

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 030001-EI

In the Matter of

FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE WITH GENERATING
PERFORMANCE INCENTIVE FACTOR.

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VOLUME 4

Pages 574 through 691

PROCEEDINGS:

HEARING

BEFORE:

CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON

DATE:

Thursday, November 13, 2003

TIME:

Commenced at 9:00 a.m.
Concluded at 6:35 p.m.

PLACE:

Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY:

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Official FPSC Reporter
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APPEARANCES:

(As heretofore noted.)

REPORTER'S NOTE:

Pages 564 through 573 were inadvertently
omitted during pagination.

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FLORIDA PUBLIC SERVICE COMMISSION

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PROCEEDING

CHAIRMAN JABER: Good morning. Let's get back on the record.

Staff, when we adjourned last night, there was a pending motion for reconsideration that I wanted to take up first thing this morning. And Mr. Keating, Mr. Melson, you all were going to take a look at the document itself and be able to provide a recommendation to the Commission on the motion for reconsideration that was made by TECO.

MR. MELSON: Yes, ma'am. I think the first thing you need to consider is does the motion for reconsideration meet the standard for reconsideration, that they've pointed out something that the prehearing officer overlooked or failed to consider and would be a mistake of fact or law.

The parties' arguments here yesterday probably went into more detail than what was included in the original motion and the response but covered essentially the same ground. The prehearing officer's order recited the positions of both parties and then made essentially two conclusions: A conclusion that the document was protected work product, and a second conclusion that a specific claim that inadvertent disclosure had destroyed some protection was not substantiated.

Implicit to me in the ruling that it was protected

1 work product was the disposition of all of the other arguments
2 raised by the parties. I don't think it's necessary for an
3 order to specifically address each and every contention raised
4 by a party. So for that reason alone, I would suggest to you
5 that one completely defensible course of action would be to
6 decide that the standard for reconsideration has not been met
7 and simply to allow the prehearing officer's order to stand.

8 If that is not your pleasure or you would like to, to
9 delve into the merits, I'm prepared to discuss that as well.

10 CHAIRMAN JABER: Commissioners, do you have any
11 questions or a motion? What's your pleasure this morning?

12 COMMISSIONER DEASON: I'd like to hear more about
13 whether the, the document in question is or is not in the
14 opinion of our, of our general counsel, whether it is or is not
15 a work product that is subject to privilege.

16 MR. MELSON: All right. The -- let me begin by
17 saying --

18 COMMISSIONER DEASON: Because as I understand, the
19 document itself was not reviewed by either the prehearing
20 officer or the staff of the Commission; is that correct?

21 MR. MELSON: That is correct.

22 COMMISSIONER DEASON: Okay.

23 MR. MELSON: The document itself was admittedly
24 prepared by the witness. It is written in the first person.
25 It identifies -- it, in essence, identifies a number of items

1 that were raised in rebuttal testimony, and then discusses how
2 that rebuttal can be responded to. It also discusses some
3 issues that could arise on cross-examination, how those might
4 be dealt with. It does not reflect on its face that it was
5 prepared based on input from attorney, from an attorney. But
6 reading the entire document, it's hard to come to any
7 conclusion other than it is the result of a conversation with
8 an attorney. It's got the types of mental impressions in it
9 that I would expect to see in a document that had been
10 discussed with an attorney.

11 There is case law both before and after the 1993
12 change to the federal rules which protects attorneys' mental
13 impressions that have been communicated to an expert and
14 written down by an expert. There's not a lot out there, but
15 one of the cases cited, I believe, by FIPUG indicates that an
16 expert witness's notes of a telephone conversation with an
17 attorney that contained the attorney's mental impressions are
18 protected. There is essentially no useful case law in Florida.
19 The case law in Florida either deals with reports of experts,
20 which this does not appear to be, or it, it will be a
21 two-paragraph opinion that has such a scant statement of the
22 facts that, while it announces a black letter principle of law,
23 you can't tell what it was the court was looking at.

24 It seems to me the most persuasive thing the parties
25 have cited was the Florida Supreme Court's decision in Southern

1 Bell versus Deason, an appeal of a discovery order by this
2 Commission, in which the court seemed to give a great deal of
3 protection to attorneys' mental impressions even though they
4 had been communicated to businesspeople and then included in,
5 in a report that was used by BellSouth for business purposes.
6 One distinction that says that case is not controlling is it
7 was not a testifying expert to whom those mental impressions
8 had been communicated.

9 On balance, I come down on the side that this looks
10 to me like protected work product. But it is hard to make that
11 absolute judgment because it is not clear, as I said, from the
12 face of the document that it originated with the attorney.

13 One alternative is, when this witness takes the
14 stand, to inquire of her the circumstances under which that
15 document was prepared, the extent to which it represents her
16 thoughts or the extent to which it represents thoughts of the
17 attorney, and delay making a ruling until you've heard that
18 testimony and have a chance to get a better idea of exactly
19 what the document entails.

20 COMMISSIONER DAVIDSON: Can you assure us that
21 everything in that document reflects, to the extent it's work
22 product, opinion work product and that there is no factual
23 information or fact work product in that document?

24 MR. MELSON: I guess, Commissioner, I'm not -- no, I
25 cannot make that representation because there's a lot -- that

1 document covers a lot of ground. To the extent that there
2 appears to be factual work product, it is sometimes a
3 recitation of a fact that was stated or alleged in rebuttal
4 testimony. In some cases it is a fact that would be used in
5 responding to a question. It does not appear to be a
6 communication by the attorneys to the expert of facts on which
7 an opinion are based.

8 COMMISSIONER DAVIDSON: Are there any statements in
9 the document such as, and this is just an example, TECO's costs
10 are unreasonably high because they exceed X, Y and Z, where the
11 "are unreasonably high," perhaps the mental opinion of the
12 attorney, could be redacted, but the factual statement "TECO's
13 costs are X" could, could be retained?

14 And the reason I ask is that I don't have a desire to
15 have the pure mental impressions of an attorney disclosed;
16 however, if the expert witness is going to rely upon either
17 facts or fact work product, I would like to know the extent to
18 which that's in the document. And also, if the testifying
19 expert is going to assume an opinion of the attorney as her own
20 opinion, then I believe we're entitled to know that. If, if an
21 opinion in there is going to be her own opinion, then in effect
22 it's not just the opinion of counsel. So it's -- I don't know
23 the scope of this witness's testimony, but those are the types
24 of issues I'm looking at. And I haven't seen the document
25 either, so I can't say whether portions can be redacted or

1 everything is pure opinion strategy of the attorney, which I'm
2 not interested in.

3 MR. MELSON: And, Commissioner, I have reviewed it
4 twice, once yesterday and again this morning. It is very
5 difficult to make that judgment.

6 COMMISSIONER DAVIDSON: Well, are there any factual
7 assertions in that document separate from pure opinion such as
8 unreasonable, excessive, violates an order, et cetera? I mean,
9 are there any just facts either standing alone or commingled
10 with opinions?

11 MR. MELSON: To the extent they are, they are
12 commingled. Nothing -- it did not seem to me primarily like a
13 fact-based document. To go through and do the examination
14 you're suggesting would require more time than I've had a
15 chance to devote to it. I really don't know.

16 CHAIRMAN JABER: Commissioners, any other questions
17 or a motion?

18 COMMISSIONER DEASON: Well, I'm willing to make a
19 motion, and we can move, move along one way or the other. To
20 me, a reconsideration is an extremely high standard, and I can
21 understand that this is a very difficult question. I have no
22 basis to believe that the prehearing officer made an error in
23 fact or law, which is the standard, so I would move to deny the
24 reconsideration. That's not to say that I sitting in the
25 prehearing officer's position had it come to me, I'm not saying

1 that I would have agreed or disagreed, but I have no basis
2 to -- it doesn't rise to the level that this is a matter which
3 is shown to me that we should reconsider, so I would move that
4 we deny the reconsideration.

5 COMMISSIONER DAVIDSON: And I will -- I'll second
6 that motion for the same reasons. I mean, it's -- any one of
7 us may have come up with the same or different result. I mean,
8 we could, we could have five different results or five same
9 results. But I haven't been shown any authority that, that
10 says the prehearing officer violated or disregarded the law or,
11 or overlooked the facts.

12 So, again, I am concerned with some information, but
13 I think the parties will have an opportunity to, to really
14 examine this witness. We can ask her about, you know, what
15 transpired. And if through the course of that questioning we
16 hear something that causes us to reconsider, then we can
17 reconsider. So for that reason I second Commissioner Deason's
18 motion.

19 CHAIRMAN JABER: There's been a motion and a second
20 to deny TECO's motion for reconsideration of the prehearing
21 officer's order which denied TECO's motion to compel discovery
22 from FIPUG.

23 All those in favor, say aye.

24 (Simultaneous affirmative vote.)

25 CHAIRMAN JABER: Anyone opposed? Okay. Motion

1 carries unanimously.

2 Thank you, staff, and thank you, parties, for bearing
3 with us this morning.

4 MR. McWHIRTER: Madam Chairman --

5 CHAIRMAN JABER: Mr. McWhirter.

6 MR. McWHIRTER: -- may I make a request? It's a
7 situation in which the barn door was locked after the horse was
8 out. Mr. Melson last night asked us to see if we could resolve
9 the issues. We concluded the whole document was work product,
10 but we went through, as Commissioner Davidson had suggested,
11 and tried to give as much of the information as possible and
12 redacted just a small amount and gave that to Mr. Hart last
13 night in anticipation that we could resolve the issue. So now
14 he has the essential work product document in his possession,
15 and I would request the Commission to direct him to return the
16 document, the redacted version of the document to us and all
17 notes and copies of the document that he made. Thank you very
18 much.

19 CHAIRMAN JABER: Thank you, Mr. McWhirter.

20 Mr. Hart, I think consistent with the ruling, now
21 that a ruling has been issued by this body, to the degree you
22 have any copies or the original document for that matter, would
23 you please make sure that Mr. McWhirter receives all of those
24 copies this morning?

25 I need your response on the record, please.

1 MR. HART: Yes.

2 CHAIRMAN JABER: Thank you. Okay. By my list,
3 Commissioners, we've got Benjamin Smith.

4 MR. BEASLEY: Call Mr. Smith.

5 CHAIRMAN JABER: Is that right, Mr. Beasley, or have
6 I left anyone off?

7 MR. BEASLEY: That's correct.

8 BENJAMIN SMITH

9 was called as a witness on behalf of Tampa Electric Company
10 and, having been duly sworn, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. BEASLEY:

13 Q Mr. Smith, could you please tell us your name, your
14 business address and your position with Tampa Electric Company.

15 A My name is Benjamin Smith. I am manager of power
16 origination for Tampa Electric Company. My physical address is
17 702 North Franklin Street, Tampa, Florida 33602.

18 Q Thank you. Mr. Smith, did you prepare and submit in
19 this proceeding a document entitled "Projection Testimony of
20 Benjamin Smith" that was filed on September 12th, 2003?

21 A Yes, I did.

22 Q Do you have any changes or corrections to make to
23 your testimony?

24 A I do not.

25 Q If I were to ask you the questions in that prepared

1 testimony, would your answers be the same as set forth therein?

2 A Yes, they would.

3 MR. BEASLEY: I would ask that Mr. Smith's prepared
4 direct testimony be inserted into the record as though read.

5 CHAIRMAN JABER: The prefiled testimony of Benjamin
6 F. Smith shall be inserted into the record as though read.

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1 BEFORE THE PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 BENJAMIN F. SMITH

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

8
9 A. My name is Benjamin F. Smith. My business address is
10 702 North Franklin Street, Tampa, Florida 33602. I am
11 employed by Tampa Electric Company ("Tampa Electric" or
12 "company") in the Wholesale Marketing and Fuels
13 Department.

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

17
18 A. I received a Bachelor of Science degree in Electric
19 Engineering in 1991 from the University of South Florida
20 in Tampa, Florida. I joined Tampa Electric in 1990 as a
21 cooperative education student. During my 12 years with
22 the company, I have worked in the areas of transmission
23 engineering, distribution engineering, resource
24 planning, retail marketing and wholesale marketing. My
25 current title is Manager, Power Marketing in the

1 Wholesale Marketing and Fuels Department. My
2 responsibilities are to evaluate, pursue and negotiate
3 wholesale purchase and sale opportunities. In this
4 capacity, I interact with wholesale power market
5 participants such as utilities, municipalities, electric
6 cooperatives, power marketers and other wholesale
7 generators.

8
9 **Q.** What is the purpose of your direct testimony in this
10 proceeding?

11
12 **A.** The purpose of my testimony is to provide a description
13 of Tampa Electric's 2003 and 2004 purchased power
14 agreements the company has entered into and for which it
15 is seeking cost recovery through the Fuel and Purchased
16 Power Cost Recovery Clause ("fuel clause") and the
17 Capacity Cost Recovery Clause. I support the
18 reasonableness of replacement power costs due to the
19 shutdown of Gannon Units 1 through 4 in 2003. Finally,
20 I describe Tampa Electric's purchased power strategy for
21 mitigating supply-side risk while providing customers
22 with a reliable supply of economically priced purchased
23 power.

1 **Wholesale Purchases**

2 **Q.** Please describe Tampa Electric's wholesale energy
3 purchases for 2003.

4
5 **A.** Tampa Electric assessed the wholesale energy market and
6 entered into short-term purchases based on price and
7 availability of supply. The company expects to meet 15
8 percent of its customers' 2003 energy needs through
9 purchased power, including the existing long-term firm
10 purchased power agreement with Hardee Power Partners and
11 qualifying facilities. This also includes a total of
12 232 MW that was purchased to meet the winter peak
13 reserve margin requirement. The company also extended
14 the terms of two existing purchased power contracts for
15 economic reasons. In addition, the company extended the
16 leasing agreement for 30 self-contained portable
17 generators through March 31, 2003, which supplied 50 MW
18 to supplement the company's winter peak reserve margin.

19
20 With the addition of Bayside Unit 1 in April 2003, the
21 company did not have a need to purchase firm capacity
22 for its summer 2003 reserve margin requirement.
23 However, because of higher than expected load levels in
24 May 2003, Tampa Electric made a 100 MW energy purchase
25 on the forward market for 22 days to assist with price

1 stability and reliability of supply.

2
3 For 2003, Tampa Electric expects that [REDACTED] of its
4 purchased power will be from long-term contracts, and
5 the remaining [REDACTED] will be purchased through the
6 short-term market. This purchasing strategy provides a
7 reasonable and diversified approach to serving retail
8 customers.

9
10 **Q.** What capacity and energy purchases are included in Tampa
11 Electric's projections for 2004?

12
13 **A.** In addition to the existing long-term firm purchased
14 power agreement with Hardee Power Partners and
15 qualifying facility purchases, Tampa Electric projects
16 that it will purchase 50 MW of firm capacity for its
17 summer 2004 reserve margin requirement. Tampa Electric
18 will also continue to evaluate economic combinations of
19 forward and spot market energy purchases that may be
20 made during Tampa Electric's spring and fall generation
21 maintenance periods and peak periods to reduce the
22 overall cost to retail customers.

23
24 **Q.** Will the sale of the Hardee Power Partners capacity by
25 TECO Power Services affect Tampa Electric's purchase

1 agreement?

2

3 **A.** No, the sale of Hardee Power Partners will not have an
4 impact on Tampa Electric's purchase. Per the terms of
5 the agreement, the company's existing purchased power
6 agreement will continue in effect and be served by the
7 new owners.

8

9 **Replacement Power Costs Due to Gannon Shutdown**

10 **Q.** For 2003 and 2004, did Tampa Electric purchase or plan
11 to purchase replacement power due to the shutdown of
12 Gannon Units 1 through 4 in 2003?

13

14 **A.** Tampa Electric updated its fuel and purchased power
15 projections in February 2003 to reflect existing
16 conditions which include but are not limited to the cost
17 of natural gas as well as the company's decision to shut
18 down the Gannon units in 2003, as described in the
19 direct testimony of Tampa Electric's witness W. T.
20 Whale. In its February 2003 and most recent analysis,
21 Tampa Electric did not project the need to purchase
22 replacement firm capacity to meet its summer 2003
23 reserve margin requirements, due to the April 2003 in-
24 service date of Bayside Unit 1. However, the company
25 did anticipate purchasing supplemental energy as needed

1 in 2003.

2

3 As previously mentioned, Tampa Electric projects that it
4 will purchase 50 MW of firm capacity for its summer 2004
5 reserve margin requirement. The company also
6 anticipates purchasing supplemental energy as needed in
7 2004.

8

9 Although Tampa Electric projects its system capacity and
10 energy needs, the company also states that because of
11 system dynamics, it is neither feasible nor appropriate
12 to isolate and then attribute costs to a single
13 variable, such as the shutdown of the Gannon units, on
14 an actual basis. These system dynamics include unit
15 forced outages, operating restrictions, weather,
16 customer demand and statewide transmission and stability
17 issues.

18

19 **Q.** For 2003 and 2004, are Tampa Electric's purchases of
20 replacement power in the wholesale market due to the
21 shutdown of Gannon Units 1 through 4 in 2003 reasonable?

22

23 **A.** Yes, Tampa Electric's energy purchases to supplement
24 generation due to the shutdown of Gannon Units 1 through
25 4 are reasonable. As I describe later in my testimony,

1 in operating such a dynamic system, the company has and
2 will continue to evaluate power purchases using economic
3 dispatch, along with canvassing the marketplace, to
4 ensure a reliable and cost-effective supply of power for
5 its customers. For the aforementioned reasons, the
6 costs incurred for power purchases in 2003 and 2004 are
7 prudent and appropriate for recovery.

8

9 **Wholesale Sales**

10 **Q.** Please describe Tampa Electric's wholesale energy sales
11 for the year 2003.

12

13 **A.** Tampa Electric has entered into one firm, and various
14 non-firm, non-separated wholesale sales in 2003. These
15 transactions have provided benefits to retail customers
16 because revenues from the sales flow back to customers
17 through the fuel clause. The 50 MW non-separated, firm
18 sale occurred during March, when Tampa Electric
19 projected surplus generation on its system. It is the
20 only firm non-separated sale that Tampa Electric has
21 entered into since 1998. The company has not entered
22 into a firm separated wholesale sale since 1998.

23

24 **Wholesale Transaction Hedging**

25 **Q.** Does Tampa Electric engage in physical or financial

1 hedging of its wholesale energy transactions to mitigate
2 wholesale energy price volatility?

3
4 **A.** Tampa Electric thus far has engaged only in physical
5 hedging for wholesale transactions. Florida's wholesale
6 energy market is in an early developmental stage.
7 Physical and financial hedges provide measurable market
8 price volatility protection. However, the availability
9 of financial instruments is limited, and Tampa Electric
10 believes that the appropriate financial instruments to
11 meet the company's needs do not currently exist. Thus,
12 Tampa Electric has not purchased any wholesale energy
13 derivatives. The company employs a diversified power
14 supply strategy, which includes self-generation and
15 long- and short-term capacity and energy purchases. As
16 stated earlier, approximately [REDACTED] of Tampa
17 Electric's 2003 purchased power was arranged through
18 long-term contracts. This strategy provides the company
19 the opportunity to take advantage of favorable spot
20 market pricing while maintaining reliable service to its
21 customers.

22
23 **Prudent Management of Wholesale Transactions**

24 **Q.** Has Tampa Electric reasonably managed its wholesale
25 power purchases and sales practices for the benefit of

1 its retail customers?

2

3 **A.** Yes, Tampa Electric has reasonably managed its wholesale
4 power purchases and sales practices for the benefit of
5 its retail customers. Tampa Electric has fully complied
6 with, and continues to fully comply with, the
7 Commission's March 11, 1997 order, PSC-97-0262-FOF-EI,
8 in Docket No. 970001-EI, which governs the treatment of
9 separated and non-separated wholesale sales. In
10 addition, the company actively manages its wholesale
11 sales and purchases with the goal of capitalizing on all
12 opportunities to reduce costs to its customers.

13

14 The company's wholesale purchases and sales activities
15 and transactions are continually reviewed and have been
16 audited on a routine and recurring basis by the
17 Commission. In addition, Tampa Electric continually
18 monitors its contractual rights with purchased power
19 suppliers as well as with entities to whom wholesale
20 power is sold to detect and prevent any breach of the
21 company's contractual rights. Tampa Electric
22 continually strives to improve its knowledge of the
23 markets and the available opportunities to minimize the
24 costs of purchased power and to maximize the savings the
25 company provides retail customers by making non-

1 separated wholesale sales when excess power is available
2 on Tampa Electric's system.

3
4 Q. Please describe the efforts Tampa Electric has made to
5 ensure that its wholesale purchases and sales activities
6 are conducted in a reasonable and prudent manner.

7
8 A. Tampa Electric evaluates its potential purchased power
9 needs by analyzing the expected available amounts of
10 generation and the power needed to provide for the
11 projected energy and demand to be used by its customers.
12 The company then aggressively shops for wholesale
13 capacity and energy, searching for reliable supply at
14 the best possible price from creditworthy
15 counterparties. These purchases are evaluated based on
16 forward and spot markets. The company engages in
17 wholesale power purchases and sales with numerous
18 counterparties. The creditworthiness of each
19 counterparty is carefully checked before engaging in
20 energy transactions. Purchases are made to achieve
21 reserve margin requirements, to meet customers' needs,
22 to supplement generation during both planned and
23 unplanned generating unit outages and for economical
24 purposes. This process is in place and is strictly
25 followed to minimize the cost of purchased power and

1 maximize the savings to customers.

2

3 Q. Please summarize your testimony.

4

5 A. Tampa Electric constantly monitors and assesses the
6 wholesale energy market to locate and take advantage of
7 opportunities in the wholesale electric power market,
8 and those efforts have benefited the company's
9 customers. Tampa Electric's energy supply strategy
10 includes self-generation and long- and short-term power
11 purchases. The company purchases in both the physical
12 forward and spot wholesale power markets to provide
13 customers with a reliable supply at the lowest possible
14 cost. Tampa Electric's purchases of replacement power
15 in 2003 and 2004 due to the shutdown of Gannon Units 1
16 through 4 are reasonable, and it is appropriate for the
17 Commission to authorize the recovery of such costs. The
18 company has also made non-separated wholesale energy
19 sales, which benefit its retail customers. Finally,
20 Tampa Electric does not purchase wholesale energy
21 derivatives in the developing Florida wholesale electric
22 market due to a limited availability of financial
23 instruments that are appropriate to the company's
24 operations.

25

1 Q. Does this conclude your testimony?

2

3 A. Yes.

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1 BY MR. BEASLEY:

2 Q Mr. Smith, could you summarize your direct testimony
3 for us, please.

4 A Yes. Good morning, Commissioners. My testimony
5 provides a description of Tampa Electric's 2003 and 2004
6 purchased power agreements that it has entered into and for
7 which it is seeking cost recovery. This includes cost recovery
8 for short-term purchased power, as well as the company's only
9 long-term firm purchased power agreement that provides power
10 from the Hardee Power Station. This long-term agreement has
11 been around since 1989 and is a cost-based FERC-approved
12 contract. Also, this Commission reviewed and approved the
13 treatment of this contract as a part of the 1989 Hardee
14 determination of need proceeding.

15 As you know, earlier this year the Hardee Power
16 Station was sold to another company. I can assure you that
17 this sale has no bearing on the continuation of Tampa
18 Electric's purchased power agreement because the original 1989
19 contract is unchanged.

20 Tampa Electric always uses sound judgment when
21 deciding to purchase power and works hard at locating the most
22 economical products for its customers. Tampa Electric's power
23 purchases are prudent and should be approved for recovery.

24 My testimony also addresses the reasonableness of
25 replacement purchased power given to the shutdown of Gannon

1 Units 1 through 4. Although many numbers have been thrown
2 around regarding the impact of this shutdown on replacement
3 power costs, one cannot assume that this impact can be
4 calculated as a simple matter of taking the difference between
5 two of the company's filings.

6 The company's generation system is a dynamic one with
7 many interrelated variables that affect its purchased power
8 decisions and costs. We modeled the system making many
9 assumptions about many dynamic factors, and there is not a
10 strict cause and effect relationship that would allow the
11 company to assign an impact to one specific variable in
12 isolation.

13 In addition, the estimation of these impacts must
14 always be hypothetical because there is no way to go back and
15 true-up to what actually occurred. As Witness Whale described,
16 there are many valid reasons why the Gannon Units 1 through
17 4 were shut down. And even though the shutdown of these units
18 may have contributed to the need for supplemental energy
19 purchases, one must not overlook the fact that Tampa Electric
20 uses sound judgment when deciding to purchase power. These
21 supplemental energy purchases are reasonable and should be
22 approved for cost recovery. And that ends my summary.

23 MR. BEASLEY: Thank you. We tender Mr. Smith for
24 questions.

25 CHAIRMAN JABER: Thank you, Mr. Beasley.

1 Let me take an opportunity to address an
2 administrative issue. I should have done this earlier, but I
3 needed to make sure all the Commissioners were okay with this.
4 Our plan is to break at noon for lunch today, so I want you all
5 to be able to prepare, plan accordingly. But my goal is to
6 finish this hearing tonight -- this afternoon preferably. So
7 please, you know, please govern yourselves accordingly. There
8 will be a full hour lunch break. It is our goal to finish this
9 afternoon.

10 And with that, cross-examination, Mr. Vandiver.

11 CROSS EXAMINATION

12 BY MR. VANDIVER:

13 Q Good morning, Mr. Smith.

14 A Good morning.

15 Q Can you describe the Tampa Electric portfolio of
16 generating assets?

17 A Tampa Electric has coal, natural gas and some small
18 oil-fired generation. It has coal from Big Bend Station, which
19 I believe is about a 1,700-megawatt coal fire station. And
20 it's bringing on -- Bayside Unit 1 is already on as of May of
21 this year, and Unit 2 will be on as of January of next year.
22 That will be 1,700 megawatts of natural gas-fired generation.
23 And it has some CTs which are natural gas, and it also has
24 purchased power.

25 Q I want to do this at about 30,000 feet. Can you

1 approximate the percentage of those generating assets?

2 A The percentage? What do you mean about the
3 percentage?

4 Q What percent of your generation is coal?

5 A I don't know the percent. I know that it's about
6 1,700 megawatts. There's also an additional 250 megawatts from
7 a coal gasifier that we have.

8 Q Are y'all about 70 percent coal?

9 A On a generation basis we're probably about 60 percent
10 energy based on coal.

11 Q The remainder would be natural gas with a tiny
12 percent oil?

13 A Thereabouts.

14 Q Okay. Now what does coal cost per megawatt hour
15 again, about \$23?

16 A Somewhere in the low 20s.

17 Q Low 20s. Okay. Now on your October 8th schedule
18 filed September 25th, 2003, Tampa listed purchased power at
19 about \$47 a megawatt hour. Does that sound about right?

20 A I don't have the A schedule in front of me.

21 Q Let me give it to you. I'm also going to give you
22 the previous month, and I think that is listed at \$57 an hour
23 for purchased power. I'll let you take a look at that just to
24 confirm it.

25 A I'm going to look at A Schedule 7?

1 Q I think it's on the A1 right there on --

2 MR. BEASLEY: Excuse me, Rob. Do you have a copy of
3 that I could see?

4 MR. VANDIVER: I've just got one, Mr. Beasley. I was
5 hoping we could really expedite this thing and go through
6 really quickly since Mr. Smith is an expert.

7 THE WITNESS: What month?

8 CHAIRMAN JABER: Well, wait a second. But counsel is
9 entitled to a copy. Is it a copy that is readily available in
10 the building? Tell me what the schedule is again.

11 MR. VANDIVER: This is the A schedule. I'm looking
12 on the A1 schedule, Mr. Smith.

13 CHAIRMAN JABER: And the A1 schedule is part of what
14 exhibit, Mr. Vandiver?

15 MR. VANDIVER: It's also in Denise Jordan's prefiled
16 testimony.

17 THE WITNESS: I have an A schedule.

18 CHAIRMAN JABER: Mr. Smith, hang on a second. Your
19 attorney is entitled to look at the document that's been handed
20 to you, so let's wait.

21 Mr. Beasley, do you have a copy of Ms. Jordan's
22 testimony?

23 MR. BEASLEY: Rob, which testimony is it? She's
24 sponsoring several.

25 MR. VANDIVER: This is the A schedule filed

1 September 25th, 2003.

2 MR. BEASLEY: Do you know which testimony it's
3 attached to?

4 MR. VANDIVER: Yes. This is the testimony filed --
5 it's the final true-up testimony of Denise Jordan. And,
6 Mr. Beasley, this, this was filed under your signature.

7 MR. BEASLEY: Give me a minute.

8 BY MR. VANDIVER:

9 Q Have you found the number I'm referring to?

10 CHAIRMAN JABER: Mr. Vandiver, I do -- the witness
11 will not answer the question until counsel has had an
12 opportunity to review the schedule. That's courteous. You
13 would expect the same thing.

14 MR. VANDIVER: I'm sorry. Yes, ma'am.

15 CHAIRMAN JABER: Okay. Mr. Beasley, the other thing
16 you can do is walk over to your witness and take a look at the
17 schedule.

18 MR. BEASLEY: I think I'll do that for expediency.

19 CHAIRMAN JABER: Thank you. I appreciate it.

20 Y'all know me better than this. I'm actually in a
21 good mood today. You're lucky.

22 COMMISSIONER DAVIDSON: I'm in a good mood, too,
23 Chairman. I haven't seen practice like this just in general.
24 I mean, everyone needs to have their exhibits ready, copies for
25 everyone, page references.

1 MR. BEASLEY: I would just note this was not attached
2 to any testimony. It's something, I think, that was filed this
3 month. But we would certainly concede to the question. Go
4 ahead.

5 CHAIRMAN JABER: Mr. Beasley, do you want to sit
6 there while these questions go forward?

7 MR. BEASLEY: Thank you.

8 CHAIRMAN JABER: Okay. Mr. Vandiver, go ahead.

9 BY MR. VANDIVER:

10 Q Have you found the reference to the purchased power
11 cost, sir?

12 A I see the reference. Can you repeat your question?

13 Q Yes, sir. On the October 8th schedules filed --

14 COMMISSIONER BRADLEY: Excuse me, Madam Chair.

15 CHAIRMAN JABER: We don't have a copy either.

16 COMMISSIONER BRADLEY: No. You know, maybe we need
17 to not let these documents be admissible. I'm serious.

18 CHAIRMAN JABER: No, I know you are. I'm laughing
19 out of frustration.

20 COMMISSIONER BRADLEY: Because now, you know, I don't
21 think there's anyone at the table who does not know the rules
22 that we govern this process by, and either they're playing
23 games with us or they've had a serious lapse in memory as it
24 relates to process and procedure, and I think it's making a
25 mockery of the process.

1 I would suggest maybe that we make these documents
2 inadmissible. Any document that has not been submitted to
3 everyone who, who should have access to it at this point should
4 be inadmissible.

5 CHAIRMAN JABER: Yeah. Commissioner Bradley, I
6 understand your frustration. I don't know from a legal
7 standpoint if I could find that they are inadmissible. But
8 certainly the parties should consider this an admonishment for
9 not adhering to the process. I'll allow these questions to
10 continue, but I think parties have been warned. If you have
11 other exhibits, you run out and make copies right now. But
12 thank you, Commissioner Bradley, because I wholeheartedly
13 agree. But in an effort to keep this going, let's let the
14 questions continue.

15 Mr. Vandiver, if you have other exhibits and you
16 don't have copies of them, this would be a good time to say so,
17 and we'll allow you time to, to make those copies.

18 Again, like yesterday, I'll remind all parties to
19 read the orders on procedure in the prehearing orders which
20 clearly say, bring enough copies of exhibits, use your red
21 folders. There is a process. We've been following the process
22 for ages. I've been Chairman for the last two years. None of
23 this surprises you all. Let's go forward.

24 MR. VANDIVER: And I was -- I apologize.

25 CHAIRMAN JABER: Go ahead, Mr. Vandiver.

1 BY MR. VANDIVER:

2 Q Have you found the reference to the purchased power
3 numbers, Mr. Smith?

4 A I see the reference. Would you -- did you ask for
5 specific values?

6 Q Are you familiar generally with purchased power and
7 do you see the reference to the \$47 and \$57 numbers for
8 purchased power?

9 A I see on September '03 the A1, there's a circled
10 number here for \$47.67.

11 Q Yes, sir.

12 A And on August '03 what reference would you like me to
13 look at?

14 Q The same, the same page, the same reference. And I
15 believe it's a \$57 reference.

16 A For August '03 the same reference looks, looks to be
17 about \$61.

18 Q Yes, sir. Does purchased power jump around a lot?

19 A Yes, it can.

20 Q Okay. And that indicates that, doesn't it?

21 A Yes. It indicates that it jumps around a lot. But
22 it also depends on, on how we're out there buying as well.

23 Q Yes, sir. And those purchased power numbers are
24 considerably higher than the low 20 numbers that are
25 represented by the Gannon figures; is that correct?

1 A They are. They are higher than 20.

2 Q Yes, sir. Do you know what natural gas costs today?

3 A No, I do not. That's not my area. Fuel isn't my
4 area.

5 Q Who would be the appropriate witness to discuss the
6 natural gas costs?

7 A Witness Wehle.

8 Q Wehle? Very well, sir. And so Witness Wehle would
9 be the appropriate person to discuss the natural gas costs?

10 A That's correct.

11 Q Okay. Who would be the appropriate witness to
12 discuss the output megawatt hour wise of the Gannon Units
13 1 through 4 in 2002?

14 A That would be Witness Whale.

15 Q Whale. Thank you, sir. That's all the questions I
16 have.

17 CHAIRMAN JABER: Mr. McWhirter.

18 CROSS EXAMINATION

19 BY MR. McWHIRTER:

20 Q Good morning.

21 A Good morning.

22 Q You say you have responsibilities, responsibilities
23 to evaluate, pursue and negotiate wholesale purchase and sale
24 opportunities; is that correct?

25 A Yes.

1 Q When you are looking for power to buy, how do you do
2 that in Florida? Is there a bulletin board that has the prices
3 of available spot market power and forwards power that you look
4 at?

5 A Florida doesn't really have a posted bulletin board
6 like they do in other regions like PJM, for example. But what
7 we do is we call counterparties and we canvass the marketplace
8 looking for the best product under the best terms and
9 conditions.

10 Q When you find a likely candidate to sell you power,
11 do you send an RFP or an invitation to bid to that person or do
12 you spread one out over a number of people seeking bids for
13 power?

14 A When we're buying power on an hourly basis, what we
15 do is we just make phone calls to as many creditworthy
16 counterparties as would have a particular product that we're
17 looking for.

18 Q You've indicated in your testimony that you have
19 several fairly long-term contracts in matters of months and
20 years, and I was wondering with respect to those how do you
21 determine what the, what the market is and what the best price
22 is?

23 A I know we have only one long-term contract, and
24 that's with the Hardee Power Station that's been around since
25 1989. And we also have had this year some shorter term

1 agreements with some counterparties for purchased power, and
2 those were less than a year. And those are done just the way I
3 described: We call the counterparties when we've identified
4 through the planners and the asset managers that there may be a
5 projected need for the company as far as needing purchased
6 power.

7 Q And do you have certain questions you ask about what
8 the price is? How -- what do you -- what factors do you look
9 for in a purchase? What, what are the key factors that you put
10 in your purchase order?

11 A Well, there are a lot of different factors that could
12 come into play depending on what we're in the market looking
13 for.

14 Q And what are they?

15 A They could include anywhere from the capacity or the
16 amount that we're looking to purchase to the particular price
17 range that we're looking for. For example, if you're looking
18 to use something only under a small period of time, only a few
19 hours a day, you look for a peaking product, a CT or something
20 that you would use on a peaking basis. If you're looking for
21 something that would run more where you could utilize more, you
22 look for something priced a little differently.

23 Q And when you're selling power, how do you do that, if
24 you wanted to sell a block for six months, say?

25 A Well, keep in mind that we've only had one monthly

1 sale that we did this March, and before that we hadn't done a
2 sale in quite some time. But when we're looking on the hourly
3 marketplace, whenever we have capacity, we're notified that
4 we'll have additional capacity from our asset managers. At
5 that time we get the price of the cost of those resources for
6 that hour. And given that the marketplace will accept a higher
7 price so that we cover our costs, then we'll make that sale.

8 Q You said you had one firm contract. What is that
9 contract?

10 A That contract is the Hardee Power Station.

11 Q I'm talking about a sale contract.

12 A It was a sale that we did this March.

13 Q Oh, you sold power to Hardee this March?

14 A No, sir. We sold power to another company this
15 March. It was only for one month.

16 Q Okay. And that's the only long-term contract you
17 have?

18 A We don't consider that to be long-term.

19 Q Well --

20 A We have, we have other PR requirements contracts, but
21 those are separated sales.

22 Q You're talking about the Schedule D sales with the
23 New Smyrna Beach and Fort Meade and Wachula and those people?

24 A Fort Meade, Wachula, those type folks, yes.

25 Q Now those Schedule D contracts had in them in order

1 to -- my understanding was is in order to give people the best
2 fuel price, you committed certain facilities to those
3 contracts, and the facilities you committed were Big Bend and
4 the Gannon Stations. What has happened to those contracts with
5 respect to your closure of the Gannon Station?

6 A Our existing PR contracts are all system products.
7 So those people pay the actual cost of fuel on our system.
8 They pay system fuel.

9 MR. McWHIRTER: I'm sure glad I made copies this
10 morning.

11 CHAIRMAN JABER: Thank you. Mr. McWhirter, just in
12 case you need more copies, I had an extra one, too.

13 MR. McWHIRTER: Thank you.

14 Would you mark this as an exhibit for identification,
15 please, ma'am?

16 CHAIRMAN JABER: Mr. McWhirter, Schedule E7, Page 2
17 of 2 --

18 MR. McWHIRTER: 2 of 2.

19 CHAIRMAN JABER: -- and sheet 2 of 5 will be marked
20 as Exhibit 24.

21 (Exhibit 24 marked for identification.)

22 BY MR. McWHIRTER:

23 Q Now this exhibit duplicates an exhibit that's already
24 in the record in this case, and I've extracted it from
25 Mr. Portuondo's testimony. And in it he prepared his

1 projections for fuel purchases and electricity purchases by
2 Florida, Florida Progress for the forthcoming year. And on
3 Schedule E7 to his exhibit he shows that he has a contract with
4 Tampa Electric that results in Florida Power's -- Florida
5 Progress's purchase of 339,000-megawatt hours of electricity
6 for the year 2004. Are you familiar with that contract?

7 A Give me a moment. We do have a sale that we make to
8 Florida Progress, yes.

9 Q You're familiar with that contract?

10 A I'm somewhat familiar with it, yes.

11 Q Did you negotiate the terms of that contract?

12 A No. That contract has been around for a while.

13 Q What, what is the term of that contract? When does
14 it expire?

15 A I'm not sure.

16 Q Do you know whether it's firm or an interruptible
17 contract?

18 A It's a firm contract.

19 Q And the second page of the exhibit, it shows the
20 capacity charge that Tampa Electric receives for that contract.
21 And for the forthcoming -- well, for the year '03 apparently it
22 received, you were paid \$6.7 million for the purchase; is that
23 correct?

24 A I'm not sure.

25 MR. BEASLEY: Madam Chairman, if I -- I don't know

1 that the witness has even seen this document before.

2 CHAIRMAN JABER: Mr. McWhirter, have you, have you
3 laid the foundation for the questions you're asking?

4 MR. McWHIRTER: Well, I thought I did. This
5 gentleman said that it was his responsibility to evaluate,
6 pursue and negotiate wholesale purchase and sale opportunities,
7 and I presumed that he would be familiar with the sales
8 contracts. If that --

9 BY MR. McWHIRTER:

10 Q You're not familiar with the sales contracts?

11 A I am familiar with the contract, but Progress
12 Energy's E7 schedule is nothing that I look at on a routine
13 basis. In fact, I've never, I've never seen this schedule in
14 particular. I know that Tampa Electric has a sale with Florida
15 Progress, but they have other folks that actually do the
16 billing and all of those things. Once I, once it's negotiated
17 and done, we have back office people that take care of the
18 administrative part.

19 Q Have you ever looked at that contract? Do you know
20 what its terms and conditions are?

21 A I don't know when the contract ends. No, sir.

22 Q You don't know anything about the contract?

23 A I don't know when the contract ends. I know that
24 it's firm. I know the general capacity of the contract.

25 Q What is that?

1 A It's about 60 megawatts.

2 Q And do you know the termination date?

3 A I do not know when the contract ends.

4 Q This showed that in August of last year the capacity
5 payment went up \$400, but every other month it was the same.
6 Do you know why it went up \$400?

7 MR. BEASLEY: I object to that question because
8 Mr. McWhirter is testifying from a document that the witness
9 indicates that he's not seen before, and I don't think that's
10 fair.

11 CHAIRMAN JABER: Mr. McWhirter, your response.

12 MR. McWHIRTER: Well, my response is that this is an
13 exhibit that's in the record in this proceeding and it relates
14 to a contract between Progress Energy and Tampa Electric. And
15 this gentleman is responsible for all the wholesale contracts
16 and he says he was familiar with the terms and conditions, and
17 it would seem to me that he would know why the capacity payment
18 would increase by \$400 in the month of August of this year.

19 CHAIRMAN JABER: So you think -- and get closer to
20 the microphone. I'm having trouble hearing you.

21 MR. McWHIRTER: Yes, ma'am. I'm sorry.

22 CHAIRMAN JABER: But you think, you think it's within
23 the scope of his testimony?

24 MR. McWHIRTER: Yes, ma'am.

25 CHAIRMAN JABER: You said that this exhibit is in the

1 record elsewhere. Who is sponsoring this exhibit?

2 MR. BEASLEY: Mr. Portuondo. Mr. Portuondo.

3 Am I making that noise?

4 CHAIRMAN JABER: Probably. Portuondo?

5 COMMISSIONER DEASON: Portuondo. Yes. That fellow
6 with the goatee; handsome fellow.

7 CHAIRMAN JABER: You didn't ask him these questions
8 yesterday, did you? I don't recall this.

9 MR. McWHIRTER: No. No, I didn't.

10 CHAIRMAN JABER: Okay. Mr. McWhirter, this witness
11 has said he's not familiar with this document. If you want to
12 rephrase your question based on testimony this witness has
13 already given, I will allow it. Otherwise, let's move on.

14 BY MR. McWHIRTER:

15 Q Do you know whether that contract has capacity
16 escalators in it from your review of it?

17 A I don't know. I know that there is a capacity
18 payment, but I don't know if there's escalators in it or not.

19 Q All right. And if you had an energy shortage that
20 caused you to manage the load of your DSM customers or
21 interrupt your interruptible customers, this contract with
22 Florida Power would have priority over the demand of your
23 retail customers, would it not?

24 A It's a firm contract, which means that it would be
25 served on a firm basis.

1 Q Are you -- you have talked about in your testimony
2 and also in your opening comments about the Hardee Power
3 contract. Are you familiar with that contract?

4 A I've read through it some, yes.

5 Q Were you -- the contract was renegotiated in the year
6 1999 for new capacity that was being added at Hardee Power
7 Partners' site during the year 2003, this year. Are you
8 familiar with that?

9 A First of all, I don't know if it was renegotiated.
10 I'm familiar with Seminole waiving its right to enter into
11 Hardee Number 2 --

12 Q Correct.

13 A -- which would be CT 2B, and then Tampa Electric
14 taking its right after Seminole waived its right in that year
15 to accept CT 2B to be built on behalf of Tampa Electric
16 Company, and that went into service in 2000.

17 Q The new capacity went into service in the year 2000?

18 A May of 2000, yes.

19 Q And do you know what your monthly capacity payment is
20 on that contract?

21 A It's around \$5 million for the year.

22 Q Beg your pardon?

23 A It's around \$5 million for the year.

24 Q Would it not be more accurate to say that it's
25 \$1.6 million every month?

1 A That math just -- I don't know the math, but right
2 now it doesn't seem like it's that much if it's only \$5 million
3 for the year.

4 Q Mr. Smith, Issue 17M in this docket deals with the
5 prudence of the Hardee transaction, and you've talked about it
6 and obviously you have studied that agreement and you're
7 familiar with its terms. But to assist you, I have prepared a
8 document which I'd ask the Chairman to mark as Exhibit Number
9 25 for identification.

10 CHAIRMAN JABER: Is it appropriate to call it the
11 Hardee Electric Rate Schedule?

12 MR. McWHIRTER: Yes.

13 CHAIRMAN JABER: And that will be marked as Exhibit
14 25.

15 (Exhibit 25 marked for identification.)

16 BY MR. McWHIRTER:

17 Q This is an extract from parts of that contract which
18 you say you're still bound upon, so you know the terms and
19 conditions of it, I assume; is that correct?

20 A I've read through the contract. I am generally
21 familiar with the contract.

22 Q And you testified that in September of this month,
23 you said there was a change in ownership. Would you tell us a
24 little bit about what that change in ownership is and how it
25 works?

1 A I don't know if it was September of this month, but
2 this, this year the Hardee Power Station project was sold to
3 another company. But even though that sale occurred, I have
4 assurance from both the Tampa Electric legal staff as well as
5 the folks in TECO Power Services that the original 1989
6 contract is unchanged.

7 Q So could you rummage through and tell us, the
8 documents I've given you, and tell us whether to the best of
9 your recollection this represents the document your company has
10 entered into with Hardee Power Partners?

11 MR. BEASLEY: I would like to reiterate
12 Mr. McWhirter's indication that this is only excerpts from the
13 agreement. And it's quite a big excerpt, and I don't know that
14 the witness can rummage through it as we sit here.

15 BY MR. McWHIRTER:

16 Q I don't ask -- does it look like the thing you've
17 seen before? And for purposes of this cross-examination will
18 you agree, subject to check, that it is an extract from your
19 contract?

20 Take a few minutes and look at the key things that
21 you normally are concerned about and see if this is an accurate
22 representation of those items. What I've done is I've
23 extracted -- I've left in the index, I've left in the preamble,
24 and then I've done the payment requirements. And, of course,
25 you're responsible for negotiating payments, so I thought you

1 would know about that.

2 A I can agree, subject to check. But I do want to
3 qualify that by saying the Hardee Power Station contract is a
4 100-page document and it has a lot of details in it. And I do
5 understand the generals about the contract, but there may be
6 some specifics in those 100 pages that are just --

7 Q I certainly don't want to pressure you to recite the
8 whole contract and I'm only going to ask you about a few minor
9 points in the contract.

10 But Ms. Jordan has filed testimony in this case,
11 which has not, she hasn't yet testified, but she has the
12 amounts of sales or purchases from Hardee in the year 2003 in
13 the testimony she filed in August and she has what the
14 projected sales are in the year 2004. I'm sure you, you may --
15 do you have a copy of her testimony there that you can look at?

16 A I do not.

17 Q All right. I'm going to give you the numbers that
18 she has in her testimony, and I'd like you to agree with me,
19 subject to check, that they're accurate. And if you don't
20 think they're accurate, then please say so and then we'll
21 clarify it.

22 But in the exhibit she filed on August the 12th,
23 2003, at Page 20 of that exhibit it shows that for the year
24 2003 --

25 MR. BEASLEY: Madam Chairman, I object to -- this

1 appears to be testimony. The witness does not have whatever
2 the document is that the numbers are coming from. He might --
3 or he probably is not the right witness to ask about it because
4 he didn't sponsor whatever it is Mr. McWhirter is about to
5 testify to, so I object to the line of questioning.

6 CHAIRMAN JABER: Mr. Beasley, you haven't heard what
7 the questions are, so you don't know if he's able to testify to
8 them or not. But I agree with you that we need to provide,
9 Mr. McWhirter, the witness a copy of Ms. Jordan's testimony.

10 BY MR. McWHIRTER:

11 Q I'm going to give you my very own copy of the
12 testimony, and I've marked key pages, and I'll try to deal with
13 it from my recollection of it. That's the testimony that she
14 filed in September for the year 2004. I'm now handing you the
15 testimony that she filed in August that's a true-up for the
16 year 2003, and I'd ask you to look at that and see if you think
17 that is actually her -- the testimony that she gave.

18 CHAIRMAN JABER: Mr. McWhirter, I'm sorry to
19 interrupt you, but, you know, the court reporter can't capture
20 your comments if you're not by the microphone.

21 MR. McWHIRTER: Yes, ma'am.

22 BY MR. McWHIRTER:

23 Q Would you look at, would you look at, I believe it's
24 Schedule 7 which shows the purchased power. Let's look first
25 at the August 12th testimony. I think you have the September.

1 The August 12th is in your right hand, and I may have marked
2 it. And it shows at the bottom of, I believe it's -- is it the
3 Schedule 7 is the purchases from Hardee Power?

4 A Schedule E7 is purchased power, yes.

5 Q And tell us, if you believe that's correct, what the
6 amount of megawatt hours that you've purchased from Hardee
7 Power for 2003, both actual and estimated, and what the average
8 price paid and what the total dollar amount was.

9 A From the document you've given me, the energy from
10 Hardee looks to be 656,652 megawatt hours. The price for the,
11 for the fuel shown, \$68.26 per megawatt hour, for a total
12 of \$44,823,832.22.

13 Q And what did you say the price per megawatt hour was?

14 A It's shown as \$68.26.

15 Q Now that's the energy charge from Hardee; is that
16 correct?

17 A That's energy. That's correct.

18 Q All right. Now the capacity payment, we seem to be
19 in some disagreement about it. But if you'll look at Page 36B
20 of the FERC document, you will see that I've highlighted in
21 paragraph 6.4 the capacity payment that you make to Hardee each
22 month.

23 A Did you say 36B?

24 Q Yes, sir.

25 CHAIRMAN JABER: Mr. McWhirter, where would I find

1 that page number, on the top or on the bottom?

2 MR. McWHIRTER: It's at the very bottom in the
3 center. It's about halfway through the document.

4 CHAIRMAN JABER: Oh, I see. It's Page 36B, original
5 sheet number 51B?

6 MR. McWHIRTER: Yes, ma'am. That's correct.

7 BY MR. McWHIRTER:

8 Q What is the amount you pay each month to Hardee Power
9 for the capacity payment?

10 A There are two numbers highlighted here. As you can
11 see, the one that we were referencing, the 2003 capacity
12 additions or the Hardee 2, which is the CT 2B that we were
13 discussing as far as the May in-service date, that number is
14 represented by the \$451,000 per month, and that's going to be
15 approximately about \$5 million a year.

16 Q And that's the new CT?

17 A Yes.

18 Q Now the number above is the, the amount of money
19 you're paying for the, under the 1990 contract; is that
20 correct?

21 A For the original Hardee, that looks about right, yes.

22 Q So could you take a quick moment and give us a fair
23 round number of the amount you pay each month in capacity
24 payments to Hardee?

25 A Round numbers for the year anyway, that works out to

1 be about \$20 million a year.

2 Q It's actually 19.6, but I don't want to testify
3 because Mr. Beasley will get mad at me.

4 Go to Page 37, and you have paragraph 6.4, and that
5 paragraph talks about the capacity finance rate adjustment.

6 Can you tell me what the capacity finance rate adjustment is?

7 A That's not in my area.

8 Q And you didn't negotiate this contract?

9 A Once again, the contract was negotiated back in '89.
10 I was just out of high school.

11 Q Back in what?

12 A It was negotiated back in 1989.

13 Q And this is the fourth amendment. When was the
14 fourth amendment negotiated?

15 A I'm not sure of the specific date.

16 Q Do you recall that it was submitted to this
17 Commission for approval in 1999?

18 A There was an amendment, a waiver that occurred in
19 1999. I don't know if it was the fourth amendment or what
20 amendment it was.

21 Q And that dealt with the construction of 75 megawatts
22 of new combustion turbine capacity?

23 A Tampa Electric, when it accepted its right, it chose
24 to build out a 75-megawatt CT at Hardee, and it went in service
25 May of 2000. Yes.

1 Q Now Section 6 of this contract deals with the
2 payments, and then each of those payments has a, a variable
3 cost that goes along with it. And I'd like you to look near
4 the back of the contract. At the top you'll see it's Appendix
5 G, and that's the appendix that's referred to in
6 Section 6.51 dealing with the combustion turbine variable O&M
7 costs. And do you know what that's all about?

8 A I imagine it has something do with O&M. Keep in mind
9 this is a cost-based contract, which means that we pay the
10 actual cost of fuel and the actual cost of O&M.

11 Q So it lists 14 adjustable items, well, I guess 16
12 adjustable items with respect to the combustion turbine, that
13 the costs can vary each month; is that correct? The charge to
14 you varies each month?

15 A I imagine that variable O&M could vary.

16 Q And then the next exhibit, the next appendix is
17 Appendix H, and that's the combustion turbine administrative
18 and general expenses. And it has nine items that can vary
19 every month; is that correct?

20 A I see the nine items. I imagine they could vary. I
21 can't say for sure.

22 Q All right. Now there's an Appendix F that deals with
23 the variable combustion turbine fixed operation and maintenance
24 costs as can be amended or can be varied each month in
25 accordance with Section 6.5.1B. Appendix F is ahead of

1 Appendix G.

2 A And it has combustion turbine fixed operating and
3 maintenance costs?

4 Q Yes.

5 A Once again, the costs of maintenance, operation, I
6 imagine those components could change just like with any other
7 generating facility.

8 Q Now on each of those variable items, Mr. Smith, it
9 talks about the fact that some of these services will be
10 offered by affiliated companies of Tampa Electric. And if that
11 happens, those affiliated companies have to give those
12 operations to you at cost without any markup. Are you familiar
13 with that concept?

14 A I know that we pay the actual cost of fuel and the
15 actual cost of O&M.

16 Q All right. Now the contract no longer belongs to an
17 affiliated company; it belongs to a third party. In your
18 oversight of this contract, what determination have you made
19 with respect to the ability of that third party to adjust the
20 cost of these 15 items in one place and nine items in another
21 and 14 in another each month to cover cost changes?

22 A Once again, I mentioned before, I've had discussions
23 with our own legal counsel who actually did the, I guess you
24 would call it a renegotiation or the sale of the Hardee
25 project, and they have assured me, as well as the folks in TECO

1 Power Services, they have assured me that the original 1989
2 contract is unchanged. And that's the best answer that I can
3 give you. It's their expertise, legal counsel. I have to
4 depend on, on them telling me the truth.

5 Q Now did I understand you in your opening statement to
6 make the statement that it was your opinion that this contract
7 was a prudent contract and in the best interest of Tampa
8 Electric's customers?

9 A I believe in my opening statement I said that I can
10 assure that the original -- the sale didn't have an impact
11 because the original 1989 contract was unchanged.

12 Q Well, how about the 19 -- the 2003 capacity addition
13 contract where you're now paying 100 percent of the cost of
14 this combustion turbine? Is it your opinion that that is a
15 prudent contract and that the costs incurred were prudent?

16 MR. BEASLEY: You said the 2003?

17 MR. McWHIRTER: Yes. That's what it's called here,
18 isn't it? 2003 capacity addition, if you'll look at the first
19 part.

20 THE WITNESS: It's what it's referred to. And it
21 actually went in service in 2000. And at the time that
22 agreement was entered into, I have to trust that the events and
23 assumptions at that time, which is the time period that you
24 have to evaluate that decision on, were prudent.

25 BY MR. McWHIRTER:

1 Q You assume that or did you make an independent study
2 yourself to back up your testimony that it was prudent?

3 A I wasn't there. I didn't actually do the deal. I do
4 know that there -- Linn (phonetic) Brown, who was there at the
5 time, he filed rebuttal testimony in November '99. He also
6 filed in his deposition in 2001 in the month of October stating
7 that he did go through and he evaluated other options before
8 entering into this contract, and he found it to be the best
9 option for Tampa Electric Company.

10 Q I see. And so you -- what you have testified then is
11 a hearsay opinion that it's okay because you're relying on the
12 opinion of somebody else that was given earlier, somebody who
13 you trust; is that correct?

14 MR. BEASLEY: I object to the question. It calls for
15 a legal conclusion.

16 CHAIRMAN JABER: Mr. McWhirter, your response.

17 MR. McWHIRTER: Well, he said that he hadn't made an
18 opinion; he based it on somebody else's. And I was just trying
19 to restate what he said. Is that not what you said, sir?

20 Well, excuse me. You need to rule on the objection.

21 CHAIRMAN JABER: That's okay. I don't necessarily
22 think it calls for a legal conclusion, but it certainly was a
23 confusing question. So why don't you reword it.

24 MR. McWHIRTER: I'm sorry. Most of my questions are,
25 and I'm sorry for that.

1 CHAIRMAN JABER: When we hear them.

2 BY MR. McWHIRTER:

3 Q You did not personally make a determination that this
4 contract was prudent, did you?

5 A No.

6 Q And on what basis do you then testify that it is
7 prudent?

8 A On the basis that I know it was evaluated per people
9 that I work with who were there at the time.

10 Q Do you know if any commitment was made to the new
11 owners that Tampa Electric would buy a certain amount of
12 electricity from this contract?

13 A I'm not aware of anything like that.

14 Q Does the contract that exists now require you to buy
15 a certain amount of electricity?

16 A The current contract gives us the right to call on
17 that resource. It's fully dispatchable at our use. We can use
18 as much as we deem economical to do so.

19 Q So you have an obligation to make a capacity payment,
20 but you don't have an obligation to buy any electricity from
21 Hardee; is that right?

22 A That's correct.

23 Q And to the best of your knowledge, no commitment was
24 made to the new owners that you would buy a certain amount of
25 electricity?

1 A To the best of my knowledge, that's correct. And
2 keep in mind that we pay the actual cost of fuel and the actual
3 cost of O&M.

4 Q And how do you know that you pay the actual cost?
5 There's no commitment in here for the new owners to charge you
6 the actual cost.

7 MR. BEASLEY: Is that a question?

8 BY MR. McWHIRTER:

9 Q It's only when TECO Power Service sells it to you.

10 A Can you rephrase that question, please?

11 Q Well, these appendix say that when TECO Power
12 Services adjusts the monthly charges for variable O&M and for
13 fixed O&M and for the other components, that they have to do it
14 at cost. But there's no such requirement when that's done by a
15 third party, is there?

16 A Once again, I can only tell you what our legal
17 department has told us, and that is that the original agreement
18 as it was before when TECO Power Services owned it is the same
19 as when the new owners have it today.

20 Q And there's a requirement by the Federal Energy
21 Regulatory Commission that when you're dealing with an
22 affiliated company, that you have to sell at cost; is that
23 right? And that was the basis upon which the contract was
24 approved; is that correct?

25 A Being cost-based, yes.

1 Q All right. But if you're dealing with a third party,
2 do they have to sell you the power at cost?

3 A Once again, the new owners still abide by the same
4 contract. The contract was set back in 1989 and the contract
5 goes through 2012, so it's unchanged.

6 CHAIRMAN JABER: Mr. Smith, what does that mean?
7 Again, not from a legal interpretation standpoint but the
8 practical application of what you just said, that when you are
9 dealing with a nonaffiliated third party, is that contract, are
10 the terms of that contract cost-based?

11 THE WITNESS: Yes. What, what essentially happened
12 is the Hardee Power Station contract was sold to a new owner,
13 but that new owner took over and operated the contract just as
14 any other person would who took it over. So they didn't go in
15 and open the contract and renegotiate terms and conditions. In
16 essence, they said, we will take over the same responsibility
17 of TECO Power Services, in which case it's seamless to us.

18 BY MR. McWHIRTER:

19 Q And is that in writing and is that included in any
20 written agreement that's been submitted to this Commission for
21 approval?

22 A I'm not, I'm not aware one way or the other.

23 Q My understanding, and I got my understanding from
24 Ms. Jordan's testimony, is what happens is -- and it's
25 explained in the executive summary of this contract, which is

1 at the end. Hardee Power Partners is a limited partnership and
2 TECO Power Services was the general partner and TECO Power
3 Services was also the limited partner. Is that your
4 understanding?

5 MR. BEASLEY: Perhaps it would be better for
6 Mr. McWhirter to ask Ms. Jordan questions about her testimony.

7 MR. McWHIRTER: All right.

8 BY MR. McWHIRTER:

9 Q So you don't know what the relationship is between
10 your company and the new owners?

11 A I know that the owners were a TECO Energy affiliate
12 and that they sold it to a new company.

13 Q And is that new company a TECO affiliate?

14 A I believe it is not.

15 Q Do you know a Mr. Richard Lehfeldt, Lehfeldt, vice
16 president of TECO Energy?

17 A Richard Lehfeldt?

18 Q Yeah.

19 A I've met him a couple of times. Yes.

20 Q Do you read the stuff that's written about him in the
21 newspaper from time to time?

22 A Not really.

23 Q Did you read the article that appeared in Tuesday's
24 Wall Street Journal?

25 A No, sir.

1 Q Now that article begins on Page 2, but it ends on
2 Page 8. And Page 8 is where they quote Mr. Lehfeldt.

3 MR. BEASLEY: I object to this line of testimony,
4 hearsay, and references to the Wall Street Journal. It's not a
5 document that anybody sponsored in this proceeding other than
6 Mr. McWhirter.

7 CHAIRMAN JABER: The objection is hearsay,
8 Mr. McWhirter. Your response.

9 MR. McWHIRTER: I'm going to ask him -- he's
10 identified Mr. Lehfeldt as an officer of his company and
11 Mr. Lehfeldt has made a public statement on behalf of the
12 company, and I'm going to ask him if he agrees with that
13 statement.

14 CHAIRMAN JABER: Okay. I'll allow the question.
15 Mr. Beasley, hearsay is allowed in administrative proceedings
16 and has to be corroborated, so we'll give it the weight it
17 deserves.

18 BY MR. McWHIRTER:

19 Q Now look at the caption where it says, "Fairly
20 Desperate Characters." And would you read that paragraph that
21 has Mr. Lehfeldt's quotes in it?

22 A "Fairly Desperate Characters. This has left many
23 companies with state-of-the-art plants but too few buyers for
24 the output. 'We in our industry are fairly desperate
25 characters these days,' says Richard Lehfeldt, senior vice

1 president at TECO Energy, which owns two large gas-fired plants
2 in the nation."

3 He has suppliers -- "He says, 'Suppliers will sell
4 electricity for extremely low prices just to have some cash
5 flow. Even a welfare rate of return is better than no rate of
6 return.'"

7 Q Now, sir, do you agree with that statement?

8 A Keep in mind that Richard doesn't have to get my
9 approval on anything that he says.

10 Q Okay. Do you agree with it?

11 A But I do know that Richard is speaking from a
12 Tampa -- TECO Energy perspective and that TECO Power Services
13 has projects throughout the nation. So whether or not I agree
14 with that or not, I can't say. And I don't know if he's
15 referring to projects in Arizona, in Arkansas and other places,
16 or Hardee.

17 Q Well, in your negotiations for wholesale power, have
18 you noticed some troubled companies in the State of Florida
19 that are willing to sell power at welfare prices?

20 A I don't know about welfare prices. But the wholesale
21 market compared to, you know, the 1999 times when we were
22 seeing triple and quadruple digit prices has come down some.

23 Q Has it just come down some?

24 A It's come down some. It's no longer four-digit
25 prices.

1 Q One final question. Well, I'm going to ask two final
2 questions.

3 I presume you observe what's going on in the
4 wholesale market around the country and the sale of power by
5 independent power producers in your responsibility both to sell
6 and to buy power, don't you?

7 A I pretty much focus on Florida and some of the
8 southeast because that's the market that we're primarily
9 dealing with.

10 Q Well, this article contends that there's a glut of
11 power in the southeast and, as a result, people are writing
12 down the value of their power plants. Do you agree with that?
13 Have you observed that in your --

14 MR. BEASLEY: I object. That wasn't in anything that
15 Mr. Smith was asked to look at, and it's testimony by
16 Mr. McWhirter.

17 BY MR. McWHIRTER:

18 Q Will you agree with me, subject to check, that the
19 article has that contention? And I'm not asking you what the
20 article says or the truth of the article. I'm asking you what
21 your observation is of the independent power market today.

22 A The independent power market in Florida has come
23 down, once again, from that '99 high peak season that we saw in
24 the wholesale marketplace. Keep in mind, however, that Florida
25 is a very different market than other markets. We're basically

1 a peninsula unlike another marketplace like Southern that has
2 entrances from TVA or Tennessee, the Carolinas and areas like
3 that. We're pretty much isolated with just import to the north
4 of us. So in the event that we have an import constraint or
5 the temperature in Florida is hotter than the rest of the
6 nation or the rest of the southeast, prices can vary in Florida
7 regardless of what anything else is going on.

8 Q And you're talking about the spot market as opposed
9 to the forwards market; right?

10 A That's correct.

11 Q Uh-huh. Have you noticed prices in the forwards
12 market going down?

13 A Once again, compared to the, to the high period of
14 time, yes. But even, even the forwards market in Florida,
15 depending on what's going on with Florida, can be different
16 from the rest of the southeast.

17 Q Well, under those circumstances have you reached a
18 conclusion as to why this investment company would pay a
19 premium to buy the Hardee Power Plant when other power plants
20 in the country are writing down their value?

21 A I don't know what that other company considered when
22 it bought the project.

23 Q But you do know that you've made no long-term
24 commitments to buy power from the company; is that correct?

25 A The Hardee Power Station is essentially a call

1 option. We pay a fixed amount of dollars for the right to call
2 on it one hour, no hour, 24 hours, whenever it's economical to
3 do so.

4 Q And currently when you -- well, I won't ask that
5 question.

6 I tender the witness.

7 CHAIRMAN JABER: Thank you, Mr. McWhirter.

8 Mr. LaFace, I'm not skipping you, am I?

9 MR. LaFACE: No, I'm fine.

10 CHAIRMAN JABER: Okay. Great. Staff.

11 CROSS EXAMINATION

12 MR. KEATING: Just one question.

13 BY MR. KEATING:

14 Q Mr. Smith, do you know what the incremental cost of
15 the replacement capacity in energy purchased by Tampa Electric
16 was in lieu of operating Gannon until the end of 2004?

17 A No, I do not. I know that there's been a lot of
18 analyses done about the Gannon shutdown, but beyond that, no.

19 MR. KEATING: Thank you.

20 CHAIRMAN JABER: Commissioners, do you have any
21 questions?

22 Commissioner Deason.

23 COMMISSIONER DEASON: I understand there's been a lot
24 of analysis done concerning what the incremental cost is
25 associated with shutting down the Gannon Units. I believe that

1 Ms. Jordan's testimony has a calculation, her latest version --
2 have you reviewed her testimony and her calculation of that
3 amount? I think it was somewhere in the neighborhood of
4 \$8 million, if I'm not mistaken, or does that number even sound
5 in the ballpark?

6 THE WITNESS: I haven't reviewed her testimony.

7 COMMISSIONER DEASON: Okay. I'll just ask her.

8 Thank you.

9 CHAIRMAN JABER: Mr. Beasley, do you have redirect?

10 MR. BEASLEY: I have no redirect. I'd like for
11 the -- ask that the witness be excused and call Ms. Wehle.

12 CHAIRMAN JABER: Let's deal with exhibits first. We
13 have two exhibits. Mr. McWhirter, Exhibit 24 was Schedule E7,
14 Page 2 of 2 and 2 of 5, but you already said that those were in
15 the record through Mr. Portuondo's testimony.

16 MR. McWHIRTER: Yes, ma'am.

17 CHAIRMAN JABER: So you're not asking that those be
18 readmitted.

19 MR. McWHIRTER: No. But I am asking for 25 to be
20 admitted.

21 CHAIRMAN JABER: Okay. And then with regard to
22 Exhibit 25, the Hardee Electric Rate Schedules, with no
23 objection, Exhibit 25 will be admitted into the record.

24 (Exhibit 25 admitted into the record.)

25 CHAIRMAN JABER: Commissioners -- and, Mr. Smith, you

1 may be excused. Thank you for your testimony.

2 While the next witness gets on the stand, do you need
3 just a short five-minute break? We'll take a short five-minute
4 break, Mr. Beasley, while the next witness comes on the stand.

5 (Recess taken.)

6 CHAIRMAN JABER: Okay. Let's get back on the record.
7 Mr. Beasley, I see you have your next witness on the stand.

8 MR. BEASLEY: Yes, ma'am.

9 JOANN WEHLE

10 was called as a witness on behalf of Tampa Electric Company
11 and, having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BEASLEY:

14 Q Ms. Wehle, could you please state your name, business
15 address and your position with Tampa Electric Company.

16 A Yes. My name is Joann Wehle. I'm the director of
17 wholesale marketing and fuels for Tampa Electric Company. My
18 address is 702 North Franklin Street, Tampa, Florida 33602.

19 Q Ms. Wehle, did you prepare and submit in this
20 proceeding back on April 1st, 2003, a document entitled, "Final
21 True-up Testimony of Joann Wehle"?

22 A Yes, I did.

23 Q Do you have any changes or corrections to make to
24 that?

25 A No, sir.

1 Q If I were to ask you the questions in that testimony,
2 would the answers be the same?

3 A Yes, sir.

4 MR. BEASLEY: I'd ask that Ms. Wehle's final true-up
5 testimony be inserted.

6 CHAIRMAN JABER: The prefiled testimony of
7 Joann T. Wehle filed, it looks like April 1st and
8 September 12th shall be inserted into the record as though
9 read.

10 MR. BEASLEY: I'm going to address the September 12th
11 in a moment. If I could just ask at this point that the
12 April 1st testimony be inserted.

13 CHAIRMAN JABER: Sure. Let the record reflect at
14 this point we've only inserted the April 1st prefiled
15 testimony.

16 BY MR. BEASLEY:

17 Q Ms. Wehle, did you have prepared under your direction
18 and supervision the exhibit identified as Exhibit JTW-1 that
19 accompanied that April 1 filing?

20 A Yes, sir, I did.

21 Q Thank you.

22 MR. BEASLEY: I'd ask that that Exhibit JTW-1 be
23 marked for identification.

24 CHAIRMAN JABER: JTW-1 will be identified as Exhibit
25 Number 26.

(Exhibit Number 26 marked for identification.)

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TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
FILED: 04/01/03

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

1 base year expenses according to the portion of the
2 employee's time and related costs for hedging in 2001 and
3 then calculated its 2002 costs in the same manner. The
4 recoverable amount is the increment, as shown in my
5 exhibit (JTW-1).
6

7 Q. Does this conclude your testimony?
8

9 A. Yes it does.
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1 BY MR. BEASLEY:

2 Q Ms. Wehle, did you also prepare projection testimony
3 that was filed September 12th, 2003?

4 A Yes, I did.

5 Q And did that testimony encompass not only the issues
6 you're testifying about today, but also the transportation
7 related issues that have been deferred?

8 A Yes, it did.

9 MR. BEASLEY: Madam Chairman, I have a redacted
10 version of that testimony that pulls out all of the testimony
11 relating to the coal, water-borne coal transportation issues.
12 I'd like to distribute that, if I could.

13 CHAIRMAN JABER: That would make it easier,
14 Mr. Beasley. Have you provided all the parties a copy of the
15 redacted testimony? You gave a copy to all the parties, Jim?

16 MR. BEASLEY: He's doing it.

17 CHAIRMAN JABER: Okay. Great.

18 MR. BEASLEY: Madam Chairman, this is the -- what
19 Mr. Willis is distributing is the same testimony, and it just
20 has the deferred material removed from it.

21 BY MR. BEASLEY:

22 Q Ms. Wehle, if I were to ask you the questions
23 contained in your projection testimony, would your answers be
24 the same?

25 A Yes, they would.

1 MR. BEASLEY: I would ask that the projection
2 testimony that I've just distributed be inserted into the
3 record as though read.

4 CHAIRMAN JABER: Mr. Beasley, if I could ask your
5 witness a question just to make sure we're clear on the record.

6 MR. BEASLEY: Yes.

7 CHAIRMAN JABER: Do you, do you affirm that the
8 redacted testimony that's been handed to us this morning is
9 only, the only redactions relate to the transportation issues
10 which have been deferred for a later agenda?

11 THE WITNESS: Madam Chairman, I have not seen the
12 redacted version. I would request that I could get a copy of
13 that to answer your question appropriately.

14 CHAIRMAN JABER: Ms. Wehle, just so you know, since
15 the parties just received a copy of this testimony, I just want
16 to make clear that the only thing you've taken out, the only
17 changes you've made relate to the deferral of those issues.

18 THE WITNESS: Yes, ma'am, it appears so.

19 CHAIRMAN JABER: Thank you. With that, the prefiled
20 testimony initially dated September 12th, '03, and substituted
21 with the redacted version today to reflect the deferred issues
22 related to transportation will be inserted into the record as
23 though read.

24 MR. BEASLEY: Thank you.

25 BY MR. BEASLEY:

1 Q Ms. Wehle, did you have prepared under your direction
2 and supervision and -- the Exhibit JTW-2 that accompanies that
3 redacted testimony?

4 A Yes, sir, I did.

5 Q And can you verify for us that the only thing removed
6 from that exhibit relates to the water-borne coal
7 transportation issues?

8 A That's correct.

9 MR. BEASLEY: I'd ask that the redacted exhibit be
10 marked for identification.

11 CHAIRMAN JABER: JTW-2 redacted will be identified as
12 Exhibit 27.

13 (Exhibit Number 27 marked for identification.)
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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.
78 **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.
1213 **Q.** Please provide a brief outline of your educational
14 background and business experience.
1516 **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?

25

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?

25

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**

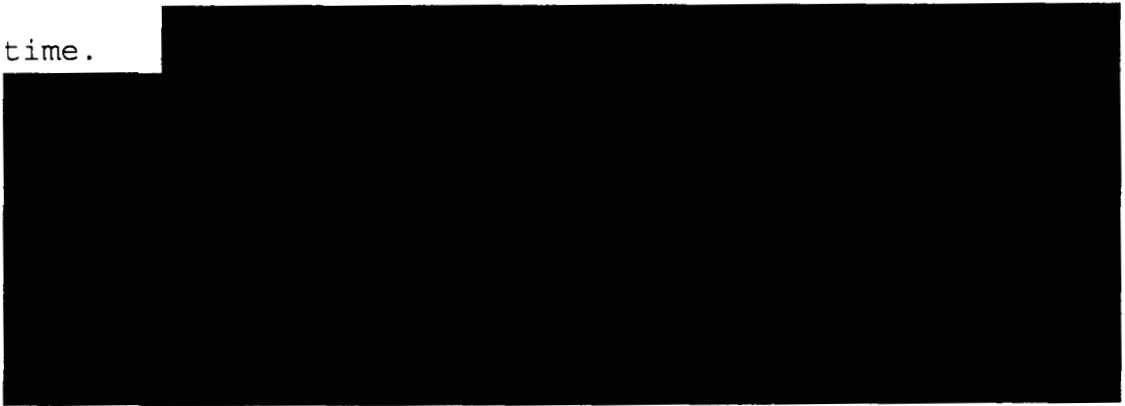
15 Q. What has Tampa Electric done to mitigate the impact of
16 surplus coal due to the shutdown of Gannon Units 1
17 through 4 in 2003?

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

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

11
12 **Q.** Does Tampa Electric expect to incur dead freight cost due
13 to the shutdown of Gannon Units 1 through 4 in 2003?

14
15 **A.** Due to the dynamic nature of calculating potential dead
16 freight costs, which are determined by the transportation
17 contract terms and the actual tonnage delivered at the
18 end of the contract term, Tampa Electric does not have a
19 viable projection of potential dead freight costs at this
20 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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1 BY MR. BEASLEY:

2 Q Ms. Wehle, would you please summarize your testimony.

3 A Good morning, Commissioners. My name is Joann Wehle,
4 and I'm the director of wholesale marketing and fuels for Tampa
5 Electric Company.

6 My testimony addresses one item that is applicable
7 for today's proceeding, and that item is the reasonableness of
8 Tampa Electric's fuel costs in light of the shutdown of Gannon
9 Units 1 through 4. The company will not incur dead-freight
10 transportation costs, which are costs associated with lower
11 than planned deliveries of coal.

12 The company also expects a neutral impact or a gain
13 to ratepayers for the resale of any surplus coal to third
14 parties. The replacement fuel costs are reasonable because the
15 Gannon shutdown dates were prudently determined after careful
16 consideration of many complex factors. These factors were
17 discussed in detail in the testimony of Witness Whale. And
18 this concludes my summary.

19 MR. BEASLEY: Thank you. We'd tender the witness for
20 questions.

21 CHAIRMAN JABER: Thank you.

22 Mr. Vandiver.

23 CROSS EXAMINATION

24 BY MR. VANDIVER:

25 Q Good morning, Ms. Wehle.

1 A Good morning.

2 Q Ms. Jordan also testified on the dead-freight charges
3 and she had some specific numbers. Would she be the more
4 appropriate witness to address those specific numbers?

5 A I can try and address those questions, if you like.
6 And then if we determine that she may be able to answer those,
7 I can --

8 Q I think I'll defer those to Ms. Jordan since she had
9 the specific numbers in there.

10 A That's fine.

11 Q Okay. Thank you.

12 CHAIRMAN JABER: Mr. McWhirter.

13 CROSS EXAMINATION

14 BY MR. McWHIRTER:

15 Q Ms. Wehle, did I understand you to say that TECO
16 Transport is abandoning any claim that it has for freight
17 penalties for nondelivery?

18 A I didn't say that they were abandoning any claim.
19 What I said, that we will not be incurring any dead-freight
20 costs. That was part of the final negotiations of our
21 agreement that begins in January 1, 2004, and that item was
22 settled.

23 Q Does that mean that we won't see those in the true-up
24 for 2004 at the end of the year if some are incurred?

25 A Those costs that I'm referring to are any costs that

1 would be associated with the year 2003, and we do not expect
2 any costs to be billed or paid.

3 Q And you don't expect any to be billed or paid during
4 2004 either?

5 A If there were any dead-freight penalties associated
6 with deliveries in 2004, that's under a separate agreement.
7 The items that I'm discussing are related to the year ending
8 12/31/03, and I do not, I do not expect that we will have any,
9 any billings or payments associated with, with any lack of
10 deliveries for 2003.

11 Q And that's the agreement that's going to come up for
12 consideration in the deferred portion of this case?

13 A That's correct.

14 Q All right. Now you're a CPA, I understand?

15 A Yes, sir.

16 Q Are you familiar with the requirements of FASB 133?

17 A I'm generally familiar with it.

18 Q And you've testified about your hedging transactions
19 in this testimony, as I understand it. You didn't mention it
20 in your summary, but it's in your testimony; is that correct?

21 A Yes, sir.

22 Q Is there some way that Tampa Electric Company in its
23 fuel proceedings could comply with the requirements of
24 FASB 133 so that the Commission would have some insight into
25 specifically how your contracts have done?

1 A Actually we do comply and report how our contracts
2 have done in accordance with FAS 133. We do that as part of
3 our risk management plan that we file every September.

4 Q I see. And is that open to the general public or is
5 it secret information that you share only with the staff?

6 A The item that you're referring to is reported in
7 total. The individual components of monthly contracts are
8 confidential.

9 Q Would you give us a brief summary of what
10 FASB 133 provides?

11 A I'm not sure I'm an expert on FAS 133, but I can tell
12 you how it applies to the, the hedging work that we do in my
13 group.

14 FAS 133 requires a mark to market calculation to be
15 done on a regular basis for the purposes of marking any
16 derivative contracts to the appropriate market that those
17 derivatives were purchased in.

18 In that case what you do is you take your, your
19 derivatives that have not settled yet and mark them to the
20 appropriate market.

21 And let me give you an example. If you were to
22 purchase a natural gas contract on the NYMEX for, say, \$5 and
23 the market would move to, say, \$6, you would mark to market a
24 loss of \$1. Excuse me. A gain of a \$1.

25 Q And would that pass through to the customers in this

1 case?

2 A That is an accounting transaction that's done. What
3 is, is actually passed through to the ratepayers is the actual
4 price of, of the gas that you, or the derivative instrument
5 that you purchased.

6 Q But in a sense it'd be passed through because they'd
7 get the \$5 gas rather than the \$6 gas.

8 A That's correct.

9 Q I got you.

10 MR. McWHIRTER: I tender the witness, Ms. Chairman.

11 CHAIRMAN JABER: Thank you, Mr. McWhirter.

12 Staff.

13 MR. KEATING: Just one question.

14 CROSS EXAMINATION

15 BY MR. KEATING:

16 Q I believe in your summary you stated that the
17 replacement capacity and energy costs for that replacement
18 capacity and energy purchased by TECO or Tampa Electric in lieu
19 of operating Gannon until the end of 2004 was reasonable.

20 I was wondering if you knew the incremental cost of
21 that replacement capacity and energy.

22 A What I testified to were the replacement fuel costs,
23 not the energy and capacity.

24 Q Okay. Did you calculate the amount of those
25 incremental costs?

1 A I believe we've provided as part of our production of
2 documents in this case several different scenarios related to
3 any replacement costs.

4 Again, what you'd have to do is go back and true
5 those up, which we have not done since those, those documents
6 were filed.

7 MR. KEATING: Thank you.

8 CHAIRMAN JABER: Commissioners, do you have any
9 questions? And redirect?

10 MR. BEASLEY: No redirect. And I would like to move
11 the admission of Exhibits 26 and 27.

12 CHAIRMAN JABER: Without objection, Exhibits 26 and
13 27 are admitted into the record.

14 Ms. Wehle, thank you for your testimony.

15 (Exhibits 26 and 27 admitted into the record.)

16 (Transcript follows in sequence with Volume 5.)

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1 STATE OF FLORIDA)
2 COUNTY OF LEON)


CERTIFICATE OF REPORTER

3
4 I, LINDA BOLES, RPR, Official Commission
5 Reporter, do hereby certify that the foregoing proceeding was
6 heard at the time and place herein stated.

7 IT IS FURTHER CERTIFIED that I stenographically
8 reported the said proceedings; that the same has been
9 transcribed under my direct supervision; and that this
10 transcript constitutes a true transcription of my notes of said
11 proceedings.

12 I FURTHER CERTIFY that I am not a relative, employee,
13 attorney or counsel of any of the parties, nor am I a relative
14 or employee of any of the parties' attorneys or counsel
15 connected with the action, nor am I financially interested in
16 the action.

17 DATED THIS 21st DAY OF NOVEMBER, 2003.

18
19 
20 _____
21 LINDA BOLES, RPR
22 FPSC Official Commission Reporter
23 (850) 413-6734
24
25