BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 070001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

FINAL TRUE-UP

JANUARY 2006 THROUGH DECEMBER 2006

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 2006 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 $210,649 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 2006 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 2006?

A. As outlined in Tampa Electric's annual Risk Management Plan most recently filed on September 1, 2006 in Docket No. 060001-EI, the company follows a non-speculative risk management strategy 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. Over time, the program has been enhanced as Tampa Electric's gas needs have evolved and grown. All enhancements have been reviewed and approved by the company's Risk Authorization Committee.

On April 2, 2007 Tampa Electric filed its annual risk management report, which describes the outcomes of its 2006 risk management activities. The report indicates that Tampa Electric's 2006 hedging activities resulted in a net loss of $54 million; however, Tampa Electric followed the plan objective of reducing price volatility while maintaining a reliable fuel supply. As shown in the table on page 3 of the Risk Management Report filed on April 2, 2007, the difference between the high and low natural gas market prices was $7.23 per MMBtu; however, the natural gas hedge price difference was reduced to $1.21 per MMBtu. Thus, Tampa Electric achieved a significant reduction in natural gas price volatility for its customers by using financial hedges.

Q. Did Tampa Electric enhance its physical hedging activities for natural gas?

A. Yes, Tampa Electric has been improving its physical access to natural gas supply since Bayside Power Station began commercial operation in 2003. Tampa Electric diversified its receipt points for natural gas along the Gulf Coast, acquired pipeline capacity on the Gulfstream interstate pipeline to supplement its capacity on Florida Gas Transmission and entered into a natural gas storage

arrangement with Bay Gas Storage. In 2006, Tampa Electric implemented additional physical hedging for natural gas by increasing storage capacity to 225,000 MMBtu. The storage provides Tampa Electric with improved access to "intraday" natural gas to meet operational needs, provides improved hurricane coverage, allows the company to cost-effectively manage swings in gas supply needs during extreme weather conditions, weekends and holidays.

Q. Does Tampa Electric use a hedging information system?

A. Yes, Tampa Electric continues to use Sungard's Nucleus Risk Management System ("Nucleus"). 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 records all financial natural gas hedging transactions, and the system calculates risk management reports. Nucleus is also used for contract, credit management and risk exposure analysis.

Q. What were the results of the company's incremental hedging activities in 2006?

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 2006 was a loss of $54 million, when the instrument prices were compared to market prices on settled positions.

Q. Did the company use financial hedges for other commodities in 2006?

A. No, Tampa Electric did not use financial hedges for other commodities primarily because of its fuel mix.

Tampa Electric's generation is comprised mostly of coal and natural gas. The price of coal is relatively stable compared to the prices of oil and natural gas. In addition, financial hedging instruments for the primary coal Tampa Electric burns, high sulfur Illinois Basin coal, do not exist.

Tampa Electric consumes a small amount of oil. However, its low and erratic usage pattern makes price hedging of oil consumption 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. Did Tampa Electric use physical hedges for other commodities?

A. Yes, Tampa Electric used 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 previous years Tampa Electric has been able to take advantage of contractual volume flexibility to seek out favorable spot market pricing. Those agreements have expired, and volume flexibility was not available for the replacement contracts.

Tampa Electric fills its oil tanks prior to entering hurricane season to reduce exposure to supply or price issues that may arise during hurricane season.

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-EI 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 $210,649 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 2006 actual costs were then calculated using the same methodology. Tampa Electric's calculation of the incremental expenses as well as base year expenses and 2006 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				
	Baseline	**2002**	**2003**	**2004**	**2005**	**2006**
1. Payroll and Fringe Benefits	$159,723	$252,939	$256,362	$290,096	$242,663	$278,170
2. Travel Costs	2,500	0	210	0	0	0
3. Training	6,930	0	0	0	0	0
4. Consultants / Subscriptions to Market Publications	0	0	20,682	28,242	29,200	36,437
5. System License Fees	0	0	645	60,860	62,250	65,195
6. Total	$169,153	$252,939	$277,899	$379,198	$334,113	$379,802
Incremental Hedging Expenses (Annual Expenses - Baseline)	**$0**	**$83,786**	**$108,746**	**$210,045**	**$164,960**	**$210,649**

Note: The baseline is actual 2001 risk management expenses.