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June 26, 2002

California Public Utilities Commission
California State Building
505 Van Ness Avenue
San Francisco, CA 94102-3298

Re: Proposed Rulemaking on Turned-Back
Capacity on El Paso's Pipeline System

Dear Commissioners:

These are certainly grave times for Arizona. Wildfires rage in our state's northeastern communities, leaving thousands of our citizens without homes. Hundreds of thousands of acres have gone into flames, destroying our towns, forests and wildlife. Having met and spoken with several of you, I know you must share in our concern as the Arizona Commission tries to ensure that our citizens continue to have necessary utility services in spite of the ravages of the fire.

But wildfires are not the only danger Arizona is now facing. Necessary utility services for our citizens are also threatened by recent actions taken by the Federal Energy Regulatory Commission when it determined that the 1996 El Paso Pipeline Settlement should be set aside, along with Arizona's historic full requirements rights to El Paso's transmission capacity. Without sufficient transmission capacity on the only pipeline available to provide gas to the majority of our citizens, reliable gas service to nearly a million Arizona customers is in jeopardy. Of course, I need not tell our sister state how critical sufficient gas transmission capacity is to keep our electric generation plants operating and the lights on in Arizona.

Arizona's captive reliance on El Paso transmission capacity is made even more compelling due to the position taken by El Paso last week when it met with customers in Phoenix. El Paso described available capacity for allocation among its East of California customers' conversion to contract demand at a level well below the basis of FERC's May 31st Order.

Now our Commission has learned that the California Commission may take an action that would deny available capacity to East of California customers. The California Commission's proposed rulemaking, in effect, prohibits California utilities from turning back capacity on El Paso's pipeline system for use by the East of California (EOC) customers. The proposed rulemaking also requires California utilities to acquire turned-back capacity from other customers outside California. Under our Commission's reading of FERC's May 31st Order, any such action by the California Commission is in direct contradiction of the plain language of FERC's May 31st Order, which requires the

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turned-back capacity to be used for EOC allocation.

I am writing the California Commission on behalf of our Commission to urge you to consider all of these factors when you vote today to proceed with a rulemaking that limits turned-back capacity for Arizona's needs. I repeat the offer of cooperation and discussion between our Commissions reflected in my April 23, 2002 letter and last week's telephone message to President Lynch. As I have stated to President Lynch, the potential for cooperation among the Southwest states is great, especially if our cooperation resolves transmission capacity issues by requiring El Paso to meet its contract obligations to all its customers.

The California Commission's passage of the proposed rulemaking undermines the cooperation our Commission has sought to foster. Further, if the rule is effective in its intent, it would deny captive Arizona access to transmission capacity, impacting the health and welfare of our citizens. The proposed rulemaking also impairs the ability of all parties to resolve allocation issues on El Paso's pipeline system. FERC's May 31st Order relied upon turned-back capacity to meet Arizona's needs for adequate gas supplies; our Commission asks that the California Commission not act to withhold such capacity from El Paso's East of California customers.

Sincerely,



William A. Mundell
Chairman

cc: Commissioner Jim Irvin, Arizona Corporation Commission
Commissioner Marc Spitzer, Arizona Corporation Commission
Chairman Patrick Wood, III, Federal Energy Regulatory Commission
Commissioner Nora Brownell, Federal Energy Regulatory Commission
Commissioner Linda Breathitt, Federal Energy Regulatory Commission
Commissioner William Massey, Federal Energy Regulatory Commission