



Public Service Commission

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DATE: 5/17/02

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (WHEELER, DRAPER,
BOHRMANN) *wbm Tb* OFFICE OF THE GENERAL COUNSEL (HARRIS) *John West*

DPW
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JB

RE: DOCKET NO. 020414-EI - PETITION OF TAMPA ELECTRIC COMPANY
FOR EXPEDITED APPROVAL OF ENERGY CHARGE TREATMENT UNDER
OPTIONAL PROVISION CONTRACT WITH IMC PHOSPHATES MP INC.

AGENDA: 05/21/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\020414.RCM

CASE BACKGROUND

On May 10, 2002, TECO filed a petition entitled "Petition of Tampa Electric Company for Expedited Approval of Energy Charge Treatment under Optional Provision Contract." Attached to the petition as Exhibit A is a copy of an agreement entitled "Contract of Tampa Electric Company and IMC to Facilitate Optional Provision Purchases of Electric Power".

IMC Phosphates MP, Inc. (IMC) is TECO's largest retail customer, and takes service under numerous accounts in TECO's service territory. The treatment requested in this docket applies only to a single IMC account that serves IMC's New Wales facility. The New Wales facility is a chemical plant that converts phosphate rock into fertilizer. IMC owns and operates a 58 megawatt generator that provides most of the energy needs of New Wales. On April 19, 2002, the generator suffered a failure, and IMC estimates

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that it will not be repaired and returned to service until on or about June 20, 2002.

Subsequent to the failure of its generator, IMC indicated to TECO that it wanted to find a way to "firm up" the availability of Optional Provision power to the New Wales facility while IMC's generator is being repaired. These discussions resulted in the contract filed in this Docket. The contract expires at midnight on May 31, 2002, unless extended at the option of IMC. If extended, the contract will expire the earlier of the date on which the IMC's generator returns to service or midnight on July 31, 2002.

The Commission has jurisdiction over the subject matter pursuant to Sections 366.04, 366.06, and 366.07 Florida Statutes.

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission approve the contract between Tampa Electric Company and IMC for the facilitation of optional provision purchases of electric power?

RECOMMENDATION: Yes. [Wheeler, E. Draper, Bohrmann]

STAFF ANALYSIS: On May 10, 2002, TECO filed a petition entitled "Petition of Tampa Electric Company for Expedited Approval of Energy Charge Treatment under Optional Provision Contract." Attached to the petition as Exhibit A is a copy of an agreement entitled "Contract of Tampa Electric Company and IMC to Facilitate Optional Provision Purchases of Electric Power" (the Contract).

IMC's New Wales facility is served under TECO's Industrial Interruptible Standby and Supplemental Service (SBI-1) rate schedule, a rate designed for self-generating customers whose generating capacity exceeds 20 percent of their on-site load. Under the SBI-1 rate, TECO supplies Standby service that is available if the customer's generator experiences a forced outage or is down for maintenance. Supplemental power is supplied for the needs of the customer that exceed its normal level of on-site generation.

The optional SBI-1 rate is a non-firm offering, which means that service under the schedule is subject to immediate and total interruption whenever any portion of the energy supplied is needed to serve TECO's firm customers, or to supply emergency power to serve the firm customers of other utilities. In return for allowing TECO to interrupt them when power is needed to serve firm customers, interruptible customers pay a lower rate.

The SBI-1 rate contains an Optional Provision under which TECO purchases energy, when available, on behalf of its interruptible customers in lieu of interruption. Customers who choose this option pay the actual cost of any purchases made by TECO on their behalf for use during the optional provision periods, plus a 0.002 cent per kilowatt-hour adder. During these periods, the customer does not pay the otherwise applicable base rate non-fuel energy or adjustment clause charges. When energy is not available on the wholesale market to serve them, TECO's non-firm customers are interrupted.

Contract Description

Under the terms of the Contract, TECO will solicit bids in the wholesale market to supply a 50 MW block of firm power that will be designated for the use of the New Wales facility under the Optional Provision of the retail SBI-1 tariff. TECO will seek alternative options for the daily hour length, number of days per week, and the manner in which the energy is scheduled. TECO will then report to IMC the results of the solicitation, and IMC can request in writing that TECO accept one or more of the offers. If an offer is acceptable to TECO, they will negotiate a Wholesale Contract with the supplier.

IMC will immediately pay TECO the entire Capacity Charge portion due under any Wholesale Contract executed. The Capacity Charge is generally fixed, and is incurred to insure the availability of the generation without regard for the amount of energy actually delivered.

TECO will not schedule the delivery of energy under the Wholesale Contract unless requested to do so by IMC. If energy is scheduled for delivery, the Contract contains two treatments regarding the payment of the Energy Charges, which are outlined in paragraphs 6a and 6b of the Contract.

Paragraph 6a. Under paragraph 6a, IMC will pay the Energy Charges for all energy delivered pursuant to the Wholesale Contract in the same manner they pay for Optional Provision purchases under the SBI-1 tariff, whether or not TECO has called for interruption or Optional Provision purchases under the normal operation of its interruptible tariffs. Under the Contract, this option will apply unless and until TECO seeks and obtains regulatory approval for the treatment contained in paragraph 6b. TECO believes that this arrangement is contemplated within the existing SBI-1 rate schedule, and does not require Commission approval.

Paragraph 6b. Pursuant to paragraph 6b, which is the treatment for which TECO is seeking Commission approval, the Wholesale Contract will be restricted to IMC's use **only** during those periods when the Optional Provision or an interruption would be in effect under the normal operation of the retail tariff. For purchases under the Wholesale Contract during these hours, IMC pays the Energy Charges in lieu of the tariffed non-fuel energy and

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adjustment clause factors, just as they would pay for normal Optional Provision power.

Energy purchases made by TECO on behalf of IMC under the Wholesale Contract in hours when the Optional Provision or interruption is not in effect will be made available for use by TECO's system. During these hours, IMC will pay the normal tariffed SBI-1 charges, as well as the Energy Charges due under the Wholesale Contract.

In return for making the energy available to TECO's system, IMC will receive a credit based on the standard rate for the purchase of as-available energy from qualifying cogenerators and small power producers for the hour in question, as specified in TECO's COG-1 rate schedule. The COG-1 rate is based on TECO's avoided cost of generation during the hour. The credit will not exceed the Energy Charge paid by IMC in that hour, and will be recovered through the Fuel and Purchased Power Cost Recovery Clause, just as payments to cogenerators are recovered. If approved by the Commission, the treatment specified in paragraph 6b would be applied beginning with the first delivery of energy under the Contract.

Discussion

Staff believes that the Contract should be approved in this instance and under these extraordinary circumstances. The Contract allows TECO to meet the needs of a major industrial customer during an extraordinary situation without negatively impacting the general body of ratepayers, thus promoting the public interest. It is effective only for the limited time required to repair IMC's on-site generation, and will not have any long term impact on TECO's rate structure. IMC will be required to pay all the Capacity Charges under the Wholesale Contract, as well as all the Energy Charges during those periods when they would otherwise be subject to the Optional Provision or interrupted. In addition, excess energy deliveries under the Wholesale Contracts will be made available to the retail customers at the lower of avoided cost or the price paid by IMC for the energy, which could potentially provide a benefit to the general body of ratepayers.

Staff notes that TECO has only sought Commission approval for the treatment outlined in paragraph 6b of the contract. TECO

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believes that the treatment described in paragraph 6a (which will not apply if the Commission approves the Contract) does not require Commission approval. Staff disagrees. Staff does not believe that the existing SBI-1 tariff language was intended to encompass the concept described in Paragraph 6a of the Contract. Staff does not believe that the SBI-1 Optional Provision can be used as a general insurance policy to span the potential three-month time frame contemplated in the Contract, to the benefit of a specific customer absent Commission approval. Further, the Optional Provision is intended to provide energy to interruptible customers during periods when they would otherwise be interrupted. The treatment described in paragraph 6a applies even in periods when there is no threat of interruption. Although staff believes that the treatment outlined in paragraph 6a is appropriate in this situation, staff also believes that it goes beyond the operation of the SBI-1 tariff, and would require Commission approval should TECO enter into a similar arrangement in the future.

ISSUE 2: Should this docket be closed?

RECOMMENDATION: Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. [Harris]

STAFF ANALYSIS: If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.