

AUSLEY & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

ORIGINAL

RECEIVED FPSC
02 JUN 24 PM 3:32
COMMISSION
CLERK

June 24, 2002

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Review of Investor-Owned Electric Utilities' Risk Management Policies and Procedures; FPSC Docket No. 011605-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of each of the following:

1. Prepared Direct Testimony of W. Lynn Brown.
2. Prepared Direct Testimony and Exhibit (JTW-1) of Joann T. Wehle.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

AUS _____ JDB/pp
 CAF _____ Enclosures
 CMP _____
 COM _____ cc: *5+ Beasley* All Parties of Record (w/encls.)
 CTR _____
 ECR _____
 GCL _____
 OPC _____
 MMS _____
 SEC _____
 OTH _____

RECEIVED & FILED

Max
FPSC-BUREAU OF RECORDS

Brown
DOCUMENT NUMBER-DATE
06491 JUN 24 08

Wehle
DOCUMENT NUMBER-DATE
06492 JUN 24 08
FPSC-COMMISSION CLERK



ORIGINAL

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 011605-EI
IN RE: REVIEW OF INVESTOR-OWNED ELECTRIC
UTILITIES' RISK MANAGEMENT
POLICIES AND PROCEDURES

JUNE 24, 2002

TESTIMONY
OF
W. LYNN BROWN

DOCUMENT NUMBER-DATE
06491 JUN 26 8

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **W. LYNN BROWN**

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

7
8 **A.** My name is Lynn Brown. My business address is 702 North
9 Franklin Street, Tampa, Florida 33602. I am employed by
10 Tampa Electric Company ("Tampa Electric" or "company") as
11 Director, Wholesale Marketing and Sales.

12
13 **Q.** Please provide a brief outline of your educational
14 background and business experience.

15
16 **A.** I received a Bachelors degree in Electrical Engineering
17 from Louisiana State University in 1972 and subsequently
18 joined Tampa Electric. I held various engineering,
19 operations and managerial positions in Energy Delivery
20 from 1973 through 1997. I became Manager of Short Term
21 Wholesale Trading in April 1997 and was promoted to
22 Director, Wholesale Marketing and Sales in August of 1998
23 where I am responsible for short and long-term wholesale
24 power purchases and sales.

1 Q. Have you previously testified before the Florida Public
2 Service Commission ("Commission")?

3
4 A. Yes. I testified before this Commission in Docket Nos.
5 990001-EI, 000001-EI and 010001-EI regarding the
6 appropriateness and prudence of various wholesale sales
7 and purchased power activities. I also testified in
8 Docket Nos. 991779-EI and 010283-EI regarding the
9 appropriate application of incentives to wholesale power
10 sales by investor-owned electric utilities.

11
12 Q. Please state the purpose of your testimony.

13
14 A. The purpose of my testimony is to describe Tampa
15 Electric's strategy to manage price volatility associated
16 with wholesale energy transactions. I will also present
17 the company's perspective regarding the appropriateness
18 of encouraging utilities to enter into financial
19 instruments to manage price risk associated with
20 wholesale energy transactions.

21
22 Q. Is Tampa Electric taking reasonable steps to manage the
23 price risk associated with its wholesale energy
24 transactions through the use of physical, operational,
25 and/or financial hedging practices?

1 **A.** Yes, Tampa Electric is taking reasonable steps to manage
2 the risks associated with wholesale energy transactions,
3 however, the company does not currently use financial
4 hedges for wholesale energy transactions. Tampa Electric
5 does not believe it appropriate to use financial hedging
6 instruments for wholesale energy transactions until a
7 liquid, published wholesale market exists in the state.
8 Tampa Electric purchases power in order to maintain
9 reliable supply and to replace more expensive native
10 generation. The company's purchased power strategy is
11 similar to that for fuel in that Tampa Electric purchases
12 a combination of long- and short-term products. This
13 approach helps reduce price volatility while providing an
14 opportunity to take advantage of favorable spot market
15 pricing. By continually canvassing and evaluating the
16 market, the company is able to secure the best deals
17 available for Tampa Electric's ratepayers while
18 maintaining a reliable supply of electricity.

19
20 **Q.** What is the appropriate regulatory treatment for gains
21 and losses that a company incurs from hedging wholesale
22 energy transactions through futures contracts, premiums
23 associated with options contracts, and/or transaction
24 costs associated with futures or options contracts?

25

1 **A.** Any gains or losses, premiums or transaction costs that
2 result from prudently hedging wholesale energy
3 transactions using risk management instruments should be
4 passed through the fuel and purchased power cost recovery
5 clause ("fuel clause"). Ratepayers receive any benefits
6 of hedging and, accordingly, should pay any costs.

7
8 **Q.** What incentive(s), if any, should the Commission
9 establish to encourage investor-owned electric utilities
10 to optimally manage the risks to ratepayers associated
11 with wholesale energy price volatility?

12
13 **A.** As explained in the direct testimony of Tampa Electric's
14 Witness J. T. Wehle, Tampa Electric does not believe that
15 it would be appropriate for the company to implement an
16 incentive plan to manage risk associated with price
17 volatility at this time. In addition, the Commission
18 should not pursue a wholesale energy transaction risk
19 management incentive until a liquid, published wholesale
20 energy market is established in Florida. The
21 Commission's current practice of reviewing individual
22 utility wholesale energy transactions, as part of the
23 fuel and purchased power cost recovery clause docket,
24 provides verification that the IOUs have made prudent
25 decisions in managing their wholesale energy

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

transactions.

Q. Does this conclude your testimony?

A. Yes it does.