BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 040001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

FINAL TRUE-UP

JANUARY 2003 THROUGH DECEMBER 2003

TESTIMONY AND EXHIBIT

OF

JOANN T. WEHLE

nlf 4.18.06 (entire DN)

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declas 4-18-06

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

Q. Please state your name, address, occupation and employer.

A. My name is Joann T. Wehle. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of the Wholesale Marketing and Fuels Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor's of Business Administration Degree in Accounting in 1985 from St. Mary's College, South Bend, Indiana. I am a CPA in the State of Florida and worked in several accounting positions prior to joining Tampa Electric. I began my career with Tampa Electric in 1990 as an auditor in the Audit Services Department. I became Senior Contracts Administrator, Fuels in 1995. In 1999, I was promoted to Director, Audit Services and subsequently rejoined the Fuels Department as Director in April 2001. I became Director, Wholesale Marketing and

Fuels in August 2002. I am responsible for managing Tampa Electric's wholesale energy marketing and fuel-related activities.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present, for the Florida Public Service Commission's ("FPSC" or "Commission") review, information regarding the 2003 performance of Tampa Electric's risk management activities, as required by the terms of the stipulation entered into by the parties to Docket No. 011605-EI and approved by the Commission in Order No. PSC-02-1484-FOF-EI. In addition, I will present details regarding the appropriateness for recovery of $108,746 in incremental operations and maintenance (O&M) expenses associated with hedging activities.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. Exhibit No. ___ (JTW-1) was prepared under my direction and supervision. My exhibit shows Tampa Electric's calculation of its 2003 incremental hedging O&M expenses.

Q. What is the source of the data you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the source of the data is books and records of Tampa Electric. The books and records are kept in the regular course of business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. What were the results of Tampa Electric's risk management activities in 2003?

A. As outlined in Tampa Electric's Risk Management Plan filed on September 12, 2003 in Docket No. 030001-EI, the company strives to reduce fuel price volatility while maintaining a reliable supply of fuel. Tampa Electric has established a hedging program to limit exposure to market price fluctuations of natural gas given the company's change in fuel mix. This program was reviewed and approved in March 2003 by the company's Risk Authorizing Committee (RAC). Tampa Electric has followed the program as approved by the RAC.

On April 1, 2004 Tampa Electric filed its annual risk

management report, which describes the outcomes of its 2003 risk management activities. As that report indicates, Tampa Electric's hedging activities during 2003 produced a net savings of $29.5 million for Tampa Electric's customers.

Q. How did Tampa Electric's fuel mix change in 2003?

A. During 2003, Tampa Electric tested and brought on-line the natural gas fired Bayside Unit No. 1. Bayside Unit No. 2 was also tested during the fourth quarter of 2003 and became commercially operational on January 15, 2004. Both Bayside units are highly efficient, natural gas-fired combined cycle units. These units can serve base load, intermediate, and peaking needs depending on particular load and generation needs. These changes increased natural gas-fired generation for the company to twenty-one (21) percent of the total generation in 2003.

Q. Did the test and addition of the Bayside units impact Tampa Electric's hedging activity?

A. Yes. During the test phase, prior to commercial operation, the amount of run time and associated natural gas consumption of these units was uncertain. Even after

Bayside became commercially operational the performance characteristics and interplay of the individual combined cycle units continued to be analyzed and adjusted to maximize operating efficiency. Thus, the volume risk of natural gas hedged during 2003 was higher due to the addition of both Bayside units.

Q. Did the company conduct incremental hedging activities in 2003?

A. Yes, the company conducted several hedging related activities in 2003. These activities helped reduce fuel price risk and improve gas supply reliability. These activities included 1) executing numerous natural gas supply enabling agreements with a variety of counterparties to diversify the portfolio of suppliers for both price competitiveness and reliability of supply, 2) executing numerous electric power and transmission enabling agreements with a variety of counterparties to diversify the portfolio of suppliers for both price competitiveness and reliability of supply, 3) executing International Standardized Derivative Agreements to allow the execution of financial hedging transactions with a number of counterparties, 4) initiated the reorganization of hedging transaction responsibilities into a front,

middle and back office structure consistent with industry standard concepts and 5) began the acquisition and implementation of a hedging information system. Furthermore, the company utilized a variety of financial hedging instruments including swaps, swing swaps, collars and options.

Q. What were the results of the company's incremental hedging activities?

A. The incremental hedging activities enhanced Tampa Electric's hedging processes, procedures, controls and capabilities. As a result, natural gas hedging activities protected Tampa Electric's customers from price volatility on 27% of the natural gas used in the company's plants.

Q. What were the costs associated with these transactions?

A. The net cost of that price protection in 2003 was a $2,758,028 loss when the instrument prices were compared to market prices on settled positions. The transaction costs associated with these transactions were embedded in the commodity price of the natural gas.

Q. Did the company use financial hedges for other commodities in 2003?

A. No, Tampa Electric did not use financial hedges for other commodities because of its fuel mix. Historically, Tampa Electric has primarily relied on coal as a boiler fuel. The price of coal is relatively stable compared to the prices of oil and natural gas, and there are no financial hedging instruments for the types of coal the company uses. The company also did not use financial hedges for oil or wholesale energy transactions. Tampa Electric consumes a small amount of oil, making price hedging somewhat impractical, and the company does not plan to use financial hedges for wholesale energy transactions until a liquid, published market exists in Florida.

Q. Does Tampa Electric use physical hedges?

A. Yes, Tampa Electric uses physical hedges in managing its coal supply. The company enters into a portfolio of differing term contracts with various suppliers to obtain the types of coal used on its system. In addition, some coal supply contracts have embedded volume options that the company uses when spot-market pricing is favorable compared to the contract price. In 2003, these coal

strategies resulted in $32.3 million in savings to Tampa Electric's customers.

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

A. The Commission, in Order No. PSC-02-1484-FOF-EI, authorized the utility to

> . . .charge/credit to the fuel and purchased power cost recovery clause its non-speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas.
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> Order, at page 5, paragraph 3.

Q. Are you requesting recovery of incremental hedging O&M costs?

A. Yes, Tampa Electric requests recovery of $108,746 that the company incurred as incremental O&M expenses. The Commission, in Order No. PSC-02-1484-FOF-EI, authorized the utility to

> . . .recover through the fuel and purchased

> power cost recovery clause prudently-incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers each year until December 31, 2006 or the time of the utility's next rate proceeding, whichever comes first.
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> Order, at page 6, paragraph 4

Tampa Electric's base year expenses, actual 2003 expenses and the resulting incremental expenses are shown in my exhibit (JTW-1). Tampa Electric established its base year expenses according to the portion of the employee's time and related costs for hedging in 2001 and then calculated its 2003 costs in the same manner. The recoverable amount is the increment, as shown in my exhibit (JTW-1).

Q. Does this conclude your testimony?

A. Yes it does.

EXHIBIT NO. ___
DOCKET NO. 040001-EI
TAMPA ELECTRIC COMPANY
(JTW-1)
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Calculation of Incremental Hedging Expenses		
	Actual Expenses	
	2001	2003
Payroll and Fringe Benefits	$ 159,723	$ 256,362
Travel Costs	2,500	210
Training	6,930	-
Consultants / Legal	-	20,682
License Fees / Other	-	$ 645
Total	$ 169,153	$ 277,899

2003 Incremental Hedging Costs **$ 108,746**
(2003 Expenses Less 2001 'Base Year' Expenses)