



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY

PROJECTIONS  
JANUARY 2004 THROUGH DECEMBER 2004

TESTIMONY  
OF  
BENJAMIN F. SMITH  
REDACTED VERSION

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1 Wholesale Marketing and Fuels Department. My  
2 responsibilities are to evaluate, pursue and negotiate  
3 wholesale purchase and sale opportunities. In this  
4 capacity, I interact with wholesale power market  
5 participants such as utilities, municipalities, electric  
6 cooperatives, power marketers and other wholesale  
7 generators.

8  
9 **Q.** What is the purpose of your direct testimony in this  
10 proceeding?

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12 **A.** The purpose of my testimony is to provide a description  
13 of Tampa Electric's 2003 and 2004 purchased power  
14 agreements the company has entered into and for which it  
15 is seeking cost recovery through the Fuel and Purchased  
16 Power Cost Recovery Clause ("fuel clause") and the  
17 Capacity Cost Recovery Clause. I support the  
18 reasonableness of replacement power costs due to the  
19 shutdown of Gannon Units 1 through 4 in 2003. Finally,  
20 I describe Tampa Electric's purchased power strategy for  
21 mitigating supply-side risk while providing customers  
22 with a reliable supply of economically priced purchased  
23 power.

1 **Wholesale Purchases**

2 **Q.** Please describe Tampa Electric's wholesale energy  
3 purchases for 2003.

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5 **A.** Tampa Electric assessed the wholesale energy market and  
6 entered into short-term purchases based on price and  
7 availability of supply. The company expects to meet 15  
8 percent of its customers' 2003 energy needs through  
9 purchased power, including the existing long-term firm  
10 purchased power agreement with Hardee Power Partners and  
11 qualifying facilities. This also includes a total of  
12 232 MW that was purchased to meet the winter peak  
13 reserve margin requirement. The company also extended  
14 the terms of two existing purchased power contracts for  
15 economic reasons. In addition, the company extended the  
16 leasing agreement for 30 self-contained portable  
17 generators through March 31, 2003, which supplied 50 MW  
18 to supplement the company's winter peak reserve margin.

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20 With the addition of Bayside Unit 1 in April 2003, the  
21 company did not have a need to purchase firm capacity  
22 for its summer 2003 reserve margin requirement.  
23 However, because of higher than expected load levels in  
24 May 2003, Tampa Electric made a 100 MW energy purchase  
25 on the forward market for 22 days to assist with price

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stability and reliability of supply.

For 2003, Tampa Electric expects that [REDACTED] of its purchased power will be from long-term contracts, and the remaining [REDACTED] will be purchased through the short-term market. This purchasing strategy provides a reasonable and diversified approach to serving retail customers.

**Q.** What capacity and energy purchases are included in Tampa Electric's projections for 2004?

**A.** In addition to the existing long-term firm purchased power agreement with Hardee Power Partners and qualifying facility purchases, Tampa Electric projects that it will purchase 50 MW of firm capacity for its summer 2004 reserve margin requirement. Tampa Electric will also continue to evaluate economic combinations of forward and spot market energy purchases that may be made during Tampa Electric's spring and fall generation maintenance periods and peak periods to reduce the overall cost to retail customers.

**Q.** Will the sale of the Hardee Power Partners capacity by TECO Power Services affect Tampa Electric's purchase

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agreement?

**A.** No, the sale of Hardee Power Partners will not have an impact on Tampa Electric's purchase. Per the terms of the agreement, the company's existing purchased power agreement will continue in effect and be served by the new owners.

**Replacement Power Costs Due to Gannon Shutdown**

**Q.** For 2003 and 2004, did Tampa Electric purchase or plan to purchase replacement power due to the shutdown of Gannon Units 1 through 4 in 2003?

**A.** Tampa Electric updated its fuel and purchased power projections in February 2003 to reflect existing conditions which include but are not limited to the cost of natural gas as well as the company's decision to shut down the Gannon units in 2003, as described in the direct testimony of Tampa Electric's witness W. T. Whale. In its February 2003 and most recent analysis, Tampa Electric did not project the need to purchase replacement firm capacity to meet its summer 2003 reserve margin requirements, due to the April 2003 in-service date of Bayside Unit 1. However, the company did anticipate purchasing supplemental energy as needed

1 in 2003.

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3 As previously mentioned, Tampa Electric projects that it  
4 will purchase 50 MW of firm capacity for its summer 2004  
5 reserve margin requirement. The company also  
6 anticipates purchasing supplemental energy as needed in  
7 2004.

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9 Although Tampa Electric projects its system capacity and  
10 energy needs, the company also states that because of  
11 system dynamics, it is neither feasible nor appropriate  
12 to isolate and then attribute costs to a single  
13 variable, such as the shutdown of the Gannon units, on  
14 an actual basis. These system dynamics include unit  
15 forced outages, operating restrictions, weather,  
16 customer demand and statewide transmission and stability  
17 issues.

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19 **Q.** For 2003 and 2004, are Tampa Electric's purchases of  
20 replacement power in the wholesale market due to the  
21 shutdown of Gannon Units 1 through 4 in 2003 reasonable?

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23 **A.** Yes, Tampa Electric's energy purchases to supplement  
24 generation due to the shutdown of Gannon Units 1 through  
25 4 are reasonable. As I describe later in my testimony,

1 in operating such a dynamic system, the company has and  
2 will continue to evaluate power purchases using economic  
3 dispatch, along with canvassing the marketplace, to  
4 ensure a reliable and cost-effective supply of power for  
5 its customers. For the aforementioned reasons, the  
6 costs incurred for power purchases in 2003 and 2004 are  
7 prudent and appropriate for recovery.

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9 **Wholesale Sales**

10 **Q.** Please describe Tampa Electric's wholesale energy sales  
11 for the year 2003.

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13 **A.** Tampa Electric has entered into one firm, and various  
14 non-firm, non-separated wholesale sales in 2003. These  
15 transactions have provided benefits to retail customers  
16 because revenues from the sales flow back to customers  
17 through the fuel clause. The 50 MW non-separated, firm  
18 sale occurred during March, when Tampa Electric  
19 projected surplus generation on its system. It is the  
20 only firm non-separated sale that Tampa Electric has  
21 entered into since 1998. The company has not entered  
22 into a firm separated wholesale sale since 1998.

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24 **Wholesale Transaction Hedging**

25 **Q.** Does Tampa Electric engage in physical or financial



1 hedging of its wholesale energy transactions to mitigate  
2 wholesale energy price volatility?  
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4 **A.** Tampa Electric thus far has engaged only in physical  
5 hedging for wholesale transactions. Florida's wholesale  
6 energy market is in an early developmental stage.  
7 Physical and financial hedges provide measurable market  
8 price volatility protection. However, the availability  
9 of financial instruments is limited, and Tampa Electric  
10 believes that the appropriate financial instruments to  
11 meet the company's needs do not currently exist. Thus,  
12 Tampa Electric has not purchased any wholesale energy  
13 derivatives. The company employs a diversified power  
14 supply strategy, which includes self-generation and  
15 long- and short-term capacity and energy purchases. As  
16 stated earlier, approximately [REDACTED] of Tampa  
17 Electric's 2003 purchased power was arranged through  
18 long-term contracts. This strategy provides the company  
19 the opportunity to take advantage of favorable spot  
20 market pricing while maintaining reliable service to its  
21 customers.

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23 **Prudent Management of Wholesale Transactions**

24 **Q.** Has Tampa Electric reasonably managed its wholesale  
25 power purchases and sales practices for the benefit of

1           its retail customers?

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3   **A.**   Yes, Tampa Electric has reasonably managed its wholesale  
4   power purchases and sales practices for the benefit of  
5   its retail customers. Tampa Electric has fully complied  
6   with, and continues to fully comply with, the  
7   Commission's March 11, 1997 order, PSC-97-0262-FOF-EI,  
8   in Docket No. 970001-EI, which governs the treatment of  
9   separated and non-separated wholesale sales. In  
10  addition, the company actively manages its wholesale  
11  sales and purchases with the goal of capitalizing on all  
12  opportunities to reduce costs to its customers.

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14   The company's wholesale purchases and sales activities  
15  and transactions are continually reviewed and have been  
16  audited on a routine and recurring basis by the  
17  Commission. In addition, Tampa Electric continually  
18  monitors its contractual rights with purchased power  
19  suppliers as well as with entities to whom wholesale  
20  power is sold to detect and prevent any breach of the  
21  company's contractual rights. Tampa Electric  
22  continually strives to improve its knowledge of the  
23  markets and the available opportunities to minimize the  
24  costs of purchased power and to maximize the savings the  
25  company provides retail customers by making non-

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separated wholesale sales when excess power is available on Tampa Electric's system.

**Q.** Please describe the efforts Tampa Electric has made to ensure that its wholesale purchases and sales activities are conducted in a reasonable and prudent manner.

**A.** Tampa Electric evaluates its potential purchased power needs by analyzing the expected available amounts of generation and the power needed to provide for the projected energy and demand to be used by its customers. The company then aggressively shops for wholesale capacity and energy, searching for reliable supply at the best possible price from creditworthy counterparties. These purchases are evaluated based on forward and spot markets. The company engages in wholesale power purchases and sales with numerous counterparties. The creditworthiness of each counterparty is carefully checked before engaging in energy transactions. Purchases are made to achieve reserve margin requirements, to meet customers' needs, to supplement generation during both planned and unplanned generating unit outages and for economical purposes. This process is in place and is strictly followed to minimize the cost of purchased power and

1 maximize the savings to customers.

2  
3 **Q.** Please summarize your testimony.

4  
5 **A.** Tampa Electric constantly monitors and assesses the  
6 wholesale energy market to locate and take advantage of  
7 opportunities in the wholesale electric power market,  
8 and those efforts have benefited the company's  
9 customers. Tampa Electric's energy supply strategy  
10 includes self-generation and long- and short-term power  
11 purchases. The company purchases in both the physical  
12 forward and spot wholesale power markets to provide  
13 customers with a reliable supply at the lowest possible  
14 cost. Tampa Electric's purchases of replacement power  
15 in 2003 and 2004 due to the shutdown of Gannon Units 1  
16 through 4 are reasonable, and it is appropriate for the  
17 Commission to authorize the recovery of such costs. The  
18 company has also made non-separated wholesale energy  
19 sales, which benefit its retail customers. Finally,  
20 Tampa Electric does not purchase wholesale energy  
21 derivatives in the developing Florida wholesale electric  
22 market due to a limited availability of financial  
23 instruments that are appropriate to the company's  
24 operations.

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1 Q. Does this conclude your testimony?

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3 A. Yes.

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