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COMMISSION
CLERK

May 21, 2007

HAND DELIVERED

090001-EI

Ms. Ann Cole, Director
Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor
FPSC Docket No. 070001-EI

CONFIDENTIAL DOCUMENTS ENCLOSED

Dear Ms. Cole:

We submit on behalf of Tampa Electric Company a single confidential version of an 11 page document entitled "Procurement of Solid Fuel Transportation Services 2009-2013" dated Revised 5/21/2007. The confidential portions of this document are highlighted in yellow. This filing is being accompanied with a Request for Confidential Classification of the highlighted portions of the above-referenced material.

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,

5/29/09
DECLASSIFIED


James D. Beasley

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JDB/pp
Enclosure

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

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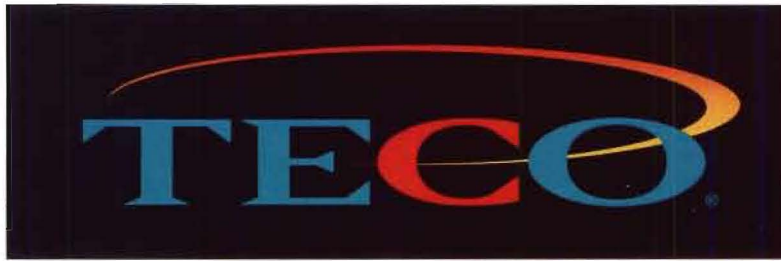
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TAMPA ELECTRIC

**PROCUREMENT OF SOLID
FUEL TRANSPORTATION SERVICES
2009-2013**

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Procurement of Solid Fuel Transportation

Background

In October 2004, the Florida Public Service Commission issued an order requiring certain minimum requirements be incorporated in Tampa Electric Company’s next coal transportation bid process prior to the expiration of its current transportation contract with TECO Transport. Order No. PSC-04-0999-FOF-EI (Order), issued October 12, 2004, at page 21 states,

“In addition, we find that Tampa Electric shall, in advance of any future RFP, file with this Commission the following:

1. Its schedule for procuring coal transportation services, from drafting the RFP to signing an agreement or agreements for coal transportation services; and
2. A proposal on an alternative regulatory mechanism to be adopted if the RFP process does not produce competitive bids.”

Schedule for Procuring Transportation Services

Tampa Electric’s estimated schedule for procuring coal transportation services is shown below.

<i>Task</i>	<i>Time Needed</i>	<i>Deadline</i>
Submit proposed market proxies and RFP review schedule to Commission Staff	--	April 30, 2007
Provide draft RFP to Commission Staff	6 weeks	July 6, 2007
Issue RFP and publish notices	} RFP is open for at least	October 1, 2007
Hold Pre-bid meeting		October 24, 2007
Proposal deadline		December 21, 2007
Complete proposal evaluations		4 weeks
Notify winning bidder(s)	1 week	January 31, 2008
Commence contract negotiations	--	January 31, 2008
Execute transportation contract(s)	--	By February 28, 2008

Proposal on Alternative Regulatory Mechanism (Market Proxy)

Tampa Electric’s proposed solid fuel transportation market proxy is segmented by transportation type. In the event the RFP process does not produce competitive bids for solid fuel coal transportation services, the proxy will be used. On a segment by segment basis, if the RFP yields one or more bids from non-affiliated transportation providers, that segment will be considered to have received a competitive bid. The costs for any type of transportation for which competitive bids are received will be determined by the winning bid proposal(s).

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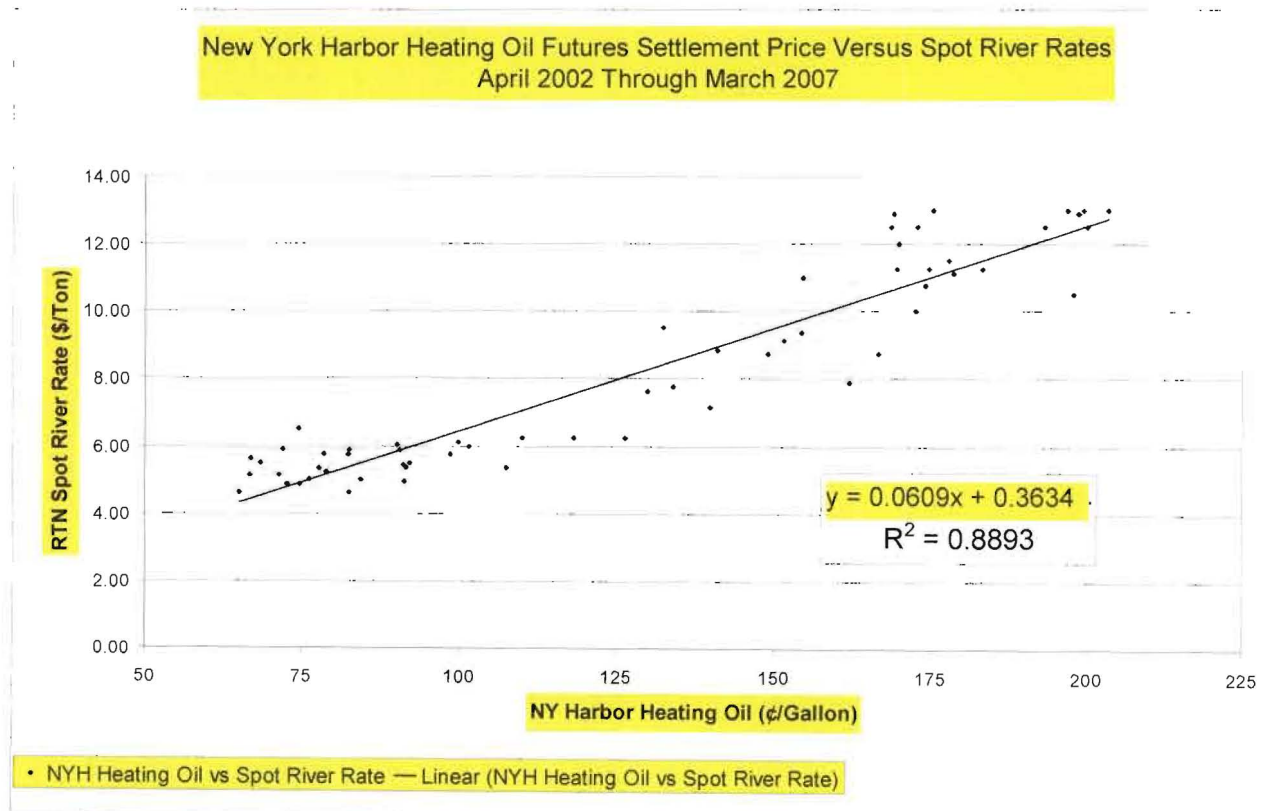


Procurement of Solid Fuel Transportation

- River Transportation Market Proxy

The river transportation proxy is based on publicly available data on spot contract movements, published in *River Transport News* ("RTN"). While spot contract rates may not be indicative of long-term contract rates due to their greater volatility, both are driven by similar long-term market dynamics. Therefore, Tampa Electric expects spot rates to approximate market trends for long term rates overall. The recommended proxy uses the best publicly available representation of current market prices for inland river transportation. It is important to recognize however that these spot rates do not include long term investment in equipment or insurance to carry multi-year cargo.

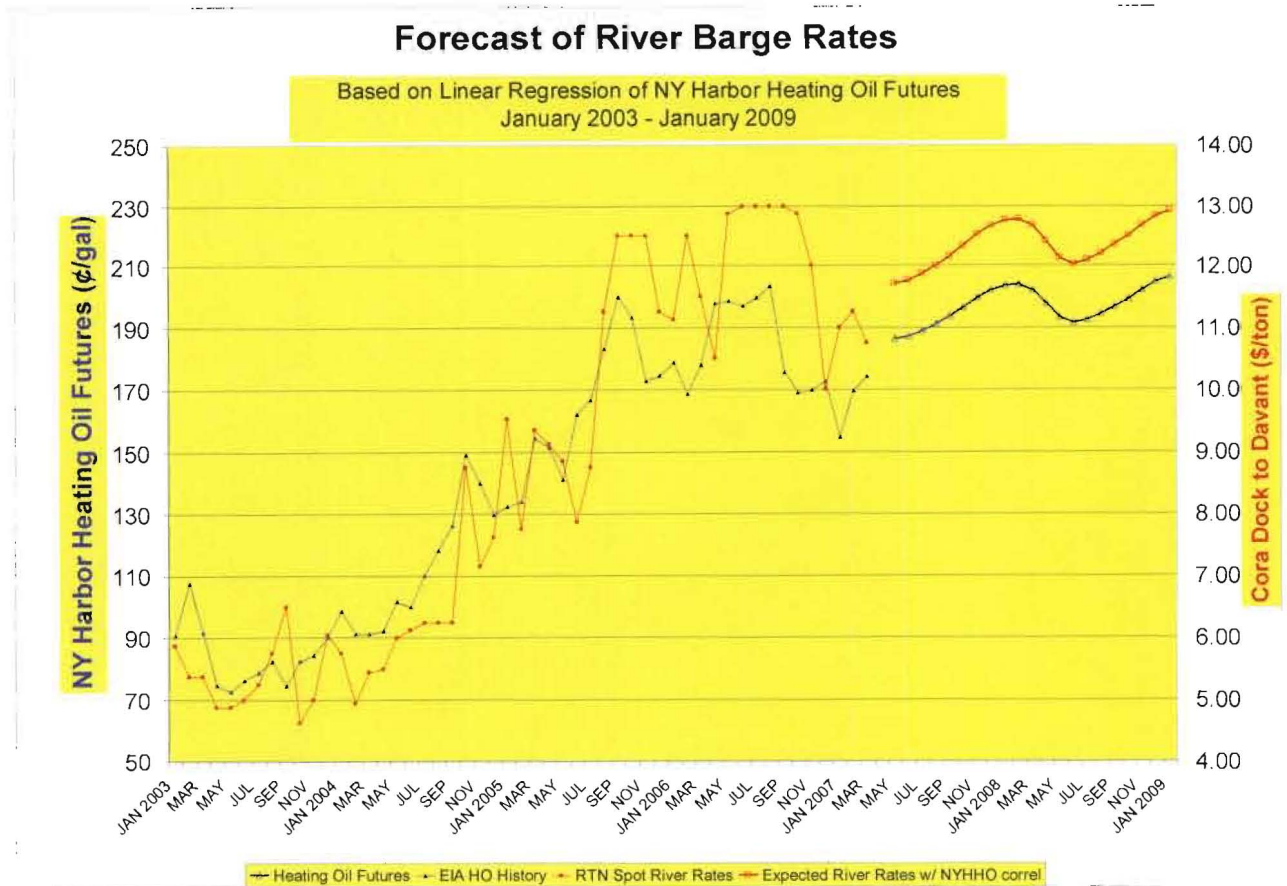
Tampa Electric's proposed proxy was derived by utilizing a regression analysis of spot fuel pricing to spot river transportation prices for the Cora dock to Davant, Louisiana route. As demonstrated in the graph below, correlation for the last five years has been 0.8893, which implies closely related river transportation prices based on fuel prices. The graph cross plots spot fuel cost on the x-axis against spot river rates on the y-axis for all months. The scatter plot shows a strong positive relationship where river rates increase proportionally with fuel costs. The linear equation is derived for this data, along with the r-squared correlation function by using the "trend line" functionality in Excel.



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The price for **spot river rates** in January 2009 can then be estimated using a projected **spot fuel cost** for January 2009. Using the **NYMEX Heating Oil futures price** for January 2009 of **206.6 cent per gallon** as **the spot fuel price**, the resulting river rate, as shown below, is **\$12.93 per ton**.

The linear equation of this relationship was modeled as follows:

$$\begin{aligned}
 \text{River Rate } \$/\text{ton} &= 0.0609 \times \$206.4 \text{ (Forecasted January 2009 NY HO Futures)} + \$0.3634 \\
 &= \$12.57 + \$0.3634 \\
 &= \$12.93 \text{ per ton}
 \end{aligned}$$

To determine the rates for other river docks, rate differentials were calculated between the **Cora dock** and other docks along the Mississippi and Ohio River systems, utilizing the **percentage difference in Tampa Electric's current contract rates**. The resulting rates for each location are provided in Exhibit A. For example, **Shawneetown dock** is currently **94.7%** of the **Cora rate**. Thus, if the starting point for the **RTN rate for the Cora dock to Davant, Louisiana** is **\$12.93**, the **Shawneetown rate** is $\$12.93 \times 94.7\%$, or **\$12.24**.

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Procurement of Solid Fuel Transportation

The \$12.93 river transportation rate proxy for the Cora dock to Davant, Louisiana route is the proposed rate commencing January 1, 2009. This proxy rate should only be used if competitive bid proposals are not received.

The above calculation is for illustrative purposes only, and is subject to true-up for actual changes in fuel. The rates will be escalated in accordance with the provisions contained in the escalation methodology section set forth later in this document.

- Terminal Services Market Proxy

A market proxy for terminal services is represented by the rate paid for terminal services in Tampa Electric’s current contract, escalated to 2009 using the same Consumer Price Index (“CPI”) and Producer Price Index (“PPI”) adjustments utilized for the ocean component. The rates utilized in this calculation are included as Exhibit B. To reflect the extreme impacts of hurricane activity on this industry, and the resulting dramatic increases in costs of insurance, an additional adjustment is necessary to capture a realistic market proxy. Insurance costs for terminals, due to damage sustained from hurricane activity across the U.S. Gulf Coast, have increased since 2004. Tampa Electric’s experts state that insurance costs have increased over 300% from 2004 levels and estimate that insurance makes up approximately 2% of the rate charged for terminal services; therefore, the calculated insurance adjustment is \$0.10 per ton.

Calculation of Insurance Adjustment

2% of \$2.45	=	\$0.05
\$0.05 X 300%	=	\$0.15
Net change	=	\$0.10

River Barge Transloading Rate

Existing Rate X CPI/PPI adjustment + Insurance Adjustment	=	Adjusted Rate
\$2.45 + (\$2.45 X 13.7%) + \$0.10	=	\$2.89

Ocean Vessel Transloading Rate

Existing Rate X CPI/PPI adjustment + Insurance Adjustment	=	Adjusted Rate
\$4.00 + (\$4.00 X 13.7%) + \$0.10	=	\$4.65

The \$2.89 river transloading rate and \$4.65 ocean transloading rate are the proposed market proxy rates commencing January 1, 2009. These rates should be used only if competitive bid proposals are not received. The rates will be escalated in accordance with the provisions contained in the escalation methodology section set forth later in this document.

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Procurement of Solid Fuel Transportation

The above calculation is for illustrative purposes only, and is subject to true-up for actual changes in **CPI and PPI**.

- Ocean Transportation Market Proxy

Market Assessment

Tampa Electric hired Simpson Spence & Young (“SSY NY”), an independent maritime consultant, to evaluate the market for ocean transportation. SSY NY is a primary source of trade and fleet data, freight rate and market assessments. Data is compiled through customs and official statistics, direct market information and in cooperation with other information providers. SSY NY’s Consultancy & Research team, which is one of the most respected in the maritime industry, works with the SSY NY broking teams and their clients providing presentations, reports and advice. In addition, commercial consultancy studies are undertaken on behalf of numerous external bodies. T. Parker Host was subcontracted by SSY NY to assist with the bid evaluation process. T. Parker Host is a long established and respected ship and cargo agent. They interface with many of the American Flag Jones Act participants and have been heavily involved in Jones Act tonnage since the 1940s. T. Parker Host’s in-house proprietary Voyage Calculator program specifically designed and developed for ‘domestic moves’ was utilized for the evaluation of the bid responses. Tampa Electric hired the teams to provide guidance on a recommended market proxy for ocean transportation rates.

Tampa Electric’s market proxy for ocean transportation is based on the time charter rates received in response to SSY NY’s industry-wide solicitation for U.S. coastwise Jones Act ocean transportation. In order to encourage participation from as many market participants as possible, SSY NY issued a Request for Quote (RFQ) for time charter rates for vessels to move shipments of a variety of bulk products i.e., coal, iron ore, grain, and petroleum coke. The movement of the shipment was for an area in and around the U.S. Gulf and Eastern U.S. coast and was silent as to the identity of the end-user. The RFQ sought quotes of time charter rates **for periods of one, three, five and 10 years with the commitment to begin moving commodity in the final quarter of 2007 through the second quarter of 2008**. The RFQ was written so that various vessel drafts would be considered.

SSY NY invited **16** market participants to participate in the RFQ and received responses from **four** different bidders.

Evaluation

The quote information was used to determine a per ton round trip rate for Jones Act movements, based on the following calculations.

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- Time Costs
The time to load and discharge each vessel was calculated based on a load rate of 1,250 tons per hour and a discharge rate of 625 tons per hour for all vessels with the exception of the Energy Enterprise whose discharge rate was calculated at the rate of 2,800 tons per hour as this is a self discharging style vessel. Transit time was calculated utilizing the vessel speed provided in each bid response. This calculation provides the total time required to complete one round trip.
- Hire Costs
The time charter rates provided in the proposals were utilized to calculate the Hire Cost per Trip. The total hours in a year divided by the Total Time for One Trip provides the number of possible trips in a year. The total number of days per year is then multiplied by the applicable time charter rate provided in each bid and then divided by the possible number of trips per year to calculate the Hire Cost per Trip.
- Fuel Costs
Fuel costs associated with loading, transiting to Tampa, discharging and transiting back to Louisiana were calculated based on the information provided in the bids. Current fuel costs were utilized.
- Port and Insurance Costs
Port costs of \$19,800 and \$7,800 were assumed for all bid responses. Insurance costs were added to each vessel at the rate of \$0.38 per \$100 of value as provided by SSY NY. These numbers were based on estimated port costs in the New Orleans area and on costs set forth in the Big Bend Terminal Rules and Regulations.

The total rate per ton was imputed by adding the individual components and dividing the total by the vessel capacity.

The above calculation was done for each proposal. After the rates were calculated, Tampa Electric started with the lowest rate and calculated a weighted average rate of \$8.85 to move approximately 5.3 million tons.

After receiving the report from SSY NY, Tampa Electric escalated the time charter rates approximately 5.5% to account for the forecasted change in CPI and PPI between first quarter 2007 and the end of 2008. Additionally, Tampa Electric utilized New York Heating Oil Futures to derive the fuel rate for the January 2009 time period.

Using the methodology described above, the escalated rate effective January 1, 2009 is \$9.40 per ton. This calculation is for illustrative purposes only, and is subject to true-up for actual changes in CPI, PPI and fuel and should be used only if competitive bids are not received. The rates will be escalated in accordance with the provisions contained in the escalation methodology section set forth later in this document.

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Vessel	Tons	Rate
Allied ATC25	1,534,000	\$8.52
Allied ATC 1800	945,000	\$9.22
Moran ODB1	1,238,760	\$9.54
Strong Ship TBN2	1,650,000	\$10.20
Total Tons	5,367,760	
Weighted Average		\$9.40

Since the river, terminal and ocean rates were calculated using estimated CPI and PPI indices and fuel, as applicable, these rates will need to be adjusted just prior to January 2009 to then-current CPI and PPI indices and fuel costs based on Platt's U.S. Gulf Coast Waterborne Number 2, Low Index. The rates will be escalated in accordance with the provisions contained in the escalation methodology section set forth below.

Escalation Methodology

The river, terminal and ocean segments will utilize a similar escalation methodology to Tampa Electric's current contract with TECO Transport. Both the river and ocean will have a fixed, variable and fuel component. The terminal rate will be considered totally variable. The fixed component will represent those charges that are fixed for the term of the agreement and will not be escalated. The fuel will be rebased to current pricing, and the variable component will be adjusted based upon changes in the representative CPI and PPI indices. Currently the fixed, variable and fuel components are as follows:

Segment	Percentage of Rate
River	
• Fixed	10%
• Variable	40%
• Fuel	50%
Terminal	
• Variable	100%
Ocean	
• Fixed	30%
• Variable	50%
• Fuel	20%

The fuel escalation is calculated as follows:

1. A base index value of ¢ per gallon is calculated utilizing the last available quarterly data of No. 2 fuel oil prices as posted in Platt's Oilgram for Platt's Gulf Coast Waterborne Number 2, Low Index. These index also correlates closely with spot river rates, but was not used because these rates were not forecasted for the January 2009 timeframe.

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2. Calculate a quarterly average of the postings for oil index.
3. Calculate the Quarterly Adjustment Factor and apply the factor to the fuel rate in effect.

To calculate the Quarterly Adjustment Factor, the following steps are required.

1. A base index value is established using index values for the period prior to the start of the contract. This value is used for the entire contract period.
2. The quarter average index value is established using the most recent three months of index values. This value changes each quarter.
3. Calculate the Quarterly Adjustment Factor.
4. Apply the Quarterly Adjustment Factor to the variable rates in effect.

The calculation is adjusted similarly for each quarter.

The remaining variable component will be adjusted quarterly by Consumer Price Index, U.S. City Average, All Items Less Energy, not seasonally adjusted and Producer Price Index, Industrial Commodities Less Fuels, not seasonally adjusted. These indices will account for the overall change in all other charges such as labor and other consumables.

The calculation is adjusted similarly for each quarter.

The fixed component will not escalate over the term of the contract.

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EXHIBIT A

Initial Transportation Rates for January 1, 2009

<u>LOCATION</u>	<u>FIXED RATE</u>	<u>VARIABLE RATE</u>	<u>FUEL RATE</u>	<u>TOTAL MARKET RATE FOR 1/1/09</u>	<u>Differential from Cora Rate</u>
TECO Ocean Shipping - Davant to Big Bend	2.82	4.70	1.88	\$9.40	
TECO Bulk Terminal - Domestic				\$2.89	
TECO Bulk Terminal - Import				\$4.65	
TECO Barge Line Rates					
COOK - OR948	1.07	4.29	5.37	\$10.73	83.0%
CASEYVILLE - OR872	1.21	4.85	6.06	\$12.12	93.7%
OVERLAND - OR842	1.25	5.00	6.25	\$12.50	96.7%
RIGSBY & BARNARD - OR881	1.20	4.81	6.02	\$12.03	93.1%
MT VERNON OR828	1.26	5.05	6.31	\$12.62	97.6%
MOUND CITY - OR976	1.07	4.28	5.35	\$10.71	82.8%
SOUTHERN INDIANA/EVANSVILLE - OR794	1.29	5.17	6.47	\$12.93	100.0%
NEW HOPE - OR734	1.35	5.39	6.74	\$13.48	104.3%
EMPIRE - OR896	1.19	4.78	5.97	\$11.95	92.4%
YANKEETOWN - OR773	1.32	5.27	6.58	\$13.16	101.8%
OWENSBORO MP758.7	1.34	5.34	6.68	\$13.36	103.3%
ARNON DOCK - GR73	1.50	6.01	7.51	\$15.03	116.2%
PYRAMID - GR94	1.55	6.20	7.75	\$15.49	119.8%
GREEN 11 - GR11	1.37	5.46	6.83	\$13.65	105.6%
PATRIOT - GR32	1.41	5.65	7.06	\$14.12	109.2%
STEAMPORT - GR43	1.44	5.74	7.18	\$14.35	111.0%
SEBREE - GR43	1.44	5.74	7.18	\$14.35	111.0%
TTI - OR 406	1.65	6.59	8.23	\$16.46	127.3%
JEFFERSON RIVER PORT - OR618	1.46	5.82	7.28	\$14.56	112.6%
KENTUCKY LAKES DOCK - TR24	1.25	5.00	6.24	\$12.49	96.6%
GRT - TR23	1.25	5.00	6.24	\$12.49	96.6%
CALVERT CITY - TR17	1.19	4.75	5.93	\$11.86	91.7%
¹ CORA - UM98	1.29	5.17	6.47	\$12.93	100.0%
DEKOVEN - OR869	1.21	4.85	6.07	\$12.13	93.8%
POWHATAN POINT - OR110.8	1.91	7.62	9.53	\$19.05	147.3%
SHAWNEETOWN - OR858	1.22	4.90	6.12	\$12.24	94.7%
REFINERIES, PET COKE M.P. 140	0.45	1.81	2.26	\$4.51	34.9%
LONE EAGLE M.P. 105UM	1.30	5.22	6.52	\$13.04	100.9%
	1.30	5.21	6.51	\$13.01	
	10.00%	40.00%	50.00%		

¹ Projected River Transport News Rate - Cora to Davant Route Initial Starting Point

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EXHIBIT B

CPI and PPI Rates

	CPI ¹	PPI ²	Avg.
2003	190.57	145.10	167.83
2004	194.44	151.53	172.98
2005	198.74	158.25	178.50
2006	203.68	166.13	184.90
2007	208.94	172.70	190.82
2008	213.97	179.54	196.75
2009	219.11	185.14	202.12
Growth Rate			
2004-08	10.0%	18.5%	13.7%

Above data utilized for River and Terminal Rate Escalation

	CPI	PPI	Avg.
Q1 2007	206.88	169.96	188.42
Q4 2008	215.87	181.82	198.85
	4.3%	7.0%	5.5%

Above data utilized for Time Charter Rate Escalation

¹ Consumer Price Index, U.S. City Average, All Items Less Energy, not seasonally adjusted

² Producer Price Index, Industrial Commodities Less Fuels, not seasonally adjusted

Numbers highlighted in red are projected growth rates

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