



Shell Trading

September 23, 2003

Robert G. Gray
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Notice of Inquiry (“NOI”) on Natural Gas Infrastructure Matters, Staff Strawman Policy Proposal

Dear Mr. Gray:

This letter is submitted on behalf of Shell Trading Gas and Power Company (Shell Trading) in response to the Commission’s September 10, 2003 notice in the above referenced matter. Shell Trading is an active participant in the Western gas and power markets. We appreciate the opportunity to comment on the Commission’s proactive and timely inquiry into natural gas infrastructure needs.

Shell Trading agrees that the Commission should take steps now to ensure that natural gas deliveries into Arizona continue to be reliable as demand grows in the next few years. One consideration in this process should be diversity in both transportation and supply sources. Increased competition between different providers of transportation and commodity supply will bring improved reliability of service and lower prices to the energy customers of Arizona.

Specifically, considering diversity of future transportation options, the Commission should consider that storage can be more economic than additional interstate pipeline capacity, can help dampen price volatility and can dramatically lessen the effects of seasonal demand fluctuations. On the supply side, diversity would be enhanced by imports of regasified liquefied natural gas (LNG), which can help meet the needs of new electric generation and core customers. For example, Shell International Gas Limited is currently developing an LNG terminal and regasification facility in Baja California with deliverability of over 1 Bcf per day. It is expected to be in service in 2007. Shell is the industry leader in LNG resources and worldwide deliverability, and is currently evaluating transportation alternatives for delivery of Baja supply to Southern California and Arizona. This proposed LNG facility speaks directly to the Commission’s discussion recognizing the need to address long-term natural gas supply.

In addition, Shell Trading supports the Staff’s suggestion for the development of a natural gas industry equivalent of the Central Arizona Transmission Study (CATS) study group. Such a forum would promote the opportunity for interested parties to discuss issues related to the Arizona natural gas market.

In conclusion, Shell Trading appreciates the opportunity to submit these general comments and supports the Commission’s inquiry into the adequacy of natural gas infrastructure.

Sincerely,

Marcie A. Milner

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Shell Trading Gas and Power Company

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