

Northern Pipeline Agency

Performance Report

For the period ending
31 March 2005

The Honorable John McCallum, P.C., M.P.
Minister responsible for the
Northern Pipeline Agency

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Section I: Commissioner's Message

It is my pleasure to present the *Performance Report* for the Northern Pipeline Agency (NPA).

The NPA 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 (pipeline), also referred to as the Alaska Natural Gas Transportation System. The pipeline was certificated in 1978 and is intended to transport Alaskan and possibly northern Canadian natural gas to southern markets in Canada and the United States.

The portion of the pipeline south of Caroline, Alberta (Phase I), was constructed in the early 1980's and presently transports Canadian gas sourced primarily from south of the 60th parallel. Unfavourable economic conditions led to indefinite delays in the completion of the northern portion of the pipeline (Phase II), and consequently, the Agency's activities in the 1990's were limited to overseeing the expansion of the southern portion of the pipeline.

Recently, perception of a growing North American market for natural gas, combined with concerns about limitations on supply from traditional sources, and strong natural gas prices has resulted in renewed interest in the pipeline as an option for bringing northern gas to market. In response, the Agency has taken measures to address the commitments of the Government of Canada that are embodied in the Act and legislative changes that have occurred since the pipeline was certificated.

Richard B. Fadden

Management Representation Statement

I submit for tabling in Parliament, the 2005 Departmental Performance Report (DPR) for Northern Pipeline Agency.

This document has been prepared based on the reporting principles contained in the Treasury Board of Canada Secretariat's *Guide for the preparation of 2004-2005 Departmental Performance Reports*:

- it adheres to the specific reporting requirements;
- it uses an approved Program Activity Architecture;
- it presents consistent, comprehensive, balanced and accurate information;
- it provides a basis of accountability for the results pursued or achieved with the resources and authorities entrusted to it; and
- it reports finances based on approved numbers from the Estimates and the Public Accounts of Canada.

Name: Richard B. Fadden

Title: Commissioner

Date: October 14, 2005

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 Alaska Highway Gas Pipeline Project.

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

- give effect to the agreement; and
- establish the NPA to oversee the planning and construction of the Canadian portion of the project by Foothills.

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 latter being a member of the National Energy Board (NEB). In some cases, approval from the Board is also necessary.

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 Strategic Outcome

The Agency has one strategic outcome as listed below. The Agency will cease to exist one year after the date on which leave to open the last section or part of the pipeline is given by the NEB. The operation of the pipeline is regulated by the Board pursuant to the *National Energy Board Act*.

Strategic Outcome:

Facilitate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project while maximizing social and economic benefits and minimizing adverse social and environmental effects.

Key Partners:

Agency demands were primarily managed through an arrangement that the Agency has with Natural Resources Canada (NRCan) for financial and administrative services. Agency staff have worked closely with federal departments to develop strategies for environmental and socio economic assessments. The Yukon Territorial Government monitored the easement agreement as discussed in Section 3.2. The Agency also worked closely with other federal departments, primarily NRCan and Justice Canada, on issues relating to Alaska pipeline development.

Key Targets and Overall Results:

The objectives of the Act, establishing the Agency and certifying the pipeline, 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.

As discussed in Section III, during this reporting period, Agency staff focused on the development of socio-economic assessment strategies, in anticipation of a filing by Foothills in the fall of 2005. Actual implementation of these plans depends upon details of the Foothills filing.

Program, resources and results linkages:

The Agency examined key environmental, socio-economic and First Nations concerns to ensure it would be able to effectively regulate a Foothills project. The Agency had no active programs or initiatives related to the strategic outcome during the reporting period. The Agency engaged a skeletal staff (3 to 5 persons) to ensure preparedness in the event of a decision to continue with the pipeline.

Management Practices:

The Agency relies on the management practices implemented by NRCan, (www.nrcan.gc.ca) as well as administrative arrangements to maximize efficiencies in respect of financial management and reporting requirements.

2.2 Societal Context

2.2.1 External Factors

Perception of a growing North American market for natural gas, combined with concerns about limitations on supply from traditional sources, and strong natural gas prices, has resulted in strong interest in the pipeline as an option for bringing northern gas to market. Before the construction of the pipeline can begin, the NPA is responsible for ensuring that the regulatory system in Canada is in a state of readiness to respond to any request from Foothills Pipe Lines Ltd. to resuscitate the pipeline project. Before taking any decision to proceed with construction under the NPA, Foothills Pipe Lines Ltd. will need to resolve a number of commercial issues, and will need to conclude an agreement with the State of Alaska with respect to transportation rights in Alaska. As well, ongoing negotiations between Alaska and gas producing companies will significantly influence the decision on whether to proceed with a project under the *Northern Pipeline Act*.

2.3 Challenges

During 2004-2005, the primary challenge for the Agency was to make progress on ensuring a state of readiness in an environment of uncertainty. In the absence of Foothills initiating an action or formal request of the Agency, responses to questions as to how Phase II of the pipeline would be regulated after a 20-year hiatus were largely speculative. The difficulty in addressing these was compounded during the reporting period by the need to utilize the limited resources of the Agency to maintain and increase awareness of obligations under the Act.

The longer-term challenge for the Agency is to be in a position to regulate pipeline construction effectively once industry decides to proceed with Phase II of the pipeline.

Section III: Performance

In light of the low-level of activity in the Agency, there are no specific RPP commitments or parliamentary committee recommendations to be implemented.

On December 12, 2003, responsibility for the Agency was transferred from the Minister for Foreign Affairs and International Trade to the Minister of Natural Resources Canada. The Deputy Minister of Natural Resources Canada was appointed Commissioner.

3.1 Output Performance

In working toward realization of its strategic outcome, the Agency's principal task for 2004-2005 fiscal year was to maintain preparedness to respond to regulatory filings by Foothills and to make sure that the Act is properly administered. With the renewed interest in northern pipelines the Agency was called on to provide information in the event that the balance of the pipeline (Phase II) proceeded, including an examination of the commitments of the Government of Canada that are embodied in the Act and legislative changes that have occurred since the pipeline was certificated.

The agreements that are currently in place with NRCan and other government departments continued to facilitate efficiencies in the administration of the Act. An easement agreement exists among the Yukon Territory Government and the Agency 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. The Agency collected the annual fee of \$30,400 on behalf of Indian and Northern Affairs Committee (INAC) and redistributed an appropriate share to the Yukon Territory Government. These transactions are excluded from the calculations of recoverable costs mentioned in Section 3.2 Financial Performance.

3.2 Financial Performance

3.2.1 Overview

In 2004-2005, the Agency had spending authority of \$1,363,000. The spending authority was established in anticipation of a significant increase in the work of the Agency to support a high level of planning and construction activity of the pipeline. All costs incurred are fully recovered from Foothills through a cost recovery mechanism. The company is in the process of resolving its commercial issues and has requested that the NPA clarify regulatory framework so that it may proceed quickly once commercial issues have been clarified. Foothills Pipe Lines Ltd. has not yet formally indicated its intention to act on its existing certificates, and the Agency's expenditures fell far short of expectations.

Resources Used – Table 1

Northern Pipeline Agency	
Planned Spending	\$1,363,000
Total Authorities	\$1,350,522
2004-2005 Actual	\$496,139

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 the existing portion of the pipeline, or construction of the balance of the pipeline. 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. As reported in the 2004-2005 RPP, an allotment was obtained for the second half of 2004-2005 to retain additional staff in response to an anticipated increase in activity by Foothills. This increase in activity did not occur and as a result these funds were not required and were not fully released.

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. The appointment of an Assistant Commissioner and the Agency's increased activity in 2004-2005 to address questions related to the resumption of the project resulted in a higher level of expenditures than in previous years.

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 NRCan increased slightly. NRCan's cost of technical advice and administrative services can vary substantially depending upon the timing and magnitude of Foothills' 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 NRCan.

In accordance with Section 29(1) of the Act, the Agency recovers 100% of its costs based on the NEB'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 NRCan on behalf of the Agency. Details of cost recovery and the respective adjustments can be found in Table 2.

Cost Recovery - Table 2
Historical Comparison of NPA Cost Recovery
(\$ thousands)

	2002	2003	2004	2005	2006
Estimated recoverable costs ⁽¹⁾	414	633	707	1,357	538
Actual recoverable costs	(355)	(251)	(415) ²	-	-
Adjustment in future year	59	382	292	0	0
Estimated recoverable costs	414	633	707	1,357	538
Adjustment for prior year	(119)	(38)	(59)	(382)	(291)
Total cost recovery	295	595	972	639	247

(1) a. Cost recovery – Table 2 is calculated on a calendar year basis.

b. Estimated recoverable costs are determined in accordance with section 6 of the *National Energy Board Cost Recovery Regulations*.

(2) Based on information available as of 31 July 2004. 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

A: Financial Tables

The following list and financial tables represent an overview of the Northern Pipeline Agency's 2004-2005 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 5 - External Charging

Table 1
Summary of Voted Appropriations

Financial Requirements by Authority (\$ thousands)					
2004 – 2005					
Vote	Northern Pipeline Agency	Main Estimates	Planned Spending	Total Authorities	Actual Spending
35	Operating Expenditures	1,252	1,252	1,317	462
S	Contribution to Employee Benefit Plans	111	111	34	34
	Total NPA	1,363	1,363	1,351	496

Table 2
Comparison of Total Planned Spending to Actual Spending

Agency Planned versus Actual Spending (\$ thousands)				
2004 – 2005				
Northern Pipeline Agency	Main Estimates	Planned Spending	Total Authorities	Actual Spending
FTEs	6.0	6.0	6.0	2.0
Operating	1,363	1,363	1,351	496
Capital	-	-	-	-
Voted Grants and Contributions	-	-	-	-
Total Gross Expenditures	1,363	1,363	1,351	496
Less: Respendable Revenues	-	-	-	-
Total Net Expenditures	1,363	1,363	1,351	496
Other Revenues & Expenditures				
Non Respendable Revenues	(1,363)	(1,387)	(1,375)	(598)
Cost of Services provided by Other Departments ¹	-	24	24	115
Net Cost of Program	-	-	-	(13)

¹ Cost of services provided by NEB 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 2002-2003	Actual 2003-2004	Main Estimates	Planned Spending	2004-2005	
					Total Authorities	Actual
Northern Pipeline Agency	312	203	1,363	1,363	1,351	496
Total	312	203	1,363	1,363	1,351	496

Table 4**Non-Respendable Revenues**

Non-Respendable Revenues					
(\$ thousands)					
	Actual 2002-2003	Actual 2003-2004	Planned Revenues	2004-2005	
				Total Authorities	Actual
Northern Pipeline Agency	589	654	1,387	1,375	598
Unplanned	-	-	-	-	-
Total Non-Respendable Revenues	589	654	1,387	1,375	598
Total Revenues	589	654	1,387	1,375	598

Table 5
DPR 2004 - External Charging Information for NPA

Regulation of construction of the Alaska Highway Gas Pipeline	The NPA regulates the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline.	
Fee Type	Regulatory	
Fee Setting Authority (e.g. Legislative, Regulatory)	The NPA external charging is in accordance with section 29 of the <i>Northern Pipeline Act</i> and section 24.1 of the <i>National Energy Board Act</i> and the <i>National Energy Board Cost Recovery Regulations</i> .	
Date Last Modified^B	See section B below for fees amended in fiscal year 2003-04.	November 6, 2002
2003-2004		
Forecast Revenue (\$000)	Regulatory	\$1,387.0
Actual Revenue (\$000)	Regulatory	\$ 598.0
Estimated Full Cost (\$000)	Regulatory a) NPA costs to provide service = \$ 203.0 b) Other Departments' costs = 24.0	\$ 611.0
Service Standard	The construction of Phase II of the Alaska Highway Gas Pipeline has been put on hold due to adverse market conditions. The NPA has shrunk to a skeleton organization but in a state of readiness in the event Phase II of the pipeline project is reactivated. There are no formally developed measurable service standards at this time.	
Performance Results	Please refer to notes regarding service standards.	

Planning Years		
Fiscal Year	2005-06 2006-07 2007-08	
Forecast Revenue (\$000)	Sub-Total (2005-06) Sub-Total (2006-07) Sub-Total (2007-08) Total	793.0 250.9 265.0 1308.9
Estimated Full Cost (\$000)	Sub-Total (2005-06) Sub-Total (2006-07) Sub-Total (2007-08) Total	793.0 250.9 265.0 1308.9

B: Date Last Modified

The NPA cost recovery is determined in accordance with section 24.1 of the *National Energy Board Act*. Although amendments were made to the *NEB Cost Recovery Regulations* on November 6, 2002, they do not affect the calculation of the NPA cost recovery charges.

C: Other Information:

1) Cost Recovery and Revenue Accrual:

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 NPA corresponds with Foothills regularly on the level of and expected activities of the Agency including its operating costs.

Program appropriation for each planning year is presented on a fiscal year basis while cost recovery charges, according to the regulations, are calculated on a calendar year basis and billed quarterly. In addition, forecast revenue figures are presented on an accrual basis. As a result, the program appropriation and the forecast revenue amounts do not reconcile although the NPA recovers 100% of its operating costs.

2) Dispute Management:

Due to the current level of activities, a dispute management policy, a pre-requisite for the implementation of the External Charging Policy, has not been developed. However, frequent consultation with Foothills on changes to activities and the associated costs precludes disputes affecting cost recovery. A dispute management policy will be developed to support increased operational requirements.

Appendix B: Organization

The NPA has been designated as a department for the purposes of the *Financial Administration Act*. The Agency reports to Parliament through the Minister of NRCan who is responsible for the management and direction of the Agency. The Agency has two senior officers, namely a Commissioner and an Administrator. The Commissioner of the Agency, currently the Deputy Minister for NRCan, is appointed by the Governor in Council.

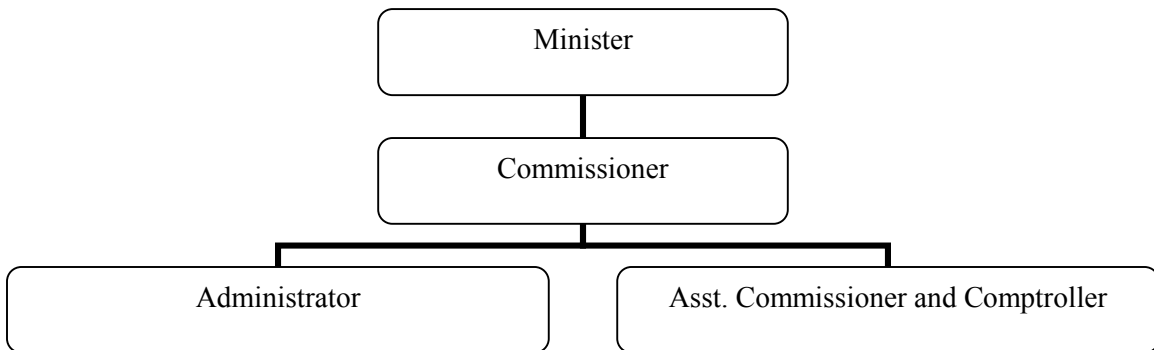
Given the continued low level of Agency activity, arrangements are in place whereby the Agency relies largely on NRCan for administrative and technical assistance. This assistance is provided on a cost-recoverable basis. In addition, NRCan also provides policy advice to the Agency. The Agency has three 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



Appendix C: History/Chronology

The Agency's activities are dictated by the timing and pace of the construction of the pipeline. The following provides a brief description and chronology of the pipeline.

The project is the largest proposed pipeline 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 project in Canada and the United States is depicted in Figure 1. Once in full operation, the pipeline would be capable of initially transporting 68 million cubic meters (2.4 billion cubic feet) per day of Alaskan gas, and the system could be expanded to transport additional volumes subject to regulatory approval. The system, as designed, could also accommodate the receipt and onward delivery of 34 million cubic meters (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 pipeline 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 pipeline, 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 pipeline, 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 pipeline to put a hold on Phase II. 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, however, Phase II of the pipeline remains on hold to this day. In response, the Agency shrank to a skeleton organization in the mid-1980's. Arrangements are in place whereby the Agency relies largely on NRCan for administrative, technical assistance and 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 British Columbia, and (iii) a further expansion of the eastern leg in 1998.

The flow capacity of the prebuild continues to approach the 102 million cubic meters (3.6 billion cubic feet) per day rate provided for in the underlying agreement between Canada and the U.S. The fifth and latest expansion of the prebuild, which came into service in 1998, raised its capacity to about 94 million cubic meters (3.3 billion cubic feet) per day.

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 pipeline. 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.

Figure 1:
The Alaska Natural Gas Transportation System

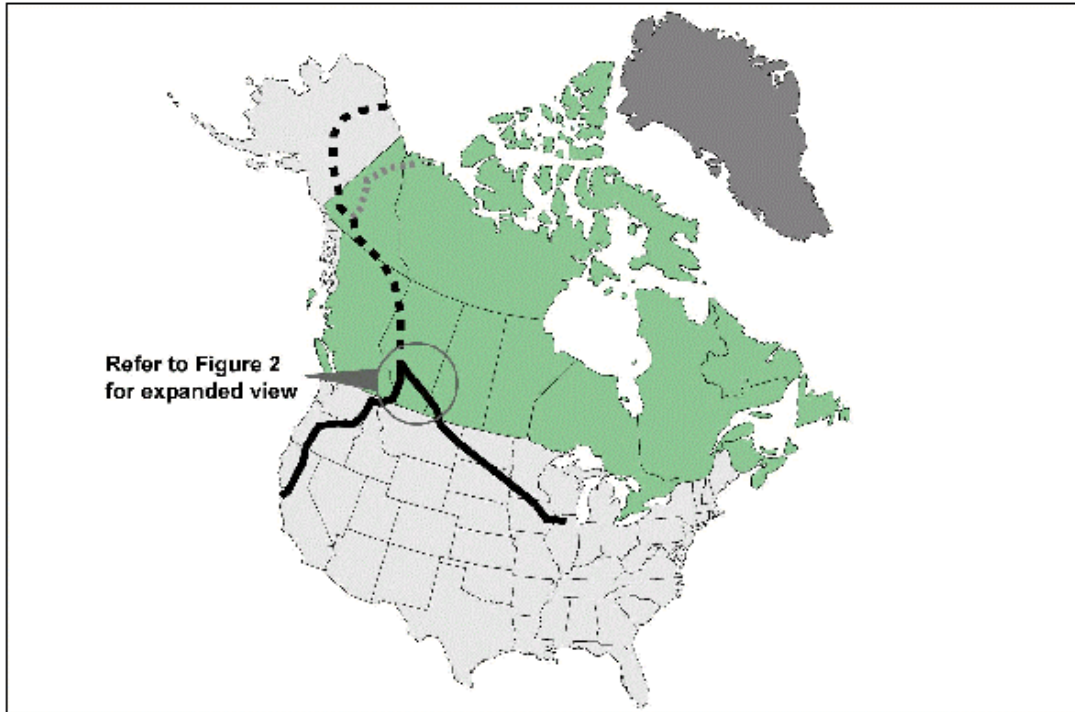
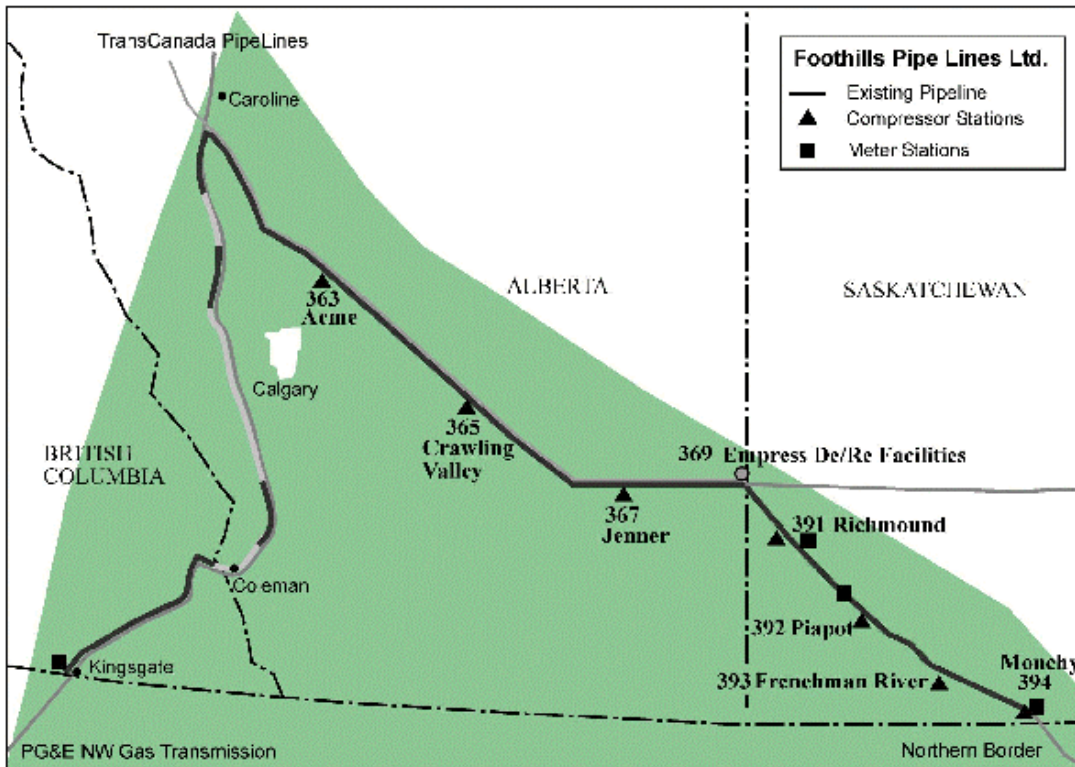


Figure 2:
The Foothills Prebuild



Appendix D: Other Information

A. Contacts for Further Information

Northern Pipeline Agency
615 Booth Street,
Ottawa, Ontario K1A 0E9
Telephone: (613) 995-1150
Fax: (613) 996-5354

B. Legislation and Associated Regulations Administered Acts

Northern Pipeline Act RSC 1977-78, c. 20,s.1

National Energy Board Cost Recovery Regulations SOR/91-7

C. 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)

Listing of Statutory and Departmental Reports

2004 Annual Report