
NORTHERN PIPELINE AGENCY

**ANNUAL REPORT
1985-1986**

Canada



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

ANNUAL REPORT

1985-1986

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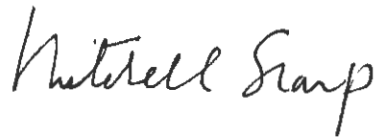
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Ottawa, Ontario.
December 31, 1986.

Dear Sir:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1986, together with the report of the Auditor General on the accounts and financial transactions of the Agency for the same period, for submission by you to Parliament as provided under Section 13 of the *Northern Pipeline Act*.

Yours sincerely,

A handwritten signature in black ink, reading "Mitchell Sharp". The signature is written in a cursive, flowing style.

Mitchell Sharp,
Commissioner,
Northern Pipeline Agency.

The Hon. John C. Crosbie, P.C., M.P.,
Minister of Transport and
Minister responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.

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Ottawa—Head Office

The Hon. Mitchell Sharp, P.C., Commissioner,

Centennial Towers (Station 210)
200 Kent Street,
Ottawa, Ontario,
K1A 0E6

Overview of the Alaska Highway Gas Pipeline Project

As a result of persisting weakness in U.S. natural gas markets that many observers expect to last at least until the turn of the decade, the planned construction of the northern segments in Canada and the United States of the Alaska Highway Gas Pipeline continued to be suspended during fiscal year 1985-86.

If anything, U.S. gas markets became even more depressed than they have been in recent years because of a number of factors. The problems posed by the continuation of a temporary but substantial excess in available domestic gas supplies in the face of weak demand were compounded by two further developments in particular. One was the sharp fall in the prices of world oil; at one point spot prices for oil were less than a third of their previous peak in the early 1980s. The plummeting oil prices, in turn, put severe downward pressure on the prices of natural gas because of the heavy competition that exists between the two energy sources in many markets. At the same time, markets south of the border faced increasing downward pressure as a consequence of continuing efforts by U.S. regulatory authorities to increase competition between gas suppliers and the major interstate pipelines that transport their reserves.

Taken together, all of these adverse circumstances — as seen from the perspective of the American and Canadian sponsors of the Alaska Highway Pipeline Project — ruled out any realistic

prospect of proceeding with second-stage construction of the undertaking so as to connect continental U.S. markets with U.S. gas from the North Slope of Alaska. At the same time, however, the sponsors in both countries remained confident that a number of expected developments between now and the early 1990s would make it practical to proceed with construction of the system required to transport North Slope gas to the point where it would connect with the Eastern and Western Legs of the pipeline, which were built in the early 1980s as the first stage of the project for the initial purpose of transporting surplus Canadian supplies to U.S. markets. These factors include a gradual tightening of world oil markets as a result of declining reserves from non-OPEC sources and a similar reduction in the volume of deliverable supplies of natural gas from the lower 48 states — both of which would tend to push up energy prices and increase the viability of the proposed second stage of the project.

Because there has been little change during fiscal 1985-1986 in the circumstances that have surrounded the second stage of the project during the past few years and also little activity of a regulatory nature, this annual report of the Northern Pipeline Agency to Parliament is consequently quite abbreviated. Those wishing further information about the nature of the Alaska Highway Gas Pipeline Project, the proposed route of the system, and the role of the Northern Pipeline Agency are referred to earlier annual reports of the NPA.

Canadian and United States Regulatory Activities

As indicated earlier, the activities of the respective regulatory agencies established to oversee the planning and construction of the Alaska Highway Gas Pipeline Project — the Northern Pipeline Agency in Canada and the Office of the Federal Inspector in the United States — were very limited during 1985-86. Essentially, each was reduced to a holding operation in light of the fact that planning of second-stage construction was significantly reduced by the sponsors and responsibility for overseeing operation of the first stage — the Eastern and Western Legs — transferred to other regulatory authorities in the two countries. At the same time, however, each agency remained as the nucleus for the restoration of such regulatory activity as might be required as and when plans for proceeding with second-stage construction of the northern segments were revived.

At the request of the Hon. Mitchell Sharp, Commissioner of the Northern Pipeline Agency, consultations were undertaken in Ottawa in early July, 1985, between representatives of the Canadian and U.S. governments in keeping with Article 8 of the 1977 bilateral agreement covering construction of the project. The main purpose of the meeting was to review the prevailing status of the project in both countries and the anticipated role and status for the foreseeable future of the Northern Pipeline Agency and the Office of the Federal Inspector. The discussions marked the last meeting of Canadian officials with John Rhett — the initial holder of the Office of Federal Inspector from July, 1979, until his subsequent retirement in December — who contributed greatly to the good working relationship that has existed from the beginning between the two regulatory bodies.

The Northern Pipeline Agency

For the most part, the Northern Pipeline Agency maintained a stand-by role during the fiscal year 1985-86 following the further phasing down of its operations and activities during the previous year. The Agency continued in being, however, at the request of the Canadian sponsor of the project, Foothills Pipe Lines (Yukon) Ltd., which covers the entire cost of its operation. In Foothills' view, it is desirable that the basic structure of the regulatory framework established under the terms of the *Northern Pipeline Act* in 1978 should remain in place pending the time when improved circumstances will permit the second stage of the project to be undertaken.

The primary function of the NPA during 1985-86 was twofold. One was that of maintaining the extensive records that have accumulated with respect to the second stage of the undertaking. These include plans already developed with respect to design and engineering of the remaining segments of the system, plans involving social, environmental and economic aspects of the development, and documents covering a variety of arrangements worked out both between federal, provincial and territorial governments and between the Canadian and U.S. regulatory agencies in keeping with the principles laid down in the 1977 bilateral agreement between the two countries. The second major function of the Agency was to ensure to the best of its ability that the terms of that agreement were complied with to the extent they were currently applicable.

In connection with this latter function, the Agency closely followed developments relating to a move by one of the three U.S. pipeline companies committed to purchase Canadian gas transported through the prebuilt Eastern Leg of the system to reduce contracted volumes substantially. In February, 1986, the United Gas Pipe Line Co. notified the Canadian supplier, Pan-Alberta Gas Ltd., of its intention to cut back its take of Alberta gas from the minimum level it had committed itself to take — a volume that was already sharply below the original minimum volumes contracted for in the early 1980s. United contended it was justified in abrogating its contract on grounds of *force majeure*.

(In meetings with representatives of the U.S. government in May and again in June of 1986, the Hon. Mitchell Sharp, Commissioner of the Northern Pipeline Agency, expressed Canada's serious concern over this development. Mr. Sharp pointed out that the contracts by the three U.S. pipeline companies provided the foundation for the financing of the Eastern Leg. As a result of the cutback in the purchases of Canadian gas, United also fell short of covering its share of the costs of the pipeline system in Canada. The Commissioner noted that the abrogation of the contract by United not only posed a threat to the continued viability of the prebuild, but also could jeopardize future financing of the second stage of construction of the project. The issue was later resolved through negotiations between the Canadian and U.S. companies.)

Office of the Federal Inspector

Following a course similar to that of the Northern Pipeline Agency, the U.S. Office of the Federal Inspector also continued to reduce the scope of its activities and the size of its staff during the 1985-86 period.

One of the major developments was the signing of a Memorandum of Understanding in October, 1985, under which the Department of Energy undertook to provide office space in its Washington premises for the remaining staff of the OFI and to provide most of the agency's administrative support services. Fol-

lowing the implementation of this agreement, the full-time staff of the Office was reduced to two, additional technical support being provided by part-time employees and outside consultants.

As previously noted, the first appointee to the position of Federal Inspector, John Rhett, retired in December, 1985. He was replaced on a temporary basis by Danny J. Boggs, a senior official with the Department of Energy until he himself resigned in March, 1986, to become a Circuit Court Judge.

(In May, Theodore J. Garrish, Assistant Secretary for Congressional, Intergovernmental and Public Affairs with the Department of Energy, was nominated by the President to assume the additional role of Federal Inspector. Mr. Garrish was confirmed in his appointment by the Senate in mid-August.)

(In testifying before the Senate Policy Committee in mid-July, the President's nominee for the post of Federal Inspector underlined the continuing importance to the United States of what is known south of the border as the Alaska Natural Gas Transportation System (ANGTS).)

("The availability of abundant Alaska natural gas supplies promises enormous benefits to consumers and this nation's future energy security," Mr. Garrish told the Committee. "The ANGTS is critical to ensuring that availability.")

(He stressed the need for the OFI to be able to remobilize on a smooth and orderly basis as and when it became possible for the second stage of the project to move ahead once again. "It is anticipated that construction of Phase II of the project, the Alaska and Canadian portions, will be remobilized in the early 1990s as natural gas markets stabilize and financing prospects improve for the entities participating in the project's construction. The Office of the Federal Inspector can aid the preparation of this process by working with the project's participants to ensure the coordination of design and plans for the construction of Phase II of the system. Moreover, the ongoing responsibility of communicating and negotiating with project sponsors, and the Canadian Northern Pipeline Agency, plays a part in steering the project away from difficulties which might otherwise delay or obstruct the remobilization process.")

Finance, Personnel and Official Languages

Finance and Personnel

Section 12 of the *Northern Pipeline Act* provides for an annual audit of the accounts and financial transactions of the Agency by the Auditor General of Canada and for a report thereon to be made to the Minister. Section 13 of the Act requires the Auditor General's report to be laid before Parliament together with the Minister's annual report on the operations of the Agency. To comply with these requirements, the report of the Auditor General of Canada on the accounts and financial transactions of the Northern Pipeline Agency for the year ended March 31, 1986, is reproduced as an appendix.

Estimates for 1985-86 provided \$1.4 million and 11 person-years for the operation of the Agency. Expenditure for the year totalled \$967,000 of which \$271,000 represents termination costs for staff released because of the delay in construction of the second stage of the pipeline. Only four of the authorized person-years were used in the year and at year-end only four employees were on staff, of whom two were on a part-time basis and one was on full-time secondment to another government department on a cost-recovery basis. Arrangements were made with the National Energy Board to provide finance and personnel services for the Agency with effect from April 1, 1985. The Agency reimburses the Board for the cost of these services.

Section 29 of the *Northern Pipeline Act* provides for recovery of the costs of the Agency from the company constructing the pipeline in accordance

with regulations made under subsection 46.1(2) of the *National Energy Board Act*. During the year, recoveries totalling \$1.4 million were made. Of this total, \$1.2 million was recovered from Foothills in keeping with the provisions of the *Northern Pipeline Act*, which represented the unrecovered balance of \$462,000 from the previous fiscal year and part of the 1985-86 expenditures by the Agency. The additional recovery of \$183,000 comprises mainly recoveries from various other departments and agencies of the federal government to which certain NPA employees had been seconded as part of the phasing down of Agency activities. All recoveries were credited to the Consolidated Revenue Fund.

Official Languages Plan

Although the Northern Pipeline Agency is a separate employer under Part II of the *Public Service Staff Relations Act* and is not subject to the *Public Service Employment Act*, the language policies and procedures established for other government departments and agencies have generally been applied. In addition, the Agency conforms as fully as possible with the provisions of the *Official Languages Act*.

In order to allow members of the public to comment on the linguistic aspect of services provided, enquiries may be made by telephoning (613) 993-7466 or by writing to the Head Office of the Northern Pipeline Agency, Station 210, Centennial Towers, 200 Kent Street, Ottawa, Ontario, K1A 0E6.



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister responsible for the Northern Pipeline Agency

I have examined the statement of expenditure and receipts of the Northern Pipeline Agency for the year ended March 31, 1986. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this statement presents fairly the expenditure and receipts of the Agency for the year ended March 31, 1986 in accordance with the accounting policies set out in Note 2 to the statement applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script, appearing to read 'D.L. Meyers'.

D.L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada


Ottawa, Canada
September 15, 1986

NORTHERN PIPELINE AGENCY

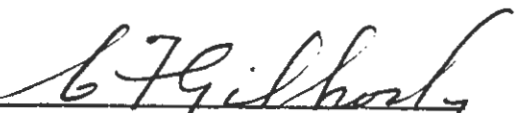
Statement of Expenditure and Receipts
for the year ended March 31, 1986

	<u>1986</u>	<u>1985</u>
Expenditure (Note 3)		
Salaries and employee benefits	\$ 758,717	\$3,082,353
Professional and special services	81,784	136,971
Travel and communications	69,339	97,141
Rentals	47,609	448,312
Materiel and supplies	4,679	8,653
Information	4,386	8,000
Other	53	5,148
	<hr/> 966,567	<hr/> 3,786,578
Receipts		
Recovery of costs from Foothills Pipe Lines (Yukon) Ltd. (Note 4)	1,180,999	2,350,612
Secondment of Agency staff	152,068	918,360
Easement fees	27,594	27,594
Other recoveries	3,365	89,186
	<hr/> 1,364,026	<hr/> 3,385,752
(Excess of receipts over expenditure)		
Excess of expenditure over receipts	<hr/> \$ (397,459)	<hr/> \$ 400,826

Approved by:



Commissioner



Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to Statement of Expenditure and Receipts March 31, 1986

1. Authority and objective

The Agency was established in 1978 by the Northern Pipeline Act (S.C. 1977-78, c. 20). The objective of the Agency is to facilitate the efficient and expeditious planning and construction of the Alaska Highway Gas Pipeline in a manner consistent with the best interests of Canada as defined in the Act.

2. Accounting policies

Expenditure

Expenditure includes the cost of work performed, goods received or services rendered prior to April 1, except for the costs of the employees' contingency and termination plans which are charged to expenditure in the year in which the employee leaves the Agency. Capital acquisitions are charged to expenditure in the year of purchase. Expenditure also includes any costs incurred on behalf of the Agency by government departments, except for contributions to employee benefit plans which are based on budgeted salary costs. All expenditures are financed by parliamentary appropriations and government departments which provided services without charge.

Receipts

Receipts are recorded on a cash basis and are credited to the Consolidated Revenue Fund. Recovery of costs from Foothills Pipe Lines (Yukon) Ltd. is based on quarterly billings.

3. Expenditure

Expenditure for the year was provided for as follows:

	<u>1986</u>	<u>1985</u>
Parliamentary appropriations		
Transport (1985—Economic Development)		
Vote 115 (Vote 5 in 1985)—		
Program expenditure	\$1,285,000	\$3,488,000
Statutory—Contributions to employee benefit plans	157,000	301,000
	<hr/> 1,442,000	<hr/> 3,789,000
Amount not required	475,433	2,422
	<hr/> \$966,567	<hr/> \$3,786,578

4. Recovery of costs from Foothills Pipe Lines (Yukon) Ltd.

	<u>1986</u>	<u>1985</u>
Costs recoverable for the year		
Expenditure for the year	\$ 966,567	\$ 3,786,578
Adjustment in respect of employee benefits	(111,000)	(154,000)
Secondment of Agency staff	(152,068)	(918,360)
Other recoveries	(3,365)	(89,186)
	<u>700,134</u>	<u>2,625,032</u>
Excess recovery of costs in the current year	18,624	
Prior year costs recovered in the current year	462,241	187,821
Cost to be recovered in the following year		(462,241)
	<u>\$1,180,999</u>	<u>\$2,350,612</u>

The Agency's share of employee benefits paid to the government for the current year has exceeded the actual employer's share. As a result, costs recoverable for the year ended March 31, 1986 have been adjusted accordingly. This adjustment will be reflected in the billings to Foothills for 1986-87.

5. Employees' contingency and termination plans

Contingency plan

Senior and certain other key employees who remain with the Agency until completion of their responsibilities and whose service exceeds two years are entitled to an allowance of 13% of accumulated salary received. Based on employees on strength who may become entitled to this benefit in the future, unpaid costs as at March 31, 1986 are estimated at \$16,000 (1985 — \$304,000).

Termination plan

On July 15, 1982, Treasury Board approved a termination plan for employees who are separated due to the reduction of activities announced on May 1, 1982. The amount of termination allowance is based on years of service and includes an amount for relocation as necessary. Based on projected terminations, unpaid costs, including relocation costs, as at March 31, 1986 are estimated at \$178,000 (1985 — \$195,000).

6. Reduction of activities

On May 1, 1982, the United States sponsors of the Alaska Highway Gas Pipeline and Foothills Pipe Lines (Yukon) Ltd. announced that the target date for completion had been set back and all parties were to scale down their activities.

The Agency has been able to reduce staff costs through secondments to other departments and by terminations and in June 1985 the Agency closed their Calgary office.