

Transwestern Pipeline Company
Responses to

Arizona Corporation Commission
Utility Division Staff's
Notice of Inquiry – Natural Gas Infrastructure

QUESTIONS: (Please feel free to attach additional comments)

1. Should the Commission develop formal or informal policies regarding the use of natural gas storage by Arizona utilities?

If the Commission's goal is to address natural gas price volatility and reliability of supply for Arizona utilities, then yes, the Commission should develop formal policies. But the policies should only be developed to the extent that the use of natural gas storage is not put at a competitive or regulatory advantage or disadvantage to other types of energy services (e.g., the use of natural gas storage and its associated costs should be recoverable in the rates charged by Arizona utilities to the same extent as other energy supply options utilized by those utilities). Any formal or informal policies developed should not unnecessarily increase costs borne by the utilities or their customers.

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.

Both types of utilities use gas storage for similar reasons: 1) a prudent utility will manage its gas costs by storing gas purchased at lower prices for later use when gas demand and/or prices rise; and 2) to retrieve gas from storage when gas pipeline availability becomes restricted during peak demand periods or outages caused by pipeline maintenance.

3. What issues should the Commission address in creating any Commission policy on natural gas storage?

Gas pipeline availability must be considered when evaluating natural gas storage. If a pipeline is already capacity constrained, where will the pipe capacity come from to fill the gas storage or receive gas from storage? In periods of peak gas demand, the parties requiring gas pipeline capacity to transport gas from production areas are competing with customers who require capacity to transport gas withdrawn from storage. Unless new infrastructure is built, there will not be enough pipeline capacity to serve all the competing interests.

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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?

As stated above, natural gas storage services should not be placed at a competitive advantage or disadvantage to other energy supply options.

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.

The respondent does not have sufficient information or familiarity with Commission policy and regulatory authority to address this 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?

The respondent does not have sufficient information or familiarity with Commission policy and regulatory authority to address this 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?

Assuming the storage operator and its customers have access to pipeline capacity, storage provides customers with the opportunity to purchase gas at lower prices and hold it for later use when demand and/or prices increase. Whereas long-term supply contracts and financial hedging help to manage gas price risk, they do not address physical gas deliverability.

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?

Yes-- In periods of low gas demand, a utility with access to gas storage will purchase and store gas for later use when demand and/or prices rise. A utility that holds storage capacity will utilize its pipeline capacity to fill and withdraw from storage. A utility will not typically purchase from the storage operator any daily capacity greater than what it holds for pipeline capacity rights.

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9. What monitoring, reporting, and evaluation should the Commission undertake in regard to Arizona utilities' use of natural gas storage?

The respondent does not have sufficient information or familiarity with Commission policy and regulatory authority to address this 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?

Multiple interstate pipelines with access to diversified sources of supply promotes competition, provides a higher degree of supply reliability, and ultimately reduces consumer costs. The Commission should adopt formal policies regarding the use of interstate pipelines by Arizona utilities consistent with these principles.

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?

The Commission should encourage Arizona utilities to diversify their supply and transportation portfolios rather than foster a dependence on one pipeline or supply area. One way to do this would be to provide sufficient assurances to local utilities of the recovery of costs prudently incurred in connection with such diversification. Another method would be to reduce the amount of time necessary to obtain condemnation of property in right-of-way cases where equitable landowner compensation cannot be resolved. Several states (e.g. Florida) have adopted laws that effectively address this issue. Consolidation of competing environmental interests and jurisdictions would also help to reduce the costs of adding new infrastructure in the state.

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?

Reliability and operational flexibility can only be obtained by having access to diverse sources of gas supply. Ideally, some combination of increased pipeline capacity linked to various storage facilities. A direct benefit of this diverse supply portfolio is reduced costs and access to multiple gas production basins.

13. Previously the Commission has recognized the benefit of having Arizona local distribution companies have a diversified gas supply portfolio. Should the Commission

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encourage Arizona utilities to diversify their sources of interstate pipeline capacity, rather than relying on a single interstate pipeline for all pipeline capacity?

Yes—current pipeline infrastructure is not capable of meeting the current market demands, let alone the projected demands, of Arizona consumers. A supply and transportation diversification strategy provides a much higher degree of supply reliability, lower gas price volatility, greater operational flexibility, and a reduced chance of gas supply interruptions. Unless interstate pipeline capacity is expanded, there will be no capacity available to meet the needs of existing customers, storage or otherwise.

14. Are there other areas where the concept of a diversified supply portfolio can and should be applied by the Commission?

The respondent does not have sufficient information or familiarity with Commission policy and regulatory authority to address this 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?

The Commission should promote competition among all means of natural gas supply in order to maximize consumer benefits and lower consumer costs.

16. Are there other natural gas infrastructure issues which the Commission should be addressing?

17. Should the Commission hold one or more workshops to further investigate natural gas storage and interstate pipeline issues?

Yes