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September 30, 2016

VIA: ELECTRONIC FILING

Ms. Carlotta S. Stauffer
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. 160001-EI

Dear Ms. Stauffer:

Attached for filing in the above docket on behalf of Tampa Electric Company is the Prepared 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)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Prepared Rebuttal Testimony of J. Brent Caldwell, filed on behalf of Tampa Electric Company, has been furnished by electronic mail on this 30th day of September 2016, to the following:

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TAMPA ELECTRIC
AN EMERA COMPANY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 160001-EI
FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

REBUTTAL TESTIMONY
OF
J. BRENT CALDWELL

FILED: SEPTEMBER 30, 2016

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED REBUTTAL TESTIMONY**

3 **OF**

4 **J. BRENT CALDWELL**

5
6 **Q.** Please state your name, business address, and position
7 with Tampa Electric Company.

8
9 **A.** My name is J. 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, Fuel Planning and Services.

13
14 **Q.** Are you the same J. Brent Caldwell who has sponsored
15 Direct Testimony in this proceeding?

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

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

20
21 **A.** My rebuttal testimony addresses the substance and
22 recommendations of witnesses Michael A. Gettings and
23 Mark Anthony Cicchetti, testifying on behalf of the
24 Commission's Staff.

25

1 Q. What is your overall impression of the substance of
2 witness Gettings's and Cicchetti's testimonies?

3
4 A. I believe both of their testimonies demonstrate that the
5 appropriate choice for hedging policy is a judgment
6 call. I don't believe that either witness would dispute
7 the fact that mitigating the volatility of natural gas
8 prices and the prices of other fuels is a laudable goal;
9 in fact, witness Gettings's testimony suggests that
10 hedging provides benefits to customers.¹ On the other
11 hand, Tampa Electric is also aware of the concerns
12 raised by many regarding hedging losses.

13
14 Tampa Electric has heard, and shares concerns regarding
15 hedging losses. The company still believes that
16 mitigating price volatility through hedging has merit.
17 In light of concerns raised in recent years by the
18 Office of Public Counsel and the Florida Industrial
19 Power Users Group, the investor-owned utilities offered
20 to make a 25 percent reduction in the level of their
21 financial hedging of natural gas.² With the Commission
22 order approving that reduction having been protested,

¹ For example, Michael A. Gettings testimony, pp. 4-5, submitted on September 23, 2016, in Docket No. 160001-EI; and general consideration of this witness's proposal as submitted in the same document.

² This plan is described in the joint petition of the four investor-owned utilities, submitted on April 22, 2016 in Docket No. 160096-EI.

1 Tampa Electric's risk management plan for 2017 adheres
2 to the hedging model last approved by the Commission,
3 prior to the 25 percent proposed reduction that was
4 protested.

5
6 **Q.** Is Tampa Electric willing to consider modifications to
7 the Commission approved hedging model?

8
9 **A.** Yes, we are. Tampa Electric maintains that the most
10 appropriate change to the Commission approved hedging
11 model at this time is the 25 percent reduction in
12 maximum hedging volumes and the proposed change in
13 hedging duration described in the joint petition of the
14 four investor-owned utilities. The company remains
15 willing to implement prospective reductions in hedging
16 maximum volumes and duration as described in that
17 proposal.

18
19 **Q.** Is Tampa Electric willing to consider additional
20 modifications to the Commission approved hedging model?

21
22 **A.** Yes. Tampa Electric conducts natural gas hedging to
23 mitigate price volatility for the benefit of customers,
24 and the company remains willing to implement changes the
25 Commission determines are in the best interest of

1 customers. During the June 9, 2016 Commission Conference
2 at which the utilities' joint petition was considered,
3 other alternatives were suggested by Commissioners.
4 Tampa Electric is willing to consider those hedging
5 program modifications. If the Commission approves a
6 different set of modifications to the current hedging
7 plan, then Tampa Electric will implement those changes
8 on a prospective basis. In addition, Tampa Electric has
9 reviewed the testimony of the witnesses appearing on
10 behalf of the Commission's Staff, and the company agrees
11 that there are many ways to address the issue of
12 hedging. Again, when all is said and done, it is a
13 judgment call.

14
15 **Q.** What type of hedging program does Tampa Electric
16 currently utilize and what is its purpose?

17
18 **A.** Tampa Electric employs a non-speculative, targeted-
19 volume financial hedging program for natural gas. The
20 program's purpose is to mitigate price volatility for
21 natural gas fuel expenses.

22
23 **Q.** Please describe the advantages of the targeted-volume
24 hedging approach.

25

1 **A.** The advantages of the targeted-volume hedging approach
2 include the following factors: 1) it reduces price
3 volatility; 2) over time it should yield a net zero
4 cost; 3) it is manageable from both a corporate trading
5 standpoint and a regulatory oversight standpoint; 4) it
6 does not attempt to outguess the market and, in fact,
7 does not allow market speculation; 5) it is relatively
8 simple to understand and administer; and 6) it clearly
9 fits within the Commission's guidelines as a non-
10 speculative hedging program.

11
12 **Q.** What is Tampa Electric's assessment of the risk-
13 responsive hedging program proposed by witnesses
14 Gettings and Cicchetti?

15
16 **A.** Tampa Electric is not aware of any regulated utility
17 using witness Gettings's risk-responsive approach to
18 fuel hedging. His proposal represents a significant
19 departure from the currently approved hedging protocol
20 and Tampa Electric is uncertain of its effectiveness.
21 The value of a risk-responsive approach to hedging is
22 likely dependent on various factors, including but not
23 limited to, the selection of the various thresholds and
24 trigger points that apply under such a risk-responsive
25 program.

1 Q. Do you have any concerns about the proposal recommended
2 by the witnesses Gettings and Cicchetti?

3
4 A. Yes, I have three primary concerns regarding the
5 proposal recommended by witnesses Gettings and
6 Cicchetti. They are (1) the lack of specificity in
7 witness Gettings risk-responsive hedging proposal; (2)
8 the 2018 effective date for risk-responsive plans
9 recommended by witness Cicchetti, given the time that
10 such a change requires for analysis and target-setting
11 prior to implementation, and (3) the potential
12 uncertainty regarding appropriate or prudent hedging
13 activities, actions and results.

14
15 Q. Please explain your concerns regarding the lack of
16 specificity in witness Gettings's proposal and the time
17 involved to implement his proposal.

18
19 A. The implementation of a risk-responsive approach to
20 hedging represents a paradigm shift from the current
21 methods of hedging by most regulated utilities in the
22 United States of America. As the witness states, at page
23 8, lines 7 through 9, of his testimony, the regulated
24 investor-owned utility segment "most often deploys
25 targeted-volume hedge accumulation programs like those

1 reflected in the [Florida utility] 2017 RMPs." Based on
2 the limited time the company has had to review and
3 respond to this proposal, this represents a major change
4 from the current methods of hedging. Without clearly
5 defined goals, guidelines and risk measures, witness
6 Gettings's proposal cannot be reliably implemented and
7 its performance cannot be fairly evaluated. In the event
8 this approach is adopted, a considerable period of time
9 will be needed to define and develop new programs to
10 implement this approach.

11
12 **Q.** Please describe your concerns with the time horizon to
13 implement the proposal put forth by witness Gettings, as
14 suggested by witness Cicchetti.

15
16 **A.** As I previously stated, if approved, significant time
17 will be needed to adopt guidelines under which a risk-
18 responsive hedging program can be implemented, measured
19 and evaluated.

20
21 **Q.** Please explain your concerns regarding prudence review.

22
23 **A.** Witness Gettings's risk-responsive hedging strategy may
24 not be appropriate in a regulated environment.
25 Throughout his testimony, he uses terms such as

1 "reasonable response time", "tolerable losses", and
2 "unusually high risk". All of these terms are
3 subjective, which leads to significant concerns
4 regarding appropriate implementation and prudence
5 review. Witness Gettings's expectation seems to be that
6 with a year of reporting numerous financial
7 quantification calculations, each utility will then be
8 expected to "formulate a strategy" that may use all of
9 the same technical measures, but use varying "confidence
10 levels", tolerances, and "interim thresholds".

11
12 The current hedging program reduces price volatility, as
13 it is designed to do. If the desire is for utilities to
14 implement a hedging program with different goals, these
15 new goals must be specified and approved by the
16 Commission. These goals will inform the selection of
17 various technical measures, including tolerance points
18 at which the price may be too high or too low and the
19 risk management protection should be implemented. In the
20 risk-responsive approach witness Gettings recommends,
21 the tolerance levels, confidence levels, holding period,
22 and many other factors are undetermined or undefined.
23 Without clear definitions and revised hedging
24 guidelines, Tampa Electric would be concerned about
25 using the risk-responsive approach.

1 And, even with the time to study, select and define the
2 risk-responsive parameters and memorialize them for
3 guidance with the utilities, it still seems that the
4 implementation of the "risk responsive" strategy would
5 be ripe for charges of speculation or imprudence. The
6 primary objective of the current Commission hedging
7 guidelines and utility hedging programs is to mitigate
8 price volatility while avoiding price speculation. A
9 simple way to mitigate price volatility is to employ
10 fixed price swaps. Placing hedges on a targeted-volume
11 basis throughout the year also avoids speculation. The
12 discretion to determine when to hedge is effectively
13 removed, so that an individual or company cannot attempt
14 to outguess the market. Witness Gettings describes these
15 as programmatic hedges. His testimony supports the use
16 of programmatic, defensive and contingent hedges. If the
17 witness's suggestion to implement the risk-responsive
18 hedging approach and the use of defensive and contingent
19 hedges were adopted, Tampa Electric would have concerns
20 about how the utility's hedge performance would be
21 evaluated. Without clearly defining the appropriate
22 actions, targets, triggers, and so forth, that are
23 applicable under such a hedging plan, the utilities
24 could be criticized based on hindsight. Uncertainty as
25 to how prudence will be determined exposes the company

1 to the risk of disallowances due to assertions of
2 imprudent hedging, and this is a risk the company is
3 loath to assume, as it conducts hedges solely to benefit
4 customers. As noted in the testimony of witness
5 Cicchetti, this concern was considered by the Commission
6 when the 2008 Hedging Guidelines were developed and
7 adopted.³

8
9 **Q.** Are there any other issues you want to address regarding
10 the recommendations from the Commission Staff's
11 witnesses?

12
13 **A.** Yes, there are two other issues I would like to address.
14 First, witness Cicchetti's recommended 2017
15 implementation date for the additional weekly and
16 quarterly reporting requirements recommended by witness
17 Gettings is a concern. Producing these reports would
18 require incremental work and time, and while new
19 reporting metrics can be developed, I believe further
20 discussion is needed to define the metrics. Furthermore,
21 I am not certain that such reporting would provide a
22 benefit prior to the selection of a new hedging program.

23

³ Mark A. Cicchetti testimony, pp. 9-10, submitted on September 23, 2016,
in Docket No. 160001-EI.

1 Second, implementing the risk-responsive approach to
2 hedging could cause the utility to incur incremental
3 personnel and systems costs for the enhanced and
4 continuous monitoring, reporting and quantitative
5 analysis recommended by witness Gettings. In this case,
6 I suggest those incremental hedging costs should be
7 deemed eligible for recovery through the fuel clause
8 until the time of the utility's next base rate case, as
9 was approved when the hedging programs were initially
10 implemented. These costs are not otherwise recovered in
11 rates.

12
13 **Q.** Please summarize your rebuttal testimony.

14
15 **A.** Tampa Electric recommends approval of the utilities'
16 joint petition for a reduction in the volume and
17 duration of natural gas hedges. With regard to the risk-
18 responsive approach recommended by witness Gettings, I
19 am not sure that the approach is appropriate for Florida
20 investor-owned electric utilities and their customers.
21 If the Commission decides to make changes to hedging
22 guidelines, then time is needed to reset the goals and
23 guidelines. If the Commission decides to approve the
24 risk-responsive hedging protocol suggested by witness
25 Gettings, then time is needed to develop detailed

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definitions of terms, measurement tools and appropriate actions. Under this risk-responsive approach, the utilities would also need to be able to refer to a defined set of expectations and guidelines under which this new hedging strategy should be applied and under which prudence would be determined.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.