UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

HUSKY GAS MARKETING INC.

FE DOCKET NO. 98-19-NG

ORDER GRANTING LONG-TERM AUTHORIZATION

TO IMPORT NATURAL GAS FROM CANADA

DOE/FE ORDER NO. 1373

APRIL 7, 1998

I. DESCRIPTION OF REQUEST

On March 12, 1998, Husky Gas Marketing Inc. (HGMI) filed an application with the Office of Fossil Energy of the Department of Energy (DOE), under section 3 of the Natural Gas Act (NGA)[(1)] and DOE Delegation Order Nos. 0204-111 and 0204-127, for authorization to import up to 21,881 Mcf per day of natural gas from Canada. The term of the import would begin on the date of authorization until August 1, 2003. HGMI is a corporation organized under the laws of the State of Delaware with its principal place of business in Calgary, Alberta, Canada. HGMI purchases and resells natural gas in the United States. It purchases gas primarily from Husky Oil Operations Ltd. (HOOL), its parent company. HOOL exports natural gas produced in Canada to purchasers located in the United States, including HGMI. No new pipeline construction would be required.

In DOE/FE Order No. 717 (Order 717), issued November 13, 1992, San Diego Gas and Electric Company (SDG&E)[(2)] was authorized to import natural gas purchased from, among others, HOOL (21,650 Mcf per day) on a long-term basis, pursuant to a contract dated March 21, 1991, as amended.[(3)] HOOL shipped the gas and sold it to SDG&E at the Alberta/British Columbia border near Coleman, Alberta. After receipt of the gas SDG&E shipped it in Canada on the pipeline systems of Alberta Natural Gas Company (ANG) to the international border near Kingsgate, British Columbia/Sumas, Washington. From Sumas, Washington, gas was transported on the pipeline systems of PG&E Gas Transmission-Northwest[(4)] and Pacific Gas & Electric Company (PG&E). PG&E delivered the gas to the system of Southern California Gas Company (SoCal Gas) which, in turn, delivered the gas to SDG&E.

HOOL and SD`G&E have agreed to amend and restructure their gas purchase and sale agreements. In their Third Amendment to their March 21, 1991, contract, dated November 1, 1997, HOOL, HGMI, and SDG&E have agreed to the following significant changes to their prior contractual arrangements: (i) HGMI has been added as a party-seller; (ii) the delivery point to SDG&E has been relocated from the Alberta/British Colombia border to the Kern River Station in California, where PG&E interconnects with SoCal Gas; (iii) the price provision has been modified to reflect the new delivery point; (iv) HOOL and HGMI will manage and be responsible for transportation of the gas to the SoCal Gas system;[(5)] and (v) HOOL and HGMI will share with SDG&E, on a 70 percent/30 percent basis, revenue derived from opportunities associated with the gas supply and transportation arrangements underlying their proposed transaction (e.g., third-party gas sales and purchase arrangements, exchanges, and capacity releases). A more complete description of these opportunities is contained in the Third Amendment. The import quantities requested here vary slightly from those authorized in Order 717 (an increase of 231 Mcf per day) because of the change in delivery point and responsibility for fuel, line loss, imbalances, and the like under the Third Amendment. Except as contemplated by the Third Amendment, HGMI proposes no changes to the import arrangement approved in Order 717.

Under the Third Amendment, HOOL would transport the gas on ANG to the international border near Sumas, Washington. There, HOOL will sell the gas to HGMI. HGMI will then ship the gas on the pipeline systems of PGT and PG&E. SDG&E will take delivery of the imported gas at the Kern River Station, California, interconnection between PG&E and SoCal Gas, and ship the gas to its customers via the SoCal Gas system.

The price that HGMI will pay HOOL at the international border would be equal to the contract price, less the sum of HGMI's PGT and PG&E transportation fixed and variable charges and surcharges, net of any credits, applicable to the firm transportation of gas on PGT and PG&E from Sumas, Washington to the Kern River Station, California, less a marketing fee of U.S. $0.03 per MMBtu.

II. FINDING

The application filed by HGMI has been evaluated to determine if the proposed import arrangement meets the public interest requirements of section 3 of the NGA, as amended by section 201 of the Energy Policy Act of 1992 (P.L. 102-

486). Under section 3(c), the importation of natural gas from a nation with which there is in effect a free trade agreement requiring national treatment for trade in natural gas is deemed to be consistent with the public interest and must be granted without modification or delay. The authorization sought by HGMI to import natural gas from Canada, a nation with which a free trade agreement is in effect, meets the section 3© criterion and, therefore, is consistent with the public interest.

ORDER

Pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. Husky Gas Marketing Inc. (HGMI) is authorized to import from Husky Oil Operations Limited (HOOL) at Sumas, Washington, up to 21,881 Mcf per day of Canadian natural gas for a period commencing on the date of this Order until August 1, 2003. This gas shall be imported consistent with the terms and conditions of the November 1, 1997, Third Amendment to the natural gas purchase agreement between HOOL, HGMI, and San Diego Gas & Electric Company and the gas sales contract between HOOL and HGMI, dated April 1, 1991, on file in this docket.

B. Within two weeks after deliveries begin, HGMI shall provide written notification of the date that the first import of natural gas authorized in Ordering Paragraph A above occurred.

C. With respect to the natural gas imports authorized by this Order, HGMI shall file, within 30 days following each calendar quarter, quarterly reports indicating whether imports of natural gas have been made. Quarterly reports must be filed whether or not initial deliveries have begun. If no imports of natural gas have been made, a report of "no activity" for that calendar quarter must be filed. If imports have occurred, HGMI must report total monthly volumes in Mcf and the average purchase price of gas per MMBtu delivered at the international border.

D. The reporting requirements described in Ordering Paragraphs B and C of this Order shall be filed with the Office of Natural Gas & Petroleum Import and Export Activities, Fossil Energy, Room 3E-042, FE-34, Forrestal Building, 1000 Independence Avenue, S.W., Washington, D.C. 20585,.

E. The first quarterly report required by Ordering Paragraph C of this Order is due not later than July 30, 1998, and should cover the period from the date of this Order until the end of the first calendar quarter, June 30, 1998.

Issued in Washington, D.C., on April 7, 1998.

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Clifford P. Tomaszewski

Manager, Natural Gas Regulation

Office of Natural Gas & Petroleum

Import and Export Activities

Office of Fossil Energy

1. 1/ 15 U.S.C. § 717b.

2. SDG&E is a public utility which provides electric, gas, and steam service to customers in San Diego and Orange counties, California.

3. 1 FE ¶ 70,674.

4. Formerly Pacific Gas Transmission Company.

5. The Third Amendment provides for reversion to SDG&E of responsibility for transportation of the gas from the Alberta/British Columbia border under certain circumstances.