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November 16, 1998

HAND DELIVERED

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

Re: Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor;
FPSC Docket No. 980001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and ten (10) copies of each of the following:

1. Prepared Direct Testimony of Deirdre A. Brown. 12840-98

2. Prepared Direct Testimony of Mark J. Hornick, 12841-98

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

JDB/pp
Enclosures

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

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ORIGINAL
TAMPA ELECTRIC COMPANY
DOCKET NO. 980001-EI
FILED 11/16/1998

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DEIRDRE A. BROWN

Q. Please state your name, address, occupation and employer.

A. My name is Deirdre A. Brown. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company in the position of Director, Electric Regulatory Affairs in the Regulatory Affairs Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science Degree in Accounting in 1982 from Florida State University and a Masters of Business Administration in 1994 from the University of South Florida. In 1990 I joined TECO Energy's Audit Services Department as an Internal Auditor. I became a Senior Auditor in 1991 and a Supervisor/Administrator of Audit Services in 1992. In 1994 I was promoted to Administrator, Health Plans where I was responsible for managing the administration of Tampa Electric's health

plans, employee assistance program, and health fitness facilities. In 1995 I returned to Audit Services as Director and was responsible for all internal auditing and certain corporate compliance and code of ethics activities for TECO Energy. In June 1998 I was promoted to Director, Electric Regulatory Affairs. I am responsible for managing Tampa Electric's regulatory issues and policy related to base pricing, fuel, environmental, system planning, conservation, and wholesale transactions. I am a Certified Public Accountant and Certified Internal Auditor.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to demonstrate that the price Tampa Electric has paid for coal purchases from its affiliate, Gatliff Coal Company (Gatliff), does not exceed the benchmark established in Docket No. 930001-EI and approved by Order No. PSC-93-0443-FOF-EI, issued March 23, 1993 and that the weighted average price paid to Gatliff has been properly reported to the Commission. My testimony, along with the testimony of Tampa Electric's Witness Mark J. Hornick, demonstrates that all Gatliff purchases from 1993 through 1997 were appropriate for full recovery through the Fuel and Purchased Power Recovery Clause.

Q. What exhibits are you sponsoring as part of your testimony?

A. My Exhibit No. ___ (DAB-1) consists of five documents: 1) Docket No. 870001-EI-A, Order No. 20298, issued November 10, 1988, 2) Docket No. 930001-EI and approved in Order No. PSC-93-0443-FOF-EI, issued March 23, 1993, 3) Docket No. 830001-EU, Order No. 12645, issued November 3, 1983, 4) Docket No. 850001-EI-B, Order No. 14546, issued July 8, 1985, and 5) Docket No. 920001-EI, Audit Control No. 91-344-2-2.

Q. Please provide a brief history of the Gatliff coal benchmark.

A. In Tampa Electric's 1988 "cost plus" docket, Docket No. 870001-EI-A, Order No. 20298, issued November 10, 1988, the Commission approved the implementation of a benchmark methodology to set a threshold price level which, if Gatliff's price exceeded, would provide a need for Tampa Electric to justify. In that docket, an initial benchmark price was determined with stated escalators and de-escalators. This benchmark price was based upon the Bureau of Mines (BOM) District 8 data for the weighted average price per million British thermal unit (Btu) for contract

transactions that met agreed upon coal specifications. A benchmark of $39.44 per ton FOB mine was established based upon Tampa Electric's Gannon Station coal specifications, including heat content.

Pursuant to a stipulation reached in Docket No. 930001-EI and approved in Order No. PSC-93-0443-FOF-EI, issued March 23, 1993 (the Gatliff Stipulation), a comparable new beginning benchmark price of $38.00 FOB mine as of December 31, 1992 was established. Unlike the 1988 escalation process, the Gatliff Stipulation benchmark price was to be adjusted annually based on the Consumer Price Index instead of on BOM District 8 market data. This new benchmark became the basis for prospective regulatory review of the annual average price per ton paid for coal purchased from Gatliff. Order Nos. 20298 and PSC-93-0443-FOF-EI are included in Documents 1 and 2 of my Exhibit __ (DAB-1).

Throughout the time Order No. 20298 and the Gatliff Stipulation have been in effect, a comparison of actual base prices paid for Gatliff coal to the benchmark price has continuously been made in each year's fuel adjustment filing on the basis of a standard ton with a standard heat content of 12,550 Btu per pound. The use of a standard heat content is discussed further in the testimony of

Witness Hornick.

Q. Did the Gatliff Stipulation mandate a change in the methodology used to report the actual weighted average per ton price of coal from Gatliff?

A. No. The Gatliff Stipulation established a new benchmark price and simplified the calculation of the escalators by eliminating concerns regarding the contracts included in the BOM District 8 benchmark and substituting the simpler escalator of the Consumer Price Index. The benchmark base price and the method for escalating the benchmark changed at that time, not the intent nor the method of comparison to the benchmark.

Q. Has the Commission previously issued guidelines or rulings for regulated utilities purchasing coal that address specified heat content?

A. Yes, this has been addressed in several proceedings. In Docket No. 830001-EU, Order No. 12645, issued November 3, 1983, the Commission adopted guidelines for long-term fuel contracts. In its guidelines, the Commission recognized the significance of heat content and that utility customers actually pay for heat content, not for a ton of coal of any

heat content. Under Part II, *Long-Term Agreements for Fuel, Fuel Handling Services, Fuel Transportation, Spot Purchases and Affiliate Transactions*, Section E states, "The Commission recommends that all fuel agreements incorporate clear specification for the fuel or service to be provided and bonus/penalty provisions to ensure that the fuel or services contracted for are provided in accordance with contract terms." See Document 3 of Exhibit __ (DAB-1).

In Docket No. 850001-EI-B, Order No. 14546, issued July 8, 1985, the Commission determined that quality adjustments to the invoice price are "properly considered in the computation of the average inventory price of fuel used in the development of fuel expense in the utilities' fuel cost recovery clauses." See Document 4 of Exhibit __ (DAB-1).

Commission auditors have performed semi-annual audits on Tampa Electric's fuel expense. During their audits, they have consistently reviewed all fuel expense including all heat content adjustments. These adjustments have always been recognized as an appropriate and necessary component of fuel expense and are consistent with the Commission's orders.

Q. How has Tampa Electric accounted for heat content adjustments in its calculation of the weighted average per ton price of coal purchased from Gatliff?

A. As indicated by Witness Hornick, Tampa Electric's reported weighted average per ton price of coal purchased from Gatliff for benchmark comparisons was based on a 12,550 Btu per pound heat content, as was the benchmark itself.

Q. Has the Commission been aware that heat content adjustments had been removed from Tampa Electric's calculation used for benchmark comparison?

A. Yes. Since the market benchmark was first established in 1988, Tampa Electric's reported price paid for Gatliff coal has consistently reflected only the base price of coal, excluding heat content adjustments, in its weighted average cost per ton paid calculation consistent with the methodologies in effect at the time. This result has been consistently compared with the benchmark.

The Commission's auditors reviewed and reported on this in a 1992 fuel adjustment cost recovery audit. Specifically, the Commission's Audit Report completed May 7, 1992 reported that quality adjustments were not included in the

price of coal for benchmark reporting purposes. The report made no indication of this being inappropriate. (Docket No. 920001-EI, Audit Control No. 91-344-2-2, page 5). See Document 5 of Exhibit __ (DAB-1).

Q. Why is it appropriate to calculate the benchmark price paid to Gatliff on a per ton basis without specifically describing the specific heat content value per ton?

A. Since the $38.00 benchmark beginning price is based on 12,550 Btu per pound quality coal, amounts paid for Btu per pound in excess of 12,550 or credits to prices paid for Btu per pound less than 12,550 must be excluded to compare "apples to apples." Witness Hornick points out that it is standard industry practice for coal contracts to be established on a price per ton basis with an adjustment for the Btu value of coal delivered. The Gatliff contract and the calculation of the price paid for comparison with the benchmark conform with that standard.

Q. Was the weighted average price per ton for Gatliff coal less than or equal to the established benchmark for 1993 through 1997?

A. Yes. Tampa Electric's weighted average per ton base price

of coal purchased for 1993 through 1997 was at or below the established benchmark.

Q. Are heat content adjustments normally included as a part of fuel expense for Total Fuel and Purchased Power Cost Recovery purposes?

A. Yes. Heat content adjustments have been and are included as a part of fuel expense for Total Fuel and Purchased Power Cost Recovery purposes for all coal payments Tampa Electric makes for long-term agreements as described in Order No. 14546. The total amount paid to Gatliff was appropriately included in "Fuel Cost of System Net Generation" on the A schedules.

Q. Are ratepayers adversely affected by Tampa Electric's inclusion of heat content adjustments for Gatliff coal in fuel expense?

A. No. Tampa Electric ratepayers pay only for what they get in heat content from Gatliff coal. By purchasing coal of higher Btu quality than specified based on the standard price per ton, Tampa Electric received more heat content resulting in additional generation.

Q. Please summarize your testimony.

A. In 1988 the Commission approved the implementation of a benchmark methodology to set a threshold price level which, if Gatliff's price exceeded, would provide a need for Tampa Electric to justify. Specifically, the benchmark was established based upon Tampa Electric's Gannon Station coal specifications, including heat content, and was to be escalated or de-escalated annually based on BOM District 8 market data. As of December 31, 1992, a comparable new beginning benchmark price was established. Unlike the 1988 escalation process, the new benchmark price was to be adjusted annually based on the Consumer Price Index. The benchmark base price and the method for escalating the benchmark changed, not its intent nor the method of comparison.

Since 1988 for benchmark comparisons, Tampa Electric's reported price per ton paid to Gatliff has consistently excluded heat content adjustments. This is appropriate and the only meaningful manner for comparison since the heat content in the benchmark is 12,550 Btu per pound. For the period 1993 through 1997, Tampa Electric's standard price per ton has been less than or equal to the benchmark.

For Total Fuel and Purchased Power Cost Recovery purposes, total expenses for Gatliff coal including heat content adjustments are appropriately included. The Commission has ruled in various orders that heat content adjustments are an appropriate component of fuel expense. Heat content adjustments reflect the differences in Btu's delivered to meet generation needs. As demonstrated in Witness Hornick's testimony, these adjustments result in the same total amount paid based on the specified heat content of 12,550 Btu per pound. Therefore, the total fuel expense from Gatliff purchases for the period 1993 through 1997 was appropriate for full recovery through the Fuel and Purchased Power Recovery Clause.

Q. Does this conclude your testimony?

A. Yes, it does.

DOCKET NO. 980001-EI
TAMPA ELECTRIC COMPANY
(DAB-1)
WITNESS: DEIRDRE A. BROWN
FILED: NOVEMBER 16, 1998

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into affiliated cost-plus fuel supply relationships of Tampa Electric Company.	) DOCKET NO.	870001-EI-A
	) ORDER NO.	20298
	) ISSUED:	11-10-88

The following Commissioners participated in the disposition of this matter:

KATIE NICHOLS, Chairman
THOMAS M. BEARD
GERALD L. GUNTER
JOHN T. HERNDON
MICHAEL McK. WILSON

APPEARANCES:

LEE L. WILLIS, Esquire, and JAMES D. BEASLEY, Esquire, Ausley, McMullen, McGehee, Carothers and Proctor, P. O. Box 391, Tallahassee, Florida 32302
On behalf of Tampa Electric Company.

JACK SHREVE, Esquire, and STEPHEN C. REILLY, Esquire, Office of the Public Counsel, c/o Florida House of Representatives, The Capitol, Tallahassee, Florida 32399-1300
On behalf of the Citizens of the State of Florida.

JOSEPH McGLOTHLIN, Esquire, Lawson, McWhirter, Grandoff & Reeves, 522 E. Park Avenue, Suite 200, Tallahassee, Florida 32301
On behalf of Florida Industrial Powers Users Group.

MICHAEL B. TWOMEY, Esquire, Florida Public Service Commission, Division of Legal Services, 101 East Gaines Street, Tallahassee, Florida 32399-0863
On behalf of the Commission Staff.

PRENTICE P. PRUITT, Florida Public Service Commission, Office of General Counsel, 101 East Gaines Street, Tallahassee, Florida 32399-0862
Counsel to the Commissioners.

ORDER IMPOSING MARKET-BASED PRICING ON COAL PRODUCED FROM AN AFFILIATE AND ACCEPTING SETTLEMENT AGREEMENT ON IMPLEMENTATION OF MARKET-BASED METHODOLOGY

BY THE COMMISSION:

SUMMARY

We have determined as a matter of policy that utilities seeking the recovery of the cost of coal purchased from an affiliate through their fuel and purchased power cost recovery

clauses shall have their recovery limited by a "market price" standard, rather than under the "cost-plus" standard now in effect. We also have accepted a stipulation among the parties to this docket which provides a methodology for implementing the market pricing standard for not only the coal Tampa Electric Company (TECO) purchases from an affiliate, but the transportation and handling services it purchases from affiliates, as well.

BACKGROUND

In February, 1986, we opened Docket No. 860001-EI-G for the purpose of investigating the affiliated cost-plus fuel supply relationships between Florida Power Corporation (FPC) and TECO and their respective affiliated fuel supply corporations. Also in February, 1986, we had established Docket No. 860001-EI-F, Investigation Into Certain Fuel Transportation Costs Incurred By Florida Power Corporation in Order No. 15895 for the purpose of determining why FPC's costs to transport coal by its affiliated waterborne system exceeded its costs to transport coal by non-affiliate rail. In September, 1987, we issued Order No. 18122, which removed TECO from Docket No. 860001-EI-G, established this docket for hearing the TECO issues.

After considering the post-hearing briefs of the parties and our Staff's recommendations, we, at our September 6, 1988 Agenda Conference, determined that affiliated coal should be priced at market price for recovery through the utilities' fuel cost recovery clauses. We directed our Staff to conduct discussions amongst the affected parties for the purpose of determining how best to establish and implement market pricing mechanisms.

After extensive negotiations, the parties to this docket arrived at a stipulated agreement which provided a methodology for establishing "market" price proxies for all of TECO's affiliated fuel transactions. This Order describes the TECO hearing in this docket, as well as the stipulated agreement, which we accept and approve.

Before describing TECO's affiliated fuel and fuel transportation system, it is worth noting that TECO did not object to the adoption of a market pricing system so long as the system fairly represented the price received for comparable coal on the competitive market. TECO also took the position, as did all parties, that market pricing should cut both ways and that any lower of cost or market method or market price cap method should be rejected. While TECO took the position that cost-plus pricing has provided an effective means of ensuring that only reasonable and prudently incurred fuel costs have been passed on to its customers, it agreed that the cost-plus methodology was administratively costly and caused unnecessary regulatory tension because it left the lingering suspicion, even in the face of outstanding results, that it resulted in higher costs to customers than would have been available through arm's-length contracts. Consequently, as will be noted below, the hearing in this docket was not over whether a market pricing system should be adopted but, rather, how it should be adopted.

THE TECO AFFILIATE SYSTEM

There are two primary components to the TECO affiliate coal supply system:

1. The coal supply affiliate (Gatliff Coal Company); and
2. The waterborne transportation system (TECO Transport and Trade Corporation).

Gatliff Coal Company

Gatliff Coal Company (Gatliff) is a subsidiary of TECO Coal, Inc. which, like TECO, is a subsidiary of TECO Energy, Inc. The other subsidiary of TECO Coal, Inc., Rich Mountain Coal Company controls a handling facility with coal-sizing capability on the Norfolk Southern Railroad in Tennessee, but is not currently operational and supplies no coal to TECO.

According to TECO witness John R. Rowe, Jr., Assistant Vice-President of TECO, TECO's Gannon Station units were constructed in the 1950's and 1960's with wet bottom boilers designed to burn Western Kentucky No. 9 coal having a 3% to 4% sulfur content and low ash-fusion temperature characteristics. This high sulfur, low ash-fusion coal was in abundant supply adjacent to the inland waterway system and was, said Rowe, the most inexpensive coal that could be purchased. However, with the passage of the Clean Air Act in 1970 and the associated Florida State Implementation Plan, TECO found it necessary to burn coal at Gannon Station which produced an average of not more than 2.0 lbs. per million BTU of sulfur dioxide, with a maximum of 2.4 lbs. per million BTU of sulfur dioxide. The requirement for coal that met the combined low sulfur and low ash-fusion characteristics created a serious fuel supply problem for TECO at its Gannon Station because such coal was extremely rare according to Rowe.

To meet the applicable air quality regulations, TECO converted four of the six coal burning units at Gannon Station to low sulfur oil and began a worldwide search in 1971 for a source of low sulfur, low ash-fusion coal that would be suitable for its boilers. The search revealed that there were many foreign and domestic coals that were low sulfur, but few that also met the necessary ash-fusion and slagging characteristics required of the Gannon wet bottom boilers. Suitable seams of coal were found in the western United States, but the high cost and lack of dependability of available transportation were of great concern to TECO and, ultimately, made the use of these coals prohibitively expensive. Polish coal was used for a time but labor and other problems shut off the supply of this coal in 1979-80. Ultimately, suitable eastern coals were narrowed to the Blue Gem seam in eastern Kentucky, and test burns in 1973 revealed that it could successfully be burned in the two largest Gannon Station units.

Gatliff (then named Cal-Glo Coal, Inc.) mined the Blue Gem seam in large quantities in a market that was dominated by many small producers. TECO first began purchasing coal from Cal-Glo

in early 1973. Subsequently, when Cal-Glo experienced financial problems, TECO made it a loan to keep it viable and finally purchased the entire operation by August of 1974. In 1980, the State of Florida modified its sulfur dioxide emission limits to permit Gannon Units Nos. 1-4 to burn Blue Gem coal. Since then, all six units at Gannon station have burned Blue Gem coal. Cal-Glo Coal, Inc.'s name was changed to Gatliff Coal Company in 1982.

TECO's initial 1974 contract with Gatliff called for the price of coal to be established by an independent consultant's survey of market prices. This practice was continued until 1978 when this Commission ordered a change to a cost-plus a return on equity pricing system. See Order No. 7987 in Docket No. 760846. On March 2, 1978, TECO signed a new contract with Gatliff, which provided that coal would be mined and supplied to TECO on a cost-plus basis with Gatliff being entitled to earn the same mid-point return on its invested equity as allowed to TECO by this Commission. This contract was approved by the Commission in Order No. 8278 and its term was extended through December 31, 1996.

In 1981 this Commission hired the consulting firm of Emory Ayers Associates, Inc. to conduct a study to determine if the cost-based price paid by TECO to Gatliff was in line with market prices. The Emory Ayers study concluded that the cost-based coal price was in line with the market for the long term supply of this type coal and the study established a reasonable market price for this coal as of 1981.

TECO submits that its control of a sizable reserve of the relatively scarce Blue Gem coal in the eastern United States is absolutely critical to the reliable operation of its Gannon Station in view of the remaining lives of the boilers. TECO, said Rowe, believes this coal provides a least-cost alternative, which is superior to other environmental compliance solutions and assures that the utility will have a source of environmentally acceptable coal for the remaining lives of the Gannon units.

TECO Transport and Trade

TECO Transport and Trade Corporation, is a subsidiary of TECO's parent company, TECO Energy, Inc. TECO Transport and Trade in turn, has five separate subsidiary operating companies which make up the water transportation system. Except for a small (less than ten percent or about 500,000 tons per year) share of TECO's requirements of Gatliff's sales, which are delivered to Gannon Station directly by rail, all of TECO's coal is delivered to Big Bend and Gannon Stations by barge under the direction of TECO Transport and Trade Corporation.

Mid-South Towing, which was established in 1959, owns or operates ten tow boats and over three hundred river barges. It transports coal from the coal fields near the Ohio River to the Electro-Coal Transfer facility some 40 miles down river from New Orleans.

The Electro-Coal Transfer facility is over 200 acres in size, provides on-ground storage for 4.5 million tons, and

controls over three miles of riverfront. It was established in the early 1960s and provides a location for river vessels to discharge coal and transfer it to ocean vessels or to ground storage. Bulk products hauled for others are also stored or transloaded by Electro-Coal.

Gulfcoast Transit was established in 1959 to carry coal from Electro-Coal to TECO's generating stations. It owns 11 ocean-going, tug-barge combinations ranging in size from 9,000 tons to 38,000 tons. According to Rowe, Gulfcoast pioneered the ocean-going, coal shuttle idea for coal to peninsular Florida. Gulfcoast hauls coal for TECO and backhauls phosphate and other bulk products for others. Wher Gulfcoast delivers the coal to Tampa, it is off-loaded by G. C. Service Company, TECO Transport and Trade's stevedoring and ship repair group. TECO Towing, the fifth component of TECO Transport and Trade, was formed to move ICC-regulated bulk commodities and is currently inactive. According to Rowe, the third party transactions have provided significant savings to TECO's ratepayers by spreading the fixed costs of affiliated operations over a larger tonnage base.

Mr. Rowe testified that the transportation system was formed to lower costs and provide reliable transportation of coal for the benefit of the utility's ratepayers. He said that when the system was first formed, rail rates to Florida from the Midwestern coal fields were so high that coal was not competitive with oil. Because TECO did not want to be held captive by excessive dependence on rail transportation and a reliable water system for coal delivery to Florida did not exist, TECO, said Rowe, took the initiative and developed a water transportation system beginning in 1959 with the formation of Gulfcoast and Mid-South. Initially joint ventures with Peabody Coal Company and Virginia-Carolina Chemical Company, these operations were wholly-owned by TECO by May of 1968.

From 1959 to 1965 the transfer of coal from river barges to ocean vessels was accomplished by "mid-streaming" (direct vessel-to-vessel transfer at anchor) between New Orleans and Baton Rouge. When the mid-streaming proved unsatisfactory for the long term, TECO and Peabody Coal Company first leased an existing transloading facility at Myrtle Grove and, then, in October, 1968, incorporated Electro-Coal for the purpose of building and operating a more modern transloading and storage facility at Davant, Louisianna, some two miles south of Myrtle Grove on the Mississippi. According to Rowe, the new Electro-Coal facility was finished in 1965 and survived Hurricane "Betsy," which virtually demolished the old Myrtle Grove terminal. By May, 1968, TECO had purchased Peabody's 50 percent ownership in Electro-Coal and, thereafter, wholly-owned all of the transportation companies.

Mr. William N. Cantrell, Vice-President for Regulatory Affairs for TECO, testified that the cost-plus pricing system should be modified because it had caused: (1) substantial regulatory concerns for the Commission; (2) a substantial commitment of resources by the utilities in complying with the Commission's regulatory needs; and (3) ratepayer doubts concerning the use of a cost-plus concept. He said that while

TECO believed that the cost-plus pricing system had been fair and reasonable from its ratepayers' prospective, the utility had undertaken a search for another acceptable pricing alternative, which would continue to provide an assured, reliable source of services and products from affiliates, at a competitive price, with far less regulatory tension.

Mr. Cantrell stated that the market price approach was attractive from a theoretical point of view because it should reflect the arm's-length value of the goods or services being transferred. To do this properly, he said, involved being able to identify the proper product and geographic markets in order to compute comparable market prices. He added that doing this was extremely difficult in the case of the waterborne transportation of coal to Tampa, as provided by TECO Transport Trade, and the supplying of low sulfur, low ash-fusion coal produced by Gatliff. Cantrell said that despite the lack of comparables for the waterborne transportation and the Blue Gem coal, it was still possible to develop a market-based approach by establishing a base price, using an analysis of the market, and then provide for indexing of the base price in the same manner as did many arm's-length contracts negotiated by independent parties. He said that TECO was proposing such contracts for both Gatliff Coal and TECO Transport and Trade.

As testified to by Cantrell, TECO proposed a new coal contract with a term of ten years and a minimum annual tonnage of 1.1 million tons. It would have a base price set for the 1.1 million minimum tonnage level and a lower price for supplemental tonnage above the minimum. According to Cantrell, the proposed base prices would ensure that TECO, at the inception of the contracts, would pay no more for coal than it did under the cost-plus pricing system. Beginning in 1989 the price would be adjusted quarterly based upon appropriate indices. During the fifth year of the contract, a price adjustment of plus or minus 10 percent could be made in the adjusted contract price if it differed from an assessment of what the market price of the coal would be. Thereafter, the new contract price would be adjusted on a quarterly basis by the use of indices. During the tenth contract year, TECO would again assess the marketplace and determine a market-based price for the coal needed at Gannon Station. Gatliff would have an opportunity to match the market price and, thereby, extend the contract or to decline and allow TECO to contract elsewhere.

Mr. Cantrell said that the base price under the proposed coal contract would be similar to the price paid under the current contract, which he said was at or below the market for coals of a quality that could be burned at Gannon Station. He said that the base coal contract price would be indexed by publicly reported indices related to "labor," "materials and supplies," and "maintenance and equipment."

According to Cantrell, the new transporation contracts would have terms of ten years with minimum annual tonnages of 1,750,000 tons for river transportation and 4,000,000 tons for the terminal and Gulf transportation. As with the proposed coal contract, the proposed transportation contracts would have base prices for the minimum tonnage levels and lower base prices for supplemental tonnages. Like the coal contract, the

transportation contracts would be indexed for their first five years with a market-price adjustment in the fifth year based upon an assessment of the market. In the tenth year, the market would again be reassessed with TECO Transport and Trade having the opportunity to match the new price.

Mr. Cantrell said the base price for the transportation contracts would be similar to the price paid under the cost-plus contract, which he said was, by all measures that TECO could find, below a market price for the transportation of coal. The transportation base prices would be indexed by publicly reported indices for "fuel" and "variable" components.

Mr. Cantrell closed by saying that the proposed contracts represented a market-based approach because they were similar to the base price, indexed contracts commonly entered into between arm's-length parties in the competitive market.

Ms. Roberta S. Bass, a Planning and Research Economist in the Fuel Procurement Bureau of the Commission's Division of Electric and Gas, provided an overview of the organizational structure of TECO Transport and Trade Corporation and TECO Coal Corporation. In addition to describing the organizational relationships discussed in Mr. Rowe's testimony, Ms. Bass described the contractual relationships between TECO and the various affiliates and the manner in which costs were allocated between TECO and non-utility business. Generally, TECO's affiliated goods and services have been provided at the cost of providing them, plus a return on invested equity at a rate equal to that of the mid-point on equity authorized to TECO by this Commission. Likewise, costs are allocated between TECO and third party business directly, where possible, and otherwise on a percentage-of-use basis.

Mr. Hugh Stewart, General Engineer at the Federal Energy Regulatory Commission, testified on behalf of the Staff of the Florida Public Service Commission. Mr. Stewart testified that TECO's affiliate coal program had generally been successful because it took the time to determine that the coal transportation and production services were cost-effective before it acquired an ownership interest in the facilities. In this regard, he cited a study prepared for TECO, by an independent consultant, before it committed to coal, showing that coal could be economically produced and shipped to the Gannon Station. In the same vein, Stewart said that it was only after contracting in the competitive market for coal supply and transportation services that TECO acquired its ownership interest in the barge operations and the transloading facility. Stewart also testified that TECO contracted with an independent coal mine engineering consultant to determine the cost of producing coal from the Gatliff reserves before acquiring an ownership interest in those reserves.

Mr. Stewart acknowledged that if the wet bottom boilers at TECO's Gannon Station were to operate at maximum efficiency, TECO not only had to obtain coal with low sulfur levels, but low ash-fusion characteristics too. He acknowledged that coal of this type is relatively scarce and said that, after an apparently extensive search, TECO discovered that coal of this type was being mined by Coal-Glo Coal, Inc. from the Blue Gem

Seam in eastern Kentucky. Stewart noted that TECO executed a ten year contract with Coal-Glo for the supply of coal and did not acquire an ownership interest in the mining company until after the mine experienced financial difficulties.

Mr. Stewart discussed the several expansions of annual throughput capacity that had been accomplished at the Electro-Coal Terminal and voiced the opinion that the 1969 expansion from 4.0 to 6.0 million tons per year was justified by TECO's Big Bend generating units, the first of which was scheduled to come on line in 1970. He said that it was his opinion that the subsequent expansions - to 12.0 million tons per year in 1982 and to 25.0 million tons per year in 1984 - were to meet expected export markets and that no allocation of these expansions should be made to TECO's utility business.

On cross-examination, Mr. Stewart acknowledged that he had developed a "sanity check," using the publicly reported rail coal rates paid by Florida municipally-owned utilities, which showed that the total transportation costs paid by TECO to its affiliate were less than the surrogate rail cost.

Mr. John Pyrdol, Energy Economist with the Energy and Fuels Analysis Branch of the Federal Energy Regulatory Commission, also testified on behalf of the Staff of the Florida Public Service Commission for the purpose of discussing the benefits of a market price cap for affiliated transactions and to calculate the market price for the coal TECO purchases from its affiliate, the Gatliff Coal Company.

Mr. Pyrdol stated that it was important to utilize a market price for the allowable cost of coal purchased from an affiliate because a market price attempted to replicate a price resulting from an arm's-length transaction, where a utility would have nothing to gain, and something to lose, by accepting a higher than market-competitive price. By contrast, he said, a utility's incentive to pay the lowest possible price for coal may be blunted or otherwise subordinated by a willingness to accept a higher price from an affiliate mining operation. Pyrdol contended that this willingness to accept a higher affiliate price could stem from either: (1) a desire to keep the affiliate "whole", even if the affiliate prices are excessive; or (2) to help the affiliate earn greater profits.

Mr. Pyrdol testified that cost-plus contracts of the type between TECO and its affiliates are used almost solely when a utility is buying coal from an affiliate supplier and almost never in arm's-length contracts. He said that the most common form of arm's-length contract in the utility coal business is the base price plus escalator contract. According to Pyrdol, the cost-plus contract allows the seller to recover all of its costs plus a guaranteed profit. This allows the utility to keep its affiliate supplier whole by paying all of its costs of production, while insuring its profit margin. In contrast to this type of contract, Pyrdol said the base price plus escalator contract does not give the supplier a guaranteed, full cost pass-through, plus guaranteed profit. Rather, he said, the base price plus escalator contract is set up to have the price reflect competitive market conditions, both when the base price is established and in any changes made to this

price. In the base price plus escalator contract, a base price is established at the outset of the contract, and then the price is changed by a set of market-sensitive indices which can increase or decrease the price. These indices, which are a subject of contract negotiation, typically are publicly reported and reflect changes in the components of production such as labor, fuel, taxes and others. These contracts may also contain "market reopener" provisions, which, after a given number of years, allow the base price to be raised or lowered to meet the current market.

Pyrdol said that the risk of non-recovery of costs in the competitive, arm's-length coal transaction is borne by the seller, not the buyer. He said that, similarly, this risk should be borne by the affiliate mine and not by the ultimate buyer, the utility ratepayer. Pyrdol testified that it was his opinion that all of TECO's affiliate fuel-related contracts suffered from the same potential conflicts of interest that the coal contract was subject to, and that market-price caps should be established for the barge and transloading contracts as well. He added that he did not have the necessary information to construct the transportation-related market prices and was, therefore, testifying only to a market price cap for Gatliff coal. Mr. Pyrdol noted that the Federal Energy Regulatory Commission has used a market price test and cap for affiliated coal operations since 1981.

Mr. Pyrdol said that there are many unique characteristics found in different regional and local coal markets serving different utility power plants and that, therefore, the calculation of a market price must consider the particular circumstances of the coal market in question. He said that there are essentially three steps to be followed in determining a market price for a given coal. First, the product market must be identified. Second, the geographical boundaries of the market must be determined. Third, select transactions should be examined within the product and geographic markets in order to determine the market price.

In constructing his market price cap for Gatliff coal, Pyrdol testified that he accepted TECO's representations that the Gannon boilers required low sulfur coal with low ash-fusion characteristics and, therefore, limited his analysis to similar quality coal. He next determined this type coal was found in limited quantities in eastern Kentucky, parts of Alabama, Illinois, Tennessee, Virginia and in some western states. After further analyzing these coal sources, he determined to further limit his analysis to coal produced in the Blue Gem Stream in eastern Kentucky, where Gatliff is located.

In determining which transactions to include in his analysis, Pyrdol elected to eliminate transactions on the spot market and focus on transactions involving longer-term, larger-volume contracts because the Gatliff transaction is a contract arrangement. He further determined that, generally, eastern utilities do not utilize coal that is both low in sulfur and in ash-fusion temperature and, therefore, it was difficult to find price information to calculate a market price for the Gatliff coal. In lieu of the market price information of comparable coal, Pyrdol used a 1981 study commissioned by

this Commission entitled "A Market Survey of Boiler Fuel for Tampa Electric Company's Gannon Plant." This study, which was conducted by Emory Ayers Associates, Inc. and filed with this Commission on June 1, 1981, identified a contract market price for Blue Gem coal of $40 per ton as of 1981. To arrive at an adjusted market price for Blue Gem coal for each year 1981-1987, Pyrdol said he adjusted the 1981 $40/ton price for the Gatliff coal by the average annual percentage change in prices experienced by all coal produced in Bureau of Mines District (BOM) No. 8. BOM No. 8 includes eastern Kentucky, southern West Virginia, and parts of Virginia and Tennessee, and, according to Pyrdol, is the source of the highest-quality, highest-priced coal produced in Appalachia. Mr. Pyrdol said that when he compared the adjusted market prices to the actual prices TECO paid to Gatliff, he concluded that the Gatliff prices had been in line with the market price from 1981 to 1985 but had been higher than the market in 1986 and 1987.

Mr. Pyrdol recommended that the Commission limit the recovery of Gatliff coal through TECO's fuel adjustment clause to the adjusted market price for all future sales of the Gatliff coal to TECO. In doing so, Pyrdol noted that only a portion of the so-called Gatliff coal is actually produced by the Gatliff mine. He said the rest is purchased from independent mines at a price ($28-$31/ton in 1984) significantly below the cost of coal to TECO, and averaged for cost purposes with the coal actually produced by Gatliff. Specifically, Pyrdol said that in 1986, Gatliff actually produced 689,000 tons of coal while it bought 860,000 tons from other producers. Mr. Pyrdol took the position that the adjusted market price resulting from his methodology should only apply to the coal actually produced by Gatliff, while the less expensive coal that Gatliff buys from independent mines and resells to TECO should reflect the actual purchase price to Gatliff and not the higher market price. He said that since the Gatliff/TECO coal contract required TECO to take only a minimum of 500,000 tons per year, TECO should minimize the take of Gatliff coal and maximize its take of the less expensive Blue Gem coal produced by independent suppliers.

On cross-examination, Mr. Pyrdol acknowledged that his adjusted market price was based upon the total sales of BOM No. 8 coal to utilities and that it did, in fact, include some sales under spot market contracts. He accepted the removal of the spot sales as being reasonable and acknowledged that their removal, plus a quality characteristics adjustment suggested by TECO's Mr. Cantrell would increase his 1987 adjusted market price for Gatliff coal from approximately $36.60/ton to about $39.60/ton.

Mr. Harry T. Shea, Chief of the Bureau of Fuel Procurement, Division of Electric and Gas, Florida Public Service Commission, testified on behalf of the Commission Staff. Mr. Shea testified that the Commission's fuel procurement guidelines contained in Order No. 12645 state that all purchases from affiliated companies should be priced at levels not to exceed those available on the competitive market and that contracts with affiliated companies should be administered in a manner identical to the administration of a contract with an independent company. Mr. Shea said the

Commission should evaluate the reasonableness of the cost of fuel-related goods and services obtained from affiliate companies by one of three methods.

Mr. Shea's first and preferred method, where possible, was to establish a "market test" or market price by comparison to the price of similar products or services purchased in competitive markets. His second preferred method was by comparison to a price calculated by allocating an affiliate's fixed and variable costs to utility operations and non-utility operations based upon tonnage or some other appropriate measurement. A return on invested equity could be set equal to the midpoint of the utility's allowed range or equal to that realized by other companies in the same type of business. Mr. Shea's third and least preferred methodology was essentially a cost-of-service methodology that would involve reviewing the affiliate's expenses and capital structure to determine what a reasonable price should be. Shea stressed that the last methodology should only be employed when the market test and cost allocation methodologies were not applicable.

Mr. Shea testified that he would recommend using the methodology presented by Mr. Pyrdol to evaluate a comparable market (F.O.B. mine) price for Gatliff Coal Company. He said that he agreed with Pyrdol that a market price evaluation would be preferable for TECO's transportation affiliates, but added that he could not recommend such a methodology because he was unable to identify a sufficient number of comparable transactions to define a market price for the services provided by these companies.

CONCLUSION

As a result of this hearing and the companion hearing in Docket No. 860001-EI-G concerning Florida Power Corporation, we have concluded that it is desirable, where possible, to gauge the reasonableness of fuel costs sought to be recovered through a utility's fuel adjustment clause by comparison to a standard that attempts to measure what a given product or service would cost had it been obtained in the competitive market through an arm's-length contract with an unaffiliated third party. We believe that limiting cost recovery in this manner will best serve the interests of TECO's customers by insuring that they are not required to pay more than a market price for the fuel component of their electricity because of an affiliation between their utility and a fuel supplier.

We note that no party to this docket has alleged that either TECO's Gatliff coal or its TECO Transport and Trade rates are unreasonable and should be disallowed. In fact, after accepting the adjustments urged by TECO, witness Pyrdol's adjusted market price for Gatliff coal was within a dollar of the actual price then being paid for that coal. Likewise, TECO's affiliated waterborne rate for the entire route was shown to be significantly lower than the comparable rail rate/ton/mile being paid by several Florida Municipal electrical systems, whose coal and transportation rates are publicly reported.

Irrespective of whether any imprudence or unreasonable expenses are found and disallowances made, we agree with the parties to this case that a change from cost-plus pricing is warranted. While we believe that the current system has been generally successful in allowing only reasonable and prudent costs to be passed through the utilities' fuel adjustment clauses, we concur with TECO's position that it has been administratively costly, caused unnecessary regulatory tension, and left the lingering suspicion that it has resulted in higher costs to a utility's customers.

Implicit in cost-plus pricing is the requirement that one is capable of conducting a cost-of-service analysis of a business to determine that its expenses are both necessary and reasonable. This is a methodology that is demanded for monopoly utility services, and which usually proves to be complex, expensive and time consuming. It is a methodology which requires a high degree of familiarity with the capital requirements and expenses necessitated by the operation of the business being reviewed. Cost-of-service analysis of affiliate operations places additional demands upon the regulatory agency in terms of time, expense and acquiring additional expertise. All come at some additional cost that must eventually be borne by the ratepayer, either in his role as a customer or as a taxpayer. Furthermore, there seems to be no end to the types of affiliated businesses that we are expected to become sufficiently familiar with so that we might judge the reasonableness of their costs on a cost-of-service basis.

Cost-of-service regulation for public utilities is necessitated by their monopoly status and the attendant lack of significant competition, if any, for their end product. Cost-of-service regulation exists as the proxy for competition to insure that utilities provide efficient, sufficient and adequate service and at a cost that includes only reasonable and necessary expenses. Cost-of-service regulation of some type is essential when there is no competitive market for the product or service being purchased; it is superfluous when such a competitive market exists.

There is another reason for switching to a market pricing system that was alluded to in TECO's statement that the current system, no matter how outstanding the results, left lingering suspicions that it resulted in higher costs. That this might be true may be seen by contrasting affiliated and non-affiliated contracts. The latter, with few exceptions, are characterized by arm's-length transactions entered into in the competitive marketplace. Typically, the contracts result from competitive bidding systems in which the contract is awarded to the qualified bidder submitting the lowest bid. In any event, the utility's negotiator has clearly defined loyalties and knows whose interests he or she is to protect. In contrast to this, the typical affiliate contract is let without the benefit of competitive bidding. Instead, confident that the contract will be given to the affiliate, representatives of the two companies negotiate the rate at which the product or service will be purchased.

Considering the many advantages offered by a market pricing system, we, as a policy matter, shall require its

adoption for all affiliated fuel transactions for which comparable market prices may be found or constructed.

In concluding, we note the following caveats: (1) from the record in this case, we are convinced that market prices can be established for the affiliated coals; (2) market prices for the transporatation-related services should be established if possible, but if not, methodologies for reasonably allocating costs should be suggested; and (3) cost-of-service methodologies should be avoided, if possible

PROPOSED STIPULATION AGREEMENT

In accordance with our directions at our September 6, 1988 Agenda Conference, our Staff, the Office of Public Counsel and TECO met to discuss the methods by which market pricing could be adopted for the affiliated coal and coal transportation transactions between TECO and its affiliates. As a result of numerous and lengthy negotiations, the parties have arrived at a Stipulation (Attachment A to this Order) which they have submitted for our approval.

According to the Stipulation, TECO shall be free to negotiate its contracts with its affiliates in any manner it deems to be fair and reasonable. TECO agrees to prudently administer the provisions of its contracts. Furthermore, TECO agrees to report to the Commission the actual transfer prices paid by it to its affiliates under the contracts in the normal course of the fuel adjustment proceedings.

With respect to Gatliff Coal Company, the Stipulation provides a benchmark for regulatory review of the coal purchased by TECO from Gatliff by utilizing an initial market price for TECO's transactions with Gatliff of $39.44/ton F.O.B. Mine, as of December 31, 1987. For purposes of regulatory review, this base price will be escalated or de-escaluated by the annual percentage change in BOM District 8 Data for Coal Shipments as reported on Form 423 for the weighted average price per million BTU of contract transactions (excluding all spot transactions), which meet TECO's Gannon Station specifications for heat content, sulfur content, ash content, and content and pounds sulfur dioxide per million BTU. An example of the benchmark market price and calculation is shown on Attachment 1 to the Stipulation, as well as the Gannon Station coal specifications.

As described in Paragraph 7 of the Stipulation, a 5% zone of reasonableness will be established around the adjusted market price for purposes of regulatory review. TECO's actual transfer price paid to Gatliff, based upon the total average price of Gatliff produced coal and coal purchased and resold as Gatliff coal, would be the cost allowed for recovery through TECO's fuel adjustment clause so long as the transfer price fell within the described zone of reasonableness. If the actual transfer price exceeded the ceiling of the 5% zone of reasonableness, the excess would be disallowed for recovery unless TECO adequately justified the reasonableness and prudence of the excess. (See Appendix 2 to the Stipulation). If the actual transfer price fell below the floor of the 5% zone of reasonableness, TECO would recover through its fuel

clause only the actual transfer price.

Pursuant to the Stipulation, the parties agreed that the record in this proceeding indicated that the prices currently paid by TECO to TECO Transport and Trade are reasonable. Notwithstanding this, TECO agrees to the establishment of a benchmark price for coal transportation services to be used prospectively for regulatory review purposes. While TECO stated that it will execute its new contracts with TECO Transport and Trade at approximately the currently existing rates, which are less than current rail rates between the same points, the reasonableness of its actual transfer price for all of the transportation and transportation-related services from mine to generating plant would be compared to a coal transportation benchmark price. As shown on Attachment 3 to the Stipulation, the transportation benchmark would be calculated by averaging the two lowest comparable publicly-available, rail rates (in cents per ton-mile) for coal to other utilities in Florida and then multiplying that average times the average rail miles from all of TECO's coal sources to TECO's generating plants. The product would then have added to it the costs of privately-owned rail cars on a per ton, per trip basis. The total would be the coal transportation benchmark price. The actual transportation transfer price paid by TECO to TECO Transport and Trade, pursuant to its contracts, would be recoverable through the fuel adjustment clause, as long as it was equal to or less than the benchmark price. Any excess above the benchmark would be disallowed for cost recovery unless justified by TECO.

Pursuant to its terms, the Stipulation would be effective upon Commission approval, which was provided at our October 18, 1988 Agenda Conference.

In his letter forwarding the Stipulation, counsel to TECO represented that he had supplied counsel to the Florida Industrial Power Users Group (FIPUG) [the only other party to the proceeding] with a copy of the Stipulation and had been advised that FIPUG had no objection to the Commission's final action on it.

We believe that the proposed Stipulation meets our policy guidance and is in the public interest and shall, therefore, approve it. Briefly, with respect to the coal, the initial price is consistent with witness Pyrdol's modified methodology for vintaging the 1981 cost determined by the Emory Ayers study. Likewise, the initial price is consistent with the price TECO has recently been paying for this coal, a price no party has sought disallowances for.

The initial coal benchmark price will be escalated or de-escalated by the average annual percentage change in a large number of contract coal transactions for coal mined in the same BOM District as the Gatliff coal. Only those contracts that meet or exceed TECO's Gannon Station quality specifications will be included. These factors, coupled with the fact that many of these contracts were executed at approximately the same time as the Gatliff contract, go a long way towards fulfilling the goal of replicating a comparable coal for market pricing purposes. We are confident that the changes indicated by this

large group of contracts will adequately reflect changes in the "market."

If one considers the objective of coal transportation services to be the movement of the coal from the mine to the generating plant, then rail service and the total waterborne system are not only comparable, but competitive to a large degree, as well. We believe using the average of the two lowest publicly available rail rates for coal being shipped to Florida will provide a reasonable market price indication of the value being provided by TECO's affiliate waterborne system.

In view of the above, it is

ORDERED by the Florida Public Service Commission that market-based pricing for affiliate fuel and fuel transportation services shall be used for the purposes of fuel cost recovery where a market for the product or service is reasonably available. It is further

ORDERED that the Stipulation (Attachment A) of the parties to this docket detailing methodologies for calculating market prices for Gatliff coal and the coal transportation services of TECO Transport and Trade Corporation is approved.

By ORDER of the Florida Public Service Commission, this 10th day of NOVEMBER, 1988.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

MBT

by: Kay Flynn
Chief, Bureau of Records

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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060,. Florida Administrative Code; or 2) 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 sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

ATTACHMENT A

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into Affiliated Cost-Plus Fuel Supply Relationships of Tampa Electric Company	DOCKET NO. 870001-EI-A Submitted for filing 10/13/88

STIPULATION

1. At the Commission's Agenda Conference on September 6, 1988, the Commission reviewed the affiliated cost-plus fuel supply relationships between Tampa Electric Company ("Tampa Electric") and its affiliates, Gatliff Coal Company ("Gatliff") and TECO Transport and Trade ("TTT"), and determined that cost-plus pricing should be replaced with market pricing for fuel supply relationships of Tampa Electric wherever possible.

2. In accordance with the Commission's direction, Staff, Office of Public Counsel ("OPC") and Tampa Electric have met to discuss the methods by which market pricing can be adopted for the affiliated coal and coal transportation transactions between Tampa Electric and its affiliates. As a result of these discussions, Staff, OPC and Tampa Electric agree as follows:

3. Public Counsel and Staff agree that the specific contract format, including the pricing indices which Tampa Electric may include in its contracts with its affiliates, are not subject to this proceeding and Tampa Electric may negotiate its contracts with its affiliates in any manner it deems to be fair and reasonable. Tampa Electric agrees to prudently administer the provisions of such contracts.

4. The transfer prices paid by Tampa Electric under contracts with its affiliates shall be reported to this Commission in the normal course of the fuel adjustment proceeding.

Gatliff Coal Company

5. In order to provide a benchmark for regulatory review of the coal purchased by Tampa Electric from Gatliff, Staff, Public Counsel and Tampa Electric agree that the initial market price to be used for computing the regulatory benchmark for Tampa Electric's transactions with Gatliff should be $39.44/Ton FOB Mine as of December 31, 1987.

6. For purposes of regulatory review, this base price should be escalated/de-escalated by a market based index described in Attachment 1 to this Stipulation.

7. For purposes of regulatory review, the benchmark price shall be a band of 5% around the adjusted price determined as described in paragraph 6. The results of this calculation will be applied as follows:

a. The benchmark price will be used to evaluate the average purchased price of coal from Gatliff.

b. Prices paid above the benchmark would be disallowed for cost recovery, unless justified by Tampa Electric.

c. An example application of this methodology is shown in Attachment 2 to this Stipulation titled "Public Counsel's Market Price Application."

TECO Transport & Trade

8. The parties agree that the record in this proceeding indicates that the prices currently paid by Tampa Electric to TTT are reasonable.

9. Tampa Electric, however, agrees to the establishment of a benchmark price to be used prospectively for regulatory review purposes.

10. The coal transportation benchmark price will be the average of the two lowest comparable publicly available rail rates for coal to other utilities in Florida. This rail rate will be stated on a cents/ton-mile basis representing the comparable total elements (i.e., maintenance, train size, distance, ownership, etc.) for transportation. The average cents per ton-mile multiplied by the average rail miles from all coal sources to Tampa Electric's power plants yields a price per ton of transportation. The result will become the "benchmark price" as shown on Attachment 3.

a. The benchmark price will be used to evaluate water transportation of coal services provided by TTT to Tampa Electric.

b. The price paid for water transportation of coal by Tampa Electric above the benchmark price would be disallowed for cost recovery unless justified by Tampa Electric.

General Provisions

11. The approval of this Stipulation will completely resolve all of the issues pending in this matter.

12. This Stipulation is based on the unique factual circumstances of this case and shall have no precedential value in proceedings involving other utilities before this Commission. The parties to the Stipulation

reserve the right to assert different positions on any of the matters contained in this Stipulation if the Stipulation is not accepted by the Commission.

13. The parties hereto shall not unilaterally recommend or support the modification of this Stipulation or discourage its acceptance by the Commission.

14. The parties hereto shall not request reconsideration of or appeal the order which approves this Stipulation.

15. The parties urge that the Commission take final agency action at the earliest possible Agenda Conference approving this Stipulation.

16. This Stipulation shall be effective upon Commission approval. In the event that the Commission rejects or modifies the Stipulation, in whole or in part, the parties agree that this Stipulation is void unless otherwise ratified by the parties, and that each party may pursue its interests as those interests exist, and that no party will be bound to or make reference to this Stipulation before this Commission or any court.

17. While Staff for internal reasons prefers to signify its agreement with this Stipulation by writing a Staff memorandum recommending approval of the Stipulation, the Electric and Gas and Legal Staff of the Florida Public Service Commission has reviewed this Stipulation simultaneously with the signing; has given its approval of the specific language contained herein; and has committed to submit its recommendation requesting approval of this Stipulation by the Commission; and has committed not to unilaterally recommend or support the modification of this Stipulation or discourage its acceptance by the Commission.

DATED this 13th day of October, 1988.

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ATTACHMENT A

TAMPA ELECTRIC COMPANY
DOCKET NO. 870001-EI-A

EXAMPLE BENCHMARK MARKET BASED COAL CALCULATION

The base price of $39.44 as of December 31, 1987 shall be adjusted by the annual percentage change in BOM District 8 Data for Coal Shipments as reported on Form 423 for the weighted average price per million BTU of contract transactions (excluding all spot transactions) which meet Tampa Electric's Gannon Station specifications (Note 4) for heat content, sulfur content, ash content and pounds sulfur dioxide per million BTU.

Example:

$$39.44 \times \frac{192.200}{189.015} \quad \text{(Note 1)} \quad \text{(Note 2)} = \$40.10$$

Revised Benchmark 40.10 x 1.05 (Note 3) = $42.11

Notes

1/ Hypothetical index value for 1988.

2/ Actual index value for 1987.

3/ 5% zone of reasonableness.

4/ Specifications as follows:

Heat Content	- 12,500 BTU/lb minimum
Sulfur Content	- 1.5% maximum
Ash Content	- 9.0% maximum
Sulfur Dioxide	- 2.0 pounds per million BTU maximum

PUBLIC COUNSEL'S MARKET

PRICE APPLICATION

--Gatliff coal purchased [1]

FOB mine	$45/ton
Tons purchased	500,000
Total cost	$22,500,000

--Market Benchmark $40/ton

--Cost recovered through fuel clause

$40/ton x 500,000 = $20,000,000

--Cost disalloved recovery

$20,000,000 - $22,500,000 = $2,500,000*

* The company would have to provide justification before recovery of these cost would be alloved.

1. This would include the total average price of Gatliff produced coal and coal purchased and resold as Gatliff coal.

ATTACHMENT ..

TAMPA ELECTRIC COMPANY
DOCKET NO. 870001-EI-A

EXAMPLE BENCHMARK TRANSPORTATION CALCULATION

Average Rail Mileage to Tampa	974 miles	(Note 1)*
x Average of Lowest Two Publicly-Available Florida Rail Rates	x 1.98 ¢/ton-mile	(Note 2)
	$19.29	
+ Costs of Privately-Owned Rail Cars	+ 2.00	
= Transportation Benchmark -	$21.29	(Note 3)

Notes

1/ Weighted average rail miles from all coal sources for Tampa Electric to plants. This is expected to be 974 miles for 1989.

2/ Cents per ton-mile for publicly available Florida utility rail coal transportation rates. For example, the current publicly available rail rates to Florida utilities on a cents per ton mile basis for 1988 are as follows:

JEA	1.92 ¢*
Orlando	2.03 ¢*
Lakeland	2.30 ¢
Gainesville	2.45 ¢
*Average of Lowest Two	1.98 ¢

3/ Calculated by multiplying average rail mileage to Tampa by Florida rail coal market cost (cents per ton-mile), then adding the costs of privately-owned rail cars. This benchmark will be compared to Tampa Electric's weighted average water transportation cost from all Tampa Electric coal sources.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor.	DOCKET NO. 930001-EI ORDER NO. PSC-93-0441-FOF-EI ISSUED: 03/23/93

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD
SUSAN F. CLARK
J. TERRY DEASON

ORDER APPROVING PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR FUEL ADJUSTMENT FACTORS; GPIF TARGETS, RANGES, AND REWARDS; PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR OIL BACKOUT COST RECOVERY FACTORS; AND PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

BY THE COMMISSION:

As part of this Commission's continuing fuel cost recovery, oil backout cost recovery, capacity cost recovery, conservation cost recovery, and purchased gas cost recovery proceedings, hearings are held in February and August of each year. Pursuant to notice, a hearing was held in this docket and in Dockets No. 930002-EG and 930003-GU on February 17, 1993. The utilities submitted testimony and exhibits in support of their proposed fuel adjustment true-up amounts, fuel cost recovery factors, generating performance incentive factors, oil backout true-up amounts, capacity cost recovery factors and related issues.

Fuel Adjustment Factors

We find that the appropriate final fuel adjustment true-up amounts for the amounts for the period April, 1992 through September, 1992 are as follows:

FPC: $13,863,288 Underrecovery.

FPL: $13,545,567 Underrecovery.

FPUC: $170,987 Underrecovery. (Marianna)
$19,913 Overrecovery. (Fernandina Beach)

GULF: $1,732,139 Underrecovery.

TECO: $1,689,497 Underrecovery.

The estimated fuel adjustment true-up amounts for the period October, 1992 through March, 1993 are as follows:

FPC: $815,209 Underrecovery.

FPL: $30,415,048 Underrecovery.

FPUC: $186,021 Underrecovery. (Marianna)
$5,813 Underrecovery. (Fernandina Beach)

GULF: $1,199,942 Underrecovery.

TECO: $441,934 Overrecovery.

The total true-up amounts to be collected during the period April, 1993 through September, 1993 are as follows:

FPC: $14,678,497 Underrecovery.

FPL: $43,960,615 Underrecovery.

FPUC: $353,008 Underrecovery. (Marianna)
$14,100 Overrecovery. (Fernandina Beach)

GULF: $2,932,081 Underrecovery.

TECO: $1,247,563 Underrecovery

Finally, the appropriate levelized fuel cost recovery factors for the period April, 1993 through September, 1993 are as follows:

FPC: 2.171 cents per kWh - Standard rates*
2.780 cents per kWh - TOU On-Peak rates*
1.854 cents per kWh - TOU Off-Peak rates*

*Before line loss adjustment.

FPLI: 2.259 cents/kwh is the levelized recovery charge for non-time differentiated rates and 2.431 cents/kwh and 2.172 cents/kwh are the levelized fuel recovery charges for the on-peak and off-peak periods, respectively, for the differentiated rates.

FPUC: 3.266 cents/kwh (Marianna).
4.422 cents/kwh (Fernandina Beach).

The factors are calculated to include true-up and revenue tax, exclude demand cost recovery, and have not been adjusted for line losses.

GULFI: 2.216 cents per KWH.

TECOI: 2.508 cents per KWH before application of the factors which adjust for variations in line losses.

For billing purposes, the new fuel adjustment charge, oil backout charge, conservation cost recovery charge and capacity cost recovery charge factors shall be effective beginning with the specified fuel cycle and thereafter for the period April, 1993 through September, 1993. Billing cycles may start before April 1, 1993, and the last cycle may be read after September 30, 1993, so that each customer is billed for six months regardless of when the adjustment factor became effective.

Each utility proposed fuel recovery loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class. Those multipliers are shown in Attachment A attached hereto. We find that the proposed multipliers are appropriate and should be approved. The utilities further proposed fuel cost recovery factors for each rate group, adjusted for line losses, which are also shown in Attachment A. We find that the proposed factors are appropriate and should be approved.

Florida Power and Light Company proposed that they change the frequency of coal inventory aerial surveys from quarterly to semi-annually. We considered the issue for all investor-owned electric utilities and we find the proposal to be reasonable. We therefore approve the change in the frequency of aerial coal inventory surveys from quarterly to semi-annually for a two-year period. We direct our staff to review the impact of the less frequent surveys on inventory adjustments to determine whether to recommend a permanent change.

The other fuel adjustment issues raised in this docket pertain to specific utilities and are discussed below.

Florida Power Corporation

Florida Power Corporation requested our permission to recover through the fuel adjustment clause the cost of its affiliate, Electric Fuels Corporation's, charge for a return on equity on EFC's investment in locomotives. We approve the request. Florida Power Corporation has projected that the purchase of the locomotives will result in a reduction in rail transportation costs. This reduction will provide savings to FPC's ratepayers in excess of EFC's charge for a return on equity on EFC's investment.

We also approve Florida Power Corporation request for permission to recover through the fuel adjustment clause the charges associated with gas transportation to FPC's University of Florida cogeneration project. The costs are reasonable gas transportation costs for FPC's University of Florida cogeneration project, and they are appropriately recoverable through the fuel adjustment clause.

The following issue has been deferred to the August, 1993, fuel proceeding:

> Should Florida Power Corporation be permitted to recover through the fuel adjustment clause $972,000 in payments to the Department of Energy (DOE) for costs of the decontamination and decommissioning of the DOE's uranium enrichment plants?

For this period we will permit FPC to recover its payments to DOE for the costs of the decontamination and decommissioning of the DOE's uranium enrichment plants, subject to refund pending our decision on the issue in August.

Florida Power and Light Company

Florida Power and Light Company requested that it be permitted to recover through the fuel adjustment clause $550,000. of Clean Air Act operating fees. We prefer to investigate and determine the appropriate recovery of compliance costs associated with the Clean Air Act Amendment in a generic docket, where we can fully consider the appropriate recovery for all types of compliance costs for all investor-owned utilities. We do not wish to make this

determination piecemeal. Therefore, we withhold approval of FPL's recovery of those fees at this time, pending our investigation in the generic docket.

The following issue, similar to the issue for Florida Power Corporation, has been deferred to the August, 1993 fuel proceeding:

> Should Florida Power and Light Company be permitted to recover through the fuel adjustment clause $2,580,000 in payments to the Department of Energy (DOE) for costs of the decontamination and decommissioning of the DOE's uranium enrichment plants?

For this period we will permit FPL to recover its payments to DOE for the costs of the decontamination and decommissioning of the DOE's uranium enrichment plants, subject to refund pending our decision on the issue in August.

Florida Power and Light Company also requested that it be permitted to recover through the fuel adjustment clause $4,087,634 in litigation costs associated with the IMC contract arbitration. We find that the litigation costs incurred in the IMC contract dispute were reasonably related to the cost of fuel, reasonably expected to result in reduced fuel cost for the retail ratepayers, and thus appropriate for recovery through the fuel clause.

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Tampa Electric Company

In August 1992, we deferred the following issues to this proceeding:

> What is the appropriate 1991 benchmark price for coal Tampa Electric Company purchased from its affiliate, Gatliff Coal Company, and;
>
> Has Tampa Electric Company adequately justified any costs associated with the purchase of coal from Gatliff Coal Company that are in excess of the 1991 benchmark price?

At Public Counsel's request, the following issue was also scheduled to be heard in this proceeding;

> Should TECO be ordered to refund the excess cost of Gatliff coal above the 1991 benchmark?

These issues relate to the market-based pricing methodology we established in Order No. 20298 (Docket No. 870001-EI-A) to measure the appropriate cost of coal TECO purchases from its affiliate, Gatliff Coal Company. The methodology we established at that time was developed by stipulation between TECO and the Office of Public Counsel.

The day before the hearing in this proceeding, TECO and the Office of Public Counsel submitted a new stipulation that revised the methodology by which the appropriateness of TECO's Gatliff coal purchases will be measured from 1991 to 1999. The new stipulation resolves all outstanding issues related to the pricing of TECO's coal purchases from Gatliff through 1992, and it provides that TECO will reduce its recoverable fuel expense by $10 million and credit that amount to its ratepayers. The adjustment will be made over the 12-month period from April, 1993 through March, 1994. Interest will be included.

The revised methodology developed by TECO and Public Counsel establishes a beginning base price of $38.00 per ton FOB Mine as of December 31, 1992. That base price will be escalated or de-escalated by the annual percentage change in the Consumer Price Index, All Urban Consumers (CPI-U). The stipulation provides that the weighted average annual price TECO pays to Gatliff will be disallowed for fuel cost recovery purposes if that price exceeds the price established by the methodology described above.

We approve the new stipulation revising the method to determine the appropriateness of the cost of TECO's coal purchases from its affiliate. The details of the revised methodology are provided in paragraphs 12 -14 of the stipulation attached to this order as Attachment B.

Generating Performance Incentive Factor (GPIF)

There was no controversy among the parties at this hearing as to either the appropriate GPIF reward or penalty for past performance or the proposed GPIF targets and ranges for performance in the upcoming period. The parties agreed to, and we approve, the following GPIF rewards for the period April, 1992 through September, 1992.

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FPC: $1,211,089 reward.

FPL: $2,020,173 reward.

GULF: Reward $122,504.

TECO: Reward of $318,938.

The parties also agreed to targets and ranges for the period April, 1993 through September, 1993, which are shown on Attachment C to this order. We approve those targets and ranges.

Oil Backout Cost Recovery Factor

In accordance with the agreement of the parties, we find the proper final oil backout true-up amount for the period April, 1992 through September, 1992 period to be:

FPL: $3,636 Overrecovery.

TECO: $1,301,825 Overrecovery.

The estimated oil backup true-up amount for the period October, 1992 through March, 1993, is:

FPL: $185,325 Overrecovery.

TECO: $988,475 Overrecovery.

The total oil backout true-up amount to be collected or refunded during the period April, 1993 through September, 1993, is:

FPL: $188,961 Overrecovery.

TECO: $1,580,247 Overrecovery.

Finally, we find the proper projected oil backout cost recovery factor for the period April, 1993 through September, 1993, is:

FPL: .013 cents/kwh.

TECO: .065 cents/kwh.

Capacity Cost Recovery Factor

We approve the following the final capacity cost recovery true-up amounts for the April, 1992 through September, 1992 period:

FPC: None.

FPL: $5,781,688 Underrecovery.

GULF: None. Gulf's initial implementation of a purchased power capacity cost recovery factor occurred during the October 1992 through March 1993 recovery period. As a result, Gulf does not have a true-up amount for any periods prior to October 1992.

TECO: None. Since Tampa Electric did not have a capacity cost recovery factor in effect for the period April 1992 - September 1992, there is no true-up to consider.

We approve the following estimated capacity cost recovery true-up amounts for the period October, 1992 through March, 1993

FPC: $1,662,838 Underrecovery.

FPL: $29,006,869 Overrecovery.

GULF: $1,711,114 Underrecovery.

TECO: $2,940,455 Underrecovery.

We approve the following total capacity cost recovery true-up amounts to be collected during the period April, 1993 through September, 1993

FPC: $1,662,838 Underrecovery.

FPL: $23,225,181 Overrecovery.

GULF: $1,711,114 Underrecovery.

TECO: $2,940,455 Underrecovery.

We approve the following appropriate projected net purchased power capacity cost amount to be included in the recovery factor for the period April, 1993 through September, 1993.

FPC: $32,570,136 jurisdictional.

FPL: $152,333,871 jurisdictional.

GULF: $1,801,898 jurisdictional.

TECO: $11,536,771 jurisdictional.

We approve the following projected capacity cost recovery factors for the period April, 1993 through September, 1993.

FPC:

RS	0.289	cents per kwh
GS-Transmission	0.196	"
GS-Primary	0.199	"
GS-Secondary	0.202	"
GS-100% Load Factor	0.152	"
GSD-Transmission	0.140	"
GSD-Primary	0.176	"
GSD-Secondary	0.179	"
CS-Curtailable	0.138	"
IS-Transmission	0.145	"
IS-Primary	0.147	"
LS-Lighting Service	0.057	"

FPL:

RS1	0.442	cents per kwh
GS1	0.412	"
GSD1	0.377	"
OS2	0.365	"
GSLD1/CS1	0.384	"
GSLD2/CS2	0.317	"
GSLD3/CS3	0.300	"
ISST1D	0.261	"
SST1T	0.237	"
SST1D	0.243	"
CILCD	0.264	"
CILCT	0.243	"
MET	0.337	"
OL1/SL1	0.203	"
SL2	0.279	"
TOTAL	0.405	"

GULF: See table below:

RATE CLASS	CAPACITY COST RECOVERY FACTORS ¢/KWH
RS, RST	0.048
GS, GST	0.048
GSD, GSDT	0.036
LP, LPT	0.032
PX, PXT	0.027
OSI, OSII	0.005
OSIII	0.029
OSIV	0.003
SS	0.026

TECO:

RS	.217 cents per KWH
GS, TS	.179 cents per KWH
GSD	.149 cents per KWH
GSLD, SBF	.133 cents per KWH
IS-1 & 3, SBI-1 & 3	.012 cents per KWH
SL, OL	.012 cents per KWH

The other capacity cost recovery issues raised in this docket pertain to specific utilities and are discussed below.

Company-Specific Capacity Cost Recovery Issues

Florida Power and Light Company

Florida Power and Light Company requested recovery through the capacity clause the capacity payments associated with the 1988 Unit Power Sales Agreement (UPS) with the Southern Companies. We approve recovery. The 1988 UPS Agreement is a reasonable, prudent

and necessary expense that benefits FPL's customers and is not being recovered in any other manner.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the findings and stipulations set forth in the body of this Order are hereby approved. It is further

ORDERED that investor-owned electric utilities subject to our jurisdiction are hereby authorized to apply the fuel cost recovery factors set forth herein during the period of April through September, 1993, and until such factors are modified by subsequent Order. Florida Power Corporation is authorized to apply its fuel cost recovery factors on the same date as any rate adjustment ordered in Docket No. 910890-EI. It is further

ORDERED that the estimated true-up amounts contained in the above fuel cost recovery factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that the Generating Performance Incentive Factor rewards and penalty stated in the body of this Order shall be applied to the projected levelized fuel adjustment factors for the period of April through September, 1993. It is further

ORDERED that the targets and ranges for the Generating Performance Incentive Factors set forth herein are hereby adopted for the period of April through September, 1993. It is further

ORDERED that the estimated true-up amounts included in the above Oil Backout Cost Recovery Factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that the investor-owned electric utilities are hereby authorized to apply the capacity cost recovery factors set forth herein during the period of April through September, 1993, and until such factors are modified by subsequent Order. It is further

ORDERED that the estimated true-up amounts contained in the above capacity cost recovery factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 23rd day of March, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
MCB:bmi

Commissioner Deason Dissents in Part from the decision in this Docket as follows:

I dissent from the Commission's decision to require Gulf Power to reflect the capacity revenues associated with Gulf Power's long - term non-firm schedule E contract with Florida Power Corporation in the capacity cost recovery clause. As I expressed at the time the clause was created, I have serious reservations about adding new costs/revenues to the factor if those costs/revenues are not currently included in the fuel adjustment clause. I believe that a rate case is the best time to make the determination about whether previously unrecognized items should be recovered through the CCRC.

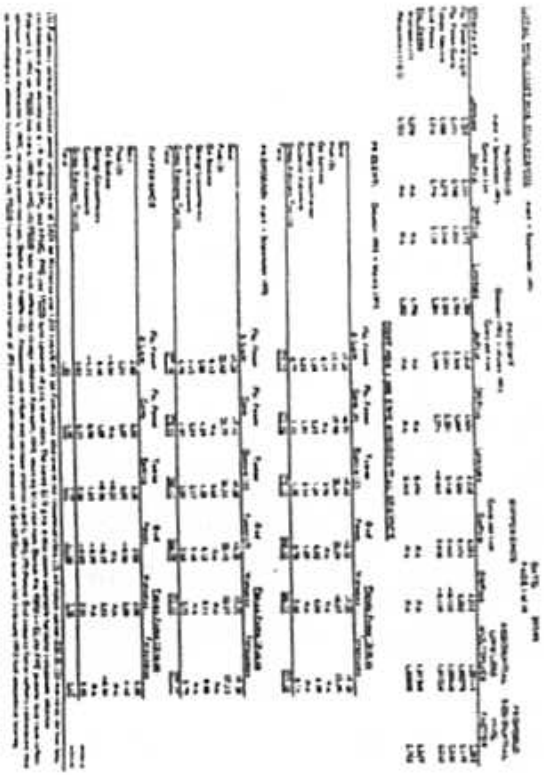
In my view the setting of rates in a rate case recognizes that a balance is achieved between costs, investment and revenues. Once the Commission has engaged in such a balancing and set rates, these rates are deemed valid until changed. It is only when these rate making components are shown by the company or other party to be out of balance is there a need to address, either in a full - blown rate case or a more limited proceeding, a company's cost recovery. The difficulty facing the Commission in this case only underscores my belief that a rate case is the better place to undertake the comprehensive analysis that is needed.

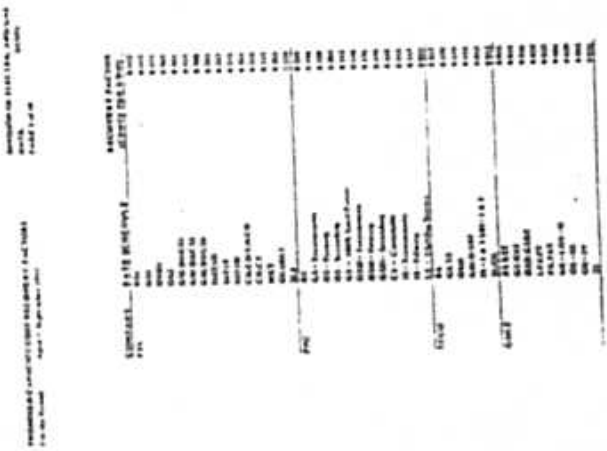
I am only agreeing with the result reached by the majority of Commissioners with respect to denial of recovery of the IIC payments. I believe this same analysis set out above applies to those payments and would preclude recovery through the CCRC prior to a full rate case.

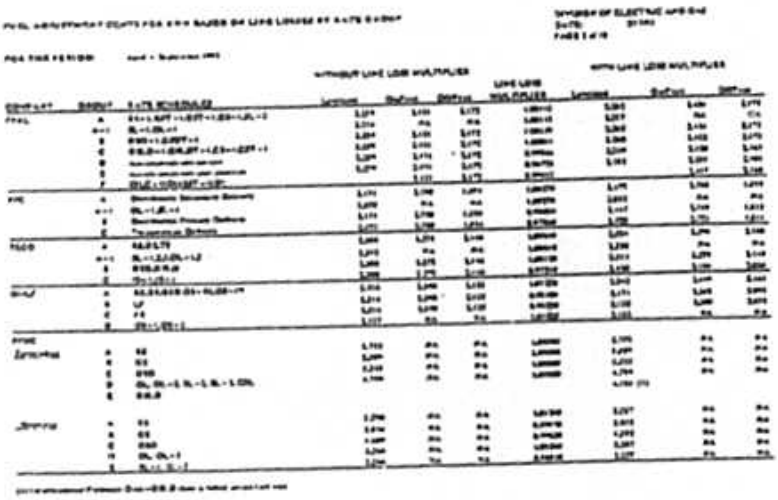
NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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 the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) 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 sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.







FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

FLORIDA POWER & LIGHT COMPANY

FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

FLORIDA POWER CORPORATION

FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

FT GREDA FUNIC UTILITIES - MARIANNA

FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

FT GREDA FUNIC UTILITIES - FERNANDINA

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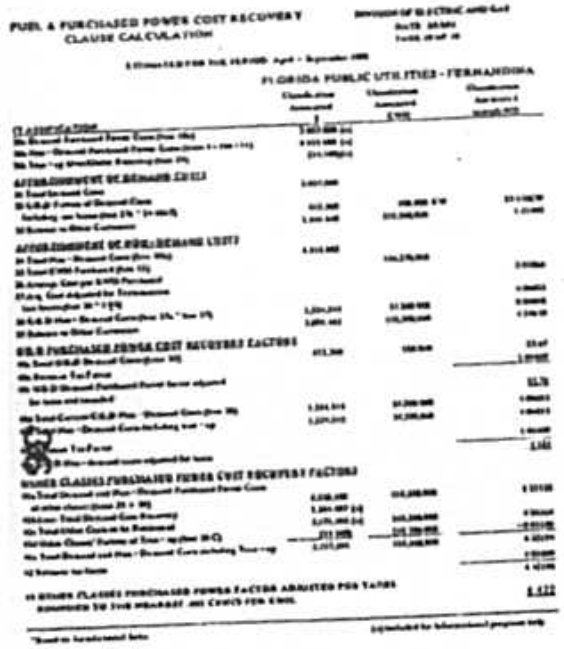
FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

FLORIDA PUBLIC UTILITIES - FERNANDINA



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor.) DOCKET NO. 930001-EI
) FILED: February 16, 1993

STIPULATION

This Stipulation is entered into by and between Tampa Electric Company ("Tampa Electric" or "the company") and the Office of Public Counsel ("Public Counsel") on this 16th day of February 1993 as follows:

Purpose of this Stipulation

This Stipulation has been entered into by Tampa Electric and Public Counsel to establish arrangements to dispose of a continuing controversy over a proper way to judge the reasonableness of prices paid by Tampa Electric to an affiliated coal supplier, Gatliff Coal Company ("Gatliff"). It is the objective of each party to this Stipulation to establish arrangements under which fair and reasonable coal costs are reflected in prices to electric consumers. With the Commission's encouragement that parties attempt to resolve disputes amicably, Tampa Electric and Public Counsel have engaged in extensive and protracted efforts to establish arrangements consistent with that objective. The parties' focus has been to develop a means to evaluate the pricing of Gatliff coal in a way that fairly passes on the appropriate costs to Tampa Electric's Customers and at the same time provides greater understanding and certainty for the parties as to the

appropriate way to proceed in the future. The proposed settlement embodied in this Stipulation, if approved by the Commission, will resolve a pending appeal in the Supreme Court of Florida, will resolve all issues related to the pricing of coal purchased by Tampa Electric from Gatliff through calendar year 1992 and will afford the Commission and the parties an agreed upon method for evaluating the reasonableness of the pricing of such purchases during 1993 through 1999. In addition, Tampa Electric's Customers will receive the benefits of a $16 million downward adjustment to Tampa Electric's recoverable fuel expenses, by virtue of a credit (as described in Paragraph 9 below) to billed fuel costs on their electric bills.

To effect the above results, Tampa Electric and Public Counsel stipulate and agree as follows:

Background

1. In 1988, in Tampa Electric's "cost plus" docket, the Commission approved the implementation of a market-based pricing and benchmark methodology to measure the appropriateness of Tampa Electric's coal purchase prices from an affiliate, Gatliff Coal Company. (Order No. 20298, Docket No. 870001-EI-A). In that docket the Commission approved a stipulation (the "1988 Stipulation") between Tampa Electric and the Office of Public Counsel describing a benchmark for evaluating the reasonableness of coal prices. The 1988 Stipulation established an initial market price of $39.44 per ton FOB mine as of December 31, 1987 for coal

purchased from Gatliff. The 1988 Stipulation then provided that for purposes of regulatory review in the fuel docket, an adjusted price would be calculated by escalating or de-escalating the initial market price by the annual percentage change in Bureau of Mines District 8 data for coal, as reported on FERC Form 423, for the weighted average price per million BTU of contract transactions that meet agreed upon coal specifications. The adjusted price would be increased by $1 to arrive at a new benchmark price. For purposes of recovery through the fuel adjustment clause, Tampa Electric was required to justify the costs for Gatliff Coal that exceeded the market-based benchmark calculation.

2. While one of the objectives of the benchmark calculation was to reduce or eliminate controversy concerning the pricing of Gatliff coal, the determination of the regulatory benchmark price under the 1988 Stipulation has been controversial and has consumed considerable time and resources of the Commission and all of the parties to this issue.

3. In the August 1991 fuel hearings the Commission found that, while the actual per ton contract price for 1990 for Gatliff Coal exceeded the regulatory benchmark, the actual per ton contract price of Gatliff coal purchased by Tampa Electric had been justified and full recovery should be allowed. See Order No. 25168 (Commissioner Deason dissenting) issued October 1, 1991 and Order Pg. PSC-92-0015-FOF-EI issued on reconsideration on March 9, 1992 in Docket No. 910001-EI. These orders are currently pending on review in the Florida Supreme Court in Case No. 79,475 in a

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proceeding initiated by Public Counsel.

4. On January 19, 1993, Tampa Electric filed in Docket No. 930001-EI a Petition for Clarification and Guidance on the calculation of the market based pricing methodology under the 1988 Stipulation. This Petition sought review of the appropriate method to calculate the benchmark index used to examine the reasonableness of the price paid for coal purchased by Tampa Electric from Gatliff. The testimony at the hearings centered around the interpretation of comparable data from the FERC Form 423 reports as a measure of market change. The Commission on September 23, 1992 issued Order No. PSC-92-1048-FOF-EI which affirmed the continued use of the existing market based index calculation. The Commission further stated that it would be beneficial also to analyze the market data on a contract annual average quality basis as a "sanity check."

5. The appropriate level of recovery of prices paid by Tampa Electric to Gatliff for 1991 is now pending in Docket No. 930001-EI and scheduled for hearing on February 17-19, 1993. The determination of the level of recovery of prices paid by Tampa Electric to Gatliff in 1992 would normally be considered during the fuel adjustment hearings to be conducted in August of 1993.

6. Public Counsel and Tampa Electric have met to discuss methods by which the application of market pricing to the coal transactions between Tampa Electric and Gatliff can be improved. As a result of these discussions, Public Counsel and Tampa Electric have reached the agreement embodied in this Stipulation.

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7. The focus of this agreement is on the regulatory benchmark and approval methodology. The format or details of the specific contracts between Tampa Electric and its affiliates, including the pricing indices in the contracts, are not subject to this proceeding. Tampa Electric may negotiate the terms in contracts with its affiliates in any manner it deems to be fair and reasonable. Tampa Electric agrees to prudently administer the provisions of such contracts.

8. The actual prices paid by Tampa Electric to its affiliates shall be reported to this Commission in the normal course of the fuel adjustment proceedings.

Gatliff Coal Company

9. Tampa Electric agrees to make a $10 million downward adjustment to its recoverable fuel expense beginning in April 1993. The adjustment will be implemented through a credit on Customers' bills which shall be calculated by multiplying a levelized factor adjusted for line losses times the actual KWH usage during the period of the credit. The adjustment shall be spread over the 12-month period April 1993 through March 1994, plus interest on the unamortized amount of the adjustment. Such interest shall be at the thirty (30) day commercial paper rate for high grade unsecured notes sold through dealers by major corporations in multiples of $1,000 as regularly published in the Wall Street Journal. Any over- or undercollection associated with this downward adjustment will be handled as a true-up component in the normal course of fuel

cost recovery proceedings.

10. Public Counsel and Tampa Electric agree that, after the downward adjustment specified in Paragraph 9 is taken into account, the prices paid by Tampa Electric to Gatliff in 1990, 1991 and 1992 are appropriate for recovery through the fuel and purchased power cost recovery clause.

11. The parties further agree that Public Counsel's appeal of Orders Nos. 25168 and PSC-92-0015-FOF-EI, pending in Florida Supreme Court Case No. 79,475, shall be withdrawn and dismissed with prejudice forthwith on Commission approval of this Stipulation. To preserve the status quo pending the Commission's consideration of this Stipulation, Public Counsel and Tampa Electric agree to jointly file a motion with the Court, immediately after signing this Stipulation, asking the Court to stay such appeal pending the finality of the Commission's action resolving the parties' request for approval of this Stipulation.

12. In order to provide a simpler and less controversial prospective benchmark for regulatory review of the annual average price per ton paid by Tampa Electric for coal purchased from Gatliff, the new beginning benchmark price to be used for computing the benchmark for Tampa Electric's transactions with Gatliff shall be $38.00 per ton FOB Mine as of December 31, 1992.

13. For purposes of regulatory review, this base price of $38.00 per ton FOB Mine shall be escalated or de-escalated by the annual percentage change in the unadjusted all items category of the final published calculation for the Consumer Price Index, All

Urban Consumers (CPI-U), as described in Attachment A, page 1 of 2, to this Stipulation. In the event the weighted average annual price of Gatliff coal to Tampa Electric is increased by (a) the enactment or amendment of any law, regulation, order or other governmentally imposed requirement, or (b) any change in the application or enforcement of any law, regulation, order or other governmentally imposed requirement, the base price as escalated or de-escalated as provided in the first sentence of this Paragraph shall be further increased by the effect on Gatliff coal prices of matters described in (a) or (b) of this Paragraph, but only to the extent that the weighted average annual price of Gatliff coal to Tampa Electric exceeds the base price escalated or de-escalated by the CPI-U as provided in the first sentence of this Paragraph.

14. The weighted average annual price paid to Gatliff Coal Company by Tampa Electric above the price determined for purposes of regulatory review in Paragraph 13 above, shall be disallowed for fuel cost recovery purposes.

TECO Transport & Trade

15. The parties agree that the provisions for calculating the market price benchmark described in paragraphs 8, 9 and 10 and Attachment "2" of the 1988 Stipulation, relating to coal transportation cost, are hereby reaffirmed and shall remain in full force and effect.

General Provisions

14. The approval of this Stipulation and compliance with its provisions will completely resolve all of the issues concerning the price paid by Tampa Electric to Gatliff for coal through December 31, 1992.

15. This Stipulation is based on the unique factual circumstances of this case and shall have no precedential value in any proceedings involving other utilities before this Commission. The parties to this Stipulation reserve the right to assert different positions on any of the matters contained in this Stipulation if this Stipulation is not accepted in its entirety by the Commission.

16. The parties hereto shall support the approval of this Stipulation by the Commission at the earliest possible time in order to facilitate the implementation of the discussed adjustment to Tampa Electric's recoverable fuel expenses provided for herein beginning April 1, 1993. The parties hereto shall not seek reconsideration or judicial appeal of the Commission's approval of this Stipulation.

17. The parties urge that the Commission take final agency action at the earliest possible time approving this Stipulation.

18. This Stipulation shall be effective upon Commission approval. In the event that the Commission rejects or modifies the Stipulation, in whole or in part, the parties agree that this Stipulation is void unless otherwise ratified by the parties, and that each party may pursue its interests as those interests exist,

and that no party will be bound to or make reference to this Stipulation before this Commission, any court, any other administrative forum or arbitration panel.

DATED this 16th day of February, 1993.

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JOHN MILLER HOWE
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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

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TAMPA ELECTRIC COMPANY

BENCHMARK MARKET BASED COAL CALCULATION

The initial base price of $30.00 per ton shall be adjusted by the annual percentage change in the unadjusted all items category of the final published calculation for the Consumer Price Index, All Urban Consumers (CPI-U). The CPI-U adjusted base price for any given year will be the adjusted base price at the end of the immediately preceding year increased by the percentage change in the CPI-U for the given year.

EXAMPLE

Assumptions:

1. Base price at beginning of year one = $30.00
2. Hypothetical CPI-U percentage change from 1992 to 1993 = 3.0%, which is the percentage change in CPI-U from end of 1992 to end of 1993
3. Hypothetical CPI-U percentage change from 1993 to 1994 also equals 3.0 percent.

Calculation for first year:

$30.00 x .03 = $1.14 + $30.00 = $39.14 = benchmark price for all coal purchased in year one (1993). This calculation may be increased to the extent provided in the second sentence of Paragraph 13. -

Calculation for second year under same assumptions:

$39.14 x .03 = $1.17 + $39.14 = $40.31 = benchmark price for all coal purchased in year two (1994). This calculation may be increased to the extent provided in the second sentence of Paragraph 13.

PUBLIC COUNSEL'S MARKET

PRICE APPLICATION

-- Gatliff coal purchased[1]

FOB mine	$45/ton
Tons purchased	100,000
Total cost	$22,500,000

-- Market Benchmark $40/ton

-- Cost recovered through fuel clause

$40/ton x 500,000 = $20,000,000

-- Cost disallowed recovery

$20,000,000 - $22,500,000 = $2,500,000*

1. This would include the total average price of Gatliff produced coal and coal purchased and resold as Gatliff coal.

* The company would not be allowed to recover these costs under this Stipulation except to the extent provided in the second sentence of Paragraph 13.

GPIF REWARDS/PENALTIES
April 1992 to September 1992

Florida Power Corporation	11,211,009	Reward
Florida Power and Light Company	17,620,173	Reward
Gulf Power Company	1322,504	Reward
Tampa Electric Company	1310,930	Reward

Utility/ Plant/Unit	EAF		Heat Rate	
	Target	Adj. Actual	Target	Adj. Actual
FPC				
Anclote 1	90.4	93.8	9,745	9,735
Anclote 2	92.2	94.4	9,867	9,868
Crystal River 1	88.6	73.1	10,926	9,897
Crystal River 2	88.6	88.9	10,845	10,853
Crystal River 3	51.2	61.4	10,635	10,568
Crystal River 4	81.3	76.8	9,385	9,253
Crystal River 5	89.5	86.3	9,265	9,185
FPL				
Cape Canaveral 2	92.8	95.5	9,112	9,057
Fort Myers 2	83.6	88.9	9,455	9,330
Manatee 1	61.8	61.8	9,240	9,721
Manatee 2	92.5	95.9	9,585	9,558
Martin 1	92.9	95.4	9,531	9,928
Martin 2	95.1	97.5	9,251	9,489
Port Everglades 2	95.5	92.2	9,833	9,788
Port Everglades 3	90.4	92.1	9,183	9,093
Port Everglades 4	71.6	75.6	9,186	9,169
Riviera 3	90.2	91.3	9,483	9,701
Riviera 4	88.3	92.2	9,249	9,431
Turkey Point 1	94.4	89.3	9,378	9,115
Turkey Point 2	84.9	87.3	9,424	9,198
Turkey Point 3	62.7	70.9	11,305	11,217
Turkey Point 4	76.2	97.3	11,238	11,206
St. Lucie 1	90.5	91.3	10,886	10,808
St. Lucie 2	58.7	59.8	10,905	10,718
GULF				
Crist 6	88.2	82.1	10,172	10,058
Crist 7	77.5	77.2	10,198	9,909
Smith 1	85.2	84.5	10,281	10,674
Smith 2	86.4	85.6	10,273	10,051
Daniel 1	97.8	95.7	10,577	10,367
Daniel 2	97.5	99.1	10,452	10,138

GPIF REWARDS/PENALTIES
April 1992 to September 1992

Utility/ Plant/Unit	EAF		Heat Rate	
	Target	Adj. Actual	Target	Adj. Actual
TECO				
Big Bend 1	87.7	66.8	10,832	10,185
Big Bend 2	78.6	84.8	10,814	10,095
Big Bend 3	82.2	86.6	9,593	9,635
Big Bend 4	87.3	88.1	10,278	10,714
Gannon 5	85.5	89.5	10,448	10,392
Gannon 6	82.9	84.9	10,347	10,271

GPIF TARGETS
April 1993 to September 1993

Utility/ Plant/Unit	Equivalent Availability				Heat Rate	
	Company			Staff	Company	Staff
FPC	EAF	POF	EUOF			
-----	-----	-----	-----			
Anclote 1	83.4	11.5	5.1	Agree	9,761	Agree
Anclote 2	94.7	0.0	5.3	Agree	9,886	Agree
Crystal River 1	84.3	0.0	15.7	Agree	9,988	Agree
Crystal River 2	78.1	7.1	14.8	Agree	9,975	Agree
Crystal River 3	72.2	15.3	12.5	Agree	10,462	Agree
Crystal River 4	83.7	12.6	4.2	Agree	9,245	Agree
Crystal River 5	94.9	0.0	5.1	Agree	9,301	Agree
FPL	EAF	POF	EUOF			
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Cape Canaveral 1	83.8	10.9	5.3	Agree	9,082	Agree
Cape Canaveral 2	79.5	15.3	5.2	Agree	9,202	Agree
Ft. Myers 2	91.9	0.0	8.1	Agree	9,614	Agree
Manatee 1	83.7	0.0	16.3	Agree	9,710	Agree
Manatee 2	95.4	0.0	4.6	Agree	9,521	Agree
Martin 1	90.7	0.0	9.3	Agree	9,172	Agree
Martin 2	96.0	0.0	4.0	Agree	9,138	Agree
Port Everglades 1	94.8	0.0	5.2	Agree	9,791	Agree
Port Everglades 2	91.0	0.0	9.0	Agree	9,713	Agree
Port Everglades 3	93.9	0.0	6.1	Agree	9,381	Agree
Port Everglades 4	95.4	0.0	4.6	Agree	9,353	Agree
Ft. Johns River 1	97.3	0.0	2.7	Agree	9,344	Agree
St. Johns River 2	98.0	0.0	2.0	Agree	9,258	Agree
Riviera 3	91.1	0.0	8.9	Agree	9,864	Agree
Riviera 4	56.3	39.1	4.5	Agree	9,776	Agree
Sanford 4	93.8	0.0	6.2	Agree	9,979	Agree
Turkey Point 1	74.1	19.1	6.8	Agree	9,324	Agree
Turkey Point 2	82.5	0.0	17.5	Agree	9,688	Agree
Turkey Point 3	90.7	0.0	9.3	Agree	11,258	Agree
Turkey Point 4	60.1	35.0	4.9	Agree	11,216	Agree
St. Lucie 1	62.5	32.2	5.3	Agree	10,813	Agree
St. Lucie 2	93.6	0.0	6.4	Agree	10,795	Agree
GULF	EAF	POF	EUOF			
-----	-----	-----	-----			
Crist 6	87.8	0.0	12.2	Agree	10,247	Agree
Crist 7	62.8	25.1	12.0	Agree	9,989	Agree
Smith 1	84.5	0.0	6.5	Agree	10,176	Agree
Smith 2	91.3	2.7	6.0	Agree	10,227	Agree
Daniel 1	98.0	0.0	2.0	Agree	10,496	Agree
Daniel 2	97.8	0.0	2.2	Agree	10,406	Agree

GPIF TARGETS
April 1993 to September 1993

Utility/ Plant/Unit	Equivalent Availability				Heat Rate	
	Company			Staff	Company	Staff
TECO	EAF	POF	EUOF			
-----	-----	-----	-----			
Big Bend 1	81.0	3.8	15.2	Agree	9,994	Agree
Big Bend 2	84.0	1.1	14.9	Agree	9,984	Agree
Big Bend 3	72.6	16.4	11.0	Agree	9,634	Agree
Big Bend 4	87.0	0.0	13.0	Agree	9,914	Agree
Common 5	89.5	30.6	9.9	Agree	10,442	Agree
Common 6	81.8	0.0	18.2	Agree	10,760	Agree

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of Fuel Adjustment Clauses of Electric Utilities	)	DOCKET NO. 830001-EU
	)	ORDER NO. 12645
	)	ISSUED: 11-3-83

The following Commissioners participated in the disposition of this matter:

Gerald L. Gunter, Chairman
Joseph P. Cresse
Susan W. Leisner
John R. Marks, III
Katie Nichols

Pursuant to notice, a public hearing on the above matter was held before the Florida Public Service Commission on June 1, 2, 3 and 24, 1983, in Tallahassee, Florida.

Matthew M. Childs, Esquire, 315 Calhoun Street, Tallahassee, Florida 32301, for Florida Power and Light Company.

C. Roger Vinson, Esquire, and Edison Holland, Esquire, Post Office Box 12950, Pensacola, Florida 32576, for Gulf Power Company.

Joseph A. McGlothlin, Esquire, Post Office Box 3350, Tampa, Florida 33601, The Florida Industrial Power Users Group.

Stephen Fogel, Esquire, Office of Public Counsel, Room 4, Holland Building, Tallahassee, Florida 32301, for the Citizens of the State of Florida.

Kent R. Putnam, Esquire, Post Office Box 1876, Tallahassee, Florida 32302, for Florida Public Utilities Company.

James A. McGee, Esquire, Post Office Box 14042, St. Petersburg, Florida 33733, for Florida Power Corporation.

Lee G. Schmuddle, Esquire, Post Office Box 40, Lake Buena Vista, Florida 32830, for Reedy Creek Utilities Company.

James D. Beasley, Esquire, Post Office Box 391, Tallahassee, Florida 32302, for Tampa Electric Company.

Paul Sexton, Esquire, M. Robert Christ, Esquire and Charles L. Shelfer, Esquire, 101 East Gaines Street, Tallahassee, Florida 32301, for the Commission staff.

Prentice P. Pruitt, Esquire, Kathleen Villacorta, Esquire and Patrick K. Wiggins, Esquire, 101 East Gaines Street, Tallahassee, Florida 32301, Counsel to the Commissioners.

ORDER CONCERNING GENERIC ISSUES

BY THE COMMISSION:

Background

During the June, 1983, true-up hearings certain "generic" issues were raised for consideration. The time alotted for hearing was insufficient and a second hearing on these issues was held on June 27, 1983.

Issues Presented

The following issues were raised in this proceeding:[1]

1. Whether the Commission should require that all company inventory policies be supported and justified to the Commission's satisfaction by a comprehensive and systematic inventory study?

2. Whether or not a generic inventory policy should be adopted by the Commission on a standby basis and be applied by the Commission for ratemaking purposes in cases where a utility fails to justify an alternative inventory policy?

3. Whether fuel oil that cannot be burned for generation should be maintained in inventory and, if not, how should it be taken off the books.

4. Whether base coals that are nonrecoverable for operating purposes should remain a component of coal inventory?

5. When should a transfer of nonrecoverable base coal to Account 312 be effectuated and what ratemaking treatment should be used to recognize the transfer?

6. Should the Commission adopt specific standards for new long-term fuel contracts?

7. What, if any, should be the Commission standards for new long-term fuel contracts?

8. Should compliance with Commission standards be a prerequisite to recovery of new long-term fuel contract costs?

9. Whether affiliates and subsidiaries of utilities or utility holding companies engaged in procurement of fuel or services for a utility should be required to conduct such activities under the same standard as a utility would be required to meet had it purchased the same fuel or service.

10. Whether the Commission should require that all utilities file a monthly report detailing all purchases of fuel, transportation and/or fuel handling services as proposed by staff.

11. Whether the proposed monthly reporting forms should be accorded specified confidential treatment.

12. Whether the Commission should change the operation of the clause to place a jurisdictional limitation on the review of prudence rather than treat prudence at the end of each six month period and explicitly make revenues subject to refund.

13. What is the Commission's current power to review expenditures during prior true-up periods?

14. What is the proper legal procedure for the Commission to adopt a conservation reward/penalty methodology and to grant a reward or impose a penalty?

15. Would the Commission deny due process if it were to grant conservation rewards or impose conservation penalties during the June true-up hearings.

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[1]These issues were commingled with other issues in the Prehearing Order (Order No. 11999) and are not numbered the same as in that order.

16. Whether costs to be recovered by FPL should be calculated using the original or the current version of the rule. (This issue is being preserved pending appeal by Public Counsel)

17. Are net savings to be calculated on a monthly or six month basis? (This issue is being preserved pending a petition for reconsideration by Public Counsel)?

Of these seventeen issues, the first twelve involve questions of fact and policy, while the last five involve questions of law.

Findings of Fact

Fuel Inventory Policies (Issues 1 and 2)

In recent rate cases we have reviewed the inventory policies of each of the four large generating utilities as part of our analysis of working capital requirements. Each utility's inventory policy effects the level of fuel held in inventory, which effects in turn the utility's working capital requirements under the balance sheet approach. In each case we encountered difficulties in analyzing each company's policy and in Order No. 11498 and we found that Gulf Power Company's inventory policy was not justified.

The staff has proposed that we require each utility to support and justify its inventory policy by a comprehensive and systematic study. The staff envisions a proceeding separate from a rate case wherein we would review the results of each utility's study and rule on the reasonableness of its inventory policy. FPL and FPC agree that further study of inventory policies is appropriate. TECO and Gulf, however, maintain that any review of inventory policy should fall within a rate case.

We agree that further study of fuel inventory policies is needed. However, we will not order special studies to be performed for approval separate from rate cases. Instead, we expect each utility to fully document its inventory policy in its next rate case.

The staff has proposed a "generic" fuel inventory policy to be applied in a rate case if a utility fails to fully justify its own policy. The staff's proposed policy is as follows:

1. Heavy Oil - 45 days projected burn plus normally unavailable oil.

2. Light Oil - 30 days burn at the highest average monthly rate during the most current and five year period plus normally unavailable oil.

3. Coal - 90 days projected burn plus base coal volumes.

All other parties objected to the adoption of a generic policy. Each utility proposed that we rely on the record of each case to identify the proper inventory level if the utility's policy is not justified. Public Counsel also preferred a case-by-case analysis.

If a utility fails to justify its own inventory policy in a rate proceeding the Commission should have a generic policy available in order to evaluate the reasonableness of the dollar amount of inventory requested in working capital. The generic policy will not be used automatically in the event that the utility's policy is not justified, rather, we will strive to determine an optimum policy from the evidence presented in the rate case. If we cannot determine an optimum policy from the

record, we would have the option of using the generic policy, or the generic policy modified by evidence of record. In such a case, the utility would be free to demonstrate that the generic policy would not provide acceptable inventory levels for its operation or the utility could build an alternative inventory based on the generic policy with modification to meet its operational requirements.

The generic policy recommended by staff is not represented to be the most optimal policy. Staff witness Foxx stated that it is not possible to create one generic inventory policy which is equally fair to all utilities. This is due to the differences in the system generating characteristics of the utilities. However, staff's proposed generic policy was shown to be reasonable by Mr. Foxx's testimony, which showed utility inventory levels throughout the nation in relation to burn levels. Although the levels specified by staff's generic policy are not equal to the national averages, we find the proposed generic policy to be reasonable. We therefore adopt the staff's proposed generic inventory policy for the purposes set forth above.

Nonrecoverable Oil (Issue 3)

Each utility that maintains an oil inventory holds a certain amount of "nonrecoverable oil" in inventory. The point of discharge in an oil storage tank is above the bottom, allowing water and sediment to fall below the level from which oil is pumped. Nonrecoverable oil represents the volume of oil below the discharge pipes at the bottom of oil storage tanks. This nonrecoverable oil typically contains a certain amount of nonconbustible oil which must be processed before use as fuel oil. It also contains a certain amount of combustible oil, but this oil cannot be removed for use without special equipment.

The staff had originally proposed that each company estimate the amount of combustible oil when filling its tanks and expense that oil at the then current price of oil. The staff has modified that approach and now proposes that the value of all nonrecoverable oil below the discharge value be expensed at average unit cost at the next fuel adjustment true-up and thereafter expensed after each tank cleaning and refill at the then prevailing cost. FPL and TECO propose to retain all nonrecoverable oil in inventory and expense it out at tank cleaning. Public Counsel proposes that all nonrecoverable oil be removed from inventory and be amortized over the expected period between tank cleanings.

We find that the value of all heavy and light oil which normally resides in the storage tanks below the normal operating intake pipe and is normally unavailable should be expensed at the end of the next fuel adjustment true-up hearing. This oil should be expensed at the average unit cost of oil residing in the tanks on the day expensed. If a tank is emptied and refilled, the nonrecoverable oil should be expensed when the tank is refilled.

In recent rate cases nonavailable oil has been included in working capital for utilities and those utilities' rates currently allow a recovery on the investment in that nonrecoverable oil. If that oil is expensed off the utility should no longer receive a return on it. Therefore, when each utility calculates the expense of its nonrecoverable oil it should likewise calculate the revenue effect of removing that oil from rate base. The adjustment to the fuel adjustment clause to expense the oil would reflect the offset of the rate base reduction. After the nonrecoverable oil has been expensed through the fuel adjustment clause the clause would thereafter reflect an adjustment to recognize the rate base reduction until the utility's next rate case.

Base Coal (Issues 4 and 5)

Each coal pile maintained by a utility contains a certain amount of "base coal" used to support the pile. This coal is normally low grade coal and is not expected to be burned as part of normal utility operations. Except for TECO, this coal is maintained in inventory in spite of the fact that it is not expected to be burned. All parties (except FPL, which uses no coal) have agreed that base coal should be capitalized in Account 312 and depreciated over the life of the plant. TECO currently accounts for its base coal in this manner. We find that the proper treatment of investment in base coal is to capitalize it in account 312 as proposed. Normally, plant items such as base coal would be depreciated over the life of the plant to which it relates. However, we find that a shorter period of five years is more appropriate for the depreciation of base coal.

The staff proposes that we require the transfer of base coal to account 312 in the next true up and allow recovery of depreciation through the fuel adjustment until each company's next rate case. FPC, Gulf and Public Counsel propose that no change occur until the next rate case. We agree with FPC, Gulf and Public Counsel. There is no need for extraordinary measures in correcting the accounting for base coal. A delay until each company's next rate case is appropriate.

Commission Standards for New Long Term Fuel Contracts (Issues 6-9)

The staff had proposed that we adopt specific detailed guidelines for new long-term contracts. The original staff proposal envisioned a set of specific guidelines that a utility should meet in obtaining new contracts. These guidelines would cover solicitation and negotiation of new contracts. FPL, FPC, TECO and GULF all opposed the adoption of detailed standards governing fuel contracts. Each expressed a concern that detailed standards would not be flexible enough to encompass all reasonable procurement decisions. In response to the positions of the other parties, the staff modified its proposal to involve a set of broad guidelines to be adopted by the Commission. More detailed guidelines would be approved for use by the staff, but would not be adopted for direct application by the Commission to each utility. We agree that we should adopt broad guidelines, as proposed by staff. Utilities will then be placed on notice as to the basic procurement standards we intend to apply.

We next must determine what broad guidelines should be adopted. The staff, in its final recommendation, broadened the standards that it has originally proposed. We view these revised standards as appropriate and adopt them as our central policy on new long term fuel contracts. The approved guidelines are set forth on Appendix A of this Order. These broad guidelines will be augmented by more specific guidelines that we will approve for internal staff use.

The staff proposed that compliance with the broadened guidelines be a prerequisite to cost recovery through the fuel adjustment. Again, the four utilities opposed the application of preset criteria as a condition for cost recovery. We find that compliance with our central guidelines should not be a prerequisite to fuel cost recovery. However, should a utility fail to comply with the our central guidelines it would have a special burden to show that non-compliance was justified. In addition, staff's detailed guidelines would be considered in any fuel adjustment proceeding where staff sought to apply them to a utility's purchases. We would then formally determine whether compliance with staff's guidelines is also appropriate.

The staff has also proposed that our guidelines be applied to affiliates and subsidiaries of utilities or utility holding companies engaged in the procurement of fuel or services for a

utility. Public Counsel agrees with the staff, stating that a utility should show that its affiliated companies are the most cost-effective providers of fuel and services.

We agree with the staff and Public Counsel. Given the broad standards that we have adopted, we consider it reasonable to expect purchases by affiliated companies for a utility to meet the same standards as purchases by the utility itself.

Monthly Fuel Reports (issues 10 and 11)

The staff has proposed that we require all utilities to file a monthly report detailing all purchases of fuel, transportation and fuel handling services and has recommended the form and content of the report.

FPL is willing to provide the information but suggests that quality adjustments need not be included because they are not made on an invoice by invoice basis. FPC has no objection to providing the information if we determine that the information cannot be adequately reviewed by our monthly field audits. TECO states that the requested information is being compiled and submitted at the audit staff's request. Gulf has no objection to filing the information, as long as it is done concurrently with the filing of FERC's Form 423. All of the utilities stressed the need to protect the confidentiality of information filed on the forms. Public Counsel supports the staff's proposed reporting forms.

We agree with the staff and Public Counsel that the information requested by the proposed forms is a valuable and useful tool in analyzing the prudence of utility fuel purchases and related transactions. We find that the information requested by staff should be provided on a monthly basis, to be filed with the Commission Clerk within 30 days after the end of the reporting month unless the utility demonstrates a need for an extension. The monthly reporting forms are to be completed on a plant specific and supplies specific basis.

The first form proposed by staff is the Coal Receipt Analysis form. One form would be completed for each plant. This form includes information on the delivered price and quality of coal received in each month from each supplier for each plant. The point of receipt is usually at a river loading facility or rail tipple where the coal is loaded into river barges or rail cars. Separate invoices from a given supplier may be combined into one entry if the coal was purchased under the same contract and invoiced at the same price. Any retroactive or quality adjustments known at the time of filing should be included in the appropriate columns. Retroactive and quality adjustments for coal from previous reporting periods would be attached as an addendum to this form which already documents the time period involved, the specific previously reported entries to revise, the revision (in total dollars and in dollars per ton) to each previously reported entry, and the nature or cause of the revision. If quality reports are not available at the time of filing, they would be updated in a similar fashion.

The second form proposed by staff is the Fuel Oil Receipt Analysis which reflects the invoice information of oil delivered to generating facilities or terminals. One form would be completed for each plant or terminal. One entry would be made for each supplier for each grade of fuel. Residual fuel oil of different sulfur grades must be reported separately. Multiple invoices may be reported as one entry so long as the above criteria are met. In the event multiple invoices are reported as one entry, the weighted average price would be reported. Retroactive price changes and quality adjustments would be reported as an attachment which documents the previously reported entry to revise, the nature of the revision, ad the revision in total dollars and dollars per barrel.

The third form proposed by staff is the Coal Rail Transportation Cost Analysis form which documents the rail transportation costs for coal shipped from each supplier to each plant. One form would be completed for each plant. Retroactive adjustments to this form would be reported in a similar manner as above. The entries would be on a date shipped basis.

The fourth form proposed by staff is the Coal Waterborne Transportation Cost Analysis form which documents the costs of the various components in the waterborne coal transportation network. One form would be completed for each plant. The entries would be on a date shipped basis. Retroactive adjustments would be made in a similar manner as the first two forms.

The staff proposed that retroactive revisions or adjustments to transactions previously reported would be included in the form of an addendum which would be specific enough in nature to enable the staff to revise the original filing of the form. The forms would be required to be filed in a timely manner. We find that the content of the forms proposed by the staff is reasonable and except for reformatting to isolate confidential material (see below), we approve the format of the forms as well.

Next, we must determine whether any portion of the monthly reports should be accorded confidential treatment. We agree that certain portions of the monthly reports will contain proprietary confidential business information. However, many portions of the monthly reports will not. The proprietary information for all types of fuel is transportation. Any breakout of transportation costs must be treated confidentially. In addition, F.O.B. mine prices for coal is proprietary in nature as is the price of fuel oil. Disclosure of separate transportation or F.O.B. mine prices would have a direct impact on a utility's future fuel and transportation contracts by informing potential bidders of current prices paid for services. Disclosure of fuel oil prices would have an indirect effect upon bidding suppliers. Suppliers would be reluctant to provide significant price concessions to an individual utility if prices were disclosed because other purchasers would seek similar concessions.

As proposed, staff's reporting forms commingle confidential and non confidential information. By segregating transportation and base fuel price information to separate parts of the form, confidential material can be separated from non confidential material. Revised forms to accomplish this purpose are shown on Appendix B of this order. Each utility participating in the fuel adjustment clause should file these forms monthly. Forms 423-1 and 423-2 would be public record. Forms 423-1(a), 423-2(a) and 423-2(b) would be confidential and exempt from public access.

Change in the Operation of the Fuel Adjustment Clause (Issue 12)

The staff has proposed that we change the operation of the fuel adjustment clause so as to clarify the nature of our jurisdiction over amounts passed through the clause. As proposed by the staff, this change is to be prospective in nature. We will discuss our jurisdiction over amounts previously passed through the clause as currently structured at a later point in this order.

As currently structured, the clause provides that utilities are to justify their expenditures at a true-up hearing immediately following each six month period. The staff proposed that we change the clause so that, instead of requiring proof of prudence at the true-up immediately following a six month period, we simply limit our jurisdiction over all transactions passed through the fuel clause for a period of three years from the date we approve the amount at the true-up hearing. Under the staff proposal, if before the end of the three year period the Commission indicates a need for further review for any specific transaction, the

Commission would explicitly retain jurisdiction over amounts passed through the fuel clause relating to that transaction. The Commission may then continue jurisdiction over those amounts until a final order is issued. Once a specific transaction which has been explicitly set aside for review has been ruled upon by the Commission, the Commission would lose jurisdiction over that transaction for the period reviewed by the Commission. The above jurisdictional limitations would not apply for transactions when fraud or other such irregularities can be shown.

Each of the parties responded to the staff proposal in different ways.

FPL proposed that unless a utility has fraudulently or through error provided incorrect or incomplete information, or the amounts paid have changed due to litigation or dispute, Commission jurisdiction should cease after one year from the date of the transaction, unless the Commission identifies a problem and retains jurisdiction over a specific transaction.

FPC agreed that the current six month may not be adequate for proper review, but stated that the Commission may not lawfully extend its jurisdiction beyond a reasonably determined review period in order to provide a catch-all for the possibility that it may have overlooked something.

According to TECO, the Commission should first enter a provisional true-up order within sixty days of the end of the six month period under review. The Commission should then provide for a further true-up followed by a final order after a reasonable length of time. TECO submits that such final order should be entered within one year of the end of the six month period under review.

Gulf's position is that unless the Commission specifically reserves jurisdiction to allow further study of expenditures, jurisdiction lapses on approval of the true-up. The exception to this limitation of jurisdiction are instances of fraud or misrepresentations.

Public Counsel supported staff's approach.

The current structure of the clause creates two problems. First, although under the current clause prudence is to be reviewed at the true-up hearing after each six-month period, varying positions have been stated as to our jurisdiction to look at the prudence of transactions after a true-up order has been issued. Although we have now resolved the issue, a second problem was caused by our prior practice of identifying questionable transactions and placing the associated revenues subject to refund. In recent periods, utilities have preferred to stipulate to continuing jurisdiction rather than have their revenues explicitly made subject to refund. According to the utilities, making revenues subject to refund creates a financial uncertainty about those revenues, adversely affecting a utility's financial position.

The staff's proposal achieves two goals It resolves all uncertainty as to our jurisdiction over amounts passed through the clause by explicitly retaining the power to review prior transactions. Thus, the complex factual and legal problem engendered by the structure of the current clause is avoided. It also obviates any desire or need to explicitly declare revenues subject to refund, as jurisdiction continues without question. The financial uncertainty that arises when revenues are declared subject to refund is avoided. We therefore agree with the staff's proposal that the operation of the clause should be changed.

Staff's proposal to place a time limit on our jurisdiction, however, is inappropriate. We see no justification in limiting

our ability to scrutinize past transactions. We fully intend to review a utility's procurement decisions solely in light of the facts known or knowable at the time a decision was made. The appropriate limitation of our jurisdiction is based on whatever statute of limitations or other jurisdictional limitations applies to our actions as a matter of law.

Under the new structure, rather than explicitly considering prudence at the end of each six month period, we will consider only the question of comparing projected to actual results. Questions of prudence require careful and often prolonged study. When a question arises as to the prudence of a utility's expenditures, proper time should be taken to fully analyze the question and resolve the matter on all of the facts available. Often, a full staff analysis should be made before the matter is formally included within the fuel adjustment proceeding.

From now on, each utility will be required at true-up only to demonstrate how the amounts actually expended for fuel and purchased power compare with the amounts projected for the prior six month period. The true-up approved at that time will reflect the reconciliation of projected to actual results (with the appropriate calculation of interest, other true-up amounts, etc.). Although the burden of proving the prudence of its actions will remain with the utility, the question of prudence will arise only as facts regarding fuel procurement justify scrutiny. Hopefully, we will be presented with complete analyses of procurement decisions in a timely manner.

At the true-up hearing that follows a six month period a utility will still be free to present whatever evidence of prudence it chooses to provide. We note that certain utilities have periodically presented broad statements as to the prudence of their fuel procurement activities. Such presentations are not inappropriate, but they hardly elucidate the subject matter. Fuel procurement is an exceedingly complex matter and a determination of the prudence of procurement decisions requires a complex analysis.

While a utility may feel satisfied that it has properly met its burden by such a presentation, we expect the quality and quantity of evidence to be presented in support of the prudence of fuel procurement decisions to match the complexity of the subject matter. We will therefore accept any relevant proof a utility chooses to present a true-up, but we will not adjudicate the question of prudence, nor consider ourselves bound to do so until all relevant facts are analyzed an placed before us. We will be free to revisit any transaction until we explicitly determine the matter to be fully and finally adjudicated.

Although this order is being issued after the true-up order for the October, 1982 - March 1983 period, the restructuring of the clause is effective as of that true-up hearing. Except for the delay engendered by an extended hearing on the generic issues, we would have decided this issue in conjunction with the final true-up decision for that period. Therefore, all fuel transactions, beginning October 1, 1982, are subject to the newly structured clause and Order No. 12172, the true-up order for the October, 1982 - March, 1983 period is the first true-up order under the new structure.

Future Rulemaking

Having resolved the above policy issues within an adjudicatory framework, we consider it appropriate to move toward rulemaking and codify our policy. The staff is directed to begin drafting rules to encompass the policy decisions made in this order.

Conclusions of Law

Review of Prior True-up Periods (Issue 13)

Periodically, we find it necessary to review the prudence of certain utility fuel procurement actions. Often the transactions in question extend into prior six-month periods. From time to time questions have arisen as to our authority to review transactions in prior true-up periods. We find it appropriate to fully resolve the issue at this time.

According to the staff, absent an allegation of prudence, evidence of record thereon and an order making a finding of prudence, the Commission may review expenditures made during prior true-up periods. According to staff, however, where a particular transaction has been called into question by the Commission, evidence in support of its reasonableness has been presented by the utility, and the expense has not been disallowed, the Commission should consider the prudence of that transaction to have been ruled on, even if the order did not make an explicit finding of prudence. In addition, the staff asserts that the nature of the six-month clause and the manner in which costs flow through the clause shows that a true-up order is not truly final as to prudence.

FPL, FPC, Gulf and TECO all assert that Commission jurisdiction over fuel transactions lapses at true-up unless the Commission explicitly reserves jurisdiction to allow further study.

Public Counsel's position is that the Commission may review any expenditure that has previously passed through the clause and disallow those costs that were imprudently incurred. According to Public Counsel, the utilities are relieved of regulatory lag by the operation of the clause and, in exchange, the Commission and ratepayers must have assurances that the costs collected are proper.

We conclude that the staff's view is proper. The question of whether we may review the prudence of expenditures made during prior true-up periods is governed by whether the prudence regarding of expenditures has been adjudicated. The issuance of a true-up order does not adjudicate the question of prudence per se. As pointed out by staff, the true-up hearings have never been relied upon by the Commission or any other party as the point at which prudence is actually reviewed. With rare exception, prudence has not been alleged, proven nor ruled upon during those proceedings. An actual adjudication of prudence depends on whether an allegation of prudence was made, evidence was presented thereon and a ruling made. Where an expenditure has been disputed and its prudence examined on the record, a ruling in favor of prudence should be inferred even if none is explicitly made.

This approach to jurisdiction over prior true-up periods naturally involves a review of the record of prior proceedings. Since several hearings are held each year, this process is necessarily complex. We will defer such a review until such time as we must face the question for a particular utility.

Staff is also correct in stating that the nature of the clause and the way costs are passed through it belies any finality to a true-up order. As stated in Order No. 11572, the effect of expenditures during any six month period extend beyond that period and utilities frequently pass retroactive price adjustments through the clause.

The nature of the fuel adjustment is continuous and the segregation of charges to fuel cost into 6-month periods is for ease of administration only. Indeed, fuel purchases in any one period will affect future periods, as fuel cost is charged on an "as burned" basis at weighted average inventory cost. Thus, instead of fuel costs collected in any one period reflecting only fuel purchased during that period, those costs reflect the weighted average cost of purchases during and prior to that period. In addition, it is quite common for utilities to receive retroactive adjustments to fuel price and transportation costs well after the close of the original transaction to which they relate.

Conservation Penalty/ Reward (Issues 27 and 28)

Since we have declined to adopt any penalties or rewards at this time these issues are moot.

Proper Version of Oil Backout Rule (Issue 29)

Public Counsel has raised this issue in order to preserve its pending appeal. No ruling is necessary.

Calculation of Net Savings on Six-Month or Monthly Basis (Issue 30)

Public Counsel has raised this issue in order to preserve it pending a motion for reconsideration. No ruling is necessary.

Other Conclusions of Law

The findings of fact and policy decisions made in this order are supported by the weight of the evidence of record and are within the range of the discretion granted to the Commission by the legislature under Chapter 366, Florida Statutes.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the issues of fact and law set forth on pages 2 and 3 of this order be and the same are resolved as set forth in the body of this order. It is further

ORDERED that each electric utility seeking to recover the cost of fuel through the fuel adjustment clause shall file monthly reports in the form of Appendix B to this order, each report to be submitted within 30 days after the end of the reporting month.

By Order of the Florida Public Service Commission this 3rd day of November, 1983.

Steve Tribble
Commission Clerk

(S E A L)

PS

APPENDIX A

FLORIDA PUBLIC SERVICE
COMMISSION FUEL PROCUREMENT POLICY

I. General

A. The Public Service Commission requires that all expense associated with the procurement of fuel, fuel related handling services and fuel transportation which are recovered through the Fuel Adjustment Clause be prudently incurred, result from competitive procurement procedures, be reasonably competitive in cost or value relative to what other buyers are paying under similar terms and conditions for fuel or services of comparable quality or specifications and result from sound administration of fuel supply agreements.

B. To accomplish the objectives expressed in (A), the Commission establishes the following guidelines that it recommends to electric utilities seeking fuel expense recovery through the Fuel Adjustment Clause. The Commission fully recognizes that differing fuel mixes and plant locations will necessarily result in vastly different fuel procurement strategies. However, the Commission also believes that there are certain fundamental, common procedures which, when employed, will result in the lowest, long run overall fuel expense to the companies and their ratepayers.

C. While the Commission believes that compliance with the guidelines expressed in this policy will achieve the lowest system fuel cost, the utility's management has sole responsibility to procure fuel in the most cost efficient manner possible and therefore it should have the flexibility to employ any means to achieve this result. In consideration of the above, departures from Commission policy are authorized when such departures can be justified and shown to be in the best interest of the utility and its ratepayers.

D. Departures from Commission policy which through Commission audit, investigation and hearing can be shown to have resulted in unjustified additional fuel expense are inappropriate for recovery through the Fuel Adjustment Clause and such expense will be disallowed.

E. If the Commission determines, based upon Staff audit and/or investigation, that a utility's unjustified departure from recommended Commission policy has resulted in unnecessary fuel expense, then the utility shall be required to apply credits against the clause or to make refunds to its customers.

F. The Commission's guidelines are intentionally broad to allow utility management the flexibility to tailor procurement procedures to fit a broad range of contingencies and adapt to changes in fuel markets.

G. The burden of proof rests solely with the utility to document the reasonableness of its procurement practices and the resultant expenses from such practices.

H. General overall compliance with Commission policy in no way removes the responsibility of a utility to justify andy particular transaction the Commission may require be specifically justified.

II. Long-Term Agreements for Fuel, Fuel Handling Services, Fuel Transportation, Spot Purchases and Affiliate Transaction.

A. The Commission recommends that the majority of a utility's requirements for fuel, fuel handling services and/or transportation be procured under the terms of a long-term contract. Primary reliance upon long-term contracts will ensure that fuel or services will be available when required at reasonable, stable costs to the utility and its ratepayers.

B. The Commission recommends that, to the extent practicable, such long-term contracts be negotiated in a competitive environment. It is recommended that the primary method employed should be an open competitive bidding process or some comparable alternative which produces the same result.

C. All aspects of the procurement process employed in acquiring a long-term fuel or services supply contract should be documented and available to the Commission upon request.

D. Vendors should be selected on the basis of a formal evaluation system which is neutral in its application and capable of producing quantifiable ratings of individual suppliers. Considerations other than delivered price, fuel quality and vendor performance should be thoroughly documented.

E. The Commission recommends that all fuel agreements incorporate clear specification for the fuel or service to be provided and bonus/penalty provisions to ensure that the fuel or services contracted for are provided in accordance with contract terms.

F. The Commission recommends that the utility arrange for adequate fuel sampling techniques and equipment to be deployed at the point of receipt from the fuel supplier and the point of delivery, if different. Such a procedure will ensure that the quality of the fuel received at the unloading facility is consistent with that of the fuel as loaded, the invoiced priced and the contract specifications. To the extent possible, all such arrangements should be clearly written in the contract.

G. Utilities subject to the Commission's jurisdiction should not pay for or agree to pay for fuel or services at prices in excess of that dictated by the negotiated price terms of executed contracts existing between such utilities and providers of such fuel or services.

H. The Commission recommends that long term fuel or service contracts be based upon a base price plus well defined escalators, public tariffs or public postings unless a benefit to the ratepayer can be demonstrated by using some other pricing arrangement.

I. The Commission recommends that all utilities seek to incorporate a "right to audit" clause in any contract which utilizes escalators. The right to audit clause should give the utility the authority to audit specific records of the supplier.

J. The Commission recommends that all utilities enforce the right to audit through the annual use of its own audit staff or an independent accounting firm. Any refunds or adjustments due, as identified by audit, should be promptly resolved and credited to fuel expense.

K. The Commission recommends that any escalation methodology to be employed in a long-term contract be tied as closely as possible to actual changes in a suppliers verifiable costs.

L. The Commission recommends that all utilities seek to incorporate adequate well defined remedies in all long-term contracts for substandard quality performance unreliable volume or quality performance and unacceptable high price over protracted periods of time.

N. It is recommended that all contracts and the individual terms of each contract be reviewed and approved by the legal office of the utility.

O. All utility personnel having any interest in a particular firm seeking a long term fuel or services contract with a utility should be removed from any selection process, contract negotiation or administration of a contract with the firm. All personnel having any potential conflict of interest should be prevented from having any impact upon the contracting process.

P. All utility transaction with affiliated companies which provide fuel or fuel related services should be based on costs which are consistent with or lower than the costs a utility would incur if the utility received the fuel or services from an independent supplier in the competitive market obtained through competitive bidding.

Q. All spot transactions should be priced at, or below, the market price at the time of purchase and should not exceed the normal contract price for similar fuel or fuel related services unless required for reliability purposes.

R. The Commission expects, to the extent possible, that each utility utilize the terms of their long-term contracts relating to minimum and maximum volumes of fuel required to be delivered in order to take advantage of lower prices in the spot market when they exist.

S. The Commission expects that any utility which has a contract with an affiliated organization shall administer that contract in a manner identical to the administration of a contract with an independent organization.

T. Any fuel or fuel related transaction which does not meet the above criteria shall be denied recovery through the fuel clause by the Commission, unless the utility, which has the full burden of proof, can demonstrate that the transaction is in the best interest of the ratepayer.

APPENDIX B

FPSC Form No. 423-1

MONTHLY REPORT OF COST AND QUALITY OF FUEL OIL FOR ELECTRIC PLANTS
ORIGIN, VOLUME, DELIVERED PRICE AND AS RECEIVED QUALITY

1. Report For: Mo._____ Yr.____

2. Reporting Company: _____

3. Plant Name: _____

4. Name, Title & Telephone Number of Contact Person Concerning Data Submitted on This Form: _____

5. Signature of Official Submitting Report: _____

6. Date Completed: _____

Line No.	Supplier Name	Shipping Point	Point of Delivery	Date of Delivery	Type Fuel Oil	Sulfur Level (%)	Btu Content (Btu/lb)	Volume (Bbls)	Delivered Price ($/Bbl)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
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FPSC Form No. 423-1 (10/81)

(use continuation sheet if necessary)

FPSC Form No. 423-1(a)

MONTHLY REPORT OF COST AND QUALITY OF FUEL OIL FOR ELECTRIC PLANTS
DETAIL OF INVOICE AND TRANSPORTATION CHARGES

1. Report for: Mo._____ Yr.____
2. Reporting Company: _____
3. Plant Name: _____
4. Name, Title & Telephone Number of Contact Person Concerning Data Submitted on This Form: _____
5. Signature of Official Submitting Report: _____
6. Date Completed: _____

Line No.	Supplier Name	Point of Delivery	Date of Delivery	Type Oil	Volume (Bbls)	Invoice Price ($/Bbl)	Invoice Amount ($)	Discount ($)	Net Amount ($)	Net Price ($/Bbl)	Quality Adjustments ($/Bbl)	Effective Purchase Price ($/Bbl)	Additional Transportation Charges ($/Bbl)	Other Charges Incurred ($/Bbl)	Delivered Price ($/Bbl)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
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FPSC Form No. 423-1(a) (10/81)

(use continuation sheet if necessary)

FPSC Form No. 423-2

MONTHLY REPORT OF COST AND QUALITY OF COAL FOR ELECTRIC PLANTS
ORIGIN, TONNAGE, DELIVERED PRICE AND AS RECEIVED QUALITY

1. Report For: Mo._____ Yr.____

2. Reporting Company: _____

3. Plant Name: _____

4. Name, Title & Telephone Number of Contact Person Concerning Data Submitted on this Form: _____

5. Signature of Official Submitting Report: _____

6. Date Completed: _____

Line No.	Supplier Name	Mine Location	Point of Delivery	Transportation Mode	Number Primary Shipping Units	Tons	F.O.B. Plant Price ($/Ton)	As Received Coal Quality: Percent Sulfur (%)	Btu Content (Btu/lb)	Percent Ash (%)	Percent Moisture (%)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
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FPSC Form No. 423-2 (10/81)

FPSC Form No. 423-2(a)

MONTHLY REPORT OF COST AND QUALITY OF COAL FOR ELECTRIC PLANTS
DETAIL OF INVOICE PURCHASE PRICE

1. Report For: Mo._____ Yr.____

2. Reporting Company: _____

3. Plant Name: _____

4. Name, Title & Telephone Number of Contact Person Concerning Data Submitted on This Form: _____

5. Signature of Official Submitting Report: _____

6. Date Completed: _____

Line No.	Supplier Name	Mine Location	Point of Delivery	Tons	F.O.B. Mine Price ($/Ton)	Short Haul & Loading Charges ($/Ton)	Original Invoice Price ($/Ton)	Retroactive Price Increases ($/Ton)	Base Price ($/Ton)	Quality Adjustments ($/Ton)	Effective Purchase Price ($/Ton)
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FPSC Form No. 423-2(a) (10/81)

(use continuation sheet if necessary)

FPSC Form No. 423-2(b)

MONTHLY REPORT OF COST AND QUALITY OF COAL FOR ELECTRIC PLANTS
RETAIL OF TRANSPORTATION CHARGES

1. Report For: Mo._____ Yr.____
2. Reporting Company: _____
3. Plant Name: _____
4. Name, Title & Telephone Number of Contact Person Concerning Data Submitted on this Form: _____
5. Signature of Official Submitting Report: _____
6. Date Completed: _____

Line No.	Supplier Name	Mine Location	Point of Delivery	Transportation Mode	Tons	Effective Purchase Price ($/Ton)	Additional Short Haul & Loading Charges ($/Ton)	Rail Charges: Rail Rate ($/Ton)	Rail Charges: Other Charges Incurred ($/Ton)	Waterborne Charges: River Barge Rate ($/Ton)	Waterborne Charges: Trans-loading Rate ($/Ton)	Waterborne Charges: Ocean Barge Rate ($/Ton)	Waterborne Charges: Other Charges Incurred ($/Ton)	Total Transportation Charges ($/Ton)	F.O.B. Plant Price ($/Ton)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
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FPSC Form No. 423-2(b) (10/81)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Cost Recovery Methods for Fuel-Related Expenses.	DOCKET NO.	850001-EI-B
	ORDER NO.	14546
	ISSUED:	7-8-85

The following Commissioners participated in the disposition of this matter:

JOHN M. MARKS, Chairman
JOSEPH P. CRESSE
GERALD L. GUNTER

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING COST RECOVERY METHODS FOR
FUEL-RELATED EXPENSES

BY THE COMMISSION:

Background

As a result of issues raised by Staff in the February, 1985 fuel adjustment hearing, this docket was created to consider the proper means of recovery of fossil fuel-related expenses. In Order No. 14222, the final order establishing the April-September, 1985 Fuel and Purchased Power Cost Recovery Factors, we instructed Staff, the four investor owned electric utilities and any other interested parties to provide information necessary for the Commission to be able to consider at the August, 1985 fuel adjustment hearing whether the utilities were passing appropriate fixed and variable costs associated with fuel receipts through their fuel adjustment clauses.

Pursuant to the Commission's directive, a workshop concerning the cost recovery methods of fossil fuel-related expenses was noticed for and held on May 1, 1985. As a result of the information exchanged at that workshop and subsequent discussions, the parties to the proceeding, which include Staff, the Office of Public Counsel, Florida Power and Light Company (FPL), Florida Power Corporation (FPC), Gulf Power Company (Gulf), and Tampa Electric Company (TECO), identified the fossil fuel-related costs currently being recovered through the utilities' fuel adjustment clauses and agreed to a policy addressing the appropriate prospective means of recovering such fossil fuel-related expenses. The Florida Industrial Power Users Group (FIPUG) has not intervened in this proceeding but was informed of the parties' stipulation and stated that they took no position.

On June 21, 1985, the parties submitted to the Commission a stipulation evidencing their agreement. Attached to the stipulation was a draft Notice of Proposed Agency Action which the parties requested be adopted in the disposition of this proceeding. The draft Notice of Proposed Agency Action was endorsed by Staff's recommendation of June 20, 1985. In the stipulation the parties identified the fossil fuel-related costs currently being incurred and how each of the utilities are treating those expenses for cost recovery. A copy of that information is attached as Appendix A. As can be seen on Appendix A, each of the utilities do not incur all of the same types of fossil fuel-related expenses, and even in instances where the same types of expenses are incurred, utilities may recover them differently.

In addition to identifying fossil fuel-related costs and their current means of recovery, the parties reached an agreement in their stipulation as to whether these cots should be recovered prospectively through base rates or through fuel adjustment clauses. The agreement regarding specific costs reflects a broader policy consensus for the recovery of fossil

fuel-related costs. The policy agreed to among the parties and recommended to the Commission consisted of two essential points which appear to reflect the Commission's practical application of fuel adjustment clauses:

1. When similar circumstances exist, the Commission should attempt to treat, for cost recovery purposes, specific types of fossil fuel-related expenses in a uniform manner among the various electric utilities. At times, however, it may be appropriate to treat similar types of expenses in dissimilar ways.

2. Prudently incurred fossil fuel-related expenses which are subject to volatile changes should be recovered through an electric utility's fuel adjustment clause. The volatility of fossil fuel-related costs may be due to a number of factors including, but not necessarily limited to: price, quantity, number of deliveries, and distance. Except as noted below, these volatile fossil fuel-related charges are incurred by the utility for goods obtained or services provided prior to the delivery of fuel to the electric utility's dedicated storage facilities. (Dedicated storage facilities mean storage facilities which are used solely to serve the affected electric utility.) All other fossil fuel-related costs should be recovered through base rates.

In the specific application of this policy, the parties recommended the following treatment of fossil fuel-related charges:

Invoiced Fuel Charges. The invoiced cost of fuel is dependent upon market conditions and the quantity of fuel purchased. The invoiced cost of fuel should be considered to include all price revisions and adjustments relating to the volume and/or quality of fuel delivered. This component of a utility's fossil fuel-related expenses is the most volatile in nature and is most appropriately recovered through the fuel adjustment clause.

Transportation Charges. The costs associated with moving fuel to fuel storage locations and terminals dedicated to the supply of a utility's generating facility are subject to significant changes due to fluctuations in distances, deliveries, volume and price. Consequently, such costs should be recovered through fuel adjustment clauses. However, transportation charges for moving fuel between dedicated storage facilities and generating plant sites appear to be more stable and predictable, due in part to many of these costs occuring under longer-term arrangements. Therefore, these transportation costs are more appropriately recovered through base rates.

Taxes and Purchasing Agents' Commissions. These charges vary with each transaction and are affected by both price and volume. These costs are most appropriately recovered through fuel adjustment clauses.

Port Charges. These charges include dockage, the fee paid to a port facility for the use of a pier, wharfage, the fee paid to a port facility for the right to receive products through a port facility, harbormaster fees, pilot fees and charges for assist tugs. These fees, which are transportation costs, are incurred prior to delivery to the utility's dedicated inventory storages facilities and vary with the number and volume of deliveries and are more properly recovered through fuel adjustment clauses.

Inspection Fees. Volume and quality inspection charges are often incurred several times in bringing fuel to a utility's generating plant sites. The charges for these inspections, which are critical to assuring that the utilities receive the

proper amount of fuel consistent with contract specifications, vary with the number and size of deliveries and are essential to the determination of whether there should be adjustments to the invoice price of fuel. These charges are incurred prior to and during delivery to the utility and are appropriate for recovery through the fuel adjustment clauses.

O&M Expenses at Plants, Storage Facilities and Terminals. These costs are relatively fixed and do not tend to fluctuate significantly even with changes in the number and sizes of deliveries. As these costs are closely akin to other O&M expenses, they are more properly recovered through base rates. These expenses include unloading and handling costs at storage facilities and generating plants.

Additives. Several of the utilities blend additives with their fuel prior to burning or inject additives directly into boiler firing chambers along with fuel being burned. The price of these additives is subject to swings, and of course, the amount of additives is related to the volume and type of fuel burned. Therefore, the costs of these types of additives should be recovered through fuel adjustment clauses. Fuel additives neither blended with fuel prior to its burning nor injected into the boiler firing chamber along with fuel will be recovered through base rates.

Fuel Procurement Administrative Charges. Each of the utilities have staffs responsible for fuel procurement, and the costs associated with fuel procurement and administration do not bear a significant relationship to the volume or price of fuel purchases. These costs are relatively fixed and are not volatile; they are more appropriately recovered through base rates.

Inventory Adjustments. From time to time adjustments are made to the volume and/or value of fuel inventory maintained for system generation. Most frequently, these adjustments relate to coal inventory and result from survey evaluations of coal sites maintained at the generating facilities. Differences between the survey results and per book volumes result due to the inaccuracy inherent in the measuring devices utilized. Coal inventory adjustments shall continue to be afforded the accounting treatment specified in the Florida Public Service Commission Staff Advisory Bulletin No. 3 dated April 9, 1982. From time to time adjustments to the volume and/or value of inventory may result from Commission decisions. The impact of these adjustments are appropriately recognized in the computation of the fuel cost recovery factors.

In addition to stipulating to the foregoing applications of policy, the parties also recommended to the Commission that the policy it adopts be flexible enough to allow for recovery through fuel adjustment clauses of expenses normally recovered through base rates when utilities are in a position to take advantage of a cost-effective transaction, the costs of which were not recognized or anticipated in the level of costs used to establish the utility's base rates. One example raised was the cost of an unanticipated short-term lease of a terminal to allow a utility to receive a shipment of low cost oil. The parties suggest that this flexibility is appropriate to encourage utilities to take advantage of short-term opportunities not reasonably anticipated or projected for base rate recovery. In these instances, we will require that the affected utility shall bring the matter before the Commission at the first available fuel adjustment hearing and request cost recovery through the fuel adjustment clause on a case by case basis. The Commission shall rule on the appropriate method of cost recovery based upon the merits of each individual case.

Finally, the parties recognize that the Commission, during its most recent fuel adjustment hearing, voted to determine in a single proceeding which items of fossil fuel-related costs should be transferred from fuel adjustment recovery to base rate recovery and to effect such changes at one time. While recognizing that this was the vote of the Commission, Public Counsel disagrees with such approach.

Commission's Findings

Having considered the stipulation of all the parties in this proceeding and recognizing the need for a further elaboration upon how fossil fuel-related costs should be treated for purposes of cost recovery, the Commission approves the stipulation of the parties and adopts the provisions therein, as its own. We find the policy outlined and specified in the stipulation to be an appropriate extension of the prior determinations regarding fuel costs to be recovered through fuel clauses made by the Commission in Order No. 6357.

In that earlier decision the Commission found that "the delivered cost of fuel to the generating plant site be used in determining a utility's fuel adjustment charge." That language has given rise to the recovery through the fuel adjustment clauses of unloading expenses, terminal operating expenses for terminals removed from plant sites, and transportation costs for moving oil from terminals to plant sites. While we recognize that the recovery of such costs through fuel clauses is consistent with the language in Order No. 6357, we feel further refinement is necessary since it is clear that these costs are not volatile.

Another expense which has come to be passed through the utilities' fuel clauses as a part of the cost of fuel is the cost of additives which are not added to fuel prior to burn or to boilers during burn. These additives are added after fuel is burned, generally to improve emissions control. We find that the cost of these "non-fuel additives" is more appropriately recovered through base rates.

As a result of our determinations in this proceeding, prospectively, the following charges are properly considered in the computation of the average inventory price of fuel used in the development of fuel expense in the utilities' fuel cost recovery clauses:

1. The invoice price of fuel.
2. Any revisions to the invoice price.
3. Any quality and/or quantity adjustments to the invoice price.
4. Transportation costs to the utility system, including detention or demurrage.
5. Federal and state taxes and purchasing agents' commissions.
6. Port charges.
7. All quantity and/or quality inspections performed by independent inspectors.
8. All additives blended with fuel prior to burning or injected into the boiler firing chamber along with fuel.

9. Inventory adjustments due to volume and/or price adjustments.

10. Fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to customers. Recovery of such costs should be made on a case by case basis after Commission approval.

It is not the Commission's intent to require the restatement of the average cost of fossil fuel inventory computed prior to the revision of rates necessitated by this Order.

The following types of fossil fuel-related costs are more appropriately considered in the computation of base rates:

1. Operations and maintenance expenses at generating plants or system storage facilities. This includes unloading and fuel handling costs at the generating plant or storage facility.

2. Transportation charges between dedicated storage facilities and generating plants.

3. Fuel procurement administrative functions.

4. Fuel additives neither blended with fuel prior to burning nor injected into the boiler firing chamber along with fuel.

While it is the Commission's intent in this Order to establish comprehensive guidelines for the treatment of fossil fuel-related costs, it is recognized that certain unanticipated costs may have been overlooked. If any utility incurs or will incur a fossil fuel-related cost which is not addressed in this order and the utility seeks to recover such cost through its fuel adjustment clause, the utility should present testimony justifying such recovery in an appropriate fuel adjustment hearing.

Consistent with the determinations previously made herein, the Commission finds that the base rates and fuel and purchased power cost recovery factors for the following investor owned electric utilities in this state will require revisions. Tampa Electric Company is currently recovering unloading expenses through its fuel clause which should be recovered through base rates. Similarly, Florida Power & Light Company and Florida Power Corporation are recovering expenses of terminal operations and of transportation of fuel between terminals and plant sites through their fuel adjustment clauses which should be recovered through their base rates. Gulf Power Company is recovering the cost of a contract tugboat used to shift coal barges at a plant site through its fuel clause which expense is more appropriately recovered through its base rates. It is the Commission's intent that any revisions to fuel and purchased power cost recovery factors and base rates only reflect a change in the means of recovery of these items. So that the Commission can be assured of the accuracy and fairness of [illegible]se necessary rate changes, they will be considered during the course of the August 1985 fuel adjustment hearings and become effective for billings on or after October 1, 1985.

Therefore, the stipulation of the parties to this proceeding is accepted, and it is,

ORDERED by the Florida Public Service Commission that the findings of fact and conclusions of law herein be and the same are hereby approved in every respect. It is further

ORDERED that the fuel and fossil fuel-related expenses discussed herein shall be treated in the fashion approved in the computation of fuel and purchased power cost recovery factors. It is further

ORDERED that the revisions to base rates being charged by Florida Power Corporation, Florida Power & Light Company, Gulf Power Company and Tampa Electric Company necessary to implement the determinations in this proceeding shall be considered at the August, 1985 fuel adjustment hearings and shall become effective for billings made on and after October 1, 1985. It is further

ORDERED that the action proposed herein is preliminary in nature and will not become effective or final, except as provided by Florida Administrative Code Rule 25-22.29. It is further

ORDERED that any person adversely affected by the action proposed herein may file a petition for a formal proceeding, as provided by Florida Administrative Code Rule 25-22.29. Said petition must be received by the Commission Clerk on or before July 29, 1985, in the form provided by Florida Administrative Code Rule 25-22.36(7)(a) and (f). It is further

ORDERED that in the absence of such a petition, this order shall become effective on July 30, 1985 as provided by Florida Administrative Code Rule 25-22.29(6). It is further

ORDERED that if this order becomes final and effective on July 30, 1985, any party adversely affected may request judicial review by the Florida Supreme Court by the filing of a notice of appeal with the Commission clerk and the filing of a copy of the notice and the filing fee with the Supreme Court. This filing must be completed within 30 days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

By Order of the Florida Public Service Commission, this 8th day of July, 1985.

STEVE TRIBBLE
Commission Clerk

(S E A L)

MRC

APPENDIX A

FUEL COST RECOVERY COMPARISON

Expense Item	TECO Recovery Method	FPL Recovery Method	FPC Recovery Method	GULF Recovery Method
01. Purchase Price of Fuel	FAC	FAC	FAC	FAC
02. Quality / Quantity Adj.	FAC	FAC	FAC	FAC
03. Retroactive Price Adj.	FAC	FAC	FAC	FAC
04. Transp. to Plant or Term.	FAC	FAC	FAC	FAC
05. Unloading Expenses	FAC—>BR	BR	BR	FAC—>BR
06. Labor (Rail Car Maint.)	—	—	—	FAC
07. Ad Valorem Taxes (Rail Car)	—	—	—	FAC
08. Rail Car Depreciation	—	—	—	FAC
09. Stores (Spare Parts)	—	—	—	FAC
10. Terminal Operating Expenses	—	FAC—>BR	FAC—>BR	—
11. Transp. from Term. to Plant	—	FAC—>BR	FAC—>BR	—
12. Handling Costs at Plant	BR	BR	BR	BR
13(a). Volume Insp's—In-House	—	BR	BR	—
13(b). Volume Insp's—Outside	—	FAC	BR—>FAC	—
14(a). Quality Insp's—In-House	BR	BR	BR	BR
14(b). Qual. Insp's—Outside	BR—>FAC	FAC	BR—>FAC	BR—>FAC
15. Limestone	FAC	—	—	—
16. Limestone Freight	FAC	—	—	—
17. Fuel Additives	FAC	FAC	FAC	FAC
18. Non-fuel Additives	FAC—>BR	BR	BR	—
19. Detention / Demurrage	FAC	FAC	—	FAC
20. Inventory Adjustments	FAC	FAC	FAC	FAC
21. Wharfage / Dockage	FAC	FAC	—	FAC
22. Tug / Pilot Fees	FAC	FAC	—	FAC
23. Port Charges	FAC	FAC	—	FAC
24. EPA Charges	FAC	—	—	—
25. Lost Coal	FAC	—	—	FAC
26. Fuel Administration	BR	BR	BR	BR
27. Outside Services	BR	BR	BR	BR
28. Admin. & General	BR	BR	BR	BR
29. Residuals	BR	—	BR	BR

LEGEND: FAC—>BR = To be removed from Fuel Adj. and put in Base Rates
BR—>FAC = To be removed from Base Rates and put in Fuel Adj.
FAC = Fuel Adjustment Clause
BR = Base Rates
— = Category does not exist.

State of Florida

DIVISION OF F
REPORTING
STEVE TRIBBI
DIRECTOR
(904) 488-8371

Public Service Commission

May 15, 1992

Tampa Electric Company
Attn: Russell Chapman
P. O. Box 111
Tampa, FL 33601-0111

Dear Mr. Chapman:

Docket No. 920001-EI -- Tampa Electric Company
Gatliff Compliance Audit Report

The enclosed report is forwarded for your review.

The audit report and any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Kay Flynn for
Steve Tribble

ST/FD/sp
Enclosure
cc: Public Counsel

James Beasley, Esq. w/enclosure

FLETCHER BUILDING • 101 EAST GAINES STREET • TALLAHASSEE, FL 32399-0850

FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

FOR THE YEARS 1983 TO 1989

FIELD WORK COMPLETED

MAY 7, 1992

TAMPA ELECTRIC COMPANY

TAMPA, FLORIDA

HILLSBOROUGH COUNTY

FUEL ADJUSTMENT COST RECOVERY AUDIT

GATLIFF COMPLIANCE

DOCKET NUMBER 920001-EI

AUDIT CONTROL NUMBER 91-344-2-2

S. RONALD MAYES
AUDIT MANAGER

A. BOUCKAERT
PUBLIC UTILITIES SUPERVISOR
TAMPA DISTRICT OFFICE

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I. EXECUTIVE SUMMARY

AUDIT PURPOSE: We have applied the procedures described in Section II of this report to audit the appended Market Price Application filing for Coal and Transportation for the Years 1989 and 90 as required by Order 20298,issued 11/10/88 and in support of Docket 920001-EI for the six months ended March 31, 1992.

SCOPE LIMITATION: The last day of field work was Thursday May 7, 1992, the date of the exit conference. This report is based on confidential information which is separately filed with the Commission Clerk. The Company did not furnish access to affiliated company records that support the contingent balance reports filed with the Commission for the Gatliff Coal Company. These were to be a part of this audit. In lieu of this, the Company is having its outside auditors, Coopers and Lybrand (C & L) conduct an independent audit that will be available to the Commission. The Company has agreed to have a Commission staff member participate as a member of the C & L audit team.

DISCLAIM PUBLIC USE: This is an internal accounting report prepared after performing a limited scope audit; accordingly, this document must not be relied on for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

OPINION: The appended exhibits, for the years 1989 and 1990 for the Market price for Coal represent books and records maintained in substantial compliance with Commission directives. The appended exhibits for the years 1989 and 1990 for the market price of transportation do not represent the amounts as recorded on the books and records of the Company for affiliated company transportation cost. The expressed opinions extend only to the scope of work described in section II of this report.

II. AUDIT SCOPE

The opinions contained in this report are based on the audit work described below. When used in this section of the report COMPILED means that audit work includes:

> The audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity or inconsistency; and except as otherwise noted performed no other audit work.

TRANSFER PRICE - GATLIFF COAL: Compiled account 151.10, Fuel Stock Coal, for all purchases from the Gatliff Coal Company for the years 1989 and 1990. Reconciled these amounts to the filings by the Company in support of the market based price of Coal and to the form, FPSC 423, which are filed on a monthly basis with the Commission.

TRANSFER PRICE - AFFILIATED COMPANY TRANSPORTATION: Compiled account 151.10, Fuel Stock Coal, for transportation costs from affiliated companies for the years 1989 and 1990. Reconciled these amounts to the filings by the Company in support of the market based price of transportation and to the form, FPSC 423, which are filed on a monthly basis with the Commission.

TECO TRANSPORT AND TRADE INVOICES: Manually looked at all invoices paid by the Company to affiliates for transportation charges to affiliates for the years of 1989 and 1990. Compared the invoices to the amounts as booked for transportation to Account 151.10, Fuel Cost Coal.

GATLIFF CONTINGENT BALANCE REPORTS: Obtained, from the Company, the contingent balance reports for the period 10/82 through 11/88. No audit work was performed on these reports.

AUDIT EXCEPTION NO. 1

SUBJECT: NON COMPLIANCE - FPSC ORDER 16433

STATEMENT OF FACTS:

FPSC order 16433, issued 8/1/86, contains a stipulation which requires the Company to file both a contingent balance report and an annual report for the Gatliff Coal Company.

The Company has not filed the contingent balance report since the filing for the period ending 3/31/88.

The Company has not filed an annual report with the Commission since the filing for the year 1987.

The Company did furnish, as a part of the information requested for the audit, both the contingent balance report and the Gatliff Annual Report updated to November, 1988.

The Company is of the opinion that FPSC order 20298, issued 11/10/88, eliminated the requirements for both the annual report and contingent balance report as a result of the change from a cost plus recovery of cost to a market based pricing recovery of costs.

FPSC order 20298, issued 11/10/88, does not specifically state that the requirement for these reports is eliminated.

OPINIONS:

The Company has not complied with FPSC order 16433, issued 8/1/86.

RECOMMENDATIONS:

The Company should be ordered to comply with FPSC order 16433 issued 8/1/86.

COMPANY COMMENTS:

The Company will respond at a later date.

AUDIT EXCEPTION NO. 2

SUBJECT: NON COMPLIANCE - FPSC ORDER 20298

STATEMENT OF FACTS:

Page 13 of FPSC order 20298, issued 11/10/88 states, "...TECO agrees to report to the Commission the actual transfer prices paid to its affiliates under the contracts ...".

Page 14 of FPSC order 20298, issued 11/10/88 states, "the actual transportation transfer price paid by TECO to to TECO Transport and Trade, pursuant to its contracts, would be recoverable...".

The Company includes a cost for transportation on all coal they purchase, even though in some cases they do not pay the costs to an affiliated company but to the coal supplier. This cost is included in the amount reported as the weighted average water transportation price , Exhibits 3 and 4, pages 11 and 12, filed by the Company to comply with the requirement of FPSC order 20298.

Note: Audit disclosure Number 2 contains a more detailed discussion on how the Company reports its transportation costs.

OPINIONS:

The Company has not complied with FPSC order 20298, issued 11/10/88. The Company is reporting other than actual amounts paid to its affiliates for water borne transportation. The amounts reported should represent the amounts the Company accrues on its books as payable to TT&T. In addition this amount should be able to be traced to the fuel expenses that are reported by the Company for recovery through the fuel adjustment clause. Without this tie in to the books of the Company the auditor can not give an opinion as to whether the amount claimed is indeed within the benchmark established by the Commission.

RECOMMENDATIONS:

The Company should be ordered to comply with FPSC order, 20298, issued 11/10/88.

COMPANY COMMENTS:

The Company will respond at a later date.

AUDIT DISCLOSURE NO. 1 PAGE 1 OF 2

SUBJECT: Transfer Price Methodology - Gatliff Coal

STATEMENT OF FACTS:

The Company calculates the price per ton using the base price, FOB mine, per the contract plus any subsequent price adjustments.

Quality adjustments are not included in the price of Coal for transfer price reporting. For the year 1989 this amounted to $1.16 per ton for contract coal and $.94 per ton for spot coal. For the year 1990 the amounts were $1.38 per ton for contract coal and $(.25) per ton for spot coal.

The Company includes all coal purchased under contract with the Gatliff Coal Company including up to 300,000 tons of supplemental spot coal.

For any spot coal that includes transportation charges the Company reduces the price per ton by the amount it would have cost if TT&T had furnished the transportation to arrive at a FOB mine amount.

Normal policy is to include adjustments through January of the following year, however, if an adjustment is known at the time of the filing it is included even though it occurs after January.

There are minor differences in the total as is on the books compared to the amount reported to the Commission. This is attributed to the fact that the amount reported to the Commission is taken from the FPSC 423 reports and is based on a three (3) decimal price which results in rounding differences between the books and the report to the Commission.

The rounding differences as discussed in the prior paragraph do not affect the average price per ton as reported to the Commission.

OPINION:

The amount reported to the Commission as the transfer price should be from the books of the Company and not from the FPSC form 423's. The amounts that are filed for recovery for the semi-annual fuel hearings are taken directly from the books of the Company. Since the transfer price reported to the Commission is to assure that the Company does not recover more than the applicable market price it is essential that the filings for both the amounts asked semi-annually for recovery and the amount reported as the transfer price come from the same source.

AUDIT DISCLOSURE NO. 1 **PAGE 2 OF 2**

SUBJECT: Transfer Price Methodology - Gatliff Coal

OPINION CONTINUED:

Even though the amount of difference is minimal in the two years audited it raises the question as to whether or not the proper amounts are being recovered. The process of reconciling the amount reported by the Company and the amount per the books took a great deal of time to audit. Having the data reported come directly from the books, rather than the 423's would reduce this time considerably. If the data was taken directly from the books, the amounts could be audited in conjunction with the fuel clause audits.

COMPANY COMMENTS:

The Company will respond at a later date.

AUDIT DISCLOSURE NO. 2

SUBJECT: Transfer Price Methodology - Affiliated Transportation

STATEMENT OF FACTS:

To determine the transfer price for transportation the Company reports the amount as reported on FPSC form 423 plus an imbedded amount that represents the amount paid to the supplier to deliver the coal to either a barge pick up site or to the Company's storage facilities at Electro Coal Transfer (ECT) an affiliated Company.

For reporting on Form 423, the Company assumes all coal purchased in a month ends up at the stations in the same month. Therefore tons purchased equal the tons used for the transfer price. In actuality the coal is moved enroute to and from the transfer facilities operated by Electro Coal Transfer, (ECT), a company affiliate. The total received by ECT and the total shipped from ECT are not always equal.

The Company computes an internal rate for transportation by Gulf Coast Transit (GCT) an affiliated company,that is not the same as the rate actually paid. The internal rate is used for reporting on the FPSC form 423.

For the Form 423, the Company applies transportation to the coal that it takes title to. For book purposes the Company does not record a payable for transportation until the coal is actually received at the transfer site (ECT).

The amount reported by the Company for the transportation benchmark for each of the years 1989 and 1990 is more than the total amount recorded on the books as payable to its affiliated companies, TECO Transport & Trade (TT&T).

To determine the cost per ton paid to affiliates the auditor used the amounts recorded on the books by the Company as transportation costs. These are the amounts that eventually end up as part of the cost of fuel and are included in the fuel clause adjustment. The amounts for getting the coal to ECT from the supplier and getting the coal from ECT to the stations were computed separately and added together to determine a total cost per ton paid to affiliated companies. The reason for this was that there are different rate structures and different tons being transported for a given period.

The cost per ton for transportation paid to TT&T per the Company's books, as determined by the auditor, is $0.11 less per ton for 1989 and $0.10 more per ton for 1990, when compared to the Company's filing.

AUDIT DISCLOSURE NO. 2 PAGE 2 Of 2

SUBJECT: Transfer Price Methodology - Affiliated Transportation

OPINION:

The amount reported by the Company on a per ton basis is representative of the amount paid per ton to its affiliated companies. However, the amount reported in total is not the amount the Company paid for transportation to its affiliates. It is coincidental that the average price per ton, as computed by Company and computed by the auditor, are so close considering the many variations between the calculations.

The Company should report what is recorded on its books as these are the amounts reported for recovery in the fuel hearings. This procedure would also make it much easier for the Company's filings to be audited.

Since the amount the Company reported is not what was actually recorded on the books for transportation it is not possible for the auditor to give an opinion as to whether the Company recovered more or less than should be allowed for the market price of transportation.

COMPANY COMMENTS:

The Company will respond at a later date.

COAL MARKET PRICE APPLICATION

	AS FILED	CORRECT AMOUNTS
Tampa Electric Weighted Average per Ton Price of Coal Purchased	$ [redacted]	[redacted]
Coal Price Benchmark	$ 40.03	
Over/(Under) Benchmark	$ [redacted]	[redacted]
Total Tons Purchased	2,302,402	
Total Cost	$ [redacted]	[redacted]
Total Amount Allowable for Recovery through fuel clause ($40.03 x 2,302,402)	$ 92,165,152	
Total Cost Over/(Under) Benchmark	$ [redacted]	[redacted]

SPECIFIED CONFIDENTIAL
COAL MARKET PRICE APPLICATION - 1990

Tampa Electric Weighted Average per Ton Price of Coal Purchased	$ [redacted]
Coal Price Benchmark	$ 39.33
Over/(Under) Benchmark	$ [redacted]
Total Tons Purchased in 1990	2,281,636
Total Cost in 1990	$ [redacted]
Total Amount Allowable for Recovery Using Benchmark ($39.33 x 2,281,636)	$ 89,736,744
Total Cost Over/(Under) Benchmark - 1990	$ [redacted]
Prior Years' Cumulative Benefit i.e., Total Cost Over/(Under) Benchmark (1988-1989)	$ [redacted]
Net Benefit for 1988-1990	$ [redacted]

TRANSPORTATION MARKET PRICE APPLICATION

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources ($104,454,374 divided by 6,219,851)	$ 16.79
Transportation Benchmark	20.53
Over/(Under) Benchmark	$ (3.74)
Total Tons Transported	6,219,851
Total Transportation Cost	$104,454,374
Total Amount Allowable for Recovery through Fuel Clause ($20.53 x 6,219,851)	$127,693,541
Total Cost over/(under) Benchmark	$(23,239,167)

SPECIFIED CONFIDENTIAL
TRANSPORTATION MARKET PRICE APPLICATION

Tampa Electric Weighted Average per ton Water Transportation Price from All Tampa Electric Coal Sources ($104,489,852 divided by 6,094,663)	$ [redacted]
Transportation Benchmark	24.17
Over/(Under) Benchmark	$ [redacted]
Total Tons Transported in 1990	6,094,663
Total Transportation Cost in 1990	$ [redacted]
Total Amount Allowable for Recovery Using Benchmark ($24.17 x 6,094,663)	$147,308,005
Total Cost Over/(Under) Benchmark - 1990	$ [redacted]
Prior Years' Cumulative Benefit (1988-1989)	$ [redacted]
Net Benefit for 1988-1990	$ [redacted]