
BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

FINAL TRUE-UP

JANUARY 2005 THROUGH DECEMBER 2005

TESTIMONY AND EXHIBIT

OF

JOANN T. WEHLE

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**JOANN T. WEHLE**

**Q.** Please state your name, address, occupation and employer.

**A.** My name is Joann T. Wehle. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of the Wholesale Marketing and Fuels Department.

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

**A.** I received a Bachelor's of Business Administration Degree in Accounting in 1985 from St. Mary's College, South Bend, Indiana. I am a CPA in the State of Florida and worked in several accounting positions prior to joining Tampa Electric. I began my career with Tampa Electric in 1990 as an auditor in the Audit Services Department. I became Senior Contracts Administrator, Fuels in 1995. In 1999, I was promoted to Director, Audit Services and subsequently rejoined the Fuels Department as Director in April 2001. I became Director, Wholesale Marketing and

Fuels in August 2002. I am responsible for managing Tampa Electric's wholesale energy marketing and fuel-related activities.

**Q.** Please state the purpose of your testimony.

**A.** The purpose of my testimony is to present, for the Florida Public Service Commission's ("FPSC" or "Commission") review, information regarding the 2005 performance of Tampa Electric's risk management activities, as required by the terms of the stipulation entered into by the parties to Docket No. 011605-EI and approved by the Commission in Order No. PSC-02-1484-FOF-EI. In addition, I will present details regarding the appropriateness for recovery of $164,960 in incremental operations and maintenance ("O&M") expenses associated with hedging activities.

**Q.** Have you prepared any exhibits in support of your testimony?

**A.** Yes. Exhibit No. ___ (JTW-1) was prepared under my direction and supervision. My exhibit shows Tampa Electric's calculation of its 2005 incremental hedging O&M expenses.

**Q.** What is the source of the data you present in your 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 2005?

**A.** As outlined in Tampa Electric's annual Risk Management Plan most recently filed on September 9, 2005 in Docket No. 050001-EI, the company strives to reduce fuel price volatility while maintaining a reliable supply of fuel. In an effort to limit exposure to market price fluctuations of natural gas, Tampa Electric established a hedging program. The program was updated and approved by the company's Risk Authorizing Committee ("RAC") in November 2005. Tampa Electric currently follows the program as approved by the RAC.

On April 3, 2006 Tampa Electric filed its annual risk

management report, which describes the outcomes of its 2005 risk management activities. The report indicates that Tampa Electric's 2005 hedging activities produced a net savings of $58.4 million for its customers.

**Q.** How did Tampa Electric's fuel mix change in 2005?

**A.** Tampa Electric's fuel mix remained relatively stable in 2005, with natural gas-fired generation representing more than 43 percent of total retail generation, coal accounting for approximately 56 percent and oil representing less than 1 percent. The company completed the transition from burning predominantly coal to utilizing a mix of natural gas and coal when H. L. Culbreath Bayside ("Bayside") Unit No. 2 became commercially operational on January 15, 2004.

**Q.** Does Tampa Electric use a hedging information system?

**A.** Yes, Tampa Electric continues to use Sungard's Nucleus Risk Management System ("Nucleus"). Nucleus records all natural gas hedging transactions and calculates risk management reports common to the industry. In addition, Nucleus supports sound hedging practices with its contract management separation of duties, credit

tracking, transaction limits, deal confirmation, and business report generation functions. The Nucleus system also records all physical natural gas transactions. By consolidating physical transactions and financial natural gas hedging transactions into the Nucleus system Tampa Electric has improved contract, credit management and risk exposure analysis.

**Q.** What were the results of the company's incremental hedging activities in 2005?

**A.** Tampa Electric's incremental natural gas hedging activities protected customers from price volatility for [redacted] of the natural gas used in the company's generating stations. The net result of natural gas hedging activity in 2005 was a savings of $53.2 million, when the instrument prices were compared to market prices on settled positions.

**Q.** Did the company use financial hedges for other commodities in 2005?

**A.** No, Tampa Electric did not use financial hedges for other commodities because of its fuel mix. Historically, Tampa Electric has primarily relied on coal as a boiler fuel.

The price of coal is relatively stable compared to the prices of oil and natural gas. In addition, there are no financial hedging instruments for the types of coal the company uses. Tampa Electric consumes a small amount of oil, making price hedging somewhat impractical; therefore, the company did not use financial hedges for oil. The company did not use financial hedges for wholesale energy transactions because a liquid, published market does not exist in Florida.

**Q.** Does Tampa Electric use physical hedges?

**A.** Yes, Tampa Electric uses physical hedges in managing its coal supply. The company enters into a portfolio of differing term contracts with various suppliers to obtain the types of coal used on its system. In addition, some coal supply contracts contain volume options that the company uses when spot-market pricing is favorable compared to the contract price. In 2005, these coal strategies resulted in gains of $5.2 million, which benefited customers.

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

**A.** Commission Order No. PSC-02-1484-FOF-EI, in Docket No. 011605 states:

> "Each investor-owned electric utility shall be authorized to charge/credit to the fuel and purchased power cost recovery clause its non-speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas."

Therefore, Tampa Electric's request for recovery is in accordance with the aforementioned order.

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

**A.** Yes, Tampa Electric requests recovery of $164,960 that the company incurred as incremental O&M expenses. The Commission, in Order No. PSC-02-1484-FOF-EI, states:

> "Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently-incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or

maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers each year until December 31, 2006 or the time of the utility's next rate proceeding, whichever comes first."

Tampa Electric established its base year expenses according to the portion of the employee's time and related expenses for hedging in 2001. The 2005 actual costs were then calculated using the same methodology. Tampa Electric's calculation of the incremental expenses as well as base year expenses and 2005 actual expenses are shown in my Exhibit No._____ (JTW-1).

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

**A.** Yes it does.

## Calculation of Incremental Hedging Expenses

| | Actual Expenses | |
|---|---|---|
| | 2001 (a) | 2005 (b) |
| 1. Payroll and Fringe Benefits | $ 159,723 | $ 242,663 |
| 2. Travel Costs | 2,500 | - |
| 3. Training | 6,930 | - |
| 4. Consultants / Subscriptions to Market Publications | - | 29,200 |
| 5. System License Fees | - | 62,250 |
| 6. Total | $ 169,153 | $ 334,113 |
| **2005 Incremental Hedging Expenses** *6(b) – 6(a)* | | **$ 164,960** |