

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to recover capital costs of Big Bend fuel cost reduction project through the fuel cost recovery clause, by Tampa Electric Company.

DOCKET NO. 140032-EI
ORDER NO. PSC-14-0309-PAA-EI
ISSUED: June 12, 2014

The following Commissioners participated in the disposition of this matter:

ART GRAHAM, Chairman
LISA POLAK EDGAR
RONALD A. BRISÉ
EDUARDO E. BALBIS
JULIE I. BROWN

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING IN PART TAMPA ELECTRIC'S PETITION TO RECOVER THE
CAPITAL INVESTMENT OF ITS PROPOSED FUEL CONVERSION PROJECT AT THE
BIG BEND POWER STATION THROUGH THE FUEL COST RECOVERY CLAUSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

On February 11, 2014, Tampa Electric Company (Tampa Electric or Company) filed a petition to implement a fuel conversion project at the Big Bend Power Station for Units 1 through 4. The Company asserts that this fuel conversion project is similar in many ways to the fuel conversion project we approved for the Polk Power Station Unit One in Order No. PSC-12-0498-PAA-EI (Polk Order).¹

¹ See Order No. PSC-12-0498-PAA-EI, issued September 27, 2012, in Docket No. 120153-EI, In re: Petition to Recover Capital Cost of Polk Fuel Cost Reduction Project through the Fuel Cost Recovery Clause, by Tampa Electric Company. Order No. PSC-12-0563-CO-EI, Consummating Order, was issued October 22, 2012.

Big Bend Units 1 through 4 are pulverized coal steam units that currently use distillate oil² for start-ups and for flame stabilization. The Company seeks to use natural gas in place of distillate oil, and states that the fuel conversion will benefit the general body of retail customers by reducing the input cost of fossil fuel used at the Big Bend Power Station. Tampa Electric seeks to recover the capital expenditures for this project through the Fuel Cost Recovery Clause (Fuel Clause).

At a noticed meeting on February 24, 2014, Commission staff met with Tampa Electric and interested parties to ask questions about the Company's fuel conversion proposal, forecasting assumptions, fuel cost estimates, and related topics. At the meeting, Tampa Electric stated that project costs are estimated to be \$19.9 million for the fuel conversion work, and discussed the unit-by-unit schedule that is designed to take advantage of currently-planned major outages in 2015.

According to the amortization schedule attached to the Petition, the Company estimates the upgrades at the Big Bend Power Station will result in net fuel savings to customers of approximately \$30 million through 2020 (the requested five-year cost recovery period), and additional savings thereafter for the remaining life of the four units.

We reviewed the project's eligibility for cost recovery through the Fuel Clause. We have jurisdiction over this subject matter pursuant to the provisions of Sections 366.04, 366.05, and 366.06, Florida Statutes (F.S.).

Decision

Similarity to Prior Case (Docket No. 120153-EI)

In January 2012, the Company undertook a similar project at the Polk Power Station for Unit One. At Polk Unit One, the conversion project modified the plant to use natural gas as a backup fuel, displacing distillate oil and propane. Tampa Electric undertook that project because it studied the prices of these fuels compared to the price of natural gas, and noted the opportunity for fuel savings. In its pleadings and responses to data requests, Tampa Electric projected annual savings for the years 2013 through 2018, and claimed the net fuel savings would be even greater after the amortization and return costs are fully recovered.

In the Polk Order, we approved that fuel conversion project with a five-year amortization schedule, which began on the in-service date of the unit (May 2013). We also acknowledged that if markets were to change substantially during the five-year recovery period, or plant performance fell short of expectations, the fuel savings projections would be affected. In summary, we found that:

TECO shall be permitted to recover the projected conversion costs through the Fuel Clause beginning on the date the unit is placed into service, limiting the cost

² Distillate oil is also called "Number 2" oil, and trades on the New York Mercantile Exchange (NYMEX) as "Heating Oil."

recovery to actual fuel savings. TECO shall amortize the Polk Unit One conversion over the next five years. TECO shall use the actual weighted average cost of capital in TECO's most current May earning surveillance reports. Finally, if actual fuel savings during the annual period are less than the amortization and return costs, TECO shall limit cost recovery to actual fuel savings and defer recovery of the difference to future periods through the Fuel Clause.

Eligibility for Fuel Clause Recovery of Capital Costs

The Fuel Clause is a regulatory tool designed to pass through to utility customers the costs associated with fuel purchases. The purpose is to minimize regulatory lag, which occurs when a utility incurs expenses, but is not allowed to collect offsetting revenues until the regulatory body approves cost recovery.

In Order No. 14546,³ we recognized that cost recovery through the Fuel Clause should include some flexibility to permit recovery of fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, would result in fuel savings to customers. Cost recovery should be considered on a case-by-case basis after our approval.

Subsequent to the issuance of Order No. 14546, we reviewed numerous requests for recovery of capital costs through the Fuel Clause. Most recently, by Order No. PSC- 11-0080-PAA-EI,⁴ we examined the criteria for recovery of capital costs through the Fuel Clause, and, consistent with our prior decisions, found:

. . . [C]apital projects eligible for cost recovery through the Fuel Clause should produce fuel savings based on lowering the delivered price of fossil fuel, or otherwise result in burning lower priced fuel at the plant.⁵

Tampa Electric referenced Order No. PSC-11-0080-PAA-EI, as well as the Polk Order to support its contention that this project is eligible for cost recovery through the Fuel Clause. The Company states that conversion work at Big Bend Station as described in its Petition will produce fuel savings by burning lower priced fuel for Units 1-4 at the station.

Instant Petition

In its Petition, the Company states that distillate oil is currently used at the Big Bend Station for Big Bend Units 1-4 for unit start-ups and for flame stabilization. Tampa Electric

³ See Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B, In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

⁴ See Order No. PSC-11-0080-PAA-EI, issued January 31, 2011, in Docket No. 100404-EI, In re: Petition by Florida Power & Light Company to recover Scherer Unit 4 Turbine Upgrade costs through environmental cost recovery clause or fuel cost recovery clause. Although we denied fuel cost recovery for the turbine upgrade project, this order describes the criteria required for prospective fuel cost recovery eligibility.

⁵ Id., page 9.

states that this project came about because it studied the price of distillate oil compared to the price of natural gas into the foreseeable future, and noted the opportunity for fuel savings. Tampa Electric concluded that natural gas could be used for unit start-ups and flame stabilization instead of distillate oil, and that by reducing the input cost of fossil fuel at the Big Bend Station, the general body of retail customers would directly benefit.

According to the Company's response to Data Request No. 3, valve station and header pipeline work to the individual units could be done while the units are operating. The balance of the project activities at Big Bend Units 1-4 would be performed at staggered intervals during normal planned outages in 2015. The planned sequence of the conversion work, and projected in-service dates are shown below in Table 1:

| Table 1 Planned Sequence of Fuel Conversion Project at the Big Bend Station and Projected In-service Dates | |
|--|---|
| Unit | Anticipated Completion Dates of Conversion Work |
| Big Bend Unit 3 | February 2015 |
| Big Bend Unit 4 | April 2015 |
| Big Bend Unit 2 | May 2015 |
| Big Bend Unit 1 | November 2015 |

With the staggered in-service dates and a five-year amortization schedule, Tampa Electric projects total fuel savings of over \$30 million (net present value) and a net Ratepayer Benefit of \$5.7 million through 2020. The Company's fuel savings calculations exceed \$76 million when the respective retirement dates for all four units are considered.⁶ In the event that the fuel savings benefits do not exceed the costs for a particular period, Tampa Electric proposes to defer the project cost recovery to a subsequent period.

The Petition states that the Polk Order was approved for Fuel Clause recovery because we found that fuel savings would result by burning a lower priced fossil fuel at the Polk station. In addition, the Petition cites other instances when we allowed utilities to recover the fuel conversion projects, provided the fuel savings during an annual period exceed the amortization and return costs.⁷

Analysis of Cost Recovery and Fuel Savings Projections

Upon review, we find that Tampa Electric shall be permitted to recover the conversion project costs through the Fuel Clause because it appears the project will produce fuel savings by

⁶ The planned retirement dates of the Big Bend units range from 2035 to 2050. The planned retirement date for Big Bend Unit 1 is in the year 2035; the planned retirement date for Big Bend Unit 2 is in the year 2038; the planned retirement date for Big Bend Unit 3 is in the year 2041; and the planned retirement date for Big Bend Unit 4 is in the year 2050.

⁷ See Order Nos. PSC-95-1089-FOF-EI, issued September 5, 1995, in Docket No. 950001-EI, In re: Fuel Cost Recovery; PSC-96-0353-FOF-EI, issued March 13, 1996, in Docket No. 960001-EI, In re: Fuel Cost Recovery; and PSC-97-1045-FOF-EI, issued September 5, 1997, in Docket No. 970001-EI, In re: Fuel Cost Recovery.

burning a lower priced fossil fuel at the Big Bend Station. In the Company's response to Data Request No. 10, the Company estimated the bill impact through the anticipated cost recovery period on a residential customer using 1,000 kilowatt hours of electricity, as shown in Table 2 below:

| Year | Bill Impact (\$/1,000 kWh) |
|------|----------------------------|
| 2014 | Not Applicable |
| 2015 | (0.01) |
| 2016 | 0.00 |
| 2017 | 0.00 |
| 2018 | (0.02) |
| 2019 | (0.03) |
| 2020 | (0.23) |

Tampa Electric provided an estimate that shows the amortization expense and capital cost of the conversion will be approximately \$24.7 million. The Company estimates that the proposed conversion from distillate oil to natural gas will benefit ratepayers because the fuel savings exceed the amortization and return on investment costs during the five-year recovery period. Table 3 below summarizes the results of the Company's economic analysis over the five-year recovery period:

| Year ⁸ | Annual Amortization (\$000) | Return On Investment (ROI) (\$000) | Total Cost of Project (\$000) | Projected Fuel Savings (\$000) | Ratepayer Benefit (Cost) (\$000) |
|-------------------|-----------------------------|------------------------------------|-------------------------------|--------------------------------|----------------------------------|
| | (a) | (b) | (c) (c) = (a) + (b) | (d) | (e) (e) = (d) - (c) |
| 2015 | 2,271 | 1,075 | 3,346 | 3,472 | 126 |
| 2016 | 3,816 | 1,474 | 5,290 | 5,290 | 0 |
| 2017 | 3,409 | 1,117 | 4,526 | 4,526 | 0 |
| 2018 | 4,697 | 748 | 5,445 | 5,803 | 359 |
| 2019 | 3,974 | 348 | 4,322 | 4,854 | 532 |
| 2020 | <u>1,703</u> | <u>48</u> | <u>1,751</u> | <u>6,505</u> | <u>4,754</u> |
| Total | <u>19,870</u> | <u>4,809</u> | <u>24,679</u> | <u>30,450</u> | <u>5,771</u> |

⁸ Because the projected in-service dates occur in different months of 2015, the 5-year recovery period covers partial years for 2015 and 2020. The partial year recovery amounts in the first and last years of the recovery period will be accounted for in the following year's Fuel Clause True-Up.

Data requests were issued to better understand the Company's forecasting assumptions, fuel cost estimates, as well as the Company's environmental and economic analyses. Tampa Electric states that oil piping and regulating equipment that is on or near all 4 of the boilers at Big Bend units 1-4 will be removed⁹ and replaced with new natural gas piping, fixtures, and regulators that will tie in to an existing 12-inch gas main. To mitigate any natural gas pipeline disruption, the construction plans include connections at the Big Bend Station that will accommodate natural gas delivery by tanker truck. Post-conversion, the project will provide a marginal environmental benefit. While natural gas is a cleaner burning fuel than distillate oil, the start-up activities and flame stabilization are only small components of the fuel burned during normal operations of the Big Bend units 1-4. In addition, Tampa Electric stated that its need for oil inventory and storage at the Big Bend Station would be greatly reduced. Although not finalized, the Company is considering decommissioning the 4.2 million gallon Main Fuel Oil Tank at Big Bend Station.

Tampa Electric provided information on its fuel price forecasts for natural gas and distillate oil. For forecasted natural gas prices, the Company used the same data it prepared for its 2014 projection filings in the Fuel Clause docket (Docket No. 130001-EI).¹⁰ The Company's method for calculating fuel savings was determined by multiplying the amount of the replaced fuel, on a MMBtu basis, by the \$/MMBtu cost difference (when compared to natural gas).¹¹ We reviewed Tampa Electric's fuel price forecast data and the forecasting methodology. Upon analysis of this data and the assumptions that were incorporated into the proposed conversion project, we find the Company's methodology for calculating fuel savings, as well as its fuel forecasts, reasonable.

In the Polk Order, we noted our concern that performance variables at the unit could impact fuel savings and, ultimately, the amount of recoverable costs of the project. For the instant case, this concern was addressed by asking the Company if any of the performance characteristics (heat rate, production, planned dispatch, or any other performance-related metrics) at Big Bend Units 1-4 would change as a result of the fuel conversion project. According to Tampa Electric, no performance-related changes are anticipated, although the Company reported that relying on natural gas for start-ups and flame stabilization may produce an operating benefit that is not readily quantifiable.¹²

⁹ In response to Data Request No. 16, the Company stated that the salvage value of any of the retired materials was not addressed in its cost recovery projections, because its estimated salvage value is \$1,000 per unit, and removal costs are likely to exceed that value.

¹⁰ Tampa Electric's projections for 2014 in the Fuel Clause used NYMEX natural gas futures contract closing prices from early-August, 2013. In its Response to Data Request No. 1, Tampa Electric stated that its forward curve for natural gas is escalated "at the same escalation for natural gas commodity contained in the Energy Information Administration's Long-Term Energy Outlook."

¹¹ In response to Data Request No. 29 about the Company's current fuel forecast, the Company states that in the current forecast, distillate oil is nearly five times the cost of natural gas.

¹² In response to Data Request No. 6, the Company claims that natural gas igniters should provide more uniform heating of the boiler during start-up. More uniform heating of the boiler should provide a reliability enhancement when burning wet coal. In addition, maintenance activities to address oil-fouled igniter tips will no longer be required.

Tampa Electric's Petition to recover the capital investment of its proposed fuel conversion project at the Big Bend Power Station through the Fuel Clause is hereby granted, with the following conditions: The Company shall be permitted to recover the projected conversion costs through the Fuel Clause beginning on the date each respective unit is placed into service, limiting the cost recovery to actual fuel savings. Tampa Electric shall amortize the Big Bend Power Station fuel conversion costs over the five-year period. The Company shall use the actual weighted average cost of capital in its most current earning surveillance report to calculate the revenue requirement. Finally, if actual fuel savings during the annual period are less than the amortization and return costs, the Company shall limit cost recovery to actual fuel savings and defer recovery of the difference to future periods through the Fuel Clause.

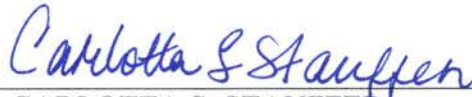
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's Petition to Recover the Capital Costs of its Fuel Conversion Project at the Big Bend Power Station through the Fuel Cost Recovery Clause is hereby granted in part, subject to the conditions set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 12th day of June, 2014.



CARLOTTA S. STAUFFER
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
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Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 3, 2014.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.