



ARBITRATION OF GAS DISPUTES SESSION 4

District of Columbia Public Service Commission (DCPSC).

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Arbitration of Gas Disputes

- ❑ U.S. policy favors arbitration adopted by the “Federal Arbitration Act”.
- ❑ “Arbitration Act” stands as declaration of liberal policy favoring arbitration and requires Courts to rigorously enforce agreements to arbitrate.

Arbitration of Gas Disputes

- ❑ Where contract contains arbitration clause, Courts are to presume arbitration unless it is clear arbitration clause does not cover the disputed issues.
- ❑ Prerequisite issue is whether the dispute is covered by arbitration clause.

Arbitration of Gas Disputes

Case Study – Texaco, Wolverine Exploration Contract Dispute (Oklahoma State Court).

- ❑ Issue involved arbitration clause in a Gas Purchase Contract (GPC) between Texaco (Buyer) and Wolverine (Seller).

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- Issue 1 ☐ Dispute: Wolverine sued Texaco seeking monetary award for reservoir damage caused by Texaco's alleged negligence.
- Issue 2 ☐ Texaco and Wolverine also disputed how prices were to be set under an old contract between Texaco and Natural Gas Pipeline Co.
- ☐ Texaco wanted both matters to be resolved by arbitration. Wolverine wanted to pursue Court action.

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- ❑ Contract: Texaco and Wolverine contract required Texaco to pay for and receive, and pay for if available and not taken, certain amounts of gas produced by Wolverine.
- ❑ GPC arbitration clause compelled arbitration in disputes as to “price” and “reserve determinations to be agreed to by the parties”.

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- ❑ Contract Article 4th set price of the gas Texaco was obligated to pay, setting price in terms of the amount to be paid for each one million BTU's of natural gas.
- ❑ Manner in which price was set differed depending upon the existence of government price regulation (cap).
- ❑ Paragraph 2 Article 4th also prescribed how price would be determined in a decontrolled market.

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- ❑ Under Paragraph 2 Article 4th, Texaco and Wolverine were to agree on a price based upon a comparison with other GPC's under guidelines in the GPC.
- ❑ If Texaco and Wolverine could not agree timely, either party was allowed to “submit the matter for arbitration, the procedures for such arbitration to be set forth in Article 15th of the Contract”.
- ❑ Paragraph 3 of Article 4th also provided:

Notwithstanding any other provision of this Article Fourth to the contrary, it is understood and agreed that Buyer shall never be obligated to pay seller for gas delivered hereunder, or for which Buyer is obligated to pay for, any price greater or lesser than the price received by Buyer for such gas pursuant to the terms of that certain contract dated December 26, 1979, between Texaco, Inc., “Seller” and Natural Gas Pipeline Company of America, “Pipeline”.

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- Article 15th provided for arbitration and the procedures for disputes “regarding the provisions relating to ‘price’ in Article Fourth hereof or a dispute concerning reserve determinations to be agreed to by the parties hereto.”

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

Court Decision: Legal Principles

- ❑ Law generally favors arbitration of disputes.
- ❑ Issue is whether, under the GPC, Texaco and Wolverine agreed to submit the disputed issues to arbitration.

Case Study – Texaco & Wolverine Exploration and Natural Gas Pipeline (Oklahoma State Court)

- ❑ Court concluded that all price disputes between Texaco and Wolverine were arbitrable under the GPC primarily because Article 15th was a general provision encompassing any dispute regarding price setting.
- ❑ Court held that Wolverine claim against Texaco for “reservoir damage” was not covered by arbitration provisions. Determining the amount of reservoir damage required a “reserve determination” and Texaco and Wolverine never agreed how they would dispute reserve determinations.

Website References

American Arbitration Association – <http://www.adr.org>

American Arbitration Association University – [http:// www.aaauonline.org](http://www.aaauonline.org)

International Arbitration – <http://www.osec.doc.gov/ogc/occic/nrb-98.html>

FERC Dispute Resolution – <http://www.ferc.gov>