



National Energy Board

Reasons for Decision

**Alberta and Southern Gas
Co. Ltd.**

GH-4-86

October 1986

**Consolidation of Licences GL-3,
GL-16, GL-24, GL-35, GL-67, GL-68,
and GL-69 including a Term
Extension and Certain Other
Changes**

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In the Matter of

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GL-35, GL-67, GL-68, and GL-69 including a
Term Extension and Certain Other Changes

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IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by Alberta and Southern Gas Co. Ltd. under Part VI of the *National Energy Board Act* for a new gas export licence which would consolidate and replace existing Licences GL-3, GL-16, GL-24, GL-35, GL-67, GL-68, and GL-69 and to include in the consolidated licence a term extension and certain changes in the maximum daily and annual quantities which are currently authorized.

HEARD AT Calgary, Alberta on: 23 and 24 September, 1986.

BEFORE:

R. Priddle Presiding Member

A.D. Hunt Member

R.B. Horner, Q.C. Member

APPEARANCES:

D.G. Hart, Q.C. ProGas Limited
K.J. MacDonald

J.R. Smith, Q.C. Alberta and Southern Gas Co. Ltd.
T.R. Benson

C.K. Yates Canadian Petroleum Association

R.G. DeWolf Independent Petroleum Association of Canada
R.B. Hillary

J. Lutes Foothills Pipe Lines (Yukon) Ltd. and Westcoast
Transmission Company Limited

C.R. Rich Kern River Gas Supply Corporation; Northwest Alaskan
Pipeline Company and Northwest Pipeline Corporation

A.S. Hollingworth Northridge Petroleum Marketing, Inc.
M. Himmelspach

D.A. Dawson, Q.C. Pan-Alberta Gas Ltd.

E.W.L. Mallabone Western Gas Marketing Ltd.
M. Holtz

D.C. Edie Alberta Petroleum Marketing Commission

R.W. Graw National Energy Board

1. Background

1.1 Applications for Licence Extensions

The Board received two applications for the extension of existing gas export licences and the recovery of trapped gas under those licences. The first application, filed by ProGas Limited (ProGas), was dated 26 March 1986 and was amended on 23 April 1986 and 23 May 1986. The second application, from Alberta and Southern Gas Co. Ltd. (Alberta and Southern), was dated 29 July 1986.

1.2 ProGas Limited

ProGas requested an increase in the daily and annual authorized quantities of Licence GL-98 during the period 1 November 1987 to 31 October 1989 and to extend the term of the licence by five years beyond the existing termination date of 31 October 1989, to 31 October 1994. The application did not seek to alter the total term quantity authorized.

Because of certain contractual requirements between ProGas, its four United States customers, and TransCanada PipeLines Limited, the Board decided to issue an early decision on the ProGas application. Accordingly, on 6 October 1986, the Board issued its Reasons for Decision approving the application.

1.3 Alberta and Southern

The Alberta and Southern application requested Board approval of an increase in the maximum daily and annual quantities authorized during the period 1 November 1990 to 31 October 1994, without increasing the existing term quantity under licence to Alberta and Southern. As part of its application, Alberta and Southern also requested Board approval of a licence consolidating its seven existing licences.

A more complete summary of the Alberta and Southern application is included under section 2 of this report.

1.4 Hearing of the Applications

By its Hearing Order GH-4-86, the Board set down the above-noted applications for a public bearing, which was held in Calgary, Alberta commencing on 23 September 1986.

1.5 Approach to Licence Extensions and Similar Applications

As noted in its October 1986 Reasons for Decision in the matter of the ProGas application, the Board will continue to deal with applications for licence extensions and other similar applications on a case-by-case basis, seeking the views of interested parties, generally by way of public hearing. There are salient common factors, however, which the Board will take into account. These would include: the expectable surplus during the period for which the extension is requested; any alternative export

markets for the gas in question; the effect on, need for, and utilization of pipeline facilities; the expectation that the gas being considered will be taken; and any particular commercial features of the export market to be served.

All applications for licence extensions will receive careful scrutiny by the Board, there being no question of the Board providing for an "automatic rollover" of licensed quantities that are not taken or are not expected to be taken during the early years of the term of the licence.

2. The Application and Interventions

This section provides a summary of the Alberta and Southern application and of the two interventions that were filed in opposition.

2.1 The Alberta and Southern Application

By its application dated 29 July 1986, Alberta and Southern requested Board approval of the consolidation and amendment to gas export Licences GL-3, GL-16, GL-24, GL-35, GL-67, GL-68, and GL-69. The company sought an increase in the daily and annual quantities it currently has under licence during the period 1 November 1990 to 31 October 1993. The present licences provide for a phased reduction in the daily and annual quantities during this same period. Alberta and Southern also sought to extend the term of its authorizations by one year beyond the existing termination date of 31 October 1993, to 31 October 1994. Alberta and Southern did not seek to alter the total term quantity authorized.

If approved, the consolidated licence would apply the maximum daily and annual quantities of 31 897 thousand cubic metres and 10 580 million cubic metres respectively to the period 1 November 1990 to 31 October 1994.

The tables which are attached as Appendices I and II summarize the existing daily and annual quantities as they are currently authorized under Alberta and Southern's seven existing licences and compare these authorizations to those contemplated under the proposed consolidated licence.

The term quantity under the new consolidated licence would be equal to the sum of the term quantities of the seven existing licences less the total quantities actually exported under those licences as of the effective commencement date of the new licence. The increase in the authorized quantities and the extension reflect Alberta and Southern's request to recover "trapped gas" (quantities authorized for delivery during an earlier period which were not exported). Table 3 in Appendix II provides the calculation of the amount of "trapped gas" under the Alberta and Southern licences that are currently in effect.

2.2 Interventions Filed in opposition

Eleven parties filed an appearance during the proceeding, two of whom opposed the application by Alberta and Southern. The parties who opposed the application and who filed written direct evidence in support of their interventions were the Canadian Petroleum Association (CPA) and Northridge Petroleum Marketing, Inc. (Northridge).

2.3 Canadian Petroleum Association

The CPA contended that the Alberta and Southern application was premature and that the Board should defer consideration of it for one or two years. The CPA argued that the Board should proceed cautiously with applications seeking to recover "trapped gas" because of the current uncertainties caused by: the advent of deregulation in the gas industry; the implementation of new

surplus determination procedures; and the current business environment. The CPA concluded that, unless there is a near term, demonstrable need and benefit, such applications should not be approved.

2.4 Northridge Petroleum Marketing, Inc.

Northridge expressed similar concerns to those of the CPA, namely, that the Alberta and Southern application was premature and that a decision on it should be deferred for one or two years. Moreover, Northridge argued that approval of the Alberta and Southern application at this time could result in the under-utilization of existing pipeline capacity, and would have an adverse effect on both gas supply and markets.

3. Decision

The Board has decided to issue a consolidated licence to Alberta and Southern. The new licence will incorporate all of the terms and conditions of the Applicant's seven existing licences and will include the requested change in the daily and annual authorizations during the period 1 November 1990 to 31 October 1993. In addition, it will extend the current term of the Alberta and Southern authorizations by one year to 31 October 1994. At the same time as the consolidated licence is issued, the Board will revoke gas export Licences GL-3, GL-16, GL-24, GL-35, GL-67, GL-68, and GL-69. Governor in Council approval of the new consolidated licence and the revocation of the seven existing licences is required to bring these decisions into effect.

As the authorizations provided for under the consolidated licence do not include any increase in the authorized term quantity, the Board is satisfied that adequate surplus and deliverability exist to the end of the extension period. In this regard the Board's decision was made on the basis of the latest published data and on the criteria applied in its report on Phase 1 of the Gas Export Omnibus Hearing, 1985.⁽¹⁾

With respect to the arguments presented by the CPA and Northridge that the Alberta and Southern application was premature, the Board does not agree with this view. Rather, the Board considers that a decision taken now will assist Alberta and Southern's customer, Pacific Gas and Electric Company (PG&E), with respect to its gas supply planning. The five-year advance notice which this decision provides is not unreasonable given that Alberta and Southern's sales represent approximately 40 percent of PG&E's total supply. The Board recognizes that northern California has been and will continue to be a major market for Canadian gas provided that this source of supply can remain competitively priced and can be seen to be relatively secure. The Board considers that its decision will help secure the position of Canadian gas in this market. It does not consider that superior alternate export markets are likely to be available for the gas in question.

R. Priddle
Presiding Member

A.D. Hunt
Member

R.B. Horner, Q.C.
Member

⁽¹⁾ Phase 1 The Surplus Determination Procedures Phase of the Gas Export Omnibus Hearing, 1985, dated April 1986.

Appendix I

Table 1 Comparison Between Existing Authorizations and the Proposed Consolidated Licence (Maximum Daily)

Table 1
Alberta and Southern
Maximum Daily Volume
Comparison Between Existing Authorizations and
the Proposed Consolidated Licence
(10³m³)

1 Nov - 31 Oct	GL-3	GL-35	GL-16	GL-68	GL-67	GL-69	GL-24	Total Existing	Consolidated Licence
1986-87	3 248.9	5 807.2	6 409.2	-	9 746.5	-	6 685.4	31 897.2	31 897.2
1987-88	-	-	6 409.2	-	12 995.4	5 807.2	6 685.4	31 897.2	31 897.2
1988-89	-	-	6 409.2	-	12 995.4	5 807.2	6 685.4	31 897.2	31 897.2
1989-90	-	-	-	6 409.2	12 995.4	5 807.2	6 685.4	31 897.2	31 897.2
1990-91	-	-	-	4 268.5	8 654.9	3 867.6	6 685.4	23 476.4	31 897.2
1991-92	-	-	-	2 134.3	4 327.5	1 933.8	4 784.6	13 180.2	31 897.2
1992-93	-	-	-	-	-	-	3 835.6	3 835.6	31 897.2
1993-94	-	-	-	-	-	-	-	-	31 897.2

Appendix II

Table 2 Comparisons Between Existing Authorizations and the Proposed Consolidated Licence (Maximum Annual)

Table 3 Calculation of "Trapped Gas"

Table 2
Alberta and Southern
Maximum Daily Volume
Comparison Between Existing Authorizations and
the Proposed Consolidated Licence
(10⁶m³)

1 Nov - 31 Oct	GL-3	GL-35	GL-16	GL-68	GL-67	GL-69	GL-24	Total Existing	Consolidated Licence
1986-87	1 085.5	1 912.1	2 119.8	-	3 256.3	-	2 206.7	10 580.4	10 580.4
1987-88	-	-	2 119.8	-	4 341.8	1 912.1	2 206.7	10 580.4	10 580.4
1988-89	-	-	2 119.8	-	4 341.8	1 912.1	2 206.7	10 580.4	10 580.4
1989-90	-	-	-	2 119.8	4 341.8	1 912.1	2 206.7	10 580.4	10 580.4
1990-91	-	-	-	1 411.8	2 891.6	1 273.4	2 206.7	7 783.5	10 580.4
1991-92	-	-	-	705.9	1 445.8	636.7	1 577.4	4 365.8	10 580.4
1992-93	-	-	-	-	-	-	1 263.4	1 263.4	10 580.4
1993-94	-	-	-	-	-	-	-	-	10 580.4

Table 3
Alberta and Southern
Calculation of "Trapped Gas"
(10⁶m³)

Licence ⁽¹⁾	(1)	(2)	(3)	(4)	(5)
	Authorized Term Volume	Actual Exports to 31 Aug. 86	Remaining Volume (Col 1 - Col 2)	Max Volume Exportable Under Licences ⁽²⁾	"Trapped Gas" (Col 3 - Col 4)
GL-3	109 467.8	106 330.0	3 137.8	1 978.5	1 159.3
GL-16	45 721.1	31 762.9	13 958.2	7 409.0	6 549.2
GL-24	52 491.0	28 029.0	24 462.0	15 755.1	8 706.9
GL-35	<u>32 506.2</u>	<u>27 937.2</u>	<u>4 569.0</u>	<u>2 473.9</u>	<u>2 095.1</u>
TOTAL	240 186.1	194 059.1	46 127.0	27 616.5	18 510.5

(1) Licences currently flowing gas

(2) Maximum exportable calculated as the authorized maximum daily volume X number of days remaining in the licence term commencing 1 September 1986.