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June 24, 2002

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: Review of Investor-Owned Electric Utilities' Risk Management Policies and Procedures; FPSC Docket No. 011605-EI

TRANSMITTAL OF CONFIDENTIAL INFORMATION

DECLASSIFIED CONFIDENTIAL (entire DN) 7.6.04

Dear Ms. Bayo:

This will follow up Tampa Electric Company's June 11, 2002 Request for Confidential Treatment of certain portions of the Staff's Draft Audit Report concerning internal controls of Florida's investor-owned utilities for fuel and wholesale energy transactions. Transmitted herewith are confidential versions of pages 65, 66, 71 and 72 of that draft report reflecting a date of June 2002. We have highlighted the confidential material in yellow and request that your office maintain this information as confidential proprietary business information, pursuant to the justification set forth in the company's June 11, 2002 Request for Confidential Treatment.

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,

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

James D. Beasley

JDB/pp
Enclosures

cc: All Parties of Record (w/o encls.)

DOCUMENT NUMBER-DATE
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5.2 TEC's Fossil Fuel Purchasing Policies and Controls

The Fuels Department defines its mission as planning and procuring fuel at least-cost, environmentally acceptable, and optimizing power generation. The department has set procedures to accomplish its mission. As noted, 97 percent of TEC's generation is coal-fired, and its primary objective is the purchasing of coal.

The procedures for fuel procurement and transportation were last revised in 1995 and TEC asserts they are in the process of being updated. At present, the procedures are used to procure only oil and coal. When the Fuels Department determines there is a need to purchase fuel, it is accomplished through an request for proposal (RFP) and bid solicitation process. Bids are awarded on the lowest acceptable offer based on cents per MMBTU. The supplier will be notified and TEC will negotiate a contract.

Fuel transportation also involves an RFP process. Bids are not evaluated on price alone. The overall evaluation considers delivered price, supplier capability, financial stability, and historical information. Currently, a subsidiary of TECO Energy, TECO Transport, supplies all coal transportation for TEC.

Since there is little volatility in coal pricing, TEC claims the optimal way to control coal prices is contractually using a mix of long and medium-term agreements. Additionally, TEC negotiates flexibility in the contracts such as quantity, flexible scheduling, early pay discounts, and coal quality adjustments. These provisos protect the company and assure lower costs to the rate payers.

In 2001, as **Exhibit 19** demonstrates, coal purchases had little variances with approximately 49 percent purchased on fixed short-term and 49 percent on fixed and indexed long-term. Also in 2001, all gas, distillate oil, and residual oil were bought on the spot market. TEC has never used options, swaps, or derivatives as a form of hedging in the purchase of any fuel.

When TEC put natural gas-fired Polk Unit #2 on-line in July of 2000, the Fuels Department was unfamiliar with the gas purchasing process. Therefore, it asked the TECO Energy subsidiary, TECO Peoples Gas, to administer all natural gas purchases. TEC asserts this is only temporary until it augments the Fuels Department operations by the hiring of a gas manager. By May 2002, it should be an in-house operation. TEC has contracted with Florida Gas Transmission for 10 years of gas transportation to the new Bayside units.

In October 2001, TECO Energy's Board of Directors sanctioned the creation of the Risk Authorizing Committee (RAC). It is to be composed of senior company officers and act on behalf of all parent company risk activities. The Committee's oversight responsibilities include:

TEC'S Fossil Fuel Purchases by Type of Contract

Purchased as	Coal Percent				Residual Oil as %				Distillate Oil as %				Natural Gas as %	
	1998	1999	2000	2001	1998	1999	2000	2001	1998	1999	2000	2001	2000	2001
Fixed Long Term	49	58	42	35	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Indexed Long Term	14	13	15	14	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Fixed Medium Term	3	1			[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Indexed Medium Term					[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Fixed Short Term	35	28	41	49	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Indexed Short Term					100	100	100	100	100	100	100	100	45	
Spot Market			3	2									55	100

EXHIBIT 19

Source: DR-1-8

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B. Describe your fossil fuel procurement and wholesale purchased power plans separately for 2002. Please include:

General
1. Types of fuel used and power purchased or sold
2. Quantities and mix and by percent
3. How purchased and by percent
4. Justify all purchasing strategies in items 1-3.

Specific
1. What derivatives will be used and how
2. What will be hedged and how
3. Savings (net of expenses) anticipated and why

SWOT
1. Describe the strengths of the plan
2. Describe the weaknesses of the plan
3. Describe the opportunities within the plan
4. Describe the threats and possible countermeasures

Response:

Fuel

Coal, residual oil, distillate oil and natural gas will be purchased in 2002 in the amounts and mix shown in the following table.

Purchases are made through a bid solicitation process. Contracts are awarded to the supplier with the lowest-priced acceptable evaluated bid on a delivered-to-the-plant basis. Plant acceptability and ability of the producer to provide the quantity or quality specified are included in this evaluation. In 2002 total coal purchases will comprise 43% spot market transactions and 57% term contracts. Competitive bid solicitations help ensure that Tampa Electric obtains the best market prices available. The balance between spot market and term contracts has been arrived at through experience. As results of the purchasing strategy are reviewed, the balance is reevaluated. If, after this analysis, the company feels that a different balance would better suit its needs, then a change is made. In addition, tonnage optionality is often built into the company's term contracts, allowing Tampa Electric to take advantage of attractive pricing. Tampa Electric does not plan to purchase derivative instruments for fuels in 2002.

This plan reduces uncertainty by providing known pricing and volume for a specific period of time. It allows the company opportunities to take advantage of attractive spot market tons and prices. Under the plan, the company has the flexibility to allow for volume changes given the performance of the generating units and purchase power transactions in any given year.

A potential weakness is that in times of rising prices, spot purchases may be more costly. However, the company can mitigate this by buying less coal on the spot market until the market takes a downward trend.

Fuel Type	Coal	Residual Oil	Distillate Oil	Natural Gas
mmBtu	165,913	1,232	3,597	7,971
Mix by percent	93%	1%	2%	4%

Threats and countermeasures are outlined in the response to Question No. 4 - IV. A. 1. Also, as noted earlier, the company continues to reevaluate the balance of spot and term purchases given the current marketplace. Tampa Electric addresses quality, credit and counterparty risks through its contracts with producers and uses its quality assurance program to make certain that producers are providing the appropriate quantity and quality of product. It should also be noted that the flexibility of this purchasing strategy gives the company opportunities to restructure the mix for a given year, should the marketplace justify it.

Wholesale Power

Power purchases include long and short-term products. The company plans to acquire 2/3 of its 2002 purchased power from long-term contracts and the remainder on the spot market, providing customers with reliable supply and the advantages of potential attractive spot pricing opportunities and flexibility. Tampa Electric does not plan to purchase derivative instruments for energy in 2002.

This plan reduces uncertainty by providing known pricing for a specific period of time, and the plan also gives the company flexibility to allow for purchase changes given the performance of Tampa Electric generating units, weather and other variable conditions. A potential weakness is that in times of rising prices, spot purchases may be more costly. The company's 2002 wholesale sales strategy is to continue to serve existing long-term firm contracts and sell surplus incremental energy on the spot market. This strategy supports the company's supply risk mitigation goal described in 4 - IV.A.3 and provides customers with a purchased power credit from non-separated wholesale sales.

C. Audits

1. Internal Auditor – describe the level of audit oversight that the utility's internal auditor provides to the utility's risk management efforts.

Response:

Internal fuel audits were provided in response to Data Request No. 2. In addition, oversight has been provided by review of the FPSC auditors.