UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

NORTHERN STATES POWER COMPANY (WISCONSIN)	))))	FE DOCKET NO. 91-69-NG

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

DOE/FE OPINION AND ORDER NO. 605

APRIL 22, 1992

I. BACKGROUND

On September 5, as amended on October 21, 1991, Northern States Power Company (Wisconsin) (NSPW) filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE) for authorization to import up to 7,500 Mcf per day of natural gas from Canada commencing on the later of November 1, 1992, or date of first delivery, for a ten-year term. The application was filed under section 3 of the Natural Gas Act (NGA) and DOE Delegation Order Nos. 0204-111 and 0204-127. NSPW intends to import this gas from Canadian Occidental Petroleum Company Ltd. (Canadian Occidental) under a gas purchase agreement dated November 1, 1990. The volumes will be imported at a point on the U.S.-Canada border near Emerson, Manitoba, from which point it will be delivered by Great Lakes Gas Transmission Company (Great Lakes) to (1) NSPW's local distribution facilities connected to Great Lakes, or (2) Viking Gas Transmission Company or Northern Natural Gas Company, which, in turn, will transport the gas to NSPW's local distribution facilities connected to those pipelines. NSPW states that no new pipeline construction is required for the import.

NSPW is a public utility incorporated in the State of Wisconsin and a wholly-owned subsidiary of Northern States Power Company (Minnesota). According to its application, NSPW provides electricity and natural gas service to customers in upper and central Wisconsin as well as Michigan's Upper Peninsula. NSPW intends to use the gas to meet increased system demand.

Under its gas sales contract with Canadian Occidental, NSPW has agreed to purchase a minimum annual quantity equal to 65 percent of the sum of the daily contract quantities (DCQ) in any contract year. In addition, NSPW has agreed to purchase a minimum of 75 percent of the sum of the DCQ's for the peak period months of December through February and 40 percent for the remainder of the year. If NSPW does not meet minimum annual purchase requirements, the contract requires it to pay a gas inventory charge of $.25 per MMBtu times the shortfall. The contract DCQ (7,500 Mcf) is also subject to adjustment if NSPW does not make minimum purchases that average at least 65 percent of DCQ in any contract year.

The contract price for the DCQ service consists of a two-part demand/commodity price. The monthly demand rate would equal the product of the DCQ average for the month times the sum of the monthly demand tolls for Canadian transportation service. The commodity price to be paid in any month would equal the product of the base commodity price of $1.70 (U.S.) per MMBtu, as adjusted annually to reflect changes in the weighted average cost of gas (WACOG) for spot purchases in Kansas, Texas and Oklahoma, and changes in prices for eight midwestern gas utilities under long-term import contracts, times a predetermined monthly adjustment factor. The contract provides for renegotiation and, absent agreement, arbitration of the commodity price and the commodity price adjustment mechanism if it fails to track changes in the WACOG of NSPW's gas purchases or the weighted average price of long-term Canadian gas exported to the U.S. midwestern market.

In support of its application, NSPW asserts the pricing, renegotiation, and arbitration provisions in its gas sales contract provide sufficient flexibility to assure a competitive price that will reflect market conditions throughout the term of the contract. NSPW also submits that the long-term imports are needed and secure. According to its application, NSPW's natural gas demand between 1987 and 1990 increased from 11.4 to 14.1 Bcf, and NSPW anticipates at least a 5 percent annual growth rate for near-term deliveries. Finally, NSPW states that Canadian Occidental estimates it has over 35 Bcf of available reserves to support the contract over its ten-year term. According to NSPW, security of supply is further assured by contract provisions that permit Canadian Occidental to substitute alternate gas supplies from other producers as long as there is no interruption in supply. In the event non-delivery of gas volumes exceeds 90 days, NSPW is entitled to terminate the contract by providing 30-days notice.

II. INTERVENTIONS AND COMMENTS

A notice of receipt of application was published in the Federal Register on December 26, 1991, 1/ inviting protests, motions to intervene, notices of intervention, and comments to be filed by January 27, 1992. No comments or requests for additional procedures were received.

1/ 56 FR 66861.

III. DECISION

The application filed by NSPW 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." 2/ This 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. 3/ DOE also considers, particularly in a long-term arrangement, need for and the security of the imported gas supply.

NSPW's uncontested import proposal, as a whole, is competitive. DOE has reviewed the gas contract and is satisfied that its provisions establish a competitive gas price and provide contracting parties with sufficient flexibility, with respect to both volume and price, to respond to changing market conditions, thus assuring a gas supply that can be marketed competitively over the life of the sales agreement. In this regard, DOE notes that the sales agreement provides for annual price adjustments to the commodity price based on changes in the price of gas purchased by competing gas utilities serving the Midwest market. In addition, the contract contains provisions which allow NSPW or its supplier to request arbitration if the parties are unable to

2 15 U.S.C. 717b.

3 49 FR 6684, February 22, 1984.

agree to a change in the commodity price or the method of adjusting that price.

For these reasons, DOE finds that NSPW's proposed import arrangement is competitive and, under DOE's import guidelines, can therefore be presumed to be needed. In addition, based on NSPW's uncontested assertions that Canadian Occidental has adequate reserves available to support NSPW's import, and the contract provision for substitute supplies, 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 NSPW authorization to import up to 7,500 Mcf per day of natural gas from Canada commencing on the later of November 1, 1992, or date of first delivery, for a ten-year term, in accordance with the provisions of its gas purchase agreement with Canadian Occidental, is not inconsistent with the public interest. 4/

ORDER

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

A. Northern States Power Company (Wisconsin) (NSPW) is authorized to import at the international boundary near Emerson,

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4 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 (NEPA) of 1969 (42 U.S.C. 4321 et seq.) and therefore an environmental impact statement or

environmental assessment is not required. See 40 C.F.R. 1508.4 and 54 F.R. 12474 (March 27, 1989).

Manitoba, Canada, up to 7,500 Mcf per day of natural gas in accordance with the provisions of its November 1, 1990, gas purchase agreement with Canadian Occidental Petroleum Company Ltd., as described in the application and discussed in this Opinion and Order.

B. This authorization shall commence the later of November 1, 1992, or the date of first delivery, and continue for ten years.

C. NSPW 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 deliveries of natural gas imported under Ordering Paragraph A above within two weeks after deliveries begin.

D. With respect to the imports authorized by this Opinion and Order, NSPW shall file with the Office of Fuels Programs (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. The price information shall itemize separately the demand, commodity, and any gas inventory charges 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.

E. The first quarterly report required by Ordering Paragraph D is due not later than July 30, 1992, and should cover the period from April 1, 1992, through June 30, 1992.

Issued in Washington, D.C., April 22, 1992.

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