

**ARIZONA CORPORATION COMMISSION  
SPECIAL OPEN MEETING MINUTES**

**DATE:** February 13, 2004

**TIME:** 10:00 a.m.

**PLACE:** Arizona Corporation Commission, 1200 W. Washington St.,  
Hearing Room, Phoenix Arizona 85007

**ATTENDANCE:** Quorum of Commissioners. Chairman Marc Spitzer,  
Commissioner Mike Gleason, Commissioner Kristin Mayes in  
attendance. See attendance list in Attachment I.

**TOPIC:** Notice of Inquiry on Arizona Natural Gas Infrastructure

**MATTERS DISCUSSED:**

Ernest Johnson welcomed those attending the workshop. He recognized the Commissioners attending.

Chairman Spitzer described the Commission's concern about gas supply, infrastructure and price. He informed attendees of the Commission's desire to work on the matter, protecting supply and ratepayers.

Commissioner Gleason asked attendees to give their input in this matter.

Commissioner Mayes thanked Commissioner Gleason for his efforts in the inquiry.

Ernest Johnson mentioned that the policy statement and agenda were available to attendees. He also thanked those presenting and introduced Bob Gray as the moderator.

Staff summarized the Notice of Inquiry and summarized the events occurring to date related to the Notice of Inquiry. Bob then reviewed a report by the National Petroleum Council and invited comments on the report.

Chairman Spitzer remarked that there is currently discussion of gas being constrained and asked if there's been a fundamental change to industry since 1982 when gas was thought to be plentiful.

Staff agreed that changes have occurred and asked comment from the audience.

A representative of Southwest Gas explained that there are a lot of potential sites for gas drilling that can't be developed. He remarked that the Commission's policy statement was an excellent step toward what is needed.

Commissioner Gleason asked if it's politically difficult to develop untapped gas due to environmental concerns.

The representative of Southwest Gas replied that any time a rig appears that could be seen problems arise.

Staff moved on to updates on gas projects. Bob explained that the order of presentations was selected at random, and introduced Mark Minich of El Paso Corporation Western Pipelines Division as the first presenter.

The El Paso representative thanked Bob and the Commissioners for the opportunity to speak. He explained El Paso's presence and infrastructure in Arizona and the basins that El Paso draws from. He commented that gas load has risen due to generation load and volatility will therefore increase. He then summarized the 1903 project near Ehrenberg and the Copper Eagle Storage project emphasizing its safety features and use in mitigating volatility.

Chairman Spitzer asked when gas could go into storage at Copper Eagle, assuming the project is completed as scheduled.

El Paso's representative responded that it could take gas in 2007.

Chairman Spitzer asked for an explanation of federal preemption as it relates to the project.

El Paso's representative responded that the Federal Energy Regulatory Commission (FERC) gives deference to local communities, however, El Paso anticipates that FERC will preempt local law if they find it appropriate and decide to proceed.

Commissioner Gleason asked how essential is it for storage to be located where it is currently considered, or alternatively if it could be sited elsewhere.

El Paso's representative replied that the planned site is the most effective location for the facility due to proximity to the gas fired generators and the existence of the salt deposit there.

Commissioner Mayes asked if the policy statement had any effect on El Paso's open seasons.

El Paso's representative replied that he wasn't sure regarding the 1903 project and for Copper Eagle lots of people respond who don't later commit to the project.

Staff then introduced Kevin Hyatt representing Transwestern Pipeline Company. He reviewed their current capacity and proposed project. He indicated that the project could

be completed in about an 18 months and is cheap as it makes use of existing facilities. Kevin also discussed price of gas from various basins and reserve size. Transwestern's representative suggested that the Commission consider use of condemnation rights, as Iowa does, in siting new pipes.

Chairman Spitzer explained that in Iowa condemnation is carried out through legislation and is not feasible in Arizona.

Commissioner Mayes asked for more information regarding the location of the proposed project and asked Kevin if Transwestern would, for instance, support 'quick take authority' for lines going through Oak Creek Canyon.

Transwestern's representative responded that he did support quick take for places where there are utility corridors already.

Staff introduced Sempra Energy represented by Jim Schoene.

Sempra's representative described Sempra's plan for a Liquid Natural Gas (LNG) facility. He explained that the advantage of the project is that it brings new infrastructure and a new supply source. Sempra expects service by third quarter of 2007 when the LNG port is complete.

Commissioner Gleason asked if Sempra agreed with data indicating that Transwestern's plan delivers the cheapest possible gas.

The representative of Sempra responded that its plan is more competitive as it brings new supply and existing basins can only become more constrained.

Commissioner Gleason asked for comments about how foreign governments may make supply of LNG unreliable.

The representative of Sempra responded that there is some concern for the influence of foreign governments, however, he felt confident that supply is something that we can count on.

Commissioner Mayes asked what areas of the Pacific Rim, or other regions, would gas come from.

The representative of Sempra responded that gas could come from Russia, Indonesia, Malaysia, South America, and Alaska.

Staff introduced Lorraine Lindberg of Kinder Morgan. Lorraine described the Silver Canyon pipeline including its market, supply basins, pipeline layout, and project timeline. She stressed that cost recovery and preapproval is critical.

Commissioner Mayes asked if the company had a plan to take the line through Oak Creek Canyon.

Kinder Morgan's representative responded that she wasn't sure, but would work with everyone to cause the least damage.

Commissioner Mayes suggested that she should investigate the matter and communicate with Oak Creek Canyon's local leaders about the project.

Commissioner Gleason asked if FERC decides on the location of pipes.

Kinder Morgan's representative described the decision process.

Chairman Spitzer asked if FERC does listen to local residents and leaders and take their input

Commissioner Gleason remarked that ultimately it's not our decision.

Kinder Morgan's representative agreed that it was not a local decision, but that FERC will take local thoughts into consideration.

Commissioner Mayes communicated an expectation for Kinder Morgan to account for having contacted officials of Oak Creek Canyon and Sedona in the cost approval process.

Staff introduced Rex Bigler of Unocal.

Unocal's representative described the Keystone project and its benefits. He explained that storage is necessary to Arizona as it is a long way from supply in Texas.

Staff introduced Stan Curry of the Red Lake project.

Red Lake's representative described the project and its relationship the surroundings. Stan explained that FERC denied market based rates. Red Lake decided to put the project up for sale rather than proceed. Finally, he explained what steps would follow should the project proceed.

Break from 11:40 to 12:05

Staff then moved to issues for discussion and began with item A. Bob asked if the Commission should have a hearing process or another kind of process.

The representative of Southwest Gas suggested considering something other than a hearing due to confidentiality considerations.

Commissioner Gleason asked if it could be carried out in staff meetings.

Ernest Johnson suggested that something such as a staff meeting may not be appropriate. He suggested one goal may be to pursue use of tariff item that doesn't go through a hearing process.

Staff asked for other thoughts on the matter, specifically what kinds of public input opportunity should be used for any approval process.

Commissioner Mayes suggested that there should be some opportunities for cities and towns to weigh in.

Staff moved to item B asking what should be included in the application.

Ernest Johnson referenced some of the comments from Southwest Gas from the Notice of Inquiry proceedings.

The representative of Southwest Gas responded with the following suggestions for items to be included in applications: subject and timeline of project, benefits of the project, expectation of when the project will return benefit, impact on customer's rates. Rate treatment proposal would also be included.

A representative of APS responded that APS supports Tom's comments and the features he mentioned. She would also add safety and environmental impact. For rate recovery APS would expect recovery either through and adjustor or through base rates. We're looking for capacity so we'd treat it as if it were transportation and put it through an adjustor.

Ernest Johnson read from previous APS comments submitted regarding cost recovery.

The APS representative mentioned that projects need commitments from shippers two or three years in advance of the project to fund it. She included that circumstances can change during that period of time.

Commissioner Gleason added that change in FERC's rate could change the prudence as well.

Ernest Johnson asked Southwest Gas for a reaction to comments submitted by APS regarding preapproved costs not being reconsidered at a later date.

The representative of Southwest Gas replied that commitment for recovery was necessary when there was a long term project investment.

Staff asked Southwest Gas if it contemplated that the use of capacity could or could not be scrutinized later.

The representative of Southwest Gas responded that the Commission should review release capacity for instance, but the basic concept of the cost should be preapproved.

Ernest Johnson asked if any company felt it was appropriate to include in an application discussion of projects that were considered and rejected.

The representative of Southwest Gas replied that comparisons were sometimes ‘apples and oranges’ and we can’t for instance compare storage to pipeline.

Commissioner Gleason asked about the builder’s interest in the process.

The representative of Southwest Gas responded that the builder would also work alongside the company in the approval process.

Ernest Johnson asked if 90 days is problematic.

The representative of Southwest Gas responded that there should be some kind of guarantee as the 3 month Commission approval process is in addition to the 18 month FERC process.

Ernest Johnson asked if discussion with the Commission prior to filing would be helpful.

The representative of Southwest Gas responded that it would be helpful.

Paul Walker communicated a desire from the Chairman’s office for inclusion of 3 aspects in any application: operational benefits for the company, how it affects revenue stability for the company, and how the risk reduction benefits the company.

Staff moved to item C and asked for input about the Kansas process or other state processes. He also asked if a 90 day process is workable.

Someone responded that 90 days could be problematic as the producer would probably be considering alternative projects at the same time.

The representative of Southwest Gas remarked that they had entered into an interstate process where they would build a pipe for a customer and had asked for cost approval prior to building. It was very difficult as the approval process took a long time.

Staff commented that NARUC had conducted and released a study on the matter of preapproval. The study addresses what measures have been taken by states who have had some form of preapproval.

Staff moved to item D and asked if there was anything we should or should not consider.

The representative of Southwest Gas discussed the matter of revealing sensitive information through the process.

Staff moved to item E, Development of a performance standard.

No discussion.

Staff moved to item F, Alternate cost recovery mechanisms.

Paul Walker remarked that the Chairman's office was concerned that the process may introduce inequalities or bias to put in pipe or storage for those who have adjustors vs. those who don't. He asked that thought be given to the matter.

Staff moved to item G, other issues.

Commissioner Gleason commented that the workshop had been productive.

Staff asked if anyone had objections to putting the presentations on the website.

Ernest Johnson thanked everyone for their participation.

Workshop adjourned at 12:55

## **Attachment I**

Attendees at the Track B Workshop  
On February 13, 2004

Chairman Marc Spitzer  
Commissioner Mike Gleason  
Commissioner Kristin Mayes  
Garry Hays, Executive Aide  
Adam Stafford, Executive Aide  
Dean Miller, Executive Aide  
Paul Walker, Executive Aide  
Ernest Johnson, Director Utilities Division  
Bob Gray, Commission Staff  
Steve Irvine, Commission Staff  
Jerry Smith, Commission Staff  
Caroline Butler, Commission Staff

Tom Armstrong  
Judith Barleycorn  
Randy Bee  
Pat Black  
Jana Brandt  
Curt Brechtel  
Laurie Brown  
Tom Carlson  
David Couture  
Walter Bray  
Gary Crane  
Gary Duede  
Penny Eckert  
Ed Giesecking  
Michael Grant  
David Hutchens  
Jeff Jacobson  
Richard Jordan  
Norman Kue  
Lynne L'Esperance  
Lorraine Lindberg  
Craig Marks  
John McVay  
Walter Meek  
Mark Minich

Bill Moody  
Ernie Nedd  
Greg Patterson  
Karilee Ramaley  
Bill Rigsby  
Randy Sable  
Jim Schoene  
Gary Smith  
Bill Tobin  
Mike Warner  
Barb Wytaske