NORTHERN PIPELINE AGENCY

ANNUAL REPORT 1989-1990

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Northern Pipeline Agency Canada

Administration du pipe-line du Nord Canada

ANNUAL REPORT

1989-1990

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Ottawa, Ontario.
December 31, 1990.

Dear Sir,

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1990, 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 13 and 14 of the *Northern Pipeline Act*. During the fiscal year, Gerald E. Shannon served as Commissioner until December 1, 1989, when I succeeded him.

Yours sincerely,

Donald W. Campbell

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.

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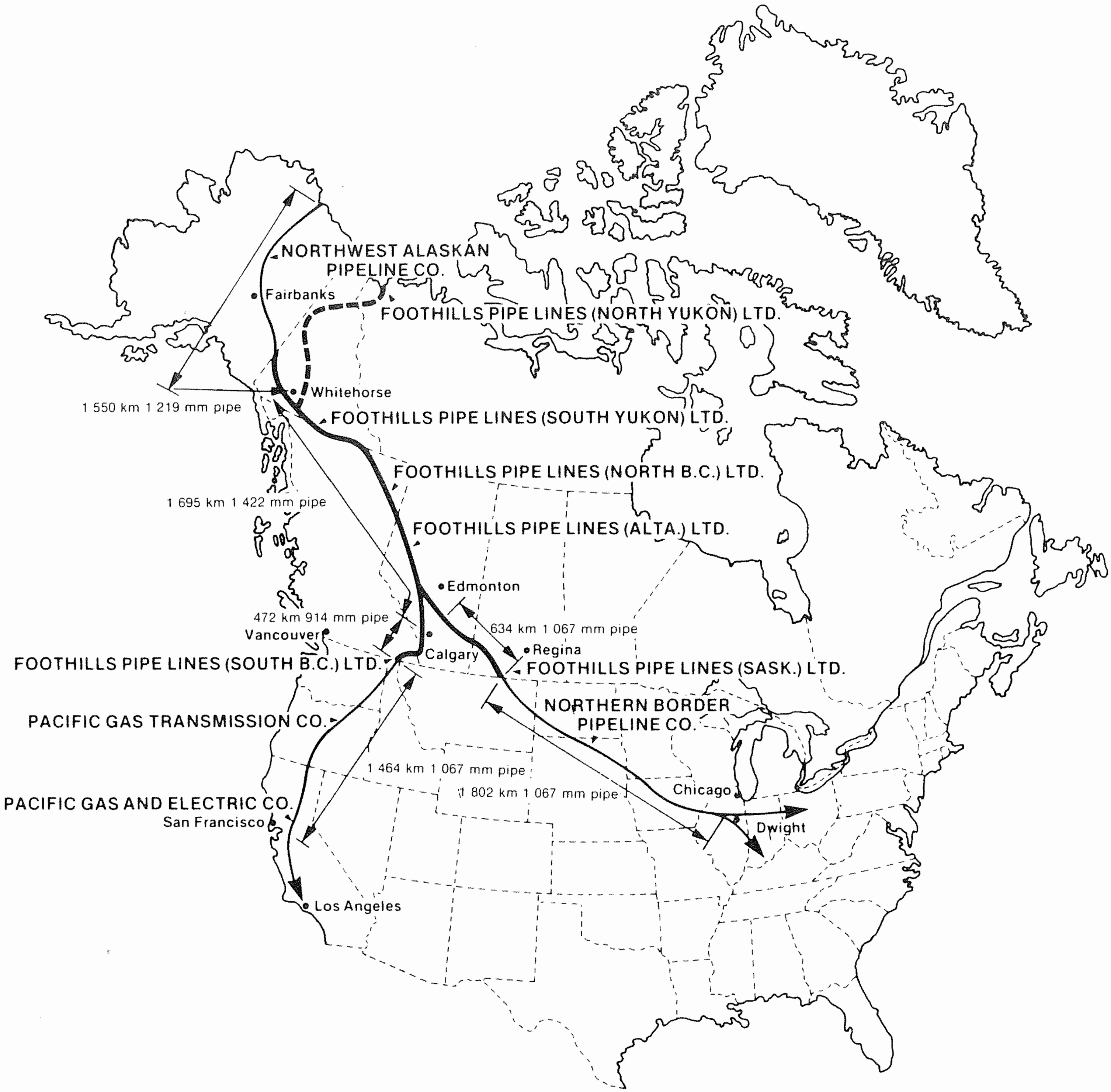
ALASKA HIGHWAY NATURAL GAS PIPELINE PROJECT



Overview of the Alaska Highway Gas Pipeline Project

Plans for more than doubling the export of Canadian gas to the United States through the Alaska Highway Gas Pipeline by substantially expanding the capacity of the pre-built Eastern and Western Legs continued to gain momentum during the fiscal year 1989-90.

The proposed increase to the prebuild capacity came in response to the ongoing rise in U.S. gas consumption to some 18.8 trillion cubic feet (tcf) during 1989 — an increase of around nine per cent over the previous two years, the steady decline on the supply side in the so-called U.S. gas bubble, and deregulation of gas markets.

Total Canadian gas exports to the United States during 1989 amounted to 37.9 billion cubic metres (1.34 tcf), a 5.4 per cent increase over 1988 exports of 35.9 billion cubic metres (1.27 tcf). This growth in export sales was moderate by comparison with the 72 per cent increase that occurred during the two previous years, reflecting the constraint placed on further export growth by the nearly full utilization of existing pipeline capacity.

Despite widespread expectations that demand for natural gas would continue to increase significantly during the foreseeable future, in part because of its less adverse environmental impacts as a fuel for electrical power generation and for the propulsion of vehicles, prevailing market conditions continued to impede plans for second-stage construction of the Alaska Highway Pipeline to provide access to U.S. gas reserves at Prudhoe Bay. Both U.S. and Canadian sponsors of the project remained confident, however, that strengthening market conditions — and rising natural gas prices — would clear the way for extension of the pipeline to the Alaskan North Slope by around the end of the decade.

Meanwhile, however, proposals for major expansions in the capacity of the existing Eastern and Western Legs of the Alaska Highway Gas Pipeline to permit substantial increases in the export of Canadian gas to U.S. markets in the western and mid-western states were being actively pressed before regulatory authorities on both sides of the border. These plans provide for a combined increase in the capacity of the two legs from 37.25 million cubic metres per day (1.3 billion cubic feet per day — bcf/d) to 77.11 million cubic metres (2.7 bcf/d).

Although plans for second-stage construction of the pipeline system to provide access to U.S. reserves on the Alaskan North Slope remained on hold, proposals for the development of Canadian Arctic reserves in the Mackenzie Delta region for export to the United States and possible sale also in southern domestic markets advanced significantly during the fiscal year. In August, 1989, the National Energy Board conditionally approved the export by Esso, Gulf and Shell of 260 billion cubic metres of gas (9.2 tcf) over a 20-year period to the United States commencing as early as 1996 (which still remains subject to federal government approval). In line with its previously-announced intention, Foothills Pipe Lines Ltd., sponsor of the Alaska Highway Gas Pipeline in Canada, filed an application with the Board for a certificate to build a pipeline from the Mackenzie Delta to Boundary Lake in Northern Alberta/British Columbia, which it proposed to connect with an extension from the northern terminus of the Eastern and Western Legs near Caroline, Alberta. The combined Mackenzie Valley Pipeline and prebuild extension would have the capacity to transport an average daily volume of 34.10 million cubic metres (1.2 bcf). In its application to the NEB, Foothills did not indicate what plans it had for onward transmission of this gas from Caroline to southern markets.

As noted in the Agency's previous annual report, the U.S. Department of Energy in November, 1989, conditionally approved the annual export of some l4 million tons of liquified natural gas from the Prudhoe Bay area to Pacific Rim countries over a 25-year period by the Yukon Pacific Corporation. Both the U.S. and Canadian sponsors of the ANGTS and the Canadian government expressed their concern that the proposed exports through the proposed Trans-Alaska Gas System (TAGS) could deplete the Prudhoe Bay natural gas reserves which underpin the joint U.S.-Canadian pipeline. In March, 1990, the U.S. Department of Energy denied a request by two of the sponsors of the Project, Foothills Pipe Lines Ltd. and Alaskan Northwest Natural Gas Transportation Co. for a rehearing of the November decision. Even before the DOE denial of the request for a rehearing, the U.S. and Canadian sponsors filed a so-called protective complaint in the U.S. Court of Appeals for the District of Columbia as a means of preserving their right to a judicial review of the decision. (In May, 1990, the two sponsors of the project formally sought a judicial review of the Department's ruling in the District Appeal Court. Foothills' interest in the issue became further enhanced in June, 1990, when it acquired the 22 per cent equity interest in the company sponsoring the Alaskan segment of the ANGTS that was previously held by a subsidiary of the United Gas Pipeline Co. Other shareholders are the Pacific Gas and Electric Co., the Williams Companies, and TransCanada PipeLines Ltd.)

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 for 1978-79 to 1984-85.

Planning for Expansion of the Pipeline System and Other Project Developments in Canada and the United States

The Prebuild

Plans for constructing new facilities either to reinforce the operating capability of the pre-built Eastern and Western Legs of the Alaska Highway Gas Pipeline or to expand its capacity substantially on both sides of the border were outlined in the previous annual report of the Northern Pipeline Agency. During the 1989-90 fiscal year covered by this report, sponsors worked to install facilities already authorized and other proposed additions continued to work their way through the regulatory process in Canada and the United States.

The two southern legs of the project were built in the early 1980s for the initial purpose of transporting Canadian gas to U.S. markets. Their construction was approved by the two governments as a first stage in order to facilitate subsequent second-stage construction of the system to provide access to U.S. reserves at Prudhoe Bay on the North Slope of Alaska and possibly also to Canadian reserves in the Mackenzie Delta region. Beginning at a point near Caroline, Alberta, some l05 km (63 mi) north of Calgary, the two legs stretch for a distance of 2 992 km (1,858 mi) to carry gas to markets in Southern California and the U.S. Mid-West. These pre-built segments comprise around one-third of the total proposed main-line system, which would be some 7 720 km (4,790 mi) in length.

Second-stage construction of the system to accomplish its primary objective of providing access to U.S. reserves on the Alaskan North Slope was put on hold for an indefinite period beginning in 1982 as a result of the onset of a severe economic recession and depressed gas market conditions. These problems were subsequently compounded by the development of what was widely regarded as a large but temporary surplus of U.S. gas supplies in the lower 48 states. The pre-built southern segments of the pipeline, which had an initial capacity to transport up to 37 million cubic metres of gas a day (1.3 bcf/d), for some years continued to operate well below capacity because of these same factors — particularly the Eastern Leg. As a result of growing U.S. demand for gas, however, both Legs have been operating at or close to capacity in recent years. As a result, sponsors on both sides of the border have been actively pursuing plans to reinforce the operating capability of the system and/or to expand and extend its throughput capacity. Following is an outline of these developments on both sides of the border.

The Western Leg — U.S. Developments

Plans developed by Pacific Gas Tranmission (PGT) and its affiliate, Pacific Gas and Electric (PG&E), for nearly quadrupling the capacity of the Western Leg of the Alaska Natural Gas Transportation System in the United States — increasing it from some 6.8 million cubic metres a day (240 million cubic feet a day — mmcf/d) to around 26.4 million cubic metres daily (932 mmcf/d) — continued to work their way through the regulatory process. The proposed expansion to accommodate an increase in Canadian gas imports for delivery to California and the Pacific Northwest is subject to the approval of the Federal Energy Regulatory Commission (FERC) with respect to the interstate portions of the pipeline and to the California Public Utilities Commission (CPUC) with respect to the intrastate aspects of the project. The two companies propose to add some 1 400 km (845 mi) of 1 067 and 914 mm loops (42 and 36 inches) to their existing system at an estimated cost of $1.2 billion (U.S.) to achieve the planned increase in throughput capacity.

Over the course of the past few years, several companies — including PGT/PG&E — have been vying with each other for the right to transport increased gas to meet growing demands in California and other western states. While three of the proposed projects would utilize domestic U.S. gas, one of the other proposals also involves increased imports of Canadian gas. The Altamont Gas Tranmission Project, which includes Petro-Canada among its partners, filed a proposal in July, 1989, to transmit some 19.8 million cubic metres of gas a day (700 mmcf/d) southward to Wyoming to connect with the proposed Kern River Gas Transmission Co., which would subsequently carry the gas on to markets in California.

In a decision brought down in February, 1990, the CPUC decided to leave it to market forces to determine whether one or more of the projects were economically and financially viable, rather than make its own choice between competing proposals. (In May, 1990, the FERC called a technical conference to consider a variety of aspects of the applications under the conventional Section 7 (c) of the U.S. *Natural Gas Act* submitted by PGT/PG&E and Altamont. The Altamont application was subsequently dismissed without prejudice on the grounds that it was deficient in providing certain essential information. Altamont, however, still has an application before the FERC under the new optional certificate procedure established by the Commission. At the time of writing of this report, the question of how the PGT/PG&E application would be handled still remained undetermined.)

— Canadian Developments

During the fiscal year, extensive discussions were held between Foothills Pipe Lines Ltd. and the Alberta Natural Gas Company Ltd. (ANG) with respect to the contemplated expansion in the Western Leg in Canada to provide the increased throughput capacity required to transport the nearly fourfold increase in imports of Canadian gas through the Alaska Highway Pipeline System being planned by PGT/PG&E. ANG, which is owned to the extent of 49 per cent by PGT, in turn owns a 49 per cent interest in Foothills (South B.C.). As initially constructed, the prebuild consists of four loops on the ANG pipeline that are owned by Foothills. These loops consist of 87.8 km (54.6 mi) of 914 mm (36-inch) pipe. Compression is provided by ANG as part of the integrated system.

(In May, 1990, Foothills and ANG made submissions to the Northern Pipeline Agency and the National Energy Board, respectively, that would have the effect of increasing the throughput capacity of the Western Leg in South B.C. by some 26.4 million cubic metres daily (932 mmcf/d) from its current level of 6.8 million cubic metres (240 mmcf/d) at an estimated cost of $167 million. Foothills proposed to add another 77.1 km (47.9 mi) of 1 067 mm (42-inch) pipe to close out almost entirely the existing four loops, which are smaller in diameter than the proposed new pipe sections. The Foothills submission to the NPA was contained in two proposed addenda to the System Design Report for the Alaska Highway Pipeline Project, one of which was to accommodate the increased imports sought for tranmission via PGT and the other to provide capacity to increase exports of Pan-Alberta Gas Ltd. to Southern California from the prevailing level of 6.8 million cubic metres daily (240 mmcf/d) to 8.5 million cubic metres (300 mmcf/d). Foothills proposed to install an additional ll km (6.8 mi) of looping only if the increase in capacity were required solely to provide the higher throughput requested by Pan-Alberta.

(Because it is subject to its regulatory jurisdiction, ANG filed an application with the NEB to install three new compressor units and make other modifications to its system to accommodate the proposed increase in capacity.

(At present, the pre-built portion of the Western Leg in Alberta consists of three loops on the NOVA pipeline system. In its submission to the Northern Pipeline Agency, Foothills said that in order to provide the necessary increase in throughput capacity on the Alberta portion of the Western Leg, it would be necessary for the NOVA system to be expanded.

(In July, 1990, a Canadian law firm acting on behalf of Altamont, which as noted earlier also proposes to export additional Canadian gas to western U.S. markets, filed a notice with the NEB and the NPA of its objection to the regulatory process under which Foothills and ANG proposed to pursue the planned expansion of the Western Leg in South B.C.. Altamont argued that the related expansion proposed south of the border by PGT/PG&E was not part of the ANGTS and, by the same token, the expansion proposed by Foothills did not form part of the certificate granted to it under the *Northern Pipeline Act* for construction in Canada of the Alaska Highway Gas Pipeline. Consequently, Altamont contended, the entire expansion of the South B.C. system came under the sole jurisdiction of the National Energy Board. Subsequently, Altamont amended its objection to confine it to the expansion proposed to accommodate the increased capacity sought by PGT/PG&E, excluding the more limited expansion of capacity required to supply the increased throughput sought by Pan-Alberta. At the time of writing, the Board and the Agency were awaiting comments from Foothills and ANG and any other interested parties, together with any reply by Altamont, before determining how to respond to Altamont's notice of objection.)

The Eastern Leg — U.S. Developments

As noted in previous annual reports, Northern Border Pipeline Ltd., sponsor of the Eastern Leg in the United States, submitted an application under Section 7(c) of the *Natural Gas Act* to the FERC in November, 1987, for authority to expand substantially the capacity of the existing 1 326 km (822 mi) of the 1 067 mm (42-inch) line from the Canadian border near Monchy, Saskatchewan, to Ventura, Iowa, and to extend it some 600 km (370 mi) from its existing terminus to Tuscola, Illinois. The capacity of the proposed extension would have amounted to some 31 million cubic metres daily (1.1 bcf/d). In March, 1990, Northern Border announced that it was withdrawing this application and intended to file a new application under FERC's optional certificate procedure, which provides for an abbreviated regulatory review.

(In this revised application to the FERC that it filed in June, 1990, the company proposed to add seven additional compressor units and to extend the system some 600 km (370 mi) from Ventura to Tuscola with pipe of 762 mm (30-inch) diameter. Capacity on the existing system would be increased by approximately 10.6 million cubic metres a day (373 mmcf/d) to a total of 36.3 million cubic metres daily (1.28 bcf/d). The capacity of the extension would be around 12.7 million cubic metres daily (450 mmcf/d). Total cost was estimated at $373 million (U.S.). Because of greater demand than first anticipated, Northern Border announced in August that it proposed to amend its application to increase the pipe diameter of the extension to Tuscola to 914 mm (36 inches), which would increase costs by some $60 million. The company said the larger pipe would increase capacity of the extension to around 17 million cubic metres per day (600 mmcf/d) initially and ultimately to around 28.3 million cubic metres a day (1 bcf/d).

Even before the withdrawal of its 1987 application and its replacement by a new one, however, the status of Northern Border's expansion plans became clouded. This was the result of an announcement by the Natural Gas Pipeline Co. of America in February, 1990, that it intended to seek a connection at the Ventura terminus of the existing Northern Border line through a 242 km (150 mi) of 762 mm diameter (30-inch) pipe that would run southward to join with its existing system. In March, Northern Border announced that it declined to accept the proposed link because of the regulatory uncertainties it would create and the lack of precise information about Natural's potential suppliers and buyers of gas. Natural Gas countered later the same month by alleging Northern Border's position was "anti-competitive". (In June, 1990, Northern Border appealed to the FERC to issue a declaratory order spelling out just what obligations it had, if any, to construct and operate facilities for the delivery of gas to Natural, thus for the first time raising regulatory questions about the application of previously untested new procedures adopted in the United States as a further means of increasing industry competition.)

In addition to these expansion plans, Northern Border also continued to have an application before FERC for authority to install a new Compressor Station 10 on the existing system to accommodate certain increased Canadian gas imports totalling 4.2 million cubic metres a day (150 mmcf/d). This application had particular implications with respect to the implementation of the bilateral procurement agreement between Canada and the United States, as explained in a subsequent section.

— Canadian Developments

In its 1988-89 annual report, the Northern Pipeline Agency outlined a proposal by Foothills to install a new compressor station near Val Marie, Saskatchewan —

No. 393. The additional compressor unit was intended to provide increased operational security on the Eastern Leg and also to be available to provide some increase in throughput capacity. An addendum to the System Design Report submitted by the company to provide for the new station was approved in February, 1989, by Kenneth W. Vollman, a Temporary Member of the National Energy Board, who had been appointed by the Governor in Council to carry out the functions under the *Northern Pipeline Act* of Administrator and Designated Officer.

During the 1989-90 fiscal year, the Agency considered several submissions by Foothills in compliance with the terms and conditions of the *Northern Pipeline Act* and other regulations adopted under the authority of that legislation. These submissions covered a wide variety of technical, socio-economic and environmental aspects of the project. Some submissions also required the approval of the National Energy Board and/or the Minister responsible for the Northern Pipeline Agency, the Hon. Donald Mazankowski. In addition, the NPA implemented the procedures provided for in the 1980 agreement between Canada and the United States covering the procurement for the project of designated items — such as large-diameter pipe, compressor units and large valves and fittings. A subsequent section of this report outlines the issue that has arisen concerning the application of these procurement procedures to proposed expansions of the prebuild south of the border.

Foothills was authorized to commence preparation of the site in June, 1989, and to commence construction of the compressor station in August, a task that continued throughout the balance of the fiscal year. (The National Energy Board granted leave to open the station in July, 1990, following completion of construction and the required testing of the new facilities.)

In April, 1989, Foothills submitted plans to the National Energy Board for increasing throughput capacity on the Eastern Leg by removing existing restrictions on maximum operating pressure resulting from its current integration with the NOVA system in Alberta and the lower operating pressures of the natural gas liquids extraction plant at Empress, which is located near the Saskatchewan border. As noted in the NPA's previous annual report, Foothills proposed to eliminate most interconnections with the NOVA pipeline and to install decompression-recompression facilities adjacent to the Empress extraction plant that would enable it to increase the capacity of deliveries to the Eastern Leg in Saskatchewan by some 7.8 million cubic metres daily (275 mmcf/d). Effectively, this would amount to an increase in the throughput capacity of the Eastern Leg of about 25 per cent to 38.2 million cubic metres a day (1.35 bcf/d).

It is estimated that the existing system can be expanded to a maximum capacity of some 51 million cubic metres a day (1.8 bcf/d). In its Reasons for Decision of June, 1989, the Board concluded that the estimated cost of the new facilities of $34.5 million "are modest relative to the potential benefits that they could provide." (Installation of the new facilities was completed and leave to open granted by the Board in mid-November, 1990. In December, 1990, Foothills advised the Northern Pipeline Agency of its proposal to install two new compressor stations on the Alberta segment of the Eastern Leg in order to accommodate an increased throughput of gas to Empress requested by NOVA of some 16.35 million cubic metres a day (577 mmcf/d).)

In its previous annual report, the NPA noted that final terms of settlement had been reached in a long-running dispute between Pan-Alberta Gas Ltd. of Calgary, Alberta, and the United Gas Pipeline Co. The agreement provided for Pan-Alberta to assume United's rights and obligations as a shipper of up to 12.74 million cubic metres a day (450 mmcf/d) through Northern Border and for Enron Corp. of Houston, Texas, to assume United's 12.25 per cent stake in Northern Border equity. In a decision in September, 1989, the FERC upheld this new arrangement and rejected motions for a rehearing of the issue.

The Mackenzie Valley Pipeline Project

In August, 1989, the National Energy Board conditionally approved the applications by Esso, Gulf and Shell for authority to export 260 billion cubic metres (9.2 tcf) of Canadian gas from the Mackenzie Delta over a 20-year period beginning in 1996. In keeping with its announced intention, Foothills in October, 1989, submitted an application to the Board to build a 1 646 km (1 023 mi) pipeline of 864 mm (34-inch) diameter from the Delta to a point near Boundary Lake, which lies between Northern B.C. and Alberta.

In a letter sent at the same time to the Commissioner of the Northern Pipeline Agency, Foothills advised that it intended at a later date to seek NPA authorization for an extension of the prebuild from its present northern terminus near Caroline, Alberta, to link up with the Mackenzie Valley Pipeline near Boundary Lake. This proposed extension would involve building some 656 km (407 mi) of 1219 mm (48-inch) along the route proposed for the Alaska Highway Gas Pipeline, which initially would be capable of transporting 34 million cubic metres a day (1.2 bcf/d) of gas from the Delta to southern markets in the United States and Canada. Cost of the entire pipeline was estimated at $4.4 billion in 1988 dollars, excluding the cost of funds used during construction.

The application submitted by Foothills for authority to build the proposed Mackenzie Valley Pipeline was, as the company emphasized, put forward as a possible alternative to the original proposal to provide access to Canadian gas in the Mackenzie Delta Region through a so-called Dempster Lateral. This pipeline would extend southwestward from the Delta to hook up with the main line of the proposed Alaska Highway Gas Pipeline at Whitehorse, capital of the Yukon Territory. This would involve construction of a 1 200 km (740 mi) pipeline of 864 mm (34 inches) in diameter capable of transporting up to 34 million cubic metres of gas a day (1.2 bcf/d).

On the recommendation of the National Energy Board, the federal government in 1978 entered into an agreement with Foothills under which the company assumed an obligation to build the Dempster Lateral if it were subsequently approved by the NEB. At the time, it was assumed that access to Canadian gas in the Delta Region would only be sought at some time after the pipeline to Prudhoe Bay had become operational. The move by the three owners of Mackenzie Delta reserves to seek markets for their gas at a time when plans for completing access to Prudhoe Bay reserves remained on hold prompted Foothills to formulate its alternative plan for a Mackenzie Valley Pipeline. Construction of the proposed line to join with an extension of the Alaska Highway Pipeline connecting with the pre-built Eastern and Western Legs at Caroline, Alberta, could also facilitate ultimate completion of the main-line system to Prudhoe Bay.

(Under the Dempster Agreement, it was provided that the obligations assumed by Foothills would expire no later than April 13, 1990. Following a series of discussions with the company, it was mutually agreed to extend the agreement unchanged for an additional term of up to 10 years. The extension of the agreement to the year 2000 was signed on behalf of the federal government by the Hon. Jake Epp, Minister of Energy, Mines and Resources, and the Hon. Don Mazankowski, the Minister responsible for the Northern Pipeline Agency. "This agreement will help Canada keep its future energy options open," Mr. Epp said in a press release covering announcement of the extension that was issued on April 12, 1990.)

In November, 1989, the NEB announced that, following a preliminary review, it would defer further consideration of Foothills' Mackenzie Valley Pipeline application until additional information had been filed by the company. This included submissions relating to such matters as the final route, socio-economic, environmental and geotechnical assessments, pipeline design, upstream and downstream connecting facilities, a cost-benefit analysis, evidence regarding gas supply and markets, transportation contracts, financing considerations and the proposed tariff. Notwithstanding the deferral by the Board, Foothills continued extensive discussions with a number of other parties interested in participating in the ownership and management of the proposed new pipeline.

Meanwhile, the necessary approval by the Governor in Council of the Mackenzie Delta gas export licences authorized by the Board in August, 1989, was also put on hold following two court decisions which, in effect, required that federal departments and agencies comply with the federal government's own Environmental Assessment and Review Guidelines. In February, 1990, Mr. Epp, the Minister of Energy, Mines and Resources, wrote to the NEB Chairman, Roland Priddle, to advise him that the government intended to withhold approval of a number of authorizations issued by the Board, including the Delta gas export licences, pending receipt of advice on whether the Board had complied with these guidelines and, if not, how it intended to comply. Later that same month, Mr. Priddle informed the Minister that the Board proposed to conduct an environmental screening of the licences in question, as well as relevant applications received in future. In the case of the proposed export of Mackenzie Delta gas, the Board directed the three companies to file submissions with respect to environmental questions by August, 1990, following which further time was provided to other interested parties to submit comments on the submissions by Esso, Gulf and Shell and an additional period for those companies to respond.

Application of the Bilateral Agreement on Procurement

In formulating the 1977 agreement between Canada and the United States on the Alaska Highway Gas Pipeline, representatives of the U.S. government stressed the importance of developing a variety of means of ensuring that the proposed system would be built as efficiently and cost-effectively as possible. As one means of achieving that goal, the agreement provided in Section 7 that each government would seek to ensure that the supply of goods and services to the project would be "on generally competitive terms." To help accomplish that particular objective, the two governments signed an agreement in June, 1980, that was intended to give potential U.S. and Canadian suppliers of certain designated items — large-diameter pipe, compressor units and large valves and fittings — a fair opportunity to compete for contracts on both sides of the border. The agreement designated the Northern Pipeline Agency and its U.S. counterpart, the Office of the Federal Inspector, as the bodies responsible for implementing the procedures the two governments had undertaken to establish "on a reciprocal basis." This process was fully complied with on both sides of the border when procurement of these designated items was being undertaken for the prebuilding of the Eastern and Western Legs in the early 1980s. The process was also invoked by Canada more recently in connection with construction of Compressor Station 393 in Saskatchewan to provide increased security of operation on the Eastern Leg.

In the United States, there were growing indications that a different view was being taken of the relationship of proposed expansions in the capacity of the Eastern and Western Legs of the *Alaska Natural Gas Transportation Act* (ANGTA), under which the pre-built facilities had originally been authorized by the President and Congress, and, therefore, of the applicability of the bilateral procurement agreement between the two governments.

In a report to Congress in October, 1988, the then-Federal Inspector noted that Northern Border had not sought authorization for a proposed expansion/extension of the Eastern Leg in the United States under ANGTA. He said the company had indicated the proposed increase in throughput capacity would not amount to a second-phase of the ANGTS "because it was 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 a subsequent report to Congress, the Office of the Federal Inspector indicated that a similar position had also been taken by PGT/PG&E in the case of its proposed expansion of the Western Leg in the United States. In its application to the Federal Energy Regulatory Commission, however, PGT said the proposed expansion would "complete the U.S. portion of the Western Leg of the ANGTS" and that the project would provide PGT's customers access to Alaskan gas.

The position of the U.S. sponsors only became directly linked to the related issue of the applicability of the 1980 Procurement Agreement through a letter written to the Acting Federal Inspector, Melvin Hurwitz, in January, 1990, by an official in charge of the proposed installation of a new Compressor Station 10 on Northern Border to enable it to transport increased Canadian imports. The letter from the company said the application for the compressor station "was not filed under ANGTA and did not purport to relate to, or be part of, the ANGTS prebuild because the economic justification and feasibility of the Station No. 10 addition is not, in any way, dependent upon potential throughput of Alaskan gas. Accordingly, the ... addition is not subject to the Principles (of the 1977 pipeline agreement) or the 1980 (procurement) Procedures."

In response by letter of late March, 1990, to the invitation from Mr. Hurwitz to comment on this submission, the Commissioner of the Northern Pipeline Agency, Donald W. Campbell, expressed his concern with regard to Northern Border's contention that the Procurement Agreement did not apply to the proposed new compressor station facilities.

(Replying the following month, Mr. Hurwitz said Northern Border had made it clear that it did not consider any part of its proposed expansion/extension plans formed part of the ANGTS. Given the considerable judicial and regulatory advantage that sponsors enjoyed under the *Alaska Natural Gas Transportation Act*, "decisions concerning ANGTS status by a sponsor should be conclusive in most situations," Mr. Hurwitz stated. "I see no reason why Northern Border's decision concerning its expansion and extension plans should be reconsidered."

(In a subsequent response in July, 1990, the Commissioner requested the opportunity to have consultations with U.S. representatives on the applicability of the 1980 Procurement Agreement as provided for both under that accord and under the 1977 Pipeline Agreement. In his report to Congress of August, 1990, the Acting Federal Inspector advised that he had had ongoing discussions with the NPA regarding the applicability of the procurement procedures to the Eastern Leg of the ANGTS in the United States. He noted also that the Commissioner had requested consultations on the issue, which were scheduled to take place in Washington the following month. As a result of those discussions, U.S. representatives subsequently agreed to refer the questions raised by Mr. Campbell for consideration by the Executive Policy Board, a body composed of senior officials from eight different federal departments and agencies that was established to provide a source of advice on issues involving the ANGTS.)

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

The increased pace of regulatory activities related to the pipeline that began in 1988-89 with the development of new plans by sponsors of the project for expansion and extension of existing facilities continued without abatement on both sides of the border during the past fiscal year.

As noted earlier, the Northern Pipeline Agency remained engaged in fulfilling its regulatory responsibilities in connection with the planning and construction of Compressor Station 393 on the Eastern Leg in Saskatchewan. Much of this task was overseen by Mr. Vollman, the Temporary Member of the National Energy Board who was first appointed as Administrator and Designated Officer under the provisions of the *Northern Pipeline Act* in December, 1988, until September, 1989. Mr. Vollman was subsequently reappointed for a three-year term. The Agency continued to be obliged to the National Energy Board for making available on a contractual basis the services of its staff as required to provide the NPA with all information and advice necessary to discharge its regulatory functions. Staff of the NEB also continued to provide administrative support services to the NPA. As in the past, the costs of all services provided by the Board have been billed to the Agency and are recovered subsequently from Foothills in the same manner as other NPA costs, as required under the *Northern Pipeline Act*.

As noted in the previous annual report, G.E. Shannon, who became Commissioner of the Northern Pipeline Agency in June, 1988 — in addition to serving as Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs, was posted to Geneva as of January 1, 1990, to become Canada's Ambassador for Multilateral Trade Negotiations and Chief Negotiator. He was succeeded as Commissioner of the Agency on December 1, 1989, by Donald W. Campbell, who also was appointed Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs.

During the year, the NPA's counterpart agency in the United States continued to be directed by B. Melvin Hurwitz as Acting Federal Inspector. (In early October, 1990, President George Bush announced that it was his intention to nominate Michael Joseph Bayer as Federal Inspector. Mr. Bayer has had extensive experience in the energy field in both the private and public sector, serving most recently as Manager of Washington Operations for the Panhandle Eastern Corporation. Mr. Bayer's appointment was subsequently confirmed by the Senate in late October and he was sworn in early in November.)

For the first time since 1982, Mr. Hurwitz in September, 1989, reactivated the Executive Policy Board (EPB), which — as was recalled earlier — is a body composed of senior officials from eight federal departments and agencies that was established to provide advice on policy matters involving the planning and construction of the ANGTS. As he subsequently informed Congress in one of the OFI's regular reports, Mr. Hurwitz stated at the opening session of the Board "that the time may be coming soon when North Slope gas is finally brought to market and that he believed it was important that this Board be in place and prepared to deal with ANGTS-related actions in an efficient manner." (In June, 1990, members of the EPB took a trip to Alaska to observe existing petroleum operations there and to be briefed on various issues by representatives of a number of companies with an interest in Alaskan oil and gas development and by Alaskan state officials.)

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, 1990, is reproduced as an appendix.

Estimates for 1989-90 provided $412,000 and two person-years for the operation of the Agency. Expenditure for the year totalled $210,000. 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, $161,000 was recovered from Foothills in keeping with the provisions of the *Northern Pipeline Act,* of which $38,000 related to prior year costs. In addition, $30,000 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.

Appendix

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, 1990. 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, 1990 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.

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

Ottawa, Canada
July 5, 1990

NORTHERN PIPELINE AGENCY

Statement of Expenditure and Receipts
March 31, 1990

	1990	1989
Expenditure (Note 3)		
Professional and special service	$107,087	$ 47,168
Salaries and employee benefits	79,763	116,086
Rentals	15,149	38,938
Travel and communications	3,712	5,248
Information	3,710	3,801
Materiel and supplies	650	667
Repair and upkeep	378	53
	210,449	211,961
Receipts		
Recovery of costs from Foothills Pipe Lines Ltd. (Note 4)	160,756	238,975
Easement fees	30,400	27,594
Other recoveries	1,832	658
	192,988	267,227
Excess of expenditures over receipts (Excess of receipts over expenditure)	$ 17,461	$ (55,266)

Approved by:

Commissioner

Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to Statement of Expenditure and Receipts
March 31, 1990

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 funded as follows:

	1990	1989
Parliamentary appropriations		
Transport		
Vote 25 (Vote 85 in 1989)—Program expenditure	$390,000	$356,000
Statutory—Contributions to employee benefit plans	22,000	32,000
	412,000	388,000
Amount not required	201,551	176,039
	$210,449	$211,961

4. Recovery of costs from Foothills Pipe Lines Ltd.

	1990	1989
Costs recoverable for the year		
Expenditure for the year	$210,449	$211,961
* Adjustment in respect of employee benefits	(12,123)	(18,967)
Other recoveries	(10)	(658)
Adjustment for non-recoverable costs	(1,822)	(902)
	196,494	191,434
Prior year cost recovered in the current year	37,731	85,272
Cost to be recovered in the following year	(73,469)	(37,731)
	$160,756	$238,975

* The Agency's share of employee benefits paid to the government for the current year, based on budgeted salary costs, has exceeded the actual employer's share. Costs recoverable for employee benefits have been adjusted to reflect a charge of 17.1% of actual salary expenditures. The latter percentage is in accordance with the Guide to the Costing of Outputs published by Treasury Board Canada in February 1989.

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, 1990 are estimated at $38,906 (1989—$33,101).

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, 1990 are estimated at $22,400 (1989—$22,400).

6. Reduction of activities

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