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December 23, 1994

IN REPLY REFER TO

Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: Fuel and Purchased Power Cost Recovery
Factor and Generating Performance
Incentive Factor; Docket No. 940001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Petition and supporting document entitled "Peabody Coalsales, Inc. Coal Contract Buy-Out."

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

Thank you for your assistance in this matter.

Sincerely,

James D. Beasley
James D. Beasley

Wor

- ACK
- ATA
- APP
- CRP
- CMU
- CTE
- EST
- LET
- LI
- CC:
- RE
- SI
- VI
- OT

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JDB/bjm
Beasley
4 Enclosures

cc: All Parties of Record (w/encl.)

DOCUMENT NUMBER-DATE

12890 DEC 23 3

FPC-RECORDS/REPORTING

Petition
DOCUMENT NUMBER-DATE

12889 DEC 23 3

FPC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL
FILE COPY

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

DOCKET NO. 940001-EI
FILED: December 23, 1994

PETITION OF TAMPA ELECTRIC COMPANY

Tampa Electric Company ("Tampa Electric" or "the company"), files this its Petition for recovery of certain costs associated with Tampa Electric's settlement of coal supply agreement litigation between Tampa Electric and Peabody Coalsales, Inc. ("Peabody"), and as grounds therefor, says:

1. The full name and address of the petitioner are:

Tampa Electric Company
Post Office Box 111
Tampa, FL 33601

2. The persons to whom copies of all notices, pleadings and other documents filed in this proceeding should be sent on behalf of Tampa Electric are as follows:

Mr. Ruggell D. Chapman
Administrator, Support
Services
Tampa Electric Company
Post Office Box 411
Tampa, FL 33601

Mr. Lee L. Willis
Mr. James D. Beasley
Macfarlane, Ausley, Ferguson
& McMullen
Post Office Box 391
Tallahassee, FL 32302

Background

3. During 1994 a dispute arose under a long-term Coal Supply Agreement between Tampa Electric and Peabody, one of Tampa Electric's coal suppliers. The dispute was submitted to litigation and arbitration. After substantial negotiations, Tampa Electric

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and Peabody entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement").

4. Efforts by Tampa Electric to resolve this dispute in a manner which would be in the best interests of its customers have resulted in termination of the Coal Supply Agreement effective December 31, 1994.

5. The Settlement Agreement establishes the total quantity of coal to be delivered by Peabody in 1994 as well as a fixed price for that coal. Additionally, coal will be delivered in 1995 to make up for some of the coal Tampa Electric did not accept during 1994. The Settlement Agreement also calls for the execution of two new coal supply agreements, both of which are at prices which are competitive with prices for similar coal in today's market.

6. Under the Settlement Agreement, Tampa Electric has agreed to buy out the existing Peabody Coal Supply Agreement for a negotiated amount of \$25,500,000.

7. Since the canceled contract has been replaced with two contracts at significantly lower coal prices, fuel savings in excess of the buy-out cost are guaranteed. Fuel cost savings begin immediately with the reduced take for 1994 from the canceled contract. The projected nominal savings in fuel cost total \$88.0 million which has a net present value of nearly \$62 million, more than twice the buy-out cost. The two replacement coal contracts guarantee net present value fuel savings in the first five years of \$34.5 million which, by itself, is greater than the \$25.5 million cost of the buyout.

8. Tampa Electric proposes that the \$25.5 million buy-out cost be amortized over the remaining years of the canceled contract. The buyout would be amortized on a straight line basis over the period from April 1995 through December 2004. Tampa Electric proposes that the retail portion of the amortized buy-out cost, plus carrying costs, be recovered as an additional cost in the fuel and purchased power cost recovery clause beginning with the April-September 1995 fuel adjustment period. The total annual cost recovery is summarized below:

Year	Annual Cost Recovery (\$000)
1995 (9 months)	4,591
1996	5,802
1997	5,438
1998	5,073
1999	4,709
2000	4,345
2001	3,980
2002	3,616
2003	3,251
2004	<u>2,887</u>
	\$43,688

9. Tampa Electric only proposes to recover from its retail customers that portion of the above amounts properly attributable to retail sales. This would be accomplished by allocating the buy-out amortization and carrying cost for each fuel adjustment period according to the energy sales associated with that fuel period for all retail customers paying system average fuel and all wholesale customers paying an average fuel rate. It is Tampa Electric's intention to petition FERC to recover the allocated wholesale buy-out and carrying cost in the fuel adjustment clause.

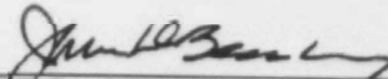
10. Consistent with other long-term investments, Tampa Electric is requesting that the company be allowed to earn a fair return on the unamortized balance of the Peabody coal contract buyout over the ten year recovery period. The company further requests that the rate used for the amortization be a blended, before tax cost of capital using the Commission approved embedded capital ratios from the company's last rate case in Docket No. 920324-EI. Specifically, Tampa Electric proposes to use the cost rates from the current embedded cost of debt and preferred stock (per October 1994 Surveillance Report) and the current approved equity rate of 11.35%. This approach yields a lower rate for recovery than current financial market conditions might dictate. The company requests that the resulting overall cost of capital (adjusted for taxes) of 13.47% remain in effect until the Commission issues another order revising the ratios and/or the cost rates.

11. Tampa Electric requests that the Commission consider the company's proposal immediately in order to provide a clear indication of the appropriate accounting treatment of this transaction for financial reporting purposes.

WHEREFORE, Tampa Electric requests that the Commission enter a proposed agency action order or, in the alternative, set this matter for an expedited hearing and a bench decision to approve the company's proposed regulatory treatment of the Peabody buyout as set forth above.

DATED this 23rd day of December 1994.

Respectfully submitted,



LEE L. WILLIS
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Post Office Box 391
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(904) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Petition, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (*) on this 23rd day of December, 1994 to the following:

Ms. Martha C. Brown*
Ms. Donna L. Canzano
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Florida Public Service
Commission
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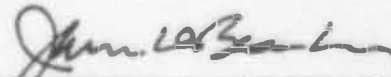
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