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

Re: Docket No. E-00000W-13-0135

Enclosed please find an original and thirteen (13) copies of the Initial Comments of IO Data Centers, LLC in connection with the above-referenced matter.

Please let me know if any questions regarding this filing.

Sincerely,

Alan L. Kierman
Attorney for IO Data Centers, LLC

Enclosures

Arizona Corporation Commission
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Arizona Corporation Commission

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

In the Matter of the Commission's Inquiry
Into Retail Electric Competition

Docket No. E-00000W-13-0135

**Initial Comments of
IO Data Centers, LLC**

IO Data Centers, LLC ("IO") is pleased to respond to the invitation from the Arizona Corporation Commission ("ACC") for comments on retail electric competition in Arizona.

IO commends the ACC on its decision of May 9, 2013, to investigate and develop a plan to implement the law of Arizona which, at A.R.S. § 40-202(B), provides in part that "[i]t is the public policy of this state that a competitive market shall exist in the sale of electric generation service."

IO observes that the status quo is not an option. The current situation in Arizona has allowed for-profit monopoly service providers to extract excess profits from captive customers, without passing on lower prices to its customers, or fostering innovation. Simply stated, the status quo is causing Arizona to lose pace as a global technology leader and hurts economic growth and job creation. Over the last several years, several high profile and energy intensive businesses have left Arizona or chosen not to locate here, in favor of states with market-based energy markets. This list includes a Who's Who of technology companies such as Amazon.com, Facebook and Apple, and has meant the loss of thousands and thousands of jobs and significant revenue for the state.

IO, like many other Arizona businesses and residents, has a vital interest in the benefits that electric competition can bring to the State, including lower electric pricing, increased customer

service and satisfaction, a greater use of renewable energy, and economic and job growth. Our brief comments will address some of the benefits of retail competition from the perspective of an Arizona business owner and employer in the state of Arizona.

IO's Interest

IO, a company founded and headquartered in Arizona, is a global leader in software-defined data centers and pioneered the next generation of data center infrastructure technology. IO developed an integrated hardware and software data center technology platform, which we refer to as IO Intelligent Control. IO opened its Scottsdale, Arizona location in 2007, and a second site in Phoenix, Arizona in 2009. In 2013, IO opened a new factory in Chandler, Arizona, from which IO manufactures all of its IO Intelligent Control products, and which supports IO's growth into Edison, New Jersey, Springboro, Ohio, and Singapore, in addition to customer locations all over the world.

IO employs over 400 people – including more than 300 in Arizona, and the company is on pace to add over 200 jobs internationally in 2013. IO takes pride in utilizing Arizona suppliers and service providers to broaden its local footprint, and benefit the community. IO is widely recognized as one of the fastest growing companies in Arizona, and one of the leading raisers of venture capital in the State.

However, higher than necessary costs for electricity means that companies, including IO, have less money for research and development, and employee salaries, among many other things.

High energy users, like IO, are good for Arizona and create jobs. In recognition of that fact, and following in the footsteps of several other states (including Texas, Virginia, North Carolina, Iowa and Wyoming), the Governor and State Legislature recently enacted S.B. 2009, granting sales and use tax incentives to data centers with significant investments in the State and to certain of their qualified customers. However, these efforts continue to be undermined by Arizona's regulated energy market, with its "one size fits all" product and a pricing model that exceeds what the market would demand.

The Status Quo is Not an Option

Arizona's system of regulated utility monopolies with "cost plus pricing" has created perverse incentives and an anti-consumer environment. One needs to look no further than Arizona Public Service's ("APS") 41% EBITDA margin, which is significantly higher than its energy company peers, American Electric Power, Exelon, and Duke Energy, as well as Arizona stalwarts Avnet, PetSmart and ON Semiconductor.

Arizona's electric utility companies have no competitors and are guaranteed a profit. Therefore, they have no incentive to focus on customer service, or offer innovative products and services. For example, a recent benchmarking study prepared for the ACC by The Liberty Consulting Group, dated February 28, 2011, "makes clear that APS non-fuel operating costs do not compare well with the industry." In recent years, the deviation was more than \$5/MWh, or over 50 percent.

The Case for Competition

Fair and honest competition is the driving force behind the U.S. economy. Competition spurs innovation, increases customer service, and allows fair and transparent pricing – empowering consumers to make smart financial decisions.

Just as important, fair and honest competition spurs job creation and business growth. The benefits of electric competition are well documented. Within four years of launching retail electric competition, Texas created almost 50,000 permanent jobs and an annual stimulus of approximately \$10 billion to the Texas economy.

According to the J.D. Power 2013 Retail Electric Provider Satisfaction Study, satisfaction with price is higher among customers of competitive retail electricity than among customers of regulated electric utilities.

Further, data from the U.S. Energy Information Administration and the Bureau of Labor Statistics, between 1997 and 2012, shows that states with restructured competitive electric markets experienced a 4% drop in rates, while those in states that rely on monopolies increased 7%. Moreover, the price decreases were enjoyed by all classes of customers.

Just as important, competition more appropriately allocates the benefits and burdens of doing business. Studies show that ratepayers spend significant money paying off bad investments by monopolistic utilities, which are then imbedded in their rate base. Whereas, the cost of bad investments by electric utilities in competitive markets are born by the stockholders of those companies. This strongly incentivizes smarter investments and cost reduction strategy.

Competitive electric markets are leading the Nation in wind energy production, demand response and other industry changing and innovative products.

Competitive electric markets allow families, businesses and manufacturers to find energy solutions that fit their individual needs. When energy providers compete, homeowners and businesses benefit from competitively priced energy products, from customer service initiatives, and from responses to issues that consumers care about, like renewable energy.

Opening Arizona to competition for electric generation permits the State's regulated utility companies to do what they do best – provide for electric transmission and distribution. Granting citizens the benefits of their steady hands, without the burdens associated with an anti-competitive marketplace.

Conclusion

It is in the public interest for the ACC to implement retail electric competition in Arizona. Doing so will unlock market forces to rationalize pricing, unleash innovation and generally improve service and support for all Arizona consumers of energy. Accordingly, IO urges the ACC to implement a competitive electric environment without undue delay. IO stands ready to assist the ACC's efforts in this regard, to help ensure a brighter economic future for Arizona residents and businesses.

RESPECTFULLY SUBMITTED on July 15, 2013.



Alan L. Kierman
Attorney for IO Data Centers, LLC

Original and thirteen (13) copies
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July 15, 2013 with:

Arizona Corporation Commission
Hearing Division - Docket Control
1200 West Washington Street
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