



**REDACTED**

**BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 080001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY**

**REDACTED**

**FINAL TRUE-UP  
JANUARY 2007 THROUGH DECEMBER 2007**

**TESTIMONY  
OF  
JOANN T. WEHLE**

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FPSC-COMMISSION CLERK

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2                               PREPARED DIRECT TESTIMONY

3                                               OF

4                               JOANN T. WEHLE

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

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

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

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

1           Audit Services and subsequently rejoined the Fuels  
2           Department as Director in April 2001. I became  
3           Director, Wholesale Marketing and Fuels in August 2002.  
4           I am responsible for managing Tampa Electric's wholesale  
5           energy marketing and fuel-related activities.

6  
7           **Q.** Please state the purpose of your testimony.

8  
9           **A.** The purpose of my testimony is to present, for the  
10          Florida Public Service Commission's ("FPSC" or  
11          "Commission") review, information regarding the 2007  
12          results of Tampa Electric's risk management activities,  
13          as required by the terms of the stipulation entered into  
14          by the parties to Docket No. 011605-EI and approved by  
15          the Commission in Order No. PSC-02-1484-FOF-EI.

16  
17          **Q.** What is the source of the data you present in your  
18          testimony in this proceeding?

19  
20          **A.** Unless otherwise indicated, the source of the data is  
21          the books and records of Tampa Electric. The books and  
22          records are kept in the regular course of business in  
23          accordance with generally accepted accounting principles  
24          and practices, and provisions of the Uniform System of  
25          Accounts as prescribed by this Commission.

1 Q. What were the results of Tampa Electric's risk  
2 management activities in 2007?

3

4 A. As outlined in Tampa Electric's annual Risk Management  
5 Plan, most recently filed on September 4, 2007 in Docket  
6 No. 070001-EI, the company follows a non-speculative  
7 risk management strategy to reduce fuel price volatility  
8 while maintaining a reliable supply of fuel. In an  
9 effort to limit exposure to market price fluctuations of  
10 natural gas, Tampa Electric established a hedging  
11 program. Over time, the program has been enhanced as  
12 Tampa Electric's gas needs have evolved and grown. All  
13 enhancements have been reviewed and approved by the  
14 company's Risk Authorization Committee.

15

16 On April 3, 2008, Tampa Electric filed its annual risk  
17 management report, which describes the outcomes of its  
18 2007 risk management activities. The report indicates  
19 that Tampa Electric's 2007 hedging activities resulted  
20 in a net loss of \$60 million. Tampa Electric followed  
21 the plan objective of reducing price volatility while  
22 maintaining a reliable fuel supply. For 2007, natural  
23 gas monthly market prices settled below the forward  
24 prices that existed at the time of the hedge  
25 transaction. The decrease in value of the hedge was a

1 reflection of the balance of supply and demand as a  
2 result of uninterrupted gas production during the  
3 summers of 2006 and 2007 as well as the mild winter of  
4 2006/2007.

5  
6 **Q.** Did Tampa Electric enhance its physical hedging  
7 activities for natural gas?

8  
9 **A.** Yes, Tampa Electric continues to enhance its physical  
10 gas supply reliability. During 2007, Tampa Electric  
11 contracted for access to natural gas supplies via the  
12 Southeast Supply Header and Gulf South. This will move  
13 about 65,000 MMBtu per day of gas supply inland, away  
14 from the Gulf Coast providing increased supply  
15 reliability during Gulf storms. While contracted in  
16 2007, the access becomes effective in the summer of  
17 2008.

18  
19 **Q.** Does Tampa Electric use a hedging information system?

20  
21 **A.** Yes, Tampa Electric continues to use Sungard's Nucleus  
22 Risk Management System ("Nucleus"). Nucleus supports  
23 sound hedging practices with its contract management,  
24 separation of duties, credit tracking, transaction  
25 limits, deal confirmation, and business report

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1 generation functions. The Nucleus system records all  
2 financial natural gas hedging transactions, and the  
3 system calculates risk management reports. Nucleus is  
4 also used for contract, credit management and risk  
5 exposure analysis.

6  
7 **Q.** What were the results of the company's incremental  
8 hedging activities in 2007?

9  
10 **A.** Tampa Electric's incremental natural gas hedging  
11 activities protected customers from price volatility for  
12 [REDACTED] of the natural gas used in the company's  
13 generating stations. The net result of natural gas  
14 hedging activity in 2007 was a loss of \$60 million, when  
15 the instrument prices were compared to market prices on  
16 settled positions.

17  
18 **Q.** Did the company use financial hedges for other  
19 commodities in 2007?

20  
21 **A.** No, Tampa Electric did not use financial hedges for  
22 other commodities primarily because of its fuel mix.

23  
24 Tampa Electric's generation is comprised mostly of coal  
25 and natural gas. Though the price of coal has

1 increased, it is relatively stable compared to the  
2 prices of oil and natural gas. In addition, financial  
3 hedging instruments for the primary coal Tampa Electric  
4 burns, high sulfur Illinois Basin coal, do not exist.

5  
6 Tampa Electric consumes a small amount of oil. However,  
7 its low and erratic usage pattern makes price hedging of  
8 oil consumption impractical; therefore, the company did  
9 not use financial hedges for oil.

10  
11 The company did not use financial hedges for wholesale  
12 energy transactions because a liquid, published market  
13 does not exist in Florida.

14  
15 **Q.** Did Tampa Electric use physical hedges for other  
16 commodities?

17  
18 **A.** Yes, Tampa Electric used physical hedges in managing its  
19 coal supply reliability. The company enters into a  
20 portfolio of differing term contracts with various  
21 suppliers to obtain the types of coal used on its  
22 system. In previous years, Tampa Electric has been able  
23 to take advantage of contractual volume flexibility to  
24 seek out favorable spot market pricing. Those  
25 agreements have expired, and volume flexibility was not

1 available for the replacement contracts.

2

3 Tampa Electric fills its oil tanks prior to entering  
4 hurricane season to reduce exposure to supply or price  
5 issues that may arise during hurricane season.

6

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

9

10 **A.** Commission Order No. PSC-02-1484-FOF-EI, in Docket No.  
11 011605-EI states:

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

20

21 Therefore, Tampa Electric's request for recovery is in  
22 accordance with the aforementioned order.

23

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

25



1 A. Yes, it does.

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