



# A Bright Idea

Utility deregulation a switch away

by Cynthia Scanlon

**W**hile much of the country is keeping a watchful eye on the Year 2000

countdown and its uncertain implications,

many here in Arizona are watching a clock of a

different kind. On January 1, 1999, Arizona

will be among a handful of states that will

the U.S. in the deregulation of the utility

industry, with most of the country following

The impact on Arizona's utility providers and the business and residential community as a whole could be significant. Some believe it will be a opportunity for lower rates. Others believe it will open up the marketplace for much needed competition. Whatever the outcome, Arizona will be affected. "The electric utility industry, for the last 100 years, has been fully regulated, so we're going to be building a market that has never existed before," says Bill Post, CEO of APS. "There will be things that we will learn about as we go into this market that we don't know today."

The learning curve could be significant. After the first of the year, customers will be able to have a choice in who provides their utility service. What's more, customers can choose one electrical company for its generation, one for transmission, and another for delivery. It is an option that is unprecedented. To make matters more confusing, your electric bill will list generation, transmission, distribution, meter reading, billing and collection separately. For the first time, Arizona Public Service, Salt River Project, and Tucson Electric Power, to name just a few, will be entering uncharted waters to compete head-to-head with each other and with other utility companies throughout the nation for customers.

"Our goal is to make sure our customers are not confused by this," says Richard Silverman, general manager of SRP. "The pricing signals will be very easy to understand, contrary to long distance service 10 years ago where you couldn't tell who was the low-cost provider."

In order to make sense of the new regulations and secure the best possible rates, many medium- and large-sized companies are securing the services of energy consultants and brokers who specialize in finding the best rates among myriad choices. One such company here in Phoenix is The Ascendix Group. According to Paul Wiggs, CEO of The Ascendix Group, some of Arizona's largest companies will most benefit from the new deregulation, and he says his company is ready to assist them in finding the best possible rates.

"You're going to have customers like the Intels and Honeywells who will be approached by new energy providers that can save them 10 or 15 percent on their current energy bill," he says. "That will translate into



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millions of dollars a year.”

The Ascendix Group is just one of a new breed of energy brokers that will move into this field ready to help companies with the analysis and recommendations for their energy needs. “We’ll be an energy broker to help large industrial as well as medium-sized commercial customers secure new energy providers that are just as good in reliability but lower in cost,” says Wiggs.

Despite the assurances of many that the transition will be smooth, the deregulation of an industry usually comes with chaos—at least for part of the time. While no one expects total chaos, changes and some confusion are sure to reign, which can make customers throw up their hands in despair. For the first time, utility

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companies will experience head-on competition and will have to take care of customers’ needs above all else. But they are taking the news with a positive attitude.

“We welcome the competition. We think it’s the best thing for our customer,” says Silverman. “Rather than fight [deregulation], we made the decision that we were going to help mold the way it looked.”

In keeping with that philosophy, SRP created New West Energy, a subsidiary that will control its retail operations. The new company, which began in California in April, was also designed to monitor the deregulation policies in action. Silverman admits that SRP, which is federally established and could have chosen to stay out of the fray, has learned “an incredible amount” about the process since midyear.

SRP decided to voluntarily join in the deregulation, and Silverman admits it has not been easy, but it has been eye-opening. "Being a monopoly all these years, we have not had competition," he says. "It's been a steep learning curve for us."

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The natural gas industry has been, for the most part, deregulated for the past 10 years. As would be expected, that industry's transition went through some growing pains and some shaking out before settling into its present way of doing business. According to Roger Montgomery, vice president of pricing for Southwest Gas, the deregulation of the natural gas industry required all involved to cut costs and become more competitive in the way they did business—something the utility industry is just now beginning to face.

"As competition came into the natural gas industry, it required us to get our rates more reflective of market conditions," he says. But he also says this was not a big problem because most contenders were treated fairly.

The same will hold true for the utility industry. "We don't see a problem, as long as [deregulation] is done in a way that establishes a level playing field so the utility can compete on an equal basis with marketers," he says. "We're not afraid to compete as long as the rules are set up so it's fair for everybody."

Wiggs believes a level playing field will, indeed, be in place for all who want to take a crack at the open market, but the key players will still have to have their wits about them to participate in the shaping of this new arena. "The smart utility companies are the ones that have gotten out in front and lined up their business interests with their

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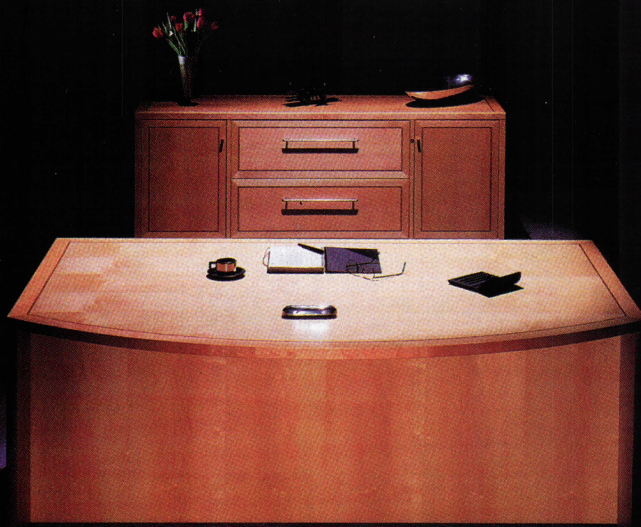
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clients," he says. "They will say to themselves at the end of the day, 'My customers are going to have a choice. I want to be the company they choose. If that means lowering my costs, improving my services, or bringing new services to the table, that's what I should be doing.'"

That's what APS and SRP are trying to do. APS, the state's largest utility with more than 700,000 business and residential customers, and SRP, with 600,000 customers, have been slowly evolving toward a competitive stance over the years. Both utilities have no doubts that when deregulation goes into effect, they will lose customers initially. But now that the deadline is upon them, their goal is not only to preserve the customer base they have here in Arizona, but to find new customers in California and other Western states as they open up. "There are two ways of

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looking at this," says Post. "Yes, you give up some of your market share, but I also have an expanded market. In the past, I couldn't go outside the service territory dictated by the Corporation Commission. In the future, I can go into other markets."

Wiggs feels that both utilities are on track to meet their objectives. "Are they going to lose customers?" he asks. "Yes. Will they gain them back? Yes, if they get their costs down. And that's exactly what APS and SRP are correctly doing. They are cutting costs, slashing staffing, trimming fat, and re-examining every expenditure they make so that they can become cost competitive."

As expected, the Arizona Corporation Commission, which regulates the electric power industry in

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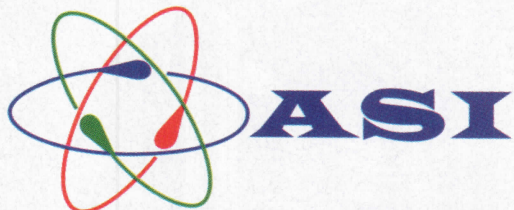
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the state, has been very involved with the deregulation process. It falls under their jurisdiction to establish rates and profit margins, as well as mapping out exclusive areas. Now that those areas will no longer exist, the Corporation Commission, which has been beset by political infighting and internal wrangling, is working with utility companies to ensure a smooth switch to a new way of doing business.

The Corporation Commission has established that competition in the utility industry will be phased in over the next four years. Utility companies will be required, under the new guidelines, to make 20 percent of their peak 1995 demand available to the market.

That figure will move to 50 percent in 2001 and then jump to 100 percent in 2003. During the first two years of deregulation, 15 percent of a utility's power will be reserved for residential customers, followed by 30 percent the next two years.

As might be expected, many of the final details have not been ironed out and probably won't be until the dust settles.

Despite this, few are expecting any kind of delay. "We have clients that we have negotiated new purchase agreements with and they are tied to that January [1] time frame," says Wiggs. "I have no reason to believe this will not occur on January 1."

So is all this going to ultimately benefit the consumer? "Many people feel the jury is still out on that," says Silverman. "Although there tends to be price decreases in other industries that have deregulated."

Wiggs agrees, but with a caveat. "Customers are going to have choice, but they are going to have to understand how they use energy," he says.

Those who use their energy inefficiently or thoughtlessly will continue to pay the price, he adds. Those who are more savvy with their consumption will come out the winners in this new marketplace.

Still, Arizona seems to be ready for the unknown world of electrical deregulation. Post thinks so. "Being on the early part of this and being in a leadership position is very good for Arizona," says the APS CEO.

**AB**

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