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Greater Phoenix
ECONOMIC COUNCIL

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September 3, 2013

The Honorable Bob Stump
Chairman
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Dear Chairman Stump:

The Greater Phoenix Economic Council (GPEC) would like to share with you the findings of our research into electric restructuring.

As you are aware, GPEC is a public-private partnership supported by one county, 22 cities and towns, 160 companies, 70 board members, 175 council members and more than 1,000 ambassadors. Much like you, we have a broad constituency that has a long-term stake in Arizona. Subsequently, we approached the topic of electric restructuring seriously and with a great deal of thoughtfulness. Setting up an economic system that leads to a flourishing of private enterprise is something we know a great deal about and we take pride in our efforts to lower taxes and pursue every avenue possible to make Arizona a competitive state for businesses to invest.

At the onset of our investigation we were certainly open to the idea of restructuring the electric market if it made Arizona more competitive in the economic development arena. We know intimately how the energy market directly affects the region's competitive position with electricity being a major operating cost of doing business. To understand the potential benefits and costs associated with retail competition, GPEC conducted an analysis of the experience of the current market as it attempted to transition to retail competition and the experiences of other markets. In the end, we found that <u>retail competition would likely be detrimental to regional economic development</u> for several reasons:

- **Electric restructuring could leave the state's energy market to the mercy of outsiders, including the Federal government**

  Electric restructuring will introduce an abundance of outside merchant sellers, marketers, and power producers to the local market. These companies are not bound to be good corporate citizens or partners in the development of the region in the way existing regulated utilities are. Economic developers need responsive utility partners that take the long view and make infrastructure investments to sustain reliable and affordable electricity. Additionally important, Arizona would cede regulatory control to the Federal government – which would oversee authorities designed to foster market efficiency.

- **Electric restructuring would disrupt the current regulated framework, which provides electricity at stable and affordable prices across all market segments**

  Electric restructuring disrupts an existing regulated model that supplies affordable energy with low volatility in prices. Disrupting the existing model introduces uncertainty in the business site selection process putting Greater Phoenix at a competitive disadvantage. According to *Area Development*, 84.8% of respondents in their Annual Corporate Survey ranked availability and cost of energy as important or very important.

- **Electric restructuring could take years to implement and be costly**

  In addition to short-term uncertainty, the full implementation of retail competition could take years to achieve and may not be sufficiently implemented to realize the benefits of competitive market forces. The last time Arizona attempted restructuring it took more than four years to draft the rules, followed by six plus years of litigation.

- **Electric restructuring could subject customers to increased price volatility**

  Electric restructuring will gravitate generation towards natural gas – due to the prevalence of legacy merchant plants and lower capital requirements. Add this to the current low price of gas and now even predictably cheap base load from a diversity of energy sources could be temporarily uncompetitive. Some base load plants will close and others will be sold. When natural gas prices increase, the new operator of these once cheap base load plants will be able to charge market rates which could be considerably higher than the cost of service rate an incumbent utility could charge absent restructuring.

- **The experience in deregulated markets is varied; *in some cases it has been disastrous***

  Texas and other markets are experiencing problems from infrastructure underinvestment to cost shifting. California is still recovering from the troubles it experienced during its restructuring heyday, including fallout from the Enron crisis and PG&E bankruptcy. It has been over a decade and FERC is still working on market manipulation refunds resulting from California's crisis with the most recent settlement reaching $750 million.

- **Electric restructuring could shift costs to smaller businesses and residential customers**

  Competitive retail markets provide incentives for outsiders to provide large industrial and commercial users with preferred rates. This could come at the expense of smaller-sized users across different market segments. Cost shifts would put Greater Phoenix at a competitive disadvantage for a significant number of economic development projects in sectors like advanced business services, software, and information and communications technology that may not have large electricity use or may not have multiple locations within the region to aggregate for purchasing power.

Thank you for taking the time to read and consider our comments. Just as you strive to make the best <u>long-term</u> decision for Arizona we also take the long view in order to ensure that Arizona remains a viable investment opportunity for years to come.

Sincerely,

Barry Broome
President and CEO

cc: Commissioner Bob Burns
Commissioner Brenda Burns
Commissioner Gary Pierce
Commissioner Susan Bittersmith