



**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 110001-EI  
FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY**

**PROJECTIONS  
JANUARY 2012 THROUGH DECEMBER 2012**

**TESTIMONY  
OF  
BENJAMIN F. SMITH II**

**FILED: SEPTEMBER 1, 2011**

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FPSC-COMMISSION CLERK

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **PREPARED DIRECT TESTIMONY**

3                                   **OF**

4                                   **BENJAMIN F. SMITH II**

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

7  
8   **A.**   My name is Benjamin F. Smith II. My business address is  
9           702 North Franklin Street, Tampa, Florida 33602. I am  
10          employed by Tampa Electric Company ("Tampa Electric" or  
11          "company") in the Wholesale Marketing group within the  
12          Fuels Management Department.

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

16  
17   **A.**   I received a Bachelor of Science degree in Electric  
18          Engineering in 1991 from the University of South Florida  
19          in Tampa, Florida and am a registered Professional  
20          Engineer within the State of Florida. I joined Tampa  
21          Electric in 1990 as a cooperative education student.  
22          During my years with the company, I have worked in the  
23          areas of transmission engineering, distribution  
24          engineering, resource planning, retail marketing, and  
25          wholesale power marketing. I am currently the Manager of

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1 Energy Products and Structures in the Wholesale Marketing  
2 group. My responsibilities are to evaluate short and  
3 long-term purchase and sale opportunities within the  
4 wholesale power market, assist in wholesale contract  
5 structure and help evaluate the processes used to value  
6 wholesale power opportunities. In this capacity, I  
7 interact with wholesale power market participants such as  
8 utilities, municipalities, electric cooperatives, power  
9 marketers and other wholesale generators.

10  
11 **Q.** Have you previously testified before the Florida Public  
12 Service Commission ("Commission")?

13  
14 **A.** Yes. I have submitted written testimony in the annual  
15 fuel docket since 2003, and I testified before this  
16 Commission in Docket Nos. 030001-EI, 040001-EI, and  
17 080001-EI regarding the appropriateness and prudence of  
18 Tampa Electric's wholesale purchases and sales.

19  
20 **Q.** What is the purpose of your direct testimony in this  
21 proceeding?

22  
23 **A.** The purpose of my testimony is to provide a description  
24 of Tampa Electric's purchased power agreements that the  
25 company has entered into and for which it is seeking cost

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

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

11  
12 **A.** Tampa Electric evaluates potential purchased power needs  
13 and sale opportunities by analyzing the expected  
14 available amounts of generation and the power required to  
15 meet the projected demand and energy of its customers.  
16 Purchases are made to achieve reserve margin  
17 requirements, meet customers' demand and energy needs,  
18 supplement generation during unit outages, and for  
19 economical purposes. When there is a purchased power  
20 need, the company aggressively polls the marketplace for  
21 wholesale capacity or energy, searching for reliable  
22 supplies at the best possible price from creditworthy  
23 counterparties.

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

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

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

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

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

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

11  
12 **Q.** Please describe Tampa Electric's 2011 wholesale energy  
13 purchases.

14  
15 **A.** Tampa Electric assessed the wholesale power market and  
16 entered into short and long-term purchases based on price  
17 and availability of supply. Approximately 7 percent of  
18 the expected energy needs for 2011 will be met using  
19 purchased power. This purchased power energy includes  
20 economy purchases and existing firm purchased power  
21 agreements with Hardee Power Partners, Calpine, RRI  
22 Energy Services (formally known as Reliant), Pasco Cogen,  
23 and qualifying facilities. The testimony in previous  
24 years describes each existing firm purchased power  
25 agreement, which were subsequently approved by the

1 Commission as being cost-effective for Tampa Electric  
2 customers. All of the aforementioned purchases provide  
3 supply reliability and help reduce fuel price volatility.  
4

5 **Q.** Has Tampa Electric entered into any other wholesale  
6 energy purchases for 2011?  
7

8 **A.** Yes. The term of the original 170 MW Calpine purchase  
9 was May 2006 through April 2011. Tampa Electric extended  
10 the contract for 117 MW through September 2011 to support  
11 Tampa Electric's system during a major unit planned  
12 outage. The Calpine extension capacity pricing is 65  
13 percent less than the original contract. This reduced  
14 capacity price, along with fuel benefits, results in a  
15 small forecasted savings to customers. Additionally, the  
16 Calpine extension has already provided coverage for  
17 unplanned unit outages and additional purchased power  
18 price protection throughout the summer.  
19

20 Also, in May 2011, Tampa Electric issued a solicitation  
21 for proposals (i.e., request to purchase power) to the  
22 marketplace. The purpose of the solicitation was to  
23 evaluate firm power purchase options capable of filling  
24 the company's 2013-2015 reserve margin needs, as shown in  
25 its 2011 Ten Year Site Plan. Currently, the company is

1 in discussions with the short listed bidders to determine  
2 if a purchase (or combination of purchases) is in the  
3 best interest for Tampa Electric customers. In addition  
4 to the solicitation, Tampa Electric will continue to  
5 evaluate economic combinations of forward and spot market  
6 energy purchases during its spring and fall generation  
7 maintenance periods and peak periods. This purchasing  
8 strategy provides a reasonable and diversified approach  
9 to serving customers.

10  
11 **Q.** Has Tampa Electric entered into any other wholesale  
12 energy purchases for 2012 and beyond?

13  
14 **A.** In 2012, the Tampa Electric expects purchased power to  
15 meet approximately 5 percent of its energy needs.  
16 Excluding the discussions with short listed bidders from  
17 the previously described May 2011 solicitation for  
18 proposals which could result in a cost-effective  
19 purchase, the company has no additional plans to purchase  
20 long-term capacity and energy at this time. Tampa  
21 Electric, however, will continue to evaluate the short-  
22 term purchased power market as part of its purchasing  
23 strategy.

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 power products. The company  
7 has 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 through  
11 bilateral contracts between various counterparties, and  
12 there is not a Florida trading hub where standard  
13 financial transactions can occur with enough volume to  
14 create a liquid market. Due to this lack of liquidity,  
15 the appropriate financial instruments to meet the  
16 company's needs do not currently exist. Tampa Electric  
17 has not purchased any wholesale energy derivatives;  
18 however, the company employs a diversified power supply  
19 strategy, which includes self-generation, short and long-  
20 term capacity and energy purchases. This strategy  
21 provides the company the opportunity to take advantage of  
22 favorable spot market pricing while maintaining reliable  
23 service to its customers.

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

1 transactions adequately mitigate price risk for purchased  
2 power for 2011?

3  
4 **A.** Yes, Tampa Electric expects its physical wholesale  
5 purchases to continue to reduce its customers' purchased  
6 power price risk. For example, the 170 MW (and  
7 subsequent 117 MW) Calpine purchase and the 158 MW  
8 purchase from RRI Energy Services in 2011 are reliable,  
9 cost-based call options for peaking power. These  
10 purchases serve as both a physical hedge and reliable  
11 source of economic power in 2011. The availability of  
12 these purchases is high, and their price structures  
13 provide some protection from rising market prices, which  
14 are largely influenced by supply and the volatility of  
15 natural gas prices.

16  
17 Mitigating price risk is a dynamic process, and Tampa  
18 Electric continually evaluates its options in light of  
19 changing circumstances and new opportunities. Tampa  
20 Electric also strives to maintain an optimum level and  
21 mix of short- and long-term capacity and energy purchases  
22 to augment the company's own generation for the year 2011  
23 and beyond.

24  
25 **Q.** How does Tampa Electric mitigate the risk of disruptions

1 to its purchased power supplies during major weather  
2 related events such as hurricanes?

3  
4 **A.** During hurricane season, Tampa Electric continues to  
5 utilize a purchased power risk management strategy to  
6 minimize potential power supply disruptions during major  
7 weather related events. The strategy includes monitoring  
8 storm activity; evaluating the impact of storms on the  
9 wholesale power market; purchasing power on the forward  
10 market for reliability and economics; evaluating  
11 transmission availability and the geographic location of  
12 electric resources; reviewing the seller's fuel sources  
13 and dual-fuel capabilities; and focusing on fuel-  
14 diversified purchases. Notably, both the RRI Energy  
15 Services and Pasco Cogen purchases are dual-fuel  
16 resources. This allows these resources to run on either  
17 natural gas or oil, which enhances supply reliability  
18 during a potential hurricane-related disruption in  
19 natural gas supply. Absent the threat of a hurricane,  
20 and for all other months of the year, the company  
21 continues its strategy of evaluating economic  
22 combinations of short- and long-term purchase  
23 opportunities identified in the marketplace.

24  
25 **Q.** Please describe Tampa Electric's wholesale energy sales

1 for 2011 and 2012.

2

3 **A.** Tampa Electric entered into various non-separated  
4 wholesale sales in 2011, and the company anticipates  
5 making additional non-separated sales during the balance  
6 of 2011 and in 2012. In accordance with Order No. PSC-  
7 01-2371-FOF-EI, issued on December 7, 2001 in Docket No.  
8 010283-EI, all gains from non-separated sales are  
9 returned to customers through the fuel clause, up to the  
10 three-year rolling average threshold. For all gains  
11 above the three-year rolling average threshold, customers  
12 receive 80 percent and the company retains the remaining  
13 20 percent. In 2011, Tampa Electric anticipates its  
14 gains from non-separated wholesale sales to be \$965,313  
15 of which 100 percent would flow back to customers since  
16 they are less than the three-year rolling average  
17 threshold of \$2,719,531. Similarly, in 2012, the  
18 company's projected gains from non-separated wholesale  
19 sales are \$737,492 of which 100 percent would flow back  
20 to customers since they are less than the projected 2012  
21 three-year rolling average threshold of \$2,160,817.

22

23 **Q.** Please summarize your testimony.

24

25 **A.** Tampa Electric monitors and assesses the wholesale power

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

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

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