

ARIZONA CORPORATION COMMISSION

UTILITY DIVISION STAFF'S NOTICE OF INQUIRY (NOI)  
ON  
NATURAL GAS INFRASTRUCTURE MATTERS IN ARIZONA

El Paso Natural Gas Company	)	
	)	Comments in Responses to
Copper Eagle Gas Storage, LLC	)	September 10, 2003 Workshop

In response to the invitation of the Arizona Corporation Commission's Utility Division Staff at the Workshop on Natural Gas Infrastructure in Arizona on September 10, 2003 (the "Workshop"), El Paso Natural Gas Company and its wholly owned subsidiary, Copper Eagle Gas Storage, LLC, comes now and provides these comments. For the sake of simplicity in these comments, El Paso Natural Gas Company and Copper Eagle Gas Storage LLC will be collectively referred to herein as "El Paso", unless otherwise noted.

As an initial matter, El Paso wishes to express its appreciation for the opportunity to participate in this discussion of infrastructure matters in Arizona. El Paso is vitally interested in these matters, and while not directly subject to the regulatory jurisdiction of the Arizona Corporation Commission ("ACC"), El Paso recognizes the important role the ACC will play in shaping the nature of the natural gas infrastructure in Arizona.

The Comments provided below follow generally the sequence of issues presented in the "Strawman Proposal" developed by the Utility Division Staff and presented at the Workshop.

Supply/Infrastructure Diversity:

The Strawman Proposal makes a number of comments regarding the desirability and need for diversity of natural gas infrastructure. El Paso believes it is important to identify what are the benefits of diversity, and to discuss how they can be achieved.

If the ACC is using the term “diversity of infrastructure” to mean the avoidance of reliance upon a single physical facility to supply natural gas, El Paso notes that these benefits of such diversity are already in place. The natural gas pipeline facilities of El Paso Natural Gas Company consist of multiple individual pipes. On the southern mainline system alone, the pipeline facilities located directly south of Phoenix consist of five separate pipelines ranging in diameter from 26-inch to 30-inch. The northern mainline systems also consist of multiple individual pipelines, and there are “cross-over” pipeline segments connecting the northern and southern mainline systems.

If the advantage sought by a diversity of infrastructure is access to multiple sources of gas supply, that too is already available. Gas supplies from the San Juan, Permian and Anadarko production basins are connected to the El Paso pipeline system, and other sources of supply can be accessed through pipeline interconnections. This diversity of gas supply could be increased if El Paso’s proposed use of its Line 1903 is supported by shippers and authorized by the Federal Energy Regulatory Commission (FERC), after a certificate application has been filed with the FERC. Line 1903 is a portion of the All American oil pipeline that El Paso acquired in 2000, and is connected to the portion of the line that was previously converted to natural gas service as El Paso’s Line 2000. Line 1903 extends from the terminus of Line 2000 at Ehrenburg in a northwesterly direction toward Daggett and continuing on toward Bakersfield. Line 1903 could connect the El Paso facilities at Ehrenburg to the Kern River pipeline near Daggett, thereby accessing Rocky Mountain production, and could connect to the Mojave pipeline near Amboy, thereby providing additional access to San Juan production.

If the goal of diversity is to allow gas load to shift from one gas infrastructure or entity to another, the ACC should carefully consider the relative costs and benefits associated with such an ability. The ability to shift from one gas infrastructure to another necessarily implies that one system or the other is underutilized, and that the underutilized capacity will be available when the customer decides to shift from one provider to another. Construction of excess capacity is expensive, and is unlikely to result in the most efficient configuration and operation of gas infrastructure.

If the desired benefit of diversity is the ability to meet peaks in gas demand without unmitigated reliance on natural gas pipelines, then it will be important to focus on the possibilities for natural gas storage services. El Paso believes that the Copper Eagle project provides the most promising gas storage project available to the Arizona customers. The Copper Eagle project will be salt cavern storage, which will provide high withdrawal and injection capability. El Paso believes the Copper Eagle project is the most suitable method for meeting the peak daily and hourly loads in the Arizona natural gas market. The Copper Eagle project will be connected to and potentially integrated with the El Paso pipeline, making the benefits of storage available to any customer connected to the El Paso system, and permitting multiple types of storage services. The Copper Eagle project will provide local, market area storage, making the gas withdrawn from storage immediately available to meet peaking requirements.

El Paso believes that in determining the appropriate natural gas infrastructure for Arizona, the diversity concerns addressed above should be considered only as part of a larger examination to select the most efficient, cost-effective and dependable gas infrastructure. The cost effectiveness, efficiency and reliability of the natural gas infrastructure in Arizona can be improved with the type of natural gas storage that can be provided by the Copper Eagle project. The Arizona gas market has shown substantial swings in gas demand on an hourly basis. The actual observed swing in the gas load of a 1500 MW Arizona power plant over a nine hour period in early August of this year was the daily equivalent of 240 Mmcf.<sup>1</sup> The actual observed swing in the gas load of an Arizona LDC over a seven hour period in early February of this year was the daily equivalent of 175 Mmcf. Swings in gas loads of this magnitude are difficult and expensive to satisfy. El Paso believes that if these customers were able to meet some of their peak needs through storage services, the customers could more efficiently, cost effectively and reliably satisfy their requirements for gas delivery services.

El Paso is currently conducting a non-binding open season for the Copper Eagle storage project and is soliciting statements of interest from potential customers on the type(s) of storage related services they would like offered. The Notice of Open Season, which is posted on El Paso's Electronic Bulletin Board, suggests that Copper Eagle could be used to provide Firm and

---

<sup>1</sup> MMcf = million cubic feet per day.

Interruptible Contract Storage Service,<sup>2</sup> No-Notice Service,<sup>3</sup> Hourly Swing Service,<sup>4</sup> or Interruptible Park and Loan Service.<sup>5</sup> The Notice also invites interested customers to describe any other service they would like to see offered.

El Paso believes that these new services, coupled with the diverse gas supplies that can be accessed through El Paso's pipeline system, would effectively and efficiently meet the diversity goals identified in the Strawman proposal.

### Supply/Infrastructure Planning:

The Strawman Proposal recognizes that planning for natural gas infrastructure should occur on a long term basis. At the Workshop, certain impediments to long term planning for infrastructure were noted, both explicitly and implicitly. El Paso agrees that long-term planning is essential and that impediments to long-term planning must be eliminated.

Gas Infrastructure projects take a long time to construct. Before construction can start, regulatory approvals must be obtained. Before a certificate application is filed extensive and expensive engineering design and environmental work must be performed. To support the certificate application, the entity developing the infrastructure project must have executed contracts for the services to be provided by the infrastructure. The result of this time line is that service contracts must be executed substantially prior in time to the need for the services to be provided. In the case of the Copper Eagle project, if an application for a Certificate of Public

---

<sup>2</sup> Provides the Contract Storage customer with firm or interruptible capacity to manage their own supply needs, by storing gas to meet peak demand requirements or by storing gas during slack periods of demand. No pipeline services or transportation are bundled with the stand-alone contract storage service, so customers must arrange for separate transportation in and out of storage under separate agreements.

<sup>3</sup> A combined firm storage and transportation service allowing firm deliveries from storage. This service allows a customer the flexibility to manage unanticipated hourly and daily swings in delivery load on a seamless firm basis, with no prior notice to EPNG. No Notice provides a very flexible and reliable delivery point specific load following storage service.

<sup>4</sup> This is a service offered with Firm Transportation which has defined hourly service rights. This provides shippers with a right to take nominated/scheduled transportation service to a given delivery point in unequal hourly increments within defined limits.

<sup>5</sup> Provides customers the flexibility to address production or market upsets or to levelize temperature sensitive market swings and related daily price volatility. On an interruptible basis, gas is either banked or loaned by EPNG, utilizing storage and other system assets, with the customer generally required to be back in balance in a defined period.

Convenience and Necessity is filed with the Federal Energy Regulatory Commission in the spring of 2004, the first storage cavern of the project will not be able to go into service until early 2007.

One party at the Workshop expressed that infrastructure could and would be built if the customers contract for service from the new infrastructure. El Paso agrees. It is a virtual certainty that given population and industrial growth (including electric generation) in Arizona, customers will contract for new services to support the new infrastructure. What is not certain is whether the contracts will be executed sufficiently in advance of the need for the services to permit the planning, permitting and construction of the new infrastructure in time to provide the service when the need arises.

The ACC should encourage the utilities to conduct long-range planning, and to contract for the services the long range planning reveals will be needed. The planning and contracting practices must build-in the time required after the contract is executed for the planning, permitting and construction of the infrastructure. As the previous discussion has demonstrated, this will likely require the utilities to contract for services substantially in advance of the need for the services, in some cases several years before the service is required. Utilities are understandably reluctant to make such commitments in light of potential changes in market conditions, especially when subject to an after-the-fact review by a regulatory agency. The ACC should provide assurance to the utilities that decisions to contract for capacity which are prudently made given the information available to the utility at that time will not be “second-guessed” by the Commission at a later time with the benefit of subsequent information that was not available to the utility at the time it was required to commit for the services.

#### Cost Recovery/Review:

Costs prudently incurred by Arizona utilities to acquire the services necessary to provide utility services to their customers should be recoverable in the rates charged by those utilities. Of the various cost recovery mechanisms that could be developed, El Paso believes that consistency should be maintained between the recovery of new infrastructure costs and the

recovery of existing infrastructure costs. Where up-stream pipeline charges are recovered through gas-cost recovery mechanisms, El Paso recommends that the cost of new infrastructure be recovered in the same manner.

The recovery of gas supply costs is generally subject to a determination that such costs were prudently incurred. The Strawman proposal states that the ACC anticipates that it will review the prudence of natural gas infrastructure costs using the standard of whether each individual action, and/or the utility's actions taken as a whole, given the specific circumstances at the time, is/are reasonable in light of what the utility knew or should have known at that time. Given the pending need for the development of additional infrastructure to serve Arizona markets, and the required lead time for such projects, El Paso believes the ACC should provide its regulated utilities with additional certainty of cost recovery. As has been discussed throughout these comments, in the case of the new infrastructure, the utility's action (the execution of the contracts) should occur some time before the services will be provided, and the costs are not actually incurred until service commences. If the determination of prudence is not made until the utility is seeking to recover the costs, it is possible that conditions may have changed substantially in the interim period. In such cases it may be difficult to review the decision of the utility without considering facts that were not and could not have been known by the utility at the time it made the decision. Under these circumstances, utilities are reluctant to sign contracts which commit the utilities to expenses far into the future. However, as the previous discussion demonstrated, contracts committing the utilities for expenditures far into the future are exactly what is required to permit the construction of the infrastructure. The resolution of this quandary is the one suggested by several parties at the Workshop, that the utilities should be permitted to present the contracts for future services to the ACC at the time of execution, and to seek a determination of prudence at that time.

#### Conclusion:

El Paso again thanks the ACC for permitting it to participate in this discussion on the natural gas infrastructure needs of Arizona. El Paso also applauds the ACC for taking this proactive role in assuring that the Arizona utilities conduct long-term planning to meet their future

needs. The ACC can play an important role in assuring that long-term planning occurs, and that the Arizona utilities prudently plan for their future needs. The elimination of impediments to long-term planning through the opportunity for timely determinations of prudence can help ensure that Arizona consumers have adequate natural gas service.

El Paso and Copper Eagle stand ready to provide any additional information or assistance to the ACC and/or the Arizona utilities in this process and will continue to participate in these efforts.

Respectfully submitted,  
El Paso Natural Gas Company  
Copper Eagle Gas Storage, LLC

By: s/Mark A. Minich

Judy A. Heineman  
Vice President and General Counsel  
Mark A. Minich, Senior Counsel  
El Paso Natural Gas Company, and  
Copper Eagle Gas Storage, LLC  
2 North Nevada Avenue  
Colorado Springs, CO 80903  
Daniel F. Collins  
Senior Vice President & Deputy General Counsel  
Janice Alperin  
Vice President and Associate General Counsel  
El Paso Corporation  
555 11<sup>th</sup> Street, NW, Suite 750  
Washington, DC 20004  
202-637-3500  
Attorneys for El Paso Natural Gas Company and  
Copper Eagle Gas Storage, LLC

Dated: September 25, 2003