



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION  
DOCKET NO. 010001-EI  
IN RE: FUEL & PURCHASED POWER COST RECOVERY  
AND  
CAPACITY COST RECOVERY  
PROJECTIONS  
JANUARY 2002 THROUGH DECEMBER 2002  
TESTIMONY AND EXHIBIT  
OF  
JOANN T. WEHLE

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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 mailing address is P.O.  
9           Box 111, Tampa, Florida 33601, and my business address is  
10          6944 U.S. Highway 41 North, Apollo Beach, Florida 33572.  
11          I am employed by Tampa Electric Company ("Tampa Electric"  
12          or "company") as Director, Fuels in the Fuels Department.

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

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

1 April 2001. I am responsible for managing Tampa  
2 Electric's fuel-related activities including planning,  
3 procurement, inventory, usage and combustion by-product  
4 management.

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

7  
8 A. The purpose of my testimony is to report to the Florida  
9 Public Service Commission ("Commission") the 2000 actual  
10 costs of Tampa Electric's affiliated coal transportation  
11 transactions compared to the benchmark prices calculated  
12 in accordance with Order No. 20298. As shown by that  
13 comparison, the 2000 prices paid by Tampa Electric to its  
14 affiliated company, TECO Transport, are reasonable and  
15 prudent. I will also address a change regarding Tampa  
16 Electric's fuel needs for 2002 and beyond. In addition,  
17 I will address steps Tampa Electric has taken to manage  
18 fuel price and supply volatility. This will include the  
19 company's perspective regarding the appropriateness of  
20 encouraging utilities to enter into exchange-traded  
21 derivative instruments to manage risk associated with  
22 fuel transactions.

23  
24 **Benchmark Prices For Affiliated Coal Transportation**

25 Q. Have you prepared any exhibits pertaining to the

1 transportation benchmark?

2

3 A. Yes. Exhibit No. \_\_\_ (JTW-1) was prepared under my  
4 direction and supervision.

5

6 Q. Were Tampa Electric's actual affiliated coal  
7 transportation prices for 2000 at or below the  
8 transportation benchmark?

9

10 A. Yes, as shown in my exhibit, the affiliated coal  
11 transportation prices for 2000 were at or below the  
12 transportation benchmark. Accordingly, it is appropriate  
13 for Tampa Electric to recover its payments included in  
14 the Fuel and Purchased Power Cost Recovery Clause for  
15 2000 coal transportation. The average price for the year  
16 were at or below the appropriate benchmark calculations  
17 as directed by Order No. 20298 of this Commission.

18

19 **2002 Fuel Mix Change**

20 Q. Do you anticipate any changes to Tampa Electric's fuel  
21 mix in 2002?

22

23 A. Although not significantly in 2002, the company will  
24 begin its transition of adding natural gas to its  
25 portfolio. Tampa Electric Company has entered into a

1 firm gas transportation service agreement with Florida  
2 Gas Transmission Company for expected needs for its new  
3 Polk Unit 3, a new combustion turbine scheduled for in-  
4 service by May 2002, as well as the Bayside facility.  
5 The agreement commences on May 1, 2002 and provides for  
6 service at 50,000 MMBtu per day. No other gas commodity  
7 contracts have been entered into other than this  
8 transportation services agreement at this time.  
9

#### 10 Risk Management Practices

11 Q. Has Tampa Electric taken reasonable steps to manage the  
12 risks associated with its fuel transactions through the  
13 use of physical financial hedging practices?  
14

15 A. Yes, Tampa Electric has taken reasonable steps to manage  
16 risks associated with fuel transactions. Because coal  
17 accounts for over 95 percent of Tampa Electric's fuel  
18 mix, the company has entered into physical, bilateral  
19 coal purchase contracts that vary in duration and allow  
20 for variable delivery quantities to manage price and  
21 physical supply volatility. The company has not taken  
22 offsetting financial positions to hedge its fuel  
23 purchases, because the company has an expected need for  
24 its entire fuel supply. Therefore, Tampa Electric has  
25 tried to maintain a mix of 60 percent long- and medium-

1 term and 40 percent short-term or spot coal contracts to  
2 reduce the overall exposure to price volatility in the  
3 spot market while leaving some tonnage available for spot  
4 market pricing. By continually striving for an optimal  
5 blend of fuel supply contracts, the company has been able  
6 to mitigate price volatility, while maintaining an  
7 adequate fuel supply to ensure system reliability.

8  
9 **Q.** Should the Commission encourage each investor-owned  
10 electric utility to enter exchange-traded derivative  
11 instruments to manage the risks associated with its fuel  
12 transactions?

13  
14 **A.** It would be appropriate for the Commission to encourage  
15 utilities to investigate how exchange-traded derivative  
16 instruments can be used in connection with utility's  
17 current fuel activities. These instruments may not be  
18 available to all utilities given their fuel mix and  
19 operating characteristics. Both the Commission and each  
20 utility need to fully understand and assess the risks and  
21 rewards associated with these instruments.

22  
23 **Q.** As the Commission continues to examine hedging practices,  
24 what considerations should it take into account?

25

1    **A.**    Although it is certainly appropriate for the Commission  
2           to explore hedging practices, it should be noted that  
3           hedging in and of itself is not a panacea for managing  
4           fuel pricing and supply volatility.  It is simply another  
5           tool that may be considered by utilities.  It is also  
6           important to consider that each utility has its own  
7           specific fuel needs and not all hedging activities will  
8           be available to each utility.  For example, as I stated  
9           earlier, Tampa Electric's current fuel mix currently is  
10          over 95 percent coal, a commodity that is neither  
11          homogenous nor is it actively traded on an exchange.  
12          Likewise, there is a cost associated with conducting  
13          these transactions.  Therefore in the long-term, the  
14          overall price of fuel will be greater because of the  
15          additional costs to further mitigate or insulate  
16          customers from price volatility.

17

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

19

20    **A.**    Yes it does.

21

22

23

24

25

**2000 TRANSPORTATION BENCHMARK CALCULATION**

|   |                          |          |
|---|--------------------------|----------|
| Average Rail Mileage to Tampa                                 | 1,218.00 Miles           | (Note 1) |
| x Average of Lowest Two Publicly Available Florida Rail Rates | 2.01 ¢/ton mile<br>24.48 | (Note 2) |
| + Costs of Privately Owned Rail Cars                          | 1.75                     | (Note 3) |
| Transportation Benchmark for the Year Ended 12/31/00          | 26.23                    | (Note 4) |

**Notes**

- 1/ Weighted average domestic rail miles from all Tampa Electric waterborne coal supplies to plants. Rail miles for imported coal sources are measured from port of entry.
- 2/ Cents per ton-mile for publicly available Florida utility rail coal transportation rates including discounts for volume and private rail cars. The current publicly available rail rates to Florida utilities on a cents per ton-mile basis for 2000 are as follows:

|             |   |       |
|-------------|---|-------|
| JEA         | ¢ | 2.30  |
| Orlando     | ¢ | 2.48  |
| Lakeland    | ¢ | 1.95* |
| Gainesville | ¢ | 2.07* |

\* Average of Lowest Two ¢ 2.01

- 3/ The cost of private rail cars was approved in the original stipulation as \$2.00 per ton. Subsequent negotiation between Tampa Electric and Public Service Commission Staff resulted in an agreed upon estimated cost of \$1.75 per ton.
- 4/ Calculated by multiplying average domestic rail mileage to Tampa by Florida rail coal market costs (cents per ton-mile), then adding the costs of privately-owned rail cars.



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2000 TRANSPORTATION MARKET PRICE APPLICATION

|  |                  |
|--|------------------|
| Tampa Electric Weighted Average per ton<br>Water Transportation Price from All<br>Tampa Electric Coal Sources<br>(██████████ divided by 6,187,276.74)..... | ██████████       |
| Transportation Benchmark .....   | \$ 26.23         |
| Over/(Under) Benchmark.....  | ██████████       |
| Total Tons Transported in 2000.....  | 6,187,276.74     |
| Total Transportation Cost in 2000.....   | ██████████       |
| Total Amount Allowable for Recovery<br>Using Benchmark<br>(\$26.23 x 6,187,276.74).....  | \$162,292,268.80 |
| Total Cost Over/(Under) Benchmark – 2000 .....   | ██████████       |
| Prior Year's Cumulative Benefit (1988 – 1999).....   | ██████████       |
| Net Benefit for 1988 – 2000 .....  | ██████████       |