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April 2, 2007

HAND DELIVERED

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

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Annual Report 2006 Risk Management Activities.

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.)

Annual Report
2006 Risk Management Activities

Tampa Electric's Risk Management Plan identified the following objectives:

- Qualitative Objectives
  Tampa Electric's goals in managing risk associated with fuel or power purchases are focused on minimizing supply risk to ensure reliability of electric service to its customers at a reasonable price. To the extent that price risk can be reduced without compromising supply reliability or imposing unreasonable costs on its customers, Tampa Electric is committed to executing strategies to accomplish this.

- Quantitative Objectives
  Tampa Electric's quantitative objective is to prudently manage its fuel and wholesale energy procurement activities so as to minimize the variance from projected expenditures while taking advantage of cost-saving opportunities that do not result in increased supply risk. Tampa Electric has established a portfolio of fuel and purchased power products with creditworthy counterparties for known volumes and prices.

2006 Risk Management Activities

The company's activities in 2006 that supported the objectives listed above are described in the following section.

- Coal Purchases
  Tampa Electric maintains a portfolio of short-term (also called spot market), medium-term and long-term coal contracts with the goal of minimizing fuel costs and price risk while maintaining reliability of supply. The company procured all of its coal needs for 2006 with suppliers with known, established pricing. Thus, the cost for the commodity was known. Tampa Electric continued to monitor deliveries and volume commitments in contracts as the pricing in the coal market changed. Tampa Electric takes advantage of favorable spot market pricing when the coal supply is needed. Coal was used to produce approximately 60 percent of the electricity the company generated in 2006.

- Coal Risk Management Activities
  Tampa Electric's long-established policy of using physical hedges within its portfolio of different term coal supply contracts continued to protect ratepayers from coal price volatility. The costs of conducting these risk management activities were included when the base year operations and maintenance ("O&M") expense amounts were established. 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.

➢ Natural Gas Purchases

In 2006, approximately 39 percent of the electricity Tampa Electric generated for retail customers was produced using natural gas. Tampa Electric's risk management strategy continues to focus on supply reliability and price volatility reduction. The components critical to the success of the natural gas purchasing strategy are as follows.

- Execution of the natural gas hedge plan approved by the Risk Authorizing Committee
- Maintaining liquidity by contracting with numerous qualified counterparties
- Time horizon for natural gas hedging activity that allows the company to hedge natural gas prices into the future
- Maintaining a minimum hedge volume percentage by month into the future
- Purchasing additional physical natural gas storage capacity near Mobile Bay, Alabama
- Diversifying interstate pipeline receipt points
- Expanding access to additional interstate pipelines
- Maintaining databases and reports to monitor activity
- Close interaction and communication with personnel at the pipeline and with the groups responsible for natural gas-fired station dispatching to improve the operational interaction between gas supply and gas demand
- Maintaining separation of duties and installation of controls consistent with current industry practices

➢ Natural Gas Hedging Activities

Natural gas prices are more volatile than coal prices. Natural gas price volatility has increased in recent years due to a surge in natural gas demand created by the deployment of numerous natural gas fired power plants nationally. Additionally, hurricane activity in the Gulf of Mexico also has a significant impact on the natural gas market. Therefore, Tampa Electric continued to use financial instruments to hedge a portion of the natural gas burned in 2006 to reduce customers' exposure to the volatility of natural gas prices. Tampa Electric used floating price to fixed price swaps to hedge natural gas prices. The costs associated with these instruments are embedded in the price of the instruments and are included in the fuel commodity costs reported by the company. The hedges are described in the table below.

Tampa Electric
Natural Gas Risk Management Activities

	Type of Hedge	Mark-to-Market Saving/(Loss)	Hedged Volume (MMBTU)	Consumption (MMBTU)	Percent Hedged	Budget Price	Hedge Price	Settle Price
Jan-06	Swaps			2,682,333				$ 11.43
Feb-06	Swaps			3,678,948				$ 8.40
Mar-06	Swaps			2,887,766				$ 7.11
Apr-06	Swaps			5,027,487				$ 7.23
May-06	Swaps			5,448,152				$ 7.20
Jun-06	Swaps			5,328,329				$ 5.93
Jul-06	Swaps			5,541,211				$ 5.89
Aug-06	Swaps			5,776,741				$ 7.04
Sep-06	Swaps			4,785,258				$ 6.82
Oct-06	Swaps			5,309,146				$ 4.20
Nov-06	Swaps			4,024,967				$ 7.15
Dec-06	Swaps			2,986,322				$ 8.32
Total		$ (54,482,120)		53,476,660				

Consistent with Tampa Electric's non-speculative risk management plan objective, Tampa Electric's natural gas hedging plan provided price stability during 2006. The results of natural gas financial hedging are an annual loss of $54 million when the instrument prices are compared to settlement prices. As shown in the table above, monthly market prices for natural gas in 2006 ranged from a high of $11.43 per MMBtu in January to the October low price of $4.20 per MMBtu, a difference of $7.23 per MMBtu; however, Tampa Electric's monthly hedged prices maintained a range of only $1.21 per MMBtu. This resulting reduction in price volatility demonstrates that the financial hedging program for natural gas met its stated objectives.

The results of the 2006 natural gas hedging plan were directly related to the 2005 and 2006 hurricane seasons. Multiple storms in the Gulf of Mexico during 2005 caused high natural gas prices that were sustained into 2006. The initial expectation of a high number of storms during the 2006 hurricane season, which did not materialize during the summer, followed by the forecasted warm winter allowed prices to plummet in early fall 2006. Throughout this volatile market Tampa Electric maintained a consistent hedge strategy that provided a stable price in 2005 and 2006. While this created a large gain in 2005 and an equal loss in 2006, Tampa Electric's natural gas hedging plan provided price stability consistent with its objective.

Tampa Electric has been increasing its natural gas storage capabilities since summer 2005, and in 2006, the company increased storage capacity to 225,000 MMBtu. The storage provides Tampa Electric with improved access to "intraday"

natural gas when an operational need arises, provides improved hurricane coverage, and can be used to cost-effectively manage swings in gas supply needs during extreme weather conditions, weekends and holidays.

Tampa Electric improved its physical access to natural gas supply by diversifying its receipt points along the Gulf Coast and acquiring pipeline capacity on the Gulfstream interstate pipeline to supplement its capacity on the FGT pipeline.

In summary, physical and financial hedging activities for coal and natural gas resulted in a net loss of $54 million in 2006; however, Tampa Electric was successful in reducing price volatility and maintaining fuel supply reliability for customers.

2006 Market Pricing

Tampa Electric provides a comparison of 2006 fuel prices to the market price for the respective commodity in the following section.

- Coal

  Coal is a commodity with a great range of potential quality characteristics. Market indexes provide a guide to current market pricing but are not specific enough to accurately demonstrate the market price of a particular coal. Market prices for coal are most accurately determined by competitive bid solicitations that specify the required coal quality or characteristics. With the exception of emergency purchases for reliability reasons and spot market purchases to take advantage of favorable pricing, Tampa Electric purchases coal at prices determined by competitive bid solicitations; therefore, the company's purchases are at market. A comparison of coal contract prices for 2006 to the average acceptable bid price or index price is provided in the table below. Unless otherwise stated, the prices represent the market at the time each contract was entered into and are not representative of today's market. Any comparison to current market prices overlooks the market conditions that existed at the time the coal was procured.

Tampa Electric
Coal Contract to Market Indicator Price Comparisons

Supplier (Mine)	Contract ($ / MMBtu)	Market Indicator ($ / MMBtu)	Difference	Market Indicator Source	Note
Alliance Coal (Pattiki)		2.42		Bid solicitation	1
American (Galatia No. 5 Seam)		1.79		Bid solicitation	1
American (Galatia No. 6 Seam)		2.42		Bid solicitation	1
American (Galatia No. 6 Seam)		2.48		Bid solicitation	1
City of Lakeland		1.85		*PACE Petroleum Coke*	2
Coal Sales (Peabody)		2.32		Bid solicitation	1
CMC - Coal Marketing Company LTD		2.79		Bid solicitation	1
Dodge Hill (No.1 mine)		2.42		Bid solicitation	1
Dodge Hill (No.1 mine)		2.42		Bid solicitation	1
Emerald International (various)		2.48		Bid solicitation	1
Freeman (Crown III)		2.32		Bid solicitation	1
Knight Hawk Coal, LLC (Creek Paum)		2.32		Bid solicitation	1
Knight Hawk Coal, LLC (Creek Paum)		2.48		Bid solicitation	1
Knight Hawk Coal, LLC (Creek Paum)		2.42		Bid solicitation	1
Phoenix Coal Corporation		2.48		Bid solicitation	1
SAFE (Willow Lake & Cottage Grove)		1.94		Bid solicitation	1, 3
SAFE (Willow Lake & Cottage Grove)		2.42		Bid solicitation	1
SAFE (Willow Lake & Cottage Grove)		2.42		Bid solicitation	1
SMCC Inc.		2.48		Bid solicitation	1
SSM - Valero (Petroleum Coke)		1.47		*PACE Petroleum Coke*	2
SSM - Valero (Petroleum Coke)		1.98		*PACE Petroleum Coke*	2
SSM - Valero (Petroleum Coke)		1.85		*PACE Petroleum Coke*	2
SSM - Valero (Norway)		2.79		Bid solicitation	1

Notes:
The contract $/MMBTU refers to the initial price of the contract at its inception. This price could be subject to escalation per the terms of the contract. All prices are determined on a fully delivered basis. Index values have also been calculated on a delivered basis for comparison purposes.

1. The bid solicitation price is the average price submitted of all acceptable coal bids.
2. Index: PACE Petroleum Coke Quarterly, Green and Calcined Petroleum Coke Prices Export Markets, High Sulfur Green Coke, Gulf Coast/Caribbean, Average Price, Below 50 Hargrove Grindability Index ("HGI")
3. Includes purchases from CoalSales (Arclar) when synfuel is not produced.

- Natural Gas

  Tampa Electric purchases natural gas at prices that are set by published indexes that reflect the market price. Most of the monthly baseload gas is purchased at a price relative to the New York Mercantile Exchange ("NYMEX") natural gas futures last day settlement price. Tampa Electric purchases additional baseload gas at monthly index prices published in *Inside FERC, Gas Market Report.* Tampa Electric uses the indexes representing market prices for natural gas on the Gulf Coast that can be transported to Tampa Electric's service area: Henry Hub, Mobile Bay, or Florida Gas Transmission ("FGT") Zone 1, Zone 2 or Zone 3. For daily and short-term natural gas, Tampa Electric typically purchases natural gas based on the FGT index price published in *Gas Daily.* In rare instances, Tampa Electric also purchases small volumes of spot natural gas needed for short durations at fixed prices.

  Since the price of natural gas Tampa Electric purchases is based upon a published market index, the company's natural gas purchases are at market.

- No. 2 Oil

  Tampa Electric purchases No. 2 oil for combustion turbines at Polk Station and for Big Bend Station startup. The purchase price is based upon the daily index price published in Platt's *Oilgram* for Gulf Coast Waterborne spot purchases of low sulfur No. 2 oil. Since the price is determined by the published market index, the price paid by Tampa Electric is at market.

- No. 6 Oil

  Tampa Electric purchases No. 6 oil for Phillips Station. The purchase price is based upon the daily index price published in Platt's *Oilgram* for Gulf Coast Waterborne spot purchases of 1% and 3% No. 6 oil. Since the price is determined by the published market index, the price paid by Tampa Electric is at market.

- Propane

  Tampa Electric purchases propane for Polk Unit No. 1. The purchase price is based upon the average of daily index prices published by Oil Price Information Service at Mont Belvieu, the primary propane hub for the southern United States. Since the price is determined by the published market index, the price paid by Tampa Electric is at market.