

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and Purchased Power ) DOCKET NO. 950001-EI  
Cost Recovery Clause and ) ORDER NO. PSC-95-0259-FOF-EI  
Generating Performance Incentive ) ISSUED: February 27, 1995  
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The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING

NOTICE OF PROPOSED AGENCY ACTION ORDER  
APPROVING RECOVERY OF COAL CONTRACT BUY-OUT

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On December 23, 1994, Tampa Electric Company (TECO or company) filed a petition to recover costs associated with its buy-out of the Peabody Coal Sales, Inc. (Peabody) coal contract. The company proposes to recover the retail portion of a \$25.5 million buy-out payment, plus carrying costs, through the Fuel and Purchased Power Cost Recovery Clause beginning with the April through September 1995 fuel adjustment period. As a result of the contract buy-out, the company estimates that TECO's ratepayers will realize \$88 million in cumulative nominal savings through the year 2004.

The twenty year Peabody coal contract entered into on July 8, 1983, underwent several changes over the years. Beginning in 1994, TECO became increasingly concerned about Peabody's ability to reliably ship the contract tonnages; therefore, on July 8, 1994, TECO notified Peabody of its concerns and requested assurances. When Peabody did not respond, on August 11, 1994, TECO notified Peabody that it viewed the contract as being cancelled. Peabody then initiated litigation which continued until Peabody and TECO agreed to terminate the disputed contract on December 31, 1994, and replace it with two new contracts beginning January 1, 1995. The first replacement contract will provide 250,000 tons per year of the original 750,000 tons per year and will continue until 2004,

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the full term of the original contract. The second replacement contract will provide for the remaining 500,000 tons per year through 1998. In 1999, the second contract tonnage will decrease to 375,000 tons and will terminate at the end of the year. Beginning in 1999, TECO will have to purchase supplemental coal from the spot market to fulfill the original 750,000 tonnage requirement. TECO will also need to purchase supplemental spot market coal to equate the replacement coal with the original contract on a BTU basis.

TECO projects that the original contract, minus replacement coal cost, simple amortization of the \$25.5 million payment and carrying costs at 13.47%, will yield positive net savings in every year through 2004. We analyzed four scenarios under which recovery of the buy-out cost could occur. The first scenario represents the recovery as proposed by TECO. The second scenario amortizes the \$25.5 million payment through 1999, when the second contract ends, and includes carrying costs based on the 90-day commercial paper rate, which is also used to calculate fuel adjustment true-up amounts. The third scenario reduces the \$25.5 million plus carrying costs, based on the 90-day commercial paper rate, by the amount of the annual fuel savings, until it is fully amortized. This scenario offers no benefit to the ratepayer until the fourth year, when the fuel savings begin to outweigh the remaining principal balance. The final scenario accumulates carrying charges at the rate proposed by TECO, 13.47%, but reduces the amortization period to five years. We note that all four scenarios will yield positive cumulative savings over projected period.

The two new contracts will replace most of the original contract tonnages at a lower cost than the original contract. As mentioned above, however, from 1995 through 1998, TECO will partially rely on the supplemental spot market coal and beginning in 1999, the company projects that it will rely substantially on spot market coal; thus, the price for supplemental spot market coal is the only variable component of the projected savings. After reviewing TECO's analysis, we find that the company's estimates of the price for spot market coal are reasonable. A substantial increase above TECO's estimates would have to occur to preclude its ratepayers from realizing a positive cumulative savings. Therefore, we find that TECO should recover the \$25.5 million buy-out cost plus carrying costs through the Fuel and Purchased Power Cost Recovery Clause beginning April 1995.

With regard to the amortization period and rate associated with the recovery of the \$25.5 million contract buy-out cost and carrying costs, we considered four options: (1) straight line amortization over a ten-year period with interest at a 13.47% rate

of return on the unamortized balance, (2) straight line amortization over a five-year period with interest at 13.47%, (3) straight line amortization over a five-year period with interest at the 90-day commercial paper rate consistent with the true-up methodology in the Fuel Adjustment Recovery Clause, and (4) a breakeven (variable) amortization over 42 months with interest at the 90-day commercial paper rate.

Option one reflects the amortization period and rate requested by TECO. The company has requested that the \$25.5 million buy-out cost, plus carrying costs, be amortized on a straight line basis over the period from April 1995 through December 2004. The company has also requested permission to earn a return of 13.47% on the unamortized balance of the buy-out cost over the ten-year recovery period. The amortization period is based on the years remaining on the canceled contract. The proposed 13.47% before tax rate of return is based on the embedded capital ratios of investor sources of capital approved in the company's last rate case, Docket No. 920324-EI (Order Nos. PSC-93-0165-FOF-EI and PSC-93-0664-FOF-EI), the return on equity of 11.35% approved in Docket No. 930987-EI (Order No. PSC-94-0337-FOF-EI), and the current embedded cost of long-term debt and preferred stock, as reported in the company's October 1994 Rate of Return Surveillance Report.

The regulatory treatment requested by TECO is consistent with Order No. 20133 in Docket No. 880001-EI, in which we approved Gulf Power Company's (Gulf) petition to recover the \$60 million Peabody coal contract buy-out cost, plus carrying costs, through the Fuel Adjustment Recovery Clause. In that case, we approved a straight line amortization over a ten-year period at a before tax rate of return of 14.69%. The amortization period was tied to a market price reopener occurring 10 years later in 1998. The rate of return Gulf was allowed to earn on the unamortized balance was based on a capital ratio of 58.3% long-term debt at a cost rate of 9.2% and 41.7% common equity at a cost rate of 13.75%.

TECO asserts that the canceled contract has been replaced with two contracts at significantly lower coal prices, therefore fuel savings in excess of the buy-out cost are guaranteed. Of the four options we considered, the ten-year amortization period provides the greatest net fuel savings over the first five years and will result in the lowest rates over the near-term. The first five-year period is significant in that it coincides with the expiration of the larger of the two replacement contracts, thus greater fuel savings are anticipated during that period. Because the first replacement contract is guaranteed through year 2004, however, the final five years should also yield fuel savings.

For these reasons, we find that ten-year amortization period with a 13.47% rate of return on the unamortized balance is appropriate. The amortization rate should remain in effect until we revise TECO's capital ratios or the cost rates.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's petition to recover the retail portion of the \$25.5 million buy-out payment of the Peabody coal contract, plus carrying costs, through the Fuel and Purchased Power Cost Recovery Clause, beginning with the April through September 1995 fuel adjustment period, is approved. It is further

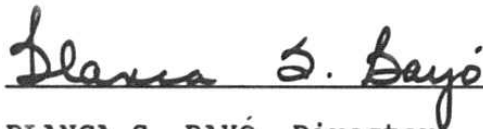
ORDERED that the costs associated with the contact buy-out shall be amortized over a ten year-period at a rate of 13.47%. It is further

ORDERED the 13.47% amortization rate shall remain in effect until such time that the Commission revises Tampa Electric Company's capital ratios and/or cost rates. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 27th day of February, 1995.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 20, 1995.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.