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January 10, 1992

HAND DELIVERED

Mr. Steve C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0850

Re: Petition of Tampa Electric Company

Dear Mr. Tribble:

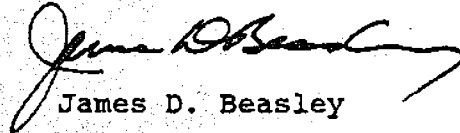
Enclosed for filing on behalf of Tampa Electric Company are fifteen (15) copies of each of the following:

- ACK 1. Petition of Tampa Electric Company. 383-92
- AFA _____ 2. Prepared Direct Testimony of G. Pierce Wood. 384-92
- APP _____
- CAF _____ 3. Prepared Direct Testimony and Exhibit of Lawrence F. Metzroth. 385-92
- CMU _____

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

LIN _____ Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

OPC _____
RCH _____
SEC _____
WAS _____
OTH _____ JDB/pp
encls.

RECEIVED & FILED


FPSC BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

00383 JAN 10 1992

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Tampa Electric)
Company.)

DOCKET NO. 920041-EI
Submitted for filing 1/10/92

PETITION OF TAMPA ELECTRIC COMPANY

Tampa Electric Company ("Tampa Electric" or "the company") hereby petitions the Commission for clarification and guidance on the appropriate market based pricing methodology for coal purchased by Tampa Electric from its affiliate, Gatliff Coal Company. As grounds therefor, the company says:

1. Any pleadings, motions, notices, orders, or other documents required to be served on petitioner should be forwarded to:

Mr. Russell D. Chapman
Manager, Regulatory
Coordination
Tampa Electric Company
Post Office Box 111
Tampa, Florida 33601

Mr. Herbert S. Sanger, Jr.
Wagner, Myers & Sanger
Post Office Box 1308
Knoxville, Tennessee 37901-1308

Mr. Lee L. Willis
Mr. James D. Beasley
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Post Office Box 391
Tallahassee, Florida 32302

2. Tampa Electric is an electric public utility subject to the jurisdiction of the Commission pursuant to Chapter 366, Fla. Stat. The address of Tampa Electric's principal offices is 702 North Franklin Street, Tampa, Florida 33602.

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00383 JAN 10 1992

FPSC-RECORDS/REPORTING

Background

3. On November 10, 1988 the Commission issued its Order No. 20298 in Docket No. 870001-EI-A imposing market based pricing on coal purchased by Tampa Electric from its affiliate, Gatliff Coal Company, and accepting a settlement agreement on implementation of a market based methodology. A copy of Order No. 20298 ("the Order") is attached hereto as Exhibit "A" and by reference made a part hereof.

4. The Order approved a stipulation agreement which provided a benchmark procedure for regulatory review of the price paid by Tampa Electric for coal purchased from Gatliff Coal Company. The stipulation utilized an initial market determined price as of December 31, 1987 and then stated that for regulatory review this initial market price should be escalated or de-escalated by the annual percentage change in Bureau of Mines District 8 Data for Coal Shipments as reported on Form 423 for the weighted average price per million BTU of contract transactions (excluding all spot transactions), which meet Tampa Electric's Gannon Station specifications as set out in the Order.

5. The Order goes on to establish a 5% zone of reasonableness around the adjusted market price for purposes of regulatory review. If the actual transfer price paid by Tampa Electric to Gatliff exceeds the ceiling of the 5% zone of reasonableness, the Order allows Tampa Electric an opportunity to justify the reasonableness and prudence of the excess above the ceiling. In the absence of such justification, the recovery of the amount above

the benchmark ceiling is disallowed. If the actual transfer price falls below the benchmark ceiling, Tampa Electric is allowed to recover the transfer price paid.

The Benchmark Procedure

6. Tampa Electric has implemented and the Commission has supervised the application of the market based pricing called for in the Order. In an ongoing effort to insure the proper application of the Gatliff Coal Company benchmark procedure, Tampa Electric has retained the services of Resource Data International, Inc. ("RDI") to examine the means of implementing that procedure as approved by the Commission in the Order. RDI, under the leadership of its Senior Staff Economist, Lawrence F. Metzroth, undertook this examination and presented Tampa Electric with a detailed description of how RDI determined the benchmark procedure should be implemented under the Order and the stipulation which it approved.

7. As is explained in the accompanying Prepared Direct Testimony of Mr. Metzroth, the recommended method is based on Bureau of Mines District 8 Data as reported on FERC Forms 423, excluding certain transactions of the type excluded in the stipulation approved in the Order. The excluded categories include all spot transactions and those transactions which do not meet the Gannon Station coal quality specifications. Mr. Metzroth's analysis of the Order along with his recommended method for implementing the benchmark procedure appear in his Prepared Direct Testimony beginning at page 34.

8. For illustrative purposes Mr. Metzroth went on to apply the benchmark procedure for 1990 using his methodology consistent with the Order. The improved method of implementing the benchmark procedure recommended by Mr. Metzroth will provide a basis for future Commission action relating to Tampa Electric's fuel cost recovery which is more consistent with the Order. In addition, all data used in the RDI benchmark calculation is in computer format, is based on objective data and is readily available to the Commission and all parties to this proceeding.

9. Tampa Electric has made it clear before the Commission that the type of coal purchased from Gatliff Coal Company is unique in the Eastern United States due to its low sulfur properties combined with low ash fusion (melting) temperature properties. It was clearly the substance of Order No. 20298 and the intent of the Commission in that Order, in the agreed absence of any actually comparable market, to use a substitute market proxy price which was as close to comparable market as the availability of data would permit. It was also clear that the Commission realized that the benchmark method of comparison is not exact because the Commission approved that portion of the stipulation which specifically gives Tampa Electric the opportunity to justify the actual price of Gatliff Coal Company coal even if the benchmark zone of reasonableness is exceeded.

10. Mr. Metzroth's testimony simply presents accurate data with which to implement the benchmark procedure. This data shows that certain transactions reflected in the FERC Form 423 data base

have been erroneously included in earlier implementations of the benchmark procedure. Those transactions include some that are clearly spot market or short-term transactions and some which do not meet the quality standards required by the stipulation. These transactions were included during the August 1991 proceeding for lack of the better procedures which Mr. Metzroth sponsors in his testimony and exhibit.

11. Tampa Electric seeks the Commission's confirmation that the improved data and the corrected implementation of the benchmark procedure are logical and reasonable and in keeping with the original intent of the Commission to provide for the closest comparison possible in terms of quality of coal and contract term for the purpose of determining the reasonableness of fuel prices paid by Tampa Electric to affiliated companies.

12. In addition to Mr. Metzroth's testimony, Tampa Electric is filing herewith prepared direct testimony of Mr. G. Pierce Wood. The purpose of Mr. Wood's testimony is to provide the Commission an account of the various circumstances and events which, over time, led to Tampa Electric's use of Gatliff Blue Gem coal and to the acquisition of Gatliff Coal Company by what is now TECO Energy, Inc. Mr. Wood's testimony also provides background information on the pricing of coal in general and on the purpose of the benchmark procedure approved in the Order.

Relief Requested

13. The proper application of the benchmark procedure

approved in the Order is significant to Tampa Electric given the effect that the procedure has on the company's ability to recover its prudently incurred fuel expenses. It is for this reason Tampa Electric is in need of prompt guidance and clarification by the Commission regarding the appropriate implementation of the Order. The company seeks this relief in the form of a Commission confirmation that the method of applying the benchmark procedure set forth in Mr. Metzroth's testimony and supported in his Exhibit LFM-1 accompanying such testimony is consistent with and properly implements the Order.

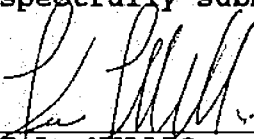
14. Tampa Electric submits that Mr. Metzroth's testimony reflects the appropriate way to implement the Order and does not constitute in any way a modification of the benchmark or its method of calculation approved in the Order. Notwithstanding this conviction, should the Commission conclude that Mr. Metzroth's recommendation effects a modification of the benchmark or its method of calculation as approved in the Order, then Tampa Electric alternatively requests the Commission to conclude that Mr. Metzroth's methodology is a reasonable and appropriate modification of the benchmark or its method of calculation for purposes of implementing the pricing concept and related benchmark procedure contemplated in the Order.

WHEREFORE, Tampa Electric Company urges the Commission to convene a hearing before the full Commission at the earliest practicable date; that after hearing evidence on the issues presented herein the Commission will enter its order confirming

that the method of implementing the benchmark procedure set forth in Mr. Metzroth's accompanying testimony and exhibit is appropriate and consistent with the provisions of Order No. 20298 issued in Docket No. 870001-EI-A on November 10, 1988. Alternatively, and only if the Commission should determine that Mr. Metzroth's recommendation effects a modification of the benchmark or its method of calculation as approved in the Order, Tampa Electric requests the Commission to approve Mr. Metzroth's recommended method to the extent it constitutes such a modification as an appropriate means of implementing the pricing concept and related benchmark procedure contemplated in Order No. 20298.

DATED this 16th day of January, 1992.

Respectfully submitted,



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and

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(615) 525-4600

Attorneys for Tampa Electric Company

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into affiliated) DOCKET NO. 870001-EI-A
cost-plus fuel supply relationships) ORDER NO. 20298
of Tampa Electric Company.) ISSUED: 11-10-88

The following Commissioners participated in the disposition of this matter:

KATIE NICHOLS, Chairman
THOMAS M. BEARD
GERALD L. GUNTER
JOHN T. HERNDON
MICHAEL McK. WILSON

APPEARANCES:

LEE L. WILLIS, Esquire, and JAMES D. BEASLEY, Esquire, Ausley, McMullen, McGehee, Carothers and Proctor, P. O. Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company.

JACK SHREVE, Esquire, and STEPHEN C. REILLY, Esquire, Office of the Public Counsel, c/o Florida House of Representatives, The Capitol, Tallahassee, Florida 32399-1300
On behalf of the Citizens of the State of Florida.

JOSEPH MCGLOTHLIN, Esquire, Lawson, McWhirter, Grandoff & Reeves, 522 E. Park Avenue, Suite 200, Tallahassee, Florida 32301
On behalf of Florida Industrial Powers Users Group.

MICHAEL B. TWOMEY, Esquire, Florida Public Service Commission, Division of Legal Services, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff.

PRENTICE P. PRUITT, Florida Public Service Commission, Office of General Counsel, 101 East Gaines Street, Tallahassee, Florida 32399-0862
Counsel to the Commissioners.

ORDER IMPOSING MARKET-BASED PRICING ON COAL PRODUCED FROM AN AFFILIATE AND ACCEPTING SETTLEMENT AGREEMENT ON IMPLEMENTATION OF MARKET-BASED METHODOLOGY

BY THE COMMISSION:

SUMMARY

We have determined as a matter of policy that utilities seeking the recovery of the cost of coal purchased from an affiliate through their fuel and purchased power cost recovery

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ORDER NO. 20298
DOCKET NO. 870001-EI-A
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clauses shall have their recovery limited by a "market price" standard, rather than under the "cost-plus" standard now in effect. We also have accepted a stipulation among the parties to this docket which provides a methodology for implementing the market pricing standard for not only the coal Tampa Electric Company (TECO) purchases from an affiliate, but the transportation and handling services it purchases from affiliates, as well.

BACKGROUND

In February, 1986, we opened Docket No. 860001-EI-G for the purpose of investigating the affiliated cost-plus fuel supply relationships between Florida Power Corporation (FPC) and TECO and their respective affiliated fuel supply corporations. Also in February, 1986, we had established Docket No. 860001-EI-F, Investigation Into Certain Fuel Transportation Costs Incurred By Florida Power Corporation in Order No. 15895 for the purpose of determining why FPC's costs to transport coal by its affiliated waterborne system exceeded its costs to transport coal by non-affiliate rail. In September, 1987, we issued Order No. 18122, which removed TECO from Docket No. 860001-EI-G, established this docket for hearing the TECO issues.

After considering the post-hearing briefs of the parties and our Staff's recommendations, we, at our September 6, 1988 Agenda Conference, determined that affiliated coal should be priced at market price for recovery through the utilities' fuel cost recovery clauses. We directed our Staff to conduct discussions amongst the affected parties for the purpose of determining how best to establish and implement market pricing mechanisms.

After extensive negotiations, the parties to this docket arrived at a stipulated agreement which provided a methodology for establishing "market" price proxies for all of TECO's affiliated fuel transactions. This Order describes the TECO hearing in this docket, as well as the stipulated agreement, which we accept and approve.

Before describing TECO's affiliated fuel and fuel transportation system, it is worth noting that TECO did not object to the adoption of a market pricing system so long as the system fairly represented the price received for comparable coal on the competitive market. TECO also took the position, as did all parties, that market pricing should cut both ways and that any lower of cost or market method or market price cap method should be rejected. While TECO took the position that cost-plus pricing has provided an effective means of ensuring that only reasonable and prudently incurred fuel costs have been passed on to its customers, it agreed that the cost-plus methodology was administratively costly and caused unnecessary regulatory tension because it left the lingering suspicion, even in the face of outstanding results, that it resulted in higher costs to customers than would have been available through arm's-length contracts. Consequently, as will be noted below, the hearing in this docket was not over whether a market pricing system should be adopted but, rather, how it should be adopted.

THE TECO AFFILIATE SYSTEM

There are two primary components to the TECO affiliate coal supply system:

1. The coal supply affiliate (Gatliff Coal Company); and
2. The waterborne transportation system (TECO Transport and Trade Corporation).

Gatliff Coal Company

Gatliff Coal Company (Gatliff) is a subsidiary of TECO Coal, Inc. which, like TECO, is a subsidiary of TECO Energy, Inc. The other subsidiary of TECO Coal, Inc., Rich Mountain Coal Company controls a handling facility with coal-sizing capability on the Norfolk Southern Railroad in Tennessee, but is not currently operational and supplies no coal to TECO.

According to TECO witness John R. Rowe, Jr., Assistant Vice-President of TECO, TECO's Gannon Station units were constructed in the 1950's and 1960's with wet bottom boilers designed to burn Western Kentucky No. 9 coal having a 3% to 4% sulfur content and low ash-fusion temperature characteristics. This high sulfur, low ash-fusion coal was in abundant supply adjacent to the inland waterway system and was, said Rowe, the most inexpensive coal that could be purchased. However, with the passage of the Clean Air Act in 1970 and the associated Florida State Implementation Plan, TECO found it necessary to burn coal at Gannon Station which produced an average of not more than 2.0 lbs. per million BTU of sulfur dioxide, with a maximum of 2.4 lbs. per million BTU of sulfur dioxide. The requirement for coal that met the combined low sulfur and low ash-fusion characteristics created a serious fuel supply problem for TECO at its Gannon Station because such coal was extremely rare according to Rowe.

To meet the applicable air quality regulations, TECO converted four of the six coal burning units at Gannon Station to low sulfur oil and began a worldwide search in 1971 for a source of low sulfur, low ash-fusion coal that would be suitable for its boilers. The search revealed that there were many foreign and domestic coals that were low sulfur, but few that also met the necessary ash-fusion and slagging characteristics required of the Gannon wet bottom boilers. Suitable seams of coal were found in the western United States, but the high cost and lack of dependability of available transportation were of great concern to TECO and, ultimately, made the use of these coals prohibitively expensive. Polish coal was used for a time but labor and other problems shut off the supply of this coal in 1979-80. Ultimately, suitable eastern coals were narrowed to the Blue Gem seam in eastern Kentucky, and test burns in 1973 revealed that it could successfully be burned in the two largest Gannon Station units.

Gatliff (then named Cal-Glo Coal, Inc.) mined the Blue Gem seam in large quantities in a market that was dominated by many small producers. TECO first began purchasing coal from Cal-Glo

in early 1973. Subsequently, when Cal-Glo experienced financial problems, TECO made it a loan to keep it viable and finally purchased the entire operation by August of 1974. In 1980, the State of Florida modified its sulfur dioxide emission limits to permit Gannon Units Nos. 1-4 to burn Blue Gem coal. Since then, all six units at Gannon station have burned Blue Gem coal. Cal-Glo Coal, Inc.'s name was changed to Gatliff Coal Company in 1982.

TECO's initial 1974 contract with Gatliff called for the price of coal to be established by an independent consultant's survey of market prices. This practice was continued until 1978 when this Commission ordered a change to a cost-plus a return on equity pricing system. See Order No. 7987 in Docket No. 760846. On March 2, 1978, TECO signed a new contract with Gatliff, which provided that coal would be mined and supplied to TECO on a cost-plus basis with Gatliff being entitled to earn the same mid-point return on its invested equity as allowed to TECO by this Commission. This contract was approved by the Commission in Order No. 8278 and its term was extended through December 31, 1996.

In 1981 this Commission hired the consulting firm of Emory Ayers Associates, Inc. to conduct a study to determine if the cost-based price paid by TECO to Gatliff was in line with market prices. The Emory Ayers study concluded that the cost-based coal price was in line with the market for the long term supply of this type coal and the study established a reasonable market price for this coal as of 1981.

TECO submits that its control of a sizable reserve of the relatively scarce Blue Gem coal in the eastern United States is absolutely critical to the reliable operation of its Gannon Station in view of the remaining lives of the boilers. TECO, said Rowe, believes this coal provides a least-cost alternative, which is superior to other environmental compliance solutions and assures that the utility will have a source of environmentally acceptable coal for the remaining lives of the Gannon units.

TECO Transport and Trade

TECO Transport and Trade Corporation, is a subsidiary of TECO's parent company, TECO Energy, Inc. TECO Transport and Trade in turn, has five separate subsidiary operating companies which make up the water transportation system. Except for a small (less than ten percent or about 500,000 tons per year) share of TECO's requirements of Gatliff's sales, which are delivered to Gannon Station directly by rail, all of TECO's coal is delivered to Big Bend and Gannon Stations by barge under the direction of TECO Transport and Trade Corporation.

Mid-South Towing, which was established in 1959, owns and operates ten tow boats and over three hundred river barges. It transports coal from the coal fields near the Ohio River to the Electro-Coal Transfer facility some 40 miles down river from New Orleans.

The Electro-Coal Transfer facility is over 200 acres in size, provides on-ground storage for 4.5 million tons and

controls over three miles of riverfront. It was established in the early 1960s and provides a location for river vessels to discharge coal and transfer it to ocean vessels or to ground storage. Bulk products hauled for others are also stored or transloaded by Electro-Coal.

Gulfcoast Transit was established in 1959 to carry coal from Electro-Coal to TECO's generating stations. It owns 11 ocean-going, tug-barge combinations ranging in size from 9,000 tons to 38,000 tons. According to Rowe, Gulfcoast pioneered the ocean-going, coal shuttle idea for coal to peninsular Florida. Gulfcoast hauls coal for TECO and backhauls phosphate and other bulk products for others. When Gulfcoast delivers the coal to Tampa, it is off-loaded by G. C. Service Company, TECO Transport and Trade's stevedoring and ship repair group, TECO Towing, the fifth component of TECO Transport and Trade, was formed to move ICC-regulated bulk commodities and is currently inactive. According to Rowe, the third party transactions have provided significant savings to TECO's ratepayers by spreading the fixed costs of affiliated operations over a larger tonnage base.

Mr. Rowe testified that the transportation system was formed to lower costs and provide reliable transportation of coal for the benefit of the utility's ratepayers. He said that when the system was first formed, rail rates to Florida from the Midwestern coal fields were so high that coal was not competitive with oil. Because TECO did not want to be held captive by excessive dependence on rail transportation and a reliable water system for coal delivery to Florida did not exist, TECO, said Rowe, took the initiative and developed a water transportation system beginning in 1959 with the formation of Gulfcoast and Mid-South. Initially joint ventures with Peabody Coal Company and Virginia-Carolina Chemical Company, these operations were wholly-owned by TECO by May of 1968.

From 1959 to 1965 the transfer of coal from river barges to ocean vessels was accomplished by "mid-streaming" (direct vessel-to-vessel transfer at anchor) between New Orleans and Baton Rouge. When the mid-streaming proved unsatisfactory for the long term, TECO and Peabody Coal Company first leased an existing transloading facility at Myrtle Grove and, then, in October, 1968, incorporated Electro-Coal for the purpose of building and operating a more modern transloading and storage facility at Davant, Louisiana, some two miles south of Myrtle Grove on the Mississippi. According to Rowe, the new Electro-Coal facility was finished in 1965 and survived Hurricane "Betsy," which virtually demolished the old Myrtle Grove terminal. By May, 1968, TECO had purchased Peabody's 50 percent ownership in Electro-Coal and, thereafter, wholly-owned all of the transportation companies.

Mr. William N. Cantrell, Vice-President for Regulatory Affairs for TECO, testified that the cost-plus pricing system should be modified because it had caused: (1) substantial regulatory concerns for the Commission; (2) a substantial commitment of resources by the utilities in complying with the Commission's regulatory needs; and (3) ratepayer doubts concerning the use of a cost-plus concept. He said that while

TECO believed that the cost-plus pricing system had been fair and reasonable from its ratepayers' perspective, the utility had undertaken a search for another acceptable pricing alternative, which would continue to provide an assured, reliable source of services and products from affiliates, at a competitive price, with far less regulatory tension.

Mr. Cantrell stated that the market price approach was attractive from a theoretical point of view because it should reflect the arm's-length value of the goods or services being transferred. To do this properly, he said, involved being able to identify the proper product and geographic markets in order to compute comparable market prices. He added that doing this was extremely difficult in the case of the waterborne transportation of coal to Tampa, as provided by TECO Transport Trade, and the supplying of low sulfur, low ash-fusion coal produced by Gatliff. Cantrell said that despite the lack of comparables for the waterborne transportation and the Blue Gem coal, it was still possible to develop a market-based approach by establishing a base price, using an analysis of the market, and then provide for indexing of the base price in the same manner as did many arm's-length contracts negotiated by independent parties. He said that TECO was proposing such contracts for both Gatliff Coal and TECO Transport and Trade.

As testified to by Cantrell, TECO proposed a new coal contract with a term of ten years and a minimum annual tonnage of 1.1 million tons. It would have a base price set for the 1.1 million minimum tonnage level and a lower price for supplemental tonnage above the minimum. According to Cantrell, the proposed base prices would ensure that TECO, at the inception of the contracts, would pay no more for coal than it did under the cost-plus pricing system. Beginning in 1989 the price would be adjusted quarterly based upon appropriate indices. During the fifth year of the contract, a price adjustment of plus or minus 10 percent could be made in the adjusted contract price if it differed from an assessment of what the market price of the coal would be. Thereafter, the new contract price would be adjusted on a quarterly basis by the use of indices. During the tenth contract year, TECO would again assess the marketplace and determine a market-based price for the coal needed at Gannon Station. Gatliff would have an opportunity to match the market price and, thereby, extend the contract or to decline and allow TECO to contract elsewhere.

Mr. Cantrell said that the base price under the proposed coal contract would be similar to the price paid under the current contract, which he said was at or below the market for coals of a quality that could be burned at Gannon Station. He said that the base coal contract price would be indexed by publicly reported indices related to "labor," "materials and supplies," and "maintenance and equipment."

According to Cantrell, the new transportation contracts would have terms of ten years with minimum annual tonnages of 1,750,000 tons for river transportation and 4,000,000 tons for the terminal and Gulf transportation. As with the proposed coal contract, the proposed transportation contracts would have base prices for the minimum tonnage levels and lower base prices for supplemental tonnages. Like the coal contract, the

transportation contracts would be indexed for their first five years with a market-price adjustment in the fifth year based upon an assessment of the market. In the tenth year, the market would again be reassessed with TECO Transport and Trade having the opportunity to match the new price.

Mr. Cantrell said the base price for the transportation contracts would be similar to the price paid under the cost-plus contract, which he said was, by all measures that TECO could find, below a market price for the transportation of coal. The transportation base prices would be indexed by publicly reported indices for "fuel" and "variable" components.

Mr. Cantrell closed by saying that the proposed contracts represented a market-based approach because they were similar to the base price, indexed contracts commonly entered into between arm's-length parties in the competitive market.

Ms. Roberta S. Bass, a Planning and Research Economist in the Fuel Procurement Bureau of the Commission's Division of Electric and Gas, provided an overview of the organizational structure of TECO Transport and Trade Corporation and TECO Coal Corporation. In addition to describing the organizational relationships discussed in Mr. Rowe's testimony, Ms. Bass described the contractual relationships between TECO and the various affiliates and the manner in which costs were allocated between TECO and non-utility business. Generally, TECO's affiliated goods and services have been provided at the cost of providing them, plus a return on invested equity at a rate equal to that of the mid-point on equity authorized to TECO by this Commission. Likewise, costs are allocated between TECO and third party business directly, where possible, and otherwise on a percentage-of-use basis.

Mr. Hugh Stewart, General Engineer at the Federal Energy Regulatory Commission, testified on behalf of the Staff of the Florida Public Service Commission. Mr. Stewart testified that TECO's affiliate coal program had generally been successful because it took the time to determine that the coal transportation and production services were cost-effective before it acquired an ownership interest in the facilities. In this regard, he cited a study prepared for TECO, by an independent consultant, before it committed to coal, showing that coal could be economically produced and shipped to the Gannon Station. In the same vein, Stewart said that it was only after contracting in the competitive market for coal supply and transportation services that TECO acquired its ownership interest in the barge operations and the transloading facility. Stewart also testified that TECO contracted with an independent coal mine engineering consultant to determine the cost of producing coal from the Gatliff reserves before acquiring an ownership interest in those reserves.

Mr. Stewart acknowledged that if the wet bottom boilers at TECO's Gannon Station were to operate at maximum efficiency, TECO not only had to obtain coal with low sulfur levels, but low ash-fusion characteristics too. He acknowledged that coal of this type is relatively scarce and said that, after an apparently extensive search, TECO discovered that coal of this type was being mined by Coal-Glo Coal, Inc. from the Blue Gem

Seam in eastern Kentucky. Stewart noted that TECO executed a ten year contract with Coal-Glo for the supply of coal and did not acquire an ownership interest in the mining company until after the mine experienced financial difficulties.

Mr. Stewart discussed the several expansions of annual throughput capacity that had been accomplished at the Electro-Coal Terminal and voiced the opinion that the 1969 expansion from 4.0 to 6.0 million tons per year was justified by TECO's Big Bend generating units, the first of which was scheduled to come on line in 1970. He said that it was his opinion that the subsequent expansions - to 12.0 million tons per year in 1982 and to 25.0 million tons per year in 1984 - were to meet expected export markets and that no allocation of these expansions should be made to TECO's utility business.

On cross-examination, Mr. Stewart acknowledged that he had developed a "sanity check," using the publicly reported rail coal rates paid by Florida municipally-owned utilities, which showed that the total transportation costs paid by TECO to its affiliate were less than the surrogate rail cost.

Mr. John Pyrdol, Energy Economist with the Energy and Fuels Analysis Branch of the Federal Energy Regulatory Commission, also testified on behalf of the Staff of the Florida Public Service Commission for the purpose of discussing the benefits of a market price cap for affiliated transactions and to calculate the market price for the coal TECO purchases from its affiliate, the Gatliff Coal Company.

Mr. Pyrdol stated that it was important to utilize a market price for the allowable cost of coal purchased from an affiliate because a market price attempted to replicate a price resulting from an arm's-length transaction, where a utility would have nothing to gain, and something to lose, by accepting a higher than market-competitive price. By contrast, he said, a utility's incentive to pay the lowest possible price for coal may be blunted or otherwise subordinated by a willingness to accept a higher price from an affiliate mining operation. Pyrdol contended that this willingness to accept a higher affiliate price could stem from either: (1) a desire to keep the affiliate "whole", even if the affiliate prices are excessive; or (2) to help the affiliate earn greater profits.

Mr. Pyrdol testified that cost-plus contracts of the type between TECO and its affiliates are used almost solely when a utility is buying coal from an affiliate supplier and almost never in arm's-length contracts. He said that the most common form of arm's-length contract in the utility coal business is the base price plus escalator contract. According to Pyrdol, the cost-plus contract allows the seller to recover all of its costs plus a guaranteed profit. This allows the utility to keep its affiliate supplier whole by paying all of its costs of production, while insuring its profit margin. In contrast to this type of contract, Pyrdol said the base price plus escalator contract does not give the supplier a guaranteed, full cost pass-through, plus guaranteed profit. Rather, he said, the base price plus escalator contract is set up to have the price reflect competitive market conditions, both when the base price is established and in any changes made to this

price. In the base price plus escalator contract, a base price is established at the outset of the contract, and then the price is changed by a set of market-sensitive indices which can increase or decrease the price. These indices, which are a subject of contract negotiation, typically are publicly reported and reflect changes in the components of production such as labor, fuel, taxes and others. These contracts may also contain "market recouper" provisions, which, after a given number of years, allow the base price to be raised or lowered to meet the current market.

Pyrdol said that the risk of non-recovery of costs in the competitive, arm's-length coal transaction is borne by the seller, not the buyer. He said that, similarly, this risk should be borne by the affiliate mine and not by the ultimate buyer, the utility ratepayer. Pyrdol testified that it was his opinion that all of TECO's affiliate fuel-related contracts suffered from the same potential conflicts of interest that the coal contract was subject to, and that market-price caps should be established for the barge and transloading contracts as well. He added that he did not have the necessary information to construct the transportation-related market prices and was, therefore, testifying only to a market price cap for Gatliff coal. Mr. Pyrdol noted that the Federal Energy Regulatory Commission has used a market price test and cap for affiliated coal operations since 1981.

Mr. Pyrdol said that there are many unique characteristics found in different regional and local coal markets serving different utility power plants and that, therefore, the calculation of a market price must consider the particular circumstances of the coal market in question. He said that there are essentially three steps to be followed in determining a market price for a given coal. First, the product market must be identified. Second, the geographical boundaries of the market must be determined. Third, select transactions should be examined within the product and geographic markets in order to determine the market price.

In constructing his market price cap for Gatliff coal, Pyrdol testified that he accepted TECO's representations that the Gannon boilers required low sulfur coal with low ash-fusion characteristics and, therefore, limited his analysis to similar quality coal. He next determined this type coal was found in limited quantities in eastern Kentucky, parts of Alabama, Illinois, Tennessee, Virginia and in some western states. After further analyzing these coal sources, he determined to further limit his analysis to coal produced in the Blue Gem Stream in eastern Kentucky, where Gatliff is located.

In determining which transactions to include in his analysis, Pyrdol elected to eliminate transactions on the spot market and focus on transactions involving longer-term, larger-volume contracts because the Gatliff transaction is a contract arrangement. He further determined that, generally, eastern utilities do not utilize coal that is both low in sulfur and in ash-fusion temperature and, therefore, it was difficult to find price information to calculate a market price for the Gatliff coal. In lieu of the market price information of comparable coal, Pyrdol used a 1981 study commissioned by

this Commission entitled "A Market Survey of Boiler Fuel for Tampa Electric Company's Gannon Plant." This study, which was conducted by Emory Ayers Associates, Inc. and filed with this Commission on June 1, 1981, identified a contract market price for Blue Gem coal of \$40 per ton as of 1981. To arrive at an adjusted market price for Blue Gem coal for each year 1981-1987, Pyrdol said he adjusted the 1981 \$40/ton price for the Gatliff coal by the average annual percentage change in prices experienced by all coal produced in Bureau of Mines District (BOM) No. 8. BOM No. 8 includes eastern Kentucky, southern West Virginia, and parts of Virginia and Tennessee, and, according to Pyrdol, is the source of the highest-quality, highest-priced coal produced in Appalachia. Mr. Pyrdol said that when he compared the adjusted market prices to the actual prices TECO paid to Gatliff, he concluded that the Gatliff prices had been in line with the market price from 1981 to 1985 but had been higher than the market in 1986 and 1987.

Mr. Pyrdol recommended that the Commission limit the recovery of Gatliff coal through TECO's fuel adjustment clause to the adjusted market price for all future sales of the Gatliff coal to TECO. In doing so, Pyrdol noted that only a portion of the so-called Gatliff coal is actually produced by the Gatliff mine. He said the rest is purchased from independent mines at a price (\$28-\$31/ton in 1984) significantly below the cost of coal to TECO, and averaged for cost purposes with the coal actually produced by Gatliff. Specifically, Pyrdol said that in 1986, Gatliff actually produced 689,000 tons of coal while it bought 860,000 tons from other producers. Mr. Pyrdol took the position that the adjusted market price resulting from his methodology should only apply to the coal actually produced by Gatliff, while the less expensive coal that Gatliff buys from independent mines and resells to TECO should reflect the actual purchase price to Gatliff and not the higher market price. He said that since the Gatliff/TECO coal contract required TECO to take only a minimum of 500,000 tons per year, TECO should minimize the take of Gatliff coal and maximize its take of the less expensive Blue Gem coal produced by independent suppliers.

On cross-examination, Mr. Pyrdol acknowledged that his adjusted market price was based upon the total sales of BOM No. 8 coal to utilities and that it did, in fact, include some sales under spot market contracts. He accepted the removal of the spot sales as being reasonable and acknowledged that their removal, plus a quality characteristics adjustment suggested by TECO's Mr. Cantrell would increase his 1987 adjusted market price for Gatliff coal from approximately \$36.60/ton to about \$39.60/ton.

Mr. Harry T. Shea, Chief of the Bureau of Fuel Procurement, Division of Electric and Gas, Florida Public Service Commission, testified on behalf of the Commission Staff. Mr. Shea testified that the Commission's fuel procurement guidelines contained in Order No. 12645 state that all purchases from affiliated companies should be priced at levels not to exceed those available on the competitive market and that contracts with affiliated companies should be administered in a manner identical to the administration of a contract with an independent company. Mr. Shea said the

Commission should evaluate the reasonableness of the cost of fuel-related goods and services obtained from affiliate companies by one of three methods.

Mr. Shea's first and preferred method, where possible, was to establish a "market test" or market price by comparison to the price of similar products or services purchased in competitive markets. His second preferred method was by comparison to a price calculated by allocating an affiliate's fixed and variable costs to utility operations and non-utility operations, based upon tonnage or some other appropriate measurement. A return on invested equity could be set equal to the midpoint of the utility's allowed range or equal to that realized by other companies in the same type of business. Mr. Shea's third and least preferred methodology was essentially a cost-of-service methodology that would involve reviewing the affiliate's expenses and capital structure to determine what a reasonable price should be. Shea stressed that the last methodology should only be employed when the market test and cost allocation methodologies were not applicable.

Mr. Shea testified that he would recommend using the methodology presented by Mr. Pyrdol to evaluate a comparable market (F.O.B. mine) price for Gatliff Coal Company. He said that he agreed with Pyrdol that a market price evaluation would be preferable for TECO's transportation affiliates, but added that he could not recommend such a methodology because he was unable to identify a sufficient number of comparable transactions to define a market price for the services provided by these companies.

CONCLUSION

As a result of this hearing and the companion hearing in Docket No. 860001-EI-G concerning Florida Power Corporation, we have concluded that it is desirable, where possible, to gauge the reasonableness of fuel costs sought to be recovered through a utility's fuel adjustment clause by comparison to a standard that attempts to measure what a given product or service would cost had it been obtained in the competitive market through an arm's-length contract with an unaffiliated third party. We believe that limiting cost recovery in this manner will best serve the interests of TECO's customers by insuring that they are not required to pay more than a market price for the fuel component of their electricity because of an affiliation between their utility and a fuel supplier.

We note that no party to this docket has alleged that either TECO's Gatliff coal or its TECO Transport and Trade rates are unreasonable and should be disallowed. In fact, after accepting the adjustments urged by TECO, witness Pyrdol's adjusted market price for Gatliff coal was within a dollar of the actual price then being paid for that coal. Likewise, TECO's affiliated waterborne rate for the entire route was shown to be significantly lower than the comparable rail rate/ton/mile being paid by several Florida Municipal electrical systems, whose coal and transportation rates are publicly reported.

Irrespective of whether any imprudence or unreasonable expenses are found and disallowances made, we agree with the parties to this case that a change from cost-plus pricing is warranted. While we believe that the current system has been generally successful in allowing only reasonable and prudent costs to be passed through the utilities' fuel adjustment clauses, we concur with TECO's position that it has been administratively costly, caused unnecessary regulatory tension, and left the lingering suspicion that it has resulted in higher costs to a utility's customers.

Implicit in cost-plus pricing is the requirement that one is capable of conducting a cost-of-service analysis of a business to determine that its expenses are both necessary and reasonable. This is a methodology that is demanded for monopoly utility services, and which usually proves to be complex, expensive and time consuming. It is a methodology which requires a high degree of familiarity with the capital requirements and expenses necessitated by the operation of the business being reviewed. Cost-of-service analysis of affiliate operations places additional demands upon the regulatory agency in terms of time, expense and acquiring additional expertise. All come at some additional cost that must eventually be borne by the ratepayer, either in his role as a customer or as a taxpayer. Furthermore, there seems to be no end to the types of affiliated businesses that we are expected to become sufficiently familiar with so that we might judge the reasonableness of their costs on a cost-of-service basis.

Cost-of-service regulation for public utilities is necessitated by their monopoly status and the attendant lack of significant competition, if any, for their end product. Cost-of-service regulation exists as the proxy for competition to insure that utilities provide efficient, sufficient and adequate service and at a cost that includes only reasonable and necessary expenses. Cost-of-service regulation of some type is essential when there is no competitive market for the product or service being purchased; it is superfluous when such a competitive market exists.

There is another reason for switching to a market pricing system that was alluded to in TECO's statement that the current system, no matter how outstanding the results, left lingering suspicions that it resulted in higher costs. That this might be true may be seen by contrasting affiliated and non-affiliated contracts. The latter, with few exceptions, are characterized by arm's-length transactions entered into in the competitive marketplace. Typically, the contracts result from competitive bidding systems in which the contract is awarded to the qualified bidder submitting the lowest bid. In any event, the utility's negotiator has clearly defined loyalties and knows whose interests he or she is to protect. In contrast to this, the typical affiliate contract is let without the benefit of competitive bidding. Instead, confident that the contract will be given to the affiliate, representatives of the two companies negotiate the rate at which the product or service will be purchased.

Considering the many advantages offered by a market pricing system, we, as a policy matter, shall require its

adoption for all affiliated fuel transactions for which comparable market prices may be found or constructed.

In concluding, we note the following caveats: (1) from the record in this case, we are convinced that market prices can be established for the affiliated coals; (2) market prices for the transportation-related services should be established if possible, but if not, methodologies for reasonably allocating costs should be suggested; and (3) cost-of-service methodologies should be avoided, if possible

PROPOSED STIPULATION AGREEMENT

In accordance with our directions at our September 6, 1988 Agenda Conference, our Staff, the Office of Public Counsel and TECO met to discuss the methods by which market pricing could be adopted for the affiliated coal and coal transportation transactions between TECO and its affiliates. As a result of numerous and lengthy negotiations, the parties have arrived at a Stipulation (Attachment A to this Order) which they have submitted for our approval.

According to the Stipulation, TECO shall be free to negotiate its contracts with its affiliates in any manner it deems to be fair and reasonable. TECO agrees to prudently administer the provisions of its contracts. Furthermore, TECO agrees to report to the Commission the actual transfer prices paid by it to its affiliates under the contracts in the normal course of the fuel adjustment proceedings.

With respect to Gatliff Coal Company, the Stipulation provides a benchmark for regulatory review of the coal purchased by TECO from Gatliff by utilizing an initial market price for TECO's transactions with Gatliff of \$39.44/ton F.O.B. Mine, as of December 31, 1987. For purposes of regulatory review, this base price will be escalated or de-escalated by the annual percentage change in BOM District 8 Data for Coal Shipments as reported on Form 423 for the weighted average price per million BTU of contract transactions (excluding all spot transactions), which meet TECO's Gannon Station specifications for heat content, sulfur content, ash content, and content and pounds sulfur dioxide per million BTU. An example of the benchmark market price and calculation is shown on Attachment 1 to the Stipulation, as well as the Gannon Station coal specifications.

As described in Paragraph 7 of the Stipulation, a 5% zone of reasonableness will be established around the adjusted market price for purposes of regulatory review. TECO's actual transfer price paid to Gatliff, based upon the total average price of Gatliff produced coal and coal purchased and resold as Gatliff coal, would be the cost allowed for recovery through TECO's fuel adjustment clause so long as the transfer price fell within the described zone of reasonableness. If the actual transfer price exceeded the ceiling of the 5% zone of reasonableness, the excess would be disallowed for recovery unless TECO adequately justified the reasonableness and prudence of the excess. (See Appendix 2 to the Stipulation). If the actual transfer price fell below the floor of the 5% zone of reasonableness, TECO would recover through its fuel

clause only the actual transfer price.

Pursuant to the Stipulation, the parties agreed that the record in this proceeding indicated that the prices currently paid by TECO to TECO Transport and Trade are reasonable. Notwithstanding this, TECO agrees to the establishment of a benchmark price for coal transportation services to be used prospectively for regulatory review purposes. While TECO stated that it will execute its new contracts with TECO Transport and Trade at approximately the currently existing rates, which are less than current rail rates between the same points, the reasonableness of its actual transfer price for all of the transportation and transportation-related services from mine to generating plant would be compared to a coal transportation benchmark price. As shown on Attachment 3 to the Stipulation, the transportation benchmark would be calculated by averaging the two lowest comparable publicly-available, rail rates (in cents per ton-mile) for coal to other utilities in Florida and then multiplying that average times the average rail miles from all of TECO's coal sources to TECO's generating plants. The product would then have added to it the costs of privately-owned rail cars on a per ton, per trip basis. The total would be the coal transportation benchmark price. The actual transportation transfer price paid by TECO to TECO Transport and Trade, pursuant to its contracts, would be recoverable through the fuel adjustment clause, as long as it was equal to or less than the benchmark price. Any excess above the benchmark would be disallowed for cost recovery unless justified by TECO.

Pursuant to its terms, the Stipulation would be effective upon Commission approval, which was provided at our October 18, 1988 Agenda Conference.

In his letter forwarding the Stipulation, counsel to TECO represented that he had supplied counsel to the Florida Industrial Power Users Group (FIPUG) [the only other party to the proceeding] with a copy of the Stipulation and had been advised that FIPUG had no objection to the Commission's final action on it.

We believe that the proposed Stipulation meets our policy guidance and is in the public interest and shall, therefore, approve it. Briefly, with respect to the coal, the initial price is consistent with witness Pyrdol's modified methodology for vintaging the 1981 cost determined by the Emory Ayers study. Likewise, the initial price is consistent with the price TECO has recently been paying for this coal, a price no party has sought disallowances for.

The initial coal benchmark price will be escalated or de-escalated by the average annual percentage change in a large number of contract coal transactions for coal mined in the same BOM District as the Gatliff coal. Only those contracts that meet or exceed TECO's Gannon Station quality specifications will be included. These factors, coupled with the fact that many of these contracts were executed at approximately the same time as the Gatliff contract, go a long way towards fulfilling the goal of replicating a comparable coal for market pricing purposes. We are confident that the changes indicated by this

large group of contracts will adequately reflect changes in the "market."

If one considers the objective of coal transportation services to be the movement of the coal from the mine to the generating plant, then rail service and the total waterborne system are not only comparable, but competitive to a large degree, as well. We believe using the average of the two lowest publicly available rail rates for coal being shipped to Florida will provide a reasonable market price indication of the value being provided by TECO's affiliate waterborne system.

In view of the above, it is

ORDERED by the Florida Public Service Commission that market-based pricing for affiliate fuel and fuel transportation services shall be used for the purposes of fuel cost recovery where a market for the product or service is reasonably available. It is further

ORDERED that the Stipulation (Attachment A) of the parties to this docket detailing methodologies for calculating market prices for Gatliff coal and the coal transportation services of TECO Transport and Trade Corporation is approved.

By ORDER of the Florida Public Service Commission,
this 10th day of NOVEMBER, 1988.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MBT

by: Kay Ferguson
Chief, Bureau of Records

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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial

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review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer 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 after the issuance 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.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into Affiliated)
Cost-Plus Fuel Supply Relationships) DOCKET NO. 870001-EI-A
of Tampa Electric Company) Submitted for filing 10/13/88
_____)

STIPULATION

1. At the Commission's Agenda Conference on September 6, 1988, the Commission reviewed the affiliated cost-plus fuel supply relationships between Tampa Electric Company ("Tampa Electric") and its affiliates, Gatliff Coal Company ("Gatliff") and TECO Transport and Trade ("TTT"), and determined that cost-plus pricing should be replaced with market pricing for fuel supply relationships of Tampa Electric wherever possible.

2. In accordance with the Commission's direction, Staff, Office of Public Counsel ("OPC") and Tampa Electric have met to discuss the methods by which market pricing can be adopted for the affiliated coal and coal transportation transactions between Tampa Electric and its affiliates. As a result of these discussions, Staff, OPC and Tampa Electric agree as follows:

3. Public Counsel and Staff agree that the specific contract format, including the pricing indices which Tampa Electric may include in its contracts with its affiliates, are not subject to this proceeding and Tampa Electric may negotiate its contracts with its affiliates in any manner it deems to be fair and reasonable. Tampa Electric agrees to prudently administer the provisions of such contracts.

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4. The transfer prices paid by Tampa Electric under contracts with its affiliates shall be reported to this Commission in the normal course of the fuel adjustment proceeding.

Gatliff Coal Company

5. In order to provide a benchmark for regulatory review of the coal purchased by Tampa Electric from Gatliff, Staff, Public Counsel and Tampa Electric agree that the initial market price to be used for computing the regulatory benchmark for Tampa Electric's transactions with Gatliff should be \$39.44/Ton FOB Mine as of December 31, 1987.

6. For purposes of regulatory review, this base price should be escalated/de-escalated by a market based index described in Attachment 1 to this Stipulation.

7. For purposes of regulatory review, the benchmark price shall be a band of 5% around the adjusted price determined as described in paragraph 6. The results of this calculation will be applied as follows:

a. The benchmark price will be used to evaluate the average purchased price of coal from Gatliff.

b. Prices paid above the benchmark would be disallowed for cost recovery, unless justified by Tampa Electric.

c. An example application of this methodology is shown in Attachment 2 to this Stipulation titled "Public Counsel's Market Price Application."

TECO Transport & Trade

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

9. Tampa Electric, however, agrees to the establishment of a benchmark price to be used prospectively for regulatory review purposes.

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

a. The benchmark price will be used to evaluate water transportation of coal services provided by TIT to Tampa Electric.

b. The price paid for water transportation of coal by Tampa Electric above the benchmark price would be disallowed for cost recovery unless justified by Tampa Electric.

General Provisions

11. The approval of this Stipulation will completely resolve all of the issues pending in this matter.

12. This Stipulation is based on the unique factual circumstances of this case and shall have no precedential value in proceedings involving other utilities before this Commission. The parties to the Stipulation

reserve the right to assert different positions on any of the matters contained in this Stipulation if the Stipulation is not accepted by the Commission.

13. The parties hereto shall not unilaterally recommend or support the modification of this Stipulation or discourage its acceptance by the Commission.

14. The parties hereto shall not request reconsideration of or appeal the order which approves this Stipulation.

15. The parties urge that the Commission take final agency action at the earliest possible Agenda Conference approving this Stipulation.

16. This Stipulation shall be effective upon Commission approval. In the event that the Commission rejects or modifies the Stipulation, in whole or in part, the parties agree that this Stipulation is void unless otherwise ratified by the parties, and that each party may pursue its interests as those interests exist, and that no party will be bound to or make reference to this Stipulation before this Commission or any court.

17. While Staff for internal reasons prefers to signify its agreement with this Stipulation by writing a Staff memorandum recommending approval of the Stipulation, the Electric and Gas and Legal Staff of the Florida Public Service Commission has reviewed this Stipulation simultaneously with the signing; has given its approval of the specific language contained herein; and has committed to submit its recommendation requesting approval of this Stipulation by the Commission; and has committed not to unilaterally recommend or support the modification of this Stipulation or discourage its acceptance by the Commission.

DATED this 13th day of October, 1988.



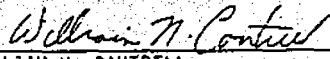
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TAMPA ELECTRIC COMPANY
DOCKET NO. 870001-EI-A

EXAMPLE BENCHMARK MARKET BASED COAL CALCULATION

The base price of \$39.44 as of December 31, 1987 shall be adjusted by the annual percentage change in BOM District 8 Data for Coal Shipments as reported on Form 423 for the weighted average price per million BTU of contract transactions (excluding all spot transactions) which meet Tampa Electric's Gannon Station specifications (Note 4) for heat content, sulfur content, ash content and pounds sulfur dioxide per million BTU.

Example:

$$39.44 \times \frac{192.200}{189.015} \begin{matrix} \text{(Note 1)} \\ \text{(Note 2)} \end{matrix} = \$40.10$$

$$\text{Revised Benchmark } 40.10 \times 1.05 \text{ (Note 3)} = \$42.11$$

Notes

1/ Hypothetical index value for 1988.

2/ Actual index value for 1987.

3/ 5% zone of reasonableness.

4/ Specifications as follows:

Heat Content - 12,500 BTU/lb minimum
Sulfur Content - 1.5% maximum
Ash Content - 9.0% maximum
Sulfur Dioxide - 2.0 pounds per million BTU maximum

PUBLIC COUNSEL'S MARKET

PRICE APPLICATION

--Gatliff coal purchased ¹

FOB mine	\$45/ton
Tons purchased	500,000
Total cost	\$22,500,000

--Market Benchmark \$40/ton

--Cost recovered through fuel clause

\$40/ton x 500,000 = \$20,000,000

--Cost disallowed recovery

\$20,000,000 - \$22,500,000 = \$3,500,000*

* The company would have to provide justification before recovery of these cost would be allowed.

1. This would include the total average price of Gatliff produced coal and coal purchased and resold as Gatliff coal.

TAMPA ELECTRIC COMPANY
DOCKET NO. 870001-EI-A

EXAMPLE BENCHMARK TRANSPORTATION CALCULATION

Average Rail Mileage to Tampa	974 miles	(Note 1)
x Average of Lowest Two Publicly-Available Florida Rail Rates	<u>x 1.98 c/ton-mile</u>	(Note 2)
	<u>\$19.29</u>	
+ Costs of Privately-Owned Rail Cars	<u>+ 2.00</u>	
= Transportation Benchmark	<u>\$21.29</u>	(Note 3)

Notes

1/ Weighted average rail miles from all coal sources for Tampa Electric to plants. This is expected to be 974 miles for 1989.

2/ Cents per ton-mile for publicly available Florida utility rail coal transportation rates. For example, the current publicly available rail rates to Florida utilities on a cents per ton mile basis for 1988 are as follows:

JEA	1.92 c*
Orlando	2.03 c*
Lakeland	2.30 c
Gainesville	2.45 c

*Average of Lowest Two 1.98 c

3/ Calculated by multiplying average rail mileage to Tampa by Florida rail coal market cost (cents per ton-mile), then adding the costs of privately-owned rail cars. This benchmark will be compared to Tampa Electric's weighted average water transportation cost from all Tampa Electric coal sources.