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ORIGINAL
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August 5, 1996

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

RE: Docket No. 960409-EI

Dear Ms. Bayo:

Enclosed please find the original and fifteen (15) copies of the Brief of the Citizens of the State of Florida on Issues 1, 2, 3, 6, 7, & 8, and Citizens' Post-Hearing Statement of Issues and Positions for filing in the above-referenced docket. A diskette in WordPerfect 5.1 is also submitted herewith.

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.

Sincerely,

John Roger Howe
Deputy Public Counsel

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DOCUMENT NUMBER-DATE
08176 AUG-5 96
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Prudence Review to)
Determine Regulatory Treatment)
of Tampa Electric Company's)
Polk Unit.)

Docket No. 960409-EI
Filed: August 5, 1996

CITIZENS' POST-HEARING
STATEMENT OF ISSUES AND POSITIONS

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to Rule 25-22.056, Florida Administrative Code, and Order No. PSC-96-0901-PHO-EI, file their post-hearing statement of issues and positions in this docket.

I. STATEMENT OF BASIC POSITION:

In its 1991 need determination proceeding, Tampa Electric Company justified the construction of an IGCC unit on the basis of \$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's commitment to the IGCC project biased any later analyses in favor of that generation alternative. Tampa Electric never performed a meaningful, incremental analysis comparing the IGCC against a stand-alone natural gas-fired combined cycle.

The pivotal year was 1993. In its 1993 analysis, Tampa Electric realized that it would have to deviate from the IGCC's design fuel - coal - and, instead, assume the viability of a speculative fuel - a petroleum coke/coal blend. This was done to artificially maintain the cost effectiveness of the

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IGCC, even when compared against the power block of the IGCC burdened with gasifier-related sunk costs. In 1993, Tampa Electric knew, or should have known, that the project approved by the Commission in response to the company's need determination petition was no longer cost effective. And, in 1993, Tampa Electric, apparently, still had time to react to changed circumstances, abandon the IGCC, and still meet a 1996 in-service date for a natural gas-fired combined cycle unit.

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.

II. ISSUES AND POSITIONS:

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.*

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 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. Sunk costs are irrelevant to such a system planning decision and should have been ignored.*

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. EPRI Technical Assessment Guide (TAG) estimates should not have been used. Tampa Electric should have used data obtained directly from equipment vendors such as were apparently used in the IGCC analyses for 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.*

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. 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. Fuel price forecasts may be within a range of reasonableness as defined by other forecasts made in the same time frames. However, Tampa Electric did not demonstrate it was reasonable to assume the risk of an incorrect forecast by committing to the IGCC project based on those forecasts in 1993.*

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

POSITION: *No. Whether petcoke may work is not the issue. Petcoke has never been used in an IGCC similar to the Polk Unit. Tampa Electric cannot demonstrate petcoke is a viable fuel until it's tested after the demonstration period. Petcoke entered the picture in 1993 solely to justify continuation of the IGCC.*

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. The assumption of a low capacity factor for the combined cycle alternative and the resultant assumption of fuel sources are unsupported in the record. Tampa Electric's decision should be measured against FPC's and FPL's conclusions that firm natural gas-fired combined cycles were more economical than an IGCC.*

RATE BASE TREATMENT

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

POSITION: *The equivalent cost of the Polk power block configured to run on natural gas plus prudent sunk costs incurred for the gasification assets up to the time the decision should have been made in 1993 to abandon the IGCC.*

ISSUE 10: 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 9.*

ISSUE 11: 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 12: 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 13: 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: *All prudent costs of Polk Unit 1 should be allocated between retail customers and wholesale customers, both separated and non-separated.*

ALTERNATIVE RATEMAKING TREATMENTS

ISSUE 14: Should the Commission consider 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 may be appropriate for consideration in the fuel adjustment docket.*

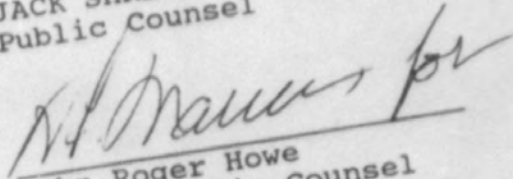
LEGAL ISSUE

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

POSITION: *As the party seeking affirmative relief, Tampa Electric must prove its case by a preponderance of the evidence. Tampa Electric must show that any reasonable, prudent electric utility, similarly situated, would have taken the same actions under the circumstances which were known, or should have been known, by Tampa Electric.*

Respectfully submitted,

JACK SHREVE
Public Counsel



John Roger Howe
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Attorneys for the Citizens
of the State of Florida

CERTIFICATE OF SERVICE
Docket No. 960409-EI

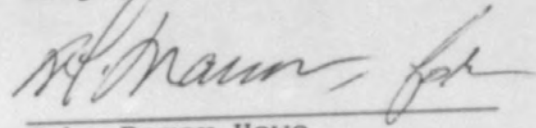
I HEREBY CERTIFY that a true and correct copy of the foregoing
CITIZENS' POST-HEARING STATEMENT OF ISSUES AND POSITIONS has been
furnished by U.S. Mail or by hand-delivery (*) to the following
parties on this 5th day of August, 1996:

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