

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Joint Petition for Determination)
of Need for an Electrical Power Plant in) DOCKET NO. 981042-EM
Volusia County by the Utilities)
Commission, City of New Smyrna Beach,) FILED: SEPT. 28, 1998
Florida, and Duke Energy New Smyrna)
Beach Power Company Ltd., L.L.P.)
_____)

DIRECT TESTIMONY

OF

MARTHA O. HESSE

ON BEHALF OF

**THE UTILITIES COMMISSION, CITY OF
NEW SMYRNA BEACH, FLORIDA**

AND

**DUKE ENERGY NEW SMYRNA BEACH
POWER COMPANY LTD., LLP**

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FPSC-RECORDS/REPORTING

**IN RE: JOINT PETITION FOR DETERMINATION OF NEED
BY THE UTILITIES COMMISSION OF NEW SMYRNA BEACH
AND DUKE ENERGY NEW SMYRNA BEACH POWER COMPANY,
FPSC DOCKET NO. 981042-EM**

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1 **Q: Please state your name and business address.**

2 A: My name is Martha O. Hesse, and my business address is 6524
3 San Felipe, No. 129, Houston, Texas 77057.

4 **Q: By whom are you employed and in what position?**

5 A: I am president of Hesse Gas Company. I am also currently on
6 the boards of directors of several companies in the energy,
7 public utility, life insurance, health care, and
8 transportation industries, including Arizona Public Service
9 Company, Pinnacle West Capital Corporation, Laidlaw Inc.,
10 Mutual Trust Life Insurance Company, and Air & Water
11 Technologies Corporation. I am a member of The Beacon
12 Council and the CIGNA Utilities Advisory Board.

13 **QUALIFICATIONS AND EXPERIENCE**

14 **Q: Please summarize your educational background and experience.**

15 A: I attended the University of Iowa and Northwestern
16 University. I received a Master of Business Administration
17 degree from the University of Chicago in 1979.

18 **Q: Please summarize your employment history and work**
19 **experience.**

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1 A: My first job was as a research analyst for the National
2 Blue Shield Association from 1964 to 1966. In 1966, I
3 became Director of Data Management for the American
4 Hospital Association. I was the co-founder in 1969 of
5 SEI Information Technology ("SEI"), a data processing
6 consulting company that we built into a multi-million
7 dollar operation. I was the chief operating officer and
8 a director of SEI from 1969 until 1981.

9 In 1981, I was appointed Associate Deputy Secretary of
10 the Department of Commerce by President Ronald Reagan. In
11 1982, I was named Executive Director of the President's Task
12 Force on Management Reform and led the review of all major
13 federal government management systems that resulted in
14 "Reform '88," the Reagan administration's initiative to
15 improve management of the federal government.

16 In November 1982, the President nominated and the
17 Senate confirmed me the Assistant Secretary for Management
18 and Administration for the U.S. Department of Energy (the
19 "DOE"). In that position, I was the department's principal
20 business officer and was responsible for the DOE's annual
21 budget, departmental financial activities including the
22 department's \$23 billion annual cash flow, the department's
23 17,000 employees and 115,000 contractor employees, its 3
24 million acres of land and 94 million square feet of
25 facilities valued at more than \$33 billion, and the DOE's

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1 nearly \$10 billion of personal property including the
2 department's computer and telecommunications systems which
3 utilized the first satellite communications system for such
4 an agency. I was also the line manager responsible for
5 project management of the DOE's 460 active projects as well
6 as all DOE procurement, contracting and construction.

7 In 1986, I was nominated and confirmed as Chairman of
8 the Federal Energy Regulatory Commission ("FERC"), an
9 independent commission responsible for regulating interstate
10 natural gas, electric, hydropower, and oil pipeline
11 business. I was Chairman when the FERC initiated broad
12 reforms designed to move the natural gas and electric
13 industries from a strictly regulated environment to one much
14 more market-driven and market-responsive. I was reappointed
15 Chairman by President Bush and remained as Chairman through
16 1989.

17 In 1990, I joined First Chicago Corporation as a senior
18 vice-president. I was responsible for designing and
19 implementing communications strategies relating to
20 advertising, investor relations, and media and public
21 relations. Also in late 1990, I formed Hesse Gas Company to
22 engage in the natural gas marketing business.

23 **Q: Have you previously testified before regulatory authorities**
24 **or courts?**

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1 A: While I was a member of the Reagan and Bush administrations,
2 I testified frequently before the United States Congress on
3 a variety of energy policy issues. Since leaving
4 Washington, I have testified in one regulatory legal
5 proceeding, a natural gas "take or pay" case on behalf of
6 Texaco before an administrative panel.

7 **SUMMARY AND PURPOSE OF TESTIMONY**

8 **Q: What is the purpose of your testimony?**

9 A: I am testifying on behalf of the Utilities Commission, City
10 of New Smyrna Beach, Florida ("UCNSB"), and Duke Energy New
11 Smyrna Beach Power Company Ltd., LLP ("Duke New Smyrna"),
12 the joint applicants for the Florida Public Service
13 Commission's determination of need for the New Smyrna Beach
14 Power Project ("the Project").

15 My testimony addresses the policy issues relating to
16 the Project and merchant power plants generally, including
17 their consistency with economic efficiency, with federal
18 energy policy, and with the fundamental purposes of utility
19 regulation, as well as with the current structure of the
20 electric utility industry in the United States.

21 **Q: Please summarize your testimony.**

22 A: The New Smyrna Beach Power Project, as a power supply
23 project for the Utilities Commission of New Smyrna Beach and

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1 as a merchant power plant to be constructed in Peninsular
2 Florida, is fully consistent with federal energy policy,
3 economic efficiency, and the basic purposes of utility
4 regulation, i.e., to promote competitive and efficient
5 resource allocations. The Project also fits perfectly into
6 the current electric utility industry and will serve as well
7 in any future electric industry structure. It would be
8 inconsistent with sound energy policy and economic
9 efficiency to exclude merchant plants, such as the New
10 Smyrna Beach Power Project, from participating in the
11 Florida wholesale power market. To deny the benefits of
12 merchant plants to the citizens of Florida would be unwise,
13 unfair, and certainly inconsistent with the regulatory goal
14 of protecting and promoting the public interest.

15 **BACKGROUND - MERCHANT POWER PLANTS AND THE**
16 **NEW SMYRNA BEACH POWER PROJECT**

17 **Q: Please summarize your understanding of the New Smyrna Beach**
18 **Power Project.**

19 **A:** I am informed by the UCNSB and Duke New Smyrna that the New
20 Smyrna Beach Power Project is to be a 500 MW-class gas-fired
21 combined cycle power plant located in New Smyrna Beach,
22 Volusia County, Florida. The Project will be owned by Duke
23 Energy New Smyrna Beach Power Company Ltd., L.L.P., which is
24 an affiliate of Duke Energy Power Services, LLC, and a
25 subsidiary of Duke Energy Corporation. Additionally, 30 MW

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1 of the Project's output capacity will be provided to the
2 Utilities Commission of New Smyrna Beach ("UCNSB") as
3 "entitlement" capacity pursuant to a Participation Agreement
4 between Duke New Smyrna and the UCNSB. The balance of the
5 Project's capacity will be made available, for wholesale
6 sales at market-based rates, to other wholesale purchasers,
7 primarily other utilities in Peninsular Florida.

8 **Q: What is a merchant power plant, and what function do**
9 **merchant power plants provide in the U.S. energy supply and**
10 **distribution system?**

11 **A:** While the term "merchant power plant" may be used to
12 describe several different arrangements, I would define the
13 term to mean an electric generating facility that sells
14 power at wholesale on a market basis, i.e., at market-based
15 rates, and for which the plant's owners or builders take all
16 capital, investment, operating, and market risk. A merchant
17 power plant is not included in any regulated utility's rate
18 base and, accordingly, is not subject to traditional
19 regulatory treatment, including the opportunity to earn a
20 specified rate of return on investment and the opportunity
21 to require "captive" customers to pay for investment in
22 generating plants, regardless of subsequent changes in
23 market conditions.

24 Merchant power plants function as competitive

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1 generators and wholesale suppliers of bulk electric power,
2 selling power to other utilities which in turn resell that
3 power to their retail customers. Merchant plants are
4 "public utilities" subject to the jurisdiction of the FERC;
5 as such, these wholesale public utilities will, like Duke
6 New Smyrna, have on file a market-based rate tariff and will
7 file all of their power sales contracts with the FERC.
8 Merchant plants are normally Exempt Wholesale Generators,
9 and thus they and their parent corporations are exempt from
10 regulation by the U.S. Securities Exchange Commission under
11 the Public Utility Holding Company Act of 1935.

12 **Q: Please summarize the status of wholesale competition in**
13 **other states and in other countries.**

14 A: Many of the characteristics that led to the decisions sixty
15 years ago to regulate the electric industry as a "natural
16 monopoly" have changed significantly over the past twenty
17 years. As a result, economic forces have effectively made
18 the power generation sector of the industry competitive
19 today, and there is every reason to expect that competition
20 will continue to characterize the generation sector in the
21 future.

22 Wholesale competition is robust and flourishing in
23 nearly every state in the United States, as well as in
24 Canada and Europe. Great Britain has completely reorganized

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1 its electric industry, and in doing so has provided for a
2 fully competitive wholesale sector of its power industry.
3 Countries as diverse as Thailand and the Philippines have
4 also begun to use competitive mechanisms to acquire new
5 power supplies.

6 For the past twenty years, the vast majority of new
7 generation in this country has been provided by non-
8 traditional competitive sources. Indeed, passage of the
9 Public Utility Regulatory Policies Act in 1978 effectively
10 declared that electric generation was no longer a natural
11 monopoly. The Nation's experience with PURPA has
12 demonstrated investors' willingness to put their capital to
13 work building power generation facilities -- even without
14 the protections of cost-plus regulation and a service
15 franchise. Wholesale merchant generators, be they FERC-
16 regulated wholesale public utilities, including both EWGs
17 and non-EWG public utilities, or Qualifying Facilities
18 ("QFs"), are willing to take risks in return for uncertain
19 rewards by expanding the field of power supply "players" and
20 providing a more symmetrical distribution of risk between
21 power producers and ratepayers.

22 Pursuant to the Energy Policy Act of 1992, competition
23 in wholesale power generation is one of the express goals of
24 national energy policy, and it is thus effectively the law
25 of the land.

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1 **Q: Where are merchant plants currently operating in the U.S.?**

2 A: Merchant plants are currently operating in California,
3 Colorado, Connecticut, Maine, Massachusetts, Texas, and
4 Wisconsin. Merchant plants are either planned or under
5 construction in many other states. Additionally, many
6 existing retail-serving utilities have announced plans to
7 sell or have already sold some or all of their power plants
8 to entities that will operate them as merchant plants.
9 Several existing retail-serving utilities, such as Pacific
10 Gas & Electric, have established subsidiaries to purchase
11 and operate as merchant plants the facilities of other
12 regulated utilities.

13 **Q: Where are merchant plants currently under construction in**
14 **the U.S.?**

15 A: Merchant power plants are currently under construction in
16 Connecticut, Massachusetts, Texas and Nevada. Plans for
17 additional merchant power plants have been announced for
18 California, Maine, Massachusetts, Mississippi, Missouri, New
19 Hampshire, North Carolina, Oregon, Pennsylvania, Rhode
20 Island, Texas, and Virginia.

21 **Q: Would any special accommodations be required to permit**
22 **merchant plants to operate in the Florida wholesale market?**

23 A: No. The FERC-regulated public utilities that operate

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1 merchant plants would operate just like any other utility
2 with power to sell in wholesale markets, and would offer
3 power for sale pursuant to contracts similar to those that
4 already exist between purchasing utilities and other
5 utilities selling at wholesale.

6 **Q: Would a state or a relevant market have to have an**
7 **Independent System Operator to accommodate merchant plant**
8 **transactions in the wholesale bulk power market?**

9 A: No. Merchant plants owned and operated by a FERC-regulated
10 public utility fit into the current wholesale power market
11 the same as any other power plant or utility with power to
12 sell at wholesale.

13 **Q: What, if any, relationship does wholesale competition have**
14 **to the issues of deregulation, retail restructuring, or**
15 **retail competition?**

16 A: Basically, none. Wholesale competition in power supply
17 markets can and does exist with or without retail
18 competition. To protect captive ratepayers and promote the
19 public interest, wholesale competition can and should be
20 allowed -- and encouraged -- to function freely in markets,
21 such as Florida's, where the current retail market is
22 characterized by traditional rate regulation, as well as in
23 other markets where various degrees of retail competition

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1 may exist.

2 Wholesale competition already exists -- and flourishes
3 -- in power markets throughout the U.S. and Canada. Indeed,
4 there is already some wholesale competition in Florida among
5 vertically integrated public utilities and municipal
6 utilities, wholesale public utilities, and QFs that have
7 extra capacity to sell at various times. Robust competition
8 exists where barriers to entering the wholesale market are
9 minimal or non-existent; where potential suppliers' access
10 to the wholesale power market is limited or restricted in
11 any way, competition cannot be said to be robust.

12 In summary, merchant plants can and do exist in current
13 wholesale markets, completely independent of the existence
14 or non-existence of retail competition.

15 **CONSISTENCY OF THE NEW SMYRNA BEACH POWER PROJECT**
16 **WITH FEDERAL ENERGY POLICY**

17 **Q: Please summarize the key elements of federal energy policy**
18 **that are relevant to merchant power plants.**

19 **A:** At least since the passage of the Public Utility Regulatory
20 Policies Act of 1978, the Congress and the FERC have favored
21 competition in the supply of bulk electricity in the United
22 States. This policy objective was carried forward and
23 expanded in the Energy Policy Act of 1992, wherein Congress
24 further acted to promote competition in wholesale power
25 supply by creating a new regulatory category of suppliers,

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1 "Exempt Wholesale Generators," which are power plants that
2 may be owned by utilities without subjecting those utilities
3 to regulation under the Public Utility Holding Company Act
4 of 1935. (It is this exemption from holding company
5 regulation that the term "exempt" refers to.)

6 In the Energy Policy Act, Congress also acted to assure
7 access of all wholesale power suppliers to transmission
8 facilities, for the purpose of promoting more robust and
9 free competition in power supply. FERC implemented this
10 policy directive by its Order No. 888, and continues to
11 extend and refine these policies by imposing pro-competition
12 requirements at every opportunity.

13 In summary, it is clear that for the past 20 years,
14 federal energy policy has favored and encouraged competition
15 in the wholesale generation and supply of electricity in the
16 United States.

17 **Q: Is the presence or existence of merchant power plants, such**
18 **as the New Smyrna Beach Power Project, consistent with**
19 **federal energy policy? Please explain.**

20 **A:** Absolutely. The existence of merchant power plants, such as
21 the Project, promotes competition among power sources with
22 the effects of lowering costs to consumers, shifting risks
23 from ratepayers to investors, and encouraging a rational,
24 symmetrical risk-reward balance.

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1 **Q: Would limiting the ability of merchant plant developers to**
2 **construct plants to sell power in wholesale markets make any**
3 **sense in light of the federal policies and policy goals**
4 **established by the Energy Policy Act of 1992?**

5 **A: Absolutely not. Excluding merchant power plants from**
6 **participating in the Florida wholesale market, or, for that**
7 **matter, in any other wholesale market, would be inconsistent**
8 **with and contrary to federal energy policy. Additionally,**
9 **even limiting or restricting the participation of merchant**
10 **power plants in the Florida wholesale market, e.g., by**
11 **requiring merchant plant developers to enter into contracts**
12 **with existing retail utilities as a condition of building a**
13 **power plant in Florida, would also be inconsistent with and**
14 **contrary to federal energy policy.**

15 **CONSISTENCY WITH ECONOMIC EFFICIENCY**

16 **Q: Please explain what is meant by "economic efficiency."**

17 **A: Economic efficiency exists where resources are allocated in**
18 **such a way that no further increases in production of one**
19 **commodity or good can be obtained from reallocating**
20 **resources without sacrificing production of something else.**
21 **As a general proposition, a competitive market result will**
22 **be economically efficient. In competitive markets, there**
23 **are no barriers to entry preventing willing and able**
24 **competitors from entering a market, and no monopoly power or**

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1 other constraints resulting in higher prices and lower
2 output quantities than a competitive market would achieve.
3 Also, competitive markets provide correct price signals
4 between and among buyers and sellers, i.e., price signals
5 that lead to an efficient or "optimal" allocation of
6 resources and products. It is for these reasons that
7 competitive markets, and competitive market results or
8 outcomes, are considered to be "good" and highly desirable.

9 **Q: Please summarize the benefits of wholesale competition in**
10 **electricity production.**

11 **A:** Competition in the wholesale supply of electricity results
12 in lower costs and lower prices than would exist in
13 monopolistic or less competitive market structures.

14 For example, under many scenarios, existing monopoly
15 utilities may conduct some form of bidding process for new
16 or incremental capacity and energy requirements. As a
17 general principle, the more bidders that participate in such
18 processes, the lower the final cost to the purchasing
19 utility and, presumably, its customers, will be. In a
20 bidding regime, the competition provided by existing
21 merchant plants suppresses prices toward levels very close
22 to, and in some cases possibly below, long run marginal
23 cost.

24 This effect is especially important in Peninsular

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1 Florida because of its relative electrical "isolation" due
2 to its limited power import capabilities, which directly
3 limits the benefits that can be realized from competition.

4 Merchant plants also transfer risk from those who
5 normally bear it in the current regulatory regime, i.e.,
6 captive utility ratepayers, to the merchant plant owner-
7 operators. The risks thus transferred include the risks of
8 cost overruns and operating risks from existing utilities
9 and their captive ratepayers to merchant plant owner-
10 operators.

11 **Q: Is bidding for new power supply resources sufficient to**
12 **assure the full realization of the benefits of wholesale**
13 **competition?**

14 **A:** Generally, no. While bidding for new power supplies will
15 provide some competitive benefits, if access to the supply
16 side of the wholesale power market is restricted to only
17 those who win bidding processes, it is virtually certain
18 that ratepayers will not be as well off as with unrestricted
19 access to development of wholesale merchant power plants.
20 As I discussed above, the presence of existing, i.e.,
21 already built and operating, merchant plants provides
22 additional competitive downward pressure on power costs and
23 prices that does not exist if the population of potential
24 competing suppliers consisted solely of to-be-constructed

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1 power plants. Moreover, the realization of benefits that
2 should derive from bidding depends, integrally, on the
3 existence of a bidding system that requires bidding for all
4 new resources; this is not always the case.

5 Bidding does not necessarily transfer the financial
6 risk from the captive ratepayers to suppliers, nor does it
7 guarantee accurate price signals between buyer and seller.

8 **Q: Are any "dis-benefits" or "externality" costs likely to**
9 **result from allowing wholesale competition?**

10 **A:** No, enhanced wholesale competition does not cause any
11 significant dis-benefits or increased "externality" costs.

12 In some circumstances not applicable in Florida,
13 unfettered wholesale competition in power supply might
14 result in additional environmental pollution as prices are
15 driven down toward marginal generating cost, if those prices
16 do not accurately reflect the cost of environmental
17 externalities associated with power generation. (Of course,
18 health, safety, and environmental impacts will continue to
19 be regulated.) In the case of Florida, where it appears
20 that the vast majority of new generating units planned by
21 merchant developers and existing utilities alike are to be
22 highly efficient gas-fired combined cycle units, it appears
23 that the enhanced competition should be expected to reduce
24 environmental externalities (pollution).

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1 **Q: What, if any, economic benefits is the New Smyrna Beach**
2 **Project likely to provide to the State of Florida and to**
3 **Florida electric customers?**

4 **A:** In general terms, the New Smyrna Beach Project will provide
5 direct economic benefits in the form of lower-cost
6 electricity to Florida utilities, who would be expected to
7 pass those lower power supply costs on to their electric
8 customers in the form of lower rates (through fuel
9 adjustment charges or purchased power cost recovery
10 charges). In this regard, it is important to remember that
11 no utility, and no electric customers, are obliged to
12 purchase either capacity or energy from the New Smyrna Beach
13 Project; other utilities will only buy from the Project when
14 such purchases represent lower cost power supply options
15 than the cost of other resources. In addition, under
16 reasonable assumptions, the existence of the Project will
17 provide direct (although perhaps more difficult to quantify)
18 economic benefits in the form of an additional competitive
19 check on the amount that a monopoly utility can charge for
20 capacity or energy from a utility-built power plant. More
21 generally, lower overall power costs can also be expected to
22 have a positive effect on the State's economy.

23 The Project can also reasonably be expected to provide
24 indirect benefits in the form of a "social welfare gain" by
25 producing electricity at a lower marginal cost than other

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1 resources (when it runs, of course), and in the form of
2 reduced environmental costs, i.e., reduced externalities due
3 to pollution, realized when the Project's generation
4 displaces oil-fired or coal-fired generation, and even when
5 it displaces less-efficient gas fired generation.

6 **Q: What if merchant plant developers were to build more**
7 **generation capacity in Florida than was strictly needed to**
8 **maintain minimum reliability criteria?**

9 **A:** The merchant plants would bear the full economic risk,
10 unlike the current situation where the captive ratepayers
11 bear virtually all of the risk.

12 In a realistic scenario, addressing the possibility of
13 several merchant plant developers in Florida building, over
14 the next five to ten years, more gas-fired combined cycle
15 capacity than is necessary to meet minimum reliability
16 criteria, the result would be suppression of the market
17 price of power in the Florida wholesale market, and the
18 attendant benefits would accrue to retail electric
19 ratepayers. Economically rational merchant plant owner-
20 operators would bid prices to sell power at some level above
21 their true marginal operating cost; the presence of numerous
22 such plants would tend to cause the bid prices, at least
23 much of the time, to be closer to that marginal operating
24 cost than if there were fewer plants.

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1 Thus, the net effect would be, at a minimum, reduced
2 wholesale power supply costs to utilities buying the power
3 for resale to their retail customers (making the reasonable
4 assumption that -- under the existing regulatory regime --
5 those retail-serving utilities would pass the lower power
6 supply costs through to their retail customers in the form
7 of lower rates). Thus, retail customers would benefit
8 directly.

9 Economic efficiency would be served as long as the
10 standard assumptions of competitive markets were met. The
11 chief of these in this case is that externalities must be
12 appropriately valued and incorporated into the price of
13 electricity. Whether that would be the case with a fleet of
14 gas-fired combined cycle plants would be an empirical
15 exercise beyond the scope of this testimony, but to the
16 extent that those units would displace generation from oil-
17 fired and less efficient gas-fired capacity, there would at
18 a minimum be a reduction in environmental externalities from
19 electricity generation in Florida. Thus, while we cannot
20 conclude that an "optimal" outcome would be attained, we can
21 conclude that electricity would be generated at a lower
22 cost, and almost certainly with less environmental
23 pollution, than without this hypothetical fleet. I believe
24 that any legitimate analysis of the situation would have to
25 conclude that this would be a "superior" outcome.

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1 Also, the presence of additional merchant capacity
2 would provide additional protection for service reliability
3 -- e.g., additional protection against outages due to
4 extreme weather conditions or due to unexpected outages of
5 generation facilities, at no incremental cost to electric
6 customers unless their retail-serving utilities decide to
7 use the merchant power resources. Additionally, the
8 certainty of available supply from the Project will provide
9 protection against the reliability uncertainties associated
10 with demand-side management, i.e., against the contingencies
11 that DSM measures will not realize their projected demand
12 reductions and that dissatisfied customers will terminate
13 their participation in load management programs. This is
14 particularly important in Florida, where load management and
15 interruptible service are relied on as the majority of
16 projected reserve margins.

17 **CONSISTENCY WITH PURPOSES OF UTILITY REGULATION**

18 **Q: Please summarize the basic purpose or purposes of utility**
19 **regulation.**

20 **A:** The basic purposes of utility regulation are to protect the
21 public interest and to promote an economically efficient,
22 competitive result in the allocation of resources to
23 electricity production and to prevent the exercise of
24 monopoly power. Stated differently, utility regulation is

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1 intended to serve as a surrogate for competition.

2 **Q: Are merchant plants consistent with these basic purposes of**
3 **utility regulation?**

4 **A:** Yes. The basic purpose of utility regulation is to attempt
5 to come as close as possible, in a constrained or
6 structurally imperfect market, to the outcome that would be
7 achieved in a competitive market. Truly competitive markets
8 are characterized by numerous sellers and numerous buyers
9 (enough that no one buyer or seller can influence the market
10 price). Merchant power plants fit perfectly into this
11 paradigm by increasing the number of sellers of electricity
12 in a given market, here the market for wholesale power in
13 Florida. They therefore promote a competitive and
14 economically efficient result, and are therefore consistent
15 with the basic purposes of regulation.

16 Moreover, merchant plants pose no risk to, and impose
17 no obligation on, electric customers. As in other
18 competitive markets, merchant plant investors take the risks
19 without any expectation of being able to, and without any
20 opportunity to, require any purchasers to cover their costs.

21 **Q: Does the "obligation to serve" -- i.e., to provide retail**
22 **electric service to any eligible customer requesting same in**
23 **a retail-serving utility's service area -- have anything to**

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1 do with who should provide the bulk power, or with who
2 should be eligible to build power plants to provide it?

3 A: No. It is a separate concept. Many electric utilities that
4 provide retail service, both in Florida and elsewhere, own
5 no power plants at all. Rather, these utilities rely
6 exclusively on power purchased from other utilities, i.e.,
7 power merchants. The argument that the "obligation to
8 serve" vests control over access to the wholesale market in
9 existing retail-serving utilities is a red herring.
10 Utilities gave up this argument when they started buying and
11 selling power between and among themselves: it makes no
12 difference whether the seller of power is another utility
13 that serves at retail and wholesale or a utility that sells
14 at wholesale only. Consider, for example, the Tennessee
15 Valley Authority, the Bonneville Power Administration, the
16 Southeast Power Administration, generation and transmission
17 cooperatives, wholesale joint power projects, and other
18 entities that provide bulk power to retail-serving utilities
19 in the present wholesale power markets. FERC-regulated
20 public utilities operating merchant plants are fundamentally
21 and functionally no different than these other, existing
22 entities that provide bulk wholesale power to retail-serving
23 utilities.

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1 Q: Would wholesale competition hurt retail customers under any
2 realistic scenario?

3 A: Absolutely not. The opposite is true -- customers benefit
4 from wholesale competition.

5 Q: Does this conclude your direct testimony?

6 A: Yes, it does.