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**SALT RIVER PROJECT**

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**KELLY J. BARR, ESO.**

Manager, Regulatory Affairs & Contracts

2010 APR 28 A 10: 33

AZ CORP COMMISSION  
DOCKET CONTROL

April 23, 2010

Chairman Kristin K. Mayes  
Commissioner Gary Pierce  
Commissioner Sandra D. Kennedy  
Commissioner Paul Newman  
Commissioner Bob Stump  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

Arizona Corporation Commission  
**DOCKETED**

APR 28 2010

DOCKETED BY 

Re: SRP Response to Questions Posed at the Summer 2010 Energy Preparedness Meeting;  
Docket No. E-00000F-07-0199

Dear Commissioners:

Thank you for the opportunity to share SRP's energy preparedness for this summer at the ACC's Summer Energy Preparedness meeting on April 8, 2010. During the presentation, there were some questions raised by the Commissioners regarding a variety of topics. This letter responds to those inquiries.

**SRP's Energy Mix**

In response to a question from Chairman Mayes, SRP agreed to provide two pie charts showing SRP's energy mix for 2010 and 2015. SRP's Sustainable Portfolio is comprised of energy efficiency programs and renewables which include hydro. The pie charts, included as Attachment 1, reflect energy efficiency, renewables and hydro as separate components for both years.

**Springerville Unit 4 Transformer Fire**

Commissioner Newman wanted some additional information about a transformer fire that occurred during the startup of Springerville Unit 4. On December 31, 2008, an electrical fault occurred in the switchgear room which created an electrical explosion and a fire. The unit auxiliary transformer was damaged during the explosion and fire.

The cost of replacing the Unit Auxiliary Transformer and damaged switchgear was approximately \$8.65M. There was no loss of generation from Springerville Unit 4 because it was still under construction. The fire did not delay the scheduled Commercial Operation date of December 31, 2009, and we are pleased to report that the unit went commercial on December 16, 2009.

To date, SRP has been reimbursed by our Insurers for \$4 million and we expect an additional \$3.6 million to be received within the next 60-90 days. SRP is seeking to recover the remaining \$1 million (the SRP insurance deductible) from the Start-Up Contractor.

### **Natural Gas Storage**

Finally, several Commissioners asked about SRP's current gas storage arrangements in Texas. The following provides a summary of our current storage arrangements.

Since about 2003, SRP has contracted for natural gas storage from Chevron Keystone Gas Storage, LLC (or its predecessor, Unocal Keystone Gas Storage, LLC). Prior to that, SRP had contracted for storage services from Texaco and others. Chevron is the only firm storage provider SRP has today.

The storage facility is located near Winkler, TX which is in West Texas, about 50 miles west of Midland. Keystone Storage has a total inventory capacity of 7 billion cubic feet and injection/withdrawal capacities of 400/200 million cubic feet. The SRP contract provides various levels of firm inventory and injection/withdrawal rights throughout the year, as shown in Attachment 2.

The contract with Chevron is evergreen, renewing each year unless cancelled with proper notice by either party. The evergreen renewal has a specified annual escalation rate for the demand charge component of the rate. Since inception, there have been two renegotiations of the demand charges, one initiated by each party.

SRP employs its storage to manage its operational natural gas fuels needs. Due to the volatility of its load, especially during extreme weather events, and due to unplanned outages of scheduled generating units, SRP must have reliable access to incremental fuel supplies and, conversely, to be able to dispose of excess fuel. This need arises from the need to manage imbalance with its transportation providers. Without storage, SRP could be forced to buy or sell gas at a disadvantage in the market; alternatively, it would face penalties and/or forced purchases/sales through the provider's tariff provisions regarding imbalance management.

Other market participants use gas storage to trade/arbitrage natural gas purchased for that purpose. SRP only purchases its forecasted fuel requirements and sells gas out of storage to manage its inventory position.

ACC Commissioners

April 23, 2010

Page 3

SRP's participation in the Arizona Coalition is for 2 billion cubic feet of natural gas storage space. If SRP were to obtain that 2 billion cubic feet of storage space in Arizona, we would most likely cancel our contract for storage in Texas.

Please feel free to contact me if you have any questions or need additional information.

Sincerely,



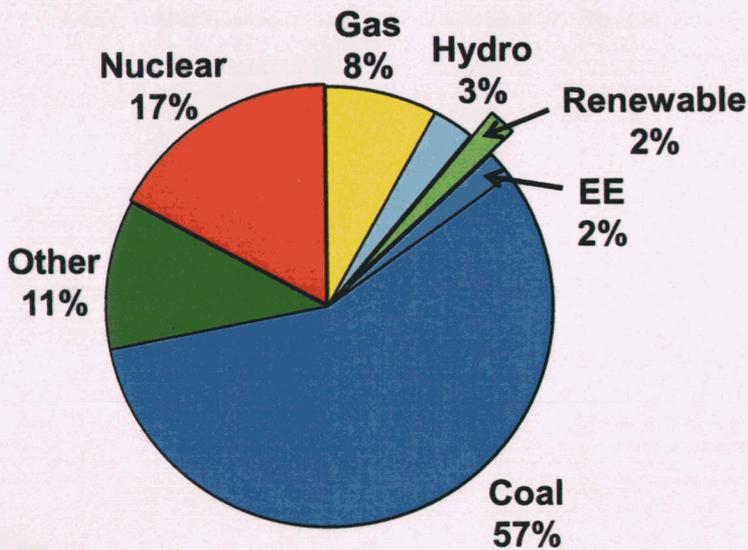
Kelly J. Barr

cc: Steve Olea  
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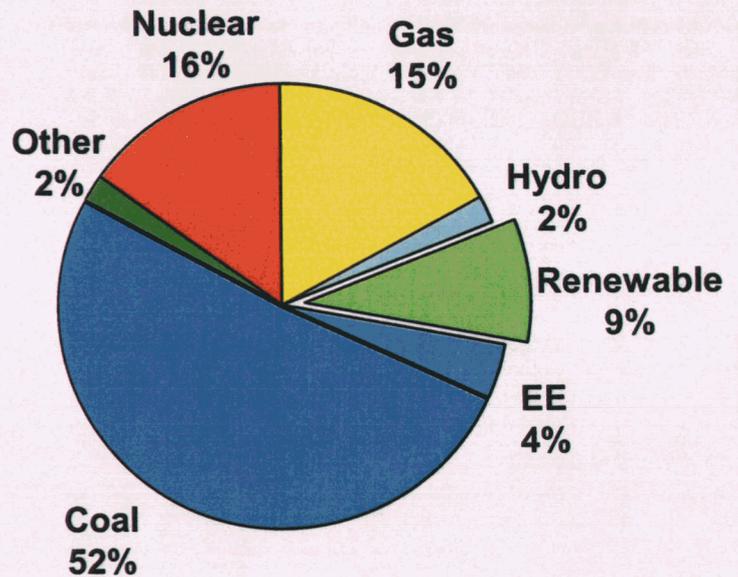
Attachments (2)

Attachment 1

# SRP Energy Supply Portfolio Projected Energy Mix



**FY 2010**



**FY 2015**

**Attachment 2**

**Contract Quantities (Decatherms)**

	<u>Inventory</u>	<u>Injection*</u>	<u>Withdrawal</u>
January	600,000	30,000	35,000
February	600,000	30,000	35,000
March	600,000	30,000	35,000
April	600,000	40,000	45,000
May	1,000,000	57,000	65,000
June	1,000,000	57,000	65,000
July	1,000,000	57,000	65,000
August	1,000,000	47,000	65,000
September	1,000,000	47,000	65,000
October	600,000	30,000	35,000
November	600,000	30,000	35,000
December	600,000	30,000	35,000

\* Rate reduced when Inventory  $\geq$  2/3 Quantity

**Note:** One million decatherms, or one million mmBtu, is roughly equivalent to 1 billion cubic feet of natural gas. Therefore, in the summer months, SRP has rights to 1 billion cubic feet of the total 7 billion cubic feet of capacity.