



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI
IN RE: FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

FINAL TRUE-UP
JANUARY 2002 THROUGH DECEMBER 2002

TESTIMONY AND EXHIBIT
OF
JOANN T. WEHLE

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 present, for the
8 Florida Public Service Commission's ("FPSC" or
9 "Commission") review, information regarding the 2002
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 \$83,786 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 2002 incremental hedging
25 O&M expenses.

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Q. What is the source of the data you will present by way of testimony or exhibits in this proceeding?

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

Q. What were the results of Tampa Electric's risk management activities in 2002?

A. As outlined in Tampa Electric's Risk Management Plan filed on September 20, 2002 in Docket No. 020001-EI, the company strives to limit fuel price volatility and overall fuel cost while maintaining a reliable supply of fuel. Tampa Electric is also taking a deliberate approach to its natural gas procurement and hedging in light of the company's changing fuel mix and its efforts to increase internal expertise regarding hedging activities.

On April 1, 2003 Tampa Electric filed its annual risk

1 management report, which describes the outcome of its
2 2002 risk management activities. As that report
3 indicates, Tampa Electric's hedging activities during
4 2002 produced a net savings of \$34.6 million for Tampa
5 Electric's customers.

6
7 Q. Did the company conduct incremental hedging activities in
8 2002?

9
10 A. Yes, the company hedged the price of natural gas in 2002,
11 using over-the-counter swaps in the months of July,
12 August and September.

13
14 Q. What were the results of the company's incremental
15 hedging activities?

16
17 A. Incremental natural gas hedging activities protected
18 Tampa Electric's customers from unforeseen increases in
19 the price of natural gas. The net cost of that
20 protection in 2002 was a \$203,500 loss when the
21 instrument prices were compared to market prices.

22
23 Q. What were the costs associated with these transactions?

24
25 A. The transaction costs associated with the swaps were

1 embedded in the commodity price of the natural gas.
2 Thus, the transaction costs cannot be separately
3 identified.

4
5 Q. Did the company use financial hedges for other
6 commodities in 2002?

7
8 A. No, Tampa Electric did not use financial hedges for other
9 commodities because of its fuel mix. Historically, Tampa
10 Electric has primarily relied on coal as a boiler fuel.
11 The price of coal is relatively stable compared to the
12 prices of oil and natural gas, and there are no financial
13 hedging instruments for the types of coal the company
14 uses. The company also did not hedge oil or wholesale
15 energy transactions. Tampa Electric consumes a small
16 amount of oil, making price hedging impractical, and the
17 company does not plan to use financial hedges for
18 wholesale energy transactions until a liquid, published
19 market exists in Florida.

20
21 Q. Does Tampa Electric use physical hedges?

22
23 A. Yes, Tampa Electric uses physical hedges in managing its
24 coal supply. The company enters into a portfolio of
25 differing term contracts with various suppliers to obtain

1 the types of coal used on its system. In addition, some
2 coal supply contracts have embedded volume options that
3 the company uses when spot-market pricing is favorable
4 compared to the contract price. In 2002, these coal
5 strategies resulted in \$34.8 million in savings to Tampa
6 Electric's customers, compared to expected coal costs for
7 2002.

8

9 Q. What is the basis for your request to recover the
10 commodity and transaction costs described above?

11

12 A. The Commission, in Order No. PSC-02-1484-FOF-EI,
13 authorized the utility to

14 . . .charge/credit to the fuel and purchased
15 power cost recovery clause its non-speculative,
16 prudently-incurred commodity costs and gains
17 and losses associated with financial and/or
18 physical hedging transactions for natural gas,
19 residual oil, and purchased power contracts
20 tied to the price of natural gas.

21 Order, at page 5, paragraph 3.

22

23 Q. Are you requesting recovery of incremental hedging O&M
24 costs?

25

1 A. Yes, Tampa Electric requests recovery of \$83,786 that the
2 company incurred as incremental O&M expenses. The
3 Commission, in Order No. PSC-02-1484-FOF-EI, authorized
4 the utility to

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

16 Order, at page 6, paragraph 4

17
18 Tampa Electric's base year expenses, actual 2002 expenses
19 and the resulting incremental expenses are shown in my
20 exhibit (JTW-1). The order approving the treatment and
21 recovery of incremental hedging expenses was issued late
22 in 2002. Therefore, the base year and 2002 hedging
23 expenses cannot be shown by FERC sub-account because the
24 company did not have a mechanism to track hedging costs
25 separately until 2003. Tampa Electric established its

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base year expenses according to the portion of the employee's time and related costs for hedging in 2001 and then calculated its 2002 costs in the same manner. The recoverable amount is the increment, as shown in my exhibit (JTW-1).

Q. Does this conclude your testimony?

A. Yes it does.

Calculation of Incremental Hedging Expenses		
	Actual Expenses	
	2001	2002
Payroll and Fringe Benefits	\$ 159,723	\$ 252,939
Travel Costs	2,500	-
Training	6,930	-
Total	<u>\$ 169,153</u>	<u>\$ 252,939</u>
2002 Incremental Hedging Costs	\$ 83,786	
(2002 Expenses Less 2001 'Base Year' Expenses)		