
NORTHERN PIPELINE AGENCY

**ANNUAL REPORT
1988-1989**

Canada



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

ANNUAL REPORT

1988-1989

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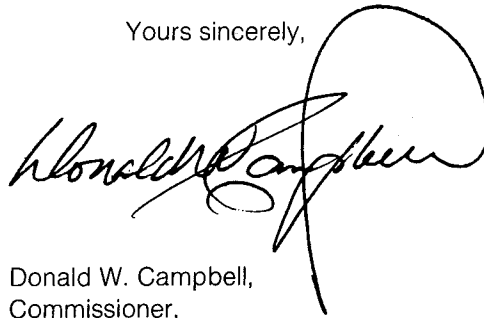
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Ottawa, Ontario.
December 31, 1989.

Dear Sir,

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1989, 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 required under Section 14 of the *Northern Pipeline Act*. During the first two months of the fiscal year, the Honourable Mitchell Sharp continued to carry out the responsibilities of this office. Gerald E. Shannon subsequently served as Commissioner until December 1, 1989, when I succeeded him. In the preparation of this report, I have had the benefit of the advice of both of my predecessors.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Donald W. Campbell", with a large, sweeping loop at the end.

Donald W. Campbell,
Commissioner,
Northern Pipeline Agency.

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.

Table of Contents

	Page
Overview of the Alaska Highway Gas Pipeline Project	1
Operation of the Prebuilt Pipeline and Development of Plan for Major Expansions	3
The Prebuild	3
The Eastern Leg	3
The Western Leg	5
Transportation to Market of Canadian Gas from the Mackenzie Delta Region.....	5
Seeking a Solution to the Continuing Dispute between Pan-Alberta and United.....	6
Extension of Existing Canadian Gas Exports Through the Prebuild and Provision of Access for a New Shipper	6
Operations of the Canadian and U.S. Regulatory Agency Responsible for the Pipeline.....	7
Finance, Personnel and Official Languages	9
Finance and Personnel	9
Official Languages Plan.....	9
Appendix	
Report of the Auditor General of Canada	11

Ottawa—Head Office

Mr. Donald W. Campbell, Commissioner,

Lester B. Pearson Building,
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Overview of the Alaska Highway Gas Pipeline Project

Responding to the continuing upsurge in U.S. demand for natural gas, sponsors of the Alaska Highway Pipeline Project on both sides of the border pressed ahead during the fiscal year 1988-89 with proposals to expand substantially the capacity of the pre-built Eastern and Western Legs to export additional supplies of Canadian gas to U.S. markets.

And while plans for construction of the second stage of the project to transport reserves from Prudhoe Bay on the North Slope of Alaska to the lower 48 states remained on hold, three owners of reserves in Canada's Mackenzie Delta Region — Esso, Gulf and Shell — sought the authorization of the National Energy Board to export 260 billion cubic metres of gas (9.2 trillion cubic feet) to U.S. markets over a 20-year period beginning in 1996.

Plans developed by Foothills Pipe Lines Ltd., Canadian sponsor of the Alaska Highway Project, to transport the gas southward from the Arctic along the Mackenzie Valley to connect with the Alaska Highway Pipeline, could have significant implications for the development of the system in this country if approved.* There were indications, however, that competing proposals would also be put forward by other proponents.

All of these prospective developments involving new or expanded pipelines linked to the Alaska Highway Project, outlined more fully in the following section, reflected the continued strengthening of the U.S. market for natural gas — particularly Canadian gas — during the past few years.

*The corporate name of the Canadian sponsor was changed, effective July 26, 1989, from its original title, Foothills Pipe Lines (Yukon) Ltd.

In 1988, U.S. gas consumption increased by 5 per cent over the level of 1987 and 11 per cent over that of 1986 to reach a total of some 522.8 billion cubic metres (18.5 trillion cubic feet — tcf). While this was still below the peak consumption of around 621 billion cubic metres (22 tcf) experienced in the late 1960s and early 1970s, it represented a significant increase from the low point in this decade of 474.8 billion cubic metres (16.8 tcf) in 1983.

As a result of rising demand and a continuing decline in the volume of deliverable gas from reserves in the lower 48 states, the American Gas Association estimated that the so-called U.S. gas supply "bubble" had been reduced from a peak of 130 billion cubic metres (4.6 tcf) in 1983 to about 24 billion cubic metres (850 billion cubic feet) by the end of the decade. The Association anticipated that the surplus would be virtually eliminated by 1990, when "a supply-demand balance will be achieved."

During 1988, the increase in total U.S. gas consumption of five per cent was far exceeded in proportionate terms by the increase in Canadian gas exports south of the border. Total Canadian gas sales to the United States climbed to a record of nearly 36.7 billion cubic metres (1.3 tcf), which represented an increase of 28 per cent over the level in 1987 and 71.5 per cent over the level in 1986. As a result, the Canadian share of the U.S. market rose to nearly 7 per cent from the more traditional level of around 5 per cent.

Despite the renewed vigour of the U.S. natural gas market and the substantially reduced cost estimates for completion of the second stage of the Alaska Highway Pipeline (outlined in the Northern Pipeline Agency's annual report for the previous fiscal year),

plans for completing the northern segment of the project to gain access to Prudhoe Bay reserves remained suspended.

Meanwhile, the application by the Yukon Pacific Corporation for authorization to export natural gas in liquified form from the North Slope of Alaska to Japan and other Pacific Rim countries continued to work its way through the U.S. regulatory process. As reported in the last annual report, then-President Ronald Reagan in January, 1988, issued a finding that effectively cleared a legal roadblock to the overseas export of North Slope gas through the proposed Trans-Alaska Gas System (TAGS). This basically involves building a pipeline to Valdez on the South Slope of Alaska, where the gas would be liquified and shipped by special LNG tankers to the Far East. The President's approval was given over the objection of the Canadian government, which contended that established supplies at Prudhoe Bay should be reserved because they provided the essential underpinning for the joint pipeline project agreed upon between the two governments in September, 1977. In his finding, however, President Reagan maintained that the removal of the legal roadblock to export of North Slope gas overseas did not diminish the commitment of the United States to what is known

south of the border as the Alaska Natural Gas Transportation System (ANGTS). The President's finding also reaffirmed the U.S. government's commitment to the special regulatory treatment of the prebuild section of the project previously agreed upon.

Even before the President issued this finding, Yukon Pacific had applied to the Economic Regulatory Administration (ERA) for a permit to export North Slope gas to Japan, South Korea and Taiwan, and to the Federal Energy Regulatory Commission (FERC) for authority to use Anderson Bay at the Port of Valdez as an export point. On January 24, 1989, ERA held a day-long conference in Anchorage, Alaska, to provide all interested parties an opportunity to submit their views on whether export of the North Slope gas was in the interest of the United States. (In November, 1988, the U.S. Department of Energy issued a decision that conditionally approved the export over 25 years of up to 14 million tons annually of liquified gas obtained from the North Slope of Alaska.)

Those wishing further information about the scope of the Alaska Highway Gas Pipeline Project, the proposed route of the pipeline, and the role of the Northern Pipeline Agency are referred to NPA annual reports from 1978-79 to 1984-85.

Operation of the Prebuilt Pipeline and Development of Plans for Major Expansions

The Prebuild

In 1980, the Canadian and U.S. governments approved the pre-building of a substantial portion of the southern segments of the proposed Alaska Highway Pipeline Project for the initial purpose of exporting what was then estimated to be a relatively small and temporary surplus of Canadian gas to markets south of the border. It was considered that pre-building of the Western and Eastern Legs from Caroline, 105 km (63mi) north of Calgary, Alberta, to markets in Southern California and the Mid-West would facilitate second-stage construction of the main trunk line from Prudhoe Bay, which was confidently expected to follow shortly after completion of the southern segments.

Construction of the two legs involved the laying of 2 992 km (1,858 mi) of pipeline in Canada and the United States, more than a third of the total main line of the entire system — some 7 720 km (4,790 mi). The prebuild was completed in 1982, the year in which severe economic recession and a depressed gas market south of the border led to second-stage construction being put on hold indefinitely. While the prebuilt system had an initial capacity to transport some 32 million cubic metres (1.14 billion cubic feet) of Alberta gas a day, the severe slump in the gas market south of the border resulted in the two legs operating significantly below maximum contracted levels in the early years. Although the flow of gas through the Western Leg soon built up to 100 per cent of its load factor, it was only within the past few years that growing demand for Canadian gas restored throughput on the Eastern Leg close to the limits of its capacity. It was this rise in actual and potential export demand that has led to the development of extensive plans — actual

and prospective — for substantial expansion in the throughput capacity of the Eastern and Western Legs on both sides of the border and for the extension of the prebuild from the point of bifurcation at Caroline, Alberta, with the construction to Boundary Lake in Northern Alberta and British Columbia of more than 650 km (400 mi) of trunk line. Following is a brief outline of those plans, some of which have already been approved by Canadian regulatory authorities.

The Eastern Leg

The previous annual report of the NPA noted that 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 increase substantially the throughput capacity of the existing line and to extend it from its present terminus at Ventura, Iowa, southeast to Tuscola, Illinois — some 600 km (370 mi). Northern Border proposed to increase the capacity of its existing system from the Canadian border to Ventura by around 28.1 million cubic metres of gas a day (992 million cubic feet) and to provide capacity in the extension to Tuscola of some 31.16 million cubic metres daily (1.1 billion cubic feet). The proposed extension is at variance with that originally proposed as part of second-stage construction of the Eastern Leg, which called for extension of the pipeline from Ventura to Dwight, Illinois — approximately 90 miles north of Tuscola.

In his report to Congress of October 3, 1988, Theodore J. Garrish, the then-Federal Inspector, observed that Northern Border “did not request its application be processed in accordance with the provi-

sions of ANGTA (the Alaska Natural Gas Transportation Act).” He stated that the company “indicated this expansion/extension would not be a second phase of ANGTS because it is not intended to transport Alaskan gas, has different project sponsors, and does not correspond to the technical specifications or proposed location of phase II of ANGTS.”

In January, 1989, Northern Border filed an application with the FERC seeking authorization to add another compressor station to its system in order to increase throughput capacity initially to enable it to transport an additional 2.83 million cubic metres of Canadian gas a day (100 million cubic feet). In April, 1989, the company amended its application to provide for a proposed increase in throughput capacity of 4.25 million cubic metres a day (150 million cubic feet).

Although Northern Border indicated that it intended to file an amended application with FERC revising its plans for the major expansion and extension of its line, together with the submission of supporting gas purchase contracts, it had not yet done so by the end of the 1988-89 fiscal year. For its part, however, Foothills Pipe Lines submitted two applications to Canadian regulatory authorities to increase both the reliability and capacity of the Eastern Leg in Canada.

In October, 1988, Foothills submitted an application to the National Energy Board under Section 49 (1) of the NEB Act seeking expedited consideration of its application to build a new compressor station, Number 393, near Val Marie, Saskatchewan. Because the Eastern Leg in Canada was by then operating close to its existing capacity of around 28.3 million cubic metres (1 billion cubic feet) of gas a day, the company decided that the additional compression unit was required as a back-up to ensure the reliability of the system to continue operating at maximum volume at times when other compressor units were shut down for repairs or maintenance. Foothills came to this conclusion after it was compelled the previous summer to close down the compressor unit at Station 392 near Piapot, Saskatchewan, and substantially curtail gas shipments for 25 days in order to undertake emergency repairs.

Following its submission to the Board, however, the Department of Justice concluded that the application came under the provisions of the *Northern Pipeline Act* and was, therefore, subject primarily to the jurisdiction of the Northern Pipeline Agency (although Foothills continued to be required also to comply with certain provisions of the NEB). In December, 1988, the Governor in Council appointed Kenneth W. Vollman, a Temporary Member of the National Energy Board, to carry out the functions under the *Northern Pipeline Act* of the

Agency's Administrator and Designated Officer in order to deal with Foothills' application.* In February, Mr. Vollman approved an addendum to the System Design Report providing for installation of Compressor Station 393 in Saskatchewan, which effectively constituted approval in principle. Subsequently, the company filed a number of other submissions in compliance with the respective provisions of the Northern Pipeline Agency and the National Energy Board.

During the fiscal year, Foothills also formulated plans for a substantial expansion in the throughput capacity of the Eastern Leg through elimination of restrictions imposed by the nature of its operations in Alberta. This undertaking culminated in an application to the National Energy Board for authorization to construct facilities near Empress, Alberta, just to the west of the Saskatchewan border, which would enable the Alberta section of the Eastern Leg to increase throughput closer to the maximum capacity of the pipeline. (In this case, it was concluded by the Department of Justice that these proposed facilities came under the jurisdiction of the NEB because they would not form part of the Alaska Highway Gas Pipeline Project once gas from Prudhoe Bay began to flow through the system.)

The restriction on throughput capacity in the Alberta section of the Eastern Leg resulted from the integration of the Foothills pipeline with the parallel line operated by Nova Corporation. Because of this integration, Foothills was unable to achieve its maximum allowable operating pressure of 8690 kilopascals (kPa), but instead had to reduce its pressure to the lower limit on the Nova system. Prior to entering the Empress plant for the extraction of natural gas liquids, gas on the Foothills line was required to be reduced to an operating pressure of approximately 4000 kPa. The new facilities proposed by the company would enable the gas to be decompressed just prior to entering the extraction plant at Empress and subsequently recompressed to around 6900 kPa. With relatively minor alterations to the system in Saskatchewan, it would be possible for Foothills to increase its capacity on the Eastern Leg by about 7.79 million cubic metres daily (275 million cubic feet), increasing its maximum throughput to around 38.2 million cubic metres of gas a day (1.35 billion cubic feet).

(In the Reasons for Decision issued in June, 1989, the National Energy Board approved Foothills application for the new decompression/recompression facilities at Empress, Alberta. In a subsequent press release, the company announced its intention of filing

*Mr. Vollman was initially appointed to serve as Administrator and Designated Officer until September, 1989. He was subsequently reappointed for a three-year term.

an application in the fall of 1989 for authorization to install further facilities in order to increase the capacity of the existing line to its maximum level of 51 million cubic metres a day (1.8 billion cubic feet) without the addition of looping.)

The Western Leg

In December, 1988, Pacific Gas Transmission (PGT), which along with Pacific Gas and Electric (PG&E) was designated by President Jimmy Carter in 1977 to construct and operate the Western Leg of the ANGTS in the United States, filed an application with the Federal Energy Regulatory Commission for authority to expand the capacity of its system by some 21.2 million cubic metres a day (750 million cubic feet), raising total throughput capacity to approximately 28.3 million cubic metres daily (1 billion cubic feet). (In October, 1989, Pacific Gas Transmission submitted an amendment to its application that proposed to increase average throughput on the line by a further 4.2 million cubic metres daily — 150 million cubic feet a day). In its application, PGT stated that the proposed expansion would "complete the U.S. portion of the Western Leg" of the ANGTS in the United States and added that it would "provide PGT's customers access to Alaskan gas." The application was predicated on the assumption that initially the expanded capacity would be utilized to import additional Canadian gas into the United States. In his report to Congress of February, 1989, Mr. Garrish, the Federal Inspector, noted that, as in the case of the Northern Border application, PGT had sought authorization for expansion of its system from FERC under the provisions of the *U.S. Natural Gas Act*, rather than under the provisions of the *Alaska Natural Gas Transportation Act*. Several competing proposals for the supply of additional gas to the West Coast market have also been put forward.

In Canada, Foothills indicated its intention of seeking authorization for an expansion in the capacity of the Western Leg north of the border in order to accommodate the additional volume of gas exports being sought by PGT and PG&E, but no submission had been filed by the end of the fiscal year. At present, Foothills' system on the Western Leg consists of seven loops connected with the Alberta Natural Gas pipeline in Southern British Columbia and the Nova pipeline in Alberta.

Transportation to Market of Canadian Gas from the Mackenzie Delta Region

In September, 1988, Esso Resources Canada Ltd. and Shell Canada Ltd. submitted applications to the National Energy Board seeking authorization to export Canadian gas reserves in the Mackenzie Delta to U.S. markets. In February, 1989, they were joined by Gulf Canada Resources Ltd. In total, the three companies proposed to export 260 billion cubic metres of gas (9.2 trillion cubic feet) to the United States over a 20-year period beginning in 1996. Subsequently, hearings were held on the applications by the National Energy Board in Ottawa and Inuvik in the Northwest Territories during the spring of 1989. (In October, 1989, The Board approved the proposed gas exports on a conditional basis, subject to the approval of the Governor in Council.)

In mid-March, 1989, Foothills announced its intention of filing an application for authorization to build the facilities required to transport the Mackenzie Delta gas to market in the event that the Esso-Gulf-Shell proposal received the regulatory approvals and financial support that would enable it to proceed in advance of gas flows from Alaska.

When the federal government originally approved construction of the Alaska Highway Gas Pipeline in 1977, it also adopted the recommendation of the National Energy Board that Foothills be required to undertake to apply for authorization to build the so-called Dempster Lateral to transport up to 34 million cubic metres (1.2 billion cubic feet) of gas daily from the Mackenzie Delta to connect with the main-line pipe at Whitehorse in the Yukon Territory. This would involve construction of approximately 1 200 km (740 mi) of 872 millimetre (34 inch) pipe.

Up until the time of the Esso-Gulf-Shell export application, it was generally assumed that Prudhoe Bay gas in the Alaskan Arctic would first be transported to market through the Alaska Highway Pipeline, followed at some time in the future by the transportation of Canadian Arctic gas from the Mackenzie Delta through the Dempster Lateral.

Faced with the possibility that Canadian Delta gas might become marketable before that from Prudhoe Bay, Foothills unveiled its alternative proposal to meet this contingency. The company announced that it would file an application with the National Energy Board for authority to build a 2 317 km (1,430 mi) pipeline from the Delta Region along the Mackenzie

Valley to Boundary Lake near the northern B.C./Alberta border. To transport the gas south from that point, Foothills proposed to apply to the Northern Pipeline Agency for permission to build some 659 km (407 mi) of the planned main Alaska Highway trunk line from Boundary Lake to Caroline, Alberta, where the system divides into the Eastern and Western Legs. Initially, the trunk line extension would have a capacity to handle up to 34 million cubic metres (1.2 billion cubic feet) of Canadian gas daily, but throughput could be increased to around 65 million cubic metres (2.3 billion cubic feet) a day with the addition of more compression to transport Prudhoe Bay gas. (Foothills formally filed its application with the Board in late October, 1989, with respect to the Mackenzie Valley line and advised the Northern Pipeline Agency that it would be seeking authorization to extend the prebuild from Caroline, Alberta, to join with that line near Boundary Lake.)

For their part, the gas supply owners in the Mackenzie Delta left open the question as to the entity that would be proposed to transport the reserves to southern markets. They suggested that a delivery system following either the proposed route of the Dempster Lateral or southward along the Mackenzie Valley could prove feasible. The companies said they would be "prepared to negotiate for transportation service with any bona fide party." At the same time, they also stated that they were prepared to play a leading role in the development of a new transportation system to the South "if an independent company is unable to offer satisfactory and competitive transportation service in a timely manner." It was generally expected that at least one or two other pipeline companies would submit applications to the National Energy Board in competition with Foothills.

Seeking a Solution to the Continuing Dispute between Pan-Alberta and United

The pre-building of the Eastern Leg of the Alaska Highway Gas Pipeline in both Canada and the United States, which was completed in 1982, was based on the commitment by three major U.S. shippers to purchase up to 22.7 million cubic metres (800 million cubic feet) of Canadian supplies daily from Pan-Alberta Gas Ltd. of Calgary, Alberta. More than half of that volume was contracted by the United Gas Pipe Line Co. — 12.74 million cubic metres a day (450 million cubic feet).

Within months after gas began to flow, all three U.S. shippers experienced difficulty meeting their contract obligations because of a severe contraction in market conditions as a result of the impact of economic recession and falling demand resulting from energy conservation. In response to these changing conditions, Pan-Alberta negotiated several changes designed to reduce the contract obligations of the U.S. shippers.

A prolonged period of disputes between Pan-Alberta and United began in the mid-1980s, which was marked by the failure of United to meet minimum contract obligations based on repeated claims of *force majeure*, appeals to the Federal Energy Regulatory Commission to relieve it of those obligations, the initiation of action by Pan-Alberta to force arbitration of contentious issues by an international tribunal, and finally by a two-year negotiated settlement reached as of July 1, 1987, that received the blessing of the FERC. In March, 1989, United filed another petition with the Commission requesting it to issue a declaratory order relieving it of any further contractual obligations following the expiry of the settlement on June 30, 1989.

(On June 6, 1989, Pan-Alberta announced that it had negotiated a settlement under which it would assume all of United's rights and obligations under its purchase contract. Under the settlement, United agreed to enter into an interim arrangement for a two-year period under which it would transport gas on behalf of Pan-Alberta through its own pipeline system. Through a U.S. affiliate, Pan-Alberta would also acquire United's 12.25 per cent equity ownership of the Northern Border Pipe Line Co. Pan-Alberta expressed confidence that under the new arrangement it would be able to secure customers for 12.74 million cubic metres of gas a day (450 million cubic feet). In late October, Pan-Alberta announced that final terms of settlement had been reached with United. In contrast to the earlier Memorandum of Understanding, it was disclosed that United's equity stake in Northern Border of 12.25 per cent would be taken over by the Enron Corp. of Houston, Texas. It was also indicated that the terms of settlement could be affected by the threatened bankruptcy of United. The settlement also remains subject to the approval of the NEB and the FERC.)

Extension of Existing Canadian Gas Exports Through the Prebuild and Provision of Access for a New Shipper

As reported in the Agency's previous annual report, the National Energy Board in July, 1988, agreed in

essence to an application by Pan-Alberta to extend its existing licence to export gas via the Western Leg to Southern California from 1996 to 2012 and to increase the maximum export volume by 45.6 billion cubic metres (1.6 tcf) to 73.6 billion cubic metres (2.6 tcf). Rather than extending the existing licence, GL 96, the Board decided it was preferable to cancel that licence as of October, 1988 and to issue a new licence (GL 106) for a 24-year period to 2012 that would authorize the export ultimately to SoCal of 59.7 billion cubic metres of gas (2.1 tcf). The ability of Pan-Alberta to take full advantage of the terms of the federal authorization was subsequently opened to question, however, when Alberta's Energy Resources Conservation Board (ERCB) issued a permit that allowed for the removal of the gas required to fulfill the contract only until 2003. But Pan-Alberta officials expressed their determination to complete the contract, contracting the required gas from other sources if necessary.

In addition to this licence, the NEB in July, 1989, also approved an application by Pan-Alberta for a five-year extension of its existing licence, GL 97, to export Canadian gas through the Eastern Leg from October, 1996, to October, 2001. No change was made in the total volume of gas that may be exported under the licence — 83 billion cubic metres (2.9 tcf). Subtracted from this amount was any volumes exported under two previous licences, yielding a net volume of 75.3 billion cubic metres (2.7 tcf).

(As a result of the extended export period allowed on the prebuild and, in the case of the Western Leg, the increase in the total export volume, Foothills applied to the Board in September, 1989, for authority to reduce its rate of depreciation on both legs from four to two per cent a year, the effect of which would be to reduce the cost of service on the system and to increase the netbacks of Canadian gas producers.)

During the course of the fiscal year, a dispute between Foothills and Northern Canadian Oil Ltd. (NCO) came to a head before the National Energy Board that raised broad questions involving the rights of prospective shippers to have their gas transported through the existing gas pipeline. In April, 1988, NCO requested Foothills to transport up to 1.4 million cubic metres (50 million cubic feet) of gas a day through the Eastern Leg of the pipeline for an initial two-year period. Foothills contended that it could not provide the requested firm service because it had been notified by TransCanada PipeLines Ltd. (TCPL) that it intended to exercise its option under a 1980 Service Agreement to request firm service for the transport of 2.8 million cubic metres (100 million cubic feet) of gas

a day through the system, which would fully utilize all available excess capacity.

In August, 1988, NCO submitted an application to the NEB contesting Foothills position. (Following hearings in Calgary and Ottawa in February, 1989, the Board in April issued an order requiring Foothills to provide access for the gas that NCO sought to transport through the Eastern Leg commencing on November 1, 1989. In its Reasons for Decision subsequently issued in May, 1989, the Board laid down what it described as a set of "guiding principles" that should be applied by Foothills in establishing criteria for access to available pipeline transportation capacity and the procedures that should govern the creation of queues for access either for transportation that might become available within the limits of existing pipeline capacity or through the addition of increased throughput capacity. The Board also concluded that with the addition of the proposed new Compressor Station 393 at Val Marie in Saskatchewan to provide backup for its service on the Eastern Leg, Foothills had sufficient capacity to provide the service requested both by NCO and TransCanada.)

Operations of the Canadian and U.S. Regulatory Agencies Responsible for the Pipeline

The pace of activities of the Northern Pipeline Agency and its U.S. counterpart, the Office of the Federal Inspector, quickened significantly during the fiscal year in response to the plans being brought forward by sponsors on both sides of the border to expand and extend the existing pipeline system.

The Northern Pipeline Agency in particular was called on to fulfill a number of regulatory responsibilities in connection with the application by Foothills to build Compressor Station 393 near Val Marie in Saskatchewan. As noted earlier, the proposal led to the appointment in December, 1988, of Mr. Vollman, a Temporary Member of the National Energy Board, to serve as Administrator of the NPA and to carry out the duties assigned under the *Northern Pipeline Act* to the Designated Officer. In his capacity as Administrator and Designated Officer, Mr. Vollman is required to consider for approval a number of submissions that Foothills is obliged to submit involving such matters as engineering and design, manpower, material specifications, scheduling, cost control, procurement, and certain socio-economic and environmental considerations.

Under the Procurement Plan authorized by the Minister responsible for the NPA several years ago, the Agency is also required to approve several aspects of the process for procurement of such designated items as large-diameter, main-line pipe, compressor units, and large valves and fittings. Under a 1980 bilateral procurement agreement, a comprehensive process is also established under the aegis of the NPA and the OFI to enable potential suppliers in each country to have a fair and equal opportunity to compete for contracts covering such items. (These procedures were implemented in the case of procurement of the compressor unit and large valves and fittings for the new compressor station near Val Marie.)

In fulfilling its broad range of regulatory responsibilities in connection with the installation of the Compressor Station 393, the Northern Pipeline Agency has been heavily obliged to the National Energy Board, which seconded members of its staff with the expertise required to provide the Agency with all necessary information and advice. The costs incurred by the Board in providing staff resources have been billed to the NPA and are recoverable ultimately from Foothills in the same manner as the Agency's other regulatory costs, as required under the *Northern Pipeline Act*.

Staff of the National Energy Board also continued to provide routine administrative support services to the Northern Pipeline Agency. As has been the case for some years, the number of personnel directly responsible for conducting the Agency's activities during 1988-89 remained very limited, only one member of its staff being employed on a full-time basis. As noted in the previous annual report, G.E. Shannon, Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs, was appointed to take on the additional responsibility of Commis-

sioner of the Northern Pipeline Agency on June 1, 1988. He succeeded the Honourable Mitchell Sharp, who served in that position since the creation of the NPA just over 10 years previously. (On October 18, 1989, it was announced by the Prime Minister that Mr. Shannon was being posted to Geneva as Canada's Ambassador for Multilateral Trade Negotiations and Chief Negotiator as of January 1, 1990. It was also announced that Donald W. Campbell, Senior Assistant Deputy Minister for the United States Branch of External Affairs, would succeed Mr. Shannon immediately as Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs. On December 1, 1989, Mr. Campbell was appointed by Order in Council also to succeed Mr. Shannon as Commissioner of the Northern Pipeline Agency.)

Following the replacement of the Reagan Administration by that of President George Bush in early 1989, Mr Garrish completed his term as Federal Inspector. By the end of the 1988-89 fiscal year, no successor had been nominated by President Bush, but B. Melvin Hurwitz, who had served as Deputy to Mr. Garrish, assumed the role of Acting Federal Inspector. Among other things, the OFI played a part during the year in the preparation by the Bureau of Land Management of the Final Environmental Impact Statement required in connection with the proposed Trans-Alaska Gas System, which was referred to earlier. In his report to Congress of October, 1988, Mr. Garrish noted that the OFI also worked closely with the Bureau in the preparation of a Right-of-Way Grant to TAGS so as to ensure that it took into account "the Federal Inspector's responsibilities under Reorganization Plan No. 1 of 1979, to enforce all Federal statutes relevant in any manner to pre-construction, construction and initial operation of ANGTS."

Finance, Personnel and Official Languages

Finance and Personnel

Section 13 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 14 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, 1989, is reproduced as an appendix.

Estimates for 1988-89 provided \$388,000 and two person-years for the operation of the Agency. Expenditure for the year totalled \$212,000. 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 regulations made under subsection 55(2) of the *National*

Energy Board Act. During the year, \$239,000 was recovered from Foothills in keeping with the provisions of the *Northern Pipeline Act*, of which \$85,000 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, Lester B. Pearson Building, 125 Sussex Drive, Ottawa, Ontario, K1A 0G2.



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, 1989. 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, 1989 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. Meyers'.

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


Ottawa, Canada
July 28, 1989

NORTHERN PIPELINE AGENCY


Statement of Expenditure and Receipts
for the year ended March 31, 1989

	<u>1989</u>	<u>1988</u>
Expenditure (Note 3)		
Salaries and employee benefits	\$116,086	\$144,333
Rentals	38,938	36,510
Professional and special services	47,168	33,858
Travel and communications	5,248	4,049
Information	3,801	3,178
Materiel and supplies	667	1,666
Acquisition of Equipment	—	1,199
Other	—	185
Repair and upkeep	53	80
	<u>211,961</u>	<u>225,058</u>
Receipts		
Recovery of costs from Foothills Pipe Line (Yukon) Ltd. (Note 4)	238,975	303,487
Easement fees	27,594	27,594
Other recoveries	658	178
	<u>267,227</u>	<u>331,259</u>
Excess of expenditures over receipts (Excess of receipts over expenditure)	<u>\$(55,266)</u>	<u>\$(106,201)</u>

Approved by:



Commissioner



Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to Statement of Expenditure and Receipts March 31, 1989

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>1989</u>	<u>1988</u>
Parliamentary appropriations		
Transport		
Vote 85 (Vote 90 in 1988)—Program expenditure	\$356,000	\$485,000
Statutory—Contributions to employee benefit plans	32,000	33,000
	<u>388,000</u>	<u>518,000</u>
Amount not required	176,039	292,942
	<u>\$211,961</u>	<u>\$225,058</u>

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

	<u>1989</u>	<u>1988</u>
Costs recoverable for the year		
Expenditure for the year	\$211,961	\$225,058
* Adjustment in respect of employee benefits	(18,967)	(16,300)
Other recoveries	(658)	—
Adjustment for nonrecoverable costs	(902)	—
	<u>191,434</u>	<u>208,758</u>
Prior year costs recovered in the current year	85,272	180,001
Cost to be recovered in the following year	(37,731)	(85,272)
	<u>\$238,975</u>	<u>\$303,487</u>

* The Agency's share of employee benefits paid to the government for the current year has exceeded the actual employer's share. Costs recoverable for the year ended March 31, 1989 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, 1989 are estimated at \$33,101 (1988—\$27,255).

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, 1989 are estimated at \$22,400 (1988—\$22,400).

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 until further notice and all parties were to scale down their activities.