



BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

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

PROJECTIONS  
JANUARY 2004 THROUGH DECEMBER 2004

TESTIMONY AND EXHIBIT  
OF  
JOANN T. WEHLE  
REDACTED VERSION

DOCUMENT NUMBER 117E  
08562 SEP 12 6  
FPSC-001-001-001-001-001

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, Wholesale Marketing & Fuels.

12  
13   **Q.**   Please provide a brief outline of your educational  
14          background and business experience.

15  
16   **A.**   I received a Bachelor of Business Administration Degree  
17          in Accounting in 1985 from St. Mary's College in Notre  
18          Dame, 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 2002 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. My report will show  
12 that the 2002 prices paid by Tampa Electric to its  
13 affiliated company, TECO Transport, are reasonable and  
14 prudent. I will also address the issue of whether the  
15 current waterborne transportation benchmark is still a  
16 useful and sufficient method of evaluating Tampa  
17 Electric's waterborne transportation cost.

18  
19 My testimony also presents information about Tampa  
20 Electric's solicitation for waterborne coal  
21 transportation, evaluation of bids received and the  
22 reasonableness of the market prices that will be  
23 established for the company's new coal transportation  
24 contract as a result of that activity. In addition, I  
25 will discuss the continuing change in Tampa Electric's

1 fuel mix, the company's natural gas forecast methodology  
2 and potential impacts of the high and low fuel forecasts.  
3 I will address steps Tampa Electric has taken to manage  
4 fuel prices and supply volatility and describe projected  
5 hedging activities and incremental operations and  
6 maintenance (O&M) costs for these activities. Finally, I  
7 will discuss Tampa Electric's expectations regarding the  
8 resale of surplus coal and dead freight coal  
9 transportation costs due to the shutdown of Gannon Units  
10 1 through 4 and the reasonableness of the replacement  
11 fuel cost related to the shutdown of those units.  
12

13 **Q.** Have you previously testified before the Florida Public  
14 Service Commission ("Commission")?  
15

16 **A.** Yes. I filed testimony before this Commission in Dockets  
17 No. 010001-EI, No. 011605-EI, No. 020001-EI and No.  
18 030001-EI. My testimony in these dockets described the  
19 appropriateness and prudence of Tampa Electric's fuel  
20 procurement activities, fuel supply risk management and  
21 fuel price volatility hedging activities, incremental  
22 hedging O&M costs resulting from maintenance and  
23 expansion of the risk management and hedging plan and the  
24 company's actual waterborne coal transportation costs.  
25

1 Q. Have you prepared an exhibit in support of your  
2 testimony?

3

4 A. Yes. Exhibit No. \_\_\_ (JTW-2), containing three  
5 documents, was prepared under my direction and  
6 supervision.

7

8 **Benchmark Prices For Affiliated Coal Transportation**

9 Q. Were Tampa Electric's actual affiliated coal  
10 transportation prices for 2002 at or below the  
11 transportation benchmark?

12

13 A. Yes. As shown on page 2 of Document No. 1 of my exhibit,  
14 the affiliated coal transportation prices for 2002 were  
15 at or below the transportation benchmark. The average  
16 price for the year was at or below the appropriate  
17 benchmark calculations as directed by Order No. 20298 of  
18 this Commission. Accordingly, it is appropriate for  
19 Tampa Electric to recover its transportation expenses  
20 included in the Fuel and Purchased Power Cost Recovery  
21 Clause ("fuel clause") for 2002 coal transportation.

22

23 **Sufficiency of the Waterborne Coal Transportation Benchmark**

24 Q. How does the Commission independently verify that  
25 waterborne coal transportation services are being

1 provided at a reasonable cost to Tampa Electric's  
2 ratepayers?

3  
4 **A.** This Commission established a waterborne coal  
5 transportation benchmark to address this very issue.  
6 Each year Tampa Electric compares its actual cost for  
7 waterborne coal transportation against the average of the  
8 lowest costs paid by Florida municipal utilities for coal  
9 deliveries by rail. The comparison is submitted to the  
10 Commission for review, and as long as Tampa Electric's  
11 actual cost is at or below the benchmark, the cost is  
12 deemed reasonable. If Tampa Electric's waterborne  
13 transportation costs exceed the benchmark in any given  
14 year, the company must justify any costs greater than the  
15 benchmark amount before the Commission allows recovery  
16 through the fuel clause.

17  
18 **Q.** Is the waterborne transportation benchmark still  
19 sufficient to evaluate Tampa Electric's affiliated coal  
20 transportation costs?

21  
22 **A.** Yes. In Order No. 20298, issued on November 10, 1988 in  
23 Docket No. 870001-EI-A, the Commission stated,

24  
25 If one considers the objective of coal

1 transportation to be the movement of coal from  
2 the mine to the generating plant, then rail  
3 service and the total waterborne system are not  
4 only comparable, but competitive to a large  
5 degree, as well. We believe using the average  
6 of the two lowest publicly available rail rates  
7 for coal being shipped to Florida will provide  
8 a reasonable market price indication of the  
9 value being provided by TECO's affiliate  
10 waterborne system.

11  
12 Tampa Electric believes that the benchmark is still  
13 useful and sufficient for evaluating the prudence of its  
14 actual waterborne transportation costs and that the  
15 average rail rate comparison serves as a reasonable  
16 market proxy for waterborne transportation costs. This  
17 benchmark is the best alternative for comparison  
18 currently available. Tampa Electric witness Dibner also  
19 addresses this issue in his direct testimony.

20  
21 **Q.** Should Tampa Electric's waterborne coal transportation  
22 benchmark methodology be modified or eliminated?

23  
24 **A.** No. Tampa Electric believes the benchmark is still a  
25 useful tool in evaluating the prudence of its waterborne

1 transportation costs. As stated above, the rail rate  
2 comparison is the best alternative for comparison  
3 currently available. In addition, to date Tampa Electric  
4 has always been able to collect the verifiable  
5 information necessary to calculate the benchmark for  
6 timely filing with the Commission.

7  
8 **Waterborne Coal Transportation Background**

9 **Q.** How does Tampa Electric currently transport coal to its  
10 power stations?

11  
12 **A.** Tampa Electric has a five-year integrated transportation  
13 services contract with TECO Transport to deliver coal  
14 from various U.S. Midwestern locations on the  
15 Mississippi, Ohio and Green rivers to its Big Bend,  
16 Gannon and Polk Power Stations via river barges and  
17 ocean-going vessels. The contract expires as of December  
18 31, 2003.

19  
20 **Q.** Why is this type of integrated transportation used?

21  
22 **A.** Beginning in the late 1950s Tampa Electric recognized the  
23 need to develop a water transportation system that could  
24 reliably and efficiently move coal down the Mississippi  
25 River and its tributaries and then across the Gulf of



1 Mexico. The transportation system was formed to lower  
2 costs and to provide reliable transportation of coal for  
3 the benefit of Tampa Electric's ratepayers. When this  
4 integrated system was formed, rail rates to Florida from  
5 coalfields in the Midwest were so high that coal was not  
6 competitive compared to oil. Water transportation was an  
7 alternative in some regions, but a reliable water system  
8 for coal delivery to Florida did not exist. The  
9 development of an efficient integrated waterborne  
10 transportation system was necessary for Tampa Electric to  
11 utilize lower-cost coal as a fuel source.

12  
13 **Q.** Please describe in more detail the development of the  
14 integrated transportation system.

15  
16 **A.** The development of the integrated transportation system  
17 began during the 1950s. In the 1940s and early 1950s,  
18 all electric generation in peninsular Florida was fueled  
19 with oil. Steam generating units used residual oil, and  
20 many small municipal systems relied on diesel engines and  
21 No. 2 distillate oil. Since all oil contracts were based  
22 on prices posted in the world petroleum markets on the  
23 day of delivery, there was no real competition. Oil  
24 suppliers were also able to hold Florida's electric  
25 utilities captive to market prices because of the state's

1 location and high rail rates. These market prices were  
2 high relative to other areas of the country where  
3 alternative fuels, such as coal, were available. Tampa  
4 Electric was very concerned about the long-term  
5 implications of total dependence on oil priced on a spot  
6 basis.

7  
8 For these reasons, Tampa Electric's management  
9 investigated the availability of other fuels when  
10 planning for its Gannon Station in the early 1950s. Both  
11 coal and natural gas were considered in the  
12 investigation. Nuclear power was then in its infancy and  
13 not available for operation on a commercial scale.

14  
15 **Q.** Why did using coal require a waterborne transportation  
16 network?

17  
18 **A.** At the time that Tampa Electric was preparing to build  
19 Gannon Station, the principal disadvantage of coal was  
20 transportation costs. Rail rates to Florida from the  
21 Midwest were so high that coal was not competitive with  
22 oil, and the company did not want to be held captive by a  
23 total dependence on rail transportation. Waterborne  
24 transportation systems from the area did not exist. A  
25 new mode of transportation had to be devised if coal was

1 to become a viable alternative for Florida utilities.

2

3 **Q.** Describe the first stage of developing the integrated  
4 waterborne transportation system.

5

6 **A.** In 1955, Tampa Electric decided to use coal as the fuel  
7 for Gannon Unit 1, which was scheduled to be operational  
8 in 1957. Tampa Electric entered into a long-term  
9 contract for coal and waterborne transportation to the  
10 plant from the coal supplier. In spite of the contract,  
11 the supplier refused to deliver, leaving Tampa Electric  
12 dependent on the spot market for replacement coal  
13 purchases. Although Tampa Electric immediately sued for  
14 non-compliance, the case was not resolved until 1963.  
15 Thus in 1959 Tampa Electric, frustrated by its total  
16 dependence on others and an inadequate waterborne  
17 transportation market, decided to participate in a joint  
18 venture to form a transportation company that could more  
19 effectively move its purchased coal from the Midwest to  
20 Tampa, Florida.

21

22 **Q.** How did the company determine that a terminal facility at  
23 the base of the Mississippi River was needed?

24

25 **A.** Logistics of coal transfer, quality control issues and

1 storage needs led to a short-term lease of a terminal  
2 facility on the Mississippi River below New Orleans.  
3 Tampa Electric was concerned about risks due to storing  
4 coal at the aging facility. Therefore, a new company was  
5 formed to build and operate a modern facility for  
6 transloading and storage. Tampa Electric still utilizes  
7 this terminal, built in Davant, Louisiana in 1965, to  
8 transfer, store and blend its coal.

9  
10 **Q.** What is the purpose of the terminal facility?

11  
12 **A.** The primary purpose for the terminal facility is to  
13 transfer coal from river barges to ocean vessels or from  
14 barges to land storage facilities, and from such land  
15 storage facilities to vessels. It also provides the  
16 company with the ability to blend coals, which has become  
17 a more common practice over the years as environmental  
18 requirements have become stricter. The storage space is  
19 of special importance due to the distance of the supply  
20 sources from Tampa and limited ground storage space at  
21 waterfront power plants sites in Tampa.

22  
23 **Q.** What was the result of developing the waterborne coal  
24 transportation system?

1    **A.**    The effects of adding another coal transportation  
2            alternative were dramatic.        When the waterborne  
3            transportation system began operations, rail rates to  
4            Florida began to drop almost immediately.  Even with the  
5            reduction in rail rates, which benefited Tampa Electric's  
6            customers on the small portion of its coal that was  
7            delivered by rail, prices paid by Tampa Electric for  
8            water transportation by its affiliate have consistently  
9            been lower than the rail alternative.        This is  
10           demonstrated by the company's costs being below its  
11           waterborne coal transportation benchmark year after year.  
12           In addition, the fact that there are separate and  
13           distinct rail and water transportation systems has  
14           benefited utilities in the bidding and purchase of coal.  
15           It has also greatly increased the reliability of the  
16           delivery system by providing alternatives.  The savings  
17           in the use of coal as a primary fuel for boilers versus  
18           oil and gas can be directly attributed to the existence  
19           of a waterborne delivery system.        The water  
20           transportation system has saved Tampa Electric's  
21           customers hundreds of millions of dollars in fuel  
22           transportation costs during the period from 1988 to 2002  
23           alone, as demonstrated by the company's actual waterborne  
24           coal transportation costs compared to its transportation  
25           benchmark.        Finally, the lowering of rail rates in

1 response to the competition of water transportation has  
2 benefited ratepayers throughout the state.

3

4 **2004 Waterborne Coal Transportation Arrangements**

5 **Q.** What has Tampa Electric done to secure reliable coal  
6 transportation for deliveries beyond December 31, 2003?

7

8 **A.** In July 2003, Tampa Electric prepared a Request for  
9 Proposal ("RFP") for vendors to provide proposals for  
10 waterborne deliveries of coal from suppliers in the  
11 Midwest to its Big Bend Station. The solicitation was  
12 sent to all 24 vendors known to Tampa Electric and Dibner  
13 Maritime Associates, LLC ("DMA"), a maritime services  
14 consulting firm, to provide such transportation services.  
15 The solicitation was also described in several industry  
16 publications. This served to inform other potentially  
17 interested parties, to whom copies of the RFP were  
18 provided.

19

20 **Q.** Did Tampa Electric state, in its RFP, a preference for  
21 the services to be provided by an integrated provider  
22 versus contracting for each segment of transportation  
23 separately? If so, why?

24

25 **A.** Yes, the company's RFP did state such a preference.

1 Specifically, the RFP stated, "Tampa Electric prefers  
2 proposals for integrated waterborne transportation  
3 services, however proposals for segmented services will  
4 be considered." Tampa Electric continues to prefer  
5 integrated waterborne transportation services because of  
6 the benefits of receiving priority handling of its coal  
7 transportation needs, having first call on dedicated  
8 transportation resources and benefiting from  
9 administrative efficiencies from dealing with one entity  
10 in the day-to-day management of the waterborne coal  
11 transportation services. These factors greatly increase  
12 the reliability and flexibility of Tampa Electric's fuel  
13 delivery. The direct testimony of Tampa Electric's  
14 witness Dibner enumerates the administrative efficiencies  
15 that result from having a single contact point for all  
16 services. In addition, the terminal in Davant, Louisiana  
17 provides much needed storage, helps with quality control  
18 issues and allows for custom coal blending. The terminal  
19 is in an ideal location for deliveries from the Midwest  
20 and can accommodate large vessels delivering  
21 international shipments as well.

22  
23 Q. Is the terminal near Davant the only location or terminal  
24 facility that can meet Tampa Electric's terminal services  
25 needs?

1     **A.**    No.  As stated in the RFP, "terminal facilities should be  
2            accessible to Mississippi River barge traffic and capable  
3            of receiving and discharging inland river barges from  
4            domestic suppliers in Panamax sized vessels for offshore  
5            coal."  Any terminal that meets this requirement and has  
6            the flexibility and storage capacity to store different  
7            types of coal in separate piles and to blend coal would  
8            be able to meet Tampa Electric's needs.

9  
10    **Q.**    Why does Tampa Electric require, in the RFP, the ability  
11            to receive coal at a terminal facility that is accessible  
12            to Mississippi River barge traffic and able to receive,  
13            unload and store Panamax-sized vessels for offshore coal?

14  
15    **A.**    The requirements included in the RFP are driven primarily  
16            by Tampa Electric's coal supply portfolio.  The vast  
17            majority of coal originates at docks on the Ohio River  
18            and the upper Mississippi River system.  This  
19            necessitates that the transloading and storage terminal  
20            facilities be accessible to Mississippi River barge  
21            traffic.  It would not be cost-effective to use any other  
22            waterborne transportation system to deliver coal to Tampa  
23            from these regions.

24  
25            The company also purchases and blends foreign coal with



1 domestic coal and petroleum coke at the terminal for its  
2 Polk Power Station. Foreign coal deliveries are  
3 primarily made by the larger Panamax sized vessels due to  
4 efficiency concerns. A terminal that can receive larger  
5 vessels provides Tampa Electric with the flexibility of  
6 being served by a variety of vessels, providing the  
7 company opportunities for discounted rates in the freight  
8 market when available. The ability of the terminal to  
9 receive and unload Panamax-sized vessels enables Tampa  
10 Electric to rely on foreign coal blended with domestic  
11 coal to meet operational and environmental requirements.

12  
13 **Q.** Please describe the process that Tampa Electric is using  
14 to select the successful bidder(s).

15  
16 **A.** Tampa Electric has taken a systematic approach in  
17 evaluating the bids received. The primary tasks that  
18 have been or will be completed in Tampa Electric's  
19 evaluation process are outlined below.

20 1. Evaluate bids to determine compliance with bid  
21 requirements. Late responses and those that do not  
22 meet certain financial and operational criteria  
23 ("knockout criteria") are disqualified.

24 2. Follow-up with individual suppliers to clarify any  
25 outstanding questions on proposals and request

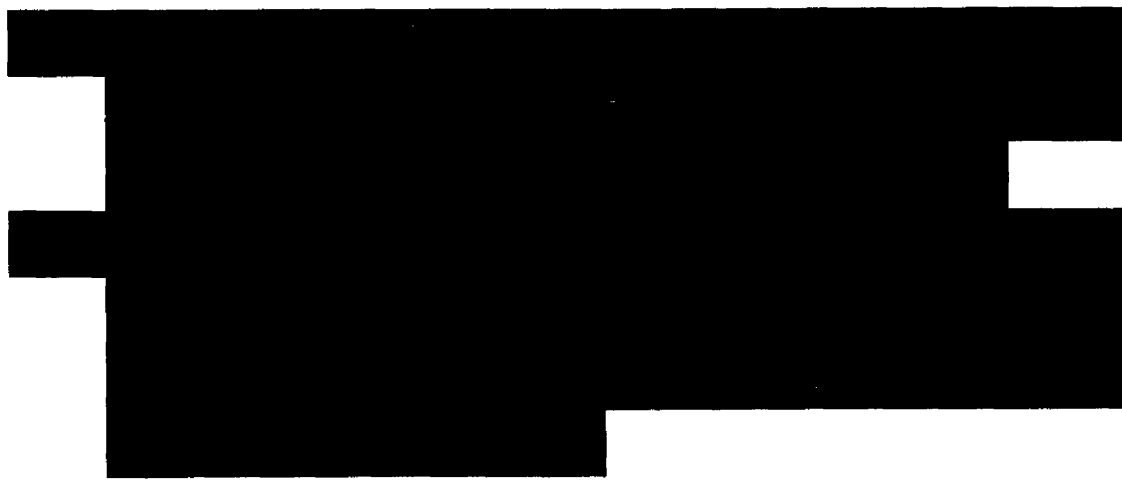
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additional information, if needed, to fully evaluate bids.

3. If bid responses do not address the bid requirements or bid response terms and conditions vary, adjustments will be made to put each bid response on a comparative basis.

4. In the event that Tampa Electric does not receive an adequate response for the bid requirements for each segment, the company and its consultant will utilize models to determine the appropriate market rate for the future contract given the tonnage and length of move requirements.

5. Provide Tampa Electric management a complete analysis of evaluated bids and an assessment of the market.

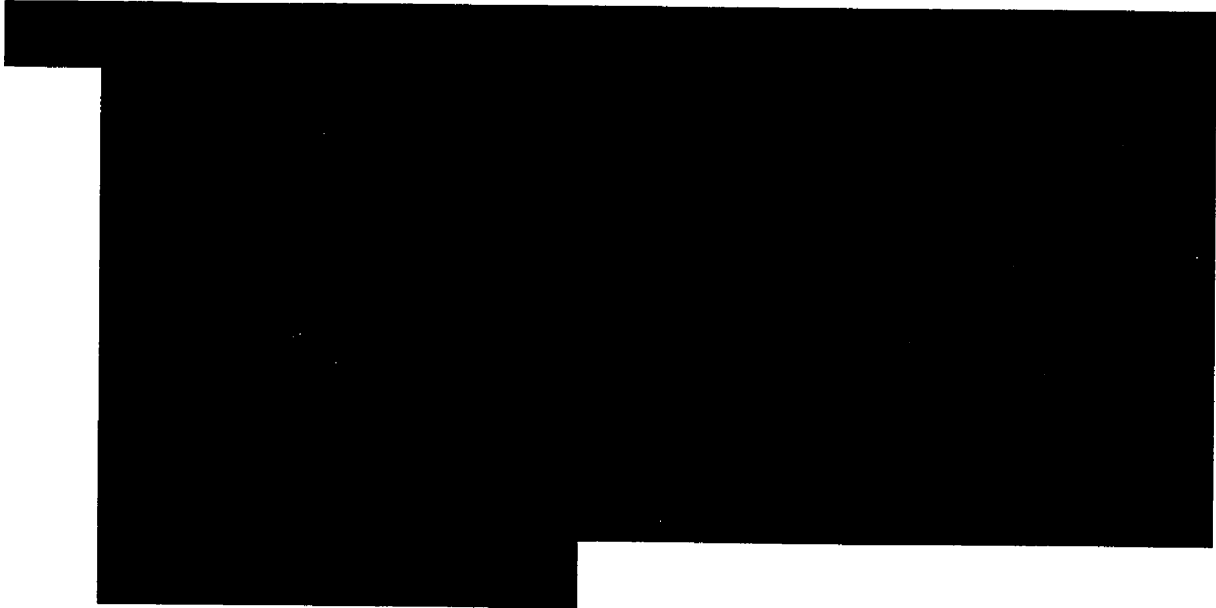


Q. What are the results of the process thus far?

1 A. Tampa Electric received two waterborne transportation  
2 services and two railroad transportation bids. Tampa  
3 Electric's consultant, DMA, is evaluating the two  
4 waterborne transportation bids as described in the  
5 testimony of Tampa Electric's witness Dibner. Tampa  
6 Electric is evaluating the railroad bids and is working  
7 with DMA to determine appropriate market prices for each  
8 of the three segments included in the waterborne  
9 transportation system.

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**Q.** What is Tampa Electric's timeline for completing the remaining tasks to establish a new contract for waterborne coal transportation services?

**A.** Tampa Electric expects to complete the tasks necessary to establish a new contract for waterborne coal transportation by November 2003. An updated timeline that shows estimated completion dates for the remaining tasks is attached as Document No. 2 of my exhibit.

**Q.** When will you provide additional information about the evaluation of the bids to the Commission?

**A.** When the evaluation process is complete, I will file supplemental testimony that describes details of the bid

1 evaluations, the methodologies used for market assessment  
2 and the results of the evaluation process.

3  
4 **Q.** Do you believe that the rates determined through the RFP  
5 process, industry review and market modeling are  
6 sufficient to determine appropriate market prices for  
7 this agreement?

8  
9 **A.** Yes. Using the bids received in response to the RFP and  
10 market analyses provided by Tampa Electric's consultant,  
11 Tampa Electric will be able to demonstrate that either  
12 the prices established by bid(s) or by market modeling  
13 represent the market for the transportation services that  
14 will be provided under the new contract that begins  
15 January 1, 2004. The activities that Tampa Electric's  
16 consultant is performing to evaluate bids are described  
17 in the testimony of Tampa Electric witness Dibner. More  
18 information about the waterborne transportation bid  
19 evaluations, the independent market information utilized  
20 to set the appropriate market prices, the methodologies  
21 used to model market prices and the findings and  
22 recommendations of DMA will be described in the  
23 supplemental testimony of Tampa Electric witness Dibner  
24 to be filed at the completion of the evaluation process.

25

1 Q. Since the evaluation process has not been completed, what  
2 waterborne coal transportation cost was included in Tampa  
3 Electric's total projected 2004 fuel cost?  
4

5 A. As previously discussed, the waterborne coal  
6 transportation rates for the contract that will take  
7 effect January 1, 2004 have not yet been established.  
8 Accordingly, Tampa Electric used the rates of the  
9 existing waterborne transportation contract to calculate  
10 its projected 2004 waterborne coal transportation costs.  
11

12 Q. How will Tampa Electric account for differences between  
13 the projected waterborne coal transportation costs and  
14 the actual costs that the company will incur?  
15

16 A. Once the rates for a new waterborne coal transportation  
17 services contract are established, future projection  
18 filings will utilize those new waterborne transportation  
19 rates. For the 2004 projection filing, Tampa Electric  
20 has used its best estimate of the cost. As is always the  
21 case, the projected values will be trued-up to reflect  
22 actual costs once they are known, ensuring that  
23 ratepayers pay only the actual costs of fuel commodities  
24 and transportation services.  
25

1     **2004 Fuel Mix**

2     **Q.**    Please describe any changes in the types and amounts of  
3            fuel that will be used by Tampa Electric's generating  
4            stations in 2004.

5  
6     **A.**    Due to the Gannon Station repowering project, Tampa  
7            Electric continues its transition to using greater  
8            amounts of natural gas and fewer tons of coal as its  
9            repowered Bayside units come online.    Bayside Unit 1  
10           began commercial service in April 2003, and the expected  
11           in-service date for Bayside Unit 2 is January 15, 2004.  
12           In 2003, the actual/estimated annual natural gas use  
13           represents 19 percent, and in 2004, it is projected to be  
14           33 percent of total fuel (mmBtu) used.    Tampa Electric  
15           continues to develop and refine its strategies regarding  
16           the timing and volume of its natural gas purchases to  
17           prudently test Bayside Unit 2 prior to commercial  
18           operation and to manage its operations once it is in  
19           service.

20  
21     **Q.**    Has Tampa Electric updated its fuel forecast methodology  
22            due to its increased use of natural gas?

23  
24     **A.**    Yes.    Tampa Electric enhanced the methodology it uses to  
25            project prices of natural gas since natural gas is a

1 liquid commodity that has greater price volatility than  
2 other fuels the company has used in the past. To develop  
3 the company's base price forecast for natural gas, Tampa  
4 Electric reviews forecasts from sources widely used in  
5 the industry, including Cambridge Energy Research  
6 Associates, Energy Information Administration, the New  
7 York Mercantile Exchange ("NYMEX") and other energy  
8 consultants.

9  
10 The NYMEX forward strip price for natural gas is the  
11 primary driver of Tampa Electric's 2004 natural gas  
12 commodity forecast. The NYMEX natural gas pricing is the  
13 most appropriate and reliable forecast to use because it  
14 is determined by an efficient trading market. Thus, it  
15 incorporates the most recent information and views in the  
16 marketplace. The market takes into account the most  
17 current storage information, rig counts, weather news and  
18 views of various counterparties. All of these variables  
19 are reflected in the NYMEX natural gas strip prices.  
20 Tampa Electric developed a methodology that uses a moving  
21 average of NYMEX strip prices as the basis of the 2004  
22 natural gas price forecast. Using a moving average  
23 methodology mitigates the effects of anomalies such as  
24 unexpected storage reports or potential storm news that  
25 have a dramatic effect on the price for a single day.



1 Q. Did Tampa Electric consider the impact of higher than  
2 expected or lower than expected natural gas prices?

3  
4 A. Upon reviewing the historical volatility in NYMEX pricing  
5 and the implied volatility in natural gas options, Tampa  
6 Electric has determined that actual prices in 2004 could  
7 be higher or lower than the base forecast by as much as  
8 35 percent. Major fundamental or technical changes, such  
9 as abnormal weather, political instability or production  
10 shortages, will also dramatically affect price  
11 volatility. In the event of a significant natural gas  
12 price increase, Tampa Electric evaluates potential lower  
13 cost alternatives such as purchased power, increased oil  
14 usage and other fuels.

15  
16 **Hedging Transactions and Related Expenses**

17 Q. Given the volatility of the natural gas commodity market,  
18 has Tampa Electric entered into financial hedging  
19 transactions in 2003 to mitigate the price volatility of  
20 natural gas?

21  
22 A. Yes. To protect ratepayers from price risk, Tampa  
23 Electric purchased over-the-counter natural gas swaps and  
24 collars during 2003. A swap is a financial derivative  
25 that provides a "fixed for floating" position. The buyer

1 (Tampa Electric) pays a fixed price for the natural gas,  
2 which has a floating value until cash settlement at the  
3 end of the month. The swaps allowed Tampa Electric to  
4 lock in known natural gas prices and avoid upward price  
5 volatility. The transaction costs of swaps are embedded  
6 in the price of the commodity.

7  
8 Collars are combinations of call options (caps) and put  
9 options (floors) that collar prices within a certain  
10 range. With a collar, the company knows that its future  
11 prices will remain within the predetermined boundaries  
12 established by the call and put options.

13  
14 **Q.** Will Tampa Electric use financial hedging to mitigate the  
15 price volatility of natural gas purchases in 2004?

16  
17 **A.** Yes. Swaps are one of the hedging instruments Tampa  
18 Electric plans to use during 2004. Other instruments  
19 that Tampa Electric may use in 2004 are futures, options  
20 and collars.

21  
22 **Q.** Does Tampa Electric anticipate incurring incremental  
23 O&M expenses related to initiating or maintaining its  
24 non-speculative financial hedging program in 2004?

1 **A.** Yes. In Order No. PSC-02-1484-FOF-EI, issued October 30,  
2 2002, the Commission authorized the recovery of  
3 prudently-incurred incremental O&M expenses for the  
4 purpose of initiating and/or maintaining a new or  
5 expanded non-speculative financial and/or physical  
6 hedging program designed to mitigate fuel and purchased  
7 power price volatility for its retail customers. Tampa  
8 Electric expects its 2004 total incremental hedging O&M  
9 cost to be \$280,847. The incremental costs are itemized  
10 in Document No. 3 of my exhibit. The company plans to  
11 purchase a software system to more efficiently track,  
12 monitor and evaluate hedging transactions. Originally,  
13 Tampa Electric expected to complete the software  
14 implementation in 2003. Currently, Tampa Electric  
15 expects that the implementation will be completed in  
16 2004. Therefore, some implementation costs will be  
17 incurred in 2004, rather than in 2003 as originally  
18 projected.

19  
20 **Q.** What is Tampa Electric's appropriate base O&M expense  
21 level used to calculate incremental hedging O&M expense?  
22

23 **A.** Tampa Electric's base level of hedging O&M expense of  
24 \$169,153 reflects the company's actual 2001 costs prior  
25 to its implementation of a prudent financial hedging

1 program in 2002. The base level costs were audited by  
2 the Commission Staff in Audit No. 02-340-2-1, in Docket  
3 No. 030001-EI. Tampa Electric's expected 2004  
4 incremental hedging O&M expense shown in Document No. 3  
5 of my exhibit is calculated using this audited base  
6 level.

7  
8 **Q.** Were Tampa Electric's efforts through July 31, 2003 to  
9 mitigate price volatility through its non-speculative  
10 hedging program prudent?

11  
12 **A.** Yes. With its recent fuel mix changes, Tampa Electric  
13 has taken a measured but thorough approach to initiate  
14 and develop a program to mitigate fuel price volatility.  
15 Tampa Electric also developed a detailed, methodical  
16 hedging program for natural gas, which provides hedging  
17 transaction guidance to the company's efforts to limit  
18 price volatility. The plan was presented and approved by  
19 the company's Risk Authorizing Committee in the first  
20 quarter of 2003. Since then the company has executed  
21 hedges according to this plan. As the company's use of  
22 natural gas continues to increase in 2004, Tampa Electric  
23 continues to refine its risk management and hedging plan  
24 with these changes in mind.

25

1 Q. Has Tampa Electric entered into fuel supply transactions  
2 for 2003 and 2004 delivery?

3

4 A. Yes, Tampa Electric has entered into transactions for  
5 fuel deliveries in 2003 and 2004. The company has  
6 purchased all of its expected coal needs for both years  
7 through bilateral agreements with coal suppliers.  
8 Therefore, the prices of the coal commodity portion of  
9 the Company's fuel mix have been established. Tampa  
10 Electric will enter into contracts for supply of the  
11 company's expected natural gas needs for the winter of  
12 2003 to 2004 in the next few months.

13

14 **Impact of Gannon Shutdown on Fuel Costs**

15 Q. What has Tampa Electric done to mitigate the impact of  
16 surplus coal due to the shutdown of Gannon Units 1  
17 through 4 in 2003?

18

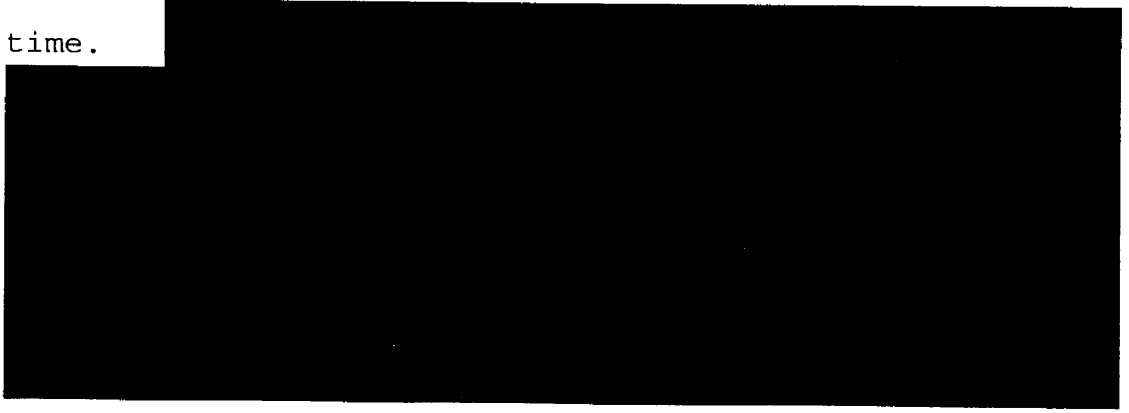
19 A. Tampa Electric has explored many avenues to mitigate the  
20 impact of any surplus coal at Gannon Station. The  
21 company recently sold approximately 18,000 tons to third  
22 parties in August and September of 2003 for a gain of  
23 \$7,069, which flowed back through the fuel clause  
24 directly to benefit ratepayers. In addition, Tampa  
25 Electric has responded to RFP's to sell this type of

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coal. Tampa Electric is also pursuing with the supplier a potential replacement of this contract coal with other types of coal that can be burned at another Tampa Electric generating facility. If Tampa Electric's efforts to resell or replace the surplus coal are not successful, the company plans to utilize this coal over time at Big Bend Station. Due to the company's efforts, Tampa Electric currently expects the impact to ratepayers to be neutral at worst, and there remains the potential for ratepayers to experience net gains.

**Q.** Does Tampa Electric expect to incur dead freight cost due to the shutdown of Gannon Units 1 through 4 in 2003?

**A.** Due to the dynamic nature of calculating potential dead freight costs, which are determined by the transportation contract terms and the actual tonnage delivered at the end of the contract term, Tampa Electric does not have a viable projection of potential dead freight costs at this time.



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**Q.** Are the costs of any replacement fuel due to the shutdown of Gannon Units 1 through 4 in 2003 reasonable?

**A.** Yes, Tampa Electric's units are operated to provide safe, reliable electric service to ratepayers, and the company procures the fuel to operate all units based on their economic dispatch. In addition, Tampa Electric follows its Commission-reviewed fuel procurement policies and procedures. Finally, Tampa Electric's decision to shut down Gannon Units 1 through 4 in 2003 was arrived at only after careful and deliberate evaluation of many dynamic, competing and complex factors, as described in the testimony of Tampa Electric witness W. T. Whale. Therefore, costs for replacement fuel due to the shutdown of Gannon Units 1 through 4 in 2003 are reasonable and prudently incurred, and it is appropriate that Tampa Electric should be authorized to recover any such costs through its fuel clause.

1 **Prudent Management of Fuel Procurement Activities**

2 **Q.** Has Tampa Electric reasonably managed its fuel  
3 procurement practices for the benefit of its retail  
4 customers?

5  
6 **A.** Yes. Tampa Electric diligently manages its mix of long-,  
7 intermediate- and short-term purchases of fuel in a  
8 manner designed to minimize overall fuel costs. The  
9 company monitors and adjusts fuel volumes it takes within  
10 contractually allowed maximum and minimum amounts in  
11 accordance with the price of fuel available on the spot  
12 market to take advantage of the lowest available fuel  
13 prices. The company's fuel activities and transactions  
14 are continually reviewed and are audited on a routine and  
15 recurring basis by the Commission. In addition, the  
16 company continually monitors its rights under contracts  
17 with fuel suppliers with an eye toward detecting and  
18 preventing any breach of those rights. Tampa Electric  
19 made significant efforts this year to mitigate the impact  
20 of operational changes on its fuel supply and  
21 transportation costs, as described above. Tampa Electric  
22 continually strives to improve its knowledge of fuel  
23 markets and to take advantage of opportunities to  
24 minimize the costs of fuel.

25



1 Q. Does this conclude your testimony?

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3 A. Yes, it does.

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**2002 TRANSPORTATION BENCHMARK CALCULATION**

Average Rail Mileage to Tampa	1,146	miles	(Note 1)
X Average of Lowest Two Publicly Available Florida Rail Rates	1.93	¢ / ton mile	(Note 2)
+ Costs of Privately Owned Rail Cars	\$ 1.75	per ton	(Note 3)
Transportation Benchmark for the Year Ended 12/31/02	\$ 23.87	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                 | ¢ | 1.99 |
| Lakeland                | ¢ | 1.89 |
| Gainesville             | ¢ | 1.98 |
| * Average of Lowest Two | ¢ | 1.93 |
- 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**

**2002 TRANSPORTATION MARKET PRICE APPLICATION**

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources [REDACTED] divided by 6,440,178.97 tons	[REDACTED]
Transportation Benchmark	\$23.87
Over/(Under) Benchmark	[REDACTED]
Total Tons Transported in 2002	6,440,178.97
Total Transportation Cost in 2002	[REDACTED]
Total Amount Allowable for Recovery Using Benchmark (\$23.87 x 6,440,178.97 tons)	\$153,727,072.01
Total Cost Over/(Under) Benchmark – 2002	[REDACTED]
Prior Year's Cumulative Benefit (1988-2001)	[REDACTED]
Net Benefit for 1988 – 2002	[REDACTED]

**Updated Transportation Services Solicitation Schedule**

<b>Step</b>	<b>Tasks to Establish Transportation Contract</b>	<b>Estimated Completion Date</b>
1.	Complete evaluation of proposals	Week of September 22
2.	Notify transportation provider that submitted the winning proposal and begin contract negotiations	Week of September 22
3.	Complete transportation contract negotiations	Week of October 24
4.	Execute new transportation contract	Week of November 3
5.	Notify unsuccessful bidders that contract has been awarded	Week of November 3

EXHIBIT NO. \_\_\_\_\_  
TAMPA ELECTRIC COMPANY  
DOCKET NO. 030001-EI  
(JTW-2)  
DOCUMENT NO. 3  
PAGE 1 OF 1  
FILED: 9/12/03

**Tampa Electric Company  
2004 Projected Incremental O&M Hedging Costs**

**Incremental O&M Hedging Costs**

Labor and related charges	\$	80,847
System development		100,000
Consultant fees		<u>100,000</u>
<b>Total</b>	<b>\$</b>	<b><u>280,847</u></b>