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July 15, 2013

Generic Docket No.: E-00000W-13-0135: In the Matter of the Commission's inquiry into Retail Electric Competition

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The Arizona Competitive Power Alliance believes that it is in the public interest for the ACC to implement retail electric competition in Arizona.¹

Retail electric competition will force utilities to get more efficient, provide consumers with more options and encourage investors to build additional infrastructure. These aren't simply theoretical assertions, they are a recap of the events that happened from 1996 to 2005 as a result of Arizona's last attempt at implementing retail electric competition.

While some argue that the last attempt at retail electric competition "failed", the reality is that many of the benefits of retail electric competition accrued to consumers before the ACC reversed course. Beginning in 1996—faced with the threat of retail electric competition—Arizona Public Service entered into a rate settlement in which the company agreed to accelerate its depreciation rates and split the cost savings with consumers. Then in the 1999 settlement that created retail electric competition, APS once again lowered its rates in order to ensure that it was prepared to compete in an open market.

In order to serve the competitive market in the years immediately after the retail electric competition settlement was approved, APS built the Redhawk plant while independent power producers built over 7,000 MW of combined cycle natural gas plants near the Palo Verde hub. In addition to providing high quality jobs, during construction and operation, these plants increased the property tax base and put downward pressure on wholesale electric prices.

These plants competed in the wholesale market in order to provide power to Arizona consumers. In 2005, the ACC agreed to allow APS to move the Redhawk plant into ratebase, but only if the price reductions associated with the competitive process (called "Track B") were reflected in the rate base. APS lowered the ratebase of the Redhawk plant by \$148 million in order to reflect the competitive discounts.

The previous round of retail electric competition—truncated though it was—saved Arizona consumers hundreds of millions of dollars in the form of lower retail rates and decreased wholesale costs.

We are already seeing similar savings in response to the latest round of retail access discussions. APS recently filed an 8-K in which is stated that it would hold off on the

¹ Please refer to the comments filed by Alliance members Constellation et al for extensive answers to the specific questions posed in the 5-23-13 stakeholder inquiry.

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purchase of the Four Corners power plant until the ACC's intentions regarding retail electric competition become more clear. The Alliance has argued that the Four Corners plant was too risky for Arizona consumers because there was no way to determine how much it was ultimately going to cost APS to comply with the constantly increasing environmental costs. We argued that APS should conduct an RFP to determine if the competitive wholesale market could provide the power or capacity at a more reasonable and predictable price. APS responded that even with the needed environmental upgrades Four Corners was the cheapest and best option.

Why then would the advent of Retail Competition make APS less interested in buying the plant? After all, if the Four Corners plant was the cheapest and best option, then it would be even more valuable in a competitive environment because it would confer a competitive advantage to APS. The Alliance argued that plant was too risky and APS disagreed. However, now that captive ratepayers are no longer on the hook for any environmental cost overruns, APS is reconsidering its purchase of the plant. APS's reluctance to buy the Four Corners plant in a competitive environment is not a bug of retail electric competition, it's a feature.

Yes. Retail electric competition is in the public interest. Even the threat of competition has forced utilities to cut costs, reduce risks and lower prices. The ACC should fully implement retail electric competition in order to provide consumers with the benefits that accrue when electric service providers have to compete in order to serve them.

Sincerely,



Greg Patterson
Director