

Northern Pipeline Agency
Annual Report for Fiscal Year Ending 31 March 1999

Overview

The Northern Pipeline Agency (Agency) was created by the *Northern Pipeline Act* in 1978 to oversee the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Natural Gas Transportation System (ANGTS), a pipeline mega-project intended to transport Alaskan and northern Canadian gas to markets in southern Canada and the Lower 48 States.

Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS and resulted in a prolonged period of low activity for the Agency. In recent years, the Agency's primary role has been to oversee the expansion of the southern portion of the pipeline system, referred to as the Prebuild, that first went into operation in the 1981-82 time frame for the initial purpose of transporting gas sourced from western Canada.

As conceptualized, the second stage of the project would link the prebuilt Western and Eastern Legs of the pipeline system with United States reserves at Prudhoe Bay in Alaska and possibly also the Canadian reserves in the Mackenzie Delta region.

In response to growing export demands, the flow capacity of the Prebuild continues to approach the 102 million cubic metre (3.6 billion cubic feet) per day rate provided for in the agreement between Canada and the United States underpinning the ANGTS. The latest expansion of the Prebuild, which came into service in December 1998, has raised its capacity to about 94 million cubic metres (3.3 billion cubic feet) per day. Approximately one-third of all Canadian natural gas exports to the United States are transported through the Prebuild.

Figures 1 and 2 show the proposed route of the ANGTS in Canada and the United States and details of the existing Prebuild in Canada.

Background Information

For more complete background information on the ANGTS and the Agency's roles and responsibilities, reference may be made to the Agency's *Performance Report* for the period ending 31 March 1999.

This report may be accessed through the Treasury Board Secretariat's Internet site at <http://www.tbs-sct.gc.ca/tb/key.html> or obtained in hardcopy format by contacting the National Energy Board's Publications Coordinator toll-free at 1-800-899-1265 or direct at (403) 299-3562. Requests may also be forwarded to the Publications Coordinator by fax at (403) 292-5503, by E-mail at orders@neb.gc.ca, or by mail to National Energy Board, 444 Seventh Avenue S.W., Calgary, Alberta, T2P 0X8.

Key 1998/99 Activities

(i) 1998 Eastern Leg Expansion Project

The Agency's principal task for the 1998/99 fiscal year was to oversee the completion of construction of Foothills' 1998 Eastern Leg Expansion Project and ensure compliance with the various provisions of the

Northern Pipeline Act. This expansion involved the installation of approximately 113 kilometres of 1067 millimetre diameter pipe and various compression and metering facilities at a capital cost of about \$150 million.

The Agency's activities included (i) the examination of the various filings made by Foothills pursuant to the *Northern Pipeline Act* in connection with the expansion and (ii) on-site construction inspection. These activities were in large part directed at ensuring that the expansion was constructed in a safe manner and with due regard for the environment and socio-economic interests.

(ii) Foothills Shareholders Agreement

The *Northern Pipeline Act* provides that the Foothills' Shareholders Agreement (which was first signed in 1977) cannot be terminated, altered, or amended without the prior approval of the Governor in Council and the National Energy Board.

In February 1999, the Governor in Council and the National Energy Board approved the Fifth Amending Agreement to the Foothills Shareholders Agreement. This Amending Agreement substituted NOVA Gas International Ltd. for NOVA Gas Services Ltd. as a signatory to the Shareholders Agreement and served to alter the termination provisions.

Organization

The Agency reports to Parliament through the Minister for International Trade, who is responsible for the management and direction of the Agency. The Honourable Sergio Marchi served in this capacity throughout the 1998/99 fiscal year and into 1999/2000 before being succeeded by the Honourable Pierre Pettigrew in August 1999.

The Agency has two senior officers who are appointed by the Governor in Council. The Commissioner of the Agency continues to be Robert G. Wright, Deputy Minister for International Trade. The Agency's Administrator and Designated Officer is Kenneth W. Vollman, Chairman of the National Energy Board.

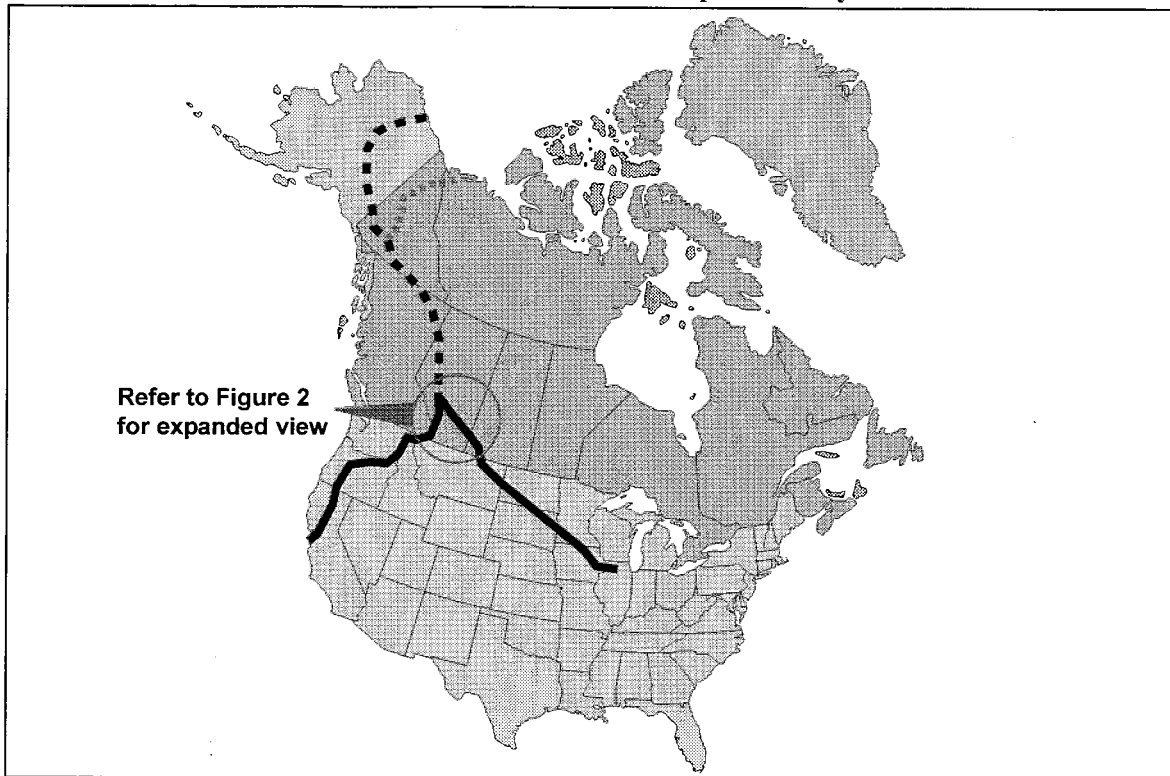
Given the continuing low level of Agency activity, arrangements are in place whereby the Agency relies largely on the National Energy Board for administrative and technical assistance and on Natural Resources Canada for policy advice. The Agency is also supported by the Department of Foreign Affairs and International Trade and Justice Canada. The Agency has no full-time staff at this juncture.

Expenditures

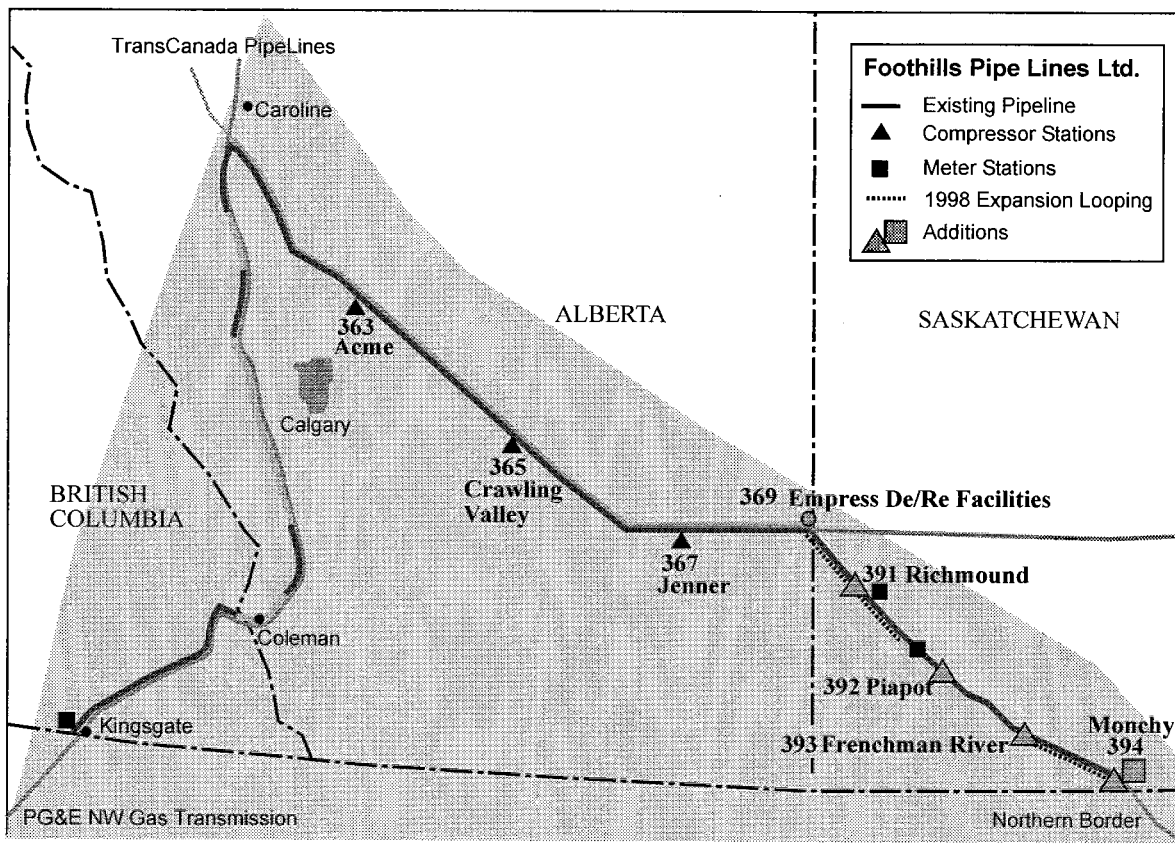
The report of the Auditor General on the accounts and financial transactions of the Agency for the 1998/99 fiscal year follows. As shown by the report, the Agency's expenditures for the fiscal year totalled approximately \$159,000.

As a result of rationalization measures that were implemented in the second half of calendar year 1999, the Agency's expenditures are expected to decrease in the near term.

**Figure 1:
The Alaska Natural Gas Transportation System**



**Figure 2:
The Foothills Prebuild**





AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Minister for International Trade

I have audited the schedule of expenditures and receipts of the Northern Pipeline Agency for the year ended March 31, 1999. The expenditures and receipts are calculated as described in note 2 to the schedule. 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 financial information. 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, 1999 in accordance with the accounting policies set out in Note 2 to the schedule of expenditures and receipts.

A handwritten signature in black ink, appearing to read 'Dm2', followed by a long horizontal line that extends to the right and then turns downwards.

Donald M. Young, FCA
Assistant Auditor General
for the Auditor General of Canada

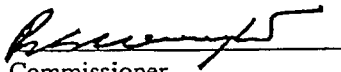
Ottawa, Canada
October 22, 1999

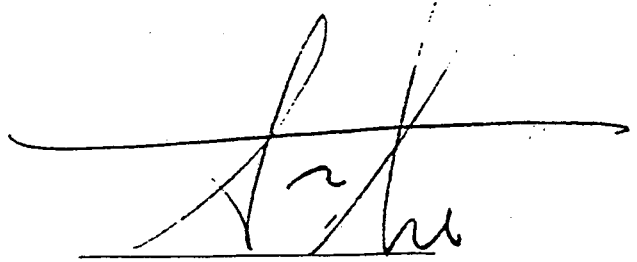
NORTHERN PIPELINE AGENCY
Schedule of Expenditures and Receipts
for the year ended March 31, 1999

	<u>1999</u>	<u>1998</u>
<u>Expenditures</u>		
Salaries and employee benefits	\$75,227	\$ 75,503
Professional and special services	55,598	56,270
Rentals and office accommodation	20,257	20,270
Information / printing and publishing services	2,520	4,230
Material, supplies and maintenance	3,418	3,232
Transportation and communications	2,358	2,471
Repair and upkeep	<u>0</u>	<u>345</u>
Total expenditures	<u>\$159,378</u>	<u>\$162,321</u>
<u>Receipts</u>		
Recovery of expenditures (Note 2)	(\$168,727)	(\$98,432)
Net easement fee	<u>(27,594)</u>	<u>(27,594)</u>
Total receipts	<u>(\$196,321)</u>	<u>(\$126,026)</u>

The accompanying notes are an integral part of this statement.

Approved by:


Commissioner


Comptroller

NORTHERN PIPELINE AGENCY

Notes to the Schedule of Expenditures and Receipts

for the year ended March 31, 1999

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.

Receipts

Receipts are recorded on a cash basis.

Recovery of Expenditures

Expenditures are initially recovered by calendar year from quarterly billing based on the proration of the Agency's fiscal years budgets. An adjustment to actual cost is made in the subsequent year's billings

NORTHERN PIPELINE AGENCY

Notes to the Schedule of Expenditures and Receipts

for the year ended March 31, 1999

3. Easement Fee

In 1983, the Canadian Government, pursuant to subsection 37(3) of the Northern Pipeline Act, granted Foothills Pipe Lines Limited a twenty-five year easement upon and under lands in the Yukon Territory. For the right of easement, Foothills Pipe Lines Limited is to pay the Agency an annual amount of \$30,400. \$2,806 of this annual amount is collected on behalf of and forwarded directly to the Government of the Yukon Territory.

4. Employee Termination 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.

5. Related party transactions

The expenditures include \$60,788 (1997-98: \$64,898) 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.

6. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 Issue may be experienced before, on or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.