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ORIGINAL  
FILE COPY

June 27, 1996

HAND DELIVERY

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

Re: Prudency Review to Determine Regulatory  
Treatment of Tampa Electric Company's  
Polk Unit; FPSC Docket No. 960409-EI

Dear Ms. Bayo:

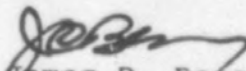
Enclosed for filing in the above docket are the original and fifteen (15) copies of a corrected version of Tampa Electric Company's Prehearing Statement. This filing corrects certain minor errors in the original filing.

Also enclosed is a 3.5" diskette generated on an IBM computer containing the above document in WordPerfect 6.1 for Windows format.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

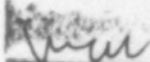
Thank you for your assistance in connection with this matter.

Sincerely,

  
James D. Beasley

- ACK
- AFA 3
- APP
- CAF
- CMU
- CTR
- EAG Dudler
- LEG 1 Enclosures
- LIN 5 cc: All Parties of Record (w/enc.)
- OPC
- RCH
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- WAS
- OTH

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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

06921 JUN 27 88

FPSC-BUREAU OF RECORDS

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Prudence Review to Determine  
Regulatory Treatment of Tampa Electric  
Company's Polk Unit.

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) DOCKET NO. 960409-EI  
) FILED: June 26, 1996  
)  
)

PREHEARING STATEMENT OF TAMPA ELECTRIC COMPANY

Pursuant to the Order Establishing Procedure<sup>1</sup> issued in the above docket on April 30, 1996 and Rule 25-22.038(3), Florida Administrative Code, Tampa Electric Company ("Tampa Electric" or "the company") submits the following as its Prehearing Statement in this proceeding:

A. APPEARANCES

LEE L. WILLIS  
JAMES D. BEASLEY  
KENNETH R. HART  
Ausley & McMullen  
Post Office Box 391  
Tallahassee, Florida 32302

and

HARRY W. LONG, JR.  
TECO Energy, Inc.  
P.O. Box 111  
Tampa, Florida 33601-0111  
On behalf of Tampa Electric Company

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1 Order No. PSC-96-0567-PCO-EI

DOCUMENT NUMBER-DATE  
06921 JUN 27 1996  
FPSC-RECORDS/REPORTING

B. WITNESSES

Witness

Subject Matter

(Direct)

1. Girard F. Anderson  
(Tampa Electric)

Mr. Anderson will explain the broad corporate policy decisions made during the siting and construction of the Polk IGCC unit which underscore the prudence of Tampa Electric's actions and the resulting expenditures made in connection with the project. As background information, his testimony will address the circumstances surrounding the Commission's approval of the company's Polk Integrated Gasification Combined Cycle ("IGCC") unit and the steps which the company took to implement that approval.

2. Thomas L. Hernandez  
(Tampa Electric)

Mr. Hernandez will explain the analytical basis for the conclusion that the Polk IGCC unit remains the most cost-effective and prudent means of providing needed capacity on Tampa Electric's system. He will discuss Tampa Electric's ongoing review of key planning and forecast assumptions and the results of several annual cost-effectiveness studies. These studies were performed subsequent to the Commission's order approving the Polk IGCC unit and they repeatedly and consistently affirmed the correctness of the Commission's decision.

3. Hugh W. Smith  
(Tampa Electric)

Mr. Smith will describe the fuel price and availability forecasts and the forecast assumptions relating to the alternative fuels considered, which were used by Mr. Hernandez in supporting the company's conclusion that Polk Unit One continues to be the most cost-effective solution to the need for additional capacity identified by this Commission in Order No. PSC-92-0002-FOF-EI. Mr. Smith will also discuss the environmental

considerations which were a major factor in establishing the acreage requirements at the Polk site.

4. Charles R. Black  
(Tampa Electric)

Mr. Black will discuss the detailed costs associated with the construction of the Polk Power Station, including land acquisition and site development costs, and describe the very stringent project management and cost control efforts undertaken which have resulted in prudent and reasonable expenditures. He will explain the IGCC technology employed at the Polk Power Station and discuss the fuel use flexibility afforded by the technology which has allowed the company to explore the use of alternative feedstock fuels, such as petroleum coke ("pet coke"), which can increase the cost-effectiveness of the project.

5. Thomas F. Bechtel  
(Tampa Electric)

Mr. Bechtel, Director of the U.S. Department of Energy ("DOE") Clean Coal Technology Program's Morgantown Energy Technology Center, will provide an overview of the DOE's Clean Coal Technology Program and explain how the Polk Project has furthered the program's objectives. He will also discuss DOE's monitoring of the costs associated with the project and the basis for DOE's conclusion that Tampa Electric has managed all aspects of the Polk IGCC project in a professional and prudent manner.

6. John R. Rowe, Jr.  
(Tampa Electric)

Mr. Rowe will explain why the appropriate regulatory treatment for Tampa Electric's Polk related costs is full inclusion in rate base, especially in light of the cost cutting and cost control measures implemented by Tampa Electric which will permit the company to freeze its base rates through 1998. He will also explain why no change in the current rate base treatment of Tampa Electric's Port Manatee site is warranted.

7. Elizabeth A. Townes (Tampa Electric) Ms. Townes will explain how the Polk regulatory treatment proposed by Mr. Rowe should be reflected in the company's accounting system and in the surveillance reports filed periodically with the Commission. She will also identify the specific costs Tampa Electric proposes to include in its rate base and net income reporting for regulatory purposes.

(Rebuttal)

1. John R. Rowe, Jr.  
(Tampa Electric)
2. Hugh W. Smith  
(Tampa Electric)
3. Thomas L. Hernandez  
(Tampa Electric)
4. Charles R. Black  
(Tampa Electric)

Tampa Electric's rebuttal testimony is due to be filed on July 1, 1996. The company reserves the right to revise its witness list after this filing and to conform its Statement of Basic Position and positions on the issues raised in its rebuttal testimonies as so filed. Tampa Electric will provide a description of each witness's testimony for the Prehearing Order as well as the above identified conforming changes.

C. EXHIBITS

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
<u>(HWS-1)</u>	Smith	Interrogatories filed in Dockets 950379-EI and 960409-EI

<u>(TLH-1)</u>	Hernandez	Eight documents relied upon by Mr. Hernandez in support of his prepared direct testimony
<u>(CRB-1)</u>	Black	Twenty-seven documents relied upon by Mr. Black in support of his prepared direct testimony
<u>(JRR-1)</u>	Rowe	Eight documents relied upon by Mr. Rowe in support of his prepared direct testimony
<u>(EAT-1)</u>	Townes	Ten documents relied upon by Ms. Townes in support of her prepared direct testimony

Tampa Electric's rebuttal testimony and exhibits are due to be filed on July 1, 1996. The company reserves the right to add additional exhibits at that time.

D. STATEMENT OF BASIC POSITION

Tampa Electric Company's Statement of Basic Position:

All of the costs associated with Tampa Electric's Polk Unit One have been prudently incurred and should be approved by this Commission without disallowance or resort to an alternative ratemaking mechanism. The positions of Staff and intervenors stem in no small part from their basic premise, that this Commission erred in Decision No. PSC-92-0002-FOF-EI (the "Need Order") in not requiring that Tampa Electric build a natural gas-fired, combined cycle unit instead of the IGCC unit which the Commission found to be the most cost-effective alternative, following extensive investigation. This flawed premise cannot be screened by the assertion that their criticisms relate primarily to the period following the Need Hearing. The Staff and other parties have failed to substantiate any tangible set of circumstances, occurring after the Need Hearing, that

required, as a matter of prudence, that the project approved by the Commission be jettisoned in favor of the natural gas-fired, combined cycle generation alternative already rejected by the Commission for Tampa Electric's system.

In the company's view, the Commission made the correct decision in the Need Order, based on an extensive and well-examined record. Tampa Electric's ongoing cost-effectiveness studies, which were conducted as a matter of prudence, have consistently affirmed the correctness of the Commission's endorsement of the Polk IGCC project. These ongoing cost-effectiveness studies were based on reasonable assumptions at the time each study was conducted.

The question before the Commission in this proceeding, in evaluating the prudence of the company's Polk-related investment, is whether or not the company had a rational basis for the project-related decisions made subsequent to the Commission's approval of the Polk IGCC unit. The question is not what the Commission would have done had it been exercising the power of management at the time and not whether another reasonable person confronted with the same set of facts and circumstances could have made different decisions. Instead, the Commission should satisfy itself that there was a rational basis for Tampa Electric's project-related decisions, given the facts which were known, or should have been known, at the time the decisions in question were made. Under this standard, the prudence of Tampa Electric's project decisions and the resulting investment is very clear.

In its September 5, 1991 Petition for Determination of Need, Tampa Electric explicitly asked this Commission to approve the construction of a 220 MW IGCC Unit and related facilities at a site located in Polk County. During the Need Hearing, the size of the

proposed project was increased to 260 MW, as noted at page 8 of the Need Order. In the Need Order, this Commission announced several conclusions in the course of approving this petition, none of them tentative or interim, which bear directly on the present inquiry.

The Need Order provides the following:

**FINAL APPROVAL OF POLK IGCC UNIT**

It is ordered by the Florida Public Service Commission that, for the reasons, and with the conditions, set out in the body of this order, Tampa Electric Company's Petition for Determination of Need for a Proposed Electrical Power Plant and Related Facilities in Polk County is hereby Granted. (Need Order, p. 17)

**FINAL APPROVAL CONDITIONED ONLY ON RECEIPT OF DOE GRANT**

We have considered all issues relevant to those topics (set forth in Section 403.519, Florida Statutes) and we hold, for the reasons set out below, that Tampa Electric has demonstrated the need for the proposed 220 MW IGCC plant. We approve the construction on the condition that TECO does receive the \$120 million grant from the Department of Energy to help defray the costs of the project. (Need Order, p. 3);

**APPLICATION FILED AT A REASONABLE TIME**

Given the lead time necessary for utilities to construct new generating facilities, TECO's petition was filed at a reasonable time. (Need Order, p. 4);

**IGCC UNIT WILL CONTRIBUTE TO STATEWIDE RELIABILITY**

We believe the addition of the proposed IGCC plant will contribute to the reliability of the electric system of the State of Florida by providing capacity in the time frame in which it is needed. (Need Order, p. 5);

**POLK IGCC UNIT REPRESENTS THE MOST COST-EFFECTIVE ALTERNATIVE**

...In this proceeding the determinative issue is whether it is cost effective for TECO and TECO's ratepayers to incur the higher capital cost of an IGCC unit to enable use of lower cost



coal fuel. That appears to be the case here, because the DOE grant significantly lowers the total capital cost of the project. As we will explain in detail below, the IGCC unit is the most cost-effective alternative to meet TECO's capacity needs. That fact drives our decision to grant TECO's petition. (Need Order, p. 6);

TECO's IGCC unit with DOE funding is more cost-effective than the combined cycle unit in Docket No. 910004-EU. (Need Order, p. 15);

**TECO FUEL PRICE FORECAST REASONABLE**

With certain reservations, we find that TECO's fuel price forecast is reasonably adequate for planning purposes. (Need Order, p. 6);

**PROJECT COST-EFFECTIVE UNDER A WIDE VARIETY OF FUEL PRICE ASSUMPTIONS**

Due to concerns regarding the sensitivity of TECO's fuel forecasts, our Staff asked TECO to perform an economic comparison of its proposed IGCC unit (using coal) and the phased combined cycle unit from Docket No. 910004-EU (using five different gas forecasts for the phased CC unit). Throughout the capacity factor range in which TECO plans to operate its IGCC unit (around 80%) the IGCC plant was cost effective under all fuel price scenarios. ...The (revenue requirements)analysis concluded that TECO's proposed IGCC unit is cost effective under all fuel price scenarios, including our Staff's "acid test", at both the low capacity factor of 60% and the expected capacity factor of 80%. ... TECO also performed a cost comparison between its proposed IGCC project and FPL's current avoided unit, a 1997 IGCC unit. Compared to FPL's avoided unit, TECO's proposed project is more cost-effective. (Need Order, pp. 10-11);

**PROJECT ALTERNATIVES ADEQUATELY EXPLORED**

TECO demonstrated in this proceeding that it adequately explored the construction of alternative generating technologies. (Need Order, p. 12);

We do believe TECO has adequately considered the conservation measures that would be reasonably available to avoid the need for this proposed plant. (Need Order, p. 13);

The record demonstrates that TECO adequately explored and evaluated the availability of purchased power from other utilities. (Need Order, p. 15);

SUFFICIENT INFORMATION PROVIDED FOR DECISION

TECO provided sufficient information on the site design and engineering characteristics of its 220 MW unit to enable us to adequately evaluate its proposal. (Need Order, p. 8);

The Need Order was a final and definitive charge to Tampa Electric to go forward with its plans to construct an IGCC unit at the Polk site, and this is exactly what the company did. The Staff and other parties to this proceeding suggest, in various ways, that the Need Order, containing the language set forth above, was tentative or interim in nature. We respectfully submit that no reasonable person could come to that conclusion.

With the Commission's Need Certification in hand, the company proceeded with the tasks of securing the required site certification and environmental permits, preparing detailed site development and engineering plans and ordering the equipment and materials necessary to construct the plant in a timely manner. As the costs of the plant components and site preparation became clearer as the result of the completion of the permitting process and detailed engineering, the company made a number of changes in the construction schedule and in the configuration of the project, none of which compromised the essential nature of the project. These adjustments allowed Tampa Electric to build the approved unit cost-effectively.

TAMPA ELECTRIC TIGHTLY CONTROLLED PROJECT COSTS

The company put in place a stringent cost control and project management mechanism to insure that costs would be prudently incurred. Tampa Electric has been able to complete the project at a

cost which is estimated to differ from the pre-engineering estimate presented in the Need Hearing by only 4.3%, excluding land acquisition and site development costs. Tampa Electric was not in a position to estimate site development costs with any precision at the time of the Need Hearing, since site development costs would be primarily a function of the environmental permit conditions and detailed engineering studies which remained to be completed. The land and site development costs reflected in the estimated total completion cost of \$506 million are reasonable and compare very favorably with the total land and site preparation costs which Florida Power Corporation expects to incur in connection with its new power plant that is also sited inland on mined phosphate property in Polk County.

#### TAMPA ELECTRIC REGULARLY AFFIRMED PROJECT COST-EFFECTIVENESS

Tampa Electric continued to evaluate the cost-effectiveness of Polk Unit One subsequent to the Need Hearing. This evaluation included a continued review of key planning assumptions and forecasts and a review of several cost-effectiveness studies completed during the construction of Polk Unit One. The review of key planning assumptions included new developments in the demand and energy forecasts, fuel price and availability forecasts, and updates to the Polk unit construction cost estimates. Using the best available information at the time of each evaluation, Tampa Electric concluded in each review that the IGCC unit remained the most cost-effective energy resource alternative. There have been numerous Commission proceedings and Staff reviews, including the review of Tampa Electric's Ten Year Site Plan filings and Conservation Goals proceeding, since the Need Hearing in which the Commission found that Tampa Electric's planning assumptions and methodology and the resulting expansion plans were reasonable and suitable.

Even though Tampa Electric's Polk project was proven cost-effective under all of the gas price forecast scenarios considered by the Commission in the Need Hearing, in 1991 and 1992, some of them very unrealistic, Tampa Electric took to heart the Commission's caution, at page 6 of the Need Order, to pay close attention to the continued accuracy of its fuel price forecasts, especially with regard to the anticipated differential between forecasted gas and coal prices. Subsequent to the Need Hearing, the company repeatedly reevaluated its fuel price forecasting methodology and consulted a wide variety of external forecasts in order to insure the forecasting vigilance expected by the Commission. Tampa Electric's fuel forecasts were based on rational and reasonable assumptions. The company's continued forecast of divergence between coal and gas prices is consistent with reasonable expectations with regard to future trends in the energy market. The question to be addressed in this proceeding is whether there was a rational basis for the forecasts used by Tampa Electric, given what was known at the time the forecasts were made.

Other assumptions used in the cost-effectiveness analyses were updated throughout time. As the construction and other project-related expenses were incurred in reliance on the Need Order, Tampa Electric factored these "sunk costs" into the economics of switching to another generation technology. It would have been foolish to ignore these sunk costs in its ongoing cost-effectiveness studies since these prudently incurred costs would have been passed through to its customers in the event of project abandonment or modification. The company also considered, in its economic analysis at various times, the availability of a tax credit under Section 29 of the IRS code and, alternatively, the use of an economic pet coke blend as a feedstock for the plant's gasifier. These additional inputs to the company's various forecasts were demonstrably rational and

reasonable. In short, Tampa Electric constantly examined and tested the key assumptions underlying its cost-effectiveness analyses to insure that our customers would enjoy the maximum benefit possible from the plant addition.

#### CONCLUSION

Tampa Electric has constructed the Polk IGCC project, which this Commission approved, in a prudent manner. The company has monitored the cost-effectiveness of the project, both prior to and during the construction phase. The company has constantly reviewed and tested its assumptions, including fuel price forecast methodology and economic assumptions to insure a high confidence level in its cost-effectiveness analyses. The company has carefully monitored and controlled project-related costs. In short, Tampa Electric has done everything necessary to warrant Commission approval of its full investment in the Polk IGCC project.

#### E. STATEMENT OF ISSUES AND POSITIONS

##### Legal Issue

Issue 1: What is the appropriate legal standard of review in a prudence review?

Tampa Electric: The test for prudence is one of reasonableness. A determination of prudence or imprudence calls for an inquiry into the reasonableness of management's judgement, i.e., whether there was a rational basis for the judgement rather than an inquiry into the wisdom of the judgement. The standard is not what the Commission would have done had it been exercising the power of

management at the time and not whether another reasonable person confronted with the same set of facts and circumstances could have made different decisions. Instead, the issue is only whether there was a rational basis for Tampa Electric's project-related decisions given the facts which were known, or should have been known, at the time the decisions in question were made.

#### Planning Issues

#### ISSUE 2:

Was the continued construction of the Polk IGCC unit by Tampa Electric Company reasonable and prudent?

#### Tampa Electric:

Yes. Tampa Electric's continued construction of Polk Unit One was reasonable and prudent. There were no changed circumstances subsequent to the issuance of the Need Order which required or even suggested a different course. Even though not required to do so, the company repeatedly evaluated the cost-effectiveness of the IGCC unit, both before and during the construction phase and confirmed its continuing cost-effectiveness each time.

Tampa Electric continually reviewed and tested the economic assumptions underlying its cost-effectiveness analyses and made adjustments where warranted. The company also continued to evaluate its fuel price forecasting methodology and consulted a broad collection of external

forecasts. (Witnesses: Anderson, Smith, Hernandez, Black, Bechtel, Rowe)

ISSUE 3:

Were Tampa Electric Company's assumptions regarding sunk costs in each of its annual cost-benefit analyses reasonable?

Tampa Electric:

Yes. The construction and other project related costs incurred in justifiable reliance on the Commission's approval of the Polk IGCC unit represented costs prudently incurred. As such, these expenditures would have been appropriately recovered from Tampa Electric's customers in the event of project cancellation or modification. Therefore, in assessing the cost-effectiveness or ratepayer impact of continuing with the IGCC technology, it would have made no sense to exclude these costs from the cost-effectiveness calculations.

Tampa Electric's quantification of these sunk costs in each of its annual cost-benefit analyses was quite conservative since it was based only on dollars actually booked instead of all the commitments previously made.

(Witness: Hernandez, Black)

ISSUE 4:

Were Tampa Electric Company's assumptions regarding variable operations and maintenance expense in each of its annual cost-benefit analyses reasonable?

Tampa Electric:

Yes. Tampa Electric's cost-benefit analyses were based on comparing total system revenue requirements for various generating alternatives and included the impact of total system O&M expense, fuel expense, and capital costs for Tampa Electric's existing and planned generating units. While the allocation between fixed and variable O&M costs varied between analyses, the total O&M expense associated with the IGCC, combined cycle, and combustion turbine technologies were comparable and reasonable for each of the cost-benefit analyses. (Witnesses: Black, Hernandez)

ISSUE 5:

Were Tampa Electric Company's assumptions regarding tax credits in its 1994 and 1995 Polk IGCC cost-benefit analyses reasonable?

Tampa Electric:

Yes. When the benefits associated with the Section 29 tax credit were reflected in Tampa Electric's cost-effectiveness studies, in 1994 and 1995, the company had every reason to believe that the tax code would be amended to permit Tampa Electric to claim the credit.

Prior to 1994, the company did not assume the availability of the Section 29 tax credit in its cost-effectiveness analyses since the tax law had not yet been amended to extend the deadline for project completion required in order to qualify for the credit. Although the pet coke blend feedstock assumption suggested very



significant benefits, it was displaced in the company's 1994 and 1995 studies in favor of the Section 29 tax credit assumption in light of the company's belief that the further amendments to the tax law required in order for the company to claim the credit could be accomplished in a timely manner. The two assumptions were interchangeable in terms of the anticipated benefits but they could not reasonably have been used together since Section 29 required that coal be burned in order for the syngas to qualify for the credit. When it became clear, in late 1995, that the probability of achieving the required amendment to the tax code had been reduced significantly as the result of a change in the congressional leadership, the company replaced the availability of the Section 29 credit in its cost-effectiveness assumptions with the use of a pet coke feedstock for the plant gasifier. (Witnesses: Rowe, Hernandez)

ISSUE 6:

Did Tampa Electric Company adequately address its declining demand and energy forecasts in each of its annual cost-benefit analysis?

Tampa Electric:

Yes. The company's demand and energy forecasts used in the cost-benefit analyses were the same as the forecasts provided in Tampa Electric's 1992 rate case proceedings and its 1992, 1993, 1994, and 1995 Ten Year Site Plan filings. In all of the reviews of Tampa Electric's demand and energy forecast, the Commission found that

its forecasts were reasonable and suitable for planning purposes. The impact of each demand and energy forecast on system reliability and system production costs and generation expansion plans were included in each cost-benefit analysis. In fact, the deferral of the advanced combustion turbine from July 1995 to July 1996 was determined in the 1993 cost-benefit analysis and reported in Tampa Electric's 1994 Ten Year Site Plan filing.

(Witness: Hernandez)

#### Fuel Issues

#### ISSUE 7:

Has Tampa Electric Company demonstrated that its 1992, 1993, 1994, and 1995 fuel price forecasts were reasonable and prudent?

#### Tampa Electric:

Yes. Tampa Electric has demonstrated that its 1992 through 1995 fuel price forecasts were reasonable and prudent. Fuel price forecasting is a subjective and judgmental process requiring expertise in many areas of the energy business. As this Commission recognized in Order No. 23080, concerning FP&L's Martin Expansion Project:

*We note, however, that the best fuel forecasts are only that: educated estimates of future market conditions. And, we observe that the only thing which is absolutely predictable in this area is that no matter who does it or how carefully it is done, the forecast will be incorrect. (Order No. 23080, p. 6)*

Obviously, reasonable people can disagree over projections of oil and natural gas prices 20 to 30 years into the future. The Commission should not judge the reasonableness of a forecast based on a relatively short period of actual data when it is the long term trends which drive the savings associated with large capital projects such as the Polk IGCC unit. Tampa Electric's forecasts were in a zone of reasonableness at the time they were made and, when compared to 1996 actual prices, have projected the cost of natural gas accurately.

In addition, Tampa Electric took very seriously this Commission's caution in the Need Order to pay careful attention to the forecasted price differentials between coal and gas. In fact, in the years following the Need Hearing, the price differentials between gas and coal decreased substantially in Tampa Electric's fuel forecasts. (Witness: Smith)

ISSUE 8:

Has Tampa Electric Company demonstrated that pet coke is a reliable and viable fuel for the Polk IGCC Unit?

Tampa Electric:

Yes. Texaco's proven, commercially available gasification technology, on which the Polk IGCC unit is based, is extremely flexible with respect to the feedstock used to create the syngas. Among the feedstocks used commercially are a wide range of coal (high and low sulfur)

and petroleum coke/coal blends of up to 90% petroleum coke. Commercial experience underscores the viability of pet coke as a reliable feedstock for the Polk IGCC unit. Petroleum coke has been demonstrated to be commercially available and economically priced. In fact, at least four utilities in Florida are currently purchasing and burning pet coke in existing facilities. (Witnesses: Black, Smith)

ISSUE 9:

Were Tampa Electric Company's assumptions regarding the combined use of as-available natural gas and light oil as the primary fuels for a combined cycle alternative in its 1994, 1995, and 1996 Polk IGCC cost-benefit analysis reasonable?

Tampa Electric:

Yes. Using as-available gas during those times of the year when there would be relatively little demand for gas, and light oil during those periods of high demand for gas, was the most realistic and reasonable assumption for Tampa Electric's system.

The hypothetical combined cycle unit considered in the company's 1994, 1995 and 1996 cost-effectiveness studies would have been operated at a low load factor, given the economics of Tampa Electric's system. It would have been dispatched after existing coal resources instead of as the first unit dispatched which is the case for the IGCC unit. Therefore, it

would make no sense to assume firm natural gas transportation for this combined cycle unit since Tampa Electric would have no use for the gas transportation most of the time. The company's need for the gas would exist at the very times that gas would be in demand by others. Under these circumstances, one could not reasonably assume that Tampa Electric would have unused gas to sell at peak periods. Likewise, one could not reasonably assume that there would be an acceptable market for our unused gas during off-peak periods. (Witnesses: Hernandez, Smith)

ISSUE 10:

Was it reasonable for Tampa Electric Company to assume as-available natural gas transportation rather than firm gas transportation in its 1992, 1993, 1994, and 1995 Polk IGCC cost-benefit analyses?

Tampa Electric:

Yes. For the reasons explained in response to Issue 9 above, the purchase of firm gas transportation would not have been economic on Tampa Electric's system. An analysis of these two scenarios indicates that the use of firm gas transportation would have cost Tampa Electric ratepayers over \$100 million more than the as-available assumption used in Tampa Electric's cost-effectiveness studies.

(Witnesses: Smith, Hernandez)

Rate Base Treatment

ISSUE 11:

What is the appropriate amount of the Polk IGCC Unit's cost to be included in rate base?

Tampa Electric:

The thirteen month average of the first full year of operation of the Polk unit should be included in rate base as shown on Exhibit \_\_\_\_\_ (EAT-1), Document 1, of the Direct Testimony of Elizabeth A. Townes. The amount shown includes the \$506,165,000 capital investment, accumulated depreciation of \$13,009,000, and working capital in the amount of \$13,029,000. (Witnesses: Black, Rowe, Townes)

ISSUE 12:

What is the appropriate amount of the Polk IGCC cost to be included in the calculation of net operating income?

Tampa Electric:

The full operating expense, which is currently estimated to be \$20,582,000, should be included in the calculation of net operating income as shown on Exhibit EAT-1, Document No. 1. This amount consists of an O&M component of \$3,816,000, depreciation expense of \$22,301,000, and taxes of \$(5,535,000). (Witnesses: Rowe, Townes)

ISSUE 13:

What are the appropriate capital structure components associated with the Polk IGCC Unit?

Tampa Electric:

The Polk unit should be treated like any other

investment which is supported on a prorata basis by the company's total capital structure.

As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. In Order No. PSC-96-0670-S-EI, this Commission adopted a joint stipulation, which resolves all Tampa Electric rate of return issues through 1998. In fact, paragraph 11 of the stipulation provides that the calculations of the actual ROE for each calendar year during the term of the stipulation will be done on an FPSC adjusted basis, using the appropriate adjustments approved in Tampa Electric's last full revenue requirements proceeding. To the extent that the staff or other parties wish to advance a case for a different capital structure, the time to advance such positions would be in Tampa Electric's next rate case or cost of capital proceeding. (Witnesses: Rowe, Townes)

ISSUE 14:

What is the appropriate regulatory treatment for the Port Manatee site?

Tampa Electric:

Tampa Electric's entire investment in the Port Manatee site (\$4,879,076 as of March 21, 1996) should continue to be classified as property

held for future use and included in rate base as the Commission determined in 1992 in Order No. 93-0165 in Docket No. 920324-EI. There has been no significant change in circumstances since the 1992 case which would warrant reconsideration of the Commission's decision.

An electric utility with the obligation to serve should have multiple options for the placement of new generating facilities. Consistent with this principle, utilities such as Florida Power & Light have a wide variety of future plant sites in rate base, including partially developed and undeveloped sites. The Port Manatee site provides a valuable option for a future power plant site or other utility-related use. While the site may not be suitable for a large coal or IGCC plant, it may be well suited for other kinds of new or emerging generation technologies. (Witnesses: Rowe, Smith)

ISSUE 15:

How should the capital, O&M and fuel costs associated with wholesale sales made from the Polk IGCC unit be separated from the retail jurisdiction?

Tampa Electric:

The separation procedure to be used to separate capital and O&M was approved in the company's last rate case, Docket No. 920324-EI and will be followed.



As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. As required by the Joint Stipulation, a portion of the company's Polk-related investment will be allocated to Tampa Electric's wholesale rate base. The separation procedure as approved in the company's last rate case will be used to separate capital and O&M. No other assignment of the Polk IGCC unit to wholesale rate base is necessary. Proposed changes to the currently approved jurisdictional separation procedure have nothing to do with the prudence of Tampa Electric's Polk-related investment. This issue can be addressed at such time as the company files an application to adjust its rates, without any prejudice to the position of any party. The allocation of fuel expense associated with a sale from the Polk IGCC unit can be addressed in the Fuel Adjustment proceedings. (Witness: Rowe)

Alternative Ratemaking Treatments

ISSUE 16:

Should the Commission adopt an alternative method for cost recovery of Tampa Electric's Polk IGCC unit?

Tampa Electric:

No. Tampa Electric has voluntarily agreed to a ratemaking plan which will result in the commercial operation of a major plant addition without any adjustment of base rates to reflect the significant increase in revenue requirements through 1998. At the same time, the company will make a refund to customers of \$25 million, with the possibility of additional refunds in 1999. The company respectfully suggests that it would be difficult, if not impossible, to devise a more innovative and creative alternative to conventional ratemaking for a major plant addition than the approach already adopted by the Commission when it approved the Joint Stipulation.

As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric also objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. Tampa Electric respectfully suggests that there is simply no useful purpose to be served in using the limited time allotted to this proceeding to consider cost recovery alternatives. Paragraph 11 of the above mentioned Stipulation provides that all reasonable and prudent expense and investment will be allowed in the computation of ROE during the Stipulation period. Once Tampa Electric's Polk investment has been proven prudent, the

Stipulation requires that all of that prudent investment be reflected in the ROE calculation as opposed to alternative ratemaking approaches. Tampa Electric has proceeded prudently with the construction of the IGCC plant authorized by the Commission in the Need Hearing and sees no need to complicate the recovery of the company's prudent expenditures. Since no rate increase is pending to recover Tampa Electric's investment in the Polk IGCC, it would be premature to consider alternative methods for cost recovery. Issues of rate design and cost allocation are well beyond the scope of this proceeding. Issues related to recovery of stranded investment in the event Florida law is changed to allow retail wheeling are also entirely premature.

F.        STIPULATED ISSUES

Tampa Electric:    None at this time.

G.        MOTIONS

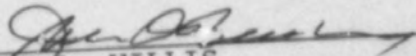
Tampa Electric:    On June 21, 1996, Tampa Electric filed a motion for an order declaring certain issues to be beyond the scope of this proceeding. In particular, the company requested an order declaring that issues 13, 15 and 16 above are beyond the scope of this proceeding.

H.      OTHER MATTERS

Tampa Electric:    None at this time.

DATED this 27<sup>th</sup> day of June, 1996.

Respectfully submitted,

  
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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Prehearing Statement, filed by facsimile on behalf of Tampa Electric Company, has been furnished by U.S. Mail or by hand delivery (\*) on this 27<sup>th</sup> day of June, 1996 to the following:

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