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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

Arizona Corporation Commission

DOCKETED

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

DOCKET NO. E-00000W-13-0135

WAL-MART STORES, INC.'S
INITIAL COMMENTS

Wal-Mart Stores, Inc. and Sam's West Inc. (collectively "Walmart") hereby provides its attached initial comments on electric competition.

Dated this 15th day of July, 2013.

RIDENOUR, HIENTON, & LEWIS, P.L.L.C.

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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

COMMENTS OF WAL-MART STORES, INC.

Wal-Mart Stores, Inc. ("Walmart") respectfully submits these comments to assist the Arizona Corporation Commission ("the Commission") in its evaluation of a transition to retail electric competition for Arizona customers. Walmart thanks the Commission for undertaking this proceeding and examining all of the issues underlying a transition to a fully competitive retail electric market. In these comments, Walmart highlights the demonstrated and substantial customer benefits competitive retail electricity markets from the viewpoint of a customer providing real world experience in all of the electric competitive markets in the United States and the United Kingdom, and urges the Commission to move forward to implement retail electric competition in Arizona.

Background

Walmart operates 115 retail stores in Arizona in various formats (e.g., Walmart, Neighborhood Markets, Sam's Clubs, and Supermercado de Walmart) and 3 Distribution Centers, employing over 32,000 associates. In its fiscal year ending 2013 (January 31, 2013),

Walmart purchased \$681 million worth of goods and services from Arizona-based suppliers, supporting over 26,000 supplier jobs.¹

Walmart purchases competitive generation service in 17 states and the United Kingdom. Additionally, Walmart has an in-house retail electricity supplier, Texas Retail Energy, which participates in the wholesale market and operates as a licensed retail supplier serving our stores in 11 states (Texas, New York, Pennsylvania, Illinois, Maryland, New Jersey, Ohio, Massachusetts, Maine, Connecticut, and New Hampshire). In the United Kingdom, Walmart's subsidiary, Asda, participates in their electric market with its own in-house retail electric provider, Power4All, which is operated from Arkansas. Specific to Arizona, Walmart has been participating as a customer on Arizona Public Service Company's (APS) Experimental Rate Schedule AG-1, Alternative Generation General Service, for a majority of its accounts since early 2013 and has enjoyed significant savings.

Commercial customers such as Walmart participate in competitive electric markets in order to have more control over their energy expenses. Competitive electricity market purchases allow customers to apply their specific risk appetites and operating goals to purchase electricity to better match their company strategies, which are likely different than the regulated recovery schedules of the monopoly electric utility.

Responses to Commission Staff's Questions

On May 23, 2013, the Commission Staff invited comments from electric industry stakeholders and customers to assist the Commission in an evaluation of a transition to retail

¹ <http://corporate.walmart.com/our-story/locations/united-states#/united-states/arizona>.

electric competition, and posed questions for commenters to address. Walmart's responses are presented below.

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

Walmart has found that well-designed competitive electricity markets produce substantial savings on electricity costs that allow it to maintain everyday low prices for our customers. In addition to keeping prices as low as possible, policies that allow electricity users to manage their energy purchases efficiently are critical to achieving such savings.

Implementing retail electric competition and imparting the discipline that market based policies bring to the energy marketplace will significantly mitigate risks and costs borne by current captive utility customers. Not surprisingly, other states that have moved to competition have shown that the entire electric marketplace has become more efficient and less costly. Competitive market participants are in the business of controlling supply related risks at their peril, and they do so without the requisite guaranteed rate of return on utility investments, the risks of which are borne by captive utility ratepayers.

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

The benefit of competition at the retail level can be summed up in one word, "choice." Consumers benefit from competitive markets because of the increased availability of an assortment of energy choices such as different levels of renewable energy, different pricing options including fixed rate products, term length, seasonal, time of use, and variable rate products, and various combinations that a consumer can choose based on their individual or businesses need for price certainty and their risk appetite compared to being served with a one size fits all approach from the regulated utility. A consumer can also leverage changes in energy

prices based on wholesale electricity and natural gas markets and procure in short or longer terms based on company risk tolerances.

Competitive electricity markets not only provide pricing options for the commodity, but also provide consumers the power to choose a supplier that best meets their respective personal or business goals, with targeted service offerings providing choices on reliability, generation portfolio mix, risk management, and other specific product and service features. For example, through retail choice, a consumer is no longer bound to a monopoly rate-regulated electric utility generation mix, but instead has the freedom to shop for their desired generation mix which meets their particular individual goals or corporate mandates. Renewable generation usually grows in a fully competitive retail electric market because of price transparency where consumers see the market price of electricity as opposed to an averaged utility generation tariff.

Competitive electricity markets also help mitigate customers' electric costs by facilitating energy efficiency and demand response activities and technologies. With consumers being exposed to transparent market prices that more closely reflect actual marginal generation costs, they can take the reins to actively reduce or modify their electricity consumption to control their electricity use and costs.

Innovation is more apt to occur in a competitive retail electric market with some innovation already occurring such as distributed generation, electricity reduction devices, control systems, storage, etc. are just the beginning with more to come. The closest commodity comparable to retail electricity is cell phones and cable service, and most would agree that competition has driven an increase in innovation and decrease in comparable cost for these services after they moved away from a regulatory construct. It is impossible to imagine a regulated telephone company ever creating a device like Apple has done with the iPhone; instead

we would probably all still be renting a plain black rotary dial phone from the local telephone company. In a competitive market, the development of innovative products and offerings are the result of market investment from market participants in response to consumers' needs and wants. However, usually the disruptive innovations occur in providing a consumer products and services never envisioned by them.

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

All customers should be allowed to participate in a fully competitive retail electric market as soon as feasible. The price suppression that competition will bring due to increased efficiency and market discipline will benefit all customer classes. The non-price benefits such as choice of pricing options, renewable purchases, demand response, and electricity innovation will benefit consumers to the extent they become educated, adopt them and shop for a supplier that fits their need.

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?

Educated consumers will be able to analyze their retail electric options and make a choice that fits their needs. Consumers shop every day for products and services that are more complicated than electricity and some with a significantly higher monetary value. Mortgages, car loans, telecommunication services, retirement investment decisions, health care, etc. are all more complex and more costly than electricity with most posing a more significant risk to an individual or business consumer, but they routinely shop and manage their purchases based on their own risk appetites.

The provider of last resort service should be a plain vanilla service for residential and small commercial consumers provided by the lowest bidder amongst participating suppliers, which is also the Texas model. Commercial and industrial consumers should be required to select a supplier and not be offered a provider of last resort service.

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?

The Arizona Independent Scheduling Administrator (“AZISA”) was formed to provide service as an independent electric transmission scheduling administrator. Walmart is a member of AZISA and has been participating in AZISA’s Board Meetings and stakeholder process. Walmart recommends that Arizona use AZISA to implement retail competition, unless the Commission, legislators, and stakeholders determine that formation of or membership in an Independent System Operator (ISO) or Regional Transmission Organization (RTO) is more efficient and cost effective. The AZISA could transform into an ISO or RTO which was what happened with the Electric Reliability Council of Texas (ERCOT). Walmart stands ready to work within the AZISA stakeholder process to bring the protocols to current Federal Energy Regulatory Commission (FERC) requirements.

Consumer education should not be overlooked and is very important for residential and small commercial customers to be able to partake in the benefits of retail electric competition. The Commission should implement a consumer education program for small commercial and residential consumers. The Pennsylvania Public Utility Commission did a very thorough consumer education marketing campaign before Pennsylvania moved to competition which included public service announcements, town hall meetings, supplier meetings, and even joint

appearances with incumbent utility management to explain competition and educate consumers. The Public Utility Commission of Texas created a website named Power to Choose (<http://www.powertochoose.org/>) to educate consumers and enable them to research offers by zip code. Consumer education should be created and administered by the Commission in a timely manner before residential and small consumers are eligible to shop with program costs being recovered from all residential and small consumers.

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

To the extent that any costs are incurred to implement retail electric competition, such costs should be recovered from all consumers on a competitively neutral basis. Choice consumers should not be penalized with an exit fee for taking service from a different supplier. AZISA and utility costs of implementation should be aggressively managed and prudently incurred in facilitating consumer participation in retail electric competition. All costs associated with AZISA should be recovered through the FERC approved tariffs via the transmission tariffs.

9) Will retail electric competition impact reliability? Why or why not?

It is WMT's experience in all of the competitive markets where it participates in the U.S. and the U.K. that retail electric competition has no bearing on the reliability of the system. Transmission and distribution service continues to be a monopoly service and the incumbent utility is still responsible for maintaining and operating the Transmission and Distribution System and providing a reliable electric service to end-use consumers.

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?

See Walmart's response related to AZISA in Question #6.

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?

Walmart participates in a number of states and countries that have successfully transitioned to retail competition and produced benefits for customers and their economies. From an end-use consumer standpoint Walmart would encourage the Commission to emulate the models of Texas and the United Kingdom. The key market attribute to ensure a fully functioning retail electric market is to remove the incumbent utility from the generation function and have a provider of last resort service provided by the lowest bidder amongst participating suppliers. Both of these markets provide consumers with unlimited choices on the number of suppliers, bundling of various commodities/services, innovative offers, renewable supply options, pricing options, and they have a robust customer switching percentage.

Two state models that the Commission should avoid are Michigan and California because they have imposed limitations on how much load may take service from competitive retail suppliers and have allowed incumbent utilities to keep and continue building generation under cost of service regulation. Arizona should avoid any model that places arbitrary limits on which entities, resources or customers may participate in the electric market. For example, legislation in Michigan and California prevent some customers (and in some instances even splits a customer's portfolio of accounts) from shopping for their electricity suppliers while at the same time allowing others, especially competitors, to shop is discriminatory and anti-competitive.

Furthermore, it artificially limits the demand for service from competitive suppliers, keeps investment in potentially lower-cost resources out of the market, creates inefficiencies in the electric market, and leads to unnecessarily high prices.

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

See Walmart's response to Question #1.

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.)

All of the other competitive states and the United Kingdom have proven that retail electric competition is compatible with the renewable portfolio standards that are similar to the Commission's Renewable Energy Standard. The Commission can continue to impose its Renewable Energy Standard and Tariff (REST) of 15% by 2025, and include each retail electricity supplier in the requirements based on the load that they serve. Because retail suppliers compete with other suppliers, each would have an incentive to procure renewable energy efficiently. Accordingly, the market will determine which renewable energy resources meet the Commission's renewable energy goals at the least cost. Some supplier products in other markets are more than the mandated REST because of customer demand and their willingness to purchase more renewable energy than the mandated amount.

Walmart specifically has an aggressive corporate sustainability program and is actively installing solar at facilities in Arizona. With a fully competitive retail electric market, as opposed to the limited 4-year term of APS' AG-1, Walmart would be able to explore the possibility of acquiring energy from larger scale off-site renewable projects. As a market

comparison, Walmart has previously had a longer term power purchase agreement from a wind developer in Texas, but has never been able to consummate a large scale renewable energy transaction in any regulated monopoly utility territory.

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

The Commission should not regulate or promulgate a net metering rate because in a fully competitive retail electric market customers should be free to negotiate net metering rates from their electricity suppliers. Suppliers will typically “price a customer” based on their load profile and market price for each usage interval, thus incorporating any behind the meter generation and are willing to negotiate a market price for any generation net metering.

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

The current model of resource planning is not appropriate for a fully competitive retail electric market. Suppliers should not be mandated to have a prescribed resource portfolio but should be allowed to manage their portfolio of supplies and their usage in the most cost efficient manner applying their companies specific risk appetites and operating models. If a supplier does not manage their electric supply cost over time customers will migrate away, but ultimately it will be the supplier’s management and shareholders at risk as opposed to the historical monopoly model where ratepayers paid for any uneconomic generation decisions made by the incumbent utility.

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

The Commission should encourage public power utilities and cooperatives to be a part of the transition to full retail competition. From a customer's standpoint and for Arizona's economy, it would be more advantageous to have the entire state be one cohesive fully open retail electricity market.

Conclusion

As demonstrated in the above responses, Walmart believes unequivocally there is clear and convincing evidence that competitive retail electric markets provide residents and businesses with reliable, environmentally sound electricity at the lowest available cost and believes that the public interest would only be served through the implementation of a fully competitive retail electric market. Accordingly, Walmart encourages the Commission to take the steps needed to advance a well-structured competitive retail electric market in Arizona for all customers. Walmart stands ready and willing to provide assistance and support to you and your staff in this proceeding to achieve the best possible market for Arizona.

Respectfully submitted,



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