

**UniSource Energy Services'  
Comments Regarding Staff's Strawman Proposal and Workshop  
On the Issue of the Natural Gas Infrastructure**

**September 23, 2003**

UniSource Energy Services ("UES")<sup>1</sup> has reviewed Staff's Strawman Proposal related to the natural gas infrastructure and natural gas storage, and was in attendance at the September 10<sup>th</sup> workshop. UES believes that the workshop was informative, raised relevant issues, and clearly left a number of issues that need further development. Without definition and clarification, utility companies face increased regulatory risk. UES appreciates the opportunity to provide written comments on the issues, and looks forward to working with all interested parties on these important issues.

**Supply/Infrastructure Diversity**

The Strawman proposal states the "Arizona utilities *should* include storage as an integral component of their efforts to develop a diverse natural gas supply portfolio". UES believes that storage should be thoroughly evaluated, but not unilaterally required for all utilities. The Commission recognized this in its proposal, which stated that "each utility should tailor its applications of the proposals as is fitting given its individual circumstance".

There are numerous differences between both the utility classes (electric and gas) and within the utilities in each class. Since the pipeline systems delivering gas to Arizona see the peak usage in the winter months and electric utilities typically use the majority of their gas in the summer months, the delivery issues are much less severe for electric utilities, as compared to what Arizona gas utilities face during the winter months. Even within classes, a utility's geographical location and access to alternative pipeline capacity may mitigate some of the supply and delivery risks. For example, the vast majority of UES' gas load is received from the less-constrained northern system of El Paso. UES also has pipeline capacity on Transwestern for alternate delivery to its service territory. UES urges the Commission to bear in mind the unique circumstances for each utility company and refrain from mandating a "one-size fits all" approach.

**Supply/Infrastructure Planning**

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<sup>1</sup> UES is commenting on behalf of UNS Gas, Inc. and UNS Electric, Inc. (formerly Citizens Communications Company) and Tucson Electric Power.

UES agrees with the idea that Arizona utilities should plan for natural gas infrastructure on a long-term basis. We further agree with the discussion at the September 10th workshop that the utilities and other interested parties (including regulators, pipelines, storage developers, and merchant generators) should participate in an organized and concerted effort to evaluate and develop the infrastructure projects that optimize the benefits and minimize the externalities to Arizona customers.

### **General Commission Approach**

While the informal guidelines provide a basis for future Commission policy, it is imperative that a more defined approach be developed to provide the utilities and pipeline/storage developers with the certainty that is necessary to develop a robust, long-term infrastructure plan for Arizona. However, in the short term, while the Commission is in the process of developing formal policies, pre-approval of storage contracts would provide certainty on a project-by-project basis. Companies investing in the construction of storage need to know that they have firm customers before making large capital outlays. Regulated utilities need to know that they will be able to recover their expenses if they enter into contracts with storage facilities. Because there are no natural gas storage facilities currently in Arizona, the regulated utility companies and the Commission need to work closely together to provide precedent for future projects.

### **Cost-Recovery**

UES urges the Commission to develop a process for review and approval of storage contracts as soon as possible. Pipeline and storage developers specifically noted at the September 10 workshop that they needed contracts in order to make the necessary capital investment in such projects. Utility companies stated that they need assurance from the Commission that they could recover their costs if they entered into contracts with storage providers. Clearly, a pre-approval process is a logical first step in resolving the infrastructure shortcomings in the state. UES also urges the Commission to develop a better defined long-term process so that parties can invest in storage and infrastructure in the state.

UES echoes the concerns voiced by a number of parties at the September 10th workshop regarding the need for a commitment from the Commission to provide certainty of recovery of investment in and for contracts related to storage facilities. Time is of the essence for the development of some of the infrastructure projects discussed at the workshop. Therefore UES believes that the Commission should make a determination whether a storage contract is prudent prior to the final execution of the contract. To make a prudence determination, the Commission must find that the contract is reasonable, given

the circumstances and the information available at the time the contract is made.

On a long-term basis, the Commission should explore a recovery mechanism similar to a power fuel adjustor, as a means for companies to recover costs outside of a rate case. Without a streamlined method to recover costs, the complexity and cost of a rate case could make investment or use of storage facilities not viable.

### **Conclusion**

UES agrees that the natural gas infrastructure and natural gas storage are key issues that the state must address to ensure that the customers have enough natural gas to meet their needs. While informal guidelines and project-by-project contract approval provide a worthwhile interim approach, the pipeline/storage developers and the utility companies need more formal direction on a long term basis. Clearly these companies need a commitment from the Commission that these types of projects are necessary and prudent, and cost recovery will be forthcoming. UES is also proposing that there be a collection mechanism, such as a PPFAC adjustor, so the costs of these facilities will be passed on directly to the customers who benefit from them.

UES looks forward to the continued opportunity to work with Commission Staff to develop policy and procedures that serve the interests of all parties involved, particularly the public interest.

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