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Stafford (Houston), Texas 77477
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November 7th, 1991

C-Span
400 North Capitol Street NW
Suite 650
Washington, D.C. 20001
ATTN: Brian Lamb

Gentlemen:

Please find enclosed information concerning so called free trade between the United States and Canada.

Yours Very Truly,

[redacted]

General Manager

Natural Gas Week

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Inside This Issue . . .

Late News . . .

Oh, those numbers! Michael I. German, the effervescent senior vice president of American Gas Association, quips that "AGA's statistics are always objective — and we know what the objective is!"

Oh, that hype! For the next year, at least, the public and members of the gas industry will hear from the two chiefs of the American Gas Association, Chairman Richard D. Farman, who also is CEO of Southern California Gas Co., and President Michael Baly III. Their appearances together will, of course, be known as the Farman and Baly Circus.

Oh, nonsense! AGA predicts wellhead price *averaging* $2/MMBtu for the six-month period of October through March. AGA gurus say they looked at the gas futures market to come up with that one, which was their first mistake. *Natural Gas Week*'s October wellhead average is $1.59, which is a slow start on a $2 average. Even worse for AGA prognosticators, the Nov. 4 average *declined* 3¢ from the last week in October. Back to the abacus, guys.

Columbia Gas Transmission Corp. asks U.S. Bankruptcy Court to reject an additional 532 "noncompetitive" natural gas purchase contracts. Company says contracts not included in 4,141 rejected in August because they didn't require Columbia to purchase gas during summer months. All 532 contracts related to settlement reached earlier this year resolving class-action suit brought by group led by Enterprise Energy Corp. Columbia agreed to pay $30 million to resolve pre-1991 claims that group members were underpaid $118 million for gas.

Federal Energy Regulatory Commission extends initial comment period on jurisdiction over backhauls — as outlined in Williams Natural Gas Co. filing remanded by court — to Nov. 27. Reply comments due by Dec. 12.

Early Calgary winter forces Nova Corp. of Alberta to cut all interruptible transportation (IT) capacity on system late last week to meet firm transportation requirements. IT recently totaled 250 MMcfd on Nova's system, Reuters news service reports. Nova says it can't estimate when IT gas will flow again.

Senate Draws Line in Tundra, Votes Down Energy Bill Debate

Sen. J. Bennett Johnston, chairman of the Energy and Natural Resources Committee, suffered a stunning defeat last week when his attempt to bring his controversial omnibus energy bill to the Senate floor was defeated by a surprising margin.

After conceding Friday morning that he had lost the cloture vote that would have stopped a filibuster designed to keep the National Energy Security Act of 1991 (S.1220) from being considered by the Senate, the Louisiana Democrat said he would not seek any future votes, effectively killing the bill.

Johnston, a 19-year Senate veteran whose stature may

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National Weather Service Sees Warm Trend Through Winter

Despite last week's storms and cold weather, warmer-than-normal temperatures are expected to be the norm for November through January, especially in the key heating-market regions of New England, Appalachia and the Mid-Atlantic states, the National Weather Service (NWS) said in its 90-day outlook issued last week.

NWS is calling for at least a 55% chance of above-normal temperatures everywhere east of a line extending from the central Great Lakes through the Ohio and Tennessee valleys to the Gulf Coast at the western tip of the Florida Panhandle.

The probability of warmer-than-normal weather is at

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MMS Offers New Assistance To States With Offshore Drilling

The Bush administration last week proposed legislation establishing payments to states for environmental damage caused by offshore oil and gas production, but it appears the checks would be much smaller than those called for in other bills already introduced in Congress.

The administration proposal, which was developed by the Department of Interior's Minerals Management Service (MMS), would give states 12.5% of new royalties derived from production that takes place from six to 200 miles off the state's coast. The money would be given to all coastal states within 200 miles of the tract, with the closest

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Published by The Oil Daily Co.

Canada Threatens to Fight CPUC Under Trade Agreement

SAN FRANCISCO — Canada last week threatened to use its nearly 3-year-old Free Trade Agreement with the United States to fend off California Public Utilities Commission (CPUC) initiatives designed to provide cheaper natural gas for the state's consumers.

Ottawa will have "little choice but to carefully examine its options" under the pact if the CPUC votes soon to uphold a California administrative law judge's proposal to void existing contracts with Canadian shippers, Deputy Energy Minister Bruce I. Howe told an American Bar Association conference held here last week. The Canadian government's options include "a possible challenge of the CPUC's regulatory intervention," Howe said.

The California judge suggested last month that the CPUC demand capacity brokering from gas pipelines in the state. This would allow large amounts of Canadian gas — under more-expensive long-term contracts — to be displaced by cheaper short-term deals with mostly U.S. suppliers.

Howe said the proposed tactic suggests utility buyer Pacific Gas and Electric Co. has no contractual obligations to Canadian producers. He called the CPUC's recent moves to force restructuring of California's gas supply a "selfish interpretation of history."

Petro-Canada to Raise $600 Million

CALGARY — Petro-Canada has an agreement with four New York securities firms to underwrite the Calgary oil and gas company's previously announced US$600 million debenture offering in the United States.

The underwriting team is made up of Morgan Stanley & Co. Inc., Merrill Lynch & Co., Salomon Brothers Inc. and

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Gas Industry Notes Barriers To Free U.S.-Canada Trade

Federal rules restricting foreigners' right to invest in Canada's oil and gas business may be changed, says Jake Epp, Canadian minister of energy, mines and resources.

"We're at the stage now of discussing [the limits]," Epp said last month at a trade symposium in Toronto. "I personally know that if we don't get foreign investment in the Canadian oil and gas industry, we're not going to have the expansion we need."

Regulations that take effect next year, prompted by the nearly 3-year-old U.S.-Canada Free Trade Agreement, will allow foreigners to invest as much as C$150 million (US$134 million) in Canadian companies without the transactions being subject to review by Investment Canada, *Natural Gas Week* Calgary correspondent Jeff Adams reports. But if the investment is in an oil and gas company, just a C$5 million (US$4.5 million) investment will trigger review, unless the company is in financial trouble. Many industry officials have called the variation unfair and demanded changes.

Epp said Trade Minister Michael Wilson will be addressing the investment issue as part of his much larger look at economic issues, including dismantling interprovincial trade barriers, in his work on proposed changes to the constitution.

* * *

The Free Trade Agreement is not being properly observed when it comes to the importation of natural gas from the United States to eastern Canadian provinces, says Sanford H. Siegel, vice president and general manager of Dynasty Gas Marketing Inc. of Houston.

"Free trade between the U.S. and Canada will not be economically productive to the U.S. as long as Canada's natural gas transportation system is able to control gas prices exported to the U.S. and the volume of natural gas imported to Canada," Siegel said recently in testimony during public hearings held by the Trade Policy Staff Committee of the Office of the U.S. Trade Representative.

Siegel said he spoke with several Canadian local distribution companies (LDCs) that told him there will never be significant importing of U.S. gas into Canada, "no matter what the price," because of the control that TransCanada PipeLines Ltd. (TCPL) has on gas transportation.

"If you're going to have free trade, everybody involved must be governed by the same constraints," Siegel told *Natural Gas Week*. "The Canadian system of transportation is a monopoly."

Siegel said that September spot prices for gas entering the U.S. from Canada and competing in the Chicago market undercut U.S. Mid-Continent and Gulf Coast gas by 15¢/MMBtu. "However, when the same Canadian gas is diverted to the Canadian eastern industrials/LDCs, it is more expensive to them than the same U.S. Mid-Continent and Gulf Coast gas," he said.

"Canadian natural gas is competitive with U.S. domestic supplies primarily due to the advantage of geology," Epp said, in a letter responding to Siegel's concerns. He said Canadian producers are able to seek new markets in the U.S. because there are lower finding costs and higher productivity levels per well in Canada.

The minister said that the purchasing strategy of Canadian LDCs leans toward ensuring supply security and long-term, flexible-volume contracts. He said the "fundamental reason" why U.S. imports are at a standstill is because marginal supplies of western Canadian gas delivered into eastern Canada are less expensive than U.S. supplies. "The economic slowdown we are currently experiencing has resulted in excess available capacity on TCPL," he said. "In the longer term, [U.S.] imports into Canada will be a more viable option."

—William C. Wallack

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PRESENTATION TO

U.S. Trade Representative
(Trade Policy Staff Committee)

by
[redacted]
General Manager
9/5/91

Dynasty Gas Marketing is in the business of buying and selling natural gas throughout the United States and Canada, and for the past two and one-half years has specialized in selling gas to Eastern Canada. For your information, Dynasty holds all U.S. natural gas exports permits, and is one of the only companies in the United States to hold a Canadian NEB import permit. Since February of this year we have been virtually locked out from selling gas to Canada.

To understand the reason for the lock out it is necessary to give you a brief explanation of the United States and Canadian pipeline system. In Canada, for all practical purposes, there are two pipelines, Nova and Trans Canada Pipeline (TCP). Nova gathers the gas from the Alberta Province and delivers the gas at the Alberta Border to TCP which then disbures the gas throughout Canada. In the United States there are literaly hundrends of pipelines, most of which compete against each other for the same market.

From this brief explanation, it should be easily realized that the Canadian natural gas transportation system is a monopoly controlled by TCP & Nova, vs. the U. S. transportation system which is still generally a non-monopolistic system.

As you are aware, the IPAA and other organizations have been addressing the problems concerning the importation of natural gas from Canada, therefore I will be concentrating on the exportation of natural gas to Canada from the United States. However, before I address the issue of exports to Canada, I would like to briefly address Canadian gas imports.

Because of the transportation monoploy in Canada, the opportunity for price manipulation on gas entering the United States is greatly enhanced. As told to me by a gas marketing affiliate of a major pipeline, September spot gas entering the United States from Canada and competing in the Chicago market, undercuts U.S. Mid-Continent and Gulf Coast gas by 15 cents per MMBTU/U.S. However, when this same Canadian gas is diverted to the Canadian Eastern Industrials/LDC's it is more expensive to them than the same U.S. Mid-Continent and Gulf Coast gas.

One would think that if this is true, U.S. exports to eastern Canada would be prolific. Let me assure you, they are not. The only constraints the Canadians have in importing gas to the United States is PRICE & PIPELINE CAPACITY. If they are able to overcome these constraints a market is not hard to find. When exports to Canada are attempted we are subject to an additional constraint, which is LONG TERM CONTRACTUAL OBLIGATIONS PUT UPON THE CANADIAN INDUSTRTIALS/LDC's by TCP. Briefly, these contracts require the Canadian Industrials to transport a fixed amount of gas over a fixed term. If the Canadian Industrials/LDC's do not transport the minimum because of lack of demand or other reasons, they still have to pay transportation charges based on that fixed amount of gas whether actual transportation is used or not.

Around February, because of the recession, warm weather, and other factors eastern Canadain natural gas demand generally dropped below the "minimum takes" as set forth in their contracts. Since that time, I am not aware of any exports of U.S natural gas to Canada by U.S. companies.

Within the past two months Dynasty has contacted, by either letter or telephone, over one-hundred (100) Canadian Eastern Industrials in an attempt to sell natural gas. As of the above date we have not been successful. Let me assure you there is plenty of capacity to Canada. Let me also assure you that our prices, on a comparative basis, have averaged since February 3 to 6 cents per MMBTU/U.S. cheaper than the Canadian Eastern Industrials can buy from their own sources in Canada.

Natural Gas

Free trade between the United States and Canada will not be economically productive to the United States as long as Canadas natural gas transportation system is able to control gas prices exported to the United States and the volume of natural gas imported to Canada.

Natural Gas Week

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JUNE 24, 1991

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Inside This Issue . . .

Late News . . .

Lawrence J. Goldstein, president of Petroleum Information Research Foundation Inc., tells audience at Center for Strategic & International Studies that "natural gas is the key fuel [for] the United States's industrial sector, and an oil import fee in the United States would probably . . . raise the cost of natural gas as well, render the chemical, the petrochemical sectors and other energy and technology sectors in the U.S. uncompetitive." He was responding to variable import fee just proposed to group by House Majority Leader Richard A. Gephardt (see column, p.2).

* * *

Robert E. Ebel, vice president of international affairs for Enserch Corp., speaks to same CSIS conclave, mentioning recent plan offered by academics for revitalizing Soviet economy. Ebel, a Soviet expert and no slouch in brain department, says "the concept of a workable plan put together by a group of Harvard economists is an oxymoron."

* * *

Damson Oil Corp. files for bankruptcy with U.S. Bankruptcy Court and also agrees to sell all natural gas and oil assets to Parker and Parsley Petroleum Co. (P&P), including natural gas properties in 24 states. Damson to receive 1.5 million shares of P&P stock in deal.

* * *

Reps. Mike Synar (D-Okla.), Jim Cooper (D-Tenn.) introduce H.R. 2663, requiring new stationary sources — and repowered sources after Jan. 1, 1995 — emitting at least 100,000 tons of carbon dioxide annually to compensate with offsetting greenhouse gas reductions. Bill also grants credits for conversions from oil or coal to natural gas and for compressed natural gas vehicles.

* * *

Federal Energy Regulatory Commission issues formal order approving Transcontinental Gas Pipeline Co.'s new market-based gas inventory charge and separate rate settlement.

Bankruptcy Threatens Columbia Unless Producers Nix Contracts

Columbia Gas System Inc. (System) said last week the company, its pipeline subsidiary, Columbia Gas Transmission Corp. (Transmission), or both could be forced to seek protection under bankruptcy laws if System cannot get new loans from banks or Transmission fails to restructure contracts with producers.

As the week progressed, the news got worse with the company on Wednesday suspending its 58¢/share quarterly common stock dividend on the 50.5 million shares of common stock it has outstanding and then on Thursday

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A&S Proposes One-Third Cut In Price for Alberta Producers

Alberta and Southern Gas Co. Ltd. (A&S) has proposed slashing prices by more than one-third in a contract offer to the 190 producers of its supply pool. A&S is the gas purchasing arm of Pacific Gas and Electric Co. (PG&E).

The June 18 proposal will almost certainly be rejected when it comes to a vote June 27, based on initial reaction of various production companies — most of which said they consider A&S's offer merely an opening stance in a long bargaining process.

"It's a low-ball offer," said J.C. Anderson, president of Anderson Exploration Ltd. "[But] all I think they've done is open negotiations."

"They'll be coming up and we'll be coming down," pre-

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SoCal Sets $18 Million Plan To Jump-Start Gas Vehicles

Southern California Gas Co. (SoCal) announced last week it will seek regulatory approval for what would be the nation's largest program to promote the use of natural gas vehicles. The $18 million program would involve the installation of 51 compressed natural gas (CNG) fueling stations in Southern California by late 1993.

"We think this is the way to go as far as alternative fuels are concerned and once again California is leading the way," said SoCal spokesman Ralph Cohen.

The program would encourage fleet owners to use natural gas-powered vehicles by subsidizing the initial costs of

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Sharp Predicts Panel Markup Of Energy Bill After July 4

The House energy and power subcommittee will begin marking up energy strategy legislation (H.R.779) after its July 4 recess, its chairman, Rep. Philip R. Sharp (D-Ind.), told the National Energy Resources Organization last week.

The subcommittee will first address less controversial subjects in the bill, such as natural gas legislation, efficiency, the Strategic Petroleum Reserve and coal, before tackling more controversial parts of the bill, such as reform of the Public Utilities Holding Company Act and automobile mileage standards. Work on those aspects of the bill could continue into September, he said.

Not likely to get much consideration from his panel is an administration proposal to merge the Federal Energy Regulatory Commission (FERC) into the Department of Energy. "One thing that won't be on the table probably is abolishing FERC," he said.

He also criticized some aspects of the energy bill (S.1220) approved by the Senate Energy and Natural Resources Committee.

"Some of the Senate proposals will have to go," he said.

Among them is the Domenici-Wirth amendment to the Senate bill that would require FERC to consider the anticompetitive impact of pipeline rates when considering approval of imports of Canadian gas. Such a provision would hurt competition, would violate the U.S.-Canada Free Trade Agreement and increase legal fees, Sharp said.

Hurting any kind of energy legislation, however, is the current low price of energy, Sharp said. "Anything we do is condemned by the low cost of fuel," he said.

He lambasted reluctance on the part of Congress to institute gasoline taxes, in particular a proposal to levy a half-cent tax on gasoline to generate revenue to build up the Strategic Petroleum Reserve.

"For God's sake, is half a penny on a gallon of gas too much to pay in this country for a little security?" he shouted. "I mean that is absurd, folks!"

He predicted Congress would pass energy legislation in the last session of 1992, although he predicted that "on the last day of the last session at 3 a.m. in the morning we will be voting on the energy bill and it will pass."

—**James A. Mulligan**

Letter to the Editor

U.S. Marketer Can't Sell Gas in Canada

Dear Editor:

Just thought I would add my "two cents' worth" to the current discussion concerning Canadian exports of natural gas.

Because of the limited pipeline system in Canada, the Canadian producers generally receive a price for their gas below the U.S. producers (on a comparative basis) while their Canadian end-users [and] LDCs [local distribution companies] pay a price higher than for U.S. imported gas. Specifically, the gas Dynasty [Gas Marketing Inc.] exports to Canada at Ojibway to various Canadian LDCs is normally less expensive than the same LDCs can purchase from their own Canadian sources. Canadian gas exported to the U.S. at Monchy via Northern Border pipeline is generally cheaper than U.S. Gulf Coast gas delivered to the same point.

What is extremely frustrating to me, being an exporter of U.S. natural gas to Canada, is that even though my gas is cheaper to the Canadian LDCs/end-users, I am estopped from selling gas in Canada, because of unfair contractual obligations forced on Canadian LDCs/end-users by TransCanada PipeLines Ltd. (TCPL). On May 17, 1991, I was told by a Canadian end-user that even though my gas was US3¢/MMBtu cheaper than Canadian gas supplied by TCPL, he could not take my gas because of prior contractual commitments to TCPL. To quote him, "TCPL is the easiest company to negotiate a contract with. You either take their contract as presented or you do not move any gas."

Sanford H. Siegel
General Manager
Dynasty Gas Marketing Inc.
Houston, Texas

Senate Panel Eyes Deadline For FERC to Handle Rate Cases

A U.S. Senate subcommittee is studying the idea of imposing a time limit on the settlement of rate cases brought before the Federal Energy Regulatory Commission (FERC).

Sen. Timothy E. Wirth (D-Colo.) raised the possibility of such a limit during a hearing last week on Sen. Howard M. Metzenbaum's (D-Ohio) bill to remove the so-called refund floor that now limits the amount FERC can order a company to refund. Wirth is chairman of the energy regulation and conservation subcommittee, which held the hearing on Metzenbaum's bill. Wirth said the hearing was held at Metzenbaum's request.

Metzenbaum's bill would:

- Allow FERC to order a refund in a settlement case even if a pipeline had requested a rate decrease or no increase, if the commission determined the filed rate was not just and reasonable as required by the Natural Gas Act. Under current law, FERC can order a refund only when a pipeline requests a rate increase.
- Allow FERC to order a refund greater than the difference between the rate request and the existing rate, which now serves as a floor below which FERC cannot require a refund.
- Establish a "refund effective" date for Section 5 rate cases, under which FERC holds a hearing either on its own initiative or as a result of a complaint to determine if rates are just and reasonable. If FERC ruled the rates were not just and reasonable, the pipeline would have to pay refunds on the higher rates collected after the refund effective date, which would be determined by FERC. Currently, the pipeline is not required to pay such a refund, although the lower

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