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- Arizona Republic

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AZ CORP COMMISSION

Arizona Corporation Commission

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Oct. 25, 1996

Nov 15 2 22 PM '96

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Dear Editor:

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In all the controversy that is going on about how and when the electric power industry should be turned loose to the tender mercies of the "Free Market", there is one important area that is being virtually ignored by the media. This is what is politely referred to as "stranded investment."

It might, more bluntly, be referred to as poor planning, lineal projection of current trends, monument building, financing gut reactions, or just plain bad luck. In the free market, such unwarranted expenditures are paid for by the stockholders, or if the blunder is larger than the stockholders can afford, the company goes bankrupt.

The Arizona public utilities have obviously not come to this frame of mind yet, or perhaps, more accurately, they hope that the Corporation Commission hasn't. As your Oct. 3 edition put it, "the rules don't adequately spell out how utilities can recover "stranded investment", which are costs

of plant and equipment that they normally would recover as part of regulated rates."

The answer is, that in a free market, with unlimited competition, you don't recover the costs of your mistakes, unless perchance all your competitors made the same mistake.

Thus anyone who gets a warm feeling, of security, because of regulation, will undoubtedly be pleasantly surprised by the results after 5 or 10 years of deregulated power supply.

Regulators don't protect anyone except the people they regulate, and they protect them from competition. In effect, they guaranteed the business being regulated a certain percent profit on investment. Thus it behooves the regulated company to invest as much as possible, whether it is productive or not. They get to earn a profit on the investment, and if it turns sour, they get to add the continued depreciation of the "stranded investment" into their rates.

Kind of like going to Las Vegas with public money, and if you win you keep the win-

nings. If you lose you take it out of the public money.

Obviously, Arizona utilities must have significant sums invested in "stranded investments" or this would not be an issue.

Now, there is one form of "stranded investment" where the utilities have a point. This is regulatory investment. An example is Commissioner Jennings' insistence, that as part of the price for deregulation, the public utilities install solar capacity, regardless of cost, to generate 1% of their power capacity.

Here we are, embarked on deregulation, and before we can cast off, we are handed further regulations as part of our sailing orders. Ridiculous.

To whatever degree the "stranded investments" of the past are due to orders from regulators this should somehow be factored into future rates, and clearly specified as such.

Other than that, however, the Corporation Commission should move on, post haste, to full deregulation, so that:

A. We consumers can start to reap the

financial benefits of competitive power supply as quickly as possible.

B. So that our power suppliers are faced with the stark reality of competition as quickly as possible. My guess is, that a lot of management brought up in a protected regulatory environment will not be able to "cut the mustard." The sooner they find that out, and have their management replenished with entrepreneurs the better off we all will be.

- cc. Editor - Payson Roundup
- Remy Jennings - Corp. Comm.
- Gov. Fife Symington
- Kevin McCarthy - ATRA
- Jeff Flake - Goldwater Inst.
- Chuck Ditz - Speak Up America
- R. H. Bennett - Soc. Environ. Truth
- Pres. SRP
- Pres - Pinnacle West

Sincerely,

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