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

March 17, 2008

HAND DELIVERED

Ms. Ann Cole, Director
Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor; FPSC Docket No.080001-EI

Dear Ms. Cole:

Enclosed for filing in the above docket are the original and five (5) copies of Tampa Electric Company' answers to Staff's First Data Requests Nos. 1-22, propounded and served by electronic and U. S. Mail on March 4, 2008.

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/enc.)

CMP 1
COM
CTR
ECR 1
GCL 2
OPC
RCA 1
SCR
SGA
SEC
OTH

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing answers to Staff's First Data Requests (Nos. 1-22), filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (*) on this 17th day of March 2008 to the following:

Ms. Lisa Bennett*
Staff Attorney
Office of the General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Mr. John T. Burnett
Associate General Counsel
Progress Energy Service Co., LLC
Post Office Box 14042
St. Petersburg, FL 33733-4042

Mr. Paul Lewis, Jr.
106 East College Avenue
Suite 800
Tallahassee, FL 32301-7740

Mr. John W. McWhirter, Jr.
McWhirter, Reeves & Davidson, P.A.
400 North Tampa Street, Suite 2450
Tampa, FL 33601-5126

Ms. Patricia A. Christensen
Associate Public Counsel
Office of Public Counsel
111 West Madison Street – Room 812
Tallahassee, FL 32399-1400

Mr. Norman Horton
Messer Caparello & Self
Post Office Box 15579
Tallahassee, FL 32317

Mr. Mehrdad Khojasteh
Florida Public Utilities Company
P. O. Box 3395
West Palm Beach, FL 33402-3395

Mr. John T. Butler
Senior Attorney
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-0420

Mr. R. Wade Litchfield
Florida Power & Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1859

Ms. Susan Ritenour
Secretary and Treasurer
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

Mr. Jeffrey A. Stone
Mr. Russell A. Badders
Mr. Steven R. Griffin
Beggs & Lane
Post Office Box 12950
Pensacola, FL 32591-2950

Mr. Robert Scheffel Wright
Mr. John T. LaVia, III
Young van Assenderp, P.A.
225 South Adams Street, Suite 200
Tallahassee, FL 32301

Mr. Michael B. Twomey
Post Office Box 5256
Tallahassee, FL 32314-5256

Karen S. White, Lt Col, USAF
Damund E. Williams, Capt., USAF
AFLSA/JACL-ULT
139 Barnes Drive, Suite 1
Tyndall Air Force Base, FL 32403-5319

Ms. Cecilia Bradley
Senior Assistant Attorney General
Office of the Attorney General
The Capitol – PL01
Tallahassee, FL 32399-1050

Mr. James W. Brew
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, NW
Eighth Floor, West Tower
Washington, D.C. 20007-5201

ATTORNEY

1. Currently, companies typically file hedging plans for the projected year in September of the current year. Companies also typically file the results of their hedging programs for the true-up year in April of the current year.

A. What comments does TECO have regarding the timing of reports on hedging activities?

B. Should the Commission determine the prudence of utility hedging plans for the projected year?

A. A. Tampa Electric believes the current schedule for the hedging reports provides both the company and the Commission the necessary time to compile and review the information.

B. Yes. The Commission should determine the prudence of each electric IOU's hedging Plan. Subsequently, the Commission can review the prudence of each IOU's hedging transactions, as part of its annual fuel and purchased power cost recovery proceedings.

2. With this next set of questions, staff is seeking to understand the relationship of fuel procurement and hedging activities.

A. Does an electric utility's participation in financial hedging activities for residual oil and natural gas make it a more effective purchaser of residual oil and natural gas? Please explain.

B. Does an electric utility's participation in financial hedging provide it with information that allows it more accurate and timely price discovery and enhanced ability to evaluate specific deals and proposals from suppliers?

A. A. No, an electric utility's participation in financial hedging activities does not make it a more effective purchaser of oil or natural gas.

B. No, an electric utility's participation in financial hedging activities does not enhance a utility's ability to evaluate specific deals and proposals from suppliers. Typically, deals and proposals are evaluated against competing offers. The slight exception is that Tampa Electric separates its physical purchases and its financial price hedging. Since all of its long-term gas supply purchases are priced relative to an index (instead of a mix of indexes and fixed prices), it is easier to compare offers.

3. Do the prices in Table 1 agree with the historical market prices used by TECO? If your response is no, please explain what the historical market prices are that are used by TECO.

A. Yes.

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4. Does TECO agree that the differences in Table 2 and Graphs 2.1 through 2.4 resemble the hedging gains and losses that would have been realized over the 140-month period, had the Last-Trading-Day Settlement Prices been realized (ignoring transactions costs)? If your response is no, please explain.

A. Yes, if it is assumed that all financial price hedging transactions were executed on the last-trading-day settlement. The reality is that financial hedging transactions occur at many different times throughout the day, month and year.

5. Does TECO agree that, on the average, the differences in Table 2 and Graphs 2.1 through 2.4 resemble the hedging gains and losses that would have been realized over the 140-month period, had the Last-Trading-Day Settlement Prices NOT been (exactly) realized? Explain your response.

A. The differences in Table 2 are a reasonable proxy for the change in forward prices over time. This change could be considered an estimate of a "gain" or "loss" from hedging.

6. Does TECO agree that during the natural gas "price spikes" in 2000-2001 (all graphs), 2002-2003 (6- and 9-month graphs), and 2005-2006 (all graphs), large gains would have been realized by anyone purchasing futures contracts several months in advance and selling those contracts during the high-price periods? Explain your response.

A. Tampa Electric does not sell hedged positions prior to settlement. While prices may reflect a "high-priced period", prices could go higher. Our risk plan requires systematic, consistent hedging that is not driven by price speculation. The company would agree with Staff that assuming someone executes a hedging transaction for a future month when conditions are benign, that entity is likely to have a gain if a disruptive event at the time of the future month settlement were to impact the market. Of course, the actual price of any commodity is subject to a great variety of influences, so while the gain is likely, it clearly is not guaranteed.

7. Does TECO agree that following the high-price periods, beginning in 2001 and again in 2003, losses would have been realized by anyone purchasing futures contracts several months in advance and selling those contracts during the lower-than-high-price periods (the periods immediately following the high-price periods)? Explain your response.

A. Yes. Assuming someone executes a hedging transaction for a future month when a disruptive event were to impact the market, that entity is likely to have a loss if the disruptive conditions at the time of the future month settlement no longer exist. Of course, the actual price of any commodity is subject to a great variety of influences, so while the loss is likely, it clearly is not guaranteed.

8. Does TECO agree that immediately following the 2000-2001 and 2002-2003 price spikes, losses would have been realized for only about twelve months? Explain your response.

A. No, losses would have been realized for the period of time forward that the entity hedged and that settled in a market condition that was more balanced than the situation at the time of the spike.

9. Does TECO agree that between the each of the 2000-2001 and 2002-2003 price spikes and the twelve-month periods immediately following each of those periods, gains and losses would have roughly cancelled each other, and price stability would have resulted for anyone purchasing futures contracts several months in advance and selling those contracts during the lower-than-high-price periods, and using the gains and losses to offset “market price volatility”? Explain your response.

A. Gains and losses would have cancelled each other assuming hedging was done for twelve months or less forward, equal volumes monthly, and executed on a very periodic and regular basis. For example, during the first month the same quantity would need to be hedged each month for the twelve forward months. This process would be repeated continually every month. Under these simplified assumptions and looking at the data for the given time period, gains and losses would have essentially cancelled.

10. Does TECO agree that losses are still occurring roughly 24 months after the 2005-2006 price spike? Explain your response.

A. Yes. Due to the significant number of natural gas market disruptions since 1999 and the increased concern about availability of all energy commodities, the financial hedging market has built an increased premium into the pricing. This increased premium recognizes that buyers fear the upside risk probability and magnitude greater than sellers fear the downside risk probability and magnitude. If those risks (storms, weather extremes, terrorism, supply uncertainty, nuclear/coal plant outages, etc.), fail to materialize, the final settlement price is lower than the "fear" adjusted hedge price.

11. Can TECO tell us why, roughly 24 months after the 2005-2006 price spike, futures prices are still one to two dollars above their comparable current market prices?

A. See response to Staff's First Data Request No. 10.

12. Should another price spike occur in the near future, with regard to natural gas market prices and futures prices, does TECO think that the period following the spike would resemble the period following the 2000-2001 and 2002-2003 spikes, or the period following 2005-2006 price spike? Why?

A. It is impossible to predict how the natural gas futures market will react to future price spikes. The collection of dynamic parameters that drive the futures market (load, weather, supply, other commodities, politics, environmental constraints, generation portfolios, etc.) that exist of the time of, and following, the next spike will dictate how the futures market responds. Conditions conspire to create an imbalance in the supply and demand of natural gas. The pricing, including futures prices, responds so that supply and demand will change in such a way to bring the market back into balance.

13. In carrying out hedging activities to achieve reduced price volatility, does TECO regard "volatility" as 1) unknown prices in future periods, or 2) period-to-period price variability?

A. Tampa Electric hedges to reduce price volatility both in 1) the uncertainty of future prices and 2) to minimize the price variation from period-to-period.

14. Generally, the longer the refund/recovery period for refunding over recoveries or recovering under recoveries, the smoother will be the period-to-period recovery factors. Agree? Explain your response.

A. Tampa Electric does not agree with the aforementioned statement. Over and under recoveries typically represent a fairly small portion of the yearly recovery factor. If projected fuel and purchased power costs are expected to dramatically increase or decrease compared to the prior years projection that would have a much larger impact on the cost recovery factor. The over or under recoveries need to be looked at in conjunction with the projected costs to determine if spreading them out would result in a smoothing out effect. The extended deferral of an over or underrecovery further disrupts the concept of sending the right price signal and in the case of an underrecovery potentially compounds the balance so the customer never "digs out of the hole".

15. Is this truer for under recoveries than it is for over recoveries?

A. There is no difference in the treatment of under or over recoveries.

16. If an under recovery is extraordinarily small (negative sign, large number of dollars) or an over recovery is extraordinarily large (positive sign, large number of dollars), what benefit is there to ratepayers deferring part of the amount beyond the next immediate recovery period?

A. Deferring a small over or under recovery would offer no significant benefit to ratepayers. If an extraordinarily large over or under recovery exists and projected costs are not anticipated to vary much from the prior year, deferring part of the amount could possibly smooth out the price impact. However, if projected costs are impacted by unforeseen events such as the hurricanes in 2004 the deferral could adversely impact future ratepayers.

17. As future months draw nearer, if you realize that your natural gas (heavy oil) needs are going to be lower than anticipated when swaps were initiated, do you reverse your short positions to maintain your percentage of hedged MMBtu's (barrels)?

A. No.

18. Do you agree that the amounts in Table 3 are correct for TECO? If not, please provide corrected dollar amounts.

Table 3 shows the estimated End-of-Period Total Net True-ups [Column (c)], estimated Total Fuel Revenue [Column(d)], and estimated Fuel Revenue Applicable to Period [Column (f)] for the last five years' reprojected estimates. The table also shows over-recovery percentages based on total revenue [Column (e)] and over-recovery percentages based on applicable revenue [Column (g)]. The percents are also based on reprojected estimates.

A. Yes they are correct.

19. Do you agree that the percents in Column (g) are calculated according to the mid-course percent method adopted in 2007 (Order No. PSC-07-0333-PAA-EI)? If not, please provide corrected percents.

A. Yes, the percentages in Column (g) are calculated in accordance with FPSC Order No. PSC-07-0333-PAA-EI.

20. Although none of the four large IOU's have petitioned for mid-course corrections since early 2003, do you agree that during the previous five years, your mid-course percents have been greater than 10 percent, at least at the times that some of the estimated revenues and expenses were "reprojected." If you disagree, please explain.

A. Yes, during 2005 and 2006 Tampa Electric's mid-course percents did exceed 10 percent once estimated revenues and expenses were reprojected. Tampa Electric did notify the Commission on July 22, 2005, when it became aware that its projected fuel costs would exceed projected fuel revenues by greater than 10 percent for the year. Also, in 2003 Tampa Electric did file for a mid-course correction for the period of April 2003 through December 2003.

21. Please indicate the years from 2003 through 2007 in which hedging gains or losses prevented the percents in columns (e) and (g) from being less than -10% or greater than +10% at the time that the estimates were reprojected.

A. Hedging gains and losses have not prevented the percents in column (e) or (g) from being less than or greater than 10 percent for any year from 2003 through 2007.

22. Please indicate the years from 2003 through 2007 in which hedging gains or losses caused the percents in columns (e) and (g) to be greater than -10% or greater than +10% at the time that the estimates were reprojected.

A. Hedging gains and losses have not caused the percents in column (e) or (g) from being less than or greater than 10 percent for any year from 2003 through 2007.