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September 25, 2003

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
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. 030001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and ten (10) copies of Tampa Electric Company's Motion for Leave to File Supplemental Direct Testimony and Exhibit.

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
Enclosure

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

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.	))))	DOCKET NO. 030001-EI FILED: September 25, 2003

TAMPA ELECTRIC COMPANY'S MOTION FOR LEAVE TO FILE SUPPLEMENTAL DIRECT TESTIMONY AND EXHIBIT

Tampa Electric Company ("Tampa Electric" or "the company"), pursuant to Rule 28-106.204, Florida Administrative Code, hereby moves the Commission for leave to file the attached supplemental direct testimony and exhibit of Tampa Electric witnesses Brent Dibner and the supplemental direct testimony of Tampa Electric witness Joann T. Wehle and, as grounds therefor, says:

1. The due date for the utilities' projection filing testimony and exhibits for 2004 was September 12, 2003. Consistent with that schedule Tampa Electric filed and served 2004 projection testimony and exhibits of six witnesses, including the prepared direct testimony of Brent Dibner and the prepared direct testimony and exhibit of Joann T. Wehle. The projection testimony and exhibits of the various Tampa Electric witnesses addressed all generic fuel adjustment issues relating to Tampa Electric and all of the Tampa Electric company specific issues set forth in Staff's Preliminary List of Issues dated July 31, 2003. Those issues included such matters as whether Tampa Electric's June 27, 2003 Request for Proposals for coal transportation was reasonable for cost recovery purposes.

2. In his September 12 prepared direct testimony Mr. Dibner addressed at length the state of the waterborne transportation markets and the adequacy and reasonableness of the bid solicitation Tampa Electric issued on June 27, 2003. The witness described his assistance to

Tampa Electric in the preparation and issuance of the RFP. He also described the bid evaluation methodology that would be used and stated that at the conclusion of that evaluation process he would offer supplemental direct testimony and an exhibit describing in detail the results of his analysis and his recommendations based on those results.

3. The 2004 projection testimony and exhibit of Joann T. Wehle, filed September 12, 2003, likewise addressed the RFP process and witness Dibner's assistance in developing and implementing that process. Witness Wehle's September 12, 2003 testimony similarly stated her intent to file supplemental direct testimony describing details of the bid evaluations, the methodologies used for market assessment and the results of the evaluation process.

4. In its September 12, 2003 projection filing for calendar year 2004 Tampa Electric advised all parties that it anticipated being able to file the supplement prepared direct testimony of witnesses Dibner and Wehle on or before September 25, 2003. Tampa Electric has been able to accomplish that goal and submits herewith for filing the supplemental prepared direct testimonies of Mr. Dibner and Ms. Wehle and Mr. Dibner's supplemental exhibit.

5. The enclosed supplemental testimonies and Mr. Dibner's supplemental exhibit, together with the prepared direct testimony and exhibits filed on behalf of Tampa Electric's witnesses on September 12, 2003, provide a complete review and analysis of Tampa Electric's RFP process and of the result and recommended course of action derived from that RFP process. The attached supplemental testimonies and exhibit will provide useful information to the Commission and the parties in addressing and resolving all issues relating to the reasonableness of Tampa Electric's coal transportation costs for 2004 and the reasonableness of the methodology used by Tampa Electric in soliciting and evaluating responses to its RFP.

6. The company's proposed filing of supplemental direct testimony of witnesses Dibner and Wehle and witness Dibner's supplemental exhibit is not unlike the filing of corrected or revised testimony updating earlier testimony with information that was not known or available when a witness's testimony was originally submitted. The filing of corrected or revised testimony has been routinely allowed to avoid resolving issues based on erroneous or incomplete data.

7. Attached hereto as Exhibit "A" are redacted versions of supplemental direct testimonies of witnesses Dibner and Wehle and the supplemental exhibit of witness Dibner. Mr. Dibner's supplemental exhibit consists of his report to Tampa Electric entitled "Assessment of Market Transportation Rates and Costs for Tampa Electric Domestic Marine Coal Delivery." Given the fact that this entire report reflects the copyrighted professional work product, methodologies and other intellectual property of Mr. Dibner's business, along with detailed cost information that is highly proprietary from Tampa Electric's perspective, the enclosed redacted version of Mr. Dibner's report is submitted in abbreviated format, including the cover page and a single page listing the pages that are redacted. All of the reasons for confidential protection of this report will be submitted in detail in Tampa Electric's detailed justification that will be filed within 21 days of the filing of this notice of intent. Single copies of the unredacted versions of the testimonies of Mr. Dibner and Ms. Wehle and of Mr. Dibner's supplemental exhibit are being filed with the Commission this date on a confidential basis along with a notice of intent to seek confidential classification of confidential information contained in such testimonies and exhibit.

8. The undersigned counsel for Tampa Electric has consulted with representatives of the Office of Public Counsel, Florida Industrial Power Users Group and the Commission Staff

regarding this motion and is authorized to state that OPC does not oppose this motion, FIPUG opposes this motion and the Commission's Staff takes no position on this motion.

WHEREFORE, Tampa Electric Company respectfully requests that the Commission receive and consider the enclosed supplemental direct testimonies of Tampa Electric witnesses Dibner and Wehle and witness Dibner's supplemental exhibit.

DATED this 25th day of September 2003.

Respectfully submitted,

LEE L. WILLIS
JAMES D. BEASLEY
Ausley & McMullen
Post Office Box 391
Tallahassee, Florida 32302
(850) 224-9115

ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Motion for Leave to File Supplemental Testimony, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (*) on this 25th day of September 2003 to the following:

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ATTORNEY

EXHIBIT A

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2004 THROUGH DECEMBER 2004

SUPPLEMENTAL TESTIMONY

OF

BRENT DIBNER

ON BEHALF OF

TAMPA ELECTRIC COMPANY

REDACTED VERSION

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

BRENT DIBNER

ON BEHALF OF

TAMPA ELECTRIC COMPANY

Q. Please state your name and business address.

A. My name is Brent Dibner. My business address is Dibner Maritime Associates, LLC, 151 Laurel Road, Chestnut Hill, Massachusetts 02467.

Q. By whom are you employed and in what capacity?

A. I am President of Dibner Maritime Associates, LLC, ("DMA") a firm that I founded in 2002. I am responsible for directing DMA as it provides management consulting services to the maritime industry.

Q. Are you the same Brent Dibner who submitted direct testimony in this proceeding?

A. Yes, I am. I filed my direct testimony in this docket on September 12, 2003.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my testimony is to provide updated descriptions of my analyses and evaluations of the waterborne transportation bid responses received by Tampa Electric. My testimony also presents my findings, the market rates for each segment and recommendations to Tampa Electric as to how to fulfill its needs for waterborne transportation services.

Q. Have you prepared an exhibit in support of your supplemental testimony?

A. Yes, Exhibit No. ___ (BD-1) is a copy of my report to Tampa Electric, which is entitled, "Assessment of Market Transportation Rates and Costs for Tampa Electric Domestic Marine Coal Delivery." The report includes descriptions of the bid evaluations and my market models along with my final recommendations to Tampa Electric.

Q. Please describe the bids that Tampa Electric received in response to its request for proposals for waterborne coal transportation services ("RFP")?

A. Tampa Electric received four bids--two bids for rail

transportation and two bids for waterborne transportation services. The testimony of Tampa Electric witness J. T. Wehle addresses the two rail transportation bids, while my testimony addresses the two waterborne transportation bids. Of the two waterborne transportation bids, one is for inland river transportation and the other is for terminal services. Neither bid proposed to provide an integrated package of services, and only the bid for terminal services proposed to accommodate the volume Tampa Electric will require. Tampa Electric did not receive any bids for the ocean transportation segment.

Q. Please describe how you evaluated the inland river transportation bid.

A. I took into account several factors when evaluating this bid. The inland river transportation bidder has been in Chapter 11 bankruptcy status since late January 2003. Although Tampa Electric requested financial and insurance information, the bidder never provided the information nor addressed the bankruptcy in its proposal. Therefore, my evaluation included a review of limited publicly available information that pertains to the bankruptcy. I obtained information showing that the bidder may be reorganized, broken up or liquidated. The bidder has

requested to restructure or terminate contracts. I also learned that the bidder's fleet size has decreased dramatically. These factors, along with the age of the bidder's existing fleet, which raises an additional concern regarding its fleet's performance, resulted in my determination that there are unavoidable and significant risks to engaging in a contractual relationship with this bidder.

The bid for inland river transportation also offered to provide transportation for only one million tons per year, approximately 20 percent of Tampa Electric's stated maximum annual requirements. Given the bidder's failure to provide a proposal that meets Tampa Electric's full requirements or to provide financial information, in conjunction with the fact that the bidder is in Chapter 11 bankruptcy status, I recommended rejecting the inland river transportation bid.

Q. Were you able to gain any market insight based upon this one bid?

A. Yes. Since the bidder is a large company, and the volumes it proposed to serve are substantial, I considered it worthwhile to continue analyzing the terms

of the bid. While there may be differences from a true, valid market bid due to the bidder's financial status and contracted fleet size, I believe that the bid still serves as a practical market indicator. Therefore, I evaluated the bid to determine the reasonableness of its rates for the one million tons per year that it offered to transport.

I compared the bid to the current rates paid by Tampa Electric for inland river transportation and to rates that have been developed by DMA using proprietary models. My evaluation of the bid, the models, and my recommendations are described in greater detail below.

Q. Please describe the bid Tampa Electric received for terminal services.

A. As I indicated, the bid for terminal services proposed to accommodate the volume Tampa Electric will require. DMA examined the bid with respect to its terms, conditions, facility features, performance, conformance and capacity to meet Tampa Electric's requirements.

In general, the terminal segment has very high fixed costs because the cost to build and maintain a terminal

is substantial, as is the cost of maintaining staff to operate a facility 365 days per year, 24 hours per day. The only major variable costs are electricity to operate the systems and operating and maintenance costs for the machinery and equipment.

In a weakened terminal market like today's, I expect rates to be restrained. This was reflected in the terminal bid received. I took the terms and conditions of the bid and compared them to the current terms and conditions Tampa Electric pays to provide a complete market perspective on terminal service rates and market conditions. As a result of my analysis, I concluded that the rates in the terminal bid are competitive and should form the basis for my recommended rates. Because Tampa Electric's annual volumes may vary several-fold over the term of the contract, the ratio of coal that is directly transferred from a river barge to an ocean-going vessel versus coal that is stored prior to ocean transportation will vary. Therefore, I adjusted the base rate for the full range of annual tonnages. The rate for each throughput level, my detailed evaluation of the bid and my recommendations are described in greater detail in my final report.

Q. In addition to evaluating the bid responses, what methodology did you use to establish the appropriate market rates for waterborne coal transportation services?

A. I relied on two customized, proprietary market models for this purpose, as well as various supporting analyses and information. One model evaluated the costs and market for the inland river barge movements from various coal loading points. The other model evaluated ocean coal transportation between loading points on the Gulf of Mexico and Tampa Bay to establish market rates, while considering the freight rates for available equipment during the next five years.

Q. Please describe your model used to evaluate the market for the inland river barge movements from various coal loading points.

A. Notwithstanding the limited responses to Tampa Electric's RFP, my methodology recognized that the inland barge transportation market is a large and multi-faceted one. Several major coal carriers operate nearly 6,000 open hopper barges and have created a market with spot and period market dynamics. These dynamics have shifted in recent years as Ohio River Valley utilities have bought

larger amounts of transportation under more flexible terms. These shorter contracts create more frequent contract mobilization and de-mobilization costs that are challenging for smaller carriers with limited options and traffic patterns. In contrast, larger carriers are better able to mobilize fleets of barges for new contracts, encouraging consolidation that has left fewer, larger carriers competing in the market.

While not all aspects of rates, utilization, contract coverage and costs are transparent, my methodology estimated the costs of every movement of coal from barge loading origin to barge unloading destination with reasonable accuracy and meaning. Since these rates were consistent and similar to prevailing rates and barge earnings, there was a basis to conclude that these costs reflect market rates.

Utilizing this information, I developed market rates based upon each origin point that Tampa Electric expects to use for domestic purchases over the contract period. I compared the bidder's rates to the market rates for verification that they are reflective of the market for inland river transportation. I concluded that indeed they are similar to market rates.

Q. How did you establish appropriate market rates for inland river barge transportation of coal?

A. To determine rates for inland river barge transportation of coal to Davant, Louisiana from 25 locations on the Ohio, Green, Tennessee and upper Mississippi rivers, I utilized my model, which captures the physical requirements for moving each barge load of coal, with operating parameters typical of the barge industry. The model tracks the time required for each activity in each barge's voyage, the resources employed and the cost for each activity and resource. The cost components of a voyage include variable voyage costs (*i.e.*, making and breaking tows, fleeting and shifting); fixed costs (*i.e.*, barge hire and towboat capital cost recovery); and fuel costs. Variable barge voyage costs are driven by the number, type and duration of activities performed by or for a barge along its route; how many times it is moved for loading or to make or break a tow; and the amount of time it spends waiting for a tow at the load dock, integration points along the way and discharge dock. Other non-voyage variable costs are determined by the number of days required for a barge to complete a voyage, the number of towboat days it employs, the size of the towboats and the respective daily cash operating costs

for towboats and barges (*i.e.*, costs for towboat crews, insurance, stores and supplies, maintenance and repair, general and administration, and barge maintenance and repair). Towboat costs are straightforward and obtainable from U.S. Army Corps of Engineers guidelines while barge hire costs are market-driven. To determine the appropriate barge hire, I analyzed several years of financial data as well as freight rate indicators, employing proprietary models developed by DMA. The model assumes a daily barge hire rate of [redacted] including capital and fixed operating costs. Fuel costs are determined by the number of towboat days, towboat horsepower and the average percentage of capacity used by the towboat on each river segment.

In order to determine the activity times and allocated costs for each barge, it is necessary to understand the patterns of river movements. The key variables that affect these parameters are the number of barges moved by a towboat on each river segment; whether the barges will be part of a tow dedicated to a single movement, a tow dedicated to Tampa Electric coal from a number of docks, or a passing tow; and the frequency of tows available for a given barge. The analysis is made more complex by the fact that each barge is usually part of at least two tows

because the towboats employed and number of barges per tow change from river to river.

To determine these inputs to the model, I used the bid solicitation, data published by the U.S. Army Corps of Engineers, barge line financial filings, information from interviews with river service providers and industry norms and rules of thumb. I evaluated how rates would vary under a number of scenarios and determined that Tampa Electric must be able to benefit from the efficiencies of the inland system. If its barges were to move only in dedicated tows, rates would be unreasonably high, especially if tonnages decrease in the latter part of the contract period. I concluded that the appropriate scenario is the "partially dedicated tow", in which Tampa Electric-specific barges move in dedicated tows as long as justifiable by coal volumes. When volumes drop to where costs and operating profiles are misaligned with those of the larger river system, the model assumes that Tampa Electric-specific barges will join passing tows and incur costs in accordance with those tows. For each loading dock, the model generates subtotals of fixed, variable and fuel costs and total cost. The total cost is divided by the number of tons that can be loaded in the barge at each dock to determine a rate in dollars per

ton.

My recommended inland river transportation market rates are very close to those of the bid and are based on an analysis of each movement from origin to destination at rates that will provide for reasonable returns expected by a supplier. There are some differences between the recommended rates and the bid, but these can be attributed to differences between the bidder's strategy and models and the model that DMA employed. As I mentioned above, the bidder is in Chapter 11 bankruptcy status, and their open hopper business is in a state of apparent rapid contraction in terms of fleet size and contracts. The company may also be broken up or liquidated due to its financial condition. Therefore, the forces and considerations behind this bidder's proposal may reflect factors and forces that are not consistent with an ongoing business strategy, so the proposal cannot on its own determine the market for these services.

Q. What are your recommended inland river transportation rates?

A. The market inland river transportation rates that I recommended comprise a fixed and a variable component.

The fixed component covers the capital charges that assure appropriate returns on the debt and equity portions of capital investment. The variable component includes charges to cover all other costs, including charges for shifting barges to and from loading and discharge docks, fleeting, cleaning, maintenance and repairs, towboat crewing, general and administrative expenses and fuel. The fuel charge is described separately, and it is based on the estimated cost of fuel to transport coal. The allocation of the rate into fixed and variable components is appropriate because it places the risk and responsibility on the operator for the variable costs of which it is aware when the contract is arranged or that it has some ability to control during the contract period. The fixed component is the portion of the rate that enables the operator to earn a profit on the equipment, based on its ability to use barges and towboats efficiently. The variable component consists primarily of costs that are under the control of the operator and which can be expected to change during the duration of the contract. Other variable costs are incurred by the use of outside service providers, for example, costs for shifting or fleeting. These charges tend to follow macroeconomic trends; hence they are adjusted by the price indices.

Q. How did you establish appropriate market rates for waterborne coal transportation terminal services?

A. I did not create or rely upon a market model of the terminal segment because the company received a bona fide bid for its full requirements of terminal services, and the rates quoted can be viewed as representing the market for those services. I determined that the bidder possesses the facilities, capacity, and financial strength to fully meet Tampa Electric's requirements, and I regarded its bid as being valid and meaningful. The rates were also generally consistent with prior rates tendered by the bidder and market indications gleaned by DMA for bulk terminal services. Consequently, its bid can be deemed to reasonably represent the market. Therefore, the rate structure of the terminal bid was used with no modifications, as outlined later in my testimony.

Q. Please describe your second model and how you established appropriate market rates for the ocean segment of the waterborne coal transportation services.

A. A critical factor in establishing market rates for the ocean segment is a consideration of the opportunities to

transport other domestic dry bulk and U.S. export dry bulk preference cargoes. As I explained in my direct testimony, preference trades are U.S. government-impelled grain export programs that donate grain, expedite grain donations or finance grain purchases to developing and less-developed nations. These types of hauls tend to be more lucrative than coal hauls. It is imperative that the earnings potential for ocean shipping vessels be considered. This represents an opportunity cost of deciding to serve Tampa Electric's needs. In fact, I believe that because these alternative opportunities are lucrative and in high demand, Tampa Electric did not receive a bid to provide ocean transportation. Therefore, my methodology considered market pricing for the ocean transportation system as the rates that vendors would require to transport all of the 5.5 million tons that Tampa Electric established as its maximum annual volume, taking into account the domestic and foreign-trading marketplaces in which these vessels operate and the amounts that they are capable of earning in those trades.

I considered the earnings potential for ocean shipping vessels. I defined earnings as the net funds that would be expected or required to be earned by each vessel after

deducting voyage expenses for port, cargo handling, canal, and fuel expenses. The net earnings (termed "time charter equivalent" earnings) of vessels allowed me to calculate the total amounts that vessels would require to carry coal from the existing terminal in Davant, Louisiana to Tampa Electric's Big Bend Station. This provided a context in which to view and understand the maximum ocean rate.

A maximum time charter rate was defined by the observed patterns of earnings of vessels in the preference trades. I analyzed more than 135 preference voyages of U.S.-flag Jones Act vessels between the years 2000 and 2003 to estimate time charter earnings for the full range of differently sized vessels. The pattern of time charter earnings was used to establish a trend curve by which each size vessel could have a preference time charter rate assigned to it.

Next, I established the market rate of the core fleet of TECO Transport barges currently used to serve Tampa Electric's needs. It was defined as the average of the minimum and maximum time charter rates for those vessels. This rate represents the average rate needed to move the maximum volume of coal. The large, efficient barges

currently dedicated to Tampa Electric's ocean transportation needs keep rates low in comparison to the spot rates that would prevail if Tampa Electric were forced to go to the tight ocean transportation marketplace, which would result in the use of smaller vessels, if adequate capacity could be found.

DMA examined two key marketplaces for U.S.-flag Jones Act dry bulk vessels--the domestic dry bulk market and the government-impelled dry cargo market. First, to assess the general state of the dry bulk market, DMA evaluated the transportation demand in 2001 for all dry bulk commodities moving along the coasts. Because all of this business is unregulated and privately negotiated, no public disclosures of rates or earnings are available. However, using total tonnage and distances, and the role of ships versus barges, the demand for barges was found to be approximately 806,000 capacity tons. The fleet of ships and barges over 10,000 tons cargo capacity, which is the size that are primarily engaged in these trades and are most competitive, totaled about 880,000 capacity tons, with only four barges that total 80,000 capacity tons idled and one large barge with cargo capacity that exceeds 35,000 tons without access to a push-linked tug. Thus, the market is essentially in balance, while smaller

barges are providing some additional minimal capacity at higher rates. Consequently, I was able to conclude that barges certified for ocean service and married to appropriately equipped tugs are generally busy in the domestic market.

Second, DMA considered the U.S. government preference cargo trades that reserve export shipments donated or granted by governments for transportation by U.S.-flag ships. DMA analyzed more than 135 individual voyages by ships and barges to estimate their net time charter earnings to gain insight into the earnings of specific vessels. Based on the overall trend, a preference cargo earnings rate was assigned to each ship and tug-barge unit presently serving Tampa Electric's needs, as well as to a range of key vessels controlled by other carriers.

A minimum time charter rate was established by considering the embedded costs and values of the vessels, using depreciated replacement costs based upon remaining lives and related reconstruction costs. The reconstruction cost estimates were based on known recent life extensions and capacity expansion programs costs. These capital costs were combined with ship operating costs for crew, stores and supplies, insurance, repairs

and maintenance and administration and management to determine the minimum required time charter rate.

The recommended rate for ocean shipping includes a fixed component and a variable component. The fixed component recovers the capital cost of establishing and maintaining a fleet of vessels dedicated to serving Tampa Electric's transportation needs. The variable component covers charges for all other costs, including fuel. The fuel costs are described and escalated separately. The fuel price assumption for the market rate I established is based on a price of [redacted] per gallon for No. 2 fuel oil. The fuel component of the rate will vary as the index by which it is determined, the Platts Gulf Coast Waterborne No. 2 Oil - Low, varies.

To complete my market analysis, I examined and considered the costs of new equipment. I found that the current costs and risks associated with new equipment are prohibitively high and are significantly higher than they were a decade ago. This evaluation provided me with yet another way to attempt to determine appropriate market rates, with the resulting rate setting the boundary for the higher range of potential market rates.

In the end, my methodology established a single overall market rate for the ocean transportation segment, or an average rate that leaves the decision about the particular mix of vessels engaged in the trade to the provider.

I calculated a separate market rate for the movement of petroleum coke from refineries in east Texas. This was necessary because Tampa Electric contracts for a significant portion of its petroleum coke needs from this region. DMA selected the current core fleet vessel that has a time charter rate closest to the average rate of the core fleet vessels because it is representative of the market price for the size of the vessel used. I then calculated the required rate for that vessel to transport the product from Texas to Big Bend Station.

Q. What conclusion did you reach regarding the ocean segment?

A. As a result of my analysis, I concluded that no existing fleet or combination of Jones Act dry bulk barges or ships other than the TECO Transport fleet is capable of competitively serving Tampa Electric's needs from a capacity and price standpoint. All of the other fleets

and combinations of vessels are committed to hauling other products in the dry bulk market and the government-impelled preference trades. Therefore, my analysis has determined that the appropriate market rates for the ocean segment are based upon the continued use of the TECO Transport fleet and reflect the capital, operating and opportunity costs of those vessels.

Q. How should the various components of the contract charges be escalated during the contract period?

A. I recommended that the inland segment and the ocean segment have similar contract price escalation methods. Fixed charges must be included to assure the desired level of capacity, plus the incremental rate per ton to actually move cargo. An appropriate portion of the incremental charge is for fuel, which should be indexed to the Platts Gulf Coast Waterborne No. 2 Oil - Low index. The balance of the incremental portion should be linked to the Consumer Price Index and Producer Price Index. The rates do not include escalation of the fixed component.

Q. Please summarize the recommendations you made to Tampa Electric regarding the fulfillment of its waterborne coal

transportation services needs as a result of your evaluation of the bid responses and your market simulations and analyses.

A. Regarding the bids, I considered the river segment bid to be non-conforming. Given the bidder's failure to provide a proposal that meets Tampa Electric's full requirements or to provide financial information, in conjunction with the fact that the bidder is in Chapter 11 bankruptcy status, I recommended that Tampa Electric reject the inland river transportation bid and utilize the market rates established in DMA's inland river model.

For the marine terminal element, I utilized the rate structure of the bid as an appropriate market rate.

In assessing the ocean transportation market, I evaluated the core fleet that presently carries Tampa Electric's coal from the terminal and delivers it to the plant. I examined the costs per ton for the journey from Davant to Big Bend Station. I calculated a market rate, and then I evaluated that rate to assure that it provides the supplier with acceptable returns given the current market conditions and alternative hauls.

Overall, the combined market waterborne transportation rate as of January 1, 2004 is [redacted] per ton. This is [redacted] per ton less than the rates paid during the third quarter of 2003 under the existing contract. The individual segment market rates that I recommended are described below.

The average market rate for inland river transportation is [redacted] per ton. This average rate was calculated using the estimated rates of the river locations where Tampa Electric has contracted for delivery of its 2004 coal supply. The market rate for terminal services is [redacted] per ton, which includes a [redacted] fleeting charge. The market rate for ocean transportation of Tampa Electric's maximum annual requirements of 5.5 million tons is [redacted] per ton. These rates total to the [redacted] per ton market rate listed above.

[redacted]

[redacted]

Q. Please describe your final report.

A. I have summarized the results of my evaluation, analyses and recommendations above. The deliverable that I provided to Tampa Electric is my final report, which is attached as my exhibit. The report provides detailed information about my analyses and recommendations as well as descriptions of my methodologies and supporting background information.

Q. Does this complete your testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
FILED: 09/25/03

EXHIBIT TO THE TESTIMONY OF

BRENT DIBNER

ASSESSMENT OF MARKET TRANSPORTATION RATES AND COSTS FOR TAMPA ELECTRIC DOMESTIC MARINE COAL DELIVERY

PAGES 1 THROUGH 78

OF

MR. DIBNER'S EXHIBIT ARE REDACTED

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 030001-EI

IN RE: FUEL & PURCHASED POWER COST RECOVERY

AND

CAPACITY COST RECOVERY

PROJECTIONS

JANUARY 2004 THROUGH DECEMBER 2004

SUPPLEMENTAL TESTIMONY

OF

JOANN T. WEHLE

REDACTED VERSION

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

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

A. My name is Joann T. Wehle. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director, Wholesale Marketing & Fuels.

Q. Are you the same Joann Wehle who submitted Prepared Direct Testimony in this proceeding?

A. Yes, I am. I filed my direct testimony in this docket on September 12, 2003.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to provide updated information about Tampa Electric's evaluation of proposals to provide coal transportation services and the reasonableness of the market prices that will be established for the company's new coal transportation

contract as a result of that activity.

Q. What evaluations did Tampa Electric perform regarding the bids received in response to its solicitation for waterborne coal transportation services?

A. Tampa Electric received one inland river bid, one terminal bid and two rail bids. Tampa Electric evaluated each of the four bids, with the assistance of two outside consulting firms.

Q. Please describe Tampa Electric's evaluation of the rail transportation bids received in response to its request for proposals for waterborne transportation services ("RFP").

A. Tampa Electric received two rail transportation proposals in response to its RFP. Although the bids were non-conforming, Tampa Electric reviewed the responses and identified key factors related to the proposals that supported the need for further analysis. The first of these factors was the identification of necessary modifications and their associated costs for the capital improvements and new capital investment required for rail deliveries to Tampa Electric's generating stations.

Tampa Electric's facilities currently do not have the infrastructure to directly receive rail deliveries. Secondly, the company recognized that there could be additional transportation costs, such as trucking costs from existing coal supply sources to a rail loading facility, that needed to be taken into account. Third, Tampa Electric needed to evaluate whether a decision to use dedicated rail service rather than waterborne transportation service to move coal to the generating plants would otherwise affect its ability or the cost-effectiveness of acquiring coal from different supply locations. Currently, the company's coal supply comes from a number of sources in the Midwest. Finally, the timing of the rail service infrastructure construction had to be considered given Tampa Electric's needs beginning January 1, 2004. To aid Tampa Electric in evaluating the rail transportation bids, the company hired Sargent & Lundy ("S&L"), an engineering design consulting firm, to review the bids and complete an analysis of the above-mentioned factors.

Q. Please describe S&L's methods for evaluating the costs and associated operational considerations if rail deliveries were made to the plants.

A. S&L reviewed the rail transportation bids, assessed the capital costs proposed in the bids and determined other costs and factors that should be evaluated by Tampa Electric. As a result of its analysis, S&L determined that it was necessary to modify the bidder's design to reflect realistic design parameters that take into account Tampa Electric's specific facilities and operating needs. S&L estimated costs that were omitted from the bidder's proposal. The S&L cost estimates included construction, installation, modification and operating changes. For each of the bidder's two proposals, S&L provided an analysis of estimated capital costs, installation costs, fixed and variable operating costs and demurrage costs. In addition, the S&L report listed the environmental considerations that would need to be studied prior to acceptance of any of these proposals, such as additional dust, noise abatement, wetlands reconstruction and permit modifications.

The report from S&L stated that the capital costs provided by the bidder included costs for new equipment only and did not address installation or other modification costs necessary to ready Tampa Electric's facilities for direct rail deliveries. Nor were operating costs addressed in the bidder's proposals. In

addition, S&L stated that given the facility design, the unloading and demurrage rates included in the bidder's proposal appeared aggressive and that this could result in increased costs to Tampa Electric and its ratepayers.

Q. Was the consultant's analysis thorough and complete?

A. Yes, I have reviewed the data utilized and the methods of analysis employed by S&L. I also asked Tampa Electric personnel who specialize in generation engineering to review the assumptions, analysis and conclusions of the report. They concluded that the report is a reasonable analysis of the costs of installing rail unloading facilities at Big Bend and Polk stations and of the operational and environmental impacts of the rail transportation proposals. In addition, S&L is a longstanding full-service engineering consulting firm with extensive experience designing power plants and related facilities. The S&L report was prepared under the supervision of a Professional Engineer licensed in Florida. Given this, I am satisfied that the analysis completed by S&L was a thorough and complete consideration of the factors that could reasonably be anticipated to affect Tampa Electric's operations and costs if one of the rail transportation proposals were

accepted.

Q. With respect to the rail transportation bids, what were the results of the S&L analysis?

A. The results of the S&L analysis of both rail transportation proposals showed that estimated capital costs for infrastructure additions and improvements greatly exceeded the bidder's estimates for these same capital improvements. In addition, Tampa Electric would incur additional operating expenses. In both cases, the capital, installation and facility modification costs estimated by S&L exceed the bidder's estimates by more than 400 percent. Operating costs were estimated to increase by a minimum of one million dollars and up to approximately three million dollars annually. Capital costs could increase if additional environmental restrictions are required, such as fully enclosed coal transfer conveyors. These potential costs were not included in the S&L analysis. Other costs, such as costs for demurrage penalties and required environmental studies, have not been quantified, but they are factors that must be considered. The total costs to prepare Tampa Electric's facilities for direct rail deliveries and for operational changes that were estimated by S&L

range from $27 million to over $53 million.

Q. Did you analyze any other factors in evaluating the rail transportation proposals?

A. In addition to the high capital costs for infrastructure and operating costs previously described, Tampa Electric considered how the proposals would affect transportation costs given the company's current coal supply contracts. Tampa Electric has contracts with suppliers to deliver coal to barges at various specific locations on the Mississippi and Ohio rivers. Utilizing rail transportation instead of waterborne transportation would entail additional costs to truck the coal from the suppliers' contractual delivery location to the nearest rail loading facility. The company determined that these costs could range from an additional $2.00 to as much as $6.00 per ton, depending on distance. Tampa Electric reviewed its portfolio of coal sources and found that the vast majority of its current coal supplies are not located close to rail facilities. Using rail transportation would therefore make these supply sources more expensive in the short run and potentially non-competitive in price in the future. Therefore, Tampa Electric was concerned that by utilizing rail

transportation, the company would limit its purchasing ability to only those mines currently served by rail.

This proposal also requires significant time for construction prior to the beginning of rail transportation service. Since Tampa Electric's coal transportation needs begin January 1, 2004, the company would have to obtain short-term waterborne transportation services to meet its requirements until the rail construction was completed. The need for short-term waterborne transportation services will certainly result in increased costs that are not included in the rail transportation proposals.

Q. What did you conclude as a result of the evaluation of the rail transportation proposals?

A. Given the significant costs for capital infrastructure and the additional operating and transportation costs that would result from choosing to use rail transportation, as well as concerns about future supply limitations due to the distance from a rail loading facility, Tampa Electric determined that the bidder's proposals were not competitive. I recommended rejecting both proposals.

Q. Is Tampa Electric engaged in other activities regarding the evaluation of transportation proposals?

A. Yes. Tampa Electric hired a consultant to assist with the evaluation of waterborne transportation proposals. Dibner Maritime Associates ("DMA") evaluated the waterborne transportation bids and constructed market models to assess appropriate market prices for the transportation services segments. DMA provided Tampa Electric with its determination of the appropriate waterborne transportation market prices in a report that includes descriptions of its methodologies, evaluations, market assessments and supporting information. The report provided by DMA is provided as an exhibit to the supplemental testimony of Tampa Electric witness Dibner.

Q. Have you reviewed the models and analyses DMA used to determine the appropriate market prices for each of the three segments included in the waterborne transportation system?

A. Yes, I have reviewed the proposals submitted in response to Tampa Electric's RFP, the data used by DMA's proprietary models, the modeling methodologies and the analyses conducted by DMA to evaluate the waterborne

transportation bids and determine the market price for each segment of the waterborne transportation services requested by Tampa Electric. I am confident that DMA conducted a thorough and complete evaluation of the bids. I believe that DMA's long experience in and extensive knowledge of the maritime industry allowed it to conduct a reasonable and thorough market assessment and to establish market prices that accurately reflect the markets for the services Tampa Electric requested.

Q. Do you agree with the recommendations made by DMA?

A. Yes, I do. I believe that they are reasonable and appropriate and take into account the best information available regarding the status of the waterborne transportation markets and Tampa Electric's operational requirements.

Q. How did Tampa Electric determine the appropriate market prices for each of the three segments included in the waterborne transportation system?

A. Tampa Electric reviewed the responses to the RFP and its consultants' findings. The company also utilized its knowledge of the waterborne transportation market and

Tampa Electric's needs. The company rejected some proposals for the reasons previously described in this testimony or in the supplemental testimony of Tampa Electric witness Dibner. Tampa Electric then relied on the results of DMA's report and the market prices established therein.

Q. Please describe DMA's findings or evaluation results that were provided to Tampa Electric.

A. The inland river bid was only for a portion of Tampa Electric's requirements, and the bidder is in Chapter 11 bankruptcy status. The bankruptcy and related activities raised questions about the bidder's fleet status and its potential to provide transportation services given its existing financial circumstances. The terminal bid was a bona fide bid for full terminal services. Tampa Electric did not receive any ocean bids. Therefore, the terminal bid determined the market price, and the market analysis performed by DMA determined the appropriate market prices for the inland river and ocean transportation segments.

Q. What recommendations did DMA make regarding the market price components for a new waterborne transportation contract?

A. DMA recommended cost structures comprising fixed and variable charges, and a fuel component, if applicable, for each segment. In addition, DMA recommended escalation methodologies and initial fuel price levels. They are detailed in Tampa Electric witness Dibner's supplemental testimony.

Q. Do you believe that appropriate market rates have been established?

A. Yes. The appropriate market rates have been established using the bona fide terminal bid received and the results of the detailed and thorough analyses conducted by DMA for the inland river and ocean transportation segments.

Q. After accepting the established market prices, how did Tampa Electric proceed?

A. [redacted]

Q. What is the next step in establishing a new contract for waterborne transportation services?

A. Tampa Electric has begun negotiating a new contract [redacted]. The company is working to incorporate the terms established in the solicitation and the rates provided as a result of DMA's market analysis into a new five-year waterborne transportation agreement. The target date for the completion of these negotiations is early October 2003. Tampa Electric is on task to complete the negotiations as scheduled so that this matter can be addressed at the hearing in this docket that is scheduled for November 12-14, 2003.

Q. How do the market prices established for a new contract compare to the waterborne coal transportation costs that were included in Tampa Electric's total projected 2004 fuel cost?

A. The market prices that were established for the new contract are less than the waterborne coal transportation costs utilized in Tampa Electric's projected 2004 fuel costs that were filed on September 12, 2003. At the time that the company completed the analysis required for that filing, the best estimate of 2004 waterborne coal

transportation costs were based on the transportation costs under the current contract. The new coal transportation contract costs will be the actual costs recovered by Tampa Electric beginning in January 2004 and will be incorporated in the company's 2004 actual-estimated filing.

Q. Please summarize your testimony.

A. Tampa Electric hired two consulting firms to assist with its evaluation of the bids received in response to the RFP. S&L concluded that the rail proposals received did not identify all of the necessary capital costs to modify Tampa Electric's facilities to accept rail deliveries, nor did they account for changes in Tampa Electric's expected operating costs. Tampa Electric determined that the rail transportation proposals were not competitive alternatives when all potential costs, the schedule for completion of rail infrastructure construction and environmental impacts were considered.

DMA provided Tampa Electric with an analysis of the two waterborne transportation bids and a thorough and effective study of the inland river, terminal and ocean market rates that meet Tampa Electric's full requirements

for waterborne transportation services for the period 2004 through 2008. DMA's evaluation of the inland river and terminal bids resulted in its recommendation to reject the non-conforming river bid, to use the terminal bid to set the market rate for that segment and to use DMA's analysis of the transportation markets to set appropriate market rates for the inland river and ocean transportation segments. Tampa Electric agreed with DMA's recommendations. [redacted]

Q. Does this conclude your testimony?

A. Yes, it does.