

ORIGINAL



RECEIVED

SALT RIVER PROJECT
P. O. Box 52025
Phoenix, AZ 85072-2025
(602) 236-5262
Fax (602) 236-3458
kjbar@srpnet.com

2003 APR 15 AM 11:24
AZ CORP COMMISSION
DOCKETED

KELLY J. BARR, ESQ.
Manager, Regulatory Affairs & Contracts
E-00000A-02-0051
E-01345A-01-0822
E-01933A-02-0069
E-00000A-01-0630

April 14, 2003

Mr. Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED
APR 15 2003

DOCKETED BY *CAJ*

RE: ACC Electric Competition Advisory Group – SRP's Comments
Docket No. E-00000A-02-0051, et.al.

Dear Mr. Johnson:

SRP is pleased to participate in the ACC's Electric Competition Advisory Group and we appreciate the opportunity to provide comments to the Arizona Corporation Commission regarding its electric competition rules. As required by A.R.S. § 30-802(A), SRP continues to actively work with the ACC to identify opportunities to coordinate our efforts to promote consistent statewide application of our respective rules, procedures and orders. SRP suggests that the ACC's review of the electric competition rules be broadened to include a discussion of key policy issues – similar to the reviews recently completed by the Arizona Legislature and SRP's Board of Directors.

As you may be aware, the legislature formed the Ad Hoc Electric Industry Competition Study Committee in 2001 to review consumer protection concerns relating to the electric industry structure in Arizona. During 2002, the committee examined and made recommendations on issues relating to the status of electric competition in the western grid and in Arizona. Commissioner Hatch-Miller, in his capacity as Chairman of the House Energy, Utilities and Technology Committee, served as co-chair of the committee and Commissioner Mundell served as an advisory member representing the interests of the ACC. The committee was comprised of four senators and three representatives, with an advisory committee that included the RUCO director, ACC chairman, and a representative for large business, small business, general public, merchant power plants, electric cooperatives, City of Mesa, TEP, APS and SRP.

The committee studied the following eight issues: (1) the causes and effects of the deregulation structure in the state of California and other western states; (2) measures to protect consumers from volatile wholesale and retail price swings; (3) measures to insure the safety and reliability of the electric system; (4) measures to insure that Arizona retains the benefits of its valuable electric system assets; (5) the impact of the creation of regional transmission organizations in the west; (6) the intent and effect of

Mr. Ernest Johnson, Director

April 14, 2003

Page Two

the state and federal lobbying efforts of Enron Corporation; (7) any other issue that the Committee deems relevant; and (8) appropriate changes to the electric power competition act.

Key witnesses testifying on these issues included representatives of consumer groups and federal, state and industry experts. For example, the Chairman of the Utilities and Commerce Committee on Energy Costs and Availability for the California Legislature and the executive directors of The Utility Reform Network (TURN) and the Independent Energy Producers Association shared the mistakes made and the lessons learned from the California restructuring experience. An industry expert and FERC official discussed the wholesale energy markets, addressing standard market design, transmission rights, and RTOs. A draft of the final report of the study committee was made available in February 2003 and is pending final approval by the committee. In its report, the committee concluded that these issues raised sufficient concern to require additional study and recommended the reappointment of the committee to allow for such further study. A copy of the final draft of the report is attached.

SRP's Board undertook a similar review in the second half of 2002. The SRP Board reviewed the status of deregulation in Arizona and the rest of the nation, examining the experiences of other states, such as California, Nevada, Texas, Pennsylvania, and Oregon that have begun to implement retail competition. The Board also reviewed the activities of the Legislative Ad Hoc Committee and the ACC, examined the history of the electric industry and the actions leading to the deregulation of the industry, as well as the possible implications of FERC's standard market design proposal on Arizona and the electric industry. At the conclusion of the process, the SRP Board identified a number of policy issues that require additional review and is hopeful that the ACC and the legislature will undertake a joint review of the advisability of implementing retail competition while the wholesale market is being re-regulated.

In summary, SRP encourages the ACC to conduct a broader review of key competition-related policy issues. SRP suggests that the ACC specifically study the effects of its new competitive bidding requirement on the implementation of retail competition in Arizona and further study the policy issues reviewed by the legislature.

I look forward to discussing SRP's proposal in more detail at the upcoming Electric Competition Advisory Group's meeting. If you have any questions in the interim, please feel free to contact me at (602) 236-5262.

Sincerely,



Kelly J. Barr

cc: Docket Control (Original and 13 Copies)

To review consumer protection concerns relating to electric industry structure in Arizona. The Committee shall examine and make recommendations on the following issues relating to the status of electric competition in the western grid and in Arizona in particular:

(1) the causes and effects of the deregulation structure in the state of California and other western states;

California's efforts at electric restructuring were seen by most as a failure. Several specific reasons included: requiring third party divestiture of assets; a lack of ability to enter into long term contracts; forcing providers to purchase on the spot market; a lack of reserves; an unstable wholesale market; volatile fuel prices; failure to allow adequate infrastructure to provide for growth; coincidental weather factors contributing to a lack of hydro power being delivered from the northwest; price caps on the amount a provider could charge retail consumers; wholesale, exacerbated by market manipulation; transmission capacity manipulation; and politically motivated decisions delaying appropriate state responses to the crisis.

Arizona is seen as different from California. ~~As such,~~ Arizona established a restructuring plan that avoided or attempted to avoid many of the pitfalls that California experienced due to its systemically flawed market structure. However, Arizona is tied to California and the western U.S. electric grid and our utilities ~~are~~ have been negatively impacted from the ~~aftermath~~ by of the California market experience.

There is consensus that Arizona requires reliable, affordable and available electricity.

July 30th meeting (2002) - R. Wright (California, 48th Assembly) et. al.
September 17th meeting (2002) - M. Brown (NCSL)

(2) measures to protect consumers from volatile wholesale and retail price swings;

One common strategy is to encourage and promote public policy that fosters a robust wholesale market with adequate reserves, generation and transmission capacities. Complementing this is the ability for participants to enter into long term contracts for power supply and transmission resources.

If a competitive wholesale market is lacking, then load-serving entities should be allowed to build generation facilities or otherwise plan for needed expected growth in order to ensure reliable, affordable and available electricity for their consumers.

July 30th meeting (2002) - R. Wright (California, 48th Assembly) et. al.
September 17th meeting (2002) - M. Brown (NCSL)

(3) measures to insure the safety and reliability of the electric system;

Arizona needs to establish a long-term, sustainable method strategy to serve its growing energy needs, recognizing that during the past decade, ~~and into the foreseeable future,~~ the state's energy

demand has experienced, ~~and most likely will continue to experience,~~ substantial growth. This growth is likely to continue in the foreseeable future.

Safety and reliability considerations include ensuring adequate generation capacity, siting and building transmission facilities, planning for needed reserves, ~~—~~establishing a pattern of consistent regulation and planning for adequate resources. A safe and reliable electric system depends upon all participants adhering to established industry protocols.

July 30th meeting (2002) - R. Wright (California, 48th Assembly)

(4) measures to insure that Arizona retains the benefits of its valuable electric system assets;

Arizona's electric system is not designed for a national one-size-fits-all approach to regulation, as recently proposed by the Federal Energy Regulatory Commission (FERC).

Concerns were raised throughout different committee meetings that federal intervention by means such as Standard Market Design (SMD) would result in a risk to reliable, affordable and available electricity for consumers. Western coordination that takes into account geographic differences is better than a one-size-fits-all approach based on Eastern and Midwestern U.S. electric grid models.

Public policy should recognize that Arizona is an integral part of the Western U.S. electric grid. Efforts need to be made to emphasize coordination -at the regional level.

August 19th meeting (2002) – T. Johnson (Tabors Caramanis and Associates)

September 17th meeting (2002) – C. Kemply (ACC)

October 16th meeting (2002) – committee discussion

(5) the impact of the creation of regional transmission organizations in the west;

Policy makers should be hesitant to turn over control of Arizona's transmission and generation facilities to unproven organizations under federal regulation. The purpose of regional transmission organizations (RTOs) in a regulated market design is unclear, ~~and p~~Participation in RTOs by transmission facility owners should be voluntary.

October 16th meeting – committee discussion

(6) the intent and effect of the state and federal lobbying efforts of Enron Corporation;

The committee did not address this issue.

(7) any other issue that the Committee deems relevant;

WORKING GROUP ISSUES:

Since September 11, 2001, new concerns have arisen regarding physical security of utility infrastructure. The working group mentioned the need for a coordinated system to protect utility transmission and generation assets and to ensure delivery in times of crisis.

Arizona needs to maintain an adequate and diverse fuel portfolio guarding against over-reliance on one single fuel for electric generation.

(8) appropriate changes to the electric power competition act.

The Committee finds that there is a value to Investor Owned Utilities (IOUs) and Public Power Entities (PPEs) working under the same market design. An effective system requires regulatory stability at all levels and a parallel track for PPEs and IOUs. Such coordination is essential for the long-term health of Arizona's power industry to maintain a stable regulatory environment.

Therefore, the Committee respectfully recommends that the President of the Senate and the Speaker of the House of Representatives to re-appoint the Ad Hoc Legislative Study Committee. The committee shall continue to hear testimony and receive briefings on the status of the hearings before the Arizona Corporation Commission with respect to the restructuring of the electric industry.

In addition, the committee should be directed to monitor the actions of the ~~Federal~~ United States Congress and Federal Energy Regulatory Commission, as well as to review reports of the Corporation Commission's electric competition advisory group. This will help facilitate communication and information sharing among elected officials, industry stakeholders, residential and business consumers, and the *general public*. By continuing to monitor events as they occur on the state and federal levels, the committee will be able to provide policy makers with the necessary tools to make informed decisions for -Arizona consumers, and to do so in a coordinated manner with the Corporation Commission.

September 17th meeting (2002)- - M. Brown (NCSL)