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September 12, 2003

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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03 SEP 12 PM 4:06
COMMISSION
CLERK

050001-EI

Re: Fuel and Purchased Power Cost Recovery Clause with Generating
Performance Incentive Factor; FPSC Docket No. 030001-EI

REQUEST FOR CONFIDENTIAL CLASSIFICATION
CONFIDENTIAL DOCUMENTS ATTACHED

Dear Ms. Bayo:

Enclosed are copies of pages 17, 18, 19, 29 and 30 of the Prepared Direct Testimony of Tampa Electric witness Joann T. Wehle; Document No. 1, page 2 of 2, of Ms. Wehle's Exhibit (JTW-2) and pages 4 and 8 of the Prepared Direct Testimony of Tampa Electric witness Benjamin F. Smith, all of which are highlighted to show information that we request be classified confidential in accordance with Section 366.093, Florida Statutes.

Under separate cover letter we are filing a formal Request for Confidential Classification of the highlighted portions of the above testimony and exhibit pages. That Request contains a detailed justification for the requested confidential classification.

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.

RECEIVED & FILED

Sincerely,

Jh
FPSC-BUREAU OF RECORDS

James D. Beasley
James D. Beasley

JDB/pp
Enclosures

cc: All parties of record () c.)

5-10-05
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DOCUMENT NUMBER-DATE

08652 SEP 12 8

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI
IN RE: FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

PROJECTIONS
JANUARY 2004 THROUGH DECEMBER 2004

TESTIMONY AND EXHIBIT
OF

JOANN T. WEHLE

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Part
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- 1 additional information, if needed, to fully evaluate
2 bids.
- 3 3. If bid responses do not address the bid requirements
4 or bid response terms and conditions vary,
5 adjustments will be made to put each bid response on
6 a comparative basis.
- 7 4. In the event that Tampa Electric does not receive an
8 adequate response for the bid requirements for each
9 segment, the company and its consultant will utilize
10 models to determine the appropriate market rate for
11 the future contract given the tonnage and length of
12 move requirements.
- 13 5. Provide Tampa Electric management a complete
14 analysis of evaluated bids and an assessment of the
15 market.
- 16 6. Tampa Electric will provide a rate to meet or beat
17 to TECO Transport for the right of first refusal in
18 accordance with terms of the existing contract.
- 19 7. After receiving a response from TECO Transport,
20 Tampa Electric will proceed with negotiations and
21 finalize a contract for services for January 1, 2004
22 through December 31, 2008.

23
24 Q. What are the results of the process thus far?
25

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1 **A.** Tampa Electric received two waterborne transportation
2 services and two railroad transportation bids. Tampa
3 Electric's consultant, DMA, is evaluating the two
4 waterborne transportation bids as described in the
5 testimony of Tampa Electric's witness Dibner. Tampa
6 Electric is evaluating the railroad bids and is working
7 with DMA to determine appropriate market prices for each
8 of the three segments included in the waterborne
9 transportation system. Once market prices have been
10 established, the prices will be communicated to TECO
11 Transport. In accordance with existing contractual
12 terms, TECO Transport has the option to provide services
13 at or below those market prices.

14
15 **Q.** Why is TECO Transport given an opportunity to match the
16 market prices?

17
18 **A.** A common practice in the fuel supply and transportation
19 business is to negotiate with suppliers a "Right of First
20 Refusal" clause in long-term agreements. Such a clause
21 exists in the contract between TECO Transport and Tampa
22 Electric.

23
24 **Q.** Why is it beneficial to include a "Right of First
25 Refusal" clause in these types of contracts?

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- 1 **A.** The "Right of First Refusal" provision encourages the
2 vendor to provide these highly capital-intensive
3 transportation services while protecting the buyer, Tampa
4 Electric as well as its ratepayers, through a periodic
5 re-assessment of the competitive market prices for these
6 services. In addition, the provision requires the vendor
7 to meet or beat current market prices, which benefits
8 ratepayers because there is only upside potential in
9 price for those services.
10
- 11 **Q.** What is Tampa Electric's timeline for completing the
12 remaining tasks to establish a new contract for
13 waterborne coal transportation services?
14
- 15 **A.** Tampa Electric expects to complete the tasks necessary to
16 establish a new contract for waterborne coal
17 transportation by November 2003. An updated timeline
18 that shows estimated completion dates for the remaining
19 tasks is attached as Document No. 2 of my exhibit.
20
- 21 **Q.** When will you provide additional information about the
22 evaluation of the bids to the Commission?
23
- 24 **A.** When the evaluation process is complete, I will file
25 supplemental testimony that describes details of the bid

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1 coal. Tampa Electric is also pursuing with the supplier
2 a potential replacement of this contract coal with other
3 types of coal that can be burned at another Tampa
4 Electric generating facility. If Tampa Electric's
5 efforts to resell or replace the surplus coal are not
6 successful, the company plans to utilize this coal over
7 time at Big Bend Station. Due to the company's efforts,
8 Tampa Electric currently expects the impact to ratepayers
9 to be neutral at worst, and there remains the potential
10 for ratepayers to experience net gains.

11

12 **Q.** Does Tampa Electric expect to incur dead freight cost due
13 to the shutdown of Gannon Units 1 through 4 in 2003?

14

15 **A.** Due to the dynamic nature of calculating potential dead
16 freight costs, which are determined by the transportation
17 contract terms and the actual tonnage delivered at the
18 end of the contract term, Tampa Electric does not have a
19 viable projection of potential dead freight costs at this
20 time. As previously discussed, TECO Transport has an
21 option to meet or beat the market rates established for
22 Tampa Electric's new contract for waterborne
23 transportation services to take effect January 1, 2004.
24 Therefore, if TECO Transport does opt to provide the
25 transportation services, Tampa Electric will enter into

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1 negotiations, and, as part of that process, the company
2 will include mitigation of potential dead freight costs
3 as an issue to be negotiated in establishing the new
4 contract.

5

6 **Q.** Are the costs of any replacement fuel due to the shutdown
7 of Gannon Units 1 through 4 in 2003 reasonable?

8

9 **A.** Yes, Tampa Electric's units are operated to provide safe,
10 reliable electric service to ratepayers, and the company
11 procures the fuel to operate all units based on their
12 economic dispatch. In addition, Tampa Electric follows
13 its Commission-reviewed fuel procurement policies and
14 procedures. Finally, Tampa Electric's decision to shut
15 down Gannon Units 1 through 4 in 2003 was arrived at only
16 after careful and deliberate evaluation of many dynamic,
17 competing and complex factors, as described in the
18 testimony of Tampa Electric witness W. T. Whale.
19 Therefore, costs for replacement fuel due to the shutdown
20 of Gannon Units 1 through 4 in 2003 are reasonable and
21 prudently incurred, and it is appropriate that Tampa
22 Electric should be authorized to recover any such costs
23 through its fuel clause.

24

25

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2002 TRANSPORTATION MARKET PRICE APPLICATION

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources \$130,222,133.27 divided by 6,440,178.97 tons	\$20.22
Transportation Benchmark	\$23.87
Over/(Under) Benchmark	\$(3.65)
Total Tons Transported in 2002	6,440,178.97
Total Transportation Cost in 2002	\$130,222,133.27
Total Amount Allowable for Recovery Using Benchmark (\$23.87 x 6,440,178.97 tons)	\$153,727,072.01
Total Cost Over/(Under) Benchmark – 2002	\$(23,504,938.74)
Prior Year's Cumulative Benefit (1988-2001)	\$(513,091,088.82)
Net Benefit for 1988 – 2002	\$(536,596,027.56)

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FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI
IN RE: FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY

PROJECTIONS
JANUARY 2004 THROUGH DECEMBER 2004

TESTIMONY

OF

BENJAMIN F. SMITH

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2 of 2
DOCUMENT NUMBER-DATE

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1 stability and reliability of supply.

2

3 For 2003, Tampa Electric expects that 51 percent of its
4 purchased power will be from long-term contracts, and
5 the remaining 49 percent will be purchased through the
6 short-term market. This purchasing strategy provides a
7 reasonable and diversified approach to serving retail
8 customers.

9

10 Q. What capacity and energy purchases are included in Tampa
11 Electric's projections for 2004?

12

13 A. In addition to the existing long-term firm purchased
14 power agreement with Hardee Power Partners and
15 qualifying facility purchases, Tampa Electric projects
16 that it will purchase 50 MW of firm capacity for its
17 summer 2004 reserve margin requirement. Tampa Electric
18 will also continue to evaluate economic combinations of
19 forward and spot market energy purchases that may be
20 made during Tampa Electric's spring and fall generation
21 maintenance periods and peak periods to reduce the
22 overall cost to retail customers.

23

24 Q. Will the sale of the Hardee Power Partners capacity by
25 TECO Power Services affect Tampa Electric's purchase

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1 hedging of its wholesale energy transactions to mitigate
2 wholesale energy price volatility?

3
4 **A.** Tampa Electric thus far has engaged only in physical
5 hedging for wholesale transactions. Florida's wholesale
6 energy market is in an early developmental stage.
7 Physical and financial hedges provide measurable market
8 price volatility protection. However, the availability
9 of financial instruments is limited, and Tampa Electric
10 believes that the appropriate financial instruments to
11 meet the company's needs do not currently exist. Thus,
12 Tampa Electric has not purchased any wholesale energy
13 derivatives. The company employs a diversified power
14 supply strategy, which includes self-generation and
15 long- and short-term capacity and energy purchases. As
16 stated earlier, approximately 51 percent of Tampa
17 Electric's 2003 purchased power was arranged through
18 long-term contracts. This strategy provides the company
19 the opportunity to take advantage of favorable spot
20 market pricing while maintaining reliable service to its
21 customers.

22
23 **Prudent Management of Wholesale Transactions**

24 **Q.** Has Tampa Electric reasonably managed its wholesale
25 power purchases and sales practices for the benefit of