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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

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

Dear Ms. Bayo:

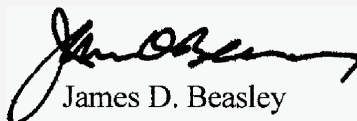
Enclosed for filing in the above docket on behalf of Tampa Electric Company are the original and ten (10) copies of each of the following:

1. Prepared Direct Testimony and Exhibit (DRK-1) of David R. Knapp regarding Generating Performance Incentive Factor True-Up for the period January 2004 through December 2004.
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 2004 through December 2004.

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
Enclosures

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

Wehle
DOCUMENT NUMBER-DATE
03192 APR-1 05
FPSC-COMMISSION CLERK

Knapp
DOCUMENT NUMBER-DATE
03193 APR-1 05
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 13 day of April 2005 to the following:

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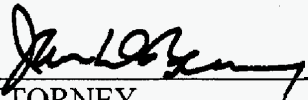
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ATTORNEY



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

REDACTED VERSION

DOCUMENT NUMBER - DATE

03192 APR-18

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

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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

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.

What is the source of the data you will present by way 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
2004 **risk** management **activities**. **As** the report
indicates, Tampa Electric's 2004 hedging activities
produced a net **savings** of \$14.3 million for its
customers.

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.

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 [REDACTED] 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
2004 Incremental Hedging Expenses 6(b) – 6(a)	\$ 210,045	