

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

April 1, 2005

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. 050001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket is the original and ten (10) copies of Tampa Electric Company's Annual Report 2004 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,

es D. Beasley

JDB/pp
Enclosure

cc: All parties of record (w/enc.)

DOCUMENT NUMBER-DATE

03189 APR-1 2005

FPSC-COMMISSION CLERK

Annual Report
2004 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.

2004 Risk Management Activities

The company's activities in 2004 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 2004 with suppliers with known, established pricing. **Thus, the cost for the commodity was known.** Tampa Electric continued to monitor deliveries and take advantage of minimum/maximum volume commitments in these contracts as the pricing in the coal market changed, which allowed Tampa Electric to take advantage of favorable spot market pricing when it became available. Coal was used to produce approximately 63 percent of the electricity the company generated in 2004.
- **Coal Risk Management Activities**
Tampa Electric's long-established policy of using physical hedges within its portfolio of different term coal supply contracts and the volume flexibility provided by some of those contracts continued to protect ratepayers from coal price volatility. In 2004, savings from these activities were \$5.9 million, compared to projected costs, and benefited ratepayers. The costs of

conducting these risk management activities were included when the base year operations and maintenance ("O&M") expense amounts were established.

➤ Natural Gas Purchases

In 2004, approximately 38 percent of the electricity Tampa Electric generated for retail customers was produced using natural gas. Tampa Electric continued to enhance its hedging strategy with a focus on reducing price volatility. The components critical to the success of the natural gas purchasing strategy are as follows:

- Enhancements and execution of the natural gas hedge plan approved by the Risk Authorizing Committee.
- Significant increase in liquidity by contracting with more qualified counterparties
- Extended time horizon for natural gas hedging activity, thereby allowing the company to hedge natural gas prices farther into the future
- Maintaining a minimum hedge volume percentage by month into the future
- Using pipeline Park-and-Loan service as "virtual storage" to reduce daily gas price volatility and improve fuel supply reliability
- 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. Therefore, Tampa Electric continued to use financial instruments to hedge a portion of the natural gas burned in 2004 to reduce its customers' exposure to the volatility of natural gas prices. The hedges are described in the table below.

For 2004, natural gas hedging yielded gains of \$8.4 million when the instrument prices are compared to settlement 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.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 050001-EI
ANNUAL RISK MANAGEMENT REPORT
PAGE 3 OF 5
FILED: APRIL 1, 2005**

**Tampa Electric
Natural Gas Risk Management Activities**

2004	Type of Hedge	Mark-to-Market Savings/(Loss)	Hedged Volume (MMBTU)	Consumption (MMBTU)	Percent Hedged	Budget Price	Hedge Price	Settle Price
Jan-04	Swaps			3,683,295				\$ 6.15
Feb-04	Swaps			3,768,317				\$ 5.78
Mar-04	Swaps			2,782,943				\$ 5.15
Apr-04	Swaps			3,257,076				\$ 5.37
May-04	Swaps			4,037,481				\$ 5.94
Jun-04	Swaps			4,687,416				\$ 6.68
Jul-04	Swaps			5,476,493				\$ 6.14
Aug-04	Swaps			5,233,321				\$ 6.05
Sep-04	Swaps			5,121,084				\$ 5.08
Oct-04	Swaps			5,318,444				\$ 5.72
Nov-04	Swaps			3,179,290				\$ 7.63
Dec-04	Swaps			3,237,278				\$ 7.98
Total		\$ 8,413,170		49,782,438				

The hedging activities for coal and natural gas benefited customers by \$14.3 million in 2004, and Tampa Electric enhanced its processes, procedures, system controls and tools needed to provide price certainty and supply reliability for natural gas.

2004 Market Pricing

Tampa Electric provides a comparison of 2004 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 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 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 COMPANY
DOCKET NO. 050001-EI
ANNUAL RISK MANAGEMENT REPORT
PAGE 4 OF 5
FILED: APRIL 1, 2005**

**Tampa Electric
Coal Contract to Market Indicator Price Comparisons**

Supplier (Mine)	Contract (\$ / MMBtu)	Market Indicator (\$ / MMBtu)	Difference	Market Indicator Source	Note
Alliance Coal (Gibson)		N/A	N/A	Market survey	1
American (Galatia)	1.71	1.79	(0.08)	Bid solicitation	2
American (Powhatan)		1.88		Contract replaced	3
Black Beauty (Somerville)	1.86	2.11	(0.25)	Bid solicitation	2
Black Beauty (Somerville)	1.84	2.11	(0.27)	Bid solicitation	2
Dodge Hill (No.1 mine)	1.86	2.11	(0.25)	Bid solicitation	2
Dodge Hill (No.1 mine)	1.84	2.11	(0.27)	Bid solicitation	2
Emerald International (Gibson)		N/A	N/A	Market survey	1
Energy Coal SPA (Petroleum Coke)		0.78		<i>PACE Petroleum Coke Quarterly</i>	4
Energy Coal SPA (Atlantic Zeus)		3.08		Bid solicitation	2
Freeman (Crown III)		2.15		<i>Coal Daily</i>	5
Freeman (Crown III)		2.46		Bid solicitation	2
Glencore Ltd. (Colombian)		3.08		Bid solicitation	2
Knight Hawk Coal, LLC (Creek Paum)		2.46		Bid solicitation	2
No. 1 Contractors (No. 1 Mine)		1.92		Bid solicitation	2
Peabody (Arclar) / SAFE (Willow Lake & Cottage Grove)				Contract replaced	6
Polk Station Beneficiated Coal		N/A	N/A	N/A	7
RAG (Ystwyth)		2.52		<i>Coal Daily</i>	8
RAG (Kovdor)		3.55		Bid solicitation	2
SAFE (Willow Lake & Cottage Grove)		1.79		Contract replaced	9
SSM - Valero (Petroleum Coke)		1.07		Bid solicitation	2
TCP - Motiva, Port Arthur, TX (Petroleum Coke)		0.91		<i>PACE Petroleum Coke Quarterly</i>	4
Zeigler (No. 11 Mine)		N/A	N/A	N/A	10

Notes:

Prices do not include contract escalation terms. All prices are shown on a delivered basis, per mmBtu.

1. The fuel was purchased to conduct a test burn to see if it could replace more expensive low-sulfur foreign coal. The fuel price was the lowest available for a low-sulfur domestic coal of this quality specification.
2. The bid solicitation price is the average price submitted in all acceptable coal bids.
3. The contract fuel for Gannon Station was replaced with a fuel appropriate for Big Bend Station, at a lower price.
4. Index: PACE Petroleum Coke Quarterly, Green and Calcined Petroleum Coke Prices Export Markets, High Sulfur Green Coke, Gulf Coast/Caribbean, Above 50 Hargrove Grindability Index ("HGI")
5. Index: Argus Coal Daily Physical Market Assessments, Illinois/Indiana Mine 11,000 Btu / 6.0 lb SO₂
6. This long-term contract price was determined by a negotiated dispute settlement. In 2004, the coal contract was converted to a synfuel purchase at a lower price.
7. Average 2004 price. The price per mmBtu is the [REDACTED]
8. This transaction exercised the last available contractual option for additional tons. In deciding to exercise it, the price was compared to the market index for a similar fuel. Index: Argus Coal Daily, Physical Market Assessments, Colombia, 11,300 Btu, <=1% SO₂, FOB Bolivar
9. The fuel was replaced with synfuel, and the price is a discount to the price of the contract coal.
10. Average 2004 price for long-term contract entered in 1981. The company did not retain the records of the 20-plus year-old bid solicitation prices.

- **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 [REDACTED]. Tampa Electric also purchases baseload gas at monthly index prices published in [REDACTED]. The indexes used are for natural gas [REDACTED]. These indexes represent the market price for natural gas [REDACTED]. For daily and short-term natural gas, purchases are typically at the index price published in [REDACTED] for natural gas [REDACTED]. In rare instances, Tampa Electric also buys small volumes of spot natural gas needed for short durations at fixed prices; however, fixed price transactions are only completed when the fixed price is at or below the market index price. 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 [REDACTED]. 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 [REDACTED]. 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 [REDACTED]. Since the price is determined by the published market index, the price paid by Tampa Electric is at market.