



# Northern Pipeline Agency Canada

1997-98  
Estimates

Part III

Expenditure Plan

## **The Estimates Documents**

The Estimates of the Government of Canada are structured in three 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 Part III documents provide additional detail on each department and its programs primarily in terms of the results expected for the money spent.

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Approved

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Minister of Northern Pipeline Agency

## **Preface**

This document is a report to Parliament to indicate how the resources voted by Parliament have or will be spent. As such, it is an accountability document that contains several levels of details to respond to the various needs of its audience.

The Part III for 1997-98 is based on a revised format intended to make clear separation between planning and performance information, and to focus on the higher level, longer term plans and performance of departments.

The document is divided into four sections:

- The Minister's Executive Summary;
- Departmental Plans;
- Departmental Performance; and
- Supplementary Information

It should be noted that, in accordance with Operating Budget principles, human resource consumption reported in this document will be measured in terms of employee full-time equivalents (FTEs).

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## **Section I: The Minister's 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 Natural Gas Transportation System ("ANGTS"), 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.

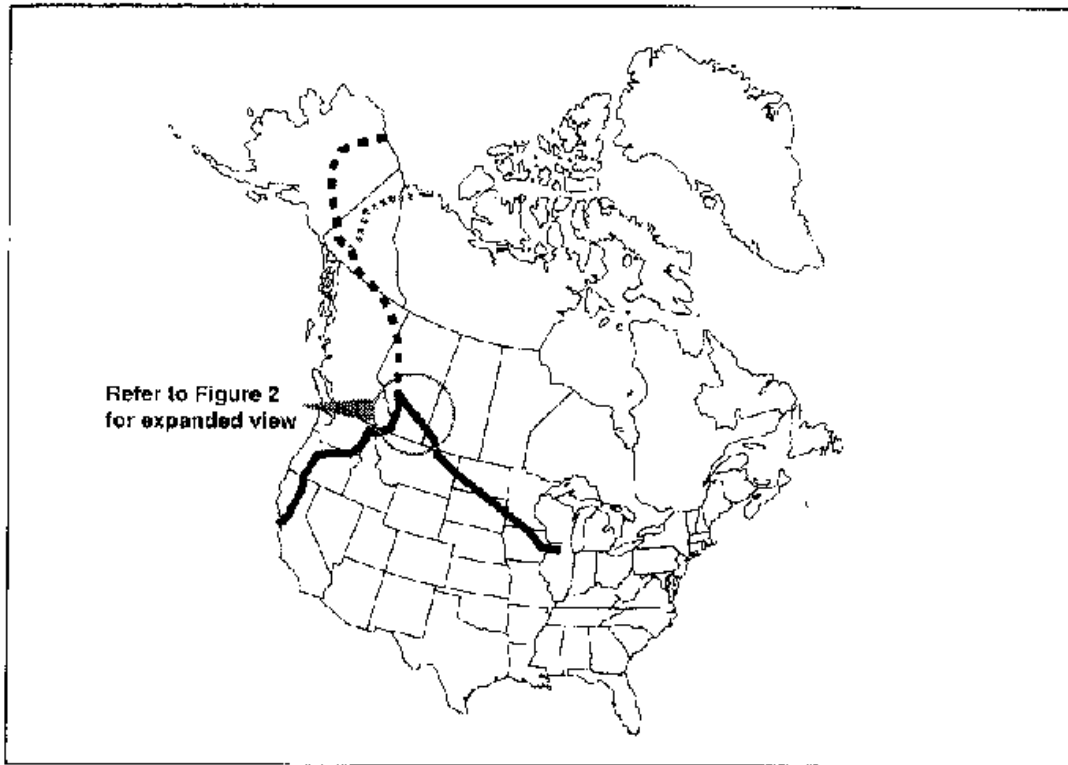
Unfavourable economics have led to indefinite delays in the completion of the ANGTS and resulted in a prolonged period of low activity for the Agency. In recent years, the Agency's workload has been limited to overseeing expansions of the southern portion of the pipeline system, referred to as the Prebuild, that 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). This period of low activity can be expected to continue until such time as the completion of the ANGTS becomes economically viable, forecast to be many years away.

In response to growing export demand, 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 1977 Canada - United States Pipeline Agreement following completion of the system to the Arctic. The next stage of the expansion, which is planned to come into service on 1 November 1998, will increase the Prebuild's capacity by 19.55 million cubic metres (690 million cubic feet) per day, bringing the total to about 96 million cubic metres (3.4 billion cubic feet) per day.

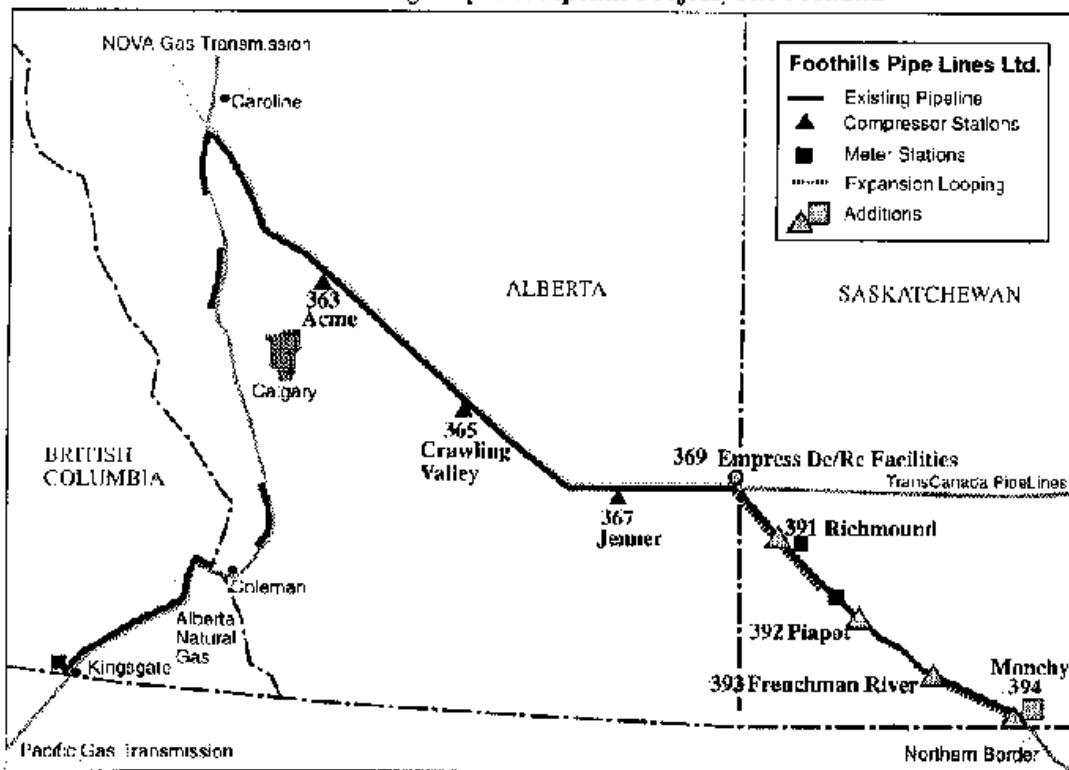
The determination of the Agency's budget of \$254,000, for 1997-98, includes sufficient funding to cover the cost of key operational components, which are personnel, professional services and accommodations. In recent years, annual program expenditures have been in the range of \$130,000 to \$150,000, which is a reflection of the Agency's low activity levels. The Act provides that these program costs be fully recovered from Foothills through a cost recovery mechanism.

The following two figures provide a pictorial display of the extent of the ANGTS within North America, and the respective detail of the Alaska Highway Gas Pipeline Project Prebuild.

**Figure 1:  
The Alaska Natural Gas Transportation System**



**Figure 2:  
The Alaska Highway Gas Pipeline Project, The Prebuild**



## **Section II: Departmental Plan**

### **A. Summary of Departmental Plans**

The Agency's principal task for the current and upcoming fiscal year will be to oversee the planning and construction of a further expansion of the Eastern Leg of the Prebuild. This expansion, which is estimated to cost \$150 million, would provide about 19.55 million cubic metres (690 million cubic feet) per day of incremental export capacity at the international border in southern Saskatchewan commencing 1 November 1998, representing a 45% increase over existing capacity.

### **B. Departmental Overview**

#### **1. 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 Alaska Natural Gas Transportation System, a pipeline mega-project capable of transporting Alaskan and northern Canadian natural gas to southern markets in the United States and Canada.

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.

The ANGTS is the largest pipeline project in North America, encompassing approximately 7,700 kilometres (4,800 miles) of large diameter mainline pipe, about 42% of which would be located in Canada. The route for the pipeline through Canada and the U.S. is depicted in Figure 1: The Alaska Natural Gas Transportation System on page 4. 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.



## 2. Organization and Program Composition

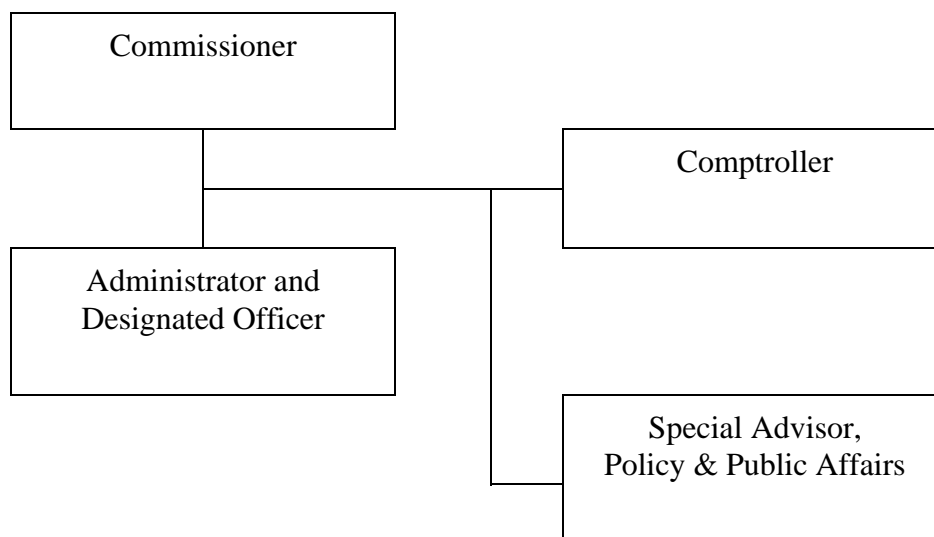
The Northern Pipeline Agency has one Business Line, namely, the Regulation of Construction of the Alaska Highway Gas Pipeline.

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. The Administrator and Designated Officer is currently a member of the National Energy Board ("Board") and is based in Calgary.

The administration of the Agency is managed from its Ottawa office. Ongoing administrative and professional support is provided by the Board on a cost-recoverable basis.

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. Currently, 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**



### **3. Objectives and Priorities**

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.

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.

Furthermore, 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, 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.

The Agency also monitors the actual construction for compliance by Foothills with its various undertakings and with sound environmental and engineering practices.

### **4. 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. As noted in the Executive Summary, the Agency has experienced a prolonged period of low activity levels due to continued delays in the completion of the pipeline system. To put this in better context, a brief chronology of the ANGTS project follows.

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 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, 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.

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 essentially remains on standby status.

In recent years, the Agency's workload has focused on a series of expansions of the Prebuild which have been deemed to fall within the ambit of the *Northern Pipeline Act*. There have been four expansions since 1988, all of which were designed to either increase system capacity or enhance system reliability. The most significant of these expansion projects involved the addition of two new compressor stations on the Eastern Leg in Alberta in 1992 and the completion of the Western Leg mainline in southeastern B.C. in 1993.

## 5. Resource Plan

The Agency has been designated as a Department for the purposes of the *Financial Administration Act*. As a Separate Employer, the Agency has decided, as a matter of policy, to conform closely with the principles of personnel administration that apply in the Public Service of Canada, but has developed its own systems to implement policy appropriate to the Agency's operating requirements.

The Operating Budget is voted by Parliament annually. The amount that is requested, approximately double the forecasted expenditures, 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.

Given the nature of its responsibilities and in light of its Separate Employer status, 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. The potential liability is dependent on the timing for the completion of the project and is therefore not determinable at this time.

In accordance with 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 details, refer to Table 6: Cost Recovery and Billing Information on page 14.

Easement fees collected on behalf of Indian and Northern Affairs Canada in the amount of \$30,400 are deposited directly into the Consolidated Revenue Fund. The Yukon Government's share, paid out of the Agency's appropriation, is \$2,806. For cost recovery purposes, both the collection and disbursement of the easement fee are omitted from the calculation.

**Table 1: Authorities for 1997-98 - Part II of the Estimates  
Financial Requirements by Authority**

<b>Vote</b>	<b>(thousands of dollars)</b>	<b>1997-98 Main Estimates</b>	<b>1996-97 Main Estimates</b>
<b>Northern Pipeline Agency</b>			
55	Program Expenditures	235	235
(S)	Contributions to employee benefit plans	19	16
	<b>Total Agency</b>	<b>254</b>	<b>251</b>

**Votes -- Wording and Amounts**

<b>Vote</b>	<b>(dollars)</b>	<b>1997-98 Main Estimates</b>
<b>55</b>	<b>Northern Pipeline Agency Program Expenditures</b>	<b>235,000</b>

**Table 2: Departmental Overview**

<b>(thousands of dollars)</b>	<b>Planned 1996-97</b>	<b>Planned 1997-98</b>	<b>Planned 1998-99</b>	<b>Planned 1999-00</b>
<b>Main Estimates</b>	251.0	<b>254.0</b>	254.0	254.0
<b>Revenue Credited to the Consolidated Revenue Fund</b>				
Cost recovery	(220.6)	<b>(223.6)</b>	(223.6)	(223.6)
Easement fees	(30.4)	<b>(30.4)</b>	(30.4)	(30.4)
	(251.0)	<b>(254.0)</b>	(254.0)	(254.0)
<b>Net Cost of the Department</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Note: This format 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. Refer to Table 6: Cost Recovery and Billing Information, on page 14 for further detail.

### **Section C: Details by Business Line**

The objective of the program is to facilitate the efficient and expeditious planning and construction of the ANGTS project in a manner consistent with the best interests of Canada as defined in the Act.

During this period of low activity, it is imperative that the Agency continue to administer the various facets of the program in a responsible and cost-effective manner.

**Table 3: Voted and Statutory Planned Spending by Business Line**

(thousands of dollars)	<b>Planned 1996-97</b>	<b>Planned 1997-98</b>	<b>Planned 1998-99</b>	<b>Planned 1999-00</b>
<b>Business Line</b>				
Regulation of Construction of the Alaska Highway Gas Pipeline	251.0	<b>254.0</b>	254.0	254.0
<b>Total</b>	251.0	<b>254.0</b>	254.0	254.0

**Table 4: Net Cost of Program by Business Line**

(thousands of dollars)	<b>1997-98 Planned Expenditures</b>			
	<b>Operating</b>	<b>Gross Total</b>	<b>Statutory Payments</b>	<b>Total Main Estimates</b>
<b>Business Line</b>				
Regulation of Construction of the Alaska Highway Gas Pipeline	235.0	235.0	19.0	254.0
Revenue credited to the Consolidated Fund	(235.0)	(235.0)	(19.0)	(254.0)
<b>Net Cost of the Department</b>	0.0	0.0	0.0	0.0

Note: This format 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. Refer to Table 6: Cost Recovery and Billing Information, on page 14 for further detail.

### **Section III: Departmental Performance**

#### **A. Summary of Departmental Performance**

The Agency has been able to operate within the existing budget for the past several years by effectively working in co-operation with other departments (including, principally, the National Energy Board) to ensure that all aspects of the administration of the Act are carried out in the most cost-efficient manner. This ongoing effort to maintain nominal expenditures is motivated by the Government of Canada's responsibilities to Foothills, which as noted earlier reimburses the costs of the Agency.

#### **B. Departmental Overview**

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 when Prebuild expansion proposals falling within the ambit of the Act come forward.

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. The Agency's expenditures include all costs incurred by those other government departments, and approximately 70% of the Agency's expenditures are fixed. Further, an agreement exists among the Yukon Government, Foothills, and the Agency whereby the Agency acts as an agent for the collection of Easement fees from Foothills and redistributes the appropriate share to the Yukon Government.

The Agency is invoiced annually for the cost of services provided by other government departments. These costs are fully recoverable from Foothills and 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.

The variable costs of the Agency relate to the costs of one part-time staff (namely, the Comptroller), the Special Advisor, Policy and Public Affairs' standing contract, and the administrative and technical support of the National Energy Board staff. These costs remain fairly stable over time with the notable exception of those associated with the Board's technical support services, which vary depending on the timing and magnitude of Foothills' Prebuild expansion activities.

Given the low activity level and the arrangements with the other government departments that are currently in place, the Agency is able to operate efficiently and respond with expediency to filings made by Foothills.

Since the Agency operates on a cost-recovery basis, the net cost of the program is nil. Refer to Table 6: Cost Recovery and Billing information, on page 14 for details.



#### IV. Supplementary Information

**Table 5: Details of Personnel Requirements by Business Line (FTEs\*)**

	Actuals 1995-96	1996-97 Estimates	<b>1997-98 Estimates</b>	1998-99 Estimates	1999-00 Estimates
Regulation of Construction of the Alaska Highway Gas Pipeline	2.0	2.0	<b>2.0</b>	2.0	2.0
<b>Total</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

\*Full-time equivalent (FTE) is a measure of human resource consumption based on average levels of employment. FTE factors out 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. FTEs are not subject to Treasury Board control but are disclosed in Part III of the Estimates in support of personnel expenditure requirements specified in the Estimates.

**Table 6: Cost Recovery and Billing Information**

\$	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>
Estimated Recoverable Costs	308,270	250,084	250,000	254,000
Actual Recoverable Costs <sup>(1)</sup>	<u>(145,772)</u>	<u>(130,327)</u>	<u>N/A</u>	<u>N/A</u>
<b>Adjustment in Future Year</b>	<u>162,498</u>	<u>119,757</u>	<u>N/A</u>	<u>N/A</u>
Estimated Recoverable Costs	308,250	250,000	250,000	254,000
Adjustment for Prior Year	<u>-</u>	<u>-</u>	<u>(162,498)</u>	<u>(119,757)</u>
<b>Total Billing</b>	<u>308,250</u>	<u>250,000</u>	<u>87,502</u>	<u>134,243</u>

(1) Based on Audited Financial Report

N/A Information is not available until the completion of the audits for the corresponding fiscal years.

Note: 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 7: Additional Financial Information  
Presentation by Standard Object**

(\$)						
	Actuals 1994-95	Actuals 1995-96	1996-97 Estimates	1997-98 Estimates	1998-99 Planned	1999-00 Planned
<b>Personnel</b>						
Salaries and wages	52,153	47,977	112,000	<b>112,000</b>		
Contributions to employee benefit plans	15,000	15,000	16,000	<b>19,000</b>		
	67,153	62,977	128,000	<b>131,000</b>	131,000	131,000
<b>Goods and services</b>						
Transportation and communications	2,631	1,795	6,000	<b>6,000</b>		
Information	2,094	2,994	4,000	<b>4,000</b>		
Professional and special services	40,022	33,954	85,000	<b>85,000</b>		
Rentals	19,644	20,345	19,000	<b>19,000</b>		
Purchased repair and maintenance	-	685	3,000	<b>3,000</b>		
Utilities, materials and supplies	2,530	2,412	3,000	<b>3,000</b>		
Other subsidies and payments	2,810	2,819	3,000	<b>3,000</b>		
	69,731	65,004	123,000	<b>123,000</b>	123,000	123,000
Total budgetary expenditures	136,884	127,981	251,000	<b>254,000</b>	254,000	254,000

**Table 8: Statutes Administered by the Portfolio**

<i>Northern Pipeline Act</i>	(R.S.C., 1977-78,c..20,s.1)
<i>National Energy Board Cost Recovery Regulations</i>	(SOR/91-7, 1991 <i>Canada Gazette</i> Part II, p.15.)

**Table 9: References and Departmental Contacts**

Northern Pipeline Agency Lester B. Pearson Building 125 Sussex Drive Ottawa, Ontario K1A 0G2 Phone: (613) 993-7466 Fax: (613) 998-8787	General inquiries.
National Energy Board 311-6th Avenue S.W. Calgary, Alberta T2P 3H2 Phone: (403) 292-4800 Fax: (403) 292-5503	For copies of this publication.

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