



**Northern Pipeline Agency
Canada**

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

Annual Report

**for Fiscal Year Ending
31 March 2005**

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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 Natural 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 to the United States. 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 prebuild with United States reserves at Prudhoe Bay in Alaska and possibly also Canadian reserves in the Mackenzie Delta region. Unfavourable economic conditions from the mid-1980s to the beginning of this decade led to indefinite delays in the completion of the ANGTS and a prolonged period of low activity for the Agency. The rapid increase in natural gas prices that began in 2000 has revived interest in the project and the Agency is working actively to develop a regulatory structure, in anticipation of a filing under the *Northern Pipeline Act*.

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

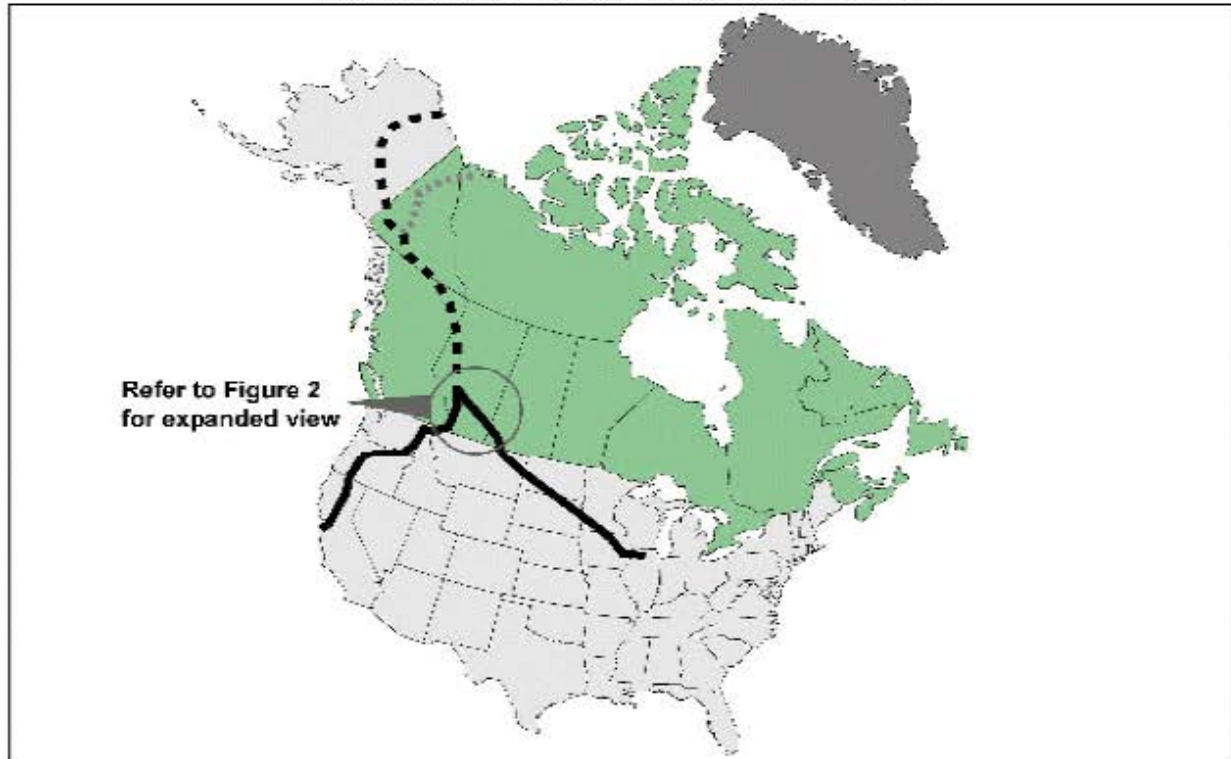
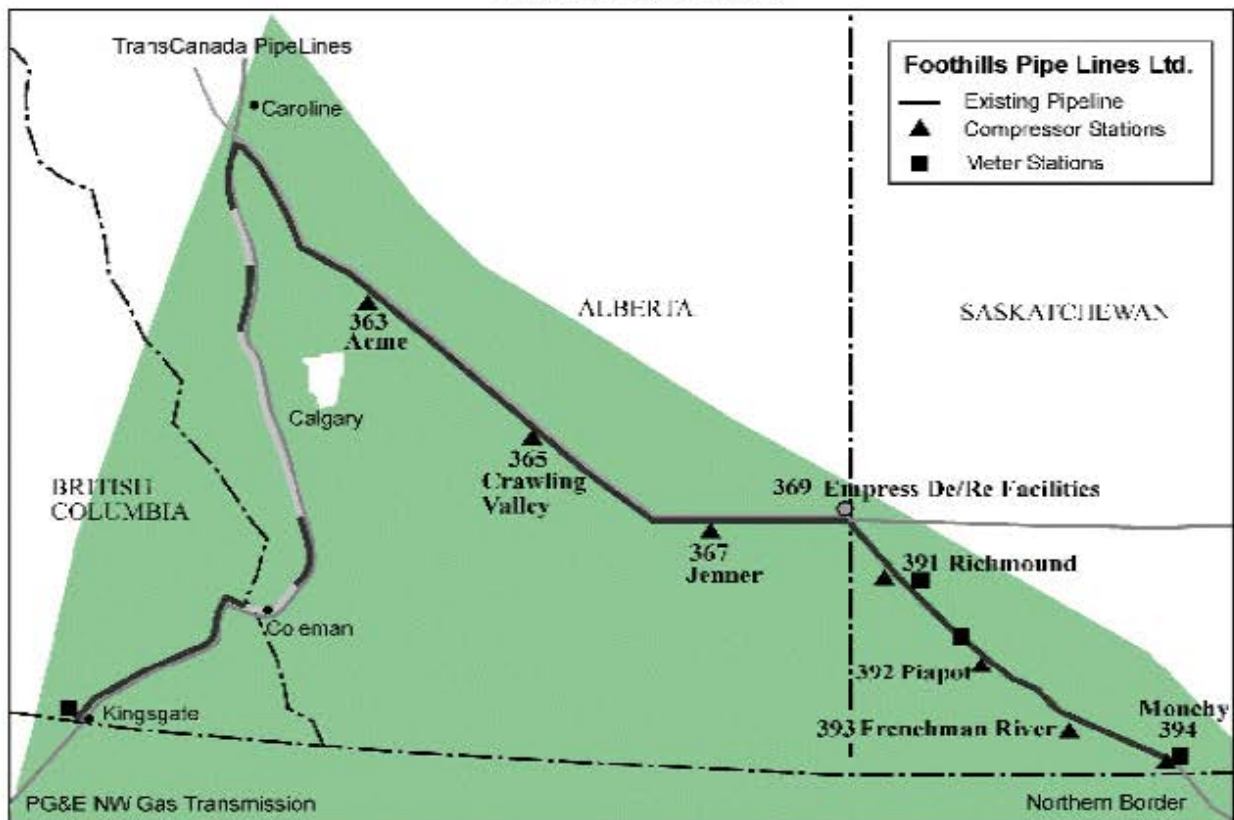


Figure 2:
The Foothills Prebuild



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 2005.

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 2004-2005 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 have adopted 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 are 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 2004-2005 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

The Minister for Natural Resources, the Honourable R. John Efford, 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. The Deputy Minister for Natural Resources Canada, George Anderson, was appointed Commissioner of the Northern Pipeline Agency.

Given the continuing low level of Agency activity, the administrative and technical assistance was provided by National Energy Board until November 30, 2004. Natural Resources Canada took up the responsibility as of December 1, 2004. Natural Resources Canada also provides policy advice to the Northern Pipeline Agency.

Expenditures

Sections 13 and 14 of the *Northern Pipeline 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, 2005 is reproduced as an appendix to this report.

The Agency had requested and received approval to increase its reference level to \$1,363,000 for 2004-2005. 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 \$480,000.

All of the Agency's expenditures are cost recovered from Foothills. Since expenditures in 2004-2005 were significantly below forecast levels, 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 2004-2005.

APPENDIX



AUDITOR'S REPORT

To the Minister of Natural Resources

I have audited the statement of financial position of the Northern Pipeline Agency for the year ended 31 March 2005 and the statements of operations, surplus of Canada and cash flow 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 31 March 2005 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*.

Crystal Pace, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
9 September 2005

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 (GAAP) for public sector entities. 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 judgments. 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.

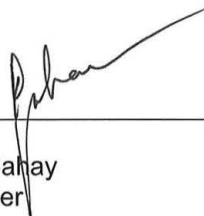
The Agency maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial management information is available on a timely basis, and that assets are acquired economically, used to further the Agency's aims, 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 Natural Resources Canada to provide administrative support for its operation.

The Auditor General of Canada annually provides an independent, objective audit, in accordance with general 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.




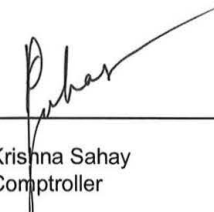
Richard B Fadden
Commissioner



Krishna Sahay
Comptroller

Date: 9 September 2005

Northern Pipeline Agency (NPA)
Statement of Financial Position
As at 31 March

	2005	2004
ASSETS		
Current Assets		
Due from Consolidated Revenue Fund	\$531,200	\$311,715
Receivables	329,422	411,870
Prepayments	<u>-</u>	<u>5,750</u>
	860,622	729,335
Capital Assets (Note 7)	22,101	-
TOTAL ASSETS	<u>\$882,723</u>	<u>\$729,335</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$181,195	\$35,284
Deferred revenue (Note 4)	<u>701,528</u>	<u>694,051</u>
TOTAL LIABILITIES	<u>\$882,723</u>	<u>\$729,335</u>
Surplus of Canada	-	-
TOTAL LIABILITIES AND SURPLUS OF CANADA	<u>\$882,723</u>	<u>\$729,335</u>
Approved by		
		
Richard B. Fadden Commissioner	Krishna Sahay Comptroller	

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

Northern Pipeline Agency (NPA)
Statement of Operations
Year Ended 31 March

	2005	2004
		restated(note3)
REVENUE		
Regulatory revenue	<u>\$479,653</u>	<u>\$222,895</u>
EXPENSES		
Salaries and wages	\$250,427	\$101,921
Professional and special services	96,024	56,133
Transportation and communications	43,868	18,790
Equipment expense	31,475	-
Rentals	25,522	9,972
Repairs and maintenance	16,479	10,500
Service provided without charge (Note 8)	10,013	23,691
Information	3,345	1,888
Materials and supplies	2,362	-
Other	<u>137</u>	<u>-</u>
TOTAL RECOVERABLE EXPENSES	\$479,653	\$222,895
NON-RECOVERABLE SERVICES PROVIDED WITHOUT CHARGE (Note 8)	<u>115,254</u>	<u>31,410</u>
NET COST OF OPERATIONS	<u>(\$115,254)</u>	<u>(\$31,410)</u>

Statement of Surplus of Canada
Year ended 31 March

	2005	2004
Balance at beginning of year	-	-
Net Cost of Operations	(\$115,254)	(\$31,410)
Fees collected on behalf of Canada	26,400	27,594
Recoverable Services Provided Without Charge	(10,013)	(23,691)
Net Cash Provided by Government	<u>98,867</u>	<u>27,507</u>
Balance at end of year	<u>-</u>	<u>-</u>

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

Northern Pipeline Agency (NPA)
Statement of Cash Flows
Year Ended 31 March

	2005	2004
Operating Activities		
Net cost of operations	(\$115,254)	(\$31,410)
<i>Adjustment for non-cash items</i>		
Services provided without charge	115,254	31,410
Amortization of capital assets	2,692	-
	2,692	-
<i>Change in working capital</i>		
(Increase)decrease in Current assets	88,198	(110,049)
Increase(decrease) in Accounts payable & Current liabilities	145,911	(9,213)
Increase in Deferred revenue	7,477	391,833
Cash flows from operating activities	244,278	272,571
Investing activities		
Acquisition of Capital assets	(24,793)	-
Cash flows used in investing activities	(24,793)	-
Financing activities		
Easement Fee collected on behalf of governments	30,400	30,400
Easement Fee remitted to the governments	(30,400)	(30,400)
Cash flows from financing activities	-	-
Increase for the year	219,485	272,571
Due from Consolidated Revenue Fund, Beginning of Year	311,715	39,144
Due from Consolidated Revenue Fund, End of Year	\$ 531,200	\$ 311,715

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

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2005

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 of America;
- 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 I.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 September 20, 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.

In 1982, the sponsors of the Pipeline 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

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2005

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 Canadian general accepted accounting principles (GAAP) for public sector entities.

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/Deferred revenue:

Regulatory revenue consists of the Agency's expenses recovered from Foothills. Deferred revenue represents 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 of actual cost provided by other government departments. Recoverable amounts are included in the expenses recovered from Foothills.

d) Receivables:

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

e) Employee future benefits

Future benefits for employees seconded to the Agency are funded by the employee's home-base department. Estimated costs are included in the employee benefits charged to the Agency.

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2005

Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Agency's contributions reflect the full cost as employer. This amount is currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Agency's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Agency. The Agency is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan. Pension expense is included in Salaries and wages. The Agency contributes to the pension plan for one employee.

f) Capital Assets

Capital assets owned by the Agency are valued at cost, net of accumulated amortization. Amortization is calculated using the straight-line method, over the estimated useful life of the assets as follows:

Office furniture and equipment	10 years
Computers, software and electronic equipment:	4 years

g) 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.

3. Change in Accounting Policy

The Agency has received audit services without charge from the Office of the Auditor General of Canada (OAG) every year. Starting this year, this cost is included under Non-Recoverable Services Provided without Charge in the Statement of Operations to fully disclose the total cost involved in operating the Agency. This change in accounting policy has been applied retroactively. The cost of the audit services provided by the OAG was \$31,410 for the year ended

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2005

31 March 2004. The financial statements for the year ended March 31, 2004 have been restated as follows:

	2004 restated	2004 as previously stated
Statement of Operations		
Non-recoverable service provided without charge	\$31,410	-
Net cost of operations	(\$31,410)	-

4. Billing adjustments

	January to December	
	2004	2003
Actual Expenses:		
One quarter of prior fiscal year's expenses	\$55,724	\$84,243
Three quarter of current fiscal year's expenses	359,740	167,172
	415,464	251,415
Less provisional billings	(706,785)	(633,154)
Billing Adjustment	<u>(\$291,321)</u>	<u>(\$381,739)</u>

Deferred revenue, calculated on a fiscal year basis, includes the billing adjustments. The billing adjustments, calculated on a 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 \$291,321 for 2004 and \$381,739 for 2003 will be applied to the provisional billings of 2006 and 2005 respectively.

5. Easement fee

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

Northern Pipeline Agency

Notes to the Financial Statements

Year ended 31 March 2005

easement, Foothills Pipe Lines Ltd. is to pay the Agency an annual amount of \$30,400; of this annual amount, \$4,000 (2004 - \$2,806) is collected on behalf of and forwarded directly to the Government of the Yukon Territory. The balance of \$26,400 (2004 - \$27,594) was remitted to the Government of Canada by the Agency.

6. 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 Line Ltd. and are deposited in the Consolidated Revenue Fund of the Government of Canada. As a result the net cash provided by the Government represents the cost of the services provided to the Agency without charge by other government departments.

7. Capital Assets

In 2004, the Agency furnished a new office and acquired capital assets. No capital assets were recorded in prior year.

	Cost	Accumulated Amortization	Net book value 2005	Net book value 2004
Office furniture and equipment	\$7,527	\$410	\$7,117	-
Computers, software and electronic equipment	<u>17,266</u>	<u>2,282</u>	<u>14,984</u>	-
	<u>\$24,793</u>	<u>\$2,692</u>	<u>\$22,101</u>	-

8. 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.

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2005

During the year, the Agency received services without charge from the Department of Natural Resources Canada. These include management and administrative services with an estimated value of \$111,866. Out of \$111,866, \$10,013 has been included in the Agency's expenses collected from Foothills and remitted to the Consolidated Revenue Fund. The Agency also received audit services without charge from the Office of the Auditor General of Canada and the total cost was \$13,401 for the year.

Transactions with related parties and balances as year end, not disclosed elsewhere in the financial statements, are as follows. Currently Northern Pipeline Agency is renting it's office space from Natural Resources Canada and it's storage space from Public Works and Government Services Canada. The rent is included under Expenses as follows.

	<u>2005</u>	<u>2004</u>
Expenses	\$54,203	\$80,385
Balances at year end		
Accounts receivable	\$85,606	\$87,763
Accounts payable	\$169,808	\$30,888

9. Financial Instruments

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

10. Comparative Figures

Prior year balances have been reclassified to conform to the presentation adopted in 2005.