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October 9, 2015

VIA: ELECTRONIC FILING

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

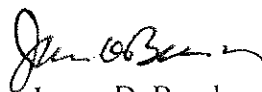
Re: Fuel and Purchased Power Cost Recovery Clause with Generating
Performance Incentive Factor; FPSC Docket No. 150001-EI

Dear Ms. Stauffer:

Attached for filing in the above docket on behalf of Tampa Electric Company is the
Rebuttal Testimony of J. Brent Caldwell.

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

JDB/pp
Attachment

cc: All Parties of Record (w/attachment)



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 150001-EI
FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

REBUTTAL TESTIMONY
OF
J. BRENT CALDWELL

FILED: OCTOBER 9, 2015

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED REBUTTAL TESTIMONY**

3 **OF**

4 **J. BRENT CALDWELL**

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

7
8 **A.** My name is J. Brent Caldwell. My business address is 702
9 N. Franklin Street, Tampa, Florida 33602. I am employed
10 by Tampa Electric Company ("Tampa Electric" or "company")
11 as Director, Fuel Planning and Services.

12
13 **Q.** Are you the same J. Brent Caldwell who submitted direct
14 testimony on behalf of Tampa Electric in this proceeding
15 on September 1, 2015?

16
17 **A.** Yes, I am.

18
19 **Q.** What is the purpose of your testimony?

20
21 **A.** The purpose of my testimony is to respond to the
22 positions and recommendation of witnesses Daniel J.
23 Lawton and Tarik Noriega on behalf of the Office of
24 Public Counsel, which I refer to collectively as
25 "intervenor witnesses."

1 Q. How is your rebuttal testimony organized?

2

3 A. I will first discuss witness Lawton's testimony and the
4 risks his recommendation would impose on our customers if
5 implemented. I will then address witness Noriega's
6 testimony, pointing out some errors in the manner in
7 which he has attempted to calculate hedging losses.

8

9 Q. What do the intervenor witnesses recommend?

10

11 A. They recommend the Commission discontinue natural gas
12 hedging activities and that the 2016 Risk Management plan
13 proposed by each investor-owned utility ("Companies") be
14 rejected.

15

16 Q. Do you believe their recommendations are appropriate?

17

18 A. No, I do not. As I stated in my direct testimony filed
19 September 1, 2015 in this proceeding, statements by the
20 Commission in its orders addressing financial hedging and
21 statements made by the Commission's Staff in their
22 hedging audits support the fact that the utilities hedge
23 using systematic and prudent methods, that consumers
24 benefit from the utilities' financial hedging activities,
25 and no changes need to be made to the manner in which

1 electric utilities conduct their financial hedging
2 activities. Those orders and audit results are discussed
3 on pages 24 through 28 of my direct testimony.
4

5 **Q.** Do you believe the Florida utilities' programs for the
6 financial hedging of natural gas prices would be
7 challenged if natural gas prices were rising?
8

9 **A.** No. It is very doubtful we would be seeing criticisms of
10 financial hedging of natural gas prices if those prices
11 were rising. It is only because prices have declined
12 more than the prices built into the utilities' hedging
13 programs that we see opposition to the current hedging
14 model. It is important to put the issue in context. All
15 customers have benefitted from the decline of natural gas
16 prices. The issue raised by intervenor witnesses is that
17 customers haven't also received the difference between
18 the hedged prices and the lower market prices. That is a
19 natural consequence of a financial hedging program. Had
20 prices been rising over time, our hedging programs would
21 have protected customers from having to pay the amount by
22 which higher market prices exceeded the hedged prices.
23

24 **Q.** What would have to happen for customers to receive the
25 added benefit of the difference between the hedge price

1 for natural gas and the lower market price?

2

3 **A.** The Commission would have to eliminate the existing
4 hedging plans, as urged by intervenor witnesses, along
5 with the fuel price volatility mitigation protections
6 they provide, and simply "hope" that natural gas prices
7 continue to decline. This would necessitate reliance
8 upon speculation about the future direction of natural
9 gas market prices - something studiously avoided in the
10 administration of the utilities' Commission supervised
11 hedging programs.

12

13 **Q.** Witness Lawton focuses on the "lost opportunity costs"
14 caused by hedging. For example, on page 7 of his
15 testimony he states:

16 However, when the sole purpose is to
17 mitigate price volatility, there is no
18 built in ability to capture any of the
19 benefits associated with the climbing fuel
20 prices on the hedged portion of natural
21 gas. (Page 7, lines 21-23)

22

23 How do you respond?

24

25 **A.** The stated purpose for approving financial hedging plans

1 is to mitigate natural gas price volatility and the cost
2 recovery factor volatility that goes with it. The point
3 to be made is that one cannot enjoy the price volatility
4 mitigation benefits of hedging, and at the same time enjoy
5 the "lost opportunity costs" that may result from the
6 operation of a non-speculative hedging program.

7
8 **Q.** Witness Lawton concludes that the abundance of shale gas
9 has changed natural gas market dynamics to the extent
10 that financial hedging of natural gas purchases will no
11 longer be needed. How do you respond?

12
13 **A.** Witness Lawton has discounted the history of natural gas
14 pricing. There have been similar periods of natural gas
15 production growth and surplus such as the deepwater Gulf
16 of Mexico in the late 1990s and the promise of an
17 international bounty of liquefied natural gas (LNG) in
18 the early to mid-2000s. In both cases, natural gas
19 prices decreased at first, but, ultimately, demand
20 recovered and exceeded supply to the point that natural
21 gas prices spiked until new supply could restore balance.
22 I cannot say whether or not history will repeat itself
23 with non-conventional shale gas production; however, I
24 cannot be as certain as witness Lawton that the surplus
25 provided by shale gas is here for the foreseeable future.

1 Q. Are there any other key points about future natural gas
2 markets that will affect pricing, which witness Lawton
3 has omitted from his testimony?
4

5 A. Yes, I believe that witness Lawton also failed to give
6 full consideration to the changing electric generation
7 mix in Florida and nationally. This changing generation
8 increases the demand for natural gas as coal-fired and
9 dual-fuel natural gas units with oil backup are replaced
10 with gas-only generation, and the U.S. nuclear fleet ages
11 toward retirement. This increasing reliance on natural
12 gas for electric generation not only puts upward pressure
13 on prices due to demand growth, but it also increases the
14 total cost impact and volatility of prices. Natural gas
15 is a bigger percentage of the electric generation cost,
16 and there is little to no diversity or fuel alternative
17 during periods of high demand or supply constraint.
18

19 Q. Has the Commission previously considered opposition to
20 the Commission approved natural gas financial hedging
21 programs of the investor owned electric utilities?
22

23 A. Yes, I provided an overview of the Commission's reviews
24 of the utility hedging programs over the years, in my
25 2016 projection testimony, filed in this docket on

1 September 1, 2015.

2
3 **Q.** Does a non-speculative risk management hedging program
4 reduce customers' exposure to price volatility?

5
6 **A.** Yes, it does. Using a disciplined, methodical,
7 consistent natural gas financial hedging program ensures
8 that a portion of projected natural gas needs are being
9 hedged frequently, but never all at once. This provides
10 known future pricing that is a blend of future prices
11 acquired over a period of time.

12
13 **Q.** Has Tampa Electric's hedging program accomplished this?

14
15 **A.** Yes. Measured over the history of Tampa Electric's
16 hedging program, the standard deviation of monthly market
17 prices of natural gas has been 43 percent. The standard
18 deviation of monthly hedged prices has been 30 percent.
19 This is a significant "smoothing" of the price of natural
20 gas used for the projection and true-up of the fuel cost
21 recovery factor.

22
23 **Q.** Does a non-speculative risk management hedging program
24 reduce annual fuel cost recovery factor volatility?

1 **A.** Yes. When the price of natural gas is known for a
2 percentage of the projected year's natural gas supply,
3 the likelihood of a mid-course correction and a
4 significant over-recovery or under-recovery is
5 diminished.

6
7 **Q.** Do you agree with witness Lawton that the annual,
8 levelized fuel cost recovery factor with true-up and mid-
9 course correction provide customers with enough price
10 volatility mitigation?

11
12 **A.** No. Hedging provides the benefit of price volatility
13 mitigation to customers. A levelized fuel factor does not
14 mitigate price volatility. The annual fuel factor does
15 provide customers with some smoothing by levelizing the
16 cost recovery factor over a period of 12 months. However,
17 it does not limit the potential for fuel costs to
18 increase or decrease. Customers are still responsible for
19 the full amount of costs, including price increases and
20 decreases over time. Any party may request a mid-course
21 correction if projected fuel costs increase or decrease
22 by more than 10 percent, compared to the original
23 projections, so the fuel factor may be modified more
24 often than annually during times of high price
25 volatility. Furthermore, all fuel costs are subject to a

1 final true-up to reflect actual costs incurred, which can
2 result in a greater change in the factor from period to
3 period, with unmitigated fuel price volatility.

4
5 Hedging fuel purchases is different from implementing a
6 levelized factor because non-speculative hedging can
7 limit the potential for changes in these costs. Once a
8 financial natural gas hedge is placed, the price of that
9 portion of the company's fuel purchases is fixed, and
10 customers are not exposed to the risk of a change in that
11 price or cost. Hedging provides the benefit of price
12 volatility mitigation to customers, while a levelized
13 fuel factor does not provide such protection.

14
15 **Q.** If the utility natural gas financial hedging programs are
16 eliminated by Commission order, as recommended by witness
17 Lawton, how soon would the company be able to stop
18 hedging?

19
20 **A.** The company would be able to cease purchasing any new
21 financial hedge positions for natural gas when it
22 receives the Commission's order. The risk management
23 plans approved by the Commission in previous years
24 provide that Tampa Electric hedges natural gas up to 24
25 months in the future. The company will still have

1 existing hedges that were prudently implemented under
2 previous years' risk management plans, and those costs
3 should be recovered through the fuel clause. For example,
4 if the Commission were to order the utilities to cease
5 hedging effective January 1, 2016, then the hedges
6 entered into during 2014 and 2015, under those years'
7 respective risk management plans, should be included in
8 the company's future fuel cost recovery factors.

9
10 **Q.** Can you address OPC witness Noriega's statement that
11 there is a \$11,866,048 difference between Tampa
12 Electric's reported hedging losses and the losses
13 supplied in Tampa Electric's responses to OPC's
14 discovery?

15
16 **A.** Yes, I can. After we saw the calculated difference, Tampa
17 Electric and OPC conferred in an effort to reconcile the
18 difference. We readily determined that both parties had
19 made good faith efforts to calculate and present Tampa
20 Electric's hedging losses, based on the information
21 available to them. We were also able to reconcile the
22 differences in our respective calculations and conclude
23 that, once reconciled, no differential existed between
24 the losses reported to the Commission and those supplied
25 in response to OPC's discovery requests. In short, Tampa

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Electric and OPC were able to informally resolve all of their differences on this issue.

Q. Does this conclude your testimony?

A. Yes, it does.