Testimony of Travis Kavulla
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NRG Energy, Inc.
Before the Committee of Natural Resources, Energy and Water
Arizona House of Representatives
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Madam Chairman and members of the Committee, I am Travis Kavulla, appearing for NRG Energy. Prior to my current role in charge of regulatory policy for the company, I led the energy and environment program at the think tank R Street Institute, and served in elected office from 2011-2019 as a member of the Montana Public Service Commission, the equivalent of this state's Corporation Commission.

NRG is a Fortune 500 producer and retailer of energy. NRG's subsidiary, Green Mountain Energy, has a 20-year history of providing renewable energy products to customers who want to buy them. And my company has signed long-term contracts for 2,200 MWs of solar in just the last few years.[1] Just to give a comparison, that is more than the three utilities you just heard from have signed up in their entire corporate existences.[2]

We have a pending application to provide voluntary renewable service to Arizonans before the Corporation Commission ("ACC").[3] This legislation, HB 2101, would kill that application without even a hearing before the ACC, and put Green Mountain out of business in a state we would like to invest in.

We first saw this bill eight days ago, with no outreach from any of those utilities supporting it. I get it. Monopolies don't like to be competed against, and in my experience they will do or say anything to deprive their customers of a choice in provider.

But what you are hearing from them is simply wrong. There are two major points here.

First, let's talk about reliability. All of our customers continue to pay all the utilities' rates associated with upkeep of the grid. In Arizona, they would also pay a special standby fee to utilities for utilities' legacy investments in generation.[4] In short, regulation in Arizona

[1] NRG Form 10-Q (May 6, 2021), p. 43.
[2] APS, SRP, and TEP collectively contract or own 1,902 MWs of solar and wind, according to their regulatory filings and other public disclosures.
[3] *See* Application of Green Mountain Energy for a Certificate of Convenience and Necessity for Electric Generation Service (filed Aug. 4, 2021), Docket No. E-21160A-21-0279. ("Green Mountain Application").
[4] Green Mountain has memorialized these conditions by filing a formal tariff for approval by the ACC, as required by law, which is a binding, legal instrument from which we, if we were certificated as a provider, would not permitted to deviate from. See Green

already ensures that our customers pay their fair share to a single entity for any given service territory that is responsible for reliability – a form of regulated competition.

Supporters have also told you about a market in Texas, called ERCOT. What they're not telling you is that it includes two business models: utility monopolies like them, which serve some places, and competitive suppliers like my company, which serve other places. Research conducted out of the Baker Institute at Rice University has shown that the monopoly business model performed worse in last winter's massive snow and ice storm—resulting in more forced outages as a share of power plants owned by monopolies.[5]

If this bill was about reliability, there would be provisions about weatherization of power plants, about ensuring the fuel supply chain is robust (which has been identified as the Southwest's major reliability risk)[6], or about making sure customers who need oxygen to live aren't turned off in extreme heat. None of those things appear in this bill. Reliability is being used as a fig leaf here by people who just want to retain a monopoly.

Second, let's talk about affordability. Each of Green Mountain's customers made the decision to hire us, and they can make the decision to fire us. If our prices or anything else about our service is unattractive, they can and will find another provider or go back to the utility. It's that simple.

We offer our customers fixed-rate products for a year or longer so they can lock in rates and easily budget. That is a valuable service in today's environment. When price spikes and inflation occur in the wholesale market, we eat that risk. For regulated utilities, they just pass those cost increases through dollar-for-dollar to their captive customer base as a surcharge. Last year, this led to customers served by monopolies paying about 3-5 times more on average than did customers of competitive suppliers for those places that were struck by the severe February 2021 winter storm.[7]

There is one more protection which makes Arizona unique among states. Its Constitution requires that the ACC continue to set rates within a range. Our prices can never rise

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Mountain Application, "Competitive Electricity Tariff," Attachment C to Appendix A (the Green Mountain contract with customers includes collection of "costs imposed by the relevant utility or the Arizona Corporation Commission" and provides that Green Mountain customers will pay a "Capacity Reserve Charge that will be used by the utility for system reliability purposes."

[5] Foss, et. al. "The Texas Freeze Out: Power Systems, Markets and the Future," *International Ass'n for Energy Economics, p. 7.* https://www.bakerinstitute.org/media/files/files/bc261393/00-foss-online-texas-freeze-iaee.pdf

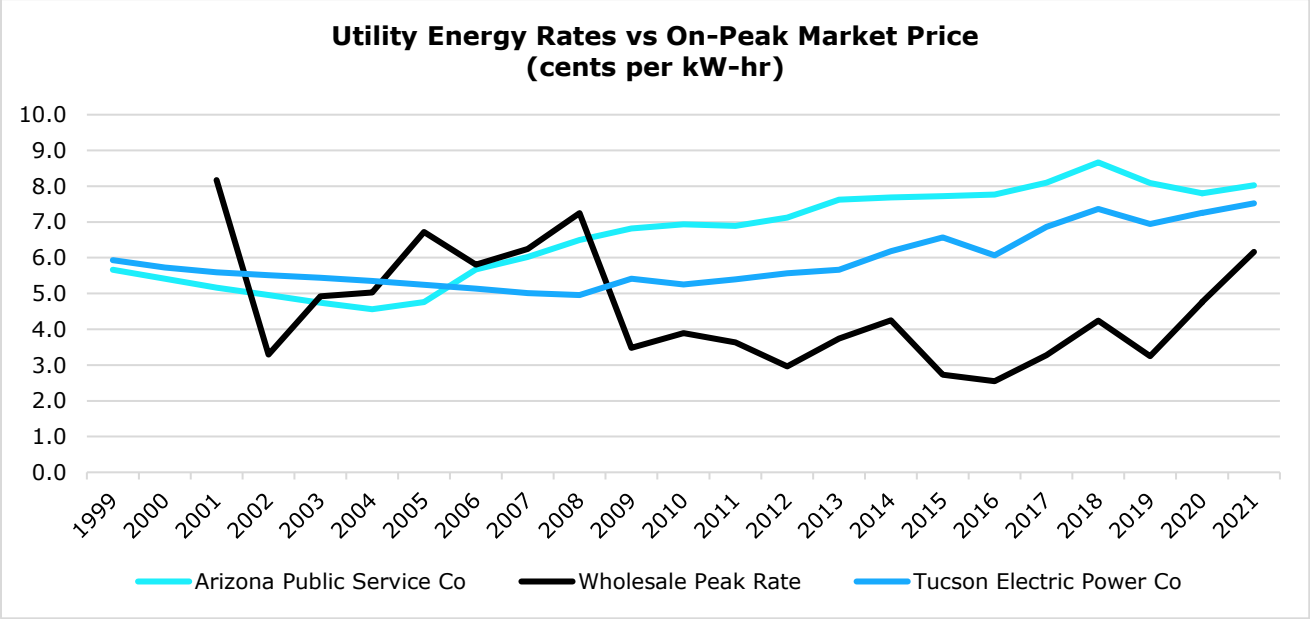
[6] Wood MacKenzie, "Western Interconnection Gas-Electric Interface Study," (June 2018). https://www.wecc.org/Reliability/Western%20Interconnection%20Gas-Electric%20Interface%20Study%20Public%20Report.pdf

[7] Sharfman & Merola, "Evaluating Customer Exposure to Energy Price Spikes: A Case Study of Winter Storm Uri, February 2021," (Oct. 2021). https://www.nrg.com/assets/documents/energy-policy/Energy_Choice_Protecting_Customers.pdf

above what the ACC sets.[8] Again, it is not the kind of free-for-all you have heard proponents describe.

Indeed, there is substantial room for customer choice to discipline the utility pricing that currently exists in Arizona. While for much of the pre-2010 period, Arizona's regulated energy rates were sometimes higher and sometimes lower than the energy that was sold in the open market, for the last 10 years, utility prices have trended upwards even in times when the cost inputs to electricity have gone down.

For the last decade there has been a substantial gap between the fair market value of electricity, as measured by the on-peak prices of power at Arizona's major wholesale trading hub, and what Arizona utilities have been charging their captive customer base.[9] This was true even last year, when wholesale prices were higher than normal. The introduction of even limited competition in Arizona would help sharpen everyone's pencils, whereas today utility rates have lost their relationship with underlying fundamentals.



I hope the committee will let the Corp Comm process play out, rather than pulling the rug out from us. Please oppose this legislation.

[8] We propose in Green Mountain's tariff a rate band that the Commission has previously adopted, +/- 35% vs. the utility's regulated rate, for the premium, all-renewable product that Green Mountain will offer.

[9] Data from the U.S. Energy Information Administration and utility tariffs. The analysis below shows APS & TEP, which are the two utility service territories that Green Mountain has filed to offer its services in. *See* Green Mountain Application, "Competitive Electricity Tariff: Residential Tariff," Attachment C to Appendix A.