ORIGINAL

TECO
TAMPA ELECTRIC

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 040001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2005 THROUGH DECEMBER 2005

TESTIMONY AND EXHIBIT

OF

JOANN T. WEHLE

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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, Wholesale Marketing & Fuels.

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

A. I received a Bachelor of Business Administration Degree in Accounting in 1985 from St. Mary's College in Notre Dame, 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 2003. 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 report to the Florida Public Service Commission ("Commission") the 2003 actual costs of Tampa Electric's affiliated coal transportation transactions compared to the benchmark prices calculated in accordance with Order No. 20298. My report will show that the 2003 prices paid by Tampa Electric to its affiliated company, TECO Transport, are reasonable and prudent. In addition, I will discuss the change in Tampa Electric's fuel mix, the company's natural gas strategies, fuel price forecasts, and potential impacts of the high and low fuel forecasts. Finally, I will address steps Tampa Electric has taken to manage fuel prices and supply volatility and describe projected hedging activities and incremental operations and maintenance (O&M) costs for these activities.

Q. Have you previously filed testimony before this Commission?

A. Yes. I filed testimony before this Commission in the predecessors to this docket since 2001 and in Docket No. 011605-EI. I also testified before this Commission in Docket Nos. 030001-EI and 031033-EI. My testimony in these dockets described the appropriateness and prudence of Tampa Electric's fuel procurement activities, fuel supply risk management, fuel price volatility hedging activities, and waterborne coal transportation costs.

Q. Have you prepared an exhibit in support of your testimony?

A. Yes. Exhibit No. ___ (JTW-2), containing two documents, was prepared under my direction and supervision. Document No. 1 is furnished in support of the waterborne transportation benchmark application, and Document No. 2 describes the calculation of the company's incremental O&M hedging costs.

Coal Transportation Costs

Q. Were Tampa Electric's actual affiliated coal transportation prices for 2003 at or below the transportation benchmark established in Docket No. 870001-EI-A, Order No. 20298?

A. **Yes.** As shown on page 2 of Document No. 1 of my exhibit, the affiliated coal transportation prices for 2003 were at or below the appropriate benchmark calculations as directed by Order No. 20298 of this Commission. Accordingly, it is appropriate for Tampa Electric to recover its transportation expenses included in the Fuel and Purchased Power Cost Recovery Clause for 2003 coal transportation.

Q. What coal transportation rates are reflected in Tampa Electric's 2005 projected costs?

A. Tampa Electric utilized the waterborne coal transportation rates of the contract that took effect on January 1, 2004.

2005 Fuel Mix and Procurement Strategies

Q. Please describe any changes in the types and amounts of fuel that will be used by Tampa Electric's generating stations in 2005.

A. In 2004, Tampa Electric completed its transition from burning predominantly coal to utilizing a mix of natural gas and coal. As a result of the repowering of Gannon Station, Tampa Electric's reliance on natural gas has

increased from three percent in 2002 to 39 percent of projected natural gas-fired generation in 2004. In 2005, natural gas-fired and coal-fired generation are expected to be 41 percent and 58 percent of total generation, respectively.

Q. How have Tampa Electric's activities and strategies related to natural gas procurement and forecasting changed now that natural gas-fired H. L. Culbreath Bayside Station ("Bayside Station") has successfully entered commercial service?

A. Tampa Electric continues to use a portfolio approach to natural gas procurement. The company's portfolio is comprised of long-term and spot resources to secure needed supply and maintain the ability to take advantage of favorable gas price movements. However, as the company's fuel mix has changed to incorporate more substantial volumes of natural gas, its focus on the natural gas market has increased as part of daily activities. Tampa Electric has increased the number of counterparties it can trade with for both physical gas and financial hedging products to provide flexibility in the procurement strategy.

Q. Please describe Tampa Electric's hedging plan.

A. Tampa Electric has continued to refine its hedging plan and strategies. Based on experience gained through the addition of Bayside Station, the company updated and enhanced the risk management plan, which was recently presented and approved by the company's Risk Authorizing Committee. Additionally, Tampa Electric implemented a risk management software program that improved the internal controls surrounding risk management activities by providing more detailed and timely reporting of hedging activities. The company's fuel procurement staff also reviewed industry information services from respected forecasting companies and selected the services of PIRA Energy Consulting to assist with forecasting fuel and energy market conditions. All of these activities have enhanced the company's tools and strategies with a focus on the natural gas market.

Q. How does Tampa Electric arrange for natural gas to be delivered to its units?

A. Tampa Electric has a contract for firm natural gas transportation. Additionally, the company evaluates the market and expected unit operations and attempts to sell

any unused natural gas transportation capacity on a daily basis, and the resulting savings are flowed back to customers.

Q. What is Tampa Electric's coal procurement strategy?

A. Tampa Electric's two coal-fired plants are Big Bend Station and Polk Station. Big Bend Station is a fully scrubbed plant whose design fuel is high sulfur Illinois Basin coal, and Polk Station is an integrated gasification combined cycle plant that is currently burning a mix of Illinois Basin coal, petroleum coke, and lower sulfur coal. The plants have varying operations and environmental restrictions and require fuel with custom quality characteristics such as sulfur content, BTU/lb, ash fusion temperature and chlorine content. Since coal is not a homogenous product, fuel selection is based on these unique factors and price, availability, and creditworthiness of the supplier.

Tampa Electric maintains a portfolio of bi-lateral, long-, medium-, and short-term contracts for coal supply. This allows the company to maintain stable supply sources while providing flexibility to take advantage of favorable spot market opportunities. Tampa Electric

monitors the market to obtain the most favorable prices from sources that meet the needs of the operating stations. The use of daily and weekly publications, independent research analyses from industry experts, discussions with suppliers, and coal solicitations help in market monitoring and in shaping the company's coal procurement strategy to reflect current market conditions.

Q. Has Tampa Electric entered into fuel supply transactions for 2004 and 2005 delivery?

A. Yes, it has. To mitigate price volatility and ensure reliability of supply, Tampa Electric has purchased the majority of its expected coal needs for both years through bilateral agreements with coal suppliers. Tampa Electric has also entered into contracts for a portion of the company's expected natural gas needs for the winter of 2004 to 2005 and expects to contract for the remainder of its supply needs within the next two months.

Q. Has Tampa Electric reasonably managed its fuel procurement practices for the benefit of its retail customers?

A. Yes. Tampa Electric diligently manages its mix of long-, intermediate-, and short-term purchases of fuel in a manner designed to reduce overall fuel costs while maintaining electric service reliability. The company monitors and adjusts fuel volumes it takes within contractually allowed maximum and minimum amounts in accordance with the price of fuel available on the spot market to take advantage of the lowest available fuel prices. The company's fuel activities and transactions are reviewed and audited on a recurring basis by the Commission. In addition, the company monitors its rights under contracts with fuel suppliers to detect and prevent any breach of those rights. Tampa Electric continually strives to improve its knowledge of fuel markets and to take advantage of opportunities to minimize the costs of fuel.

Projected 2005 Fuel Prices

Q. How does Tampa Electric project fuel prices?

A. Tampa Electric reviews fuel price forecasts from sources widely used in the industry, including PIRA Energy Consulting, Hill & Associates, the Energy Information Administration, the New York Mercantile Exchange ("NYMEX") and other energy consultants. Futures prices

for energy commodities, as traded on the NYMEX, are the primary driver of the natural gas and No. 2 oil price forecasts. The commodity price projections are then adjusted to incorporate expected transportation costs and quality adjustments. The transportation and quality adjustments are specific to the power plants to which the fuel will be delivered and the locations from which it is transported.

Coal prices and coal transportation prices are projected using information from industry-recognized consultants and are specific to the particular quality and location of coal utilized by Tampa Electric's Big Bend Station and Polk Unit 1. Final as-burned prices are derived by adjusting for expected transportation costs, as well as adjusting for costs associated with creating coal blends.

Q. How do the 2005 projected fuel prices compare to the fuel prices projected for 2004?

A. Projected fuel prices for 2005 have increased for all commodities. Tampa Electric began to see some increases in late 2003, but did not experience dramatic increases until 2004. The global economy and the increasing industrialization of countries like China have affected

the price of natural resources such as natural gas, oil, and coal to a large degree. In addition, the transportation of these resources has been affected. The demand for these commodities and others, such as steel, has continued to exert upward pressure on these prices. Crude oil prices have seen unprecedented high pricing recently due to factors such as the turmoil in the Middle East and issues related to the Russian oil market.

Natural gas prices have increased 16 percent since the 2004 projection was prepared. The market drivers of this increase are the economic recovery for industries that are dependent on natural gas use, lower hydroelectric power output from the West, increased heating demand from the most recent winter and declining natural gas production in North America.

Coal prices are correlated with the prices of the other fuels since coal mining utilizes petroleum products, steel, and lumber in its production processes. Therefore, coal prices have also increased. In addition, more US domestic coal is being exported because of higher demand in Europe and Asia. For all of these reasons, Tampa Electric expects the higher prices to continue for all fuels through 2005.

Q. Did Tampa Electric consider the impact of higher than expected or lower than expected natural gas prices?

A. Yes. After reviewing the historical volatility in NYMEX pricing and the implied volatility in natural gas options, Tampa Electric has determined that actual prices in 2005 could be higher or lower than the base forecast by as much as 35 percent. Major fundamental or technical changes, such as abnormal weather, political instability or production shortages, will also dramatically affect price volatility. In the event of a significant natural gas price increase, the company evaluates potential lower cost alternatives.

Hedging Transactions and Related Expenses

Q. Given the volatility of the natural gas commodity market, has Tampa Electric entered into financial hedging transactions in 2004 to mitigate the price volatility of natural gas?

A. Yes. To protect customers from price risk, Tampa Electric purchased over-the-counter natural gas swaps and collars during 2004. A swap is a financial derivative that provides a "fixed for floating" position. The buyer (Tampa Electric) pays a fixed price for the natural gas,

which has a floating value until cash settlement at the end of the month. The swaps allowed Tampa Electric to lock in known natural gas prices and avoid upward price volatility. The transaction costs of swaps are embedded in the price of the commodity.

Collars are combinations of call options (caps) and put options (floors) that collar prices within a certain range. With a collar, the company knows that its future prices will remain within the predetermined boundaries established by the call and put options.

Q. Will Tampa Electric use financial hedging to mitigate the price volatility of natural gas purchases in 2005?

A. Yes. Swaps are one of the hedging instruments Tampa Electric plans to use during 2005. Other instruments that Tampa Electric may use in 2005 are futures, options and collars.

Q. Does Tampa Electric anticipate incurring incremental O&M expenses related to initiating or maintaining its non-speculative financial hedging program in 2005?

A. Yes. In Order No. PSC-02-1484-FOF-EI, issued October 30,

2003, the Commission authorized the recovery of prudently-incurred incremental O&M expenses 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. Tampa Electric expects its 2005 total incremental hedging O&M cost to be $111,116. These incremental costs are itemized in Document No. 2 of my exhibit. The company purchased and implemented a software system to more efficiently track, monitor and evaluate hedging transactions in 2004. The annual license fee for this software system is included in the calculation of 2005 incremental costs.

Q. What is Tampa Electric's appropriate base O&M expense level used to calculate incremental hedging O&M expenses?

A. Tampa Electric's base level of hedging O&M expenses of $169,153 reflects the company's actual 2001 costs prior to its implementation of a prudent financial hedging program in 2002. The base level costs were audited by the Commission Staff in Audit No. 02-340-2-1, in Docket No. 030001-EI. Tampa Electric's expected 2005 incremental hedging O&M expenses shown in Document No. 2

of my exhibit are calculated using this audited base level.

Q. Were Tampa Electric's efforts through July 31, 2004 to mitigate price volatility through its non-speculative hedging program prudent?

A. Yes. Tampa Electric has executed hedges according to the risk management plan filed with this Commission, which was approved by the company's Risk Authorizing Committee.

Q. Does this conclude your testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
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EXHIBIT TO THE TESTIMONY OF

JOANN WEHLE

DOCUMENT NO. 1

APPLICATION OF THE WATERBORNE
TRANSPORTATION COSTS BENCMARK

EXHIBIT NO. ___
TAMPA ELECTRIC COMPANY
DOCKET NO. 040001-EI
(JTW-2)
DOCUMENT NO. 1
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2003 TRANSPORTATION BENCHMARK CALCULATION

Average Rail Mileage to Tampa		1,082	miles	(Note 1)
x	Average of Lowest Two Publicly Available Florida Rail Rates	1.96	¢ / ton mile	(Note 2)
+	Costs of Privately Owned Rail Cars	$ 1.75	per ton	(Note 3)
Transportation Benchmark for the Year Ended 12/31/03		$ 22.96	per ton	(Note 4)

Notes

1/ Weighted average domestic rail miles from all Tampa Electric waterborne coal supplies to plants. Rail miles for imported coal sources are measured from port of entry.

2/ Cents per ton-mile for publicly available Florida utility rail coal transportation rates including discounts for volume and private rail cars. The current publicly available rail rates to Florida utilities on a cents per ton-mile basis for 2003 are as follows:

JEA	¢	2.55
Orlando	¢	2.07
Lakeland	¢	2.01
Gainesville	¢	1.91
* Average of Lowest Two	¢	1.96

3/ The cost of private rail cars was approved in the original stipulation as $2.00 per ton. Subsequent negotiation between Tampa Electric and Public Service Commission Staff resulted in an agreed upon estimated cost of $1.75 per ton.

4/ Calculated by multiplying average domestic rail mileage to Tampa by Florida rail coal market costs (cents per ton-mile), then adding the costs of privately-owned rail cars.

EXHIBIT NO. ___
TAMPA ELECTRIC COMPANY
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2003 TRANSPORTATION MARKET PRICE APPLICATION

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources ([redacted] divided by 4,816,698.19 tons)	[redacted]
Transportation Benchmark	$22.96
Over/(Under) Benchmark	[redacted]
Total Tons Transported in 2003	4,816,698.19
Total Transportation Cost in 2003	[redacted]
Total Amount Allowable for Recovery Using Benchmark ($22.96 x 4,816,698.19 tons)	$110,591,390.44
Total Cost Over/(Under) Benchmark – 2003	[redacted]
Prior Year's Cumulative Benefit (1988-2002)	[redacted]
Net Benefit for 1988 – 2003	[redacted]

TAMPA ELECTRIC COMPANY
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EXHIBIT TO THE TESTIMONY OF

JOANN WEHLE

DOCUMENT NO. 2

PROJECTED INCREMENTAL O&M HEDGING COSTS

EXHIBIT NO. ___
TAMPA ELECTRIC COMPANY
DOCKET NO. 040001-EI
(JTW-2)
DOCUMENT NO. 2
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Tampa Electric Company
2005 Projected Incremental O&M Hedging Costs

O&M Hedging Costs	
Labor and related charges	$ 203,767
Software system fees	60,110
Consulting and subscription fees	16,392
Total O&M Hedging Costs	**$ 280,269**
Less Base Year O&M Hedging Costs	169,153
Incremental O&M Hedging Costs	**$ 111,116**