BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition to recover capital costs of Polk Fuel Cost Reduction Project through the Fuel Cost Recovery Clause, by Tampa Electric Company.	DOCKET NO. 120153-EI ORDER NO. PSC-12-0498-PAA-EI ISSUED: September 27, 2012

The following Commissioners participated in the disposition of this matter:

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

NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING IN PART AND DENYING IN PART TAMPA ELECTRIC COMPANY'S PETITION TO RECOVER THE CAPITAL COSTS OF POLK FUEL COST REDUCTION PROJECT 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 (F.A.C.).

On January 3, 2012, Tampa Electric Company (TECO or Company) filed a letter to inform us and the parties to the Fuel Cost Recovery Clause (Fuel Clause) docket of its intent to implement a fuel conversion project at the Polk Power Station Unit One (Polk Unit One), with an in-service date of May 2013, and seek recovery of the capital expenditures for the project through the Fuel Clause. TECO asserted the Company would achieve net fuel savings if auxiliary boilers and certain furnaces at this facility, currently fired with fuel oil and propane, were converted to burn natural gas.

On January 31, 2012, Commission staff and interested persons, in a noticed meeting, met with TECO officials to learn more about the TECO project, and on May 15, 2012, TECO filed its Petition To Recover The Capital Costs Of Polk Fuel Cost Reduction Project Through the Fuel Cost Recovery Clause (Petition). In the Petition, the Company further described the project and its request for cost recovery.

TECO estimates the project costs to be $14.7 million for the fuel conversion work, and asserts that the upgrade will result in net fuel savings to customers of approximately $29.6 million through the requested five-year cost recovery period, and additional savings thereafter for the remaining life of the plant.

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.).

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 prevent regulatory lag. Regulatory lag occurs when a utility incurs expenses but is not allowed to collect offsetting revenues until the regulatory body approves cost recovery.[1]

In Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B, 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. We consider cost recovery on a case by case basis.

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,[2] 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.

TECO referenced this order in support of its assertion that this project is eligible for cost recovery through the Fuel Clause. TECO states that conversion of Polk Unit One as described in its petition will produce significant fuel savings by burning lower priced fuel at Polk Unit One.

In its Petition, TECO states that Polk Unit One is an integrated gasification combined cycle (IGCC)[3] plant that uses a petroleum coke (pet coke)/coal blend as its primary fuel source

---

[1] 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 prospectively describes the criteria for fuel cost recovery eligibility.

[2] Id.

[3] IGCC is a technology that uses a gasifier to turn coal and other carbon-based fuel into a synthetic gas. When synthetic gas is burned, it has a lesser impact on the environment than coal. In attachments to its Petition, TECO included a diagram showing the operating components of Polk Unit One and where present fuels are burned, and a second diagram to highlight where the natural gas distribution facilities and control systems will be placed.

with distillate oil as a backup fuel. Although pet coke/coal accounts for approximately 98 percent of the energy generated at the station, the unit also uses distillate oil to fire an auxiliary boiler and propane to fire a gasifier preheat burner and synthetic gas (syngas) as part of the IGCC process. TECO states that this project came about because it studied the prices of distillate oil and propane compared to the price of natural gas, and noted the opportunity for fuel savings over the current fuels (distillate oil and propane).

The Petition identified the four components of the proposed project. For reference, all four components are described below, although on June 5, 2012, TECO removed component three from its request for cost recovery. Removing component three reduces the estimated project cost by about $100,000, for a total project cost of $14.7 million. Elimination of component three does not impact the project's estimated fuel savings.

Component one involves converting a preheat burner that is currently fired with propane gas to burn natural gas. The propane-fired preheater is used in the gasification process. TECO has estimated the cost for this component to be $792K. Component two involves converting an auxiliary boiler that is currently fired with distillate oil to burn natural gas. The auxiliary boiler provides steam for the heat recovery steam generator and is necessary for operating the gasifier. The cost estimate for this component is $476K. Component three involves piping natural gas to replace syngas at higher levels of output in the IGCC process. Component four involves adding piping to use natural gas as a replacement for distillate oil as a start up and back up fuel. This fuel is used for fueling the combustion turbine at Polk Unit One, and the cost estimate for this component is $13.4 million.

TECO states that using natural gas over oil and propane will produce significant fuel cost savings that will directly benefit its retail customers. The Company states that we have previously allowed utilities to recover the costs of converting combustion turbines to burn natural gas, provided the fuel savings during an annual period exceed the amortization and return costs.[4]

With a forecasted in-service date of May 2013, and a five-year amortization schedule, TECO projects annual savings for the years 2013 through 2018, and claims the net fuel savings will be even greater after the amortization and return costs are fully recovered. In its June 22, 2012 Response to Staff's Data Request, the Company stated that it will recognize the project costs at the time of the in-service date, which is anticipated to be May 2013. TECO states that, if its Petition is approved, the costs associated with this item will be included in the Company's 2013 fuel factor.[5] In its June 22, 2012, Response to Staff's Data Request Number 17(b), the Company clarified its request that any unrecovered amounts be recovered through base rates if fuel savings during any annual period fell short of the amortization and return costs.

---

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

[5] See TECO's Responses to Staff's First Data Request, Request Number 36.

We find that TECO shall be permitted to recover the conversion project costs through the fuel clause because it appears the project will produce fuel savings by burning a lower priced fossil fuel at Polk Unit One. TECO provided an estimate that shows the total capital cost of the conversion will be approximately $14.7 million. We note that when Return On Investment (ROI) costs are included, the figure is approximately $18.9 million. TECO estimates that the proposed conversion to natural gas, in place of distillate oil and propane, will result in fuel savings that exceed the amortization and ROI costs in each of the five years, totaling approximately $29.6 million over the five-year recovery period. The table below summarizes the results of TECO's economic analysis over the five-year recovery period.

Year[6]	**Annual Amortization ($000)**	**Return On Investment (ROI) ($000)**	**Total Cost of Project ($000)**	**Present Value Fuel Savings ($000)**	**Net Present Value Savings ($000)**
2013	1,957	1,065	3,022	3,254	**232**
2014	2,938	1,312	4,250	6,296	**2,046**
2015	2,938	970	3,908	5,926	**2,018**
2016	2,938	628	3,566	5,908	**2,342**
2017	2,938	285	3,223	5,641	**2,418**
2018	979	19	998	2,604	**1,606**
Total	14,688	4,279	18,967	29,629	**10,662**

According to TECO's economic analysis, the conversion of Polk Unit One will result in approximately $10.7 million of net present value savings over the five-year recovery period. Our staff sent two sets of data requests to TECO to better understand the Company's forecasting assumptions, fuel cost estimates, and economic analysis. As noted previously, the primary fuel at Polk Unit One is a coal/pet coke blend, and although this project has no impact on the primary fuel, the unit will have natural gas as a back-up fuel when the project is completed. In its response to data requests, TECO provided information on its fuel price forecasts for natural gas, distillate oil, and propane, all of which are fossil fuels. For forecasted natural gas prices, TECO used the same data it prepared for its 2012 projection filings in the Fuel Clause docket. TECO used NYMEX[7] natural gas futures contract closing prices from mid-July 2011 as the basis for its 2012 natural gas price forecast. Based on TECO's Response to Data Request No. 48, TECO'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) of the respective fuel. We have reviewed TECO's fuel price forecast data, the forecasting methodology and the assumptions that were incorporated into the proposed conversion project and find that TECO's methodology for calculating fuel savings, as well as its fuel forecasts, are reasonable.

Although TECO's forecasts and assumptions appear reasonable, we note that the price and performance variables could impact fuel savings and, ultimately, the amount of recoverable

[6] Because the projected in-service date occurs in the middle of 2013, the 5-year recovery period covers partial years for 2013 and 2018. 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.
[7] The New York Mercantile Exchange (NYMEX) is a commodities futures exchange widely used by the electric industry for pricing natural gas.

costs of the project during the five-year recovery period. If markets were to change substantially during the five-year recovery period, or plant performance fell short of expectations, the current fuel savings projections would be affected. Therefore, we find that certain conditions shall be placed upon the recovery of costs: TECO shall be permitted to recover the projected conversion costs through the Fuel Clause beginning on the date the unit is placed into service, limited to the actual fuel savings; TECO shall depreciate the Polk Unit One conversion over the next five years using the straight line depreciation method; and TECO shall use the actual weighted average cost of capital in TECO's most current May earning surveillance reports to calculate the revenue requirement.

According to TECO's Response to Data Request No. 17(b), the Company clarified in its request that any unrecovered amounts be recovered through base rates if actual fuel savings during any annual period fell short of the amortization and carrying costs. We find that unrecovered amounts shall not be recovered through base rates if fuel savings during any annual period fell short of the amortization and return costs. We find that 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.

TECO's Petition to recover the capital investment of its proposed fuel conversion project at Polk Unit One through the Fuel Clause shall therefore be granted in part, with conditions, and denied in part. TECO's request for recovery through base rates of any unrecovered costs is denied.

This approval subject to the following conditions: 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 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.

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 Polk Fuel Cost Reduction Project through the Fuel Cost Recovery Clause is hereby granted in part, with the conditions set forth in the body of this Order. It is further

ORDERED that Tampa Electric Company's request for recovery through base rates of any unrecovered costs is denied. 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 27th day of September, 2012.

Ann Cole

ANN COLE
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399
(850) 413-6770
www.floridapsc.com

Copies furnished: A copy of this document is provided to the parties of record at the time of issuance and, if applicable, interested persons.

MFB

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 October 18, 2012.

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.