



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2008 THROUGH DECEMBER 2008

TESTIMONY AND EXHIBIT

OF

BENJAMIN F. SMITH, II

DOCUMENT NUMBER-DATE

07988 SEP-4 5

FPSC-COMMISSION CLERK

1 wholesale power marketing. I am currently the Manager
2 of Strategic Fuels and Power Services in the Fuel
3 Services and Systems group. My responsibilities are to
4 evaluate, pursue, and negotiate short- and long-term
5 purchase and sale opportunities within the wholesale
6 power market, as well as assist in the evaluation of the
7 processes used to value such opportunities. In this
8 capacity, I interact with wholesale power market
9 participants such as utilities, municipalities, electric
10 cooperatives, power marketers and other wholesale
11 generators.

12
13 **Q.** Have you previously testified before this Commission?

14
15 **A.** Yes. I testified before this Commission in Docket No.
16 030001-EI and 040001-EI regarding the appropriateness
17 and prudence of Tampa Electric's wholesale purchases and
18 sales. I also submitted written testimony in Docket No.
19 050001-EI and 060001-EI.

20
21 **Q.** What is the purpose of your direct testimony in this
22 proceeding?

23
24 **A.** The purpose of my testimony is to provide a description
25 of Tampa Electric's purchased power agreements that the

1 company has entered into and for which it is seeking
2 cost recovery through the Fuel and Purchased Power Cost
3 Recovery Clause ("fuel clause") and the Capacity Cost
4 Recovery Clause. I also describe Tampa Electric's
5 purchased power strategy for mitigating price and
6 supply-side risk while providing customers with a
7 reliable supply of economically priced purchased power.

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

12
13 **A.** Tampa Electric evaluates potential purchased power needs
14 and sale opportunities by analyzing the expected
15 available amounts of generation and the power required
16 to meet the projected customer energy and demand.
17 Purchases are made to achieve reserve margin
18 requirements, to meet customers' needs, to supplement
19 generation during unit outages, and for economical
20 purposes. When there is a purchased power need, the
21 company aggressively shops for wholesale capacity and/or
22 energy by searching for reliable supplies at the best
23 possible price from creditworthy counterparties.

24
25 Conversely, when there is a sales opportunity, the

1 company offers profitable wholesale capacity and/or
2 energy products to credit worthy counterparties. The
3 company has wholesale power purchase and sales
4 transaction enabling agreements with numerous
5 counterparties. This process helps to ensure that the
6 company's purchases and sales activities are conducted
7 in a reasonable and prudent manner.

8
9 **Q.** Has Tampa Electric reasonably managed its wholesale
10 power purchases and sales for the benefit of its retail
11 customers?

12
13 **A.** Yes, it has. Tampa Electric has fully complied with,
14 and continues to fully comply with, the Commission's
15 March 11, 1997 Order, No. PSC-97-0262-FOF-EI, issued in
16 Docket No. 970001-EI, which governs the treatment of
17 separated and non-separated wholesale sales. The
18 company's wholesale purchase and sales activities and
19 transactions are also reviewed and audited on a
20 recurring basis by the Commission.

21
22 In addition, Tampa Electric actively manages its
23 wholesale sales and purchases with the goal of
24 capitalizing on opportunities to reduce costs to its
25 customers. The company monitors its contractual rights

1 with purchased power suppliers as well as with entities
2 to which wholesale power is sold to detect and prevent
3 any breach of the company's contractual rights. Tampa
4 Electric continually strives to improve its knowledge of
5 markets and the available opportunities to minimize the
6 costs of purchased power and to maximize the savings the
7 company provides retail customers by making wholesale
8 sales when excess power and market conditions allow is
9 available on Tampa Electric's system.

10
11 **Q.** Please describe Tampa Electric's 2007 wholesale energy
12 purchases.

13
14 **A.** Tampa Electric assessed the wholesale energy market and
15 entered into long- and short-term purchases based on
16 price and availability of supply. Approximately 13
17 percent of the expected energy needs for 2007 will be
18 met using purchased power, which includes economy
19 purchases, the existing firm purchased power agreements
20 with Hardee Power Partners and qualifying facilities, a
21 Calpine 170 MW peaking purchase and a Progress Energy
22 Florida 50 to 75 MW system average purchase. The
23 company's purchases also included a 35 to 40 MW short-
24 term firm purchase from Okeelanta, a 158 MW short-term
25 firm purchase from Reliant in the spring and another 158

1 MW short-term firm purchase from Reliant in the summer.
2 The 170 MW purchase from Calpine began May 2006 and
3 continues through April 2011. As described in my
4 September 2005 testimony and approved by the Commission
5 in Docket No. 050001-EI, this purchase is from Calpine's
6 natural gas-fired facilities in Auburndale, Florida and
7 was entered into to meet Tampa Electric's peaking system
8 needs. The purchase from Progress Energy Florida, which
9 was a 50 MW purchase from January 2006 through March
10 2007, was extended for the period of April through
11 November 2007 at a total of 75 MW. The fuel charge for
12 this purchase is equal to Progress Energy Florida's
13 system average fuel cost. Its estimated savings to
14 customers is projected to be \$0.5 million for 2007.

15
16 The 35 to 40 MW purchase from Okeelanta was 40 MW for
17 the period of January through March and 35 MW for the
18 period of April 2007. It was a must-take purchase
19 secured to meet the company's 20% firm reserve margin
20 requirement as well as to support load service during
21 the spring Big Bend Unit 4 SCR installation outage. The
22 first 158 MW Reliant purchase was for the period of
23 February through May and was also secured to support
24 load service during the Big Bend Unit 4 SCR installation
25 outage. The second 158 MW Reliant purchase was for the

1 period of June through August 2007 and was secured to
2 meet the company's 20 percent firm reserve margin
3 requirement. All of these purchases provided supply
4 reliability and helped reduce price volatility.

5
6 Tampa Electric will continue to evaluate economic
7 combinations of forward and spot market energy purchases
8 during its spring and fall generation maintenance
9 periods and peak periods. This purchasing strategy
10 provides a reasonable and diversified approach to
11 serving customers.

12
13 **Q.** Has Tampa Electric entered into any other wholesale
14 energy purchases?

15
16 **A.** Yes, it has. Tampa Electric has finalized the purchase
17 of 121 MW of intermediate, natural-gas fired capacity
18 with Pasco Cogen for the period of January 2009 through
19 December 2018. This purchase has an estimated savings
20 to customers of \$13 million over the life of the
21 contract. As previously stated, Tampa Electric
22 continues to evaluate economic combinations of forward
23 purchases to reduce the overall cost to customers as
24 well as make reliability purchases whenever necessary.

25

1 For 2008, the company expects to meet approximately 12
2 percent of its customers' energy needs through purchased
3 power, which includes economy purchases, the existing
4 firm purchased power agreements with Hardee Power
5 Partners, qualifying facilities and Calpine.

6
7 **Q.** Does Tampa Electric plan to enter into any other new
8 purchased power agreements during its upcoming Big Bend
9 Station SCR installation outages?

10
11 **A.** As mentioned previously, Tampa Electric purchased power
12 from both Okeelanta and Reliant during the spring 2007
13 Big Bend Unit 4 SCR installation outage, which began in
14 February and continued through May 2007. For the
15 upcoming SCR installation outages on Big Bend Units 1-3,
16 Tampa Electric is monitoring and engaging the
17 marketplace for power purchase opportunities. The
18 company will evaluate economic combinations of forward
19 purchases during the outages to reduce the overall cost
20 to customers. The SCR installation outages for Big Bend
21 Units 3, 2 and 1 are scheduled to begin November 2007,
22 December 2008 and November 2009, respectively, and are
23 projected to last approximately four months each.

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.** Physical and financial hedges can provide measurable
5 market price volatility protection. Tampa Electric
6 purchases physical wholesale products and considers such
7 products to be physical hedges. The company has engaged
8 only in physical hedging for wholesale transactions
9 because the availability of financial instruments for
10 power within the Florida market is limited. The Florida
11 market currently operates through bilateral contracts
12 between various counterparties, and there is no Florida
13 trading hub where standard financial transactions can
14 occur with enough volume for a liquid market. Due to
15 this lack of liquidity, the appropriate financial
16 instruments to meet the company's needs do not currently
17 exist. Tampa Electric has not purchased any wholesale
18 energy derivatives but instead, employs a diversified
19 power supply strategy, which includes self-generation
20 and long- and short-term capacity and energy purchases.
21 This strategy provides the company the opportunity to
22 take advantage of favorable spot market pricing while
23 maintaining reliable service to its customers.

24
25 **Q.** Does Tampa Electric's risk management strategy for power

1 transactions adequately mitigate price risk for
2 purchased power for 2007?

3
4 **A.** Yes, Tampa Electric expects its physical hedges to
5 continue to reduce its customers' purchased power price
6 risk. For example, during the summer of 2007, Tampa
7 Electric executed an agreement with Reliant Energy. The
8 purchase from Reliant Energy was a cost-based call
9 option on peaking power. This agreement reduces the
10 purchased power price risk for Tampa Electric customers.

11
12 The Calpine and Progress Energy Florida purchases serve
13 as both a physical hedge and reliable source of
14 economical power in 2007. The availability of these
15 purchases is high, and their price structures provide
16 some protection from rising market prices, which are
17 largely influenced by the volatility of natural gas
18 prices.

19
20 Mitigating price risk is a dynamic process, and Tampa
21 Electric continually re-evaluates its options in light
22 of changing circumstances and new opportunities. Tampa
23 Electric also continually strives to maintain an optimum
24 level and mix of long- and short-term capacity and
25 energy purchases to augment the company's own generation

1 for the year 2007 and beyond.

2
3 **Q.** How does Tampa Electric mitigate the risk of disruptions
4 to its purchased power supplies during major weather
5 related events such a hurricane?

6
7 **A.** Tampa Electric continues to utilize a purchased power
8 risk management strategy that includes monitoring storm
9 activity; evaluating the impact of the storm on the
10 wholesale market; purchasing power on the forward market
11 for reliability and economics; evaluating geographic
12 location and transmission availability; reviewing the
13 seller's fuel sources and dual-fuel capabilities; and
14 focusing on fuel-diversified purchases during
15 hurricanes. Absent the threat of a hurricane and for
16 all other months of the year, the company's purchased
17 power strategy for evaluating economic combinations of
18 long- and short-term purchase options remains unchanged.

19
20 **Q.** Please describe Tampa Electric's wholesale energy sales
21 for 2007 and 2008.

22
23 **A.** Tampa Electric entered into various non-firm, non-
24 separated wholesale sales in 2007. The gains from the
25 non-separated sales are returned to customers through

1 the fuel adjustment clause, up to the three-year rolling
2 average threshold of \$895,111. Other than its pre-
3 existing separated sales, the company has made no sales
4 for 2008.

5
6 **Q.** Please summarize your testimony.

7
8 **A.** Tampa Electric monitors and assesses the wholesale
9 energy market to identify and take advantage of
10 opportunities in the wholesale electric power market,
11 and those efforts benefit the company's customers.
12 Tampa Electric's energy supply strategy includes self-
13 generation and long- and short-term power purchases.
14 The company purchases in both the physical forward and
15 spot wholesale power markets to provide customers with a
16 reliable supply at the lowest possible cost, and enters
17 into wholesale sales that benefit customers. Tampa
18 Electric does not purchase wholesale energy derivatives
19 in the developing Florida wholesale electric market due
20 to a lack of financial instruments appropriate for the
21 company's operations. It does, however, employ a
22 diversified power supply strategy to mitigate price and
23 supply risks.

24
25 **Q.** Does this conclude your testimony?

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A. Yes.