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April 2, 2007

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090001-EH

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

Re: Fuel and Purchased Power Cost Recovery Clause with Generating
Performance Incentive Factor; FPSC Docket No. 070001-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
James D. Beasley

4.27.09
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JDB/pp
Enclosure

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

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Moz
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DOCUMENT NUMBER-DATE

02851 APR-25 *Moz*

FPSC-COMMISSION CLERK



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

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DOCUMENT NUMBER-DATE

02851 APR 28

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

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1
2
3
4
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.

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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 2006
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 \$210,649 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 2006 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 2006?

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13
14 A. As outlined in Tampa Electric's annual Risk Management
15 Plan most recently filed on September 1, 2006 in Docket
16 No. 060001-EI, the company follows a non-speculative risk
17 management strategy to reduce fuel price volatility while
18 maintaining a reliable supply of fuel. In an effort to
19 limit exposure to market price fluctuations of natural
20 gas, Tampa Electric established a hedging program. Over
21 time, the program has been enhanced as Tampa Electric's
22 gas needs have evolved and grown. All enhancements have
23 been reviewed and approved by the company's Risk
24 Authorization Committee.

25

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1 On April 2, 2007 Tampa Electric filed its annual risk
2 management report, which describes the outcomes of its
3 2006 risk management activities. The report indicates
4 that Tampa Electric's 2006 hedging activities resulted in
5 a net loss of \$54 million; however, Tampa Electric
6 followed the plan objective of reducing price volatility
7 while maintaining a reliable fuel supply. As shown in
8 the table on page 3 of the Risk Management Report filed
9 on April 2, 2007, the difference between the high and low
10 natural gas market prices was \$7.23 per MMBtu; however,
11 the natural gas hedge price difference was reduced to
12 \$1.21 per MMBtu. Thus, Tampa Electric achieved a
13 significant reduction in natural gas price volatility for
14 its customers by using financial hedges.

15
16 **Q.** Did Tampa Electric enhance its physical hedging
17 activities for natural gas?

18
19 **A.** Yes, Tampa Electric has been improving its physical
20 access to natural gas supply since Bayside Power Station
21 began commercial operation in 2003. Tampa Electric
22 diversified its receipt points for natural gas along the
23 Gulf Coast, acquired pipeline capacity on the Gulfstream
24 interstate pipeline to supplement its capacity on Florida
25 Gas Transmission and entered into a natural gas storage

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

10
11 **Q.** Does Tampa Electric use a hedging information system?

12
13 **A.** Yes, Tampa Electric continues to use Sungard's Nucleus
14 Risk Management System ("Nucleus"). Nucleus supports
15 sound hedging practices with its contract management,
16 separation of duties, credit tracking, transaction
17 limits, deal confirmation, and business report generation
18 functions. The Nucleus system records all financial
19 natural gas hedging transactions, and the system
20 calculates risk management reports. Nucleus is also used
21 for contract, credit management and risk exposure
22 analysis.

23
24 **Q.** What were the results of the company's incremental
25 hedging activities in 2006?

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1 A. Tampa Electric's incremental natural gas hedging
2 activities protected customers from price volatility for
3 76 percent of the natural gas used in the company's
4 generating stations. The net result of natural gas
5 hedging activity in 2006 was a loss of \$54 million, when
6 the instrument prices were compared to market prices on
7 settled positions.

8
9 Q. Did the company use financial hedges for other
10 commodities in 2006?

11
12 A. No, Tampa Electric did not use financial hedges for other
13 commodities primarily because of its fuel mix.

14
15 Tampa Electric's generation is comprised mostly of coal
16 and natural gas. The price of coal is relatively stable
17 compared to the prices of oil and natural gas. In
18 addition, financial hedging instruments for the primary
19 coal Tampa Electric burns, high sulfur Illinois Basin
20 coal, do not exist.

21
22 Tampa Electric consumes a small amount of oil. However,
23 its low and erratic usage pattern makes price hedging of
24 oil consumption impractical; therefore, the company did
25 not use financial hedges for oil.

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1 The company did not use financial hedges for wholesale
2 energy transactions because a liquid, published market
3 does not exist in Florida.

4
5 **Q.** Did Tampa Electric use physical hedges for other
6 commodities?

7
8 **A.** Yes, Tampa Electric used physical hedges in managing its
9 coal supply. The company enters into a portfolio of
10 differing term contracts with various suppliers to obtain
11 the types of coal used on its system. In previous years
12 Tampa Electric has been able to take advantage of
13 contractual volume flexibility to seek out favorable spot
14 market pricing. Those agreements have expired, and
15 volume flexibility was not available for the replacement
16 contracts.

17
18 Tampa Electric fills its oil tanks prior to entering
19 hurricane season to reduce exposure to supply or price
20 issues that may arise during hurricane season.

21
22 **Q.** What is the basis for your request to recover the
23 commodity and transaction costs described above?

24
25 **A.** Commission Order No. PSC-02-1484-FOF-EI, in Docket No.

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1 011605-EI states:

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

10

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

13

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

16

17 A. Yes, Tampa Electric requests recovery of \$210,649 that
18 the company incurred as incremental O&M expenses. The
19 Commission, in Order No. PSC-02-1484-FOF-EI, states:

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

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

7
8 Tampa Electric established its base year expenses
9 according to the portion of the employee's time and
10 related expenses for hedging in 2001. The 2006 actual
11 costs were then calculated using the same methodology.
12 Tampa Electric's calculation of the incremental expenses
13 as well as base year expenses and 2006 actual expenses
14 are shown in my Exhibit No. _____ (JTW-1).

15
16 Q. Does this conclude your testimony?

17
18 A. Yes, it does.
19
20
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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.