

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Prudence review to) DOCKET NO. 960409-EI
determine regulatory treatment) ORDER NO. PSC-96-0901-PHO-EI
of Tampa Electric Company's Polk) ISSUED: July 15, 1996
Unit.)
_____)

Pursuant to Notice, a Prehearing Conference was held on Tuesday, July 2, 1996, in Tallahassee, Florida, before Commissioner Joe Garcia, as Prehearing Officer.

APPEARANCES:

Lee L. Willis, Esquire, James D. Beasley, Esquire and Kenneth R. Hart, Esquire, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302 and Harry W. Long, Jr., Esquire, TECO Energy, Inc., Post Office Box 111, Tampa, Florida 33601-0111
On behalf of Tampa Electric Company.

John W. McWhirter, Jr., Esquire, McWhirter, Reeves, McGlothlin, Davidson, Rief and Bakas, P.A., Post Office Box 3350, Tampa, Florida 33601-3350 and Joseph A. McGlothlin, Esquire and Vicki Gordon Kaufman, Esquire, McWhirter, Reeves, McGlothlin, Davidson, Rief and Bakas, P.A., 117 South Gadsden Street, Tallahassee, Florida 32301
On behalf of Florida Industrial Power Users Group.

John Roger Howe, Esquire, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400
On behalf of the Citizens of Florida.

Robert V. Elias, Esquire, Sheila L. Erstling, Esquire, Mary E. Culpepper, Esquire, and Lorna R. Wagner, Esquire, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff.

PREHEARING ORDER

I. CASE BACKGROUND

By Order No. PSC-92-0002-FOF-EI, issued March 2, 1992, in Docket No. 910883-EI, the Commission approved Tampa Electric Company's Petition for Determination of Need for a proposed 220 megawatt electric generating unit and associated facilities, to be located in Polk County, Florida. The order states "for the reasons, and with the conditions, set out in the body of this

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order, Tampa Electric Company's Petition for Determination of Need for a Proposed Electrical Power Plant and Related Facilities in Polk County is hereby granted."

The facility proposed was an Integrated Gasified Combined Cycle (IGCC) unit, fueled by gasified coal. Approval was conditioned on Tampa Electric Company securing a grant from the United States Department of Energy in the amount of 120 million dollars to defray the cost of constructing and operating the plant. Tampa Electric Company did obtain the grant.

Order No. PSC-92-0002-FOF-EI states at page 9 "The unit is projected to have an installed cost of \$389 million dollars (1996), including the DOE funding." Currently, TECO projects the costs for the unit, now scheduled to be placed in service in October, 1996, at a cost of approximately 506 million dollars. TECO states that the difference is attributable to land and site development costs of approximately 65 million dollars and AFUDC, which were not included in the 389 million dollar amount.

By ORDER NO. PSC-96-0670-S-EI issued May 20, 1996, in Docket No 950379-EI approved a stipulation agreed to by Tampa Electric Company, the Office of Public Counsel and the Florida Industrial Power Users Group. The stipulation resolves the issues regarding TECO's overearnings and specifies the disposition of those overearnings for the period 1995 through 1998. The stipulation:

- 1) freezes existing base rate levels through December 31, 1998;
- 2) refunds \$25 million plus interest over a one year period commencing on October 1, 1996;
- 3) defers 60% of the net revenues that contribute to a return on equity (ROE) in excess of 11.75% for 1996;
- 4) defers 60% of the net revenues that contribute to a ROE in excess of 11.75% up to a net ROE of 12.75% for 1997;
- 5) defers 60% of the net revenues that contribute to a ROE in excess of 11.75% up to a net ROE of 12.75% for 1998;
- 6) refunds any net revenues contributing to a net ROE in excess of 12.75% for 1998 plus any remaining deferred revenues from 1996 and 1997;
- 7) allows Tampa Electric Company the discretion to reverse and add to its 1997 or 1998 revenues all or any portion of the balance of the previously deferred revenues;

- 8) prohibits TECO from using the various cost recovery clauses to recover capital items that would normally be recovered through base rates; and
- 9) requires consideration of the regulatory treatment of the Polk Power Station separately.

This matter has been set for hearing on July 17 and 18, 1996 to consider the appropriate regulatory treatment for the Polk Power Station.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting's confidential files.

Post-hearing procedures

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. The rule also provides that if a party fails to file a post-hearing statement in conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

A party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause

shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

III. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

IV. ORDER OF WITNESSES

<u>Witness</u>	<u>Appearing For</u>	<u>Issue #</u>
<u>Direct</u>		
Girard F. Anderson	TECO	1
Thomas L. Hernandez	TECO	1 - 5, 8
Hugh W. Smith	TECO	1, 6, 7, 8, 12
Charles R. Black *	TECO	1, 2, 3, 7, 9
Thomas F. Bechtel	TECO	1
John R. Rowe, Jr.	TECO	1, 4, 9 - 14
Elizabeth A. Townes	TECO	9 - 11

<u>Witness</u>	<u>Appearing For</u>	<u>Issue #</u>
Randall J. Falkenberg	FIPUG	2 - 12, 14 - 16
Hugh Larkin, Jr.	OPC	1, 4, 6, 8 - 11
Tom Ballinger	FPSC	1, 8, 14
Jim Breman	FPSC	1, 6, 7, 8
Samuel S. Waters **	FPSC	1, 2, 3, 6, 7, 8
Eric G. Major **	FPSC	1, 3, 6, 7, 8
Robert D. Niekum **	FPSC	1, 3, 6, 7, 8

Rebuttal

Steven L. Thumb	TECO	6
Hugh W. Smith	TECO	1, 6 - 8, 12
Thomas L. Hernandez	TECO	1 - 5, 8
John R. Rowe, Jr.	TECO	1, 4, 9 - 14

* The rebuttal testimony of Mr. Black will be heard concurrently with his direct testimony.

** By agreement of the parties, Mr. Waters, Mr. Major, and Mr. Niekum are excused from appearing at the hearing. Subject only to a relevancy objection, the deposition transcripts and deposition exhibits will be inserted into the record.

V. BASIC POSITIONS

TECO: All of the costs associated with Tampa Electric's Polk Unit One have been prudently incurred and should be approved by this Commission without disallowance or resort to an alternative ratemaking mechanism. The positions of Staff and intervenors stem in no small part from their basic premise, that this Commission erred in Decision No. PSC-92-0002-FOF-EI (the "Need Order") in not requiring that Tampa Electric build a natural gas-fired, combined cycle unit instead of the IGCC unit which the Commission found to be the most cost-effective alternative, following extensive investigation. This flawed premise cannot be screened by the assertion that their criticisms relate primarily to the period following the Need Hearing. The Staff and other parties have failed

to substantiate any tangible set of circumstances, occurring after the Need Hearing, that required, as a matter of prudence, that the project approved by the Commission be jettisoned in favor of the natural gas-fired, combined cycle generation alternative already rejected by the Commission for Tampa Electric's system.

In the company's view, the Commission made the correct decision in the Need Order, based on an extensive and well-examined record. Tampa Electric's ongoing cost-effectiveness studies, which were conducted as a matter of prudence, have consistently affirmed the correctness of the Commission's endorsement of the Polk IGCC project. These ongoing cost-effectiveness studies were based on reasonable assumptions at the time each study was conducted.

The question before the Commission in this proceeding, in evaluating the prudence of the company's Polk-related investment, is whether or not the company had a rational basis for the project-related decisions made subsequent to the Commission's approval of the Polk IGCC unit. The question is not what the Commission would have done had it been exercising the power of management at the time or whether another reasonable person confronted with the same set of facts and circumstances could have made different decisions. Instead, the Commission should satisfy itself that there was a rational basis for Tampa Electric's project-related decisions, given the facts which were known, or should have been known, at the time the decisions in question were made. Under this standard, the prudence of Tampa Electric's project decisions and the resulting investment is very clear.

In its September 5, 1991 Petition for Determination of Need, Tampa Electric explicitly asked this Commission to approve the construction of a 220 MW IGCC Unit and related facilities at a site located in Polk County. During the Need Hearing, the size of the proposed project was increased to 260 MW, as noted at page 8 of the Need Order. In the Need Order, this Commission announced several conclusions in the course of approving this petition, none of them tentative or interim, which bear directly on the present inquiry.

The Need Order provides the following:

FINAL APPROVAL OF POLK IGCC UNIT

It is ordered by the Florida Public Service Commission that, for the reasons, and with the conditions, set out in the body of this order, Tampa Electric Company's Petition for Determination of Need for a Proposed Electrical Power Plant and Related Facilities in Polk County is hereby Granted. (Need Order, p. 17)

FINAL APPROVAL CONDITIONED ONLY ON RECEIPT OF DOE GRANT

We have considered all issues relevant to those topics (set forth in Section 403.519, Florida Statutes) and we hold, for the reasons set out below, that Tampa Electric has demonstrated the need for the proposed 220 MW IGCC plant. We approve the construction on the condition that TECO does receive the \$120 million grant from the Department of Energy to help defray the costs of the project. (Need Order, p. 3);

APPLICATION FILED AT A REASONABLE TIME

Given the lead time necessary for utilities to construct new generating facilities, TECO's petition was filed at a reasonable time. (Need Order, p. 4);

IGCC UNIT WILL CONTRIBUTE TO STATEWIDE RELIABILITY

We believe the addition of the proposed IGCC plant will contribute to the reliability of the electric system of the State of Florida by providing capacity in the time frame in which it is needed. (Need Order, p. 5);

POLK IGCC UNIT REPRESENTS THE MOST COST-EFFECTIVE ALTERNATIVE

...In this proceeding the determinative issue is whether it is cost effective for TECO and TECO's ratepayers to incur the higher capital cost of an IGCC unit to enable use of lower cost coal fuel. That appears to be the case here, because the DOE grant significantly lowers the total capital cost of the project. As we will explain in detail below, the IGCC unit is the most cost-effective alternative to meet TECO's capacity needs. That fact drives our decision to grant TECO's petition. (Need Order, p. 6);

TECO's IGCC unit with DOE funding is more cost-effective than the combined cycle unit in Docket No. 910004-EU. (Need Order, p. 15);

TECO FUEL PRICE FORECAST REASONABLE

With certain reservations, we find that TECO's fuel price forecast is reasonably adequate for planning purposes. (Need Order, p. 6);

PROJECT COST-EFFECTIVE UNDER A WIDE VARIETY OF FUEL PRICE ASSUMPTIONS

Due to concerns regarding the sensitivity of TECO's fuel forecasts, our Staff asked TECO to perform an economic comparison of its proposed IGCC unit (using coal) and the phased combined cycle unit from Docket No. 910004-EU (using five different gas forecasts for the phased CC unit). Throughout the capacity factor range in which TECO plans to operate its IGCC unit (around 80%) the IGCC plant was cost effective under all fuel price scenarios. ...The (revenue requirements) analysis concluded that TECO's proposed IGCC unit is cost effective under all fuel price scenarios, including our Staff's "acid test", at both the low capacity factor of 60% and the expected capacity factor of 80%. ... TECO also performed a cost comparison between its proposed IGCC project and FPL's current avoided unit, a 1997 IGCC unit. Compared to FPL's avoided unit, TECO's proposed project is more cost-effective. (Need Order, pp. 10-11);

PROJECT ALTERNATIVES ADEQUATELY EXPLORED

TECO demonstrated in this proceeding that it adequately explored the construction of alternative generating technologies. (Need Order, p. 12);

We do believe TECO has adequately considered the conservation measures that would be reasonably available to avoid the need for this proposed plant. (Need Order, p. 13);

The record demonstrates that TECO adequately explored and evaluated the availability of purchased power from other utilities. (Need Order, p. 15);

SUFFICIENT INFORMATION PROVIDED FOR DECISION

TECO provided sufficient information on the site design and engineering characteristics of its 220 MW unit to enable us to adequately evaluate its proposal. (Need Order, p. 8);

The Need Order was a final and definitive charge to Tampa Electric to go forward with its plans to construct an IGCC unit at the Polk site, and this is exactly what the company did. The Staff and other parties to this

proceeding suggest, in various ways, that the Need Order, containing the language set forth above, was tentative or interim in nature. We respectfully submit that no reasonable person could come to that conclusion.

With the Commission's Need Certification in hand, the company proceeded with the tasks of securing the required site certification and environmental permits, preparing detailed site development and engineering plans and ordering the equipment and materials necessary to construct the plant in a timely manner.

As the costs of the plant components and site preparation became clearer from the completion of the permitting process and detailed engineering, the company made a number of changes in the construction schedule and in the configuration of the project, none of which compromised the essential nature of the project. These adjustments allowed Tampa Electric to build the approved unit cost-effectively.

The intervenors and Staff suggest that Tampa Electric's decision not to phase construction of the IGCC unit, as anticipated at the time of the need hearing, represented a material deviation from the need order. Based on this faulty premise, the parties further assert that the decision to abandon the phased construction schedule deprived the company of a last clear change to switch to a gas-fired, combined cycle unit without incurring any gasifier-related sunk costs. The simple truth is that these assertions have no basis in fact.

Putting aside for the moment the fact that there has never been any reason to abandon the IGCC technology since it has remained consistently cost-effective, the "opportunity" to change generation technology without incurring gasifier-related sunk cost never existed. From the beginning the Polk IGCC unit was planned and constructed as an integrated unit. The phased construction described during the need hearing represented a more expensive construction approach adopted only to meet an expected need for additional capacity in 1995, a year before the integrated unit could be put on line. When Tampa Electric's ongoing studies indicated that the needed capacity could be deferred to 1996, the company reverted to the more economic integrated construction approach. However, the key point which the parties have missed is that the timing of Tampa

Electric's financial commitments with regard to the gasifier portion of the plant would have been precisely the same under either the phased or integrated construction approach. Their suggested last clear change to switch to natural gas-fired technology never existed.

TAMPA ELECTRIC TIGHTLY CONTROLLED PROJECT COSTS

The company put in place a stringent cost control and project management mechanism to insure that costs would be prudently incurred. For instance, when the detailed engineering for the planned hot gas clean up system suggested a cost much greater than either the Department of Energy or Tampa Electric expected, the company worked closely with DOE to scale back the system to keep the total project costs within budget while assuring DOE that all of the anticipated test data from the hot gas cleanup system demonstration would be obtained. This adjustment had no impact on the Commission's prior project cost-effectiveness analysis since the benefits of the hot gas clean up system had not previously been considered. However, the opportunity for incremental benefits associated with the scaled down system was preserved.

In view of a ready market near the plant, the company also modified the project plan to include a facility for the production of sulfuric acid rather than the sulfur recovery system originally planned. This change will result in increased by-product revenues to offset project costs. While the parties take issue with these decisions and assert that they represent a material departure from the project approved in the Need Order, these decisions represent nothing less than the prudent cost management which the Commission expects from the company. Tampa Electric has been able to complete the construction of the project at a cost which is estimated to differ from the pre-engineering estimate presented in the Need Hearing by only 4.3%, excluding land acquisition and site development costs. This was a considerable accomplishment considering that the company was bringing into service a new technology for which the detailed engineering had not been completed at the time of the Need Hearing.

Tampa Electric was not in a position to estimate site development costs with any precision at the time of the Need Hearing, since site development costs would be primarily a function of the environmental permit conditions and detailed engineering studies which

remained to be completed. The land and site development costs reflected in the estimated total completion cost of \$506 million are reasonable and compare very favorably with the total land and site preparation costs which Florida Power Corporation expects to incur in connection with its new power plant that is also sited inland on mined phosphate property in Polk County.

TAMPA ELECTRIC REGULARLY AFFIRMED PROJECT COST-EFFECTIVENESS AFTER THE NEED HEARING

Tampa Electric continued to evaluate the cost-effectiveness of Polk Unit One subsequent to the Need Hearing. This evaluation included a continued review of key planning assumptions and forecasts and a review of several cost-effectiveness studies completed during the construction of Polk Unit One. The review of key planning assumptions included new developments in the demand and energy forecasts, fuel price and availability forecasts, and updates to the Polk unit construction cost estimates. Using the best available information at the time of each evaluation, Tampa Electric concluded in each review that the IGCC unit remained the most cost-effective energy resource alternative. There have been numerous Commission proceedings and Staff reviews, including the review of Tampa Electric's Ten Year Site Plan filings and Conservation Goals proceeding, since the Need Hearing in which the Commission found that Tampa Electric's planning assumptions and methodology and the resulting expansion plans were reasonable and suitable.

Even though Tampa Electric's Polk project was proven cost-effective under all of the gas price forecast scenarios considered by the Commission in the Need Hearing, in 1991 and 1992, some of them very unrealistic, Tampa Electric took to heart the Commission's caution, at page 6 of the Need Order, to pay close attention to the continued accuracy of its fuel price forecasts, especially with regard to the anticipated differential between forecasted gas and coal prices. Subsequent to the Need Hearing, the company repeatedly reevaluated its fuel price forecasting methodology and consulted a wide variety of external forecasts in order to insure the forecasting vigilance expected by the Commission. Tampa Electric's fuel forecasts were based on rational and reasonable assumptions. The company's continued forecast of divergence between coal and gas prices is consistent with reasonable expectations with regard to future trends in the energy market. The question to be addressed in

this proceeding is not whether the company's forecasts were accurate when judged on the basis of hindsight. Instead, the question to be asked is whether there was a rational basis for the forecasts used by Tampa Electric, given what was known at the time the forecasts were made. The answer, which is without credible contradiction, is that the company's fuel forecasts were based on reasonable assumptions.

The Staff and other parties attempt to make much of the fact that Tampa Electric has forecasted rising gas prices over the last several years in the face of lower than expected actual gas prices. However, their concern is based on a lack of understanding of the natural gas supply and demand fundamentals which have determined gas prices over the last ten years. Since the mid-1980's and until recently, there has been a huge oversupply of natural gas, referred to as a gas bubble, building in the U.S. This oversupply resulted in a downward trend in gas prices and, significantly, in a dramatic decrease in drilling and exploration activity by producers who realized that the low gas prices would not permit them to recover the large costs of that activity. Given these circumstances, knowledgeable forecasters knew that it would be only a matter of time before the oversupply situation abated due to increased demand and the lack of replenishing drilling activity.

Tampa Electric's projected prices were based, in effect, on a forecast that natural gas oversupply and excess deliverability would decrease in the very early 1990's, resulting in sharply higher gas prices. However, a number of unforeseeable events postponed this event. Long term fuel price forecasts are based on average or normal weather conditions but the much warmer than normal winter weather experienced over the last several years resulted in a dramatic decrease in demand for natural gas, thereby postponing the end of the gas bubble. In addition, a tax incentive which expired in 1992 created drilling incentives which artificially boosted supply on a temporary basis. As a result, there was widespread disagreement among fuel price forecasters as to when, but not whether, the oversupply would end.

Tampa Electric was correct in predicting a significant decrease in excess deliverability, resulting in an upward trend in gas prices which we see today. In fact, the company's 1992, 1993, 1994, and 1995 forecast of 1996 gas

prices were all significantly less than today's actual gas prices. The company's expectation that excess deliverability would decrease in the early 1990's was a bit premature when viewed through hindsight, but was reasonable nonetheless, given what was know at this time.

Other assumptions used in the cost-effectiveness analyses were updated throughout time. As the construction and other project-related expenses were incurred in reliance on the Need Order, Tampa Electric factored these "sunk costs" into the economics of switching to another generation technology. It would have been foolish to ignore these sunk costs in its ongoing cost-effectiveness studies since these prudently incurred costs would have been passed through to its customers in the event of project abandonment or modification. The company also considered, in its economic analysis at various times, the availability of a tax credit under Section 29 of the IRS code and, alternatively, the use of an economic pet coke blend as a feedstock for the plant's gasifier. These additional inputs to the company's various forecasts were demonstrably rational and reasonable. In short, Tampa Electric constantly examined and tested the key assumptions underlying its cost-effectiveness analyses to insure that our customers would enjoy the maximum benefit possible from the plant addition.

CONCLUSION

Tampa Electric has constructed the Polk IGCC project, which this Commission approved, in a prudent manner. The company has monitored the cost-effectiveness of the project, both prior to and during the construction phase. The company has constantly reviewed and tested its analyses, including its fuel price forecast methodology and economic assumptions to insure a high confidence level in its cost-effectiveness analyses. The company has carefully monitored and controlled project-related costs. In short, Tampa Electric has done everything necessary to warrant Commission approval of its full investment in the Polk IGCC project.

FIPUG:

Because the Polk IGCC Unit has a very high initial capital cost with minimal, if any, fuel savings in the short term, if the Commission approves TECO's investment in the plant, a phased-in approach should be used so that the high initial costs are mitigated. The cost of the combined cycle portion of the plant should be allowed in rate base; however, investment in the gasifier should be

phased in on the schedule set forth in Mr. Falkenberg's testimony.

The Commission should not permit TECO to apply any future stranded cost recovery or exit fee to the Polk IGCC unit nor should the Commission establish any type of performance-based ratemaking for the Polk IGCC Unit.

OPC:

In its 1991 need determination proceeding, Tampa Electric Company justified the construction of an IGCC unit on the basis of lower costs of coal and \$120 million of Department of Energy (DOE) funding. Tampa Electric projected that, although the price of both coal and natural gas would increase in the future, the price of natural gas would increase more rapidly. Staff questioned this assumption, and the Commission included in its order language which warned Tampa Electric to monitor the price of natural gas as well as its assumption that the price differential between coal and gas would escalate.

Tampa Electric, however, committed from the beginning to construct Polk Unit 1 as an IGCC even though the Commission's order and falling natural gas prices signaled the need for caution. Tampa Electric even canceled plans for a phased 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.

STAFF: 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.

VI. ISSUES AND POSITIONS

PLANNING ISSUES

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

POSITIONS:

TECO: Yes. Tampa Electric's continued construction of Polk Unit One was reasonable and prudent. There were no changed circumstances subsequent to the issuance of the Need Order which required or even suggested a different course. Even though not required to do so, the company repeatedly evaluated the cost-effectiveness of the IGCC unit, both before and during the construction phase and confirmed its continuing cost-effectiveness each time.

Tampa Electric continually reviewed and tested the economic assumptions underlying its cost-effectiveness analyses and made adjustments where warranted. The company also continued to evaluate its fuel price forecasting methodology and consulted a broad collection of external forecasts. (Witnesses: Anderson, Smith, Hernandez, Black, Bechtel, Rowe)

FIPUG: The evidence will show whether TECO made a mistake in continuing with the construction of the Polk IGCC Unit. FIPUG has offered no evidence on this issue. However, if a mistake has been made, the issue then becomes who must bear the risk of the mistake--TECO's ratepayers or TECO's stockholders. FIPUG's position is that the logical way to

share the risk of any mistake is through the mechanism set forth in Mr. Falkenberg's testimony. (Falkenberg)

OPC: 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)

STAFF: 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?

POSITIONS:

TECO: Yes. The construction and other project related costs incurred in justifiable reliance on the Commission's approval of the Polk IGCC unit represented costs prudently incurred. As such, these expenditures would have been appropriately recovered from Tampa Electric's customers in the event of project cancellation or modification. Therefore, in assessing the cost-effectiveness or ratepayer impact of continuing with the IGCC technology, it would have made no sense to exclude these costs from the cost-effectiveness calculations.

Tampa Electric's quantification of these sunk costs in each of its annual cost-benefit analyses was quite conservative since it was based only on dollars actually booked instead of all the commitments previously made. (Witness: Hernandez, Black)

FIPUG: See Issue 1.

OPC: 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.

STAFF: 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?

POSITIONS:

TECO: Yes. Tampa Electric's cost-benefit analyses were based on comparing total system revenue requirements for various generating alternatives and included the impact of total system O&M expense, fuel expense, and capital costs for Tampa Electric's existing and planned generating units. While the allocation between fixed and variable O&M costs varied between analyses, the total O&M expense associated with the IGCC, combined cycle, and combustion turbine technologies were comparable and reasonable for each of the cost-benefit analyses. (Witnesses: Black, Hernandez)

FIPUG: See Issue 1.

OPC: 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.

STAFF: 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?

POSITIONS:

TECO: Yes. When the benefits associated with the Section 29 tax credit were reflected in Tampa Electric's cost-effectiveness studies, in 1994 and 1995, the company had every reason to believe that the tax code would be amended to permit Tampa Electric to claim the credit.

Prior to 1994, the company did not assume the availability of the Section 29 tax credit in its cost-effectiveness analyses since the tax law had not yet been amended to extend the deadline for project completion required in order to qualify for the credit. Although the pet coke blend feedstock assumption suggested very significant benefits, it was displaced in the company's 1994 and 1995 studies in favor of the Section 29 tax credit assumption in light of the company's belief that the further amendments to the tax law required in order for the company to claim the credit could be accomplished in a timely manner. The two assumptions were interchangeable in terms of the anticipated benefits but they could not reasonably have been used together since Section 29 required that coal be burned in order for the syngas to qualify for the credit. When it became clear, in late 1995, that the probability of achieving the required amendment to the tax code had been reduced significantly as the result of a change in the congressional leadership, the company replaced the availability of the Section 29 credit in its cost-effectiveness assumptions with the use of a pet coke feedstock for the plant gasifier. (Witnesses: Rowe, Hernandez)

FIPUG: See Issue 1.

OPC: 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)

STAFF: 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?

POSITIONS:

TECO: Yes. The company's demand and energy forecasts used in the cost-benefit analyses were the same as the forecasts provided in Tampa Electric's 1992 rate case proceedings and its 1992, 1993, 1994, and 1995 Ten Year Site Plan filings. In all of the reviews of Tampa Electric's demand and energy forecasts, the Commission found that its forecasts were reasonable and suitable for planning purposes. The impact of each demand and energy forecast on system reliability and system production costs and generation expansion plans were included in each cost-benefit analysis. In fact, the deferral of the advanced combustion turbine from July 1995 to July 1996 was determined in the 1993 cost-benefit analysis and reported in Tampa Electric's 1994 Ten Year Site Plan filing. (Witness: Hernandez)

FIPUG: See Issue 1.

OPC: 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.

STAFF: 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?

POSITIONS:

TECO: Yes. Tampa Electric has demonstrated that its 1992 through 1995 fuel price forecasts were reasonable and prudent. Fuel price forecasting is a subjective and judgmental process requiring expertise in many areas of

the energy business. As this Commission recognized in Order No. 23080, concerning FP&L's Martin Expansion Project:

We note, however, that the best fuel forecasts are only that: educated estimates of future market conditions. And, we observe that the only thing which is absolutely predictable in this area is that no matter who does it or how carefully it is done, the forecast will be incorrect. (Order No. 23080, p. 6)

Obviously, reasonable people can disagree over projections of oil and natural gas prices 20 to 30 years into the future. The Commission should not judge the reasonableness of a long range forecast based on a relatively short period of actual data when it is the long term trends which drive the savings associated with large capital projects such as the Polk IGCC unit. Tampa Electric's forecasts were in a zone of reasonableness at the time they were made. Tampa Electric correctly forecasted the upturn in natural gas prices which we see today but was unable to foresee that the decrease in excess deliverability which led to higher prices would be postponed by warmer than normal winter weather and other unpredictable circumstances.

In addition, Tampa Electric took very seriously this Commission's caution in the Need Order to pay careful attention to the forecasted price differentials between coal and gas. In fact, in the years following the Need Hearing, the price differentials between gas and coal decreased substantially in Tampa Electric's fuel forecasts. (Witness: Smith)

FIPUG: See Issue 1.

OPC: 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)

STAFF: 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?

POSITIONS:

TECO: Yes. Texaco's proven, commercially available gasification technology, on which the Polk IGCC unit is based, is extremely flexible with respect to the feedstock used to create the syngas. Among the feedstocks used commercially are a wide range of coal (high and low sulfur) and petroleum coke/coal blends of up to 90% petroleum coke. Commercial experience underscores the viability of pet coke as a reliable feedstock for the Polk IGCC unit. Petroleum coke has been demonstrated to be commercially available and economically priced. In fact, at least four utilities in Florida are currently purchasing and burning pet coke in existing facilities. (Witnesses: Black, Smith)

FIPUG: See Issue 1.

OPC: 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.

STAFF: 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?

POSITIONS:

TECO: Yes. Using as-available gas during those times of the year when there would be relatively little demand for

gas, and light oil during those periods of high demand for gas, was the most realistic and reasonable assumption for Tampa Electric's system.

The hypothetical combined cycle unit considered in the company's 1994, 1995 and 1996 cost-effectiveness studies would have been operated at a low load factor, given the economics of Tampa Electric's system. It would have been dispatched after existing coal resources instead of as the first unit dispatched which is the case for the IGCC unit. Therefore, it would make no sense to assume firm natural gas transportation for this combined cycle unit since Tampa Electric would have no use for the gas transportation most of the time. The company's need for the gas would exist at the very times that gas would be in demand by others. Under these circumstances, one could not reasonably assume that Tampa Electric would have unused gas to sell at peak periods. Likewise, one could not reasonably assume that there would be an acceptable market for our unused gas during off-peak periods. (Witnesses: Hernandez, Smith)

FIPUG: See Issue 1.

OPC: 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)

STAFF: 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)

RATE BASE TREATMENT

ISSUE 9: What is the appropriate amount of the Polk IGCC Unit's cost to be included in rate base?

POSITIONS:

TECO: The thirteen month average of the first full year of operation of the Polk unit should be included in rate base as shown on Exhibit _____ (EAT-1), Document 1, of the Direct Testimony of Elizabeth A. Townes. The amount shown includes the \$506,165,000 capital investment, accumulated depreciation of \$13,009,000, and working capital in the amount of \$13,029,000. (Witnesses: Black, Rowe, Townes)

FIPUG: The appropriate amount to be included in rate base is the cost of the combined cycle portion of the IGCC plant. If the Commission finds the gasifier portion of the plant to be a prudent investment, it should be phased in pursuant to the schedule set forth in Mr. Falkenberg's testimony. The Commission should not recognize any portion of the Polk plant as eligible for future stranded cost recovery or for an exit fee nor should the Commission establish performance-based rate indexing for any portion of the plant. (Falkenberg)

OPC: 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.

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

ISSUE 10: What is the appropriate amount of the Polk IGCC Unit's cost to be included in the calculation of net operating income?

POSITIONS:

TECO: The full operating expense, which is currently estimated to be \$20,582,000, should be included in the calculation

of net operating income as shown on Exhibit EAT-1, Document No. 1. This amount consists of a net O&M component of \$3,816,000, depreciation expense of \$22,301,000, and taxes of \$(5,535,000). (Witnesses: Rowe, Townes)

FIPUG: The entire cost of the IGCC plant should be included for NOI purposes but the gasifier portion should receive a deferred return as illustrated on the schedule included in Mr. Falkenberg's testimony. (Falkenberg)

OPC: See position on Issue 10.

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

ISSUE 11: What are the appropriate capital structure components associated with the Polk IGCC unit?

POSITIONS:

TECO: The Polk unit should be treated like any other investment which is supported on a pro rata basis by the company's total capital structure.

As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. In Order No. PSC-96-0670-S-EI, this Commission adopted a joint stipulation, which resolves all Tampa Electric rate of return issues through 1998. In fact, paragraph 11 of the stipulation provides that the calculations of the actual ROE for each calendar year during the term of the stipulation will be done on an FPSC adjusted basis, using the appropriate adjustments approved in Tampa Electric's last full revenue requirements proceeding. To the extent that the staff or other parties wish to advance a case for a different capital structure, the time to advance such positions would be in Tampa Electric's next rate case or cost of capital proceeding. (Witnesses: Rowe, Townes)

FIPUG: No position at this time.

OPC: 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.

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

ISSUE 12: What is the appropriate regulatory treatment for the Port Manatee (HIL7) site?

POSITIONS:

TECO: Tampa Electric's entire investment in the Port Manatee site (\$4,879,076 as of March 21, 1996) should continue to be classified as property held for future use and included in rate base as the Commission determined in 1992 in Order No. 93-0165 in Docket No. 920324-EI. There has been no significant change in circumstances since the 1992 case which would warrant reconsideration of the Commission's decision.

An electric utility with the obligation to serve should have multiple options for the placement of new generating facilities. Consistent with this principle, utilities such as Florida Power & Light have a wide variety of future plant sites in rate base, including partially developed and undeveloped sites. The Port Manatee site provides a valuable option for a future power plant site or other utility-related use. While the site may not be suitable for a large coal or IGCC plant, it may be well suited for other kinds of new or emerging generation technologies. (Witnesses: Rowe, Smith)

FIPUG: The Port Manatee site should be excluded from rate base because it is not used and useful.

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

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

ISSUE 13: How should the capital, fuel, and operating and maintenance costs associated with wholesale sales made from the Polk IGCC unit be separated from the retail jurisdiction?

POSITIONS:

TECO: The separation procedure to be used to separate capital and O&M was approved in the company's last rate case, Docket No. 920324-EI and will be followed.

As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. As required by the Joint Stipulation, a portion of the company's Polk-related investment will be allocated to Tampa Electric's wholesale rate base. The separation procedure as approved in the company's last rate case will be used to separate capital and O&M. No other assignment of the Polk IGCC unit to wholesale rate base is necessary. Proposed changes to the currently approved jurisdictional separation procedure have nothing to do with the prudence of Tampa Electric's Polk-related investment. This issue can be addressed at such time as the company files an application to adjust its rates, without any prejudice to the position of any party. The allocation of fuel expense associated with a sale from the Polk IGCC unit can be addressed in the Fuel Adjustment proceedings. (Witness: Rowe)

FIPUG: The Commission should assign all capacity which is not needed to serve retail ratepayers to the wholesale jurisdiction and should impute the allowed cost of the latest capacity addition to the wholesale market as the price of long term sales. (Falkenberg)

OPC: 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.

STAFF: 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 14: Should the Commission consider an alternative method of cost recovery for TECO's Polk County IGCC unit?

POSITIONS:

TECO: No. Tampa Electric has voluntarily agreed to a ratemaking plan which will result in the commercial operation of a major plant addition without any adjustment of base rates to reflect the significant increase in revenue requirements through 1998. At the same time, the company will make a refund to customers of \$25 million, with the possibility of additional refunds in 1999. The company respectfully suggests that it would be difficult, if not impossible, to devise a more innovative and creative alternative to conventional ratemaking for a major plant addition than the approach already adopted by the Commission when it approved the Joint Stipulation.

As explained in its June 21, 1996 motion requesting an order declaring certain issues to be beyond the scope of this proceeding, Tampa Electric also objects to the consideration of this issue in this proceeding. This issue has nothing to do with the prudence of Tampa Electric's Polk investment. Tampa Electric respectfully suggests that there is simply no useful purpose to be served in using the limited time allotted to this proceeding to consider cost recovery alternatives. Paragraph 11 of the above mentioned Stipulation provides that all reasonable and prudent expense and investment will be allowed in the computation of ROE during the Stipulation period. Once Tampa Electric's Polk investment has been proven prudent, the Stipulation requires that all of that prudent investment be reflected in the ROE calculation as opposed to alternative ratemaking approaches. Tampa Electric has proceeded prudently with the construction of the IGCC plant

authorized by the Commission in the Need Hearing and sees no need to complicate the recovery of the company's prudent expenditures. Since no rate increase is pending to recover Tampa Electric's investment in the Polk IGCC, it would be premature to consider alternative methods for cost recovery. Issues of rate design and cost allocation are well beyond the scope of this proceeding. Issues related to recovery of stranded investment in the event Florida law is changed to allow retail wheeling are also entirely premature.

FIPUG: Yes. The phase-in methodology described in Mr. Falkenberg's testimony should be used. The Commission should not recognize any portion of the Polk plant as eligible for future stranded cost recovery or for an exit fee nor should the Commission establish performance-based rate indexing for any portion of the plant. (Falkenberg)

OPC: 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.

STAFF: 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. (Ballinger)

LEGAL ISSUE

ISSUE 15: What is the appropriate legal standard to be used in deciding the issues in this docket?

POSITIONS:

TECO: The test for prudence is one of reasonableness. A determination of prudence or imprudence calls for an inquiry into the reasonableness of management's judgement, i.e., whether there was a rational basis for the judgement rather than an inquiry into the wisdom of the judgement. The standard is not what the Commission would have done had it been exercising the power of management at the time or whether another reasonable

person confronted with the same set of facts and circumstances could have made different decisions. Instead, the issue is only whether there was a rational basis for Tampa Electric's project-related decisions given the facts which were known, or should have been known, at the time the decisions in question were made.

FIPUG: TECO has the burden of proof in this case. TECO must show that its initial decision to construct the Polk IGCC Unit, as well as its decision to continue construction of the Unit, was prudent.

OPC: Tampa Electric is the party seeking affirmative relief in this docket, and, as such, has the burden to prove its case by a preponderance of the evidence. This standard is not lessened by the fact that the Commission approved the need determination in 1992. Tampa Electric must demonstrate that its decision to construct Polk Unit 1 as an IGCC was reasonable given the totality of the circumstances, including consideration of, and reaction to, changed circumstances after the order issued. Reasonableness should be evaluated in terms of whether another utility, similarly situated, would have taken the same actions under circumstances which were known, or should have been known, by Tampa Electric.

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

VII. EXHIBIT LIST

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Thumb	TECO	_____ (SLT - 1)	Ten Documents relied upon by Mr. Thumb to support his testimony
Smith	TECO	_____ (HWS - 1)	Interrogatories filed in Dockets 950379-EI and 960409-EI
Smith	TECO	_____ (HWS - 2)	Five documents relied on by Mr. Smith to support his testimony

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Hernandez	TECO	<u>(TLH - 1)</u>	Eight documents relied upon by Mr. Hernandez in support of his prepared testimony
Hernandez	TECO	<u>(TLH - 2)</u>	Ten documents relied on by Mr. Hernandez to support his testimony
Black	TECO	<u>(CRB - 1)</u>	Twenty-seven documents relied upon by Mr. Black in support of his prepared direct testimony
Black	TECO	<u>(CRB - 2)</u>	Three documents relied upon by Mr. Black to support his testimony
Rowe	TECO	<u>(JRR - 1)</u>	Eight documents relied upon by Mr. Rowe in support of his prepared direct testimony
Townes	TECO	<u>(EAT - 1)</u>	Ten documents relied upon by Ms. Townes in support of her prepared direct testimony
Falkenberg	FIPUG	<u>(RFJ - 1)</u>	Qualifications
Falkenberg	FIPUG	<u>(RFJ - 2)</u>	Cost Difference Between Polk IGCC and CC
Falkenberg	FIPUG	<u>(RFJ - 3)</u>	Correspondence from Gillette
Falkenberg	FIPUG	<u>(RFJ - 4)</u>	Load Duration Curves

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Ballinger	FPSC	<u>(TEB - 1)</u>	Chart - TECO Present Worth IGCC Savings Compared to Combined Cycle Unit (Millions)
Ballinger	FPSC	<u>(TEB - 2)</u>	Letter from Donald A. Mulligan, Vice President of TECO, to Joe Jenkins, Director, Division of Electric and Gas
Ballinger	FPSC	<u>(TEB - 3)</u>	TECO's response to Staff's First Set of Interrogatories, No. 6, Docket No. 960409-EI
Breman	FPSC	<u>(JEB - 1)</u>	Graph - Historical Natural Gas Prices and TECO's Forecasted Prices, Chart - Actual Prices & TECO's natural Gas Price Forecasts
Breman	FPSC	<u>(JEB - 2)</u>	Graph - Actual Coal & Natural Gas Price Difference Trend
Breman	FPSC	<u>(JEB - 3)</u>	Charts - TECO's Coal & Natural Gas Price Forecasts and TECO's Coal & Natural Gas Price Differences (1992 - 1995)
Waters	FPSC	<u>(SSW - 1)</u>	FPL Martin 3 and 4 Need Determination Study
Waters	FPSC	<u>(SSW - 2)</u>	FPL Martin 3 and 4 Cost Summary
Waters	FPSC	<u>(SSW - 3)</u>	FPL Fuel Price Forecasts (1990 - 1996)

<u>Witness</u>	<u>Proffered By</u>	<u>I.D. No.</u>	<u>Description</u>
Waters	FPSC	<u>(SSW - 4)</u>	Charles Black's Presentation Regarding Economic Justification for IGCC
Niekum and Major	FPSC	<u>(RDN/EGM - 1)</u>	FPC Polk County Site Need Determination Study
Niekum and Major	FPSC	<u>(RDN/EGM - 2)</u>	FPC Polk County Site 1994 Cost Effectiveness Analysis
Niekum and Major	FPSC	<u>(RDN/EGM - 3)</u>	FPC Polk County Site 1996 Estimated Costs
Niekum and Major	FPSC	<u>(RDN/EGM - 4)</u>	FPC Polk County Site Combined Cycle Generation Study (July 1994)
Niekum and Major	FPSC	<u>(RDN/EGM - 5)</u>	FPC Polk County Site Development Costs (May 31, 1996)
Niekum and Major	FPSC	<u>(RDN/EGM - 6)</u>	FPC Polk County Site Project Forecast Summary (June 1996)
Niekum and Major	FPSC	<u>(RDN/EGM - 7)</u>	FPC - Polk County Projected Cost in Cents/KWH
Niekum and Major	FPSC	<u>(RDN/EGM - 8)</u>	FPC Composite of Fuel Forecasts (1991 - 1996)

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

There are no proposed stipulations at this time.

IX. PENDING MOTIONS

There are no pending motions at this time.

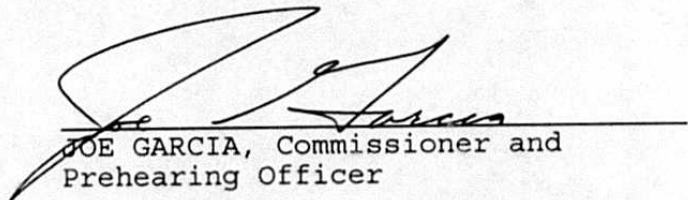
X. RULINGS

TECO's Motion for an Order Declaring Certain Issues to be Beyond the Scope of the Proceeding is denied.

It is therefore,

ORDERED by Commissioner Joe Garcia, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Joe Garcia, as Prehearing Officer, this 15th day of July, 1996.


JOE GARCIA, Commissioner and
Prehearing Officer

(S E A L)

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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 this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial 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 wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.