



# Northern Pipeline Agency Canada

## Performance Report

For the period ending  
March 31, 2001

Canada

## **Improved Reporting to Parliament Pilot Document**

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 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*.

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 funds.

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Available in Canada through your local bookseller or by mail from

Canadian Government Publishing — PWGSC

Ottawa, Canada K1A 0S9

Catalogue No. BT31-4/56-2001

ISBN 0-660-61710-2



## Foreword

In the spring of 2000 the President of the Treasury Board tabled in Parliament the document “Results for Canadians: A Management Framework for the Government of Canada”. This document sets a clear agenda for improving and modernising management practices in federal departments and agencies.

Four key management commitments form the basis for this vision of how the Government will deliver their services and benefits to Canadians in the new millennium. In this vision, departments and agencies recognise that they exist to serve Canadians and that a “citizen focus” shapes all activities, programs and services. This vision commits the government of Canada to manage its business by the highest public service values. Responsible spending means spending wisely on the things that matter to Canadians. And finally, this vision sets a clear focus on results – the impact and effects of programs.

Departmental performance reports play a key role in the cycle of planning, monitoring, evaluating, and reporting of results through ministers to Parliament and citizens. Earlier this year, departments and agencies were encouraged to prepare their reports following certain principles. Based on these principles, an effective report provides a coherent and balanced picture of performance that is brief and to the point. It focuses on results – benefits to Canadians – not on activities. It sets the department’s performance in context and associates performance with earlier commitments, explaining any changes. Supporting the need for responsible spending, it clearly links resources to results. Finally the report is credible because it substantiates the performance information with appropriate methodologies and relevant data.

In performance reports, departments strive to respond to the ongoing and evolving information needs of parliamentarians and Canadians. The input of parliamentarians and other readers can do much to improve these reports over time. The reader is encouraged to assess the performance of the organization according to the principles outlined above, and provide comments to the department or agency that will help it in the next cycle of planning and reporting.

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This report is accessible electronically from the Treasury Board of Canada Secretariat Internet site:

<http://www.tbs-sct.gc.ca/rma/dpr/dpre.asp>

Comments or questions can be directed to this Internet site or to:

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# Northern Pipeline Agency

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The Honourable Pierre Pettigrew  
Minister responsible for the  
Northern Pipeline Agency



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## **Section I: Executive Summary**

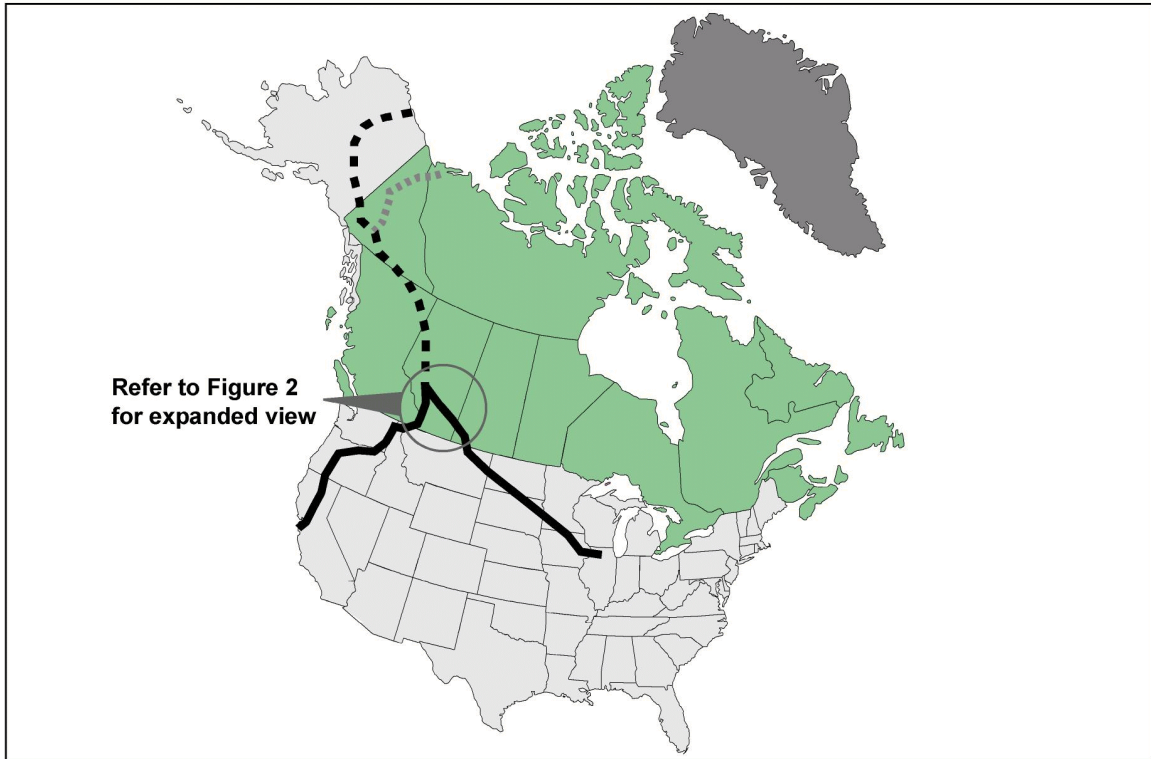
The Northern Pipeline Agency (the Agency) was created by the *Northern Pipeline Act* (the *Act*) in 1978 to oversee the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Highway Gas Pipeline Project, known in the United States as the Alaska Natural 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 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 60<sup>th</sup> 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.

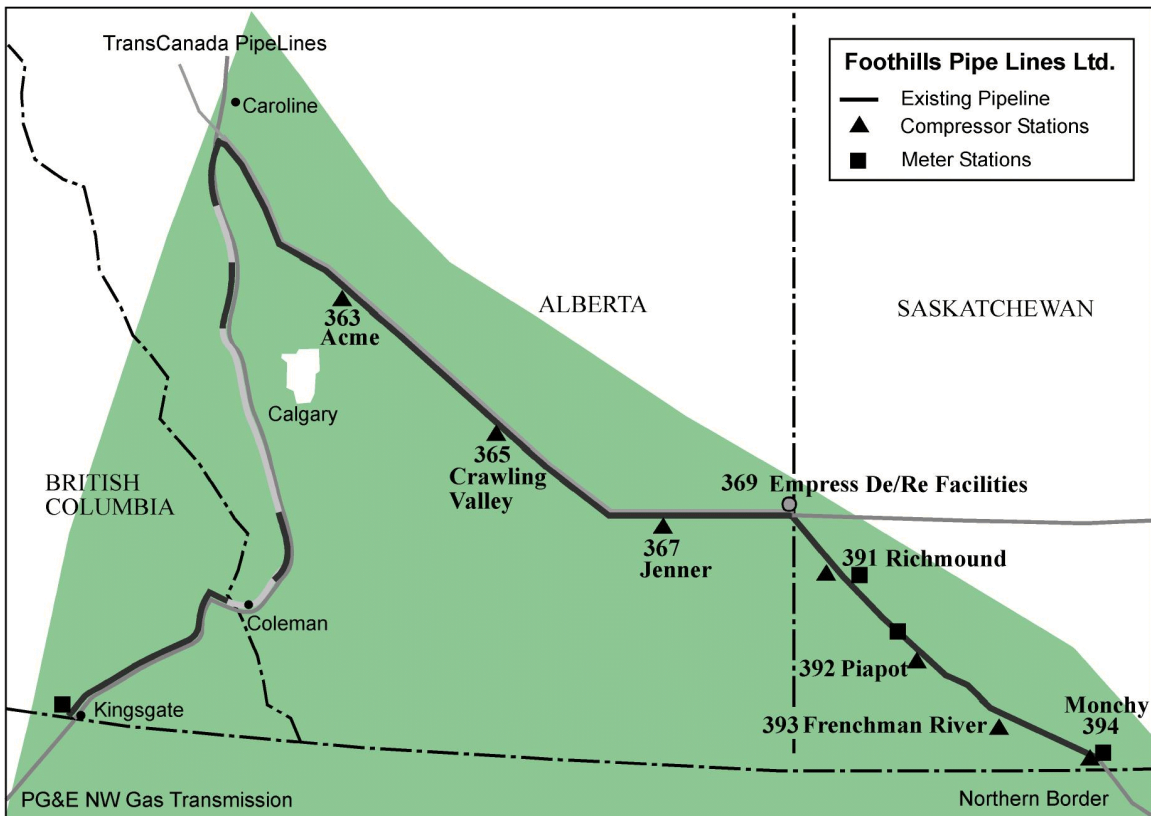
In response to growing export demands, the flow capacity of the Prebuild continues to approach the 102 million cubic metres (3.6 billion cubic feet) per day rate provided for in the agreement between Canada and the United States underpinning the ANGTS. The current capacity is about 94 million cubic metres (3.3 billion cubic feet) per day. In 2000, the Foothills Prebuild delivered approximately one-third of Canadian natural gas exports to the United States.

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: Agency Context

### 2.1 Agency Overview

#### 2.1.1 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.

### 2.1.2 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.

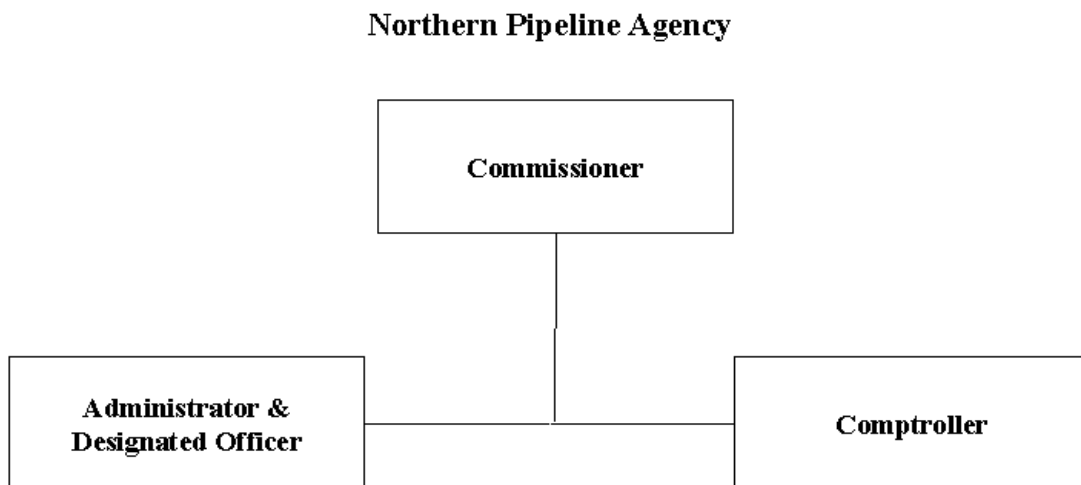
Given the continued low level of Agency activity, arrangements are in place whereby the Agency relies largely on the Board for administrative and technical assistance. This assistance is provided on a cost-recoverable basis. In addition, Natural Resources Canada provides policy advice for the Agency. The Agency has two 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 - Northern Pipeline Agency**



### 2.1.3 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.

### 2.1.4 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.

**Resources Used - Table 1**

<b>Northern Pipeline Agency</b>	
Planned Spending	\$259,000
Total Authorities	\$265,000
<b>2000-2001 Actual</b>	<b>\$123,119</b>

## 2.2 Societal Context

### 2.2.1 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 two 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 2000-2001, the NPA addressed questions about the need for further assessments, regulatory process, and related matters with respect to the ANGTS project.

### **2.3 Challenges**

During 2000-2001 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.





## Section III: Performance Accomplishments

### 3.1 Outcome Performance

#### NPA Strategic Outcome

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

In working toward the realization of its strategic outcome, the Agency's principal task for the 2000-2001 fiscal year was to maintain preparedness to respond to Foothill's regulatory filings and make sure that the *Act* is properly administered.

With the renewed interest in northern pipelines the Agency was called on to provide information on the *Act*, Agency, and the existing commitments that the Government of Canada has with respect to the ANGTS. In addition, the Agency participated in northern planning initiatives to ensure that the Agency will be prepared to respond to Phase II of the ANGTS.

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 the financial tables in Appendix A.

### 3.2 Financial Performance

#### 3.2.1 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 activity occurs related to either construction of the Prebuild or 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.

### 3.2.2 Fixed and Variable Costs

The Agency's operating budget is comprised of fixed and variable cost elements.

Fixed costs relate to salaries for the NPA staff, the administration of the Leasehold Agreement by INAC and the office accommodations and area for information archives managed by Public Works and Government Services Canada. Since the Agency anticipated increased activity in 2000-2001 and beyond, the hiring of two staff members, a policy officer and a records clerk, was considered and has since been acted upon.

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. The Board's cost of technical advice and administrative services can vary substantially depending upon the timing and magnitude of Foothills' Prebuild and Phase II activities.

### 3.2.3 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 2 below.

**Cost Recovery -Table 2**

#### **Historical Comparison of NPA Cost Recovery** (thousands of dollars)

	1998	1999	2000	2001	2002
Estimated recoverable costs	258	259	258	259	260
Actual recoverable costs	(162)	(200)	(105) <sup>(1)</sup>	-	-
<b>Adjustment in future year</b>	96	59	153	-	-
Estimated recoverable costs	258	259	258	259	260
Adjustment for prior year	(117)	(128)	(96)	(59)	(153)
<b>Total Cost Recovery</b>	141	131	162	200	107

(1) Based on information available as of July 31, 2001. 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.

## Appendix A - Financial Tables

The following list and Financial Tables represent an overview of the Northern Pipeline Agency's 2000-2001 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**

<b>Financial Requirements by Authority</b> (\$thousands)				
		<b>2000-2001</b>		
<b>Vote</b>	<b>Northern Pipeline Agency</b>	<b>Planned Spending</b>	<b>Total Authorities</b>	<b>Actual</b>
55	Program expenditures	237.0	<b>243.0</b>	<b>101.1</b>
	Contributions to employee benefit plans	<b>22.0</b>	<b>22.0</b>	<b>22.0</b>
<b>Total NPA</b>		<b>259.0</b>	<b>265.0</b>	<b>123.1</b>

**Table 2 - Comparison of Total Planned Spending to Actual Spending**

<b>Agency Planned versus Actual Spending</b>			
(\$thousands)			
<b>2000-2001</b>			
<b>Northern Pipeline Agency</b>	<b>Planned</b>	<b>Total Authorities</b>	<b>Actual</b>
FTEs	2	2	1
Operating	259.0	265.0	123.1
Capital	-	-	-
Voted Grants & Contributions	-	-	-
<b>Total Gross Expenditures</b>	<b>259.0</b>	<b>265.0</b>	<b>123.1</b>
Less:			
Respendable Revenues <sup>(1)</sup>			
<b>Total Net Expenditures</b>	<b>259.0</b>	<b>265.0</b>	<b>123.1</b>
Other Revenues & Expenditures			
Non-respendable Revenues <sup>(2)</sup>	(259.0)	(265.0)	(123.1)
Cost of Services Provided by Other Departments <sup>(3)</sup>	-	-	-
<b>Net Cost of Program</b>	<b>0</b>	<b>0</b>	<b>0</b>

- (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**

<b>Agency Planned Spending versus Actual Spending</b> ((\$thousands))					
	<b>Actual 1998-99</b>	<b>Actual 1999-00</b>	<b>2000-2001</b>		
			<b>Planned Spending</b>	<b>Total Authorities</b>	<b>Actual</b>
Northern Pipeline Agency	142.7	224.8	259.0	265.0	123.1
<b>Total</b>	<b>142.7</b>	<b>224.8</b>	<b>259.0</b>	<b>265.0</b>	<b>123.1</b>

**Table 4 - Non-respendable Revenues**

<b>Non-respendable Revenues</b> ((\$thousands))					
	<b>Actual 1998-99</b>	<b>Actual 1999-00</b>	<b>2000-2001</b>		
			<b>Planned Revenues</b>	<b>Total Authorities</b>	<b>Actual</b>
Northern Pipeline Agency	140.6	166.2	259.0	259.0	151.7
<b>Total Non-respendable Revenues <sup>(1)</sup></b>	<b>140.6</b>	<b>166.2</b>	<b>259.0</b>	<b>259.0</b>	<b>151.7</b>

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



## **Appendix B: Other Information**

### **A. Contacts for Further Information:**

Northern Pipeline Agency  
Lester B. Pearson Building  
125 Sussex Drive  
Ottawa, Ontario  
K1A 0G2  
Telephone: (613) 944-5000  
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### **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)

#### **Regulations**

*National Energy Board Cost Recovery Regulations* SOR/91-7

### **C. Listing of Statutory and Departmental Reports**

*2000 Annual Report*