

NORTHERN PIPELINE AGENCY

**2003 - 2004
Estimates**

Part III - Report on Plans and Priorities

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Commissioner
Northern Pipeline Agency

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Northern Pipeline Agency

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Section I: Messages

1.1 Commissioners's Message

It is my pleasure to present the *Report on Plans and Priorities* for the Northern Pipeline Agency (Agency).

The Agency was established by the *Northern Pipeline Act* (the *Act*) in 1978 to facilitate the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Highway Gas Pipeline Project (Pipeline) and to maximize social and economic benefits from its construction and operation, and minimize any adverse effects. The Pipeline, also referred to as the Alaska Natural Gas Transportation System, 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 southern portion of the Pipeline 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, and consequently, the Agency's activities were limited to overseeing the expansion of the southern portion of the Pipeline.

Recently, perception 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. In response, the Agency has been taking 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.

During the period of this report, the Agency will continue to work together with other federal agencies, provincial and territorial governments, first nations and the public to meet the objects of the *Act*.

1.2 Management Representation Statement

I submit, for tabling in Parliament, the 2003-2004 Report on Plans and Priorities for the

NORTHERN PIPELINE AGENCY CANADA

This document has been prepared based on the reporting principles and disclosure requirements contained in the *Guide to the preparation of the 2003-2004 Report on Plans and Priorities*:

- It accurately portrays the organization's plans and priorities.
- The planned spending information in this document is consistent with the directions provided in the Minister of Finance's Budget and by Treasury Board Secretariat.
- Is comprehensive and accurate.
- Is based on sound underlying departmental information and management systems.

The reporting structure on which this document is based has been approved by Treasury Board Ministers and is the basis for accountability for the results achieved with the resources and authorities provided.

Name: _____
Kris Panday

Date: _____

Section II: Raison d'être

2.1 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 Between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline (Agreement)*. The *Agreement* provides a framework to advance national economic and energy interests and to maximize related industrial benefits of each country through the construction and operation of the Pipeline.

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

- (i) give effect to the *Agreement*; and
- (ii) establish the Northern Pipeline Agency to:
 - facilitate the planning and construction of the Canadian portion of the Pipeline by Foothills Pipe Lines Ltd. taking into account local and regional interests;
 - facilitate, in relation to the Pipeline, consultation and coordination with the governments of the provinces and the territories;
 - maximize social and economic benefits and the opportunities for employment by Canadians while minimizing any adverse social and environmental effects; and
 - advance national economic and energy interests and maximize related industrial benefits through Canadian participation in all aspects of the Pipeline.

Implementing legislation was also passed by the United States in the form of the *Alaska Natural Gas Transportation Act*.

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 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. For certain authorizations, approval from the National Energy Board (Board) is necessary.

In addition to planning considerations, the Agency is also responsible for monitoring the actual construction by Foothills for compliance with its various undertakings and for sound environmental and engineering practices.

Section III: Strategic Outcome

3.1 Introduction

The Northern Pipeline Agency has one 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.

3.2 External Factors and Chronology of Events

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

Following public hearings conducted by the Board a certificate of public convenience and necessity for the Pipeline was declared to be issued by the *Act*. The route of the Pipeline is approximately 7,700 kilometres (4,800 miles), about 42 percent of which would be located in Canada. The route for the Pipeline through Canada and the United States is depicted in Figure 1. The initial capacity of the Pipeline was contemplated in the *Agreement* to be 68 million cubic metres (2.4 billion cubic feet) per day for Alaska gas and 34 million cubic metres (1.2 billion cubic feet) for Northern Canadian gas via a connecting pipeline from the Mackenzie Delta / Beaufort Sea region. The *Agreement* also specified that, subject to regulatory requirements, authorizations would be provided to expand the capacity of the Pipeline to meet the contractual requirements of United States or Canadian shippers.

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 American consumers with 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 United States 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 Prebuild 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 compliment 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 construction of Phase II of the Pipeline on hold. The adverse market conditions were a result of::

- (i) a decline in demand for natural gas due to economic recession and energy conservation measures;
- (ii) an increase in United States supply in response to higher wellhead prices; and
- (iii) escalating estimates of construction costs due to inflation and rising interest rates.

It was originally anticipated that the completion of the Pipeline would be delayed by about two years. As Phase II of the Pipeline remains on hold 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. Arrangements were put in place whereby the Agency relies largely on the Board for administrative and technical assistance and on other government departments for policy advice.

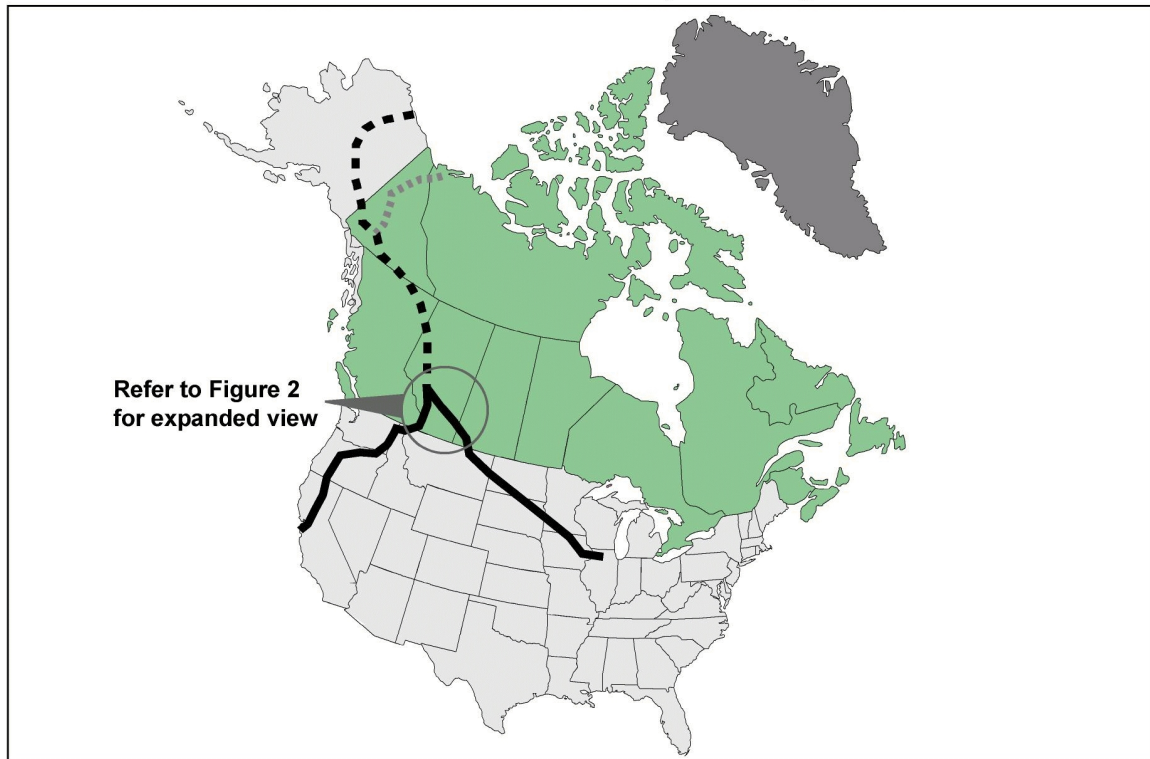
There have been five expansions completed since 1988, all of which were designed to either increase system capacity or enhance system reliability. The most significant of these involved:

- (i) 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) completion of the Western leg mainline in southeastern British Columbia; and
- (iii) further expansion of the Eastern leg in 1998.

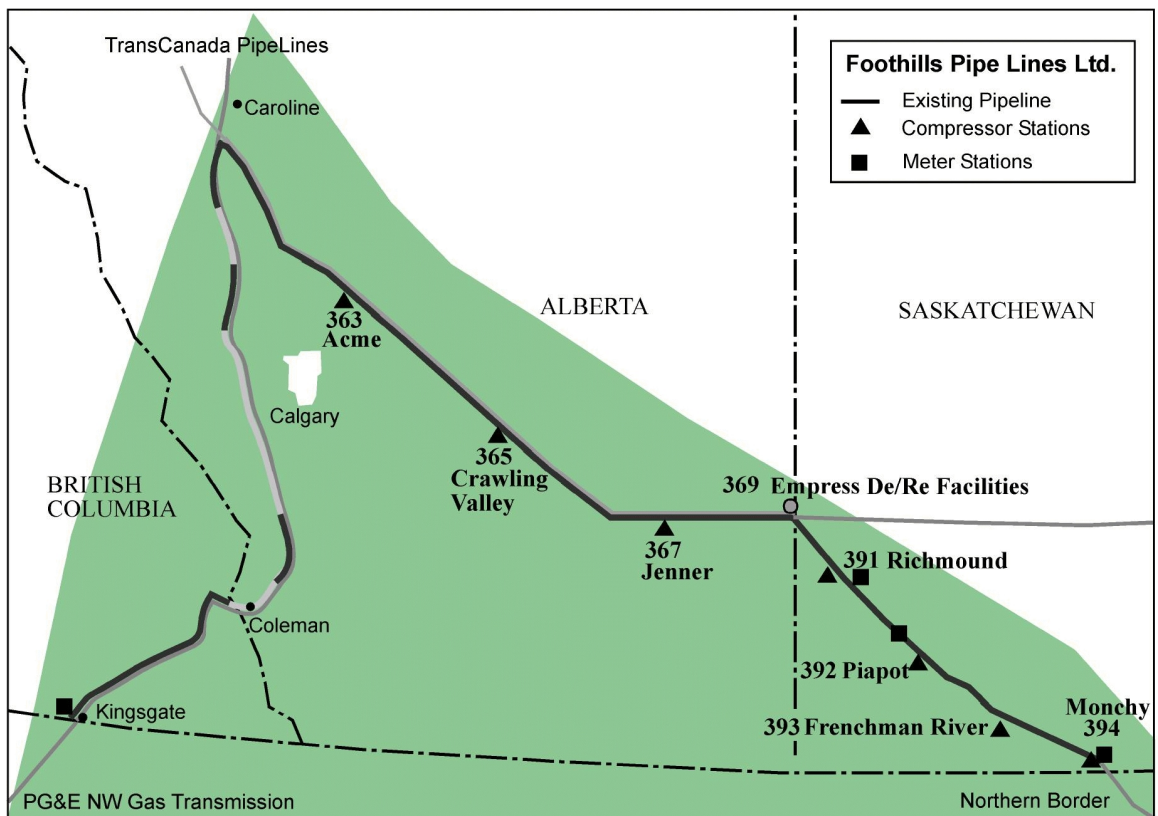
These expansions have raised the flow capacity of the Prebuild to about 94 million cubic metres (3.3 billion cubic feet) per day, close to the 102 million cubic metre (3.6 billion cubic feet) per day rate that was contemplated in the *Agreement*.

Perception 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 2002-2003, in light of escalated discussions by industry and government regarding the construction of Phase II of the Pipeline, the Agency undertook to address questions regarding further assessments, regulatory process and staffing implications.

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



**Figure 2:
The Foothills Prebuild**



3.3 Challenges

During 2002-2003 the challenges for the Agency increased due to renewed interest in Phase II of the Pipeline. 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 and through consultation with other federal departments and agencies.

The medium- term challenge for the Agency is to be in a state of readiness in the event Phase II of the Pipeline project is reactivated. There have been numerous changes to legislation, regulations, and other factors since the *Act* came into force that would be relevant to environmental and public considerations prior to the commencement of construction. To facilitate clarification of these factors a new Administrator was appointed in November 2002.

Section IV: Priorities and Plans

4.1 Priorities and Planed Activities

Strategic Priority:

To achieve results for Canadians over the period of this three-year financial plan, the Agency has two strategic priorities:

- effectively administer the *Act* in respect of Prebuild expansions; and
- establish the framework to respond to the reactivation of Phase II of the Pipeline when required.

Planned Result:

The planned result for these priorities is the co-operation with other federal agencies, provincial and territorial governments, first nations and the public to ensure the *Act* is effectively carried out.

Planned Activities for 2003-2004:

- The Agency will effectively respond to any regulatory filings by Foothills and make certain that the *Act* is properly administered.
- The Agency will provide regulatory certainty by establishing a framework to proceed with Phase II of the Pipeline. Additional staff may be hired to respond to any increase in resource demands. This will allow the Agency to prudently refine its plans and state of readiness to respond to Phase II, and to enhance its engagement with other participants that would be involved in the planning and the construction of Phase II.

4.2 Planned Spending

Historically, the Agency's annual planned spending has been in excess of its expenditures. This has been accomplished by working in cooperation with other federal departments, principally, the Board and the modest activity level required by the Agency. The extent of utilization of the planned spending of \$1,355,000 in 2003-2004 will depend on the timing of industry decisions to reactivate the project.

Section V: Organization

5.1 Strategic Outcome and Business Line

The Agency's strategic outcome is to facilitate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline while maximizing social and economic benefits and minimizing adverse social and environmental effects. The Agency's single business line is to regulate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline.

5.2 Accountability

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, both appointed by the Governor in Council. The Commissioner of the Agency is currently the Deputy Minister for International Trade.

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. In addition, Natural Resources Canada and other departments provide policy advice for the Agency.

To further assist the Minister responsible for the Agency in carrying out the Agency's mandate, there is provision for federally-appointed advisory councils. One of the Councils consists of Aboriginal, business and other parties representing communities in the Yukon Territory. A similar Council was also established for Northern British Columbia. Membership in these Councils has lapsed over the years in view of the dormant state of Phase II of the Pipeline.

Expenditures related to the administration of the Agency are fully cost recoverable from Foothills Pipe Lines Ltd., including those costs related to services provided by other federal departments and the Board.

Easement fees collected by the Agency 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. Both receipt and expense are omitted from the calculation of recoverable costs.

As a Separate Employer, the Agency conforms closely with the principles of personnel administration that apply in the Public Service of Canada.

Figure 3 on the next page provides a schematic of the reporting relationships of the key officers responsible for the Agency's business line.

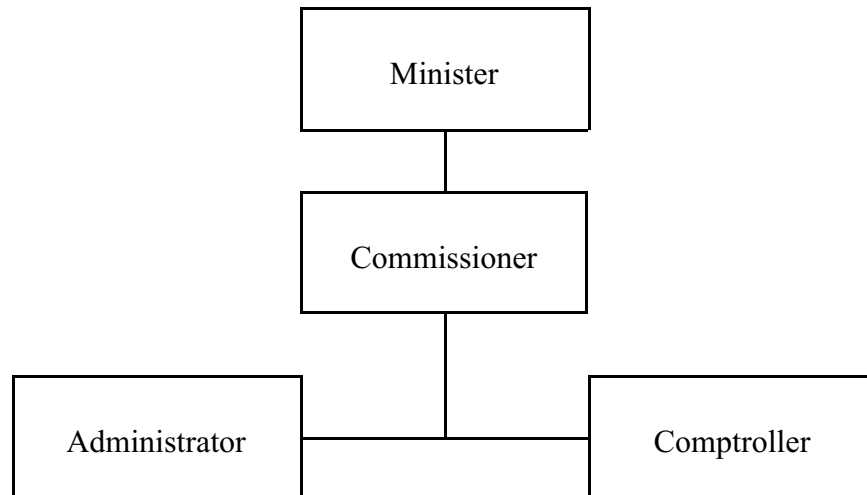


Figure 3: Northern Pipeline Agency Organization Structure

The Agency currently has one full-time employee to assist in delivering on the Agency's business line.

5.3 Departmental Planned Spending

Expenditures and human resource requirements for the planning period are summarized in the following table. It should be noted that the Agency's costs are not borne by the taxpayer. Recoveries are not necessarily completed in the same fiscal year that the corresponding expenditures are incurred.

Table 5.1 Departmental Planned Spending

(\$ thousands)	Forecast Spending 2002-2003	Planned Spending 2003-2004	Planned Spending 2004-2005	Planned Spending 2005-2006
Facilitation of the Planning and Construction of the Alaska Highway Gas Pipeline				
Budgetary Main Estimates	265.0	1355.0**	1355.0	265.0
Total Main Estimates	265.0	1355.0	1355.0	265.0
Adjustments	162.0*	-	-	-
Net Planned Spending	427.0***	1355.0	1355.0	265.0
Less: Non-respendable revenue	451.0	1379.0	1379.0	289.0
Plus: Cost of services received without charge	24.0	24.0	24.0	24.0
Net Cost of Program	0	0	0	0

Full Time Equivalents	2.5 ¹	6	6	2
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1 The 0.5 FTE reflects the appointment of a new Administrator in November 2002.

* This adjustment reflects a release of \$150.0 from a frozen allotment for the 2002-2003 planned spending and a \$12.0 carry over of unused funds from 2001-2003.

** This amount includes a vote for an increase in reference levels for the 2003-2004 and 2004-2005 planned spending.

*** Reflects the forecast of total planned spending to the end of the fiscal year.

Section VI: Annexes

Table 6.1: Non-respendable Revenue

(\$ thousands)	Forecast Revenue 2002-2003	Planned Revenue 2003-2004	Planned Revenue 2004-2005	Planned Revenue 2005-2006
Northern Pipeline Agency				
Facilitation of the Planning and Construction of the Alaska Highway Gas Pipeline	451	1379	1379	289.0
Total Non-Respendable Revenue	451	1379	1379	289.0

Table 6.2: Net Cost of Program for the Estimates Year

(\$ thousands)	Total
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	1355
<i>Plus: Services received without charge</i>	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	0
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	0
Costs provided by other departments	24
	24.0
<i>Less: Non-respendable Revenue</i>	1379
2003-2004 Net Cost of Program	0

Table 6.3: 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.)

Section VII: Other Information

References and NPA Website

For further information about the Northern Pipeline Agency, contact:

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Mr. Leonard J. Edwards	Commissioner
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Mr. Kris Panday	Comptroller
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Dr. Robert G. Skinner	Administrator
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