

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

October 30, 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

COMMISSION
CLERK

OCT 30 PM 3:52

RECEIVED-FPSC

060001-EI

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

CONFIDENTIAL DOCUMENT ENCLOSED

Dear Ms. Bayo:

We submit on behalf of Tampa Electric Company a single confidential version of the Rebuttal Testimony and Exhibit (JTW-3) of Joann T. Wehle. This filing is being accompanied by a Request for Confidential Classification 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,

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

JDB/pp
Enclosure

James D. Beasley

MR 11-26-06 (entire DN)
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DOCUMENT NUMBER-DATE

10778 OCT 30 8

FPSC-COMMISSION CLERK

CONFIDENTIAL



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

REBUTTAL TESTIMONY
OF
JOANN T. WEHLE
CONFIDENTIAL VERSION

DECLASSIFIED

DOCUMENT NUMBER-DATE

10778 OCT 30 8

FPSC-COMMISSION CLERK

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED REBUTTAL TESTIMONY

3 OF

4 JOANN T. WEHLE

5
6 **Q.** Please state your name, address, occupation and employer.

7
8 **A.** My name is Joann T. Wehle. My business address is 702
9 North Franklin Street, Tampa, Florida 33602. I am employed
10 by Tampa Electric Company ("Tampa Electric" or "company")
11 as Director, Wholesale Marketing and Fuels.

12
13 **Q.** Are you the same Joann T. Wehle who filed direct testimony
14 on September 12, 2003 and supplemental direct testimony on
15 September 25, 2003 in this proceeding?

16
17 **A.** Yes, I am.

18
19 **Q.** What is the purpose of your rebuttal testimony?

20
21 **A.** The purpose of my rebuttal testimony is to address
22 inaccurate statements and conclusions included in the
23 direct testimony of Mr. William B. McNulty, testifying on
24 behalf of the Staff of the Florida Public Service
25 Commission regarding Tampa Electric's request for

1 proposals ("RFP") for waterborne transportation services,
2 appropriate market rates for the waterborne transportation
3 services contract and the company's existing
4 transportation benchmark.

5
6 **Q.** Have you prepared an exhibit to support your testimony?

7
8 **A.** Yes, Exhibit ____ (JTW-3) contains three documents;
9 Document No. 1, a comparison of the 1997 and 2003 bid
10 processes, Document No. 2, a comparison of waterborne and
11 rail transportation rates using appropriate adjustments
12 for rail costs not included in bidder proposal rates and
13 Document No. 3, a comparison of waterborne and rail
14 transportation rates for Tampa Electric's 2004 expected
15 coal source locations.

16
17 **Q.** Are there existing Commission orders that address Tampa
18 Electric's waterborne coal transportation services
19 agreement with its affiliate, TECO Transport?

20
21 **A.** Yes, the existing transportation order was first
22 established in a settlement agreement approved in Order
23 No. 20298 in Docket No. 870001-EI-A. This order, drafted
24 by then Commission Staff Counsel, Michael B. Twomey, was
25 issued on November 10, 1988 and represents the policy of

1 this Commission until changed.

2
3 This settlement agreement recites that

4 In accordance with the Commission's direction,
5 Staff, Office of Public Counsel ("OPC") and
6 Tampa Electric have met to discuss the methods
7 by which market pricing can be adopted for
8 affiliate coal and coal transportation
9 transactions between Tampa Electric and its
10 affiliates. As a result of these discussions,
11 Staff, OPC and Tampa Electric agree as follows:
12 Public Counsel and Staff agree that the
13 specific contract format, including the pricing
14 indices which Tampa Electric may include in its
15 contracts with its affiliates, are not subject
16 to this proceeding and Tampa Electric may
17 negotiate its contracts with its affiliate in
18 any manner it deems reasonable. [emphasis
19 added]

20
21 With respect to TECO Transport and Trade ("TTT"), the
22 settlement agreement provides:

23 8. The parties agree that the record in this
24 proceeding indicates that the prices currently
25 paid by Tampa Electric to TTT are reasonable.

1 9. Tampa Electric, however, agrees to this
2 establishment of a benchmark price to be used
3 prospectively for regulatory review purposes.
4

5 10. The coal transportation benchmark price
6 will be the average of the two lowest comparable
7 publicly available rail rates for coal to other
8 utilities in Florida. This rail rate will be
9 stated on a cents/ton-mile basis representing
10 the comparable total elements (i.e.,
11 maintenance, train size, distance, ownership,
12 etc.) for transportation. The average cents per
13 ton-mile multiplied by the average rail miles
14 from all coal sources to Tampa Electric's power
15 plants yields a price per ton of transportation.
16 The result will become the "benchmark price" as
17 shown on Attachment 3.
18

19 The example transport benchmark calculation shown on
20 Attachment 3 to this order is the benchmark calculation
21 that has been in continuous use since 1988. The
22 Commission each year thereafter made specific findings
23 that the prices paid under the waterborne transportation
24 services contract were below the market price as
25 established by the benchmark.

1 Moreover, in Order No. PSC-93-0443-FOF-EI issued March
2 23, 1993, this Commission approved a stipulation that
3 reaffirmed the waterborne coal transportation benchmark.
4 This stipulation remains in effect until changed by
5 Commission order. Staff or any other party may disagree
6 with that policy, but the policy is currently in effect
7 and was in effect at all times in 2003 when Tampa
8 Electric issued its RFP on June 27, 2003, evaluated its
9 future transportation services options and ultimately
10 executed a new contract with TECO Transport.

11
12 **Q.** Is Tampa Electric required to issue an RFP for waterborne
13 transportation services prior to executing a new contract
14 with its affiliate?

15
16 **A.** No. Tampa Electric is not required to issue an RFP. The
17 RFP is an information-gathering tool that provides market
18 price data. However, both the contractual requirements
19 of the existing contract with TECO Transport and the
20 policy of this Commission provides that contract rates
21 can be set through any reasonable market price
22 determination. The Commission, in approving the
23 stipulation that established the transportation
24 benchmark, specifically stated, "Tampa Electric may
25 negotiate its contracts with its affiliate in any manner

1 it deems reasonable." [Order No. 20298, page 17] Tampa
2 Electric decided to issue an RFP as part of its efforts
3 to, in good faith, obtain the most relevant and timely
4 waterborne transportation market data available.
5

6 **Q.** Was the RFP the only effort Tampa Electric made to
7 determine reasonable market prices for a waterborne
8 transportation services contract for the period 2004
9 through 2008?
10

11 **A.** No. The company also hired Brent Dibner of Dibner
12 Maritime Associates, LLP ("DMA"), an expert consultant in
13 the maritime industry, to conduct an independent
14 evaluation of the waterborne transportation markets.
15 This consultant's extensive knowledge of and experience
16 in these markets were utilized in modeling appropriate
17 and reasonable market rates for each segment of the
18 waterborne transportation services that Tampa Electric
19 requires.
20

21 **Q.** How do you respond to Mr. McNulty's statement, at page 4
22 of his testimony, that Tampa Electric's RFP process "had
23 several shortcomings in generating a reasonable level of
24 information about market price"?
25

1 **A.** I disagree with Mr. McNulty's general assertion that the
2 process Tampa Electric used to reach its coal
3 transportation agreement had "several shortcomings in
4 generating a reasonable level of information about market
5 price." Mr. McNulty's statement is curious because he
6 then goes on to say, also on page 4, that "the RFP
7 nonetheless provided the most certain information
8 regarding WCTS market price for TECO." Furthermore, Mr.
9 McNulty asserts that the responses to the RFP should be
10 used to establish a new market proxy for Tampa Electric's
11 waterborne coal transportation contract. Mr. Dibner used
12 the river and terminal bids in his analysis. Accordingly
13 it is obvious that the bid process yielded useful
14 information used by both Staff and the company in review
15 of the market for coal transportation. Mr. McNulty's
16 assertion that the RFP was not designed to reveal a
17 reasonable level of market information is simply
18 incorrect.

19
20 **Q.** On page 7 Mr. McNulty characterizes Tampa Electric's RFP
21 process as "not one designed to motivate potential
22 bidders to bid nor adequately reveal market prices." How
23 do you respond?

24
25 **A.** I disagree with that characterization because it was

1 Tampa Electric's desire to obtain timely and reasonable
2 market prices that caused it to both issue the RFP and to
3 hire an expert consultant to assess the markets. As has
4 been described in the testimony of Mr. Dibner, the
5 waterborne transportation markets are such that it was
6 not surprising that Tampa Electric received neither bids
7 for the ocean segment, nor a single acceptable bid for
8 the river segment.

9
10 In his testimony, market analysis and deposition, Mr.
11 Dibner described conditions for river, terminal and ocean
12 transportation markets. First, Tampa Electric's coal
13 shipments represent a large volume of shipping business,
14 and the ocean transportation market is in approximate
15 supply and demand equilibrium. The service of all large
16 vessels, other than the TECO Transport fleet, is devoted
17 to niche markets or to the highly profitable domestic
18 cargo preference trades. Secondly, the river
19 transportation market has experienced a large amount of
20 company consolidation in recent years, with the result
21 that there are only four large river shipping companies,
22 other than the incumbent, with sufficient capacity to
23 consider Tampa Electric's business potentially
24 attractive. Of those few companies, two are devoted to
25 the business of other utilities, the third is in

1 bankruptcy proceedings, and the fourth maintains its
2 fleet and serves business on areas of the river system
3 other than the lower Mississippi River, where most of
4 Tampa Electric's coal is ultimately shipped. For the two
5 companies already serving other utilities' needs, it is
6 likely that they did not find the Tampa Electric business
7 attractive because of conflicts that could arise in
8 simultaneously serving two utilities' needs and the
9 question of first priority. The company that is in
10 bankruptcy proceedings did bid, but its bid was rejected.
11 The fourth and final company maintains its fleet and the
12 great majority of its business along the Ohio River.
13 Adding service along the lower Mississippi River would
14 not increase its economies of scale and would, in fact,
15 add a dimension of complexity to scheduling and
16 coordinating shipping services and deliveries. Thus, it
17 seems that Tampa Electric's business was not attractive
18 to this company. Therefore, there are well-known reasons
19 why three of these river transportation companies chose
20 not to bid on Tampa Electric's business, and the fourth
21 company did submit a non-conforming bid that had to be
22 rejected due to the bidder's lack of financial and fleet
23 stability. Finally, Tampa Electric received a bona fide
24 bid from the only terminal facility other than the
25 incumbent provider that has the capability to meet Tampa

1 Electric's needs. It is clear that the status of the
2 waterborne transportation markets themselves, and not the
3 wording or content of Tampa Electric's RFP, caused the
4 company to receive few proposals.
5

6 **Q.** Beginning at page 6, Mr. McNulty identifies several
7 factors that formed the basis for his opinion regarding
8 the RFP process. Please address the first factor.
9

10 **A.** The first factor Mr. McNulty criticizes is the late
11 issuance of the RFP and the amount of time allowed for
12 bidders to respond. The RFP was issued on June 27, 2003,
13 a full six months before the end of the term of the
14 existing contract, and it provided a five-week period
15 before the deadline to submit bids. That time frame
16 provided ample time for submissions of bids, a thorough
17 review and evaluation of the bids, a comprehensive
18 assessment of the market and contract negotiations. This
19 time frame is also not unusual in the industry. I am
20 aware of other RFPs for coal transportation that were
21 issued in the summer to early fall of 2003 that were for
22 two to five year terms and for transporting two to four
23 million tons annually. Each of these RFPs provided a
24 four to six week time period from the issuance of the RFP
25 until the deadline for submission of proposals.

1 Q. Mr. McNulty criticizes points regarding Tampa Electric's
2 2003 RFP process and suggests that Tampa Electric's RFP
3 and RFP process were superior in 1997. He provides a
4 comparison to the company's 1997 process as support. How
5 do you respond?
6

7 A. I disagree with each point Mr. McNulty makes in comparing
8 the two RFP processes. Tampa Electric's RFP and RFP
9 process used in 1997 and 2003 were fair and appropriate.
10 The 2003 RFP provided more details and specificity. In
11 Document No. 1, using Mr. McNulty's exhibit, I provide
12 detailed comments for each aspect he criticized.
13

14 Q. The second factor with which Mr. McNulty expresses
15 dissatisfaction, described on page 7 of his testimony, is
16 Tampa Electric's lack of pursuit of potential bidders.
17 Please address this.
18

19 A. On June 27, 2003 Tampa Electric sent its RFP to 24
20 potential bidders, three industry publications and
21 provided a copy of the RFP to the Commission Staff. The
22 existence of the outstanding RFP was well known to
23 industry participants. In addition, the company provided
24 the RFP to one additional potential bidder when that
25 company contacted Tampa Electric after learning about the

1 RFP in the trade press. Tampa Electric's RFP process was
2 designed to and did reach all potential providers of
3 waterborne coal transportation and even attracted two
4 bids offering rail transportation service. The company
5 canvassed the waterborne transportation markets and
6 contacted potential bidders in a comprehensive, fair and
7 uniform manner. To have selected and contacted bidders
8 once the process began could have compromised the
9 integrity of the company's RFP process. In fact I
10 believe the process was confused due to Staff directly
11 contacting several potential bidders prior to the
12 proposal submission closing date.

13
14 **Q.** Please respond to the third factor described by Mr.
15 McNulty on page 7 of his testimony.

16
17 **A.** The third factor with which Mr. McNulty expresses concern
18 is the lack of input to the RFP instrument afforded to
19 potential respondents, parties to this docket and Staff.
20 Mr. McNulty correctly acknowledges, at page 7, line 25,
21 that "autonomous design of its RFP is the utility's
22 prerogative." I am not aware of any fuel procurement or
23 transportation RFP that has been co-written by potential
24 bidders, nor would I consider that a typical process or
25 activity. In addition, I am not aware of Staff advising

1 Tampa Electric of any such desire to co-write or review
2 its RFP prior to its issuance.

3
4 After the RFP was issued, Staff offered several proposed
5 clarifications to Tampa Electric's RFP and then posted
6 those suggestions on the Commission's Internet Web site
7 after Tampa Electric carefully considered those
8 suggestions and decided not to submit them to the
9 potential bidders. The company's decision was made
10 deliberately and carefully and was based on its
11 conclusion that, not only were the Staff's clarifications
12 unnecessary because industry participants are intimately
13 familiar with the terms, conditions and language used in
14 the RFP, but also that those clarifications would have
15 further confused the RFP process.

16
17 **Q.** What were the Staff's proposed clarification points and
18 why did the company decide not to communicate them to
19 potential bidders?

20
21 **A.** The first proposed clarification was for Tampa Electric
22 to reveal its expected timeline for the entire RFP
23 process. Bidders were apprised of the only two dates
24 that had a bearing on either their decision to submit a
25 proposal or their development of the proposal itself.

1 These dates were the due date for Tampa Electric's
2 receipt of all bids and the date for service to begin
3 under the contract. Revealing the timeline would serve
4 no purpose, would not influence responses to the RFP and
5 could potentially weaken Tampa Electric's position in
6 negotiations.

7
8 Staff's second proposed clarification was that Tampa
9 Electric declare that bids for river, terminal and ocean
10 components will be matched to create a combination that
11 would represent the best bid. First, the consideration
12 of each segment bid that might be received was expressed
13 on the first page of the RFP. Secondly, to make the
14 statement suggested by Staff would be to ignore Tampa
15 Electric's needs because the suggested statement is
16 contrary to the company's preference for integrated
17 services and its accompanying efficiencies. Therefore,
18 Tampa Electric could not in good conscience make this
19 erroneous clarification. However, there was nothing to
20 preclude companies from creating an integrated proposal
21 for Tampa Electric's consideration. Despite this, the
22 company did evaluate segment bids, and bids for segments
23 of the transportation services requested were considered
24 in Mr. Dibner's market analysis. These evaluations were
25 fully described in the direct testimonies of Mr. Dibner

1 and myself.

2
3 Staff's third proposed clarification was that Tampa
4 Electric should declare that alternative terminals to
5 those in New Orleans would be considered. Tampa
6 Electric's RFP stated it would consider terminal
7 locations "accessible to Mississippi River barge traffic
8 and capable of receiving Panamax vessels." This language
9 did not require potential terminal facilities to be
10 located in the New Orleans area. However, the only two
11 terminals currently permitted to receive and store coal,
12 able to receive Panamax-sized vessels and able to handle
13 the volume of tons that Tampa Electric requires are
14 located in the New Orleans area. In addition, the vast
15 majority of Tampa Electric's coal is domestic coal that
16 is shipped down the Mississippi River. A terminal
17 facility in the New Orleans area is currently the only
18 feasible location to serve the company's needs since the
19 terminal provides necessary storage and blending
20 functions for Tampa Electric. Therefore, it would have
21 been inappropriate for Tampa Electric to make a
22 commitment to consider other terminal locations that
23 would not meet the company's basic needs.

24
25 Staff's fourth proposed clarification was that Tampa

1 Electric should declare that terminals which cannot
2 accept Panamax-sized vessels will also be evaluated.
3 Tampa Electric does need a terminal facility that can
4 accept foreign deliveries of coal from Panamax-sized
5 vessels. This is another case of Staff proposing
6 clarifications that are in direct conflict with Tampa
7 Electric's operating needs. In addition, if the terminal
8 facility is able to accept deliveries from a Panamax-
9 sized vessel, the large vessels used in trans-ocean
10 shipping for foreign deliveries, then that facility will
11 also be able to receive deliveries from smaller vessels.
12 This provides the company with maximum flexibility for
13 deliveries from different shippers and locations. Thus,
14 Tampa Electric could not make this erroneous
15 clarification.

16
17 Staff's fifth proposed clarification was that Tampa
18 Electric should declare if the existing contract with
19 TECO Transport contains a "Right of First Refusal"
20 clause. This suggested clarification, if revealed prior
21 to Tampa Electric's execution of a new transportation
22 contract, would have violated the confidentiality
23 provision of the existing transportation contract. In
24 addition, revealing this contract term could have
25 increased the possibility for bidders to engage in market

1 manipulation. Revealing the term could also have
2 negatively affected Tampa Electric's negotiations for
3 transportation services with another vendor if TECO
4 Transport had decided not to exercise its rights to serve
5 Tampa Electric's business under this clause.

6
7 **Q.** On page 8 of his testimony, Mr. McNulty commented that it
8 appears Tampa Electric may have limited the potential
9 pool of applicants by stating a preference for integrated
10 services on the first page of its RFP. How do you
11 respond?

12
13 **A.** Mr. McNulty stated that TECO appears to have limited the
14 potential pool of applicants by including the following
15 in the first paragraph of the RFP:

16 Tampa Electric prefers proposals for integrated
17 waterborne transportation services, however
18 proposals for segmented service will be
19 considered. [emphasis added]

20
21 A fair reading of that provision is that the company
22 would consider a wide variety of bids but had a
23 preference. The placement of this sentence later in the
24 proposal would have had no substantive effect. Although
25 Mr. McNulty claims that Tampa Electric limited the

1 potential pool of applicants with this language, the
2 undisputed fact is that the RFP did attract proposals for
3 segmented waterborne services and for rail transportation
4 service. I also believe that if Tampa Electric had not
5 included a statement about the company's preference for
6 integrated services, it would have been unfair to
7 potential bidders because that would have restricted the
8 provision of all relevant information on which bidders
9 should premise their proposals. Witness Dibner's direct
10 testimony, filed September 12, 2003, addressed in detail
11 the efficiencies gained with integrated waterborne
12 transportation services, as well as the substantial
13 additional costs that could be incurred without such
14 integrated services. These are the reasons Tampa
15 Electric stated its preference for integrated services on
16 the first page of the RFP.

17
18 **Q.** In general, what is your assessment of Staff's proposed
19 clarifications to the RFP?

20
21 **A.** For the reasons previously stated, I disagree with each
22 of the clarifications suggested by Staff. None of these
23 clarifications advocated by Staff after the RFP was sent
24 would have changed the result of the RFP, and instead,
25 they likely would have injected confusion into the

1 process. It is also important to note that Tampa
2 Electric did meet with Staff to discuss these
3 clarifications, and Staff did not accept the company's
4 explanations or acknowledge the inaccuracies of the
5 clarifications.

6
7 **Q.** On page 9, Mr. McNulty is also critical of the RFP
8 requiring proposals to provide the entire volume of coal
9 transportation needed. How do you respond?

10
11 **A.** Tampa Electric requires that a single shipper supply
12 transportation for its required coal volume due to the
13 company's operational needs and for reasons of
14 reliability, efficiency and cost-effectiveness. However,
15 despite this RFP requirement, Tampa Electric did receive
16 a partial requirements bid for the inland river segment.
17 Although it was non-conforming, that bid was evaluated.

18
19 **Q.** Please respond to Mr. McNulty's suggestion on page 10 of
20 his testimony that the incumbent provider should have
21 been required to bid.

22
23 **A.** First, Mr. McNulty conveniently assumes away the actual
24 circumstances and terms of the existing contract to make
25 his argument. Secondly, I firmly disagree with Mr.

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1 McNulty's assertion that more competitive pressures would
2 have been brought to bear if the incumbent provider, TECO
3 Transport, had been required to bid or if the contract
4 with TECO Transport did not include a "Right of First
5 Refusal" clause. This provision, in fact, put
6 competitive pressure on TECO Transport. Together with
7 the independent determination of market prices by Tampa
8 Electric's consultant and results from the RFP process,
9 they have resulted in lowering the existing coal
10 transportation rate by 4.4 percent, establishing the
11 contract rates effective January 1, 2004. Moreover, the
12 RFP process produced bids that confirm that the prices
13 for the 2004 through 2008 period contract are at or below
14 market. Ratepayers benefited from the "Right of First
15 Refusal" clause because the incumbent had to meet or beat
16 the market rates established through an independent
17 market assessment and bid evaluations.

18
19 Q. Please summarize your testimony regarding the inaccurate
20 assertions and conclusions Mr. McNulty makes regarding
21 Tampa Electric's RFP and RFP process.

22
23 A. I disagree with Mr. McNulty's characterization and
24 conclusions he reached regarding Tampa Electric's RFP and
25 RFP process. While Mr. McNulty points to "shortcomings"

1 of the RFP, he acknowledges the RFP provided Tampa
2 Electric with the most certain information regarding
3 waterborne coal transportation services. In addition, as
4 I previously stated, the clarifications Staff proposed
5 after the RFP was issued were inaccurate and would likely
6 have confused potential bidders. Although under the
7 current stipulation, Tampa Electric is not required to
8 issue an RFP, the company did conduct a sufficient, fair
9 and appropriate RFP process.

10
11 **Q.** How do you respond to Mr. McNulty's statement on page 11
12 of his testimony that a complete market rate for
13 waterborne transportation services cannot be created by
14 summing the lowest bid because a bid was not received for
15 ocean transportation?

16
17 **A.** While it is correct that no bids were received for the
18 ocean segment of the transportation system, Mr. McNulty
19 ignores the fact that DMA produced a reasonable market
20 price for this segment. The lack of an ocean bid was
21 reasonably expected and explained by the conditions of
22 that market. The lack of an ocean bid and the existence
23 of a rail transportation bid are not reasons to conclude
24 that the rail bid represents the only total market
25 option. The Commission should reject this argument and

1 should approve Tampa Electric's costs based on the
2 reasonable waterborne transportation market prices that
3 DMA prepared for each transportation segment using bid
4 results and specific and detailed market analysis.
5

6 **Q.** What are the shortcomings or flaws in Mr. McNulty's
7 conclusion that one rail bid represents the market price
8 to transport coal?
9

10 **A.** Mr. McNulty makes simplistic calculations that determine
11 a simple average of the full-requirements rail
12 transportation bid price for select locations that do not
13 represent Tampa Electric's expected 2004 coal sources.
14 He then compares his rail transportation bid price to a
15 waterborne transportation rate that is built upon a
16 simple average of the river rates to selected docks for
17 which the rail bidder provided a rate. In Mr. McNulty's
18 calculation, of the 27 locations from which waterborne
19 rates are listed, only 13 locations also have rail rates
20 associated with them. Furthermore, of the six locations
21 from which Tampa Electric expects to take coal in 2004,
22 Mr. McNulty lists rail transportation rates for only
23 three of these. This selectively restricted list of rail
24 transportation starting points results in a biased lower
25 average rail rate and is the basis of Mr. McNulty's

1 proposal for Tampa Electric's initial market rate. Even
2 if a simple average approach were appropriate, which I do
3 not believe it is, Mr. McNulty's calculations are
4 incomplete. Finally and more importantly, Mr. McNulty's
5 comparison, if properly adjusted for all appropriate
6 costs, confirms the reasonableness of the contracted
7 waterborne transportation market prices.

8
9 **Q.** What costs were omitted from the rail rate utilized by
10 Mr. McNulty?

11
12 **A.** Mr. McNulty's "market rate" analysis omits very real and
13 substantial costs that would be incurred by Tampa
14 Electric in accepting coal by rail. These include costs
15 for capital improvements that substantially exceed the
16 amounts estimated by the rail bidder, environmental and
17 operating permitting, environmental mitigation
18 activities, demurrage, incremental short haul
19 transportation to deliver the coal to a rail facility,
20 the rail transportation fuel charge listed in Attachment
21 A of the bidder's proposal, a synthetic fuel surcharge
22 shown in Attachment A of the bid, and handling charges at
23 a rail tipple facility. It also ignores environmental
24 implications of rail deliveries to the stations and the
25 required permitting and mitigation efforts that would be

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1 required, assuming that environmental agencies allowed
2 Tampa Electric to take coal deliveries by rail, as well
3 as traffic congestion mitigation costs necessary due to
4 the number of trains that would be entering Big Bend
5 daily. If the rail bid were accepted, these costs would
6 be included in the rail rate; however, the costs are not
7 included in the "market rate" suggested by Mr. McNulty.

8
9 By including only those costs that can be easily
10 quantified and are identified in the bidder's proposal
11 and without considering the large additional capital
12 investments that would be needed, I recalculated the
13 rail rate with adjustments only for costs included in the
14 rail bid, as shown in Document No. 2. The adjusted
15 average rail rate is \$17.22 rather than \$16.41 as
16 proposed by Mr. McNulty. The adjusted average rail rate
17 based on all the costs in the bid is only \$0.10 per ton,
18 not \$0.91 per ton, less than the waterborne
19 transportation average rate, and it excludes other
20 significant costs. This difference represents up to
21 \$0.55 million annually rather than \$5 million asserted by
22 Mr. McNulty.

23
24 Q. What is the difference between the average adjusted rail
25 rate and the weighted average waterborne transportation

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1 rate using Tampa Electric's 2004 expected coal sources?

2

3 **A.** The waterborne rate is \$1.06 per ton less than the
4 adjusted rail rate. My detailed calculation is shown in
5 Document No. 3.

6

7 **Q.** What other considerations are not included in Mr.
8 McNulty's "total market rate" and not included in your
9 adjusted rail rate shown in Document No. 3 that would
10 increase the rail delivery rate?

11

12 **A.** Mr. McNulty's analysis ignores other important
13 considerations including the need to store and blend coal
14 for Tampa Electric in order for it to continue its coal-
15 fired generating station operations. Currently these
16 functions cannot be accomplished at Big Bend or Polk
17 stations because of space and permitting constraints. To
18 consider another facility would require substantial
19 additional investment and costs to ratepayers. In
20 addition, deliveries of coal from foreign locations and
21 pet coke from Texas are not addressed in the rail
22 proposal. These delivery costs would increase the true
23 rail transportation costs.

24

25 Additionally, McNulty's analysis grossly understates or

1 ignores substantial additional capital and operating
2 costs that must be considered to provide a reasonable
3 comparison. The incremental short haul transportation
4 cost to deliver coal to a rail facility is easily
5 quantified and reasonably certain, and it is a true
6 incremental cost of using rail service. Consequently,
7 incremental short haul transportation costs must be
8 included in an analysis of the total rail cost
9 alternative in order to make a meaningful comparison to
10 the waterborne transportation rate. As stated in my
11 supplemental testimony, the incremental cost that Tampa
12 Electric could expect for trucking or barging to reach
13 the nearest rail facility ranges from \$2.00 to \$6.00 per
14 ton, depending on distance. When this estimated
15 additional cost is considered, the adjusted rail rate is
16 well above the market rates included in the TECO
17 Transport contract effective January 1, 2004.

18
19 **Q.** In summary, is Mr. McNulty's rail market analysis a good
20 market price proxy that should be used to determine the
21 contract market price?

22
23 **A.** No, it is not. I discussed the flaws of that analysis
24 above. In addition, the market analysis of the existing
25 waterborne transportation markets that was provided by

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1 witness Dibner is certainly superior to the use of a rail
2 proposal to determine the market price for the new
3 waterborne transportation services contract. While rail
4 transportation is an alternative, the analysis done by
5 Mr. Dibner is detailed and specific to the markets for
6 the transportation services that will actually be
7 provided and is, therefore, much more appropriate for
8 determining the contract rates.

9
10 Additionally, I find it ironic that Mr. McNulty
11 criticizes the use of the existing rail benchmark in
12 justifying the prudence of waterborne transportation
13 costs yet now suggests that his incomplete analysis of
14 costs of rail transportation serves as the best rate
15 proxy. On page 16 of his testimony, Mr. McNulty states
16 that the benchmark costs, which consist of rail costs
17 calculated using the actual average of the two lowest
18 available rail rates to Florida, have been 31.6 percent
19 higher than the company's actual waterborne
20 transportation costs over the past 15 years. Further, he
21 states, "The benchmark has exceeded the actual costs each
22 year from \$22.9 million up to \$70.3 million." It is not
23 logical for Mr. McNulty to conclude that his "market
24 rate" analysis based on a rail bid represents a fair
25 market proxy considering all costs when it is 5.25

1 percent less than the average waterborne rate contracted
2 with TECO Transport and is well below the 2002 benchmark
3 which is based on actual rail costs. On its face this
4 result should raise a concern that Mr. McNulty's analysis
5 is flawed and incomplete.

6
7 The appropriate rail rate that includes the more
8 realistic total rail transportation costs that I have
9 described is substantially greater than the waterborne
10 transportation rates for the new contract with TECO
11 Transport. Given that the realistic total rates for rail
12 deliveries are above the market rates for waterborne
13 transportation deliveries, it is unreasonable to use the
14 rail "market rate" proposed by Mr. McNulty's analysis to
15 set the current market price of the new waterborne
16 transportation contract, unless that analysis is adjusted
17 for the known additional costs which I have described.
18 Properly adjusted this analysis confirms that the TECO
19 Transport rate is well below Mr. McNulty's rail market
20 proxy.

21
22 Q. Was sufficient information provided regarding the market
23 study performed by witness Dibner, for the Staff, parties
24 and Commissioners to evaluate his methods and results?
25

1 **A.** Yes. The company made a significant effort to provide
2 detailed descriptions of Mr. Dibner's methodologies and
3 results as soon as they were completed. The confidential
4 report in total was submitted on September 25, 2003, and
5 it was offered to parties willing to sign a non-
6 disclosure agreement that very day. Tampa Electric,
7 acknowledging that its filing of supplemental testimony
8 could impact other parties' abilities to prepare their
9 cases, requested that other parties be provided adequate
10 time by recommending a delay in the due date of their
11 testimony to respond to the transportation issues covered
12 by witnesses Dibner's and Wehle's supplemental testimony.
13 The parties were afforded exactly the same amount of time
14 to reply to the supplemental testimony as they had in the
15 original schedule of due dates. If some parties delayed
16 intervening in the docket or delayed their decision to
17 review this report, Tampa Electric can hardly be blamed.
18 Furthermore, I disagree with Mr. McNulty's claim, at page
19 11, that he has received only limited information about
20 this report. Mr. McNulty had 28 days to analyze the
21 study, before filing his direct testimony on October 23,
22 2003. I believe that this is sufficient time to review a
23 78-page report, much of which is charts and data that
24 support the analysis and a glossary of the terms used.
25 Notwithstanding the fact that Mr. Dibner's market

1 analysis report is not too lengthy, it still provides
2 complete descriptions of the bid evaluations, market
3 assessment methodologies and analysis and recommendations
4 of rates. In addition, Staff deposed witness Dibner on
5 October 20, 2003, at which time Mr. McNulty had the
6 opportunity to receive answers to questions or to obtain
7 additional information, again prior to filing testimony.

8
9 **Q.** Does this conclude your rebuttal testimony?

10

11 **A.** Yes it does.

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EXHIBIT TO THE REBUTTAL TESTIMONY OF
JOANN T. WEHLE

DOCUMENT NO. 1

Comparison of the 1997 and 2003 Bid Processes

COMPARISON OF TAMPA ELECTRIC'S 1997 RFP AND 2003 RFP

RFP Term/Condition	Per Exhibit WBM-2		Tampa Electric
	1997 RFP	2003 RFP	Tampa Electric Comments
Integrated Proposal Requirement	Silent regarding integration.	Stated preference for integration.	The 1997 bid stated a requirement for integration. The first sentence on page one stated, "The Fuels Department of Tampa Electric is inviting proposals to provide integrated waterborne transportation services for the movement of coal from mid-west supply sources for final delivery to Tampa Electric's generating stations near Tampa, Florida."
River Tonnages	4.0 to 6.0 MM tons annually, for five years	3.25 to 5.00 MM tons annually for five years, except for consent decree triggering event, in which case 2007 tonnage is 2.0 to 4.0 MM tons and 2008 tonnage is 1.0 to 3.0 MM tons.	This is in accordance with the Consent Decree. In addition, providing the information allows potential suppliers to understand and account for the potential impact on the company's tonnage requirements in their proposals.
Terminal and Ocean Tonnages	7.5 to 8.5 MM tons annually, for five years	4.0 to 5.5 MM tons annually for five years, except for consent decree triggering event, in which case 2007 tonnage is 3.0 to 4.5 MM tons and 2008 tonnage is 2.0 to 3.5 MM tons.	This is in accordance with the Consent Decree. In addition, providing the information allows potential suppliers to understand and account for the potential impact on the company's tonnage requirements in their proposals.
Terminal Rate Elements	Fixed and Variable Rate Component	Fixed Rate Component only.	Given the nature of the costs to provide the service, the terminal rate should represent only a fixed component, which actually lowers risk to ratepayers.
Dead Freight	Silent regarding dead freight charges	Solicits dead freight charge	All potential charges should be disclosed and considered.
Notice by TECO of Annual Ton Declarations & Monthly Shipping Schedules	July 31 of each contract year for the following calendar year	September 30 of each contract year for the following calendar year	Giving notice later in the year provides Tampa Electric with more flexibility.
Loading/Unloading	River Barges: 4 free days for loading river barges. Ocean barges: 48 hours free unloading.	River barges: 3 free days for loading and 3 free days for unloading Ocean Barges: 48 hours free unloading Ocean Vessels at Terminal: 24 hour free unloading or loading at terminal	Provides specific operational parameters to potential suppliers, which allows potential suppliers to align and price their respective proposals to meet the company's requirements.
Terminal Storage Minimums	None Stated	1.4 MM tons: 8 individual stockpiles.	Provides specific operational parameters to potential suppliers, which allows potential suppliers to align and price their respective proposals to meet the company's requirements.
Minimum Discharge Rate of Panamax Vessels	Average discharge rate of 750 tons per hour	Minimum discharge rate of 900 tons per hour.	Provides specific operational parameters to potential suppliers, which allows potential suppliers to align and price their respective proposals to meet the company's requirements.
Open Period of Bid Proposals	Six months beyond closing date of solicitation.	Two months beyond closing date of solicitation.	Provides more certainty to bidders by releasing them earlier to pursue other opportunities.

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EXHIBIT TO THE REBUTTAL TESTIMONY OF
JOANN T. WEHLE

DOCUMENT NO. 2

Comparison of Waterborne and Rail
Transportation Rates Using Appropriate
Adjustments for Rail Costs Not Included in
Bidder Proposal Rates

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**Comparison of Adjusted Rail Bid Rates and Waterborne Transportation Contract Rates
(\$ / Ton)**

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(J)
River Dock	TT Total	Rail Bidder Rate	Bidder's Fuel Surchage (Note 1)	Bidder's Demurrage Rate (Note 2)	Bidder's Synfuel Adder	Incr. Cost to Polk Station (Note 3)	Adj. Total Rail Bidder Rate	Difference: TT Less Adj. Total Bid Rate
Cook	(Note 4) 16.41	17.70	0.64	0.06	0.00	0.14	18.54	(2.13)
Hamilton	17.33	15.62	0.56	0.06	0.00	0.14	16.38	0.95
Caseyville	17.17	15.62	0.56	0.06	0.00	0.14	16.38	0.79
Overland	17.40	15.98	0.58	0.06	0.00	0.14	16.76	0.64
Rigsby & Barnard	17.12	15.98	0.58	0.06	0.00	0.14	16.76	0.36
Mount Vernon	17.47	15.98	0.58	0.06	0.00	0.14	17.01	0.46
Mound City	16.39	17.70	0.64	0.06	0.00	0.14	18.54	(2.15)
Southern Indiana	17.64	15.98	0.58	0.06	0.00	0.14	16.76	0.88
New Hope	17.96	16.06	0.58	0.06	0.00	0.14	16.84	1.12
Empire Dock	(Note 4) 17.08	15.62	0.56	0.06	0.25	0.14	16.38	0.70
Yankeetown	17.77	16.06	0.58	0.06	0.00	0.14	16.84	0.93
Owensboro	17.88	16.06	0.58	0.06	0.00	0.14	16.84	1.04
Ken Mine	19.42	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pyramid	19.38	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Green Coal	18.44	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Patriot	18.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sebree	18.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TTI	19.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jefferson River Port	18.56	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kentucky Lake Dock	17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GRT	17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cora	(Note 4) 17.55	19.00	0.68	0.06	0.00	0.14	19.88	(2.33)
Dekoven	(Note 4) 17.18	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Powhatan	(Note 4) 21.08	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Shawneetown	(Note 4) 17.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Refineries Petcoke	(Note 4) 12.96	N/A	N/A	N/A	N/A	N/A	N/A	N/A
BRT	17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cahokia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kellogg	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kanipe Enterprises	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average for All Docks on Contract	17.76	N/A					N/A	
Average for Docks Common to TT and Rail Bid	17.32	16.41					17.22	0.10

Notes

1. Current fuel surcharge rate is 3.6 percent, applicable to all rail bid rates.
2. Weighted average demurrage rate, per bid specifications and estimated unloading time. \$0.06 = \$330,000 / 5.5 million
Assumptions: 5.5 million tons total annually; 550 trains per year; 6 hours unloading time per train. Bid rates allow 4 hours for unloading, 2 hours at \$300.00 per hour for each train = \$330,000
3. Weighted average incremental cost for transportation to Polk Station from Big Bend Station based on current trucking rate and rail proposal rate. \$0.14 = (673,000*\$1.17) / 5.5 million
Assumptions: 5.5 million tons total annually; 673,000 tons transferred to Polk Station annually; current trucking rate is \$3.33; short haul rail rate is \$4.50; difference is \$1.17 per ton.
4. Based on Tampa Electric's 2004 coal purchase agreements, the company expects to receive coal at these river docks.

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Sources

Columns A, B and C: Exhibit WBM-1

Column D: Rail proposal and Tariff 8200

Column E: Calculated weighted average rate. See note 2.

Column F: Rail proposal

Column G: Calculated weighted average rate. See note 3.

Column H = (C) + (D) + (E) + (F) + (G)

Column J = (B) - (H)

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EXHIBIT TO THE REBUTTAL TESTIMONY OF
JOANN T. WEHLE

DOCUMENT NO. 3

Comparison of Waterborne and Rail
Transportation Rates for Tampa Electric's
2004 Expected Coal Source Locations

**Comparison of Adjusted Rail Bid Rates and Waterborne Transportation Contract Rates
(\$ / Ton)**

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(J)	(K)	(L)	(M)	(N)
River Dock	TT Total	Rail Bidder Rate	Bidder's Fuel Surcharge (Note 1)	Demurrage Rate (Note 2)	Bidder's Synfuel Adder	Incr. Cost to Polk Station (Note 3)	Adj. Total Rail Bidder Rate	Difference: TT Less Adj. Total Bid Rate	2004 Tons	TT Trans. Cost	Rail Bid Trans. Cost	Difference: TT Less Adj. Rail Bid
Cook	(Note 4, 5)	16.41	17.70	0.64	0.06	0.00	0.14	18.54	(2.13)	400,000	6,564,000	7,414,880
Hamilton		17.33	15.62	0.56	0.06	0.00	0.14	16.38	0.95	N/A	N/A	N/A
Caseyville		17.17	15.62	0.56	0.06	0.00	0.14	16.38	0.79	N/A	N/A	N/A
Overland		17.40	15.98	0.58	0.06	0.00	0.14	16.76	0.64	N/A	N/A	N/A
Rigsby & Barnard		17.12	15.98	0.58	0.06	0.00	0.14	16.76	0.36	N/A	N/A	N/A
Mount Vernon		17.47	15.98	0.58	0.06	0.00	0.14	17.01	0.46	N/A	N/A	N/A
Mound City		16.39	17.70	0.64	0.06	0.00	0.14	18.54	(2.15)	N/A	N/A	N/A
Southern Indiana		17.64	15.98	0.58	0.06	0.00	0.14	16.76	0.88	N/A	N/A	N/A
New Hope		17.96	16.06	0.58	0.06	0.00	0.14	16.84	1.12	N/A	N/A	N/A
Empire Dock	(Note 4, 5)	17.08	15.62	0.56	0.06	0.25	0.14	16.38	0.70	1,000,000	17,080,000	16,382,320
Yankeetown		17.77	16.06	0.58	0.06	0.00	0.14	16.84	0.93	N/A	N/A	N/A
Owensboro		17.88	16.06	0.58	0.06	0.00	0.14	16.84	1.04	N/A	N/A	N/A
Ken Mine		19.42	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Pyramid		19.38	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Green Coal		18.44	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Patriot		18.67	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Sebree		18.80	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TTI		19.63	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Jefferson River Port		18.56	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kentucky Lake Dock		17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
GRT		17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cora	(Note 4, 5)	17.55	19.00	0.68	0.06	0.00	0.14	19.88	(2.33)	1,050,000	18,427,500	20,878,200
Dekoven	(Note 4)	17.18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	750,000	12,885,000	N/A
Powhatan	(Note 4)	21.08	N/A	N/A	N/A	N/A	N/A	N/A	N/A	400,000	8,432,000	N/A
Shawneetown	(Note 4)	17.24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	300,000	5,172,000	N/A
Refineries Petcoke	(Note 4)	12.96	N/A	N/A	N/A	N/A	N/A	N/A	N/A	300,000	3,888,000	N/A
BRT		17.59	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cahokia		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kellogg		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kanipe Enterprises		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Average for All Docks on Contract		17.76	N/A					N/A				
Average for Docks Common to TT and Rail Bid		17.32	16.41					17.22	0.10			
Weighted Average Rate										17.25		
Weighted Average for Docks Common to TT and Rail Bid										17.17	18.23	(1.06)

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Notes

- Current fuel surcharge rate is 3.6 percent, applicable to all rail bid rates.
- Weighted average demurrage rate, per bid specifications and estimated unloading time. \$0.06 = \$330,000 / 5.5 million
Assumptions: 5.5 million tons total annually; 550 trains per year; 6 hours unloading time per train. Bid rates allow 4 hours for unloading. 2 hours at \$300.00 per hour for each train = \$330,000
- Weighted average incremental cost for transportation to Polk Station from Big Bend Station based on current trucking rate and rail proposal rate. \$0.14 = (673,000*\$1.17) / 5.5 million
Assumptions: 5.5 million tons total annually; 673,000 tons transferred to Polk Station annually; current trucking rate is \$3.33; short haul rail rate is \$4.50; difference is \$1.17 per ton.

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4. Based on Tampa Electric's 2004 coal purchase agreements, the company expects to receive coal at these river docks.
5. Based on Mr. McNulty's analysis, only rates for Cook, Empire Dock and Cora were provided. Therefore, the weighted average rate is calculated using the rates for only the aforementioned river docks.

Sources

Columns A, B and C: Exhibit WBM-1
Column D: Rail proposal and Tariff 8200
Column E: Calculated weighted average rate. See note 2.
Column F: Rail proposal
Column G: Calculated weighted average rate. See note 3.
Column H = (C) + (D) + (E) + (F) + (G)
Column J = (B) - (H)
Column K = Tampa Electric
Column L = (B) * (K)
Column M = (H) * (K)
Column N = (L) - (M)

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