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Mr. Robert Gray
Senior Economist
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ. 85007

Re: Response of Black Mountain Gas Company (BMG) to the Arizona Corporation Commission's (Commission) Notice of Inquiry regarding policy and action on natural gas infrastructure matters in Arizona.

Dear Bob,

Preface: The Commission's NOI is the result of concerns regarding the future of interstate transportation service from El Paso Natural Gas Company (EPNG) given a restructuring of EPNG's services expected to be implemented later this year. The Commission is also concerned about a number of new natural gas storage projects proposed in Arizona. BMG is a small customer on EPNG and will qualify for EPNG's proposed FT-2 service that will provide essentially the same transportation services BMG currently receives from EPNG. With regard to the storage projects, BMG's has not formed an opinion on any specific project, so our comments are of a general nature only.

Finally, rather than address each of the questions in the NOI separately, BMG is providing a general response to the NOI.

Response:

BMG believes that each utility must consider its specific situation regarding the gas supply and transportation requirements of its customers and make prudent decisions on the best ways to serve those customers. No one mix of services will be the best fit for every company's situation. The Commission will have an opportunity to review and approve the prudence of the portfolio of services selected by a utility under the Commission's fuel cost recovery process and in future rate cases.

With regard to new pipeline or storage services, the utility may only have the opportunity to consider such new services at the expiration of existing service agreements or when expansion of service requirements is being considered. Thus it may take some time before new service options can be added to a utility's portfolio.

Whether a utility chooses to add new supply and/or transport services by direct ownership or through a service agreement is also a choice the utility should be able to make considering the best interests of its customers. Again the utility would still have the obligation to support the prudence of its choices to the Commission in the fuel cost and rate case processes.

The NOI also requested information regarding the need for diversity of pipeline and or storage services. BMG believes the answer to this question is a matter of scale. For a utility that represents a large percentage of the capacity of a facility's capacity, reliability of that facility may be of greater concern than if the utility is a very small percent of capacity. BMG is in the latter category. Given the small size of BMG, it may not be practical to divide up its loads between multiple interstate pipelines or to contract for separate storage services. The administrative costs of multiple services may outweigh the benefits of diversity with no real increase in reliability to utility the size of BMG.

Finally, the Commission requested input about holding workshops to investigate natural gas storage and interstate pipeline issues. BMG believes that additional communications and guidance about the goals and the standards of prudence would be helpful. BMG would be willing to participate in such workshops.

Please feel free to contact me at (480) 488-3402 if you wish to discuss the Black Mountain gas response.

Sincerely,

John Reiber
President
Black Mountain Gas Company