UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

SALMON RESOURCES LTD.	FE DOCKET NO. 92-24-NG

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

DOE/FE OPINION AND ORDER NO. 690

OCTOBER 23, 1992

I. BACKGROUND

On February 25, 1992, as amended July 9, 1992, Salmon Resources Ltd. (Salmon) filed an application with the Office of Fossil Energy 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 for authorization to import up to 30,300 MMBtu1/ per day of natural gas from Canada. Salmon, a Wyoming corporation with its principal place of business in Lakewood, Colorado, is a wholly-owned subsidiary of Shell Canada Limited (Shell). The gas would be imported pursuant to two contracts with Shell. One contract involves the import of up to 20,500 MMBtu through October 31, 2006, for resale to Midwest Gas, a Division of Iowa Public Service Company. The other covers the import of up to 9,800 MMBtu of gas per day through October 31, 2001, for resale to Enron Gas Marketing, Inc. (Enron). The requested term of the authorization relative to both contracts would commence on the date DOE issues a final decision on Salmon's application. The provisions of the Salmon/Shell gas contracts are derived from and incorporate Salmon's separate sales agreements with Midwest Gas and Enron.

All of the imported gas would enter the U.S. at a point on the international border near Port of Morgan, Montana/Monchy, Saskatchewan, through the pipeline facilities of Northern Border Pipeline Company (Northern Border). Shell has arranged with NOVA Corporation of Alberta (NOVA) and Foothills PipeLines Ltd.

1/ One MMBtu is approximately the same as one Mcf.

(Foothills) to transport the Salmon volumes from the various fields in Alberta to Monchy. From Monchy, Northern Border would transport the gas to its interconnection with the facilities of Northern Natural Gas Pipeline Company (Northern Natural) at Ventura, Iowa. Northern Natural would, in turn, forward the gas to Midwest Gas' markets in four central states and Enron's markets in the Middle West, California, and the eastern United States. Midwest Gas and Enron would each take ownership of their imported supply at Ventura. Additionally, Enron may receive some gas at Clear Lake, Iowa where Northern Border interconnects with the system of Natural Gas Pipeline Company of America.

A. Shell/Salmon/Midwest Agreements

Under Salmon's gas purchase agreement with Shell dated March 1, 1991, as amended October 25, 1991, the price payable to Shell by Salmon is equal to the price paid by Midwest Gas to Salmon, minus charges paid by Salmon for transportation on Northern Border to Ventura and 1.5 percent to cover Salmon's costs.

The corresponding sales agreement between Salmon and Midwest Gas dated January 31, 1991, provides that Midwest Gas will pay Salmon a price consisting of a demand charge equal to the greater of the sum of the Canadian transporters' demand charges or $308,730 (U.S.), and a commodity charge equal to 94 percent of Northern's monthly Zone 1 commodity rate under Rate Schedule CD-1 (less certain charges). The commodity charge is subject to renegotiation if, for four consecutive months, Northern Natural's commodity price exceeds 120 percent of a reference price based on certain spot prices. The parties would have 60 days to reach agreement on a price or face binding arbitration. Prior to the end of the fifth and tenth contract years, either party could initiate renegotiation of the commodity charge. If no agreement is reached, the contract would terminate.

Midwest Gas must pay Salmon an annual deficiency payment if it fails to take 80 percent of the sum of the maximum daily quantities (20,300 MMBtu per day) for a year. This payment is equal to 20 percent of the commodity charge times the deficient quantity. The deficiency may be made up in the following year, with a corresponding credit against the payment made.

B. Shell/Salmon/Enron Agreements

Similar to the first contract, under the provisions of Salmon's gas purchase agreement with Shell dated March 31, 1991, as amended October 25, 1991, Salmon will pay a price equal to that paid by Enron, less transportation charges paid by Salmon and 1.5 percent to cover Salmon's costs.

The corresponding contract between Salmon and Enron dated March 31, 1991, requires Enron to pay Salmon a monthly demand charge equal to the lesser of Salmon's actual cost of reserving firm transportation for the daily contract quantity (9,800 MMBtu) on Northern Border or $0.50 (U.S.) per MMBtu times the daily contract quantity times the number of days in the month. It would also pay Tier I and Tier II commodity charges. The Tier I commodity charge is equal to: (1) the actual monthly weighted average sales price paid by Enron's California firm markets under supply contracts of at least one year; less (2) Northern Natural's interruptible transportation rate, including adjustment charges for the backhaul from Ventura or Clear Lake, Iowa to Northern Natural's pipeline interconnection with either El Paso Natural Gas Company or Transwestern Pipeline Company; and less (3) the demand charge. The interruptible transportation rate is capped at $0.18 (U.S.) per MMBtu from April to October and $0.28 (U.S.) per MMBtu from November to March.

The Tier II commodity charge is equal to: (1) a monthly reference index based on an average of certain domestic gas spot market prices plus transportation and fuel, less (2) a marketing fee of $0.05 (U.S) per MMBtu of Tier II gas purchased during such month, and less (3) the demand charge for that month. If at any time the average spot price is incalculable or does not accurately reflect current market conditions in the opinion of either Enron or Salmon, they will agree on a new basis for redetermining the average spot price.

The price for gas sold to Enron will be renegotiated prior to completion of the fifth contract year, which would set the price for the remaining five years. If agreement cannot be reached, then either Enron or Salmon has the right to terminate the contract.

In support of its application, Salmon states that negotiations between Salmon and Shell occurred at arm's length. In addition, Salmon asserts that the arrangement would respond to changing market conditions over the term of the proposed import because of the flexibility that exists in the contract through the inclusion of an index to adjust the commodity price and provisions for renegotiation and arbitration. Furthermore, Salmon contends that the need for the gas is demonstrated by its inability to obtain long-term gas supply arrangements with domestic producers at similar competitive terms which include firm transportation for up to 20 years. Finally, Salmon asserts that the source of the gas is reliable. Shell is currently the second largest producer of natural gas in Canada with average production of over 6 Bcf per day and proven reserves exceeding 4 Tcf.

A notice of Salmon's application was published in the Federal Register issued on July 28, 1992, inviting protests, motions to intervene, notices of intervention, and comments to be filed by August 27, 1992.2/ A motion to intervene in support of the application was filed by Great Lakes Gas Transmission Company (Great Lakes). This order grants intervention to Great Lakes.

II. DECISION

The application filed by Salmon 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

2/ 57 F.R. 33345.

be authorized unless there is a finding that it "will not be consistent with the public interest."3/ This determination is guided by DOE's natural gas import policy guidelines,4/ under which 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 security of the imported gas supply.

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 natural gas. Salmon's uncontested import proposal, as a whole, is competitive. DOE has reviewed the gas contract and is satisfied that its provisions would ensure a competitive gas price and the ability of the contracting parties to respond to changing market conditions.

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 Salmon's proposed import arrangement is competitive and, therefore, can be presumed to be needed.

Finally, the security of this Canadian gas supply has not been disputed. In light of Shell's historical and uncontested reliability

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3/ 15 U.S.C. Sec. 717b.

4/ 49 F.R. 6684, February 22, 1984.

as a gas supplier to the United States, DOE finds that security of supply has been established.

After considering all of the information in the record of this proceeding, I find that granting Salmon authorization to import from Shell up to 20,500 Mcf per day of Canadian natural gas over a 15-year term, and up to 9,800 Mcf per day over a concurrent ten-year term, is not inconsistent with the public interest.5/

ORDER

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

A. Salmon Resources Ltd. (Salmon) is authorized to import up to 20,500 MMBtu of natural gas per day from Canada for resale to Midwest Gas commencing on the date of this Order through October 31, 2006, pursuant to its gas purchase agreement with Shell Canada Limited (Shell) dated March 1, 1991, as amended, and as described in the application and discussed herein.

B. Salmon is authorized to import up to 9,800 MMBtu of natural gas per day from Canada for resale to Enron Gas Marketing, Inc. commencing on the date of this Order through October 31, 2001, pursuant to its gas purchase agreement with Shell dated March 31,

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5/ Because the proposed importation of gas will use existing pipeline 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 neither an environmental impact statement nor environmental assessment is required. See 40 C.F.R. 1508.4 and 57 F.R. 15122 (April 24, 1992).

1991, as amended, and as described in the application and discussed herein.

C. This imported gas is authorized to enter the U.S. at a point on the international border near Port of Morgan, Montana/Monchy, Saskatchewan, through the pipeline facilities of Northern Border Pipeline Company.

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

E. With respect to the imports authorized by this order, Salmon shall file, within 30 days following each calendar quarter, quarterly reports showing by month, the total volume of gas imported under each contract in Mcf and the average purchase price per MMBtu at the international border. The price information shall itemize separately the demand, commodity, and deficiency charges under the contracts, on a monthly and per unit (MMBtu) basis. 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.

F. The first quarterly report required by Ordering Paragraph E is due not later than January 30, 1993, and should cover the period from the date of this Order until the end of the current calendar quarter December 31, 1992.

G. The motion to intervene filed by Great Lakes Gas Transmission Company, as set forth in this order, is hereby granted, provided that its participation shall be limited to matters specifically set forth in its motion to intervene and not herein specifically denied, and that the admission of this intervenor shall not be construed as recognition that it may be aggrieved because of any order issued in these proceedings.

Issued in Washington, D.C., October 23, 1992.

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