NORTHERN PIPELINE AGENCY

ANNUAL REPORT
1996-1997

Canada

Northern Pipeline Agency Canada

Administration du pipe-line du Nord Canada

ANNUAL REPORT

1996-1997

Cat. No. C98-1/1998
ISBN 0-662-63380-6

Ottawa, Ontario,
December 31, 1997.

Dear Sir:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending March 31, 1997, 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

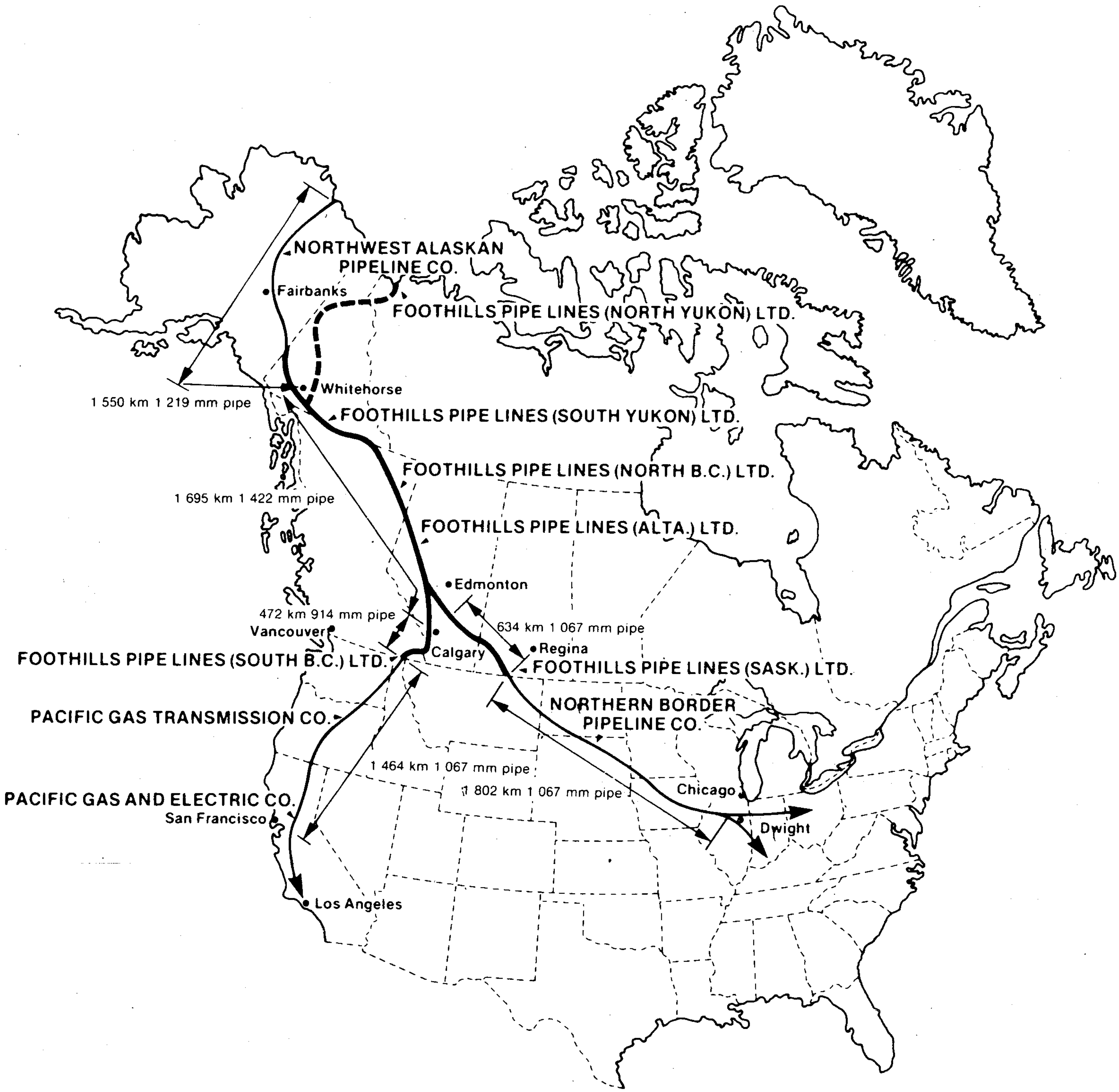
The Honourable Sergio Marchi, P.C., M.P.,
Minister for International Trade and
Minister Responsible for the Northern Pipeline Agency,
House of Commons,
Ottawa, Ontario.

Table of Contents

Office of the Agency
Mr. Robert G. Wright, Commissioner,

Lester B. Pearson Building,
125 Sussex Drive,
Ottawa, Ontario.
K1A 0G2
Tel.: 993-7466
Fax: 998-8787

ALASKA HIGHWAY NATURAL GAS PIPELINE PROJECT



The Pipeline Push to Move Increased Canadian Gas to Mid-Western U.S. Markets

As the proposed expansion of the Eastern Leg of the Alaska Highway Gas Pipeline moved toward final regulatory approval, the focus shifted during the course of the fiscal year 1996-1997 to new plans for further enlarging pipeline capacity for the delivery of Canadian natural gas to the Chicago area. South of the border, the Eastern Leg forms part of the project known as the Alaska Natural Gas Transportation System (ANGTS).

Included among those plans for the transmission of substantially increased volumes of gas to mid-western U.S. centres were proposals that could involve yet another increase in the capacity of the Eastern Leg on both sides of the border; expansion by TransCanada PipeLines Ltd. (TCPL) in association with other partners through TransVoyageur Transmission Ltd. and other projects; and construction of an entirely new pipeline to transport gas from northeastern British Columbia and northwestern Alberta to the Chicago area by Alliance Pipeline Ltd., a consortium of major pipeline companies, gas producers and gas marketers.

Stage One - Expansion of the Eastern Leg

In August, 1996, the Federal Energy Regulatory Commission (FERC) gave preliminary approval to the expansion and extension of Northern Border Pipeline Co., the sponsor of the Eastern Leg south of the border. (Final approval was given by FERC in July, 1997.) In January, 1997, the Designated Officer of the Northern Pipeline Agency authorized the complementary expansion of the Eastern Leg in Canada through his approval of Addendum Seven to the System Design Report sought by the Canadian sponsor, Foothills Pipe Lines Ltd.

As outlined in the NPA's last Annual Report, the Northern Border proposal involves an expansion costing an estimated US $793 million to increase throughput capacity by some 19.8 million cubic metres a day (700 million cubic feet - MMcf/d). The plan provides for the addition of 235 km of loops (182 mi) plus additional compression totalling 293,000 horsepower from the Port-of-Morgan on the Canadian-U.S. border to Ventura, Iowa. The capacity of its smaller diameter line from Ventura to Harper, Iowa, would be increased by 25.92 million cubic metres daily (915 MMcf/d) and from there the line would be extended by 389 km (243 mi) to the Chicago area to provide delivery of up to 18.36 million cubic metres a day (648 MMcf/d) of gas.

The expansion of Northern Border as far as Harper was strongly supported by the Natural Gas Pipeline Co. of America, which already receives some 10.96 million cubic metres a day (386 MMcf/d) from the former system for onward transmission to Chicago through its so-called Amarillo Line. Natural contracted to receive an additional 14.3 million cubic metres daily (505 MMcf/d) from the expanded Northern Border line. At the same time, however, Natural strongly opposed the extension of Northern Border's pipeline to the Chicago area in competition with its own system.

In the event, both the expansion and extension of Northern Border and the expansion of Natural's pipeline to Chicago were approved by FERC for the very purpose of increasing competition in the delivery of gas to the mid-western U.S. market.

In its examination of environmental factors involved in the two applications, FERC staff suggested that consideration be given to providing for the joint delivery of Northern Border and Natural gas to Chicago through a single line. An alternative proposal to achieve this objective that was put forward by Natural was, in the end, rejected by FERC because of the strong opposition of Northern Border. It concluded that extension of the company's line would not have significantly adverse environmental impacts.

In order to provide for the increased throughput of some 19.8 million cubic metres a day (700 MMcf/d) to meet the increased demand for gas deliveries through Northern Border, the Northern Pipeline Agency's Designated Officer approved the installation of some 113 km of loops (70.5 mi) on the Eastern Leg pipeline in Saskatchewan and replacement of the existing compressor unit at Piapot, Sask. Another 1.5 km of loops were also to be installed on the main line in Alberta. At the same time as the Designated Officer authorized expansion of the pipeline system, the National Energy Board approved the expansion of Foothills' decompression-recompression facility at Empress, Alberta, for the removal of natural gas liquids. Estimated cost of both projects, which are scheduled to be in service by November, 1998, is $169 million.

With the completion of this proposed increase, the total capacity of the Eastern and Western Legs of the Alaska Highway Gas Pipeline to deliver Canadian gas to U.S. markets would climb to some 93 million cubic metres a day (3.3 billion cubic feet - Bcf/d). This would be only moderately lower than the total initial capacity of the system to transport Arctic gas from both countries that was envisaged by U.S. and Canadian negotiators as part of the Pipeline Agreement of 1977 - 102 million cubic metres a day (3.6 Bcf/d).

The Second Round of Proposed Pipeline Expansions

During the course of the fiscal year and beyond, a multiplicity of plans for new and expanded pipelines to serve both domestic and export markets were in the works, some being dropped and others reshaped in response to the evolving dynamics of the marketplace.

The Alliance Project

In the case of proposed new export capacity, the Alliance Pipeline Co. was the first project to come before the U.S. federal regulatory agency for consideration of the U.S. portion of the system. (FERC gave preliminary approval to the project in August, 1997. A number of Canadian and U.S. pipelines opposing Alliance's application called on FERC to reconsider its decision. The National Energy Board scheduled hearings to begin in November, 1997, to consider Alliance's application for approval of the Canadian section of the pipeline.)

Alliance proposed to build a 3 000 km (1,900 mi) main line from a point near Fort St. John in northeast British Columbia to the Chicago area at an estimated cost of $3.7 billion. In addition, it also planned to build some 770 km (480 mi) of lateral pipelines in northeastern British Columbia and northwestern Alberta ranging in size from 114 to 610 mm (4 to 24 inches). The mainline, most of which would be 914 millimetres (36 inches) in diameter and operate at the comparatively high pressure of 1,740 pounds per square inch, is designed initially to have a throughput capacity of 37.5 million cubic metres daily (1.33 billion cubic feet a day - Bcf/d). It is intended that, along with the natural gas, the line would also transport commingled natural gas liquids such as propane and butane, which would be removed from the gas at a plant near the Chicago-area terminus.

In addition to the Alliance project, NOVA Gas Transmission Ltd., the vast gas gathering and distribution system in Alberta, and TransCanada PipeLines Ltd. were both developing plans for major expansions of their own facilities that were largely related to the prospective growth of the mid-west and northeast U.S. market for Canadian gas. The Canadian and U.S. sponsors of the Eastern Leg of the ANGTS were also exploring the possibility of further expanding their facilities. At the same time, it was openly acknowledged that both NOVA and TCPL were in discussion with Alliance officials to explore the possibility of developing some sort of working arrangement. (In October, 1997, Alliance ruled out any possibility of utilizing the NOVA system to move its gas through Alberta. At the time of writing, the response by Alliance to TransCanada's overtures was unknown.)

TransCanada PipeLines

In March, 1997, TransCanada PipeLines unveiled a $3.7 billion plan known as Nexus to expand the throughput capacity of its system, primarily to increase its facilities to transport Canadian gas to mid-western U.S. markets. Central to this plan was a proposed expansion of Great Lakes Transmission, 50 per cent owned by TCPL, which runs through the United States from an interconnection at Emerson, Manitoba, to Sarnia, Ontario.

(In May, 1997, TCPL filed an application with the National Energy Board covering the first of a two-stage project extending to 1999 for the initial purpose of expanding the capacity of its system by some 34 million cubic metres a day (1.2 Bcf/d). In July, however, TransCanada announced that it was abandoning the Nexus project, including putting on hold the proposed Great Lakes expansion, in favour of an alternative plan providing for a more modest increase in capacity in 1998 of 13 million cubic metres a day (465 MMcf/d) at a cost of around $900 million. In addition, TransCanada announced that it proposed to file an application with the NEB, on behalf of a proposed new system to be called TransVoyageur Transmission Ltd., for the construction in 1999 of a pipeline that would extend from Empress, Alberta, to Emerson, Manitoba. This proposed new line, which would have an initial capacity of 57 million cubic metres of gas a day (2 Bcf/d), would connect in the United States with the previously announced Viking Voyageur system, in which TransCanada would join forces with other U.S. partners. This latter project, announced in April, 1997, envisaged construction of a 1 280 km (800 mi) pipeline to transport at least 34 million cubic metres a day (1.2 Bcf/d) - and possibly as much as 57 million cubic metres daily - from an interconnection with TransVoyageur at Emerson, Manitoba, to Joliet, Illinois, in the Chicago area.

(Subsequently, it was announced that TransCanada proposed to extend this network farther through a connection with the so-called Vector Pipeline project to transport up to an additional 28.3 million cubic metres (1 Bcf/d) of gas from Joliet, Illinois, to Dawn, near Sarnia, Ontario, by November, 1999. In addition, TCPL announced its intention of joining with a consortium of U.S. and Canadian pipelines in the Millennium project, which planned to expand capacity to transport 18.4 million cubic metres (650 MMcf/d) of Canadian gas to northeastern and mid-Atlantic markets in the United States.)

Further Expansion of the ANGTS' Eastern Leg?

Well before final regulatory approval had been received from U.S. authorities for expansion of the Eastern Leg of the ANGTS, Foothills Pipe Lines announced in February, 1997, its intention of holding an open season to determine shipper interest in a further expansion of the Eastern Leg commencing in 2001.

(While results of Foothills' open season were not announced at the time of writing, a similar open season conducted by the Northern Natural Gas Co., which currently obtains Canadian gas through an interconnection with the Eastern Leg in the United States at Grundy Center, Iowa, resulted in requests for an increase in shipping volume of throughput capacity of more than 18.4 million cubic metres (650 MMcf/d) of gas a day. It was anticipated that to supply that additional volume it would be necessary to further expand the throughput capacity of the Eastern Leg in both Canada and the United States.)

Procurement

As one means of meeting U.S. concerns that goods and services for the pipeline be acquired "on generally competitive terms", as provided for in the 1977 Pipeline Agreement, the two countries signed an ancillary Procurement Agreement in 1980. This accord established certain procedures under which the responsible regulatory authority in each country made available to the other, for its comment, information with respect to the proposed purchase of certain designated items - mainline pipe, compressor units and large valves and fittings. These procedures covered such matters as the companies to be invited to bid on any particular project, the project specifications, and the recommendation to purchase put forward by the sponsoring company in each country.

During the prebuilding of the Eastern and Western Legs in the early 1980s, these procedures worked to the general satisfaction of both nations. Because of some initial uncertainty regarding jurisdiction between the NPA and the NEB, Canada was tardy in implementing the bilateral procurement process when Foothills in 1989 initiated the first expansion of the prebuilt Eastern Leg - the installation of an additional compressor unit on the pipeline in Saskatchewan. Canadian authorities were subsequently admonished by the Acting U.S. Federal Inspector, Melvin Hurwitz. "It is important," he wrote to the Commissioner of the NPA, "that the (procurement) procedures be implemented as intended, that is through the appropriate channels and in a timely manner..."

In early 1990, however, it became apparent that U.S. sponsors of the Eastern and Western Legs of the pipeline did not consider that proposed expansions of their respective systems formed part of the ANGTS and, therefore, it followed that none of the provisions of the 1977 bilateral Pipeline Agreement nor the 1980 Procurement Agreement applied. In response to Canada's expressed concern regarding this contention, Mr. Hurwirtz reversed his own previous position regarding the importance of timely implementation of the procurement provisions and stated that decisions by the U.S. sponsors on the applicability of the two agreements should be conclusive in most circumstances.

At a meeting with Canadian officials in Washington in the fall of 1990 regarding this issue, however, Mr. Hurwitz indicated he accepted Canada's position and undertook to consult his Executive Policy Board about possibly seeking voluntary compliance of U.S. sponsors with the provisions of the Procurement Agreement. Shortly thereafter, however, Mr. Hurwitz was replaced with the appointment of Michael Bayer as the Federal Inspector by President George Bush. Following a meeting with Canadian officials in Ottawa early in 1991, Mr. Bayer indicated that he not only accepted Canada's position that the proposed expansions south of the border came under the aegis of the two agreements, but subsequently persuaded the U.S. sponsors of the Eastern and Western Legs to comply with the procurement procedures voluntarily.

In early 1992, Mr. Bayer recommended to President Bush that the U.S. legislation establishing the ANGTS and the bilateral Pipeline Agreement both be scrapped. While the Administration rejected that proposal, it supported a move by Congress several months later to abolish the Office of the Federal Inspector and transfer its powers and responsibilities to the U.S. Secretary of Energy.

In the spring of 1993, following the election of the Clinton Administration, the then-Commissioner of the Northern Pipeline Agency wrote to the Honourable Hazel O'Leary, the new Secretary of Energy, to inquire whether it was her intention to continue to adhere to the position on procurement previously taken by Mr. Bayer. In reply, an official of the Department indicated that the Secretary had reverted to the second position adopted earlier by Mr. Hurwitz - namely, that it was essentially up to the U.S. sponsors to decide whether or not any future expansion was part of the ANGTS and, therefore, whether the two bilateral agreements applied.

During the latter part of the fiscal year covered by this report, inquiries by Canadian officials indicated that Northern Border continued to take the position that the proposed expansion project filed with the Federal Energy Regulatory Commission did not form part of the ANGTS. U.S. authorities also advised that their own position with respect to the decisions of U.S. sponsors on the non-applicability of the bilateral agreements remained unchanged. (In June, 1997, therefore, the Canadian Embassy advised the U.S. State Department that under the circumstances Canada intended to suspend application of the provisions of the Procurement Agreement with respect to the complementary expansion of the Eastern Leg in Canada by Foothills Pipe Lines.)

The Regulatory Authorities

During the course of the fiscal year, the Honourable Arthur C. Eggleton, the Minister for International Trade, continued also as Minister responsible for the Northern Pipeline Agency. (In June, 1997, following the federal election, Mr. Eggleton was appointed Minister of National Defence. The Honourable Sergio Marchi, previously Minister of the Environment, succeeded Mr. Eggleton as Minister for International Trade and Minister responsible for the Northern Pipeline Agency.)

Robert G. Wright, the Deputy Minister for International Trade in the Department of Foreign Affairs, continued to serve throughout the year as Commissioner of the NPA. Based in Calgary, Kenneth W. Vollman, Vice-Chairman of the National Energy Board, was appointed Administrator and Designated Officer of the Agency in August, 1996.

In addition to the provision of administrative support services, the Agency also relied, as it has for many years, on the professional staff of the NEB to provide information and advice to assist the Designated Officer of the NPA in carrying out his responsibilities under the provisions of the *Northern Pipeline Act.*

In the United States, President Clinton nominated the Honourable Federico Pena, previously Secretary of Transportation in his first administration, to succeed Mrs. Hazel O'Leary as Secretary of Energy in his second term after the latter announced her intention of stepping down. Mr. Pena, whose appointment was confirmed by the Senate in March, 1997, also assumed responsibilities previously exercised by the Office of the Federal Inspector with respect to the Alaska Natural Gas Transportation System.

Financial, 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, 1997, is reproduced as an appendix.

Estimates for 1996-97 provided $251,000 for the operation of the Agency. Expenditure for the year totalled $132,000. 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, $88,000 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, 1997. 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 statement. 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, 1997 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
August 1, 1997

NORTHERN PIPELINE AGENCY

Statement of Expenditures and Receipts

for the year ended March 31, 1997

	1997	1996
Expenditures		
Salaries and employee benefits	$ 68,958	$ 59,271
Professional and special services	32,697	35,349
Rentals and office accommodation	19,590	20,345
Information / printing services	3,198	2,994
Material, supplies and maintenance	2,625	2,425
Travel and communications	2,345	1,795
Capital assets	1,269	0
Repair and upkeep	969	685
Total expenditures	$131,651	$122,864
Receipts		
Recovery of expenditures (Note 5)	$ 87,502	$245,238
Net easement fee	27,594	27,594
Total receipts	$115,096	$272,832

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, 1997

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.

Easement fees are collected on behalf of Indian and Northern Affairs Canada in the amount of $30,400, and the Yukon Government's share paid is $2,806.

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.

Receipts

Receipts are recorded on a cash basis.

NORTHERN PIPELINE AGENCY

Notes to the Statement of Expenditures and Receipts

for the year ended March 31, 1997

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:

1997-98	$ 18,699
1998-99	18,699
	$ 37,398

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 $43,280 (1995-96: $42,396) 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 by calendar year based on the proration of the Agency's fiscal year budgets. An adjustment to actual cost is made in the subsequent year's billings.