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June 26, 1996

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: Dockets Number 960409-EI

Dear Ms. Bayo:

Enclosed please find the original and fifteen (15) copies of Public Counsel's Prehearing Statement for filing in the above-referenced docket. A diskette in IBM-compatible WordPerfect 5.1 format is also submitted.

Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

- ACK
- AFA 3
- APP
- CAF
- CMU
- CTR
- EAG Dudley
- LEG JRH/adj
- LIN 5
 Enclosures
- OPC
- RCH
- SEC 1
- WAS
- OTH

Sincerely,

John Roger Howe
Deputy Public Counsel

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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

construction program that would have the combustion turbine (CT) coming on line in 1995 with the heat recovery steam generator (HRSG) and gasification facilities following in 1996. Thus, Tampa Electric deprived itself of the ability to judge whether it would have been best, considering falling gas prices and improved combined cycle efficiencies, to construct Polk Unit 1 as a natural gas-fired combined cycle unit.

Tampa Electric's early commitment of substantial funds to the IGCC project biased any later analyses of cost effectiveness against a more traditional combined cycle unit. At each decision point, Tampa Electric assigned significant sunk costs to the combined cycle alternative, virtually guaranteeing that continuation of the IGCC would be shown as the more economical alternative.

The contrary results reached by two other utilities which analyzed the IGCC versus a natural gas-fired combined cycle is suggestive of whether Tampa Electric's decision was prudent. Florida Power & Light Company considered the economics of coal gasification technology and decided, instead, to bring its Martin Units 3 and 4 on line as natural gas-fired combined cycles in 1994. Florida Power Corporation also found natural gas-fired combined cycles to be more economical than an IGCC. FPC is now building its own Polk County units to enter service in 1998. The same information available to other utilities should have led Tampa Electric to build Polk Unit 1 as a natural gas-fired combined cycle unit.

D. FACTUAL ISSUES:

PLANNING ISSUES

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

POSITION: No. Tampa Electric should have realized shortly after the need determination order issued in 1992 that falling gas prices and improved efficiencies made a natural gas-fired combined cycle unit the more economical alternative, even after consideration of Department of Energy funding support for the IGCC. (Larkin)

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

POSITION: No. The decision whether to continue with the IGCC configuration or to, instead, build a natural gas-fired combined cycle unit should have been based on the incremental cost of completion of each of these alternatives on a system present worth revenue requirements basis. Sunk costs are irrelevant to such a system planning decision and should have been ignored. This would not, however, preclude Tampa Electric from seeking to recover sunk costs for regulatory purposes to the extent they were prudently incurred.

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

POSITION: No. The variable O&M costs used in some of Tampa Electric's combined cycle analyses are based on EPRI Technical Assessment Guide (TAG) estimates. Tampa Electric should have used data obtained directly from equipment vendors such as were apparently used in the IGCC analyses. Furthermore, Tampa Electric should have used the variable O&M associated with a stand-alone combined cycle instead of using the power block from the IGCC.

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

POSITION: No. It was not reasonable for Tampa Electric to include hypothetical tax credits which would only become available if the Internal Revenue Code were amended. (Larkin)

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

POSITION: Falling demand and energy forecasts should have been considered to determine whether, and in what amount, additional generation was needed on Tampa Electric's system. The forecasts, themselves, however, would probably not affect the cost-benefit analyses used to compare generation alternatives if additional generation was needed in 1996.

FUEL ISSUES

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

POSITION: No. Tampa Electric may demonstrate that its fuel price forecasts were within a range of reasonableness as defined by other forecasts made in the same time frames. However, Tampa Electric will not be able to demonstrate it was reasonable to assume the risk of an incorrect forecast by committing to the IGCC project based on those forecasts. (Larkin)

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

POSITION: No. Petroleum coke is apparently being used in other gasification facilities. But even Tampa Electric will have to conduct test burns after the two-year Department of Energy demonstration period to determine whether a pet coke/coal blend will work in the Polk unit.

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 1994, 1995 and 1996 Polk IGCC cost-benefit analyses reasonable?

POSITION: No. Tampa Electric's decision in this regard should be measured against Florida Power Corporation's and Florida Power & Light Company's conclusions that combined cycles fired with a firm natural gas supply were more economical than an IGCC. (Larkin)

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 analysis?

POSITION: See position on Issue 8.

RATE BASE TREATMENT

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

POSITION: If the Commission agrees that Tampa Electric's decision to continue construction of Polk Unit 1 as an IGCC was imprudent, only that portion of the investment in Polk Unit 1 which corresponds to the equivalent cost of the more reasonable alternative should be included in rate base. This would include prudent sunk costs incurred up to the time the decision should have been made to construct the alternative.

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: See position on Issue 10.

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

POSITION: The Commission must make a decision on the capital structure which correlates to the rate base decision and the proper allocation of costs to the retail jurisdiction. The specific components, however, cannot be determined at this time.

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

POSITION: The Port Manatee site should be removed from rate base since future use of the site for electric power generation is speculative, at best.

ISSUE 14. How should the capital, O & M, and fuel costs associated with wholesale sales made from the Polk IGCC unit be separated from the retail jurisdiction?

POSITION: The jurisdictional allocation used in Tampa Electric's last rate case would not allocate any of the Polk unit revenue responsibility to nonseparated wholesale customers. Therefore, a separate allocation should be made for Polk Unit 1 which assures that retail customers are neither supporting assets devoted to wholesale customers nor supporting a disproportionate share of Polk because of the sale of other units to the wholesale market.

ALTERNATIVE RATEMAKING TREATMENTS

ISSUE 15. Should the Commission adopt an alternative method of cost recovery for Tampa Electric Company's Polk County IGCC unit?

POSITION: If the Commission agrees that Tampa Electric should have built a natural gas-fired combined cycle unit at Polk, then an alternative method of cost recovery for fuel costs would be appropriate.

E. LEGAL ISSUES: None.

F. POLICY ISSUES: None.

G. STIPULATED ISSUES: None.

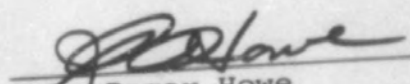
H. PENDING MOTIONS: None.

I. COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Respectfully submitted,

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Attorneys for the Citizens
of the State of Florida

CERTIFICATE OF SERVICE
Docket No. 960409-EI


I HEREBY CERTIFY that a true and correct copy of the foregoing
PUBLIC COUNSEL'S PREHEARING STATEMENT has been furnished by U.S.
Mail or by hand-delivery (*) to the following parties on this 26th
day of June, 1996:

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