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May 15, 2012

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Ms. Ann Cole, Director
Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

120153-EI

Re: Petition of Tampa Electric Company to Recovery Capital Costs of Polk Fuel Cost Reduction Project through the Fuel Cost Recovery Clause

Dear Ms. Cole:

Enclosed for filing in the above-styled matter are the original and fifteen (15) copies of Petition of Tampa Electric Company.

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

JDB/pp
Enclosure

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DOCUMENT NUMBER DATE
03086 MAY 15 2012
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Tampa Electric Company)
to Recover Capital Costs of Polk Fuel Cost)
Reduction Project through the Fuel Cost)
Recovery Clause)
_____)

DOCKET NO. _____

FILED: May 15, 2012

**PETITION OF
TAMPA ELECTRIC COMPANY**

Tampa Electric Company ("Tampa Electric" or "the company") petitions the Commission for approval of the company's recovery through the fuel adjustment clause of the capital costs associated with the conversion of certain equipment at the company's integrated gasification combined cycle ("IGCC") Polk Unit 1 ("Polk 1") to reduce the input costs of fossil fuel used to operate Polk 1 ("Polk Fuel Cost Reduction Project" or "the Project") and, as grounds therefor, says:

1. Tampa Electric is an investor-owned electric utility subject to the Commission's jurisdiction pursuant to Chapter 366, Florida Statutes. Tampa Electric serves retail customers in Hillsborough and portions of Polk, Pinellas and Pasco Counties in Florida. The company's principal offices are located at 702 North Franklin Street, Tampa, Florida 33602.

2. The persons to whom all notices and other documents should be sent in connection with this docket are:

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3. Polk 1 was placed in service in September 1996 and has a net summer and winter capacity of 220 MW. As an IGCC unit, Polk 1 was and continues to be part of the company's innovative approach to find environmentally friendly and cost effective ways to use America's domestic sources of fuel. The unit currently uses a petroleum coke ("pet coke") / coal blend as its primary fuel source with distillate oil as a backup fuel. Although pet coke/coal accounts for approximately 98 percent of the energy generated by Polk 1, the unit also uses distillate oil to fire an auxiliary boiler and as a backup fuel, propane to fire a gasifier preheat burner and synthetic gas ("syngas") as part of the IGCC process. A schematic drawing showing the operating characteristics of Polk 1 and where fuels are burned is attached as Exhibit "A."

4. Tampa Electric has reviewed its operations at Polk 1 in an effort to determine whether any means exist to take advantage of the difference between the prices of distillate oil and propane and the price of natural gas that currently exists and which is projected to exist for the foreseeable future. Based on this review, the company has concluded that natural gas may be used beneficially in place of other fossil fuels in certain applications at Polk 1, thereby significantly reducing the total input cost of fossil fuel at Polk 1 which will directly benefit Tampa Electric's general body of retail customers.

5. The Project proposed in this petition has four components, all of which will involve the use of natural gas that will be piped to Polk 1 from an existing natural gas main serving Polk Station. First, the company proposes to convert a gasifier preheat burner which is currently fired with propane gas to burn natural gas. The company also proposes to convert an auxiliary boiler which is currently fired with distillate oil to burn natural gas and to use natural gas to replace synthetic gas ("syngas") at higher levels of output of its IGCC process where natural gas is less expensive. Finally, the company will utilize natural gas in place of distillate oil as the backup fuel

for Polk 1. The four components of the Project are depicted in the diagram attached hereto as Exhibit "B" ("New Polk #1 Natural Gas Distribution and Control Systems") (The circled numbers one through four on Exhibits A and B identify the location of the four plant components).

6. The first three components of the overall Project involve capital costs of approximately \$1.3 million. These components were described in a January 3, 2012 letter filed with the Commission and were further discussed during an informal meeting held with interested parties on January 31, 2012. Since that meeting, the company has updated its estimates and completed plans for the fourth and final component of the Project, consisting of \$13.5 million in additional investment to convert the backup fuel source for the entire Polk Unit 1 IGCC system from oil to natural gas. The total projected cost of all four components of the proposed project is approximately \$14.8 million.

7. Based on its analysis of projected dispatch of Polk 1 and the Btu unit costs of distillate oil, propane, syngas at higher levels of IGCC output and natural gas, the company calculates that the proposed conversion to natural gas in place of the other fossil fuels will save approximately \$29.5 million (net present value) over the initial five years after the conversion with continued savings over the 30 year remaining life of the plant after the initial five year period. This proposed project will result in significant fuel cost savings through a lowering of the delivered price, or input price, of fossil fuel used to fire the affected Polk 1 equipment. Furthermore, the methodology proposed by Tampa Electric to recover the associated conversion costs described in more detail below assures that no costs are recovered unless there are ratepayer benefits that exceed those costs.

8. In Order No. 14546 issued on July 8, 1985 in Docket No. 850001-EI-B, the Commission addressed the categories of costs appropriate for recovery through the fuel adjustment clause. They included fossil fuel related costs normally recovered through base rates, but which

were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to customers. The Commission concluded in Order No. 14546 that recovery of such costs should be made on a case-by-case basis after Commission approval.

9. The Commission elaborated on the recovery of capital costs through the fuel adjustment clause in Order No. PSC-11-0080-PAA-EI, issued January 31, 2011 in Docket No. 100404-EI. There, the Commission referred to Order No. 14546 and stated:

We find that the appropriate interpretation of this section of Order No. 14546 is that capital projects eligible for cost recovery through the Fuel Clause should produce fuel savings based on lowering the delivered price of fossil fuel, or otherwise result in burning lower price fuel at the plant. . . .

The Commission concluded:

. . . [W]e believe that the appropriate policy going forward is to restrict capital project cost recovery through the Fuel Clause to projects that are 'fossil fuel-related' and that lower the delivered price, or input price, of fossil fuel. At the same time, we reaffirm our practice of reviewing the eligibility of projects for recovery on a case-by-case basis.

10. The Project will produce significant fuel cost savings through a lowering of the delivered price of fossil fuel resulting from burning lower priced fuel at Polk 1. The savings will be significant and will directly benefit Tampa Electric's general body of retail customers. The Commission has previously allowed utilities to recover the costs of converting combustion turbines to burn natural gas provided the fuel savings during an annual period exceeded the amortization and return costs. See, e.g., Orders PSC-95-1089-FOF-EI, PSC-0353-FOF-EI, and PSC-1045-FOF-EI. In these orders, fuel savings were determined by comparing the costs of using the fuels prior to the conversion as reported on the company's fuel schedules on cents/kWh

basis compared to the costs of natural gas on the same basis multiplied by actual kWh's generated.

11. Tampa Electric proposes to use the methodology in these orders to calculate the actual fuel savings and will provide a schedule showing the actual fuel savings as well as the savings net of depreciation and return that customers would receive based on the company's actual generation and fuel costs. Tampa Electric expects that the fuel savings for 2013 through 2018 will continue to exceed the amortization and return costs associated with the conversion and will include such a schedule as an exhibit during its annual fuel adjustment clause filings. Additionally, the net fuel savings will be even greater after the fifth year as the amortization and return costs would no longer be recovered. If the fuel savings during any annual period do not exceed the amortization and return costs, any costs above that fuel savings amount would not be included for recovery through the fuel clause.

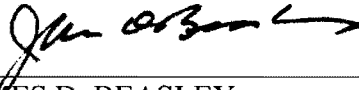
12. Tampa Electric seeks Commission authority to recover amortization and a return on the unamortized balance of the net investment in the Project over a 5-year recovery period once the Project assets are placed in service. The anticipated in service date of the Project is projected to be May 2013.

13. Tampa Electric is not aware of any disputed issues of material fact relative to the matters set forth in this petition.

WHEREFORE, Tampa Electric Company requests Commission approval of the company's cost recovery of the capital investment in the company's proposed Polk 1 Fuel Cost Reduction Project through the fuel adjustment clause.

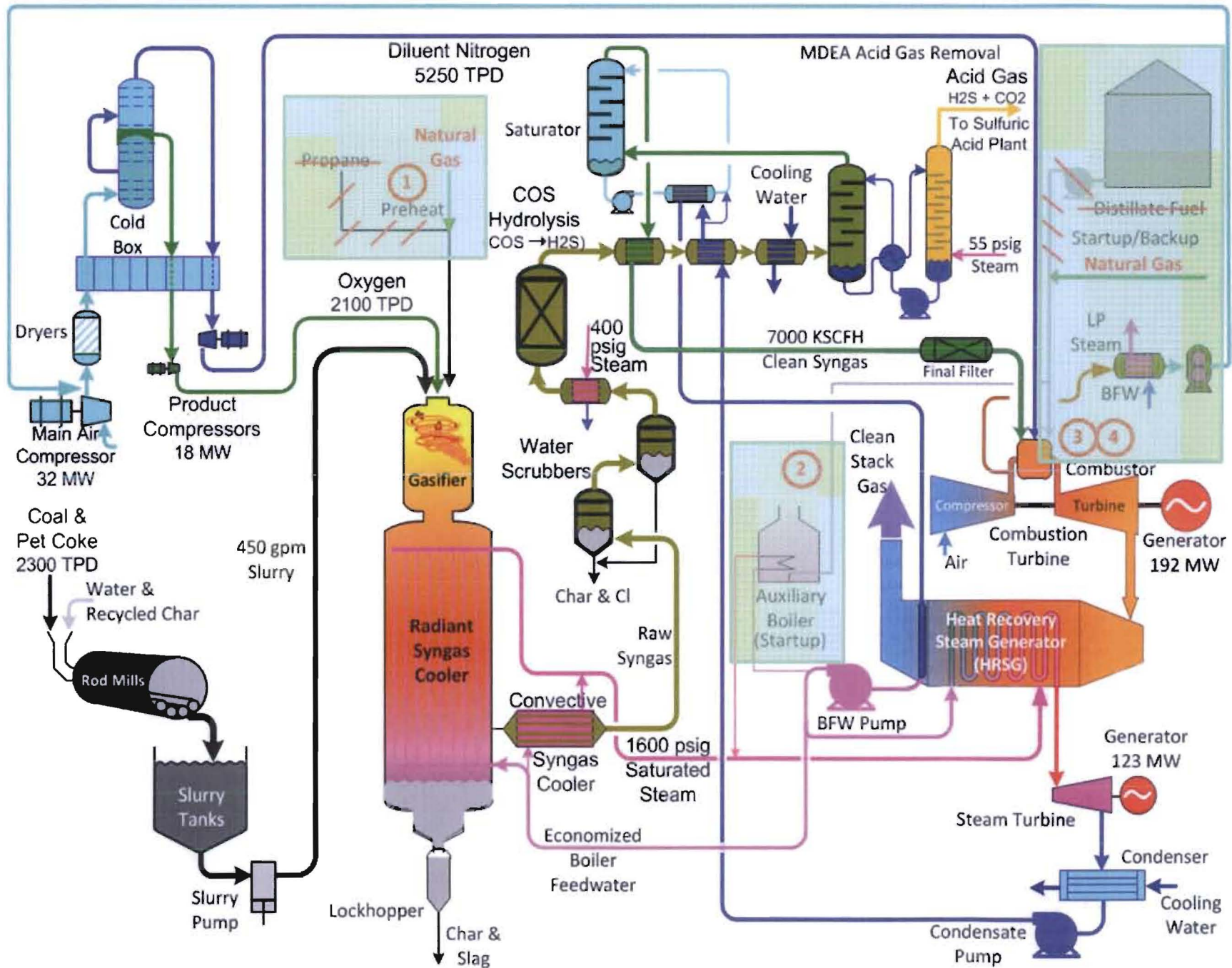
DATED this 15th day of May 2012.

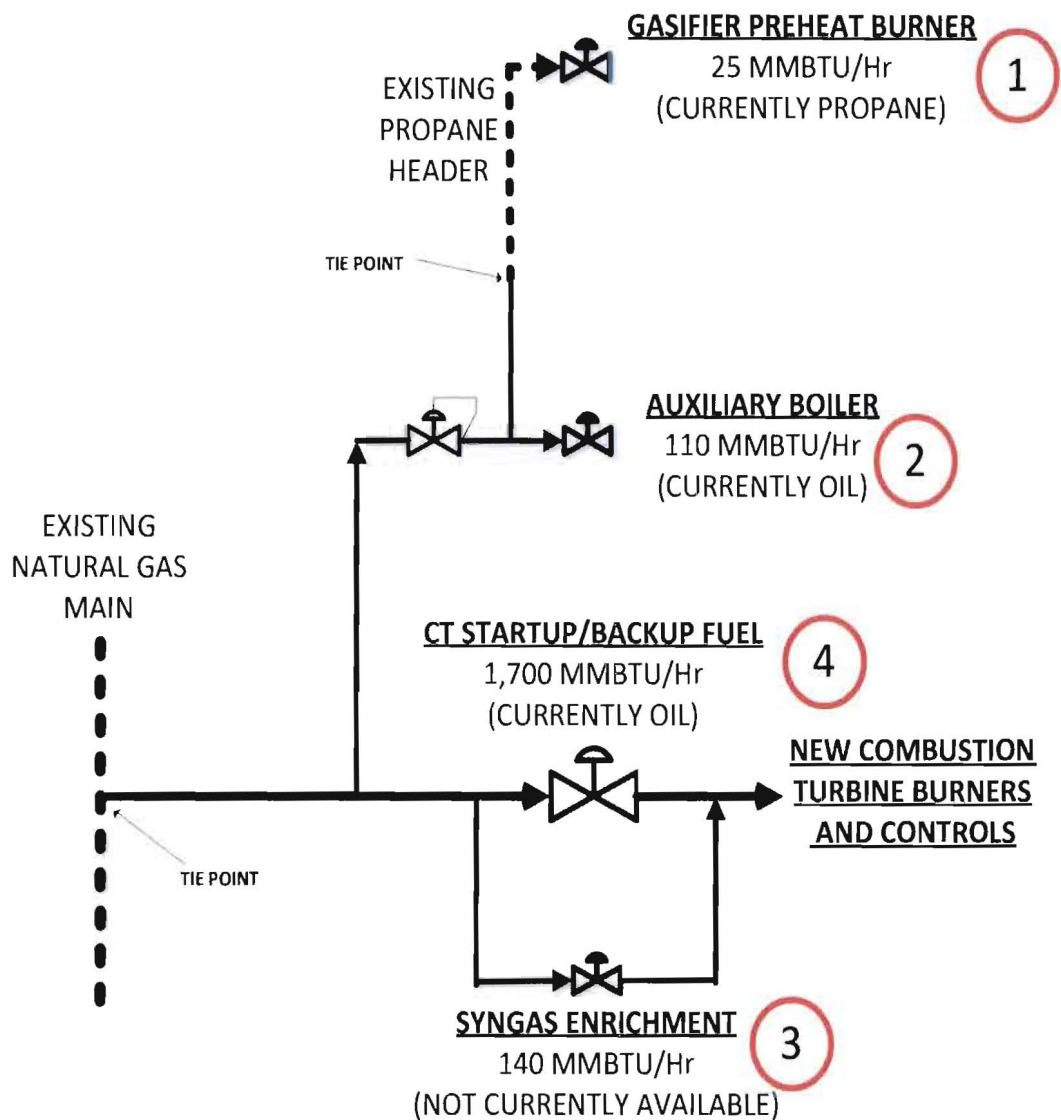
Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jim Beasley", with a long horizontal stroke extending to the right.

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ATTORNEYS FOR TAMPA ELECTRIC COMPANY





NEW POLK #1 NATURAL GAS DISTRIBUTION