



Michael G. Sorensen
Fuels

PO Box 52025
Mail Station POB001
Phoenix, AZ 85072-2025
Phone: (602) 236-4304
Fax: (602) 236-4322
E-mail: mgsorens@srpnet.com

July 1, 2008

Ms. Rae McQuade
Director
North American Energy Standards Board
1301 Fannin, Suite 2350
Houston, TX 77002

FAX: (713) 356-0067

Subject: Order No. 698: Intraday Nomination Timeline Proposals Affidavit

Dear Ms. McQuade:

Salt River Project Agricultural Improvement & Power District (SRP) submits the following affidavit for inclusion in the record for the NAESB Wholesale Gas Quadrant's (WGQ) activities relating to the above-referenced subject.

SRP understands that on June 4, 2008 the Business Practices Subcommittee recommended to the WGQ Executive Committee that no change be made to the existing gas nomination timeline. Maintaining the status quo is problematic for the entire system. It diminishes the value of firm service and contributes to reliability concerns of many firm shippers.

The attached affidavit explains some of the issues we face in the desert Southwest. SRP has an obligation to serve; however, electric demand and natural gas supplies in our service area are highly volatile due to unforeseeable variations in weather, unplanned unit outages, electric transmission system disruptions, natural gas pipeline maintenance and disruptions, and natural gas supply disruptions. Variations in electric demand are met with SRP's gas-fired peaking units; therefore, SRP needs to have access to its firm capacity in Intraday cycles to adjust its nominated gas fuel requirements. Under the current NAESB timeline, SRP's last guaranteed ("bumping") opportunity to change its gas nomination occurs at 10:00 a.m. CCT. This means that it has no guaranteed ability to access its contracted firm capacity to respond to unforeseeable circumstances for the remaining 23 hours of the gas flow day. In addition, SRP's nominations to third party storage cannot be confirmed in late day nominations because there is no uniform late day "bumpable" cycle.

SRP and other load serving shippers need flexibility to reliably meet unforeseeable changes throughout the day. Such shippers depend on their firm service contracts to provide them with reliable gas transportation service. We urge NAESB to approve the APS/TVA proposal or keep working on this issue. If further work is to be done, we appeal to NAESB to submit the full record to the Commission and seek its guidance on the nomination cycles "no-bump" policy.

Sincerely,

A handwritten signature in blue ink that reads "Michael G. Sorensen". The signature is written in a cursive, flowing style.

Michael G. Sorensen
Manager, Fuels

Attachment

AFFIDAVIT of
Paul A. Jones
Senior Marketing Representative
Salt River Project

I, Paul A. Jones, on behalf of the Salt River Project Agricultural Improvement and Power District ("SRP"), do hereby swear and attest as follows:

- 1 I am a Senior Marketing Representative in the Supply & Trading Department of Salt River Project Agricultural and Power Improvement District (SRP). In that capacity, my duties include purchasing and scheduling on the El Paso Natural Gas Company ("EPNG") pipeline system all natural gas volumes required to operate SRP's gas-fired electric generation at its Kyrene, Agua Fria and Santan plants in Maricopa County and its Desert Basin plant in Pinal County, Arizona, totaling about 3,000 MW. I have been employed by SRP since 1998 and have held my current position since 2002. I received a BS from the United States Military Academy in 1973 and a MBA from the University of Tulsa in 1986.
2. Fuel purchases are made on forward (typically, month-ahead), day-ahead and daily bases. The variability of the demands on SRP's generating resources are created by its obligation to serve its customers and result from unforeseeable changes in its operating environment that require SRP to make many daily changes to its gas scheduling. The variability of demand primarily impacts SRP's gas-fired generation resources because these units were designed to and have the performance characteristics necessary to respond to the variations in demand SRP experiences.
3. The purpose of this Affidavit is to describe difficulties and risks faced by SRP that result from the current NAESB nominating cycles. To a significant degree, the issues faced by SRP result from changes in the natural gas industry since 2002. Among these changes are the pipeline service provider's imposition of hourly services, daily/hourly penalties and the use of flow controls.
- 4 In addition to pipeline services, SRP has since 1998 contracted for firm storage services from third party providers because its pipeline service provider offered no firm storage services. SRP's intent in maintaining firm access to storage has been purely operational – to assure access to gas supply when required for additional power generation and to assure SRP can reduce its flow gas when power demand decreases. Due to the

variability in its gas fuel demand,¹ SRP makes numerous changes in an effort to insure compliance with its pipeline service provider's requirements. Not all of these transactions have been conducted on the intra-day cycles; SRP has, in the past, experienced a number of occasions (mostly during high use periods, both summer and winter, but also during periods of pipeline maintenance) where its intra-day nomination of storage gas was reduced or not scheduled due to prior nominations by other parties. The pipeline provider, when questioned, stated that alternate firm and interruptible nominations from other shippers were occupying the firm capacity held under contract by SRP.² In an effort to avoid being cut off from its contract storage in periods of high demand, SRP often schedules storage withdrawals in the Timely (Cycle 1) or Evening (Cycle 2) cycles if it believes its gas requirements may increase above the current scheduled quantity. If the forecast demand does increase, sufficient gas will be available – if not, SRP must deal with the imbalance (pack) during the intra-day cycles (Cycles 3 and 4). It is not always possible to reduce scheduled quantities sufficiently to eliminate the imbalance due to scheduling limitations³ and other factors.

5. SRP also uses the intra-day cycles to obtain additional gas when necessary. However, it is not always possible to locate a supplier for gas in the intraday cycles. Many, if not most, natural gas suppliers/marketers seek to place (sell) their natural gas in the day-ahead market, with only unexpected increases in supplies or storage gas offered in the intra-day market. Those suppliers/marketers who hold storage capacity may be able to provide intra-day supply, but the market is familiar with those who can provide intra-day supplies. Unless the need is identified early-on by the buyer, these suppliers may have already placed their available supplies.⁴ Similar to the situation encountered with storage withdrawals, other shippers' nominations from earlier cycles can prevent SRP from scheduling on its firm capacity rights in intra-day cycles. One recent example of this occurred on June 21, 2008, when SRP arranged for 20,000 decatherms of additional supply that was nominated in the Intra-day 2 cycle; only 14,783 was scheduled due to other nominations scheduled in prior cycles over the same path SRP sought to employ – this despite SRP's primary rights on that path. The total of all gas ultimately scheduled by the pipeline provider represented only 76% of SRP's contract rights.
6. The risks to SRP that result from the situations described above vary with the circumstances that exist on the pipeline system. In non-critical operating conditions, the

¹ This most often results from weather events/forecast errors, non-gas generation outages, transmission outages (such as forest fires), other control area outages, mutual support requirements and WECC reliability coordination directives.

² This occurred as recently as April 30, 2008, not a date of particularly high demand or maintenance. SRP only has visibility of its own nominations; it must rely on the transportation provider to explain what causes certain types of reductions to its nominations.

³ Elapsed Pro-rata Scheduled Quantity (EPSQ) limits the amount of reduction in nominated quantities in the intra-day cycles.

⁴ Even if those parties have supply available, if the Intra-day 2 cycle is closed, it is virtually impossible to obtain those supplies, as interconnecting pipelines don't allow additional nominations.

risks associated with the inability to increase the gas scheduled are of lesser import,⁵ except that it can contribute to the pipeline system moving into a critical operating condition. The risks associated with critical conditions are dramatic – not only are there extraordinary financial risks due to the penalties that can result, but there is the risk that flow controls⁶ will force limitations in electric generation, which can lead to interruption of service. As the electric load (demand) increases in the Phoenix Metropolitan area, local utilities must start and run local generation.⁷ During high load days, these units must run because of import capacity limitations on the electric transmission system⁸ and for voltage support. Most of the local generation in Phoenix consists of natural gas fired units.⁹ As the combined loads served by the local utilities increase, so does the requirement to run local generation to maintain both the power flow into the Phoenix area and system reliability. If demand exceeds the import capability and local generation, load will have to be curtailed or dropped (service interrupted). Furthermore, even if this worst-case scenario is not realized, the limitations on local generation will impact SRP's reserve status, which could result in violations of NERC reliability requirements.

⁷ This completes my Affidavit.

⁵ The imbalance that results and the financial penalties imposed are manageable.

⁶ Currently, flow control will only be implemented in critical conditions by the pipeline provider.

⁷ This is a cooperative effort, as there is a sequence that must be followed to maintain reliability.

⁸ Ambient temperatures and smoke from forest fires near transmission corridors can further degrade import capacity, regardless of the amount of local generation running. SRP relies on the transmission system to import power generated by its remotely-located generation, which includes all of its base-load generating capacity (e.g., Palo Verde Nuclear Generating Station), as well as market purchases of power, into its service territory to serve customer demand.

⁹ SRP has about 200 MW of hydro generation capacity, but the availability of this resource is impacted by circumstances within the watershed it manages.

STATE OF ARIZONA)
COUNTY OF MARICOPA

Paul A. Jones, being first duly sworn, deposes and states that he is the same Paul A. Jones referred to in the document entitled "Affidavit of Paul A. Jones" and that the statements set forth therein are true and correct to the best of his knowledge, information, and belief.



Subscribed and sworn to before me this 1ST day of July, 2008.


Notary Public

My commission expires: _____

