

MACFARLANE AUSLEY FERGUSON & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

111 MADISON STREET SUITE 2300
P.O. BOX 1531 (ZIP 33601)
TAMPA, FLORIDA 33602
(813) 273-4200 FAX (813) 273-4396

227 SOUTH CALHOUN STREET
P.O. BOX 381 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(904) 224-9115 FAX (904) 222-7580

400 CLEVELAND STREET
P.O. BOX 1669 (ZIP 34617)
CLEARWATER, FLORIDA 34615
(813) 441-8966 FAX (813) 442-8470

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

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4 Enclosures

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

DOCUMENT NUMBER-DATE

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FPC-RECORDS/REPORTING

Petition
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TAMPA ELECTRIC COMPANY

PEABODY COALSALES, INC.

COAL CONTRACT

BUY-OUT

DOCUMENT NUMBER-DATE

12890 DEC 23 1968

FPSC-RECORDS/REPORTING

REPORT TO THE FLORIDA PUBLIC SERVICE COMMISSION
CONCERNING TAMPA ELECTRIC COMPANY BUY-OUT OF
LONG-TERM COAL SUPPLY AGREEMENT WITH PEABODY COALS SALES, INC.

DECEMBER 1994

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I. EXECUTIVE SUMMARY

A. Description of the Transaction

This report describes an agreement to restructure the contractual rights and obligations of Tampa Electric Company and one of its coal suppliers, Peabody Coalsales, Inc.

Under the terms of the agreement, Tampa Electric will buy out of the current long-term contract which expires in 2004 for a lump sum payment of \$25.5 million to be made by December 30, 1994. This buy-out enables Tampa Electric's Customers to benefit from Tampa Electric's increased participation in today's favorable coal market.

The restructuring will result in anticipated nominal value fuel savings to Tampa Electric Customers of \$88.0 million over the remaining ten years of the contract. To assure adequate supplies of coal and to assure that Tampa Electric's Customers will benefit from significant "locked-in" up front savings from this transaction, Tampa Electric and Peabody Coalsales, Inc. have entered into two new contracts. The price of this coal is competitive with the price of comparable quality coal in today's market and the contracts contain favorable escalation rates to sustain a competitive price in future years.

The anticipated savings from the Peabody buy-out is approximately \$44 million net of buy-out costs and carrying costs, having a net present value of \$29 million. Actual savings are dependent upon the cost of coal in alternative supply markets in the future. However, the fuel savings associated with the new contract coal in the first five years alone exceeds the buy-out cost.

B. Background

Tampa Electric Company and Peabody Coalsales, Inc. initially entered into a twenty year coal supply contract in 1983. This contract provided for the sale and purchase of at least 600,000 tons of "standard sulfur" coal through the year 2004. This coal supply has been, and was expected to be, a principal source of fuel for Tampa Electric's Big Bend Station units 1 - 3.

Peabody's Martwick mine was the original contractual source, but in 1988 Peabody shifted the source of coal to other approved sources. Most recently, Arclar Company's Big Ridge mine and Costain's Wheatcroft mine have supplied the coal.

The pricing agreed to under the original contract was developed during a period of significant and sustained upward pressure on coal prices. The original price was competitive with long-term commitments of the early 1980's, however, the price has diverged from the actual price of coal in the market (Exhibit 1). In fact, today's conditions present lower cost coal options in both the spot market and by way of mid-term and long-term contracts. Through the buy-out of the Peabody contract, Tampa Electric can provide immediate fuel cost savings to its Customers.

As part of the buy-out agreement, Tampa Electric negotiated two replacement coal contracts with Peabody Coalsales, Inc. Together, these contracts provide a very significant reduction in the price of coal from Peabody. These contracts guarantee fuel savings in excess of the buy-out cost in the first five years and provide sufficient fuel sources for Tampa Electric's Customers.

While Tampa Electric had actively managed the Peabody contract to reduce the price of coal, the buy-out actually resulted from concerns with Peabody's long-term ability to meet the quality and tonnage requirements. Tampa Electric requested specific and reasonable assurances from Peabody by August 6, 1994 to demonstrate that they could perform as agreed in the Contract. When the assurance was not received, Tampa Electric considered Peabody's lack of response to be a repudiation of the contract. Tampa Electric accepted the repudiation and cancelled the contract, stopping all deliveries and seeking alternative sources of coal. Peabody disagreed with Tampa Electric's position and took legal action to block the cancellation.

This resulted in several legal claims and filings the result of which was to send the dispute to arbitration. Peabody and Tampa Electric then began a lengthy negotiation effort which resulted in the buy-out and settlement agreement benefitting Tampa Electric's Customers.

C. Terms of the Buy-Out and New Contracts

Under the terms of the buy-out agreement between Tampa Electric and Peabody, the parties agree to reduce the total tons originally scheduled in 1994 and cease delivery under the bought-out contract for 1995 and beyond. The agreement resolves treatment of missed shipments and withheld payments by Peabody and Tampa Electric, respectively. The parties will also release each other from all claims pending in the lawsuit and arbitration. In return for Peabody's agreement to cancel the contract, Tampa Electric will pay \$25.5 million by December 30, 1994.

In addition, Tampa Electric and Peabody have entered into new contracts at prices competitive with today's coal market and containing favorable escalation rates to assure competitive pricing in future years. These contracts provide delivery of coal from additional qualified sources assuring Tampa Electric that Peabody can meet its obligations. The first new contract provides 250,000 tons of coal per year from 1995 through 2004. The second new contract provides 500,000 tons of coal per year from 1995 through 1998 and then provides 375,000 tons per year in 1999.

D. Proposed Regulatory Treatment Of The Agreement

Tampa Electric has entered into this agreement with Peabody in order to reduce fuel costs to its Customers. The savings Customers will realize far outweigh the cost of the buy-out agreement. Tampa Electric therefore will request Commission authority to recover its \$25.5 million payment plus carrying costs through the Fuel and Purchased Power Cost Recovery Clause over the next ten years. The ten year buy-out cost recovery period is consistent with the remaining term of the cancelled contract and results in greater up front fuel cost savings than a shorter recovery period would allow.

The specific steps necessary to accomplish this are :

- 1) Tampa Electric will petition the Commission to issue an order in January 1995 approving its requested regulatory treatment.
- 2) Tampa Electric fuel costs are reduced immediately with the replacement of the original Peabody contract coal with lower priced contracts.

- 3) Beginning in January 1995, the \$25.5 million buy-out cost will begin to accrue interest at the embedded cost of capital cost rate.
- 4) In April 1995, coincident with the Summer 1995 fuel adjustment period, Tampa Electric will begin recovery of the buy-out cost plus carrying charge through the Fuel and Purchased Power Cost Recovery Clause.
- 5) The buy-out cost plus carrying costs for January through March 1995 will be straight-line amortized over the remaining term of the cancelled contract life, 117 months from April 1995 through December 2004. The carrying cost rate used in the amortization would change only if the Commission issues an order which revises Tampa Electric's approved capital structure ratios, the cost rates or both.

E. Conclusion

The Peabody buy-out transaction reduces Tampa Electric's cost of fuel. As a result of the efforts of Tampa Electric, this buy-out, coupled with other recent actions, will significantly reduce the Customer's fuel rates for the next decade.

The genesis of the buy-out transaction was Tampa Electric's original concern that its Customers may not be protected from interruptions in Peabody's supply of acceptable quality coal. This concern presented the opportunity for Tampa Electric and Peabody to replace the existing contract with two new, lower priced, different source contracts.

These changes provide the assurance of delivery and reduction of fuel costs that both Tampa Electric and its Customers desire.

Under Tampa Electric's proposal, substantial savings begin immediately and continue throughout the remaining term of the cancelled contract. Tampa Electric urges the Commission to continue to encourage aggressive administration of fuel contracts and creative efforts to restructure fuel contracts which result in lower fuel prices for Florida consumers. The approval of Tampa Electric's proposal will provide an appropriate incentive toward this goal. Because the buy-out of the contract will achieve long-term fuel cost savings and because the methodology proposed for reimbursement of the cost of the buy-out is fair and equitable, Tampa Electric requests favorable consideration by the Commission.

II. BACKGROUND OF THE PEABODY CONTRACT

On July 8, 1983, Tampa Electric and Peabody entered into a twenty year contract for the purchase and sale of standard sulfur west Kentucky No. 9 seam coal from Peabody's Martwick mine. That contract was known as the Martwick Coal Supply Agreement. It provided for Tampa Electric to take annual tonnages within the following ranges:

| <u>Contract Year</u> | <u>Minimum - Maximum Tons</u> |
|----------------------|-------------------------------|
| 1983 - 1984 | 600,000 - 1,000,000 |
| 1985 - 2004 | 750,000 - 1,000,000 |

The Martwick Agreement and its subsequent amendments were replaced in 1989 by a modified Coal Supply Agreement. The Coal Supply Agreement (CSA) also called for the purchase of standard sulfur west Kentucky No. 9 seam coal through 2004. However, the sources for that coal were expanded to include the following mines:

| <u>Source</u> | <u>Mine Name</u> |
|-----------------------------|-----------------------------------|
| Peabody Development Company | Martwick |
| MAPCO Coal Inc. | Dotiki |
| Pyro Mining ("Costain") | Wheatcroft and/or William Station |

The CSA stipulated that additional sources could be added with prior written approval from Tampa Electric Company. Coal from Island Creek Coal Company's Hamilton mine was added as a qualified source in 1989. Peabody chose to provide coal to Tampa Electric from the Costain and Island Creek sources during the next several years of the

Agreement. In 1993, coal from the Arclar Company's Big Ridge mine was added as a qualified source replacing the coal shipped from the Hamilton mine.

The annual tonnage Tampa Electric would be required to take under the CSA was fixed at 700,000 tons per year from 1989 through 1991, and 750,000 tons per year from 1992 through 2004. Based upon these tonnages, the CSA would be a principal source of standard sulfur coal for Tampa Electric Company's Big Bend Units 1-3 through 2004.

Throughout 1994, Tampa Electric became increasingly insecure about Peabody's ability to reliably ship the coal tonnages called for in the CSA. Tampa Electric's insecurity arose from a number of separate, but related, events including (a) the closure of the wash plant at Peabody's Martwick mine, a historical source of supply under the contract (without the wash plant, the coal mined at the Martwick mine cannot meet the Contract's quality requirements), (b) Peabody's advice to Tampa Electric that the wash plant was closed permanently, (c) interruptions in deliveries from Peabody's primary supplier of coal for Tampa Electric, Costain Coal Company, and (d) Peabody's advice to Tampa Electric that if Costain was unable to deliver coal to Peabody, Peabody would be unable to replace the Costain coal with coal from any other source that would meet the contractual quality requirements.

Therefore, on July 8, 1994 Tampa Electric sent Peabody a letter advising Peabody that Tampa Electric was insecure about Peabody's ability to perform its long-term obligations under the Contract. The letter requested adequate assurances that Peabody would be able to perform its obligations. A response was requested by August 6, 1994. Peabody

did not respond to the request in any manner. Under the terms of the CSA, Tampa Electric considered this to be a repudiation of the Contract. Therefore on August 11, 1994, thirty-four days after the request, Tampa Electric wrote Peabody claiming to accept their repudiation of the CSA and cancelled the Contract.

Peabody viewed the cancellation as a breach of the Contract and sought to arbitrate the matters in dispute. On August 12, 1994 Peabody sent a letter invoking the dispute resolution provisions of the Contract and demanded the dispute go to arbitration.

Peabody sought and obtained a temporary restraining order from a state circuit court in St. Louis, Missouri. The order mandated that Tampa Electric continue performance of the Contract pending arbitration. Tampa Electric removed the action to the United States District Court for the Eastern District of Missouri. Tampa Electric sought to have the restraining order dissolved. The District Court denied this motion and set a hearing date for a preliminary injunction to require continued performance.

The District Court ruled on August 25, 1994, vacating the restraining order, denying the preliminary injunction, and ordering the parties to arbitrate the disputes. Peabody appealed to the United States Court of Appeals for the Eighth Circuit, and requested an injunction during the pendency of the appeal process. The Court ruled and reversed the District Court's denial of Peabody's motion for an order requiring Tampa Electric to begin receiving coal from Peabody. Tampa Electric petitioned for Rehearing and Rehearing En Banc before the United States Court of Appeals for the Eighth Circuit. To date the Court has not ruled on this request.

During October 1994, the parties each selected their respective arbitrators and negotiations began on the procedure to select a neutral arbitrator. Settlement discussions were also initiated at this time.

III. TERMS OF THE BUY-OUT AGREEMENT

After substantial negotiations, the parties ultimately agreed on the terms set forth in the Settlement And Mutual Release ("Agreement"). ~~The Agreement terminates the existing~~ Peabody contract as of December 30, 1994. The Agreement also achieves the termination of all of the parties present disputes, the dismissal of all litigation and arbitration proceedings, and the full and complete release of the parties from all claims previously asserted.

The agreement requires Tampa Electric to pay Peabody \$25.5 million to buy out the existing contract. In return, the Agreement establishes the total quantity of coal to be delivered in 1994 and the fixed price. Additionally, coal will be delivered in 1995 to make-up for some of the coal not accepted during 1994. The Agreement also requires the execution of two long-term contracts. These contracts "lock-in" fuel savings during the first five years which exceed the \$25.5 million buy-out cost. Both replacement contracts are at prices which are competitive with prices for similar coal in today's market and both contracts contain favorable escalation terms. These terms will serve to sustain a competitive price throughout the contract term.

IV. LONG-TERM FINANCING FOR THE BUY-OUT

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 buy-out over the ten year recovery period. Tampa Electric requests that the rate used for the amortization be a blended before tax cost of capital using the Commission approved embedded capital ratios from its last rate case, Docket No. 920324-EI. In prior long-term buy-out cost recoveries of other Florida utilities, the Commission has allowed this type of recovery rate. Specifically, Tampa Electric proposes the use of 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% as illustrated in Exhibit 2. This approach yields a lower rate for recovery than current financial market conditions might dictate and than the approved cost of capital from Tampa Electric's last rate case, since the debt rate has decreased due to refinancings and the equity cost has been lowered to 11.35%. Tampa Electric 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. At such time, the amortization schedule will be adjusted to reflect the new cost rates.

V. PROPOSED REGULATORY TREATMENT OF BUY-OUT AGREEMENT

Tampa Electric proposes that the amortized costs associated with the Peabody Coalsales contract buy-out be recovered through the Commission's Fuel and Purchased Power Cost Recovery Clause mechanism. Recovery would be in a manner similar to the Pyramid Mining contract buy-out approved by the Commission in Order No. 18670 of Docket No. 880001-EI issued January 8, 1988. Tampa Electric's agreement to buy out the existing Peabody contract provides an immediate fuel cost reduction for Tampa Electric's Customers. This benefit will continue throughout the remaining ten year period of the cancelled contract. Exhibit 3 computes the projected annual net reduction in fuel costs for 1994 through 2004.

Since the cancelled contract has been replaced with two contracts at significantly lower coal prices, fuel savings in excess of buy-out cost are guaranteed. Fuel cost savings begin immediately with the reduced take for 1994 from the cancelled contract. The projected nominal savings in fuel cost total \$88.0 million, which has a net present value of nearly \$62.0 million, more than twice the buy-out cost. The two new replacement coal contracts guarantee cumulative 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 buy-out.

Tampa Electric proposes that the \$25.5 million dollar buy-out cost be amortized over the remaining years of the contract. The buy-out would be straight-line amortized over the period from April 1995 through December 2004. Recovery of the amortized buy-out cost, plus carrying costs, would be an additional cost in the Fuel and Purchased Power

Cost Recovery Clause beginning with the summer 1995 fuel adjustment period. The total annual cost recovery is summarized below :

| <u>Year</u> | <u>Annual Cost Recovery</u> <u>(\$000)</u> |
|-----------------|---|
| 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 | 2,887 |
| | <u>\$43,688</u> |

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.

So that Tampa Electric can obtain assurance for its financial statements as to recovery of the \$25.5 million, plus carrying costs, the company is petitioning the Commission for an order approving this methodology in January 1995.

VI. BENEFITS TO BE ACHIEVED BY THE PROPOSED REGULATORY TREATMENT

As previously described, the effects of the buy-out agreement will have a significantly favorable impact on the rates charged to Tampa Electric Customers because coal will be purchased at lower cost for the remaining term of the cancelled contract. The expenditure of \$25.5 million dollars now to buy-out the existing Peabody contract yields a fuel savings of \$88.0 million dollars over the next ten years with a net present value of \$62.0 million. The fuel savings begin immediately with the cancellation of the existing Peabody contract and the lower priced replacement contracts beginning January 1, 1995.

This fuel savings will first be reflected in the fuel adjustment clause factor for the April - September 1995 cost recovery period. The lower than originally projected fuel costs for December 1994 through March 1995 will show up in the summer fuel period through the true-up provision. Additionally, the projected fuel cost for April 1995 through September 1995 will reflect the reduction in the cost of coal.

VII. EXHIBITS

TAMPA ELECTRIC COMPANY

EXHIBIT NO. 1

TAMPA ELECTRIC COMPANY

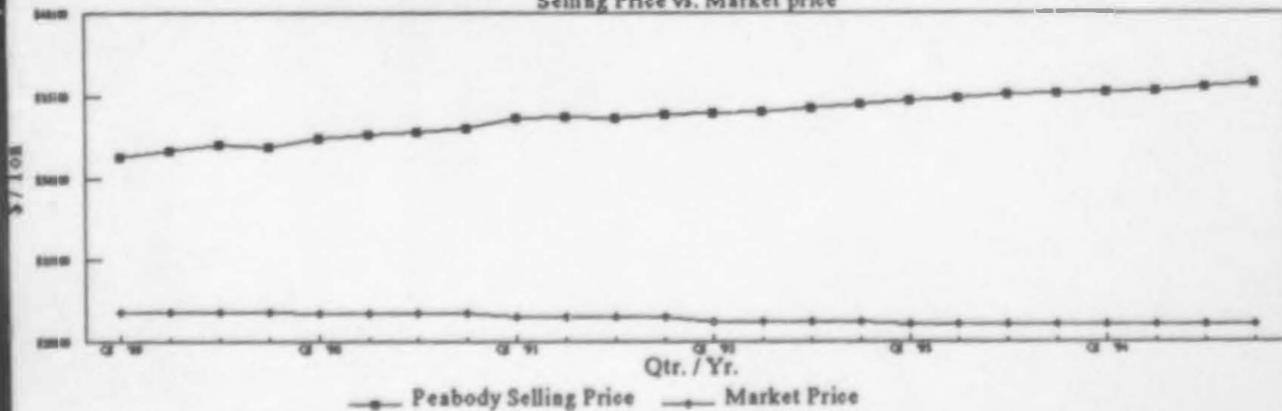
MARKET PRICE HISTORY

**TAMPA ELECTRIC COMPANY / PEABODY DEVELOPMENT COMPANY
COAL SUPPLY AGREEMENT
CURRENT SELLING PRICE vs MARKET PRICE**

| <u>QTR / YEAR</u> | <u>CURRENT SELLING PRICE \$/TON</u> | <u>PRICE CHANGE \$/TON</u> | <u>MARKET PRICE \$/TON</u> ⁽¹⁾ | <u>DIFFERENTIAL \$/TON</u> |
|-------------------|-------------------------------------|----------------------------|---|----------------------------|
| '89 | \$31.350 | -- | \$21.760 | \$9.590 |
| II | \$31.720 | \$0.370 | \$21.760 | \$9.960 |
| III | \$32.046 | \$0.326 | \$21.760 | \$10.286 |
| IV | \$31.947 | (\$0.099) | \$21.760 | \$10.187 |
| '90 | \$32.452 | \$0.505 | \$21.710 | \$10.742 |
| II | \$32.668 | \$0.216 | \$21.710 | \$10.958 |
| III | \$32.857 | \$0.189 | \$21.710 | \$11.147 |
| IV | \$33.017 | \$0.160 | \$21.710 | \$11.307 |
| '91 | \$33.649 | \$0.632 | \$21.450 | \$12.199 |
| II | \$33.741 | \$0.092 | \$21.450 | \$12.291 |
| III | \$33.651 | (\$0.090) | \$21.450 | \$12.201 |
| IV | \$33.873 | \$0.222 | \$21.450 | \$12.423 |
| '92 | \$33.969 | \$0.096 | \$21.170 | \$12.799 |
| II | \$34.051 | \$0.082 | \$21.170 | \$12.881 |
| III | \$34.214 | \$0.163 | \$21.170 | \$13.044 |
| IV | \$34.502 | \$0.288 | \$21.170 | \$13.332 |
| '93 | \$34.719 | \$0.217 | \$21.000 | \$13.719 |
| II | \$34.812 | \$0.093 | \$21.000 | \$13.812 |
| III | \$35.073 | \$0.261 | \$21.000 | \$14.073 |
| IV | \$35.114 | \$0.041 | \$21.000 | \$14.114 |
| '94 | \$35.204 | \$0.090 | \$21.000 | \$14.204 |
| II | \$35.329 | \$0.125 | \$21.000 | \$14.329 |
| III | \$35.541 | \$0.212 | \$21.000 | \$14.541 |
| IV | \$35.719 | \$0.178 | \$21.000 | \$14.719 |

TAMPA ELECTRIC / PEABODY DEVELOPMENT CSA

Selling Price vs. Market price



(1) Source: Energy Information Administration

TAMPA ELECTRIC COMPANY
EXHIBIT NO. 2

TAMPA ELECTRIC COMPANY
COST OF CAPITAL COMPUTATION

TAMPA ELECTRIC COMPANY
EXHIBIT NO. 2

TAMPA ELECTRIC COMPANY
PEABODY COAL CONTRACT BUY-OUT
COST OF CAPITAL

| | Amount (\$000) (1) | Ratio | Cost Rate (2) | Weighted Cost | After-tax Cost | Pre-tax Cost (3) |
|------------------------------|--------------------------|----------------|---------------------|------------------|-------------------|------------------------|
| Preferred Stock | 45,329 | 3.24% | 6.49% | 0.21% | 0.21% | 0.34% |
| Long-Term Debt | 556,320 | 39.77% | 6.53% | 2.60% | 1.60% | 2.60% |
| Common Equity | 797,331 | 56.99% | 11.35% | 6.47% | 6.47% | 10.53% |
| Total Cost Of Capital | \$1,398,980 | 100.00% | | 9.28% | 8.28% | 13.47% |

(1) Amounts are per Tampa Electric's Last Rate Proceeding Docket No. 920324-EI for December 31, 1992.

(2) Cost Rates per Tampa Electric's October 1994 Surveillance Report.

(3) Pre-tax Cost Calculated for Equity Components by Using (1 - Tax Rate of 38.575%)

TAMPA ELECTRIC COMPANY
EXHIBIT NO. 3

TAMPA ELECTRIC COMPANY

NET REDUCTION IN FUEL COSTS COMPUTATION

TAMPA ELECTRIC COMPANY
PEABODY COAL CONTRACT BUY-OUT
NET REDUCTION TO FUEL COSTS COMPUTATION
1994 THROUGH 2004

| Line No. | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 1. Original Peabody Coal Cost | \$34,470,800 | \$32,874,498 | \$33,054,733 | \$34,064,375 | \$34,241,491 | \$35,268,735 | \$36,326,797 | \$37,416,601 | \$38,539,099 | \$39,695,272 | \$40,886,130 |
| 2. Replacement Coal Cost | 32,057,616 | 25,532,925 | 26,013,512 | 26,582,832 | 26,744,044 | 27,398,147 | 27,873,388 | 28,494,751 | 28,792,307 | 29,435,939 | 30,094,479 |
| 3. Annual Fuel Savings (Line 1 - Line 2) | \$1,812,991 | \$7,141,573 | \$7,641,222 | \$8,081,443 | \$7,497,447 | \$7,870,588 | \$8,453,409 | \$8,921,850 | \$9,746,793 | \$10,259,333 | \$10,791,652 |
| 4. Cumulative Fuel Savings | 1,812,991 | 8,754,564 | 16,395,786 | 24,477,228 | 31,974,675 | 39,845,263 | 48,298,672 | 57,220,522 | 66,967,315 | 77,226,648 | 88,018,300 |
| 5. Amortization Of Buy Out | 0 | 2,028,368 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,488 | 2,704,509 |
| 6. Carrying Cost @ 13.47% | 0 | 2,562,588 | 3,097,887 | 2,733,427 | 2,368,974 | 2,004,515 | 1,640,056 | 1,275,603 | 911,143 | 546,890 | 182,231 |
| 7. Total Cost Of Buy Out (Line 5 + Line 6) | \$0 | \$4,590,954 | \$5,802,375 | \$5,437,915 | \$5,073,462 | \$4,709,003 | \$4,344,546 | \$3,980,091 | \$3,615,631 | \$3,251,178 | \$2,886,740 |
| 8. Net Fuel Savings (Line 3 - Line 7) | 1,812,991 | 2,550,619 | 1,838,647 | 2,643,528 | 2,423,985 | 3,161,585 | 4,108,863 | 4,941,759 | 6,131,162 | 7,008,155 | 7,904,912 |
| 9. Cumulative Net Savings | 1,812,991 | 4,163,610 | 6,002,456 | 8,645,984 | 11,069,969 | 14,231,554 | 18,340,417 | 23,282,176 | 29,413,338 | 36,421,493 | 44,326,405 |
| 10. Present Value @ 8.28% | 1,746,546 | 2,550,619 | 1,608,233 | 2,254,693 | 1,909,348 | 2,299,916 | 2,760,454 | 3,088,141 | 3,513,218 | 3,708,666 | 3,863,339 |
| 11. Cumulative Present Value | 1,746,546 | 4,297,165 | 5,905,398 | 8,250,091 | 10,159,439 | 12,459,355 | 15,219,808 | 18,285,949 | 21,799,167 | 25,507,833 | 29,371,171 |

Notes : 1) Fuel cost savings begin in 1994 with the reduction in the tonnage delivered from the original Peabody contract amount.

2) Total BTUs burned are equal for the base case and the replacement fuel case

3) Total pounds of SO₂ are equal for the base case and the replacement fuel case

4) 1995 net present value at 8.28% after-tax cost rate

5) Carrying Charges Accrue From January 1, 1995 To April 1, 1995.

These charges are added to the balance that is amortized over the term April 1995 through December 2004.