The structure of government/regulatory approvals also merits note. In Canada, gas volumes proposed for export must receive an energy removal permit from the producing province and an export licence from the National Energy Board with Governor in Council approval. The export price must be approved by the Governor in Council. Where new facilities are required, a certificate of public convenience and necessity must be issued by the NEB with Governor in Council approval and the NEB must establish tolls and tariffs.

In the U.S., import authorization must be obtained from the Economic Regulatory Administration and approval to pass through imported gas costs in pipeline resale rates from the Federal Energy Regulatory Commission (FERC). If an import project involves pass-through of gas costs by state distributors to specific end-use customers, state public utility commission approval is required. All approval processes on both sides of the border may involve public hearings.

Market Access Impediments and Vulnerability

There are no tariffs associated with Canadian gas exports, however, government and regulatory processes noted above dictate export volumes. Additionally, under Canada's new export policy, gas exports must conform to established criteria relating to price, volume assurances, producer support for the export and enhanced economic return to Canada. The criterion setting a minimum export price equal to the Eastern Canadian wholesale price may serve as an impediment to increased exports as natural gas prices in the U.S. continue to decline.

With Canadian prices rendered increasingly competitive, U.S. producers are beginning to voice concerns over increased Canadian exports at a time when their own production is being shut-in. U.S. producers may seek government initiatives to protect their market.

Two interrelated U.S. regulatory actions may also render Canadian exports vulnerable to declines. The first relates to ongoing FERC rate hearings to determine the appropriate method of incorporating Canadian gas charges into U.S. pipeline tariffs. With Canadian fixed costs incorporated into U.S. pipelines' demand charges and commodity charges listed separately (as is the regulatory practice for U.S. pipeline supply), Canadian gas is highly competitive with U.S. supplies. However, if, as proposed by staff of the FERC, Canadian costs must be included on an average cost basis, Canadian volumes will be much less competitive.

The second regulatory action relates to the FERC's Notice of Proposed Rulemaking (NOPR). The rulemaking, designed to make the U.S. gas industry more competitive, would create pricing blocks for gas depending on vintage. New gas, which would include Canadian volumes, is priced on average above market clearing levels, thus it may not be able to effectively penetrate new markets. In addition, the FERC has asked for comment on whether import prices should be treated on a single part basis, or separated into gas and non-gas costs. The former approach would seriously impede the ability of Canadian supply to compete with U.S. supply. The outcome of the NOPR and the rate hearings should be known by November, 1985.