970001

DIRECT TESTIMONY OF TOM BALLINGER

Q. Please state your name and business address.

A. My name is Tom Ballinger. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission (FPSC) as a Utility Systems/Communication Engineer Supervisor for the Bureau of System Planning/Conservation and Electric Safety.

Q. Please describe your educational and professional background.

A. In April of 1985, I graduated from the Florida State University with a B.S. in Mechanical Engineering. Since June, 1985, I have been employed by the FPSC. From the beginning of my career, I have been involved with various utility regulatory issues such as power plant and transmission line need determinations, O&M expenditures, rate cases, performance incentives, reliability criteria, and other issues relating to conservation and system planning. I have also been involved with the non-utility side of regulation with such things as purchased power contract approval, need determinations for qualifying facilities, and competitive bidding. I have provided comments on proposed rules and sponsored testimony and recommendations numerous times before the FPSC. In July, 1993, I was promoted to my current position.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to recommend that the 20% stockholder sharing for investor-owned utilities selling power under Schedule C interchange contracts be removed. Sales under Schedule C are often referred to as economy energy or broker sales.

Q. Could you provide a history of how the current sharing mechanism to make broker sales came into existence?

A. Yes. Florida's broker system was established in 1978. Prior to this time, some utilities were reluctant to participate in an economy sales market. Some utilities even argued that their coal resources were finite and that they would not participate unless they were offered an incentive. From 1978 until April 1, 1984, gains on broker sales were treated as operating revenue in base rates. In other words, every time a utility had a general rate making proceeding, the gain on broker sales had to be projected for the test year. This amount of revenue served to reduce the revenue requirements for the general body of ratepayers. Between rate cases, if a utility could sell more economy energy or get a higher margin for its sales, the excess revenues served to increase the utility's rate of return. In other words, the utility stockholders kept 100% of the excess revenues between rate cases. The projection of broker sales is very difficult because it involves the projection of multiple utility loads and costs. In addition, this system lent itself to gaming, namely the utility under-forecasting the amount of broker sales during its rate case. In order to eliminate the difficulty in projecting sales and the ability to game the system, the FPSC decided to remove the gains from broker sales from base rates and flow these gains through the fuel adjustment clause. At the same time, the FPSC also allowed the selling utility to retain 20% of the actual gains below the line as an incentive in order to "maximize" economy sales. The remaining 80% is credited towards total fuel costs in order to provide a net benefit to the ratepayer. This is more fully described in FPSC Order No. 12923, issued on January 24, 1984.

Q. Do you believe that an incentive was necessary back in 1984?

A. Yes I do. During this time period, investor-owned utilities were virtually insulated from the effects of competition. The utilities still enjoyed monopoly status and economies of scale. Non-utility generation was virtually non-existent. Utilities were filing for rate increases on a regular basis. The arrangement of economy sales was a peripheral function of the system dispatcher. The result was that utilities did not vigorously pursue economy sales. Because the Commission was faced with a transition period, a positive incentive was believed necessary to spur the utilities to aggressively pursue economy sales for the benefit of their ratepayers.

Q. Why do you believe that the broker incentive is no longer needed today?

A. The electric utility industry has changed dramatically since 1984. General rate cases are virtually non-existent. Coal is no longer considered a scarce resource. Non-utility generation is now a significant portion of the generation capacity in the state. Improvements in generation technology and low, stable natural gas prices have increased the viability of many self-service generation options for retail customers. Most recently, the Federal Energy Regulatory Commission (FERC) has issued several orders which require open access to the utilities' transmission grid and functional unbundling of a utility's reliability and marketing functions. All of these events have had a similar effect in that investor-owned utilities are no longer insulated from competition. Over the past several years, utilities have been changing the way they do business with regard to economy sales. No longer is the pursuit of an economy sale a peripheral function of an employee, it is now a primary responsibility. New markets outside of the broker system have been developed and utilities are vigorously combing these markets every hour of every day in search of the best deal for their ratepayers. The necessity to remain competitive is the driving force behind utilities today. In addition, participation in the Florida broker has recently been opened up to power marketers. What this means is that the benefits that were once shared within the state are now being transferred outside of Florida and potentially across the nation.

As a final note, the four large investor-owned utilities initially calculated buy and sell broker quotes in a uniform fashion. Therefore, the 20% stockholder sharing of benefits was equitable among the utilities. However, in this proceeding, each utility has filed testimony describing a different interpretation of what was required by FERC Orders 888 and 889. The differing interpretations create a disparity of the benefits actually received by the utilities' ratepayers.

For the reasons stated above, the FPSC should require the investor-owned utilities to credit 100% of the gains on broker sales through the fuel clause.

Q. Does this conclude your testimony?

A. Yes.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.	DOCKET NO. 970001-EI FILED: JULY 14, 1997

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of Staff's Testimony of Tom Ballinger has been furnished by U.S. Mail this 14th day of July, 1997, to the following:

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