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BEFORE THE ARIZONA CORPORATIO

BOB STUMP
Chairman
GARY PIERCE
Commissioner
BRENDA BURNS
Commissioner
BOB BURNS
Commissioner
SUSAN BITTER SMITH
Commissioner

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AZ CORP COMMISSION
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IN THE MATTER OF THE COMMISSION'S
INQUIRY INTO RETAIL ELECTRIC
COMPETITION.

Docket No. E-00000W-13-0135

SRP'S NOTICE OF FILING

On July 15, 2013 SRP submitted a letter from its General Manager, Mark Bonsall in connection with the filing of its comments regarding the Commission's inquiry into retail electric competition.

Subsequent to our filing it was noticed that the matter description in the letter was incorrect. Attached to this notice is a corrected letter from Mr. Bonsall. Please substitute the attached letter for the letter that was filed and sent out yesterday.

DATED this 16th day of July, 2013.

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Arizona Corporation Commission
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Mark B. Bonsall
General Manager and
Chief Executive Officer

July 15, 2013

Chairman Bob Stump
Commissioner Gary Pierce
Commissioner Brenda Burns
Commissioners Susan Bitter Smith
Commissioner Bob Burns
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2996

**RE: Docket No. E-00000W-13-0135: *In The Matter of the Commission's
Inquiry into Retail Electric Competition***

Dear Honorable Commissioners,

- 1) SRP prides itself on providing reliable low cost power to its nearly one million customers. We believe the current regulatory construct provides Arizona with the best possible platform to move into the future. In our attached comments, we address a variety of shortcomings that we see in the so called deregulated markets but I wanted to highlight our primary concern which is the adverse impact to long-term reliability and resource decisions.

The most important product of the electric system, by any measure, is reliability. Electricity is the commodity, but reliability is the most important product. Reliability in energy supply enables the economy to operate well and robustly, and assuring future reliability in energy supply is a fundamental precondition for economic growth.

By its very definition, reliability is achieved by intentionally and perpetually maintaining a targeted margin of excess capacity on the grid – so that if one resource goes down (either generation, or transmission), another is there to back it up. This means that if the temperature hits 119° F, sufficient resources are available such that AC units can continue to operate, and factories continue to produce their products; our reliability also ensures that if economic growth accelerates, it will not be retarded by insufficient energy supply.

However, consistently maintaining necessary capacity on the grid, by definition, cannot be supported by “deregulated” prices. Supply must exceed demand by a certain margin in order to secure reliability, and yet that very condition - supply consistently exceeding demand - leads to prices in a deregulated market insufficient to pay off the investment necessary to achieve the desired level of capacity. Thus, the conundrum-capital investment for reliability, and “deregulation”, are incompatible. Deregulation is a disincentive to the investment required for reliability. This simple fact – this obvious conundrum – is why experiment after experiment at “deregulation” in the electric industry have failed.

Clearly there are those that will argue this point. However, in SRP’s own experience, during the deregulation experiment in Arizona around the turn of the century proves otherwise. SRP deferred capital investment in the grid given the uncertainty surrounding our future revenue stream. What reserves we had were knowingly diminished to a substantially lower level. This is what happened before in Arizona, it is what has happened elsewhere in the country, and it is what will happen again in Arizona, if we unwisely move down the road of deregulation. It was not until the uncertainty surrounding future revenues was eliminated by the collapse of deregulation in California, and then Arizona, that SRP resumed normal and substantial investment in grid reliability.

- 2) While deregulation is a disincentive to investment in grid reliability, those investments that may be made will tend to be shorter term options, and tend to be made only when “shortage” prices are high enough to justify them, absent some other mechanism (many mechanisms have been tried in order to stimulate capital investment, which is why “deregulation” is really restructuring of the industry – simply devising new structures to do what incumbent utilities already do). In other words, given the uncertainty around revenues, options that are heavily capital intensive and/or take long lead times are not likely to be considered. “Quick fixes”, with shorter paybacks, will tend to be preferred, thus, deregulation tends to turn long term planning of energy supply into a fairly meaningless academic exercise.
- 3) Deregulation’s disincentive to long term investments will directly impact SRP’s efforts to assure continued operation of the Navajo Generating Station (“NGS”) - a critically important resource for the entire State of Arizona. The NGS story is quite complex, and we will not repeat it here. Our purpose in pursuing life extension for NGS, however, is to “keep Arizona whole.” Keeping Arizona whole means keeping the jobs associated with the plant; the economic benefits to the tribes; the benefits to Arizona’s water supplies; fuel diversity in the state’s resource mix; and a long term low cost generation resource for future generations. SRP faces several years of intense work, and potentially hundreds of millions of dollars of incremental investment in order to “keep Arizona whole”. We will not have the organizational capacity to get this critical job done if we have to deal, yet again, with deregulation. Moreover, the investment that will be necessary to create a reasonable future for NGS will simply likely not be made given uncertainty as to SRP’s load (retail demand) and attendant revenues. We expect the

investment to be substantial, and that deregulation would make the investment risk too high.

- 4) Deregulation, and the effort it took to implement it the first time, consumed the entire strategic focus of SRP for several years. The dismantling of deregulation – including the resolution of post-deregulation litigation – went on for years thereafter, and consumed yet more organizational focus – all purely wasteful. This is not a hypothetical – this was our actual experience. Deregulation sounds simple, but isn't. Consider the time and work it took from a regulatory and statutory point of view. That was followed by stranded cost determinations – another highly complex undertaking, the comprehensive redesign of pricing structures, the development of new transactional computer systems, the creation of the Arizona Independent Scheduling Administration, etc. Restructuring Arizona's energy supply is a literally gigantic and all-consuming effort – and we must ask, to what end?
- 5) Other than what you can count on one hand, we are not hearing any clamoring for the consideration of deregulation from any of SRP's customers. Our prices are attractive, our service consistently award-winning, our reliability high, our customer options numerous, our technology cutting edge, our community involvement deep and wide, and our communications extensive and consistent. Against this context, it seems that restructuring the entire energy infrastructure of the State of Arizona is a solution in search of a problem.

There are innumerable other concerns in relation to restructuring (deregulation). They are addressed in the attached position paper and responses to the questions posed by the Commission.

In summary, however, we find reconsideration of restructuring (deregulation), which has quite obviously failed, in Arizona, California and in the United States generally, to be extremely problematic as to reliability, as to resource planning, and as to the future of the Navajo Generating Station. For the reasons set forth above and in the attached, we urge the Commission to terminate consideration of this proposal at the earliest possible moment.



Mark Bonsall

Enclosure: Position Paper of the Salt River Project