

**EL PASO NATURAL GAS PIPELINE**  
**CONCERNS OF “EAST OF CALIFORNIA” INTERESTS**  
**CHAIRMAN BILL MUNDELL**

**APRIL 16, 2002**

Good morning.

I'm William Mundell, Chairman of the Arizona Corporation Commission.

I appear today representing my Commission and, with the endorsement of Governor Jane Dee Hull, and the people of the State of Arizona.

I appreciate the opportunity to appear before this body of Commissioners, given the experience several of you share having once been in my position – with your understanding of the challenges and opportunities of serving the public at the state level.

There will be other testimony today, by individuals more expert in the technical details than me, but let me briefly explain what this proposal means to Arizona.

The FERC staff recommendation, under consideration by the Commission, would reallocate pipeline capacity among California, Arizona New Mexico, and Texas, thereby significantly reducing access to pipeline capacity in my state, and depriving Arizona of essential supplies of natural gas needed to generate electricity, heat and cool homes and businesses and fuel industrial processes.

The proposal is harmful in these respects.

It fails to recognize the public safety and health issues facing Arizona. Immediate, irreparable harm may result to the citizens of Arizona if natural gas is not available for heat in the harsh cold of winter or for electricity generation in the hot summer. It is not a question of dollars and cents, but of having natural gas on the very worst days of the year. FERC needs to understand that this is not an academic exercise, but one that could well impact the economic development and well being of the state and its citizens.

It fails to acknowledge the extraordinary growth in population and energy use in my state.

It appears to ignore the captive nature of the Arizona market relative to the other gas options for our California neighbors.

It sets the level of gas supply at a point much lower than the amount necessary to meet our summertime and wintertime peaks.

I. Brief History of the Arizona-El Paso situation

Just seven years ago, consumers in my state were called upon to make financial contributions to assist the El Paso system in resolving an excess capacity problem caused by California shippers turning back substantial unwanted capacity.

In 1996, the FERC approved a ten-year settlement, which memorialized this financial contribution and obligated El Paso to continue to provide all the gas requirements of the Arizona customers including those caused by load growth.

Today, in the seventh year of the settlement, the FERC staff recommendation retains all of the benefits negotiated by El Paso and the California shippers yet removes all the rights and benefits negotiated by Arizona and other east of California customers.

If the ACC knew back in 1995 that in 2002 FERC would be allowing El Paso Natural Gas to drastically reduce service and increase costs to Arizona shippers, while keeping California and other contract demand shippers whole, it would have opposed a ten-year settlement and the payment of RSRS dollars to El Paso.

Also, while FERC Staff may think that the public interest allows contract abrogation, the public interest in Arizona requires the opposite because of the disastrous consequences to Arizona if FERC accepts Staff's proposals.

II. Remarkable Growth of Arizona

Arizona's residential population is growing at a rapid rate, a 40% increase during the 90's, the second fastest growing state in the nation

Since 1979, the state has doubled -- from 2.5 to over 5 million people

Further, the state continues to grow at a rapid pace, even during this time of economic slowdown.

The Phoenix area alone adds over 100,000 people a year.

Commercial and industrial loads are increasing at a comparable rate.

To better illustrate the type of growth we face, the 2001 summer peak load reported by Con Edison to serve New York City was 11,858 MW. The combined APS-SRP summer peak load for 2001 was 10,851, a difference of roughly 1,000 MW.

III. Arizona Natural Gas Utilities

The FERC Advisory Staff's proposal for capacity limitations provides Arizona local distribution companies with significantly less capacity than these utilities need to meet their peak demand needs during the winter months.

A high percentage of the load served by Arizona LDCs during the winter months is residential load for heating.

The inability of Arizona LDCs to provide for their high priority customer needs during the winter heating season would create a serious health and safety threat to Arizonans and particularly to my state's significant elderly population. Such a result cannot be in the public interest.

IV. Seasonal nature of electricity demand in Arizona

The Advisory Staff's selection of December 12, 2001 as the date for establishing each customer's new capacity limitation fails to recognize the most essential truth of the Arizona electricity situation -- our utility loads peak in the summer, not the winter.

As a result, the capacity allocated to Arizona electric utilities is significantly below their summer usage over the past several years.

With our explosive growth, an allocation based on winter use falls well below the projected load this coming summer.

Not only is our growth significant, but after mild summer weather last year, we already experienced 95 degree temperatures in Phoenix in the first week of April -- we could be due for a long, hot and dark summer if the staff recommendation is not remedied by the Commission!

V. Captive nature of the Arizona and other East of Arizona market

I am concerned that the FERC Advisory staff recommendation does not appear to consider the "captive" nature of El Paso's firm Arizona customers.

Unlike California, most of Arizona's customers are "captive" geographically to the *only* pipeline that serves the mid and southern portion of the state: El Paso Natural Gas Company. Additionally, Arizona has no natural gas production or storage facilities.

The staff recommendation severely reduces Arizona's access to natural gas and if adopted by the Commission, will place Arizona electric and natural gas utilities in the untenable position of not having the ability to meet their immediate energy demands.

This result is exacerbated on the electricity side by the reality that the Phoenix area is a load pocket, which imposes physical limitations on the area's ability to import electricity to meet its peak day demands.

VI. Arizona commitment to meet both electric generation and transmission requirements

As the FERC has guided the nation, the West and especially California back from the brink of catastrophe a year ago, all states have been encouraged to move aggressively to

meet the generation and transmission needs of their states and regions. As the Commissioners know, Arizona has been most responsible in ensuring that we have the electricity we need to meet our extraordinary growth and seasonal demand needs. Last year, we added over 1,800 megawatts in the state.

This year we have nearly 4,000 additional megawatts under construction with completion anticipated within a year, and another 4,000 approved or under construction for completion by the end of 2003.

Likewise, our Commission has directed an extensive and cooperative effort among our incumbent utilities, merchant providers and various land agencies to map out a reliable and visionary transmission grid for our state. Again, we believe we're following the FERC's direction to the nation's energy decision-makers in pursuing this effort.

## VII. Arizona's reliance on fairness and equal treatment

Arizona has long flourished, even as our state grows at a remarkable pace, in the shadow of our larger and more influential neighbor California.

We have been good neighbors, and we believe that much of our progress in providing the generation to meet Arizona's peak summer load can help California with its large energy requirements at other times during the year.

But we can only continue to prosper through fair treatment by federal entities, in the face of the overwhelming political and market clout of California.

We ask that the Commissioners consider how you would consider a request if the shoe was on the other foot? In other words, if the state of Arizona asked you to abrogate contractual agreements between a pipeline supplier and the state of California, if California was captive to that pipeline and Arizona was not?

Further, how would you decide such a request knowing that a fast-growing state of California had undertaken an aggressive program to meet its generation requirements based on a good faith expectation that the gas to run those plants was under contract?

As fellow Commissioners, you are familiar with the challenges that accompany the aggressive program we adopted to provide adequate and reliable generation and transmission in Arizona, as I described earlier.

I cannot describe how untenable a situation we would be in, after working to gain the support of our communities for thousands of megawatts of new generation, if these large facilities lay dormant at the time they were most needed during our hot, dry summers in the desert. In a similar manner, any failure to meet the winter natural gas requirements of

our rapidly growing population and business base would have a tremendous “human-need” impact.

On behalf of the people of my state, the Governor of Arizona and the Commission I represent, we are asking that these factors be evaluated fairly to conclude that the generators and local distribution companies in Arizona are entitled to the full requirements gas supply necessary to meet the large and growing summer and winter peak loads for the people of our state and our economic future.

It cannot be in the public interest to put utility service reliability in the Southwest at risk to address commercial issues of some parties.

Without action on your part to address these concerns, consumers in my state will experience some or all of the following: blackouts, natural gas service curtailments, increased pollution resulting from the emergency use of fuel oil and significantly increased costs for power and natural gas service.