NORTHERN PIPELINE AGENCY

ANNUAL REPORT
1995-1996

Canada

Northern Pipeline Agency Canada

Administration du pipe-line du Nord Canada

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Ottawa, Ontario.
December 31, 1996.

Dear Sir:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1996, 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,

Robert G. Wright,
Commissioner,
Northern Pipeline Agency

The Honourable Arthur C. Eggleton, P.C., M.P.,
Minister for International Trade and
Minister Responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.

Table of Contents

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ALASKA HIGHWAY NATURAL GAS PIPELINE PROJECT

Expansion and Extension of the Eastern Leg of the Alaska Highway Natural Gas Pipeline

The proposed expansion and extension of the Eastern Leg to increase substantially the capacity of the system to transport Canadian natural gas to mid-western U.S. markets continued to be the dominant development involving the Alaska Highway Gas Pipeline Project on both sides of the border during the fiscal year 1995-1996.

It was in early 1995 that the Northern Border Pipeline Co., sponsor of the Eastern Leg of what is known south of the border as the Alaska Natural Gas Transportation System (ANGTS), filed its initial application with the U.S. Federal Energy Regulatory Commission (FERC). Northern Border's submission sought approval from FERC for its proposed project under the authority of the U.S. *Natural Gas Act*. No application was made under the authority of the *Alaska Natural Gas Transportation Act*, the primary legislation governing the ANGTS project south of the border.

Northern Border's initial application proposed to increase the throughput capacity of its existing 1 550 km (969 mi) line from the Port of Morgan on the Montana-Saskatchewan border to Harper, Iowa, and to further extend the system by some 423 km (263 mi) to the Chicago area. It was estimated this would provide for increased Canadian gas imports of some 6.5 million cubic metres of gas a day (230 million cubic feet daily - MMcf/d).

After an objection by the Natural Gas Pipeline Co. of America to the nature of its first Open Season, a means of determining prospective shipper demand for increased capacity, was upheld by FERC, a second Open Season was subsequently conducted by Northern Border. It resulted in the prospective demand for Canadian gas tripling to some 19.8 million cubic metres of gas a day (700 MMcf/d), which prompted Northern Border to file an amended application substantially increasing the proposed enlargement of its system at an estimated cost of some $800 million.

(In August, 1996, FERC conditionally approved Northern Border's application, including the extension to the Chicago area. Natural Gas strongly supported the increased throughput capacity of the existing Northern Border system to Harper because it looked to it to provide an additional 14.3 million cubic metres of gas a day (505 MMcf/d) to feed the proposed expansion of its own Amarillo line from Harper to the Chicago area. At the same time, however, Natural strongly opposed Northern Border's plan to build a competing line to transport 18.4 million cubic metres of gas a day (648 MMcf/d) to the Chicago area. In the event, FERC approved both the extension from Harper of Northern Border and the expansion of the Natural Gas line. FERC also approved tariffs based on rolled-in, as opposed to incremental, costs for Northern with respect to its proposed extension despite the objection of its competitor. In September, 1996, Natural Gas and two other interested parties all filed for rehearing by FERC of certain aspects of its decision, particularly rolled-in tariffs on the extended pipeline, an issue that remained outstanding at the time of writing. While the Northern Border expansion/extension was originally scheduled to come into operation in June, 1998, regulatory delays resulted in the date being set back to November, 1998.)

During the fiscal year covered by this report, Foothills Pipe Lines Ltd., sponsor of the Alaska Highway Gas Pipeline Project in Canada, was heavily engaged in developing plans for the expansion of its own system to provide the increased throughput of Canadian gas required to meet the prospective rise in mid-western U.S. demand.

(In July, 1996, Foothills submitted applications to the Northern Pipeline Agency (NPA) and the National Energy Board (NEB) for authority to undertake the aspects of its proposed expansion of the Eastern Leg in Canada that come under the respective jurisdiction of each regulatory body. Together, these proposed additions to its system would increase the capacity of the company to deliver gas to Northern Border by some 19.8 million cubic metres a day (700 MMcf/d). In total, the throughput capacity of the Eastern Leg at Monchy, Saskatchewan, on the Canadian-U.S. border would be increased from 42.48 million cubic metres daily (1,500 MMcf/d) to 63.3 million cubic metres a day (2,200 MMcf/d), an increase of around 47 per cent.

(Through its proposed Addendum Seven to the Alaska Highway Gas Pipeline's System Design Report, Foothills sought authorization from the NPA to install two loops on the Eastern Leg in Saskatchewan totalling 111.8 km (70 mi) and to replace its existing compressor unit (392) at Piapot, Saskatchewan, with a new 28.3 megawatt (38,000 horsepower) unit. It also proposed to loop 1.6 km (1 mi) of mainline pipe on the Eastern Leg in Alberta that is located downstream of the plant for stripping out natural gas liquids at Empress, Alberta, which is close to the Alberta-Saskatchewan border. The cost of these additional facilities was estimated at $151 million.

(At the same time, Foothills applied to the NEB for permission to complete a third train at its decompression/recompression facilities adjacent to the Empress extraction plant at a cost of some $18 million. Because of delays in proceeding with the proposed expansion south of the border, Foothills deferred from 1997 to 1998 the installation of the proposed pipeline looping and replacement of the compressor unit and set back the date for bringing the new facilities into service from June to November, 1998.

(In its regulatory submissions, Foothills indicated that it expected the additional Alberta gas supplies required to meet the increased U.S. demand to be delivered by one of its affiliates, NOVA Gas Transmission Ltd., and possibly also from the proposed new Palliser Pipeline planned by PanCanadian and Westcoast Energy to transport gas in southeastern Alberta.)

Potential New Partners and Competitors

During the year, plans moved forward for the establishment of two new natural gas pipelines originating in Western Canada that had the potential of being competitors or working partners of Foothills. As indicated above, Foothills stated in its submission to the NPA that it had initiated preliminary discussions with proponents of the proposed new Palliser Pipeline, which is planned to extend from a point just north of Calgary to Saskatchewan, roughly parallel to NOVA's existing line in Alberta, about transporting some of the additional Canadian gas required to supply increased demand from the U.S. mid-west. Palliser, (which submitted its application to the National Energy Board in November, 1996) is planning construction of a system with a capacity to move some 28.3 million cubic metres of gas a day (1 billion cubic feet per day). During the fiscal year, plans were also moving forward for construction by a consortium, made up largely of petroleum producers, of a new 3 000 km (1,860 mi) system commencing in northeast British Columbia to transport around 35.6 million cubic metres a day (1.25 billion cubic feet) of Western Canadian gas to the Chicago area. Known as the Alliance Pipeline, it could - if successfully brought into service - become a future competitor for NOVA, at present the major gas-gathering system in Alberta, and for both the Canadian and U.S. sponsors of the Eastern Leg of the Alaska Highway Gas Pipeline.

Restructuring the Western Leg

In November, 1993, a major expansion of the Western Leg of the Alaska Highway Gas Pipeline went into operation. Even before construction was completed, plans were afoot to further expand the system. These plans were abandoned, however, following onset of depressed economic conditions in California. This factor was compounded as a result of problems created by decisions of the Federal Energy Regulatory Commission (FERC) imposing tariffs based on incremental costs on shippers over Pacific Gas Transmission's (PGT) interstate expansion from Kingsgate, B.C., to the California border and a similar tariff policy, together with other impediments, imposed on the intrastate Pacific Gas and Electric Co. (PG&E) expansion line within the state by the California Public Utilities Commission (CPUC). During the intervening years, these regulatory issues have been a source of much wrangling before the federal and state regulatory agencies and litigation in the courts.

In March, 1996, PGT submitted an offer of settlement with the FERC that provided for the rolling-in, over a period of six years, of the cost of the original pre-built ANGTS of 1981 and the expansion line built in the early 1990s with the original PGT line to California that was constructed several years previously.

(This settlement, which was approved by the federal regulatory agency in September, 1996, will result in a significant reduction over a six-year period in tolls charged shippers over PGT's expansion system and a commensurate increase in their competitiveness. In August, 1996, PG&E filed an offer with the CPUC proposing a settlement of outstanding regulatory issues within the ambit of the Gas Accord adopted by the state agency, which - among other things - would separate the services and charges provided by the intrastate pipeline for the transmission and distribution of gas. The proposed settlement would also provide for some rolling-in of costs of the expansion line with the 1981 prebuild.)

The Northern Pipeline Agency

There were extensive changes in the senior ranks of the Northern Pipeline Agency during the year (and beyond). In January, 1996, the Honourable Arthur C. Eggleton became Minister for International Trade and Minister responsible for the direction of the NPA. He succeeded the Honourable Roy MacLaren, who resigned to become Canadian High Commissioner to Britain later in the year. In February, 1996, Robert G. Wright, Deputy Minister for International Trade in the Department of Foreign Affairs, was also appointed Commissioner of the Agency, succeeding R. Allen Kilpatrick. (In August, 1996, Kenneth W. Vollman, Vice-Chairman of the National Energy Board, was reappointed Administrator and Designated Officer of the Northern Pipeline Agency - a position he held previously from 1989 to 1992. He replaced Roy Illing, a Member of the National Energy Board, whose term came to an end during the fiscal year.)

As has been the case for several years, the NPA continued to rely on the staff of the Board for the provision of technical and administrative support services. The NEB is reimbursed for these services by the Agency, which recovers all of its costs from Foothills as provided for by the *Northern Pipeline Act.*

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, 1996, is reproduced as an appendix.

Estimates for 1995-96 provided $250,000 for the operation of the Agency. Expenditure for the year totalled $123,000. 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, $245,000 were 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 were 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 for International Trade

I have audited the statement of expenditures and receipts of the Northern Pipeline Agency for the year ended March 31, 1996. This financial information is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial information 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial information presentation.

In my opinion, this financial information presents fairly, in all material respects, the expenditures and receipts of the Agency for the year ended March 31, 1996 in accordance with the accounting policies set out in Note 2 to the statement of expenditures and receipts.

Raymond Dubois, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
July 26, 1996

NORTHERN PIPELINE AGENCY

Statement of Expenditures and Receipts

for the year ended March 31, 1996

	1995-96	1994-95
Expenditures		
Salaries and employee benefits	$59,271	$ 64,430
Professional and special services	35,349	37,689
Rentals and office accommodation	20,345	19,644
Information	2,994	2,010
Material, supplies and maintenance	2,425	2,534
Travel and communications	1,795	2,612
Repair and upkeep	685	-
Total expenditures	$ 122,864	$128,919
Receipts		
Recovery of expenditures (Note 5)	$245,238	$302,918
Net easement fee	27,594	27,594
Total receipts	$ 272,832	$330,512

The accompanying notes are an integral part of this statement.

Approved by:

Commissioner

Senior Financial Officer

NORTHERN PIPELINE AGENCY

Notes to the Statement of Expenditures and Receipts

for the year ended March 31, 1996

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 other government departments.

Receipts

Receipts are recorded on a cash basis.

Notes to the Statement of Expenditures and Receipts

for the year ended March 31, 1996

3. Commitment and Contingency

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 minimun lease payments are as follows:

1996-97	$18,699
1997-98	18,699
1998-99	18,699
	$ 56,097

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.

4. Related party transactions

The expenditures include $42,396 (1994-95: $48,215) 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. Recovery of Expenditures

Expenditures are initially recovered based on the Agency's budget for the current fiscal year. An adjustment to actual cost is made in the subsequent year's billings.