

Cited as "1 FE Para. 70,421"

Washington Natural Gas Company (FE Docket No. 90-68-NG), November 9, 1990.

DOE/FE Opinion and Order No. 444

Order Granting Long-Term Authorization to Import Natural Gas from Canada and Granting Interventions

## I. Background

On July 31, 1990, Washington Natural Gas Company (Washington Natural) filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE) under section 3 of the Natural Gas Act (NGA), for authorization to import from Canada, on a firm basis, up to 10,000 MMBtu per day (9635 Mcf/d) of natural gas during through October 31, 1992, and 15,000 MMBtu per day (14,452 Mcf/d) commencing November 1, 1992, through October 31, 2003. The proposed imports would be purchased from Canada at a point on the U.S.-Canadian border near Sumas, Washington, pursuant to a gas purchase agreement between Washington Natural and Mobil Oil Canada, Ltd. (Mobil Canada). Existing facilities would be used for the importation and transportation of the proposed imports.

Washington Natural is a natural gas distribution company serving 61 cities and towns and adjacent unincorporated areas within its five-county service area in the State of Washington. Washington Natural provides service to approximately 330,000 customers in its service area.

The gas that Washington Natural will purchase from Mobil Canada will be supplied from Mobil Canada's Sierra Gas Field in the Province of British Columbia, Canada. Mobil Canada will be responsible for arranging the delivery of the gas on a firm basis through the facilities of Westcoast Energy Inc. (WEI) to the point of delivery under the contract at the international border near Sumas, Washington/Huntingdon, B.C. At the delivery point, the gas will enter the facilities of Northwest Pipeline Corporation (Northwest). Washington Natural will be responsible for arranging the transportation of the gas from the delivery point near Sumas, Washington, through the facilities of Northwest to Washington Natural's distribution system. Northwest's firm transportation for the account of Washington Natural will be provided under Northwest's Rate Schedule TF-1. The company asserts that it has adequate available firm capacity under its transportation contract with the pipeline to accept delivery of the gas.

Mobil Canada has filed for approval from the provincial authority in British Columbia for removal of the gas committed under the contract and to the National Energy Board of Canada (NEB) for approval to export the gas.

The primary term of the sale extends from November 1, 1990, through October 31, 2003. The contract provides for a firm daily contract quantity (DCQ) of up to 10,000 MMBtu per day (9,635 Mcf/d) for the period November 1, 1990, through October 31, 1992, and up to 15,000 MMBtu per day (14,452 Mcf/d) beginning November 1, 1992. Washington Natural is not committed under the Mobil Canada contract to purchase any minimum quantities.

The contract price will be the sum of three components: a demand charge, a commodity charge, and a reservation fee. The monthly demand component is the aggregate of the WEI firm service gathering, processing and transportation demand charges as approved by the Canadian regulatory authorities. The commodity component is subject to renegotiation annually; the monthly commodity charge for the initial year of the agreement is comprised of the weighted sum of the following four elements: (i) 25% of the B.C. Gas, Inc. residential gas price at the wellhead for the prior month; (ii) 25% of the average of the weekly average of high and low price of quotations of No. 6 fuel oil in Seattle for the delivery month; (iii) 25% of the spot-market price for gas delivered into Northwest at Sumas for the prior month, subject to an adjustment during the summer season; and (iv) 25% of the spot-market price for domestic gas delivered into Northwest from U.S. supply sources. Finally, in consideration for holding the dedicated reserves available for Washington Natural, Mobil Canada will charge a reservation fee equal to the greater of (1) the product of 18 percent of the commodity price for that month times the sum of the DCQ not taken during all days of that month, or (2) the product of nine percent of the commodity price for the month times the DCQ times the number of days in the month. The agreement includes a provision allowing Washington Natural to elect once during each of the initial two contract years not to take gas in the summer season in exchange for a 50% reduction in the reservation fee for up to three consecutive months.

In support of its application, the company maintains that it is purchasing the Mobil Canada gas supply primarily to supplement its system supply to meet high priority firm requirements and that the pricing terms will have a significant impact in reducing Washington Natural's average cost of gas, the benefits of which will be passed on to its customers. Washington Natural also asserts that it requires a substantial volume of new firm natural gas supplies, on a long-term basis, to replace the significant volumes of gas previously purchased from Northwest, which declared itself an open-access pipeline in June 1988, and offered its distributor customers a one-time,

unlimited opportunity to convert from sales to firm transportation service. Washington Natural elected to convert approximately one-half of its pipeline sales to transportation service.

A notice of this application was issued on September 28, 1990, inviting protests, motions to intervene, notices of intervention, and comments to be filed by October 29, 1990.<sup>1/</sup> A motion to intervene without substantive comment or request for additional procedures was filed by Northwest. This order grants intervention to this movant.

## II. Decision

The application filed by Washington Natural has been evaluated to determine if the proposed import arrangement meets the public interest requirements of section 3 of the NGA. Under section 3, imports must be authorized unless there is a finding that they "will not be consistent with the public interest."<sup>2/</sup> This determination is guided by the DOE's natural gas import policy guidelines.<sup>3/</sup> Under these guidelines, the competitiveness of an import in the markets served is the primary consideration for meeting the public interest test. In the case of long-term arrangements such as this, need for the gas supply and security of supply are also important considerations.

The DOE guidelines state that the competitiveness of an import arrangement will be assessed by a consideration of the whole fabric of the arrangement. They contemplate that the contract arrangements should be sufficiently flexible to permit pricing and volume adjustments as required by market conditions. Washington Natural's uncontested import proposal, as set forth in its application, is consistent with the DOE policy guidelines. Washington Natural has entered into a freely negotiated, long-term gas purchase agreement under contract terms that will ensure that the price of the gas will remain market-responsive and competitive with Washington Natural's other sources of supply over the term of the contract.

Need for the natural gas is viewed under the DOE guidelines as a function of marketability and gas is presumed to be needed if it is competitive. We have found that Washington Natural's proposed import is competitive and therefore needed. Finally, natural gas has been imported from Canada for many years, and there has been no instance of a major natural gas supply interruption that would call into question Canada's reliability as a natural gas supplier to this country.

After taking into consideration all of the information in the record of this proceeding, I find that granting Washington Natural authority to import

from Canada up to 10,000 MMBtu per day (9635 Mcf/d) of natural gas through October 31, 1992, and 15,000 MMBtu per day (14,452 Mcf/d) commencing November 1, 1992, through October 31, 2003, on a firm basis, is not inconsistent with the public interest and should be approved.<sup>4/</sup>

## ORDER

For the reasons set forth above, pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. Washington Natural Gas Company (Washington Natural) is authorized to import from Canada up to 10,000 MMBtu per day (9635 Mcf/d) of natural gas through October 31, 1992, and 15,000 MMBtu per day (14,452 Mcf/d) commencing November 1, 1992, through October 31, 2003, on a firm basis, in accordance with the agreement with Mobil Canada as described in the application and discussed in this Opinion and Order.

B. Washington Natural shall notify the Office of Fuels Programs (OFP), Fossil Energy, FE-50, Forrestal Building, 1000 Independence Avenue, S.W., Washington, D.C. 20585, in writing of the date of initial deliveries of natural gas imported under Ordering Paragraph A above within two weeks after deliveries begin.

C. With respect to the imports authorized by this Order, Washington Natural shall file with the Office of Fuels Programs, within 30 days following each calendar quarter, quarterly reports showing by month, the total volume of natural gas imports in Mcf and the average purchase price per MMBtu at the international border. The monthly price information shall include a demand/commodity charge breakdown on a monthly and per unit (MMBtu) basis. The demand price should be further broken down to show the reservation charge.

D. The motion to intervene, as set forth in this Opinion and Order, is hereby granted, provided that participation of the intervenor shall be limited to matters specifically set forth in its motion to intervene and not herein specifically denied, and that the admission of this intervenor shall not be construed as recognition that it might be aggrieved because of any order issued in these proceedings.

Issued in Washington, D.C. November 9, 1990.

--Footnotes--

1/ 55 FR 39712, September 28, 1990.

2/ 15 U.S.C. 717b.

3/ 49 FR 6684, February 22, 1984.

4/ Because the proposed importation/exportation of gas will use existing facilities, the DOE has determined that granting this application is clearly not a major Federal action significantly affecting the quality of the human 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. See 40 CFR Sec. 1508.4 and 54 FR 12474 (March 27, 1989).