

ARIZONA CORPORATION COMMISSION

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

May 30, 2003

Pacific Texas Pipeline and Transportation Company, Inc. a twenty year Arizona corporation supports the Arizona Corporation Commission and all of the Arizona Utilities and Energy Companies in the development of this NOI and the discussions on how to address this very important matter of energy infrastructure in Arizona and the Southwest.

The Commission's policies should be such that it allows each utility to obtain services that fit the long-term goals of the company as well as the needs of the growing population of Arizona and its demand for energy.

The Picacho Natural Gas Pipeline Project that Pacific Texas currently has under development will become part of the state's answer to new and critical infrastructure that will allow all utilities to meet the demands of their customers in an economical manner.

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

PTC feels that the question of policy should be addressed by all parties concerned and that an advisory board might be a good place to start this process. This board could then be tasked to develop informal policy for the ACC to use for its guidelines.

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.

Natural gas storage can serve to benefit both the EUs and the LDCs. The Commission may provide input for the utilities and storage facility operators to work with each other to develop services that all parties can rely on.

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

New pipelines and gas storage facilities are needed in any new consideration by the Commission in developing policy. The Picacho Pipeline project is looking into development of a new storage area in Arizona and welcomes all interested parties to give us their input into this matter. The ACC needs to look at the long-range needs of the state.

- 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?**

This question again should be addressed by all parties concerned in order to give the Commission the best input for recovery of costs analysis.

- 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.**

Pacific Texas does not have enough data or knowledge of the Commission's regulatory authority at this time to make any comments or recommendations.

- 6. How should the Commission address the goal of maximizing customer benefits from natural gas storage while minimizing the cost of consumers of utilizing such storage?**

Pacific Texas does not have enough data or knowledge of the Commission's regulatory authority at this time to make any comments or recommendations.

- 7. How does the use of natural gas storage relate to other methods of reducing volatility, such as the use of longer term supply contracts and financial hedging?**

Pacific Texas does not have enough data or knowledge of the Commission's regulatory authority at this time to make any comments or recommendations.

- 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?**

The Commission should understand the importance of cost-effective and reliable transportation services when it comes to policies on storage infrastructure. The Picacho Pipeline is designed to work with current storage systems that are already being used by shippers to meet the demands for firm transportation service.

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

This could be another area the advisory board could give some direction.

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?

The ACC has recognized the need for new pipelines to serve the growing needs of the utilities and the customer base in Arizona. The Picacho Pipeline is designed with Arizona in mind. Not only can we offer our shippers reliable and effective service, but the Picacho system is designed to service the EOC shippers, and not try to move any gas onto the California market, leaving Arizona and the Southwest markets short. The ACC should allow the shippers to work with the pipelines to develop the best market service possible.

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?

By supporting the construction of new natural gas pipelines into Arizona the ACC may see a slight rise in the shipping cost overall, but the reliability of having a new system with various supplies of gas will have a cost effective benefit in service for the future. This will prevent a loss in time and supply to customers with the current use of older systems. New pipelines will have the most up-to-date current safety and control equipment. This is why the Picacho Pipeline is using the Honeywell Corp. of Arizona to develop it's system that will meet all future demands by the Federal Regulators.

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?

System planning is one of the key issues to this question. This would allow the ACC to better develop a goal that takes all of the above information into consideration.

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.

As an Arizona corporation Pacific Texas is talking to as many types of natural gas suppliers as possible in order to provide the state the best possible alternatives for gas supply and usage. We feel the ACC should look at each utilities needs in order to best answer this question.

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

A key factor to this question is the ACC recognizing the issues pertaining to supply.

15. Should the Commission address proposals for new pipelines, expansions of existing pipelines, or new storage facilities? If so, how should the proposal be addressed by the Commission?

Yes, Pacific Texas feels that the ACC should look at all new and existing systems to determine which pipeline will offer the best in new technology and safety for the shippers. Also the general public who will rely on us to delivery what they will need in a cost effective and reliable manner. What system will work with local, state and federal regulators to make sure that interruptions are keep to a minimal. Pacific Texas would like to ask the ACC to support our pipeline project along with other projects that are designed to support the EOC shippers' needs for natural gas.

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

One area that the Commission could look at would be some type of investment program for projects that will become part of the state's permanent infrastructure.

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

Pacific Texas would support the formation of a board to support the Commission in it's on-going commitment to the development of new infrastructure in Arizona. The ACC should realize that time is **now** in supporting these types of projects, in light recent events. The Picacho Pipeline is committed to it's in service date of 2005.

In closing Pacific Texas Corporation of Arizona would like to thank the Arizona Corporation Commission for allowing our company to participate in the NOI. Also we would like to thank all of the state and local agencies that are supporting our current pipeline project.

Sincerely,

The Staff of Pacific Texas www.pacifictexas.com