



TAMPA ELECTRIC

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2007 THROUGH DECEMBER 2007

TESTIMONY

OF

BENJAMIN F. SMITH

1 BEFORE THE PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 BENJAMIN F. SMITH

5
6 **Q.** Please state your name, address, occupation and
7 employer.

8
9 **A.** My name is Benjamin F. Smith. My business address is
10 702 North Franklin Street, Tampa, Florida 33602. I am
11 employed by Tampa Electric Company ("Tampa Electric" or
12 "company") in the Wholesale Marketing and Fuels group
13 within the Fuels Management Department.

14
15 **Q.** Please provide a brief outline of your educational
16 background and business experience.

17
18 **A.** I received a Bachelor of Science degree in Electric
19 Engineering in 1991 from the University of South Florida
20 in Tampa, Florida. I joined Tampa Electric in 1990 as a
21 cooperative education student. During my years with the
22 company, I have worked in the areas of transmission
23 engineering, distribution engineering, resource
24 planning, retail marketing, and wholesale marketing. I
25 am currently the Manager of Wholesale Power in the

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

8
9 Q. Have you previously testified before this Commission?

10
11 A. Yes. I testified before this Commission in Docket Nos.
12 030001-EI and 040001-EI regarding the appropriateness
13 and prudence of Tampa Electric's wholesale purchases and
14 sales. I also submitted written testimony for Docket
15 No. 050001-EI.

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 purchased power agreements that the
22 company has entered into and for which it is seeking
23 cost recovery through the Fuel and Purchased Power Cost
24 Recovery Clause ("fuel clause") and the Capacity Cost
25 Recovery Clause. I also describe Tampa Electric's

1 purchased power strategy for mitigating price and
2 supply-side risk while providing customers with a
3 reliable supply of economically priced purchased power.
4

5 **Q.** Please describe the efforts Tampa Electric makes to
6 ensure that its wholesale purchases and sales activities
7 are conducted in a reasonable and prudent manner.
8

9 **A.** Tampa Electric evaluates potential purchased power needs
10 by analyzing the expected available amounts of
11 generation and the power required to meet the projected
12 customer energy and demand. When there is a need, the
13 company aggressively shops for wholesale capacity and/or
14 energy by searching for reliable supplies at the best
15 possible price from creditworthy counterparties. The
16 company has wholesale power purchase and sales
17 transaction enabling agreements with numerous
18 counterparties. Before engaging in an energy
19 transaction, the company evaluates the creditworthiness
20 of the counterparty.
21

22 Purchases are made to achieve reserve margin
23 requirements, to meet customers' needs, to supplement
24 generation during unit outages, and for economical
25 purposes. This process helps minimize the cost of

1 purchased power and maximize the savings to customers.

2
3 Q. Has Tampa Electric reasonably managed its wholesale
4 power purchases and sales for the benefit of its retail
5 customers?

6
7 A. Yes, it has. Tampa Electric has fully complied with,
8 and continues to fully comply with, the Commission's
9 March 11, 1997 Order, No. PSC-97-0262-FOF-EI, issued in
10 Docket No. 970001-EI, which governs the treatment of
11 separated and non-separated wholesale sales. In
12 addition, the company actively manages its wholesale
13 sales and purchases with the goal of capitalizing on
14 opportunities to reduce costs to its customers.

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

1 provides retail customers by making wholesale sales when
2 excess power is available on Tampa Electric's system.

3
4 Q. Please describe Tampa Electric's 2006 wholesale energy
5 purchases.

6
7 A. Tampa Electric assessed the wholesale energy market and
8 entered into long- and short-term purchases based on
9 price and availability of supply. Approximately 12
10 percent of the expected energy needs for 2006 will be
11 met using purchased power, which includes economy
12 purchases, the existing firm purchased power agreements
13 with Hardee Power Partners and qualifying facilities, a
14 Calpine 170 MW peaking purchase and a Progress Energy
15 Florida 50 MW system average purchase. The company's
16 purchases also include a 100 MW short-term firm purchase
17 from Cargill for the period of June through August 2006.

18
19 The 170 MW purchase from Calpine began May 2006 and
20 continues through April 2011. As included in my
21 September 2005 testimony and approved by the Commission
22 in Docket No. 050001-EI, this purchase is from Calpine's
23 natural gas-fired facilities in Auburndale, Florida and
24 was entered into to meet Tampa Electric's peaking system
25 needs. The 50 MW purchase from Progress Energy began

1 January 2006 and continues through December 2006. It is
2 a firm purchase with a fuel charge equal to Progress
3 Energy Florida's system average fuel cost. Its
4 estimated savings to customers is projected to be \$3.9
5 million for 2006. The 100 MW purchase from Cargill
6 began June 2006 and continues through August 2006. It
7 is a firm, fixed-price must-take purchase with an
8 estimated customer savings of \$1.1 million. All of
9 these purchases provide both supply reliability and help
10 reduce price volatility.

11
12 Tampa Electric will continue to evaluate economic
13 combinations of forward and spot market energy purchases
14 during its spring and fall generation maintenance
15 periods and peak periods. This purchasing strategy
16 provides a reasonable and diversified approach to
17 serving customers.

18
19 **Q.** Please describe Tampa Electric's 2007 wholesale energy
20 purchases.

21
22 **A.** At this time, with the exception of existing purchases,
23 Tampa Electric has not entered into any agreements with
24 other entities for forward purchases beyond 2006. As
25 previously stated, Tampa Electric continues to evaluate

1 economic combinations of forward purchases to reduce the
2 overall cost to customers as well as make reliability
3 purchases whenever necessary.
4

5 For 2007, the company expects to meet approximately 13
6 percent of its customers' 2007 energy needs through
7 purchased power, which includes economy purchases, the
8 existing firm purchased power agreements with Hardee
9 Power Partners, qualifying facilities and the Calpine
10 purchase.
11

12 **Q.** Does Tampa Electric plan to enter into any other new
13 purchased power agreements during its upcoming Big Bend
14 Station SCR installation outages?
15

16 **A.** For the upcoming seasonal Big Bend Station SCR
17 installation outages, beginning February 2007, Tampa
18 Electric is monitoring the marketplace for purchase
19 power opportunities. The company will evaluate economic
20 combinations of forward purchases during the outages to
21 reduce the overall cost to customers.
22

23 **Q.** Did the 2004 and 2005 hurricane seasons affect Tampa
24 Electric's 2006 purchased power procurement strategies?
25

1 A. Yes, they did. Prior to these hurricanes, it was part
2 of Tampa Electric's risk management strategy to monitor
3 storm activity using available storm tracking resources
4 and evaluate the impact of the storm on the wholesale
5 market and purchase power on the forward market, first
6 for reliability then for economics. In addition to the
7 price of power, the company evaluated important storm-
8 related aspects of these purchases such as geographic
9 location and transmission availability. Because of the
10 2004 and 2005 hurricane seasons the company increased
11 its focus on fuel-diversified purchases during
12 hurricanes and performs a detailed review of the
13 seller's fuel source and dual-fuel capability. Absent
14 the threat of a hurricane and for all other months of
15 the year, the company's purchased power strategy for
16 evaluating economic combinations of long- and short-term
17 purchase options remains unchanged.

18
19 Q. Please describe Tampa Electric's wholesale energy sales
20 for 2006.

21
22 A. Tampa Electric entered into various non-firm, non-
23 separated wholesale sales in 2006. The revenues from
24 the non-separated sales were returned to customers
25 through the fuel adjustment clause, up to the three-year

1 rolling average threshold of \$1,037,634.

2
3 Additionally, Tampa Electric entered into a 10 MW
4 separated sale with New Smyrna Beach. This 10 MW sale
5 is a "7 by 24" must-take and provides a projected net
6 benefit to customers of \$4.8 million.

7
8 **Q.** Does Tampa Electric engage in physical or financial
9 hedging of its wholesale energy transactions to mitigate
10 wholesale energy price volatility?

11
12 **A.** Physical and financial hedges can provide measurable
13 market price volatility protection. Tampa Electric
14 purchases physical wholesale products and considers such
15 products to be physical hedges. The company has engaged
16 only in physical hedging for wholesale transactions
17 because the availability of financial instruments within
18 Florida is limited. The Florida market currently
19 operates through bilateral contracts between various
20 counterparties, and there is no Florida trading hub
21 where standard financial transactions can occur with
22 enough volume for a liquid market. Due to this lack of
23 liquidity, the appropriate financial instruments to meet
24 the company's needs do not currently exist. Tampa
25 Electric has not purchased any wholesale energy

1 derivatives but instead, employs a diversified power
2 supply strategy, which includes self-generation and
3 long- and short-term capacity and energy purchases.
4 This strategy provides the company the opportunity to
5 take advantage of favorable spot market pricing while
6 maintaining reliable service to its customers.

7
8 **Q.** Does Tampa Electric's risk management strategy for power
9 transactions adequately mitigate price risk for
10 purchased power for 2006?

11
12 **A.** Yes, Tampa Electric's expects its physical hedges to
13 continue to reduce its customers' purchased power price
14 risk. For example, during the summer of 2005, Tampa
15 Electric executed agreements with Okeelanta and Reliant
16 Energy. The Okeelanta purchase was a fixed price
17 agreement and the purchase from Reliant Energy was a
18 cost-based call option on peaking power. Both of these
19 agreements reduce the purchased power price risk for
20 Tampa Electric customers.

21
22 The recent Calpine, Progress Energy and Cargill
23 purchases serve as both a physical hedge and reliable
24 source of economical power in 2006. The availability of
25 these purchases is high and their price structures

1 provide some protection from rising market prices, which
2 are largely influenced by the volatility of natural gas
3 prices.

4
5 Mitigating price risk is a dynamic process, and Tampa
6 Electric continually re-evaluates its options in light
7 of changing circumstances and new opportunities. As far
8 as purchased power is concerned, Tampa Electric
9 continually strives to maintain an optimum level and mix
10 of long- and short-term capacity and energy purchases to
11 augment the company's own generation.

12
13 Q. Please summarize your testimony.

14
15 A. Tampa Electric monitors and assesses the wholesale
16 energy market to identify and take advantage of
17 opportunities in the wholesale electric power market,
18 and those efforts benefit the company's customers.
19 Tampa Electric's energy supply strategy includes self-
20 generation and long- and short-term power purchases.
21 The company purchases in both the physical forward and
22 spot wholesale power markets to provide customers with a
23 reliable supply at the lowest possible cost, and enters
24 into wholesale sales that benefit customers. Tampa
25 Electric does not purchase wholesale energy derivatives

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in the developing Florida wholesale electric market due to a lack of financial instruments 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.