

NORTHERN PIPELINE AGENCY CANADA

2008-2009 Estimates

Report on Plans and Priorities

The Honorable Gary Lunn, P.C., M.P.
Minister Responsible for
Northern Pipeline Agency

Table of Contents

	Page
Section I	Overview
	Management Representation Statement..... 1
	Summary Information..... 2
	NPA – Plans and Priority..... 4
Section II	Analysis of Program Activity by Strategic Outcome
	Strategic Outcome..... 5
	Analysis by Program Activity..... 5
Section III	Supplementary Information
	Organizational Information..... 6
	Departmental Planned Spending and Full Time Equivalents 7
	Non-Respendable Revenues 8
	Net Cost of Program for 2008-2009 8
	Legislation Administered by the Northern Pipeline Agency 9
Section IV	Other Items of Interest
	Chronology of Events 10
	Figure 1: The Alaska Natural Gas Transportation System 11
	Figure 2: The Foothills Prebuild 11
	References..... 12

Section I - Overview

Commissioner's Message

It is my pleasure to present the *2008-09 Report on Plans and Priorities* for the Northern Pipeline Agency (NPA).

The NPA 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 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 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 NPA's activities were limited to overseeing the expansion of the southern portion of the pipeline.

Recently, growing North American demand for natural gas, limitations on its supply from conventional sources and strong natural gas prices have rekindled interest in exploring options for bringing northern gas to markets. In response, the NPA has been taking measures to address the commitments of the Government of Canada that are embodied in the *Act*.

During the period of this report, the NPA will continue to work together with other federal agencies, provincial and territorial governments, First Nations and the public to meet the objectives of the *Act*.

Cassie J. Doyle
Commissioner

Management Representation Statement

I submit, for tabling in Parliament, the 2008-2009 Report on Plans and Priorities for the Northern Pipeline Agency.

This document has been prepared based on the reporting principles contained in the *Guide to the Preparation of Part III of the 2008-2009 Estimates: Report on Plans and Priorities and Departmental Performance Reports*.

It adheres to the specific reporting requirements outlined in the Treasury Board Secretariat guidance;

It is based on the NPA's approved Program Activity Architecture as reflected in its Management Resources and Results Structure;

It presents consistent, comprehensive, balanced and reliable information;

It provides a basis of accountability for the results achieved with the resources and authorities entrusted to it; and

It reports finances based on approved planned spending numbers from the Treasury Board Secretariat.

Cassie J. Doyle
Commissioner, Northern Pipeline Agency

Summary Information

The NPA was created by the *Act* in 1978 to:

- facilitate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project, for which National Energy Board (NEB) certificates were granted to Foothills 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.

Prior to commencing construction of any particular section of the pipeline, Foothills is required to obtain a series of specific approvals from the NPA 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 NEB is necessary.

The project authorized under the *Act* envisaged the construction of a natural gas pipeline to carry gas from Alaska, through the Yukon, British Columbia and Alberta to markets in Canada and the United States. A portion of the pipeline was built in Alberta by 1982, with further expansions, under the NPA, as recently as 1998. However, the weak market conditions for natural gas, prevailing from the mid-1980s and in the 1990s resulted in an indefinite delay in construction of the northern portion of the line from Alaska to Alberta.

Since the beginning of this decade natural gas prices have been rising, at the same time as supplies from traditional North American supply basins in the United States and western Canada are declining, leading to a corresponding increase in interest in reviving the Alaska Highway Gas Pipeline Project.

Foothills has indicated it intends to file detailed project plans to complete the project and has asked that the NPA prepare to expeditiously consider these plans and to facilitate construction. At the same time, natural gas producers, who hold the rights to extract gas in Alaska, have indicated their interest in applying for new certificates, under the *National Energy Board Act* to build a pipeline to bring the gas to markets south of the 60th parallel.

The NPA's jurisdiction extends only to the Foothills project, as authorized under the *Act*. In anticipation of receiving detailed project plans from Foothills, the NPA has begun reviewing key issues, including environmental concerns and First Nations interests. During 2008-2009 the NPA will be occupied with the development of plans to regulate and facilitate the construction of the pipeline.

In the event that a detailed plan is actually received and commercial arrangements to support construction of the project are finalized, the NPA would be called upon to significantly increase its activity levels. It is unlikely that any such plan would be received before 2008-2009.

NPA's Financial Resources

2008-2009	2009-2010	2010-2011
265.0	265.0	265.0

NPA's Human Resources

2008-2009	2009-2010	2010-2011
2 FTEs	2 FTEs	2 FTEs

Financial resources for 2008-2009 are based on an assumption that the NPA will continue planning for a Foothills project. Resource levels for future years may need to be adjusted depending on the actual level of activity in the Foothills project.

The costs of the NPA are fully cost recovered from Foothills.

NPA Priority

To achieve results for Canadians over the period of this three-year financial plan, the NPA has one strategic priority in respect of its strategic outcome:

Priority	Type	Planned Spending*		
		2008-2009	2009-2010	2010-2011
To effectively administer the <i>Act</i> in respect of any prebuild expansions and establish the framework to respond to the reactivation of Phase II of the pipeline when required.	ongoing	265.0	265.0	265.0

*Expenditures and human resource requirements for the planning period are summarized in the table. It should be noted that the NPA's costs are not borne by the taxpayer. The NPA recovers 100% of its operating costs from Foothills through existing authorities pursuant to section 29 of the *Act* and determined in accordance with section 24.1 of the *National Energy Board Act* and the *National Energy Board Cost Recovery Regulations*.

NPA - Plans and Priority

The challenge for the NPA is to be in a state of readiness in the event Phase II of the pipeline project is reactivated. Since the *Act* came into force, the external environment relevant to environmental and public considerations, prior to the commencement of construction, has changed significantly. Some of the changes in Yukon include new environmental legislation, devolution of some federal responsibilities, and settlement of most First Nations land claims along the pipeline route.

The NPA will need to develop regulatory processes which fully meet modern environmental standards and respect the rights of First Nations. Simultaneously these processes must respect the rights granted to Foothills under the *Act* and recognize the continuing validity of the existing certificates. To carry out these responsibilities, the NPA is working closely with relevant federal departments, principally the Canadian Environmental Assessment Agency, Indian and Northern Affairs Canada, the NEB, Foreign Affairs Canada, and Natural Resources Canada (NRCan).

As a small agency, the NPA obtains its administrative services from NRCan and is benefiting from the shared services initiative launched by that department in late 2004.

For the right of easement, Foothills pays the NPA an annual amount of \$30,400; of this amount \$10,000 is collected on behalf of and forwarded directly to the Yukon Government. The balance of \$20,400 is remitted to the Government of Canada.

Section II: Analysis of Program Activity by Strategic Outcome

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. The planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline project is efficient and expeditious while ensuring environmental protection and social and economic benefits for Canadians.

Analysis by Program Activity

Program Activity: Regulate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project. This program activity is aligned to the Strong Economic Growth outcome.

NPA's Financial Resources

2008-2009	2009-2010	2010-2011
265.0	265.0	265.0

NPA's Human Resources

2008-2009	2009-2010	2010-2011
2 FTEs	2 FTEs	2 FTEs

Expected Results: In concert with other federal government departments, the NPA will develop a regulatory framework which accommodates modern environmental practices, takes into account the rights of First Nations communities, and considers the interests of provincial-territorial governments, so as to be prepared to effectively regulate and to facilitate the planning and the construction of the Foothills pipeline, should a detailed project plan come forward. The NPA's activities are dictated by the timing and pace of the planning and construction of the pipeline.

Performance Indicators: The NPA will effectively respond to any regulatory filings by Foothills and make certain that the *Act* is properly administered.

The NPA will continue to address regulatory certainty by establishing a framework to proceed with the construction of the northern portion of the pipeline within a timeframe that corresponds with industry decisions on the project. The timing of these decisions is affected by such considerations as project economics, natural gas markets and negotiations between Foothills and Alaska gas producers and, therefore, is unpredictable.

To allow the NPA to prudently refine its plans and state of readiness to respond and to enhance its engagement with other participants that would be involved in the planning and the construction of this phase of pipeline development, an adequate level of staff will be hired.

Section III - Supplementary Information

Organizational Information*

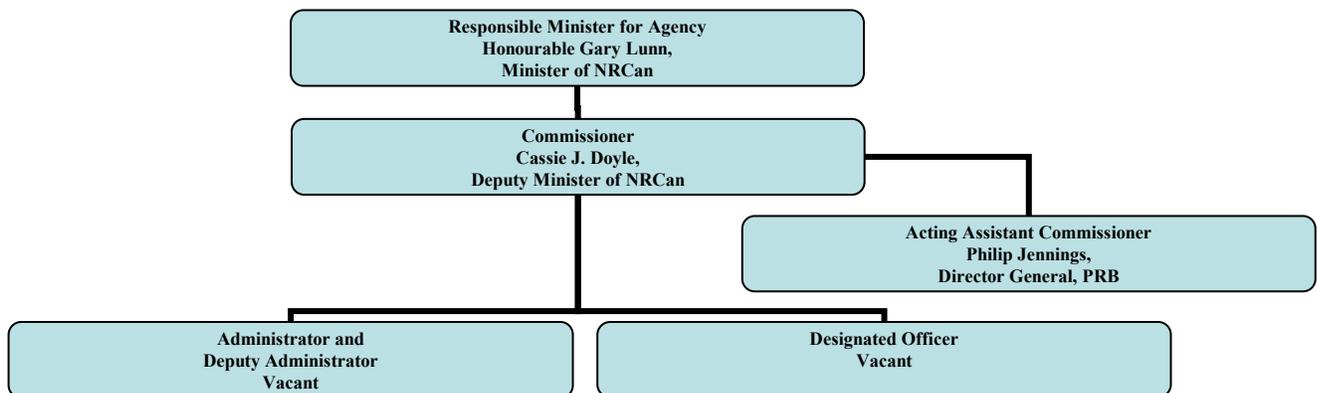
The NPA has been designated as a department for the purposes of the *Financial Administration Act*. The NPA currently reports to Parliament through the Minister of Natural Resources who is responsible for the management and direction of the NPA. The NPA has one senior officer, a Commissioner appointed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

Given the continued low level of activity, arrangements are in place whereby the NPA relies largely on NRCan for administrative and technical assistance. The NPA also receives policy advice from NRCan and other federal departments.

To further assist the responsible Minister in carrying out the NPA's mandate, there is provision for federally-appointed advisory councils. One of the councils consists of Aboriginal, business and other parties representing communities in Yukon. 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 NPA conforms closely with the principles of personnel administration that apply in the Public Service of Canada.

The figure below provides a schematic of the reporting relationship of the key officers responsible for the NPA's program activity. Given that there is currently no Alaska project, the Agency's day-to-day responsibilities are primarily administrative in nature. The Agency currently has two full-time employees, but receives support from Natural Resources Canada, to assist in delivering its program activity. Hiring of additional employees will depend on the nature and timing of project decisions.



*Information shown is the 2007-08 Main Estimates.

Voted and Statutory Items displayed in the Main Estimates

Vote or Statutory Item	Truncated Vote or Statutory Wording	2008-09 Main Estimates	2007-08 Main Estimates
30	Program expenditures	244	244
(S)	Contributions to employee benefit plans	21	22
Total Agency		265	266

1. Departmental Planned Spending and Full Time Equivalents

(\$ thousands)	Forecast Spending 2007-2008	Planned Spending 2008-2009	Planned Spending 2009-2010	Planned Spending 2010-2011
Facilitation of the planning and construction of the Alaska Highway Gas Pipeline	266.0	265.0	265.0	265.0
Budgetary Main Estimates	266.0	265.0	265.0	265.0
Total Main Estimates	266.0	265.0	265.0	265.0
Adjustments *	43.5	-	-	-
Total Planned Spending	309.5	265.0	265.0	265.0
Less: Non-respendable revenue **	333.5	289.0	289.0	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	0
Full Time Equivalents	2	2	2	2

* Reflects funds carried forward from 2006-2007.

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

2. Non-respendable Revenue

(\$ thousands)	Forecast Revenue 2007-2008	Planned Revenue 2008-2009	Planned Revenue 2009-2010	Planned Revenue 2009-2010
Northern Pipeline Agency Canada				
Facilitation of the planning and construction of the Alaska Highway Gas Pipeline	333.5	289.0	289.0	289.0
Total Non-Respendable Revenue	333.5	289.0	289.0	289.0

*Note: This table can also be found on the Treasury Board Secretariat's website at: http://www.tbs-sct.gc.ca/est-pre/20082009/p3a_e.asp

3. Net Cost of Program for 2007-2008

(\$ thousands)	Total
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	309.5
<i>Plus: Services received without charge</i>	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	0.0
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	0.0
Costs provided by other departments	24.0
	24.0
<i>Less: Non-respendable Revenue</i>	333.5
2008-09 Net Cost of Program	0.0

4. 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 IV - Other Items of Interest

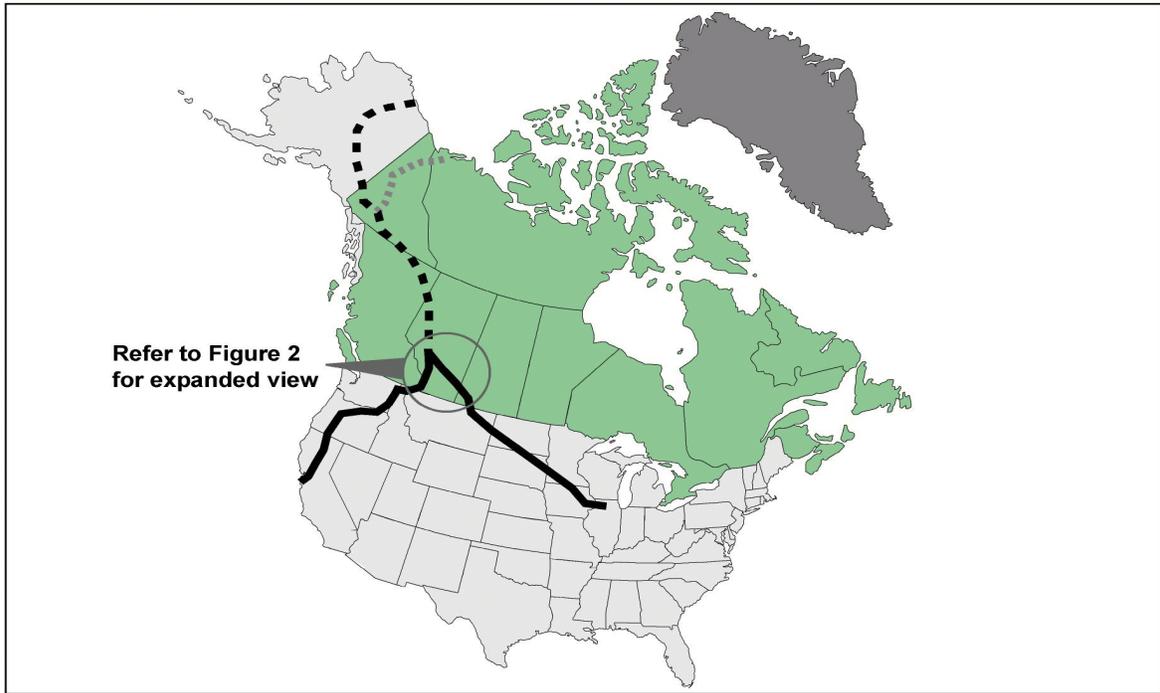
Chronology of Events

Interest in the Alaska pipeline was revived in the early years of this decade by the ongoing strengthening in natural gas markets. An important development was the passage of U.S. federal legislation in 2004 which provided loan guarantees, fiscal lift and established time lines for regulatory approval processes for a project bringing Alaska natural gas to markets. The February 2006 announcement of a draft fiscal contract between the former Alaska Administration and the North Slope natural gas producers (British Petroleum, ExxonMobil and ConocoPhillips) further intensified interest in the project. However, the draft natural gas fiscal contract did not receive Alaskan Legislative support and ultimately failed.

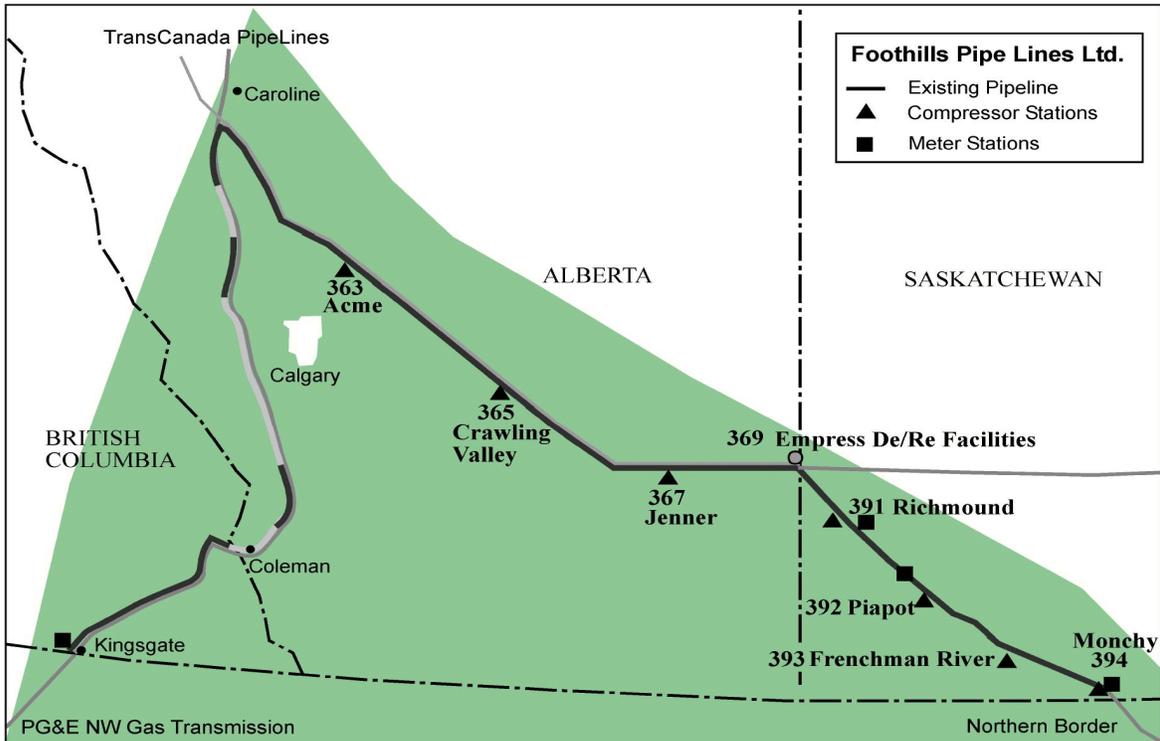
New Alaska Governor, Sarah Palin, has vowed to make an Alaska natural gas pipeline a priority for her government. She introduced new legislation, the Alaska Gasline Inducement Act, on March 2, 2007. This new act is designed to induce construction of the pipeline and offer a transparent, expedient and competitive process to strike the right balance for the State, project proponents, gas producers and the United States.

The Agency will continue to work collaboratively with relevant federal departments and agencies to develop a regulatory structure, in anticipation a filing under the *Northern Pipeline Act*.

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



**Figure 2:
The Foothills Prebuild**



References

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