

Arizona Corporation Commission, Utilities Division Staff's
NOTICE OF INQUIRY
On the Issue of:
Policy & Action on Natural Gas Infrastructure Issues in Arizona

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

TECO Power Services Corporation (TPS), which is the owner and operator of the Gila River Power Station, believes that it is appropriate for the Arizona Corporation Commission to conduct a careful analysis of the costs and benefits from the ratepayers' standpoint of a natural gas storage policy for the state's utilities. Given the limited sources of transportation available to meet the state's critical natural gas needs, particularly during the summer months, it is vital for such an analysis to be performed. This summer's situation with regards to gasoline supply interruptions in the Valley, show the importance of having local, in-state commodity storage for times of emergency supply interruptions - to allay security concerns, while mitigating any short-term price volatility. TPS does not take a position, however, on whether the Commission should develop formal or informal policies.

2. Should natural gas storage used by electric utilities be viewed and treated differently than natural gas storage used by natural gas local distribution companies? Please explain.

Natural gas storage used by electric utilities should have similar type treatment as does gas storage used by local gas distribution companies in Arizona.

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

Any Commission policy initiatives must ensure that Arizona's customers benefit from this effort. The consumers' interests should be protected in the provision of all additional supply and transportation security enhancements.

4. If Arizona utilities utilize natural gas storage, how should the Commission address recovery of costs for such storage and what costs should be considered?

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

The Commission should ensure that the utilities prudently contract for natural gas transportation, supply and storage capacity to reliably serve their retail consumers.

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?

Similar to its answer to question #1 above, TPS does not take a position on whether the Commission should develop formal or informal policies regarding the usage of interstate pipelines by Arizona's utilities. However, the adoption of appropriate incentives at either the state or federal levels, respectively, to promote the expansion of existing or the construction of new interstate and intrastate pipelines could affect the actualization of one or more of these proposals.

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?

Incentives are a way to effectuate a more robust portfolio of supply options that would increase gas supply reliability and mitigate price volatility. Incentives that would encourage the utilities, LDCs and the state's power suppliers to contract with additional interstate pipelines (whether newly-constructed pipes or expansions of existing lines), would provide viable market opportunities for potential investors before undertaking significant additional investments.

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?

Same as TPS' answer to question #1 above.

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?