

Cited as "1 FE Para. 70,398"

Washington Natural Gas Company (FE Docket No. 90-88-NG), December 31, 1990.

DOE/FE Opinion and Order No. 469

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

I. Background

On October 10, 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 15,000 MMBtu per day (14,434 Mcf/d) of natural gas beginning on the first day of the month following the issuance of the authorization and extending through October 31, 1999. 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 contract between Washington Natural and POCO Petroleum Ltd. (POCO). 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 POCO will be supplied initially from POCO's Alberta Pool in the Province of Alberta, Canada. POCO 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 through the facilities of Northwest to Washington Natural's distribution system. Northwest will provide firm transportation for Washington Natural under Northwest's Rate Schedule TF-1.

POCO will file for approval from the provincial authority in Alberta for removal of the gas committed under the contract. POCO has applied to the

National Energy Board of Canada (NEB) for approval to export the gas.

As a result of both Washington Natural's reduction in purchase commitments with Northwest under the pipeline's open-access program and Washington Natural's growing market requirements, the applicant maintains that it must contract for approximately 95,000 MMBtu per day of firm gas supply. According to Washington Natural, the long-term contract with POCO for 15,000 MMBtu per day is an important component of the firm gas supply needed to supplement the current firm service provided by Northwest. The applicant maintains that it requires the firm supply that will be purchased from POCO to provide continuous reliable service to its firm residential, commercial, and small industrial customers.

The term of the import arrangement extends through October 31, 1999. The contract provides for a maximum daily contract quantity (MDQ) of up to 15,000 MMBtu per day (14,434 Mcf/d). Washington Natural is committed to purchase a minimum annual quantity equal to 55 percent of the MDQ multiplied by 365, and a minimum monthly quantity equal to the lesser of 33 1/3 percent of the contract quantity per day multiplied by the number of days in the month or 10 percent of Washington Natural's total purchases of gas supplies for utilization in its system market. In the event that Washington Natural fails to nominate the minimum annual quantity, POCO may reduce the MDQ as its sole remedy. Washington Natural anticipates no difficulty in meeting the monthly and annual takes under the contract.

The contract price is composed of two parts, a demand charge and a commodity charge. The demand charge is equal to the cost of transportation on the Westcoast system for delivery of the gas to the international border near Sumas, Washington, and is the aggregate of the WEI firm service gathering, treatment, processing and transportation demand charges as approved by Canadian regulatory authorities. This charge is equivalent to the actual monthly toll charges on WEI's system.

The commodity component of the price for the first contract year, by agreement, is \$1.25 per MMBtu for quantities purchased up to 3,000,000 MMBtu and \$1.05 per MMBtu for quantities purchased in excess of 3,000,000 MMBtu, which is approximately equal to the minimum annual purchase obligation. The commodity component is subject to renegotiation annually in order to assure that the price of the gas remains continuously responsive over the life of the contract to the competitive prices of both alternative fuels and U.S. gas supplies available in Washington Natural's market area. The contract provides that the commodity price will continue from year to year unless either party objects sixty days prior to the end of the contract year.

In support of its application, Washington Natural maintains that it is purchasing the POCO gas supply primarily to supplement its system supply to meet high priority firm requirements and that the pricing terms will contribute to reducing its 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 published in the Federal Register on November 16, 1990, inviting protests, motions to intervene, notices of intervention, and comments to be filed by December 17, 1990.^{1/} 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." ^{2/} This determination is guided by DOE's natural gas import policy guidelines.^{3/} 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 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 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 15,000 MMBtu per day (14,434 Mcf/d) of natural gas on a firm basis through October 31, 1999, is not inconsistent with the public interest and should be approved.^{4/}

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 15,000 MMBtu per day (14,434 Mcf/d) of natural gas on a firm basis through October 31, 1999, in accordance with the provisions of a gas purchase agreement with POCO Petroleum Ltd. (Poco) 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.

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. December 31, 1990.

--Footnotes--

1/ 55 FR 47914, November 16, 1990.

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

3/ 49 FR 6684, February 22, 1984.

4/ Because the proposed importation 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).