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

August 25, 2006

HAND DELIVERED

Ms. Lisa Bennett
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 322399-0850

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

Dear Ms. Bennett:

Enclosed are Tampa Electric Company's answers to Staff's First Data Request dated August 18, 2006.

Sincerely,

James D. Beasley

JDB/pp
Enclosure

cc: All Parties of Record (w/enc.)
Division of Commission Clerk and Administrative Services (w/enc.) ✓
Division of Economic Regulation (Lester) (w/enc.)
Division of Regulatory Compliance and Consumer Assistance (Vandiver) (w/enc.)

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

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing answers to Staff's First Data Request, has been furnished by U. S. Mail or hand delivery (*) on this 25th day of August 2006 to the following:

Ms. Lisa Bennett*
Staff Attorney
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0863

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. Timothy J. Perry
McWhirter, Reeves & Davidson, P.A.
117 S. Gadsden Street
Tallahassee, FL 32301

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 1876
Tallahassee, FL 32302

Ms. Cheryl Martin
Florida Public Utilities Company
P. O. Box 3395
West Palm Beach, FL 33402-3395

Mr. John T. Butler
Squire, Sanders & Dempsey, L.L.P.
200 South Biscayne Boulevard, Suite 4000
Miami, FL 33131-2398

Mr. William Walker, III
Florida Power & Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1859

Mr. R. Wade Litchfield
Associate General Counsel
Florida Power & Light Company
700 Universe Blvd.
Juno Beach, FL 33408-0420

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

Mr. Jeffrey A. Stone
Mr. Russell A. Badders
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

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

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

ATTORNEY

1. Please explain Tampa Electric's plans for using firm natural gas storage. Include the following in the explanation:
- when Tampa Electric plans to begin using natural gas storage;
- the planned amount of firm storage capacity;
- how Tampa Electric will recover the costs of natural gas storage; and
- how Tampa Electric will report the costs of natural gas storage.

A. Tampa Electric has used natural gas storage since Hurricane Ivan disrupted natural gas supplies in Mobile Bay and the eastern Gulf of Mexico in 2004. Tampa Electric replaced much of its lost gas supply with gas bought from gas marketers who had gas in storage.

Tampa Electric expanded its use of storage in 2005 to mitigate the risk of disruptions to natural gas supply. Tampa Electric contracted with gas marketers for call options on gas from storage during the 2005 hurricane season as well as for natural gas storage capacity. Effective July 14, 2005, Tampa Electric entered into a contract with Bay Gas Storage Company, Ltd. The contract provides Tampa Electric with 175,000 MMBtu of storage volume with a daily firm withdrawal capability of 35,000 MMBtu. On October 14, 2005, Tampa Electric entered a second agreement with Bay Gas Storage, which superseded the prior agreement. The new agreement extended the 175,000 MMBtu of previously contracted storage capacity until a new storage cavern is operational at Bay Gas. At that time, the contracted capacity increases to 750,000 MMBtu and the withdrawal capability increases to 75,000 MMBtu per day. The agreement has a ten-year term and the new storage capacity is expected to be available beginning around April 1, 2007.

Costs for storage include a Firm Services Demand Charge based on the amount of storage space reserved, a variable Injection and Withdrawal Charge based on the movement of gas into and out of storage, and a Fuel Charge which is a percentage of gas retained by the storage operator to cover the fuel used in injection. These costs are recovered through fuel costs since they directly relate to the reliable, cost-effective acquisition of natural gas supply. The total costs are reported in the natural gas costs of actual fuel costs along with the cost of the commodity injected into the storage facility. The balance of gas in storage is valued at the end of each month and the monthly net change is expensed in that month.

2. For each fossil fuel TECO burns, at what point in the transportation chain does it take ownership?

A.

Commodity (Fossil Fuel)		Ownership Timing
Coal	▪ River transportation	▪ Once loaded into the barge
	▪ Ocean transportation (from origination)	▪ At delivery location (Terminal or Big Bend)
Natural Gas	▪ Receipt Area	▪ Into the pipeline
	▪ Market Area (Gas bought at the outlet of the interstate pipeline)	▪ At the plant
No. 2 Oil	▪ Truck Delivery	▪ At discharge into the tank at plant
	▪ Waterborne Delivery	▪ At discharge into the tank at plant
No. 6 Oil	▪ Truck Delivery	▪ At discharge into the tank at plant
	▪ Waterborne Delivery	▪ At discharge into the tank at plant
Propane	▪ Truck Delivery	▪ At discharge into the tank at plant

3. For each fossil fuel, at what points in the transportation chain is the fuel considered fuel inventory of TECO?

A. See Tampa Electric's response to Staff's First Set of Data Requests No. 2.

4. For each fossil fuel, if fuel storage is utilized, indicate whether there is fuel stored both on-site and off-site.

A.

Commodity Storage		
	On-site	**Off-site**
Coal	Yes	Yes
Natural Gas	No	Yes
No. 2 Oil	Yes	No
No. 6 Oil	Yes	No
Propane	Yes	No

5. For off-site storage of coal and heavy oil, identify which costs of storage are recovered through the fuel clause and which costs are recovered through base rates. For any fee or charge recovered through the fuel clause, state the utility's rationale for recovery of those costs through the fuel clause as opposed to base rates. When providing the rationale please cite applicable rules or orders.

A. Coal is stored off-site in Davant, Louisiana. A handling fee is charged for unloading and loading, sampling, storing, blending, pile maintenance, and dust suppressant. The terminal handling fee, which is part of the waterborne transportation rate for coal delivered from Davant, Louisiana to Tampa Electric power plants is recovered through the fuel clause. Tampa Electric does not have any off-site storage of heavy oil; therefore, there are no associated storage costs.

6. For on-site storage of coal and heavy oil, identify which costs of storage are recovered through the fuel clause and which costs are recovered through base rates. For any fee or charge recovered through the fuel clause, state the utility's rationale for recovery of these costs through the fuel clause as opposed to base rates. When providing the rationale please cite applicable rules or orders.

A. Tampa Electric incurs material and handling costs associated with storing and maintaining its coal and heavy oil inventory at the stations. All material and handling costs are treated as non-recoverable fuel and included in base rates. Any associated carrying costs for maintaining the necessary coal is recovered through base rates. At the time of Tampa Electric's last rate case, Sebring was not part of the company's assets; therefore, costs associated with the storage of heavy oil was not included in Tampa Electric's base rates. Currently, Tampa Electric treats any heavy oil storage costs as a base rate type expense.

7. If storage costs are recovered through the fuel clause for the delivered price of that fuel, detail whether you have considered storage costs to be commodity, transportation or hedging costs.

A. Natural gas storage costs are treated as a commodity cost, although there is an element of commodity, transportation and hedging in natural gas storage. Having a storage facility allows the utility to inject the purchased natural gas commodity over a time period and then retrieve it when needed. This reduces the daily purchases of natural gas, particularly intra-day, which are frequently more expensive and less firm.

Storage of natural gas is a physical and financial hedge. As described above, storage allows the utility to mitigate some risk that gas may not be available on the market when the utility has an emergency need. As a financial hedge it allows the utility to purchase lower priced base load or summer gas and utilize storage to mitigate the higher cost of swing gas or to sell higher priced winter gas.

Storage also potentially relieves some pipeline capacity transportation costs. Storage helps protect utilities from interstate pipeline alert day charges. A utility can avoid "underage", too much gas into the pipe, alert day penalties by putting gas into storage while avoiding "overage", not enough gas into the pipe, alert day penalties by pulling gas from storage. Thus, storage helps lower overall pipeline transportation costs.

For coal, off-site storage costs are recovered through transportation rates, which are recovered through the fuel clause.

8. If fuel carrying costs are applicable to any fuel storage, indicate whether these costs are recovered through the fuel clause or base rates. Is there a difference in treatment of on-site vs. off-site storage? What is your rationale for recovery of fuel inventory carrying cost through the fuel clause?

A. Though Tampa Electric does not recover any fuel carrying costs through the fuel clause at this time, if a fuel supplier charged a carrying cost for feedstock e.g. natural gas that was not included in base rates, the cost should be eligible for recovery through the fuel clause because it is a direct expense associated with providing a reliable and cost-effective fuel supply.

In the event a particular commodity, such as Tampa Electric's coal inventory, is included in base rates then recovery through the fuel clause would not be appropriate.

Currently, Tampa Electric incurs costs in financing charges and facilities costs to maintain the inventory. Buying fuel during a low demand season and storing it until it is needed provides the opportunity for both lower cost and greater reliability. This added flexibility should be a component of any fuel supply strategy. The benefit is passed directly to customers through the fuel clause.

9. What is Tampa Electric's definition of physical hedging? Please provide examples.

A. Tampa Electric's definition of physical hedging is mitigating the risk of insufficient fuel supply and the associated cost exposure created by insufficient physical commodity supply. Examples of physical hedging include storage of fuel commodity, natural gas pipeline park-and-loan agreements, diversity of power generation fuels, dual fuel at a power plant, access to multiple pipelines for natural gas supply and delivery, acquiring a call option for peaking power when a power plant is experiencing degraded performance and may fail at any time, and having an appropriate blend of long term coal supply contracts with minimum takes, intermediate term contracts and spot purchase opportunities. As seen by these examples, a "physical" hedge has an actual commodity/energy availability component compared to a "financial" hedge which only addresses price.