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# **NORTHERN PIPELINE AGENCY**

**ANNUAL REPORT  
1993-1994**

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Canada



Northern Pipeline Agency  
Canada

Administration du pipe-line du Nord  
Canada

# **ANNUAL REPORT**

## **1993-1994**

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Ottawa, Ontario,  
December 31, 1994.

Dear Madam:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1994, 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', with a stylized, sweeping flourish at the end.

R. Allen Kilpatrick,  
Commissioner,  
Northern Pipeline Agency.

The Honourable A. 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



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# Overview

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The fiscal year 1993-1994 marked the coming into service of a major expansion in the capacity of the Western Leg of the Alaska Highway Gas Pipeline in South B.C. and continuing work on the installation of a new compressor unit to increase the security of the Eastern Leg.

Although the volume of Canadian natural gas exported to the United States continued its long upsurge, rising by more than 8.5 per cent in 1993 to a total of some 63 billion cubic metres (2.2 trillion cubic feet – Tcf), demand pressures were more moderate in areas served by the two pipeline legs in the western and mid-western United States.\*

As of November, 1993, the throughput capacity on the Western Leg on both sides of the border was increased by some 24.7 million cubic metres a day (872 million cubic feet – MMcf/d) as a result of major additions to pipelines and compression facilities. Subsequent plans to further increase capacity by an additional 8.5 million cubic metres daily (300 MMcf/d) commencing in 1995 were put on hold, however, when it became apparent that prospective market demand for Canadian gas could be supplied by realigning available capacity in the existing pipeline system.

On the Eastern Leg, Foothills Pipe Lines Ltd., sponsor of the Alaska Highway Gas Pipeline in Canada, continued work on the installation of a back-up compressor unit at Station 394 near Monchy, Saskatchewan (which came into service in August, 1994).

There was no change during the fiscal year in the status of the proposed second-stage development of the project to extend the existing system to Prudhoe Bay on the North Slope of Alaska, which continued to remain on hold due to adverse market conditions.

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\* National Energy Board, 1993 Annual Report.

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# **Major Developments Involving The Alaska Highway Gas Pipeline Project**

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## **The Prebuild**

### **The Western Leg**

As indicated in the last Annual Report, Pacific Gas Transmission (PGT) in the United States and the Alberta Natural Gas Co. (ANG) in South B.C. applied to their respective regulatory authorities in the latter part of 1993 for permission to increase further their throughput capacity by some 8.5 million cubic metres daily (300 MMcf/d) as of November, 1995. (This proposed expansion was in addition to the increase in throughput capacity of some 24.7 million cubic metres a day (872 MMcf/d) placed in service on November 1, 1993.) While ANG proposed to provide this additional capacity in part through the installation of more compressor units, it was anticipated that it would also utilize available capacity on the expanded line of Foothills Pipe Lines Ltd. (Canadian sponsor of the Alaska Highway Gas Pipeline Project) in South B.C., which is physically integrated with the ANG system.

The proposed project encountered stiff resistance from a number of sources. In a letter to the National Energy Board (NEB) in November, 1993, the Canadian Association of Petroleum Producers (CAPP) contended that changed market conditions in the western United States, together with the potential for capacity assignments on the already expanded system, raised serious doubt as to whether further investment in increased throughput capacity was required.

In mid-March, the NEB announced that it had decided to postpone until May a public hearing on the ANG application previously scheduled to be held in the latter part of March "in light of continuing efforts aimed at realigning capacity on the ANG system." (Toward the end of April, ANG announced that it was withdrawing its application because "sufficient arrangements have been made which obviate the need for any new ANG facilities to accommodate the Company's contracted requirements of the 1995 expansion shippers.")

### **The Eastern Leg**

As outlined in previous annual reports, Foothills installed three new compressor stations between 1990 and 1992 on the Eastern Leg – one in Saskatchewan and two in Alberta – to increase the reliability of the system and to meet increased demand for throughput capacity. In January, 1993, the Administrator and Designated Officer of the Northern Pipeline Agency approved an addendum to the System Design Report allowing Foothills to proceed with the installation of a new security compressor unit at Station 394 near Monchy, Saskatchewan, close to the U.S. border.

The new compressor unit is intended to provide back-up capability in the event of a shutdown of other compressors on the Eastern Leg either because of equipment failure or for regular



servicing. During the 1993-94 fiscal year, the company moved ahead with installation of the new unit under the regulatory supervision of the Agency. (Work on the new unit was completed and the additional compressor ready for operation by August, 1994.)

A rupture of the Eastern Leg pipeline approximately 35 km north of Maple Creek, Saskatchewan, in mid-February, 1994, resulted in an outbreak of burning gas and interruption of gas flows until repairs could be carried out. As a result of subsequent investigation, Foothills concluded that the rupture of the pipe was caused by what is termed hydrogen-induced cracking, a very rare occurrence in North American pipelines carrying natural gas with a low sulphur content and the only case resulting in a rupture rather than a leak. The Transportation Safety Board's report on its investigation of the rupture remained pending at year's end.

## **Revision of Prebuild Regulatory Requirements**

In March, 1994, the Administrator and Designated Officer of the Agency advised Foothills that the NPA was exploring ways of streamlining the regulatory process as it applied to the prebuild Eastern and Western Legs of the pipeline. As a result of that internal review, it was proposed that orders prescribing the technical filing requirements for Prebuild construction projects be revoked.

The review indicated that the application of these orders in recent years had resulted not only in a degree of overlap with the National Energy Board's filing requirements, but also imposed technical requirements that in some areas exceeded those of the Board for comparable pipeline projects under its regulation. It was proposed that filing requirements relating to future Prebuild expansions be established on a project-by-project basis. (The proposed revision was adopted following the end of the fiscal year covered by this report.)

## **Wild Horse Pipeline Project**

As outlined in previous annual reports, Altamont Gas Transmission Canada Ltd. (Altamont Canada) in July, 1991, filed an application with the National Energy Board for authority to construct a 300-metre section of pipe at the Alberta-U.S. border.

In April, 1992, the Board announced that it intended to consider a preliminary question involving jurisdiction over the proposed lateral to be built by NOVA to connect with Altamont Canada's 300-metre link at the border. In February, 1993, the Board concluded that the NOVA lateral was subject to federal, rather than provincial, jurisdiction.

While Altamont initially filed an appeal against the decision in the Federal Court, in April, 1993, NOVA announced that this appeal had been withdrawn and that, in keeping with a letter of understanding, NOVA or an affiliate would submit all necessary regulatory filings and work together with Altamont in connection with the construction, ownership and operation of the system in Canada.

(In June, 1994, Foothills Pipe Lines Ltd. submitted an application to the National Energy Board on behalf of Foothills Pipe Lines (Alta.) Ltd. for approval of the Wild Horse Pipeline Project. The proposed facilities would consist of a 215.5 km (134 mi) line that would connect with the NOVA Gas Transmission system at Princess, Alberta, and the proposed Altamont Gas Transmission system at a point on the Canada-U.S. border near Wild Horse, Alberta. The Wild Horse line would have the capacity to export up to 20.9 million cubic metres of gas a day (735.5 MMcf/d) to serve markets in the United States and northern Mexico commencing in November, 1996.

(Foothills advised the NEB that no physical connection between the Eastern Leg of the Prebuild and the proposed Wild Horse Pipeline was planned during initial construction and confirmed that any such interconnection was outside the scope of its application. The Wild Horse development is separate and distinct from the Alaska Highway Gas Pipeline Project and, therefore, does not come within the ambit of the *Northern Pipeline Act* nor under the jurisdiction of the

Northern Pipeline Agency. The NEB held public hearings on the Wild Horse Pipeline application in October, 1994, and expects to release its decision in early 1995.)

## **Foothills' Tolls**

Following a public hearing in August and September, 1993, in response to requests within the industry for a review of Foothills' capital structure and rate of return on common equity, the National Energy Board issued its Reasons for Decision in late November.

In addition to these broader issues, the Board also dealt with two aspects involving Foothills' tolls that related to the genesis of the project and its subsequent development. These were a Special Charge to provide for the recovery of a portion of the company's expenditures on the planned second stage of the project in Canada to the Yukon-Alaska border, and the provision for an Incentive Rate of Return Scheme (IROR) as provided for under the 1977 Canada-U.S. Pipeline Agreement.

In 1982, the NEB approved a four per cent amortization rate for this Special Charge covering some \$124,162,000 of expenditures by the company on Phase II development of the project. In its Reasons for Decision, the Board essentially concurred with the argument of the Canadian Association of Petroleum Producers (CAPP) that the rate of depreciation applying to the Special Charge should not exceed that covering plant in service generally. In 1989, that latter rate was reduced from four to two per cent and is slated to increase to three per cent by 1996. The NEB agreed in its 1993 decision to reduce the amortization rate for the Special Charge to two per cent until such time as the accumulated amortization was equal to that which would have resulted if a three per cent depreciation rate had applied from the beginning. The decision indicated this point would be reached in 2003, at which time the amortization rate for the Special Charge would be raised to three per cent.

Under the Incentive Rate of Return Scheme, sponsors of the pipeline in both Canada and the United States were allowed a higher rate of return than otherwise would be the case if they completed various segments of the project at costs that matched or were below the final design cost estimate approved by the respective Canadian and U.S. regulatory authorities. This incentive rate of return was provided through a one-time adjustment to each company's rate base.

While Foothills argued during the 1993 hearing, with the support of all intervenors, that the IROR should not apply to expansions of the Prebuild that have occurred since 1982, the Board indicated it remained unclear whether this position could be supported under the terms of the *Northern Pipeline Act* or the Canada-U.S. Agreement. Consequently, the Board agreed to accept Foothills' position as an interim measure, while at the same time reserving the right to review that decision at a later date.

## **Foothills' Revised Corporate Status**

Early in March, 1994, the Board of Directors of NOVA Corporation of Alberta announced approval of a reorganization that would alter the position of Foothills in the corporate structure. Under the plan, NOVA was to be divided into four separate companies wholly owned by a new public company known as NOVA Corporation.

As part of the plan, the 50 per cent ownership of Foothills Pipe Lines Ltd. held by the existing NOVA company (the remaining 50 per cent is owned by Westcoast Energy Inc.) would be transferred to one of the four new subsidiary companies – NOVA Gas Services Ltd. In compliance with the provisions of the *Northern Pipeline Act*, Foothills subsequently sought the approval of the National Energy Board and the Governor in Council for an amendment to its Shareholders Agreement. As part of the amending document, NOVA Gas Services Ltd. agreed to be bound by the same undertakings and commitments as were made by the original shareholding companies. (Early in the new fiscal year, the proposed amendment to the Agreement was approved by the Board and the Governor in Council.)

## **The Northern Pipeline Agency**

During 1993-94, the Northern Pipeline Agency's (NPA) primary focus was on overseeing planning and construction of additional pipeline in South B.C. on the Western Leg and the installation of a new compressor unit at Station 394 on the Eastern Leg in Saskatchewan. These responsibilities came under the direction of Roy Illing, the Agency's Administrator and Designated Officer, who is based in Calgary, where he also carries out his duties as a Member of the National Energy Board. As has been the case over the past several years, the Agency continued to rely on the staff of the NEB for the provision of technical as well as for administrative support services. The Board is reimbursed for these services by the Agency, which in turn recovers all of its costs from Foothills, as provided for under the *Northern Pipeline Act*.

In June, 1993, the Hon. Pierre Blais, Minister of Justice and President of the Privy Council, replaced the Rt. Hon. Joe Clark as Minister responsible for the Northern Pipeline Agency. Following the change of government, the Hon. Marcel Massé, the President of the Privy Council, in early November, 1993, became Minister responsible for the Agency, in addition to his other portfolios as Minister of Intergovernmental Affairs and Minister responsible for Public Service Renewal. In early December, 1993, the Hon. A. Anne McLellan, Minister of Natural Resources Canada, was also appointed by Order in Council to succeed Mr. Massé as the Minister responsible for the NPA.

R. Allen Kilpatrick, the Deputy Minister for International Trade, Department of Foreign Affairs and International Trade, continued to serve as Commissioner of the Northern Pipeline Agency during the fiscal year.

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# Finance, Personnel and Official Languages

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## 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, 1994, is reproduced as an appendix.

Estimates for 1993-94 provided \$469,000 for the operation of the Agency. Expenditure for the year totalled \$176,000. 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 section 24.1 of the *National Energy Board Act*. During the year, \$248,000 was recovered from Foothills Pipe Lines Ltd., the Canadian sponsor. In addition, \$30,400 in Yukon easement fees were collected from Foothills, of which \$2,800 was remitted to the Government of the Yukon Territory. Amounts collected 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 expenditures and receipts of the Northern Pipeline Agency for the year ended March 31, 1994. 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 expenditures and receipts of the Agency for the year ended March 31, 1994 in accordance with the accounting policies set out in Note 2 to the statement.

A handwritten signature in dark ink, appearing to read 'D. Meyers'.

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

Ottawa, Canada  
July 22, 1994


**NORTHERN PIPELINE AGENCY**

**Statement of Expenditures and Receipts**

for the year ended March 31, 1994

	<u>1993-94</u>	<u>1992-93</u>
<u>Expenditures</u>		
Professional and special service	\$ 80,638	\$ 98,470
Salaries and employee benefits	62,016	61,168
Rentals and office accommodation	18,892	21,258
Travel and communications	4,178	4,467
Information	3,315	8,414
Repair and upkeep	3,262	-
Office equipment	2,639	-
Material, supplies and maintenance	<u>885</u>	<u>942</u>
 Total expenditures	 <u>\$175,825</u>	 <u>\$194,719</u>
 <u>Receipts</u>		
Recovery of expenditures	\$247,844	\$204,901
Net easement fee	<u>27,594</u>	<u>30,400</u>
 Total Receipts	 <u>\$275,438</u>	 <u>\$235,301</u>

Approved by:

  
Commissioner

  
Senior Financial Officer

## **NORTHERN PIPELINE AGENCY**

### **Notes to the Statement of Expenditures and Receipts**

**for the year ended March 31, 1994**

#### **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 expenditures are 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**

##### **Expenditures**

Expenditures include the cost of work performed, goods received or services rendered prior to April 1, except for the cost of the employees' contingency and termination plans which are charged to expenditures when paid. Capital acquisitions are charged to expenditures in the year of purchase. Expenditures also include 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 Expenditures and Receipts

for the year ended March 31, 1994

#### 3. Lease commitment

The Agency has entered into a five year occupancy lease, which expires during 1999, with Public Works and Government Services Canada, for its office space in Ottawa, Ontario.

Future lease payments are as follows:	Amount
1994-95	\$ 18,699
1995-96	18,699
1996-97	18,699
1997-98	18,699
1998-99	<u>18,699</u>
	<u>\$ 93,495</u>

#### 4. Related party transactions

The expenditures include \$88,162 (1992-93: \$100,998) 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.

#### 5. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.