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IN THE MATTER OF THE COMMISSION'S INQUIRY INTO RETAIL ELECTRIC COMPETITION	**DOCKET NO. E-00000W-13-0135**

Comments of the Interwest Energy Alliance

The Interwest Energy Alliance (Interwest) is a non-profit trade association that represents the nation's leading companies in the renewable energy industry and non-governmental organizations. Interwest works in a six-state region (Arizona, Colorado, Nevada, New Mexico, Utah, and Wyoming) to enact state-level policies that expand markets for renewable energy.

We appreciate the Commission soliciting information prior to a decision whether to proceed with retail electric competition. Restructuring of the electricity market is a very complex endeavor and we encourage the Commission to allow adequate time for all parties to engage and comment in the effort. Interwest members operate in all 50 U.S. states and many foreign countries. Our companies invest capital and resources in markets that have clear, transparent and stable market rules.

Interwest has not formed an opinion about whether de-regulation could be good for its members and Arizona consumers as the scope and extent of the market changes are unknown at this time. Interwest recognizes that there is a wide spectrum of possible changes that could be considered de-regulation. We intend to actively participate and provide comments in the restructuring docket, should one go forward.

Interwest has chosen to submit comments on *"Energy Trends"* that will influence the development of electric power sources in the future and *"Important Considerations"* that we

believe should be taken into account as the Commission evaluates whether to proceed in a rule making to restructure the electricity market in Arizona.

Energy Trends

As the Commission evaluates whether it is in the public interest to change the market rules for electric service providers, it is important to look beyond the state's borders. There are several energy trends that are changing and shaping the way electricity is being produced, transmitted and consumed.

A. **Greater use of natural gas** - As in the 1990's, many utilities, including Arizona utilities, are planning to build hundreds of megawatts of new natural gas-fired generation to meet load growth in the next ten years. This will add to the flexibility of the generation fleet but also increase exposure to cost volatility for customers. While natural gas will be an important component of the generation mix, full exposure for customers to fluctuations in short and long term natural gas cost increases will negatively affect consumers.

B. **Increasing development of renewable energy** – Declining costs of solar and wind energy, state renewable energy standards, increased private sector investment, and concerns about carbon dioxide emissions and climate disruptions are significantly accelerating the development and deployment of renewable energy. Renewable energy is diversifying the nation's electricity generation fleet while increasing price stability.

C. **Expanding regional coordination of transmission planning and system operation** – Coordination of planning and system operations among and between utilities in the west is increasing as a result of the Federal Energy Regulatory Commission's Order 1000 planning requirement; Joint Initiative efforts of WestConnect and other regional transmission planning efforts (such as the Dynamic Scheduling System and Intra-Hour Transaction Accelerator Platform (ITAP)/webExchange), and development of an Energy Imbalance Market to make energy available on a short-term basis. These coordination and efficiency efforts will increase system reliability and provide access to lower-cost resources.

D. **Increasingly intelligent transmission and distribution system** - Technologies such as smart meters that allow utilities to see behind the meter and potentially control energy demand, energy management systems that allow consumers to control their energy use, and synchrophasors on the transmission system that provide real-time flow data all increase the information available to consumers and utilities. Increased information will allow utilities to shape demand, provide price signals, and increase system reliability by having more

accurate and real-time information. Access to real-time information will also increasingly influence customer choices and behavior.

E. **Increasing use of local generation and micro grids** – For security and reliability reasons, the U.S. military is developing on-site generation and experimenting with micro grids for military bases; schools, cities and business are installing distributed solar systems to provide power for a portion of their loads; companies are developing hybrid systems to provide all of a customer's power needs on site; and many homeowners are leasing solar system to control some of their power costs. These changes are increasing energy security and independence.

F. **Decreasing use of coal** – Aging infrastructure, costs of pollution control equipment needed to meet environmental and health standards, rising cost of fuel, uncertainty about future carbon dioxide regulation, and the public's support for cleaner energy alternatives are leading to decreased use of coal-powered generation. Reducing the use of coal provides opportunities to meet consumer demand with cleaner alternatives but will challenge power system and transmission operators as the west moves away from base load, central station generation that provides voltage support along the vast network of transmission in the west.

From a high-level view, the electric system is undergoing a fundamental shift where generation - that has historically been very fixed - is becoming more variable and load - which historically has been variable - is being shaped and may become less variable. At the same time there is a move away from large generating stations located far from load to smaller generators located near consumers and load centers.

Important Considerations

Changing the market rules for retail electricity providers is complicated. Several states have some form of competition in their electricity markets but, as each state is very different, lessons learned from other states may only be marginally instructive. Thus, Arizona must carefully evaluate what benefits might be available from different approaches to an "open" market, including how and when to make any transition from regulated markets.

Interwest recommends that the Commission and stakeholders should develop market rules that effectuate the following:

1. **Develop an increasingly clean electric system.** A primary impetus for retail restructuring is to use market forces to lower the price of electricity. But, having lower-cost energy involves tradeoffs. Is the state willing to increase air pollution, affect

citizens' health, or use copious amount of precious water to have lower rates? Interwest believes the Commission needs to ensure that Arizona is powered by a growing percentage of clean energy resources. Energy efficiency and demand response will reduce peak demand and allow for shaping of electric demand. Renewable energy will diversify the state's energy mix, provide price-stable resources, reduce air and climate-disrupting pollutants, and be a source of in-state jobs and economic development. Clean energy provides societal benefits that need to be considered in developing Arizona's electricity market rules. At a minimum, the current Renewable Energy Standard and Tariff and Energy Efficiency Rule should be requirements for any service providers.

2. **Encourage technology innovation.** Creating market rules that allow and encourage the development, deployment and use of new products and services will help ensure that Arizona is on the leading edge of innovation to control and shape energy use and employ the state's most ubiquitous resource – solar energy. When the Commission created the Renewable Energy Standard and Tariff it created such a pathway for new technologies to enter the market.

   As the Commission considers de-regulation it should allow flexibility in how electric service providers are defined and the products that they offer. This, of course, needs to be balanced with a set of criteria to ensure legitimate service providers are the only ones that can operate in the market.

3. **Ensure Arizona is increasingly connected to the rest of the West.** While retail re-regulation will likely leave the transmission and distribution system in the hands of monopoly utilities, it is important that Arizona have ready access to generation resources from around the West. The current system of bi-lateral contracts to purchase energy resources is inflexible. Moving to a flow-based, real-time electric system will ensure that companies providing electric service in Arizona have maximum access to lower-cost resources available around the West and will make the maximum use of the existing transmission system.

4. **Regulate more on performance and less on rate-of-return.** As mentioned in the Energy Trends section of these comments, market forces are changing the resource mix of regulated utilities. The current model of rate-of-return regulation for distribution service and generation assets conflicts with the move to a more decentralized, customer-sited and owned generation mix and greater use of energy efficiency to reduce load growth. The Commission has been responsive to these challenges by

adopting forms of revenue decoupling and creating performance incentives for achievements in energy efficiency. The Commission has also supported decentralized, customer-site generation through regulation policy on solar leasing companies and through tariffs such as net energy metering.

These innovative regulatory strategies have benefitted Arizona consumers by providing more choice in energy and encouraging the adoption of the lowest cost energy resources (energy efficiency). As the Commission evaluates different market structures, Interwest recommends that it consider goals for the electric sector and electricity service providers and consider performance metrics (reliability, safety, emissions rates, customer satisfaction, etc.) with which to judge and reward providers of remaining monopoly services.

Interwest appreciates that the Commission is seeking input from stakeholders before deciding whether to go forward with an effort to restructure the electricity market in Arizona. Given the fundamental shifts in the electric system, and the incompatibility of rate-of-return regulation with new energy trends, Interwest believes that some regulatory changes are warranted. However, we make no recommendation at this time about whether regulatory changes should be made incrementally over many years or more rapidly through re-regulation. We look forward to engaging with the Commission and other stakeholders in a discussion of possible market changes and their effects on Arizona and its consumers.

Respectfully submitted this 15th day of July 2013.

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