

UNITED STATES OF AMERICA  
DEPARTMENT OF ENERGY  
OFFICE OF FOSSIL ENERGY

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TENASKA GAS CO. ) FE DOCKET NO. 91-59-NG  
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CONDITIONAL ORDER GRANTING LONG TERM AUTHORIZATION  
TO IMPORT NATURAL GAS FROM CANADA AND GRANTING  
INTERVENTIONS

DOE/FE OPINION AND ORDER NO. 614

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MAY 4, 1992

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I. BACKGROUND

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On August 6, 1991, Tenaska Gas Co. (Tenaska) filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE) for authorization to import up to 15,000 MMBtu of natural gas per day from Canada. 1/ The application was filed under section 3 the Natural Gas Act (NGA) and DOE Delegation Order Nos. 0204-111 and 0204-127. Tenaska, a Nebraska corporation with offices in Omaha, Nebraska, is a marketer of natural gas primarily in the midwest region of the United States. This imported gas would be used primarily to fuel a 245 megawatt, combined-cycle cogeneration facility to be built in Ferndale, Washington and owned by Tenaska's affiliate, Tenaska Washington, Inc. (TWI). The term of the proposed import authorization would begin on the date of the first gas deliveries to the TWI cogeneration plant and continue through December 31, 2011. 2/ The cogeneration plant is expected to be in commercial operation by October 1, 1993.

The gas proposed for import by Tenaska would enter the U.S. at the international border near Sumas, Washington. From Sumas, the gas would be transported through the pipeline facilities of Cascade Natural Gas Corporation (Cascade) to the site of the proposed cogeneration facility at the British Petroleum Oil Company refinery in Ferndale. The imported gas would be

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1/ One MMBtu is equal to approximately one Mcf.

2/ See letter dated April 20, 1992, filed with FE by Mr. David

B. Ward, counsel for Tenaska.

purchased by TWI from Tenaska to generate electricity that would be sold to Puget Sound Power and Light Company (Puget). 3/ TWI does not at this time have a contract to sell thermal energy from the plant. Tenaska may also sell up to 600,000 MMBtu per year of this imported gas (about 11 percent) to Cascade under the Agreement for Peak Gas Supply Service, dated January 15, 1991, between Cascade and Tenaska. Further, the gas proposed for import may be sold by Tenaska to others during periods when the TWI cogeneration facility is not generating power. 4/

Cascade would be required to construct two segments of 20-inch diameter pipeline to deliver the imported gas to the cogeneration facility. 5/ A three-mile pipeline segment would be constructed from Cascade's existing system to a new interconnection with the Canadian facilities of Westcoast Transmission Company, Ltd. at the international border near Sumas. Cascade would also install six miles of new pipeline loop along its existing 8-inch diameter pipeline that would extend to the proposed cogeneration facility.

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3/ The cogeneration facility would be operated as a "qualifying facility" within the meaning of Section 201 of the Public Utility Regulatory Policies Act of 1978.

4/ See supra note 2.

5/ On August 2, 1991, Cascade filed an application with the

Federal Energy Regulatory Commission in Docket No. CP91-2650-000 for authority under section 3 of the NGA and a Presidential Permit to site, construct and operate the proposed pipeline facilities.

Tenaska has entered into a gas purchase agreement with Petro-Canada, a Canadian corporation, dated July 28, 1991, under which Petro-Canada would supply up to 15,000 MMBtu of natural gas per day ("Daily Contract Quantity" or "DCQ" ) to Tenaska for resale to TWI. 6/ The "primary term" of the contract would

commence with commercial operation of the cogeneration plant and end on the earlier of: (1) December 31 of the seventeenth year after the initial gas deliveries, or (2) December 31, 2011.

Under the provisions of the gas purchase agreement, Tenaska must take or pay for eighty percent of the sum of the DCQ's in any contract month. If Tenaska fails to take this minimum volume, then Tenaska must pay Petro-Canada an amount for the deficient quantities equal to the difference between the commodity charge under the terms of the contract and the published spot market prices of Canadian gas deliveries to Northwest Pipeline Corporation's (Northwest) system at Sumas, Washington. Tenaska has the unilateral right to permanently reduce the DCQ by up to 5,000 MMBtu one time before the sixth contract year.

The contract price that Tenaska would pay Petro-Canada for the gas would be set on an annual basis and billed monthly as a two-part demand and commodity charge. Thirty-five percent of the

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6/ Tenaska has also executed long-term gas sales agreements with Husky Oil Operations Ltd. and BP Resources Canada Limited to supply the TWI cogeneration facility with gas. The contracts provide for the daily delivery of 13,000 MMBtu and 18,000 MMBtu, respectively. Applications for authorization to import this additional Canadian gas are pending before DOE in FE Docket Nos.

91-102-NG and 92-13-NG.

contract price for a given month would be allocated to the demand charge and sixty-five percent of the contract price would be allocated to the commodity charge. The contract price for the gas would be the arithmetic average of: (1) a "Monthly Escalation Price" equal to \$2.00 (U.S) per MMBtu for the period January 1, 1993 through October 31, 1993, and increasing monthly thereafter by one-half of one percent; and (2) a "Market-Related Price" reflecting an index of spot market prices for gas delivered into Northwest's system at the Canadian border and the Rocky Mountains published in Natural Gas Week and Inside F.E.R.C.'s Gas Market

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Report. The Market Related Price would be subject to a ceiling of \$2.05 per MMBtu for 1993, which would increase by eight and one-fourth percent annually, and to a floor price of \$2.05 per MMBtu for 1993 which would increase by four percent annually. The contract does not provide for price renegotiation or arbitration.

In support of its application, Tenaska asserts that the price of this imported gas would be competitive throughout the term of the contract because the pricing formula's tracking provision will track the prevailing cost of gas in the marketplace. In addition, the annual floor and ceiling prices would limit wide swings in the price of the gas. According to Tenaska, security of supply is assured by Petro-Canada's three trillion cubic feet of proven reserves of natural gas and by a contract warranty provision under which Petro-Canada must deliver



the daily contract quantity or reimburse Tenaska for the cost of obtaining alternate supplies of gas to replace the delivery shortfall.

A notice of Tenaska's application was published in the Federal Register December 26, 1991, 7/ inviting protests,

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motions to intervene, notices of intervention, and comments to be filed by January 27, 1992. Northwest Pipeline Corporation and Westcoast Energy Inc. filed motions to intervene without comment. This order grants intervention to these movants.

## II. DECISION

The application filed by Tenaska 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." 8/ This

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determination is guided by DOE's natural gas import policy guidelines, under which the competitiveness of an import in the markets served is the primary consideration for meeting the public interest test. 9/ DOE also considers, particularly in long-term arrangements, need for and the security of the imported gas supply. Further, the National Environmental Policy Act of

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7/ 56 F.R. 66863.

8/ 15 U.S.C. Sec. 717b.

9/ 49 F.R. 6684, February 22, 1984.

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1969 (NEPA) requires DOE to examine the environmental effects of natural gas import authorizations. 10/

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A. General Policy Considerations

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The DOE guidelines state that the competitiveness of an import arrangement will be assessed by a consideration of the whole fabric of the arrangement. They contemplate that the contract provisions should be sufficiently flexible to permit pricing and volume adjustments as required by market conditions and availability of competing alternative fuels, including domestic gas.

Tenaska's uncontested import proposal, as a whole is competitive. Although under the terms of the gas purchase agreement Tenaska must take or pay for eighty percent of the daily contract quantity of 15,000 MMBtu of natural gas, the payment for deficient volumes is limited to the difference between the commodity charge and the Canadian spot prices for gas laid into Northwest's pipeline system at Sumas. In addition, the import price Tenaska is to pay Petro-Canada under the pricing formula is tied to the spot price for gas laid into Northwest from Canadian and U.S. supply sources. Moreover, the agreement contains price escalator provisions that restrict large variations in the price of the gas. These contract provisions should provide the flexibility necessary to ensure the

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10/ 42 U.S.C. 4321, et seq.

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competitiveness of the gas over the term of the import arrangement.

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 on the basis of the record before us at this time that Tenaska's proposed import arrangement is competitive and, therefore, can be presumed to be needed. Further, this gas would represent approximately one-third of the total gas requirements of TWI's proposed cogeneration facility to produce electricity and steam. The electricity would be sold to Puget which provides electrical service to residential, commercial, and industrial customers primarily in the Puget Sound region of western Washington State.

The security of the natural gas supply has not been disputed. DOE believes that the supply for the proposed imports is reliable based on Petro-Canada's extensive natural gas reserves and the contractual warranty obligations under which Petro-Canada must deliver the daily contract quantity or suffer the penalty of having to reimburse Tenaska for the cost of obtaining alternate supplies of gas. Accordingly, DOE preliminarily finds that this import will not lead to any undue dependence on an unreliable source of supply nor otherwise compromise the energy security of the nation over the term of the proposed import.

## B. Environmental Determination

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NEPA requires Federal agencies to give appropriate consideration to the environmental effects of their proposed actions. Tenaska is seeking authorization from DOE under section 3 of the NGA to import gas. Cascade is seeking authorization under Part 153 of FERC's regulations and section 3 of the NGA to connect, construct, operate, and maintain new pipeline facilities required to transport this gas for Tenaska. FERC has the lead in preparing an environmental analysis to assess the potential impact of Cascade's proposed facilities. DOE is a cooperating agency in this environmental review process. Furthermore, DOE is also obligated to consider the environmental consequences of TWI's proposed cogeneration facility which is directly related to Tenaska's import project. Consequently, approval of Tenaska's proposed import arrangement is being conditioned on the completion of DOE's responsibilities under NEPA. DOE will then reconsider this conditional order and issue an appropriate final opinion and order.

This conditional order makes preliminary findings and indicates to the parties DOE's determination at this time on all but the environmental matters in this proceeding. All parties are advised that the issues addressed herein regarding the import of natural gas will be reexamined at the time DOE's environmental review is completed. The results of that review will be reflected in the final opinion and order.

C. Conclusion \_\_\_\_\_

After taking into consideration all of the information in the record of this proceeding, I find that the authorization requested by Tenaska to import from Canada up to 15,000 MMBtu of natural gas per day through December 31, 2011, is not inconsistent with the public interest and should be granted. This approval is conditioned upon issuance of a final DOE/FE order after completion of our NEPA responsibilities.

ORDER

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

A. Subject to the condition in Ordering Paragraph B, Tenaska Gas Co. (Tenaska) is authorized to import up to 15,000 MMBtu per day of natural gas from Canada in accordance with the provisions of its July 28, 1991, gas purchase agreement with Petro-Canada, as described in the application and discussed in this Opinion and Order.

B. The authorization in Ordering Paragraph A is conditioned upon entry of a Final Opinion and Order after DOE completes its National Environmental Policy Act (NEPA) responsibilities.

C. This authorization shall begin on the date of the first delivery of gas to the proposed Tenaska Washington, Inc. (TWI) cogeneration facility to be constructed in Ferndale, Washington, and end on or before December 31, 2011, concurrent with the

"primary term" of Tenaska's contract with Petro-Canada described above.

C. Tenaska shall notify the Office of Fuels Programs (OFP), Fossil Energy, FE-50, Forrestal Building, 1000 Independence Avenue S.W., Washington, D.C. 20585, in writing, of the date of initial imports of natural gas made under Ordering Paragraph A above within two weeks after deliveries begin.

D. Tenaska shall file with the OFP, within 30 days following each calendar quarter, quarterly reports showing by month, the total volume of natural gas imports in Mcf and the average purchase price per MMBtu at the international border. If no imports have been made, a report of no activity for that calendar quarter must be filed. The reports shall itemize separately the demand/commodity charges on a per unit (MMBtu) basis and any deficiency payments made to Petro-Canada during the particular calendar quarter. In addition, Tenaska shall provide a breakdown of the repurchasers of the gas (including those other than TWI), volumes, and market area. Furthermore, Tenaska shall notify OFP of any permanent reduction in the "maximum daily quantity" under its gas purchase contract with Petro-Canada. Failure to file quarterly reports may result in termination of this authorization.

E. The motions to intervene filed by Northwest Pipeline Corporation and Westcoast Energy Inc. are hereby granted, provided that their participation shall be limited to matters



specifically set forth in their motions to intervene and not herein specifically denied, and that the admission of these intervenors shall not be construed as recognition that they might be aggrieved because of any order issued in this proceeding.

F. The authorization granted in Ordering Paragraph A is subject to the condition stated in Ordering Paragraph B, the resolution of which may result in further conditions being imposed in subsequent proceedings in this case. Tenaska and the intervenors in this proceedings shall be bound by any Opinion and Order issued in subsequent proceedings.

Issued in Washington, D.C., on May 4, 1992.

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