Cited as "1 ERA Para. 70,580"

Northwest Alaskan Pipeline Company (Western Leg) (ERA Docket No. 84-15-NG), December 13, 1984.

DOE/ERA Opinion and Order No. 68

Order Removing Conditions and Amending Authorization to Import Natural Gas From Canada and Granting Intervention

## I. Background

On October 16, 1984, Northwest Alaskan Pipeline Company (Northwest Alaskan) filed an application with the Economic Regulatory Administration (ERA) of the Department of Energy (DOE), pursuant to Section 3 of the Natural Gas Act, Section 9 of the Alaska Natural Gas Transportation Act (ANGTA), and DOE Delegation Order No. 0204-111,1/ to remove conditions placed on an extension of the import authorization by the Federal Energy Regulatory Commission (FERC), to authorize changes in its import contract provisions with Pan-Alberta Gas Ltd. (Pan-Alberta), and to extend the duration of the import contract.

In orders issued January 11, 1980,2/ and June 13, 1980,3/ the FERC authorized Northwest Alaskan to import on an average annual daily basis up to 240,000 Mcf of Canadian natural gas from Pan-Alberta at the Canadian border near Kingsgate, British Columbia. The natural gas is immediately sold at the border to Pacific Interstate Transmission Company (PIT), which transmits it over the Western Leg of the prebuilt Alaska Natural Gas Transportation System (ANGTS) and then over other pipelines for sale to Southern California Gas Company (SoCal).

In 1980, the FERC approved the imports through October 31, 1988. However, on December 15, 1983,4/ the FERC extended the import authorization through October 31, 1992, to correspond to an export authorization to Pan-Alberta by the National Energy Board (NEB) of Canada. The FERC conditioned its extension by requiring Northwest Alaskan to (1) renegotiate its Western Contract with Pan-Alberta and its purchase agreement with PIT to provide for market-responsive prices and volume obligations, (2) submit contract amendments and necessary tariff changes, and (3) obtain regulatory approval from the ERA, FERC and NEB.

Northwest Alaskan states in its application that the first two conditions have been met by its instant filing and that regulatory approval by the ERA, FERC, and NEB will satisfy the third condition. The NEB subsequently approved the new pricing and volume provisions.

The terms of the original contract between Pan-Alberta and Northwest Alaskan called for delivery on an average daily basis of up to 240,000 Mcf of natural gas over the Western Leg through 1988 at the Canadian border price. Northwest Alaskan was required to take and pay for a minimum of 50 percent of the authorized imported volumes on a daily basis and to take and pay for a varying amount on an annual basis, about 85 percent in contract year 1984-85.5/ These terms were reflected in Northwest Alaskan's contract with PIT.

The amendment agreed to by Northwest Alaskan and Pan-Alberta on November 1, 1984, establishes a rate structure comprised of a demand and a commodity component. The demand component consists of a combination of (1) administrative costs incurred by Pan-Alberta in connection with securing the gas and arranging transportation and sale of the gas from the Province of Alberta; (2) the cost of transporting the volumes resold to PIT through Zones 7 and 8 of the ANGTS pre-built facilities of Foothills Pipe Lines (Yukon) Ltd. (Foothills); (3) the cost of gathering and transporting volumes ultimately resold to PIT through the facilities of NOVA, AN ALBERTA CORPORATION (NOVA); and (4) the administrative costs incurred by Northwest Alaskan for purchase and resale of the gas at the U.S.-Canadian border. The demand charge is currently projected to be $4 million per month.

The demand charge would be redetermined every six months on January 1 and July 1, provided that all Canadian-incurred costs have been reviewed and found acceptable by the NEB. If actual costs differ from those used to compute the demand charge, any overcharges or undercharges would be determined and applied to the six-month period following the redetermination. PIT would have the right to audit the charges. The Foothills and NOVA charges would be subject to renegotiation if they are substantially increased for reasons including cost allocation, major expansion, or rate design.

The commodity charge also subject to recalculation every six months, would be a price at the U.S.-Canadian border based on a formula which takes into consideration changes in the recent cost of all other gas supplies purchased by SoCal or its affiliates for resale in the Southern California gas market. Pan-Alberta would have the right to verify this calculation. This would be, in effect, the price the Alberta producers receive for the gas, to which transportation charges to the border and through the PIT system would be added.

The commodity charge will initially be established at $2.40 (U.S.) per MMBtu. The amendment also establishes an incentive price of $2.30 (U.S.) per MMBtu for volumes purchased per year in excess of 85 percent but not exceeding 100 percent of the contract volume. The incentive rate will be renegotiated at the same time the base commodity rate is redetermined.

The amendment further provides for a reduction in the minimum daily and annual volume purchase obligation from 85 percent of contract volume to a 60 percent take-and-pay requirement daily and yearly. There is no take-or-pay requirement.

Northwest Alaskan requests that the ERA remove the conditions imposed by the FERC on the four-year authorization extension to 1992. In addition, the applicant requests extension of the authorization to October 31, 2001, to correspond to the term of its purchase contract with Pan-Alberta. Alternatively, Northwest Alaskan requests the ERA to extend the authorization through October 31, 1996, to correspond to the export authorization currently being sought by Pan-Alberta from the NEB. The contract specifies that approval of these provisions, including the time extension, by all regulatory agencies would prevent the immediate increase in transportation charges to cover accelerated depreciation of the Foothills pipeline that would otherwise occur.

Northwest Alaskan requests that the amendments be approved effective November 1, 1984. According to the contract, all final, nonappealable governmental approvals must be obtained by February 15, 1985, or either party may terminate the contract and the Foothills' accelerated depreciation would begin.

## II. Interventions and Procedural Motions

On October 23, 1984, the ERA issued a notice of Northwest Alaskan's application, inviting protests or motions to intervene, which were to be filed by November 26, 1984.6/

The ERA received 13 timely motions to intervene and one notice of intervention. It received one late notice of intervention from the Railroad Commission of Texas which was filed on November 28, 1984, and one late motion to intervene from the State of New Mexico on December 11, 1984. There was no opposition to any of the motions for intervention. Further, with regard to the late notice and motion of intervention, no delay to the proceeding or prejudice to any party will result from the interventions being granted. Accordingly, the late filings are accepted and this order grants all motions and notices to intervene.7/

El Paso Natural Gas Company's (El Paso) motion to intervene requests that the ERA reject Northwest Alaskan's proposal as noncompetitive. Alternatively, El Paso requests that there be a trial-type hearing to determine the effects that Northwest Alaskan's proposed import arrangement will have on natural gas consumers and suppliers of domestic natural gas consumed in California. El Paso argues that Northwest Alaskan should be required to renegotiate the contract to establish more competitive terms. El Paso states that it would not object to a contract provision designed to ensure that the minimum revenue requirements of the ANGTS prebuild are met, which El Paso estimates to be a take-and-pay level of about 50 percent at the Canadian border rather than the 60 percent contained in the contract.

El Paso's objection hinges on the differences in computation of demand and commodity costs by Pan-Alberta and by El Paso. According to El Paso, the Pan-Alberta demand charge, reflected in PIT's rates, contains all of the fixed costs of gathering, processing and transporting Pan-Alberta gas from the wellhead in Canada to the Canadian border, as well as at least some of the fuel and product losses incurred in Canada. El Paso contends that its demand charge, by contrast, reflects only 35.6 percent of its fixed costs; the remaining 64.4 percent of its fixed costs (including all of the costs associated with El Paso's gathering and processing facilities and all return on equity investment and related taxes) as well as all of its variable costs are assigned to El Paso's commodity charge.

According to El Paso, the result is an estimated annual demand charge at the California border at full contract entitlement for Pan-Alberta gas of $2.11 per Mcf for SoCal, the ultimate buyer. This, according to El Paso, compares to its own annual demand charge at full contract entitlement of only $0.14 per Mcf. El Paso asserts that, on the other hand, the commodity charge for Pan-Alberta's gas to SoCal at 100 percent load factor would be an average of $2.82 per dekatherm, while El Paso's commodity charge at 100 percent would be around $3.45 per dekatherm. If its rates were designed as those of PIT, El Paso asserts that its commodity rate would be in the neighborhood of $2.73 per dekatherm, somewhat less than PIT's. Because of the different calculation of the demand and commodity charges, El Paso is concerned that it may lose sales to SoCal.

The EOC Companies (Southwest Gas Corporation, Arizona Pacific Service Company, Gas Company of New Mexico, and Southern Union Gas Company) also express concern about any such loss of sales by El Paso and the potential adverse effect it would have on their billings from El Paso and request a trial-type hearing.

The concern about loss of sales arises from an ongoing "sequential purchasing" study of "avoidable costs" by the Public Utilities Commission of the State of California (CPUC) to determine the quantities of gas which should be taken from each supplier to keep overall costs to California consumers as low as possible. One of the alternatives in this study is a proposal by SoCal that only the commodity rate be considered when purchasing gas because a distributor is obligated to pay the demand rate regardless of the amount of gas purchased from a supplier. If commodity rates only were compared, PIT would have a competitive advantage because its commodity rate is lower than El Paso's despite the fact that its total average price is higher. El Paso alleges that SoCal testimony at CPUC hearings on the purchase sequence proposals indicates that this type of incremental pricing is "a fundamental (albeit unstated) condition of the new Pan-Alberta contract" and that without it the contract might well be voided in Canada.

With regard to the 60 percent take-and-pay provision, El Paso states it is not unmindful of the special status which is accorded to the ANGTS prebuilt project in U.S.-Canadian energy relations, and would accept a provision which required a minimum level of throughput to guarantee the prebuilt project sponsors the recovery of their investment plus a reasonable return. El Paso admits that it does not know what level that might be, but contends that a 50 percent throughput at the Canadian border would approximate the revenues which Canada would receive for an equivalent volume of Pan-Alberta gas priced in accordance with the Canadian Volume Related Incentive Pricing (VRIP) program. In El Paso's view, the burden should be placed on the prebuild project proponents to justify any take-and-pay or other minimum throughput condition which requires takes in excess of 50 percent of the total contract volume as measured at the Canadian border.

In calling for a trial-type hearing, El Paso also questions the savings to California consumers represented by the renegotiated contract. The basis for the savings, according to SoCal testimony in a CPUC rate case as reported by El Paso, is the return to an 85 percent level from the 40 percent level that temporarily prevailed. El Paso points instead to Pan-Alberta testimony on enhanced economic benefits to Canada before the NEB on the renegotiated contract that was based on a continued 40 percent take-and-pay requirement. This indicates to El Paso that the supplier did not contemplate a return to an 85 percent level.

Finally, El Paso urges the ERA to reject the renegotiated contract as not in the public interest, without prejudice to the contracting parties reaching agreement among themselves and submitting for approval new import contract terms which "will permit a fair, `apples and apples,' comparison between the costs of Pan-Alberta gas, on the one hand, and the cost of available domestic supplies on the other."

The motion to intervene filed by the ARCO Oil and Gas Company (ARCO), a division of Atlantic Richfield Company, states its opposition to Northwest Alaskan's application and expresses support for El Paso's request that the ERA hold a trial-type hearing on the Northwest Alaskan application.

As a producer of natural gas, a substantial portion of which is sold to El Paso and to Transwestern Pipeline Company (Transwestern) which also sells to SoCal, ARCO states that El Paso and Transwestern have reduced purchases from ARCO because their California customers, including SoCal, have reduced purchases of domestic gas in order to take minimum contract quantities of gas imported from Canada. ARCO indicates that the average cost of gas delivered by PIT to SoCal, which it understands to range from about $4.90 to $6.09 MMBtu, depending on the load factor, is substantially higher than the delivered cost of domestic gas sold by El Paso to SoCal at about $3.60 to $3.70 per MMBtu. ARCO contends that, under purchase proposals made by SoCal to the CPUC, imported gas may continue to be taken by SoCal at higher load factors than domestic gas, despite the higher cost.

For these reasons, ARCO believes that Northwest Alaskan's proposed import arrangements may be inconsistent with import policy which ARCO asserts requires that imported gas be market-competitive with domestic gas. In addition, ARCO believes favoring more expensive imported supplies over less expensive domestic supplies is "patently contrary to the public interest."

The Independent Petroleum Association of New Mexico (IPANM), U.S. Representative Bill Richardson (New Mexico), the Apache Corporation (Apache), the Railroad Commission of Texas, Rault Resources, Inc. (Rault), and the State of New Mexico each noticed or moved to intervene in opposition to Northwest Alaskan's application and, except for the State of New Mexico, each requested a trial-type hearing. Each of these nearly identical interventions echoes the concern of ARCO that, as a result of approval of this application, El Paso and Transwestern will buy less gas from domestic producers than they are able to furnish. In most cases they contend that El Paso or Transwestern are the only markets for their gas.

On the other hand, the CPUC's notice of intervention supports Northwest Alaskan's application as do the motions to intervene of Panhandle Eastern Pipe Line Company, Pan-Alberta Gas Ltd., and Foothills Pipe Lines (Yukon) Ltd. The

CPUC supports the renegotiated arrangement as providing for a long-term source of gas for the California market which is secure in terms of dedicated reserves and is "price controlled" so as to be responsive to market conditions in Southern California. The CPUC asserts that the new provisions will result in the per-unit cost of Alberta gas at 85 percent load factor dropping from approximately $4.00 to about $3.00 per MMBtu at the U.S. border.

The CPUC recognizes that the substantial fixed costs associated with the Western Leg of the ANGTS have and will continue to make Alberta gas relatively expensive for California consumers. The CPUC states, however, that the price reductions and controls available through these renegotiated arrangements are substantial improvements over the existing import arrangements.

The CPUC contends that Northwest Alaskan's proposed arrangement is in compliance with the U.S. Secretary of Energy's policy guidelines and should be implemented as soon as possible. The CPUC states that under the current gas sequencing policy practiced in California, the gas imported under this proposal will be price competitive. The CPUC maintains that the price indexing provisions ensure that the arrangement will remain competitive. Finally, the CPUC states that it supports the extension of the authorization sought by Northwest Alaskan in order that the long-term benefits of this agreement may be obtained by Southern California gas consumers. The other intervenors in support of the agreement generally advance the same views.

## III. Response to the Comments and Motions

El Paso's first concern is that Northwest Alaskan's, and hence PIT's, demand-commodity pricing structure is discriminatory. El Paso is concerned that the demand charge contains fixed costs which in El Paso's case are assigned to the commodity charge.

The allocation of costs between the demand and commodity components in Northwest Alaskan's tariff is being addressed in an ongoing rate proceeding before the FERC in which El Paso is participating.8/ The FERC rate proceeding is the appropriate forum before which to address and resolve this issue. Furthermore, if El Paso wishes to have its own demand-commodity rate structure revised to minimize alleged marketing inequities relating to Northwest Alaskan's tariff, the FERC is the appropriate regulatory forum for that issue as well.

El Paso also has expressed concern that the sequencing policies based on commodity charges being considered by the CPUC, if adopted, will have the unfair result of greater takes of Canadian gas which has a higher average cost although a lower commodity rate than El Paso's gas. The issue of sequencing of takes in California is also a matter outside the ERA's jurisdiction. The appropriate forum for El Paso to address this issue is before the CPUC in its present proceeding.9/ The CPUC is in the best position to make decisions in the interest of the California consumer on this matter and has indicated in its notice of intervention that it is aware of the cost of Canadian gas in relation to other available supplies.

The other issue raised by El Paso is that Northwest Alaskan's arrangement provides for the establishment of a 60 percent take-and-pay level rather than the 50 percent level suggested by El Paso. While El Paso believes the proposed level is higher than necessary to recover fixed costs of the ANGTS prebuild, this was a matter negotiated between the buyer and seller and may be related to a number of other factors or tradeoffs beyond fixed costs recovery. The 60 percent minimum certainly represents an improvement over the prior take-and-pay level of 85 percent. Although El Paso may doubt that the 85 percent take-and-pay would actually have been required without the renegotiated contract, it is highly conjectural as to how that rate might otherwise have been modified.

Both of El Paso's motions are denied. The request for hearing is denied on the grounds that El Paso failed to demonstrate that there is a relevant and material factual issue genuinely in dispute and that a trial-type hearing is necessary for a full and true disclosure of the facts.10/ All the requests by other intervenors for a trial-type hearing are denied on the same grounds. Northwest Alaskan agrees with El Paso that the average delivered price of the Canadian gas to SoCal is higher than the delivered price of gas supplied by other pipelines. There is no apparent disagreement on the cost of the gas at the California border. There also is no dispute of fact concerning the other provisions of the contract such as the existence of the two-part tariff or the 60 percent take-and-pay provision. The disagreement that does exist pertains to the appropriateness of the provisions and their possible effect, and to application of policy to those facts, which are matters of judgment, not fact. Furthermore, most of the concerns raised are matters either beyond the ERA's jurisdiction or more appropriately the jurisdiction of other regulatory authorities. The El Paso motion that this agency summarily rejects the arrangement as noncompetitive based on issues more appropriately within the jurisdiction of other agencies is also denied for these reasons.

The issues raised by ARCO, IPANM, U.S. Representative Bill Richardson, Apache, Rault, the Railroad Commission of Texas, and the State of New Mexico concern the possibility that domestic gas produced in the Southwest will be displaced and shut in if Northwest Alaskan's proposed arrangement is approved. The concerns raised by ARCO and others that SoCal may purchase higher priced Canadian gas rather than lower priced gas from El Paso and Transwestern as a result of Northwest Alaskan's demand-commodity rate structure and of the CPUC's proposed gas sequencing policies have been addressed in part above in the discussion of El Paso's very similar concerns.

The issues raised by the domestic producers and their representatives reflect legitimate concerns that their ability to market their gas may be impaired by this arrangement. Yet rejection of Northwest Alaskan's proposal does not appear to solve the problems faced by these producers. None of the intervenors identify the price of gas not taken by El Paso or Transwestern. However, Rault stated that "many wells are shut in. Many were drilled with high-cost dollars and cannot now find low-priced markets--(much less the `Section 107' tight gas prices that were `promised' and `lured' them into being)." This indicates that takes from domestic producers may be influenced by the price they charge as much as by factors relating to this Canadian gas import. The fact that takes of Canadian gas dropped as well during contract years 1983-84 and 1984-85 indicates that El Paso's reduction in takes from its domestic producers was not solely due to Northwest Alaskan's imports, but was also the result of market forces. The reduction of Northwest Alaskan's take-and-pay obligations from 85 to 60 percent under this arrangement presents an opportunity for El Paso to sell additional supplies of gas to SoCal.

Furthermore, SoCal indicates in its answer to El Paso that the producers' concerns may be exaggerated. SoCal contends it expects to take more than the amount El Paso has presently dedicated to the Southern California market. In addition, numbers supplied by El Paso indicate that the PIT contract volumes represent less than 10 percent of SoCal's total supply. Hence the significance of the Canadian supply is limited with respect to El Paso and its producers.

We note that the CPUC has endorsed this application on the grounds that the arrangement is competitive, and cites the future need for the Canadian gas in California. In contrast, not a single intervenor claimed that there is no need for this Canadian gas. These contract amendments, by reducing the Canadian take-and-pay requirement as well as reducing the price of the supply and providing for price adjustments to respond to market changes, give greater flexibility to the State of California and to SoCal in determining which gas purchases are most equitable and economical to California consumers. The concerns expressed by producers about current sales to El Paso and Transwestern are contractual matters better resolved by commercial parties, or alternatively are the jurisdiction of other regulatory authorities, in this case the FERC and the CPUC.

## IV. ANGTA Jurisdiction

On February 15, 1984, the Secretary of Energy, in Delegation Order 0204-111, delegated to the ERA Administrator authority under Section 3 of the Natural Gas Act to regulate the importation of natural gas in connection with the construction and operation of the ANGTS. This jurisdiction had previously been delegated to the FERC.

The FERC has determined in a series of orders,11/ including the previously cited 1980 authorizations of this import and the subsequent December 15, 1983, conditional extension, that the importation of natural gas for transportation through the prebuilt facilities of the ANGTS is related to the construction and initial operation of the ANGTS within the meaning of Section 9 of the ANGTA.12/ In so finding, the FERC reasoned that:

> Inasmuch as the Northern Border and Western Leg segments of the ANGTS originate at the Canadian border, any decision affecting the volumes of gas transported through the "prebuilt" segments of the ANGTS, or the price paid by consumers of such gas (and thereby, its marketability), could have an impact on the financial viability of those segments, which in turn could have an impact on the willingness of lenders and investors to finance the Alaskan segment. Thus, even though the "prebuilt" sections have now been constructed and have gone into operation, imports of additional volumes of Canadian gas through those segments are clearly related to the financial viability of the Alaskan segment and of the ANGTS itself as a coherent system to transport gas from the North Slope of Alaska to the lower-48 states.13/

This reasoning applies with equal validity to Northwest Alaskan's present request. Northwest Alaskan's application is related to the construction and initial operation of ANGTS within the meaning of Section 9 of ANGTA. Pursuant to Section 9 of ANGTA, Northwest Alaskan's application was reviewed expeditiously and this final decision on the application took precedence over similar import applications.

## V. Decision

Northwest Alaskan's application has been evaluated to determine if the arrangement meets the public interest requirement of Section 3 of the Natural Gas Act. Under Section 3, an import is to be authorized unless there is a finding that it will not be consistent with the public interest. In making this decision, the Administrator is guided by the policy relating to the regulation of natural gas imports issued by the Secretary of Energy on February 15, 1984.14/

The Secretary's policy sets forth several considerations that guide this decision. The considerations include competitiveness of the supply in the markets served, the need for the gas, and the security or reliability of the supply. Another factor which strongly influences this decision, and which is explicitly recognized in the Secretary's policy, is the special circumstance underlying the transportation system delivering this gas to market--the prebuilt portions of the ANGTS. The policy guidelines recognize that there "may be unique situations involving extensions or modifications of existing gas import arrangements, such as the prebuilt portions of the Alaska Natural Gas Transportation System, that merit special consideration." This import arrangement is just such a case. The assessment of this application therefore took into account the uniqueness of the prebuild as part of the ANGTS, and the commitments of the Canadian and U.S. Governments to the ANGTS.

Competitiveness does not focus on a specific price, but rather is a function of all the terms of a contract and their interrelationship. No party disagrees that this imported gas, on average, is a high-cost supply, coming as it does through the ANGTS prebuild. However, this arrangement, including the pricing aspects, is a very substantial improvement over the previous contract, with significant cost and competitive benefits to Southern California gas consumers.

The renegotiated gas sales contract between Northwest Alaskan and Pan-Alberta provides for a substantially more flexible and market-sensitive import arrangement than currently exists. The contract amendment contains reduced purchase obligations, a flexible pricing structure, frequent opportunities for renegotiations, and volume-related price incentives. These specific features of the contract should assure the purchaser of a market-responsive supply of natural gas over the term of the contract. The new arrangement has been buyer-seller negotiated and is endorsed as competitive by the State of California through its Public Utilities Commission. The market being served has declared that the gas is competitive. Thus, it is determined that the renegotiated arrangement is much more competitive than the previous arrangement.

Northwest Alaskan asserted in its application that supply deficiencies are anticipated in PIT's market area in the late 1980's and that the gas will be marketable throughout the life of the contract. The CPUC has stated that the gas is needed. The issue of need for these volumes of gas imported by Northwest Alaskan has not been contested by any party to this proceeding. Thus, the agency finds that there is need for this import.

Natural gas from Canada has been imported into a wide range of domestic markets for many years and Canada has demonstrated its reliability as a supplier. The issue of security or reliability of supply has been uncontested in this proceeding. Because there is no reason to question whether Canadian gas suppliers will maintain their historical reliability or whether there are adequate reserves supporting this arrangement, the ERA concludes that reliability of supply is assured for the term of the import arrangement.

Finally, a very important consideration in this proceeding is the unique character of the ANGTS and the relationship of the prebuild to the ANGTS. The commitment to the project is evidenced by agreements between the U.S. and the Canadian Governments, legislation by the U.S. Congress, and formal support given to the project by two Presidents, as well as prior regulatory decisions by agencies mf the U.S. Government. Recent actions by the Canadian Government and the FERC continue to recognize this commitment. In announcing the approval of the renegotiated contract between Northwest Alaskan and Pan-Alberta on November 2, 1984, the Canadian NEB exempted this import arrangement from compliance with its export policy guidelines by allowing an average export price below the Toronto wholesale price. On July 30, 1984, In Order Lo. 380A,15/ the FERC stated that Order No. 380 16/ does not apply to Northwest Alaskan's sales tariffs, and further on October 24, 1984, in Order No. 380C,17/ the FERC reiterated that Order No. 380 does not apply to the minimum take provisions of Northwest Alaskan's tariffs.

Northwest Alaskan requests an extension of its current import authority for a term commensurate with the term of its gas sales contract with Pan-Alberta through October 31, 2001, or alternatively, through October 31, 1996, consistent with the extended export authorization requested by Pan-Alberta from the Canadian NEB. Extension of the contract period also allows modification of financing agreements for the Foothills' portion of the Canadian transportation system that will prevent an increase in the demand charge that would otherwise occur. Presently, depreciation of the Foothills' segment must be concluded over the last four years of authorized importation of natural gas. This would begin in the 1984-85 contract year and would more than double the Canadian demand charge.

Northwest Alaskan asserts that PIT and its customers

. . . have borne the early initial costs of transportation of Canadian imports through the Western Leg of the prebuilt ANGTS system, and should therefore also receive the benefits that will accrue to them from the proposed export extension--an additional secure and dependable supply of Canadian gas through this system with the attendant lower transportation charges resulting from declining depreciation and related expenses.

The CPUC supports the extension so that California customers will receive these benefits. The ERA agrees that an extension of the import authority through October 31, 2001, will provide additional opportunities for cost of service reductions on the Western Leg delivery system. Further, approval of the full term requested is consistent with the U.S. Government's commitment to the ANGTS.

Mindful of these commitments and considerations, and with the awareness that approval of the present application would enhance the competitiveness of the gas flowing through the prebuild and the future viability of the prebuild, the concerns raised by the parties are not compelling. Under this amended arrangement, the price of gas sold by Canada to consumers in California is substantially less than in the previous arrangement. The volumes of Canadian gas required to be taken are also substantially less. Further, the new arrangement allows an extended period for depreciation of the Canadian segment of the prebuild and offers the opportunity to owners and operators of the U.S. segment of the Western Leg to seek adjustments that would reduce fixed costs. Finally, the arrangement provides considerable increased flexibility to adjust price and other terms in response to market changes and is endorsed as competitive in the California market by the CPUC, the agency charged with overseeing and responding to the interests of California in these matters.

After taking into consideration all information in the record of this proceeding, I find that Northwest Alaskan's import arrangement supports the U.S. commitment to the ANGTS and the prebuild, and will result in a more competitive and market-sensitive price for Canadian natural gas supplies to SoCal.18/ Consequently, approval of Northwest Alaskan's application is not inconsistent with the public interest and should be granted.

## Order

For the reasons set forth above, pursuant to Section 3 of the Natural Gas Act and Section 9 of the Alaska Natural Gas Transportation Act, it is ordered that:

A. The import authorization previously issued by the Federal Energy

Regulatory Commission to Northwest Alaskan Pipeline Company (Northwest Alaskan) under Docket Nos. CP78-123, et al., on January 11, 1980 (10 FERC Para. 61,032), and Docket Nos. CP78-123, et al., on June 13, 1980 (11 FERC Para. 61,279), as amended in Docket Nos. CP78-123-021, et al., on December 15, 1983 (25 FERC Para. 61,384), is hereby further amended to remove the conditions imposed on Northwest Alaskan's current authorization and thereby extend the term of its authorization frmm October 31, 1988, to October 31, 1992, and to extend further the term of its authorization from October 31, 1992, to October 31, 2001, in accordance with the pricing and other provisions established in the contract submitted as part of its application.

B. The effective date of this order is November 1, 1984.

C. With respect to the natural gas authorized to be imported by this order, Northwest Alaskan shall file with the ERA in the month following each calendar quarter, quarterly reports showing, by month, the quantities of imported gas resold to Pacific Interstate Transmission Company, Inc. (PIT), and the average price, on an MMBtu basis, paid by PIT for both the demand and commodity components.

D. The motions and notices of intervention, as set forth in this Opinion and Order, are hereby granted, subject to such rules of practice and procedures as may be in effect, provided that participation mf the intervenors shall be limited to matters affecting asserted rights and interests specifically set forth in their motions and notices of intervention and not herein specifically denied, and that the admission of such intervenors shall not be construed as recognition that they might be aggrieved because of any order issued in these proceedings.

Issued in Washington, D.C. on December 13, 1984.

--Footnotes--

1/ On February 15, 1984, the Secretary of Energy, in Delegation Order 0204-111, delegated the authority to the administrator of the ERA to regulate the importation and exportation of natural gas under Section 3 of the Natural Gas Act, including imports through the ANGTS. (49 FR 6690, February 22, 1984).

2/ Northwest Alaskan Pipeline Company, Docket Nos. CP78-123, et al., 10 FERC Para. 61,032,

3/ Northwest Alaskan Pipeline Company, Docket Nos. CP78-123, et al., 11 FERC Para. 61,279.

4/ Northwest Alaskan Pipeline Company, Docket Nos. CP78-123-021, et at., 25 FERC Para. 61,384.

5/ Northwest Alaskan and Pan-Alberta renegotiated a temporary take-and-pay reduction to 40 percent during contract year 1983-84 which expired on November 1, 1984.

6/ 49 FR 43091, October 26, 1984.

7/ Intervenors are: El Paso Natural Gas Company, ARCO Oil and Gas Company, the Independent Petroleum Association of New Mexico, U.S. Representative Bill Richardson (New Mexico), Public Utilities Commission of the State of California, Rault Resources, Inc., Pacific Lighting Gas Supply Company with Southern California Gas Company, Pacific Interstate Transmission Company, Transwestern Pipeline Company, EOC Companies (Southwest Gas Corporation, Arizona Pacific Service Company, Gas Company of New Mexico, and Southern Union Gas Company), Panhandle Eastern Pipe Line Company, Foothills Pipe Lines (Yukon) Ltd., Pan-Alberta Gas Ltd., Apache Corporation, the Railroad Commission of Texas, and the State of New Mexico.

8/ Northwest Alaskan Pipeline Company, Docket No. RP85-5-000.

9/ Southern California Gas Company and Pacific Lighting Gas Supply Company, Application 84-09-22 (September 10, 1984).

10/ 10 CFR Sec. 590.313.

11/ See, e.g., the orders issued on January 11, 1980 (10 FERC Para. 61,032 at pp. 61,079 and 61,087), April 28, 1980 (11 FERC Para. 61,088 at pp. 61,138 and 61,191), October 1, 1981 (17 FERC Para. 61,001 at pp. 61,002 and 61,004) and August 18, 1982 (20 FERC Para. 61,197 at pp. 61,382 and 61,385). See also Midwestern Gas Transmission Co. v. F.E.R.C., 589 F.2d 603, 614-616 (D.C. Cir. 1978); Iowa State Commerce Commission v. Federal Inspector, 730 F.2d 1566, 1571 (D.C. Cir. 1984).

12/ 15 U.S.C. Sec. 719g. Section 9 of ANGTA provides for expeditious review of any ". . . action which is necessary or related to the construction and initial operation of the approved transportation system [ANGTS] . . ." and "any such application or request shall take precedence over any similar application . . ."

13/ Northwest Alaskan Pipeline Company, Docket Nos. CP78-123-020 and CP78-123-021, 25 FERC Para. 61,384 at p. 61,843 (December 15, 1983).

14/ 49 FR 6684, February 22, 1984.

15/ FERC Statutes and Regulations, Para. 30,584.

16/ FERC Statutes and Regulations, Para. 30,571. Order 380 amended the FERC's regulations by eliminating from natural gas pipeline tariffs any minimum commodity provisions that operate to recover variable costs. The objectives of that order were to increase incentives to buy lower cost gas, increase competition among pipeline supplies, and encourage contract renegotiation.

17/ FERC Statutes and Regulations, Para. 30,607.

18/ Because the proposed importation of gas will use existing pipeline facilities, DOE has determined that granting this application is not a Federal action significantly affecting the quality of the environment within the meaning of the National Environmental Policy Act (42 U.S.C. 4321, et seq.) and therefore an environmental impact statement or environmental assessment is not required.