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COMMISSION  
CLERK

April 1, 2005

HAND DELIVERED

Ms. Blanca S. Bayo, Director  
Division of Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

060001-EI

Re: Fuel and Purchased Power Cost Recovery Clause with Generating  
Performance Incentive Factor; FPSC Docket No. 050001-EI

CONFIDENTIAL DOCUMENT ENCLOSED

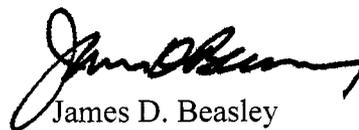
Dear Ms. Bayo:

We submit on behalf of Tampa Electric Company a single confidential version of the Prepared Direct Testimony and Exhibit (JTW-1) of Joann T. Wehle. This filing is being accompanied by a Request for Confidential Classification of the highlighted information being separately filed this date with your office.

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  
Enclosure

cc: All parties of record (w/o enc.)

APR 11-9-06 (entire DN)  
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DOCUMENT NUMBER-DATE

03191 APR-1 05

FPSC-COMMISSION CLERK

CONFIDENTIAL



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY

FINAL TRUE-UP  
JANUARY 2004 THROUGH DECEMBER 2004

TESTIMONY AND EXHIBIT  
OF  
JOANN T. WEHLE

CONFIDENTIAL

**DECLASSIFIED**

DOCUMENT NUMBER-DATE

03191 APR-13

FPSC-COMMISSION CLERK

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **PREPARED DIRECT TESTIMONY**

3                                   **OF**

4                                   **JOANN T. WEHLE**

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

7  
8   **A.**   My name is Joann T. Wehle. My business address is 702 N.  
9           Franklin Street, Tampa, Florida 33602. I am employed by  
10          Tampa Electric Company ("Tampa Electric" or "company") as  
11          Director of the Wholesale Marketing and Fuels Department.

12  
13   **Q.**   Please provide a brief outline of your educational  
14          background and business experience.

15  
16   **A.**   I received a Bachelor's of Business Administration Degree  
17          in Accounting in 1985 from St. Mary's College, South  
18          Bend, Indiana. I am a CPA in the State of Florida and  
19          worked in several accounting positions prior to joining  
20          Tampa Electric. I began my career with Tampa Electric in  
21          1990 as an auditor in the Audit Services Department. I  
22          became Senior Contracts Administrator, Fuels in 1995. In  
23          1999, I was promoted to Director, Audit Services and  
24          subsequently rejoined the Fuels Department as Director in  
25          April 2001. I became Director, Wholesale Marketing and

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

4  
5 Q. Please state the purpose of your testimony.

6  
7 A. The purpose of my testimony is to present, for the  
8 Florida Public Service Commission's ("FPSC" or  
9 "Commission") review, information regarding the 2004  
10 performance of Tampa Electric's risk management  
11 activities, as required by the terms of the stipulation  
12 entered into by the parties to Docket No. 011605-EI and  
13 approved by the Commission in Order No. PSC-02-1484-FOF-  
14 EI. In addition, I will present details regarding the  
15 appropriateness for recovery of \$210,045 in incremental  
16 operations and maintenance ("O&M") expenses associated  
17 with hedging activities.

18  
19 Q. Have you prepared any exhibits in support of your  
20 testimony?

21  
22 A. Yes. Exhibit No. \_\_\_ (JTW-1) was prepared under my  
23 direction and supervision. My exhibit shows Tampa  
24 Electric's calculation of its 2004 incremental hedging  
25 O&M expenses.

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

3

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

10

11 Q. What were the results of Tampa Electric's risk management  
12 activities in 2004?

13

14 A. As outlined in Tampa Electric's annual Risk Management  
15 Plan most recently filed on September 9, 2004 in Docket  
16 No. 040001-EI, the company strives to reduce fuel price  
17 volatility while maintaining a reliable supply of fuel.  
18 In an effort to limit exposure to market price  
19 fluctuations of natural gas Tampa Electric established a  
20 hedging program. The program was updated and approved by  
21 the company's Risk Authorizing Committee ("RAC") in  
22 August 2004. Tampa Electric currently follows the  
23 program as approved by the RAC.

24

25 On April 1, 2005 Tampa Electric filed its annual risk

1 management report, which describes the outcomes of its  
2 2004 risk management activities. As the report  
3 indicates, Tampa Electric's 2004 hedging activities  
4 produced a net savings of \$14.3 million for its  
5 customers.

6  
7 **Q.** How did Tampa Electric's fuel mix change in 2004?

8  
9 **A.** Tampa Electric completed its transition from burning  
10 predominantly coal to utilizing a mix of natural gas and  
11 coal as H. L. Culbreath Bayside ("Bayside") Unit No. 2  
12 became commercially operational on January 15, 2004. As  
13 a result of repowering the coal-fired Gannon Station to  
14 the natural gas-fired Bayside Station, Tampa Electric's  
15 reliance on natural gas for retail generation increased  
16 from three percent in 2002 to 38 percent in 2004.

17  
18 **Q.** Did the addition of Bayside Unit No. 2 impact Tampa  
19 Electric's hedging activity in 2004?

20  
21 **A.** Yes, the addition of Bayside Unit No. 2 increased the  
22 volume of natural gas needed; as a result, Tampa Electric  
23 continued to augment its hedging strategies to mitigate  
24 natural gas price volatility. The enhancements to the  
25 risk management plan are described in the company's risk

1 management report filed on April 1, 2005.

2  
3 Q. Did Tampa Electric implement a hedging information  
4 system?

5  
6 A. Yes, as planned Tampa Electric implemented Sungard's  
7 Nucleus Risk Management System ("Nucleus") and booked the  
8 first month of transactions in April 2004.

9  
10 Q. What capabilities does Nucleus provide?

11  
12 A. Nucleus records all natural gas hedging transactions and  
13 calculates risk management reports common to the  
14 industry. In addition, Nucleus supports sound hedging  
15 practices with its contract management separation of  
16 duties, credit tracking, transaction limits, deal  
17 confirmation, and business report generation functions.  
18 The Nucleus system also records all physical natural gas  
19 transactions. By consolidating physical transactions and  
20 financial natural gas hedging transactions into the  
21 Nucleus system Tampa Electric has improved contract,  
22 credit management and risk exposure analysis.

23  
24 Q. What were the results of the company's incremental  
25 hedging activities in 2004?

1     **A.**    The incremental hedging activities enhanced Tampa  
2     Electric's hedging processes, procedures, controls and  
3     capabilities.     As a result, natural gas hedging  
4     activities protected Tampa Electric's customers from  
5     price volatility on 51 percent of the natural gas used in  
6     the company's plants.     The net result of natural gas  
7     hedging activity in 2004 was a savings of \$8.4 million,  
8     when the instrument prices were compared to market prices  
9     on settled positions.

10  
11    **Q.**    Did the company use financial hedges for other  
12    commodities in 2004?

13  
14    **A.**    No, Tampa Electric did not use financial hedges for other  
15    commodities because of its fuel mix.     Historically, Tampa  
16    Electric has primarily relied on coal as a boiler fuel.  
17    The price of coal is relatively stable compared to the  
18    prices of oil and natural gas.     In addition, there are no  
19    financial hedging instruments for the types of coal the  
20    company uses.     Tampa Electric consumes a small amount of  
21    oil, making price hedging somewhat impractical; therefore  
22    the company did not use financial hedges for oil.     The  
23    company did not use financial hedges for wholesale energy  
24    transactions because a liquid, published market does not  
25    exist in Florida.

1 Q. Does Tampa Electric use physical hedges?

2

3 A. Yes, Tampa Electric uses physical hedges in managing its  
4 coal supply. The company enters into a portfolio of  
5 differing term contracts with various suppliers to obtain  
6 the types of coal used on its system. In addition, some  
7 coal supply contracts contain volume options that the  
8 company uses when spot-market pricing is favorable  
9 compared to the contract price. In 2004, these coal  
10 strategies resulted in \$5.9 million in savings to Tampa  
11 Electric's customers.

12

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

15

16 A. Commission Order No. PSC-02-1484-FOF-EI, in Docket No.  
17 011605 states:

18 "Each investor-owned electric utility shall be  
19 authorized to charge/credit to the fuel and  
20 purchased power cost recovery clause its non-  
21 speculative, prudently-incurred commodity costs  
22 and gains and losses associated with financial  
23 and/or physical hedging transactions for  
24 natural gas, residual oil, and purchased power  
25 contracts tied to the price of natural gas."

1 Therefore, Tampa Electric's request for recovery is in  
2 accordance with the aforementioned Order.

3  
4 Q. Are you requesting recovery of incremental hedging O&M  
5 costs?

6  
7 A. Yes, Tampa Electric requests recovery of \$210,045 that  
8 the company incurred as incremental O&M expenses. The  
9 Commission, in Order No. PSC-02-1484-FOF-EI, states:

10 "Each investor-owned electric utility may  
11 recover through the fuel and purchased power  
12 cost recovery clause prudently-incurred  
13 incremental operating and maintenance expenses  
14 incurred for the purpose of initiating and/or  
15 maintaining a new or expanded non-speculative  
16 financial and/or physical hedging program  
17 designed to mitigate fuel and purchased power  
18 price volatility for its retail customers each  
19 year until December 31, 2006 or the time of the  
20 utility's next rate proceeding, whichever comes  
21 first."

22  
23 Tampa Electric established its base year expenses  
24 according to the portion of the employee's time and  
25 related expenses for hedging in 2001. The 2004 actual

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costs were then calculated using the same methodology.  
Tampa Electric's calculation of the incremental expenses  
as well as base year expenses and 2004 actual expenses  
are shown in my Exhibit No. \_\_\_\_\_ (JTW-1).

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

**A.** Yes it does.

**Calculation of Incremental Hedging Expenses**

	Actual Expenses	
	2001 (a)	2004 (b)
1. Payroll and Fringe Benefits	\$ 159,723	\$ 290,096
2. Travel Costs	2,500	-
3. Training	6,930	-
4. Consultants / Legal	-	28,242
5. License Fees / Other	-	60,860
6. Total	\$ 169,153	\$ 379,198
<b>2004 Incremental Hedging Expenses 6(b) – 6(a)</b>	<b>\$ 210,045</b>	