



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2009 THROUGH DECEMBER 2009

TESTIMONY AND EXHIBIT

OF

BENJAMIN F. SMITH, II

DOCUMENT NUMBER-DATE

08018 SEP-28

FPSC-COMMISSION CLERK

1 BEFORE THE PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 BENJAMIN F. SMITH, II

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

8
9 A. My name is Benjamin F. Smith, II. My business address
10 is 702 North Franklin Street, Tampa, Florida 33602. I
11 am employed by Tampa Electric Company ("Tampa Electric"
12 or "company") in the Fuel Services and Systems 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 and am a registered Professional
21 Engineer within the State of Florida. I joined Tampa
22 Electric in 1990 as a cooperative education student.
23 During my years with the company, I have worked in the
24 areas of transmission engineering, distribution
25 engineering, resource planning, retail marketing, and

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 short-term and long-term purchase and sale
5 opportunities within the wholesale power market, assist
6 in wholesale contract structure and help evaluate the
7 processes used to value wholesale power opportunities.
8 In this 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 have submitted written testimony in the annual
16 fuel docket since 2003, and I testified before this
17 Florida Public Service Commission ("Commission") in
18 Docket Nos. 030001-EI and 040001-EI regarding the
19 appropriateness and prudence of Tampa Electric's
20 wholesale purchases and sales.
21

22 **Q.** What is the purpose of your direct testimony in this
23 proceeding?
24

25 **A.** The purpose of my testimony is to provide a description

1 of Tampa Electric's purchased power agreements that the
2 company has entered into and for which it is seeking
3 cost recovery through the Fuel and Purchased Power Cost
4 Recovery Clause ("fuel clause") and the Capacity Cost
5 Recovery Clause. I also describe Tampa Electric's
6 purchased power strategy for mitigating price and
7 supply-side risk, while providing customers with a
8 reliable supply of economically priced purchased power.
9

10 **Q.** Please describe the efforts Tampa Electric makes to
11 ensure that its wholesale purchases and sales activities
12 are conducted in a reasonable and prudent manner.
13

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

1 Conversely, when there is a sales opportunity, the
2 company offers profitable wholesale capacity or energy
3 products to creditworthy counterparties. The company
4 has wholesale power purchase and sale transaction
5 enabling agreements with numerous counterparties. This
6 process helps to ensure that the company's wholesale
7 purchase and sale activities are conducted in a
8 reasonable and prudent manner.

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

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

22
23 In addition, Tampa Electric actively manages its
24 wholesale purchases and sales with the goal of
25 capitalizing on opportunities to reduce customer costs.

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

12
13 **Q.** Please describe Tampa Electric's 2008 wholesale energy
14 purchases.

15
16 **A.** Tampa Electric assessed the wholesale power market and
17 entered into short-term and long-term purchases based on
18 price and availability of supply. Approximately 18
19 percent of the expected energy needs for 2008 will be
20 met using purchased power. This purchased power energy
21 includes economy purchases and existing firm purchased
22 power agreements with Hardee Power Partners, Calpine and
23 qualifying facilities. The company's purchases also
24 include a 25 to 125 MW firm system average purchase from
25 Progress Energy Florida and a 158 MW firm peaking

1 purchase from Reliant.

2
3 The Calpine purchase is a 170 MW peaking purchase that
4 began in May 2006 and continues through April 2011. As
5 described in my September 2005 testimony and approved by
6 the Commission in Docket No. 050001-EI, this purchase is
7 from Calpine's natural gas-fired facilities in
8 Auburndale, Florida and was entered into to meet Tampa
9 Electric's peaking system needs.

10
11 As described in my September 2007 testimony and approved
12 by the Commission in Docket No. 070001-EI, the purchase
13 from Progress Energy Florida was 50 MW from January 2006
14 through March 2007 that increased to 75 MW for the
15 period of April through November 2007. In a September
16 2007 amendment that followed my testimony filing, this
17 purchase was increased again and extended to a total of
18 100 MW for the period December 2007 through March 2008.
19 This purchase amendment provides an estimated \$1.6
20 million in savings to customers. In November 2007, the
21 purchase was amended once again to include an additional
22 25 MW for the period December 2007 through December
23 2008. The second purchase amendment provides an
24 estimated \$1.3 million in savings to customers. Lastly,
25 in March 2008, the purchase was amended once more to

1 include an additional 100 MW for the period April
2 through May 2008. This third purchase amendment
3 provides an estimated \$3.8 million in savings to
4 customers, resulting in a cumulative \$6.7 million in
5 estimated savings to customers for the three Progress
6 Energy Florida purchase amendments.

7
8 While negotiating an agreement with the winning bidder,
9 Reliant Energy, to fulfill Tampa Electric's 2009 peaking
10 power Request for Proposals ("RFP"), the company became
11 aware of a 2008 reserve margin need and negotiated an
12 additional peaking purchase contract with Reliant under
13 the same terms.

14
15 All of these purchases help reduce price volatility.
16 They were also reliable sources of power during the Big
17 Bend Unit 3 SCR installation outage, which began
18 November 2007, and the 2008 spring planned maintenance
19 outages of Bayside Unit 1 and Polk Unit 1.
20 Additionally, the Reliant purchase continues to reduce
21 supply and price volatility risk through the summer peak
22 loads and into the fall planned maintenance season,
23 which includes the start of the Big Bend Unit 2 SCR
24 installation outage.

25

1 With the exception of the April through May 2008
2 Progress Energy Florida purchase, which was not signed
3 in time to be included, Tampa Electric identifies all of
4 these purchases in Chapter 4, "Forecast of Facilities
5 Requirements", of its 2008 Ten Year Site Plan, filed
6 April 1, 2008.

7
8 **Q.** Has Tampa Electric entered into any other wholesale
9 energy purchases?

10
11 **A.** Yes. As described in my September 2007 testimony and
12 approved by the Commission in Docket No. 070001-EI,
13 Tampa Electric finalized the purchase of 121 MW of firm
14 intermediate, natural-gas fired capacity with Pasco
15 Cogen for the period January 2009 through December 2018.
16 This purchase was finalized in August 2007 with an
17 estimated savings to customers of \$13 million over the
18 life of the contract. However, since my 2007 testimony,
19 the savings to customers have been further maximized
20 through the company's purchase of the Union Hall
21 Substation that services Pasco Cogen. This purchase
22 allows for a direct connection to Tampa Electric, which
23 eliminates the need to pay for an estimated \$17 million
24 in transmission wheeling services through Progress
25 Energy Florida. The elimination of this wheeling cost

1 results in a direct benefit to customers, increasing
2 their estimated savings from \$13 million to \$30 million
3 over the life of the contract.
4

5 As a result of Tampa Electric's Request for Proposals
6 ("RFP") for peaking power beginning in 2009, a 158 MW
7 Reliant Energy purchase was secured to meet the
8 company's 20 percent firm reserve margin requirement.
9 This firm purchase was finalized in December 2007 and
10 begins January 1, 2009 and continues through May 31,
11 2012. The Reliant purchase was the most cost-effective
12 option resulting from the RFP.
13

14 Tampa Electric also identified the Pasco Cogen and
15 Reliant purchases in its Ten Year Site Plan filed April
16 1, 2008.
17

18 For 2009, the company expects to meet approximately 13
19 percent of its customers' energy needs through purchased
20 power, which includes economy purchases and the existing
21 firm purchased power agreements with Hardee Power
22 Partners, Calpine, Reliant, Pasco Cogen and qualifying
23 facilities. All of these purchases provide supply
24 reliability and help reduce price volatility.
25

1 Lastly, Tampa Electric will continue to evaluate
2 economic combinations of forward and spot market energy
3 purchases during its spring and fall generation
4 maintenance periods and peak periods. This purchasing
5 strategy provides a reasonable and diversified approach
6 to serving customers.

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

11
12 **A.** With the exception of its previously mentioned
13 purchases, Tampa Electric has not made purchases for the
14 upcoming SCR installation outages on Big Bend Units 1
15 and 2 at this time. However, the company continually
16 monitors and engages the marketplace for power purchase
17 opportunities and will evaluate the economics of
18 potential forward purchases during the outages to reduce
19 the overall cost to customers. The SCR installation
20 outages for Big Bend Units 2 and 1 are scheduled to
21 begin December 2008 and November 2009, respectively.
22 The outages are projected to last approximately four
23 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. The company has
7 not engaged in financial hedging for wholesale
8 transactions because the availability of financial
9 instruments within the Florida market is limited. The
10 Florida wholesale power market currently operates
11 through bilateral contracts between various
12 counterparties, and there is not a Florida trading hub
13 where standard financial transactions can occur with
14 enough volume to create a liquid market. Due to this
15 lack of liquidity, the appropriate financial instruments
16 to meet the company's needs do not currently exist.
17 Tampa Electric has not purchased any wholesale energy
18 derivatives, but the company does employ a diversified
19 power supply strategy, which includes self-generation
20 and short-term and long-term capacity and energy
21 purchases. This strategy provides the company the
22 opportunity to take advantage of favorable spot market
23 pricing while maintaining reliable service to its
24 customers.

25

1 Q. Does Tampa Electric's risk management strategy for power
2 transactions adequately mitigate price risk for
3 purchased power for 2008?
4

5 A. Yes, Tampa Electric expects its physical wholesale
6 purchases to continue to reduce its customers' purchased
7 power price risk. For example, the 170 MW Calpine
8 purchase and the 158 MW purchase from Reliant in 2008
9 are reliable, cost-based call options on peaking power.
10 Likewise, the Progress Energy Florida purchase is a
11 cost-based call option on system average energy. All of
12 these purchases serve as both a physical hedge and
13 reliable source of economical power in 2008. The
14 availability of these purchases is high, and their price
15 structures provide some protection from rising market
16 prices, which are largely influenced by supply and the
17 volatility of natural gas prices.

18
19 Mitigating price risk is a dynamic process, and Tampa
20 Electric continually evaluates its options in light of
21 changing circumstances and new opportunities. Tampa
22 Electric also strives to maintain an optimum level and
23 mix of short- and long-term capacity and energy
24 purchases to augment the company's own generation for
25 the year 2008 and beyond.

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

5 **A.** During hurricane season, Tampa Electric continues to
6 utilize a purchased power risk management strategy to
7 minimize potential power supply disruptions during major
8 weather related events. The strategy includes
9 monitoring storm activity; evaluating the impact of the
10 storm on the wholesale power market; purchasing power on
11 the forward market for reliability and economics;
12 evaluating transmission availability and the geographic
13 location of electric resources; reviewing the seller's
14 fuel sources and dual fuel capabilities; and focusing on
15 fuel-diversified purchases. Notably, the recently
16 acquired purchases from Reliant and Pasco Cogen are dual
17 fuel resources, having both natural gas and oil
18 capability, which enhances supply reliability during a
19 potential hurricane-related disruption in natural gas
20 supply. Absent the threat of a hurricane, and for all
21 other months of the year, the company continues its
22 strategy of evaluating economic combinations of short-
23 and long-term purchase opportunities identified in the
24 marketplace..
25

1 Q. Please describe Tampa Electric's wholesale energy sales
2 for 2008 and 2009.

3
4 A. Tampa Electric entered into various non-firm, non-
5 separated wholesale sales in 2008. The gains from the
6 non-separated sales are returned to customers through
7 the fuel clause, up to the three-year rolling average
8 threshold of \$811,478. In 2008, the company is expected
9 to exceed this threshold by \$111,106, of which customers
10 receive 80 percent, or \$88,885, of this amount. The
11 remaining 20 percent is company revenue in accordance
12 with Order No. PSC-01-2371-FOF-EI, issued on December 7,
13 2001 in Docket No. 010283-EI.

14
15 In 2009, other than its pre-existing separated sales,
16 Tampa Electric has made no separated sales for 2009.
17 However, the company anticipates its gains from non-
18 separated wholesale sales in 2009 to be \$718,000, of
19 which 100 percent would flow back to customers since it
20 is less than the projected threshold of \$816,969.

21
22 Q. Please summarize your testimony.

23
24 A. Tampa Electric monitors and assesses the wholesale power
25 market to identify and take advantage of opportunities

1 in the marketplace, and those efforts benefit the
2 company's customers. Tampa Electric's energy supply
3 strategy includes self-generation and short-term and
4 long-term power purchases. The company purchases in
5 both the physical forward and spot wholesale power
6 markets to provide customers with a reliable supply at
7 the lowest possible cost. It also enters into wholesale
8 sales that benefit customers. Tampa Electric does not
9 purchase wholesale energy derivatives in the developing
10 Florida wholesale power market due to a lack of
11 financial instruments appropriate for the company's
12 operations. It does, however, employ a diversified
13 power supply strategy to mitigate price and supply
14 risks.

15
16 **Q.** Does this conclude your testimony?

17
18 **A.** Yes.
19
20
21
22
23
24
25