



NORTHERN PIPELINE AGENCY

**ANNUAL REPORT
1987-1988**



Canada



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

ANNUAL REPORT

1987-1988

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Ottawa, Ontario.
December 31, 1988.

Dear Sir,

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1988, 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*. During the period covered by this report, the Honourable Mitchell Sharp, whom I succeeded on June 1, 1988, carried out the duties of Commissioner. Accordingly, I have consulted with Mr. Sharp on the preparation of this report to ensure that it benefits from his 10 years of distinguished public service as the first Commissioner of the Northern Pipeline Agency.

Yours sincerely,



G.E. Shannon

The Honourable Donald Mazankowski, P.C. M.P.,
Deputy Prime Minister
President of the Queen's Privy Council and
Minister responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.

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Ottawa—Head Office

Mr. G.E. Shannon, Commissioner,

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

Overview of the Alaska Highway Gas Pipeline Project

A number of developments emerged during the course of the 1987-88 fiscal year that had significant implications both for the operations of the first stage of the Alaska Highway Natural Gas Pipeline and prospects for proceeding with second-stage construction of the project to link U.S. gas reserves on the North Slope of Alaska with markets in the western and mid-western states.

Dominating the picture was the multiplicity of signs indicating a marked resurgence in the U.S. gas market for the first time since the onset of a severe slump in 1982. As a result of that slump, which coincided with the emergence of a deep economic recession in North America and abroad, sponsors of the project were forced to defer plans for proceeding with the second-stage link to connect gas from Prudhoe Bay with the pre-built Eastern and Western Legs already completed by that year in both countries for the initial purpose of transporting surplus Canadian gas to U.S. markets.

The strengthening of the market south of the border appeared to be due in part to demand created by continuing economic growth and to more severe climatic conditions than usual. Prolonged periods of cold weather in a number of parts of the country during the winter brought about an upsurge in demand. In fact, the major distributor of gas in southern California was briefly forced to curtail gas deliveries to some of its lower priority customers because of a shortage of supplies to meet demand, recalling the widespread curtailments of the winter of 1976-77 that provided the most dramatic evidence of a then-emerging supply crisis in the United States. (During the summer months of 1988, gas supplies also continued to run at a high level to satisfy the power required for air conditioning as a result of periods of unusually hot weather.)

Another important factor affecting the tightening of the U.S. gas market, and one of potentially greater significance for the longer term, was an unanticipated shortfall in the ability of the U.S. supply system to meet the increase in demand. In a report issued early in 1988, Cambridge Energy Research Associates, a highly-regarded private group of energy analysts, concluded: "The market is ... signalling a longer-term trend of critical importance: gas deliverability in the offshore Gulf of Mexico declined significantly in the second half of 1987."

The result of these developments was to reinforce the gathering consensus that the 'bubble' of surplus gas available for delivery from reserves in the lower 48 states that for several years has been depressing the market south of the border was being significantly reduced. It is the existence of this bubble that has ruled out any prospect for obtaining the competitive market conditions required to clear the way for completion of the Alaska Highway Pipeline and the delivery of U.S. gas from Prudhoe Bay to the lower 48 states. (In a study issued in July, 1988, the American Gas Association estimated that the excess supply of deliverable gas would be reduced to around 1.5 trillion cubic feet (45.5 billion cubic metres) by the end of 1988 and essentially disappear by 1990.)

For Canada, the marked turnaround in the U.S. market resulted in a dramatic increase in natural gas exports. A good portion of the increase represented sales of interruptible gas on a spot basis at prices that were substantially above the depressed levels prevailing in recent years. (Between the beginning of the 'gas year' in November, 1987, and June, 1988, it was estimated that Canadian exports were running at a rate of nearly 50 per cent above the same period a

year ago.) In addition, there were also indications of a renewed interest within the industry in contracting for new gas supplies on a long-term basis, including supplies from Canada.

For the pre-built Eastern and Western Legs of the Alaska Highway Gas Pipeline, the strengthening of the U.S. market resulted in a substantially increased throughput of Canadian gas for export to California and the mid-west during the course of the fiscal year. While much of this increase represented short-term sales, there were also developments—actual and potential—involving increased export of gas through the system on a longer term basis, as outlined further in a later section.

The resurgence in the gas market and the continuing decline in the gas supply bubble during 1987-88 were in line with developments that the American and Canadian sponsors of the Alaska Highway project have long considered were a prerequisite for proceeding in the early 1990s with completion of the second-stage link to U.S. gas on the North Slope of Alaska. In addition, however, they were convinced that the economic feasibility of the project was considerably enhanced by proposed changes in pipeline design and revised estimates that resulted in a major reduction in projected second-stage costs—as more fully explained in a following section. (As briefly outlined later also, an application filed in September, 1988, with the National Energy Board by Esso Resources Canada Ltd. and Shell Canada Ltd. for the exports of some 169 billion cubic metres of gas (6 trillion cubic feet) from the Mackenzie Delta Region over a 20-year period has further potential significance for second-stage construction of the Alaska Highway Pipeline.)

One cloud on what appeared to be the otherwise brightening prospects for completion of the Alaska Highway Pipeline took the shape of a finding by the President in January, 1988, that effectively cleared away a major legal roadblock to the offshore export of U.S. gas reserves on the North Slope of Alaska. The decision was made at the urging of the Yukon Pacific Corporation, which has been promoting the development of a Trans-Alaska Gas System (TAGS) for the export of North Slope gas in liquified form to Japan and other Asian countries—as explained in last year's annual report of the Northern Pipeline Agency.

In addition to the objections to the decision registered by the sponsors of the Alaska Highway Gas Pipeline in both countries, the Canadian government also stated its opposition to the move. It contended that the 1977 agreement between the two countries for joint undertaking of the project clearly rested on the reservation of existing North Slope gas supplies for delivery through the pipeline. In his finding, however, President Reagan expressed his belief that the removal of legal restrictions on offshore exports of North Slope gas should not hinder completion of the Alaska Highway pipeline system. He noted that his Administration supported the timely economic development of Alaska natural resources and had "removed all regulatory barriers to the private sector's expeditious completion" of the pipeline project. As of the end of the fiscal year, the application by Yukon Pacific for an export permit remained to be dealt with.

Those wishing further information about the scope of the Alaska Highway Gas Pipeline Project, the proposed route of the route, and the role of the Northern Pipeline Agency are referred to the Agency's annual reports prior to 1985-86.

Developments Involving Operations of the Pre-build and Planning for Second-stage Construction of the Pipeline

Major Revisions in Second-Stage Pipeline Design and Substantially Reduced Cost Estimates

Throughout the fiscal year, sponsors of the Alaska Highway Gas Pipeline in Canada and the United States undertook an intensive review both of the initial design of the second stage of the system and of the detailed cost estimates that were last made in 1982.

Canadian and U.S. regulatory authorities were briefed on the outcome of this review in the latter part of the fiscal year and the results were announced publicly by the two sponsors—Foothills Pipe Lines (Yukon) Ltd. in Canada and Northwest Alaskan Pipeline Co., head of the consortium for construction of the Alaskan portion of the system—in early June, 1988.

In terms of January, 1988, U.S. dollars, the sponsors calculated that the total cost of the entire system, including the first stage of the project, would now come to \$14.6 billion, a reduction of 45 per cent from the \$26.1 billion estimate made in 1982 (as adjusted to put the earlier estimate into 1988 dollar terms). For a pipeline in service by November, 1995, it was estimated that the actual cost would amount to approximately \$22.5 billion.

Foothills concluded that on a 1988 U.S. dollar basis, costs of the total system in Canada would amount to \$5.6 billion, down from the earlier projection of \$8.2 billion. In Alaska, the U.S. sponsor anticipated costs would be reduced from \$15.6 billion to \$7.2 billion.

As a result of this substantial reduction in projected capital costs, the two companies estimated that average transportation costs to the lower 48 states over a 10-year period—again in 1988 dollars—would amount to approximately \$3.05 per million British Thermal Units (BTUs), which is roughly equivalent to 1,000 cubic feet of natural gas.

“On the timing of the project, it is Foothills’ view that the system will be operational in the mid to late 1990s,” the Canadian company stated in its public announcement of the revised design and cost estimates. “With the new cost estimates for the project, Foothills is convinced additional supplies of natural gas will be required in the lower 48 states by that time and can be delivered at a market clearing price. In addition, the replacement of imported oil by secure U.S. gas supplies cannot be ignored. The initial gas throughput of the ANGTS (Alaska Natural Gas Transportation System) would be equivalent to 400,000 barrels of oil per day, ultimately increasing to 600,000 barrels per day.”

Both the revisions in the nature of the system and in costs estimates resulted in part from technological advances that have been made in recent years in the design of pipelines and from the new knowledge acquired from extensive field testing programs, the sponsors stated. One of the major design changes relates to pipe size and planned operating pressure.

Initial plans called for pipe with an outside diameter of 1 219 millimetres (mm) (48 inches) from Prudhoe Bay on the North Slope of Alaska to Whitehorse in

Yukon and of 1 422 mm (56-inch) diameter from Whitehorse to Caroline, Alberta, the point at which the line divides into the existing Eastern and Western Legs. These segments were intended to operate under pressures of 1260 and 1080 pounds per square inch (psi), respectively. Under the revised design, the diameter of the line to Whitehorse from Prudhoe Bay would be 1 067 mm (42 inches) and the segment from Whitehorse to Caroline would be 1 219 mm (48 inches). While the diameter of each segment of pipe would be smaller, the pressure would be significantly higher—2160 psi on the section from the North Slope to Whitehorse and 1680 psi on the section from there to Caroline. In addition, the sponsors projected an increase in the initial throughput capacity of the system from the initial estimate of around 60 million cubic metres per day (2.1 billion cubic feet per day) to approximately 65 million cubic metres per day (2.3 bcf/d).

The sponsoring companies listed a number of factors that contributed to the reduction in estimated construction costs. These included significant changes in the economic climate since the early 1980s; a shorter construction schedule; incorporation of results from project test sites in Canada and the United States; advancement in pipeline design; improved welding productivity; more traditional owner/contractor functions; greater use of existing communications systems; and a reduction in funds provided for contingencies.

(As noted earlier, some further evidence of renewed interest in the possibility of exporting Arctic natural gas to southern markets was provided by the joint application submitted to the National Energy Board in September, 1988, for licences to export up to 169 billion cubic metres (6 trillion cubic feet) of Canadian reserves from the Mackenzie Delta Region to the United States over a 20-year period. While the two Canadian applicants—Esso Resources Canada Ltd. and Shell Canada Ltd.—lacked firm contracts for the purchase of the gas, they said they had entered into “Precedent Agreements” with two potential U.S. buyers—Enron Corp. and Texas Eastern Transmission Corp. The Canadian gas reserve owners explained that they were applying for an export permit because of the long lead time of at least eight years that would be required to finalize marketing, transportation and financing arrangements, obtain all necessary regulatory approvals, and complete construction of pipeline facilities. On that basis, they concluded that gas could be available for delivery beginning in November, 1996, at the earliest.

(Esso and Shell left open the question of how the proposed export of gas might be transported from the Arctic to the South. The Canada-U.S. agreement of

1977 on the Alaska Highway Gas Pipeline Project makes provision for the transportation of Canadian gas from the Mackenzie Delta Region via a so-called Dempster Lateral, which would hook up with the main line of the system at Whitehorse. Foothills submitted an application for approval of this lateral to the National Energy Board in 1979, in keeping with an agreement with the federal government, but consideration of that application remains suspended. In its own application, Esso recognized that new pipeline facilities would be required to link Delta gas supplies with existing transportation systems in the South. But the company said it would only decide on the nature of those arrangements after it had determined the volumes and export points of the gas. Esso said it was prepared to play a leading role in developing a new system “if an independent company is unable to offer satisfactory and competitive transportation service in a timely manner.”)

Current and Prospective Increases in Exports of Canadian Gas through the Eastern and Western Legs

In line with the general increase in demand for Canadian gas referred to earlier, exports of supplies through the Eastern and Western Legs rose sharply during the fiscal year, in part because of a substantial increase in demand for Canadian gas on a spot or short-term basis.

On the Western Leg, exports for some years have amounted to the maximum contracted demand of some 6.8 million cubic metres of gas a day (240 million cubic feet daily—mmcf/d). During the 1987-88 fiscal year, throughput on the Western Leg averaged some 7.5 million cubic metres a day (266 mmcf/d) as a result of additional exports on a short-term basis. In May, 1987, the federal Energy Regulatory Commission (FERC) in the United States authorized an increase in the contract capacity of the Western Leg to some 8.5 million cubic metres per day (300 mmcf/d). In Canada, the National Energy Board authorized an increase in exports under its procedures governing short-term exports.

The Western Leg was also a major focal point during the year as a result of an application to the NEB in May, 1987, by Pan-Alberta Gas Ltd. for a licence to extend substantially its exports through the pipeline system to the Southern California Gas Co. (SoCal) via the Pacific Interstate Transmission Co. (PIT). The subsequent hearing conducted by the Board on this

application was the first to be governed by the new market-based criteria established by the NEB in a decision issued in September, 1987.

In its application, Pan-Alberta asked the Board to approve an extension of its then-existing licence from October, 1996, to October, 2012, a total of 16 years. It also sought approval for an increase in the total volume of gas exportable under the licence of 45.6 billion cubic metres (1.6 tcf) to a maximum of 73.6 billion cubic metres (2.6 tcf). (In the Reasons for Decision issued in July, 1988, the NEB essentially approved Pan-Alberta's application. It stipulated, however, that rather than extending it, the existing licence would be revoked and a new licence issued to provide for the export to SoCal of 59.7 billion cubic metres (2.1 tcf) over the 24-year period to 2012. The decision also provided for the export in any one day of up to 7.5 million cubic metres (264 mmcf). "The Board is of the view that the new licence will ensure continued high load factor sales into what has proved to be a reliable export market for Canadian gas," the NEB asserted in its report.)

Contributing significantly to the potential for greatly increased throughput of gas via the Eastern Leg was the approval by the National Energy Board in December, 1987, of an application submitted by Foothills the previous June for the institution of interruptible service. The NEB agreed to authorize the company to transport gas through the Saskatchewan segment of the Eastern Leg in Canada on an interruptible basis and directed that the toll be designed to cover the cost of two tiers of such service, depending on the load factor. (In subsequent decisions, the Board authorized progressive reductions in three stages for the toll provided for each tier.)

Between April 1, 1987, and March 31, 1988, exports through the Eastern Leg amounted to 17.8 million cubic metres a day (628.3 mmcf/d), about 4 per cent of which was accounted for by gas sold on an interruptible basis. This volume of throughput amounted to 64 per cent of the total load factor on the Eastern Leg, which compares with throughput at 23 per cent of load factor in the same period the year before.

While the average volume throughput on the Eastern Leg remained below existing capacity, in November, 1987, Northern Border Pipeline Ltd., which makes up the Eastern Leg of the system in the United States, applied to the FERC for authorization to undertake a major expansion in the throughput capacity and the reach of the pipeline. It proposed to extend the existing line from its present termination point at Ventura, Iowa, to Tuscola, Illinois, a distance of some 600

kilometres (370 miles). Northern Border also sought to add sufficient compression to increase the transportation capacity of the present line by some 21 million cubic metres of gas daily (740 mmcf/d) to a new maximum of 51.5 million cubic metres daily (1.8 bcf/d). Proposed compression facilities would make possible a maximum throughput on the addition of some 34 million cubic metres (1.2 bcf/d). Northern Border indicated that it expected a substantial proportion of the increased throughput to come from Canada. In the absence of firm supply and demand contracts, however, no application was submitted to the National Energy Board during the fiscal year for the necessary authority to expand the export capacity of the Eastern Leg in Canada.

The Role of the Canadian and U.S. Regulatory Agencies

As has been the case for some years, the function of the regulatory agencies established in each country to oversee the planning and construction of the Alaska Highway Gas Pipeline—the Northern Pipeline Agency in Canada and the Office of the Federal Inspector in the United States—has essentially been reduced to a stand-by role. As noted in the previous annual report, this has basically involved maintenance of extensive files, records and plans that will be required as and when the second stage of the project is reactivated. In addition, both agencies continue to monitor and, where required, to intervene in cases where there are developments that have an actual or potential impact on either the pre-built Eastern and Western Legs or the second-stage segment of the project.

In a regular half-yearly report to Congress in February, 1987, Theodore J. Garrish, the U.S. Federal Inspector, noted that all of the field offices of the OFI had been closed down and that the remaining functions of the OFI were being carried out under an administrative support agreement with the Department of Energy. "It is anticipated that Phase II construction efforts will be remobilized in the early 1990s as natural gas markets stabilize and financing prospects improve for the entities participating in project construction," Mr. Garrish stated in his report to Congress. "The ANGTS project continues to offer great promise in making available to America abundant supplies of Alaska natural gas. This project is important to this nation's energy health and security, and we look forward to its full remobilization."

During the course of the fiscal year 1987-88, the staff of the Northern Pipeline Agency remained minimal, with only one member employed on a full-time basis and the Commissioner and Senior Financial Officer serving only on a part-time basis. As in the past, all project-related expenses incurred by the NPA or other government departments and agencies, were reimbursed by the Canadian sponsor.

Throughout the year, the Hon. John C. Crosbie, Minister of Transport, continued to maintain ministerial responsibility for the Northern Pipeline Agency. (The Hon. Benoît Bouchard became Minister responsible for the NPA on April 1, 1988, at the same time as he succeeded Mr. Crosbie as Minister of Transport. On June 1, 1988, the Honourable Donald Mazankowski, Deputy Prime Minister and President of the Privy Council—and

subsequently also the Minister of Agriculture—again assumed responsibility for the NPA. Mr. Mazankowski previously held this same portfolio from September 17, 1984, to June 30, 1986. As pointed out in the letter of transmittal of this annual report to Mr. Mazankowski, G.E. Shannon, Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs, succeeded Mitchell Sharp on June 1, 1988, as Commissioner of the Northern Pipeline Agency, a position in which he served for a period of just over 10 years following the creation of the Agency by Parliament through the *Northern Pipeline Act* in the spring of 1978. As a consequence of this change, it is anticipated that the offices of the Northern Pipeline Agency will be relocated by the spring of 1989 in the Lester B. Pearson Building, 125 Sussex Drive, Ottawa, Ontario, K1A 0G2.)

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, 1988, is reproduced as an appendix.

Estimates for 1987-88 provided \$518,000 and two person-years for the operation of the Agency. Expenditure for the year totalled \$225,000. At year-end only three employees were on staff, of whom two were on a part-time basis. The National Energy Board provides finance and personnel services, for which the Agency reimburses the Board.

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 regula-

tions made under subsection 46.1(2) of the *National Energy Board Act*. During the year, \$303,000 was recovered from Foothills in keeping with the provisions of the Northern Pipeline Act, of which \$180,000 related to prior year costs. In addition, \$28,000 in Yukon easement fees were collected. All amounts 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, 1988. 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, 1988 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

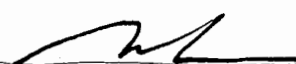
Ottawa, Canada
August 15, 1988

NORTHERN PIPELINE AGENCY


Statement of Expenditure and Receipts
for the year ended March 31, 1988

	<u>1988</u>	<u>1987</u>
Expenditure (Note 3)		
Salaries and employee benefits	\$ 144,333	\$ 353,877
Rentals	36,510	34,430
Professional and special services	33,858	32,575
Travel and communications	4,049	12,580
Information	3,178	3,473
Materiel and supplies	1,666	1,806
Acquisition of Equipment	1,199	—
Other	185	1,850
Repair and upkeep	80	—
	<u>225,058</u>	<u>440,591</u>
Receipts		
Recovery of costs from Foothills Pipe Line (Yukon) Ltd. (Note 4)	303,487	135,307
Secondment of Agency staff	—	105,849
Easement fees	27,594	27,594
Other recoveries	178	2,153
	<u>331,259</u>	<u>270,903</u>
Excess of expenditures over receipts (Excess of receipts over expenditure)	<u>\$ (106,201)</u>	<u>\$ 169,688</u>

Approved by:



Commissioner



Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to Statement of Expenditure and Receipts March 31, 1988

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>1988</u>	<u>1987</u>
Parliamentary appropriations		
Transport		
Vote 90 (Vote 70 in 1987)—Program expenditure	\$ 485,000	\$600,000
Statutory—Contributions to employee benefit plans	33,000	45,000
	<hr/> 518,000	<hr/> 645,000
Amount not required	292,942	204,409
	<hr/> \$ 225,058	<hr/> \$440,591

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

	<u>1988</u>	<u>1987</u>
Costs recoverable for the year		
Expenditure for the year	\$ 225,058	\$ 440,591
* Adjustment in respect of employee benefits	(16,300)	(16,592)
Adjustment for nonrecoverable costs	—	(10,671)
Secondment of Agency staff	—	(105,849)
Other recoveries	—	(1,141)
	<u>208,758</u>	<u>306,338</u>
Current year's costs recovered in previous year	—	(18,624)
Excess recovery of costs in the current year	—	—
Prior year costs recovered in the current year	180,001	—
Prior year's adjustment recognized in current year	—	27,594
Cost to be recovered in the following year	(85,272)	(180,001)
	<u>\$ 303,487</u>	<u>\$ 135,307</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, 1988 have been adjusted accordingly.

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, 1988 are estimated at \$27,255 (1987—\$21,500).

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, 1988 are estimated at \$22,400 (1987—\$35,000).

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.