UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

HERMISTON GENERATING COMPANY, L.P.	)	FE DOCKET NO. 94-49-NG

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

DOE/FE ORDER NO. 964

AUGUST 1, 1994

I. DESCRIPTION OF REQUEST

On June 21, 1994, Hermiston Generating Company, L.P. (Hermiston) 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, requesting authorization to import up to 44,700 Mcf (approximately 45,000 MMBtu)2/ per day of natural gas from Canada over a period of 15 years. Hermiston is a limited partnership organized under the laws of the State of Delaware, with its principal place of business in Hermiston, Oregon. Hermiston's partners are Buckeye Power Corporation (Buckeye) and Larkspur Power Corporation (Larkspur). Buckeye is an indirect, wholly-owned subsidiary of Bechtel Enterprises, Inc., and Larkspur is an indirect, wholly-owned subsidiary of Pacific Gas & Electric Company.

The gas will be used to fuel the applicant's proposed 474-megawatt combined-cycle cogeneration facility near the town of Hermiston, Oregon, which is scheduled to begin commercial operation sometime between July 1, 1996, and September 30, 1996.3/ The entire net electrical output of the cogeneration facility will be sold at wholesale by Hermiston to PacifiCorp, an

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1/ 15 U.S.C. 717b.

2/ One Mcf equates to approximately one MMBtu.

3/ An authorization was previously issued to Chevron Natural Gas Services, Inc. to import up to 22,000 Mcf per day of natural gas over 15 years for sale to Hermiston for its new cogeneration facility. See DOE/FE Order No. 938 issued May 2, 1994, in FE Docket 94-31-NG. This order is not yet published.

Oregon corporation. The point of delivery into the United States for this gas would be at the international boundary near Kingsgate, British Columbia/Eastport, Idaho. The gas will be transported from the international border over the existing pipeline facilities of Pacific Gas Transmission Company (PGT) and Northwest Pipeline Corporation (Northwest). Gas volumes which are not used to fuel Hermiston's cogeneration facility may be resold to PacifiCorp, or to third party purchasers.

Hermiston will purchase the gas under a contract with CanStates Gas Marketing (CanStates), dated September 14, 1993, (30,000 MMBtu per day), and under a contract with Home Oil Company Limited (Home Oil), dated April 7, 1994 (15,000 MMBtu per day). CanStates is also a party to the Home Oil contract. Each contract between Hermiston and CanStates (CanStates contract) and between Hermiston and Home Oil (Home Oil contract) extends for a primary term of 15 years from the initial date of operation of the cogneneration facility. Each contract will continue after the primary term on an annual basis until either party elects to terminate it on one year's notice.

With respect to the price at which the gas will be imported, both the CanStates contract and the Home Oil contract require Hermiston to pay a monthly demand charge and a monthly commodity charge. The commodity charge, based on a wellhead price which would be adjusted over time, starts at approximately $1.64 (U.S.) per MMBtu for the CanStates contract, and $1.61 (U.S.) per MMBtu for the Home Oil contract, as of November 1, 1993. The commodity charge will escalate each contract year by 5.5% beginning November 1, 1994. The demand charge for each contract includes costs associated with transporting the gas in Canada.

The transportation provisions of the two contracts differ. In the Home Oil contract, Hermiston is responsible for the transportation demand charges incurred by Home Oil on Alberta's provincial pipeline, Nova Corporation (NOVA), to the inlet of the Alberta Natural Gas Company Ltd. (ANG) pipeline system near Coleman, Alberta. Also, Hermiston has engaged CanStates to act as agent to take delivery of the gas at Coleman and to arrange for transportation through ANG to PGT's system at the international border. Accordingly, Hermiston is required by the terms of the Home Oil contract to pay CanStates: (1) a monthly service charge of $0.03 (U.S.) per MMBtu, escalated annually by 5.5% beginning on November 1, 1994, for the services CanStates provides to Hermiston as delivery agent; and, (2) a monthly transportation charge to reimburse CanStates for its costs of transportation on ANG. Under the CanStates contract, the monthly demand charge is designed to recover CanStates' transportation costs on NOVA and ANG.

Both contracts have similar minimum take requirements. Hermiston is required to purchase 80% of the sum of the maximum daily contract quantities each year. If Hermiston takes less than the minimum annual obligation, it must pay a deficiency charge on the volumes not taken. The deficiency charge starts at $0.40 (U.S.) per MMBtu, with 5.5% annual escalations beginning

November 1, 1994. This charge would be paid by Hermiston on the 25th day of November following each contract year.

Both contracts include a provision allowing Hermiston to remarket gas not used in the cogeneration facility to other purchasers in the U.S. at a price equal to its market value or the contract price paid by Hermiston. Hermiston is expressly entitled to remarket up to 50% of the maximum daily contract quantity to PacifiCorp, at 105% of the price at which Hermiston buys the gas from CanStates or Home Oil. In all cases, the sum total of gas nominated by Hermiston each day, either for use at the cogeneration facility or for resale, may not exceed 30,000 MMBtu for the CanStates contract, or 15,000 MMBtu for the Home Oil contract.

II. FINDING

The application filed by Hermiston has been evaluated to determine if the proposed import arrangement meets the public interest requirement of section 3 of the NGA, as amended by section 201 of the Energy Policy Act of 1992 (Pub. 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 Hermiston to import natural gas from Canada, a nation with which a free trade agreement is in effect, meets the section 3(c) criterion and, therefore, is consistent with the public interest.

ORDER

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

A. Hermiston Generating Company, L.P. (Hermiston) is authorized to import from Canada up to 44,700 Mcf (approximately 45,000 MMBtu) per day of natural gas. The term of the authorization shall begin on the date of initial delivery (expected to occur in the last half of 1996) and continue for a period of 15 years following the date that the cogeneration facility proposed to be built by Hermiston near Hermiston, Oregon, is placed in commercial operation. This gas shall be imported near Kingsgate, British Columbia, under the provisions of the gas purchase contracts between Hermiston and CanStates Gas Marketing dated September 14, 1993, and between Hermiston and Home Oil Company Limited, dated April 7, 1994, which are on file in this docket. To the extent any portion of the authorized daily import volume below 100% is surplus to the requirements of the cogeneration facility, it may be marketed by Hermiston to buyers in the United States.

B. Within two weeks after deliveries begin, Hermiston shall provide written notification to the Office of Fuels Programs (OFP), Fossil Energy, Room 3F-056, Forrestal Building, 1000 Independence Avenue, S.W., Washington, D.C. 20585, of the date that the first imports of natural gas authorized in Ordering Paragraph A above occurred. In addition, Hermiston shall notify

OFP of the date that its proposed cogeneration facility is placed in commercial operation, within 15 days of its being established.

C. With respect to the natural gas imports authorized by this Order, Hermiston shall file with OFP, within 30 days following each calendar quarter, quarterly reports showing by month the total volume (in Mcf) imported and the average purchase price per MMBtu paid at the international border. The price information for a particular month shall list separately (on a per unit (MMBtu) basis) the commodity charge and the demand charge for transporting the gas on Canadian pipelines to the international border. Also, the reports shall itemize separately any minimum take deficiency payment made by Hermiston.

D. The first quarterly report required by Ordering Paragraph C of this Order is due not later than 30 days after the calendar quarter in which imports first occur under this authorization.

Issued in Washington, D.C., on August 1, 1994.

Anthony J. Como
Director
Office of Coal & Electricity
Office of Fuels Programs
Office of Fossil Energy