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July 15, 2013

Chairman Bob Stump
Commissioners Brenda Burns, Robert Burns, Gary Pierce, and Susan Bitter Smith
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Re: Responses to Questions on Retail Electric Competition DOCKET NO. E-00000W-13-0135

Dear Chairman Stump and Commissioners:

I am submitting these responses on Retail Electric Competition on behalf of the Sierra Club's Grand Canyon (Arizona) Chapter and our 12,000 members and more than 40,000 supporters. Also, please note that we would like to be added to the service list for this docket.

The Sierra Club's mission is "to explore, enjoy, and protect the wild places of the earth; to practice and promote the responsible use of the earth's ecosystems and resources; and to educate and enlist humanity to protect and restore the quality of the natural and human environments." The Sierra Club and our members have a significant interest in this issue and its potential impacts on transitioning from fossil fuel electric generation to increased energy efficiency and renewable energy generation. Overall, we strongly encourage the Arizona Corporation Commission to retain the current energy efficiency and renewable energy standards and to require that any entity generating and/or selling electricity meet those standards. Furthermore, we encourage the Commission to look at generation performance standards that further our transition to clean energy sources.

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

Electricity rates for most Arizonans have generally been less than the national average over the last few years. Based on what we have seen transpire in many other states relative to retail electric competition, however, rates for large businesses and industrial classes may go down somewhat, as they are the primary entities that participate, while rates for residential customers and small businesses are more likely to go up due, in part, to more limited participation. This type of deregulation is most likely to harm low-income and fixed-income customers who will bear a disparate portion of the burden of paying for existing infrastructure. There is no guarantee that rates will go down overall, however.

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

It is difficult to see many clear benefits to residential and small business customers. Customers could choose a provider that utilizes more renewable energy and strong energy efficiency programs, but only if such an entity does business in a deregulated Arizona market. To ensure that, both the energy efficiency and renewable energy standards need to be retained and need to apply to all who do business in Arizona.

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

So far, this has not been accomplished and, again, retail competition appears to treat low-income and fixed-income customers most poorly. Any structure would need to provide protections for low-income and fixed-income customers.

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?

See above. A big concern is that choice really only exists for those who have the capacity to take advantage of it, mostly large electric users such as mines, factories, and big retailers. The more who escape to "cheap" power, the fewer people remain to pay for the utility's infrastructure through rates, and those who can't escape will be small business and residential users, particularly low-income customers.

Likewise, the goal of generating short-term profits could undermine energy efficiency and renewable energy programs. That is a risk for all ratepayers as additional generation will be required without effective energy efficiency measures.

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?

The Commission would have to provide some regulation in order to protect consumers and to ensure the requirements for renewable energy and energy efficiency are met.

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?

Requirements for energy efficiency and renewable energy, including the current standards, would need to be in place in order for this market structure to ensure that societal benefits are protected. Furthermore, programs for low-income consumers would need to be mandated and protected.

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

We have no comment on this at this time, but it seems like these entities would continue to be regulated by FERC.

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

Ratepayers would likely end up bearing the costs, if retail electric competition is implemented without mechanisms to protect them.

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

It appears to have affected reliability in some other states, including New Jersey, California and Michigan. Depending on how it is structured, it could provide an incentive for price spikes rather than ensuring that there are adequate resources to keep prices reasonable.

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?

We have no comment at this time.

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?

If this is pursued, we would like to see a model that promotes a timely transition from fossil-fuel-based electricity generation to renewable energy and greater energy efficiency.

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

See answer to number 1 above.

13) Is retail electric competition viable in Arizona in light of the Court of Appeals' decision in Phelps Dodge Cop. 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?

We have no comment at this time, but there are clearly legal issues with retail electric competition.

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.)

Yes, it can and should be. Retail competition without this standard and without the energy efficiency standard would take Arizona a giant step backwards and could significantly undermine the progress we have made to date with moving toward a cleaner energy mix and helping customers reduce their energy costs. Renewable energy provides enormous benefits by helping to reduce pollution and water use, plus provides a hedge against volatile fuel prices. Coal and natural gas both have significant emissions, including carbon pollution. This will make them riskier and riskier as time goes on. Standards that help to accelerate a transition to renewable sources and more efficiency are a critical part of energy landscape in Arizona.

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

Yes, it can and should be. See response to question 14 above.

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

Distributed generation, particularly of roof-top solar, is an important component of our electricity mix. In exploring retail competition, the Commission should not erect any barriers to roof-top solar or penalize those who invest in the systems. The societal benefits of roof-top solar should also be considered. This can be done

while still addressing the fixed costs of utilities.

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

Without requirements for filing of resource plans, there will be much less transparency and much less opportunity for customers to view and understand the plans for the various utilities. It is likely that resource plans will be used primarily internally by the utilities themselves and that the public will have less of an understanding about what these utilities are proposing to do going forward relative to their energy mix.

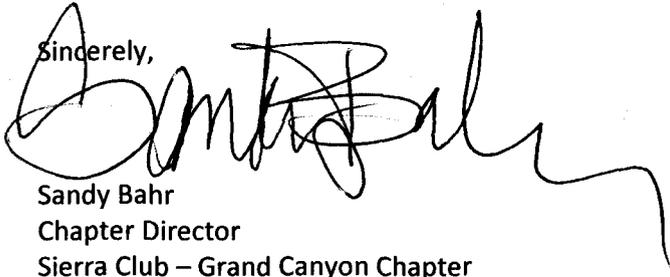
18) How will retail electric competition affect public power utilities, cooperatives and federal controlled transmission systems?

We have no comment on this at this time.

Again, we are most concerned about the potential impacts of retail electric competition on programs to promote energy efficiency and renewables and to ensure a timely transition from a fossil-fuel based generation system. Overall, we remain concerned about how residential customers, particularly low-income customers, will fair under a deregulated market.

Thank you for considering our comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sandy Bahr', with a long horizontal flourish extending to the right.

Sandy Bahr
Chapter Director
Sierra Club – Grand Canyon Chapter