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EXECUTIVE OFFICE

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September 13, 1996

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Arizona Corporation Commission

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The Honorable Renz Jennings
Chairman
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

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Docket No. U-0000-94-165

Dear Chairman Jennings:

I am writing to you about a matter of utmost importance to the citizens of Arizona.

As you know, I am committed to the development of a competitive market place for electricity as evidenced by House Bill 2504 enacted by the Legislature and signed by me in the 1996 Regular Session. This bill establishes a comprehensive approach to the study and implementation of electric industry competition in this state. It provides for a Joint Legislative Study Committee and report, as well as an Advisory Committee on this issue, both of which allow for full participation and representation by all affected entities, including the Corporation Commission. The Commission is represented by appointment to the Advisory Committee.

I am concerned that the Commission may act before a timely and in-depth study of critical issues can be made. Serious issues, such as competitive reciprocity in service territories, voltage control, stranded investment and most important, system reliability need to be studied and resolved. While many issues can be resolved after the institution of competition, reliability issues cannot. The single most important consideration in transitioning Arizona's electric utility industry is that we do no harm to a system that until recently has provided reliable power safely to Arizona citizens.

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As you are well aware, on August 10th, Arizona, as well as several other Western States, experienced a significant power outage that affected more than 600,000 Arizona citizens and businesses. The power outage occurred when power lines came into contact with trees which sent a disruption throughout much of the Western Grid knocking out power plants in several states and leaving large areas of the Western United States without power. The incident occurred because a utility in Oregon failed in its responsibility to trim trees as part of its maintenance program and because it failed to timely notify neighboring states of the disruption.

The power outage illustrates the need for in-depth study of issues related to the reliable provision of power both at the state and regional level. Arizona cannot simply go it alone. As the power outage demonstrated, safe and reliable power for Arizona citizens depends as much on its neighboring states as it does on Arizona's electric utilities. We simply must have regional standards that are mandatory for electric utilities operating in the Western area before we move to a competitive forum. Issues, such as commerce, health and safety and national security, demand that reliability issues be resolved as the likelihood of further power system failures will continue to increase without such a system as electric utilities shed costs to prepare for competition.

As you know, Arizona is a member of the Western Systems Coordinating Council consisting of the 14 Western most states. Participation for Arizona's electric utilities is voluntary and no enforcement mechanisms exist for enforcing Council determinations. In the cost plus era of rate regulation service quality and system maintenance through peer review worked well since utilities were guaranteed investment recovery. But, as we move to a competitive market place, utilities are unlikely to share information or work together to achieve region-wide system reliability without a mandatory system that would establish and enforce reliability requirements.

One example is Puget Power and Light, a \$1.4 billion company that, until recently, was a member of the WSCC. It withdrew from the WSCC last year to avoid the \$12,000 annual membership payment. The membership payment is used in large part to fund phase shifters that help maintain system reliability.

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The consequences of not resolving the reliability issue on a regional basis may result in power outages more significant than the August 10th disruption that caused several million dollars of equipment loss private and public, loss in business activity for Arizona businesses, hardship on our citizens and threatened those of our citizens who are dependent upon electricity for life support. Simply put, to frivolously move ahead in your zeal to institute competition may threaten power availability for our citizens. In a desert climate, the dangers of not resolving reliability issues risks the health and safety of our citizens, especially our elderly and sick. We simply must resolve this issue before we transition Arizona's electric industry.

Finally, there are legal considerations that must be resolved as well. While I do not contest the Constitutional authority of the Commission to establish just and reasonable rates for electric public service corporations under Article XV, section 3, I am concerned that the proposed rules go beyond ratemaking. As currently proposed the rules affect the exclusive nature and property rights associated with electric utility certificates of convenience and necessity that are issued by the Commission pursuant to express legal authority to do so. Arizona Revised Statutes section 40-281.

The issue here is that the Legislature has established a procedure in House Bill 2504 to determine how to enlarge the Commission's authority over retail electric competition that is in the best interests of the Arizona economy and the people of this state. This is an issue for the Joint Legislative Committee and the Advisory Committee of which the Commission is a member.

I do not believe that it is responsible public policy for the Commission to be considering any rule changes in this important area without full cooperation of the Legislative and Executive Branches. We should proceed carefully and only after we have resolved the many outstanding issues that must be dealt with in order to preserve the best aspects of the regulated industry, safety and reliability. The proper mechanism has been put into place for this procedure through House Bill 2504.

So there is no mistake, let me be clear about my position. I welcome competition and believe Arizona consumers, small and large, will benefit. I also believe all classes of consumers should benefit by having access to the competitive market place on the same terms and same time schedule as the large industrials. However, it behooves us as a state to resolve important issues, such as reliability, so as not to jeopardize the lives of our citizens.

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By working together, we can achieve a working document that will advance the cause of competition while preserving the many good things that have existed for 84 years in the regulated electric utility industry. I look forward to working with you to resolve the many utility issues that confront us as a state.

Sincerely,

A handwritten signature in black ink, appearing to read "Fife Symington". The signature is fluid and cursive, with a large initial "F" and a stylized "S" at the end.

Fife Symington
GOVERNOR

cc: The Honorable Marcia Weeks
The Honorable Carl Kunasek