TECO
TAMPA ELECTRIC

080001-EI

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2007 THROUGH DECEMBER 2007

TESTIMONY AND EXHIBIT

OF

JOANN T. WEHLE

CONFIDENTIAL

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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, Wholesale Marketing & Fuels.

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

A. I received a Bachelor of Business Administration Degree in Accounting in 1985 from St. Mary's College in Notre Dame, 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 discuss Tampa Electric's fuel mix, fuel price forecasts, potential impacts to fuel prices, and the company's fuel procurement strategies. I will address steps Tampa Electric takes to manage fuel supply reliability and price volatility and describe projected hedging activities. I also sponsor Tampa Electric's 2007 risk management plan submitted concurrently in this docket. Finally, I will present the calculation of waterborne transportation costs submitted for recovery.

Q. Have you previously testified before this Commission?

A. Yes. I testified before this Commission in Docket Nos. 030001-EI and 031033-EI, and I filed testimony in the annual fuel and purchased power cost recovery dockets since 2001. My testimony in these dockets described the appropriateness and prudence of Tampa Electric's fuel procurement activities, fuel supply risk management, fuel price volatility hedging activities, and fuel transportation costs.

Q. Have you prepared an exhibit in support of your testimony?

A. Yes. Exhibit JTW-2 describes the calculation of the 2005 waterborne transportation costs disallowance.

2007 Fuel Mix and Procurement Strategies

Q. What fuels will Tampa Electric's generating stations use in 2007?

A. In 2007, Tampa Electric expects its fuel mix to be nearly the same as 2006. In 2007, natural gas-fired and coal-fired generation is expected to be 42 percent and 57 percent of total generation, respectively. The remaining generation comes from No. 2 oil and No. 6 oil.

Q. How does Tampa Electric's natural gas procurement and transportation strategy achieve competitive natural gas purchase prices for long- and short-term deliveries?

A. Tampa Electric uses a portfolio approach to natural gas procurement. The company's portfolio consists of a blend of base load, intermediate and swing supply along with spot purchases. The contracts have various time lengths to help secure needed supply at competitive prices and maintain the ability to take advantage of favorable natural gas price

movements. Tampa Electric trades for physical natural gas supply with approved counterparties, enhancing liquidity and diversification of its natural gas supply portfolio. The natural gas prices are based on monthly and daily price indexes, increasing portfolio diversification.

Tampa Electric improved reliability of the physical delivery of natural gas to its power plants by diversifying its pipeline transportation assets, including receipt points, and utilizing pipeline and storage tools to enhance access to natural gas supply during hurricanes or other events that constrain supply. On a daily basis, Tampa Electric strives to obtain reliable supplies of natural gas at favorable prices in order to minimize costs to its customers. Additionally, Tampa Electric's risk management activities improve the company's natural gas procurement activities by reducing natural gas price volatility.

Q. How has Tampa Electric diversified its natural gas transportation arrangements?

A. As described in my testimony filed on September 9, 2005 in Docket No. 050001-EI, Tampa Electric diversified its transportation assets when it entered into a cost-effective contract for firm natural gas transportation on Gulfstream

Natural Gas Pipeline, LLC ("Gulfstream") that provides firm natural gas transportation directly to Tampa Electric's H. L. Culbreath Bayside Station ("Bayside Station") from Manatee County, via a 28-mile lateral pipeline. Tampa Electric anticipates completion of the lateral pipeline in late 2007 to early 2008. The transportation agreement with Gulfstream adds a second pipeline to Tampa Electric's capacity portfolio and improves the company's ability to meet natural gas hourly and daily demands.

Q. Has Tampa Electric taken any other measures to enhance the reliability of access to natural gas supply?

A. In 2005, Tampa Electric entered into a storage capacity agreement with Bay Gas Storage near Mobile, Alabama. This agreement provided Tampa Electric with 175,000 MMBtu of storage capacity beginning in 2005. The expansion of Bay Gas Storage, expected to be complete during the second quarter of 2007, will increase Tampa Electric's storage capacity to 750,000 MMBtu. In addition to storage, Tampa Electric also diversified its natural gas supply receipt points on Florida Gas Transmission. It "swapped" FGT Zone 3 receipt points with another pipeline customer to acquire their FGT Zone 1 and Zone 2 receipt points. These receipt points reduce the company's vulnerability to hurricane impacts in FGT Zone 3

and provides access to lower priced gas supply.

Q. What is Tampa Electric's coal procurement strategy?

A. Tampa Electric's two coal-fired plants are Big Bend Station and Polk Station. Big Bend Station is a fully scrubbed plant whose design fuel is high-sulfur Illinois Basin coal. Polk Station is an integrated gasification combined cycle plant currently burning a mix of coal, petroleum coke, and lower sulfur coal. The plants have varying operational and environmental restrictions and require fuel with custom quality characteristics such as sulfur content, Btu/lb, ash, fusion temperature and chlorine content. Since coal is not a homogenous product, fuel selection is based on these unique characteristics, price, availability, and creditworthiness of the supplier.

Tampa Electric maintains a portfolio of bilateral, long-, intermediate-, and short-term contracts for coal supply. Tampa Electric monitors the market to obtain the most favorable prices from sources that meet the needs of the generating stations. The use of daily and weekly publications, independent research analyses from industry experts, discussions with suppliers and coal solicitations aid in market monitoring and in shaping the company's coal

procurement strategy to reflect current market conditions. This allows for stable supply sources while providing flexibility to take advantage of favorable spot market opportunities. The company's efforts to obtain the most favorable coal prices directly benefit its customers by displacing higher cost options.

Q. Has Tampa Electric entered into coal and natural gas supply transactions for 2007 and 2008 delivery?

A. Yes, it has. To mitigate price volatility and ensure reliability of supply, Tampa Electric has contracted for a significant portion of its expected coal needs for both years through bilateral agreements with coal suppliers. Nearly two thirds of the company's expected 2007 and 2008 coal requirements are already under contract. Tampa Electric has also entered into contracts for over 40 percent of the company's expected natural gas needs for the winter of 2006 and through 2007.

Q. Has Tampa Electric reasonably managed its fuel procurement practices for the benefit of its retail customers?

A. Yes. Tampa Electric diligently manages its mix of long-, intermediate-, and short-term purchases of fuel in a manner

designed to reduce overall fuel costs while maintaining electric service reliability. The company monitors and adjusts fuel volumes it accepts within contractually allowed maximum and minimum amounts in accordance with the price of fuel available on the spot market, to take advantage of the lowest available prices. The company's fuel activities and transactions are reviewed and audited on a recurring basis by the Commission. In addition, the company monitors its rights under contracts with fuel suppliers to detect and prevent any breach of those rights. Tampa Electric continually strives to improve its knowledge of fuel markets and to take advantage of opportunities to minimize the costs of fuel.

Projected 2007 Fuel Prices

Q. How does Tampa Electric project fuel prices?

A. Tampa Electric reviews fuel price forecasts from sources widely used in the industry, including PIRA Energy Consulting, Hill & Associates, the Energy Information Administration, the New York Mercantile Exchange ("NYMEX") and other energy market information sources. Futures prices for energy commodities, as traded on the NYMEX, blended with current PIRA price forecasts form the basis of the natural gas, No. 6 oil, No. 2 oil and propane price forecasts. The commodity price projections are adjusted to incorporate

expected transportation costs and quality adjustments. These adjustments are specific to the power plants to which the fuel will be delivered and the locations from which it is transported.

Coal prices and coal transportation prices are projected using information from industry-recognized consultants and are specific to the particular quality and mined location of coal utilized by Tampa Electric's Big Bend Station and Polk Unit 1. Final as-burned prices are derived using expected commodity prices, associated transportation costs, inventory effects, and analysis performed on coal inventory.

Q. How do the 2007 projected fuel prices compare to the fuel prices projected for 2006?

A. The entire industry, including Tampa Electric, has experienced rising fuel prices since 2003, and projected fuel prices for 2007 are expected to remain high due to the demand on natural resources. The global economy and the increasing industrialization of countries like China have affected the global balance of natural resources such as natural gas, oil, and coal. Additionally, crude oil prices have soared to well over $70 per barrel, due to factors such as the turmoil in the Middle East, fears of additional hurricane activity near

the U.S. coastline and growth in demand for refined products. Similarly, the transportation costs for commodities have increased as the fuel used in that transportation increased in price.

Q. What are the market drivers of the expected 2007 increase in the price of natural gas?

A. Of the fuels utilized by Tampa Electric, natural gas has experienced the greatest increase in price over the last several years. In addition to price pressures from crude oil, the market drivers include increased demand from natural-gas fired generation, declining natural gas production in North America, delayed liquefied natural gas projects, concerns about the adequacy of natural gas in storage, and concerns about production losses due to tropical storm activity.

Q. What are the market drivers of the increase in the price of coal?

A. Coal prices correlate with the prices of other fuels since coal mining utilizes petroleum products, steel, and lumber in its production processes; therefore, coal prices have increased in conjunction with increases in the prices of

these products and other fuels. Also, increased costs of SO_2 allowances contributed to the higher prices for lower sulfur coals and coal in general. Thus, Tampa Electric expects higher coal prices to continue through 2006. Fortunately, Tampa Electric's use of high sulfur coal from the Illinois Basin in scrubbed units has shielded Tampa Electric from some of the extreme price volatility experienced in low sulfur coal prices.

Q. Did Tampa Electric consider the impact of higher than expected or lower than expected natural gas prices?

A. Yes. Tampa Electric estimates that actual prices in 2007 could be higher or lower than the base forecast by as much as 35 percent. Similarly, oil prices may be 25 percent higher or lower than the projected base case. The causes of this uncertainty include weather, political turmoil, global economics, commodity production, and transportation issues.

Risk Management Activities

Q. Please describe Tampa Electric's risk management activities.

A. Tampa Electric complies with its risk management plan as approved by the company's Risk Authorizing Committee. Tampa Electric's plan is described in detail in the Risk Management

plan filed simultaneously in this docket.

Q. Does Tampa Electric's risk management strategy help to mitigate natural gas price risk?

A. Yes. To help protect customers from price volatility, Tampa Electric may purchase over-the-counter natural gas swaps, options and collars. A swap is a financial derivative that provides a "fixed for floating" position. Tampa Electric, the buyer pays a fixed price for the natural gas, which has a floating value until cash settlement. Swaps allow Tampa Electric to lock in known natural gas prices and avoid upward price volatility. The transaction costs of swaps are embedded in the price of the commodity.

Options give Tampa Electric the right, but not the obligation, to buy (call) or sell (put) natural gas at a predetermined price for a given future month. Tampa Electric pays a premium at the time of the option purchase for this right.

Collars are combinations of call options (caps) and put options (floors) that limit prices within a certain range. An option is the right, but not the obligation, to buy (call) or sell (put) natural gas at a pre-determined price. With a

collar, the company knows that its future prices will remain within the predetermined boundaries established by the call and put options.

Q. Has Tampa Electric used financial hedging to help mitigate the price volatility of its 2006 and 2007 natural gas requirements?

A. Yes. Tampa Electric has hedged a significant portion of its 2006 natural gas supply needs and a portion of its expected 2007 natural gas supply needs. Tampa Electric will continue to take advantage of available natural gas hedging opportunities that benefit its customers, while complying with the company's approved Risk Management Plan. The current market position for natural gas hedges is provided in the Risk Management Plan.

Q. Are the company's strategies adequate for mitigating price risk for Tampa Electric's 2006 and 2007 natural gas purchases?

A. Yes, the company's strategies are adequate for mitigating price risk for Tampa Electric's natural gas purchases. Tampa Electric's strategies balance the desire for reduced price volatility and reasonable cost with the uncertainty of

natural gas volumes. These strategies are described in detail in Tampa Electric's Risk Management Plan.

Q. Have recent increases in the market price of natural gas affected the percentage of Tampa Electric's natural gas requirements that the company has hedged or plans to hedge?

A. No. The volume hedged is driven primarily by expected natural gas consumption levels and the time until that natural gas is needed. Based on those two parameters, the amount hedged is maintained within a prescribed percentage range. Price is not a component of the current plan since the objective is price volatility reduction, not price speculation.

Q. Were Tampa Electric's efforts through August 2006 to mitigate price volatility through its non-speculative hedging program prudent?

A. Yes. Tampa Electric has executed hedges according to the risk management plan filed with this Commission, which was approved by the company's Risk Authorizing Committee.

Coal Transportation Costs

Q. Did Tampa Electric calculate the waterborne transportation

costs submitted for cost recovery in accordance with the Commission's Order No. PSC-04-0999-FOF-EI ("Order No. 04-0999"), issued in Docket No. 031033-EI on October 12, 2004?

A. Yes. The waterborne transportation costs that Tampa Electric is seeking to recover are the adjusted rates per ton for each upriver terminal as well as the adjusted ocean barge transportation rate. The company calculates the adjusted rates as described in Order No. 04-0999. The river rate is adjusted using the following formula:

$$\frac{\text{(Weighted average rate per ton for all upriver terminals - \$1/ton)}}{\text{Weighted average rate per ton for all upriver terminals}} \times \text{Contract rate for specific upriver terminal}$$

The ocean rate is reduced by $2.41 per ton for shipments from the Davant, Louisiana terminal and $4.08 per ton for petroleum coke shipments from Texas, as prescribed by the Commission order.

For 2005, Tampa Electric's adjustment to its total waterborne transportation costs totaled $14,144,718. The variance from the projected $15,315,000 disallowance amount was due to variations in river terminal origins, petroleum coke purchases, and total tons shipped, compared to projections. The total 2005 adjustment recorded in Tampa Electric's final

true-up filing, submitted in this docket on March 1, 2006, was calculated using the actual tons of coal and petroleum coke shipped in 2005 and the methodology required by Order No. 04-9999. These calculations are shown in Exhibit JTW-2, Document No. 1. Therefore, Tampa Electric's 2005 adjusted coal transportation costs are appropriate for recovery through the Fuel and Purchased Power Cost Recovery Clause.

Likewise, the expected 2006 and 2007 waterborne transportation costs have been adjusted using this same methodology according to Order No. 04-0999 and will be revised to reflect the actual tons shipped and associated calculated disallowances as part of the normal true-up process. Accordingly, it is also appropriate for Tampa Electric to recover its allowable 2006 and 2007 projected transportation expenses included in the fuel clause for coal transportation.

Q. Does this conclude your testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 060001-EI
FILED: 9/1/06

EXHIBIT TO THE TESTIMONY OF

JOANN T. WEHLE

2005 WATERBORNE TRANSPORTATION COST ADJUSTMENT

CONFIDENTIAL

DECLASSIFIED

Docket No. 060001-EI
FAC 2007 Projected Filing
Exhibit JTW-2, Page 1 of 1
Document No. 1

CONFIDENTIAL January - December 2005	(A) Contract $/Ton [1] [3]	(B) Adjusted $/Ton [2]	(C) Disallowance $/Ton	(D) Total Tons	(A*D) Contract Total	(B*D) Adjusted Total	(C*D) Disallowed Total
Inland River Docks							
Pet Coke Refinery (M.P. 140)	$ 2.53	$ 2.19	$ 0.34	280,587.97	$ 709,888	$ 614,488	$ 95,400
Chester Dock	$ 8.43	$ 7.28	$ 1.15	205,666.02	1,733,765	1,497,249	236,516
Overland/Camp	$ 6.97	$ 6.02	$ 0.95	23,761.00	165,614	143,041	22,573
Hamilton	$ 6.90	$ 5.96	$ 0.94		-	-	-
Empire Dock	$ 6.65	$ 5.75	$ 0.90		-	-	-
Cora, Non-Zeigler	$ 7.12	$ 6.15	$ 0.97		-	-	-
Yankeetown	$ 7.34	$ 6.34	$ 1.00		-	-	-
Mount Vernon	$ 7.04	$ 6.08	$ 0.96	404,909.60	2,850,564	2,461,850	388,713
Cook	$ 5.98	$ 5.17	$ 0.81	381,491.85	2,281,321	1,972,313	309,008
Henderson River Port	$ 9.14	$ 7.90	$ 1.24	16,710.90	152,738	132,016	20,722
Rigsby & Barnard (Arclar)	$ 6.69	$ 5.78	$ 0.91		-	-	-
Patriot	$ 8.24	$ 7.12	$ 1.12	217,542.99	1,792,554	1,548,906	243,648
Owensboro	$ 7.45	$ 6.44	$ 1.01		-	-	-
New Hope	$ 7.53	$ 6.51	$ 1.02		-	-	-
Dekoven	$ 6.75	$ 5.83	$ 0.92	479,551.40	3,236,972	2,795,785	441,187
Jefferson	$ 8.13	$ 7.02	$ 1.11		-	-	-
Powhatan	$ 10.65	$ 9.20	$ 1.45	77,682.19	827,315	714,676	112,639
Caseyville	$ 6.74	$ 5.82	$ 0.92	69,297.50	467,065	403,311	63,754
S. Indiana/Evansville	$ 7.21	$ 6.23	$ 0.98	142,636.28	1,028,408	888,624	139,784
Pyramid	$ 8.95	$ 7.73	$ 1.22		-	-	-
Ken Mine	$ 8.99	$ 7.77	$ 1.22	8,747.00	78,636	67,964	10,671
GRT	$ 7.16	$ 6.19	$ 0.97	33,152.00	237,368	205,211	32,157
Kentucky Lakes Dock	$ 7.16	$ 6.19	$ 0.97		-	-	-
Transcontinental (TTI)	$ 9.20	$ 7.95	$ 1.25		-	-	-
Sebree	$ 8.37	$ 7.23	$ 1.14	162,110.80	1,356,867	1,172,061	184,806
Green 11	$ 8.01	$ 6.92	$ 1.09		-	-	-
Shawneetown	$ 6.81	$ 5.88	$ 0.93	1,313,142.41	8,942,500	7,721,277	1,221,222
Total River				**3,816,990**	**$ 25,861,574**	**$ 22,338,773**	**$ 3,522,801**
Ocean							
Coal	$ 7.98	$ 5.57	$ 2.41	4,307,553.00	34,374,273	23,993,070	10,381,203
Petcoke from Texas	$ 10.88	$ 6.80	$ 4.08	66,084.00	718,994	449,371	269,623
Total Ocean				**4,373,637**	**$ 35,093,267**	**$ 24,442,441**	**$ 10,650,825**
						Total[4]	**$ 14,144,718**

1 Contract rate per contract signed with TECO Transport.

2 Adjusted rate based on methodology set forth in Order No. PSC-04-0999-FOF-EI, which takes the weighted average rate for all upriver terminals minus $1 and divides it by the weighted average rate of all upriver terminals multiplied by the contract rate for that specific upriver terminal. Ocean rate based on the aforementioned Order.

3 Contract rate subject to quarterly escalation provisions in the contract. Therefore, ratio between total contract amount and adjustment will change moving forward.

4 Includes adjustment of $28,908 for river tons not received.