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April 1, 2011

HAND DELIVERED

REC'D 4780

11 APR -1 PM 3:04

COMMISSION  
CLERK

Ms. Ann Cole, Director  
Division of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Fuel and Purchased Power Cost Recovery Clause with Generating  
Performance Incentive Factor; FPSC Docket No. 110001-EI

Dear Ms. Cole:

Enclosed for filing in the above docket on behalf of Tampa Electric Company are the original and fifteen (15) copies of each of the following:

1. Prepared Direct Testimony of Brent Caldwell regarding the 2010 results of Tampa Electric's risk management activities. *02186-11*
2. Tampa Electric Company's Fuel Procurement and Wholesale Power Purchases Risk Management Report – 2010, identified as Exhibit No. \_\_\_ (BC-1) in Mr. Caldwell's testimony. *02187-11*

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

COM \_\_\_\_\_ JDB/pp  
 APA - 1 Enclosures  
 ECR - 6  
 GCL + cc: All parties of record (w/encls.)  
 RAD \_\_\_\_\_  
 SSC \_\_\_\_\_  
 ADM \_\_\_\_\_  
 OPC \_\_\_\_\_  
 CLK \_\_\_\_\_

DOCUMENT NUMBER-DATE  
**02186 APR-1 =**  
FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Testimony of Brent Caldwell and Risk Management Report has been furnished by U. S. Mail or hand delivery (\*) on this 13<sup>th</sup> day of April 2011 to the following:

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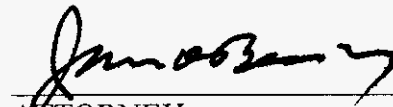
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\_\_\_\_\_  
ATTORNEY



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY

2010 FINAL TRUE-UP  
TESTIMONY AND EXHIBITS

COM 5  
APA +  
~~ECR~~ 6  
GCL +  
RAD +  
SSC -  
ADM -  
OPC -  
CLK CF, RFR

BRENT CALDWELL

FILED APRIL 1, 2011

DOCUMENT NUMBER-DATE

02186 APR-1 =

FPSC-COMMISSION CLERK

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                   **PREPARED DIRECT TESTIMONY**

3                   **OF**

4                   **BRENT CALDWELL**

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

8  
9   **A.**   My name is Brent Caldwell. My business address is 702  
10           N. Franklin Street, Tampa, Florida 33602. I am employed  
11           by Tampa Electric Company ("Tampa Electric" or  
12           "company") as Director of Origination & Market Services.

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

16  
17   **A.**   I received a Bachelor Degree in Electrical Engineering  
18           from Georgia Institute of Technology in 1985 and a  
19           Master of Science in Electrical Engineering in 1988. I  
20           have over 15 years of utility experience with an  
21           emphasis in state and federal regulatory matters,  
22           natural gas procurement and transportation, fuel  
23           logistics and cost reporting, and business systems and  
24           analysis. In October 2010 I assumed the long-term fuel  
25           origination responsibilities of Joann Wehle who was the

1 previous witness in the fuel docket.

2

3 Q. Please state the purpose of your testimony.

4

5 A. The purpose of my testimony is to present, for the  
6 Florida Public Service Commission's ("FPSC" or  
7 "Commission") review, information regarding the 2010  
8 results of Tampa Electric's risk management activities,  
9 as required by the terms of the stipulation entered into  
10 by the parties to Docket No. 011605-EI and approved by  
11 the Commission in Order No. PSC-02-1484-FOF-EI.

12

13 Q. Do you wish to sponsor an exhibit in support of your  
14 testimony?

15

16 A. Yes. Exhibit No. \_\_\_ (BC-1), entitled Tampa Electric  
17 Company's 2010 Fuel Procurement Risk Management Report,  
18 was prepared under my direction and supervision. This  
19 report explains the company's risk management activities  
20 and results for the calendar year 2010.

21

22 Q. What is the source of the data you present in your  
23 testimony in this proceeding?

24

25 A. Unless otherwise indicated, the source of the data is

1 the books and records of Tampa Electric. The books and  
2 records are kept in the regular course of business in  
3 accordance with generally accepted accounting principles  
4 and practices, and provisions of the Uniform System of  
5 Accounts as prescribed by this Commission.

6  
7 **Q.** What were the results of Tampa Electric's risk  
8 management activities in 2010?

9  
10 **A.** As outlined in Tampa Electric's 2010 Fuel Procurement  
11 Risk Management Plan, filed concurrently with this  
12 testimony on April 1, 2011 in Docket No. 110001-EI, the  
13 company follows a non-speculative risk management  
14 strategy to reduce fuel price volatility while  
15 maintaining a reliable supply of fuel. In particular,  
16 Tampa Electric established a financial hedging program  
17 to limit its exposure to spikes in the price of natural  
18 gas. Over time, this program has been enhanced as Tampa  
19 Electric's gas needs have evolved and grown. All  
20 enhancements have been reviewed and approved by the  
21 company's Risk Authorization Committee.

22  
23 The report indicates that Tampa Electric's 2010 hedging  
24 activities resulted in a net loss of approximately \$68  
25 million. Tampa Electric followed the plan objective of

1 reducing price volatility while maintaining a reliable  
2 fuel supply. A decrease in natural gas prices began in  
3 the middle of 2008 due to lower demand as a result of  
4 the recession as well as from increased supply from non-  
5 conventional, shale gas, production. Natural gas prices  
6 continue to stay at a low price due to this supply  
7 surplus.

8  
9 **Q.** Does Tampa Electric implement physical hedges for  
10 natural gas?

11  
12 **A.** Yes. In addition to financial hedging, Tampa Electric  
13 uses physical hedging for natural gas. Using a variety  
14 of sources such as delivery methods, inventory locations  
15 and contractual terms enhances the company's supply  
16 reliability and flexibility to cost-effectively meet  
17 changing operational needs.

18  
19 Tampa Electric continually pursues new creditworthy  
20 counterparties and maintains contracts for gas supplies  
21 from various regions and on different pipelines. The  
22 company also contracts for pipeline capacity to access  
23 non-conventional shale gas production which is less  
24 sensitive to interruption by hurricanes. Tampa Electric  
25 also has storage capacity with Bay Gas Storage near



1 Mobile, Alabama. All of these actions enhance the  
2 effectiveness of Tampa Electric's gas supply portfolio.

3 **Q.** Does Tampa Electric use a hedging information system?  
4

5 **A.** Yes, Tampa Electric continues to use Sungard's Nucleus  
6 Risk Management System ("Nucleus"). Nucleus supports  
7 sound hedging practices with its contract management,  
8 separation of duties, credit tracking, transaction  
9 limits, deal confirmation and business report generation  
10 functions. The Nucleus system records all financial  
11 natural gas hedging transactions, and the system  
12 calculates risk management reports. Nucleus is also  
13 used for contract, credit management and risk exposure  
14 analysis.  
15

16 **Q.** What were the results of the company's incremental  
17 hedging activities in 2010?  
18

19 **A.** The net result of natural gas hedging activity in 2010  
20 was a loss of approximately \$68 million when the  
21 instrument prices were compared to market prices on  
22 settled positions.  
23

24 **Q.** Did the company use financial hedges for other  
25 commodities in 2010?

1 **A.** No. Tampa Electric did not use financial hedges for  
2 other commodities.

3  
4 Tampa Electric's generation is comprised mostly of coal  
5 and natural gas. Although the price of coal has  
6 increased, it is relatively stable compared to the  
7 prices of oil and natural gas. In addition, there is  
8 not an organized and liquid market for financial hedging  
9 instruments for the high sulfur Illinois Basin coal that  
10 Tampa Electric uses at Big Bend Station, its largest  
11 coal-fired generation facility.

12  
13 Tampa Electric consumes a small amount of oil, however,  
14 its low and erratic usage pattern makes price hedging  
15 impractical.

16  
17 The company did not use financial hedges for wholesale  
18 energy transactions because a liquid, published market  
19 does not exist for power in Florida.

20  
21 **Q.** Did Tampa Electric use physical hedges for other  
22 commodities?

23  
24 **A.** Yes, Tampa Electric used physical hedges to enhance the  
25 reliability of its coal and oil supply.

1 For coal, the company entered into a portfolio of  
2 contracts with differing terms and various suppliers to  
3 obtain the types of coal used on its system.  
4 Additionally in 2010, Tampa Electric added rail delivery  
5 capability for coal to Big Bend Station. The addition  
6 of rail to the already existing waterborne  
7 transportation enhances Tampa Electric's access to coal  
8 supply and increases the reliability.

9  
10 For oil, Tampa Electric fills its oil tanks prior to  
11 entering hurricane season to reduce exposure to supply  
12 or price issues that may arise during hurricane season.

13  
14 **Q.** What is the basis for your request to recover the  
15 commodity and transaction costs described above?

16  
17 **A.** Tampa Electric requests cost recovery pursuant to the  
18 Commission Order No. PSC-02-1484-FOF-EI, in Docket No.  
19 011605-EI that states:

20 "Each investor-owned electric utility shall be  
21 authorized to charge/credit to the fuel and  
22 purchased power cost recovery clause its non-  
23 speculative, prudently-incurred commodity costs and  
24 gains and losses associated with financial and/or  
25 physical hedging transactions for natural gas,

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residual oil, and purchased power contracts tied to  
the price of natural gas."

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

**A.** Yes, it does.