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BEFORE THE ARIZONA CORPORATION C
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2007 SEP 12 P 2: 06

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
NORTHEN ARIZONA ENERGY, LLC FOR A
CERTIFICATE OF CONVENIENCE AND
NECESSITY AUTHORIZING
CONSTRUCTION OF A 175 MW NATURAL
GAS-FIRED SIMPLE CYCLE GENERATING
FACILITY AND ASSOCIATED
TRANSMISSION LINE TO THE WESTERN
AREA POWER ADMINISTRATION
("WAPA") GRIFFITH SWITCHYARD.

DOCKET NO. L-00000FF-07-0134-00133

NOTICE OF FILING STAFF'S UPDATED
SUMMARY OF NATURAL GAS ISSUES

Staff of the Arizona Corporation Commission ("Staff") hereby files Robert Gray's Updated
Summary of Natural Gas Issues in the above matter.

RESPECTFULLY SUBMITTED this 12th of September 2007.

Maureen A. Scott, Senior Staff Counsel
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Original and Twenty-Eight (28) copies
of the foregoing filed this 12th day of
September 2007 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
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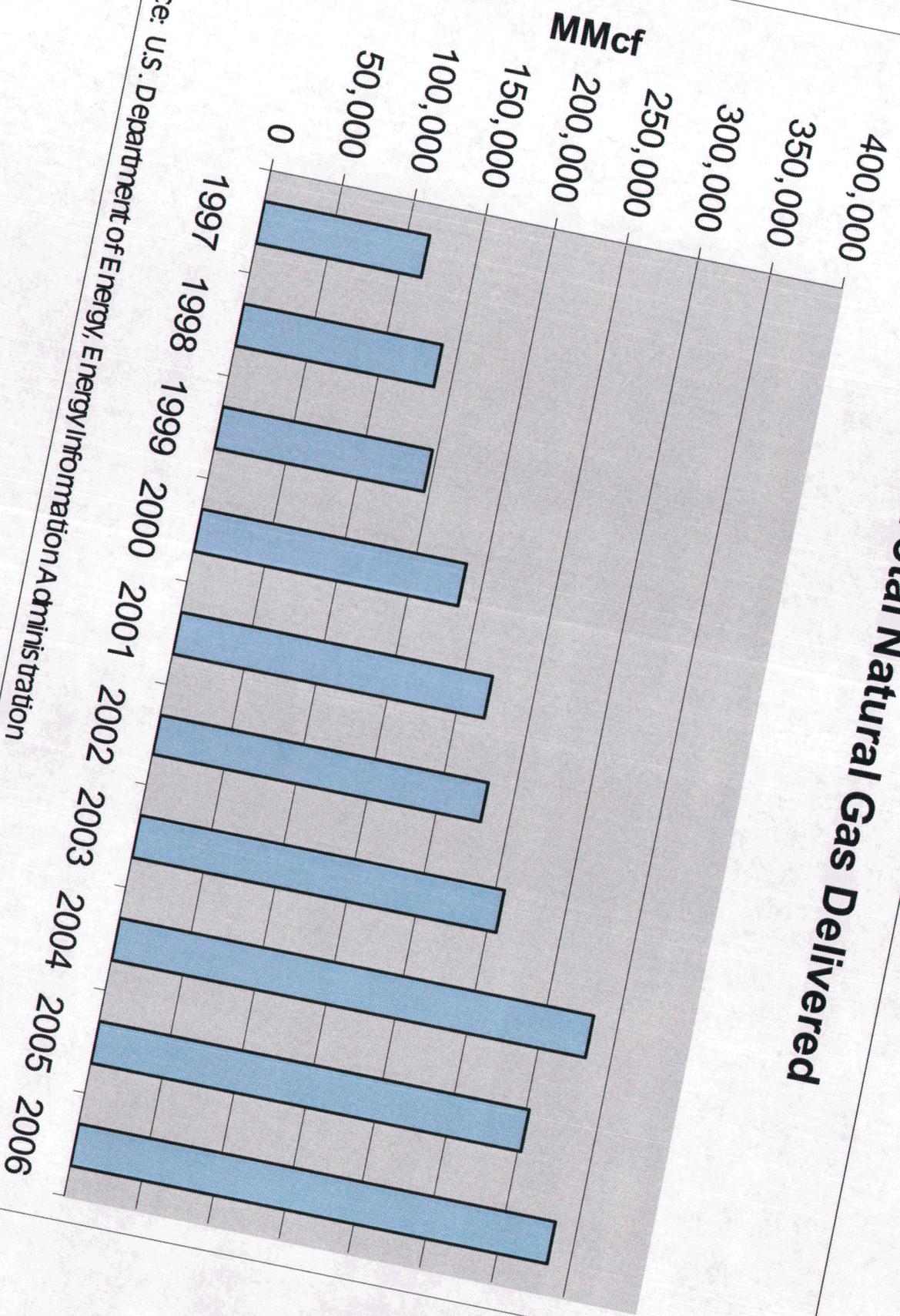
Summary of Natural Gas Issues

Bob Gray, ACCC Staff

September 2007

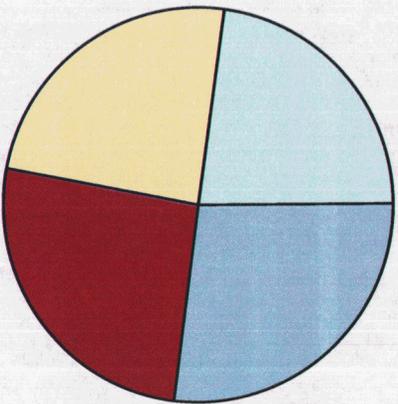
Docket Number: L-00000FF-07-0134-00133

Arizona Total Natural Gas Delivered



Source: U.S. Department of Energy, Energy Information Administration

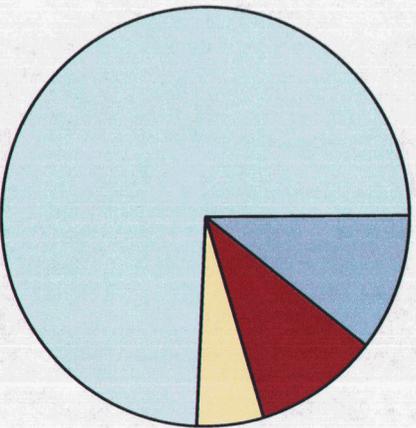
Arizona Delivered Volumes by Sector - 1997



- Residential
- Commercial
- Industrial
- Power Generation

Source: U.S. Department of Energy, Energy Information Administration

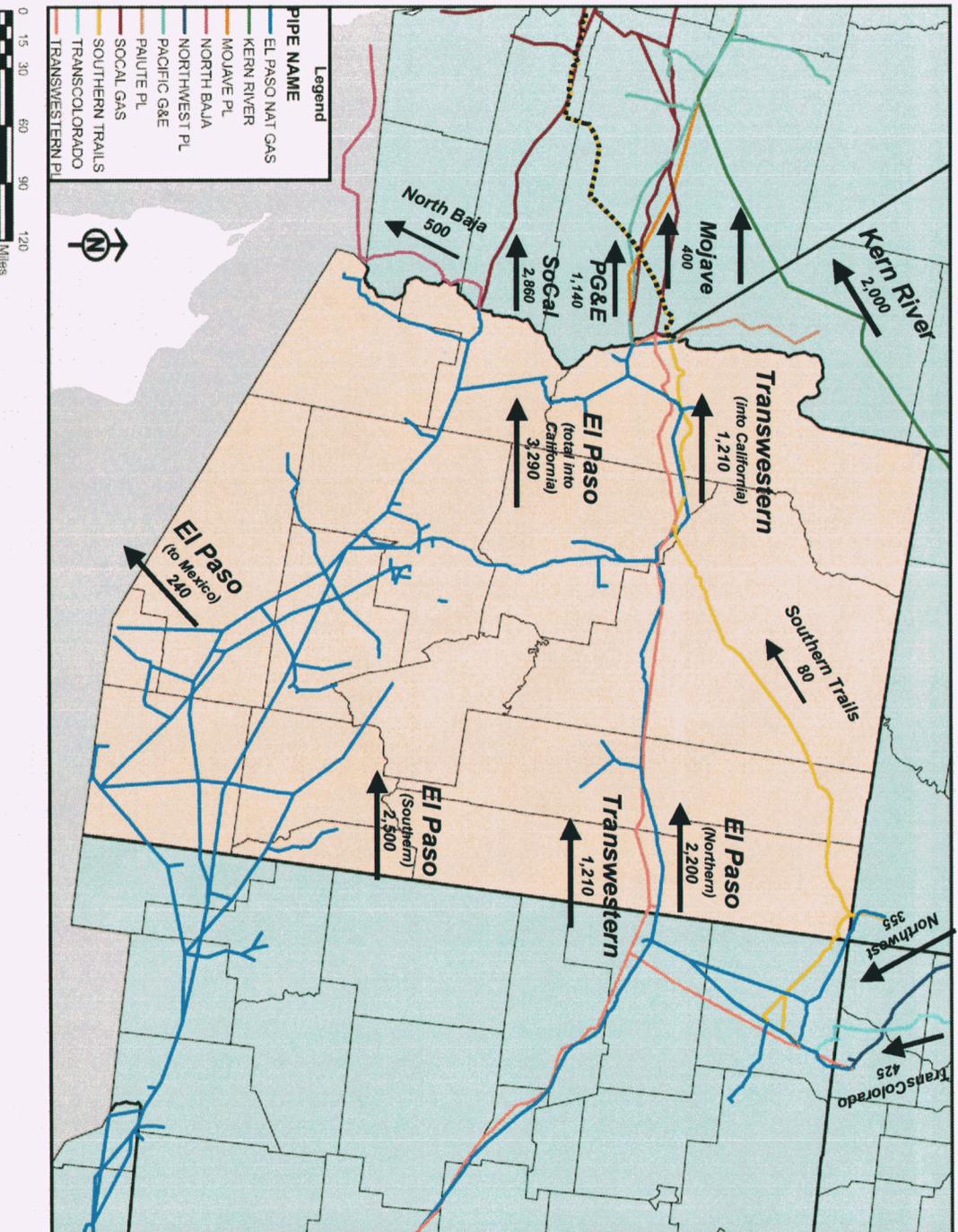
Arizona Delivered Volumes by Sector - 2006



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- Power Generation

Source: U.S. Department of Energy, Energy Information Administration

Natural Gas Pipelines In Arizona and Surrounding States



Recent Natural Gas Market Developments in Arizona

- On June 26, 2007, FERC approved an uncontested settlement agreement in Transwestern Pipeline's rate proceeding
- On August 31, 2007, FERC approved a contested settlement agreement in El Paso Natural Gas Company's rate proceeding. Under the settlement, El Paso will file its next rate case in June 2008.
- The ACC filed in support of the Transwestern rate case settlement and designated itself a non-opposing party in regard to the El Paso rate case settlement
- In September 2006, Transwestern filed with FERC for a certificate of convenience and necessity for its Phoenix Expansion Project that would bring a new lateral into central Arizona. Transwestern expects the project to be in service in 2008.
- The Costa Azul liquid natural gas import facility in Baja Mexico is expected to begin commercial operations in 2008
- El Paso continues to pursue a natural gas storage project in Pinal County, but to date there has been no certificate filing at FERC

The Northern Arizona Energy Project

- The project could access natural gas supplies via the El Paso, Transwestern, and Southern Trails pipelines
- The application indicates the plant will use 1,750 MMBtus of natural gas per hour. If the unit operated 5,000 hours per year, annual natural gas consumption would be 8,750,000 MMBtus

Growing Dependence on Natural Gas

- In recent years, Arizona has relied heavily on natural gas to meet its growing demand for electricity, and this project represents a further step in Arizona's growing reliance on natural gas
- This growing reliance on natural gas in Arizona and other parts of the country as the fuel of choice for electric generation raises a variety of technical and policy issues, both locally and nationally
- The recent announcement by the Bowie Generating Station that they will abandon a plan to use coal gassification as the primary fuel source, and will instead revert to natural gas as the sole fuel source, exacerbates Staff's concern
- Natural gas is the electric generation fuel source avenue of least resistance today. As such, Arizona and the United States are likely to continue relying on natural gas for most large scale new electric generation projects in the near term future.

What Are the Likely Impacts of Growing Dependence on Natural Gas?

- It is unclear where significant additional volumes of natural gas for electric generation will come from in the future if reliance and demand for natural gas continues to grow
- Higher and more volatile natural gas and electricity prices
- Growing reliance on LNG imports in a pattern reminiscent of the United States' oil import dependency
- The long term undermining of portions of the United States' industrial base
- Supply reliability concerns in areas such as Arizona, that do not have access to significant natural gas storage assets, particularly in market areas, such as Phoenix

Summary

- Commission Staff is concerned with Arizona's growing reliance on natural gas for electric generation
- However, given the peaking nature of this project, which is a role traditionally served in large part by natural gas plants, Staff's concerns in this particular case are lessened

Proposed Conditions

If the application in this case is approved, Staff recommends adoption of the following natural gas-related conditions:

- Applicant will participate in good faith in Arizona and regional workshops and other assessments of the natural gas infrastructure and market.
- Applicant shall pursue all necessary steps to ensure a reliable supply and delivery of natural gas for the Project.

These conditions have been adopted in a number of other recent siting cases for natural gas-fired electric generation stations, including Case No. 116 for the proposed La Paz generating facility and Case No. 114 for the proposed Wellton-Mohawk generating facility.