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OPEN MEETING AGENDA ITEM

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From: Gerry Toaa [gerrytoaa@gmail.com]
Sent: Monday, November 16, 2009 8:17 AM
To: Newman-Web; Kennedy-Web; Pierce-Web; Stump-Web; Mayes-WebEmail; Utilities Div - Mailbox
Subject: IRP rules: externalities

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Re: Proposals contained in Commissioner Paul Newman's September 2, 2009 letter to Mr. Steve Olea, Director, Utilities Division, regarding IRP rules

Dear Commissioners:

I appreciate this opportunity to offer comments on behalf of the **Citizens' Think Tank on Growing a Legacy Economy**. We are non-partisan advocates for an economy we can be proud to pass on to our children, an economy that solves problems faster than it creates them.

These proposals directly address our concern that the **tremendous problem-solving capabilities of entrepreneurial free market capitalism have been corrupted by externalities** - real costs that are not properly accounted for in the price of a product or service. Quite simply, externalities preclude transparency, without which there can be no rational markets; thus, a core and prerequisite principle of free market capitalism is corrupted. And this is not a mere academic issue; it has profound consequences in the real world, including for our energy infrastructure.

I have been an **Arizona Public Service Company share owner** since the 1960s - an era when I clearly remember nuclear energy being promoted as "too cheap to meter" (though I never heard that from the Company). As I've reflected on just how untrue that claim has proven to be - even before accounting for all of the externalities of nuclear power - I have learned important lessons. Let me set out just a few here:

1. **Bad accounting makes for bad decisions.** All costs should be on the books.
2. Externalities can be difficult to quantify, but **to ignore them makes an assumption that their value is ZERO. However, that is a vastly less accurate valuation than we're capable of reaching, even through estimation.** Where necessary, quantifying externalities within a range, as Commissioner Newman has proposed, is a quite satisfactory solution.
3. **Externalities ultimately get paid but...** typically not by those who incurred them. When they do get paid by those who incur them, the economy is properly incentivized to solve problems. When they get paid by others, they represent a cost to the economy without the benefit of incentivizing problem-solving. And that is an egregious waste of the tremendous problem-solving potential of entrepreneurial free market capitalism, not to mention the intellectual and fiscal capital squandered pursuing bad allocation decisions.
4. Energy is obviously a key part of our economy, with many externalities associated with it. To ignore energy externalities is profoundly irresponsible because it **puts our economy at risk of creating a house of cards vulnerable to collapse once the externalities come due.**
5. The American experience correlating executive pay with performance suggests **our means of pricing executive value is far from precise. In fact, the correlation is sometimes -1.0. Yet we don't let that imprecision stop us from paying executives.**
6. **Arizona's energy consumers - and share owners' investments in Pinnacle West** - are best protected by the Company having all costs on the books in front of its decision makers, so there are no future surprise liabilities. Tobacco companies have incurred tremendous liabilities for their externalities, and there are striking parallels with the energy sector. The sooner we put those externalities on the books, the sooner accounts-driven decision-making will be empowered to move us beyond the era of liabilities.

The issues you are considering here are profoundly important to correct the Achilles Heel of (the corrupted version of) entrepreneurial free market capitalism, as it has evolved in this great country. Your putting externalities "on the books" would be an exceedingly patriotic act to help us put our economy in order and assure this country's continued greatness.

Respectively,

Gerry Todd

Citizens' Think Tank on Growing a Legacy Economy

...an economy we can be proud to pass on to our children, an economy that solves problems faster than it creates them...