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BEFORE THE ARIZONA CORPORATION COM

- 1 BOB STUMP
- 2 Chairman
- 3 GARY PIERCE
- 4 Commissioner
- 5 BRENDA BURNS
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- 9 SUSAN BITTER SMITH
- 10 Commissioner

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Arizona Corporation Commission

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11 IN THE MATTER OF THE COMMISSION'S)
 12 INQUIRY INTO RETAIL ELECTRIC)
 13 COMPETITION.)

Docket No. E-0000W-13-0135

14 **CAWCD's Responsive Comments to the Arizona Corporation Commission re**
 15 **Retail Electric Competition**

16 The Central Arizona Water Conservation District (CAWCD) has reviewed the
 17 submissions in response to the Commission's invitation to provide comments regarding retail
 18 electric competition in Arizona, and submits the following for consideration.

19 CAWCD manages the Central Arizona Project (CAP), a critical water delivery system
 20 supporting more than 80% of Arizona's population and economic activity. The system relies on
 21 the Navajo Generating Station (NGS) for more than 90% of the power required to operate the
 22 system. Consequently, any decision of the Commission that affects the future of NGS is of
 23 critical importance to CAWCD and the people of Arizona. With respect to retail electric
 24 competition, there is prevailing concern that it could result in the closing of NGS. If that
 happens, the result would be massive increases in the cost of operating the CAP, causing rates to
 skyrocket with potentially devastating consequences to Arizona's economy.

25 In its comments to the Commission, SRP warns of a distinct possibility that retail
 26 electric competition will cause the shutdown of NGS:

1 Deregulation's disincentive to long term investments will directly impact SRP's
2 efforts to assure continued operation of the Navajo Generating Station – a
3 critically important resource for the entire State of Arizona. . . Moreover, the
4 investment that will be necessary to create a reasonable future for NGS will
5 simply likely not be made given uncertainty as to SRP's load (retail demand) and
6 attendant revenues. We expect the investment to be substantial, and that
7 deregulation would make the investment risk too high.¹

8 The Navajo Nation vigorously supports this claim, in its comments adding detail to the
9 consequences of NGS shutdown to both the Navajo and Arizona as a whole. Even one of retail
10 electric competition's most vocal advocates, the Goldwater Institute, acknowledges the potential
11 impact to continued NGS operations under a restructured system. Noting the regulatory
12 expenses already incurred by coal plant operators, Goldwater states:

13 [I]f the uncertainty and burdens of new EPA regulations threaten the viability of
14 the Navajo Generating Station and Four Corners facilities in such a way as to
15 result in a disorderly and dramatic reduction in generation capacity during
16 restructuring, then special consideration should be given to defraying those
17 uncertainties and burdens.²

18 The best way to defray the uncertainty is to avoid the circumstances that create it.
19 Closing NGS represents the worst-case economic scenario for CAWCD and the people of
20 Arizona. In such event, CAWCD would lose not only its most economical source of power
21 available (by far), but would also lose the ability to market its surplus NGS entitlement (Navajo
22 Surplus), the proceeds of which serve the interests of water users in Arizona.

23 The effects of NGS closure would be far-reaching. Certainly, CAP water rates for tribes,
24 agriculture and municipalities would increase dramatically if NGS power was replaced with
25 market power.³ Specifically as to tribes, the loss of revenue from Navajo Surplus would increase
26 the cost of water, affect development of on-reservation water systems, and potentially

27 ¹ Cover letter to SRP's Comments Regarding Retail Electric Competition in Arizona, at 2-3.

28 ² Goldwater Institute and Roy Miller's Comments in Support of Restructuring Arizona's Electricity Markets for
29 Choice and Competition, at 8-9.

30 ³ *Navajo Generating Station and Air Visibility Regulations: Alternatives and Impacts*, prepared by the National
31 Renewable Energy Laboratory (available at <http://www.nrel.gov/docs/fy12osti/53024.pdf>).

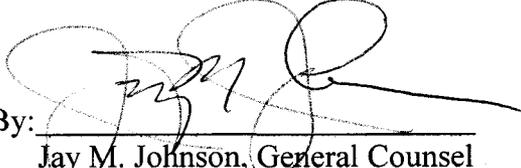
1 jeopardize past and future settlements.⁴ Finally, it is clear that closing NGS would have
2 significant effects on the economy of the entire state of Arizona, over the life of the plant
3 causing the loss of thousands of jobs and costing billions of dollars in gross state product, real
4 disposable income, and tax revenues.⁵

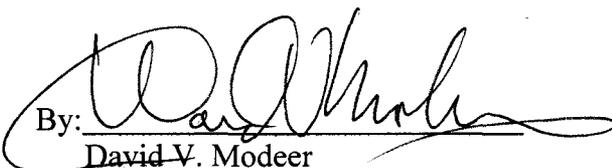
5 With so much at stake with NGS, the mere possibility of its closure far outweighs any
6 perceived benefit associated with retail electric competition. Therefore, CAWCD urges the
7 Commission to cease consideration.

8
9 RESPECTFULLY SUBMITTED this 22nd day of August, 2013.

10 CENTRAL ARIZONA WATER
11 CONSERVATION DISTRICT

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4 Final Report, *The Economic Impact of EPA Proposed BART Implementation at Navajo Generating Station*, prepared by Harvey Economics for Salt River Project (April 4, 2012).

5 Croucher, Evans and James, *Navajo Generating Station and Kayenta Mine: An Economic Impact Study*, Arizona State University Carey School of Business (Feb. 2, 2012), available at <http://ngspower.com/pdfx/SRPASUNGS.pdf>.