Northern Pipeline Agency

Annual Report

For Fiscal Year Ended
March 31, 2010

Canada

Northern Pipeline Agency
Canada

Administration du pipe-line du Nord
Canada

Annual Report

for Fiscal Year Ended March 31, 2010

Cat No. M175-2010
ISBN 978-1-100-52713-0

This report is published separately in both official languages

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Printed in Canada

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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 1981-1982 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 1982 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 approximately 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 $32-41 billion (2009 USD) 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. In early 2010, TransCanada received approval from the United States Federal Energy Regulatory Commission (FERC) to seek bids from shippers and determine the level of commercial interest in the project. TransCanada has indicated receiving a positive response, although details are not expected until early 2011, given ongoing negotiations with the potential gas shippers. TransCanada also undertook a number of field studies in 2009-10. Meanwhile, the Agency continued to carry out its responsibilities under the *Act* by working with federal agencies, provincial and territorial governments, First Nations, and the United States. The Agency saw a corresponding increase in its human and financial resources in 2009-10.

Figure 1:
The Alaska Natural Gas Transportation System

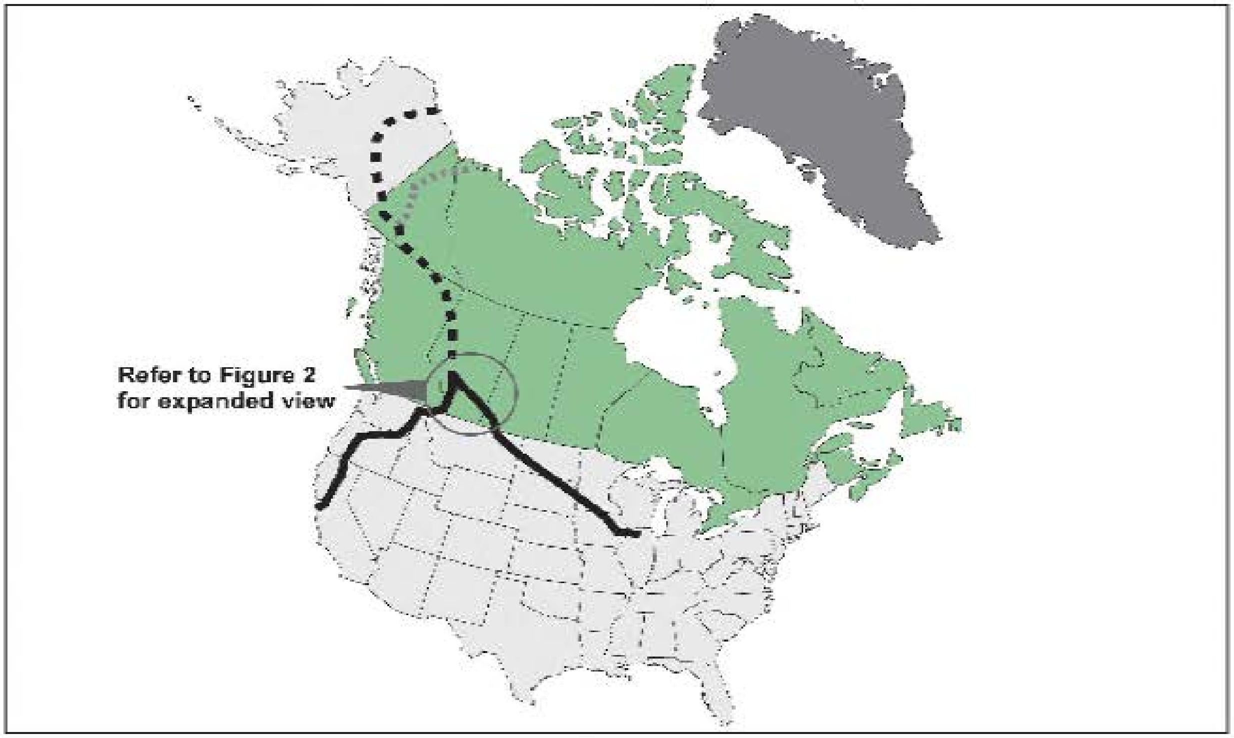


Figure 2:
The Foothills Prebuild

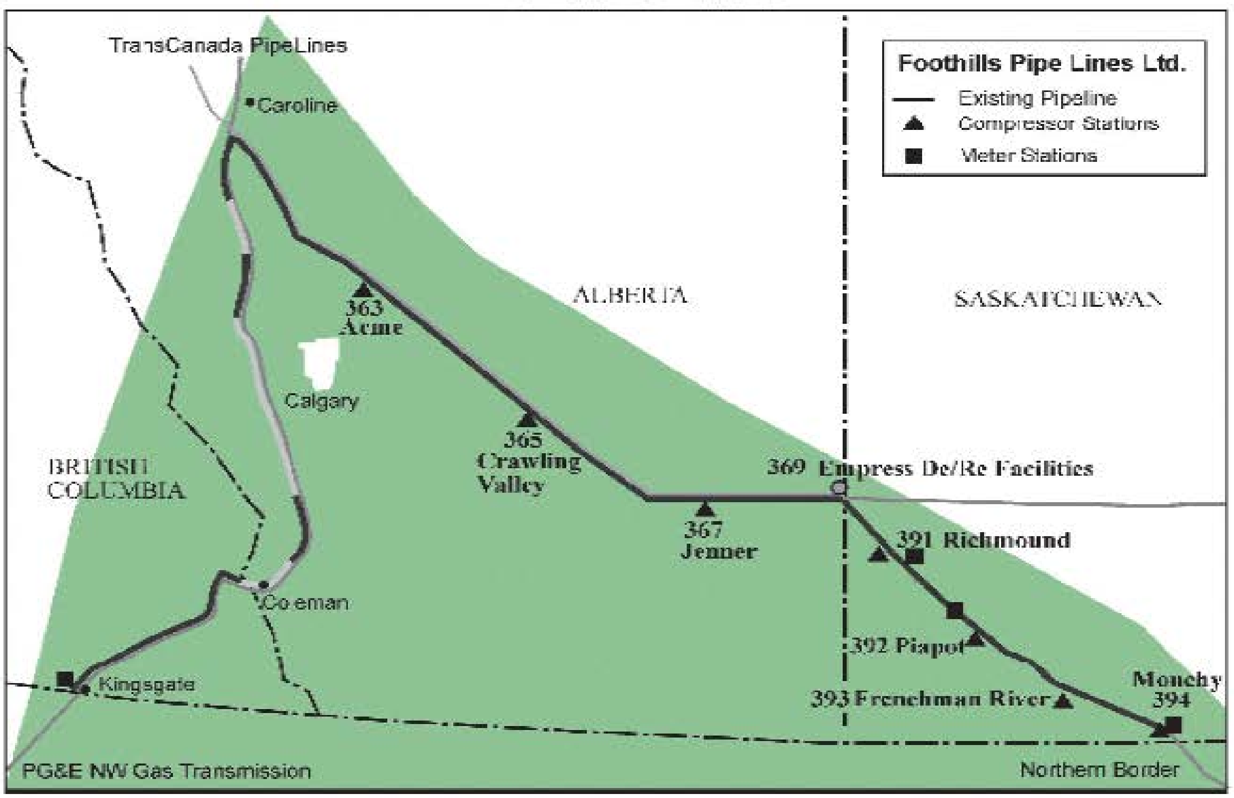
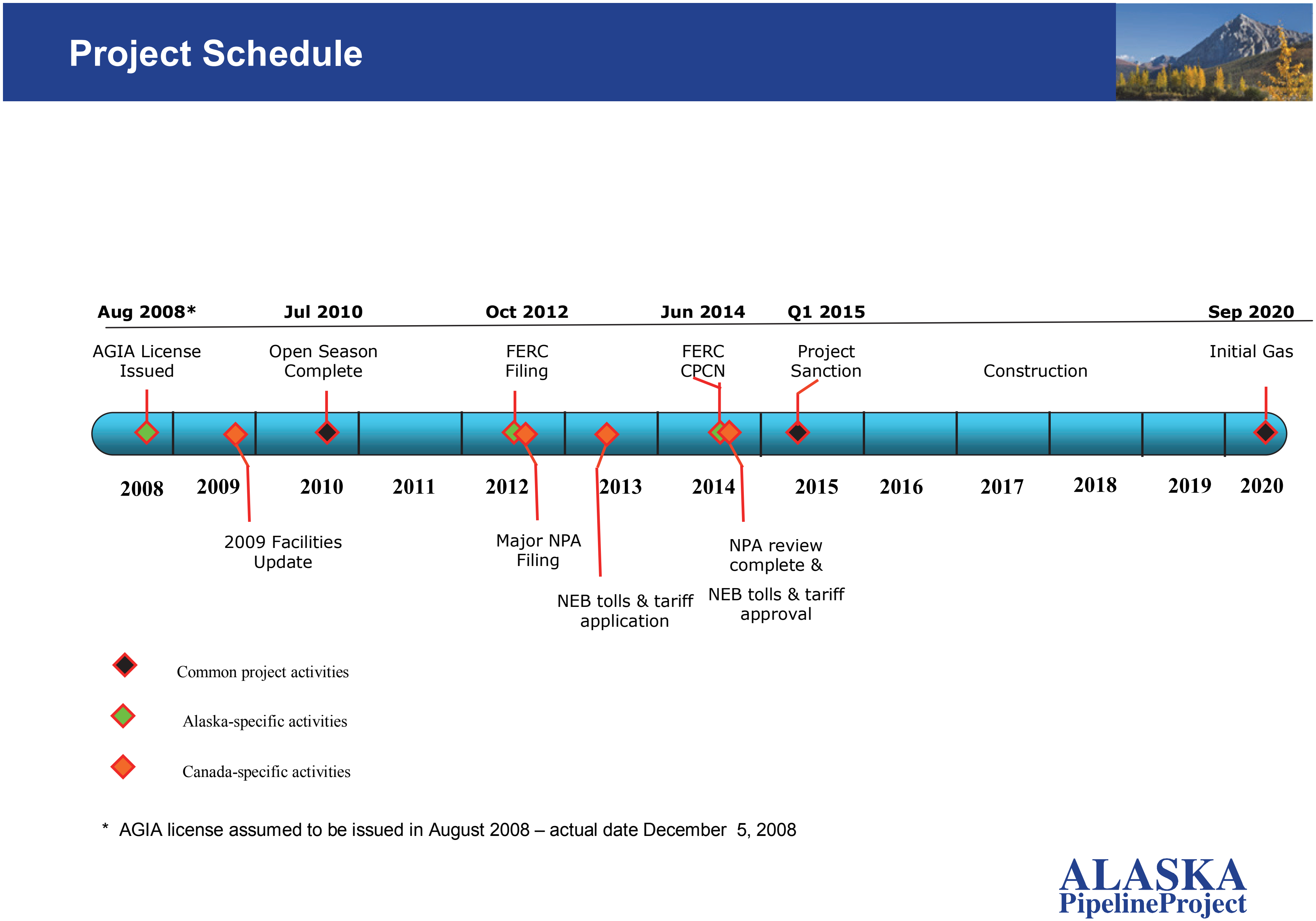


Figure 3: Project Schedule (Source: TransCanada)



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, 2010.

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

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Key 2009-2010 Activities

In 2009-2010, the Agency continued to deliver on the responsibilities of the Government of Canada that are embodied in the *1977 Canada-US Agreement* and the *Northern Pipeline Act* by working with federal departments, provincial and territorial governments, First Nations, the U.S. Federal Energy Regulatory Commission (FERC), the U.S. Office of the Federal Coordinator (OFC), and TransCanada PipeLines.

The Agency has conducted a legal review and developed some possible approaches to updating environmental and socio-economic information and reviewing required project filings. It has also endeavoured to raise awareness about the Alaska Pipeline Project (APP). Further, the Agency maintained oversight of the Act among stakeholders and undertook actions as required, including administration of the Yukon land easement agreement. The Agency has hired a Program Manager and a Policy Analyst and is anticipating a need for additional human resources in 2010-2011 as activity increases.

Finally, the Agency entered into a memorandum of understanding (MOU) with NRCan for the part-time use of 3 employees, for which costs are recovered from Foothills. It also renewed its Service Agreement with NRCan for various corporate and financial services.

Under the *Northern Pipeline Act*, the NPA can be called upon 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 Minister for Natural Resources, the Honourable Christian Paradis, is responsible for the management and direction of the Agency.

The Act provides for the Agency Deputy Head, called the Commissioner, to be appointed by Governor in Council. During the reporting period, Deputy Minister Cassie J. Doyle was Commissioner of the Agency; on October 12, 2010, Serge P. Dupont was appointed the Deputy Minister for Natural Resources Canada and as such is the current Commissioner.

The day-to-day operation of the Agency is managed by an Assistant Commissioner, who is supported by four full time and several part time staff. 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) provides administrative, financial, communications, IT 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 for 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, 2010, is reproduced as an appendix to this report.

The Agency had requested and received a reference level of $660,059 for 2009-2010. Final expenditures for the year totalled $598,950. All of the Agency's operating expenses are cost recovered from TransCanada.

APPENDIX

Statement of Management Responsibility

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010 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 and year end instructions used by the Office of the Comptroller General 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.

Serge P. Dupont Commissioner	Christopher Cuddy Assistant Commissioner

Ottawa, Canada
November 1, 2010

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 31 March 2010 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 31 March 2010 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.

Chantale Perreault CA. CIA

Chantale Perreault, CA, CIA
Principal
for the Auditor General of Canada

Ottawa, Canada
24 September 2010

240 rue Sparks Street, Ottawa, Ontario K1A 0G6

Northern Pipeline Agency
Statement of Financial Position
As at March 31

	2010	2009 (Restated - Note 3)
ASSETS		
Financial assets		
Due from Consolidated Revenue Fund	$927,188	$1,003,155
Accounts receivable and advances (Note 7)	327,336	20,557
	1,254,524	1,023,712
Non-financial assets		
Tangible capital assets (Note 5)	10,453	4,106
TOTAL ASSETS	**$1,264,977**	**$1,027,818**
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$79,400	$33,127
Deferred revenue (Note 6)	1,185,577	994,691
TOTAL LIABILITIES	**1,264,977**	**1,027,818**
Equity of Canada	-	-
TOTAL LIABILITIES AND EQUITY OF CANADA	**$1,264,977**	**$1,027,818**

Contractual obligations (Note 9)

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

Approved by:

Serge P. Dupont
Commissioner

Christopher Cuddy
Assistant Commissioner

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

	2010	2009
REVENUE		
Regulatory revenue	**$598,950**	**$148,060**
OPERATING EXPENSES		
Salaries and employee benefits	$252,945	$9,629
Professional and special services	228,395	89,095
Transportation and communication	60,184	2,751
Rentals	42,058	41,180
Small equipment	7,751	-
Utilities, Materials, Supplies	4,326	-
Information	1,839	2,603
Amortization	867	2,788
Loss on write-off of tangible capital assets	568	-
Other	17	14
TOTAL RECOVERABLE EXPENSES	**598,950**	**148,060**
NON-RECOVERABLE SERVICES RECEIVED WITHOUT CHARGE (Note 7)	51,513	56,385
NET COST OF OPERATIONS	**$51,513**	**$56,385**

Statement of Equity of Canada
For the Year Ended March 31

	2010	2009 (Restated - Note 3)
Equity of Canada, beginning of the year	$ -	$ -
Net cost of operations	(51,513)	(56,385)
Change in due from Consolidated Revenue Fund	(75,967)	91,392
Non-recoverable services received without charge	51,513	56,385
Net cash provided by Government	75,967	(91,392)
Equity of Canada, end of the year	**$ -**	**$ -**

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

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

	2010	2009
		(Restated - Note 3)
Operating Activities		
Net cost of operations	$51,513	$56,385
Adjustment for non-cash items		
Services received without charge (Note 7)	(51,513)	(56,385)
Amortization of tangible capital assets	(867)	(2,788)
(Loss) on write-off of tangible capital assets	(568)	-
	(1,435)	(2,788)
Variations in the Statement of Financial Position		
Increase (Decrease) in accounts receivable and advances	306,779	(6,228)
(Increase) in accounts payable and accrued liabilities	(46,273)	(28,683)
(Increase) in deferred revenue	(190,886)	(53,693)
Cash used by operating activities	68,185	(91,392)
Investment Activities		
Acquisition of tangible capital assets	7,782	-
Cash used by investment activities	7,782	-
Financing Activities		
Net cash provided by Government of Canada	$ (75,967)	$ 91,392

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

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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 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. Currently, Foothills is the sole holder of such certificates. The Government of Canada provides funds for working capital through an annual Parliamentary appropriation.

2. Summary of 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. The significant accounting policies are:

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 4 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.

d) Revenue/Deferred revenue:

Revenues from regulatory fees recovered from Foothills are recognized in the year in which the expenses were incurred.

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.

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 provided without charge from other government departments are recorded as operating expenses at their estimated cost and credited directly to equity.

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 seconded 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

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. Salaries and employee benefits and the useful life of tangible capital assets are the most significant items where estimates are used. Actual results could differ significantly from those estimated. Management's 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. Restatement of the Prior Year Deferred Revenue Opening Balance

According to the significant accounting policy, deferred revenue represents the accumulation of excess billings over the actual expenses of the Agency.

Every year, the Agency estimates its costs for the upcoming year and bills the third party, Foothills Pipe Lines Ltd. based on these estimates. Once a year, the Agency compares the actual expenses of the preceding year to the estimate billed and the difference is a "billing adjustment" which reduces future billings. In 2007, the Agency did not have sufficient billings to absorb the 2005 billing adjustment and overlooked to carry forward a portion of that billing adjustment in the deferred revenue calculation resulting in a $201,753 error. The March 31, 2009 deferred revenue and Due from the Consolidated Revenue Fund have been restated by $201,753 for the correction of the error.

4. 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:

	2010	2009
Net cost of operations	$51,513	$56,385
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Services received without charge	(51,513)	(56,385)
Amortization of tangible capital assets	(867)	(2,788)
Revenue not available for spending	598,950	148,060
Other	3,682	(5,554)
	601,765	139,718
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of tangible capital assets	7,782	-
Current year appropriations used	$609,547	$139,718

b) Appropriations provided and used:

	2010	2009
Vote 30 - Program expenditures	$613,000	-
Vote 35 - Program expenditures	-	$256,200
Vote 30b – Transfer from Vote 25	12,200	-
Statutory amounts	34,859	1,011
Lapsed appropriations	(50,512)	(117,493)
Current year appropriations used	$609,547	$139,718

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

	2010	2009 (Restated - Note 3)
Net cash provided by Government	$75,967	$(91,392)
Adjustments for items not affecting net cost of operations:		
Revenue not available for spending	598,950	148,060
Change in net position in the Consolidated Revenue Fund:		
Variation in accounts receivable & advances	(306,779)	6,228
Variation in accounts payable & accrued liabilities	46,273	28,683
Variation in deferred revenue / other liabilities	190,886	53,693
Other	4,250	(5,554)
Current year appropriations used	$609,547	$139,718

5. Tangible Capital Assets

	Cost	Accumulated Amortization	Net book value 2010	Net book value 2009
Office furniture and equipment	$11,262	$3,470	$7,792	$4,106
Informatics hardware	2,760	99	2,661	-
Total	$14,022	$3,569	$10,453	$4,106

Amortization expense for the year ended March 31, 2010 is $867 (2009 - $2,788).

During the year, the Agency acquired tangible capital assets of $7,782 (2009 - $ nil). In addition, tangible capital assets with a net book value of $568 (2009 - $ nil) were written off during the year.

6. Deferred Revenue

Deferred revenue consists of:

	2010	2009 (Restated - Note 3)
Deferred Revenue, Opening Balance	$994,691	$940,998
Restatement of the prior year Deferred Revenue (Note 3)	-	201,753
Deferred Revenue, Opening Balance, as restated	$994,691	$1,142,751
Billings in the fiscal year	789,836	-
Recoverable expenses in the current year	(598,950)	(148,060)
Deferred Revenue, Closing Balance	$1,185,577	$994,691

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 received without charge.

a) Services received without charge:

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

	2010	2009
Audit services provided by the Office of the Auditor General of Canada	$48,157	$55,284
Management services provided by Natural Resources Canada	3,356	1,101
Total	$51,513	$56,385

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

	2010	2009
Accounts receivable with other government departments and agencies	$ -	$19,989
Accounts payable to other government departments and agencies	$47,718	$30,089

8. 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 (2009 - $2,806) is collected on behalf of and forwarded directly to the Government of the Yukon Territory. The balance of $27,594 (2009 - $27,594) was remitted to the Government of Canada by the Agency. This fee is not accounted for in these financial statements.

9. 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:

	2011	2012	Total
Operating leases	$18,406	$1,214	$19,620

10. Financial Instruments

The Agency's financial instruments consist of accounts receivable and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Agency is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.