

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL  
FILE COPY

In Re: Prudence review to determine regulatory treatment of Tampa Electric Company's Polk Unit. ) DOCKET NO. 960409-EI ) DATE: June 26, 1996 ) ) )

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-96-0567-PCO-EI, issued April 30, 1996, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

Tom Ballinger - Reasonableness of certain planning assumptions, prudence of continued construction of TECO's Polk IGCC Unit

Jim Breman - Reasonableness of fuel price, fuel transportation and Petroleum Coke viability assumptions

Samuel S. Waters - Installed cost of Florida Power & Light Company's (FPL) Martin County combined cycle units, fuel-price forecasts, fuel transportation availability, purchase by FPL of 640 MW of Plant Scherer, land held for future use as generating stations.

Robert D. Niekum, Director of Fuel Supply - Florida Power Corporation (FPC), and Eric G. Major, Polk Project Manager - Florida Power Corporation - Estimated costs of FPC's Polk County combined cycle units, fuel-price forecasts, fuel transportation availability, land held for future use as generating stations, site development costs, cost-effectiveness evaluations.

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG \_\_\_\_\_
- LIN 5
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC 1
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

b. All Known Exhibits

- TEB - 1 Chart - TECO Present Worth IGCC Savings Compared to Combined Cycle Unit (Millions)
- TEB - 2 Letter from Donald A. Mulligan, Vice President, TECO, to Joe Jenkins, Director, Division of Electric and Gas

DOCUMENT NUMBER-DATE  
06878 JUN 26 1996  
FPSC-RECORDS/REPORTING

- TEB - 3           TECO's response to Staff's First Set of Interrogatories, No. 6, Docket No. 960409-EI
- JEB - 1           Graph - Historical Natural Gas Prices and TECO's Forecasted Prices, Chart - Actual Prices & TECO's Natural Gas Price Forecasts
- JEB - 2           Graph - Actual Coal & Natural Gas Prices and Natural Gas-Coal Price Difference Trend
- JEB - 3           Charts - TECO's Coal & Natural Gas Price Forecasts and TECO's Coal & Natural Gas Price Differences (1992 - 1995)
- SSW - 1           FPL Martin 3 and 4 Need Determination Study
- SSW - 2           FPL Martin 3 and 4 Cost Summary
- SSW - 3           FPL Fuel Price Forecasts (1990 - 1996)
- SSW - 4           Charles Black Presentation Regarding Economic Justification for IGCC
- RDN/EGM - 1       FPC Polk County Site Need Determination Study
- RDN/EGM - 2       FPC Polk County Site 1994 Cost-Effectiveness Analysis
- RDN/EGM - 3       FPC Polk County Site 1996 Estimated Costs
- RDN/EGM - 4       FPC Polk County Site Combined Cycle Generation Study (July 1994)
- RDN/EGM - 5       FPC Polk County Site Development Costs (May 31, 1996)
- RDN/EGM - 6       FPC Polk County Site Project Forecast Summary (June 1996)
- RDN/EGM - 7       FPC - Polk County Projected Cost in Cents/KWH
- RDN/EGM - 8       FPC Composite of Fuel Forecasts (1991 - 1996)

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

PLANNING ISSUES

ISSUE 1: Was the continued construction of the Polk IGCC unit by Tampa Electric Company reasonable and prudent?

POSITION: Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that Tampa Electric Company should have pursued a natural gas fired combined cycle or combustion turbine alternative in the 1993-1994 time frame. (Ballinger, Breman)

ISSUE 2: Were Tampa Electric Company's assumptions regarding sunk costs in each of its annual cost-benefit analysis reasonable?

POSITION: No position pending further discovery and the evidence considered at the final hearing.

ISSUE 3: Were Tampa Electric Company's assumptions regarding variable operations and maintenance expense in each of its annual cost-benefit analysis reasonable?

POSITION No position pending further discovery and the evidence considered at the final hearing.

ISSUE 4: Were Tampa Electric Company's assumptions regarding tax credits in its 1994 and 1995 Polk IGCC cost-benefit analysis reasonable?

POSITION: No position pending further discovery and the evidence considered at the final hearing.

**ISSUE 5:** Did Tampa Electric Company adequately address its declining demand and energy forecasts in each of its annual cost-benefit analysis?

**POSITION:** No position pending further discovery and the evidence considered at the final hearing.

**FUEL ISSUES**

**ISSUE 6:** Has Tampa Electric Company demonstrated that its 1992, 1993, 1994, and 1995 fuel price forecasts were reasonable and prudent?

**POSITION:** Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that Tampa Electric Company has not demonstrated that its 1992, 1993, 1994, and 1995 fuel price forecasts were reasonable and prudent. (Breman)

**ISSUE 7:** Has Tampa Electric Company demonstrated that petcoke is a reliable and viable fuel for the Polk IGCC Unit?

**POSITION:** Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that Tampa Electric Company has not demonstrated that petcoke is a reliable and viable fuel for the Polk IGCC Unit. (Breman)

**ISSUE 8:** Were Tampa Electric Company's assumptions regarding the combined use of as-available natural gas and light oil as the primary fuels for a combined cycle alternative in its 1992, 1993, 1994, 1995, and 1996 Polk IGCC cost-benefit analysis reasonable?

**POSITION:** Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that Tampa Electric Company's assumptions regarding the combined use of as-available natural gas and light oil as the primary fuels for a combined cycle alternative in its 1992, 1993, 1994, 1995, and 1996 Polk IGCC cost-benefit analysis were not reasonable. (Breman, Ballinger)



**ISSUE 9:** Was it reasonable for Tampa Electric Company to assume as-available natural gas transportation rather than firm gas transportation in its 1992, 1993, 1994, and 1995 Polk IGCC cost-benefit analyses?

**POSITION:** Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that it was not reasonable for Tampa Electric Company to assume as-available natural gas transportation rather than firm gas transportation in its 1992, 1993, 1994, and 1995 Polk IGCC cost-benefit analyses. (Bremen)

**RATE BASE TREATMENT**

**ISSUE 10:** What is the appropriate amount of the Polk IGCC Unit's cost to be included in rate base?

**POSITION:** No position pending further discovery and the evidence considered at the final hearing.

**ISSUE 11:** What is the appropriate amount of the Polk IGCC Unit's cost to be included in the calculation of net operating income?

**POSITION:** No position pending further discovery and the evidence considered at the final hearing.

**ISSUE 12:** What are the appropriate capital structure components associated with the Polk IGCC unit?

**POSITION:** No position pending further discovery and the evidence considered at the final hearing.

**ISSUE 13:** What is the appropriate regulatory treatment for the Port Manatee (HIL7) site?

**POSITION:** No position pending further discovery and the evidence considered at the final hearing.

**ISSUE 14:** How should the capital, fuel, and operating and maintenance costs associated with separable wholesale sales made from the Polk IGCC unit be separated from the retail jurisdiction?

**POSITION:** For purposes of monthly surveillance reporting, all firm station sales with a contract term greater than one year should be separated from the retail jurisdiction based on contract demand. TECO should credit average generation costs through the fuel adjustment clause. The Commission should reevaluate this approach at the time of TECO's next full revenue requirements rate case.

ALTERNATIVE RATEMAKING TREATMENTS

**ISSUE 15:** Should the Commission consider an alternative method of cost recovery for TECO's Polk County IGCC unit?

**POSITION:** Based on the information reviewed to date, and, subject to the review of additional discovery and the evidence considered at the final hearing, it appears that the Commission should consider an alternative method of cost recovery for TECO's Polk County IGCC unit. The parties should be given a reasonable opportunity to reach agreement on an alternative method of cost recovery for TECO's Polk County IGCC unit.

LEGAL ISSUE

**ISSUE 16:** What is the appropriate legal standard to be used in deciding the issues in this docket?

**POSITION:** Tampa Electric Company has the burden of proof to demonstrate that it's actions in constructing the Polk IGCC unit were prudent. Prudent actions are those which were reasonable at the time.

e. Pending Motions

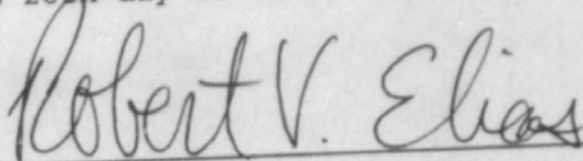
None.

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f. Compliance with Order No. PSC-96-0567-PCO-EI.

Staff has complied with the requirements of Order No. PSC-96-0567-PCO-EI.

Respectfully submitted this 26th day of June, 1996.



ROBERT V. ELIAS  
Chief, Bureau of Electric and Gas

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CERTIFICATE OF SERVICE

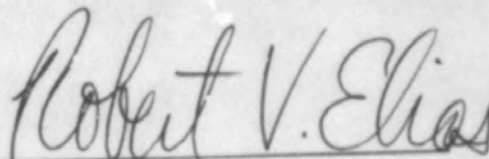
I HEREBY CERTIFY that one true and correct copy of Staff's Prehearing Statement has been furnished by facsimile and U. S. Mail to Mr. Lee Willis, Ausley and McMullen, 227 South Calhoun Street, Tallahassee, Florida 32301, on behalf of Tampa Electric Company and that one true and correct copy has been furnished by facsimile and U. S. Mail this 26th day of June, 1996, to the following:

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