

# **NORTHERN PIPELINE AGENCY CANADA**

**2004 - 2005  
Estimates**

## **Part III - Report on Plans and Priorities**

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George Anderson  
Commissioner  
Northern Pipeline Agency Canada

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The Honourable R. John Efford, P.C., M.P.  
Minister Responsible for the  
Northern Pipeline Agency Canada

## Table of Contents

<b>Section I: Messages</b>	1
1.1 Commissioner's Message	1
1.2 Management Representation Statement	2
<b>Section II: Raison d'être</b>	3
2.1 Mandate, Roles, and Responsibilities	3
<b>Section III: Planning Overview</b>	4
3.1 Introduction	4
3.2 External Factors and Chronology of Events	4
Figure 1: The Alaska Natural Gas Transportation System	6
Figure 2: The Foothills Prebuild	6
3.3 Challenges	7
<b>Section IV: Priorities and Plans</b>	8
4.1 Priorities and Planned Activities	8
4.2 Planned Spending	8
<b>Section V: Organization</b>	9
5.1 Strategic Outcome and Business Line	9
5.2 Accountability	9
Figure 3: Organization Structure	10
5.3 Departmental Planned Spending	11
<b>Section VI: Annexes</b>	12
Table 6.1: Source of Non-Respendable Revenue	12
Table 6.2: Net Cost of Program for the Estimates Year	12
Table 6.3: Legislation Administered by the Northern Pipeline Agency	13
<b>Section VII: Other Information</b>	
References and NPA Website	14

## **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 Canada (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 60<sup>th</sup> 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*.

George Anderson  
Commissioner

## 1.2 Management Representation Statement

I submit, for tabling in Parliament, the 2004-2005 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 *2004-2005 Report on Plans and Priorities Preparation Guide*:

- 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: \_\_\_\_\_  
Krishna Sahay, Comptroller

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 Canada 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: Planning Overview

### 3.1 Introduction

The Northern Pipeline Agency Canada 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.**

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

### 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. The construction of the pipeline is privately financed. The following provides a brief description and chronology of the Pipeline.

Following public hearings conducted by the Board certificates of public convenience and necessity for the Pipeline were 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 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 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.

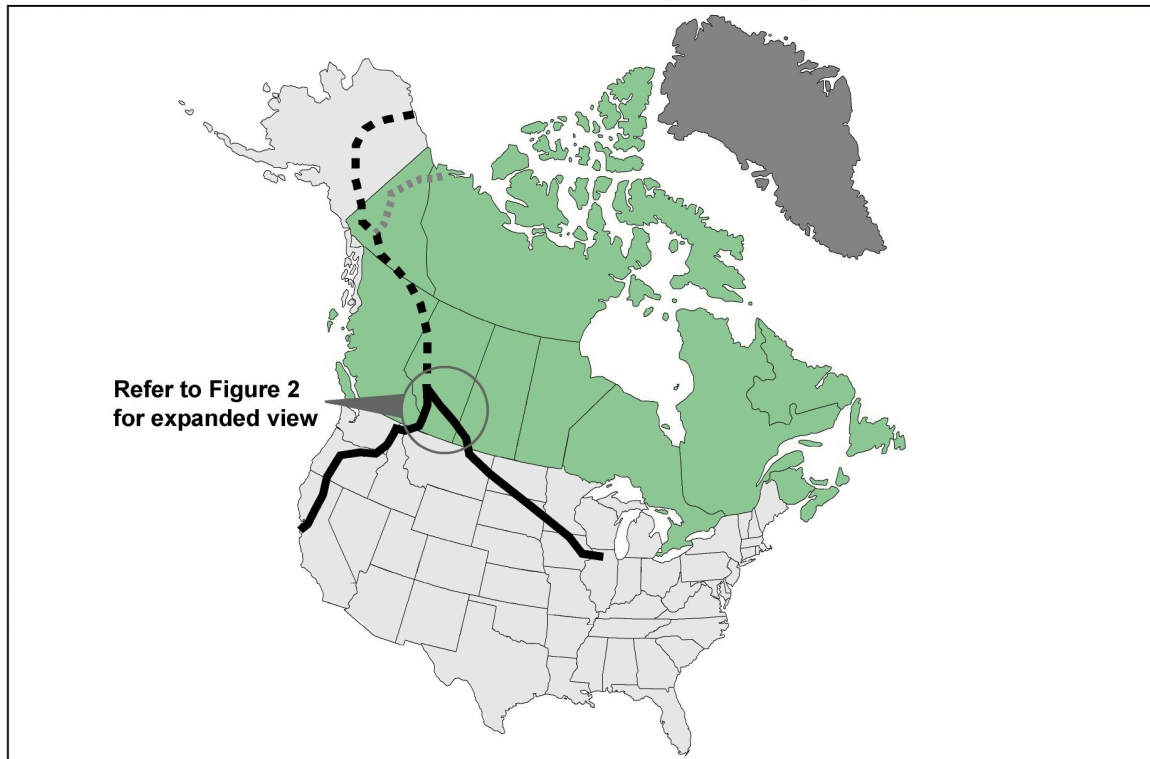
There have been five expansions of the Prebuild completed since 1988, all of which were designed to either increase system capacity or enhance system reliability. The most significant of these involved:

- (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.

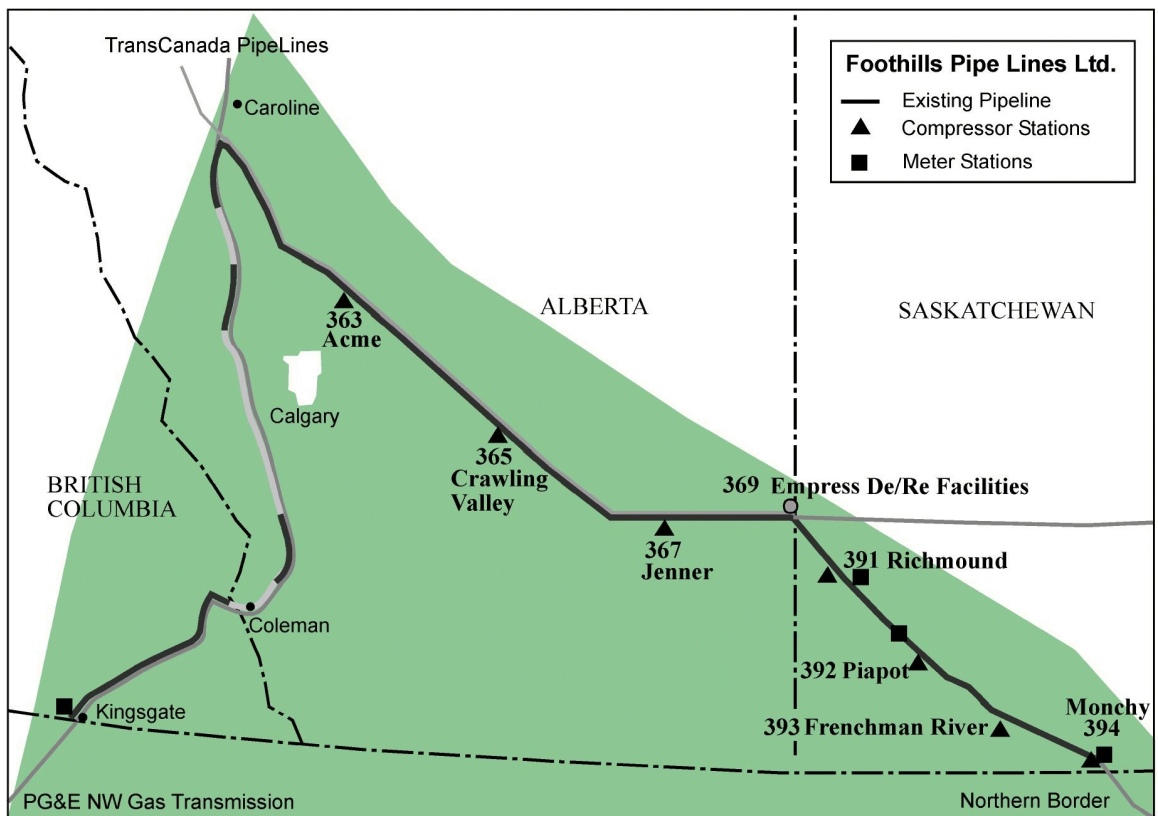
These expansions have raised the flow capacity of the Prebuild to about 94 million cubic metres (3.3 billion cubic feet) per day, close to the 102 million cubic metre (3.6 billion cubic feet) per day rate that was contemplated in the *Agreement*.

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. In light of recent 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 2003-2004 the primary challenge faced by the Agency was continued uncertainty over the status of the Pipeline project. This challenge made it difficult to determine when key decisions would be taken in respect of the project that would necessitate a higher level of activity on the part of the Agency. Looking forward, the 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. Some of the changes include new environmental legislation, devolution of federal responsibilities in the Yukon Territory, and settlement of First Nations land claims. The risk resulting from these challenges is that the Agency does not want to be in a position where it is taking actions in advance of industry decisions, nor does it want to be unprepared to respond when such decisions are made.

## **Section IV: Priorities and Plans**

### **4.1 Priorities and Planned Activities**

#### **Priorities:**

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

- effectively administer the *Act* in respect of any 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 should there be a decision to proceed with the project.

#### **Planned Activities for 2004-2005:**

- The Agency will effectively respond to any regulatory filings by Foothills and make certain that the *Act* is properly administered.
- The Agency will continue to address regulatory certainty by establishing a framework to proceed with Phase II of the Pipeline within a timeframe that corresponds with industry decisions on the project. Timing of such decisions are uncertain.
- 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**

The Agency's planned spending is forecasted in consultation with Foothills and based on Foothills' anticipated level of activity. The extent of utilization of the planned spending of \$1,363,000 in 2004-2005 will depend on the timing of industry decisions to reactivate the project. All of the Agency's costs are recovered from Foothills; when actual expenditures are less than planned spending an adjustment is made to subsequent invoicing.

## **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 Canada has been designated as a Department for the purposes of the *Financial Administration Act*. The Agency currently reports to Parliament through the Minister of Natural Resources who is responsible for the management and direction of the Agency, and has one senior officer, a Commissioner appointed by the Governor in Council. The Commissioner of the Agency is currently the Deputy Minister of Natural Resources. The Agency's organizational structure is defined by the *Act*.

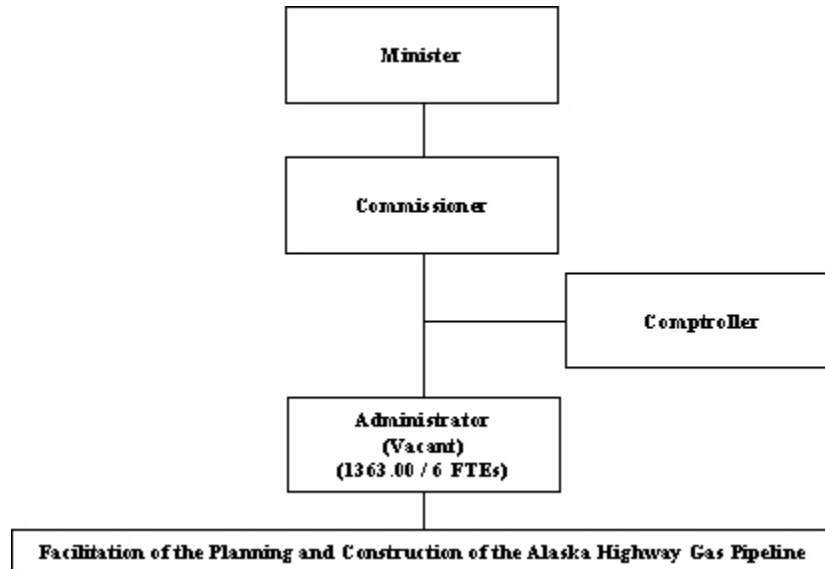
Given the continued low level of Agency activity, arrangements are in place whereby the Agency relies largely on the Board for administrative and technical assistance. The Agency is also supported by Natural Resources Canada, and receives policy advice from this, and other federal departments. To further 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.

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.

The Agency currently has one full-time employee to assist in delivering on the Agency's business line. Hiring of additional employees will depend on the nature and timing of decisions by the project proponent.

**Figure 3: Northern Pipeline Agency Canada Organization Structure**



### **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. The Agency recovers 100% of its operating costs from Foothills through existing authorities pursuant to section 29 of the Northern Pipeline Act and determined in accordance with section 24.1 of the *National Energy Board Act* and the *National Energy Board Cost Recovery Regulations*.

In 2002 the Agency sought an increase in its reference levels for 2003-2004 and 2004-2005 in order to respond to increased demands as forecasted in consultation with the proponent of the pipeline project. Events in 2003-2004 did not occur as forecasted and the Agency found that it was invoicing Foothills disproportionately in excess of the Agency's actual expenditures. An adjustment was sought to reduce this difference between planned spending and actual expenditures.

Over the next three years the Agency will continue to establish a framework to respond to the reactivation of Phase II of the pipeline in keeping with the level of activity of the pipeline project's proponent.

Easement fees collected by the Agency 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.

**Table 5.1 Departmental Planned Spending**

(\$ thousands)	Forecast Spending 2003-2004	<b>Planned Spending 2004-2005</b>	Planned Spending 2005-2006	Planned Spending 2006-2007
Facilitation of the Planning and Construction of the Alaska Highway Gas Pipeline				
Budgetary Main Estimates	1355.0	<b>1363.0**</b>	265.0	265.0
<b>Total Main Estimates</b>	1355.0	<b>1363.0</b>	265.0	265.0
Adjustments	(598.5)*	-	-	-
<b>Net Planned Spending</b>	756.5**	<b>1363.0</b>	265.0	265.0
Less: Non-respendable revenue	780.5	<b>1387.0</b>	289.0	289.0
Plus: Cost of services received without charge	24.0	<b>24.0</b>	24.0	24.0
<b>Net Cost of Program</b>	0	<b>0</b>	0	0

<b>Full Time Equivalents</b>	6	<b>6</b>	2	2
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\* This adjustment reflects the establishment of a frozen allotment for \$598,547.50 for the 2003-2004 planned spending to offset an amount remitted as actual expenditures were far below forecasted expenditures.

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

## Section VI: Annexes

**Table 6.1: Non-respendable Revenue**

<b>(\$ thousands)</b>	<b>Forecast Revenue 2003-2004</b>	<b>Planned Revenue 2004-2005</b>	<b>Planned Revenue 2005-2006</b>	<b>Planned Revenue 2006-2007</b>
<b>Northern Pipeline Agency Canada</b>				
Facilitation of the Planning and Construction of the Alaska Highway Gas Pipeline	780.5	<b>1387.0</b>	289.0	289.0
<b>Total Non-Respendable Revenue</b>	780.5	<b>1387.0</b>	289.0	289.0

**Table 6.2: Net Cost of Program for the Estimates Year**

<b>(\$ thousands)</b>	<b>Total</b>
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	<b>1363.0</b>
<i>Plus: Services received without charge</i>	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	<b>0</b>
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	<b>0</b>
Costs provided by other departments	<b>24.0</b>
	<b>24.0</b>
<i>Less: Non-respendable Revenue</i>	<b>1387.0</b>
<b>2004-2005 Net Cost of Program</b>	<b>0</b>

**Table 6.3: Legislation Administered by the Northern Pipeline Agency Canada**

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 Website**

For further information about the Northern Pipeline Agency Canada, contact:

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Mr. George Anderson                      Commissioner

Mr. Krishna Sahay                      Comptroller