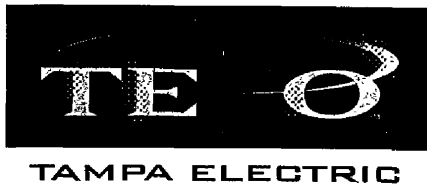


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August 28, 2002

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Ms. Connie Kummer
Chief, Bureau of Certification & Tariffs
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Petition of Tampa Electric Company for expedited approval of energy charge treatment under optional provision contract with IMC Phosphates MP Inc.

Dear Ms. Kummer,

As directed by the Florida Public Service Commission (FPSC) in Order No. PSC-02-0780-PAA-EI, Docket No. 020414-EI, Tampa Electric is pleased to provide the FPSC Staff with an accounting and justification that the treatment outlined in paragraph 6a of the "Contract of Tampa Electric Company and IMC to Facilitate Optional Provision Purchases of Electric Power" (Contract). The order directed "that upon the conclusion of the Contract, Tampa Electric Company shall file an accounting which demonstrates that the contract has not negatively impacted the general body of ratepayers in any way." The order further directed that "the staff may administratively close this docket upon TECO's showing that there has been no adverse impact on its general body of ratepayers."

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In addition to the following justification, attached is an accounting of the transactions that were made under the Contract from May 28, 2002 through June 21, 2002.

Tampa Electric's ratepayers were not harmed by the purchase of the call option and associated energy calls, to firm up the interruptible standby load at IMC's New Wales Plant. There are two general issues that should be considered. The first is the cost of the option itself and whether ratepayers were responsible for any portion of those costs. The second is whether the provision of energy to IMC's New Wales facility from the call option caused a reduction in energy charges under the SBI-1 tariff and, if so, whether that caused any harm to Tampa Electric's ratepayers.

1. Paying the Call Option Costs

The call option, purchased to firm up the IMC New Wales interruptible standby load, consisted of

two discrete costs; the call premium and the daily energy calls. These discrete costs were paid solely by IMC and had no impact on the rates paid by other ratepayers during the period the firm call option was in effect, nor will they have any impact at any later time.

IMC paid the call premium at the beginning of the contract, regardless whether calls for energy were made or whether the New Wales Plant imposed a single kWh impact on the Tampa Electric system. That discrete cost did not harm ratepayers.

IMC paid the entire cost of the energy calls when exercised, plus the two-mill adder that Tampa Electric charges when an interruptible customer purchases optional provision energy under its SBI-1 tariff. Since the cost of the energy calls was paid by IMC when exercised, that discrete cost did not harm ratepayers.

2. Exclusion from Paying Retail Charges

During the term of the call option, IMC paid the SBI-1 customer and demand charges. The level and amount of the charges paid by IMC were unaffected by the impact of the call option. Therefore, ratepayers were not harmed through failure to collect customer and demand charges from IMC New Wales.

The amount of revenues collected from IMC New Wales for other SBI-1 energy charges was affected and was lower than would have occurred absent the purchase of the call option. However, these lower energy-related revenues did not harm ratepayers.

First, to understand why ratepayers were not harmed by lower energy revenue, it is important to consider that the energy provided to IMC's New Wales plant under this call option was not planned, budgeted or expected. Because of this, serving the energy from a resource other than through the normal tariff rates of SBI-1 could not have harmed ratepayers in any way. This is true for the base energy rates, as well as the respective cost recovery clause energy rates (i.e. fuel and purchased power, capacity, conservation and environmental cost recovery clauses.)

Tampa Electric's energy forecast and the design of its base and clause rates did not anticipate the failure of IMC's 55 MW generator at the New Wales Plant. The generator was severely damaged and was out of service for nearly two months. IMC's generator is typically out of service for only maintenance outages during the year or for unscheduled outages of short duration. IMC typically coordinates the maintenance outages to coincide with low load periods so that the impact on net deliveries is low. However, this extended outage was during a high load period and the energy needed to replace the energy typically provided by the generator was significant and unplanned. Tampa Electric had not included this energy for base revenue budgeting, nor for clause revenue budgeting. 2002 was not a test year for any base rate proceeding. Therefore, there was no impact on ratepayers for not collecting base revenues from IMC New Wales for the energy served under the call option.

Clause rates were set to recover the expected fuel costs and program costs associated with serving load that did not include the IMC New Wales energy. Each of the cost recovery clauses was not negatively impacted by the option calls for slightly different reasons;

- The Fuel and Purchased Power Cost Recovery Clause was unaffected by the energy calls of the call option for IMC New Wales. When calls were made, the call energy was used to supply the IMC New Wales plant and fuel and additional purchased power was not required to be supplied by Tampa Electric's resources for that energy. There was symmetry between the energy needed by IMC New Wales to backfill its generator and the energy supplied by the call option. The call option energy always exceeded the energy needs of IMC New Wales during each call. The excess call energy, while not a significant amount, was paid for by IMC and was thus provided to the system and benefited other ratepayers at no cost. In this way there was a positive impact to this clause during the energy calls. Any energy supplied under SBI-1 because IMC New Wales did not exercise an energy call during the call option period, or prior to the initiation of the call option, would have an impact on this clause. Whether that impact served to increase or decrease the resulting overall fuel rate would depend on the cost of the fuel and purchased power during those hours versus the then average fuel rate paid by IMC under the SBI-1 tariff (unless standard optional provision was in effect during any of those hours.) This is the normal operation of the SBI-1 tariff. There was clearly no negative impact to ratepayers through this clause.
- The Conservation, Capacity and Environmental Cost Recovery Clauses were affected by the energy calls of the call option for IMC New Wales. These clauses operate in a manner where approved program or project costs are recovered from ratepayers based on an energy allocation and priced rate. These clause rates were established based on projected energy forecasts and then true-up based on actual energy use. The IMC New Wales energy at issue was not planned, nor was it expected to occur. Therefore it was not included in the forecast to set the clause rates initially. As such, the ratepayer allocation of those costs would be the same if the IMC New Wales outage had not occurred or if a call option was entered into to fill the energy needs created by such an outage. While ratepayers could be said to benefit minimally from an unplanned and unexpected increased IMC New Wales energy take through a lower allocation of costs under these clauses after a future true-up, they likewise were not harmed if that unplanned and unexpected increased energy take was mitigated by the call option.

At the agenda conference where the PSC approved the call option request (Docket No. 020414-EI, May 21, 2002 Agenda Conference Transcript, Item 31A), Commission Staff explicitly inquired of the Commission whether it was the Commission's intention to make ratepayers whole for lost benefit or insulate them from harm. The following exchange is from that transcript (page 29, line 23 through page 30 line 13):

Wheeler: "...if it turns out that the ratepayers were better off under 6b than under 6a, does that mean 6b applies, or do they just have to demonstrate that under 6a, the ratepayers are no worse off than they would have been absent the contract? I'm just trying to ..."

Commissioner Baez: "I think it's the latter. I mean, I don't think we've ever been ..."


Commissioner Deason: "We're not trying to optimize it. We're just trying to make sure ..."

Wheeler: "Okay. I just wanted clarification. Thank you."

Commissioner Jaber: "Making sure that there's no harm."

This exchange makes clear what the Commission's intention was. No harm was caused to other ratepayers by the call options being exercised for New Wales, therefore the option 6a that was selected by IMC for the call option is appropriate and should be approved by the Staff.

As provided for under the FPSC order in this docket, Tampa Electric requests that the FPSC Staff administratively determine that the Contract did not negatively impact the general body of ratepayers and then administratively close this docket. Tampa Electric would be pleased to discuss any questions the Staff may have and provide additional justification or documentation to assist the Staff in reaching this decision.

A handwritten signature in black ink, appearing to read 'William Ashburn', written over a horizontal line.

William Ashburn
Director, Pricing and Financial Analysis
Tampa Electric Company