TAMPA ELECTRIC

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2006 THROUGH DECEMBER 2006

TESTIMONY

OF

BENJAMIN F. SMITH

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

BENJAMIN F. SMITH

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

A. My name is Benjamin F. Smith. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") in the Wholesale Marketing and Fuels group within the Fuels Management Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science degree in Electric Engineering in 1991 from the University of South Florida in Tampa, Florida. I joined Tampa Electric in 1990 as a cooperative education student. During my years with the company, I have worked in the areas of transmission engineering, distribution engineering, resource planning, retail marketing, and wholesale marketing. I am currently the Manager of Wholesale Power in the

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

Q. Have you previously testified before this Commission?

A. Yes. I testified before this Commission in Docket Nos. 030001-EI and 040001-EI. My testimony described the appropriateness and prudence of Tampa Electric's wholesale purchases and sales.

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

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

purchased power strategy for mitigating price and supply-side risk while providing customers with a reliable supply of economically priced purchased power.

Q. Please describe the efforts Tampa Electric makes 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. When there is a need, the company aggressively shops for wholesale capacity or energy, searching for reliable supplies 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 followed to help minimize the

cost of purchased power and maximize the savings to customers.

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

A. Yes, it has. Tampa Electric has fully complied with, and continues to fully comply with, the Commission's March 11, 1997 order, No. PSC-97-0262-FOF-EI, issued in Docket No. 970001-EI, which governs the treatment of separated and non-separated wholesale sales. In addition, the company actively manages its wholesale sales and purchases with the goal of capitalizing on all opportunities to reduce costs to its customers.

The company's wholesale purchases and sales activities and transactions are reviewed and have been audited on a recurring basis by the Commission. In addition, Tampa Electric monitors its contractual rights with purchased power suppliers as well as with entities to which wholesale power is sold to detect and prevent any breach of the company's contractual rights. Tampa Electric continually strives to improve its knowledge of the markets and the available opportunities to minimize the

costs of purchased power and to maximize the savings the company provides retail customers by making non-separated wholesale sales when excess power is available on Tampa Electric's system.

Q. What actions did Tampa Electric take to minimize incremental purchased power costs during the 2004 hurricane season?

A. There were an unprecedented four consecutive hurricanes in 2004 that affected the state of Florida—Hurricanes Charley, Frances, Ivan, and Jeanne. Tampa Electric made every effort to minimize incremental purchased power costs due to the storms while providing reliable supplies of energy to meet load. Tampa Electric made economic purchases whenever possible; however, the onset of these storms significantly impaired the company's ability to purchase power on a forward basis because of the uncertainty of load level, available transmission, and fuel supplies within the marketplace. In addition, to maintain system reliability during the storm season, Tampa Electric also made reliability purchases. For example, due to concerns that Hurricane Frances would affect Tampa Electric's generating resources at Bayside and Big Bend stations, the company called on its

existing 150 MW purchase from Progress Energy Florida. Following the 2004 storm season, as fuel supplies became more certain, the company continued to purchase power on the spot market so long as the economics of the purchase were favorable.

Q. Did the 2004 hurricane season affect Tampa Electric's purchased power procurement strategies?

A. At the beginning of 2004, Tampa Electric's risk management strategy did not consider the possibility of four hurricanes within two months. Although there are no definitive industry reports on the probability of another such storm season, the company has reviewed its purchase power strategy in light of the 2004 storm season. During future hurricane seasons, the company's basic strategy is to "get in front of the storm". This means that Tampa Electric, using available storm tracking resources, will evaluate the impact of the storm on the wholesale market as soon as possible. Then, if needed, the company will purchase power on the forward market, first for reliability reasons, and then for economics. Absent the threat of a hurricane and for all other months of the year, the company's purchased power strategy of evaluating economic combinations of

long- and short-term purchase options remains unchanged.

Q. Please describe Tampa Electric's 2005 wholesale energy purchases.

A. Tampa Electric assessed the wholesale energy market and entered into long- and short-term purchases based on price and availability of supply. The company expects to meet approximately 17 percent of its customers' 2005 energy needs through purchased power, which includes the existing long-term, firm purchased power agreements with Hardee Power Partners and qualifying facilities and the 150 MW non-firm purchase from Progress Energy Florida. Tampa Electric purchases power to assist with price stability and reliability of supply. For 2005, Tampa Electric expects that 51 percent of its purchased power will be from long-term contracts, and the remaining 49 percent will be purchased in the short-term market.

Q. Please describe Tampa Electric's 2006 wholesale energy purchases.

A. In 2006, Tampa Electric expects that 46 percent of purchased power will be from long-term contracts, and the remaining 54 percent will be purchased in the short-

term market. In addition to the existing purchased power agreements with Hardee Power Partners and qualifying facilities, Tampa Electric negotiated a long-term, firm agreement to purchase 170 MW of peaking power from Calpine that begins May 1, 2006. Finally, Tampa Electric will continue to evaluate economic combinations of forward and spot market energy purchases during its spring and fall generation maintenance periods and peak periods to reduce the overall cost to customers. This purchasing strategy provides a reasonable and diversified approach to serving customers.

Q. Please describe Tampa Electric's purchase agreement with Calpine.

A. Tampa Electric projects a need for firm capacity to meet reserve margin requirements beginning in the summer 2006 and for each year through 2011. Tampa Electric entered into a contract to purchase 170 MW of firm peaking power from Calpine's natural gas fired facilities in Auburndale, Florida. The purchase will take effect May 1, 2006 and expire at the end of April 2011. The purchase substitutes for an additional combustion turbine on Tampa Electric's system.

Q. How did Tampa Electric determine that the Calpine purchased power agreement provided the greatest benefits to its customers, when compared to other options?

A. The Calpine purchase was achieved through a competitive bidding process supported by economic analysis from Tampa Electric's Resource Planning group. After viable bids were identified, Tampa Electric modeled the Calpine purchase and other options. Based on a comprehensive analysis, the Calpine purchase was the most appropriate option from a reliability and cost-effectiveness standpoint, and it provides a projected $17.9 million of savings to customers over the life of the contract. Tampa Electric then negotiated with Calpine to finalize the details of the agreement.

Q. Does Tampa Electric plan to enter into any other new purchased power agreements?

A. At this time, with the exception of seasonal purchases for 2005 and the long-term 170 MW peaking purchase from Calpine beginning May 2006, the company has not reached any agreements with other entities for forward purchases. As previously stated, Tampa Electric continues to evaluate economic combinations of forward

purchases to reduce the overall cost to customers.

Q. Please describe Tampa Electric's wholesale energy sales for 2005.

A. Tampa Electric has entered into various non-firm, non-separated wholesale sales in 2005. These transactions have provided benefits to customers because year to date, 100 percent of the revenues from the sales were returned to customers through the fuel clause.

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

A. Physical and financial hedges can provide measurable market price volatility protection. Thus far, Tampa Electric has engaged only in physical hedging for wholesale transactions because the availability of financial instruments within Florida is limited. The Florida market currently operates through bilateral contracts between various counterparties, and there is not a Florida trading hub where standard financial transactions could occur with enough volume for a liquid market. Due to this lack of liquidity, the appropriate

financial instruments to meet the company's needs do not currently exist. Thus, Tampa Electric has not purchased any wholesale energy derivatives. Instead, Tampa Electric employs a diversified power supply strategy, which includes self-generation and long- and short-term capacity and energy purchases. This strategy provides the company the opportunity to take advantage of favorable spot market pricing while maintaining reliable service to its customers.

Q. Does Tampa Electric's risk management strategy for power transactions adequately mitigate price risk for purchased power for 2004 through 2006?

A. Yes, Tampa Electric's physical hedges have been successful, and the company expects them to continue to provide customers with adequate protection from purchased power price risk. For example, in 2004, Tampa Electric purchased 150 MW from Progress Energy Florida. This purchase has served as both a physical hedge and a reliable source of economical power in 2004 and 2005. The availability of this purchase has been high, and its price is based on the seller's system average fuel cost, providing some protection from increases in natural gas prices that affect the price of purchased power.

During the summer of 2005, Tampa Electric executed agreements with Okeelanta and Reliant Energy. The Okeelanta purchase is a fixed price agreement, and the purchase from Reliant Energy is a cost-based call option on peaking power. Both of these agreements reduce the purchased power price risk for Tampa Electric customers.

As I stated above, in May 2006, Tampa Electric will begin purchasing up to 170 MW of peaking power from Calpine. This purchase is at a fixed heat rate, which, although not at a fixed price, provides protection against an increase in purchase power prices because this purchase remains cost-based. This is the same type of price protection provided by the company's existing long-term, firm purchased power agreement with Hardee Power Partners. Finally, as 2006 approaches, the company continues to evaluate forward purchase options that further reduce the price risk of purchased power.

Mitigating price risk is a dynamic process, and Tampa Electric continually re-evaluates its options in light of changing circumstances and new opportunities. As far as purchased power is concerned, Tampa Electric continually strives to maintain an optimum level and mix of long- and short-term capacity and energy purchases to

augment the company's own generation.

Q. Please summarize your testimony.

A. Tampa Electric monitors and assesses the wholesale energy market to identify and take advantage of opportunities in the wholesale electric power market, and those efforts have benefited the company's customers. Tampa Electric's energy supply strategy includes self-generation and long- and short-term power purchases. The company purchases in both the physical forward and spot wholesale power markets to provide customers with a reliable supply at the lowest possible cost, and Tampa Electric enters into non-firm, non-separated wholesale sales that benefit customers. Tampa Electric does not purchase wholesale energy derivatives in the developing Florida wholesale electric market due to a lack of financial instruments that are appropriate for the company's operations. It does, however, employ a diversified power supply strategy to mitigate price and supply risks.

Q. Does this conclude your testimony?

A. Yes.