

ORIGINAL

AUSLEY & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

RECEIVED FPSC

05 APR -3 PM 3:15

COMMISSION
CLERK

April 3, 2006

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

070001-EI

Re: Fuel and Purchased Power Cost Recovery Clause with Generating
Performance Incentive Factor; FPSC Docket No. 060001-EI

CONFIDENTIAL DOCUMENT ENCLOSED

Dear Ms. Bayo:

We submit on behalf of Tampa Electric Company a single confidential version of the Prepared Direct Testimony and Exhibit (JTW-1) of Joann T. Wehle. This filing is being accompanied by a Request for Confidential Classification of the highlighted information being separately filed this date with your office.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

JDB/pp
Enclosure

cc: All parties of record (w/o enc.)

CONFIDENTIAL
DECLASSIFIED
12-31-07

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

02974 APR-3 06

FPSC-COMMISSION CLERK

CONFIDENTIAL



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

DECLASSIFIED

CONFIDENTIAL

DOCUMENT NUMBER-DATE

02974 APR 98

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **JOANN T. WEHLE**

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

7
8 **A.** My name is Joann T. Wehle. My business address is 702 N.
9 Franklin Street, Tampa, Florida 33602. I am employed by
10 Tampa Electric Company ("Tampa Electric" or "company") as
11 Director of the Wholesale Marketing and Fuels Department.

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

15
16 **A.** I received a Bachelor's of Business Administration Degree
17 in Accounting in 1985 from St. Mary's College, South
18 Bend, Indiana. I am a CPA in the State of Florida and
19 worked in several accounting positions prior to joining
20 Tampa Electric. I began my career with Tampa Electric in
21 1990 as an auditor in the Audit Services Department. I
22 became Senior Contracts Administrator, Fuels in 1995. In
23 1999, I was promoted to Director, Audit Services and
24 subsequently rejoined the Fuels Department as Director in
25 April 2001. I became Director, Wholesale Marketing and

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

4
5 **Q.** Please state the purpose of your testimony.

6
7 **A.** The purpose of my testimony is to present, for the
8 Florida Public Service Commission's ("FPSC" or
9 "Commission") review, information regarding the 2005
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 \$164,960 in incremental
16 operations and maintenance ("O&M") expenses associated
17 with 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 2005 incremental hedging
25 O&M expenses.

1 **Q.** What is the source of the data you present in your
2 testimony or exhibits in this proceeding?
3

4 **A.** Unless otherwise indicated, the source of the data is
5 books and records of Tampa Electric. The books and
6 records are kept in the regular course of business in
7 accordance with generally accepted accounting principles
8 and practices, and provisions of the Uniform System of
9 Accounts as prescribed by this Commission.
10

11 **Q.** What were the results of Tampa Electric's risk management
12 activities in 2005?
13

14 **A.** As outlined in Tampa Electric's annual Risk Management
15 Plan most recently filed on September 9, 2005 in Docket
16 No. 050001-EI, the company strives to reduce fuel price
17 volatility while maintaining a reliable supply of fuel.
18 In an effort to limit exposure to market price
19 fluctuations of natural gas, Tampa Electric established a
20 hedging program. The program was updated and approved by
21 the company's Risk Authorizing Committee ("RAC") in
22 November 2005. Tampa Electric currently follows the
23 program as approved by the RAC.
24

25 On April 3, 2006 Tampa Electric filed its annual risk

1 management report, which describes the outcomes of its
2 2005 risk management activities. The report indicates
3 that Tampa Electric's 2005 hedging activities produced a
4 net savings of \$58.4 million for its customers.
5

6 **Q.** How did Tampa Electric's fuel mix change in 2005?
7

8 **A.** Tampa Electric's fuel mix remained relatively stable in
9 2005, with natural gas-fired generation representing more
10 than 43 percent of total retail generation, coal
11 accounting for approximately 56 percent and oil
12 representing less than 1 percent. The company completed
13 the transition from burning predominantly coal to
14 utilizing a mix of natural gas and coal when H. L.
15 Culbreath Bayside ("Bayside") Unit No. 2 became
16 commercially operational on January 15, 2004.
17

18 **Q.** Does Tampa Electric use a hedging information system?
19

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

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

8

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

11

DECLASSIFIED

12 **A.** Tampa Electric's incremental natural gas hedging
13 activities protected customers from price volatility for
14 52 percent of the natural gas used in the company's
15 generating stations. The net result of natural gas
16 hedging activity in 2005 was a savings of \$53.2 million,
17 when the instrument prices were compared to market prices
18 on settled positions.

19

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

22

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

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

10
11 **Q.** Does Tampa Electric use physical hedges?

12
13 **A.** Yes, Tampa Electric uses physical hedges in managing its
14 coal supply. The company enters into a portfolio of
15 differing term contracts with various suppliers to obtain
16 the types of coal used on its system. In addition, some
17 coal supply contracts contain volume options that the
18 company uses when spot-market pricing is favorable
19 compared to the contract price. In 2005, these coal
20 strategies resulted in gains of \$5.2 million, which
21 benefited customers.

22
23 **Q.** What is the basis for your request to recover the
24 commodity and transaction costs described above?

25

1 **A.** Commission Order No. PSC-02-1484-FOF-EI, in Docket No.
2 011605 states:

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

11
12 Therefore, Tampa Electric's request for recovery is in
13 accordance with the aforementioned order.

14
15 **Q.** Are you requesting recovery of incremental hedging O&M
16 costs?

17
18 **A.** Yes, Tampa Electric requests recovery of \$164,960 that
19 the company incurred as incremental O&M expenses. The
20 Commission, in Order No. PSC-02-1484-FOF-EI, states:

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

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

8
9 Tampa Electric established its base year expenses
10 according to the portion of the employee's time and
11 related expenses for hedging in 2001. The 2005 actual
12 costs were then calculated using the same methodology.
13 Tampa Electric's calculation of the incremental expenses
14 as well as base year expenses and 2005 actual expenses
15 are shown in my Exhibit No. _____ (JTW-1).

16
17 **Q.** Does this conclude your testimony?

18
19 **A.** Yes it does.
20
21
22
23
24
25

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

DECLASSIFIED