

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

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COMMISSION
CLERK

October 31, 2005

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

070001-EI

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance
Incentive Factor; FPSC Docket No. 050001-EI

CONFIDENTIAL DOCUMENTS ENCLOSED

Dear Ms. Bayo:

We submit on behalf of Tampa Electric Company a single confidential version of the company's answers to Staff's Eighth Set of Interrogatories (Nos. 90, 92 and 97-100). This filing is being accompanied by a Request for Confidential Classification and Motion for Protective Order being separately filed this date with your office.

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
James D. Beasley
MHR 5/10/07
DECLASSIFIED

JDB/pp
Enclosures

CONFIDENTIAL

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

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on
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER: DATE

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FPSC-COMMISSION CLERK

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Fuel and Purchased Power)
Cost Recovery Clause with)
Generating Performance Incentive)
Factor)**

**DOCKET NO. 050001-EI
FILED: OCTOBER 31, 2005**

CONFIDENTIAL VERSION

**TAMPA ELECTRIC COMPANY'S
ANSWERS TO EIGHTH SET OF INTERROGATORIES (NOS. 90, 92, 97-100)
OF
FLORIDA PUBLIC SERVICE COMMISSION STAFF**

Tampa Electric files this its Answers to Interrogatories (Nos. 90, 92, 97-100) propounded and served on October 11, 2005, by the Florida Public Service Commission Staff.

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DOCUMENT NUMBER-DATE

10509 OCT 31 05

FPSC-COMMISSION CLERK

90. Did any of the bids received in the December 2003 RFP have escalation factors other than annual escalation percentages? If so, what kind and to what extent?
- A. Yes. The following bids received as a result of the December 2003 RFP offered escalation factors other than annual known percentages:

Annual Escalation

- American Coal – to be negotiated
- Solar Sources – flat pricing for three year term
- Pigman Sales Company – silent on escalation
- Freeman United – silent on escalation
- S Coal Company – to be negotiated
- CMC – annual escalator based on CPI, PPI or other established index and a market risk minimization clause such that the price could be adjusted to within +/-20 percent of market prices every six months
- Alliance Coal – semi annual price adjustments

Price Re-Openers

- CMC – price re-opener in accordance with RFP
- Black Beauty Coal (Willow Lake) – price re-opener in accordance with RFP
- Black Beauty Coal (Somerville) – price re-opener in accordance with RFP
- S Coal Company – re-opener negotiable
- Lafayette Coal – price re-opener in accordance with bid
- Freeman United – periodic price adjustments to be negotiated
- Pigman Sales Company – price re-opener in accordance with bid
- Energy Coal SpA – price re-opener in 2007
- Interocean – price re-opener in accordance with RFP

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92. According to Tampa Electric's response to Interrogatory No. 55 from Staff's 6th Set of Interrogatories, the winning bid was for Peabody Coal's Willow Lake mine. On what basis was this bid better than the Drummond Colombian coal and the Peabody Somerville mine bids?
- A. Tampa Electric evaluated the responses to the December 2003 RFP using the best information available at the time. The evaluation process is dynamic and considers many factors. However, the reasons the two bidders were not selected are straightforward. 1) the Peabody Somerville mine coal was removed from the bid process because the coal was not available and 2) Interocean's (Drummond) bid proposal to supply low sulfur coal was disqualified because Tampa Electric's engineering knowledge and experience at Big Bend Station indicated that burning the proposed quantities of low sulfur coal would cause operational problems and negatively affect unit reliability. Some examples of the operational problems resulting from Big Bend Station burning substantial amounts of low sulfur coal are as follows:
- Burning coal with a higher ash softening temperature results in a hard slag forming over the slag tap of the boiler floors. Once the slag tap is blocked, the unit must be taken offline, and the slag tap must be blasted with dynamite to clear it. This results in a decline in unit availability and additional costs for replacement power.
 - Low sulfur coal causes opacity levels to rise, and generation restrictions occur to stay in compliance with the opacity limits.
 - Increases in NOx emissions may occur which also result in unit derations or outages.

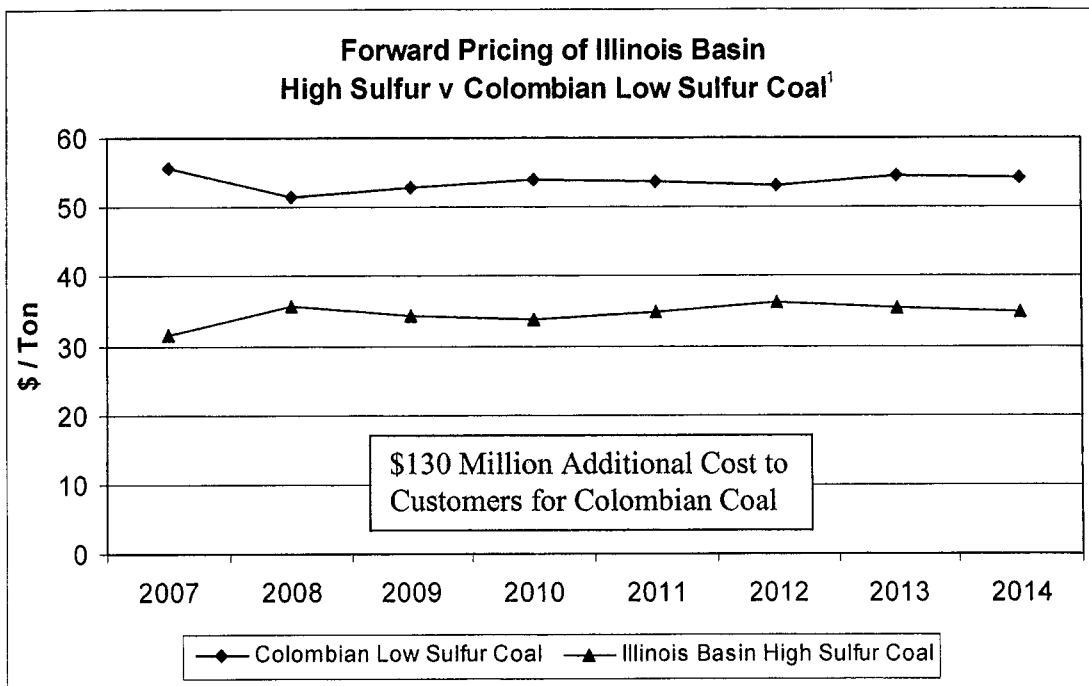
Therefore, Tampa Electric made the decision to purchase a cost-effective, proven fuel as part of its continuing efforts to provide reliable and low cost energy to customers.

Additionally, even if Big Bend Station were able to operate reliably and in compliance with environmental requirements while burning substantial amounts of low sulfur coal, Tampa Electric identified the following issues regarding Interocean's bid proposal:

- While Interocean's proposed quality specifications met the requirements of the RFP, sample analysis data did not support their ability to consistently meet specifications during the term of the agreement, as described in greater detail in Tampa Electric's response to Interrogatory No. 100.

- The price of the Interocean coal would have been adjusted to the South American coal market after the first 30 months of the contract. Expected market prices for low sulfur foreign coal were higher than the expected prices of the Illinois Basin coal the company purchased. Tampa Electric would have been obligated to receive the low sulfur coal at higher prices during the remaining term of the 10-year agreement. The long term economics clearly favored Illinois Basin coal over the Interocean bid. The following chart illustrates the \$130 million in expected savings gained over the life of the contract by purchasing high sulfur Illinois Basin coal instead of low sulfur foreign coal.

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- While the coal proposed by Interocean is untested, Tampa Electric has burned Willow Lake synfuel since Fall 2002 without operational difficulty.

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¹ Colombian coal is shown in current dollars. Illinois Basin is in constant dollars.

TAMPA ELECTRIC COMPANY
DOCKET NO. 050001-EI
STAFF'S EIGHTH SET OF
INTERROGATORIES
INTERROGATORY NO. 92
PAGE 3 OF 3
FILED: OCTOBER 31, 2005

- The Interocean coal is a low sulfur fuel that, if burned at Big Bend Station, would reduce gypsum byproduct revenues and associated credits to the environmental clause.



No increase SO₂ allowances
~~SO₂~~ revenues

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97. What date did Tampa Electric attempt to contract with the winning bidders in the December 2003 RFP?
- A. Tampa Electric began discussions for a contract to purchase coal from Black Beauty (Somerville) on March 4, 2004. In addition, Tampa Electric contacted S Coal on March 10, 2004 for a mine visit. After the visit and reviewing additional information provided by this bidder which is a small company that did not meet Tampa Electric's corporate credit requirements for entering into a long term contract, Tampa Electric discussed entering into a shorter term agreement, but the bidder was not interested in a shorter term agreement.

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98. What communications did Tampa Electric have with the bidders in the December 2003 RFP between the time of receiving the bids and the time when Tampa Electric attempted to contract for long term coal supplies?
- A. Tampa Electric engaged in the following communications between the date of receiving the bids to the time that contract negotiations started.
- 1) Sent requests for additional information to suppliers that did not provide a complete bid package in accordance with the RFP on January 19, 2004, including requests for financial data, questions about quality, questions relating to escalation or reopener language, and information about synthetic fuel binders. The requests to provide additional information in seven business days were submitted to the following companies:
 - Interocean Coal Sales, LDC
 - Alliance Coal, LLC
 - S Coal Company
 - Freeman United
 - Black Beauty Coal
 - 2) On January 20, 2004, Alliance Coal notified Tampa Electric that their offer expired but could be refreshed.
 - 3) On January 26, 2004, Lafayette Coal notified Tampa Electric that after February 6, 2004, their proposal became subject to prior sale and could be withdrawn.
 - 4) In April, Black Beauty Coal notified Tampa Electric that their offer for Somerville coal was withdrawn as these tons were subject to prior sale and had been purchased by other customers via the exercise of option provisions in existing agreements.
 - 5) Site visit to No. 1 Contractors by Tampa Electric on March 9, 2004.
 - 6) Site visit to S Coal Company by Tampa Electric on March 10, 2004.
 - 7) Communications, including draft agreements, with No. 1 Contractors during February and March 2004.
 - 8) Communications and negotiations, including draft agreements, with Black Beauty during March, April and May 2004.

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99. When did Tampa Electric become aware that some of the bidders in the December 2003 RFP were not able or willing to meet the provisions and price of the original bid submitted?
- A. In addition to the communications described in Tampa Electric's response to Interrogatory No. 98, the following bidders notified Tampa Electric that they would not meet the provisions and price of the original bid submitted in response to the December 2003 RFP.
- On February 17, 2004, Black Beauty notified Tampa Electric that their proposals for Willow Lake were no longer valid.
 - Consol's bid was valid until February 28, 2004 and subject to prior sale.
 - American Coal's bid was valid until February 1, 2004 and subject to prior sale.
 - Pigman Coal Sales' bid was subject to prior sale.
 - CMC's bid included a market re-opener every six months within the contract term, so the price would not differ from the market by +/-20 percent.

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100. Did the Drummond coal offered in response to the December 2003 RFP meet Tampa Electric's coal specifications in that RFP? If not, what criteria were not met?

A. While Interocean's (Drummond) proposed quality specifications met the requirements of the RFP, sample analysis data did not support their ability to consistently meet specifications during the term of the agreement. Specifically, Interocean supplied Tampa Electric with a spreadsheet summary of 38 separate sample analyses. The analyses of inherent moisture in the coal indicated that 50 percent of the samples exceeded the shipment specification while 13 percent exceeded the monthly specification. The average moisture of the 38 sample analysis provided is 15.05 percent. The maximum monthly moisture specification in the RFP was 14.5 percent.

The ash softening temperature specification in the RFP was 2,300 degrees Fahrenheit ("F") on a monthly basis and did not contain a shipment specification. While the average of 38 samples analyzed indicated an average of 2,270 degrees F, over 37 percent of the single sample analysis exceeded the monthly specification. The range in temperatures was from a low of 1,961 degrees F to several instances at the high of 2,700 F. The variability in these temperature ranges created concern regarding Interocean's ability to consistently meet this requirement. Burning fuel that is outside the ash softening temperatures specifications of the RFP would result in a hard slag forming over the slag tap of Big Bend boiler floors. Once the slag tap is blocked, the unit must be brought off-line and the slag tap must be blasted with dynamite to clear it. This results in a decline in unit availability and additional costs for replacement power.

A summary of the specification analysis provided by Interocean is provided below.

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RFP Requirements

	Inherent Moisture	Ash Softening Temperature
Shipment Specification	16.5%	N/A
Monthly Specification	14.5%	2,300° F

Analysis of Interocean Sample Data

	Inherent Moisture	Ash Softening Temperature
Average of shipments submitted	15.03%	2,270° F
Number of Samples Submitted	38	38
Number of Samples Exceeding		
Shipment Specification	19	
Monthly Specification	5	14
Percentage of Samples Exceeding		
Shipment Specification	50%	
Monthly Specification	13%	37%

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