

ORIGINAL



0000146846

BEFORE THE ARIZONA CORPORATION COMMISSION

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

Docket No. E-00000W-13-0135

COMMENTS OF NRG ENERGY, INC. ADDRESSING RETAIL ELECTRIC
COMPETITION ISSUES

July 15, 2013

Arizona Corporation Commission
DOCKETED
JUL 15 2013

DOCKETED BY *nr*

RECEIVED
2013 JUL 15 A 10:49
AZ CORP COMMISSION
DOCKET CONTROL

Introduction

NRG Energy, Inc. (“NRG”) is the nation’s largest competitive power generator with about 47,000 MW of fossil fuel, nuclear, solar and wind capacity at almost 100 generating locations, across the East, West and Gulf Coast regions. NRG has a strong investment history in Arizona. NRG Solar is the majority owner of the Agua Caliente Solar Project (292 MW) near Yuma and the 100% owner of the Avra Valley Solar Project (25 MW) near Tucson. In addition, NRG Solar is invested in many distributed generation projects at various school districts and at Arizona State University (“ASU”). NRG Energy Center Phoenix provides energy-efficient and environmentally sound district energy and/or combined heat and power services to buildings in downtown Phoenix and Tucson, Ariz., and on the ASU campus. The downtown Phoenix system began operations in 2001 and produces and distributes chilled water around the clock to customer buildings in the Phoenix central business district including the City of Phoenix, Chase Field, US Airways Center, Phoenix Convention Center, ASU, Maricopa County, Sheraton Hotel, several biomedical research facilities and high-rise condominiums and office complexes. The system provides cooling to more than 12 million square feet of building space via four miles of chilled-water pipelines.

NRG’s retail businesses—Green Mountain, Energy Plus and Reliant—have more than 15 years of experience with retail electric competition. These retail electricity providers, along with the company’s thermal energy division, serve more than two million residential, business, commercial and industrial customers in 16 states. NRG has a keen interest in the development of a retail market in Arizona, and in bringing our multi-brand retail offerings to this promising new market. NRG appreciates the opportunity to provide comments on the Commission’s Inquiry into retail electric competition. NRG intends to participate in the implementation of retail competition in Arizona.

As described further in the following comments, there are a few key attributes that drive a successful retail electric market. First, the underlying wholesale market must be sufficiently liquid and transparent to support retail choice. Standardization of basic market rules must be

created in order to minimize both barriers to entry for retailers, as well as minimize customer confusion. Default service, if any, must make electric choice compelling for customers. A robust competitive market will drive innovation among electric retailers and result in a wide variety of products and services from which customers can choose.

1. **Will retail electric competition reduce rates for all classes of customers - residential, small business, large business and industrial classes?**

Competition in electric service is just that: *service* competition. In a competitive market, the electricity transaction is no longer restricted to the buying and selling of the kilowatt-hour (kWh) commodity. The kWh are delivered as a part of a service package that can take any of a multitude of forms. The key benefit of competition is customer choice, allowing a customer to choose the value proposition that best fits his needs. A given customer may select a plan based on renewable energy content, prepay service, affinity benefits, smart energy tools and services, or customer service options. Any of these choices may combine with one another, or with price options, to win the customer's business.

Consider the example of customer service options. Perhaps "Family A" is on a tight budget and wants to lower total amount paid for electric service to the maximum extent possible and is willing to use online self-service for the few account questions that might arise. Family A could choose a "cafeteria" plan in which each service used has a separate price: the commodity kWh, personal telephone assistance from the retailer's service center and so on. In other words, on the rare occasion the customer contacts the service center, she will pay only for that single call, rather than choosing a rate where unlimited telephone assistance is rolled into a higher price. In contrast, Family B may have more discretionary income, but less time to self-serve their account. Family B could choose a "full service" plan for a slightly higher average price per kWh. A small premium over the commodity price paid by Family A would gain Family B round-the-clock access to customer service, energy efficiency advice, and a variety of other value-added services. Though only one of the two families has lowered the price paid for electric service, each has maximized the value proposition among available options.

While this example relates specifically to customer service choices, the same could be said of access to any number of products or plans. Competitive retailers necessarily focus on innovation and differentiation, including service options, pricing differentiation such as time-of-use (TOU) or peak pricing, renewable energy, smart energy offerings, and thermostat/pool pump control. Affinity programs are another broad category of offerings that provide benefits beyond those specifically related to the customer's electric service, such as airline miles, loyalty rewards, alumni plans, fan affinities with sports teams that offer special access to related amenities, or countless other interests. A provider of retail electric service can become a customer's go-to supplier of other energy-related services as well, such as home energy audits, thermostats, HVAC maintenance, or air filters. These are but a few examples of the types of options available to customers in a robust competitive market. A review of the PowerToChoose.org website run by the Public Utility Commission of Texas on July 8, 2013 shows 188 retail electric product choices available to residential customers in Houston.

The objective of a competitive market should not be to *solely minimize price*—which is but a single element of a product—but to *maximize value to the customer*.

- 2. In addition to the possibility of reduced rates, identify any and all specific benefits of retail electric competition for each customer class.**

The benefits of retail electric competition are numerous. As mentioned in response to Question 1, competition shifts the focus from electricity as a commodity to the provision of a value-added service. Electric service in a competitive retail market is focused on customer needs and providing each customer a plan that maximizes her value proposition.

- 3. How can the benefits of competition apply to all customer classes equally or equitably?**

The key to equitable benefits is to ensure a standardized market structure that allows all retail providers to compete on equal footing and makes shopping and switching easy for customers. A successful market structure will allow a competitive retailer to design both

products and underlying back office systems that work in multiple utility service territories. A standardized market design is essential to gaining economies of scale that can be used to increase customer value.

To achieve this goal, market rules should standardize the practices among the distribution utility areas to the maximum extent possible. A successful retail market is built upon standardized tariffs for electric delivery service that provide a consistent set of market rules statewide, regardless of where a retailer is operating within the competitive market. Standardized tariffs are intended to reduce barriers to entry for retailers. Moreover, customers should have access to the same basic distribution utility services no matter where they reside in the competitive market.

Minimizing the variation across utilities helps competitive retailers better manage costs and facilitates an improved customer experience. Without standardized delivery service, retailers must develop and maintain different operating systems, scheduling and processing timelines, and call center training and customer communications for the same basic delivery services depending on the particular utility. These variations can create barriers to market entry for retailers by unnecessarily complicating market operations and increasing operating costs. Additionally, non-standard utility practices for basic services create disparities among service areas and can lead to customer confusion.

Standardization provides consistency and predictability for customers and retailers, improves market efficiency, decreases barriers to market entry, and reduces customer confusion among service areas open to competition. A single, standard, comprehensive set of business rules for interactions with all distribution utilities allows retailers to streamline back office processes, scheduling and processing timelines, and to train call center staff on one market standard for these basic services, no matter where the retailer operates in the competitive market.

4. **Please identify the risks of retail electric competition to residential ratepayers and to the other customer classes. What entity, if any, would be the provider of last resort?**

Please refer to the joint response of Retail Competition Advocates (“RCA”) and the Retail Energy Supply Association (“RESA”), which NRG endorses.

5. **How can the Commission guarantee that there would be no market structure abuses and/or market manipulation in the transition to and implementation of retail electric competition?**

Meaningful steps can be taken to minimize the potential for market abuses and manipulation. Rather than attempting to regulate to bad actors, a regulator should instead rely upon consistent and fair enforcement of market rules. In crafting those rules, lessons learned from other markets are extremely valuable to close loopholes that may invite abuse. Similarly, identifying common concerns that arose in other markets, ensuring a rule exists to deal with those concerns, and then enforcing that rule, provide an effective means for ensuring a fair and competitive market. Market participants will respond promptly and appropriately to assertive enforcement policies and actions, so long as they are consistent, fair and transparent. In addition, market monitoring processes can be established to provide oversight of the established market rules and identify anti-competitive behavior.

6. **What, if any, features, entities or mechanisms must be in place in order for there to be an effective and efficient market structure for retail electric competition? How long would it take to implement these features, entities, or mechanisms?**

As discussed by NRG elsewhere in these comments, and by RCA and RESA in their joint comments, experience with electric competition in markets around the country has provided a wealth of experience that the Commission can leverage. Among the features, entities and mechanisms vital to a successful market are a liquid wholesale market, separation of retail electric service from monopoly delivery service, comprehensive customer education, appropriate

selection of default service provider and appropriate design of default product, as well as standardized market rules.

In the interest of standardization, and minimizing barriers to entry for retailers, NRG also urges the Commission to consider whether a centralized registration agent for customer enrollment is appropriate for the Arizona market. In the Texas market, separate from its function as the independent organization for the wholesale market (see NRG's response to Question 10), the Electric Reliability Council of Texas ("ERCOT") also serves as the registration agent for the retail market – a function performed by the incumbent utilities in other competitive retail markets. All customer switch requests, move-in and move-out requests, and monthly electricity usage data flow through ERCOT. Administration of customer switching by a neutral third party not only provides a level playing field for retail competition, but also lowers barriers to entry for retailers.

- 7. Will retail electric competition require the divestiture of generation assets by regulated electric utilities? How would FERC regulation of these facilities be affected?**

Please refer to the joint response of RCA and RESA, which NRG endorses.

- 8. What are the costs of the transition to retail electric competition, how should those costs be quantified, and who should bear them?**

Please refer to the joint response of RCA and RESA, which NRG endorses.

- 9. Will retail electric competition impact reliability? Why or why not?**

Please refer to the joint response of RCA and RESA, which NRG endorses.

10. **What are the issues relating to balancing area authorities, transmission planning, and control areas which must be addressed as part of a transition to retail electric competition?**

A robust, fully-functioning wholesale power market is critical to the success of a competitive retail electric market. A wholesale market must be sufficiently liquid, transparent and competitive to attract and retain new entrants, with non-discriminatory open access to transmission in order to freely buy and sell power from one location to another. A good example of the importance of an effective wholesale market is the ERCOT region, which is widely recognized as a success from both a wholesale and a retail perspective. The ERCOT wholesale market is primarily a bilateral market. As is typical in other wholesale electricity markets, only a small share of the power produced in ERCOT is transacted in the spot market. However, prices in the wholesale market are very important because they set the expectations for prices in the bilateral markets where most transactions take place thereby providing the foundation for the retail market.

The wholesale electric market in ERCOT was opened to competition in 1996. Under competition, independent power producers were permitted to construct generation facilities and were granted open access to transmission in order to move power to wholesale customers. To ensure non-discriminatory open access to the grid, the Texas Electric Choice Act (SB 7) required designation of an independent organization: a neutral third party to perform tasks related to the scheduling of power and settlement functions. ERCOT assumed this role, operating markets in which generators bid to provide the services needed to ensure that supply and demand balances in real time. In 2001, as part of the introduction of retail competition, a single control area administered by the ERCOT independent organization was created.

11. **Among the states that have transitioned to retail electric competition, which model best promotes the public interest for Arizonans? Which model should be avoided?**

NRG encourages the Commission to review the experience of Texas in opening its retail market to competition. Of particular interest in the Texas model are (1) the sequential opening

of first the wholesale power market, followed by the retail market, described herein as a response to Question 10, (2) the standardization of basic market rules, discussed in NRG's response to Question 3, (3) establishment of a single, third-party registration and settlement agent (see NRG's response to Question 6) and (4) the importance of an appropriate structure for default service and default products, as detailed in the comments of RCA and RESA.

12. **How have retail rates been affected in states that have implemented retail electric competition?**

Please refer to the joint response of RCA and RESA, which NRG endorses.

13. **Is retail electric competition viable in Arizona in light of the Court of Appeals' decision in *Phelps Dodge Corp. v. Ariz. Elec. Power Coop.*, 207 Ariz. 95, 83 P.3d 573 (App. 2004)? Are there other legal impediments to the transition to and/or implementation of retail electric competition?**

Please refer to the joint response of RCA and RESA, which NRG endorses.

14. **Is retail electric competition compatible with the Commission's Renewable Energy Standard that requires Arizona's utilities serve at least 15% of their retail loads with renewable energy by 2025? (See A.A.C. R14-2-1801 et seq.)**

Please refer to the joint response of RCA and RESA, which NRG endorses.

15. **Is retail electric competition compatible with the Commission's Energy Efficiency Standard that requires Arizona's electric utilities to achieve a 22% reduction in retail energy sales by consumption by 2020? (See A.A.C. R14-2-2401 et seq.)**

Please refer to the joint response of RCA and RESA, which NRG endorses.

16. **How should the Commission address net metering rates in a competitive market?**

This is a complicated question, the answer to which depends on other aspects of competitive market structure. If the metering design is such that the premises energy intake and output are separately metered, the market can determine the value for surplus generation. Assuming the generation and retail functions are competitive, net metering rates should be determined by the market. The rate paid for surplus energy from distributed generation (DG) would be a negotiated rate agreed to between the DG owner and the retailer.

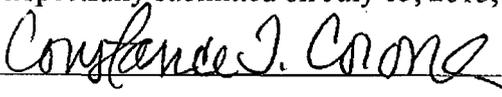
17. What impact will retail electric competition have on resource planning?

Please refer to the joint response of RCA and RESA, which NRG endorses.

18. How will retail electric competition affect public power utilities, cooperatives and federal controlled transmission systems?

Please refer to the joint response of RCA and RESA, which NRG endorses.

Respectfully submitted on July 15, 2013,



Constance Trimble Corona
Director, Regulatory Affairs
NRG Energy, Inc.
1005 Congress Avenue, Suite 1000
Austin, TX 78701
connie.corona@nrgenergy.com

The original and thirteen (13) copies of the foregoing Supplemental Comments will be mailed for filing this 15th day of July 2013 to:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

A copy of the foregoing Supplemental Comments will be emailed or mailed this 15th day of July 2013 to:
All Parties of Record
