
Northern Pipeline Agency

Annual Report

**Fiscal year Ending
31 March 2004**



Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

615 Booth Street
Ottawa, Ontario
K1A 0E9

Ottawa, Ontario
6 January 2005

Dear Minister:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending 31 March 2004, 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,

George Anderson
Commissioner,
Northern Pipeline Agency

The Honourable R. John Efford, P.C., M.P.
Minister for Natural Resources Canada
and Minister Responsible for the Northern Pipeline Agency,
Ottawa, Ontario



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Canada**

**Administration du pipe-line du Nord
Canada**

**Annual Report
for Fiscal Year Ending
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Overview

The Northern Pipeline Agency (the "Agency") was created by the *Northern Pipeline Act* in 1978 to carry out federal responsibilities in respect of the planning and construction by Foothills Pipe Lines Ltd. (Foothills) of the Canadian portion of the Alaska Highway Gas Transportation System (ANGTS), a pipeline project intended to transport Alaskan and northern Canadian gas to markets in southern Canada and the lower 48 States. The project, also referred to as the Alaska Highway Gas Pipeline Project, is the subject of the 1977 *Agreement between Canada And the United States of America on Principles Applicable to a Northern Natural Gas Pipeline*.

Phase I of the project (the "Prebuild") was constructed in the early 1980's for the initial purpose of transporting gas sourced from western Canada. The current flow capacity of the Prebuild is about 94 million cubic metres (3.3 billion cubic feet) per day.

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 Canadian reserves in the Mackenzie Delta region. Unfavourable economic conditions have led to indefinite delays in the completion of the ANGTS and a prolonged period of low activity for the Agency.

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.

Figure 1:
The Alaska Natural Gas Transportation System

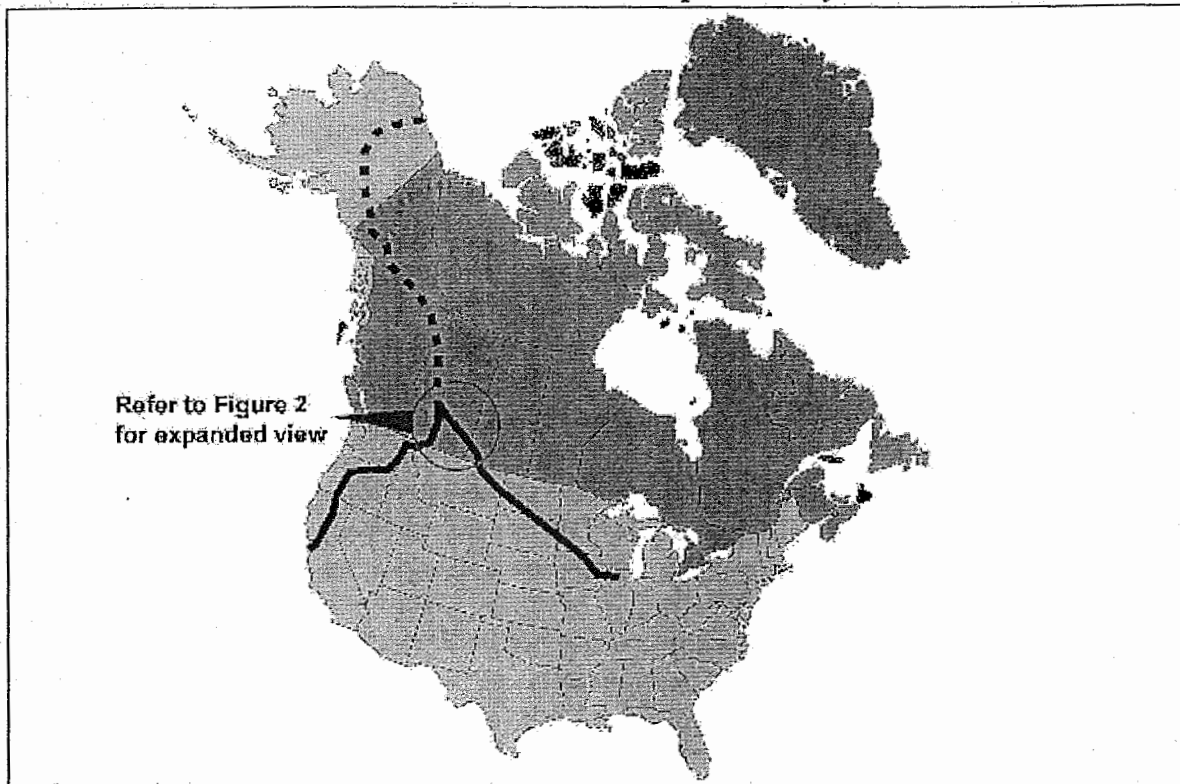
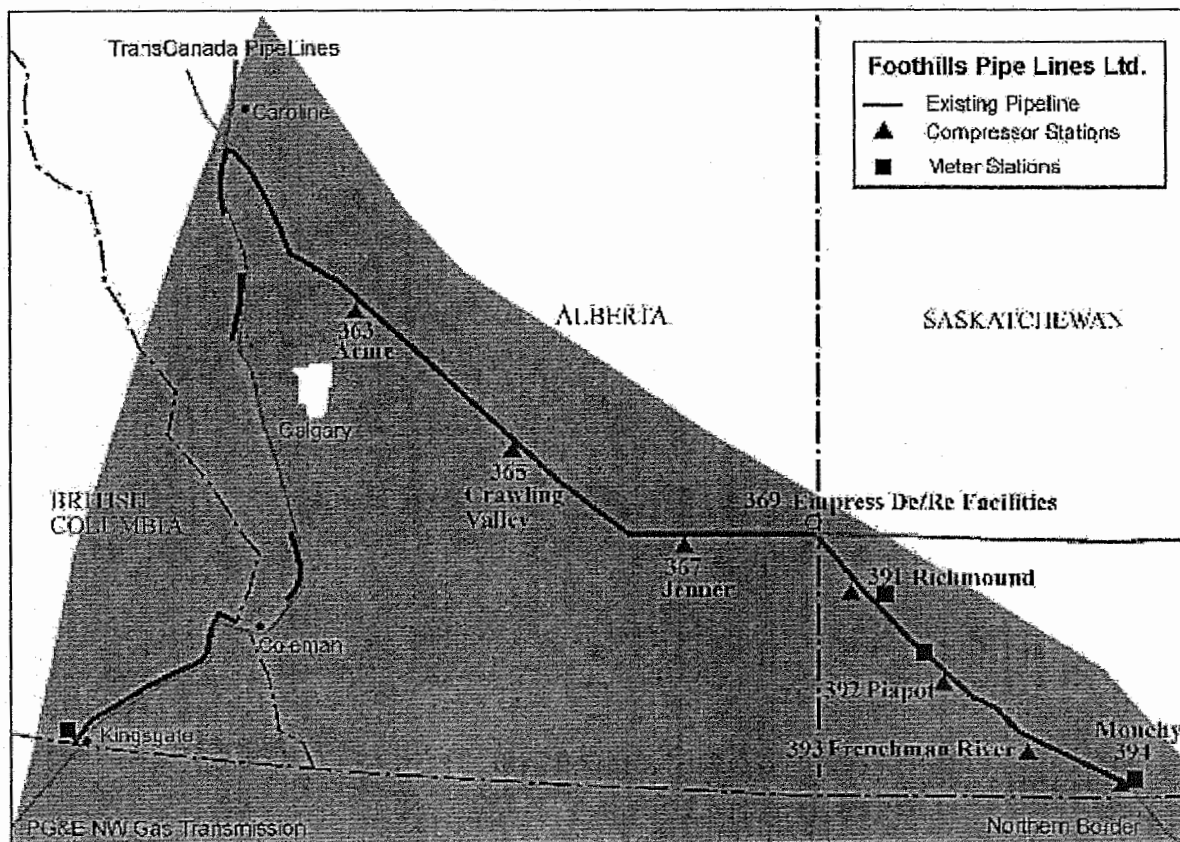


Figure 2:
The Foothills Prebuild



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 2004.

This report may be accessed through the Treasury Board Secretariat's Internet site at <http://www.tbs-sct.gc.ca/rma> or obtained in hardcopy format by contacting the Northern Pipeline Agency at (613) 995-1150. Requests may also be forwarded to the Northern Pipeline Agency by fax at (613) 996-5354, by E-mail at sosingh@nrcan.gc.ca, or by mail to Northern Pipeline Agency, 615 Booth Street- Room 412, Ottawa, Ontario, K1A 0E9.

Key 2003-2004 Activities

Perceptions of a growing North American market for natural gas and declining supply from traditional sources maintained the interest in exploring options for bringing Alaska and Mackenzie Delta gas to market that had resurfaced in 2000. In addition, the United States continued to consider measures to expedite the construction of a pipeline to deliver Alaskan natural gas to the lower 48 states, including a streamlined regulatory process and financial support. These measures were being considered as part of broader U.S. energy legislation designed to enhance domestic energy production and security of supply. In this environment, the Agency was called on to respond to a number of queries related to the *Northern Pipeline Act* and the ANGTS project. During 2003-2004 work continued to prepare the Agency to meet commitments set out in the *Northern Pipeline Act* should Foothills decide to proceed with the second stage of the project.

Organization

During the reporting period responsibility for the reporting to Parliament for the Agency was transferred from the Minister of Foreign Affairs to the Minister for Natural Resources, the Honourable R. John Efford. The Minister is responsible for the management and direction of the Agency.

The Northern Pipeline Act provides for senior management of the Agency to be appointed by Governor in Council. Following the transfer of responsibility of the Agency from the Minister of Foreign Affairs to the Minister of Natural Resources, George Anderson, Deputy Minister for Natural Resources was appointed Commissioner, succeeding Leonard Edwards.

Given the continuing low level of Agency activity, arrangements were in place whereby the Agency relied largely on the National Energy Board for administrative and technical assistance and on Natural Resources Canada for policy advice. The Agency was also supported by Natural Resources Canada.

Expenditures

Sections 13 and 14 of the *Northern Pipeline Act* (the Act) provide for an annual audit of the accounts and financial transactions of the Agency by the Auditor General of Canada, and that a report thereon to be made to the Minister and laid before Parliament. In compliance with these requirements, the report of the Auditor General of Canada for the year ended March 31, 2004 is reproduced as an appendix to this report.

The Agency had requested and received approval to increase its reference level to \$1,355,000 for 2003-04. This request was in anticipation of increased activities forecasted by Foothills. The full extent of the forecasted increase in activities did not occur and final expenditures for the year totalled approximately \$223,000. The decrease in expenditures from the previous year is a product of the resignation and non-replacement of the Administrator and a slightly reduced level of activity for the Agency. At year-end, only one full-time employee was on staff.

Due to the significantly decreased level of expenditures during 2003-04, the Agency applied for and was granted a Remission Order approving invoicing relief to Foothills for the third and fourth quarter cost recovery billings for 2003-04.

APPENDIX



AUDITOR'S REPORT

To the Minister for Natural Resources

I have audited the statement of financial position of the Northern Pipeline Agency for the year ended March 31, 2004 and the statements of operations and surplus of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Section 29 of the *Northern Pipeline Act* and the *National Energy Board Cost Recovery Regulations*.

Roger Simpson, FCA
Principal
for the Auditor General of Canada

Edmonton, Canada
July 9, 2004

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9 July 2004

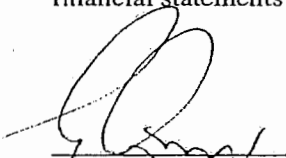
Management's Responsibility for Financial Reporting

The management of the Northern Pipeline Agency (the Agency) is responsible for the preparation of all information included in its financial statements. The accompanying statements have been prepared in accordance with Canadian generally accepted accounting principles. Management of the Agency is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the financial information is presented fairly in all material respects. The financial statements also include certain expenditures supplied by government central agencies which are based on estimates.

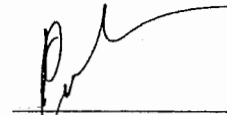
The Agency maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial management information is available on a timely basis, and that assets are acquired economically, used to further the Agency's aims, and protected from loss or unauthorized use. The Agency's management recognizes its responsibility for conducting the Agency's affairs in accordance with the requirements of applicable laws of Canada using sound business principles, and for maintaining standards of conduct that are appropriate to the public interest.

Management of the Agency believes that the system of internal controls and approved policies, practices and procedures are designed to provide reasonable assurance that the operations are in compliance with applicable laws and conform to a high standard of business conduct. Management also seeks to ensure the objectivity and integrity of data in its financial statements and that, regulations, policies, standards and managerial authorities are understood throughout the Agency. The Agency relies on the National Energy Board to provide administrative support for its operation.

The Auditor General of Canada annually provides an independent, objective audit, in accordance with generally accepted auditing standards applicable in Canada, and expresses an opinion on the financial statements of the Agency. The report is presented on the following page.



George Anderson
Commissioner



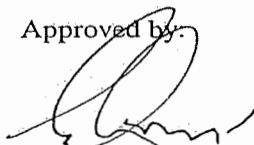
Krishna Sahay
Comptroller

**Northern Pipeline Agency
Statement of Financial Position**

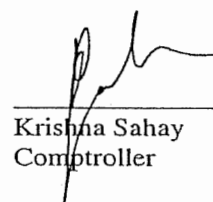
As at 31 March

	2004	2003
Assets		
Current Assets:		
Due from Consolidated Revenue Fund	\$311,715	\$ 39,144
Receivables	411,870	302,821
Prepayments	<u>5,750</u>	<u>4,750</u>
TOTAL ASSETS	<u>\$729,335</u>	<u>\$346,715</u>
Liabilities		
Account Payable and Accrued Liabilities	\$ 35,284	\$ 44,497
Deferred Revenue (Note 3)	<u>694,051</u>	<u>302,218</u>
TOTAL LIABILITIES	729,335	346,715
Surplus of Canada	<u>-</u>	<u>-</u>
TOTAL LIABILITIES and SURPLUS OF CANADA	<u>\$729,335</u>	<u>\$346,715</u>

Approved by:



George Anderson
Commissioner



Krishna Sahay
Comptroller

The accompanying notes form an integral part of the financial statements.

**Northern Pipeline Agency
Statement of Operations and Surplus of Canada**

Year Ended 31 March

	2004	2003
REVENUE:		
Regulatory Revenue	\$222,895	\$336,969
Easement Fee (Note 4)	<u>27,594</u>	<u>27,594</u>
TOTAL REVENUE	<u>250,489</u>	<u>364,563</u>
EXPENSES:		
Salaries and Wages	101,921	156,001
Professional and Special Services	79,824	122,551
Transportation and Communication	18,790	29,010
Repairs and Maintenance	10,500	9,500
Rentals	9,972	9,418
Other Subsidies and Payments	-	9,423
Information	<u>1,888</u>	<u>1,066</u>
TOTAL EXPENSES	<u>222,895</u>	<u>336,969</u>
NET OPERATING RESULTS OF THE YEAR	27,594	27,594
Fees collected on behalf of Canada	(27,594)	(27,594)
Services provided without charge by other government departments (Note 6)	23,691	24,667
Remittance to the Consolidated Revenue Fund of money collected for services provided without charge	<u>(23,691)</u>	<u>(24,667)</u>
SURPLUS OF CANADA	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes form an integral part of the financial statements.

**Northern Pipeline Agency
Statement of Cash Flows**

Year Ended 31 March

	2004	2003
Cash flows from operating Activities:		
Net operating results of the year	\$ 27,594	\$ 27,594
Less: Fees collected on behalf of Canada	(27,594)	(27,594)
Non-cash transactions		
Services provided without charge by other government departments	23,691	24,667
Less: Remittance to the Consolidated Revenue Fund of money collected for services provided without charge	(23,691)	(24,667)
Increase/(Decrease) in working capital		
(Increase) in assets	(110,049)	(257,150)
Increase/ (decrease) in accounts payable and accrued liabilities	(9,213)	5,839
Increase in deferred revenue	<u>391,833</u>	<u>198,033</u>
Increase (decrease) in Due from Consolidated Revenue Fund	272,571	(53,278)
Due from Consolidated Revenue Fund, Beginning of Year	<u>39,144</u>	<u>92,392</u>
Due from Consolidated Revenue Fund, End of Year	<u>\$ 311,715</u>	<u>\$ 39,114</u>

The accompanying notes form an integral part of the financial statements.

1. Authority, objectives and operations

In 1978, Parliament enacted the *Northern Pipeline Act* to:

- give effect to an Agreement on Principles Applicable to a Northern Natural Gas Pipeline (*the Agreement*) between the Governments of Canada and the United States;
- establish the Northern Pipeline Agency (the Agency) to oversee the planning and construction of the Canadian portion of the project.

The Agency is designated as a department and named under *Schedule 1.1 of the Financial Administration Act*, reporting to Parliament through the Minister for Natural Resources.

The objectives of the Agency are to:

- 1) carry out and give effect to the Agreement of 20 September 1977 between Canada and the United States underpinning the project;
- 2) carry out, through the Agency, federal responsibilities in relation to the pipeline;
- 3) facilitate the efficient and expeditious planning and construction of the pipeline, taking into account local and regional interests;
- 4) facilitate consultation and coordination with the governments of the provinces and the territories traversed by the pipeline;
- 5) maximize the social and economic benefits of the pipeline while minimizing any adverse social and environmental effects; and
- 6) advance national economic and energy interests and to maximize related industrial benefits by ensuring the highest possible degree of Canadian participation.

On 1 May 1982, the United States, sponsors for the Alaska Highway Gas Pipeline and Foothills Pipe Lines Ltd. (Foothills), announced that the target date for completion had been set back until further notice and all parties scaled down their activities. Work continues to prepare the Agency to meet commitments set out in the Northern Pipeline Act should Foothills decide to proceed with the second stage of the Alaskan Natural Gas Transportation System.

In accordance with Section 29 of the *Northern Pipeline Act* and with 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 is the sole holder of such certificates. The Government of Canada provides funds for working capital through an annual Parliamentary appropriation.

2. Significant accounting policies and provisions of the Regulations

These financial statements have been prepared on an accrual basis of accounting in accordance with Treasury Board of Canada Accounting Standards based on Canadian generally accepted accounting principles.

a) Consolidated Revenue Fund:

The Agency operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements are paid from the CRF. Due from CRF represents the amount of cash that the NPA is entitled to draw from the CRF, without further appropriations, in order to discharge its liabilities.

b) Revenue Recognition:

Revenues are recognized on accrual basis. Deferred revenues represent the accumulation of excess billings over the actual expenses for the last two fiscal years.

c) Services provided without charge by other government departments:

Amounts for services provided without charge by other government departments are recorded as operating expenses based on estimates provided by other government departments. The total amount is collected by the Agency and remitted to the Consolidated Revenue Fund.

d) Receivables:

Receivables are stated at amounts expected to be ultimately realized. A provision is made for receivables where recovery is considered uncertain.

e) Measurement uncertainty:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Deferred revenue is the most significant item where estimates are used. Actual amounts could differ significantly from the current estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

Northern Pipeline Agency
Notes to the Financial Statements
Year ended 31 March 2004

3. Billing Adjustments

	<u>2003</u>	<u>2002</u>
Recoverable operating costs	\$251,415	\$355,115
Deduct: Provisional Billings	<u>(633,154)</u>	<u>(413,685)</u>
Billing Adjustments	<u>\$(381,739)</u>	<u>\$ (58,570)</u>

Deferred revenues, calculated on fiscal year basis, include the billing adjustments. The billing adjustments, calculated on calendar year basis, represent the difference between the provisional billings and the actual recoverable operating costs, in accordance with Section 19 of the *National Energy Board Cost Recovery Regulations*. The recoverable operating costs for the calendar year are calculated using three quarters of the current fiscal year and one quarter of the previous fiscal year's operating costs. The billing adjustments of \$381,739 for 2003 and \$58,570 for 2002 will be applied to the provisional billings of 2005 and 2004 respectively.

4. Easement Fee

In 1983, the Government of Canada, pursuant to Subsection 37(3) of the *Northern Pipeline Act*, granted Foothills Pipe Lines Ltd. a twenty-five year easement upon and under lands in the Yukon Territory. For the right of easement, Foothills Pipe Lines Ltd. 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.

5. Use of Parliamentary Appropriations

The Government of Canada funds the expenses of the Agency through Parliamentary appropriations. All of these expenses are subsequently recovered from Foothills Pipe Lines Ltd. and are deposited in the Consolidated Revenue Fund of the Government of Canada. As a result and reflected in the financial statements, the net cash provided by the Government is zero.

6. Related Party Transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The Agency enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises except that certain services, as defined previously, are provided without charge.

During the year, the Agency received services without charge from the Department of Foreign Affairs and International Trade and the Department of Natural Resources Canada. These include management, accounting and administrative services for an estimated value of \$23,691. This amount has been collected and remitted to the Consolidated Revenue Fund.

Northern Pipeline Agency
Notes to the Financial Statements
Year ended 31 March 2004

Transactions with related parties and balances at year end, not disclosed elsewhere in the financial statements, are as follows:

	2004	2003
Expenses		
Purchases	\$ 80,385	\$112,997
Balances at year end		
Accounts receivable	\$ 87,763	\$ -
Accounts payable	\$ 30,888	\$ 24,495

7. Financial Instruments

The fair values of assets and liabilities approximate the carrying amounts of these instruments due to the short period to maturity.

8. Comparative Figures

Prior year balances have been reclassified to conform to the presentation adopted in 2004.