

UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

WASHINGTON NATURAL GAS COMPANY)
_____)

FE DOCKET NO. 91-91-NG

ORDER APPROVING LONG-TERM AUTHORIZATION
TO IMPORT NATURAL GAS FROM CANADA
AND GRANTING INTERVENTION

DOE/FE OPINION AND ORDER 607

APRIL 24 1992

I. BACKGROUND

On October 30, 1991, Washington Natural Gas Company (Washington Natural) filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE), under section 3 of the Natural Gas Act (NGA) and DOE Delegation Order Nos. 0204-111 and 0204-127, requesting authorization to import from Canada 7,212 Mcf per day of natural gas during the period November 1, 1991, to October 31, 1992, and 9,615 Mcf per day of natural gas during the period November 1, 1992, through October 31, 2002. In its application, Washington Natural requested that the authorization begin on the first day of the month following the date this order is issued and extend until October 31, 2002.

Washington Natural, a corporation organized and existing under the laws of the State of Washington and having its principal place of business in Seattle, Washington, distributes natural gas to approximately 380,000 customers in its five county service area. Washington Natural was authorized by DOE in Opinion and Order No. 310 to import up to 50 Bcf of natural gas from Canada during a two-year period that ended on November 30, 1991./¹ In Opinion and Order No. 535, DOE extended this blanket import authorization for an additional two-year period beginning on the date of first delivery after November 30, 1991./²

Currently, Washington Natural is importing natural gas under a sales agreement entered into on February 1, 1991, with Canadian

1 1 FE Para. 70,219, April 28, 1989.

2 1 FE Para. 70,483, October 8, 1991.

Hydrocarbons Marketing Inc. (CHMI). Such sales are effectively being performed on an interim basis pending full implementation of the long-term contract with CHMI. That contract provides for a firm daily volume of up to 7,500 MMBtu per day (7,212 Mcf/d) during the period November 1, 1991, to October 31, 1992, and 10,000 MMBtu per day (9,615 Mcf/d) from November 1, 1992, through October 31, 2002.

The contract price that Washington Natural will pay to CHMI consists of four components: the Westcoast demand charge, a commodity charge, a fuel gas charge, and a reservation fee. The monthly demand component is equal to the cost of transportation of the gas on the Westcoast system for delivery of gas at the international border near Sumas, Washington, and is the aggregate of the Westcoast firm service gathering, treatment, processing, liquids recovery, and transportation charges as approved by Canadian regulatory authorities.

The commodity charge component of the price is set on an annual basis, effective November 1st of each year. Under the contract, the initial commodity charge was \$1.16 per MMBtu for the period February 1, 1991, through October 31, 1991. Beginning November 1, 1991, through October 31, 1992, the commodity charge is \$1.22 per MMBtu. After that date, if Washington Natural and CHMI cannot agree on a mutually acceptable commodity price, either party may request arbitration.

The fuel charge is determined by multiplying the fuel gas volume by the gas commodity charge. The reservation fee through

October 31, 1992, would be \$.0915 per MMBtu. The reservation fee from November 1, 1992, to the end of the term of the gas sales agreement will be an amount equal to 15 percent of the gas commodity charge in effect from time to time.

There is no requirement for Washington Natural to purchase a minimum quantity of gas. Sales would be arranged on a monthly basis, with Washington Natural notifying CHMI of the amount it desires to purchase up to the daily maximum in the contract. Washington Natural has the right to change its designated purchase quantity for any day upon three days written notice to CHMI. Washington Natural is obligated to pay the demand charge whether any gas is taken or not.

The agreement does require CHMI to indemnify Washington Natural if it fails to deliver, except for reasons of force majeure, Washington Natural's nomination or a portion thereof. CHMI must reimburse Washington Natural an amount equaling the difference between the cost of the replacement gas and the cost that Washington Natural would have incurred had CHMI delivered the shortfall amount under the terms of the agreement. CHMI will however, only be required to indemnify Washington Natural to a maximum of thirty (30) days for any single supply failure and a maximum of sixty (60) days for all supply failures during any contract year.

CHMI will be responsible for arranging delivery of the gas on a firm basis through the facilities of Westcoast to the Sumas import point. At the delivery point the gas would enter the

facilities of Northwest. Washington Natural would be responsible for arranging the transportation of the gas from the delivery point through the facilities of Northwest to Washington Natural's distribution system. No new facilities need to be constructed.

A notice of the application was published in the Federal Register on February 13, 1992, inviting protests, motions to intervene, notices of intervention and comments to be filed by March 16, 1992.³ A motion to intervene was filed by Northwest Pipeline Company (Northwest). This order grants intervention to the movant.

II. DECISION

The application filed by Washington Natural has been evaluated to determine if the proposed import arrangement meets the public interest requirements of section 3 of the NGA. Under section 3, an import must be authorized unless there is a finding that it "will not be consistent with the public interest."⁴ The determination is guided by DOE's natural gas import policy guidelines.⁵ Under these guidelines, the competitiveness of an import in the markets served is the primary consideration for meeting the public interest test. DOE also considers, particularly in a long-term arrangement, need for and the security of the imported gas supply.

Washington Natural's uncontested import proposal, as a

³ 57 FR 5266.

⁴ 15 U.S.C. Sec. 717b.

5 49 FR 6684, February 22, 1984.

whole, is competitive. DOE has reviewed the gas contract and is satisfied that its provisions are sufficiently flexible to permit pricing and volume adjustments as required by market conditions and the availability of competing alternative fuels, including domestic natural gas. The sales agreement with CHMI states that the commodity component of the price is subject to annual renegotiation. In order to assure that the price of gas remains continuously responsive over the life of the contract, the renegotiated price will reflect the competitive prices of both alternative fuels and United States domestic gas available to local distribution utilities similar to Washington Natural, and purchased under contracts with similar terms and conditions, in Washington Natural's market. Further, if it is necessary to go to arbitration, the contract provides that the arbitrator(s) will be guided by these same pricing criteria.

The sales agreement also requires CHMI to indemnify Washington Natural if it fails to meet the gas and deliverability requirements of the contract. CHMI must reimburse Washington Natural for the difference between the price Washington Natural actually paid for the replacement gas and the current natural gas price contained in the contract. However, liability extends only for a maximum of sixty days in each contract year.

Need for the gas is viewed under the guidelines as a function of marketability and gas is presumed to be needed if it is competitive. We have found that the price of Washington Natural's proposed imports is competitive and, therefore, can be

presumed to be needed.

Finally, the security of the Canadian gas supply has not been disputed. Canada has natural gas reserves in excess of present contractual commitments as demonstrated by authorizations for the exports granted by Alberta and the NEB. Moreover, CHMI is contractually committed, in the event of a supply failure, to attempt to secure replacement gas supplies and reimburse Washington Natural for the additional cost of these supplies.

After taking into consideration all of the information in the record of this proceeding, I find that authorizing Washington Natural to import from Canada up to 7,212 Mcf per day of natural gas during the period beginning on the date of this Order and ending on October 31, 1992, and 9,615 Mcf per day of natural gas during the period November 1, 1992, through October 31, 2002, in accordance with the terms of its gas sales contract with CHMI, is not inconsistent with the public interest./6

ORDER

For reasons set forth above, pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. Washington Natural Corporation (Washington Natural), is

6 Because the proposed import of gas will use existing facilities, DOE has determined that granting this application is not a major Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act (42 U.S.C. 4321, et seq.) and therefore

an environmental impact statement or an environmental assessment

is not required. See 40 CFR Sec. 1508.4 and 54 FR 12474 (March
27, 1989).

authorized to import from Canada, at a point on the international border near Sumas, Washington, up to 7,212 Mcf per day of natural gas during the period beginning on the date of this Order and ending on October 31, 1992, and 9,615 Mcf per day of natural gas during the period November 1, 1992, through October 31, 2002.

B. The importation of natural gas hereby authorized shall be accomplished in accordance with the provisions of the gas sales agreement between Washington Natural and Canadian Hydrocarbons Marketing Inc., dated February 1, 1991, which were described in the application filed in this proceeding and are discussed in this Opinion and Order.

C. Within two weeks after deliveries begin, Washington Natural shall provide written notification to the Office of Fuels Programs, Fossil Energy, Room 3F-056, FE-50, Forrestal Building, 1000 Independence Avenue, S.W., Washington, D.C. 20585, of the date that the first delivery of natural gas authorized in Ordering Paragraph A above occurred.

D. With respect to the natural gas imports authorized by this Order, the applicant shall file with the Office of Fuels Programs, within 30 days following each calendar quarter, quarterly reports indicating whether imports of natural gas have been made, and if so, giving by month, the total volume of the imports in Mcf and the average price per MMBtu at the international border. The reports shall also provide the details of each transaction, including the per unit (MMBtu) demand/commodity/reservation charge breakdown of the contract

price. If no imports have been made, a report of "no activity" for that calendar quarter must be filed. Failure to file quarterly reports may result in termination of this authorization.

E. The first quarterly report required by Ordering Paragraph D of this order is due not later than July 30, 1992, and should cover the period from the date of this order until the end of the current calendar quarter June 30, 1992.

F. The motion to intervene filed by Northwest Pipeline Corporation is hereby granted provided that its participation shall be limited to matters specifically set forth in its motion to intervene and not herein denied, and that admission of this intervenor shall not be construed as recognition that it is aggrieved because of any order issued in this proceeding.

Issued in Washington, D.C., on April 24, 1992.

Charles F. Vacek
Deputy Assistant Secretary
for Fuels Programs
Office of Fossil Energy