

Cited as "1 ERA Para. 70,112"

Boston Gas Company (ERA Docket No. 81-08-LNG), February 2, 1981.

Order Denying Authorization to Import Liquefied Natural Gas from  
Indonesia

[Opinion and Order]

### I. Background

On January 16, 1981, the Boston Gas Company (Boston Gas) filed an application with the Economic Regulatory Administration (ERA) under Section 3 of the Natural Gas Act seeking emergency authorization to import 125,000 cubic meters (M3) of liquefied natural gas.<sup>1/</sup> Boston Gas contracted to purchase the LNG from Perusahaan Pertambangan Dan Gas Bumi Negara (Pertamina) of Indonesia. Boston Gas also chartered the U.S. flag vessel EL PASO SOUTHERN to transport the LNG from Indonesia to the United States.

Boston Gas on January 18, 1981, supplemented its application with a letter providing further information about its potential need for the LNG, the f.o.b. price to be paid for the LNG, the cost of transportation, the estimated delivery date, and confirmation that the LNG purchase contract with Pertamina was signed. On January 19, 1981, ERA received a letter from the Massachusetts Executive Office of Energy Resources urging expedited approval of the request. That letter was superseded by a second letter received by ERA on January 30, 1981, which withdrew support for expedited treatment.<sup>2/</sup> In a letter dated January 21, 1981, Boston Gas submitted supplemental information with respect to the estimated delivery date of the LNG.

Boston Gas stated in its application that the imported LNG was "vitally necessary in light of the natural gas supply emergency currently existing in Massachusetts, and in particular in the Boston Gas service area." Boston Gas stated further that it requested expeditious consideration of its application in order to plan and make immediate arrangements to meet the current and foreseeable continuing emergency supply conditions on its system that jeopardize service to high-priority customers.

Boston Gas is a local gas distribution company serving almost 500,000 customers in Eastern Massachusetts. Ninety-three percent of those customers are residential consumers who at the beginning of 1980 accounted for about fifty-one percent of the total gas demand on Boston Gas' system. Approximately eighty-four percent of system demand is from firm contract customers.

Boston Gas states that normally during the winter peak heating period, demand for natural gas exceeds the capacity of the two interstate pipelines providing its base load supply of natural gas.<sup>3/</sup> During such periods Boston Gas utilizes supplemental supplies, consisting of propane-air, synthetic natural gas (SNG), and LNG held in storage, to serve excess demand.<sup>4/</sup> On peak days, Boston Gas relies primarily on stored LNG, because its ability to increase the use of propane-air and SNG is limited.

Through mid-January, Boston Gas' service area experienced the coldest winter weather in history. Because of those weather conditions, Boston Gas was forced to use its LNG reserves at an extraordinary rate. Compounding the problem was the inability of DOMAC to provide Boston Gas with its scheduled supply of LNG. On December 28, 1980, a severe storm damaged the harbor at Arzew, Algeria, as well as reduced operational capacity of the LNG export facilities operated by Sonatrach, the Algerian exporter, thus preventing loading and departure of a scheduled delivery of LNG to DOMAC.

In response to its LNG supply situation, Boston Gas sought out other supplies of LNG. Boston Gas was able to obtain 60,000 M3 of LNG from Southern Energy Company (Southern) which was delivered on January 23, 1981. <sup>5/</sup> Boston Gas also began negotiations with Pertamina to purchase the LNG at issue in this case.

On January 16, 1981, Boston Gas entered into a supply contract with Pertamina. Under the terms of that contract, Boston Gas agreed to pay Pertamina \$6.13 per million Btu (MMBtu) f.o.b. Indonesia for the LNG to be imported, as well as for all LNG used to cool down the tanker. The LNG being purchased was originally scheduled to be delivered to Japan; however, the Japanese purchasers agreed to allow the LNG to be diverted to Boston Gas. Under its contracts with Japanese purchasers, Pertamina charges approximately \$5.40 per MMBtu f.o.b. for firm sales and \$6.13 per MMBtu for spot contract sales volumes. The price to be paid by Boston Gas equals the spot contract price charged Japanese purchasers. <sup>6/</sup>

The LNG would be lifted at the Badak-Pertamina LNG facility in Indonesia sometime between February 3 and February 10, 1981, depending on the arrival of the EL PASO SOUTHERN, and delivered to Boston Gas in mid-March.<sup>7/</sup> Boston Gas estimates the unit cost of shipping to be between \$3.25 per MMBtu and \$3.50 per MMBtu and the landed cost to be between \$9.38 and \$9.63 per MMBtu. DOMAC's terminalling and handling charges have not yet been determined.

Prior to issuance of this Opinion and Order counsel for Boston Gas was informed that ERA had doubts whether there had been a sufficient showing of

need for the import. Counsel for Boston Gas was also informed of his right to request an opportunity for a hearing before ERA took final action on the application. At that time, counsel for Boston Gas waived its right to a further proceeding under Section 3 of the Natural Gas Act.

## II. Discussion

The Secretary of Energy has delegated authority under Section 3 of the Natural Gas Act to authorize the importation of natural gas to the Administrator of ERA. The Secretary in DOE Delegation Order 0204-54 specified several factors which may be considered in determining whether a proposed import is not inconsistent with the public interest. Among these are national and regional need for the gas to be imported and the price to be paid for that gas.

Our decision on this application hinges largely upon a determination of whether the need for this import is sufficiently great to warrant approval of a landed price for the LNG which is in excess of that which we have approved previously or would likely approve for long term imports of LNG or natural gas. We have previously stated that, absent special circumstances, the landed price of imported natural gas (including the regassification costs for imported LNG) must be no higher than the price of alternate fuels.<sup>8/</sup> Our determination of need for this import has been difficult because of almost daily changes in the circumstances surrounding this proposal.

At the time Boston Gas began to arrange for the import, the natural gas demand in its service area was at an all time high, the Governor of Massachusetts had declared a statewide energy emergency, natural gas pipeline supplies and propane-air were at maximum levels, and stocks of LNG were rapidly being drawn down.<sup>9/</sup> At the same time, Boston Gas had no way to predict when its regular supply of LNG from DOMAC might again become available. In view of these exigent circumstances it was not unreasonable for Boston Gas to search out additional sources of LNG in order to meet demand levels consistent with continuation of the extreme weather conditions.

Were it not for the substantial changes which occurred after this application was filed, this supply of LNG willingly made available on short notice by both Pertamina and the Japanese purchasers could very well have become needed to avoid curtailment of service to residential customers. However, Boston Gas' natural gas supply and demand balance has changed dramatically since arranging to obtain the Indonesian LNG.

The immediate causes of that change were an abatement of the extremely

cold weather and the resumption of LNG deliveries from Algeria to DOMAC under their long term contract. The first shipment of 90,000 M3 of LNG from Arzew, Algeria, is expected to arrive at Everett, Massachusetts, on February 3, 1981. Boston Gas has contracted to purchase 30,000 M3 of LNG from Brooklyn Union Gas Company's share of the shipment in addition to the 30,000 M3 it is already entitled to receive.<sup>10/</sup> On the assumption that it will receive 60,000 M3 of LNG from the forthcoming Algerian shipment and in consideration of the amount of LNG in storage including the LNG obtained from Southern, Boston Gas now projects that it will be able to meet its firm demand requirements through April of this year, even if the weather is 20 percent colder than normal.<sup>11/</sup>

Thus, it appears that the severe LNG shortfall anticipated at the time this application was filed is not likely now to occur. Even if a shortage again develops, resumption of operations by Sonatrach in Algeria should permit Boston Gas to obtain additional LNG through its customary supply channels. We believe that this enhanced ability of Boston Gas to meet further contingencies obviates its alleged need to obtain LNG at spot market prices and pay for very costly transportation of that LNG to the U.S. Also, resumption of Algerian deliveries means that Boston Gas will have access to supplies at a much cheaper price to pay back the volumes purchased from Southern.

Given the abatement of emergency conditions, there is no longer a sufficient need for the LNG which would warrant our approving this import at such a high landed price. Therefore, we cannot find that this import is consistent with the public interest. For these reasons, the application is denied.

#### Order

In consideration of the foregoing, the Economic Regulatory Administration hereby orders:

Pursuant to Section 3 of the Natural Gas Act and Department of Energy Delegation Order No. 0204-54, the application of Boston Gas Company for an order authorizing the importation of 125,000 cubic meters of liquefied natural gas from Indonesia into the United States is denied.

Issued in Washington, D.C. on February 2, 1981.

--Footnotes--

1/ 125,000 M3 of LNG is equivalent to approximately 2.7 billion cubic feet (Bcf) or 3 trillion British thermal units (Btu) of natural gas. This LNG

will contain between 1070 and 1170 Btus of energy per cubic foot.

2/ Notice of the application and request for comment was published on January 27, 1981, in the Federal Register (46 FR 8649). In light of Boston Gas' request for expedited treatment, comments on the issues raised in the notice and petitions to intervene were requested by close of business, January 30, 1981. No petitions to intervene were received. The only comments received were from the Massachusetts Executive Office of Energy Resources on January 30, 1981, which stated that the supply situation in the Boston Gas area no longer warranted the issuance of an emergency authorization.

3/ Algonquin Gas Transmission Company and Tennessee Gas Pipeline Company are the two pipelines.

4/ Boston Gas obtains LNG from Distrigas of Massachusetts Corporation (DOMAC), an importer of LNG from Algeria.

5/ As part of its arrangement to purchase the LNG from Southern, Boston Gas agreed to repay Southern with an equivalent amount of LNG as soon as possible but no later than May 1, 1981 (See Federal Energy Regulatory Commission Order Clarifying and Granting Waivers of Emergency Regulations issued on January 16, 1981 in FERC Docket No. CP81-139-000, Southern Energy Company, et al.) Boston Gas states that 60,000 M3 of the proposed Indonesian import would be used to pay back Southern.

6/ In a letter to ERA dated January 29, 1981, Boston Gas provided the above quoted prices for LNG sold by Pertamina to Japanese purchasers. Our notice in the Federal Register (46 FR 8649, January 27, 1981) with respect to this application referenced other prices (\$5.80 per MMBtu for firm sales and \$6.30 per MMBtu for spot sales) which had been supplied previously by Boston Gas based on the best information then available.

7/ Boston Gas has chartered the EL PASO SOUTHERN for sixty days at a cost of \$74,000 per day plus operating expenses and modification costs.

8/ See Opinion and Order No. 14B, Inter-City Minnesota Pipelines, Inc. et al., ERA Docket Los. 80-01-NG, et al., where the current price of 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.

9/ On January 13, 1981, Governor Edward J. King declared a statewide energy emergency and established voluntary maximum temperature levels for residential and industrial gas consumers. On January 15, 1981, those

restrictions were made mandatory and gas-heated schools were closed, By January 20, 1981 schools were reopened and conservation measures had been relaxed somewhat.

10/ DOMAC has informed Boston Gas that Sonatrach is proceeding to resume full operations. DOMAC, therefore, expects to receive two more shipments of about 125,000 M3 each from Algeria by early March. Under the existing DOMAC contract, the current landed price of Algerian LNG is \$4.52 per MMBtu.

11/ The following projected data was provided by Boston Gas in a letter dated January 26, 1981, assuming a 20 percent colder than normal winter and no conservation8

#### Projected Sendout

	Total Demand (MMcf)	(MMcf) SNG-1	Propane	Pipeline	LNG
Jan (22-31)	4,126	176	626	2,626	699
Feb	11,155	747	1,733	7,318	1,357
Mar	9,483	528	1,178	7,248	529
Apr	5,989	0	0	5,989	0
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Total	30,753	1,451	3,537	23,180	2,585

Estimated LNG Inventory	MMcf
on hand 1/22/81	626
from Southern	1,000
from Algeria	1,000
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	2,626