

Cited as "1 ERA Para. 70,109"

Gas Service, Inc., Manchester Gas Company  
ERA Dkt. No. 78-006-LNG  
November 9, 1979.

Opinion and Order Approving Joint Application to Import Liquefied  
Natural Gas into the United States from Canada

#### A. Background

On September 22, 1978, Gas Service, Inc. (GSI) of Nashua, New Hampshire, and Manchester Gas Company (Manchester) of Manchester, New Hampshire (Applicants), filed a joint application with the Economic Regulatory Administration (ERA) of the Department of Energy (DOE), pursuant to Section 3 of the Natural Gas Act (NGA) and Sections 301 and 402(f) of the DOE Organization Act, requesting authorization to import liquefied natural gas (LNG) from Canada into the United States (ERA Docket No. 78-006-LNG).

ERA issued a notice of receipt of the application and invitation to submit comments and petitions for intervention on October 10, 1978 (43 FR 47769, October 17, 1978).

On December 2, 1978, ERA issued an order granting intervention to the two parties which filed petitions with ERA.<sup>1</sup>

Applicants filed a motion for expedited consideration on November 7, 1978.

On February 21, 1979, applicants supplemented their application in response to an ERA letter requesting additional information. They further amended the application on October 29, 1979, to reflect an increase in the price to \$4.80 from \$3.51 per million British thermal units (MMBtu), FOB the terminal of the supplier, Gaz Metropolitan, Inc. (Gaz Metro) of Montreal, Canada, after November 3, 1979.

#### B. Project Description

GSI and Manchester are corporations organized under the laws of the State of New Hampshire and operate gas distribution systems in Nashua and Manchester, New Hampshire, respectively, where each company's principal place of business is also located.

Applicants distribute gas at retail in their respective franchised areas and in this respect are regulated by the New Hampshire Public Utilities

Commission.

Applicants have contracted individually with Gaz Metro of Montreal, Canada, for the purchase of LNG for a ten-year period commencing on November 1, 1978, and terminating on October 11, 1988. GSI has agreed to purchase under a Liquefied Natural Gas Sales Contract dated August 16, 1978, 30,879 MMBtu or approximately 31 million cubic feet (MMcf) of LNG each contract year. Manchester has agreed to purchase under a Liquefied Natural Gas Sales Contract dated August 16, 1978, 20,586 MMBtu's (21 MMcf) of LNG between the period November 1, 1978, and October 31, 1979, and 41,172 MMBtu's (41 MMcf) of LNG for each subsequent contract year. Applicants are to take delivery of this LNG at Gaz Metro's truck loading facilities at its existing LNG plant in Montreal. In order to meet the peak day requirements of their respective markets, which consist primarily of high priority residential customers, applicants expect to take delivery of the total contracted quantities of LNG during the winter period of each year. GSI and Manchester have stated that approximately 37 truck loads per year and 50 truck loads per year, respectively, will be needed to deliver the LNG each winter season.

Applicants have contracted with Gas Incorporated of Lowell, Massachusetts, a certificated Interstate Commerce Commission (ICC) motor carrier of LNG, to transport this LNG by tank truck under published ICC tariffs to applicants existing at Nashua and Manchester for the term of the LNG purchase contracts.

Applicants are to purchase and take delivery of LNG from Gaz Metro at a unit price of \$4.80 per MMBtu in U.S. currency, FOB Gaz Metro's truck loading facilities. This price consists of a \$3.45 per MMBtu cost of gas (the Canadian export border price authorized by the Canadian National Energy Board (NEB)) and a \$1.35 per MMBtu cost of service representing Gaz Metro's operating costs for its LNG processing facilities. Applicants at their own expense are required to provide for all subsequent transport and movement after delivery of the LNG into cryogenic tank trucks at Gaz Metro's LNG terminal. Applicants estimate that truck transportation costs for delivery to GSI's and Manchester's facilities will amount to approximately 82.6 cents and 82.0 cents per MMBtu in U.S. currency, respectively.

If at the end of any contract year the total quantities taken are less than those specified in the contracts, applicants are to be charged at a rate of \$1.80 (U.S.) per MMBtu for such deficiencies. This amount represents the unit contract price of \$4.80 less Gaz Metro's commodity cost (\$1.42) and the unit cost of the export flow-back to the producers (\$1.58).

Pursuant to the terms of the respective Liquefied Natural Gas Sales Contracts, the LNG purchase price is subject to any increase or decrease in the Canadian export price as established by the NEB. The purchase price can

further be revised at the end of each contract year to take into account changes in the cost of service related to Gaz Metro's LNG plant, subject to ninety days written notice to applicants prior to November 1 of any contract year. Applicants have the right to cancel the contract upon the receipt of such notice by giving Gaz Metro a written notice of cancellation at least sixty days prior to November 1 of any contract year.

Gaz Metro operates a gas distribution system in the Province of Quebec, Canada. It has a stable gas supply which is purchased from two suppliers, TransCanada Pipelines Limited and Pan Alberta Gas, Ltd. The plant consists of two cryogenic double-walled storage tanks capable of storing the liquid equivalent of two billion cubic feet of gas. This plant has been operating successfully for many years. Gaz Metro has assured Applicants that its supply of LNG is adequate to meet its own requirements and its requirements under the LNG sales contracts mentioned herein.

GSI and Manchester receive all their pipeline deliveries of natural gas through the facilities of Tennessee Gas Transmission Company (Tennessee), an interstate pipeline extending from the Gulf of Mexico to the New England area. Because Applicants are at the terminus of this system, their ability to receive supplies of gas are limited. The physical realities of the Tennessee system at its terminus (pressure, pipe size and volume of requirements served prior to reaching GSI and Manchester) generally prevent Tennessee from meeting the peak winter heating season demands of Applicants.

Applicants believe that the LNG supply requested in their application is reliable, is economically feasible, and will assist them in maintaining peak load service to their high-priority customers in their New England service areas.

### C. Discussion

#### 1. Import Price

The delivered cost of this LNG to applicants at their LNG storage facilities will be approximately \$5.62 (U.S.) per MMBtu. This price consists of \$4.80 FOB Gaz Metro plus approximately \$0.82 transportation cost. Applicants assert that this is the lowest cost alternative fuel available to them or their customers and that they have no other firm supply of LNG. In the absence of this supply, Applicants further assert that they would be required to seek again, as in the past, short-term supplies of LNG at a higher cost from customers of Distrigas of Massachusetts Corporation (Distrigas) <sup>2/</sup> who may have LNG available for sale on an emergency basis.

The State Energy Office of New Hampshire has supplied information to ERA concerning the type and price of the competing fuels in the applicants'

service area. The State Energy Office states that only No. 2 fuel oil and kerosene are viable alternative energy sources within applicants' service area. The average retail prices within the State of New Hampshire during the latter part of October 1979 were \$0.855 per gallon of No. 2 fuel oil and \$0.914 per gallon of kerosene. On an energy basis, this equates to \$6.17 per MMBtu and \$6.77 per MMBtu respectively.<sup>3/</sup>

Additionally, the State Energy Office indicates that residual fuel oil is not an alternative energy source in the Applicants' service area.

On November 1, 1979, Applicants stated that the present price of LNG if purchased from Distrigas customers would be approximately \$5.30 per MMBtu delivered to Applicants' terminals.<sup>4/</sup> Applicants, however, noted that the price paid by Distrigas for its imported LNG supply is, under the terms of Distrigas' supply contract with Algeria, subject to the operation of an escalator provision on January 1, 1980.<sup>5/</sup> Applicants stated on November 9, 1979, that because the escalator is determined by increases in the price of No. 2 and No. 6 fuel oil in New York Harbor, that it expected an increased of approximately 75 cents in Distrigas' delivered cost for LNG, which could raise Applicants LNG price from Distrigas customers to over \$6.00 per MMBtu delivered.

## 2. Need for the Gas

Applicants state that due to shortages of natural gas they have been subject to seasonal winter curtailment by their pipeline supplier for the past several years. Such curtailment requires Applicants to supplement available pipeline gas with propane and LNG to meet the peak winter requirements of their customers, approximately 90 percent of whom are high priority residential and small commercial end-users.

To meet the peak winter service demand of their customers, Applicants assert that they must maintain a stable and reliable source of supplemental natural gas supply.

The Applicants state that they cannot rely solely upon a propane-air mixture as a supplemental fuel. Excessive injection of propane-air into the Applicants' distribution system may cause excessive fluctuation in the Btu content of the gas stream in portions of their respective distribution systems. Moreover, propane-air has a higher specific gravity than natural gas. These two factors may cause unsatisfactory distribution and utilization, particularly in older appliances and burning equipment, and could lead to potentially hazardous conditions for end-users.

The Public Utilities Commission of the State of New Hampshire, an intervener in this case, has commented favorably on the Applicants' desire to

obtain peak-shaving supplies of gas:

This Commission is acutely aware of New Hampshire's potential vulnerability in maintaining an adequate energy posture. Gas Service, Inc. and Manchester Gas Company are located at the extreme end of the single natural gas pipeline serving northern New England, and are totally dependent upon a single supplier--Tennessee Gas Pipeline Company--for their natural gas supplies. In recognition of their vulnerability in the natural gas picture, and in recognition of their responsibility to provide continual, adequate service to their customers, these companies have installed substantial peak-shaving facilities to supplement their natural gas sources. This Commission has found those supplemental facilities so vital that in 1969 we ordered these companies to maintain continual five-day supplies of supplemental fuel as stand-by in consideration of a possible natural gas pipeline failure. These annual stand-by sources have proven their worth, and their need has become even more essential as a result of the curtailment programs implemented by Tennessee in recent years. Approval of this application by [ERA] will assure that these companies are in compliance with our order.<sup>7/</sup>

In summary, the ERA has determined that a dependable and fungible supply of supplemental natural gas, such as LNG, is essential to applicants to maintain essential peak winter service to their high priority customers, for the proper operation of their distribution systems, and to avoid problems associated with excessive dependence upon propane. In addition, the LNG imports should help make New Hampshire less dependent on high cost imported fuels. This will comport with the national energy policy to utilize natural gas to displace fuel oil in order to reduce the Nation's reliance on imported fuel oil and reduce the demand on existing supplies of No. 0 fuel oil and kerosene in the Applicant's service area.

#### D. Conclusions

Upon review of the joint application and the filings made in support thereof, ERA has determined that the application should be approved. The proposal provides for an import price which will make LNG available for customers' use at prices equal to or less than the cost of available alternate energy supplies to the end-user. Insofar as the truck transportation costs are incurred after delivery of the LNG to the Applicants and are chargeable upon receipt of the LNG at Applicants' facilities in New Hampshire, ERA considers the transportation costs to be domestic charges. Any tariff proceeding or adjustment relating to the passthrough of these transportation charges is within the jurisdiction of the governmental agencies within the State of New Hampshire having authority over those matters.

In conducting its review of need for the gas, ERA agrees with the Applicants' assertion that the LNG is needed to meet pipeline natural gas supply deficiencies during peak winter season needs. Additionally, the LNG is needed to avoid undue fluctuations in the Btu content of the gas streams and higher than normal specific gravity levels which create unsatisfactory operation of customer appliances and burning equipment due to excessive use of propane. Accordingly, the ERA believes it would be inconsistent with the public interest to deny the applicants and its customers access to this available supply of LNG.

The Public Utilities Commission of the State of New Hampshire in its statement on intervention also gives credence to Applicants' assertions that the LNG is a superior peak-shaving fuel and that the LNG is being purchased at a favorable price.

Insofar as there are no pipeline connections between Canada and the applicant's facilities, truck delivery of LNG is the only feasible means of transporting the gas to the Applicants facilities. Therefore, the price of these volumes of peak shaving gas will necessarily exceed the prevailing border price for flowing natural gas. ERA will limit its approval of this application, however, to the current contract price as set forth in the supplemental application. ERA believes that prior authorization of any future increase in the price of this imported LNG would be inappropriate, and that proposed changes to the import price must be reviewed by ERA. Subject to such condition, ERA finds GSI's and Manchester's joint application otherwise acceptable.

The DOE has determined within the requirements of the National Environmental Policy Act of 1969 (NEPA) that the subject proposal is not a major Federal action which would have a significant impact on the quality of the human environment as defined by the NEPA and that the preparation of an environmental assessment or environmental impact statement is therefore not required.

For these reasons, ERA finds that the revised application is not inconsistent with the public interest within the meaning of Section 3 of the NGA and should be approved.

#### Order

A. Authorization is hereby granted to GSI to import up to 30,879 MMBtu's of LNG for each contract year (November 1 through October 31) effective immediately and ending on October 31, 1988.

B. Authorization is hereby granted to Manchester to import up to 41,172 MMBtu's of LNG for each contract year (November 1, through October 31)

effective immediately and ending on October 31, 1988.

C. GSI is hereby authorized to import the volume authorized in paragraph A above at a unit price of \$4.80 (U.S.) per MMBtu, FOB Gaz Metro. Further review and authorization by ERA will be necessary for any increase in this price.

D. Manchester is hereby authorized to import the volume authorized in B. above at a unit price of \$4.80 (U.S.) per MMBtu, FOB Gaz Metro. Further review and authorization by ERA will be necessary for any increase in this price.

Issued in Washington, D.C., on November 9, 1979.

--Footnotes--

1/ The interveners and dates of their filings are: Algonquin Gas Transmission Company and Algonquin LNG, Inc., October 30, 1978; and the State of New Hampshire Public Utilities Commission, November 2, 1978.

2/ Distrigas and its customers assert their supplies of LNG are all contracted for and are not generally available for purchase on an emergency basis.

3/ The conversion was calculated using 5,875,000 Btu per 42 gallon barrel of No. 2 fuel and 5,670,000 Btu per 42 gallon barrel of kerosene.

4/ Approximately \$4.79 per MMBtu FOB Distrigas customers' terminal plus an estimated \$0.50 per MMBtu for delivery to Applicants.

5/ See DOE/FPA's Order on Importation of Liquefied Natural Gas From Algeria, December 31, 1977, Distrigas of Massachusetts and Distrigas Corporation, ERA Docket No. 77-011-LNG.

7/ Letter from Public Utilities Commission, State of New Hampshire, October 26, 1978.