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November 14, 2008

HAND DELIVERED

RECEIVED-FPSC  
08 NOV 14 PM 3:52  
COMMISSION  
CLERK

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

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor; FPSC Docket No. 080001-EI


Dear Ms. Cole:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Request for Confidential Classification and Motion for Temporary Protective Order relating to an October 2008 Independent Review of Tampa Electric's 2008 Long-Term Coal Transportation Procurements Decisions prepared by Energy Ventures Analysis, Inc.

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

COM -  
ECR -  
GCL 2  
OPC -  
RCP -JDB/pp  
-Enclosure  
SSC -  
SGA cc: All Parties of Record (w/enc.)  
ADM -  
CLK 1

DOCUMENT NUMBER-DATE

10641 NOV 14 08

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased )  
Power Cost Recovery Clause )  
and Generating Performance )  
Incentive Factor. )  
\_\_\_\_\_ )

DOCKET NO. 080001-EI

FILED: November 14, 2008

**TAMPA ELECTRIC COMPANY'S  
REQUEST FOR CONFIDENTIAL CLASSIFICATION  
AND MOTION FOR TEMPORARY PROTECTIVE ORDER**

Tampa Electric Company ("Tampa Electric" or "the company"), pursuant to Section 366.093, Florida Statutes, and Rule 25-22.006, Florida Administrative Code, hereby request confidential classification of the yellow highlighted information contained in the following described document(s) ("the Document(s)") stamped "CONFIDENTIAL" and all information that is or may be printed on yellow paper stock stamped "CONFIDENTIAL" within the Document(s), all of said confidential information being hereinafter referred to as "Confidential Information."

**Description of the Document(s)**

Independent Review of Tampa Electric's 1008 Long-Term Coal and Coal Transportation Procurement Decisions—October 2008. In support of this request, the company states:

1. Subsection 366.093(1), Florida Statutes, provides that any records "found by the Commission to be propriety confidential business information shall be kept confidential and shall be exempt from s. 119.07(1), Florida Statutes [requiring disclosure under the Public Records Act]." Proprietary confidential business information includes, but is not limited to "[i]nformation concerning . . . contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods or services on favorable terms." Subsection

366.093(3)(d), Florida Statutes. Proprietary confidential business information also includes “[i]nformation relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information.” Section 366.093(3)(e), Florida Statutes. The Confidential Information that is the subject of this request and motion falls within the statutory categories and, thus, constitutes proprietary confidential business information entitled to protection under Section 366.093, Florida Statutes, and Rule 25-22.006, Florida Administrative Code.

2. Attached hereto as Exhibit "A" is a justification for confidential treatment of the Confidential Information contained in the Document(s).

3. Attached hereto as Exhibit "B" are two public versions of the Document(s) with the Confidential Information redacted, unless previously filed as indicated.

4. The Confidential Information contained in the Document(s) is intended to be and is treated by Tampa Electric as private and has not been publicly disclosed except for the limited inadvertent production through discovery of information relating to one agreement.

5. For the same reasons set forth herein in support of its request for confidential classification, Tampa Electric also moves the Commission for entry of a temporary protective order pursuant to Rule 25-22.006(6)(c), Florida Administrative Code, protecting the Confidential Information from public disclosure.

**Requested Duration of Confidential Classification**

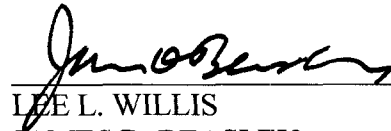
6. Tampa Electric requests that the Confidential Information be treated by the Commission as confidential proprietary business information for at least the 18 month period prescribed in Rule 25-22.006(9)(a), Florida Administrative Code. If, and to the extent that the company is in need of confidential classification of the Confidential Information beyond the 18

month period set forth in the Commission rule, the justification and grounds for such extended confidential treatment are set forth in Exhibit "C" to this request and motion.

WHEREFORE, Tampa Electric Company respectfully requests that the Confidential Information that is the subject of this request and motion be accorded confidential classification for the reasons set forth herein and for a minimum period of 18 months, subject to any request for a longer period of confidential classification as may be set forth in Exhibit "C" to this request and motion. The company further moves for the entry of a temporary protective order pursuant to Rule 25-22.006(6)(c), Florida Administrative Code, protecting the Confidential Information from public disclosure.

DATED this 14<sup>th</sup> day of November, 2008.

Respectfully submitted,



---

LEE L. WILLIS  
JAMES D. BEASLEY  
Ausley & McMullen  
Post Office Box 391  
Tallahassee, Florida 32302  
(850) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing Request for Confidential Classification and Motion for Temporary Protective Order, filed on behalf of Tampa Electric Company, has been served by hand delivery (\*) or U. S. Mail on this 14<sup>th</sup> day of November, 2008 to the following:

Ms. Lisa C. Bennett\*  
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\_\_\_\_\_  
ATTORNEY

**JUSTIFICATION FOR CONFIDENTIAL TREATMENT OF HIGHLIGHTED  
PORTIONS OF THE DOCUMENT(S)**

<b><u>Page Nos.</u></b>	<b><u>Detailed Description</u></b>	<b><u>Rationale</u></b>
7,8	All highlighted information	(1)

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- (1) The highlighted information discloses confidential and proprietary terms and conditions of privately negotiated contracts for the transportation of solid fuel for Tampa Electric. The terms and conditions of these contracts, if made public would disclose contractual information that would be harmful to the counter-parties who would provide these services to Tampa Electric and would likely discourage them from negotiating future contracts for the provision of such services to Tampa Electric. Section 366.093(3), Florida Statutes, defines the types of information entitled to confidential protection and specifically includes, in subsections (3)(d) and (e), Florida Statutes, the following:

(d) Information concerning bids or other contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods or services on favorable terms.

(e) Information relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information.

It follows that the information in question is specifically entitled by statute to confidential treatment and exemption from Section 119.07(1), Florida Statutes.

**PUBLIC VERSION(S) OF THE DOCUMENT(S)**

Attached hereto (unless previously filed as may be noted below) are two public versions of the Document(s) with the Confidential Information redacted.

Public Version(s) of the Document(s) attached   X  

Public Version(s) of the Document(s) previously filed on \_\_\_\_\_



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**INDEPENDENT REVIEW OF TAMPA ELECTRIC'S  
2008 LONG-TERM COAL AND COAL  
TRANSPORTATION PROCUREMENT DECISIONS**

October 2008

*Prepared for:  
Tampa Electric Company*

*Prepared by:  
Energy Ventures Analysis, Inc.  
1901 N. Moore Street, Suite 1200  
Arlington, VA 22209-1706  
(703) 276-8900*

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## **Introduction**

Energy Ventures Analysis, Inc. (“EVA”) was retained by Tampa Electric Company (“Tampa Electric” or the “Company”) to provide advice and an independent review of its process and decisions to enter into new long-term contracts for coal and coal transportation for its Big Bend and Polk power stations. EVA performed the following tasks during this project:

- Assist in preparing a Request For Proposals (“RFP”) for new contracts for coal and coal transportation services;
- Identify companies who should be contacted to solicit proposals for coal and coal transportation;
- Assist Tampa Electric in the evaluation of proposals received in response to the RFP, including economic analyses and review of supplier capabilities; and,
- Provide Tampa Electric with an independent opinion of the procurement process and procurement decisions to ensure that the process was open and fair for suppliers and resulted in the least cost for reliable coal supplies for the ratepayers.

## **Qualifications**

EVA has provided consulting services for the electric power industry since its founding in 1981. Our services include:

- Design of fuel procurement plans for coal, natural gas, emission allowances, coal transportation and gas pipeline services;
- Evaluation of fuel and emission allowance markets, including supply and demand as well as forecasts of market prices;
- Development of fuel and fuel transportation procurement solicitations;
- Economic evaluation of offers to provide fuel and transportation services;
- Negotiation and drafting of long-term fuel and transportation contracts;
- Advice on administration of fuel and transportation contracts, including supplier performance and price adjustments;
- Testimony in court and arbitration in disputes on fuel contracts;

- Management audits of fuel procurement departments, including staffing, procurement practices and performance results; and,
- Testimony in public service commission hearings regarding the prudence of fuel procurement activities.

EVA has testified a number of times in front of the Florida Public Service Commission regarding fuel procurement and fuel market issues in cases involving Progress Energy Florida, Florida Power & Light and Tampa Electric. EVA's previous testimony has been provided on behalf of the company, the Office of Public Counsel, and intervenors. EVA has also testified in front of numerous public utility commissions regarding the prudence of utility fuel procurement activities.

## **Background**

Tampa Electric's annual coal requirements are 4.5 to 5.0 million tons per year for the Big Bend and Polk power plants. Big Bend burns 4.0 to 4.5 million tons per year and is fully scrubbed. Its coal supply is typically high-sulfur coal from the Illinois Basin ("ILLB") although other coals can be economic at times. Polk is an integrated gasification combined cycle ("IGCC") plant. In recent years, its most economic supply has been petroleum coke, which must be blended with a bituminous coal. In recent years, the economic choices for bituminous coal supplies to Polk have been imports and the western bituminous coals from the Rockies region.

In the past, Tampa Electric has delivered its coal and petroleum coke for the Big Bend and Polk stations by gulf barges to the Big Bend station. The Polk supplies have been trucked from Big Bend to Polk for final delivery. Tampa Electric's transportation contract was with an affiliated company, TECO Transport, until this company was sold to United Marine Group ("UMG") in late 2007. The transportation contract provided for all of the solid fuel waterborne transportation services, including river barge transport from docks on the Mississippi and Ohio Rivers to a terminal in Davant, Louisiana, storage and blending at the United Barge Terminal ("UBT"), and gulf barge transport from Davant to the Big Bend plant.

The current solid fuel transportation contract with UMG expires on December 31, 2008. In 2007, Tampa Electric developed a plan to replace the expiring contract and to

improve its ability to deliver solid fuel from all of the potential supply regions to its plants at the lowest possible long-term cost for reliable service.

## **Objectives of the Solid Fuel Transportation Procurement Plan**

Tampa Electric has been delivering all of its solid fuel for the Big Bend station under contracts with UMG and its predecessor since the 1970's. Ocean gulf barge transportation of bulk products is a relatively specialized service because the ocean barge market is not very large and barges used in the much larger river market are prohibited from being used in ocean transport. The large size of Tampa Electric's requirements relative to the limited size of the ocean barge market means that there are a limited number of companies which can provide this service for Tampa Electric. Further, there are only two docks on the Lower Mississippi River which can provide ground storage and blending along with transfer from river barge to gulf barge transportation. As a result of these limits, Tampa Electric was concerned that there would be little competition for UMG to provide these services and replace the expiring UMG contract, which could result in a high price for a new contract.

Another concern for Tampa Electric was to expand its access to coal supplies which could be low-cost fuel for the Big Bend and Polk plants. Tampa Electric was limited in its ability to deliver solid fuel, as it could only deliver by ocean barge. This meant that coal and petroleum coke would have to be shipped to an ocean barge dock (Davant or comparable) for transportation to Big Bend. While this is an efficient and economic mode of transportation for coals which normally originate at an inland river dock, it can limit the ability to economically deliver coals which originate on the rail system in the eastern coal fields. In this water-only delivery scenario, rail-origin eastern coal would first need to be shipped by rail to a river barge dock and be loaded on a river barge for shipment to a gulf barge transfer facility. This increases the cost of shipment and can render these coals uneconomic. Because the Big Bend plant is located next to existing CSXT rail track, there was the ability to construct a rail unloading facility at Big Bend and deliver rail-origin coal directly to the plant. CSXT originated the shipment of about 165 million tons of eastern coal in 2007 out of 474 million tons of total production (35%), so lower-cost shipment of these coals could substantially expand Tampa Electric's coal supply options.

As a result of these issues, Tampa Electric developed the following principal strategic objectives for replacing the existing UMG transportation contract:

- Provide the conditions necessary to maximize the potential for other companies to compete with UMG in providing gulf and river barge transportation
- Evaluate the investment options needed to obtain alternate delivery to Big Bend using CSXT rail transportation.
- If possible, divide the new transportation contracts among suppliers to establish multiple options for delivery (by mode and carrier) so that there will continue to be competitive options for future delivery after the new contracts expire.

In order to accomplish these objectives, Tampa Electric developed a procurement plan which included the following elements:

- Advertise the interest of Tampa Electric in contracting with new suppliers, including contacting suppliers and encouraging offers from new companies. Given the history of Tampa Electric's use of a single transportation supplier in the past and the previous affiliate relationship, it was important to communicate that the incumbent supplier would not have a preference in continuing its business.
- Request separate proposals for river barge, gulf barge and river-to-gulf transloading services. This would allow offers from many transportation companies who could not provide an integrated proposal.
- Prepare an analysis of the physical rail delivery options and costs to evaluate direct rail services.
- Obtain offers for new long-term solid fuel (coal and petroleum coke) contracts so that an integrated analysis of the total delivered cost of different proposals could be considered.
- Negotiate contracts with the flexibility to adjust the delivery volumes to provide increased reliability and to take advantage of the least-cost options over time.

## **Implementation of the Solid Fuel Transportation Procurement Plan**

Tampa Electric followed the timeline to implement the procurement plan:

- Issued RFP for fuel transportation October 1, 2007
- Held post-release meeting with transportation suppliers October 24, 2007
- Issued RFP for solid fuel contracts December 17, 2007
- Received transportation contract proposals December 21, 2007
- Received fuel contract proposals January 16, 2008
- Completed economic evaluation of fuel and transportation proposals February 11, 2008 and notified short-list vendors
- Best-and-final proposals received February 25, 2008
- Notified winning respondents and commenced final contract negotiations March 24, 2008

Tampa Electric received proposals from 23 different transportation providers, including gulf barge, river barge, railroad, and ocean terminals. Tampa Electric also received 25 proposals for new long-term solid fuel contracts from 13 different suppliers, including petroleum coke and coals from the Illinois Basin, Northern Appalachia, and the Rockies as well as imported coal.

Tampa Electric constructed a comprehensive economic model to evaluate all of the offers, including matching each of the solid fuel offers with each of the transportation offers which could deliver the fuel to Big Bend. The model also included an analysis of the prices of each of the offers throughout the period from 2009 to 2013, using reasonable assumptions for inflation and escalation factors. Some of the transportation offers were eliminated from further consideration because they did not meet the minimum criteria for feasibility and reliability. (The disqualifying issues included offers which were later retracted, offers for barge service for origins which did not match Tampa Electric's expected coal supply, or offers which could not provide the service needed for Tampa Electric's coal deliveries). The final economic evaluation included 3 options for river barge transportation, 3 options for transloading from river to gulf barges, 3 options for gulf barge transportation, and 1 option for direct rail transportation. The

model results ranked the various combinations of solid fuel and transportation offers by the lowest delivered price for the period 2009 to 2013.

The lowest-cost winning offers were:

- Knight Hawk coal from the ILLB delivered by AEP Memco river barge and UMG terminal and gulf barge transportation.
- Alliance Resource LP coal from the ILLB delivered by CSXT rail direct and/or on an integrated basis from UMG. (River, Terminal, and Ocean).

## **New Contracts for Fuel and Transportation**

Tampa Electric has completed negotiations of new long-term contracts for solid fuel and transportation, briefly summarized below:

- United Maritime Group: 6-year contract (2009 – 2014) for gulf barge, river barge and terminal services. The contract will provide the flexibility to deliver up to Tampa Electric's full requirements over the term of the contract. This will be necessary for 2009, as CSXT rail service will not be available until late 2009 or early 2010. The minimum tonnage commitment for UMG will be [REDACTED] tons per year, which allows up to [REDACTED] tons per year to be delivered by other modes.
- CSXT Railroad: 5-year contract (2010 to 2014) for rail direct shipment to Big Bend. The contract provides for shipment of up to [REDACTED] tons per year from origins in the ILLB and NAPP coal regions. [REDACTED]  
[REDACTED]  
[REDACTED]
- AEP Memco: 5-year contract (2009 – 2013) for river barge transportation from origins on the Upper Mississippi River to UBT terminal in Davant. This contract is for [REDACTED] tons per year and matches the term of the new coal contract with Knight Hawk.
- Knight Hawk Coal: [REDACTED]-year contract (2009 – [REDACTED]) for [REDACTED] tons per year of coal from its mines in Illinois delivered to barge at the Lone Eagle dock on the Mississippi River.



- Alliance Resource LP: [REDACTED]-year contract (2009 – [REDACTED]) for [REDACTED] tons per year ([REDACTED] tons in 2009) from its mines in the ILLB (West Kentucky and Illinois). Tampa Electric will have the option to ship this coal either by barge originating on the Ohio River or by rail. Alliance will supply coal from 5 large mines, 4 of which can originate on CSXT. This coal will be the base coal supply to be shipped on the new CSXT rail contract.

In addition, Tampa Electric already has an existing long-term coal contract with Peabody for [REDACTED] tons per year through [REDACTED] which originates by barge on the Ohio River and would be shipped under the new contract with UMG. Also, the petroleum coke and bituminous coal requirements for the Polk station will be shipped on the new UMG contract.

## **Prudence of the Process and Results for New Fuel and Transportation Contracts**

EVA has reviewed the process employed by Tampa Electric in soliciting and selecting new contracts for solid fuel and fuel transportation. EVA was asked to consult with Tampa Electric throughout the process from the design of the RFP to the economic analysis of the offers. Tampa Electric has been open to suggestions during the process to ensure that the procedures were designed to obtain competitive offers at the lowest cost which provide reliable supply of fuel and fuel transportation.

EVA reached the following opinions regarding the procurement and selection process:

- The process was fair, open and above-board for all potential suppliers to submit offers and have them considered on the merits of cost and reliability.
- Tampa Electric actively sought out and encouraged offers from new suppliers to compete with the incumbent transportation provider by advertising the procurement process in the industry and contacting companies to obtain offers.
- Tampa Electric made it possible for many suppliers to submit viable offers by dividing the transportation services into separate components of river barge, gulf barge and transfer services and rail opportunities.
- Tampa Electric considered capital investments to allow new transportation options including rail direct services as well as other options which did not make the final cut, such as new transfer docks and self-unloading vessels.

- Tampa Electric successfully negotiated to select the least-cost packages of coal and transportation services.
- Where Tampa Electric did not select low-cost offers, it was for valid reasons of reliability and coal quality.

EVA has reached the following conclusions regarding the results of the procurement and selection process:

- The decision to diversify the transportation delivery options by adding rail unloading facilities will improve the reliability of Tampa Electric's fuel deliveries and minimize the costs over a long period of time, not just the term of the new contracts. The ability to deliver fuel by both rail and barge will increase reliability by having an alternate delivery mode in place during transportation disruptions (such as weather-related events where hurricanes can shut down transfer terminals or floods can interrupt rail deliveries). The fact that Tampa Electric can deliver its full requirements by either barge or rail will encourage the suppliers to compete in the future and will allow Tampa Electric to use the lowest-cost modes.
- By reducing the size of the UMG contract and dividing the components, Tampa Electric made it possible for smaller providers to compete, both in this process and in the future.
- The volume swing options in the rail and barge transportation contracts will allow Tampa Electric the ability to use the lowest-cost combinations during the term of the new contracts.
- Based on EVA's knowledge of rail rates under new contracts, EVA believes that Tampa Electric has obtained a very favorable rail rate from CSXT compared to the terms of other new rail contracts in comparable rail markets.
- The timing of the solicitation allowed Tampa Electric to obtain prices under its new coal contracts far below the market prices available under new contracts signed later in 2008. Tampa did a good job of locking up its coal supply contracts in the face of a market where prices were rapidly increasing and some suppliers were seeking to avoid completing contracts under proposals made at below-market prices.

- Tampa Electric has contracted with three of the most reliable suppliers in the Illinois Basin (Alliance, Knight Hawk and the existing Peabody contract), which have multiple mines dedicated to shipping under the contracts. This has proven to be very important in a market where suppliers are shorting customers on deliveries, declaring force majeure on contract obligations and claiming the need for price increases due to increased costs.

It is EVA's opinion that Tampa Electric has acted prudently in the development and implementation of its process to enter into new contracts for fuel and fuel transportation. Tampa Electric has acted to minimize the costs for fuel to its ratepayers as well as ensure reliable long-term supplies.

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# **INDEPENDENT REVIEW OF TAMPA ELECTRIC'S 2008 LONG-TERM COAL AND COAL TRANSPORTATION PROCUREMENT DECISIONS**

**October 2008**

*Prepared for:  
Tampa Electric Company*

*Prepared by:  
Energy Ventures Analysis, Inc.  
1901 N. Moore Street, Suite 1200  
Arlington, VA 22209-1706  
(703) 276-8900*

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## **Introduction**

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## **Qualifications**

EVA has provided consulting services for the electric power industry since its founding in 1981. Our services include:

- Design of fuel procurement plans for coal, natural gas, emission allowances, coal transportation and gas pipeline services;
- Evaluation of fuel and emission allowance markets, including supply and demand as well as forecasts of market prices;
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- Testimony in court and arbitration in disputes on fuel contracts;

- Management audits of fuel procurement departments, including staffing, procurement practices and performance results; and,
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## **Background**

Tampa Electric's annual coal requirements are 4.5 to 5.0 million tons per year for the Big Bend and Polk power plants. Big Bend burns 4.0 to 4.5 million tons per year and is fully scrubbed. Its coal supply is typically high-sulfur coal from the Illinois Basin ("ILLB") although other coals can be economic at times. Polk is an integrated gasification combined cycle ("IGCC") plant. In recent years, its most economic supply has been petroleum coke, which must be blended with a bituminous coal. In recent years, the economic choices for bituminous coal supplies to Polk have been imports and the western bituminous coals from the Rockies region.

In the past, Tampa Electric has delivered its coal and petroleum coke for the Big Bend and Polk stations by gulf barges to the Big Bend station. The Polk supplies have been trucked from Big Bend to Polk for final delivery. Tampa Electric's transportation contract was with an affiliated company, TECO Transport, until this company was sold to United Marine Group ("UMG") in late 2007. The transportation contract provided for all of the solid fuel waterborne transportation services, including river barge transport from docks on the Mississippi and Ohio Rivers to a terminal in Davant, Louisiana, storage and blending at the United Barge Terminal ("UBT"), and gulf barge transport from Davant to the Big Bend plant.

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improve its ability to deliver solid fuel from all of the potential supply regions to its plants at the lowest possible long-term cost for reliable service.

## **Objectives of the Solid Fuel Transportation Procurement Plan**

Tampa Electric has been delivering all of its solid fuel for the Big Bend station under contracts with UMG and its predecessor since the 1970's. Ocean gulf barge transportation of bulk products is a relatively specialized service because the ocean barge market is not very large and barges used in the much larger river market are prohibited from being used in ocean transport. The large size of Tampa Electric's requirements relative to the limited size of the ocean barge market means that there are a limited number of companies which can provide this service for Tampa Electric. Further, there are only two docks on the Lower Mississippi River which can provide ground storage and blending along with transfer from river barge to gulf barge transportation. As a result of these limits, Tampa Electric was concerned that there would be little competition for UMG to provide these services and replace the expiring UMG contract, which could result in a high price for a new contract.

Another concern for Tampa Electric was to expand its access to coal supplies which could be low-cost fuel for the Big Bend and Polk plants. Tampa Electric was limited in its ability to deliver solid fuel, as it could only deliver by ocean barge. This meant that coal and petroleum coke would have to be shipped to an ocean barge dock (Davant or comparable) for transportation to Big Bend. While this is an efficient and economic mode of transportation for coals which normally originate at an inland river dock, it can limit the ability to economically deliver coals which originate on the rail system in the eastern coal fields. In this water-only delivery scenario, rail-origin eastern coal would first need to be shipped by rail to a river barge dock and be loaded on a river barge for shipment to a gulf barge transfer facility. This increases the cost of shipment and can render these coals uneconomic. Because the Big Bend plant is located next to existing CSXT rail track, there was the ability to construct a rail unloading facility at Big Bend and deliver rail-origin coal directly to the plant. CSXT originated the shipment of about 165 million tons of eastern coal in 2007 out of 474 million tons of total production (35%), so lower-cost shipment of these coals could substantially expand Tampa Electric's coal supply options.



As a result of these issues, Tampa Electric developed the following principal strategic objectives for replacing the existing UMG transportation contract:

- Provide the conditions necessary to maximize the potential for other companies to compete with UMG in providing gulf and river barge transportation
- Evaluate the investment options needed to obtain alternate delivery to Big Bend using CSXT rail transportation.
- If possible, divide the new transportation contracts among suppliers to establish multiple options for delivery (by mode and carrier) so that there will continue to be competitive options for future delivery after the new contracts expire.

In order to accomplish these objectives, Tampa Electric developed a procurement plan which included the following elements:

- Advertise the interest of Tampa Electric in contracting with new suppliers, including contacting suppliers and encouraging offers from new companies. Given the history of Tampa Electric's use of a single transportation supplier in the past and the previous affiliate relationship, it was important to communicate that the incumbent supplier would not have a preference in continuing its business.
- Request separate proposals for river barge, gulf barge and river-to-gulf transloading services. This would allow offers from many transportation companies who could not provide an integrated proposal.
- Prepare an analysis of the physical rail delivery options and costs to evaluate direct rail services.
- Obtain offers for new long-term solid fuel (coal and petroleum coke) contracts so that an integrated analysis of the total delivered cost of different proposals could be considered.
- Negotiate contracts with the flexibility to adjust the delivery volumes to provide increased reliability and to take advantage of the least-cost options over time.

## **Implementation of the Solid Fuel Transportation Procurement Plan**

Tampa Electric followed the timeline to implement the procurement plan:

- Issued RFP for fuel transportation October 1, 2007
- Held post-release meeting with transportation suppliers October 24, 2007
- Issued RFP for solid fuel contracts December 17, 2007
- Received transportation contract proposals December 21, 2007
- Received fuel contract proposals January 16, 2008
- Completed economic evaluation of fuel and transportation proposals February 11, 2008 and notified short-list vendors
- Best-and-final proposals received February 25, 2008
- Notified winning respondents and commenced final contract negotiations March 24, 2008

Tampa Electric received proposals from 23 different transportation providers, including gulf barge, river barge, railroad, and ocean terminals. Tampa Electric also received 25 proposals for new long-term solid fuel contracts from 13 different suppliers, including petroleum coke and coals from the Illinois Basin, Northern Appalachia, and the Rockies as well as imported coal.

Tampa Electric constructed a comprehensive economic model to evaluate all of the offers, including matching each of the solid fuel offers with each of the transportation offers which could deliver the fuel to Big Bend. The model also included an analysis of the prices of each of the offers throughout the period from 2009 to 2013, using reasonable assumptions for inflation and escalation factors. Some of the transportation offers were eliminated from further consideration because they did not meet the minimum criteria for feasibility and reliability. (The disqualifying issues included offers which were later retracted, offers for barge service for origins which did not match Tampa Electric's expected coal supply, or offers which could not provide the service needed for Tampa Electric's coal deliveries). The final economic evaluation included 3 options for river barge transportation, 3 options for transloading from river to gulf barges, 3 options for gulf barge transportation, and 1 option for direct rail transportation. The

model results ranked the various combinations of solid fuel and transportation offers by the lowest delivered price for the period 2009 to 2013.

The lowest-cost winning offers were:

- Knight Hawk coal from the ILLB delivered by AEP Memco river barge and UMG terminal and gulf barge transportation.
- Alliance Resource LP coal from the ILLB delivered by CSXT rail direct and/or on an integrated basis from UMG. (River, Terminal, and Ocean).

## **New Contracts for Fuel and Transportation**

Tampa Electric has completed negotiations of new long-term contracts for solid fuel and transportation, briefly summarized below:

- United Maritime Group: 6-year contract (2009 – 2014) for gulf barge, river barge and terminal services. The contract will provide the flexibility to deliver up to Tampa Electric's full requirements over the term of the contract. This will be necessary for 2009, as CSXT rail service will not be available until late 2009 or early 2010. The minimum tonnage commitment for UMG will be ■■■■ tons per year, which allows up to ■■■■ tons per year to be delivered by other modes.
- ■■■■ CSXT Railroad: 5-year contract (2010 to 2014) for rail direct shipment to Big Bend. The contract provides for shipment of up to ■■■■ tons per year from origins in the ILLB and NAPP coal regions. ■■■■  
■■■■  
■■■■
- AEP Memco: 5-year contract (2009 – 2013) for river barge transportation from origins on the Upper Mississippi River to UBT terminal in Davant. This contract is for ■■■■ tons per year and matches the term of the new coal contract with Knight Hawk.
- Knight Hawk Coal: ■■■■-year contract (2009 – ■■■■) for ■■■■ tons per year of coal from its mines in Illinois delivered to barge at the Lone Eagle dock on the Mississippi River.

- Alliance Resource LP: [REDACTED]-year contract (2009 – [REDACTED]) for [REDACTED] tons per year ([REDACTED] tons in 2009) from its mines in the ILLB (West Kentucky and Illinois). Tampa Electric will have the option to ship this coal either by barge originating on the Ohio River or by rail. Alliance will supply coal from 5 large mines, 4 of which can originate on CSXT. This coal will be the base coal supply to be shipped on the new CSXT rail contract.

In addition, Tampa Electric already has an existing long-term coal contract with Peabody for [REDACTED] tons per year through [REDACTED] which originates by barge on the Ohio River and would be shipped under the new contract with UMG. Also, the petroleum coke and bituminous coal requirements for the Polk station will be shipped on the new UMG contract.

## **Prudence of the Process and Results for New Fuel and Transportation Contracts**

EVA has reviewed the process employed by Tampa Electric in soliciting and selecting new contracts for solid fuel and fuel transportation. EVA was asked to consult with Tampa Electric throughout the process from the design of the RFP to the economic analysis of the offers. Tampa Electric has been open to suggestions during the process to ensure that the procedures were designed to obtain competitive offers at the lowest cost which provide reliable supply of fuel and fuel transportation.

EVA reached the following opinions regarding the procurement and selection process:

- The process was fair, open and above-board for all potential suppliers to submit offers and have them considered on the merits of cost and reliability.
- Tampa Electric actively sought out and encouraged offers from new suppliers to compete with the incumbent transportation provider by advertising the procurement process in the industry and contacting companies to obtain offers.
- Tampa Electric made it possible for many suppliers to submit viable offers by dividing the transportation services into separate components of river barge, gulf barge and transfer services and rail opportunities.
- Tampa Electric considered capital investments to allow new transportation options including rail direct services as well as other options which did not make the final cut, such as new transfer docks and self-unloading vessels.

- Tampa Electric successfully negotiated to select the least-cost packages of coal and transportation services.
- Where Tampa Electric did not select low-cost offers, it was for valid reasons of reliability and coal quality.

EVA has reached the following conclusions regarding the results of the procurement and selection process:

- The decision to diversify the transportation delivery options by adding rail unloading facilities will improve the reliability of Tampa Electric's fuel deliveries and minimize the costs over a long period of time, not just the term of the new contracts. The ability to deliver fuel by both rail and barge will increase reliability by having an alternate delivery mode in place during transportation disruptions (such as weather-related events where hurricanes can shut down transfer terminals or floods can interrupt rail deliveries). The fact that Tampa Electric can deliver its full requirements by either barge or rail will encourage the suppliers to compete in the future and will allow Tampa Electric to use the lowest-cost modes.
- By reducing the size of the UMG contract and dividing the components, Tampa Electric made it possible for smaller providers to compete, both in this process and in the future.
- The volume swing options in the rail and barge transportation contracts will allow Tampa Electric the ability to use the lowest-cost combinations during the term of the new contracts.
- Based on EVA's knowledge of rail rates under new contracts, EVA believes that Tampa Electric has obtained a very favorable rail rate from CSXT compared to the terms of other new rail contracts in comparable rail markets.
- The timing of the solicitation allowed Tampa Electric to obtain prices under its new coal contracts far below the market prices available under new contracts signed later in 2008. Tampa did a good job of locking up its coal supply contracts in the face of a market where prices were rapidly increasing and some suppliers were seeking to avoid completing contracts under proposals made at below-market prices.

- Tampa Electric has contracted with three of the most reliable suppliers in the Illinois Basin (Alliance, Knight Hawk and the existing Peabody contract), which have multiple mines dedicated to shipping under the contracts. This has proven to be very important in a market where suppliers are shorting customers on deliveries, declaring force majeure on contract obligations and claiming the need for price increases due to increased costs.

It is EVA's opinion that Tampa Electric has acted prudently in the development and implementation of its process to enter into new contracts for fuel and fuel transportation. Tampa Electric has acted to minimize the costs for fuel to its ratepayers as well as ensure reliable long-term supplies.

**REQUESTED DURATION OF CONFIDENTIAL CLASSIFICATION**

Tampa Electric requests that the Confidential Information that is the subject of this request be treated as proprietary confidential business information exempt from the Public Records Law for a minimum of 18 months from the date of the order granting such classification. To the extent the company needs confidential protection of the Confidential Information for a period longer than 18 months, the company's justification therefor is set forth below:

n/a