CANADA

National Energy Board

Reasons for Decision

Northridge Petroleum Marketing, Inc.

GO-4-85

April 1985

Application for a Short-Term Gas Export Order for Sales to Bethlehem Steel Corporation of Bethlehem Pennsylvania

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Cat. No. NE22-1/1985-16E
ISBN 0-662-14029-X

This report is published separately in both official languages.

Ce rapport est publié séparément dans les deux langues officielles.

Copies are available on request from:
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Ottawa, Canada
K1A 0E5
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Printed in Canada

Imprimé au Canada

Contents

IN THE MATTER OF the *National Energy Board Act* (hereinafter called "the Act") and the Regulations made thereunder;

AND IN THE MATTER OF an application by Northridge Petroleum Marketing, Inc. (hereinafter called "Northridge") for a short-term gas export order pursuant to subsection 8(2) of the *National Energy Board Part VI Regulations*.

Considered by the Board in Ottawa, Ontario on Wednesday, the 10th day of April 1985.

Application

Northridge's application, dated 3 January 1985, as revised on 13 March 1985 was for approval of a short-term order to export up to 310.2 x $10^6 m^3$ (10.9 Bcf) of natural gas to Bethlehem Steel Corporation (Bethlehem Steel) of Bethlehem, Pennsylvania beginning on the first day of the month following receipt of regulatory approvals and ending on 1 November 1986.

In its original application dated 3 January 1985, Northridge requested that its application be held in abeyance until such time as the federal government had reviewed the Toronto city gate floor price criterion with respect to short-term gas export sales. As a consequence the Board delayed its usual request for comments by interested parties until it was advised by the Applicant to proceed with the application.

Northridge is a Calgary-based company which provides natural gas marketing services to smaller and intermediate-sized Canadian natural gas producing companies.

Northridge applied for an order to include the following conditions:

Maximum Daily Quantity	- Not to exceed 708.2 x $10^3 m^3$ (25 MMcf)
Total Authorized Quantity	- Not to exceed 310.2 x $10^6 m^3$ (10.9 Bcf)
Term	- Period commencing on the first day of the month following receipt of all regulatory approvals and ending on 1 November 1986.
Selling Price	- $U.S. 2.67 per gigajoule (GJ) ($U.S. 2.87 per MMBtu). The price may be renegotiated at any time upon 30 days notice by either party. The renegotiated price would be subject to regulatory approvals and would become effective on the first day of the month following the receipt of such approvals.
Export Point	- Emerson, Manitoba

The gas proposed for export would be transported by NOVA, An Alberta Corporation (NOVA) to the Alberta-Saskatchewan border. From there the gas would be transported through the facilities of TransCanada PipeLines Limited (TransCanada) to the Emerson, Manitoba export point. TransCanada would transport the gas under an interruptible best efforts contract.

From the export point the gas would be transported through the facilities of either Great Lakes Gas Transmission Company (Great Lakes) or Midwestern Gas Transmission Company (Midwestern) to Northern Natural Gas Company, Division of Internorth, Inc. (Northern Natural), where by exchange the gas would enter the Natural Gas Pipeline Company of America system for ultimate delivery to Northern Indiana Public Service Company (NIPSCO).

Northridge stated that it had applied for an energy removal permit from the Alberta Energy Resources Conservation Board (AERCB) for the proposed export quantities. However, until such time as the removal permit is received, Northridge proposes to purchase the required quantities from TransCanada which would use its existing removal permits for the Northridge sale. In this regard Northridge provided the Board with a letter of agreement to this effect from TransCanada.

The sale and purchase of gas under the Northridge/Bethlehem Steel contract would be on a best efforts basis and as such the supply could be interrupted.

Reasons for Decision

Applicants seeking Board approval for a short-term gas export order under subsection 8(2) of the Part VI Regulations together with approval of a negotiated export selling price are required to demonstrate, according to the *National Energy Board Regulatory Procedures and Information Requirements for Applicants Filing for Short-term Natural Gas Export Orders*, that their contractual arrangements meet the following criteria as set forth in the Government's Natural Gas Export Pricing Policy statement dated 13 July 1984.

Government Export Pricing Policy Criteria

(1) "The price of exported natural gas must recover its appropriate share of the costs incurred."

Evidence:

Northridge submitted that the proposed export selling price of $U.S. 2.67 per GJ ($U.S. 2.87 per MMBtu) is greater than the sum of the cost of purchasing (including royalties and taxes) gathering and transmitting gas to the export point which equals $U.S. 2.22 per GJ ($U.S. 2.38 per MMBtu). Northridge's export selling price/cost comparison is shown below.

Export Selling Price and Cost Calculation[1]

	$U.S. per GJ	$U.S. per MMBtu
Export selling price	2.67	2.87
Alberta border price including royalties and taxes	2.04	2.19
TransCanada Transportation from Alta. Border to Emerson, Man.[2]	0.18	0.19
Total Costs	2.22	2.38

1. $U.S. 1.00 = $Cdn. 1.3720. Average of noon spot rates for week ending 29 March 1985.

2. Based on a weighted average calculation of 5 months Winter Authorized Overrun Interruptible (AOI) rate of $U.S. 0.21 per GJ ($U.S. 0.22 per MMBtu) and 7 months Summer (AOI) rate of $U.S. 0.17 per GJ ($U.S. 0.18 per MMBtu).

Finding:

The Board is satisfied that Northridge's proposed export selling price would recover its appropriate share of the costs incurred.

(2) "The price of exported gas must not be less than the wholesale price of natural gas at the Toronto city gate and sold under similar terms and conditions."

Evidence:

The Applicant submitted evidence which demonstrated that its proposed export selling price of $U.S. 2.67 per GJ ($U.S. 2.87 per MMBtu) was higher than the Toronto city gate price of $U.S. 2.65 per GJ ($U.S. 2.84 per MMBtu) consisting of the sum of the Alberta border price plus TransCanada's Eastern Zone toll for AOI summer service plus any appropriate taxes.

Finding:

The Board is satisfied that the Applicant's proposed export selling price meets criterion (2).

(3) "The price of exported gas must result in prices, in the United States market area, at least equal to the price of major competing energy sources."

Evidence:

Northridge proposes to sell gas to Bethlehem Steel at $U.S. 2.67/GJ ($U.S. 2.87/MMBtu) at the Emerson, Manitoba export point. Bethlehem Steel would transport the gas to its Burns Harbor, Indiana plant by one of several possible pipeline alternatives; Midwestern/ANR Pipeline Company (ANR), Midwestern/Northern Natural, Great Lakes/ANR, or Great Lakes/Northern Natural. The final distribution of the gas to the Bethlehem Steel plant would be through the NIPSCO system.

Northridge submitted that the competing energy to its gas is U.S. sourced (Oklahoma) gas which is presently being consumed in the Burns Harbor plant. Northridge submitted letters from Bethlehem Steel verifying the price of the competing U.S. gas and indicating the costs of the various transportation alternatives for moving the Northridge gas to Burns Harbor.

With respect to the competing prices for gas in the market, Northridge provided evidence to demonstrate that the laid-in cost of its gas would be at least equal to the laid-in cost of the competing U.S. gas as here summarized:

	($U.S./GJ)	($U.S./MMBtu)
Northridge Gas		
Emerson Border Price	2.67	2.87
Transmission Cost[1]	0.36-0.64	0.38-0.68
Distribution Cost[2]	0.42	0.45
Laid-In Cost[3]	3.45-3.73	3.70-4.00
Competing U.S. Gas[3]		
Flowing Contracts	3.54	3.80
Contracts under Negotiation	3.35	3.60

1. The range of transmission costs reflects the various alternatives under consideration.

2. NIPSCO rate for gas transportation service.

3. Since all transportation is on a best efforts, interruptible basis, load factor variances do not affect the laid-in cost comparison.

Finding:

While the Board notes that the U.S. transportation arrangements have not been finalized it considers that Northridge has clearly identified the likely costs of U.S. transportation to be incurred and has provided reasonable assurance, through letters submitted by Bethlehem Steel, that transportation arrangements will be concluded along the terms described.

The Board is satisfied that criterion (3) has been met.

(4) "Export contracts must contain provisions which permit adjustments to reflect changing market conditions over the life of the contract."

Evidence:

The Northridge/Bethlehem Steel contract contains a clause which provides for price renegotiation at any time during the agreement upon 30 days notice by either party.

Finding

The Board is satisfied that criterion (4) has been met.

(5) "Exporters must demonstrate that export arrangements provide reasonable assurance that volumes contracted will be taken."

Evidence:

The Northridge/Bethlehem Steel contract is an interruptible, best efforts arrangement and does not contain take-or-pay or minimum bill provisions. Northridge however, advises that Bethlehem Steel has expressed an interest in purchasing additional volumes on a long-term basis and considers this to be an indication that the volumes contracted for will be taken if available.

Finding:

The Board recognizes the best efforts, interruptible nature of the sale and is satisfied that criterion (5) has been met.

(6) "Exporters must demonstrate that producers supplying gas for an export project endorse the terms of the export arrangements and any subsequent revision thereof."

Evidence:

Northridge, by its letter dated 29 March 1985, has advised the Board that virtually 100 percent of the producers involved in the Bethlehem Steel export support the project. Both the Alberta Petroleum Marketing Commission (APMC) and the Independent Producers Association of Canada (IPAC) indicated their support of the application subject to the finalization of all transportation arrangements and Northridge obtaining an Alberta removal permit.

Finding:

The Board finds that the above-noted producer support satisfies criterion (6).

(7) "Exporters must demonstrate that the sales are truly incremental and will not displace other Canadian gas sales, directly or indirectly."

Evidence:

Northridge provided a letter from Bethlehem Steel stating that the Northridge gas would displace existing direct purchases from independent U.S. producers which Bethlehem Steel is currently allowed to make under its agreement with NIPSCO. This agreement allows Bethlehem Steel to purchase up to 30 percent of its plant requirements on a direct sale basis.

ANR intervened stating that Northridge's gas would impact on ANR since Northridge's proposed selling price was substantially below the Board's previously approved export selling price to ANR at Emerson, Manitoba.

Finding:

The Board is satisfied that the proposed Northridge sale is incremental. With respect to the ANR intervention the Board notes that the company did not provide any evidence to support its allegation that the proposed Northridge sale would impact on ANR sales. Further, the Board recognizes that Northridge's proposed export selling price is less than ANR's price at Emerson, Manitoba but it would point out that the Northridge sale is on an interruptible basis while the ANR sale is for firm supply and that comparative end-use market prices dictate the selling price and not the border export point.

Decision

The Board has examined the Northridge application in order to determine whether it meets the guidelines contained in the Ministerial statement dated 13 July 1984 and finds that in each instance the requirements contained in these criteria have been met.

Accordingly, the Board having taken into account all the matters concerning the Northridge application for a short-term gas export by order, has concluded that the proposed export is in the public interest and hereby approves the Northridge application, pursuant to subsection 8(2) of the *National Energy Board Act*, for the period 1 May 1985 to 30 April 1986. The Board will consider any request for an extension of the proposed Northridge short-term order prior to the commencement of the second year. In this regard the Board would expect the Applicant to submit evidence to substantiate that the export price, for the extension period continues to meet the guidelines contained in the Ministerial statement dated 13 July 1984.

The attached Order No. GO-4-85 is Northridge's authorization to export gas under the conditions contained therein. Conditions to the Order require that Northridge file with the Board prior to the commencement of the export and in any case on or before 30 May 1985 the following agreements and permits:

(a) the required Alberta energy removal permit or, as required during the interim period, an executed interim supply agreement between TransCanada and Northridge;

(b) an executed transportation agreement for the movement of the gas to the Emerson, Manitoba export point.

C.G.Edge
Chairman

L.M. Thur
Associate Vice-Chairman

J.R. Jenkins
Member

Ottawa, Canada
April 1985

ORDER NO. GO-4-85

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by Northridge Petroleum Marketing, Inc. for an Order pursuant to subsection 8(2) of the *National Energy Board Part VI Regulations*, filed with the Board under File No. 1537-N48-1.

BEFORE the Board on Wednesday, the 10th day of April 1985.

UPON an application dated the 3rd day of January 1985 as revised on the 13th day of March 1985 by Northridge Petroleum Marketing, Inc. (hereinafter called "the Applicant") for an Order, pursuant to subsection 8(2) of the *National Energy Board Part VI Regulations*, authorizing the exportation to the United States of America at a place on the international boundary line between Canada and the United States of America near Emerson, in the Province of Manitoba, of up to 708 195 cubic metres of natural gas per day and up to 310 189 513 cubic metres over a two-year term ending on 1 November 1986, for sale to Bethlehem Steel Corporation of Bethlehem, Pennsylvania;

IT IS ORDERED THAT the Applicant be and is hereby authorized, pursuant to subsection 8(2) of the *National Energy Board Part VI Regulations*, to export natural gas, during the term hereof, for sale to Bethlehem Steel Corporation upon the following terms and conditions:

1. The term of this Order shall be for the period commencing on the 1st day of May, 1985, and ending on the 30th day of April, 1986.

2. The total quantity of natural gas that may be exported under the authority of this Order shall not exceed:

   (a) 708 200 cubic metres of natural gas in any one day, or

   (b) 155 100 000 cubic metres during the term of this Order.

3.(l) The price to be received for the natural gas exported in each month comprised in the term of this Order, including all transmission costs of moving gas to the international boundary line between Canada and the United States of America, shall be the Canadian dollar equivalent of not less than 267.0 cents in United States currency per gigajoule of gross heating value.

(2) The Canadian dollar equivalent for each month during the term of this Order shall be an amount in Canadian dollars equal to the price in United States dollars specified in subcondition 3(l), converted to Canadian dollars at the rate of exchange for each such month, which rate of exchange shall be the average of the noon spot exchange rates for the United States dollar in terms of Canadian dollars in each such month, as published by the Bank of Canada.

4. Prior to the commencement of any export of natural gas authorized hereunder, the Applicant shall file with the Board, in a form satisfactory to the Board, the following documentation:

(a) a fully executed transportation agreement between the Applicant and TransCanada PipeLines Limited governing the transportation of natural gas on an interruptible, "best efforts" basis from the Alberta/Saskatchewan border to Emerson, Manitoba; and

(b) the requisite Alberta energy removal permit or, until such time as a removal permit can be secured for the required quantities of natural gas to be sold to Bethlehem Steel Corporation, a fully executed gas purchase contract with TransCanada PipeLines Limited for interim supply on an interruptible, "best efforts" basis.

5. This Order is conditional upon the Applicant filing with the Board the documentation identified in condition 4, in a form satisfactory to the Board, on or before the 30th day of May, 1985 or on such later date, as upon application, the Board may specify.

6. Natural gas exported under the authority of and in accordance with this Order shall be delivered to the point of export near Emerson, in the Province of Manitoba.

7. The Applicant shall interrupt at any time the export of natural gas authorized hereunder whenever and to whatever extent pipeline capacity is inadequate to satisfy the requirements for:

   (a) firm and interruptible domestic sales and firm and interruptible transportation services provided for the transportation of gas for consumption in Canada; and

   (b) firm export sales and firm transportation services provided for the transportation of gas for export.

8. The Applicant shall furnish to the Board, within fifteen (15) days of the end of each month comprised in the term of this Order, a report setting forth the daily quantities, relative density and gross heating value of the natural gas exported hereunder.

9. The quantity, relative density and gross heating value of all natural gas exported under the authority of and in accordance with this Order shall be measured by the Applicant in a manner approved by the Board.

NATIONAL ENERGY BOARD

G. Yorke Slader
Secretary