

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE GAS COMPANY :
NEED ASSESSMENT TO CONSTRUCT AN : DOCKET NO. 3295
LNG TRANSFER STATION :

ADVISORY OPINION TO THE ENERGY FACILITY
SITING BOARD PURSUANT TO SECTION
42-98-9(D) OF GENERALS LAWS OF RHODE ISLAND

On August 23, 2000, Providence Gas Company (“ProvGas”), a division of Southern Union Company (“Southern Union”), filed an application with the Energy Facility Siting Board (“EFSB”) seeking authority to construct an energy facility. ProvGas proposes to build and operate a liquefied natural gas (“LNG”) transfer station on Navy property in the Town of Middletown, Rhode Island, in order to provide supplementary natural gas to Aquidneck Island in times of peak demand during the coldest periods of winter (“Project”). On December 26, 2000, the application was revised so as to incorporate changes to the design of the transfer station. Rhode Island law requires such facilities to be approved and licensed by the EFSB (See R.I.G.L. § 42-98-4). The proposed LNG transfer station is expected to be used approximately 8 to 10 days per year during the winter heating season, with operation of the facility typically limited to 4 to 6 hours per day. Div. Exh. #1, fn. 5.

In response to the filing, the EFSB conducted preliminary hearings on February 15, 2001 to determine the issues to be considered by the Board in evaluating the application, to designate those agencies which are to act at the direction of the Board for the purpose of rendering advisory opinions and to identify those licenses, if any, required by the transfer station which are under the direct control of the Department of Environmental Management (“DEM”) and the Coastal Resources Management Council (“CMRC”). (R.I.G.L. § 42-98-9(a)).

As a result of the evidence proffered by the parties at the aforementioned EFSB preliminary hearings on the ProvGas application, and in accordance with the R.I.G.L. § 42-98-9(d), the EFSB issued a preliminary order which, *inter alia*, directed the Rhode Island Public Utilities Commission (“Commission”) to provide the EFSB with an

advisory opinion “as to the need for the proposed transfer station” (EFSB Order 44, issued March 15, 2001). The EFSB has asked the Commission to file its advisory opinion no later than July 2, 2001.

As noted above, the basis for the EFSB’s request for a Commission advisory opinion on the ProvGas Project is contained in the Rhode Island General Laws and reads as follows:

(d) The public utilities commission shall conduct an investigation in which the division of planning of the department of administration, the governor’s office of energy assistance and the division of public utilities and carriers shall participate and render an advisory opinion as to the need for the proposed facility.

R.I.G.L. § 42-98-9(d) (emphasis added).

On June 6, 2001, the Division of Public Utilities and Carriers and the State Energy Office (together, the “Division”) jointly filed comments with the Commission regarding the need for the Project. The Division represented that its comments and findings were based upon a “thorough investigation of [the Company’s] proposal including a careful review of the company’s submissions relating to this proposal, substantial discovery, and numerous discussion with ProvGas personnel.” Div. Exh. #1, p. 1. Of particular concern to the Division in its investigation were: (1) the reasonableness of the Company’s load growth projections; (2) the explicit prohibition of LNG storage at the Project site contained in the proposed Navy easement; (3) the reasonableness of the cost analyses that the Company presented to compare the economics of the proposed LNG transfer station with a pipeline extension alternative; and (4) the reasonableness of using the Navy site as opposed to other site alternatives for the Project. *Id.*, p 2.

The Commission conducted a duly noticed public hearing on June 18, 2001 at the Commission’s hearing room located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

FOR PROVGAS:

Jeffrey Gladstone, Esq.
Daniel Croker, Esq.

FOR THE DIVISION:

Paul Roberti, Esq.

FOR THE COMMISSION:

Thomas W. Hcald, Esq.

At the hearing, ProvGas called two witnesses: Gary Monroe and Gary Beland. Mr. Monroe, Director of Systems Planning for ProvGas, testified that he had been involved with the Project's design for two years and that he had also been involved in "issues with regard to the need for this facility." Transcript, June 18, 2001, p.15 (hereafter "Tr., p.15"). Aquidneck Island is currently supplied with natural gas by Algonquin Gas Transmission Co., ("Algonquin") through a pipeline that passes beneath the Sakonnet River. According to ProvGas, this line is simply too narrow in diameter to supply enough gas for the Island's coldest winter days. Tr., p.17. Mr. Monroe stated that the capacity of the Algonquin pipeline, which currently feeds the Island, is 825 thousand cubic feet per hour ("Mcfh"). Tr., p. 71. The demand for gas on Aquidneck Island is projected to exceed that limit by 15 to 45 Mcfh during the winter of 2001/2002. Tr., p.71. Mr. Monroe stated that the need for additional supply to Aquidneck Island arises on the coldest days of the year, during "peak morning hours." Tr., p.16. If the Island continues to rely solely on the Algonquin pipeline for its supply of gas, demand on the colder mornings of the coming winter will exceed the available supply. Tr., p.16. Mr. Beland, Assistant Vice President of Gas Supply for ProvGas, testified that Algonquin is unable to supply any additional gas to meet this peak demand for the coming winter and that there are no other possible suppliers of natural gas for the Island. Tr., pp.73-75.

The anticipated winter shortage of natural gas supply to Aquidneck Island will apparently affect the needs of Newport Hospital. Mr. Monroe testified that Newport Hospital, which has recently upgraded its heating facilities, is being "held at bay" in regard to its plan to eliminate buried oil tanks and convert from oil to "firm" natural gas service. Tr., p.22. Currently, Newport Hospital is awaiting word from ProvGas as to the proposed LNG facility: Mr. Monroe stated that, "What we've told them is we have the

facilities to deliver to them if we are able to construct and build an LNG facility as we've contemplated . . . at that point they could be a firm customer." Id.

Mr. Monroe testified that ProvGas projects that the demand for natural gas on the Aquidneck Island will grow the rate of 2.8% each year -- this rate includes demand from new customers as well as growth due to greater demand for natural gas (due to conversions from oil). Tr., p.57. Specifically, Mr. Monroe explained the growth in demand on the Island as follows:

[T]here has been quite a large amount of expansion in the residential environment on the island and that's been contributing to our growth experience. In addition to that, there have been conversions, the hospital, the Navy I mentioned had a firm load. They had a fire fighting training academy there that's become firm. There's been some schools now that have moved over to natural gas from oil. We have ~~this growth from the transportation~~ compressed natural gas to fuel vehicles. The island has been quite active.

Tr., p.57.

The Division called two witnesses: Bruce R. Oliver and James E. Lanni. Mr. Oliver, a consultant to the Division, disputed ProvGas' claim of a long-term growth rate in demand for natural gas on the Island of 2.8% and suggested that the actual growth rate might be significantly lower. Tr., pp.187-188. However, Mr. Oliver ultimately acknowledged a clear need for a greater supply of natural gas to the Island. Mr. Oliver testified that, "[I]t's very clear we are in excess [of the 825 Mcfh level] under cold situations of what the pipeline can supply without gas from Algonquin to provide us something beyond our contract limits . . ." Tr., p.175. Mr. Oliver went on to specifically address the proposed LNG facility's role in satisfying this need, as follows: "There is certainly a need for additional capacity that has to be met and the LNG transfer station appears to be the best alternative for meeting that need." Tr., p. 209.

In the conclusion to its prefiled comments in regard to this matter the Division made the following finding:

Based on our review of all factors, the Division believes that the Company' selected approach to meeting peak demands on Aquidneck Island, including site selection, is reasonable subject to the caveat that long-term LNG storage facilities remain a viable future option, especially if the Navy were to seek to become a firm service customer.

Div. Exh. #1, p. 7 (emphasis added).

As a result of that statement a good deal of the witness examination and discussion at the hearing centered on the need to secure the option to locate LNG storage facilities at the Project site. Of particular concern to the Commission was the following condition in the proposed Grant of Easement from the Navy to ProvGas, which appears to bar the storage of the LNG at the Project site:

B. There will be no permanent storage of explosive or flammable material, such as gas, liquid or otherwise, on the PREMISES, except as specifically incident to and necessary for the intended purpose and normal use of the FACILITY in accordance with paragraph 8 below or as may be carried in those appropriately marked and regulated vehicles needed on a temporary basis to transfer liquefied natural gas from the vehicle to the FACILITY on the PREMISES.

Div. Exh. #2, Div 1-07, p. 13.

In response to the Commission's concern, counsel for ProvGas, Mr. Gladstone, represented to the Commission that in upcoming negotiations with the Navy he would seek to remove this language from the proposed easement and replace it with language which would indicate that the "construction of permanent LNG storage tanks " would be

allowed, subject to all necessary approvals from the appropriate governmental entities.
Tr., p. 202

Upon further questioning about the importance of obtaining the option to install LNG storage at the site, Division witness Oliver appeared to indicate that it was not essential but would definitely be preferred. For example, Mr. Oliver, in response to a question by counsel for ProvGas, Jeffrey Gladstone, Esq. stated:

MR. GLADSTONE: May I ask the Division to address that issue that even without storage is this a viable and appropriate and required facility?

MR. OLIVER: Yes. I believe that's our conclusion.

Tr., p. 226.

However, upon subsequent examination by Commission Fiscal Analyst Thomas Massaro, Mr. Oliver testified that he believed that it would be cost justified to construct LNG storage at the site now.

MR. MASSARO: ... [F]rom a regulatory point of view if the company was coming before the Commission for a revenue requirement and it included storage at this time, would you have likely endorsed that proposal?

Mr. OLIVER: I think yes. . . .[E]ven though the storage may not be required to serve the load duration curve until further in the future, it does add value at the current time by reducing the amount of trucking during peak times you require which means that you have can have greater flexibility and lower trucking costs. It also improves the reliability of the plant's operations and I think generally makes the whole plant more acceptable, even putting it in now.

MR. MASSARO: Even with eight trucks a year . . . you think that generally you feel you would endorse that cost being absorbed by ratepayers in revenue requirements at this time?

Mr. OLIVER: I think it's cost justified.

Tr. pp. 230, 231.

The Division's final position on the Middletown LNG facility, was echoed by Paul Roberti, Esq., Assistant Attorney General and counsel for the Division, as follows:

As we laid out in our comments, the Division is of the position that meeting long-term demand on Aquidneck Island at the Navy site selection is the appropriate way for the company to proceed. . . .
[W]e don't have any hesitation that constructing the LNG transfer station at the Navy site is the appropriate way to proceed.

Tr., pp. 235-236 (emphasis added).

FINDINGS

At an open meeting held on June 27, 2001, the Commission considered the evidence presented to determine whether the record supported a conclusion of the need for the Project, and found that such a need is present.

ProvGas examined ten alternative sites for installing a LNG transfer facility. A readily available site is the Company's unused propane injection facility located on Old Mill Lane in Portsmouth. This site has not been used for many years, and the Company testified that it would need to make a \$2 million investment at the site to inject LNG at the facility. Additionally, if ProvGas were to use this facility, it would eventually be necessary to expand the Company's pipeline capacity to take the gas into Newport; this would cost \$1.8 million. ~~Co. Exh. #1 p. 25. Mr. Beland testified that if the Old Mill~~
Lane site were used this winter, the Company would likely manage its existing pipeline capacity on its system for one year without making the additional investment for pipeline expansion. ProvGas noted that it had only a one-year zoning variance from Portsmouth for use of this site, and hence, did not recommend using this facility.

In support of its Amended Application ProvGas presented an economic analysis which indicated that the proposed LNG transfer station would generate cost savings of more than \$15 million dollars over the next ten years when compared with the cost of a

pipeline expansion Project with Algonquin, the interstate pipeline serving the Island. Co. Exh. #1, Tab G. That figure was questioned by the Division. Div. Exh. #1, p. 5.

However, noting that there are “some engineering constraints on the Aquidneck Island system that would mandate that distribution system improvements be under taken before the additional pipeline capacity could be added,” the Division concluded that pursuing a pipeline upgrade did not make economic sense at his time. Id.

ProvGas presented a summary of the cost to construct the LNG transfer station in its Amended Application to the EFSB. Co. Exh. #1, p. 35. The cost amounted to \$3,341,365. However, this amount does not reflect the cost for the easement with the Navy. At the hearing, the ProvGas noted that this cost estimate was still appropriate. Counsel for ProvGas stated that the Navy was proposing a cost of \$263,700 for the easement and that that number was unlikely to change. Tr., p. 63. This would bring the total investment for the Project to approximately \$3.6 million. In response to a Commission record request at the hearing, ProvGas further estimated that \$240,000 in administrative costs were not reflected its filing.

The Division’s comments to the Commission expressed concern with the economics of the proposed LNG facility. The concern centers on the ability of ProvGas to obtain the right to install LNG storage tanks at the site in order to realize maximum economic benefit and reliability from the investment in the proposed transfer station. As presented to the Commission, the Division concluded “... if LNG storage is permitted at the site of the proposed transfer station, the ability of the transfer station to economically serve loads of longer duration would be expanded and the need for pipeline expansion could be substantially deferred. . . . Thus, assurance of the ability to add storage when needed would greatly improve both the long-term economics and reliability of transfer station operations.” Div. Exh. #1, p. 4. The Commission shares the concern of the Division, and feels that ProvGas should use its best efforts to obtain the right to provide LNG storage at the site to improve the long-term economics of the investment.

Although the Commission questions the Company’s estimated growth rate in Aquidneck Island demand of 2.8% and expresses a strong preference for demand projections based upon actual historic data, the Commission concludes that there is a

pressing need for additional capacity to meet the anticipated winter peak demand on Aquidneck Island, which will require additional gas supply for a limited duration. ProvGas' proposal to construct and operate the LNG transfer facility at the Navy site is a reasonable and economically viable means for meeting that need. Consistent with its endorsement of the position presented by the Division, the Commission is of the opinion that ProvGas should make every effort to obtain the right to store LNG at the site by securing the appropriate easement and siting permits. This will enhance the long-term economics of the investment, and allow the Company to defer arranging for the installation of additional pipeline capacity by Algonquin, resulting in a significant savings to the ratepayers.

Accordingly, it is

(16647) ORDERED:

That the Commission finds, after review and due deliberation of the evidence presented in this proceeding, that there is a need for the proposed LNG transfer station and so advises the Energy Facility Siting Board.

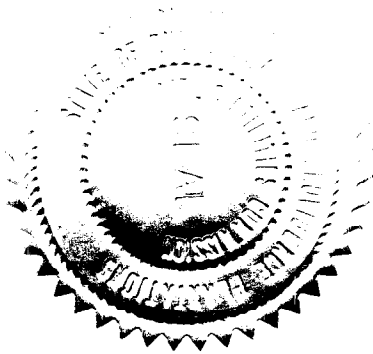
Although this advisory opinion has been issued with an order number, it is not the intention of the Commission to treat it as a final order. It merely represents an advisory opinion to the Energy Facility Siting Board. The order number is included exclusively for record keeping purposes.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 27, 2001,
PURSUANT TO OPEN MEETING DECISION. WRITTEN OPINION ISSUED ON
JULY 2, 2001.

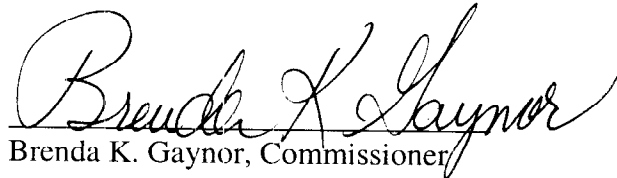
PUBLIC UTILITIES COMMISSION

*

Elia Germani, Chairman



† _____
Kate F. Racine, Commissioner


Brenda K. Gaynor, Commissioner

*Under the provision of R.I.G.L. § 42-98-5(A), the Chairman of the Public Utilities Commission is designated as a member and the Chairman of the Energy Facility Siting Board. Accordingly, Mr. Germani has recused himself from participation in Docket No. 3295.

†Commissioner Racine concurs with this opinion but is unavailable for signature.