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August 22, 2006

HAND DELIVERED

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

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor; FPSC Docket No. 060001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Prepared Rebuttal Testimony of William A. Smotherman.

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

JDB/pp
Enclosure

cc: All Parties of Record (w/enc.)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Prepared Rebuttal Testimony of William A. Smotherman has been furnished by U. S. Mail or hand delivery (*) on this 22nd day of August 2006 to the following:

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ATTORNEY

TECO

TAMPA ELECTRIC

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

DIRECT TESTIMONY

OF

WILLIAM A. SMOTHERMAN

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

WILLIAM A. SMOTHERMAN

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

A. My name is William A. Smotherman. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "Company") as Director of the Resource Planning Department.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to address the "deadband" proposal in the direct testimony of Mr. James A. Ross, testifying on behalf of the Office of Public Counsel.

Q. Do you agree with the current Generating Performance Incentive Factor ("GPIF") methodology?

A. Yes, I do. The existing GPIF methodology was established in 1980 by Commission Order No. 9558 in Docket No.

800400-CI, issued September 19, 1980. The GPIF program was designed to "encourage the improvement of the productivity of base load generating units by focusing upon the areas of thermal efficiency (heat rate) and unit availability." The GPIF methodology provides for the utility to earn a reward or incur a penalty based on unit performance compared to historical performance and is limited to a portion of the associated projected fuel savings or losses. The GPIF program has a history of benefiting both the ratepayers and the utilities by providing a fair and symmetrical sharing of improvements or declines in unit performance.

Q. Has the existing GPIF program been effective in improving equivalent availability and operating efficiency of each GPIF generating unit thereby reducing total system fuel expense?

A. In 1980, in response to Commission Order No. 9558, Tampa Electric adopted the GPIF methodology, which provides incentives to improve heat rates and unit availability. For example, during the 1980's and early 1990's improved heat rates and unit availabilities were achieved by Tampa Electric; therefore, incentives were received. The efficient operation of the larger generating units has resulted in lower fuel and purchased power expense were lower for customers. Similarly, during more recent periods where operating performance declined on some of the GPIF units, penalties were incurred. The fundamental concept behind the methodology is to provide an incentive for further improvements. As a company improves its operating efficiency, the targets become increasingly more difficult to achieve in future periods.

Q. What factors contributed to the decreased operating efficiencies of Tampa Electric's GPIF units, Big Bend Station and Gannon 5 and 6, from 2001 through 2004?

A. The key factors for decreased operating efficiencies of Tampa Electric's operating units, primarily Big Bend Station, are impacted by operating and equipment constraints resulting from increased environmental regulatory requirements. From 1995 through 2005, Tampa Electric added a flue-gas desulfurization system ("FGD"), completed nitrogen oxide ("NO_x") combustion tuning and optimization projects and changed coal blends at Big Bend Station, in addition fuel blends at Gannon station were also modified during this period. These modifications were made to comply with the Clean Air Act as well as the Consent Decree ("CD") and Consent Final Judgment ("CFJ") which were entered into with the U.S. Environmental Protection Agency and the Florida Department of Environmental Protection. The environmental improvements have reduced Tampa Electric's sulfur dioxide ("SO_2"), NO_x, and particulate matter emissions by approximately 89, 89 and 72 percent, respectively, below their 1998 levels.

Q. How have the Clean Air Act, CD and CFJ adversely impacted the performance of Big Bend station and Gannon units 5 and 6?

A. Tampa Electric's most cost-effective method of complying with the Clean Air Act was to decrease the sulfur content in the coal burned at Big Bend and Gannon Stations. In 1996 Big Bend unit 3 was integrated into unit 4's FGD and in 1999, a separate FGD system was constructed for units 1 and 2. The sulfur in the coal burned at Big Bend Station was lowered by blending higher sulfur coals, which the units were designed to burn, with lower sulfur coal. The lower sulfur coal tends to increase the heat rate of the units due to the physical and chemical differences in coal quality. These differences include moisture content, ash fusion temperature as well as heat content and sulfur content. Additionally, these differences cause operational problems such as fuel handling, slag tapping, fouling, opacity, ash resistivity, increased NO_x emissions and increased the wear rate of boiler tubes in certain parts of the furnace. These operating issues increased the forced outages, thereby reducing unit availability and increasing unit heat rate. The incremental energy required to operate the FGD equipment plus the additional planned outages during installation and ongoing maintenance increased the overall heat rate for Big Bend units 1, 2 and 3.

The CD and CFJ required Tampa Electric to increase the efficiency of the Big Bend FGD systems and further reduced the sulfur content of fuel burned without the use of the FGD system on Big Bend units 1, 2 and 3, and required the installation of projects to reduce NO_x emissions. The impact of the FGD and lower sulfur coal requirements increased heat rate and decreased availability of Big Bend Station. The initial NO_x reductions were achieved by reducing the amount of oxygen used during fuel combustion. This resulted in a loss of combustion efficiency and an increase in unit heat rate. The change in fuel combustion also increased the wear rate of certain boiler tubes, further reducing unit availability.

Q. Did Tampa Electric incur any reward or penalty associated with the decline in operating performance of its generating units between 2001 and 2005?

A. Yes, the decline in performance resulted in a $7.1 million in GPIF penalties that Tampa Electric paid over the period of 2001 to 2005.

Q. Will the CD and CFJ result in improve operating efficiency?

A. Yes, as a result of the CD and CFJ, Gannon units 5 and 6 were repowered to Bayside units 1 and 2 in 2003 and 2004, respectively. The repowering resulted in significant improvements in capacity, availability and heat rate. Because three years of historical data is required for each unit in the GPIF calculation, the Bayside units will not be reflected until the 2006 and 2007 GPIF filings at which time the 2007 and 2008 targets will be established.

Q. Do you agree with Mr. Ross's proposal to impose a "deadband?"

A. No, Mr. Ross's proposed dead band approach would modify the GPIF methodology in an asymmetrical way that favors penalties. In order to gain a reward a utility would have to attain over five points above the target but will be penalized if it fell more than two and one half points below the target. This approach inappropriately skews the GPIF methodology to produce more penalties.

When the Commission approved the final Staff recommended version of the GPIF in 1980, it concluded that the version selected contained the best elements of the various proposals put forth by Staff and all of the parties. In 1987, the parties stipulated to modify the GPIF program to place caps on rewards and penalties so they would not exceed 50 percent of the fuel savings or loss. This stipulation is discussed in Commission Order No. 18136, issued September 10, 1987 in Docket No. 870001-EI (87 FPSC 9:145). Mr. Ross's proposal would arbitrarily undo the fairness with which the Commission has administered the GPIF since its inception and tilt the board in favor of penalties.

Q. Has the actual availability of Tampa Electric's system declined since 1989 as described by Mr. Ross?

A. No. Mr. Ross's assertion that the actual availability of Tampa Electric's system has declined since 1989 is incorrect for two reasons. First, using the GPIF filings for the period of 1989 through 2004, Tampa Electric's calculation of the GPIF unit availability increases approximately five percent, from 68 to 73 percent. This demonstrates Tampa Electric's actual system availability has improved since 1989.

Secondly, Mr. Ross assumes that the GPIF units are a good representation of Tampa Electric's total system availability for the same period. This is true in the early part of his analysis but incorrect in the later years. Specifically, as previously stated, Tampa Electric repowered Gannon units 5 and 6 in 2003 and 2004 to Bayside units 1 and 2. The repowering significantly improved the heat rate as well as the availability of the units and increased the overall output capability by 700 megawatts. In the last full year of operation of Gannon units 5 and 6, the availabilities were 61 and 59.8 percent, respectively. These availabilities improved to 86.3 and 92.1 percent when the units were repowered to Bayside units 1 and 2, respectively. The Bayside units now represent almost half of Tampa Electric's generating capability. Inclusion of the Bayside units in the GPIF calculation would increase the availability of Tampa Electric's overall system calculation, which would be a more accurate representation of the Tampa Electric's system availability.

Q. Do you agree with Mr. Ross's adjustments to the Equivalent Availability Factor ("EAF") and heat rate data he received in order to establish trends?

A. No, I do not agree with Mr. Ross's adjustments to the EAF and heat rate data. Mr. Ross's adjustments to the EAF and heat rate data do not take the Bayside units into account. In addition, Mr. Ross assumes that the actual data adjustments are based on the normalized weighting factors from each period's GPIF filing. These weighting factors are then used to aggregate total availability and heat rate for the target units. This method is not valid for aggregating the actual performance for all the GPIF data units. The unit availabilities and heat rates should be aggregated based on unit capability for availability and based on generation for heat rate.

Q. Is Mr. Ross's comparison of 2001 and 2004 Tampa Electric unit performance correct?

A. No, it is not correct. Mr. Ross overlooks both 2002 and 2003 where Tampa Electric incurred $2.5 million and $3.7

million, respectively, in penalties as a result of the decline in EAF and heat rate from the units. Comparing 2004 to 2001 does not take into account the repowering of the Gannon units 5 and 6 to Bayside 1 and 2 that occurred in 2003 and 2004, respectively.

Q. Please summarize your direct testimony.

A. The existing GPIF methodology operates in a fair and symmetrical manner. The adjustment to the methodology proposed by Mr. Ross is not appropriate because it is inconsistent with the primary objective of the GPIF program which is to encourage improved performance through a fair and balanced application of the GPIF incentive/penalty mechanism. In addition, Mr. Ross has not demonstrated that the existing methodology has not resulted in improved operating performance through its reward and incentive provisions. Tampa Electric believes that the GPIF should continue to operate in accordance with the approved methodology.

Q. Does this conclude your direct testimony?

A. Yes, it does.