
NORTHERN PIPELINE AGENCY

**ANNUAL REPORT
1992-1993**

Canada



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

ANNUAL REPORT

1992-1993

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Ottawa, Ontario,
December 31, 1993.

Dear Madam:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1993, 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 Sections 13 and 14 of the *Northern Pipeline Act*.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Allen Kilpatrick', written in a cursive style.

R. Allen Kilpatrick,
Commissioner,
Northern Pipeline Agency.

The Honourable Anne McLellan, P.C., M.P.,
Minister of Natural Resources Canada
and Minister Responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.

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ALASKA HIGHWAY NATURAL GAS PIPELINE PROJECT



Overview

Spurred by continuing increases in U.S. demand for Canadian gas, sponsors of the Alaska Highway Gas Pipeline (AHGP) on both sides of the border brought forward new plans for the further expansion and reinforcement of the system during the fiscal year 1992-1993.

During the calendar year 1992, Canadian gas exports to the United States increased by more than 20 per cent, rising from 47.8 billion cubic metres (1.7 trillion cubic feet – tcf) to 58.02 billion cubic metres (2.1 tcf). This followed an increase in exports in 1991 of some 16 per cent. During the year, there was also a significant strengthening of natural gas prices as supply came into closer balance with demand.

The most substantial expansion was proposed by the Pacific Gas Transmission Co. (PGT), one of the sponsors of what is known in the United States as the Alaska Natural Gas Transportation System (ANGTS), which announced plans to increase its capacity to deliver Canadian gas to California and the Pacific Northwest by some 8.5 million cubic metres a day (300 million cubic feet a day – mmcf/d). The announcement of its intention preceded by several months the completion of an expansion already under way to enlarge the capacity of the interstate PGT system and the intrastate system in California of its parent company, Pacific Gas and Electric Co. (PG&E), to enable it to transport an additional 24.7 million cubic metres a day (872 mmcf/d), on an annual average basis, of Canadian gas to the western states.

The Canadian sponsor of the Alaska Highway Gas Pipeline in Canada, Foothills Pipe Lines Ltd., also brought forward plans for installation of a new compressor unit on the Eastern Leg of the pre-built system to provide back-up capacity in order to enable the system to continue operating close to its maximum at times when other compressors are closed down for maintenance or repairs.

Having resolved environmental concerns raised in connection with the approval by the National Energy Board (NEB) in 1989 of the export of 260 billion cubic metres (9.2 tcf) of natural gas from the Mackenzie Delta over a 20-year period beginning in 1996 by Esso, Gulf and Shell, the federal government authorized the Board in March, 1993, to issue licences for the proposed exports. As in the case of the proposed second-stage construction of the Alaska Highway Gas Pipeline to provide access to natural gas reserves at Prudhoe Bay on the North Slope of Alaska, plans for pushing forward with development of the Mackenzie Delta project remained on hold as a result of a prevailing view that market conditions were unlikely to be economically favourable for development of either Canadian or U.S. Arctic reserves at least before the turn of the century.

Major Developments Involving The Alaska Highway Gas Pipeline Project

The Prebuild

The Western Leg

As noted in the previous section and described in some detail in the NPA's last annual report, work proceeded in both Canada and the United States during 1992-93 to more than triple the capacity of the Western Leg of the AHGP. Through the installation of additional pipe and compression, the volume of Canadian gas that can be transported through the system for delivery to California and the Pacific Northwest was in the process of being increased to match the expanded capacity on the PGT system as of the beginning of November, 1993. In South B.C., the expansion of the delivery system was being undertaken jointly by Foothills Pipe Lines Ltd., Canadian sponsor of the AHGP, and by the Alberta Natural Gas Co. (ANG). In May, 1992, the NPA's Designated Officer approved an addendum to the System Design Report authorizing Foothills to proceed with expansion of the pipeline and the National Energy Board approved the associated increase in compression proposed by ANG. During the year, Foothills undertook preparations for linking together its four existing loops on the ANG system. In early March, 1993, the Alberta Energy Resources Conservation Board brought down an interim decision approving the additional compression and pipeline loops planned by NOVA to enable it to deliver to the Alberta-B.C. border the additional volumes of gas required for export to the United States.

In February, 1993 – several months before this major expansion of the Western Leg was due for completion – Stephen Reynolds, President of PGT, disclosed the intention of his company to further increase the capacity of the system by another 8.5 million cubic metres daily (300 mmcf/d). (In August, 1993, PGT submitted an application to the U.S. Federal Energy Regulatory Commission (FERC) for a permit to undertake the proposed expansion, which is being undertaken to enable PGT to increase deliveries of Canadian gas to the Pacific Northwest, northeastern California and Nevada as of November, 1995. In its application, PGT stated that about one-third of the additional gas would be delivered at Malin, Oregon, to a new pipeline to be built by Tuscarora Gas Transmission Co. for onward transmission to the northeast corner of California and to Reno, Nevada. Tuscarora is to be built by a partnership made up of TransCanada PipeLines Ltd., Canada's largest pipeline system, and Sierra Pacific Resources. In its application to FERC, PGT said the proposed new expansion "is inextricably related to, and dependent upon, PGT's 1993 Pipeline Expansion Project facilities currently under construction." In October, 1993, ANG applied to the National Energy Board for authority to add two new compressor units in order to expand the capacity of its own system by up to 10.25 million cubic metres a day (362 tcf) to meet increased demand from PGT and from a B.C. utility.)

The Altamont Pipeline

In July, 1991, Altamont Gas Transmission Canada Ltd. (Altamont Canada) filed an application with the National Energy Board for authority to install a 300-metre section of pipe at the Alberta-U.S. border. This short section was being proposed to link together a 217 km (135 mi) line to be built by NOVA from Princess, Alberta, (a change from the original departure point proposed at Empress) for delivery of 20.8 million cubic metres a day (736 mmcf/d) of Alberta gas with a 1 000 km (620 mi) line to be built south of the border by Altamont Gas Transmission Co. to connect with the Kern River Gas Transmission system at Opal, Wyoming, for subsequent transmission of the gas to California. In its application to the NEB, Altamont Canada represented the proposed Altamont system as one that was in competition with the proposed expansion in exports through the Western Leg by PGT/PG&E.

In April, 1992, the NEB announced that before examining the merits of the Altamont application it intended to consider a preliminary question of jurisdiction – namely, whether the proposed Altamont Canada facilities were part of a larger extraprovincial work that included the proposed line to be built by NOVA, which would be subject to federal jurisdiction and regulation by the NEB.

In its Reasons for Decision issued in February, 1993, following a written review of the issue, the NEB concluded that the NOVA line was subject to federal jurisdiction because, together with the proposed Altamont Canada line, "it is one work connecting the Province of Alberta to the United States of America." While the Board noted that Altamont Canada was free to file a new application with the Board that included the Alberta line, the company's initial response was to file an appeal against the NEB decision in the Federal Court. (In late April, 1993, however, it was disclosed in a press release issued by NOVA that Altamont had withdrawn its application to the Federal Court and it was announced that NOVA and the Altamont Gas Transmission Co. had signed a letter of understanding. The press release stated that "under the terms of the letter, NOVA or an affiliate will make all necessary regulatory filings and pursue approvals on the Canadian portion of the pipeline project." The statement added that NOVA would work closely with Altamont in connection with the construction, ownership and operation of the Canadian line and with regard to all future submissions to Canadian and U.S. regulatory authorities.)

The Eastern Leg

In late 1992, Foothills brought into service two new compressor stations on the Eastern Leg in Alberta, modified an existing station, and added a partial third train to the decompression-recompression facilities at Empress associated with the extraction of natural gas liquids. As a result, the throughput capacity of the Eastern Leg in Alberta was increased from 42.41 million cubic metres a day (1.5 billion cubic feet – bcf/d) to 58.76 million cubic metres daily (2.07 bcf/d). With minor modifications to existing compressor units in Saskatchewan, capacity on the Eastern Leg in that province was increased from 35.14 million cubic metres a day (1.23 bcf/d) to 41.93 million cubic metres a day (1.48 bcf/d).

In December, 1992, Foothills sought the approval of the Designated Officer, Roy Illing, for a proposed Addendum 6 to the System Design Report, which would authorize the company to install a second compressor at Station 394 near Monchy, Saskatchewan. In its application, Foothills said that initially the primary role of the new compressor unit would be to provide back-up service in the event of a shut-down of either the existing unit at Station 394 or of other upstream compressor units on the Saskatchewan segment of the system either as a result of a breakdown or for regular servicing. The company pointed out that this existing unit at Station 394 was the most critical on that part of the Eastern Leg, in part because it provides the increased pressure required for delivery of Canadian gas to Northern Border, which is the sponsor of the Eastern Leg in the United States. Foothills anticipated that by 1995 it was probable there would be a significant increase in demand for Canadian gas deliveries for export via Northern Border, at which time the proposed new compressor unit would be utilized to expand throughput capacity of the system in Saskatchewan. In late January, 1993, Mr. Illing approved the Addendum authorizing installation of the new compressor unit, which is planned to be in service by September, 1994.

Canadian and U.S. Regulatory Developments

There were a number of changes on the regulatory front on both sides of the border during the fiscal year. As noted in the previous annual report, legislation enacted by Congress in the latter part of 1992 had the effect of winding up the Office of the Federal Inspector, counterpart of the Northern Pipeline Agency, and transferring its responsibilities to the Secretary of Energy. While that function briefly was undertaken by the incumbent of that office in the Bush Administration, Admiral James D. Watkins, the election in November, 1992, of a new Administration under President Bill Clinton led to the nomination of the Hon. Hazel O'Leary as the new Secretary of Energy, an appointment that was confirmed by the Senate on January 21, 1993. Mrs. O'Leary has extensive experience in many facets of the energy industry, most recently as Executive Vice-President of Northern States Power Company.

In Canada, Roy Illing, a Member of the National Energy Board, was appointed Administrator and Designated Officer of the Northern Pipeline Agency in October, 1992, succeeding Kenneth Vollman. (In mid-April, 1993, R. Allen Kilpatrick was appointed Commissioner of the Northern Pipeline Agency, succeeding Donald W. Campbell, who became Canada's Ambassador to Japan. Some months earlier, Mr. Kilpatrick, formerly Deputy Minister of Western Economic Diversification Canada, replaced Mr. Campbell in his other role of Deputy Minister for International Trade and Associate Under-Secretary of State for External Affairs.) The Rt. Hon. Joe Clark, President of the Privy Council, continued to be the Minister responsible for the Northern Pipeline Agency during the fiscal year.

During 1992-93, the major focus of the Northern Pipeline Agency was on carrying out its regulatory responsibilities in connection with the expansion by Foothills of the Western Leg of the Alaska Highway Gas Pipeline in South B.C. and in considering the further addendum to the System Design Report proposed by the company to install a new back-up compressor unit at Station 394 on the Eastern Leg in Saskatchewan. As has been the case for some years, the Agency continued to rely heavily on the staff of the National Energy Board for the provision on a contractual basis of technical information and advice, together with administrative support services. The Board is reimbursed for all of these services by the Agency, the costs of which are in turn recovered from Foothills.

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, 1993, is reproduced as an appendix.

Estimates for 1992-93 provided \$469,000 for the operation of the Agency. Expenditure for the year totalled \$195,000. At year end, only one full-time employee was on staff. The National Energy Board provides administrative support as well as technical information and advice, 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, \$205,000 was recovered from Foothills in keeping with the provisions of the *Northern Pipeline Act*, of which \$117,000 related to prior year costs. In addition, \$30,400 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 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 audited the statement of net recoverable expenditure and receipts of the Northern Pipeline Agency for the year ended March 31, 1993. This financial statement is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial statement based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, this financial statement presents fairly, in all material respects, the net recoverable expenditure and receipts of the Agency for the year ended March 31, 1993 in accordance with the accounting policies set out in Note 2 to the statement.

D. Larry Meyers, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
November 19, 1993

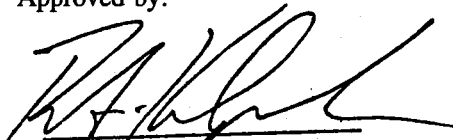
NORTHERN PIPELINE AGENCY

Statement of Net Recoverable Expenditure and Receipts

for the year ended March 31, 1993

	<u>1992-93</u>	<u>1991-92</u>
<u>Expenditure</u>		
Professional and special service	\$ 98,470	\$ 79,972
Salaries and employee benefits	61,513	67,600
Rentals and office accommodation	21,258	19,905
Information	8,414	3,725
Travel and communications	4,467	2,445
Material, supplies and maintenance	942	1,685
Office equipment	-	3,942
Expenditure funded by parliamentary appropriations	195,064	179,274
Less: Non-recoverable portion of employee benefits	<u>(345)</u>	<u>(6,324)</u>
Net recoverable expenditure (Note 3)	<u>\$194,719</u>	<u>\$172,950</u>
<u>Receipts</u>		
Recovery of net recoverable expenditure from Foothills Pipe Lines Ltd. (Note 3)	\$204,901	\$156,327
Easement fees (Note 4)	<u>30,400</u>	<u>30,400</u>
	<u>\$235,301</u>	<u>\$186,727</u>

Approved by:


Commissioner


Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to the Statement of Net Recoverable Expenditure and Receipts

for the year ended March 31, 1993

1. Authority and objective

The Agency was established in 1978 by the Northern Pipeline Act. 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.

The Agency's expenditure is funded by parliamentary appropriations. However, in accordance with the Act and the National Energy Board Cost Recovery Regulations, the Agency is required to recover all its annual operating costs from the companies holding certificates of public convenience and necessity issued by the Agency. Currently, Foothills Pipe Lines Ltd. is the sole holder of such certificates.

Receipts are deposited to the Consolidated Revenue Fund and are not available for use by the Agency.

On May 1, 1982, the United States sponsors for 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 scaled down their activities.

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 when paid. Capital acquisitions are charged to expenditure in the year of purchase. Expenditure also includes costs incurred on behalf of the Agency by government departments.

Receipts

Receipts are recorded on a cash basis.

Employee 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 upon separation of 13% of their gross salary earned during their period of service.

NORTHERN PIPELINE AGENCY

Notes to the Statement of Net Recoverable Expenditure and Receipts

for the year ended March 31, 1993

3. Account with Foothills Pipe Lines Ltd.

	<u>1992-93</u>	<u>1991-92</u>
Net recoverable expenditure	<u>\$194,719</u>	<u>\$172,950</u>
Less: Current year recovery	(204,901)	(156,327)
Less: Current year recovery applicable to prior year	<u>116,687</u>	<u>100,064</u>
	<u>(88,214)</u>	<u>(56,263)</u>
Balance recoverable at year-end	<u>\$106,505</u>	<u>\$116,687</u>

Recovery of expenditure from Foothills Pipe Lines Ltd. is based on quarterly billings.

4. Liability to the Government of the Yukon Territory

The Agency owes an amount of \$11,224 to the Government of the Yukon Territory which pertains to the Government's share of the easement fee collected from Foothills Pipe Lines Ltd. since the 1989-90 fiscal year.

5. Related party transactions

The expenditure includes \$100,998 (1991-92 \$76,781) for the cost of services by other federal government departments and agencies. Professional and special services and office accommodation represent the main services provided by the related parties.