

Summary of Responses to ACC Notice of Inquiry on Natural Gas Infrastructure

<p>Question 1. Should the Commission develop formal or informal policies regarding the use of natural gas storage by Arizona utilities?</p>
<p>Arizona Electric Power Cooperative - While formal guidelines may provide unneeded rigidity, the ACC should encourage the development and use of storage projects when economically and operationally justified.</p>
<p>Arizona Consumers Council - Only if the ACC puts in necessary safeguards.</p>
<p>Arizona Public Service - The ACC should foster an environment that encourages the development of storage facilities in Arizona consistent with recognition FERC's primary jurisdiction in pipeline and storage facility regulatory matters.</p>
<p>Black Mountain Gas - The ACC should recognize that for small utilities such as BMG, it may be difficult to commit to multiple pipelines and storage services.</p>
<p>Citizens Communications - General guidelines would be more useful than formal policies at this time.</p>
<p>City of Mesa - Current circumstances provide an opportunity for devising strategies and policies which will benefit Arizona consumers.</p>
<p>Copper Eagle Gas Storage - While FERC has jurisdiction over gas storage facilities, the ACC should encourage the development of gas storage facilities through formal or informal policies.</p>
<p>Kinder Morgan - The ACC should develop formal policies which provide a flexible framework to prudently acquire storage and associated transportation services.</p>
<p>North Baja Pipeline – No response.</p>
<p>Red Lake Gas Storage - The ACC should adopt and apply policies similar to its policies on the acquisition of other fuels and transportation services.</p>
<p>Reliant Energy - Clear ACC policies encouraging natural gas storage facility development would be highly constructive.</p>
<p>Salt River Project - The ACC should encourage interested parties to form a consortium, similar to the Central Arizona Transmission Study (CATS), to study possible infrastructure needs. After the study the ACC could establish guidelines that take into consideration the study's conclusions.</p>
<p>Sempra Energy Services - Any ACC action should recognize FERC jurisdiction and should any policies should be coordinated with FERC policies and decisions.</p>
<p>Southwest Gas - Development of formal or informal policies could benefit both utilities and consumers.</p>
<p>Southwestern Power Group II - Any ACC action should recognize FERC jurisdiction and should any policies should be coordinated with FERC policies and decisions.</p>
<p>Transwestern Pipeline - Yes, the ACC should develop formal policies. Such policies should not advantage or disadvantage natural gas in comparison to other energy services and costs should not be unnecessarily increased for utilities or customers.</p>
<p>Wellton-Mohawk Generating Facility - Yes. Development of gas infrastructure is a critical issue in Arizona. While FERC has jurisdiction over such facilities, the ACC can be active in FERC proceedings and can use new or existing policies to support development of infrastructure.</p>

Question 2. Should natural gas storage use by electric utilities be viewed and treated differently than natural gas storage used by natural gas local distribution companies? Please explain.
Arizona Electric Power Cooperative - Yes, due to different storage and usage patterns.
Arizona Consumers Council - There are some differences in the use of storage by natural gas and electric utilities.
Both electric and natural gas utilities benefit from gas storage and neither should have priority over gas supply or facilities.
Black Mountain Gas - No response.
Citizens Communications - While operational differences exist between electric and natural gas companies, they pursue similar cost and reliability goals. They should be viewed and treated similarly, taking into consideration company differences.
City of Mesa – No response.
Copper Eagle Gas Storage - The ACC should address recovery of prudent costs incurred by jurisdictional utilities.
Kinder Morgan - No. The ACC should develop flexible policies which allow utilities to acquire storage services to meet their needs.
North Baja Pipeline – No response.
Red Lake Gas Storage - While electric generators have different usage characteristics, both electric and natural gas utilities can benefit from storage services.
Reliant Energy - ACC policies on gas storage should recognize the load and operational differences between electric and natural gas utilities.
Salt River Project - There are differences in how electric and natural gas utilities use storage and any policies should reflect these differences.
Sempra Energy Services - The ACC should ensure that any policy initiatives it undertakes recognize the impacts on both natural gas and electric customers, given the increasing reliance on gas-fired electric generation.
Southwest Gas - There are both similarities and differences in how natural gas and electric utilities would use gas storage.
Southwestern Power Group II - The ACC should ensure that any policy initiatives it undertakes recognize the impacts on both natural gas and electric customers, given the increasing reliance on gas-fired electric generation.
Transwestern Pipeline - Both types of utilities use storage for similar reasons, including to manage its gas costs and to provide gas supply when pipeline availability becomes restricted.
Wellton-Mohawk Generating Facility - No. While electric and natural gas utilities use storage in different ways, there is no reason to treat them differently.

Question 3. What issues should the Commission address in creating any Commission policy on natural gas storage?
Arizona Electric Power Cooperative - The main issue is FERC's actions to take away full requirements rights, resulting in greatly reduced operational flexibility. FERC's jurisdiction should be recognized, but the ACC should provide input.
Arizona Consumers Council - Issues include the location of storage facilities, sufficiency of gas supply to Arizona, and price impacts of new facilities.
Arizona Public Service - The most significant issue is cost recovery, including both the pass through of FERC approved costs and costs not covered by FERC policies.
Black Mountain Gas – No response.
Citizens Communications - If the ACC approaches storage in a traditional manner, it should address its expectations for utility use of storage, the basis for judging prudence of acquisition and operation of storage, and the allocation of costs between regulated and non-regulated functions. Alternatively the ACC could provide economic incentives for using storage.
City of Mesa – No response.
Copper Eagle Gas Storage - Gas storage should be considered as part of a utility's resource portfolio. Public education would be useful. If the ACC thinks a project is in the public interest, it should support it at FERC. The ACC should provide for cost recovery.
Kinder Morgan - The ACC should provide a pre-approval process to provide utilities with some measure of certainty on cost recovery. ACC policies should recognize the importance of reliability, flexibility and cost effectiveness of transportation services related to storage.
North Baja Pipeline – No response.
Red Lake Gas Storage - The ACC should review how issues are address by Texas, Michigan, and northeastern states.
Reliant Energy - Issues include: funding of project development and operations, requirements for use of storage, concerns over lack of investor confidence in the construction of energy infrastructure, and cost allocation and rate design.
Salt River Project - Issues include project funding, cost recovery, minimum requirements for storage, and acceptable alternatives to storage. A CATS type study would explore these and other issues.
Sempra Energy Services – No response.
Southwest Gas - Issues include cost, market volatility, reliability, and safety. Potential oversight conflicts with FERC should be considered. Another possible storage option to consider would be virtual storage.
Southwestern Power Group II – No response.
Transwestern Pipeline - Pipeline availability is important to consider when evaluating gas storage. New infrastructure is needed to serve all of the interests competing for gas supplies.
Wellton-Mohawk Generating Facility - The fast growth of demand for natural gas in Arizona needs to be considered. Reliability and cost benefits should be considered. Other issues could be consistency with existing responsibility and jurisdiction of parties, policy oversight costs, and use of existing processes to provide oversight.

Question 4. If Arizona utilities utilize natural gas storage, how should the Commission address the recovery of costs for such storage and what costs should be considered?
Arizona Electric Power Cooperative - All costs, including reservation, inventory, injection, and withdrawal charges should be recoverable, as wholesale gas costs are. Mechanisms could be through an adjustor, periodic reviews, or some other method which provides timely recovery.
Arizona Consumers Council - The impact on rates should be considered and such projects may need to be viewed as a long term investment.
Arizona Public Service - Storage costs should be treated in the same manner as gas transportation costs, recovering them through an adjustor mechanism.
Black Mountain Gas - Utilities should be free to make supply and transport choices. The ACC can review these decision as part of its cost review and rate case processes.
Citizens Communications - Under a traditional approach the utility should be given the reasonable opportunity to recover prudent costs. Under an incentive approach there are a variety of mechanisms to incent the development of storage.
City of Mesa – No response.
Copper Eagle Gas Storage - The ACC needs to consider a variety of factors and benefits, both short term and long term, in evaluating the recovery of costs.
Kinder Morgan - The ACC should provide a cost recovery mechanism which enables utilities to recover all prudent costs on a timely basis. Incentive or performance based mechanisms could be considered.
North Baja Pipeline – No response.
Red Lake Gas Storage - Storage charges include monthly demand and usage charges and should be recovered through a utility's adjustor mechanism. The ACC should ensure full cost recovery and encourage long term contracts.
Reliant Energy - Prudently incurred costs related to constructing, operating, and owning a storage facility should be added to a utility's rate base and should earn an appropriate rate of return. If utilities contract with a third party for storage, those costs should be treated as a cost of service item.
Salt River Project - The ACC should allow recovery of prudently incurred storage related costs through an adjustor mechanism.
Sempra Energy Services - Storage costs should be addressed in the same manner as pipeline capacity costs. Additionally, costs should be allocated to customer class based upon who causes the costs to be incurred.
Southwest Gas - Cost recovery should be addressed in the same way it is addressed for pipeline capacity, with costs being recovered through the gas cost component of rates.
Southwestern Power Group II - Storage costs should be addressed in the same manner as pipeline capacity costs. Additionally, costs should be allocated to customer class based upon who causes the costs to be incurred.
Transwestern Pipeline - Gas services should not be placed at an advantage or disadvantage to other energy services.
Wellton-Mohawk Generating Facility - The ACC should ensure that existing cost recovery mechanisms for gas and electric utilities allow recovery of prudent costs.

Question 5. Should the Commission encourage the use of natural gas storage for addressing natural gas price volatility, reliability of natural gas supply and/or other possible goals of natural gas storage? Please indicate which goals should be pursued as well as the relative importance of each goal.
Arizona Electric Power Cooperative - All these goals should be encouraged, with the relative importance varying by utility, time of year, and operational circumstances.
Arizona Consumers Council - Natural gas storage should lessen price volatility and enhance reliability and safety.
Arizona Public Service - The ACC should encourage gas storage use to promote reliability, price volatility mitigation, competition, and environmental/clean air initiatives. The ACC should consider a pre-approval process for Arizona utilities as they pursue gas storage.
Black Mountain Gas – No response.
Citizens Communications - The ACC should encourage utility actions which will enhance reliability and economy of gas supply. Reliability is perhaps the most important, especially given Arizona’s reliance on a single pipeline and lack of existing storage facilities.
City of Mesa – No response.
Copper Eagle Gas Storage - The ACC should encourage use of natural gas storage to meet the goals of reliability, management of volumetric and price risk, and lower costs to the consumer. All these goals should have equal weight.
Kinder Morgan - The ACC should encourage utilities to acquire storage services and associated transportation which will lead to benefits including competitive prices, price volatility management, and enhanced flexibility.
North Baja Pipeline – No response.
Red Lake Gas Storage - Storage has a wide variety of benefits, including enhanced reliability, reduction of supply costs, reduced price volatility, the ability to supply gas to other entities, force majeure protection, and better sizing of transportation facilities.
Reliant Energy - Gas storage can serve as a buffer against price volatility and supply reliability. This improves power supply and reduced power cost volatility, which should be a primary goal of the ACC, ACC policies should also work toward restoring investor confidence.
Salt River Project - The primary goal should be supply reliability, with storage being one of a number of tools to ensure reliable gas supplies. Storage does provide other benefits, such as reducing price volatility.
Sempra Energy Services – No response.
Southwest Gas - The Commission has an existing recognition of price stability as a goal in the gas procurement process. Gas storage is one of a number of options available to achieve that goal, taking into consideration other goals in the procurement process, such as cost, reliability, and flexibility.
Southwestern Power Group II – No response.
Transwestern Pipeline – No response.
Wellton-Mohawk Generating Facility - The ACC should encourage actions which mitigate price volatility, enhance reliability, meet incremental fuel requirements, and other goals, recognizing that the need for storage and other options will vary by utility and change over time.

Question 6. How should the Commission address the goal of maximizing customer benefits from natural gas storage while minimizing the cost to consumers of utilizing such storage?
Arizona Electric Power Cooperative - The ACC should recognize that prudently incurred storage costs are a price to be paid for overcoming the constraints created by the pending loss of full requirements rights on the El Paso pipeline system.
Arizona Consumers Council - This is difficult to determine, but possible options are the introduction of competition and the use of long-term contracts.
Arizona Public Service - Greater assurance of cost recovery will allow economical financing of gas storage projects. An active role by the ACC at FERC will help move projects forward.
Black Mountain Gas – No response.
Citizens Communications - Providing positive incentives will give the highest probability of providing the greatest value to customers. This decision is the most important policy choice for the ACC in this matter.
City of Mesa – No response.
Copper Eagle Gas Storage - Two policies would be beneficial. The ACC should facilitate quick and certain prudency reviews. Natural gas infrastructure development needs to be planned and built in advance of its need.
Kinder Morgan - The ACC should not develop policies which are restrictive and have excessive oversight which would stifle the utilities' ability to develop timely and responsive plans.
North Baja Pipeline – No response.
Red Lake Gas Storage - Storage consistently reduces the overall energy costs for any utility.
Reliant Energy - Customers should be able to contract for services they need, which will vary based upon a number of factors.
Salt River Project - Through a CATS type study, as described in the response to question one, the goals of maximizing customer benefits and minimizing costs can be addressed.
Sempra Energy Services – No response.
Southwest Gas - Southwest structures its gas supply portfolio to address the sometimes conflicting goals of reliability/flexibility, price stabilization, and cost minimization. Gas storage will be considered as part of the overall procurement strategy.
Southwestern Power Group II – No response.
Transwestern Pipeline – No response.
Wellton-Mohawk Generating Facility - Costs and benefits of storage facilities should be considered over time, with short term evaluations being avoided. The ACC should take into consideration the specific operating requirements of storage facilities.

Question 7. How does the use of natural gas storage relate to other methods of reducing price volatility, such as the use of longer term supply contracts and financial hedging?
Arizona Electric Power Cooperative - Storage addresses the two main objectives of supply availability and cost and should be used, along with other tools, in an overall strategy.
Arizona Consumers Council - Natural gas storage and long term contracts are beneficial if prices are reasonable. Another hedge would be to use other energy sources, such as clean coal, oil, sun, and new technologies.
Arizona Public Service - Storage is another tool to address price volatility and provides Arizona with a locational advantage, enhances deliverability, and may decrease the cost of gas supplies.
Black Mountain Gas – No response.
Citizens Communications - The physical aspect of gas storage differentiates it from other forms of hedging. Other forms of hedging are generally subject to a higher level of commercial and technical risk.
City of Mesa – No response.
Copper Eagle Gas Storage - Use of storage will increase the value and decrease the cost of other hedging strategies. Storage addresses reliability in a way other hedging strategies do not.
Kinder Morgan - Financial hedging and long term contracts should be considered along with storage as tools to be used in forming a supply portfolio.
North Baja Pipeline – No response.
Red Lake Gas Storage - Responsible financial hedging requires use of storage. Storage is actually a form of hedging, with a variety of cost benefits.
Reliant Energy - Financial hedging, long term contracts, and gas storage all reduce price volatility, but each has its limitations.
Salt River Project - Financial hedging, long term contracts, and storage all are tools to reduce price volatility, but storage has the added benefit of providing a ready supply of gas when peak demands exceed pipeline capacity.
Sempra Energy Services – No response.
Southwest Gas - Storage differs from long term contracts and financial hedging in many ways. Southwest’s comments contain a table summarizing the similarities and differences.
Southwestern Power Group II – No response.
Transwestern Pipeline - While long term contracts and financial hedging help address gas price risk, they do not address physical gas deliverability.
Wellton-Mohawk Generating Facility - Storage can be important as part of a utility’s gas supply portfolio. Financial hedging, long term contracts, and storage all can address price volatility, at a cost.

Question 8. Is there a relationship between the use of natural gas storage and what interstate pipeline capacity rights a utility holds? And if so, how should the Commission address this relationship?
Arizona Electric Power Cooperative - This has been addressed in other AEPCO responses. The ACC should continue to strongly advocate the cause of Arizona consumers.
Arizona Consumers Council - It would depend upon the terms of individual contracts and other factors.
Arizona Public Service - There is not necessarily a relationship, as utilities should use an optimal combination of storage and capacity based on various factors. The ACC should encourage FERC to implement the ability to “segment” on the El Paso system, per Order 637, as soon as possible.
Black Mountain Gas – No response.
Citizens Communications - Use of gas storage can reduce the need for pipeline capacity, subject to case-by-case circumstances.
City of Mesa - The location of natural gas storage facilities and pipelines is important.
Copper Eagle Gas Storage - There is a relationship between storage and pipeline capacity, as storage capacity may enable a utility to reduce its dependence on pipeline capacity.
Kinder Morgan - Yes. Acquisition of storage facilities should be in concert with acquisition of adequate transportation capacity. Pipelines may also provide flexibility which may to some extent alleviate the need for storage services.
North Baja Pipeline – No response.
Red Lake Gas Storage - Storage enables utilities to “right size” their firm transportation rights, particularly for the worst-case weather day when the utility can meet their peak needs through storage rather than holding additional pipeline rights.
Reliant Energy - It is likely that the availability of market area gas storage will enable a utility to reduce its needs for pipeline capacity.
Salt River Project - Storage can replace the need for peaking transportation requirements, subject to each utility’s specific circumstances.
Sempra Energy Services - The ACC should not adopt any policies or practices that would interfere with normal, FERC-approved contracting practices or anything that would provide a preference to natural gas customers over electric customers.
Southwest Gas - Yes. Pipeline capacity is needed to make use of storage, but having storage rights may reduce the need for pipeline capacity. The appropriate mix will depend on the individual circumstances of each utility.
Southwestern Power Group II - The ACC should not adopt any policies or practices that would interfere with normal, FERC-approved contracting practices or anything that would provide a preference to natural gas customers over electric customers.
Transwestern Pipeline - Yes. Pipeline capacity is used to fill storage and withdraw from storage as price, demand and other factors dictate.
Wellton-Mohawk Generating Facility - Yes. Gas storage should enable a utility to reduce its need for pipeline capacity.

Question 9. What monitoring, reporting, and evaluation should the Commission undertake in regard to Arizona utilities' use of natural gas storage?
Arizona Electric Power Cooperative - The ACC should proactively advocate the installation of natural gas storage. Annual summary reports could be submitted by jurisdictional utilities.
Arizona Consumers Council - Issues to be considered include facility size and how storage capacity is used.
Arizona Public Service - The ACC should use the same monitoring, reporting, and evaluation policies it currently uses for utilities' pipeline capacity.
Black Mountain Gas – No response.
Citizens Communications - This depends on the policies which are formed on natural gas storage.
City of Mesa – No response.
Copper Eagle Gas Storage - The ACC should provide favorable treatment for storage costs.
Kinder Morgan - One option would be to have utilities periodically file gas resource plans, which could be used to evaluate and benchmark utilities' supply portfolio purchases.
North Baja Pipeline – No response.
Red Lake Gas Storage - There should not be much additional reporting required. Arizona utilities should report on storage in a manner similar to current reporting on transportation.
Reliant Energy - The ACC should monitor the level of gas storage at certain time of the year. Utilities should be given operational discretion, but periodic targets should be developed.
Salt River Project - The ACC may want to encourage utilities to establish a minimum level of operational reserves.
Sempra Energy Services – No response.
Southwest Gas - The ACC's review of gas storage activity should be incorporated in its usual review of gas purchasing activities.
Southwestern Power Group II – No response.
Transwestern Pipeline – No response.
Wellton-Mohawk Generating Facility - The ACC does not need to take a role in evaluating the use of storage facilities by utilities, other than through existing cost recovery mechanisms.

Question 10. Should the Commission develop formal or informal policies regarding the use of interstate pipelines by Arizona utilities? If so, what areas should such policies address?
Arizona Electric Power Cooperative - It is difficult to identify such new policies, but the ACC should continue its valuable participation in FERC proceedings.
Arizona Consumers Council - It depends on how enforceable policies are and the time commitment to enforce policies.
Arizona Public Service - The ACC should develop consistent policies which encourage pipeline development, reduce reliance on a single pipeline, and make Arizona less vulnerable to external factors.
Black Mountain Gas – No response.
Citizens Communications - It would be beneficial for the Commission to develop policies on gas storage and pipelines at the same time, with general guidelines possibly yielding to more formal policies later.
City of Mesa – No response.
Copper Eagle Gas Storage – No response.
Kinder Morgan - The ACC should develop formal policies which encourage utilities to explore pipeline capacity alternatives which will address the each utility’s specific needs.
North Baja Pipeline - Informal policies are preferable to formal, rigid policies which do not provide flexibility. Issues to address include reliability standards, criteria for firm capacity holdings, cost allocation, and rate treatment for pipeline charges.
Red Lake Gas Storage – No response.
Reliant Energy - The ACC should monitor all utility activities involving storage. Utilities should be required to release pipeline capacity and storage capacity which is not needed. End use status should be considered if curtailment is needed.
Salt River Project - The ACC should generally support new interstate pipelines, but specific policies on pipeline use would be inappropriate.
Sempra Energy Services – No response.
Southwest Gas - To the extent the ACC has concerns with utilities’ acquisition of gas transportation, those areas of concern could be addressed in workshops.
Southwestern Power Group II – No response.
Transwestern Pipeline - Multiple interstate pipelines with access to diverse supply sources provide greater reliability and ultimately will reduce consumer costs. ACC polices should recognize this.
Wellton-Mohawk Generating Facility - While use of pipelines by Arizona utilities should be a utility management decision, the ACC can encourage the development of infrastructure through its cost recovery policies.

Question 11. Are there ways the Commission could encourage use of interstate pipelines in ways that would enhance the reliability and reduce the cost of natural gas service in Arizona?
Arizona Electric Power Cooperative - Alternative pipeline projects and storage projects should be encouraged and assisted in Arizona to address existing service quality problems and the growth of natural gas demand in Arizona.
Arizona Consumers Council - There is little the ACC can do to force pipelines to serve Arizona, but possibly could pursue the goal through CC&Ns, price caps, or requiring the use of alternative fuels.
Arizona Public Service - Additional pipelines and storage facilities will ultimately enhance reliability and reduce costs. Prompt review and assurance of cost recovery is important. ACC support at FERC for projects would be beneficial.
Black Mountain Gas – No response.
Citizens Communications - The integration of gas storage in a utility’s gas transportation plans can increase reliability and lower overall costs.
City of Mesa - No response.
Copper Eagle Gas Storage – No response.
Kinder Morgan - ACC policies should demonstrate a commitment to new pipeline infrastructure alternatives. The ACC should consider performance or incentive based mechanisms.
North Baja Pipeline - See response to Question 16.
Red Lake Gas Storage - No response.
Reliant Energy - The ACC should create an environment which encourages competition.
Salt River Project - The ACC should encourage new gas infrastructure. Formation of a consortium, as previously discussed would be useful, as would the ACC’s active participation at FERC.
Sempra Energy Services – No response.
Southwest Gas - The Commission has supported and should continue to encourage development of competitive pipeline alternatives and flexible pipeline services.
Southwestern Power Group II – No response.
Transwestern Pipeline - The ACC should encourage diversification of supply and transportation. One way is to provide assurances to utilities that prudent costs will be recovered. Another way is to help address obstacles that slow or inhibit construction of facilities.
Wellton-Mohawk Generating Facility - The ACC should encourage pipeline capacity additions that minimize cost over time, subject to reliability objectives.

Question 12. How should the Commission balance goals such as reliability, cost, portfolio diversity, and operational flexibility as it considers the use of interstate pipeline facilities by Arizona utilities?
Arizona Electric Power Cooperative - Despite possible small short term cost increases, the ACC should encourage diversity in utilities transportation portfolios to provide long term cost, reliability, and operational flexibility benefits.
Arizona Consumers Council - Encourage the use of diverse fuels consistent with cost and environmental standards.
Arizona Public Service - The market will generally dictate when new pipeline facilities are needed. Prompt recovery of prudently incurred costs would enhance pipeline capacity investment.
Black Mountain Gas – No response.
Citizens Communications - The ACC should develop reliability standards relative to natural gas infrastructure and then challenge utilities to meet such requirements at the lowest possible cost.
City of Mesa – No response.
Copper Eagle Gas Storage – No response.
Kinder Morgan - The ACC should not try to create a generic order of priority for these goals but rather should assess their importance on a case by case basis.
North Baja Pipeline – No response.
Red Lake Gas Storage - See response to Question 16.
Reliant Energy - The ACC must weigh the benefits of a diverse portfolio with the cost of additional pipeline facilities.
Salt River Project - These issues should be addressed on a utility-specific basis, recognizing each utility’s unique circumstances.
Sempra Energy Services – No response.
Southwest Gas - See response to question five.
Southwestern Power Group II - No response.
Transwestern Pipeline - Reliability and operational flexibility require access to diverse supply sources. Ideally a combination of increased pipeline capacity linked to storage facilities.
Wellton-Mohawk Generating Facility - Utilities should be allowed to best determine how to use gas infrastructure to best address procurement process goals. The ACC could periodically review such plans.

Question 13. Previously the Commission has recognized the benefit of having Arizona local distribution companies have a diversified gas supply portfolio. Should the Commission encourage Arizona utilities to diversify their sources of interstate pipeline capacity, rather than relying on a single interstate pipeline for all pipeline capacity?
Arizona Electric Power Cooperative - See prior responses.
Arizona Consumers Council - Yes. Diversification can keep prices down and supplies adequate.
Arizona Public Service - Yes. Diversity of options is important for utilities. The ACC should consider a pre-approval process for such costs, given the magnitude of investment.
Black Mountain Gas - Given BMG's small size, the costs of diversity may outweigh the benefits.
Citizens Communications - While a diversified pipeline capacity portfolio is theoretically superior, in some locations in the state, diversity may be difficult to achieve and could be overly costly. Arizona can benefit from a diversified pipeline infrastructure.
City of Mesa – No response.
Copper Eagle Gas Storage – No response.
Kinder Morgan - Yes. ACC polices should encourage utilities to pursue pipeline options which prudently and effectively diversify their transportation and gas supply portfolios. Competitive pipeline alternatives provide a variety of benefits in comparison to relying on a single interstate pipeline.
North Baja Pipeline - See response to Question 16.
Red Lake Gas Storage – No response.
Reliant Energy - The ACC should encourage diversification of sources of pipeline capacity. Competition among pipelines provides a number of benefits.
Salt River Project - In general the ACC should encourage diversification of interstate pipeline capacity sources, subject to each utility's individual circumstances.
Sempra Energy Services - No response.
Southwest Gas - The ACC's encouragement of gas supply diversity already includes diversity of capacity. Southwest already considers pipeline capacity diversity integrally in its gas supply acquisition. Diversity itself is only justifiable on a case by case basis.
Southwestern Power Group II - No response.
Transwestern Pipeline - Yes. Current infrastructure is insufficient to meet current market demands. A plan to diversify supply and transportation options would provide a variety of benefits.
Wellton-Mohawk Generating Facility - See response to question 12.

Question 14. Are there other areas where the concept of a diversified supply portfolio can and should be applied by the Commission?
Arizona Electric Power Cooperative - Economic diversity of fuel supplies is desirable.
Arizona Consumers Council - More sellers in the market could lessen market power which might enable a company to set monopoly rates or withhold supply.
Arizona Public Service - The ACC should focus its activities on gas storage and pipeline construction.
Black Mountain Gas – No response.
Citizens Communications - The ACC should define the end results it seeks and then provide incentives for utilities to achieve those results.
City of Mesa – No response.
Copper Eagle Gas Storage - The ACC should develop consistent policies to facilitate gas infrastructure development.
Kinder Morgan - The general concept of a diversified supply portfolio should be encouraged.
North Baja Pipeline - See response to Question 16.
Red Lake Gas Storage – No response.
Reliant Energy – No response.
Salt River Project - None. Addressing gas storage and pipeline issues is key.
Sempra Energy Services – No response.
Southwest Gas - Southwest already balances diversity issues, such as which supply basins it buys gas in and how many suppliers it relies upon.
Southwestern Power Group II – No response.
Transwestern Pipeline – No response.
Wellton-Mohawk Generating Facility - See responses to previous questions.

Question 15. Should the Commission address proposals for new pipelines, expansions of existing pipeline, or new storage facilities? If so, how should the proposals be addressed by the Commission?
Arizona Electric Power Cooperative - The ACC could monitor, encourage, and participate in such proposals. It would be helpful for there to be dialogue between the ACC and its jurisdictional utilities in regard to such proposals.
Arizona Consumers Council - The ACC should use its power and work with the Legislature to encourage the building of new pipelines and the use of alternative fuels.
Arizona Public Service - While FERC has jurisdiction over such facilities, the ACC should actively participate in certificate proceedings at FERC, help establish “one-stop shopping” for state and local approvals, and implement appropriate pre-approval/cost recovery mechanisms.
Black Mountain Gas – No response.
Citizens Communications - Rather than addressing individual projects, the ACC should work to create an environment conducive to safe, economical, and effective infrastructure development.
City of Mesa – No response.
Copper Eagle Gas Storage - While FERC has jurisdiction over such facilities, the ACC should actively participate in certificate proceedings at FERC, help establish “one-stop shopping” for state and local approvals, and implement appropriate pre-approval/cost recovery mechanisms.
Kinder Morgan - ACC policies should foster the development of new natural gas infrastructure given the significant benefits such projects can provide to Arizona.
North Baja Pipeline - See response to Question 16.
Red Lake Gas Storage – No response.
Reliant Energy - The ACC should develop future demand estimates which could be provided to pipeline and storage project developers.
Salt River Project - Formation of the previously described consortium would be useful, as would be the ACC’s active participation at FERC.
Sempra Energy Services – No response.
Southwest Gas - The ACC should address such issues by encouraging their construction and providing a receptive atmosphere in Arizona.
Southwestern Power Group II – No response.
Transwestern Pipeline - The ACC should promote competition among all the options for gas supply to maximize benefits.
Wellton-Mohawk Generating Facility - The ACC should intervene in FERC cases as it is deemed necessary. The ACC can provide balanced review and cost recovery policies, enabling the market to support infrastructure projects.

Question 16. Are there other natural gas infrastructure issues which the Commission should be addressing?
Arizona Electric Power Cooperative – No response.
Arizona Consumers Council – No response.
Arizona Public Service - The Commission should recognize the utilities’ provider of last resort responsibilities and consider ways to reduce Arizona’s dependency on the El Paso pipeline system.
Black Mountain Gas – No response.
Citizens Communications - The ACC should establish guidelines and expectations for gas infrastructure and a framework of incentives to efficiently achieve them.
City of Mesa – No response.
Copper Eagle Gas Storage – No response.
Kinder Morgan - Tax incentives would further encourage the development of gas infrastructure in Arizona.
North Baja Pipeline - The ACC needs to consider both the cost of transportation and the cost of the gas commodity itself. The North Baja pipeline will likely provide access to liquid natural gas supply sources in the future and such sources provide a variety of benefits.
Red Lake Gas Storage – No response.
Reliant Energy - An investigation of power generation reliability under a variety of natural gas circumstances would be beneficial in addressing how Arizona would react if it had an energy crisis.
Salt River Project - The ACC may find it useful to consider innovative contract structures, such as an gas and electric utility co-owning capacity.
Sempra Energy Services – No response.
Southwest Gas - There are no other apparent issues.
Southwestern Power Group II – No response.
Transwestern Pipeline – No response.
Wellton-Mohawk Generating Facility – No.

Question 17. Should the Commission hold one or more workshops to further investigate natural gas storage and interstate pipeline issues?
Arizona Electric Power Cooperative – Yes.
Arizona Consumers Council – Yes.
Arizona Public Service – Yes.
Black Mountain Gas – Yes.
Citizens Communications - Yes.
City of Mesa - If workshops are held, the City of Mesa would like to participate.
Copper Eagle Gas Storage – Yes.
Kinder Morgan - Given the necessity to act quickly on these matters and the information already available, it is not necessary to hold workshops.
North Baja Pipeline – Yes.
Red Lake Gas Storage – No response.
Reliant Energy – Yes.
Salt River Project – Yes.
Sempra Energy Services - No response.
Southwest Gas – Yes.
Southwestern Power Group II – No response.
Transwestern Pipeline – Yes.
Wellton-Mohawk Generating Facility – Yes.