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# INTEROFFICE MEMORANDUM

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To: Gary Yaquinto, Director of Utilities  
From: Chairman Renz D. Jennings  
Date: September 23, 1996  
Subject: Power Outages

Arizona Corporation Commission

DOCKETED

SEP 25 1996

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While the August 21st workshop on power system outages provided us with a better understanding of the causes of this summer's power outages, it also pointed out that much more needs to be accomplished in understanding the relationship between competition in the electric industry and system reliability. As I previously discussed with you, I believe that the Commission should establish a task force to further examine power reliability issues and to report back to the Commission by the end of the year.

I am anxious to know what progress you have made on this project. Also, I would request that you keep Commissioners Weeks and Kunasek informed about the status of this project as appropriate.

cc: Commissioner Marcia Weeks  
Commissioner Carl Kunasek

RENZ D. JENNINGS  
CHAIRMAN

MARCIA WEEKS  
COMMISSIONER

CARL J. KUNASEK  
COMMISSIONER



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JAMES MATTHEWS  
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

OFFICE: (602) 542-3933  
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September 24, 1996

Arizona Corporation Commission  
**DOCKETED**

SEP 24 1996

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

DOCKETED BY	RJ
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Re: Electric Industry Restructuring - Docket No. U-0000-94-165

Dear Renz:

Following Wednesday's workshop on the proposed Electrical Restructuring Rule, I came away with several thoughts I would like to share with you.

First, the Commission staff has done a good job so far. There were many issues and rules in the document on which everyone in the room - even the naturally competing interest groups - seemed to agree. However, these same groups agreed that there were many, many issues that were inadequately addressed or problematic. This troubles me in light of the fact that we seem poised to press forward with rule adoption, complete or incomplete, come hell or high water.

During the meeting staff stated that the Commission would incorporate "the need for more workshops and issue resolution into the rule, and then proceed with the workshops after the rule was adopted." By that I assume staff meant that we'd adopt a rule, a major yet inadequate rule, with serious ramifications for the electrical industry and its consumers, and then go back and address points of conflict and/or uncertainty. This puts the cart before the horse.

I believe very strongly that we should continue on the present track of crafting the rule, soliciting input and continuing to build upon the good work done so far. I realize we want to proceed aggressively, but we also need to proceed prudently. All the players, including our own staff, need ample time to hammer out more details. I think that even staff displayed surprise when the problems unique to co-ops and their customers surfaced. Not until we have addressed all of the major concerns expressed at the workshop should we vote on a rule.

The Honorable Renz Jennings  
September 24, 1996  
Page 2

I would strongly support an aggressive time line for conflict and issue resolution, but I would not favor codification of any of the present rules language until most, if not all, issues were addressed.

On a similar issue, I read with interest your comments in the Arizona Republic on Saturday. I think that you are misjudging the motivations of Governor Symington and Representative Groskost. I doubt that their interest is political, as you imply, and I know that they are as interested in, and as pro-competition, as you and I are. To brush their letters off as politics is one thing, to ignore the underlying signal is quite another. Whether I agree with them in whole, in part, or not at all, is irrelevant to my point. I suspect, as several comments to the rule have strongly suggested, that the executive and legislative branches do have a role to play in deregulation of the electrical industry beyond the issue of municipalities.

To marginalize the legislative and executive branches could create several negative scenarios. One is the danger that they are correct when they say it is not within our power to adopt the rules initiating competition. Whether this is the case or not, I do not know. I suggest that we get an independent legal opinion from the Attorney General's office so as to clarify our options. Furthermore, if they do have a role, however small or large, we cannot afford to drive a wedge between the Commission and 1700 West Washington, that might result in dissimilar approaches to electric restructuring. This could lead to protracted legal battles that might slow final implementation of full competition or worse, delay it until after the proposed dates envisioned.

Finally, with respect to the reliability issues, I was pleased to see your memo to Mr. Yaquinto regarding system reliability. System reliability is my primary concern, and I agree that forming a task force is a necessary step in assuring the health and safety of Arizonans. As the Governor said in his letter, the August 10th power outage demonstrated that safe and reliable power is as dependent on our neighboring states as it is on Arizona's electric utilities. It is my understanding that the Governor intends on dealing with reliability as an action item at the Western Governors' meeting in November. As you are aware, there is little that the ACC can do unilaterally to affect an electrical delivery system that is made up of 14 western states plus parts of Canada and Mexico. Furthermore, there is overlapping geographic jurisdictions between the Western Governors Association and the Western Systems Coordinating Council. That is to say, that with the exception of parts of British Columbia and Baja, these are the perfect forums for dealing with reliability issues.

I respectfully suggest two things in addition to seeking an opinion from the Attorney General. First, that we back off of any adoption of rules until the many concerns stated in the workshop by the different interest groups are resolved, especially

The Honorable Renz Jennings  
September 24, 1996  
Page 3

reliability. I don't mean to suggest that the rule must be perfect to gain my support, because I do not believe that is possible and I do not want to study this thing to death at the risk of delaying competition. In fact, I believe very strongly that a well drafted rule, that has at least greater buy in by the affected parties, can actually accelerate final implementation of competition on a date far sooner than 2003. Second, I suggest that we have an informal meeting with the executive and legislative branches to air our various concerns. It can only help to get our various positions on the table.

After all, I think we all want the same things: a safe and reliable electric delivery system, a free market and lower utility costs for consumers. Granted the ACC is a constitutionally created entity, as are the executive and legislative branches. We would serve the public well by coordinating our efforts to maximize the results for all citizens.

I appreciate your attention to this matter and your consideration of my suggestions.

Sincerely,



Carl J. Kunasek  
Corporation Commissioner

CJK/bgm