



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 020001-EI
IN RE: FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

PROJECTIONS
JANUARY 2003 THROUGH DECEMBER 2003

TESTIMONY AND EXHIBIT
OF
JOANN T. WEHLE
REDACTED VERSION

DOCUMENT NUMBER DATE

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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 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 report to the Florida
8 Public Service Commission ("Commission") the 2001 actual
9 costs of Tampa Electric's affiliated coal transportation
10 transactions compared to the benchmark prices calculated
11 in accordance with Order No. 20298. As shown by that
12 comparison, the 2001 prices paid by Tampa Electric to its
13 affiliated company, TECO Transport, are reasonable and
14 prudent. I will also address a change regarding Tampa
15 Electric's fuel needs for 2003 and beyond. In addition,
16 I will address steps Tampa Electric has taken to manage
17 fuel price and supply volatility and describe projected
18 hedging activities and incremental operations and
19 maintenance (O&M) costs for hedging activities. Finally,
20 I will describe the company's natural gas forecast
21 methodology.

22
23 **Benchmark Prices For Affiliated Coal Transportation**

24 Q. Have you prepared any exhibits pertaining to the
25 transportation benchmark?

1 A. Yes. Exhibit No. ____ (JTW-1) was prepared under my
2 direction and supervision.

3
4 Q. Were Tampa Electric's actual affiliated coal
5 transportation prices for 2001 at or below the
6 transportation benchmark?

7
8 A. Yes, as shown in my exhibit, the affiliated coal
9 transportation prices for 2001 were at or below the
10 transportation benchmark. The average price for the year
11 was at or below the appropriate benchmark calculations as
12 directed by Order No. 20298 of this Commission.
13 Accordingly, it is appropriate for Tampa Electric to
14 recover its payments included in the Fuel and Purchased
15 Power Cost Recovery Clause for 2001 coal transportation.

16
17 **2003 Fuel Mix Change**

18 Q. Do you anticipate any changes to Tampa Electric's fuel
19 mix in 2003?

20
21 A. As a result of the Gannon Station repowering, the company
22 will use greater amounts of natural gas and fewer tons of
23 coal. In 2002, the actual/estimated natural gas use
24 represents 3%, and in 2003, it is projected to be 13% of
25 total fuel (mmBtu) used. The first repowered unit will

1 begin commercial operation in May 2003. Tampa Electric
2 is developing strategies regarding the timing and volume
3 of its natural gas purchases to prudently test the unit
4 prior to commercial operation and to manage the operation
5 once it is in service.
6

7 **Q.** Has Tampa Electric entered into fuel supply transactions
8 for 2002 and 2003 delivery?
9

10 **A.** Yes, Tampa Electric has entered into transactions for
11 fuel deliveries in 2002 and 2003. The company has
12 purchased all of its expected coal needs for both years
13 through bilateral agreements with coal suppliers.
14 Therefore, the prices of the coal commodity portion of
15 the Company's fuel mix have been established.
16

17 **Q.** Has Tampa Electric entered into financial hedging
18 transactions in 2002 for natural gas?
19

20 **A.** Yes. To protect ratepayers from price risk, Tampa
21 Electric purchased over-the-counter natural gas swaps for
22 the peak months of July, August and September 2002. A
23 swap is a financial derivative that provides a "fixed for
24 floating" position. The buyer (Tampa Electric) pays a
25 fixed price for the natural gas, which has a floating

1 value until cash settlement at the end of the month.
2 This strategy also allowed Tampa Electric to begin
3 building expertise in using financial hedges. Because
4 the company's combustion turbine natural gas needs are
5 more predictable during the peak demand months, the swaps
6 allowed Tampa Electric to lock in known natural gas
7 prices and avoid upward price volatility. The
8 transaction costs of swaps are embedded in the price of
9 the commodity.
10

11 Q. Does Tampa Electric plan to hedge natural gas purchases
12 for 2003?
13

14 A. Yes. Swaps are one of the hedging instruments Tampa
15 Electric plans to use during 2003. Other potential
16 instruments that Tampa Electric may use in 2003 are
17 futures, options and collars. Given the company's
18 limited expertise and ability to forecast the cost of
19 hedging instruments, neither projected hedging
20 transaction costs nor projected commodity gains or losses
21 are included in its forecasts for 2003. Tampa Electric
22 will seek recovery of these prudently incurred hedging
23 costs in the actual/estimated fuel filing for 2003.
24

25 Q. Has Tampa Electric made organizational changes to prepare

1 for its increased use of natural gas and hedging
2 activities?

3
4 **A.** Yes, Tampa Electric hired an Administrator of Natural Gas
5 Supply in May 2002. This individual is responsible for
6 all day-to-day natural gas purchasing activities for the
7 company's generating facilities. In addition, the
8 individual administers the company's pipeline
9 transportation contracts and is responsible for
10 developing a financial hedging plan for natural gas usage
11 for Tampa Electric.

12
13 **Q.** Does Tampa Electric anticipate incurring incremental O&M
14 expenses related to hedging activities?

15
16 **A.** Yes, Tampa Electric proposes to recover incremental
17 hedging O&M costs for 2003 totaling \$450,000. The
18 incremental costs are itemized in Exhibit No. ____ (JTW-
19 2). The company is also evaluating the purchase and
20 implementation of a software system to more efficiently
21 track, monitor and evaluate hedging activities.

22
23 **Q.** Has Tampa Electric updated its fuel forecast methodology
24 due to its projected increased use of natural gas,
25 including considering the impact of higher than expected

1 or lower than expected natural gas prices?

2

3 A. Yes, Tampa Electric has enhanced the methodology it uses
4 to project prices of natural gas since natural gas is a
5 liquid commodity that has greater price volatility than
6 other fuels the company has used in the past, such as
7 coal. Tampa Electric used forecasts commonly used in the
8 energy industry to develop a base price forecast for
9 natural gas. These sources include Cambridge Energy
10 Research Associates (CERA), Energy Information
11 Administration (EIA), outside energy consultants, and the
12 NYMEX forward strip price for natural gas for 2003. Upon
13 reviewing the historical volatility in NYMEX pricing and
14 the implied volatility in natural gas options, Tampa
15 Electric has determined that the actual price could be
16 higher or lower than the base forecast by as much as 35
17 percent for 2003. Major fundamental or technical
18 changes, such as abnormal weather, political instability
19 or production shortages, will dramatically affect price
20 volatility. In the event of a significant natural gas
21 price increase, Tampa Electric will also consider
22 potential lower cost alternatives such as purchased
23 power, increased oil usage, and other alternate fuels.

24

25 Q. Has Tampa Electric reasonably managed its fuel

1 procurement practices for the benefit of its retail
2 customers?

3
4 A. Yes it has.

5
6 Q. On what do you base this conclusion?

7
8 A. Tampa Electric diligently manages its mix of long-,
9 intermediate- and short-term purchases of fuel in a
10 manner designed to minimize overall fuel costs. The
11 company monitors and adjusts fuel volumes it takes within
12 contractually allowed maximum and minimum amounts in
13 accordance with the price of fuel available on the spot
14 market to take advantage of the lowest available fuel
15 prices. The company's fuel activities and transactions
16 are continually reviewed and are audited on a routine and
17 recurring basis by the Commission. In addition, the
18 company continually monitors its rights under contracts
19 with fuel suppliers with an eye toward detecting and
20 preventing any breach of those rights. Tampa Electric
21 continually strives to improve its knowledge of fuel
22 markets and to take advantage of opportunities to
23 minimize the costs of fuel.

24
25 Q. Does this conclude your testimony?

1 A. Yes it does.
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2001 TRANSPORTATION BENCHMARK CALCULATION

Average Rail Mileage to Tampa	1,193	miles	(Note 1)
x Average of Lowest Two Publicly Available Florida Rail Rates	1.96	¢ / ton mile	(Note 2)
+ Costs of Privately Owned Rail Cars	\$ 1.75	per ton	(Note 3)
Transportation Benchmark for the Year Ended 12/31/01	\$ 25.13	per ton	(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 2001 are as follows:

JEA	¢	2.52
Orlando	¢	1.98*
Lakeland	¢	1.95*
Gainesville	¢	2.10

* Average of Lowest Two ¢ 1.96

- 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.

REDACTED

2001 TRANSPORTATION MARKET PRICE APPLICATION

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources [REDACTED] divided by 6,924,582.12	[REDACTED]
Transportation Benchmark	\$25.13
Over/(Under) Benchmark	[REDACTED]
Total Tons Transported in 2001	6,924,582.12
Total Transportation Cost in 2001	[REDACTED]
Total Amount Allowable for Recovery Using Benchmark \$25.13 x 6,924,582.12	\$174,014,748.68
Total Cost Over/(Under) Benchmark – 2001	[REDACTED]
Prior Year's Cumulative Benefit (1988-2000)	[REDACTED]
Net Benefit for 1988 – 2001	[REDACTED]

**Tampa Electric Company
2003 Projected Incremental O&M Hedging Costs**

Incremental O&M Hedging Costs

Labor and related charges	\$	100,000
System development		200,000
Consultant fees		<u>150,000</u>
Total	\$	<u>450,000</u>