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ORIGINAL

July 26, 2002

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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

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies Tampa Electric Company's Prehearing Statement.

Also enclosed is a diskette containing the above document generated in Word and saved in Rich Text format for use with WordPerfect.

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

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JDB/pp
Enclosure

cc: All Parties of Record (w/enc.)

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DOCUMENT NUMBER - DATE
FPSC-BUREAU OF RECORDS 07827 JUL 26 02

FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of Investor-Owned)
Electric Utilities' Risk Management)
Policies and Procedures.)
_____)

DOCKET NO. 011605-EI
FILED: July 26, 2002

**TAMPA ELECTRIC COMPANY'S
PREHEARING STATEMENT**

A. APPEARANCES:

LEE L. WILLIS
JAMES D. BEASLEY
Ausley & McMullen
Post Office Box 391
Tallahassee, Florida 32302
On behalf of Tampa Electric Company

B. WITNESSES:

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
(Direct)		
1. Joann T. Wehle (TECO)	Hedging and Tampa Electric's fuel procurement and price volatility management policies and procedures	1A,1B,1C,2, 3,4,7A,7B
2. W. Lynn Brown (TECO)	Management of price volatility of wholesale power transactions: hedging with respect to wholesale power transactions	1B,2,3,4, 7A,7B

C. EXHIBITS:

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
_____ (JTW-1)	Wehle	Risk Management Plan Outline for Fuel Procurement and Wholesale Power Purchases

DOCUMENT NUMBER-DATE

07827 JUL 26 02

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D. STATEMENT OF BASIC POSITION

Tampa Electric Company's Statement of Basic Position:

Tampa Electric is taking reasonable steps to manage price risks associated with fuel and purchased power transactions. The Commission's appropriate role is to oversee and review each utility's risk management plan and its hedging transactions. The extent to which hedging is appropriate must be assessed on a utility-by-utility basis. No incentive plan is required at this time to encourage Tampa Electric to optimally manage the risks to ratepayers associated with fuel and purchased power price volatility. As a consequence, no change to the Commission's current method for calculating shareholder gains on wholesale sales is necessary. Finally, any gains or losses from hedging fuel and purchased power transactions should be credited or recovered through the fuel and purchased power cost recovery clause (the "fuel clause") and all premiums received or paid for hedging fuel and purchased power transactions through option contracts should be credited or recovered, respectively, through the fuel clause.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1A: What role should the Commission take concerning the manner in which each investor-owned electric utility manages risks associated with fuel procurement?

TECO: The Commission should oversee and review each utility's risk management plan. The Commission should also review the utilities' hedging transactions as they are incurred and/or proposed for cost recovery through the fuel clause (Witness: Wehle)

ISSUE 1B: Is each investor-owned electric utility taking reasonable steps to manage the price risk associated with its natural gas and residual oil transactions, as well as purchased power transactions based on natural gas prices, through the use of physical, operational, or financial hedging practices, or a combination of those practices?

TECO: Tampa Electric is taking reasonable steps to manage price risks associated with fuel and purchased power transactions. The company has used physical hedges to

mitigate the price volatility of coal, its primary fuel source. (Witnesses: Brown; Wehle)

ISSUE 1C: For what purposes does each investor-owned electric utility engage in physical, operational, or financial fuel price hedging practices, or a combination of those practices, and to what extent do such purposes involve reductions in fuel price volatility versus reductions in fuel costs?

TECO: Tampa Electric utilizes physical hedges with respect to the acquisition of coal, its primary fuel source, in an effort to control fuel price volatility and to secure a reliable source of coal at the lowest available cost. Fortunately, the price of coal has not been as volatile as the prices for oil and natural gas. Mitigating fuel price volatility does not necessarily produce an overall reduction in fuel cost. (Witness: Wehle)

ISSUE 2: What is the appropriate regulatory treatment for gains and losses an investor-owned electric utility incurs from hedging fuel and purchased power transactions through futures contracts?

TECO: Any gains or losses from hedging fuel and purchased power transactions through futures contracts should be credited or recovered, respectively, through the fuel clause. (Witnesses: Brown; Wehle)

ISSUE 3: What is the appropriate regulatory treatment for the premiums an investor-owned electric utility receives and pays for hedging fuel and purchased power transactions through options contracts?

TECO: All premiums received or paid for hedging fuel and purchased power transactions through options contracts should be credited or recovered, respectively, through the fuel clause. (Witnesses: Brown; Wehle)

ISSUE 4: What is the appropriate regulatory treatment for the transaction costs an investor-owned electric utility incurs from hedging its fuel and purchased power transactions through futures and options contracts?

TECO: The transaction costs that a company incurs as the result of hedging its fuel and purchased power transactions through futures and options contracts should be recovered through the fuel clause. (Witnesses: Brown; Wehle)

ISSUE 5: For the period March 1999 to March 2001, did FPL take reasonable steps to manage the risk associated with changes in natural gas prices?

TECO: No position.

ISSUE 6: For the period March 1999, to March 2001, did Florida Power take reasonable steps to manage the risk associated with changes in natural gas prices?

TECO: No position.

ISSUE 7A: What incentive(s), if any, should the Commission establish to encourage investor-owned electric utilities to optimally manage the risks to ratepayers associated with fuel and purchased power price volatility?

TECO: Tampa Electric does not believe it is appropriate or necessary for the Commission to establish any incentives at this time to encourage Tampa Electric to optimally manage the risks to ratepayers associated with fuel and purchased power price volatility. Tampa Electric believes that it is optimally managing risks to ratepayers associated with fuel and purchased power price volatility. The company does not believe it appropriate to use financial hedging instruments for wholesale energy transactions until a liquid, published wholesale market exists in the state. As Tampa Electric's reliance on natural gas fired generation increases, it will continue to evaluate the costs and benefits of implementing additional risk management practices relating to fuel transactions. (Witnesses: Brown, Wehle)

ISSUE 7B: If the Commission were to approve any utility's incentive plan for optimally managing fuel price risk which includes a change in the method for calculating shareholder gains on wholesale sales as specified in Order Nos. PSC-00-1744-PAA-EI and PSC-01-2371-FOF-EI, what changes, if any, should be made to the requirements of these orders?

TECO: Tampa Electric does not believe it is appropriate or necessary at this time for the Commission to approve an incentive plan for Tampa Electric. Accordingly, Tampa Electric does not believe the Commission should change the current methodology for calculating shareholder gains on wholesale sales and, thus, no changes to the orders in question are necessary. If the Commission were to approve a utility's incentive plan, the characteristics of the plan would indicate what changes, if any, need be made to the orders in question. (Witnesses: Brown, Wehle)

F. STIPULATED ISSUES

TECO: None at this time.

G. MOTIONS

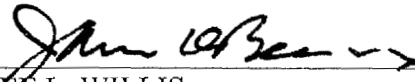
TECO: None at this time.

H. OTHER MATTERS

TECO: None at this time.

DATED this 26th of July 2002.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James D. Beasley", written over a horizontal line.

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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Tampa Electric Company's Prehearing Statement has been furnished by U. S. Mail or hand delivery (*) on this 26th day of July 2002 to the following:

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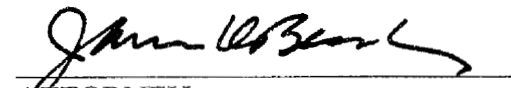
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