



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 040001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2005 THROUGH DECEMBER 2005

TESTIMONY

OF

BENJAMIN F. SMITH

REDACTED VERSION

- CMP _____
- COM 5 _____
- CTR 03 _____
- ECR _____
- GCL 1 _____
- OPC _____
- MMS _____
- RCA _____
- SCR _____
- SEC 1 _____
- OTH _____

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

9
10 Q. Have you previously testified before this Commission?

11
12 A. Yes. I testified before this Commission in Docket No.
13 030001-EI. My testimony described the appropriateness
14 and prudence of Tampa Electric's wholesale purchases and
15 sales.

16
17 Q. What is the purpose of your direct testimony in this
18 proceeding?

19
20 A. The purpose of my testimony is to provide a description
21 of Tampa Electric's 2004 and 2005 purchased power
22 agreements that the company has entered into and for
23 which it is seeking cost recovery through the Fuel and
24 Purchased Power Cost Recovery Clause ("fuel clause") and
25 the Capacity Cost Recovery Clause. I also describe

1 Tampa Electric's purchased power strategy for mitigating
2 supply-side risk while providing customers with a
3 reliable supply of economically priced purchased power.
4

5 **Q.** Please describe Tampa Electric's wholesale energy
6 purchases for 2004.
7

8 **A.** Tampa Electric assessed the wholesale energy market and
9 entered into long- and short-term purchases based on
10 price and availability of supply. The company expects
11 to meet approximately 12 percent of its customers' 2004
12 energy needs through purchased power, including the
13 existing long-term, firm purchased power agreements with
14 Hardee Power Partners and qualifying facilities and a
15 150 MW non-firm purchase that began in June 2004.
16

17 Although Tampa Electric did not have a need to purchase
18 firm capacity for its summer 2004 reserve margin
19 requirements, the company had the opportunity to
20 purchase economical power on the forward market. Tampa
21 Electric made power purchases to assist with price
22 stability and reliability of supply. For 2004, Tampa
23 Electric expects that [REDACTED] percent of its purchased power
24 will be from long-term contracts, and the remaining [REDACTED]
25 percent will be purchased through the short-term market.

1 This purchasing strategy provides a reasonable and
2 diversified approach to serving customers.

3

4 Q. Please describe Tampa Electric's purchase referred to
5 above.

6

7 A. Tampa Electric entered into a contract to purchase 150
8 MW of non-firm power that is priced at system average
9 fuel cost from sources within the state of Florida. The
10 purchase took effect in June 2004 and expires at the end
11 of 2005. The purchase allows Tampa Electric to provide
12 customers with reliable energy at an economic price.
13 While the purchase is categorized as non-firm capacity
14 for the purposes of calculating firm reserves, the
15 expected availability of the energy is high because it
16 is backed by a utility's entire system. The contract
17 has both capacity and energy charges. The purchase is
18 projected to benefit customers by \$7.1 million over the
19 life of the contract, based on the company's expected
20 usage of this economically priced product.

21

22 Q. Did Tampa Electric contract for capacity or energy
23 purchases as a result of its 2005 Peaking Request for
24 Proposals ("RFP"), issued on July 25, 2003?

25

1 A. No. Tampa Electric was unable to identify an
2 economically viable, firm-delivered peaking resource
3 beginning May 2005. Therefore, the company did not
4 contract for purchased power through this RFP process.
5 Additionally, since the issuance of its RFP in July
6 2003, the company updated its 2005 load forecast. The
7 revised forecast, combined with the accelerated
8 refurbishment of Big Bend CT 2, result in a need for
9 only 25 MW in the summer of 2005 rather than up to 225
10 MW, as originally anticipated.

11
12 Q. What capacity and energy purchases are included in Tampa
13 Electric's projections for 2005?

14
15 A. As I stated above, in addition to the existing long-term
16 purchased power agreement with Hardee Power Partners,
17 the 150 MW non-firm purchase, and qualifying facility
18 purchases, Tampa Electric projects a need for 25 MW of
19 firm capacity to meet summer 2005 reserve margin
20 requirements. Because of this small amount, the company
21 will continue to evaluate this need in early 2005 using
22 the most current assumptions for load and other system
23 parameters. If a need for summer reserves still exists,
24 the company will pursue options to obtain the necessary
25 capacity at that time.

1 In 2005, Tampa Electric expects that [REDACTED] percent of its
2 purchased power will be from long-term contracts, and
3 the remaining [REDACTED] percent will be purchased through the
4 short-term market. Tampa Electric will continue to
5 evaluate economic combinations of forward and spot
6 market energy purchases during its spring and fall
7 generation maintenance periods and peak periods to
8 reduce the overall cost to customers.

9
10 **Q.** Please describe Tampa Electric's wholesale energy sales
11 for 2004.

12
13 **A.** Tampa Electric has entered into various non-firm, non-
14 separated wholesale sales in 2004. These transactions
15 have provided benefits to customers because 100 percent
16 of the revenues from the sales were flowed back to
17 customers through the fuel clause.

18
19 **Q.** Does Tampa Electric engage in physical or financial
20 hedging of its wholesale energy transactions to mitigate
21 wholesale energy price volatility?

22
23 **A.** Physical and financial hedges can provide measurable
24 market price volatility protection. Thus far, Tampa
25 Electric has engaged only in physical hedging for

1 wholesale transactions because the availability of
2 financial instruments within Florida is limited. The
3 Florida market currently operates through bi-lateral
4 contracts between various counterparties, and there is
5 not a Florida trading hub where standard financial
6 transactions could occur with enough volume for a liquid
7 market. Due to this lack of liquidity, the appropriate
8 financial instruments to meet the company's needs do not
9 currently exist. Thus, Tampa Electric has not purchased
10 any wholesale energy derivatives. Instead, Tampa
11 Electric employs a diversified power supply strategy,
12 which includes self-generation and long- and short-term
13 capacity and energy purchases. This strategy provides
14 the company the opportunity to take advantage of
15 favorable spot market pricing while maintaining reliable
16 service to its customers.

17
18 **Q.** Please describe the efforts Tampa Electric has made to
19 ensure that its wholesale purchases and sales activities
20 are conducted in a reasonable and prudent manner.

21
22 **A.** Tampa Electric evaluates its potential purchased power
23 needs by analyzing the expected available amounts of
24 generation and the power needed to provide for the
25 projected energy and demand to be used by its customers.

1 When there is a need, the company aggressively shops for
2 wholesale capacity or energy, searching for reliable
3 supplies at the best possible price from creditworthy
4 counterparties. These purchases are evaluated based on
5 forward and spot markets. The company engages in
6 wholesale power purchases and sales with numerous
7 counterparties. The creditworthiness of each
8 counterparty is carefully checked before engaging in
9 energy transactions. Purchases are made to achieve
10 reserve margin requirements, to meet customers' needs,
11 to supplement generation during both planned and
12 unplanned generating unit outages, and for economical
13 purposes. This process is strictly followed to minimize
14 the cost of purchased power and maximize the savings to
15 customers.

16
17 **Q.** Has Tampa Electric reasonably managed its wholesale
18 power purchases and sales for the benefit of its retail
19 customers?

20
21 **A.** Yes, it has. Tampa Electric has fully complied with,
22 and continues to fully comply with, the Commission's
23 March 11, 1997 order, PSC-97-0262-FOF-EI, in Docket No.
24 970001-EI, which governs the treatment of separated and
25 non-separated wholesale sales. In addition, the company

1 actively manages its wholesale sales and purchases with
2 the goal of capitalizing on all opportunities to reduce
3 costs to its customers.

4
5 The company's wholesale purchases and sales **activities**
6 and transactions are reviewed and have been audited on a
7 recurring basis by the Commission. In addition, Tampa
8 Electric monitors its contractual rights with purchased
9 power suppliers as well as with entities to which
10 wholesale power is sold to detect and prevent any breach
11 of the company's contractual rights. Tampa Electric
12 continually strives to improve its knowledge of the
13 markets and the available opportunities to minimize the
14 costs of purchased power and to maximize the savings the
15 company provides retail customers by making non-
16 separated wholesale sales when excess power is available
17 on Tampa Electric's system.

18
19 **Q.** Please summarize your testimony.

20
21 **A.** Tampa Electric monitors and assesses the wholesale
22 energy market to identify and take advantage of
23 opportunities in the wholesale electric power market,
24 and **those efforts have benefited** the company's
25 customers. Tampa Electric's energy supply strategy

1 includes self-generation and long- and short-term power
2 purchases. The company purchases in both the physical
3 forward and spot wholesale power markets to provide
4 customers with a reliable supply at the lowest possible
5 cost, and Tampa Electric enters into non-firm, non-
6 separated wholesale sales that benefit customers. Tampa
7 Electric does not purchase wholesale energy derivatives
8 in the developing Florida wholesale electric market due
9 to a lack of financial instruments that are appropriate
10 for the company's operations. It does, however, employ
11 a diversified power supply strategy to help mitigate
12 price and supply risks.

13
14 Q. Does this conclude your testimony?

15
16 A. Yes.

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