Cited as "1 ERA Para. 70,113"

Gas Service, Incorporated, Manchester Gas Company (ERA Docket No. 81-22-LNG), April 8, 1981.

DOE/ERA Opinion and Order No. 30

Opinion and Order Authorizing Payment of an Increased Border Price for Liquefied Natural Gas Imported From Canada

[Opinion and Order]

I. Background

On March 13, 1981, Gas Service, Inc. (GSI) and Manchester Gas Company (Manchester) filed a joint application with the Economic Regulatory Administration (ERA) to amend their authorizations under Section 3 of the Natural Gas Act (NGA) to permit them to pay an increased price for liquefied natural gas (LNG) imported from Canada.1/ No protests, petitions to intervene, or comments were received.

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

Pursuant to a gas purchase contract dated August 16, 1978, as amended, GSI and Manchester may purchase from Gaz Metropolitan, Inc. (Gas Metro) of Montreal, Canada, up to 30,879 MMBtu (30,000 Mcf) per year and 41,172 MMBtu (40,000 Mcf) per year, respectively, for each contract year (November 1, through October 31), terminating on October 31, 1988. There are no take-or-pay obligations associated with this contract.

On November 9, 1979, in Opinion No. 10, ERA approved a joint application of GSI and Manchester to import LNG into the United States from Canada by truck.2/ That order authorized GSI and Manchester to purchase the LNG from Gaz Metro at a price of U.S. $4.80 per MMBtu. That price consisted of the then current border price of U.S. $3.45 per MMBtu for natural gas exported by Canada and a U.S. $1.35 per MMBtu charge by Gas Metro for its cost of service.
The LNG is loaded at Gaz Metro's liquefaction facility in Montreal and transported overland by truck to Nashua and Manchester, New Hampshire.

On January 5, 1981, in Opinion No. 26, ERA amended the authorization granted to GSI and Manchester permitting them to pay U.S. $5.9357 per MMBtu for the LNG imports.3/ This higher price reflected an increase in the Canadian border price from U.S. $3.45 per 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.

GSI and Manchester in their March 13, 1981, application petitioned ERA to further amend their authorizations to permit them to pay U.S. $6.4057 per MMBtu for LNG purchased from Gaz Metro. The price increase reflects an increase in the Canadian border price for natural gas from U.S. $4.47 per MMBtu to U.S. $4.94 per MMBtu which became effective April 1, 1981.4/

GSI and Manchester, in their application and supplemental filing, assert that this supply of LNG is needed to assure winter peak day service during the month of April and to replace boil-off gas in their regasification facilities and maintain their operational readiness during the summer.5/ The applicants further assert that these LNG regasification facilities are an important cushion against possible supply outages from their domestic natural gas pipeline supplier, Tennessee Gas Pipeline Company (Tennessee). Both GSI and Manchester receive their gas at the terminus of the Tennessee pipeline system and are, therefore, more vulnerable to such potential outages, according to the applicants.

The applicants use a propane-air mixture to supplement the supply of natural gas received from Tennessee. While additional propane-air may be used to offset peak winter supply requirements, the applicants have previously stated that excess use of propane-air will create operational problems. When extensively used propane-air causes an undue fluctuation in the Btu content of the gas stream which creates unsatisfactory operation of customer appliances. 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/

Previously, the applicants have supplemented their gas supplies on peak days by obtaining emergency purchases of LNG from customers of Distrigas of Massachusetts Corporation (Distrigas). That source of supply is dependent upon the system requirements of Distrigas' customers. According to GSI and Manchester, this source of supply has been more costly than direct imports of LNG from Canada. The applicants have also stated that they have been unable to secure a firm peak source of domestic LNG.

II. Discussion

We have stated in previous orders that, absent special circumstances, the price of imported natural gas will be found to be not inconsistent with the public interest only if it is competitive with prices charged for alternate fuels.7/ In this case, we are considering a very small winter peaking import supply and so the appropriate comparison is with the price of other natural gas peaking supplies as well as the price of alternate fuels. For this winter peaking import, the cost of the LNG plus trucking and regasification costs equal U.S. $7.6157 per MMBtu. This is competitive with the price of propane which, in this case, is the alternate source for peaking supplies and which the applicants previously estimated to be $7.66 per MMBtu.8/ Other natural gas winter peaking supplies are not readily available, as found in Opinion and Order No. 26:

> . . . the applicants have shown that 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 applicant may cause operating problems and is more costly than the LNG . . . alternative supplies of LNG from Distrigas' customers may not be available.

The applicants, as previously shown in Opinion and Order Nos. 10 and 26, need continued winter peaking supplies of natural gas to ensure service to high priority customers.

The predominate alternate fuels in the applicants' service area have previously been identified as No. 2 fuel oil and kerosene.9/ Using the tank wagon price for these fuels as published in Platts' Oilgram, the price paid on March 31, 1981, at the Boston Harbor is also competitive.10/

III. Conclusion

Upon review of the joint application and supplemental information ERA has determined that the application shall be approved. The proposal provides for an import price which will make LNG available for high-priority use at prices equal to or less than the cost of other supplemental natural gas peaking supplies and alternate fuels available to the applicants. 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 is limiting its approval to the current contract price 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.

Order

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

A. Pursuant to authority under Section 3 of the Natural Gas Act, Ordering Paragraph C and Ordering Paragraph D of Opinion and Order No. 10, as amended by the Ordering Paragraph in Opinion and Order No. 26, are hereby further amended to grant authorization to GSI and Manchester to import previously authorized volumes at a price not to exceed U.S. $6.4057 per MMBtu, f.o.b. Montreal subject to the same terms and conditions previously ordered in Opinion and Order No. 10 and Opinion and Order No. 26.

Issued in Washington, D.C. on April 8, 1981.

--Footnotes--

1/ Notice of receipt of the application and request for intervention and comment was published in the Federal Register on March 25, 1981 (46 FR 18587). We note that the applicants filed their application less than 18 days in advance of the effective date of the price change. In view of the fact that the Canadian border price, a permanent component to the LNG price, is announced 75 days in advance of the effective date and the need to assure sufficient notice of the applications, we expect the applicants to comply with 18 C.F.R. Sec. 153.2 as a minimum and file any future applications at the earliest possible time.

2/ DOE/ERA Opinion and Order No. 10 (Opinion 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).

3/ DOE/ERA Opinion and Order No. 26 (Opinion No. 26), issued on January 5, 1981, in ERA Docket No. 80-18-LNG, Gas Service, Inc., et al. (1 ERA Para. 70,111 Federal Energy Guidelines).

4/ ERA found that the current border price of U.S. $4.94 per MMBtu is reasonable in Opinion and Order No. 29 issued on March 27, 1981 in ERA Docket No. 81-09-NG, et al., Pacific Gas Transmission Company, et al.

5/ On March 19, 1981, GSI and Manchester supplemented their application in response to a telephone request from ERA on March 18, 1981.

6/ Letter dated November 28, 1980 from GSI and Manchester supplementing their application in ERA Docket No. 80-18-LNG.

7/ See, for example, DOE/ERA Opinion and Order No. 14B issued on May 15, 1980, in Inter-City Minnesota Pipelines, et al., (1 ERA Para. 70,508 Federal Energy Guidelines), ERA Docket Nos. 80-01-NG, et al., where U.S. $4.47 per MMBtu for Canadian natural gas was found to be at the high end of the range of alternate fuels in selected U.S. markets.

8/ See Footnote 6.

9/ Opinion No. 10 at 70,649.

10/ The price of No. 2 fuel was computed to be $7.73 per MMBtu and the price of Kerosene was computed to be $8.40 per MMBtu.