

Cited as "1 FE Para. 70,377"

Granite State Gas Transmission, Inc. (FE Docket No. 90-23-NG), November 15, 1990.

DOE/FE Opinion and Order No. 449

Order Granting Authorization to Import Natural Gas from Canada

### I. Background

On April 4, 1990, Granite State Gas Transmission, Inc. (Granite State), filed an application with the Office of Fossil Energy (FE) of the Department of Energy (DOE), pursuant to section 3 of the Natural Gas Act (NGA) and DOE Delegation Order Nos. 0204-111 and 0204-127, for authorization to import from Shell Canada Limited (Shell) up to 35,000 MMBtu (approximately 34,826 Mcf) of Canadian natural gas a day on a firm basis, plus an additional 14,000 MMBtu (approximately 13,930 Mcf) a day on an interruptible basis, beginning on or about November 1, 1991, and ending November 1, 2006. The gas would be delivered by Shell at the international border near Iroquois, Ontario, where the facilities of TransCanada Pipelines Limited (TransCanada) would interconnect with the proposed Iroquois Gas Transmission System (IGTS). Granite State proposes to use the gas to meet the market requirements in its service area which are projected to exceed current supply in the near future.

Granite State, a New Hampshire corporation with its principal place of business in Canton, Massachusetts, is an interstate pipeline and a wholly owned subsidiary of Northern Utilities, Inc. (Northern Utilities), which, in turn, is a wholly owned subsidiary of Bay State Gas Company (Bay State). Bay State and Northern Utilities are natural gas distributors and Granite State's only wholesale customers. Bay State provides retail gas service through three divisions in southeastern, western, and northeastern Massachusetts, and serves approximately 230,000 customers. Northern Utilities distributes natural gas to residential, commercial, and industrial customers in New Hampshire and Maine, and currently serves approximately 25,000 customers.

On December 1, 1989, Granite State and Shell executed a gas purchase agreement for the purchase of up to 35,000 MMBtu a day on a firm basis, and additional "peaking" gas on an interruptible basis. The gas purchase agreement provides for a two-part, demand/commodity rate for firm gas supplies delivered at the international border. The demand charge is composed of the aggregate of the monthly fixed costs incurred by Shell for the transportation of the gas from the production area in the Province of Alberta to the border delivery

point at the proposed interconnection between the TransCanada and IGTS pipeline systems.

The commodity charge consists of two components less the demand charge: a constantly adjusting base price at the border, plus an incremental transportation charge. The border price is subject to monthly adjustments based on the annualized border price reported by Boundary Gas, Inc. (Boundary). The price of gas imported by Boundary is indexed to the weighted average price of domestic natural gas, No. 2 and No. 6 fuel oil available in New York. This component of the commodity charge is designed to make the price of the gas at the border continually responsive to competitive fuel alternatives in Granite State's markets over the life of the contract. Granite State estimates that if the agreement had been effective during the 12 months ending December 31, 1989, the average monthly border price for the Shell gas would have been \$2.58 (U.S.) per MMBtu at a 100 percent load factor.

The second component in the commodity charge is the incremental additional transportation charge on the TransCanada system, currently estimated at 3 cents per MMBtu, for transporting the Shell gas from the Niagara, New York, border point (the Boundary Gas delivery point) to the point downstream where TransCanada will interconnect with the IGTS pipeline system.

The price of interruptible gas supplies under the contract price will be the commodity charge plus the cost of interruptible transportation.

The gas purchase agreement provides for a monthly minimum bill equal to the demand charge. There is no minimum purchase requirement under the agreement. Also, either party can request annually renegotiation of the price terms, although not the use of a two-part rate, and, if renegotiation does not result in agreement, then the contract provides for arbitration.

Granite State has executed precedent transportation agreements with IGTS, Tennessee Gas Pipeline Company (Tennessee) and Algonquin Gas Transmission Company (Algonquin) for the receipt, transportation and delivery of the gas that Granite State will purchase from Shell under the December 1, 1989, gas purchase agreement.

A notice of the application was issued September 25, 1990, inviting protests, motions to intervene, notices of intervention, and comments to be filed by October 29, 1990.<sup>1</sup> No comments were received.

## II. Decision

The application of Granite State has been evaluated to determine if the proposed import arrangement meets the public interest requirements of section 3 of the NGA. Under section 3, an import must be authorized unless there is a finding that it "will not be consistent with the public interest."<sup>2/</sup> In making its section 3 determination DOE is guided by its natural gas import policy guidelines,<sup>3/</sup> under which the competitiveness of an import in the markets served is the primary consideration in meeting the public interest test. The DOE also considers, particularly in long-term arrangements, need for and the security of the imported supply. In addition, DOE considers the environmental effects of natural gas import authorizations.

#### A. General Policy Considerations

The guidelines contemplate that contract arrangements should be sufficiently flexible to permit pricing and volume adjustments as required by market conditions. Granite State's uncontested import proposal, as set forth in its application, is consistent with the policy guidelines. Granite State has freely negotiated a long-term gas purchase arrangement under contract provisions that provides for continual price adjustments based on the price of alternative fuels, including domestic natural gas, available in Granite State's markets and additionally provides for yearly renegotiation and arbitration of the price terms.

Need for natural gas is viewed under DOE guidelines as a function of marketability and gas is presumed to be needed if it is competitive. We find that Granite State's proposed import arrangement is competitive and, therefore, can be presumed to be 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.

The adequacy of Shell's reserves and the security of the supply are not contested in this proceeding. Shell has already demonstrated to the satisfaction of the Canadian National Energy Board (NEB) that it has sufficient reserves to meet the export obligations. In addition, the long history of reliable commercial natural gas transactions between the United States and Canada underscores the security of the import contract.

#### B. Environmental Determination

Environmental concerns are an important element of DOE's public interest consideration. In general, DOE considers environmental issues in the context of the National Environmental Policy Act of 1969 (NEPA).<sup>4/</sup> The Federal Energy

Regulatory Commission (FERC) is the Federal agency primarily responsible for conducting an examination of the environmental effects of constructing import facilities and related domestic pipeline facilities in connection with the Granite State import proposals. The DOE participated as a cooperating agency during the preparation of, and has adopted, the Iroquois/Tennessee Phase I Pipeline Project (Iroquois Phase I) Final Environmental Impact Statement (FEIS) issued by the FERC on June 1, 1990.<sup>5/</sup>

Generally, the Iroquois/Tennessee Pipeline Project involves proposals to construct and operate pipeline facilities, including a major new pipeline system, IGTS, extending from the U.S./Canadian border through the States of New York and Connecticut and terminating on Long Island, New York. Overall, the Iroquois/Tennessee Project is designed to transport up to 575,900 Mcf per day of Canadian natural gas (as well as 70,000 Mcf per day of domestic gas) to various U.S. customers. The gas would be delivered to end use customers by IGTS or by Tennessee or Algonquin. The FERC determined that the full project to deliver up to 575,900 Mcf per day is not complete because Algonquin's application for expanded facilities was not sufficiently detailed. Therefore, the FEIS only analyzed the delivery of 422,900 Mcf per day of natural gas that would be delivered to customers directly by IGTS or by Tennessee; the Iroquois Phase I Project. The remaining 153,000 Mcf per day of Canadian gas (and the 70,000 Mcf per day of domestic gas) would be part of Iroquois Phase II, which includes facilities and services by IGTS, Tennessee, and Algonquin. Determinations made in this order are applicable to those Granite State volumes that will use Iroquois Phase I facilities only.<sup>6/</sup>

Of Granite State's proposed imports, 12,000 MMBtu per day would use Iroquois Phase I facilities and 23,000 MMBtu per day would use Iroquois Phase II facilities. The DOE has concluded that the Iroquois Phase I FEIS is a complete document that complies with the NEPA process and provides an adequate basis to evaluate the environmental aspects of the NGA, section 3, public interest determination concerning the import arrangements.

The DOE has used the FEIS, as well as conducting an independent review, in assessing the environmental consequences of granting the proposed import. The DOE's findings are discussed in its consolidated Record of Decision (ROD) for the Iroquois Phase I facilities. The ROD was issued in conjunction with this and other Iroquois Phase I related orders and is being published in the Federal Register.<sup>7/</sup> The DOE determined that the anticipated overall physical impacts on the natural environment are relatively minor and can be mitigated, and thus are environmentally acceptable, especially when compared to the substantial benefits to be derived from the import arrangement in meeting current and future energy needs in the Northeast.

### C. Conclusion

After taking into consideration all the information in the record of this proceeding, I find that granting Granite State authority to import up to 35,000 MMBtu (34,826 Mcf) of Canadian natural gas a day on a firm basis, plus an additional 14,000 MMBtu (13,930 Mcf) a day on an interruptible basis, in accordance with the gas purchase and sales agreement described herein, is not inconsistent with the public interest.<sup>8/</sup>

### ORDER

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

A. Subject to the condition in Ordering Paragraph B, Granite State Gas Transmission, Inc. (Granite State), is authorized, commencing on or about November 1, 1991, and ending November 1, 2006, to import up to 35,000 MMBtu (34,826 Mcf) of Canadian natural gas a day on a firm basis, plus an additional 14,000 MMBtu (13,930 Mcf) a day on an interruptible basis, in accordance with its gas sales contract with Shell Canada Limited (Shell), as described in Granite State's application and this Opinion and Order.

B. The authorization in Ordering Paragraph A, to the extent it approves imports of natural gas in excess of 12,000 MMBtu per day, is conditioned upon the issuance of a Final opinion and order after review by DOE of the environmental documentation being prepared by the Federal Energy Regulatory Commission and the completion by DOE of its National Environmental Policy Act responsibilities in connection with the Iroquois Phase II facilities required for transportation of such excess volumes.

C. The natural gas is to be imported at the Iroquois Gas Transportation System's (IGTS) yet to be established import point on the international border near Iroquois, Ontario.

D. Granite State shall notify the Office of Fuels Programs (OFP), Fossil Energy, Room 3F-056, FE-SO, 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 within two weeks after deliveries begin.

E. Granite State shall file with the OFP, within 30 days following each calendar quarter, quarterly reports showing by month the total volumes of natural gas imports in Mcf and the price for the imports per MMBtu at the

international border. Granite State shall report separately the volume and price information for supplies purchased on a firm basis from those purchased on an interruptible basis. The price for firm supplies shall include a per unit demand/commodity charge breakdown.

Issued in Washington, D.C., on November 15, 1990.

--Footnotes--

1/ 55 FR 39710, September 28, 1990.

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

3/ 49 FR 6684, February 22, 1984.

4/ 42 U.S.C. 4321, et seq.

5/ FERC EIS-0054 (DOE EIS-0152).

6/ The Iroquois Phase II facilities are being considered by the FERC in a separate environmental document. Therefore, those Granite State volumes that propose to utilize the Phase II facilities will be conditioned on the completion of the Phase II environmental review and DOE's responsibilities under NEPA.

7/ The ROD was issued under the Council on Environmental Quality Regulations implementing the procedural provisions of NEPA and DOE's guidelines for compliance with NEPA (52 FR 47662, December 15, 1987).

8/ To the extent that Granite State will use Iroquois Phase II facilities, the authorization herein granted is conditioned upon completion by the DOE of its environmental responsibilities.