



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 020001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY  
PROJECTIONS  
JANUARY 2003 THROUGH DECEMBER 2003  
TESTIMONY  
OF  
W. LYNN BROWN

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1 state/federal regulatory issues.

2

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

5

6 A. Yes. I testified before this Commission in Docket Nos.  
7 990001-EI, 000001-EI and 010001-EI regarding the  
8 appropriateness and prudence of the company's purchased  
9 power agreements. I testified in Docket No. 991779-EI  
10 regarding the appropriate application of incentives to  
11 wholesale power sales. I also testified in Docket No.  
12 010283-EI addressing the appropriate regulatory treatment  
13 for non-separated wholesale energy sales. I recently  
14 filed testimony in Docket No. 011605-EI on Tampa  
15 Electric's risk management activities regarding wholesale  
16 energy transactions.

17

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

20

21 A. The purpose of my testimony is to provide an overview of  
22 the current wholesale energy market and a description of  
23 Tampa Electric's 2002 and 2003 purchased power agreements  
24 that it has entered into and for which it is seeking cost  
25 recovery through the Fuel and Purchased Power Cost

1 Recovery and Capacity Cost Recovery Clauses. My testimony  
2 also describes Tampa Electric's purchased power strategy,  
3 for mitigating supply-side risk while providing customers  
4 with economically priced purchased power.

5  
6 Q. Please describe Tampa Electric's wholesale energy  
7 purchases for 2002.

8  
9 A. Tampa Electric assessed the wholesale energy market and  
10 entered into long-term and short-term purchases based on  
11 price and availability of supply. The company expects to  
12 meet 18 percent of customers' 2002 energy needs through  
13 purchased power, including purchased power from Hardee  
14 Power Partners and qualifying facilities. The company  
15 also purchased 200 MW of firm capacity for the winter of  
16 2001-2002 and 260 MW for the summer of 2002. In addition,  
17 Tampa Electric contracted to lease 30 completely self-  
18 contained portable generators to supplement the company's  
19 supply through the summer period. The generators supply  
20 50 MW of peaking power to retail customers.

21  
22 Tampa Electric expects that 62 percent of its purchased  
23 power will be from long-term contracts, and the remaining  
24 38 percent will be purchased through the short-term  
25 market. This purchasing strategy provides a reasonable

1 and diversified approach to serving retail customers.

2

3 Q. Please describe Tampa Electric's wholesale energy sales  
4 for the year 2002.

5

6 A. Tampa Electric has entered into non-firm, non-separated  
7 wholesale sales this year, which provided benefits to  
8 retail customers because revenues from these sales flow  
9 back to customers through the Fuel and Purchased Power  
10 Cost Recovery Clause. The company has not entered into  
11 any firm separated or non-separated wholesale sales since  
12 1998.

13

14 Q. What capacity and energy purchases are included in Tampa  
15 Electric's projections for 2003?

16

17 A. In addition to the Hardee Power Partners purchased power  
18 agreement and qualifying facility purchases, Tampa  
19 Electric has purchased 150 MW of short-term firm capacity  
20 and energy in addition to extending the lease of 50 MW of  
21 distributed generation for the 2002-2003 winter period.  
22 A combination of forward and spot market energy purchases  
23 will also be made to cover Tampa Electric's spring and  
24 fall generation maintenance periods and peak period  
25 needs.

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

4  
5 A. Yes, it has.

6  
7 Q. On what do you base this conclusion?

8  
9 A. Tampa Electric has fully complied with, and continues to  
10 fully comply with, the regulatory policies, practices and  
11 requirements set forth in the Commission's definitive  
12 March 11, 1997 fuel adjustment order governing the  
13 treatment of separated and non-separated wholesale sales,  
14 Order No. PSC-97-0262-FOF-EI, Docket No. 970001-EI. In  
15 addition, the company actively manages its wholesale  
16 sales and purchases with the goal of taking advantage of  
17 all opportunities to reduce cost to the retail customers.  
18 The company's purchased power activities and transactions  
19 are continually reviewed and have been audited on a  
20 routine and recurring basis by the Commission. In  
21 addition, Tampa Electric continually monitors its rights  
22 under contracts with purchased power suppliers as well as  
23 those to whom wholesale power is sold with an eye toward  
24 detecting and preventing any breach of the company's  
25 contractual rights. Tampa Electric continually strives

1 to improve its knowledge of the markets and the available  
2 opportunities to minimize the costs of purchased power  
3 and to maximize the savings the company provides retail  
4 customers by making non-firm, non-separated wholesale  
5 sales when excess power is available on Tampa Electric's  
6 system.

7  
8 Q. Please describe the efforts Tampa Electric has made to  
9 ensure that its wholesale purchases and sales activities  
10 are conducted in a reasonable and prudent manner.

11  
12 A. Tampa Electric aggressively shops for wholesale capacity  
13 and energy, searching for reliable supply at the best  
14 possible price from creditworthy counterparties. These  
15 purchases are evaluated based on forward and spot  
16 markets. The company engages in wholesale power  
17 purchases and sales with numerous counterparties. Each  
18 counterparty's creditworthiness is carefully checked  
19 before engaging in wholesale energy transactions.  
20 Purchases are made to achieve required installed reserve  
21 capacity, to meet our customers' needs during planned and  
22 unplanned generating unit outages and for economical  
23 purposes.

24  
25 Q. Does Tampa Electric engage in physical or financial

1 hedging of its wholesale energy transactions to mitigate  
2 wholesale energy price volatility?  
3

4 **A.** Florida's wholesale energy market is at an early  
5 developmental stage. Physical and financial hedges  
6 provide measurable market price volatility protection.  
7 However, the availability of financial instruments is  
8 limited, and Tampa Electric does not believe that  
9 financial instruments appropriate for its needs currently  
10 exist. Thus, Tampa Electric has not purchased any  
11 wholesale energy derivatives. The company employs a  
12 diversified power supply strategy, which includes self-  
13 generation and long- and short-term capacity and energy  
14 purchases. As stated earlier, approximately two thirds  
15 of Tampa Electric's 2002 purchased power was arranged  
16 through long-term contracts. This strategy provides the  
17 company the opportunity to take advantage of favorable  
18 spot market pricing while maintaining reliable service to  
19 its customers.

20  
21 **Q.** Please summarize your testimony.  
22

23 **A.** Tampa Electric constantly monitors and assesses the  
24 wholesale energy market to locate and take advantage of  
25 opportunities in the wholesale electric power market, and



1 those efforts have benefited the company's retail  
2 customers. Tampa Electric's energy supply strategy  
3 includes self-generation and long- and short-term power  
4 purchases. The company purchases in both physical  
5 forward and spot wholesale energy markets to provide  
6 customers with reliable supply at the lowest possible  
7 cost. The company has also made non-firm, non-separated  
8 wholesale energy sales, which have benefited its  
9 customers. Finally, Tampa Electric does not purchase  
10 wholesale energy derivatives due to a lack of  
11 availability in the developing Florida wholesale electric  
12 market of financial instruments that are appropriate to  
13 the company's operations.

14  
15 Q. Does that conclude your testimony?

16  
17 A. Yes, it does.  
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