Cited as "1 ERA Para. 70,111"

Gas Service, Inc. and Manchester Gas Company (ERA Docket No. 80-18-LNG), January 5, 1981.

Authorization to Increase the Price Paid for Liquefied Natural Gas Imported from Canada

[Opinion and Order]

I. Background

Gas Service, Inc. (GSI) and Manchester Gas Company (Manchester) on September 25, 1980 filed with the Economic Regulatory Administration (ERA) an application to amend their authorization under Section 3 mf the Natural Gas Act (NGA), permitting an increase in the price of liquefied natural gas (LNG) imported from Canada.1/

GSI and Manchester are local distribution companies, operating solely within the State mf New Hampshire and serving mainly residential and small commercial users. Both companies use LNG as a supplemental source of natural gas to meet peak day requirements during the winter heating season.

On August 16, 1978, both ESI and Manchester signed Liquefied Natural Gas Sales Contracts with Gaz Metropolitan, Inc. (Gaz Metro) of Montreal, Canada, for a ten-year term commencing on November 1, 1978, and terminating on October 31, 1988. Under the terms of its contract, GSI would receive 30,879 MMBtu's during each contract year. Manchester would receive 20,586 MMBtu's in the first contract year (from November 1, 1978 to October 31, 1979), and 41,172 MMBtu's for each subsequent contract year.2/

On November 9, 1979, in Opinion and Order No. 10 3/ ERA approved the joint application to import LNG into the United States from Canada at a price of U.S. $4.80 per MMBtu, F.O.B. Montreal. This price consisted of the then current border price of U.S. $3.45 per MMBtu for natural gas imported from Canada, plus a cost of service charge for liquefaction of the gas of U.S. $1.35 per MMBtu.

On September 25, 1980, GSI and Manchester petitioned ERA to amend their authorization so they could purchase LNG from Gaz Metro at a higher price. This higher price, based on the pricing formula described in DOE/ERA Opinion and Order No. 10, reflects an increase in the border price charged U.S. importers of Canadian natural gas from U.S. $3.45 MMBtu to U.S. $4.47 per

MMBtu, and an increase in Gaz Metro's charge for liquefaction and operating expenses from U.S. $1.35 per MMBtu to U.S. $1.4657 per MMBtu.4/ The total unit price of the LNG paid to Gaz Metro will increase from U.S. $4.80 per MMBtu to U.S. $5.9357 per MMBtu.

The LNG will be transported from Gaz Metro's liquefaction facility in Montreal by trucks to Nashua and Manchester, New Hampshire, as described and previously approved in Opinion and Order No. 10. No new or additional facilities are required to effect the proposed importation.

GSI and Manchester, in their application and supplement,5/ assert that this supply of LNG is needed in each of their distribution systems to assure winter peak day demand service. Their only domestic supplier of natural gas is Tennessee Gas Pipeline Company (Tennessee) and it is the only natural gas pipeline in their market area. During winter peak days, the total amount of gas Tennessee can deliver to them is constrained by the physical limitations in pipeline deliverability. Because both GSI and Manchester receive their gas at the terminus of the Tennessee pipeline system, throughput of additional pipeline gas cannot be increased.

The applicants use a propane-air mixture to supplement the supply of natural gas received from Tennessee. During the last winter heating season, GSI and Manchester used 150,514 MMBtu's and 152,815 MMBtu's, respectively, of propane-air mixture. The average price paid at that time for propane was $5.99 per MMBtu by GSI and $6.42 per MMBtu by Manchester. While additional propane-air may be used to offset peak winter supply requirements, the applicants state that an excess use of propane-air will create operational problems especially in older gas burning installations. In addition, the applicants have estimated that an approximate price of $7.66 per MMBtu would have to be paid for the delivery of additional propane.6/

During the last winter heating season, the applicants also supplemented their gas supplies on peak days by obtaining emergency purchases of LNG from customers of Distrigas of Massachusetts Corporation (Distrigas).7/ The total amount purchased from Distrigas' customers during the 1979-80 heating season was 53,768 MMBtu's for GSI and 25,000 MMBtu's for Manchester. This source of supply is dependent upon shipments of Algerian LNG to Distrigas and system requirements of Distrigas' customers. In the past, this source of supply, which constitutes a domestic resale of imported LNG, has been more costly than the direct import of LNG from Canada by the applicants. The applicants have also stated that they have been unable to secure a firm peak domestic supply of LNG.

GSI states that its peak-day supply capability during this winter will be reduced significantly because one of its two propane-air facilities (which provides approximately twenty-five percent of its peak-day propane-air requirement) is in need of repair and currently inoperable. While the necessary replacement regulators and control valves were ordered in September 1980, delivery is not expected until February 1981.

GSI and Manchester have amended their contracts with Gaz Metro, by amendments dated March 5, 1980, to eliminate the take-or-pay provisions. The applicants state that the elimination of the take-or-pay provisions will give them flexibility in using this gas supply to manage winter peaking needs.

On June 9, 1980, both companies further amended their contract to increase the price paid for the LNG from U.Q. $4.80 per MMBtu to U.S. $5.9357 per MMBtu to reflect increases in both the border price charged U.S. importers of Canadian natural gas and the cost of liquefaction at Gaz Metro's facilities.

Exportation of this LNG at the higher price has been approved by the NEB in Order No. 60-2-80, issued on September 25, 1980. This order permits GSI and Manchester to purchase their contract volumes at the new contract price of U.S. $5.9357 from October 1, 1980 to May 31, 1981.

Because both GSI and Manchester are under the jurisdiction of the New Hampshire Public Utilities Commission, we solicited their views on the proposed price increase. In a December 17, 1980 response, Commissioner Riordan stated that "this Commission urgently requests that approval by (ERA) be granted so that New Hampshire will be insured an adequate energy posture."

II. Discussion

Upon review of the joint application and the filings made in support thereof, including the support of the New Hampshire Public Utilities Commission, ERA has determined that the application should be approved. The proposal provides for an import price which will make this peaking supply available for high priority use at prices equal to or less than the cost of other available supplemental peaking gas supplies to the end-user.

Furthermore, the applicants have shown that presently there is no dependable source of domestic natural gas available to them for winter peaking purposes. Tennessee, its natural gas supplier is physically constrained in how much it can deliver. Additional propane-air use by the applicants may cause operating problems and is more costly than the LNG. Moreover, GSI's peak day availability of propane-air is currently reduced due to equipment failure, and alternative supplies of LNG from Distrigas' customers may not be available. The elimination of the take-or-pay clauses in the LNG sales contract will provide the applicants flexibility to use other, cheaper sources of gas as they become available and will assure that this high priced supplemental natural gas will be bought only when needed.

For these reasons, ERA finds that the amendment is not inconsistent with the public interest within the meaning of Section 3 of the NGA and should be approved. ERA will limit its approval to the current contract price as set forth in this application. Prior authorization of any future increase in the price of this imported LNG would be inappropriate, and any proposed changes to the import price and other material contract terms must be reviewed by ERA.

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.

Order

For the reasons set forth above, ERA hereby orders that:

Pursuant to authority under Section 3 of the Natural Gas Act, Ordering Paragraph C and Ordering Paragraph D of Opinion and Order No. 10 are hereby amended to grant authorization to GSI and Manchester to import previously authorized volumes at a price not to exceed U.S. $5.9357 per MMBtu, F.O.B, Montreal, subject to the same terms and conditions previously ordered in Opinion and Order No. 10 and subject to the condition that the import authorized herein not be subject to any take-or-pay or other similar obligations.

Issued in Washington, D.C. on January 5, 1981.

--Footnotes--

1/ Notice of receipt of the application and request for intervention and comment was published in the Federal Register on October 29, 1980 (45 FR 71647). No protests, petitions to intervene, or comments were received.

2/ The joint application for authorization to import the LNG was filed on September 22, 1978, in ERA Docket No. 78-006-LNG.

3/ See DOE/ERA Opinion and Order No. 10, issued on November 9, 1979 in ERA Docket No. 78-006-LNG, Gas Service, Inc., et al (1 ERA Para. 70,109 Federal Energy Guidelines).

4/ ERA found that the current border price of U.S. $4.47 per MMBtu is reasonable in Opinion and Order No. 14B, ERA Docket No. 80-01-NG, Inter-City Minnesota Pipelines Ltd., Inc., et al. (1 ERA Para. 70,508 Federal Energy Guidelines).

5/ On November 28, 1980, GSI and Manchester supplemented their application in response to a letter from ERA dated November 25, 1980.

6/ Id.

7/ Although ERA authorized the import of LNG from Gaz Metro, the National Energy Board of Canada (NEB) did not issue an export license. An export license was subsequently issued on September 25, 1980 for the 1980-81 winter heating season.