

**ACC Workshop Regarding Notice of Inquiry on Natural Gas Infrastructure  
September 10, 2003  
Minutes**

The workshop began at 1:00 p.m.

**Meeting was called to order by Commission Chairman Spitzer.**

Chairman Spitzer greeted those attending the meeting and explained that the meeting was held to seek input in the matter of gas infrastructure in Arizona. He explained that written comments had been sought previously in the matter of natural gas infrastructure through a Notice of Inquiry April 15, 2003. He explained that the meeting was being held as the next step in the process specifically to respond to a Strawman proposal drafted by staff. Also in attendance were Commissioner Gleason, Commissioner Hatch-Miller, and Commissioner Mundell.

**Comments by Ernest Johnson, Director of Utilities Division**

Ernest Johnson explained that the Strawman was not a determined policy, rather an exploratory document that invited comment from industry. He invited all attending to participate and share their thoughts.

**Presentation by Bob Gray, Commission Staff Analyst**

Bob Gray explained the format of the presentation and meeting as it would occur. He explained the factors and recent changes in the gas industry that made the gas market a subject of concern. An overhead was shown demonstrating growth in consumption over time. Another was presented demonstrating gas consumption by sector and the proportional increase in demand from electric power generation. Other overheads demonstrated city gate gas price over time, names of respondents to the NOI, existing pipeline infrastructure, and proposed gas infrastructure. The Strawman was then explained and comments on each section of the Strawman were invited. Subject headings of the Strawman are as follows: Supply/Infrastructure Diversity, Supply/Infrastructure Planning, Commission Approach to New Infrastructure Projects, General Commission Approach, Cost-Recovery/Review, Individual Utility Circumstances, and Reporting Requirements. Written comments on the Strawman proposal are invited and due by September 25, 2003. Bob Gray explained that an additional workshop may be held following written responses.

**Discussion Moderated by Bob Gray:**

**Supply/Infrastructure Diversity**

Bob Gray, moderator, posed the question whether the Commission was going too far by pushing diversity. Respondents agreed that diversity was important both in storage and pipeline. Contracts were mentioned as an additional form of diversity. One response suggested that diversity should be sought as a general policy rather than through specific rulemaking. One response suggested that an additional pipeline alone wouldn't necessarily be a solution as gas cannot necessarily be shifted from one system to the

other. Others responded that a single pipe lends itself to monopoly rather than diversity. An example was cited from New England which had comparable circumstances as Arizona. New infrastructure was introduced and the market dynamics changed. Prices had been very high and were lowered to near NYMEX prices. A question was posed whether bonding was used to establish the new infrastructure in New England. It was explained that in New England the IOU's passed through the capital costs of what was at risk. Public entities were not present in New England so public funding was not raised as a possibility.

### **Supply/Infrastructure Planning**

The moderator posed the questions: What is CATS and is it viable and worthwhile?

A respondent explained that CATS is the Central Arizona Transmission Study group. It is a group of utilities, generators, and merchants who study where constraints exist and deal with transmission complexities. A respondent explained that if implemented by the Commission, such groups should not be mandated or controlled, rather facilitated.

Commissioner Gleason posed a question regarding packing as a form of diversity. Respondents suggested that line packing may be appropriate in the Northeast where there are long cold winters and it is used as baseload. Arizona weather and load factors, however, require market storage.

Commissioner Gleason asked if storage gas was more expensive than pipeline gas. Respondents commented that cheap gas could be purchased when gas was cheap and then stored, however, storage is used primarily as a tool for meeting peaks.

Commissioner Hatch-Miller posed a question asking how the State could get gas diversity need met? Respondents suggested that such a process is difficult as there are many players involved each having their own interest. There are many projects proposed and not every project can be built. Customers need to get together and make a 'lumpy' decision. The process should be 'jump started' and initiated soon so that something can be put in place in the next four years.

Commissioner Gleason asked if rate basing would be part of that process. A respondent said that ratebasing would bring necessary surety. Another commented that an Independent System Operator would be helpful. Another cautioned that actions should not be taken that would affect El Paso litigation.

Commissioner Gleason asked if pursuing FR suits has been detrimental to pipeline projects. A respondent said that some projects could not be pursued due to the litigation process. Some level of capacity trading had been going on in lieu of that.

Commissioner Gleason asked if gas supply would become critical in 2006 or 2007. A respondent suggested that it could happen earlier if non-firm gas is recalled and the weather turns bad.

A respondent to the earlier question regarding CATS suggested that a facilitated process is preferable to a mandated process. It was explained that in a mandated process all parties get an equal vote creating equality out of inequality. Alternatively, in a facilitated process, those parties who agree can get together and move on a project despite some disagreement.

Bob Gray asked if those in the electric industry saw benefit from a voluntary process. APS responded that they don't oppose collaboration, and further suggested that they would ask that the Commission help with some form of surety due to the large capital risks.

### **Commission Approach to New Infrastructure Projects**

Bob Gray asked for comments on the subject. One response was offered. It was a suggestion that when an appropriate occasion presented itself, the Commission should endorse it.

### **General Commission Approach**

Bob Gray asked for comments on the subject. A respondent suggested that time is important. The respondent mentioned that there are many good projects, but his company has been waiting on El Paso and is afraid some good projects will go away in the meantime. He suggested that the Commission develop rules and protocols, and determine how the Commission will deal with costs up front so that companies can start making informed decisions.

### **Cost-Recovery/Review**

Bob Gray asked for comment on preferred methods of cost-recovery. One mentioned that in some jurisdictions storage is sometimes owned by the LDC's and costs are treated as a delivery charge rather than a cost of gas charge. This would give some certainty on the recovery side. One respondent explained that recovery happens through gas costs rather than base rates in California and Nevada. One commented that in Massachusetts storage for LNG was treated in base rates. Another commented that their preference would be for recovery to occur through some sort of mechanism rather than through rate cases, as rate cases are a difficult and expensive process.

Bob Gray asked for comment on the matter of preapproval. A pipeline company responded that they were willing to take some risk, but wouldn't be able to get long term contracts without some form of preapproval. Another commented that to build infrastructure they needed contracts and subsequently needed to know how the Commission would deal with costs. This should be determined soon.

Bob Gray asked if some kind of preapproval would introduce a new time barrier. A respondent agreed that it would and suggested that the process be an expedited one. One respondent cited an example in Kansas where they sign precedence agreements that describe the project and timeline and make a binding contract before preapproval.

Director Ernest Johnson asked how the Commission might go about making an assessment? The respondent explained that they studied bad profile going forward and gas supply projections. The respondent helped them conduct supply studies from one source compared to another and demonstrated that they needed to access new supply.

### **Individual Utility Circumstances**

Commissioner Gleason asked for an explanation of differences between electric and natural gas needs. One responded that there are different kinds of reasons for storage. One is seasonal where gas is stored in the summer and pulled out in the winter, such as in the Northeast. In Arizona there are no long cold fronts. Arizona load spikes are short and choppy and storage is used to meet the intermittent spikes. Electric spikes on and off in the summer and gas spikes on and off in the winter.

### **Reporting Requirements**

Bob Gray asked for comments regarding reporting requirements. None were offered.

Bob Gray asked if there were any other topics we missed in the Strawman. One responded that the price spike that occurred in 2001 demonstrates that supply and demand are in a state of imbalance. Manipulation is present and we need to inform Washington that relying on third party indices creates a flawed marketplace. We need a mandate that everyone reports prices so that reliable indices can exist.

Bob Gray asked in closing if there were any other thoughts on that or any other topic. A single respondent said that if you do something, do it quickly and give it a deadline.

The workshop concluded at 4:00 p.m.

Attending:

Chairman Marc Spitzer  
Commissioner William Mundell  
Commissioner Mike Gleason  
Commissioner Jeff Hatch-Miller  
Ernest G. Johnson, Director Utilities Division  
Jodi Jerich, Executive Assistant  
Dean Miller, Executive Assistant  
Bob Gray, Commission Staff  
Steve Irvine, Commission Staff  
Janice Alward, Commission Staff

Tom Armstrong  
Ron Ballard  
Judith Barleycorn  
Dave Baumgartner  
Randy Bee  
Pat Black

Michael Bodell  
Jana Brandt  
Curt Brechtel  
Tom Carlson  
Trey Champie  
Patricia Cooper  
Mark Cook  
David Couture  
Gary Crane  
Michael Davis  
Dana Diller  
Gary Duede  
Laurie Fitzmaurice  
Ed Giesecking  
Lori Glover  
John Hester  
Vinnie Hunt  
Jeff Jacobson  
Paul Jones  
Richard Jordan  
Barbara Klemstine  
Lynne L'Esperance  
Greg Lander  
Bill Lesikar  
Loren Locher  
Michael MacMahon  
Michael McElrath  
Frank Mcrae  
Walter Meek  
Paul Michaud  
Gary Mirich  
Bill Moody  
Jay Moyes  
Greg Patterson  
Patricia Pyle  
Karilee Ramaley  
Lawrence V. Robertson Jr.  
Marc F. Sauvageau  
Jim Schoene  
Deborah Scott  
Tom Shaw  
Chuck Skidmore  
Denise Smith-Richardson  
Carolyn Stewart  
Bill Tobin  
John Wallace

Kimberly Watson  
Mitch Wentzel  
Todd Wiley  
Laurie Woodall  
Don Zinko