Bob, this is Stephen Ahearn writing to you. I hope this informal communication suffices for your purposes.

I copy below what I think is a thoughtful and considered response to the Strawman question by Bill Rigsby. I support consideration of his ideas, especially with respect to the use of derivatives.

My thoughts, for the most part, are that the Commission should encourage the development of underground gas storage and allow recovery of costs through purchased gas expense mechanisims. I see this (underground storage) as a more attractive method of hedging on natural gas prices. More attractive than the use of financial derivatives, which I believe have too much potential for abuse. The Commission could encourage underground storage development by permitting LDC's to pass their storage costs through to ratepayers in their purchased gas adjuster mechanisims. The storage charges could be calculated on a "per therms withdrawn basis." The mechanisim for Commission review of purchased gas is already in place and a small change in the reporting requirements could be used to monitor the storage costs.

Any direct investment by an LDC in an underground storage facility should be recovered in a similar fashon. In this case, a depletion methodology (as opposed to a depreciation or amortization methodology) would be more appropriate in my opinion. That is, Recover the investment by spreading the approximate life of the storage facility over X number of therms and then record the depletion amounts on a "per therms withdrawn" basis.

Just a few Ideas. Let me know what you think.

Bill

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