Northern Pipeline Agency

Annual Report

For Fiscal Year Ending 31 March 2006

Canada

Northern Pipeline Agency Canada
Administration du pipe-line du Nord Canada

Commissioner
Directeur général

580 Booth Street
Ottawa, Ontario
K1A 0E4

580, rue Booth
Ottawa (Ontario)
K1A 0E4

Ottawa, Ontario
22 January 2007

Dear Minister:

I present herewith the Annual Report of the Northern Pipeline Agency for the fiscal year ending 31 March 2006, 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,

C.J. Doyle

Cassie J. Doyle

The Honourable Gary Lunn, P.C., M.P.
Minister of Natural Resources
and Minister responsible for the Northern Pipeline Agency
Ottawa, Ontario

Canada

Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

Annual Report

for Fiscal Year Ending
31 March 2006

Cat No. M175-2006
ISBN 0-662-69552-6

This report is published separately in both official languages

Copies are available on request from:

Northern Pipeline Agency
615 Booth Street, 4th Floor
Ottawa, ON K1A 0E9

E-mail: dsaikely@nrcan-rncan.gc.ca
Fax: (613) 996-5354
Phone: (613) 995-1150

Printed in Canada

Table of Contents

List of Figures

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 over the past few years, and the February 2006 announcement that the Alaska Administration and the North Slope natural gas producers (British Petroleum, ExxonMobil and ConocoPhillips) reached agreement on a draft natural gas pipeline fiscal contract, revived interest in the project. However, the draft natural gas fiscal contract did not receive Alaskan Legislative support. New Alaskan Governor, Sarah Palin, has vowed to make an Alaska natural gas pipeline a priority for her government. The Agency will continue to work to collaboratively 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

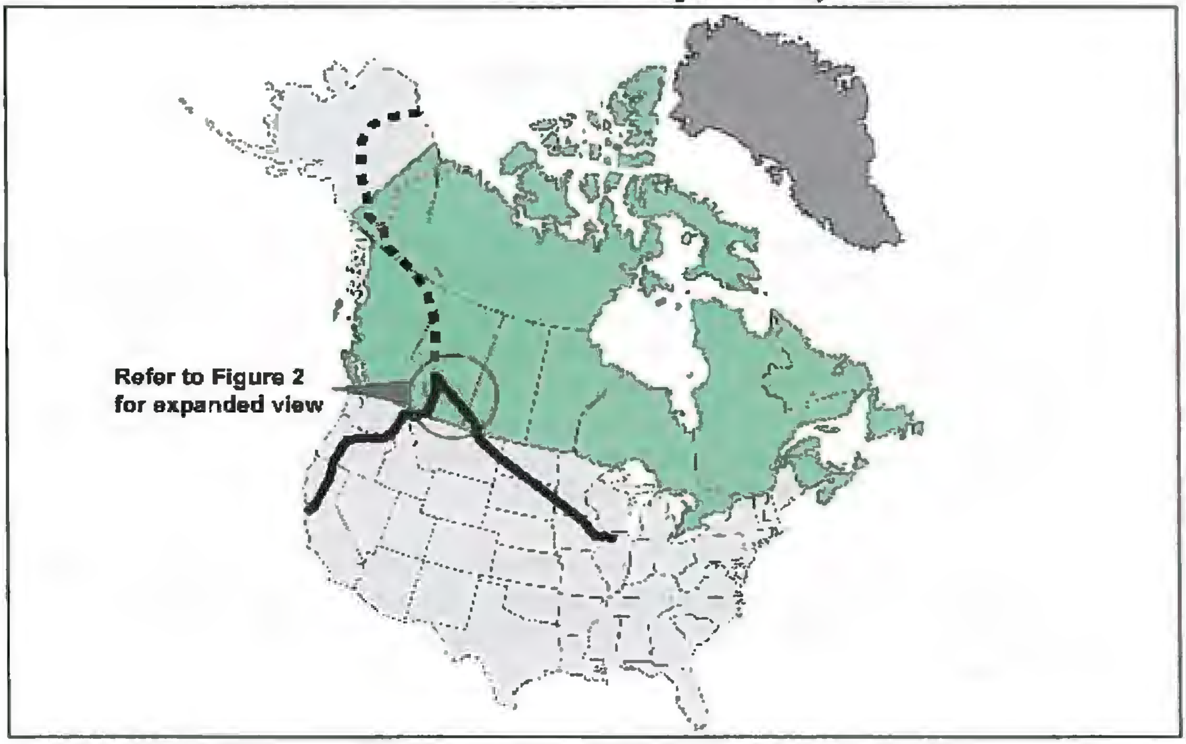
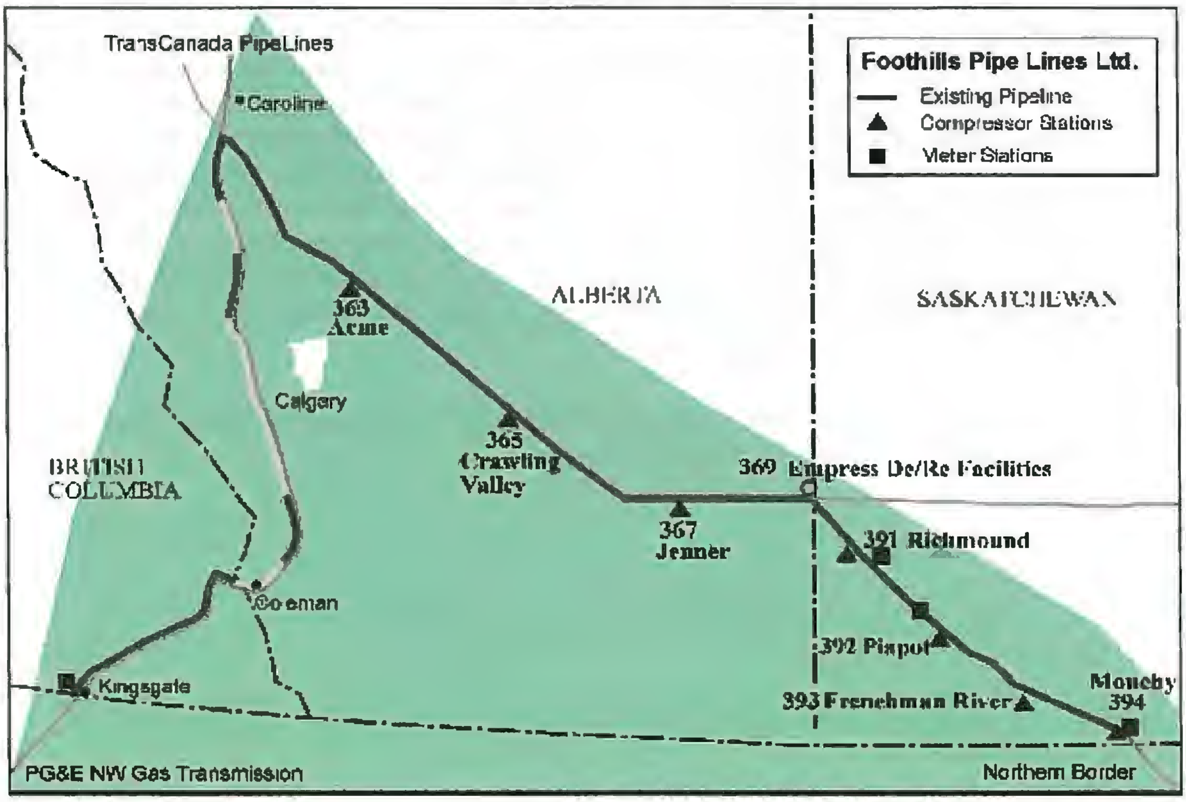


Figure 2:
The Foothills Prebuild



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 2006.

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 dsaikely@nrcan.gc.ca, or by mail to Northern Pipeline Agency, 615 Booth Street- Room 412, Ottawa, Ontario, K1A 0E9.

Key 2005-2006 Activities

Perceptions of increasing North American demand for natural gas and declining supply from traditional sources maintained the interest in exploring options for bringing Northern (Alaska and Mackenzie Delta) natural gas to market. The US Energy Policy Act of 2005 provided the comprehensive framework to enhance the United States' domestic energy production and its security of supply.

The Alaskan Administration and the North Slope Producers agreement on the components of a draft natural gas fiscal contract in February 2006 lead to further activities by the United States government to prepare for the project.

In June 2006, the Federal Interagency Memorandum of Understanding (MOU) for the Alaska Natural Gas Transportation Project was fully signed and executed by senior executives and heads from 15 United States federal departments and agencies. The signing of the MOU demonstrated that the federal agencies are prepared to work together to expedite the permitting and construction of an Alaska natural gas pipeline project.

Also in June 2006, President George W. Bush nominated Drue Pearce, to be the Federal Coordinator, and head the Office, for Alaska Natural Gas Transportation Projects. The Federal Coordinator shall be responsible for coordinating the expeditious actions of all Federal agencies with respect to an Alaska natural gas transportation project and ensuring compliance of the Federal agencies with the provisions and deadlines of the Alaska Natural Gas Pipeline Act.

In this environment in 2005-2006, the Agency was called upon to respond to enquiries related to the *Northern Pipeline Act* and to prepare the Agency to meet commitments set out in the *Act*. The Agency also undertook a file classification project, to attempt to organize and coordinate its records in advance of a fiscal agreement between the State of Alaska and the North Slope Producers, and therefore a filing under the *Northern Pipeline Act*.

Ultimately, the draft natural gas fiscal contract did not receive Alaskan Legislative support in 2006. The new Alaska Administration has declared the natural gas pipeline a priority for its government in 2007.

Organization

The Minister for Natural Resources, the Honourable Gary Lunn, 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, Cassie J. Doyle, was appointed Commissioner of the Northern Pipeline Agency.

Natural Resources Canada, given the low level of Agency activity, provides administrative and technical assistance to the Agency. Natural Resources Canada also provides policy advice to the 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, 2006 is reproduced as an appendix to this report.

The Agency had requested and received its reference level to $1,355,000 for 2005-2006. This request was in anticipation of activities forecasted by Foothills. Final expenditures for the year totalled approximately $635,000. All of the Agency's operating expenses are cost recovered from Foothills.

APPENDIX

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

To the Minister of Natural Resources

I have audited the statement of financial position of the Northern Pipeline Agency as at March 31, 2006 and the statements of operations, equity 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 March 31, 2006 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 of the Agency that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Northern Pipeline Act* and regulations, the *National Energy Board Cost Recovery Regulations* and the by-laws of the Agency.

Crystal Pace, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
August 11, 2006

Statement of Management Responsibility

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 Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles (GAAP) for the public sector. 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.

Management maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial 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 maintains a system of internal controls and approved policies, practices and procedures that 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 Canadian generally accepted auditing standards, and expresses an opinion on the financial statements of the Agency.

Cassie J. Doyle Commissioner	Philip Jennings Acting Assistant Commissioner and Comptroller

Ottawa, Canada
August 11, 2006

Northern Pipeline Agency
Statement of Financial Position
As at March 31

	2006	2005
ASSETS		
Financial assets		
Due from Consolidated Revenue Fund	$1,075,899	$531,200
Accounts receivable and advances (Note 7)	74,375	329,422
	1,150,274	860,622
Non-financial assets		
Tangible capital assets (Note 6)	17,032	22,101
TOTAL ASSETS	**$1,167,306**	**$882,723**
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$157,981	$181,195
Deferred revenue (Note 4)	1,009,325	701,528
TOTAL LIABILITIES	**1,167,306**	**882,723**
Equity of Canada	-	-
TOTAL LIABILITIES AND EQUITY OF CANADA	**$1,167,306**	**$882,723**

Contractual obligations (Note 8)

Approved by:

C. J. Doyle

Cassie J. Doyle
Commissioner

Philip Jennings
Acting Assistant Commissioner
and Comptroller

The accompanying notes form an integral part of the financial statements

Northern Pipeline Agency
Statement of Operations
For the Year Ended March 31

	2006	2005
REVENUE		
Regulatory revenue	$635,486	$479,653
OPERATING EXPENSES		
Salaries and employee benefits	$313,707	$260,441
Professional and special services	204,278	96,024
Transportation and communication	60,228	43,868
Rentals	42,496	25,522
Amortization and acquisition of equipment	6,276	31,475
Utilities, materials and supplies	4,059	2,362
Information	1,795	3,345
Repairs and maintenance	692	16,479
Other	1,955	137
TOTAL RECOVERABLE EXPENSES	**635,486**	**479,653**
NON-RECOVERABLE SERVICES PROVIDED WITHOUT CHARGE (Note 7)	66,627	115,254
NET COST OF OPERATIONS	**$66,627**	**$115,254**

Statement of Equity of Canada
For the Year Ended March 31

	2006	2005
Equity of Canada, beginning of the year	$ -	$ -
Net cost of operations	(66,627)	(115,254)
Change in due from Consolidated Revenue Fund	544,699	219,485
Non-recoverable services received without charge	66,627	115,254
Net cash provided to Government	(544,699)	(219,485)
Equity of Canada, end of the year	**$ -**	**$ -**

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

Northern Pipeline Agency
Statement of Cash Flow
For the Year Ended March 31

	2006	2005
Operating Activities		
Net cost of operations	$66,627	$115,254
Adjustment for non-cash items		
Services received without charge	(66,627)	(115,254)
Amortization of tangible capital assets	(5,069)	(2,692)
	(5,069)	(2,692)
Variations in the Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	(255,047)	(88,198)
(Increase) decrease in accounts payable and accrued liabilities	23,214	(145,911)
(Increase) in deferred revenue	(307,797)	(7,477)
Cash provided by operating activities	(544,699)	(244,278)
Investment Activities		
Acquisitions of tangible capital assets	-	24,793
Cash used by investment activities	-	24,793
Financing Activities		
Net cash provided to Government of Canada	$ (544,699)	$ (219,485)

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 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 of 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 Pipe Lines Ltd. 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 of 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

These financial statements have been prepared in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles for the public sector.

a) Parliamentary appropriations:

The Agency is financed by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Agency do not parallel financial reporting according to generally accepted accounting principles since appropriations are primarily based on cash flow requirements. Consequently, items recognized in the statement of operations and the statement of financial position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.

b) Net cash provided by (to) Government:

The Agency operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the department is deposited to the CRF and all cash disbursements made by the department are paid from the CRF. The net cash provided by (to) the Government is the difference between all cash receipts and all cash disbursements including transactions between departments of the federal government.

c) Due from the Consolidated Revenue Fund:

Due from the Consolidated Revenue Fund (CRF) represents the amount of cash that the Agency is entitled to draw from the Consolidated Revenue Fund without further appropriations, in order to discharge its liabilities.

d) Revenue/Deferred revenue:

Revenues from regulatory fees recovered from Foothills are recognized in the accounts based on the services provided in the year.

Revenues that have been received but not yet earned are recorded as deferred revenues. Deferred revenues represent the accumulation of excess billings over the actual expenses for the last two fiscal years.

e) Expenses:

Expenses are recorded on the accrual basis.

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.

Services received without charge from other government departments are recorded as operating expenses at their estimated cost.

f) Accounts receivable:

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

g) 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.

Pension benefits:

All eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. The Agency's contributions to the Plan are charged to expenses in the year incurred and represent the Agency's total obligation to the Plan. Current legislation does not require the Agency to make contributions for any actuarial deficiency of the Plan.

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 contributes to the pension plan for one employee.

h) Tangible capital assets:

All tangible capital assets and leasehold improvements having an initial cost of $1,000 or more are recorded at their acquisition cost. Tangible 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
Informatics hardware	4 years

i) Measurement uncertainty:

The preparation of these financial statements in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported on the financial statements. 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 those estimated. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

3. Parliamentary Appropriations

The Government of Canada funds the expenses of the Agency through Parliamentary appropriations. Items recognized in the statement of operations and the statement of financial position in one year may be funded through Parliamentary appropriations in prior, current or future years. Accordingly, the Agency has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled as follows:

a) Reconciliation of net cost of operations to current year appropriations used:

	2006	2005
Net cost of operations	$66,627	$115,254
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services received without charge	(66,627)	(115,254)
Amortization of tangible capital assets	(5,069)	(2,692)
Revenue not available for spending	635,486	479,653
Vacation pay and compensatory leave	1,026	1,808
Other	(4,000)	(5,673)
	627,443	473,096
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of tangible capital assets	-	24,793
Change in prepaid expenses	-	(5,750)
Other: Yukon easement services	-	4,000
Current year appropriations used	$627,443	$496,139

b) Appropriations provided and used:

	2006	2005
Vote 35 - Program expenditures	$1,252,000	$1,316,600
Statutory amounts	29,025	33,922
Lapsed appropriations	(653,582)	(854,383)
Current year appropriations used	$627,443	$496,139

c) Reconciliation of net cash provided to Government to Parliamentary appropriations used:

	2006	2005
Net cash provided to Government	$(544,699)	$(219,485)
Revenue not available for spending	635,486	479,653
Change in net position in the Consolidated Revenue Fund:		
Variation in accounts receivable & advances	255,047	82,448
Variation in accounts payable & accrued liabilities	(23,214)	145,911
Variation in deferred revenue / other liabilities	307,797	7,477
Other	(2,974)	135
Current year appropriations used	$627,443	$496,139

4. Deferred Revenue

Deferred revenue, calculated on a fiscal year basis, includes the billing adjustments.

	January to December	
	2005	2004
Actual Expenses:		
One quarter of prior fiscal year's expenses	$119,913	$55,724
Three quarters of current fiscal year's expenses	476,614	359,740
	596,527	415,464
Less provisional billings	(1,357,000)	(706,785)
Billing Adjustment	$(760,473)	$(291,321)

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 $760,473 for 2005 and $291,321 for 2004 will be applied to the provisional billings of 2007 and 2006 respectively and used in the calculation of the 2006 and 2005 deferred revenue respectively.

	2006	2005
Three quarters of prior fiscal year's billing adjustment	$ 218,491	$ 286,304
Current fiscal year billing adjustment	760,473	291,321
Last quarter billing of current fiscal year	189,232	243,815
One quarter of current fiscal year's expenses	(158,871)	(119,912)
Deferred Revenue	$1,009,325	$701,528

5. 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; of this annual amount, $2,806 (2005 - $2,806) is collected on behalf of and forwarded directly to the Government of the Yukon Territory. The balance of $27,594 (2005 - $27,594) was remitted to the Government of Canada by the Agency. This fee is not accounted for in these financial statements.

6. Tangible Capital Assets

There were no acquisitions or disposals of tangible capital assets in 2006.

	Cost	Accumulated Amortization	Net book value 2006	Net book value 2005
Office furniture and equipment	$7,527	$1,163	$6,364	$7,117
Informatics hardware	17,266	6,598	10,668	14,984
Total	$24,793	$7,761	$17,032	$22,101

Amortization expense for the year ended March 31, 2006 is $5,069 (2005 - $2,692)

7. Related Party Transactions

The Agency is related as a result 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 Natural Resources Canada for the Commissioner's time at an estimated value of $5,732 (2005 - $10,013). The Agency also received audit services without charge from the Office of the Auditor General of Canada and the total cost was $60,895 (2005 - $13,401) for the year.

Receivables and payables outstanding at year-end with related parties are as follows:

	2006	2005
Balances at year end		
Accounts receivable with other government departments and agencies	$73,975	$85,606
Accounts payable to other government departments and agencies	$134,513	$169,808

8. Contractual Obligations

The nature of the Agency's activities can result in some large multi-year contracts and obligations whereby the Agency will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	2007	2008	2009	Total
Operating lease	$10,026	$10,026	$10,026	$30,078

9. Comparative Figures

Comparative figures have been reclassified to conform to the current year's presentation.