

E-00000W-13-0135

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2013 SEP - 3 P ARIZONA CORPORATION
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DOCKET CONTROL

September 3, 2013

BOB BURNS
COMMISSIONER

Direct Line: (602)542-3682
Email: RBurns-web@azcc.gov

Arizona Corporation Commission

DOCKETED

SEP - 3 2013

RE: Retail Electric Competition Docket No. E-000000W-13-0135

DOCKETED BY

Dear Chairman Stump and Commissioners:

The Arizona Corporation Commission recently opened a docket on retail electric competition, with the goal of ascertaining whether there are benefits to transitioning from a fully-regulated monopoly model to a competitive electricity model. We decided to use a two-phase process. The first phase (Phase 1) was for information-gathering; and, if the Commissioners determined that retail electric competition was in the public interest and the benefits to consumers were evident, the second phase (Phase 2) would consist of determining the appropriate competitive model and setting up its implementation to move forward.

At the time of opening of the docket, I believed that the interested parties and stakeholders would take the opportunity to provide information that would facilitate a cooperative atmosphere in order to the assist the Commissioners in their decision whether or not to move forward. Unfortunately, that does not appear to be what has occurred. Instead, some of the interested parties and stakeholders have chosen to polarize the issues in a manner that, in my view, is not helpful for Commission consideration of these important matters.

I am disappointed that the interested parties and stakeholders choose to miss the opportunity to work with us in this process. I would have expected that even those who oppose any changes to the monopoly model would have still welcomed the opportunity for a fresh exchange of ideas that might result in recommendations for improving the current system of retail electric service to Arizona consumers. I would also hope that the proponents of change would be able to provide more detailed answers to my questions regarding how this would work if implemented in Arizona. Answers to these questions are dispositive to any decision regarding whether to move forward to Phase 2.

Given my concerns with the Phase 1 information-gathering process, it has occurred to me that an evidentiary hearing and the establishment of a full record for Commission consideration might be a good option. At an evidentiary hearing, the Commission would have the benefit of diverse parties addressing conflicting evidence on the key issues presented in the docket filings, including but not limited to:

- (1) *Stranded costs*: Proponents claim this number will be small because: (a) the utilities have been recovering the costs from ratepayers for years and the amount that they have not yet recovered can be made up when the plant is sold; or, alternatively, (b)

the plants have depreciated so much that the utilities are actually making money on them. Opponents argue that the incumbents' stranded costs will amount to millions, potentially even billions of dollars. Proponents claim that the stranded costs from the 1998 examination of this issue were paid off in 2012. Opponents claim that only administrative stranded costs were paid off and that this number did not include any generation asset stranded costs. I believe it would be helpful to hear expert testimony regarding an accurate approximation of stranded costs.

- (2) *Capacity issues in Texas*: Opponents tell us about looming black- and brown-outs in Texas this summer as a result of generation shortages, *i.e.*, low excess capacity levels. Proponents provide charts showing that a significant amount of new generation has been built since Texas became a competitive state—including four new coal plants. I believe it would be helpful if the parties examined potential defects in each other's assessments via a public setting.
- (3) *Impact on Coal*: Opponents tell us that moving to a competitive model would threaten the future of our coal plants. Proponents claim that the coal plants could be carved out. I believe we need to have both sides of the table present—to establish a full record—to help us examine the impact of competition on this important state resource.
- (4) *Regional Transmission Operator/Independent System Operator*: Opponents of retail electric competition tell us that setting up an RTO/ISO would cost hundreds of millions of dollars. Proponents, including the current Arizona Independent System Administrator (“AZISA”), tell us that “[n]othing in the examinations of ramping up the AZISA to date suggests that it could cost anywhere close to the ‘hundreds of millions’” of dollars described by the opponents. I believe it would be helpful to have the diverse parties at the table provide testimony concerning the estimated costs and time it would take to set up an RTO or ISO.
- (5) *Pricing/Service*: Opponents claim that the effects of moving to a competitive model will dramatically harm residential ratepayers. Proponents claim competition will have the opposite effect. Again, I believe that having the parties present their side on this issue as well as critique the other side's statistics and studies would be helpful in our decision making process on whether or not changing our model would wholly benefit *all* Arizona ratepayers.

That said, I am enthusiastic about Commissioner Brenda Burns' letter dated August 30, 2013, regarding public meetings on the key issues related to retail competition. I, too, believe that I need more information to assist me in my full consideration of the issue. I look forward to participating in these public sessions that will hopefully flesh out the aforementioned issues and enable us to make a well-informed and prudent decision in a more efficient and timely matter

than would occur with a hearing. I would, however, appreciate the opportunity to discuss this letter and possible next steps with my colleagues at a forthcoming Open Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Burns". The signature is written in a cursive style with a large, sweeping initial "R".

Robert L. Burns
Commissioner