Mr. Robert G. Gray
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ. 85007

September 2, 2003
Phoenix, AZ.

Re: Additional Comments Submitted Pursuant to Notice of Inquiry- Arizona Corporation Commission Policy and Action on Natural Gas Infrastructure Matters in Arizona (NOI)

Dear Mr. Gray:

At the recent FERC Conference on Natural Gas Storage representatives of the Arizona Corporation Commission invited additional comments in response to the questions contained in the ACC's April 15th Natural Gas NOI.

Power Up Corporation is a privately owned gas and electric transmission company. Power Up has proposed to construct the Coronado Pipeline from the San Juan Basin area through New Mexico and Arizona, to western Maricopa County near the Hassayampa Hub.

The Commission has already received numerous responses to its NOI. Much of what we would offer has already been eloquently stated in previous responses. Power Up submits the following additional comments in response to certain ACC questions in the Notice of Inquiry:

Natural gas infrastructure projects, both pipelines and storage facilities, are capital intensive and have service lives measured in decades. During the past several years, natural gas has been the most price-volatile commodity in the world. Evaluating the economic value of long-term infrastructure projects based on forward price curves can lead to market paralysis. Therefore, cost/benefit analysis for infrastructure projects should be measured from a long-term view.

To move projects from general concept stage into development, developers of such facilities require clear signals from the marketplace in the form of firm, long-term commitments from shipper-customers having reliable credit quality. This type customer is often a regulated utility company that will be reluctant to make long-term commitments in the absence of some assurance that it can reasonably expect to recover the costs of making such commitments. Furthermore, these customers are reluctant to make long-term commitments unless their competitors are making similar commitments, for fear of adversely affecting their competitive cost structure.

Recent events have served as a reminder that redundancy has value. Diversification of physical assets, supply sources and service providers will improve the security and reliability of natural gas supplies into Arizona. Dependence upon a single gas transport service provider and the absence of viable alternatives creates a second and subtle problem for Arizona consumers. Consumers in Arizona may also potentially find themselves indirectly obligated to pay for pipeline capacity enhancements constructed as part of the current supplier's system that were originally designed to serve non-Arizona markets. In response to all of these concerns, the ACC is well advised to encourage additional infrastructure development designed specifically for the Arizona market.

Gas storage capacity essentially serves two functions in the southwest- peak shaving and load following services. These generally involve short –term fluctuations in the use of natural gas supplies in order to accommodate customers' varying load factors. These particular functions may be served not only by gas storage facility capacity but also by pipeline capacity itself, such as Power Up's Coronado Pipeline proposal. The ACC should consider whether construction of a market area storage facility or additional pipeline capacity provides a more cost effective solution to the needs of the region.

Power Up notes that in weighing the viability of pipeline capacity versus gas storage facility capacity for performing these primarily short-term storage functions, the ACC should consider not only efficiency but also the relative costs to the Arizona consumer of use of either function.

Thank you for the opportunity to submit these additional comments.

Sincerely,

Douglas V. Fant
For Power Up Corporation