NEW MEXICO UTILITY
Shareholders
Alliance

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August 7, 2013

Arizona Corporations Commission
Commissioners Wing
1200 West Washington
Phoenix, AZ 85007-2996

RE:  **Opposition to Arizona Deregulation**

Dear Commissioners:

On behalf of the New Mexico Utility Shareholders Alliance (NMUSA), we urge you not to pursue the current deregulation initiative being considered.  You need look no further than the problems it has created in California and Texas to know that it cannot be good for Arizona's economy.

The NMUSA represents the interests of utility shareholders of two of Arizona's largest electric companies, Arizona Public Service and Tucson Electric Power.  In addition, both of those companies are producing power in New Mexico for export to their respective service territories.  For that reason, the NMUSA has a dual interest in your decision because:  1) it will affect our shareholder members of those companies, which are also primarily the companies' ratepayers; and 2) your decision could affect New Mexico's economy, if power production is limited or stopped by these companies.

Arizona is fortunate to have low, stable electric rates, high service reliability and strong customer approval.  This is true because your electric providers are invested in and committed to your state.  These positive conditions may not exist with new companies coming into the market and can leave electric customers suffering the consequences.

Arizona does not currently have the infrastructure in place for wholesale transmission and sales, which would be a necessary part of a deregulated market for electricity.  In order to have this, you would need new investments, which are costly when added to residential and commercial customers' bills.  We have already seen deregulation increase rates by 15 percent or more.  Why would you choose to set up a scenario that would necessarily increase electric rates in your state, making Arizona less competitive for business and more expensive for residents?

There is generally reduced reliability in deregulated states.  Without a dedicated, strong company managing a specific service territory, you may not have the same level of commitment to distribution and transmission maintenance.

Additionally, Arizona would have to set up a Regional Transmission Organization, which would be heavily regulated by the Federal Energy Regulatory Commission (FERC), or it would have to join the California Independent System Operator. The first option is quite costly and the second option is costly and may be bad for consumers due to the issues already seen in California with transmission reliability.

Determination of power production levels can be quite challenging in a newly deregulated state. New and existing companies competing for business will be hard pressed to determine the level of power production necessary to meet customers' needs. This can lead to decreased reliability or increased costs.

Deregulation often leaves open the door for possible market manipulation. We saw this occur in California with the Enron scandal and again recently with J. P. Morgan. According to the Wall Street Journal (WSJ.com, 7/29/2013), the company just received a two-page notice of allegations against it by FERC. The disclosures precede an expected settlement between the bank and agency, which would include an approximate $410 million fine to settle the charges. The article also stated that the settlement would include the bank relinquishing roughly $200 million in unpaid claims from electricity buyers in California. The alleged manipulation occurred between September 2010 and June 2011 in markets that help set the price of electricity in California and the Midwest.

Unfortunately, the possibility for fraud is not isolated or new; it has occurred on multiple occasions over several years. Knowing the potential for fraud continues to exist, it is something that any state would be wise to avoid.

Finally, we would like to point out that your consideration of deregulation has already caused challenges. Reliable generation, distribution and transmission take extensive planning and maintenance and utility companies need consistency in their business environment to make it work effectively. Because this issue is under consideration, electric providers may be limited in their ability to make long term purchases of fuel or purchased power agreements. Not only is this not good for Arizona's electric consumers, it can affect the financial institutions that provide capital for these companies causing the cost of capital to increase, which only serves to further increase rates.

Arizona is fortunate to have a system in place that provides for reliable and stable prices from dedicated, long term companies. This reduces the risks of power shortages, blackouts and out of control pricing. The NMUSA urges you to quickly and permanently put deregulation aside so that Arizona's electric providers can get back to the business of effectively managing the needs of its customers at the lowest possible cost.

Sincerely,

Carla J. Sonntag
Executive Director