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August 5, 1996

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Ms. Blanca S. Bayo, Director
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0870

Re: Prudency Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit
Docket No. 960409-EI

Dear Ms. Bayo:

Enclosed for filing and distribution are the original and 15 copies of The Florida Industrial Power Users Group's Post Hearing Brief in the above docket.

I have enclosed a disk containing the Post-Hearing Brief entitled "960409.brf", formatted in WordPerfect Version 5.1. Please acknowledge receipt of the above on the extra copy enclosed herein and return it to me. Thank you for your assistance.

Sincerely,

Joe McGlothlin

Joseph A. McGlothlin

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FLORIDA PUBLIC SERVICE COMMISSION

In Re: Prudence review to determine regulatory treatment of Tampa Electric Company's Polk Unit.	)))	Docket 960409-EI

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S POST-HEARING BRIEF

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PRELIMINARY STATEMENT

This is a proceeding to determine the regulatory treatment of the Polk One generating plant addition to Tampa Electric Company's (TEC) rate base without a rate case. This docket will preempt further consideration of prudency issues as to this plant in the event TEC subsequently files a rate case. This docket will affect the magnitude of any 1998 refund promised in the stipulation approved by the Commission by PSC-96-0670-S-EI.

In 1995 customers paid TEC $50 million more than TEC's authorized return. Similar over earnings are expected for 1996. Polk One in rate base will consume the annual overearnings.

1997 will be the first full year of commercial operation for Polk One. The cost of the Polk One (per kw of capacity) far exceeds the cost of any generating plant TECO has constructed heretofore. It far exceeds the cost of comparably sized units constructed nearby. It will constitute 25% of TEC's rate base even though it only represents 7% of TEC's installed generation.

The fact that the plant cost $117 million more than the estimates TEC provided when the plant was certified combined with the fact that the projected fuel cost disparity between coal and natural gas failed to materialize causes concern on the part of the prudency pundits.

All parties agreed that the best way to deal with the puzzling concerns is to address the issues now while the information is fresh and the knowledgeable witnesses are available.

Summary and Overview of Argument

TEC's management decision to proceed with novel technology when all others followed the beaten path is a courageous act *if management bears the responsibility for the decision.* On the other hand the decision could be classified as fainthearted perhaps even craven if management seeks to reap benefits from the novel technology while shifting all risk to customers burdened with the obligation to buy. FIPUG recommends a program of shared risk to be implemented in the following way:

I. Preexisting corpulence in the form of land no longer useful for utility plant should be trimmed from rate base.

II. Don't double count the part of Polk already in rate base.

III. Limit Polk rate base to useful plant. Polk One uses only 21% of the plant site. Customers are already paying a return on extensive assets held for future use. Let TEC temporarily maintain the cost of the future use portion of the Polk site.

IV. Polk One has two parts. One part generates electricity; the other part converts coal into synthetic gas to run the first part. Today the combined purchase costs of fossil fuel and the capital carrying costs on the converter will amount to far more than the cost of natural gas, the alternate fuel of choice. TEC contends that after the turn century a crossover will be reached. Then the total cost of producing syngas will be less than the cost of natural gas. TEC may be right, it may be wrong. FIPUG recommends phasing in the converter to a time when the costs borne by customers will be closer to savings they receive.

Argument

I

SOLVING THE PRUDENCY PROBLEM

(PREHEARING ISSUES 2-8, 15)

The Prudency Problem In the Prehearing Order Issue 15 addresses the legal standard of review in a prudence review proceeding. The remainder of the first ten issues focus on the prudency of the decision to continue with construction of the Polk Plant as an integrated gassified combined cycle (IGCC) unit in spite of unfavorably changing forecasts with respect to fuel costs, customer consumption patterns, and other changed conditions.

The problem with prudency review is that with the determination of prudency comes an unalterable assignment of risk. For all practical purposes if an investment is determined to be prudent, customers bear 100% of the risk of incorrect management decisions. If the investment is determined to be imprudent TEC is denied a return even if management decisions turn out to be correct. The problem is exacerbated in this case because the management decision to spend $191 million to convert coal to syngas was a decision made by the management of TEC's parent TECO ENERGY, Inc. (TECO). TECO operates company owned coal mines.

Historically prudency review was conducted after construction. The utility assumed all risk until the plant was commercially operable. The threat of disallowance subtly enforced prudence. Prudence was determined in a rate case. Commissioners could effectively judge the impact of their decision on ratepayers.

Customers had notice of what was about to happen to their rates and could voice their objections.

Today utilities appear to believe that the enactment of the *Power Plant Siting Act*, §403.519 *Florida Statutes* moved the prudency decision forward to the date of certification. If so prudency must be determined not on historical facts and current conditions, but on forecasts of future conditions pertaining to such volatile circumstances as future fuel costs, environmental requirements, interest rates, operating capacity factors of novel technology and projected customer service demands. The impact on rates will be speculative at best. The utility controls all of the pertinent information. What if costs change between certification and commercial operation? It may be unfair to disallow unforeseen costs, but if there is no such restriction, what is to prevent utilities from fudging on their cost effectiveness studies?

Issues 2-8 of this case demonstrate the type of arguments that arise when prudency is a prospective determination. Each of the issues addresses the fact that between need certification and plant construction, TEC's original assumptions turned out to be wrong. One side argues that management should bear total responsibility because it was wrong. TEC responds that assumptions may have been wrong and the ultimate savings not as great as hoped for, but by the year 2021 those of us who have not shuffled off of the mortal coil will see that the Polk plant was after all, "cost effective".

The Current Circumstances. There is no pending rate case to assist in evaluating the impact of the new plant. Presently TEC

has bountiful, sustained over earnings. Under ordinary circumstances customers would be entitled to immediate and significant rate relief, but Polk One will bring into commercial operation inordinately expensive new generation that will absorb current over earnings. Current projections portend a rate increase if the full plant is allowed into rate base.

Instead of using over earnings to reduce rate base, TEC will refund 25% of the over earnings; keep 40% of the remainder; and use the balance to cover part of the carrying costs of the new plant for two years.

Actual cash basis cost savings from the new plant will only come in the very distant future, and then only if natural gas prices go up while sellers of coal hold the line on prices (an altruistic act never experienced in the history of the free economies of the world). *In this case it could happen* because TEC's parent, TECO, can control the price of coal its coal mines sell to its electric utility. If other coal mines follow gas prices, TECO can require its mines to hold the line and sell to TEC at less than market price to honor the view of the future presented to the public by TECO's utility. Ironically, unless the price of coal and gas diverge TEC's promise to buy coal in the open market[1] means nothing.

It is hard to visualize TECO management explaining to Wall Street investment bankers that it has renounced profits for its coal mines because of an implied moral commitment its utility made

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[1] Mr Rowe TR 581

to ratepayers: a commitment that was neither verbalized by utility management nor enforceable by regulatory authority. If management took such a position it is likely that there would soon be new management.

In 1992 after the City of Tallahassee declined to buy the output of Polk One, TEC suddenly found that its retail customers needed the unit. TEC came to the Commission with what appeared to be a reasonable proposal to build the IGCC unit.[2] At TEC's request the Commission found the plant to be the most cost effective means to meet future customer demand in order PSC-92-0002-FOF-EI, primarily because TEC had persuaded the Department Of Energy (DOE), a federal agency, to use taxpayer funds to pay for approximately 20% of the originally projected cost. DOE declined to pay any portion of the $117 million in cost overruns.

The Contentions. TEC's prehearing statement proffered the basic position that once the Commission rendered a certification of need to the Department of Environmental Protection under the auspices of *§403.519 Florida Statutes* and found the Polk One unit to be the most cost effective way to meet the need, the decision was chiseled in stone. According to TEC the Commission was left with little wiggle room to reconsider its preliminary prudency decision in light of changed conditions.

Secondly, TEC contends that the Commission should not use its regulatory power to micromanage utilities under its jurisdiction.

---

[2] Mr Anderson TR 429

At the hearing, speaking for management, TEC's regulatory law consultant *emeritus*, John R. Rowe Jr., acknowledged that the Commission does in fact have regulatory authority to re-evaluate it's decisions in light of changed conditions.[3] FIPUG agrees with the Rowe evaluation in this regard.

FIPUG agrees with TEC that government regulatory authority should not micromanage utilities nor second-guess the decisions of a utility's directors. Freedom, however, carries with it a concomitant portion of responsibility. If the Commission tells TEC to do what TEC asks the Commission to tell it to do, TEC cannot avoid management responsibility by saying that "the Commission made me do it."

In FIPUG's view, the Commission does not have to second-guess whether TEC's decision to continue construction was prudent. It doesn't have to decide today whether TEC's decision will prove to be right or wrong at some indefinite future date. A more enlightened approach can be used.

FIPUG has chosen to stand on the sidelines with respect to which savants correctly prognosticated future events. FIPUG favors a regulatory treatment that will be addressed below. FIPUG believes the answer lies in shared responsibility. Management should have freedom to act. Freedom should be coupled with a reasonable portion of responsibility.

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[3]Mr. Rowe TR 1015

The prudency problem can be addressed by choosing a regulatory treatment that will allow the whole plant into the rate base, but let it come in over a period that makes economic sense.

ISSUE II

TIME HAS COME TO TRIM A BIT OF CORPULENCE

(PREHEARING ISSUES 9-12)

The Impact of Polk One. This case is not a rate case, but the decision will determine current refund potential and future prices that will be charged to customers. Because this is the case, although the focus is on the Polk unit, that unit must not be examined with tunnel vision. Polk, which represents only 7% of the utility's installed generating capacity, has a much greater impact upon the utility's rate base. TECO's shining head of operations, Girard F. Anderson, testified that Polk Unit One will represent 25% of the company's total rate base when it goes on line.[4] In other words Polk One will increase present rate base 33%.

Because of this major impact on rate base, care needs to be taken to confirm that the current rate base allowance for Polk Unit One does not duplicate an investment upon which the utility is already earning a return. Care also needs to be taken to ensure that today's ratepayers are not asked to pay a return on an obsolete utility investment in land that the new Polk site and environmental regulators have rendered no longer useful, nor cover costs expended to meet the demands of customers beyond the utility's current planning horizon.

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[4] Anderson TR 40

Before customers are asked to shoulder the burden of a 33% addition to rate base, they should be relieved from the obligation to feed corpulence on the old form.

Remove Double Counting. FIPUG recommends that to the extent that the Polk plant was added to rate base in the last case, the Commission should refrain from double counting in this case.

TEC witness Elizabeth Townes, Assistant Comptroller, testified that in the 1992 rate case, part of the Polk plant was included as construction work in progress (CWIP). Now that customers are going to be asked to pick up the total cost of the Polk plant it should only be the amount above the CWIP already in rate base.

Mrs. Townes testified that $36 million of the Polk plant was allowed in rate base as CWIP in 1992.[5]

Late filed Exhibit 28, discloses that $2.1 million of the Polk site was included in rate base in 1992 as plant held for future use. It should not be double counted at this time.

To the extent that AFUDC has been added to the $38 million already in rate base liposuction should be applied to this corpulence also.

Investment in Plant Not Presently Useful.

1. Port Manatee. Page 33 of Order PSC-93-0165-FOF-EI rate based TEC's $4,692,000 investment in the Port Manatee site because it was still considered a viable future plant site in 1992.

[5]Townes TR 629

In this case, Mr. Anderson testified that environmental regulatory bodies have now categorized between 1700 and 1800 acres of land at it's Port Manatee site as environmentally sensitive:

> Q (by Mr. McWhirter) What are the present plans for the 1,700 acres of environmentally sensitive land?
>
> A (Mr Anderson) Well, as I understand the regulation on that, Mr. McWhirter, they cannot be used for any commercial purpose. They have to be left in their present state. A significant portion of those properties are what's termed -- it's not underwater, but it's within the --
>
> Q Submerged lands?
>
> A Submerged lands, yes, sir. Thank you. So they cannot be used for any commercial purpose.[6]

Part of the land is submerged under Tampa Bay. Customers have been paying TECO a return on this land for well over a decade. It is obvious that it cannot be used for any viable technology. Logic would dictate if the shareholders of the corporation wish to continue to hold land that cannot be used for utility purposes in the foreseeable future shareholders should bear the ad valorem tax cost and return on the investment for that land. Requiring customers to pay for it is an inducement for the utility to hold nonproductive assets because regulatory principles make the land artificially productive.

2. The Polk Site. The 4300 acre Polk plant site with it's development cost is a very expensive proposition. That site is big enough to accommodate 1150 megawatts. The costly environmental

[6] Mr Anderson TR 40

study encompassed the complete plant site, not just the portion of the land dedicated to the Polk Unit One[7]. When asked whether the utility contemplated constructing an addition to the plant on the remainder of the site in the foreseeable future, Utility Regmaster Rowe said,

> "I think our -- generation expansion plan, which is based on information today, speaks for itself. I don't think it includes 900 megawatts in the next ten years, because that's all the further that generation expansion plan goes out, it's my understanding."[8]

FIPUG recommends a rational sharing of the risk with respect to this site which won't be used within the next ten years. Ms. Townes' exhibit 29 depreciates the development cost of this land. Let customers amortize the development cost for the land as planned. This will allow TEC to recover this expense. According to Ms. Townes this charge to customers will be $22.3 million a year.

FIPUG further recommends, however, that since 79% of the site is not presently useful, let shareholders cover the return on the undepreciated portion of the plant site until it is put into useful service. This approach would remove $51,523,000 from the Polk site rate base.

The following table shows FIPUG's recommended reduction designed to trim corpulence from the old form and postpone unusable investment to the proper time frame.

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[7] Black TR 423

[8] Rowe testimony TR 576.

ITEM	COST	BASIS FOR REMOVAL
Port Manatee Land	$4,692,000	not used and useful
Polk CWIP now in rate base	$36,000,000	double count
Polk land now in rate base	$2,123,000	double count
Excess Polk land investment	$51,523,000	not used and useful
TOTAL CORPULENCE TRIM	$94,338,000	

III

THE WHOLESALE ISSUE
(PREHEARING ISSUE 13)

TEC engages in the competitive wholesale market for electricity. If the Commission will take administrative notice of its own records as it is permitted to do under the provisions § 90.201 *Florida Statutes*, it will examine the March 1996 filing in docket 960001-EI and see that TEC generated 8,503,546 MWH of electricity between October 1, 1995 and March 31, 1997. Of this amount 1,431,275 MWH (16.8%) was sold into the competitive wholesale market under the brokerage system and various FERC approved rate schedules.

Wholesale sales account for nearly 17% of TEC sales. Whether TEC is able to get a sale in that market generally hinges upon the fuel cost. It would indeed be a travesty if the retail customers were required to pay the carrying costs on the Polk Plant, but the

energy produced with lower cost fuel went into the wholesale market.

This case is not a rate case. The decision will be based on what is expected to happen. Decision makers will not benefit from the operating history of Polk One; consequently, there can be no meaningful separation study to exclude the portion of the utility plant dedicated to the wholesale market from the retail rate base.

If the Polk unit is the first plant dispatched its output will be absorbed in the retail sector. There will be no problem unless TEC specifically contracts to sell the output of this plant to a wholesale customer. The Commission's order in this case should prohibit such contracts unless the wholesale customer agrees to pay a ratable portion of the capital carrying costs attributable to the plant. The Commission should further order that in the event of such a sale the total capacity charges collected must flow through to the retail customers.

ISSUE IV

REGULATORY TREATMENT FOR THE POLK PLANT
(PREHEARING ISSUE 14)

FIPUG's simple proposal is to take a wait and see approach. FIPUG recommends that the Commission try to more closely match the costs of the new technology with the benefits that it will provide. Refrain from burdening today's customers with the obligation to pay more than it costs to serve them so that future customers or shareholders can reap the benefits. Matching costs with benefits is a time honored and appropriate regulatory and economic solution that should be followed in this case. I apologize to the

Commission for the time it took during the last evening of hearings to philosophize with TEC's leviathan of knowledge, John R. Rowe Jr., about some of the mechanisms the Commission uses to allocate costs to the appropriate time frame. However, these customary regulatory practices presently serve to shift costs from one period of time to another. They lay the foundation for the treatment recommended by FIPUG in this case.

FAS 106. One of the cost shifting methods was discussed on page 15 of TEC's 1992 rate order (PSC-93-0165-FOF-EI). The Commission addressed Financial Accounting Standards Board standard number 106 (FAS 106). The Commission said,

> " the basic concept underlying FAS 106.... is the concept of accrual versus cash basis accounting to record other post retirement benefits (OPEB).... Because accrual accounting matches the cost of the employees' services, we agree [with TEC's request]. *If we were to continue to use the pay-as-you-go method of accounting, future customers would pay for costs related to past years*". (emphasis supplied)

In 1992, the Commission authorized TEC to raise it's rates by $4.7 million a year to collect money now to cover the cost of providing post retirement benefits that will be paid many years hence. If perchance some 1992 employees are phased out before retirement, through a downsizing program, no mechanism is established to provide customers with rate relief.

Tax Normalization. Another protection for future customers is the time honored concept of tax normalization. Using this mechanism TEC can collect money from today's customers to pay federal income tax in some future period. This is not an insignificant sum. Ms. Townes testified that as of May 1996, the

deferred income tax balance was $271,356,199.[9] In his testimony, Mr. Rowe pointed out that the capital structure is affected by deferred taxes. He said,

> "I believe our customers are better off for having deferred taxes, so I couldn't agree that they pay for something that some other customers are going to get later."[10]

Think about that for a minute. Mr. Rowe is wrong on three counts. First, the deferred tax balance is money that has been collected from present rate payers. They are patently worse off. When do the benefits arrive? The benefits will be realized only if there is a rate case sometime in the future. What is the magnitude of the future benefit? When and if there is a rate case, the benefit that future customers will receive is that future customers won't have to pay a return on the money today's customers have paid in. If TEC's authorized return is 10% over all; when and if there is a rate case, tomorrow's customers will benefit by $ 27.1 million dollars per year because of the $ 271 million advanced by today's customers.

CWIP in Rate Base. The question of whether putting CWIP in rate base required today's customers to pay a return on investment that is not in use and useful service triggered a colloquy between the questioner and the utility regulatory philosopher/expert that is a text book study on how knowledgeable experts can confound slow witted attorneys with verbal legerdemain, as the following quote discloses:

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[9] Ms. Townes TR 633

[10] Mr. Rowe TR 1023

TR 1024

BY MR. McWHIRTER:

Q And the leading question is, is it not true that construction work in progress is payment by customers today for plant that will be in used and useful service tomorrow?

BY MR. ROWE:

A I can't say that. No, sir, I can't agree to it.

Q You can't say that?

A No, sir.

Q When you have CWIP, that's construction work in progress, is that plant in used and useful service for the current customers?

A No, sir. That is not what you asked me, though.

Q Well, the answer to that is no?

A The answer to is construction work in progress used and useful, and I said the answer to that is no.

TR 1025

Q But customers today are required to pay a return on construction work, is that not correct?

A Sometimes they are.

Q Well, if it is in the rate base, they are, aren't they?

A Oh. Now you've qualified it a different way. You see, your question did not say it was in the rate base,nor did it say when it was in the rate base, or when the rates were set, or whether those rates are frozen now or not. So there are a great many qualifications. That's the reason I'm having some difficulty answering your questions.

Q Well, good, I appreciate you narrowing the scope. Construction work in progress is a regulatory treatment, is it not?

A Construction work in progress is an account in the Uniform System of Accounts

Q If construction work in progress is allowed in the

rate base by the regulatory authority, it's a regulatory treatment, is it not?

A Yes, sir.

Q And if a return is allowed on construction work in progress, people are paying today for a benefit that will be derived tomorrow, is that not correct?

A If construction -- I can't answer that. If construction work in progress is allowed in the rate base or

TR 1026

a return on construction work in progress is allowed on the rate base, then the rates are set, including construction work in progress. As to what customers are paying for something that may be in the future depends on an awful lot of other circumstances.

Every thing Mr Rowe said was accurate. He acknowledged that CWIP is not used & useful for current customers, but what he didn't say and didn't want to say is that the regulatory concept of allowing CWIP in rate base is at the outer perimeter of statutory authority. Designed to charge more today to avoid future rate shock.

§366.06(2) *Florida Statutes* says.

"The commission shall investigate and determine the actual legitimate costs of the property of each utility company, *actually used and useful in the public service*, ... which value, as determined by the commission, shall be used for rate making purposes..." (emp. supp.)

The Supreme Court held that the allowance of CWIP into the rate base is within the discretion of the Commission in spite of the apparent statutory prohibition. (Citizens of State v. Public Service Commission, 425 So2d 534 (Fl 1982) and Shevin v. Yarborough 274 So2d 505 (Fl 1973)). The justification is that by charging customers today a return on plant that will come into service in

the future the ultimate rate base will be lower for future customers.

> "...use of this alternative leads to a more gradual phasing in to the rate base (which is supported by rates charged to customers) of the large investments associated with new plant, as contrasted with the revenue requirement "jolt" which occurs when a utility requests approval of rates designed to provide a return on the total value of the new plant when it is placed into service." (Citizens, supra quoting PSC Order 9864 Dkt 800119-EU *emp. supp*)

In this case FIPUG promotes the gradual phase in concept endorsed by the court. This time it will be the corollary to CWIP, call it Phase In Gasification System.

There are other well known policies that charge more today for a benefit tomorrow.

The Conservation Surcharge. By Order No 96-0352-FOF-EG in Docket 960002-EG the Commission approved for the year charging today's customers $17,450,713 to fund conservation programs that will avoid new plant construction costs in the future.

Front End Debt Service Loading. Since rate making began the Commission has never used level term debt service concept for rate making. Homeowners arrange mortgages and businesses arrange their long term loans so that in early years when the interest is high the principal payments are low.

Think of utility depreciation expense as an investment amortization charge similar to principal payments. When utility rates are set the annual depreciation charge is the same each year over the useful life of the assets. The return is allowed on the full value of the plant. There is no customer rate relief until the next rate case even though the rate base is decreasing and

interest rate costs are going down. Future customers don't normally benefit from this custom, though, because there usually isn't a rate case until the utility is ready to bring a new plant on line.

Fossil Plant Dismantlement. Utilities are allowed a depreciation expense surcharge based on the estimated cost of salvaging a fossil fuel generating plant. Today's customers contribute to an unfunded reserve so that if a plant is removed from service in the future, customers will only pay a small portion of the cost at that time. PSC-92-1205-FOF-EI

All of the intergenerational cost matching strategies have not been adverse to current customers. Two recent noteworthy examples have occurred on the TEC system.

The Peabody Coal Buyout. TEC's current fuel adjustment charge contains a surcharge to amortize the cost of buying out the Peabody Coal contract. A lump sum was paid to buy out a take or pay contract so that TEC could lower its fuel costs. To avoid rate shock in one collection period the cost was spread over time to equate the buy out costs with the lower fuel prices.[11] The filings in Docket 960001-EI disclose the 1996 Peabody Coal Surcharge to be about $6 million. Presumably this charge is off set by a comparable reduction in fuel price this year as a result of the buy out.

The Big Bend Phase In. Ms. Townes explained that when the Big Bend 4 Plant came on line in 1986 TEC proposed a method to sell some of

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[11] Townes TR 624

the power to another utility for two years to phase in the cost to rate base. The Commission went further than TEC requested. It imputed $37 Million annually for wholesale sales from that plant to ameliorate the impact of the plant.[12]

What about Polk One. Historically, rate making has caused current customers to provide benefits to future customers less frequently the cost sharing flows the other way. But these time honored regulatory polices approved by the Supreme Court provide a beacon toward a compromise solution in this case that will avoid the prudency review "winner-take-all" problem.

What better time could there be to deal with this subject than at the time of the addition of the Polk plant? Everyone acknowledges that current fuel savings do not match the additional capital costs. A regulatory policy to recognize this circumstance makes sense. Do not assign capital carrying costs for the coal/gas converter to customers until a time closer to the time when these costs come closer to matching fuel savings.

Mr. Falkenburg has shown the way in his testimony. He recommends placing the combined cycle generating portion of the plant in rate base. Phase in the IGCC unit, $191 million, over five years, but let current rate payers pay the full O&M costs and depreciation of the plant and land development costs now. This approach avoids the live or die prudency determination. Although it won't match costs with benefits, it will come close enough for sound regulatory policy.

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[12] Ms Townes TR 627

The FIPUG approach avoids the prudency debate over whose crystal ball is correct as to future divergence between the price for coal and the price for natural gas. More importantly the FIPUG approach gives TEC's management the opportunity to assume some of the responsibility for their management decisions. Customers will still bear 100% of the risk, but they do not have to pick it up until some of the future customers are here to help share the load.

Conclusion

FIPUG agrees to let the Polk One generating portion of the unit go into rate base in full at this time. Phase in the portion of the plant which converts coal or petcoal to synthetic gas over five years. This an approach similar to the one used in 1984 when the Big Bend plant came into operation.

The Commission has an awesome responsibility in weighing it's duty to keep Florida's utility industry healthy and reliable on one side of the balance scale against its duty to treat consumers fairly on the other side of the scale. The proper regulatory treatment of Polk Unit One will achieve that balance. Because this is not a rate case, three quarters of TEC's utility system remains obscure from public scrutiny, but logic dictates that those portions of Polk One which are already in rate base should not be duplicated in the current proceeding. Logic further dictates that land which is no longer useful for utility purposes be taken out of the rate base and that land that will be useful so far in the future that it is beyond the scope of current generation plans should likewise be excluded.

These approaches will protect today's customers, TEC's future customers and allow the utility to remain healthy, successful and reliable.

The next page has a table to show the impact of these recommendations.

FIPUG Regulatory Treatment Recommendation
(000 omitted)

<u>Rate Base Treatment</u>	<u>Dollar impact</u>
TEC Polk One Request	$506,000
CWIP & land already in	(38,128)
Unuseful part of Polk & Manatee Sites	(56,215)
IGCC Unit	(191,000)
<u>1996 Rate Base for Polk Addition</u>	$220,657

Revenue Impact of treatment

Polk expenses added to NOI calculations	$ 22,300
8.2% Return on Polk rate base with tax expansion for equity component	$ 24,754
<u>1997 Revenue required to service Polk</u>	$ 47,055

If $100 million is carried over from 1995 & 1996 and without Polk sustainable revenues approximate $50,000 a year the following happens in 1997.

Refund to customers 96-97	$25,000
95-96 overearnings kept by TEC	$30,000
Polk rate base increases	$38,200

In 1998
Remaining 95 & 96 overearnings $22,000
$55,000 TEC keeps
remainder covers 40% of converter now in rate base with modest additional refund to customers in 1999.

In 1999, customer growth combined with rate base depreciation will obviate the need for rate increase. TEC will not be hurt because it will keep over half of the 95-96 overearnings.

If the entire converter is placed in rate base in 1996, a rate increase will be needed. The increase will not be off set by 1999 fuel savings. TEC keeps 75% of 95-96 overearnings.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of The Florida Industrial Power Users Group's Post-Hearing Statement of Issues and Positions has been furnished by U.S. mail and *Hand Delivery on this 5th day of August 1996 to the following parties of record:

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