



Northern Pipeline Agency Canada



For the
period ending
March 31, 1997



Improved Reporting to Parliament —
Pilot Document

Canada

©Minister of Public Works and Government Services Canada – 1997

Available in Canada through your local bookseller or by

mail from Canadian Government Publishing – PWGSC

Ottawa, Canada K1A 0S9

Catalogue No. BT31-4/56-1997

ISBN 0-660-60342-X



Foreword

On April 24, 1997, the House of Commons passed a motion dividing what was known as the *Part III of the Estimates* document for each department or agency into two documents, a *Report on Plans and Priorities* and a *Departmental Performance Report*. It also required 78 departments and agencies to table these reports on a pilot basis.

This decision grew out of work by Treasury Board Secretariat and 16 pilot departments to fulfil the government's commitments to improve the expenditure management information provided to Parliament and to modernize the preparation of this information. These undertakings, aimed at sharpening the focus on results and increasing the transparency of information provided to Parliament, are part of a broader initiative known as "Getting Government Right".

This *Departmental Performance Report* responds to the government's commitments and reflects the goals set by Parliament to improve accountability for results. It covers the period ending March 31, 1997 and reports performance against the plans presented in the department's *Part III of the Main Estimates* for 1996-97.

Accounting and managing for results will involve sustained work across government. Fulfilling the various requirements of results-based management – specifying expected program outcomes, developing meaningful indicators to demonstrate performance, perfecting the capacity to generate information and report on achievements – is a building block process. Government programs operate in continually changing environments. With the increase in partnering, third party delivery of services and other alliances, challenges of attribution in reporting results will have to be addressed. The performance reports and their preparation must be monitored to make sure that they remain credible and useful.

This report represents one more step in this continuing process. The government intends to refine and develop both managing for results and the reporting of the results. The refinement will come from the experience acquired over the next few years and as users make their information needs more precisely known. For example, the capacity to report results against costs is limited at this time; but doing this remains a goal.

This report is accessible electronically from the Treasury Board Secretariat Internet site:
<http://www.tbs-sct.gc.ca/tb/key.html>

Comments or questions can be directed to the TBS Internet site or to:

Government Review and Quality Services
Treasury Board Secretariat
L'Esplanade Laurier
Ottawa, Ontario, Canada
K1A 0R5
Tel: (613) 957-7042
Fax (613) 957-7044

Northern Pipeline Agency Canada

Performance Report

**For the
period ending
March 31, 1997**

**Minister responsible for the
Northern Pipeline Agency**

Table of Contents

Section I: The Minister's Executive Summary	1
Section II: Departmental Overview	3
Mandate, Roles, and Responsibilities	3
Objectives	3
External Factors and Chronology of Events	4
Organization	5
Section III: Departmental Performance	7
A. Performance Expectations	7
Comparison of Total Planned Spending to Actual Expenditures, 1996-97 by Business Line	8
Departmental Planned versus Actual Spending by Business Line	8
Summary of Performance Expectations	9
B. Performance Accomplishments	10
Departmental Performance	10
Section IV: Supplementary Information	11
A. Listing of Statutory and Departmental Reports	11
B. Contacts for Further Information	11
C. Financial Summary Tables	11
Summary of Voted Appropriations	11
Revenues to the Consolidated Revenue Fund (CRF) by Business Line	12
Cost Recovery and Billing Information	12
Details of Personnel Requirements by Business Line (FTEs*)	13
Contingent Liabilities	13
Legislation Administered by the Northern Pipeline Agency	13
References	14

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 time frame (for the initial purpose of transporting Canadian gas principally sourced from south of the 60th parallel). Because of continuing adverse economic factors, it is not expected that undertaking second-stage construction of the project to link the prebuilt Western and Eastern Legs of the pipeline with the United States' reserves at Prudhoe Bay or Canadian reserves around the Mackenzie Delta area will become viable for many years.

In response to growing export demand, the flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate, that was provided for in the underlying agreement between Canada and the United States relating to the ANGTS. The next expansion of the Prebuild, which is scheduled to come into service on 1 November 1998, will bring its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day.

The determination of the Agency's budget of \$251,000 for 1996-97, includes sufficient funding to cover the cost of key operational components, costs which are fully recovered through a cost recovery mechanism.

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

Figure 1
The Alaska Natural Gas Transportation System

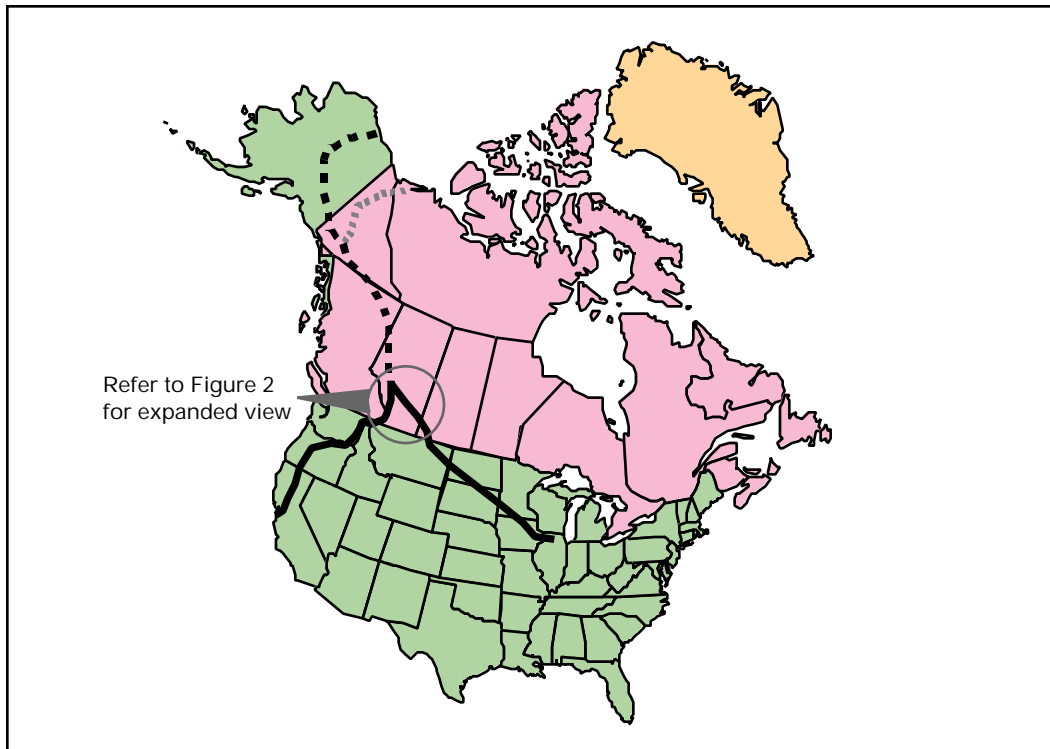
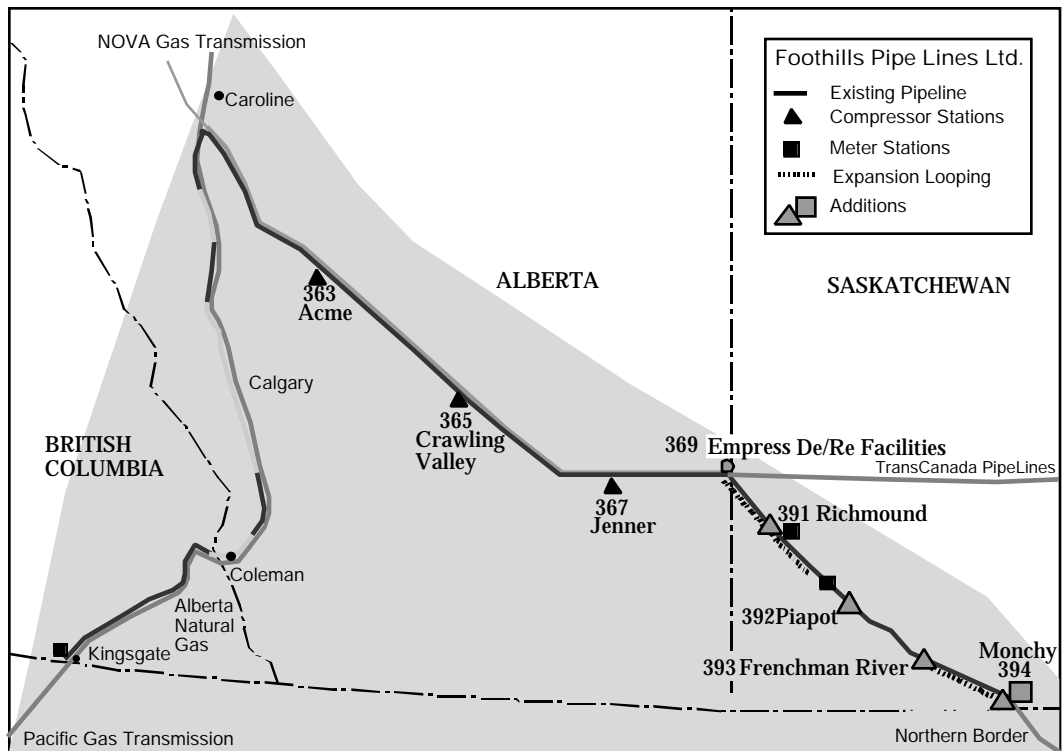


Figure 2
The Foothills Prebuild



Section II: Departmental Overview

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 (which has been approved by regulatory authorities on both sides of the border). This expansion, which is estimated to cost \$150 million, will 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 the existing Eastern Leg capacity.

Mandate, Roles, and Responsibilities

In 1977, following extensive regulatory hearings in both countries, the Governments of Canada and the United States of America executed an "Agreement on Principles Applicable to a Northern Natural Gas Pipeline". This agreement provided a framework for the construction and operation of the ANGTS, a pipeline mega-project capable of transporting Alaskan and northern Canadian natural gas to southern markets in the United States and Canada.

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.

Objectives

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

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. In the case of the proposed expansion of the Eastern Leg, Canada has notified the United States authorities of its intention to suspend application of the agreed procurement procedures in light of the lack of reciprocity on their part.

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

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 description and chronology of the ANGTS project follows.

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% of which would be located in Canada. The route for the pipeline through Canada and the U.S. is depicted in Figure 1 on page 2. Once in full operation, the ANGTS would be capable of transporting an initial 68 million cubic metres (2.4 billion cubic feet) per day of Alaskan gas. The system is also designed to accommodate the receipt and onward delivery of 34 million cubic metres (1.2 billion cubic feet) per day of northern Canadian gas via a connecting pipeline from the Mackenzie Delta / Beaufort Sea region.

As far back as 1977, the concept of prebuilding the southern portions of the ANGTS was identified as a benefit of the project, providing United States consumers with the opportunity to obtain additional surplus Canadian gas in advance of Alaskan gas. This Prebuild, which constituted Phase I of the ANGTS project, included a Western Leg to transport Canadian gas to markets in California and the Pacific Northwest and an Eastern Leg to serve primarily the United States midwest market. It was contemplated at the time that Phase II of the project, consisting of the northern portions and the remaining sections to be constructed in southern Canada and the Lower 48 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 1981-82 time frame. 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's role has been confined to overseeing expansions of the Eastern and Western Legs.

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.

The flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate that was provided for in the underlying agreement between Canada and the United States relating to the ANGTS. The next expansion of the Prebuild, which is scheduled to come into service on 1 November 1998, will bring its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day.

Organization

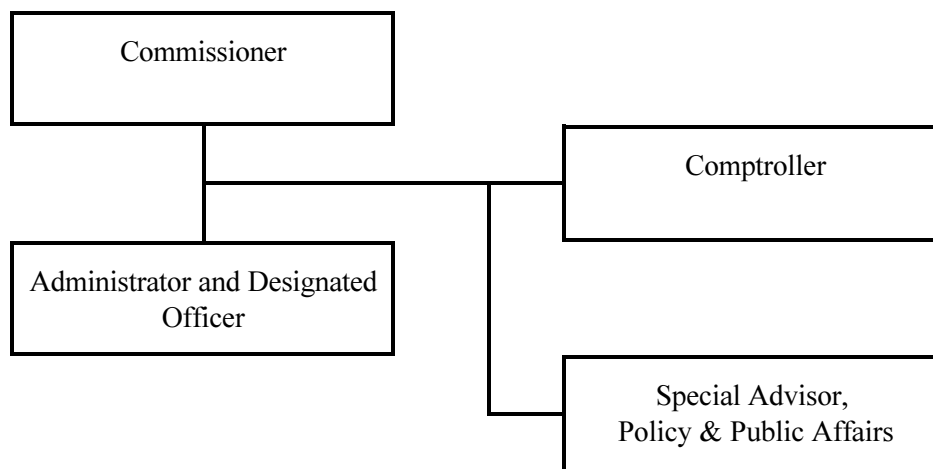
The Northern Pipeline Agency has one Business Line, namely, the Regulation of Construction of the Alaska Highway Gas Pipeline.

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 for International Trade, is appointed by the Governor in Council. 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. The Councils are made up of Aboriginal, business and other interested parties, who are representatives of their communities in northern British Columbia and the Yukon Territory. Membership in these 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



Section III: Departmental Performance

The Agency operates within the existing budget by 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 effectively carried out.

A. Performance Expectations

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 page 12.

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

Comparison of Total Planned Spending to Actual Expenditures, 1996-97 by Business Line

(\$ millions)

Business Line	FTEs (¹)	Operating (²)	Total Gross Expenditures	Less: Revenue Credited to the Vote	Total Net Expenditures
Regulation of Construction of the Alaska Highway Gas Pipeline	2.0 1.2	.251 .138	.251 .138	- -	.251 .138
Totals	2.0 1.2	.251 .138	.251 .138	- -	.251 .138
Revenue credited to the Consolidated Revenue Fund (³)					.118 .118
Net Cost of the Program					.133 .020

Note: Shaded numbers denote actual expenditures/revenues in 1996-97.

1. Full-time equivalent (FTE) is a measure of human resource consumption based on average levels of employment. FTE factors the length of time that an employee works during each week by calculating the rate of assigned hours of work over scheduled hours of work.
2. Operating includes contributions to employee benefit plans and costs of services provided by other departments.
3. Recoveries are not necessarily completed during the same fiscal year as corresponding expenditures are incurred.

Departmental Planned versus Actual Spending by Business Line

(\$ millions)

Business Line	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Regulation of Construction of the Alaska					

Summary of Performance Expectations

Northern Pipeline Agency Canada has a budget of \$251,000 in 1996-97	
to provide Canadians with:	to be demonstrated by:
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.

B. Performance Accomplishments

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

Departmental Performance

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*. Further, an agreement exists whereby the Agency acts as an agent for the collection of Easement fees from Foothills and redistributes the appropriate share to the Yukon Territory Government.

All of the costs incurred by the Agency in the administration of the *Act* are fully recoverable, including those costs related to services provided by other government departments.

The costs that are fixed in nature relate to the Commissioner's salary, the administration of the Leasehold Agreement by Indian and Northern Affairs Canada, and the accommodations managed by Public Works and Government Services Canada.

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

Section IV: Supplementary Information

A. Listing of Statutory and Departmental Reports

Annual Report

B. Contacts for Further Information

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

C. Financial Summary Tables

Summary of Voted Appropriations

Authorities for 1996-97 - Part II of the Estimates

Financial Requirements by Authority

(\$ millions)	Main Estimates	Actual
Program		
Vote 50	.235	.122
Contributions to employee benefit plans	.016	.016
Total Department	.251	.138

Revenues to the Consolidated Revenue Fund (CRF) by Business Line

(\$ millions)

Business Line	Actual 1993-94	Actual 1994-95	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Regulation of Construction of the Alaska Highway Gas Pipeline	.278	.333	.276	.118	.118
Total Revenues to the CRF	.278	.333	.276	.118	.118

Cost Recovery and Billing Information

(\$ millions)	1994	1995	1996	1997	1998
Estimated recoverable costs	.308	.250	.250	.251	.258
Actual recoverable costs	(.143)	(.130)	(.133)	N/A	N/A
Adjustment in future year	.162	.120	.117	N/A	N/A
Estimated recoverable costs	.308	.250	.250	.251	.258
Adjustment for prior year	-	-	(.162)	(.120)	(.117)
Total billings	.308	.250	.088	.131	.141

N/A Information is not available until the completion of the audits for the corresponding fiscal years. The *Northern Pipeline Act* stipulates that an audit be performed annually by the Auditor General of Canada. Currently the audit is based on the fiscal year in order for the Agency to meet its obligations to Parliament.

Details of Personnel Requirements by Business Line (FTEs*)

	1994-95 Actuals	1995-96 Actuals	1996-97 Planned	1996-97 Actual
Regulation of Construction of the Alaska Highway Gas Pipeline	1.2	1.2	2.0	1.2
Total	1.2	1.2	2.0	1.2

* Full-time equivalent (FTE) is a measure of human resource consumption based on average levels of employment. FTE factors the length of time that an employee works during each week by calculating the rate of assigned hours of work over scheduled hours of work.

Contingent Liabilities

The Agency has no contingent liabilities to report.

Legislation Administered by the Northern Pipeline Agency

The Minister has sole responsibility to Parliament for the following Act:

Northern Pipeline Act (R.S.C., 1977-78,c..20,s.1)

The Minister shares responsibility to Parliament for the following regulations:

*National Energy Board Cost Recovery
Regulations* (SOR/91-7, 1991 *Canada Gazette* Part II, p.15.)

References

Act 1,3,7,9,10,13y
administration 5,7,10
advisory council 6
agreement 1,3,4,9,10
authorities 3,4,11
business line 5,8,12,13
capacity 1,3,5
cost recovery 1,7,12
description 4
easement fees 7,10
economic factors 1,3,5,9
environment 3,4,9
expansions 1,3,4,5
export 1,3,4
Foothills Pipe Lines Ltd. 1,3,4,10
markets 1,3,4
objective 3
performance 7,9,10
personnel requirements 8,13
Prebuild 1,3,4,10
procurement 4
revenue 7,8,12
separate employer 7
spending 8
social benefit 3,9
workload 5,7