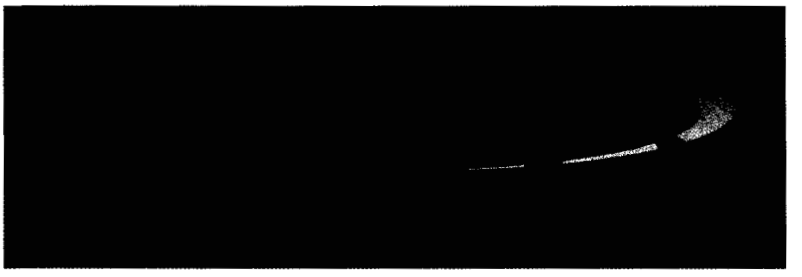

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# PROCUREMENT OF SOLID FUEL TRANSPORTATION SERVICES 2009-2013

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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.

| *Task* | *Time Needed* | *Deadline* |
|---|---|---|
| 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 | October 1, 2007 |
| Hold Pre-bid meeting | for at least | October 24, 2007 |
| Proposal deadline | 12 weeks | December 21, 2007 |
| Complete proposal evaluations | 4 weeks | January 21, 2008 |
| 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).

[redacted]
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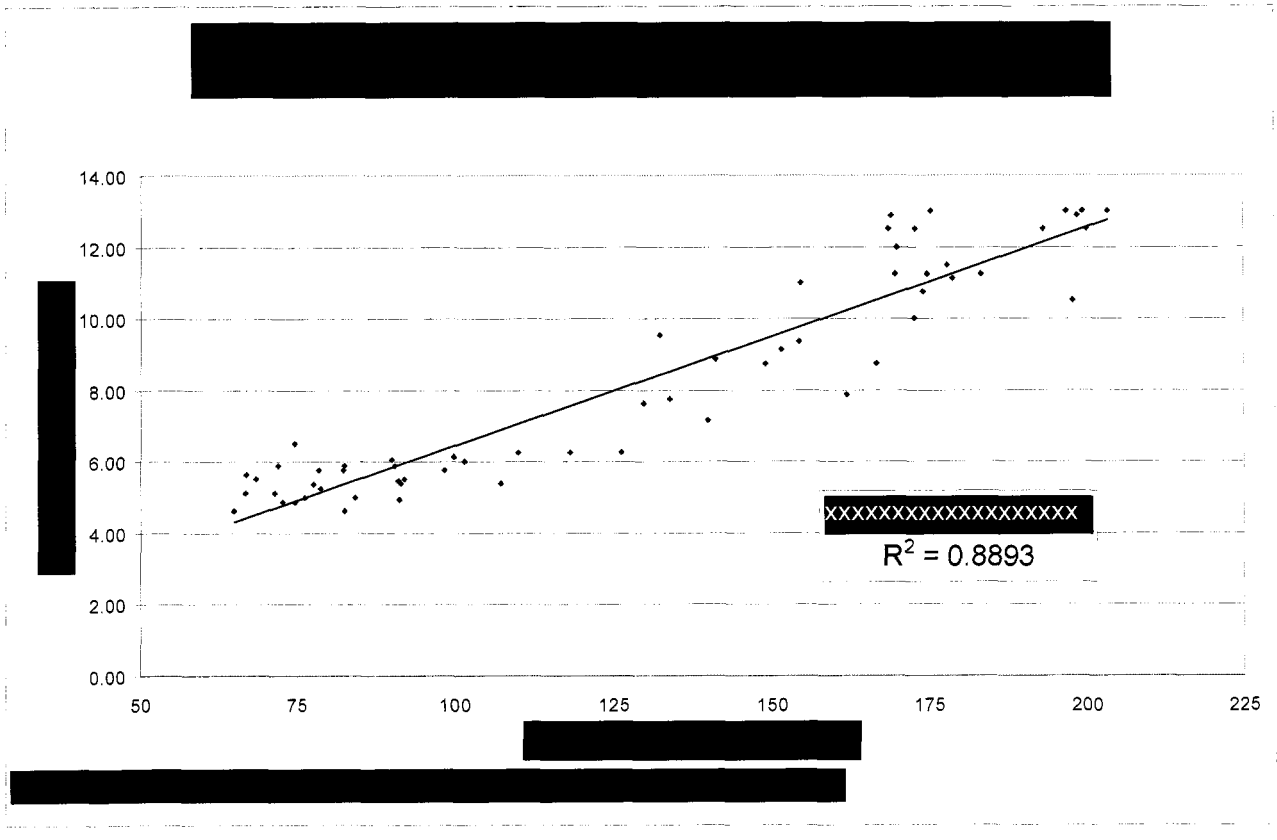
- River Transportation Market Proxy
  The river transportation proxy is based on publicly available data on [redacted] While [redacted] may not be indicative of [redacted] due to their greater volatility, both are driven by similar long-term market dynamics. Therefore, Tampa Electric expects [redacted] to approximate market trends for [redacted] 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 [redacted] 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 [redacted] to Davant, Louisiana route. As demonstrated in the graph below, correlation for the last five years has been 0.8893, which implies [redacted]. The graph cross plots [redacted] on the x-axis against [redacted] on the y-axis for all months. The scatter plot shows a strong positive relationship where [redacted]. The linear equation is derived for this data, along with the r-squared correlation function by using the "trend line" functionality in Excel.



[redacted]
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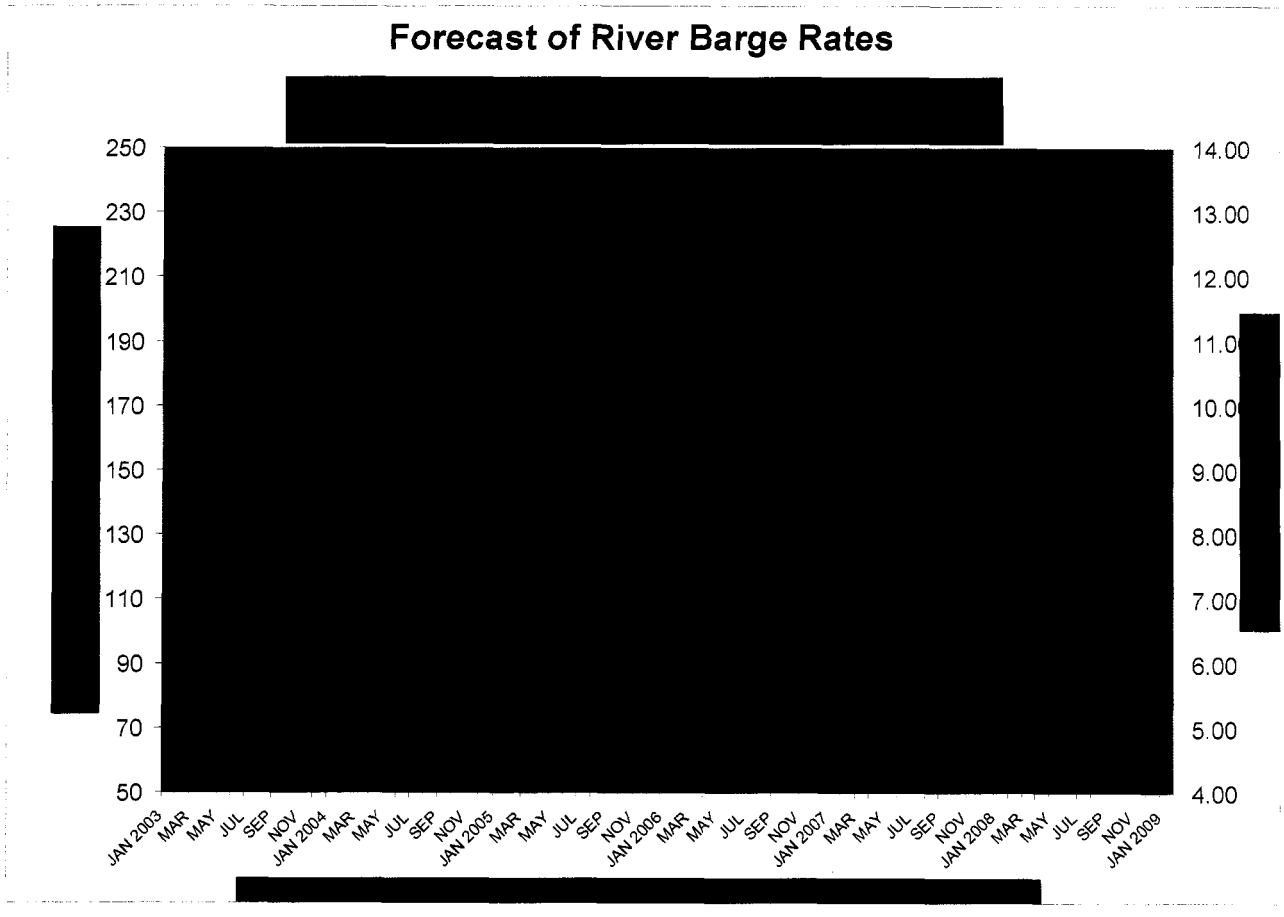
## *Procurement of Solid Fuel Transportation*




The price for [redacted] in January 2009 can then be estimated using a projected [redacted] for January 2009. Using the [redacted] of [redacted] cent per gallon as [redacted], the resulting river rate, as shown below, is [redacted]

The linear equation of this relationship was modeled as follows:

River Rate $/ton = [redacted]
= [redacted]
= [redacted]

To determine the rates for other river docks, rate differentials were calculated between the [redacted] The resulting rates for each location are provided in Exhibit A. For example, [redacted] is currently [redacted] of the [redacted]. Thus, if the starting point for the [redacted] to Davant, Louisiana is [redacted]

[redacted]
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## *Procurement of Solid Fuel Transportation*

[redacted] river transportation rate proxy for the [redacted] 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 [redacted]. 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 [redacted]

  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 [redacted] from 2004 levels and estimate that insurance makes up approximately [redacted] of the rate charged for terminal services; therefore, the calculated insurance adjustment is [redacted] per ton.

  Calculation of Insurance Adjustment

  [redacted] = [redacted]

  [redacted] = [redacted]

  Net change = [redacted]

  River Barge Transloading Rate

  [redacted] = Adjusted Rate

  [redacted] = [redacted]

  Ocean Vessel Transloading Rate

  [redacted] = Adjusted Rate

  [redacted] = [redacted]

  The [redacted] river transloading rate and [redacted] 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.

The above calculation is for illustrative purposes only, and is subject to true-up for actual changes in [redacted].

- 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 [redacted] The RFQ was written so that various vessel drafts would be considered.

SSY NY invited [redacted] market participants to participate in the RFQ and received responses from [redacted] 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.

[redacted]
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- Time Costs
  The time to load and discharge each vessel was calculated based on a load rate of [redacted] tons per hour and a discharge rate of [redacted] tons per hour for all vessels with the exception of the [redacted]. 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. [redacted]

- Port and Insurance Costs
  Port costs of [redacted] and [redacted] were assumed for all bid responses. Insurance costs were added to each vessel at the rate of [redacted] per [redacted] 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 [redacted] to move [redacted] tons.

After receiving the report from SSY NY, Tampa Electric escalated the time charter rates approximately [redacted] to account for the forecasted change in [redacted] Additionally, Tampa Electric utilized [redacted] for the January 2009 time period.

Using the methodology described above, the escalated rate effective January 1, 2009 is [redacted]. This calculation is for illustrative purposes only, and is subject to true-up for actual changes in [redacted] 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.

[redacted]
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| [redacted] | Tons | Rate |
|---|---|---|
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | |
| [redacted] | | [redacted] |

Since the river, terminal and ocean rates were calculated using estimated [redacted], as applicable, these rates will need to be adjusted just prior to January 2009 to [redacted]. 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 [redacted]. Both the river and ocean will have [redacted]. The terminal rate will be considered totally [redacted].

| Segment | [redacted] |
|---|---|
| **River** | |
| [redacted] | [redacted] |
| [redacted] | [redacted] |
| [redacted] | [redacted] |
| **Terminal** | |
| [redacted] | [redacted] |
| **Ocean** | |
| [redacted] | [redacted] |
| [redacted] | [redacted] |
| [redacted] | [redacted] |

The [redacted] is calculated as follows:

[redacted]

[redacted]
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[redacted]

3. Calculate the Quarterly Adjustment Factor and apply the factor to the [redacted] in effect.

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

[redacted]

[redacted]

3. Calculate the Quarterly Adjustment Factor.
4. Apply the Quarterly Adjustment Factor to the [redacted].

The calculation is adjusted similarly for each quarter.

[redacted]

The calculation is adjusted similarly for each quarter.

[redacted]

[redacted]
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*Procurement of Solid Fuel Transportation*

**EXHIBIT A**

Initial Transportation Rates for January 1, 2009

[redacted]

## EXHIBIT B