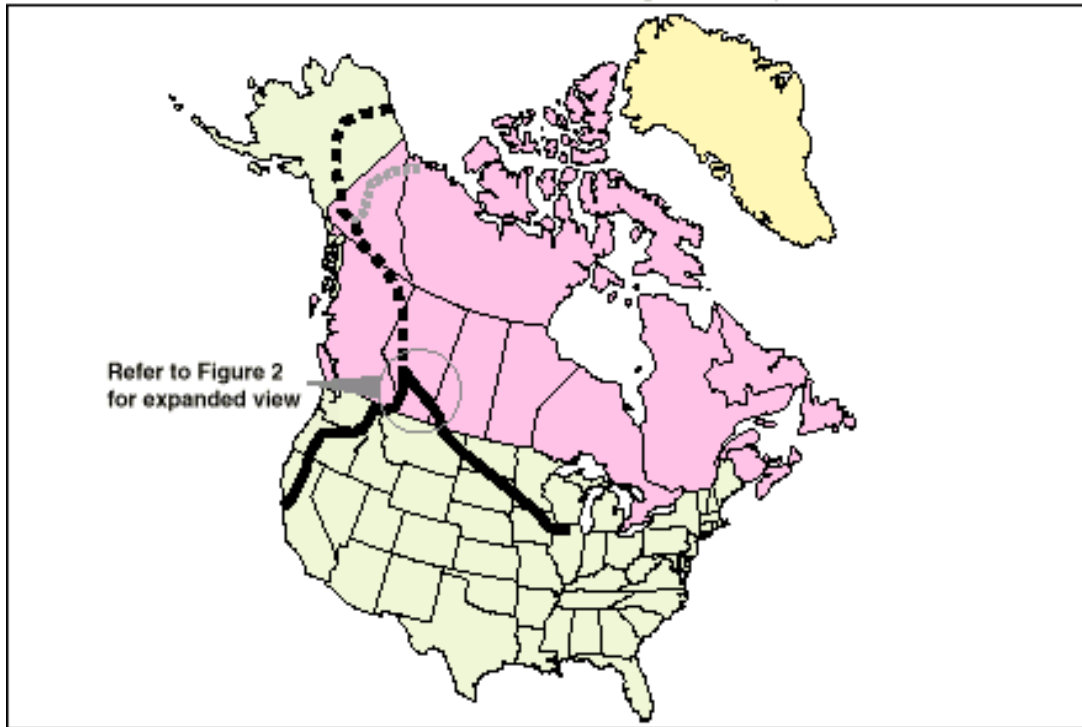
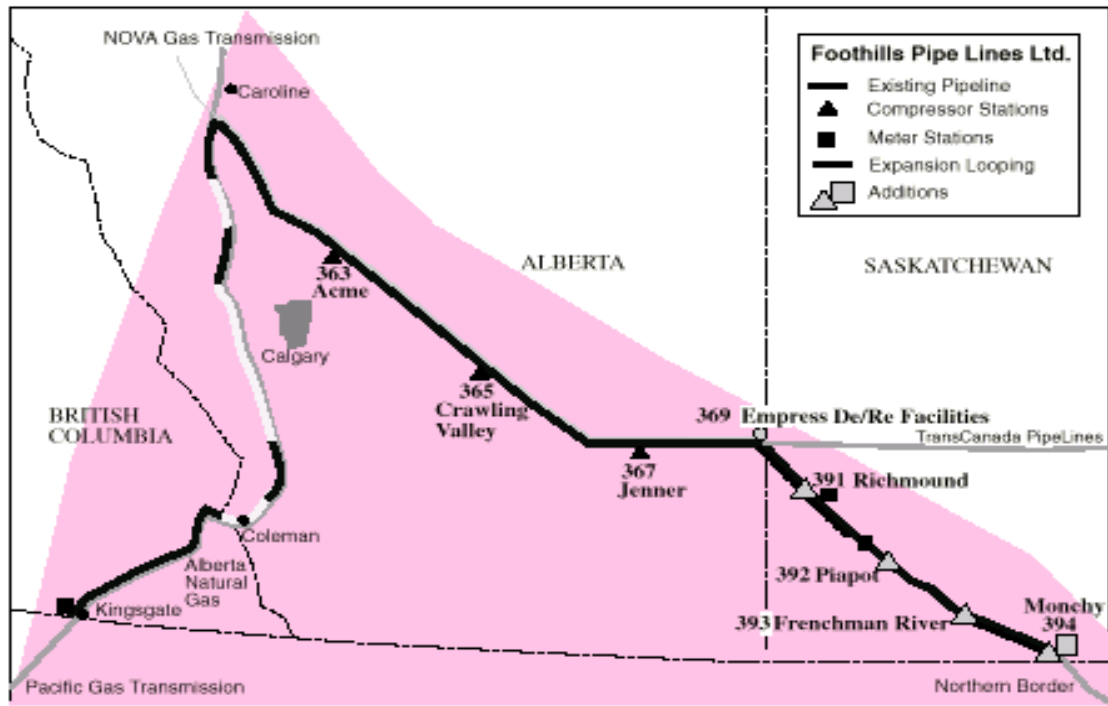


Figure 2: The Foothills Prebuild



Management Representation

Report on Plans and Priorities 1999-2000

I submit, for tabling in Parliament, the 1999-2000 Report on Plans and Priorities (RPP) for

NORTHERN PIPELINE AGENCY

To the best of my knowledge the information:

- ! Accurately portrays the department's mandate, plans, priorities, strategies and expected key results of the organization.
- ! Is consistent with the disclosure principles contained in the *Guidelines for Preparing a 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's production.

The Planning and Reporting Accountability Structure (PRAS) 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: _____

Robert G. Wright
Commissioner

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. In the case of the 1998 Eastern Leg Expansion Project, Canada notified the United States authorities of its intention to suspend application of the agreed procurement procedures in light of the lack of reciprocity on their part. 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* 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 the terms and conditions established thereunder. These approvals relate to socio-economic and environmental requirements, routing matters, technical design, and other matters such as demonstration of financing.

B. Objectives

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

C. Operating Environment

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. However, as time passed, it became increasingly apparent that Phase II would be delayed indefinitely. In response to this realization, the NPA shrank to a skeleton organization in the mid-1980s. The staff of the National Energy Board subsequently provided the technical expertise and advice required to facilitate the regulatory activities of the Agency.

Phase II of the ANGTS remains on hold to this day, and the consensus at this time is that the completion of the project is many years away. In the meantime, the Agency's role has been confined to overseeing expansions of the Eastern and Western Legs.

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 B.C; 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.

D. Financial Spending Plan

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 of dollars) | Forecast Spending 1998-99 | Planned Spending 1999-00 | Planned Spending 2000-01 | Planned Spending 2001-02 |
|---|---------------------------------|---|--------------------------------|--------------------------------|
| Gross Program Spending: | | | | |
| Regulation of Construction of the Alaska Highway Gas Pipeline | 175 | 259 | 259 | 259 |
| Less: Revenue Credited to the Vote | - | - | - | - |
| Net Program Spending | 175 | 259 | 259 | 259 |
| Less: Revenue Credited to the Consolidated Revenue Fund ("CRF") | 175 | 259 | 259 | 259 |
| Net Cost of the Agency | 0 | 0 | 0 | 0 |

Section III: Plans, Priorities and Strategies

A. Summary of Key Plans, Priorities and Strategies

| Northern Pipeline Agency Canada has a budget of \$259,000 in 1999-2000 | |
|---|---|
| to provide Canadians with: | to be demonstrated by: |
| <p>! overview of planning and construction of the expansion of the Eastern Leg of the Prebuild completed during fiscal year 1998-1999 (further details to be provided in the Departmental Performance Report for 1999). No major projects are planned in 1999-2000</p> | <p>! co-operation among government departments to ensure that all aspects of the <i>Act</i> are effectively carried out; and</p> <p>! as a separate employer, implementation of the Agency's own systems of policy appropriate to its operating requirements.</p> |

B. Details by Business Line

Table 5: Program Resources by Business Line for the Estimates Year

| | FTE | Operating | Capital | Transfer | Planned | Plus: | Gross | Less: | Net |
|--|-----|-----------|----------|----------|---------|----------|---------|-----------------|----------|
| | | | Payments | Spending | LIAs | Planned | Revenue | Credited to the | Planned |
| | | | | | | Spending | Vote | Spending | Spending |
| Regulation of Construction of the Alaska Highway | 2 | 259 | - | - | 259 | - | 259 | - | 259 |
| Total Agency | 2 | 259 | - | - | 259 | - | 259 | - | 259 |

Key Plans and Strategies

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

The Agency operates within the existing budget by working in co-operation with other departments including, principally, the National Energy Board ("Board"). The budget amount is approximately double the forecasted expenditures, which will likely circumvent any need in future to approach Parliament for increased funding should an unexpected increase in workload activity occur or an unanticipated expenditure arise.

As a matter of policy, the Agency conforms closely with the principles of personnel administration that apply in the Public Service of Canada. In light of its Separate Employer status and given the nature of its responsibilities, the Agency chose to adopt two compensation plans for termination of employees. The plans are to adequately compensate employees for, first, the need to reduce staff as a result of the delay in construction of the pipeline, and second, for remaining with the Agency until completion of their responsibilities. Under the Termination Plan, indeterminate employees are eligible for between two and twelve months salary upon involuntary separation, depending on level and tenure. Under the Contingency Plan, those eligible employees are entitled to an allowance upon separation of 13% of their gross salary earned.

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 14.

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

Given the arrangements in place with the other government departments, the Agency will respond effectively to regulatory filings made by Foothills during this period of continued low activity.

The Agency has been reduced to a skeleton organization but has enough "machinery" left in place to make certain that the *Act* is properly administered. The agreements that are currently in place with the National Energy Board and other government departments continue to facilitate efficiencies in the administration of the *Act*.

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 (\$31K) 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.

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

Section IV: Supplementary Information

A. Summary of Voted Appropriations

Table 1: Spending Authorities - Ministry Summary Part II of the Estimates

| Vote | (thousands of dollars) | 1999-00 Main Estimates | 1998-99 Main Estimates |
|---------------------------------|---|---------------------------------------|------------------------------|
| Northern Pipeline Agency | | | |
| 60 | Operating expenditures | 237 | 237 |
| (S) | Contributions to employee benefit plans | 22 | 22 |
| Total Agency | | 259 | 259 |

Table 2 - Organization and Program Composition

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

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 administration of the Agency is managed from its Ottawa office. Technical advice and administrative services are provided by the Board from Calgary.

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

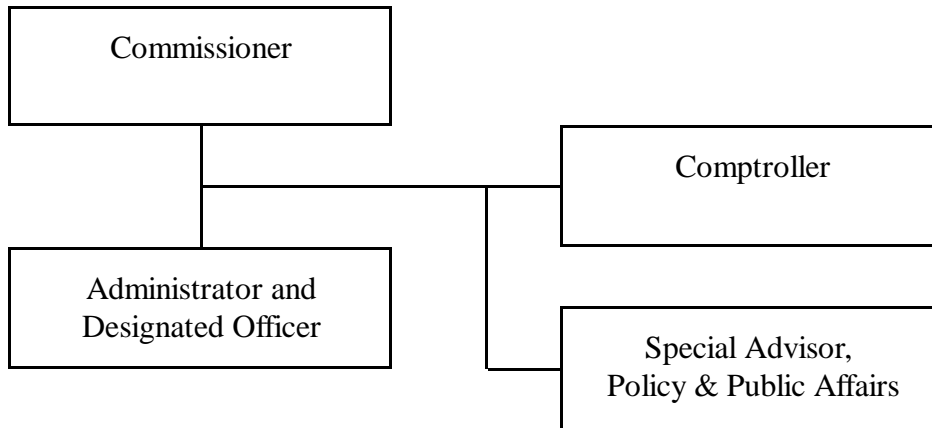


Table 3 - Details of Personnel Requirements by Business Line (FTEs*)

| | 1998-99 Forecast | 1999-00 Planned | 2000-01 Planned | 2001-02 Planned |
|--|---------------------|--------------------|--------------------|--------------------|
| Regulation of Construction of the Alaska Highway Gas Pipeline | 1.2 | 2.0 | 2.0 | 2.0 |
| Total | 1.2 | 2.0 | 2.0 | 2.0 |

*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.

Table 4: Summary of Standard Objects by Expenditure

| (thousands of dollars) | Forecast Spending 1998-99 | Planned Spending 1999-00 | Planned Spending 2000-01 | Planned Spending 2001-02 |
|---|---------------------------------|---|--------------------------------|--------------------------------|
| Personnel | | | | |
| Salaries and wages | 72 | 112 | 112 | 112 |
| Contributions to employee benefit plans | 20 | 22 | 22 | 22 |
| | 92 | 134 | 134 | 134 |
| Goods and Services | | | | |
| Transportation and communications | 12 | 20 | 20 | 20 |
| Information | 5 | 5 | 5 | 5 |
| Professional and special services | 40 | 70 | 70 | 70 |
| Rentals | 20 | 22 | 22 | 22 |
| Purchased repair and maintenance | 3 | 5 | 5 | 5 |
| Utilities, materials and supplies | 3 | 3 | 3 | 3 |
| Other subsidies and payments | - | - | - | - |
| | 83 | 125¹ | 125 | 125 |
| Capital | - | - | - | - |
| Total budgetary expenditures | 175 | 259 | 259 | 259 |

Note: 1) In the 1999-00 Main Estimates the operating costs are shown as:

| | |
|-----------------------------------|-----|
| Professional and Special Services | 122 |
| Utilities, Materials and Supplies | 3 |
| | 125 |

The planned spending projections were subsequently refined as above, however, the total planned spending remains the same.

Table 7: Revenue by Program

| Revenue Credited to the Consolidated Revenue Fund (CRF) (thousands of dollars) | Forecast Revenue 1998-99 | Planned Revenue 1999-00 | Planned Revenue 2000-01 | Planned Revenue 2001-02 |
|---|---------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Regulation of Construction of the Alaska Highway Gas Pipeline | 175 | 259 | 259 | 259 |
| Total Revenue Credited to CRF | 175 | 259 | 259 | 259 |

Cost Recovery and Billing Information

| (thousands of dollars) | 1997 | 1998 | 1999 | 2000 | 2001 |
|-----------------------------|-------|-------|-------|------|------|
| Estimated recoverable costs | 251 | 258 | 259 | 259 | 259 |
| Actual recoverable costs | 124 | N/A | N/A | N/A | N/A |
| Adjustment in future year | 127 | N/A | N/A | N/A | N/A |
| Estimated recoverable costs | 251 | 258 | 259 | 259 | 259 |
| Adjustment for prior year | (120) | (117) | (120) | N/A | N/A |
| Total billings | 131 | 141 | 139 | N/A | 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.

Table 8: Net Cost of Program for the Estimates Year

| (thousands of dollars) | Regulation of Construction of the Alaska Highway Gas Pipeline | Total |
|--------------------------------------|---|--------------|
| Gross Planned Spending | 259 | 259 |
| Total Cost of Program | 259 | 259 |
| Less: Revenue Credited to the CRF | 259 | 259 |
| 1999-2000 estimated Net Program Cost | 0 | 0 |

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.) |

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