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May 15, 2013

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

Re: Tampa Electric Company's Petition for Expedited Approval of Asset Optimization Incentive Mechanism; FPSC Docket No. 130024-EI

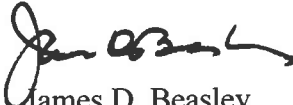
Dear Ms. Cole:

Enclosed for filing in the above-styled matter are the original and five (5) copies of Tampa Electric Company's responses to Staff's Fifth Data Request (1-24) that were contained in a May 2, 2013 letter from Ms. Martha F. Barrera to the undersigned.

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  
3 Enclosure

cc: Ms. Martha F. Barrera (w/enc.)  
J.R. Kelly/Patricia A. Christensen (w/enc.)

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DOCUMENT NUMBER-CASE  
02686 MAY 15 2013  
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Remove Purchases

1. Please provide a recalculation of the thresholds assuming removal of power purchases from the incentive mechanism. Please provide all assumptions, inputs, and calculations.
  - A. While Tampa Electric has provided the requested calculation removing economic power purchases from the incentive mechanism, Tampa Electric believes power purchases should be included in the incentive mechanism. If economic power purchases are excluded, Tampa Electric believes an appropriate threshold including a stretch portion would be \$2 million. Tampa Electric arrived at that threshold by comparing gains on economic sales since inception of the existing incentive program, average gains over the most recent four-year period as proposed in this incentive filing and average gains over the three-year period as calculated in the existing incentive program. Utilizing the average gains under any of the methodologies described above produces gains that are substantially below the \$2 million threshold. Additionally, a second tier at \$2.75 million would be consistent with the second tier as proposed in this incentive filing. The attached file contains the calculations, inputs and assumptions used by the company to calculate the threshold excluding economic purchases.

## TAMPA ELECTRIC

Year	Gains on Economy Sales (A6)	20% retained By TEC	3 Yr Rolling Avg Threshold
2001	\$1,512,133	\$0	\$3,966,143
2002	\$838,302	\$0	\$1,842,169
2003	\$1,227,430	\$0	\$1,546,058
2004	\$1,049,937	\$0	\$1,192,622
2005	\$878,238	\$0	\$1,038,556
2006	\$757,156	\$0	\$1,051,868
2007	\$799,040	\$0	\$895,111
2008	\$1,676,141	\$172,096	\$811,478
2009	\$3,533,488	\$491,208	\$1,077,446
2010	\$2,948,964	\$189,215	\$2,002,890
2011	\$902,388	\$0	\$2,719,531
2012	\$246,932	\$0	\$2,461,614
<b>Total</b>	<b>\$16,370,149</b>	<b>\$852,519</b>	
<b>Avg - 11yr</b>	<b>\$1,364,179</b>		
<b>Avg - 4yr</b>	<b>\$1,907,943</b>		
<b>Avg - 3yr</b>	<b>\$1,366,095</b>		
<b>Avg - 2yr</b>	<b>\$574,660</b>		

		Customer
Tier 1	< 2,000,000	100%
Tier 2	2,000,001 - 2,500,000	40%
Tier 3	> 2,500,000	50%

Extended outages due to Installation of SCR's on Big Bend Units.

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- 2.** Does Tampa Electric purchase power short term as part of meeting its obligation to serve? Please explain.
  - A.** Yes, when those purchases are necessary to serve load or to provide an adequate reserve margin. The company secures short-term (i.e., less than one year) purchased power for a variety of reasons. For instance, in the case of economic purchases, the company makes short-term purchases to lower customers' energy costs. The vast majority of short term economy purchases are currently done on an hourly basis from the power trading desk in the over the counter market and via the Florida cost-based broker system. On a going forward basis the incentive mechanism can be the catalyst for expanding the time horizon to include more next day, weekly, monthly and seasonal activity. Because of the non-firm nature, economic purchases are not firmly committed; they are not necessary to serve load or provide for reserve margin capacity. On the other hand, during times such as major unit planned maintenances or higher than projected seasonal loads, Tampa Electric may make a firm, short-term purchase to ensure reliability to customers. The company would categorize such firm purchases as being obligated to serve load. Purchases that are conducted for reliability reasons, not purely economic opportunity, would not be included in the incentive mechanism.

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**\$9 Million Threshold**

- 3.** Please refer to Tampa Electric's response to Staff's First Data Request No. 2. Does Tampa Electric have any knowledge or understanding of the basis for FPL's \$10 million in additional savings? Please explain.
  - A.** Tampa Electric is not aware of FPL's basis for setting a \$10 million stretch target to its incentive program. Tampa Electric set its stretch target by comparing its most recent total system fuel and purchased power costs to FPL's and using the same ratio to establish its stretch goal.

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- 4.** Please refer to Tampa Electric's response to Staff's First Data Request No. 2. Did Tampa Electric do any analysis, other than indicated in this response, as support for the \$2.5 million additional customer savings? If yes please explain and provide the analysis.
  - A.** No additional analysis was performed beyond what was described in the company's response to Staff's First Data Request No. 2. However, each year as part of the fuel clause projection filing Tampa Electric forecasts the quantity of economic wholesale power available to supplement its generation resources during the following year. Through this analysis it was determined that the historical perspective over the last four years was an accurate baseline and a reasonable depiction of what can be expected in the future.

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5. For each incentive mechanism function, has Tampa Electric estimated the revenue, costs, and gain or loss for 2013 through 2017 associated with the function? If yes, please explain and provide the estimates. If no, please explain why Tampa Electric has not done this analysis and projection.
- A. Tampa Electric did not perform any projection of benefits for transactions other than economic sales in 2013 due to the uncertainty of the level and the margin associated with the transactions. Tampa Electric believes there is too much uncertainty within the market to speculate on the revenue and gains associated with incentive mechanism activities. Tampa Electric has not identified specific transactions it intends to engage in and has no projection of activity. Additional detail on the various proposed incentive eligible transactions is provided below.

**Wholesale Power Sales:**

2013 - \$485,483 as reflected in Tampa Electric's 2013 projection filing in Docket No. 120001-EI.

2014 – 2017 No projection of wholesale power sales has been estimated due to uncertainty of the level and the margin associated with these opportunity transactions.

**Wholesale Power Purchases:**

2013 – 450,000 MWh's as reflected in Tampa Electric's 2013 projection filing in Docket No. 120001-EI. No avoided cost is calculated separately.

2014 – 2017 No projection of wholesale power purchases has been estimated due to uncertainty of the level and the margin associated with these opportunity transactions.

**Natural Gas Commodity, Storage, Transport or Delivered Transactions:**

2013 – 2017 No projection of benefits from any of these transactions since Tampa Electric has not significantly participated in these types of transactions and due to the uncertainty of the level and the margin associated with these opportunity transactions.

**Coal Commodity and Delivered Transactions:**

2013 – 2017 No projection of benefits from any of these transactions since Tampa Electric has not significantly participated in these types of transactions and due to the uncertainty of the level and the margin associated with these opportunity transactions.

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6. In developing its "stretch goal" and sharing percentages, Tampa Electric used the incentive mechanism approved for FPL by Order No. PSC-13-0023-S-EI,<sup>1</sup> as a model. (Also, see Tampa Electric's response to staff's Second Data Request No. 13.) Has Tampa Electric done any analysis of the appropriate thresholds and sharing percentages independent of the FPL incentive mechanism? Please explain and, if yes, provide the analysis.

A. Yes. The company reviewed historical gains achieved under its existing incentive mechanism and considered which years would be representative of future periods. While the most recent data provides the most accurate depiction of expected results, the company used the last four years in order to produce a more conservative number that benefited customers. Using these four years provides a higher threshold than recent experience indicates is appropriate because the first two of those four years contain extended outages for the installation of environmental controls on the Big Bend coal-fired units. The dates of those outages are listed below.

Big Bend 4: 01/31/2007 - 05/01/2007  
Big Bend 3: 11/18/2007 - 04/28/2008  
Big Bend 2: 11/24/2008 - 04/07/2009  
Big Bend 1: 11/23/2009 - 04/03/2010

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<sup>1</sup> Docket 120015-EI, Petition for increase in rates by Florida Power & Light Company, issued January 14, 2013.



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7. In developing its "stretch goal" and sharing percentages, Tampa Electric used the incentive mechanism approved for FPL by Order No. PSC-13-0023-S-EI as a model. (Also, see Tampa Electric's response to staff's Second Data Request Nos. 13 and 16.) Given that Tampa Electric's fuel mix and load requirements differ from those of FPL, should Tampa Electric's thresholds and sharing percentages also differ from FPL's? Please explain.
  - A. The differences between Tampa Electric's and FPL's thresholds are a function of relative company size and attainable gains of the two companies. While the company's fuel mix and load requirements are different than FPL's, the threshold for each company should be based on the achievable gains of the individual companies. Consistent sharing percentages for the two respective incentive mechanisms are appropriate.

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- 8.** Given Tampa Electric's knowledge of the asset optimization functions (other than power sales and power purchases) and given that Tampa Electric has represented that it does not expect to exceed the \$ 9 million threshold in 2013 and 2014, has Tampa Electric done any analysis of the gains that would form the basis of the stretch goal? Please explain.
- A.** No analyses on the asset optimization functions and their impact toward achieving the stretch goal have been performed. As previously stated, Tampa Electric believes there is too much uncertainty within the market to speculate on the revenue and gains associated with incentive mechanism activities. Tampa Electric has not entered into any specific transactions it intends to engage in and has no projection of activity. Tampa Electric does not believe the \$9 million threshold can be reached without extraordinary effort and new, creative efforts on the company's part. Tampa Electric believes its customers and utility customers throughout the state will benefit from increased fuel and wholesale power optimization, even if Tampa Electric does not reach the proposed threshold.

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- 9.** Has Tampa Electric done any analysis of an alternative to the \$2.5 million stretch goal? Please explain.
- A.** Tampa Electric has not done any analysis of an alternative to the \$2.5 million stretch goal. Tampa Electric chose to follow the approved FPL structure to maintain a consistent approach in setting the stretch target and expedite approval to maximize benefit to customers.

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**Rolling Average Threshold**

- 10.** In developing its proposal for an incentive mechanism, did Tampa Electric consider a rolling average for setting the threshold? Please explain.
- A.** No. Tampa Electric modeled its incentive to be consistent with the one approved for FPL.

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- 11.** Please provide a rolling average threshold, with and without savings on short-term purchased power, that Tampa Electric believes could work with its incentive mechanism proposal. Please provide all assumptions, inputs, and calculations.
  - A.** Tampa Electric currently has an incentive mechanism on economic sales that is based on a rolling three-year average. The company believes that a three-year average threshold that includes economic purchases could be calculated; however, the company does not believe a rolling average threshold benefits customers. The current economic sales incentive is a rolling average and is susceptible to large variations due to low or high gains from any one year which has the effect of diminishing the effectiveness of the incentive over time as improved performance reduces the company's participation in the benefit.

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**Sunset**

- 12.** Does Tampa Electric believe that including a presupposed end date, or “sunset” provision, which would terminate the program unless specific Commission approval is granted to continue the program is received, would cause any logistical problems with the deployment or potential dismantlement of the proposed incentive mechanism? Please explain.
- A.** Tampa Electric believes a sunset provision could introduce implementation issues into the incentive program. Engaging new markets and pursuing new, creative opportunities may require financial investments, such as hiring new staff or implementing new software systems. To the extent a sunset provision increases Tampa Electric’s risk of having unrecovered costs, it would limit the degree the company pursues viable, new and creative opportunities.

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- 13.** Does Tampa Electric believe that a four year period, similar to what was approved for FPL, would be sufficient to fully implement the proposed incentive mechanism? Why or why not?
- A.** Tampa Electric believes a sunset provision could introduce implementation issues into the incentive program, to the extent such a provision increases the risk of unrecovered costs. As for having a sunset provision in general, the company believes a consistent, level playing field is a critical part of a well-operating market. Thus, if there is to be a sunset provision in the proposed incentive pilot, having the same start and end year for the Florida utilities is appropriate.

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- 14.** Assuming the Commission would want a sunset provision as part of the incentive mechanism, what considerations does Tampa Electric believe are appropriate for determining the terms of a sunset provision?
- A.** As stated previously, Tampa Electric believes an incentive mechanism can provide significant benefit to its customers and other utility customers throughout the state. Therefore, a sunset provision is not appropriate. However, if a sunset provision is deemed necessary, the provision should allow full cost recovery of any O&M expenses incurred, or on-going O&M expenses expected to be incurred, associated with activities initiated in support of the proposed incentive mechanism.



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Order No. PSC-00-1744-PAA-EI<sup>2</sup>

- 15.** Please refer to Order No. PSC-00-1744-PAA-EI and to the last paragraph on page 9 that continues on to page 10. In carrying out its analysis for the proposed incentive mechanism, did Tampa Electric identify or attempt to identify potential for a free rider effect (as defined in this paragraph). Please explain.
- A.** Yes. Tampa Electric would point out that at the time Order No. PSC-00-1744-PAA-EI was issued, three of Florida's electric IOU's had received approval for market-based rates. As noted in that Order, the utilities and customers had benefited as more sales and larger gains were generated. Since that time market-based rate authority has been significantly limited, and utilities must actively market their energy under more cost-based measures, resulting in a reduced level of gains that what was previously experienced. The company acknowledges setting a threshold that is too low could generate a "free rider" effect as described by OPC witness Dismukes, but only if the threshold is set at a level that would be expected to occur in the absence of an incentive. Tampa Electric has proposed a threshold that is significantly greater than what the company has experienced in the last several years and higher than what is reasonably expected to occur without extraordinary effort.

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<sup>2</sup> Docket 991779-EI, In re review of the appropriate application of incentives to wholesale power sales by investor owned electric utilities, issued September 26, 2000.

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- 16.** Please refer to Order No. PSC-00-1744-PAA-EI and to last paragraph on page 9 that continues on to page 10. Does Tampa Electric plan, as part of implementing and carrying out the incentive mechanism, to pay employees in charge of the program on an incentive basis? Please explain.
- A.** Tampa Electric's compensation program already includes performance-based incentives to motivate specific behaviors that improve operations and lower costs to customers. It is reasonable to expect that these performance-based incentives would be modified to address the incentive mechanism if it is approved. Any modifications to compensation would have to be considered in the context of the total compensation package.

Competitive Advantage

17. Please refer to the asset optimization functions described in paragraph 8 of Tampa Electric's Petition. For each function, please describe the market players, the competition that currently exists, and the competition that would exist if the Commission approves Tampa Electric's incentive mechanism proposal.

**A. Wholesale Power:**

Participants: IOUs, municipals, cooperatives, merchants, cogenerators and renewable generators. Specific entities will include but not be limited to the following: Florida Power & Light, Duke Energy, Southern Company, Calpine Energy, Reliant Energy, Constellation Energy, Florida Municipal Power Agency, Seminole Electric Cooperative, The Energy Authority, Orlando Utilities Commission, Gainesville Regional Utility, Lakeland Electric, New Smyrna Beach, and Tampa Electric.

Competition that currently exists: There is a relatively robust next-hour power market with a number of participants and even some automation via the Florida cost-based broker. There is also some bilateral activity for current day and next-day block transactions (on-peak and off-peak). There is much less activity associated with weekly, monthly or seasonal timeframes. Overall, the key to a robust and liquid wholesale power market is transmission access, differences in power supply technologies, efficiencies, and fuel mixes; flexible fuel transportation and commodity contracts; and traded products that allow all of these differences to be valued. Of all these differences, the major two are transmission and fuel transportation, because those that control transmission and firm fuel transportation have access to markets and an inherent advantage.

Competition with incentive: Increased effectiveness and benefit from the wholesale power market as both the number of participants and the variety of products increase. An expanded, active, robust and liquid wholesale power market promotes lower utilization of high cost units and encourages higher

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utilization of lower cost generation. Customers of both the selling and buying utility benefit from this transaction, but the benefit is not just in the wholesale power arena. It is also true in other commodities, such as the optimization of natural gas pipeline capacity. An incentive that increases market participation and products promotes a volume of commodity transactions that benefit customers. Expanding the time horizon to include more next day, weekly, monthly and seasonal activity is key. To the extent that access to SERC is increased and more electric transmission is made available, customers could see additional savings.

**Natural Gas Commodity/Storage/Transportation/Delivery:**

**Participants:** IOUs, municipals, cooperatives, merchants, cogenerators and renewable generators. Specific entities will include but not be limited to the following: Florida Power & Light, Duke Energy, Southern Company, Calpine Energy, Reliant Energy, Constellation Energy, Florida Municipal Power Agency, Seminole Electric Cooperative, The Energy Authority, Orlando Utilities Commission, Gainesville Regional Utility, Lakeland Electric, New Smyrna Beach, Tampa Electric, local distribution companies, gas marketers, industrial customers, interstate pipelines, gas supply producers, and gas storage operators.

**Competition that currently exists:** There is a robust natural gas market including supply, transportation and storage. Most parties are both sellers and buyers. Local distribution companies and electric utilities hold the bulk of the interstate pipeline capacity.

**Competition with incentive:** Improved utilization of natural gas pipeline transportation and storage capacity as increased use of efficient generating units creates available pipeline capacity and unused capacity is made available to other market participants. Effective Asset Management Agreements have the potential to significantly reduce fixed cost obligations for electric utility customers as it also provides for a more efficient use of assets.

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**Coal Commodity and Transportation:**

**Participants:** IOUs, municipals, cooperatives, merchants, and cogenerators. Specific entities will include but not be limited to the following: Florida Power & Light, Duke Energy, Southern Company, Seminole Electric Cooperative, Cedar Bay Cogeneration, The Energy Authority, Orlando Utilities Commission, Gainesville Regional Utility, Lakeland Electric, Tampa Electric, CSX, International Ship, Kirby, Moran, various trucking entities, coal suppliers and coal marketers.

**Competition that currently exists:** The coal market is relatively "illiquid" due to the unique quality specifications of coal supply for each power plant.

**Competition with incentive:** Potential for mitigated fixed costs and improved efficiency by utilization of spare transportation capacity, satisfaction of contractual minimums, and pooling of purchase requirements. Alliances with coal suppliers or marketers present the best opportunity to lower costs to customers.

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18. At this time, Florida Power & Light (FPL) is the only Investor Owned Utility (IOU) in Florida that has an incentive mechanism similar to the plan that the Company seeks. Because Tampa Electric does not have an incentive mechanism plan:
- a) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for short-term wholesale power sales?
  - b) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for short-term wholesale power purchases?
  - c) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for gas storage utilization?
  - d) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for delivered city-gate gas sales?
  - e) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for production area sales?
  - f) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for capacity release of gas transport and electric transmission?
  - g) What competitive advantage does FPL have (or might have) at this time over Tampa Electric in the market for solid fuel purchasing, transportation, and storage optimization?
- A. a. Short-term wholesale power sales – FPL’s access to a significant portion of the state’s generation capacity, electric transmission, and interstate pipeline transportation positions them well to fulfill their retail obligations and to compete for wholesale market opportunities, independent of the incentive mechanism. The incentive plan approved for FPL gives FPL an incentive to enhance its internal resources and focus its efforts to take greater advantage of its already advantageous market position.
- i. Tampa Electric believes FPL will take full advantage of proceeds from the mechanism to develop staff, processes,

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- products and services to further optimize its system and grow its market share.
- ii. The plan provides an appropriate incentive to offset cost and risk associated with taking on incremental sales from marginal assets including but not limited to pricing, marketing, operating and maintaining, sourcing fuel and transaction settlement activity.
- b. Short-term wholesale power purchases – In addition to the items listed above short-term wholesale power sales, the mechanism provides incentive for the Company to incur operating expense and risk commonly associated with the re-dispatch of units in order to accommodate incremental purchases that lower customer fuel expense.
  - c. Gas storage utilization – With the incentive mechanism, FPL is building credit and business relationships with gas storage operators and potential AMA providers. FPL may contract these resources, reducing the amount available for Tampa Electric or the rest of the market. The incentive plan approved for FPL gives FPL an incentive to incur expense and take greater risk to enhance its already advantageous market position.
  - d. Delivered city-gate gas sales – FPL controls over 50 percent of the interstate pipeline capacity into the state of Florida. They will know the market condition prior to other market participants because they will know their position. With the incentive mechanism, FPL is building credit and business relationships with market participants and potential AMA providers. FPL may utilize these resources, reducing the options available for Tampa Electric or the rest of the market. The incentive plan approved for FPL gives FPL an incentive to incur expense and take greater risk to enhance of its already advantageous market position.
  - e. Production area sales – FPL's buying power gives them a potential purchasing advantage over other utilities in Florida who are competing for the same gas supply. With the incentive mechanism, FPL is building credit and business relationships with market participants and potential AMA providers. FPL may utilize these resources, reducing the options available for Tampa Electric or the rest of the market. The incentive plan approved for FPL gives FPL

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an incentive to incur expense and take greater risk to enhance its already advantageous market position.

- f. Capacity release of gas transport – FPL controls over 50 percent of the interstate pipeline capacity into the state of Florida. They will know the market condition prior to other market participants because they will know their position. With the incentive mechanism, FPL is building credit and business relationships with market participants and potential purchasers of pipeline capacity. FPL may utilize these resources, reducing the options available for Tampa Electric or the rest of the market. The incentive plan approved for FPL gives FPL an incentive to incur expense and take greater risk to enhance its already advantageous market position.

Capacity release of electric transmission – FPL controls over 50 percent of the state's generation and transmission assets which gives them an advantage over Tampa Electric and the rest of the market participants, independent of the incentive mechanism. Their control of the transmission interconnection through Jacksonville into SERC gives them access to a sizeable power market that others cannot get to until after FPL decides it is not needed or profitable for them. With the incentive mechanism, FPL is building credit and business relationships with market participants and potential purchasers of transmission capacity. FPL may utilize these resources, reducing the options available for Tampa Electric or the rest of the market. The incentive plan approved for FPL gives FPL an incentive to incur expense and take greater risk to enhance its already advantageous market position.

- g. Solid fuel Purchasing, transportation, and storage utilization – FPL has an advantage in solid fuel due to the location of their solid fuel power plants and partnership with other market participants. The St. John's River Power Project is strategically located close to numerous solid fuel power plants operated by Southern Company and Duke Energy. The incentive plan approved for FPL gives FPL an incentive to incur expense and take greater risk to enhance its already advantageous market position. Nonetheless, Tampa Electric has some advantages by having dual transportation modes to Big Bend Station and long-term expertise in Illinois Basin coal, in which both the domestic market and the international market have recently increased participation.



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- 19.** Regarding selling gas storage capacity, what are a buyer's considerations in deciding whether to buy storage capacity short-term and where to buy that capacity?
  - A.** When deciding whether to buy natural gas storage capacity, buyers consider a few key elements. Those elements include 1) availability of supply to inject into that storage, 2) flexibility of withdrawal rights for that storage, 3) access to pipelines for delivery of gas from that storage, 4) price, and 5) term.

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- 20.** Does Tampa Electric believe it needs an incentive mechanism now to prevent being preempted from entering the markets for each asset optimization function? Please respond and explain by function.
- A.** Tampa Electric believes its proposed incentive mechanism is appropriate primarily to generate incremental benefits for its customers. As a secondary consideration, granting Tampa Electric the proposed incentive mechanism will help establish uniformity with respect to the incentives and opportunities available to utilities, who are major market participants in bulk fuel and power markets.

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**21.** Does FPL, because it has an approved incentive mechanism, have a competitive advantage compared to Tampa Electric? Please explain and assume that Tampa Electric is granted an incentive mechanism.

**A.** As shown in the previous answers, FPL already has a market advantage over other utilities based on its size and geographic proximity. The incentive plan approved for FPL gives FPL an incentive to work harder to take greater advantage of its already advantageous market positions, because it allows FPL to be compensated for taking risks and being creative in the marketplace. Under the plan approved for FPL, its customers are also rewarded if FPL is successful.

If Tampa Electric is going to have a fair opportunity to compete with FPL in areas where FPL already has a market advantage due to size and geography, Tampa Electric will also need to be creative and take risks, and if successful, both the company and its customers will be rewarded. However, if the Commission does not approve the same incentive plan for Tampa Electric, Tampa Electric will not have an opportunity to be compensated for taking additional risks and finding new opportunities to benefit customers. If Tampa Electric is not given the same opportunities to be compensated for taking risks, Tampa Electric will be at a competitive disadvantage relative to FPL and will be forced to either forego taking risks or take risks without the possibility of a commensurate reward, neither of which are fair or in the public interest. If the Commission does not approve for Tampa Electric the same plan it approved for FPL, an asymmetrical reward system will exist that will put Tampa Electric at a disadvantage relative to FPL.

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- 22.** Given the market participants for each asset optimization function, what, if any, competitive advantage does Tampa Electric have over other Florida utilities? Please explain and assume that Tampa Electric is granted an incentive mechanism.
- A.** Tampa Electric has a competitive advantage over other Florida IOU's in that it has a more diverse generation fleet, so constraints on the natural gas pipelines may not impact the company as much as other utilities. The proposed incentive mechanism will encourage existing assets, electric generation, electric transmission, natural gas transportation, natural gas storage, and coal transportation to be utilized more efficiently. This more efficient use of assets results in cost savings throughout the state. These assets will be utilized more efficiently because the proposed incentive mechanism provides the financial means to develop broader and deeper wholesale power and fuel markets that currently do not exist. For example, the wholesale power market in Florida is almost entirely focused on the next-hour and next-day transaction timeframe. The proposed incentive mechanism allows Tampa Electric to create the contractual tools, hire the resources, conduct the analyses, and document the procedures and policies necessary to create a "mid-market" for wholesale power in Florida. Unlike hourly and next-day purchases, these mid-market products of weekly, monthly and seasonal wholesale power (as well as natural gas and coal) transactions provide a greater benefit to customers by incorporating the values associated with planning and additional asset utilization. Thus, the proposed incentive mechanism will improve the liquidity of wholesale transactions in the state of Florida in terms of more products and more participants.

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General

- 23.** In its Petition, the Company requested expedited approval of this plan. Please answer the following:
- a) Why did the Company request expedited approval of this plan?
  - b) What harm could result if the Company does not get expedited approval?
  - c) What harm could result if the Company's plan is not approved?
- A.**
- a. The company sought expedited approval because it believes the incentive mechanism approved by the Commission for FPL has the potential to bring significant benefits to Tampa Electric's customers and all utility customers in the state. Expedited approval would allow for more of these benefits to be realized for customers.
  - b. Every day of delay is a loss in potential benefits for customers.
  - c. Customers will lose the benefit that would have been achieved by broader, deeper, and more balanced fuel and power markets in Florida.

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- 24.** For the purpose of this question, assume the Company's Petition is granted as written, and this mechanism is in place. Identify **with specificity** what actions, if any, the Company will undertake that are new and different from what it is doing currently in:
- a) the market for short-term wholesale power sales. Include in your response whether any new hiring will be necessary.
  - b) the market for short-term wholesale power purchases. Include in your response whether any new hiring will be necessary.
  - c) the market for gas storage utilization. Include in your response whether any new hiring will be necessary.
  - d) the market for delivered city-gate gas sales. Include in your response whether any new hiring will be necessary.
  - e) the market for production area sales. Include in your response whether any new hiring will be necessary.
  - f) the market for capacity release of gas transport and electric transmission. Include in your response whether any new hiring will be necessary.
  - g) the market for solid fuel purchasing, transportation, and storage optimization. Include in your response whether any new hiring will be necessary. Include in your response whether any new hiring will be necessary.
- A.** The company has not identified specific opportunities nor developed specific plans to take advantage of the proposed incentive plan. However, the company believes that approval of the plan will give the company additional incentives to pursue opportunities that arise from time to time and that could benefit customers. The examples provided below for each optimization area are potential changes that would be dependent upon specific opportunities and the incentive mechanism approved.
- a. Short-term wholesale power sales - Increased frequency of load forecasts, increased variety of load forecasts, improved processes for distributing load forecasts, implementation of production costing software for hourly dispatch and wholesale transactions, and

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developing procedures for improved system data updates during after hours, weekends and holidays. Development of new analysis techniques and enhanced systems to address new products and participants in the wholesale power market. Improved processes, analysis, contractual language, and market expertise to create new products and participants in the Florida wholesale power market. New hiring may be needed in the wholesale pricing area to support new markets and non-work hour activity (weekends, holidays and after hours support, in particular) and for production costing software support in the generation dispatch area. May require some re-organization and system upgrades to support the heightened wholesale power activity and process the increased volume of wholesale transactions.

- b. Short-term wholesale power purchases - Same as wholesale sales.
- c. Gas storage utilization – Conduct a search for capable and willing counterparties and then develop and execute an Asset Management Agreement acceptable to all parties. Initial effort would probably be small as Tampa Electric “learns” how best to implement an AMA. Since it would be new, legal and consulting fees could be relatively high but would diminish for subsequent AMA activity. Tampa Electric would also have to develop procedures and policies through its Risk Management department for both AMA activity and for self-actualized optimization. Tampa Electric would not add an additional gas supply expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.
- d. Delivered city-gate gas sales – Develop processes, procedures, credit tolerances, analyses and contractual language in coordination with the Risk Management department to support this activity. Tampa Electric would not add an additional gas supply expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.
- e. Production area gas sales – Develop processes, procedures, credit tolerances, analyses and contractual language in coordination with the Risk Management department to support this activity. Tampa Electric would likely automate gas market pricing information to reduce administrative burden on gas supply traders and allow them to dedicate more time to executing beneficial gas transactions.

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Tampa Electric would not add an additional gas supply expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.

- f. Gas transport capacity release – Develop processes, procedures, credit tolerances, analyses and contractual language in coordination with the Risk Management department to support this activity. Tampa Electric would not add an additional gas supply expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.

Electric transmission capacity release - Develop processes, procedures, credit tolerances, analyses and contractual language in coordination with the Risk Management department to support this activity. Tampa Electric potentially would acquire market forecasts and transmission availability tools to improve its ability to identify market opportunities and implement those transactions. Tampa Electric would not add an additional power trader expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.

- g. Solid fuel purchasing, transport and storage optimization – Develop processes, procedures, credit tolerances, analyses and contractual language in coordination with the Risk Management department to support this activity. Enhance engagement with market participants including solicitation of structured products and services to build relationships with coal suppliers, transporters and handlers beyond those currently utilized. Conduct a market study of solid fuel opportunities and alternatives to focus on capturing beneficial transactions in an efficient manner. Tampa Electric would not add an additional coal supply expert initially but would consider such as the activity demonstrated sufficient opportunity to cover the cost of an additional resource.