

ORIGINAL

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April 1, 2004

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

RECEIVED-FPSC
APR - 1 PM 4:07
COMMISSION
CLERK

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance
Incentive Factor; FPSC Docket No. 040001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Tampa Electric Company are the
original and ten (10) copies of each of the following:

- 1. Prepared Direct Testimony and Exhibit (WAS-1) of William A. Smotherman
regarding Generating Performance Incentive Factor True-Up for the period
January 2003 through December 2003.
2. Prepared Direct Testimony and Exhibit (JTW-1) of Joann T. Wehle regarding
Tampa Electric Company's risk management and hedging activities for the period
January 2003 through December 2003.

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.

RECEIVED & FILED

Sincerely,

FPSC-BUREAU OF RECORDS

James D. Beasley

AUS 1
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cc: All Parties of Record (w/encls.)

Handwritten stamp: Wehle, DOCUMENT NUMBER-DATE 04200 APR-1-04, FPSC-COMMISSION CLERK

Smotherman
DOCUMENT NUMBER-DATE

04199 APR-1 03

FPSC-COMMISSION CLERK

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing testimony and exhibits, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (\*) on this 1<sup>st</sup> day of April 2004 to the following:

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\_\_\_\_\_  
ATTORNEY



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

DOCUMENT NUMBER-DATE  
04200 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 2003  
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 \$108,746 in incremental  
16 operations and maintenance (O&M) expenses associated with  
17 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 2003 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 2003?

13  
14 A. As outlined in Tampa Electric's Risk Management Plan  
15 filed on September 12, 2003 in Docket No. 030001-EI, the  
16 company strives to reduce fuel price volatility while  
17 maintaining a reliable supply of fuel. Tampa Electric  
18 has established a hedging program to limit exposure to  
19 market price fluctuations of natural gas given the  
20 company's change in fuel mix. This program was reviewed  
21 and approved in March 2003 by the company's Risk  
22 Authorizing Committee (RAC). Tampa Electric has followed  
23 the program as approved by the RAC.

24

25 On April 1, 2004 Tampa Electric filed its annual risk

1 management report, which describes the outcomes of its  
2 2003 risk management activities. As that report  
3 indicates, Tampa Electric's hedging activities during  
4 2003 produced a net savings of \$29.5 million for Tampa  
5 Electric's customers.

6  
7 **Q.** How did Tampa Electric's fuel mix change in 2003?

8  
9 **A.** During 2003, Tampa Electric tested and brought on-line  
10 the natural gas fired Bayside Unit No. 1. Bayside Unit  
11 No. 2 was also tested during the fourth quarter of 2003  
12 and became commercially operational on January 15, 2004.  
13 Both Bayside units are highly efficient, natural gas-  
14 fired combined cycle units. These units can serve base  
15 load, intermediate, and peaking needs depending on  
16 particular load and generation needs. These changes  
17 increased natural gas-fired generation for the company to  
18 twenty-one (21) percent of the total generation in 2003.

19  
20 **Q.** Did the test and addition of the Bayside units impact  
21 Tampa Electric's hedging activity?

22  
23 **A.** Yes. During the test phase, prior to commercial  
24 operation, the amount of run time and associated natural  
25 gas consumption of these units was uncertain. Even after

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

7  
8 **Q.** Did the company conduct incremental hedging activities in  
9 2003?

10  
11 **A.** Yes, the company conducted several hedging related  
12 activities in 2003. These activities helped reduce fuel  
13 price risk and improve gas supply reliability. These  
14 activities included 1) executing numerous natural gas  
15 supply enabling agreements with a variety of  
16 counterparties to diversify the portfolio of suppliers  
17 for both price competitiveness and reliability of supply,  
18 2) executing numerous electric power and transmission  
19 enabling agreements with a variety of counterparties to  
20 diversify the portfolio of suppliers for both price  
21 competitiveness and reliability of supply, 3) executing  
22 International Standardized Derivative Agreements to allow  
23 the execution of financial hedging transactions with a  
24 number of counterparties, 4) initiated the reorganization  
25 of hedging transaction responsibilities into a front,



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

7  
8 **Q.** What were the results of the company's incremental  
9 hedging activities?

10  
11 **A.** The incremental hedging activities enhanced Tampa  
12 Electric's hedging processes, procedures, controls and  
13 capabilities. As a result, natural gas hedging  
14 activities protected Tampa Electric's customers from  
15 price volatility on [REDACTED] of the natural gas used in the  
16 company's plants.

17  
18 **Q.** What were the costs associated with these transactions?

19  
20 **A.** The net cost of that price protection in 2003 was a  
21 [REDACTED] when the instrument prices were compared  
22 to market prices on settled positions. The transaction  
23 costs associated with these transactions were embedded in  
24 the commodity price of the natural gas.

25

- 1 Q. Did the company use financial hedges for other  
2 commodities in 2003?  
3
- 4 A. No, Tampa Electric did not use financial hedges for other  
5 commodities because of its fuel mix. Historically, Tampa  
6 Electric has primarily relied on coal as a boiler fuel.  
7 The price of coal is relatively stable compared to the  
8 prices of oil and natural gas, and there are no financial  
9 hedging instruments for the types of coal the company  
10 uses. The company also did not use financial hedges for  
11 oil or wholesale energy transactions. Tampa Electric  
12 consumes a small amount of oil, making price hedging  
13 somewhat impractical, and the company does not plan to  
14 use financial hedges for wholesale energy transactions  
15 until a liquid, published market exists in Florida.  
16
- 17 Q. Does Tampa Electric use physical hedges?  
18
- 19 A. Yes, Tampa Electric uses physical hedges in managing its  
20 coal supply. The company enters into a portfolio of  
21 differing term contracts with various suppliers to obtain  
22 the types of coal used on its system. In addition, some  
23 coal supply contracts have embedded volume options that  
24 the company uses when spot-market pricing is favorable  
25 compared to the contract price. In 2003, these coal

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strategies resulted in [REDACTED] 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.  
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

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

11 Order, at page 6, paragraph 4  
12

13 Tampa Electric's base year expenses, actual 2003 expenses  
14 and the resulting incremental expenses are shown in my  
15 exhibit (JTW-1). Tampa Electric established its base year  
16 expenses according to the portion of the employee's time  
17 and related costs for hedging in 2001 and then calculated  
18 its 2003 costs in the same manner. The recoverable  
19 amount is the increment, as shown in my exhibit (JTW-1).  
20

21 **Q.** Does this conclude your testimony?  
22

23 **A.** Yes it does.  
24  
25

<b>Calculation of Incremental Hedging Expenses</b>		
	<b>Actual Expenses</b>	
	<b>2001</b>	<b>2003</b>
Payroll and Fringe Benefits	\$ 159,723	\$ 256,362
Travel Costs	2,500	210
Training	6,930	-
Consultants / Legal	-	20,682
License Fees / Other	-	\$ 645
<b>Total</b>	<b>\$ 169,153</b>	<b>\$ 277,899</b>
<b>2003 Incremental Hedging Costs</b>	<b>\$ 108,746</b>	
<b>(2003 Expenses Less 2001 'Base Year' Expenses)</b>		