BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FUEL COST AND PURCHASED POWER COST RECOVERY CLAUSE

DOCKET NO. 010001-EI

PREPARED DIRECT TESTIMONY OF SUSAN D. RITENOUR

PROJECTION FILING
FOR THE PERIOD

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GULF POWER
A SOUTHERN COMPANY

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
Susan D. Ritenour
Docket No. 010001-EI
Date of Filing: September 20, 2001

Q. Please state your name, business address and occupation.

A. My name is Susan Ritenour. My business address is One Energy Place, Pensacola, Florida 32520-0780. I hold the position of Assistant Secretary and Assistant Treasurer for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from Wake Forest University in Winston-Salem, North Carolina in 1981 with a Bachelor of Science Degree in Business and from the University of West Florida in 1982 with a Bachelor of Arts Degree in Accounting. I am also a Certified Public Accountant licensed in the State of Florida. I joined Gulf Power Company in 1983 as a Financial Analyst. Prior to assuming my current position, I have held various positions with Gulf including Computer Modeling Analyst, Senior Financial Analyst, and Supervisor of Rate Services.

My responsibilities include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you previously filed testimony before this Commission in connection with Gulf's fuel and purchased power cost recovery clause?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address the issue included as Issue 17 in the Commission's Second Order Revising Order Establishing Procedure, Order No. PSC-01-1829-PCO-EI dated September 11, 2001. This issue poses the question: "If an investor-owned electric utility exceeds the ceiling on its authorized return on common equity, can and/or should the Commission reduce by a commensurate amount recovery of prudently-incurred expenditures through the Commission's fuel and purchased power cost recovery clause?"

Q. What is your position regarding this issue?

A. As a matter of policy, the Commission should not make any adjustment to the fuel and purchased power cost recovery clause for amounts related to revenues and costs properly reflected in base rates and monitored through the monthly surveillance report. As to whether the Commission can make such an adjustment, that is a legal question. My testimony focuses on the policy implications related to this issue.

Q. What is the purpose of the fuel and purchased power cost recovery clause?

A. As stated in Commission Order No. 6357 dated November 26, 1974 in

Docket No. 74680-CI, the purpose of the fuel and purchased power cost recovery clause is "to compensate for day-to-day fluctuations in the cost of fuel which cannot be anticipated in the base rates. It should be constructed and applied so as to reimburse the utility for the increase in the cost of fuel as related to generation. It also operates so as to pass on to the customer any savings realized by the utility from decreased cost of fuel." This order expanded the definition of recoverable costs to include the energy component of purchased power, which was recognized as "nothing more than a substitute for power generated and entails one company purchasing power generated by another." The order goes on to state "[w]hen the volatility factor is coupled with the magnitude of fuel costs, one can readily conclude that the fuel adjustment clause is both a necessary and proper regulatory tool to insure that both the customer and the utility receive the benefits of responsive recognition to changes in the cost of generating electricity."

Q. Is the inclusion in the fuel clause of an adjustment related to a utility's overall earnings level consistent with this purpose?

A. No.

Q. What is the appropriate mechanism for monitoring the earnings of a utility?

A. The appropriate mechanism for monitoring a utility's earnings is the surveillance report filed each month with the Commission. This report calculates the utility's achieved rate of return and return on equity based on its actual thirteen-month average rate base and 12 month-to-date net operating income. Based on the information included in the surveillance report, the Commission and its Staff can, if considered necessary, take actions including requesting additional information, initiating an earnings investigation, or requiring that the utility file Minimum Filing Requirements (MFRs). These actions, if any, should be taken separately from and independent of the cost recovery clause calculations and proceedings, just as the Commission has traditionally done.

Q. Do you see any other problems with the Commission's adoption of a policy of adjusting the fuel clause for an amount related to earnings in excess of the authorized return on equity (ROE) ceiling?

A. Yes. The activities required, by both the utility and the FPSC Staff, to administer such a policy would be quite burdensome. Each situation in which a utility's ROE exceeded the top of its authorized range would require analysis to determine if an adjustment was appropriate and, if so, how much the adjustment should be. For example, a utility's ROE may exceed its ROE ceiling temporarily and then fall back within the allowed range, due to such events as unusual weather conditions or the timing of certain large expenses or plant additions. It would be inappropriate to reduce a company's earnings based on a temporary spike in ROE. The utility's earnings at any given point in time may not be indicative of the future earnings level expected by the utility. Furthermore, the allowed ROE range may not be appropriate based on current conditions. In

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 010001-EI

Before me the undersigned authority, personally appeared Susan D. Ritenour, who being first duly sworn, deposes, and says that she is the Assistant Secretary and Assistant Treasurer of Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

Susan D. Ritenour

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 19th day of September, 2001.

Linda C. Webb

Notary Public, State of Florida at Large

NOTARY PUBLIC STATE OF FLORIDA

LINDA C. WEBB
Notary Public-State of FL
Comm. Exp: May 31, 2002
Comm. No: CC 725969