



Northern Pipeline Agency Canada

Performance Report

For the period ending
March 31, 2000

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 the *Part III of the Estimates* document for each department or agency into two separate documents: a *Report on Plans and Priorities* tabled in the spring and a *Departmental Performance Report* tabled in the fall.

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.

The Fall Performance Package is comprised of 83 Departmental Performance Reports and the President's annual report, *Managing for Results 2000*.

This *Departmental Performance Report*, covering the period ending March 31, 2000 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 *Report on Plans and Priorities* for 1999-00 tabled in Parliament in the spring of 1999.

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 its management systems and performance framework. 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/rma/dpr/dpre.asp>

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Northern Pipeline Agency

Performance Report

**For the
period ending
March 31, 2000**

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

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Section I: Executive Summary

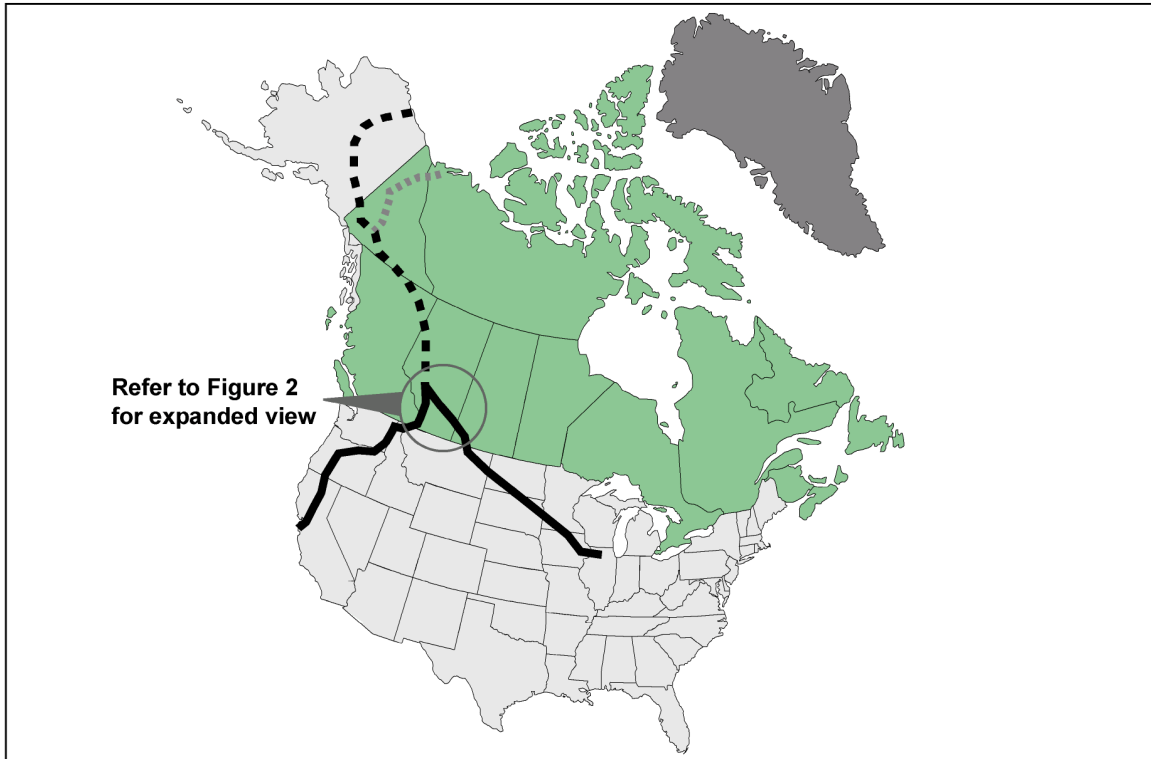
The Northern Pipeline Agency (the Agency) was created by the *Northern Pipeline Act* (the *Act*) in 1978 to oversee the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Highway Gas Pipeline Project, known in the United States as the Alaska Natural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

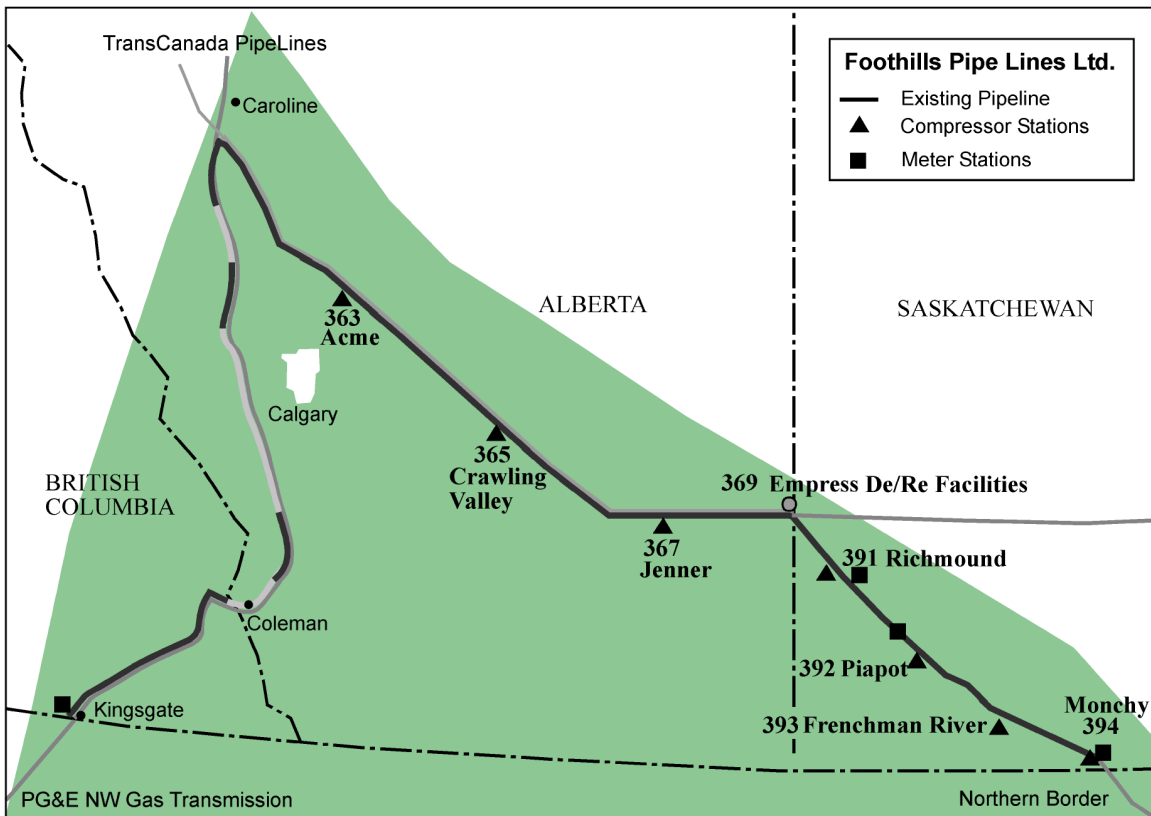
In response to growing export demands, the flow capacity of the Prebuild continues to approach the 102 million cubic metres (3.6 billion cubic feet) per day rate provided for in the agreement between Canada and the United States underpinning the ANGTS. The latest expansion of the Prebuild, which came into service in December 1998, raised the 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 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**



Section II: Departmental Performance

Northern Pipeline Agency	
Planned Spending	\$259,000
Total Authorities	\$265,000
1999-2000 Actual	\$202,800

A. Societal Context

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. 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. 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, as designed, could also 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 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 1981-1982 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.

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 no full-time staff. 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 metres (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 1998, raised its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day.

Perceptions 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 2000, the NPA may be required to address questions about the need for further assessments, regulatory process, and related matters with respect to the ANGTS project.

2. Objectives

The objectives of the *Act*, establishing the Agency, 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 when required.

4. Challenges

During 1999-2000 the challenges for the Agency were minimal due to Phase II of the pipeline project remaining on hold. 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.

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.

B. Performance Expectations

The Agency's principal task for the 1999-2000 fiscal year was to maintain preparedness to respond to Foothill's regulatory filings and make sure that the *Act* is properly administered.

C. Chart of Key Results Commitment

Northern Pipeline Agency		
Provide Canadians with:	Demonstrated By:	Achievements Reported In:
<ul style="list-style-type: none"> • regulatory oversight of the planning and construction of the Canadian portion of the Alaska Natural Gas Transportation System. 	<ul style="list-style-type: none"> • effect given to the 1977 "Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline". • compliance with the terms and conditions of the <i>Northern Pipeline Act</i>: <ul style="list-style-type: none"> ▶ construction of the pipeline facilitated; ▶ governments of the provinces and territories traversed by the pipeline consulted; ▶ social and economic benefits of the pipeline maximized; ▶ adverse social and environmental effects of the pipeline minimized; ▶ national economic and energy interests advanced; and ▶ industrial benefits and Canadian participation maximized. 	<p>Section II, page 6</p> <p>Section II, page 6</p>

D. 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 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 Territory 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 IV: Financial Performance.

Section IV: 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

The Agency's operating budget is comprised of fixed and variable cost elements, both of which experienced abnormal activity in 1999-2000.

Fixed costs relate to salaries for the NPA staff, the administration of the Leasehold Agreement by INAC and the office accommodations managed by Public Works and Government Services Canada. Given delays in the completion of the ANGTS, and consequently the Agency's limited activities in 1999-2000, the two employees of the NPA were paid severance packages and the work that they had been performing was reallocated principally to Board staff. The office accommodations, which had been provided through Foreign Affairs and International Trade (FAIT), reverted to FAIT and area for information archives was obtained from Public Works.

As a consequence of the changes in the fixed cost portion, the variable costs of the Agency which relate to costs of service provided by the Board increased slightly. Other variable costs which include fees for the Special Advisor, Policy and Public Affairs, administrative support and technical advice, and other services provided by contract are also slightly skewed in 1999-2000. The contract for the Special Advisor, Policy and Public Affairs was terminated in 1999-2000 and this service is now being acquired from within the Government of Canada. The Board's cost of technical advice and administrative services can vary substantially depending upon 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 below.

D. Cost Recovery Table

Historical Comparison of NPA Cost Recovery (thousands of dollars)

	1997	1998	1999	2000	2001
Estimated recoverable costs	251	258	259	258	260
Actual recoverable costs	(123)	(162)	(159) ⁽¹⁾	-	-
Adjustment in future year	128	96	100	-	-
Estimated recoverable costs	251	258	259	258	260
Adjustment for prior year	(120)	(117)	(128)	(96)	(100)
Total Cost Recovery	131	141	131	162	160

(1) Based on information available as of June 16, 2000. 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.

E. Financial Tables

The following list and Financial Tables represent an overview of the Northern Pipeline Agency's 1999-2000 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 4	-	Non-respendable Revenues

Table 1: Summary of Voted Appropriations

Financial Requirements by Authority				
(\$thousands)				
		1999-2000		
Vote	Northern Pipeline Agency	Planned Spending	Total Authorities	Actual
60	Program expenditures	237.0	243.0	202.8
	Contributions to employee benefit plans	22.0	22.0	22.0
Total NPA		259.0	265.0	224.8

Table 2: Comparison of Total Planned Spending to Actual Spending

Agency Planned versus Actual Spending				
(\$thousands)				
		1999-2000		
Northern Pipeline Agency		Planned	Total Authorities	Actual
FTE's		2	2	1
Operating		259.0	265.0	224.8
Capital		-	-	-
Voted Grants & Contributions		-	-	-
Total Gross Expenditures		259.0	265.0	224.8
Less:				
Respendable Revenues ⁽¹⁾				
Total Net Expenditures		259.0	265.0	224.8
Other Revenues & Expenditures				
Non-respendable Revenues ⁽²⁾		(259.0)	(265.0)	(224.8)
Cost of Services Provided by Other Departments ⁽³⁾		-	-	-
Net Cost of Program		0	0	0

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

(2) These revenues were formerly called "Revenues Credited to the General Government Revenues (GGR)".

(3) 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 1997-98	Actual 1998-99	1999-2000		
			Planned Spending	Total Authorities	Actual
Northern Pipeline Agency	170.3	142.7	259.0	265.0	224.8
Total	170.3	142.7	259.0	265.0	224.8

Table 4: Non-respendable Revenues

Non-respendable Revenues ((\$thousands)					
	Actual 1997-98	Actual 1998-99	1999-2000		
			Planned Revenues	Total Authorities	Actual
Northern Pipeline Agency	129.7	140.6	259.0	259.0	166.2
Total Non-respendable Revenues ⁽¹⁾	129.7	140.6	259.0	259.0	166.2

⁽¹⁾ These revenues were formerly called "Revenues Credited to the General Government Revenues (GGR)".

Section V: 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. 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.

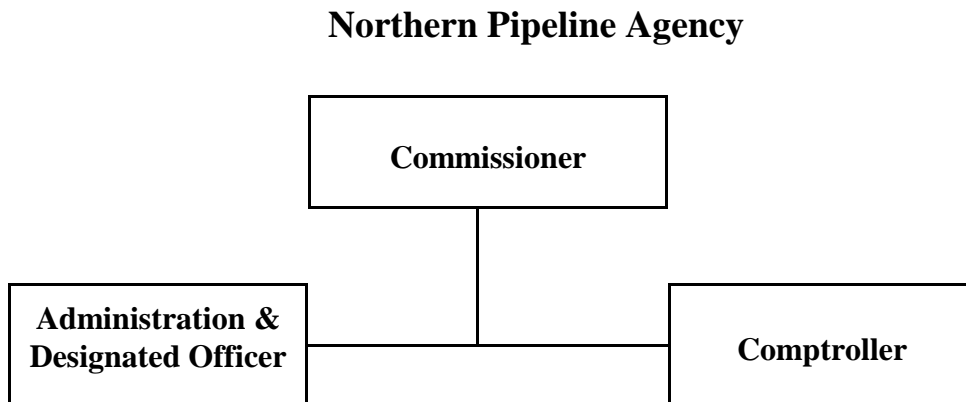
Given the continued low level of Agency activity, arrangements are in place whereby the Agency relies largely on the Board for administrative and technical assistance. This assistance is provided on a cost-recoverable basis. In addition, Natural Resources Canada provides policy advice for the Agency. The Agency has no full-time staff 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.

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 provides a schematic of the reporting relationships of the key officers of the Agency.

Figure 3: Organization Chart



Section VI: Other Information

A. Contacts for Further Information Contact:

Office of the Commissioner
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario, K1A 0G2

Northern Pipeline Agency
c/o National Energy Board
444 - 7th Avenue S.W.
Calgary, Alberta, T2P 0X8

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 (1980-1981)

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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