
Northern Pipeline Agency

Annual Report

**For Fiscal Year Ended
March 31, 2009**



**Northern Pipeline Agency
Canada**

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

Annual Report

**for Fiscal Year Ended
March 31, 2009**

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Overview

The Northern Pipeline Agency (the Agency) was created by the *Northern Pipeline Act* (the Act) in 1978 to carry out federal responsibilities in respect of the planning and construction by Foothills Pipe Lines Limited (Foothills) of the Canadian portion of the Alaska Natural Gas Transportation System (ANGTS).

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 1980s for the initial purpose of transporting gas sourced from Western Canada to the United States (U.S.). The current flow capacity of the Prebuild is approximately 3.3 billion cubic feet per day (Bcf).

Figures 1 and 2 show the proposed route of the ANGTS in Canada and the U.S., and also show details of the existing Prebuild in Canada.

The second stage of the project would link the Prebuild with U.S. reserves at Prudhoe Bay in Alaska. 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. In 2008, TransCanada Alaska PipeLines was selected by the State of Alaska under the *Alaska Gasline Inducement Act* (AGIA) to receive up to \$500 million in State assistance to pursue an Alaska gas pipeline. The large-scale project would transport 4–5 Bcf per day of natural gas in a buried 48-inch, high-pressure pipeline from Prudhoe Bay, Alaska, to markets in Canada and the lower 48 states. Project costs have been estimated at \$26 billion by TransCanada.

TransCanada has communicated its project time-line (see figure 3) to the Northern Pipeline Agency (NPA), including its intention to proceed with planning for the Canadian portion of the project, and has asked the Agency to undertake various preparatory activities.

Figure 1:
The Alaska Natural Gas Transportation System

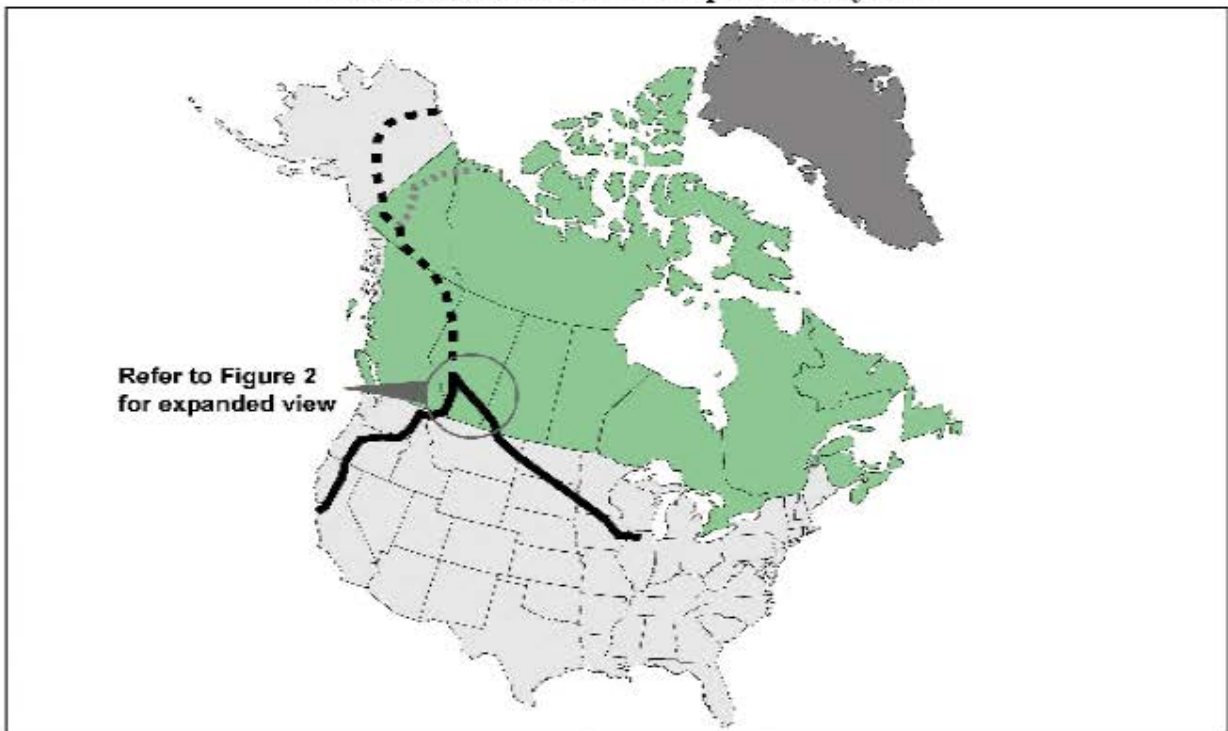


Figure 2:
The Foothills Prebuild

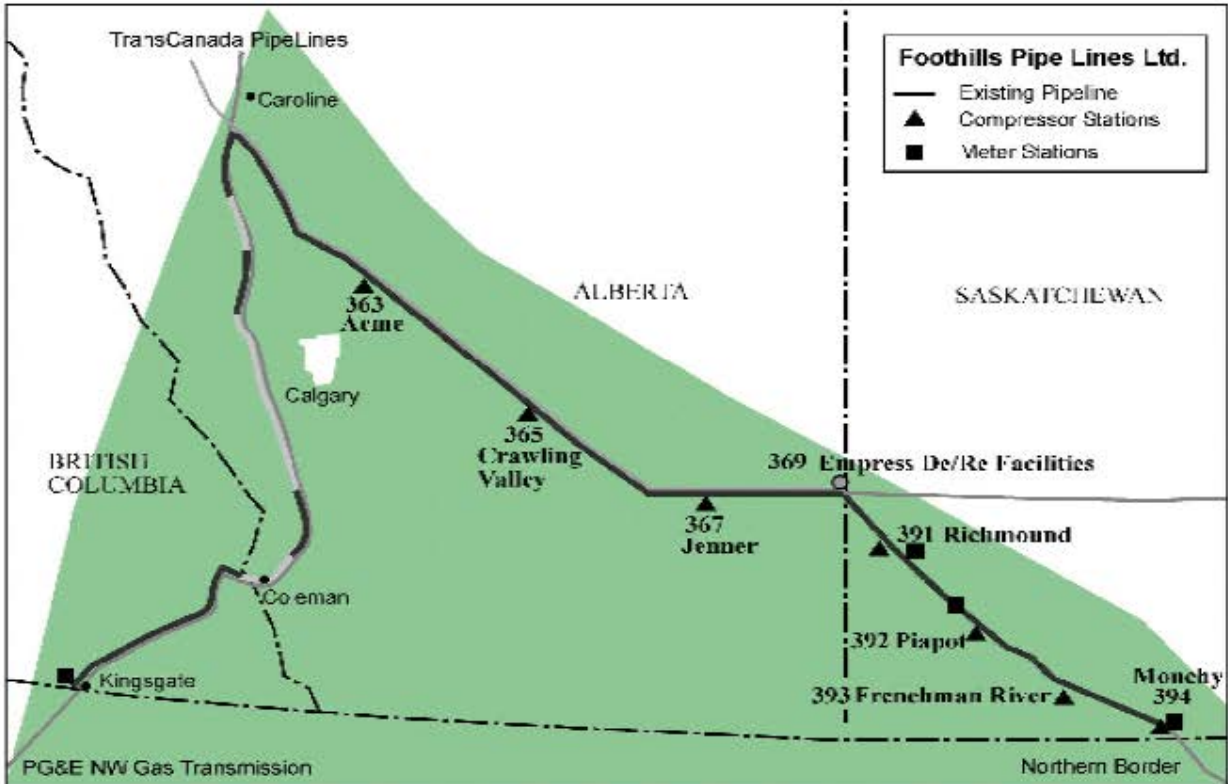
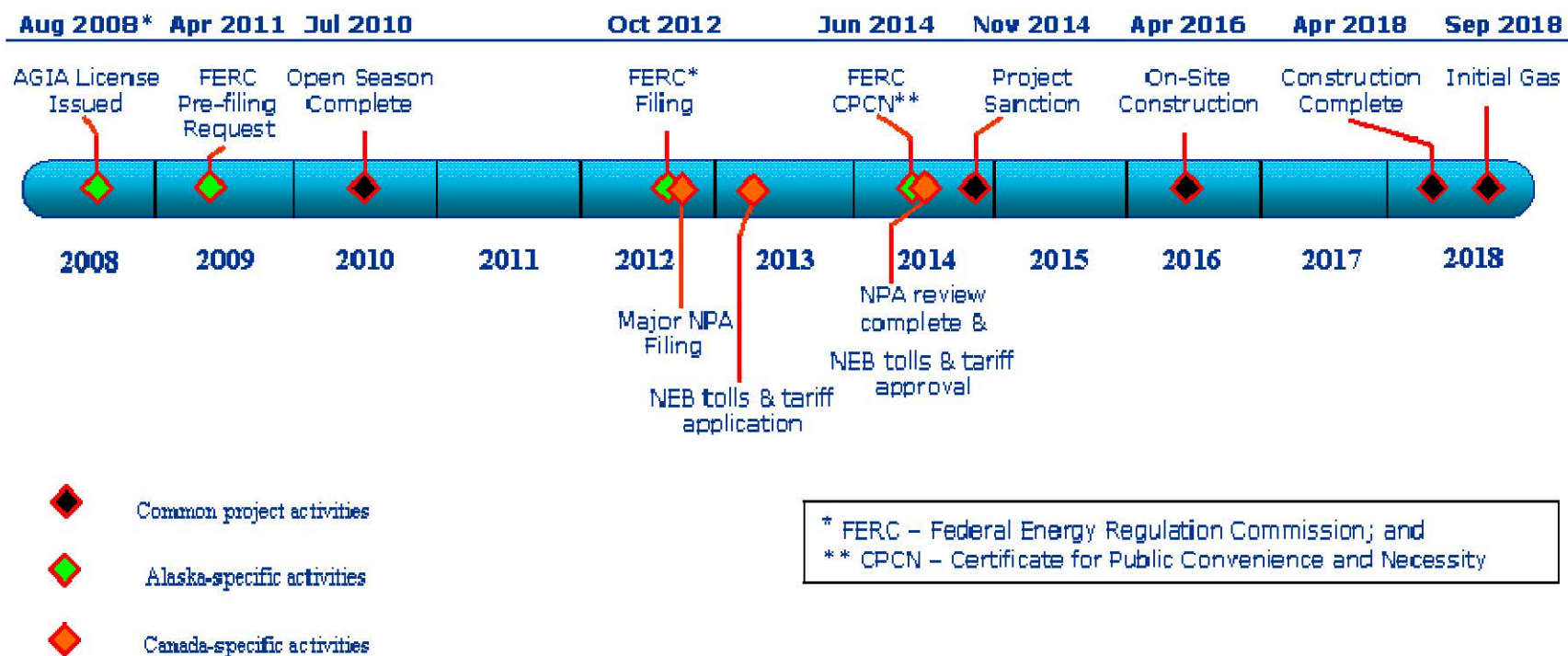


Figure 3: Project Schedule (Source: TransCanada)



* AGIA license assumed to be issued in August 2008 – actual date December 5, 2008

Background Information

For further background information on the ANGTS and the Agency's roles and responsibilities, reference may be made to the Agency's Departmental Performance Report for the period ending March 31, 2009.

This report may be accessed through the Treasury Board Secretariat's Web site at www.tbs-sct.gc.ca/rma. To obtain a hardcopy please contact:

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Key 2008–2009 Activities

In December 2008, the Agency began a search for a full-time Assistant Commissioner to begin delivering on the responsibilities of the Government of Canada that are embodied in the *1977 Canada-US Agreement* and the *Northern Pipeline Act* by continuing to work with TransCanada PipeLines Limited and with federal agencies, provincial and territorial governments and with First Nations. An Assistant Commissioner was hired in July 2009 and the Agency is anticipating a need for additional human resources in 2009–2010, as activity under the Act increases.

In 2008–2009, the Agency was called upon to respond to enquiries related to the proposed construction of Phase II of the pipeline and to begin preparing to meet its responsibilities as set out in the Act.

Under the *Northern Pipeline Act*, the NPA can be called to undertake a number of activities:

- Facilitate the efficient and expeditious planning and construction of the pipeline taking into account local and regional interests, the interests of the residents, particularly the native people, and recognizing the responsibilities of the

Government of Canada and other governments, as appropriate, to ensure that any native claim related to the land on which the pipeline is to be situated is dealt with in a just and equitable manner;

- Facilitate, in relation to the pipeline, consultation and coordination with the governments of the provinces, the Yukon Territory and the Northwest Territories;
- Maximize the social and economic benefits from the construction and operation of the pipeline while at the same time minimizing any adverse effect on the social and environmental conditions of the areas most directly affected by the pipeline; and
- Advance national economic and energy interests and to maximize related industrial benefits.

Organization

The Honourable Christian Paradis is the Minister responsible for the management and direction of the Northern Pipeline Agency.

The Act provides for the Agency Deputy Head, called the Commissioner, to be appointed by Governor in Council. The Deputy Minister for Natural Resources Canada, Cassie J. Doyle, is the Commissioner of the Agency.

The day-to-day operation of the Agency is managed by a full-time Assistant Commissioner. The Act provides for independent regulatory decision-making by a Designated Officer who must be a member of the National Energy Board.

Natural Resources Canada (NRCan), given the low level of Agency activity, provides administrative and technical assistance to the Agency.

Expenditures

Sections 13 and 14 of 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, 2009, is reproduced as an appendix to this report.

The Agency had requested and received a reference level of \$265,000 for 2008–2009. This request was in anticipation of activities forecast by Foothills. Final expenditures for the year totalled \$148,060. All of the Agency's operating expenses are cost recovered from Foothills.

APPENDIX

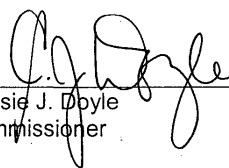
Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2009 and all information contained in these statements rests with the Agency's management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector.

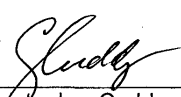
Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment and gives due consideration to materiality. To fulfil its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of the Agency's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Agency's *Departmental Performance Report* and *Annual Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout the Agency.

The financial statements of the Agency have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.



Cassie J. Doyle
Commissioner



Christopher Cuddy
Assistant Commissioner

Ottawa, Canada
August 14, 2009



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, 2009 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 statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2009 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 14, 2009

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

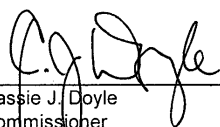
**Northern Pipeline Agency
Statement of Financial Position
As at March 31**

	2009	2008
ASSETS		
Financial assets		
Due from Consolidated Revenue Fund	\$801,402	\$911,763
Accounts receivable and advances (Note 7)	<u>20,557</u>	<u>26,785</u>
	821,959	938,548
Non-financial assets		
Tangible capital assets (Note 6)	<u>4,106</u>	<u>6,894</u>
TOTAL ASSETS	<u><u>\$826,065</u></u>	<u><u>\$945,442</u></u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	\$33,127	\$4,444
Deferred revenue (Note 4)	<u>792,938</u>	<u>940,998</u>
TOTAL LIABILITIES	826,065	945,442
Equity of Canada	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND EQUITY OF CANADA	<u><u>\$826,065</u></u>	<u><u>\$945,442</u></u>

Contractual obligations (Note 8)

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

Approved by:


Cassie J. Doyle
Commissioner


Christopher Cuddy
Assistant Commissioner

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

	2009	2008
REVENUE		
Regulatory revenue	<u>\$148,060</u>	<u>\$137,451</u>
OPERATING EXPENSES		
Professional and special services	\$89,095	\$88,965
Rentals	41,180	27,337
Salaries and employee benefits	9,629	7,708
Amortization	2,788	5,069
Transportation and communication	2,751	7,607
Information	2,603	716
Other	<u>14</u>	<u>49</u>
TOTAL RECOVERABLE EXPENSES	148,060	137,451
NON-RECOVERABLE SERVICES PROVIDED WITHOUT CHARGE (Note 7)	<u>56,385</u>	<u>48,888</u>
NET COST OF OPERATIONS	<u>\$56,385</u>	<u>\$48,888</u>

**Statement of Equity of Canada
For the Year Ended March 31**

	2009	2008
Equity of Canada, beginning of the year	\$ -	\$ -
Net cost of operations	(56,385)	(48,888)
Change in due from Consolidated Revenue Fund	(110,361)	(79,778)
Non-recoverable services received without charge	56,385	48,888
Net cash provided by Government	<u>110,361</u>	<u>79,778</u>
Equity of Canada, end of the year	<u>\$ -</u>	<u>\$ -</u>

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

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

	2009	2008
Operating Activities		
Net cost of operations	\$56,385	\$48,888
<i>Adjustment for non-cash items</i>		
Services received without charge (Note 7)	(56,385)	(48,888)
Amortization of tangible capital assets	(2,788)	(5,069)
	(2,788)	(5,069)
<i>Variations in the Statement of Financial Position</i>		
(Decrease) in accounts receivable and advances	(6,228)	(55,609)
(Increase) decrease in accounts payable and accrued liabilities	(28,683)	3,005
Decrease in deferred revenue	148,060	137,451
Cash used by operating activities	110,361	79,778
Financing Activities		
Net cash provided by Government of Canada	<u>\$ (110,361)</u>	<u>\$ (79,778)</u>

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

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

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.

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

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 Government:

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

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

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, including pension benefits, providing services to the Agency are funded by the employee's home-base department. Estimated costs are included in the employee benefits charged to the Agency.

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

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

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 in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Deferred revenue, salaries and employee benefits are the most significant items 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 parliamentary appropriations used:

	2009	2008
Net cost of operations	\$56,385	\$48,888
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services received without charge	(56,385)	(48,888)
Amortization of tangible capital assets	(2,788)	(5,069)
Revenue not available for spending	148,060	137,451
Other	(5,554)	4,085
	139,718	136,467
Current year appropriations used	<u>\$139,718</u>	<u>\$136,467</u>

Northern Pipeline Agency

Notes to the Financial Statements
Year ended 31 March 2009

b) Appropriations provided and used:

	2009	2008
Vote 35 - Program expenditures	\$256,200	\$287,500
Statutory amounts	1,011	1,857
Lapsed appropriations	(117,493)	(152,890)
Current year appropriations used	\$139,718	\$136,467

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

	2009	2008
Net cash provided by Government	\$110,361	\$79,778
Revenue not available for spending	148,060	137,451
Change in net position in the Consolidated Revenue Fund:		
Variation in accounts receivable & advances	6,228	55,609
Variation in accounts payable & accrued liabilities	28,683	(3,005)
Variation in deferred revenue / other liabilities	(148,060)	(137,451)
Other	(5,554)	4,085
Current year appropriations used	\$139,718	\$136,467

4. Deferred Revenue

Deferred revenue consists of:

	2009	2008
Opening Balance	\$940,998	\$1,078,449
Recoverable expenses of current fiscal year	(148,060)	(137,451)
Deferred Revenue	\$792,938	\$940,998

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

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 (2008 - \$2,806) is collected on behalf of and forwarded directly to the Government of the Yukon Territory. The balance of \$27,594 (2008 - \$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 2009.

	Cost	Accumulated Amortization	Net book value 2009	Net book value 2008
Office furniture and equipment	\$7,527	\$3,421	\$4,106	\$4,859
Informatics hardware	17,266	17,266	-	2,035
Total	<u>\$24,793</u>	<u>\$20,687</u>	<u>\$4,106</u>	<u>\$6,894</u>

Amortization expense for the year ended March 31, 2009 is \$2,788 (2008 - \$5,069)

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.

Northern Pipeline Agency

Notes to the Financial Statements Year ended 31 March 2009

a) Services provided without charge:

These services without charge have been recognized in the Agency's Statement of Operations as follows:

	2009	2008
Audit services provided by the Office of the Auditor General of Canada	\$55,284	\$43,509
Management services provided by Natural Resources Canada	\$1,101	\$5,379
Total	\$56,385	\$48,888

b) Receivables and payables outstanding at year-end with related parties:

	2009	2008
Accounts receivable with other government departments and agencies	\$19,989	\$26,385
Accounts payable to other government departments and agencies	\$30,089	-

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:

	2010	2011	2012 and thereafter	Total
Operating leases	\$18,406	\$18,406	\$1,214	\$38,026

9. Comparative Figures

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