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March 4, 2004

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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COMMISSION
CLERK
CONFIDENTIAL

Re: Review of Tampa Electric Company's waterborne transportation contract with
TECO Transport and associated benchmark; FPSC Docket No. 031033-EI

TRANSMITTAL OF CONFIDENTIAL INFORMATION

Dear Ms. Bayo:

Pursuant to a Notice of Intent to Seek Confidential Classification of Information Tampa Electric is simultaneously filing with your office, we enclose a single unredacted confidential version of Tampa Electric's Answers to Staff's Second Set of Interrogatories (Nos. 25, 28, 30, 35, 36, 37 and 38). The confidential information contained in this filing is highlighted in yellow and stamped "CONFIDENTIAL." We would appreciate your maintaining confidential treatment of the enclosed materials.

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.

CONFIDENTIAL
DECLASSIFIED
James D. Beasley
MK 11.26.05 (entire DN)

JDB/pp
Enclosures

RECEIVED & FILED

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

Max
FPSC-BUREAU OF RECORDS

**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Review of Tampa Electric
Company's 2004-2008 Waterborne
Transportation Contract with TECO
Transport and Associated
Benchmark.**

**DOCKET NO. 031033-EI
FILED: March 3, 2004**

CONFIDENTIAL VERSION

**TAMPA ELECTRIC COMPANY'S
ANSWERS TO SECOND SET OF INTERROGATORIES
(NOS. 25, 28, 30, 35, 36, 37, AND 38)
OF
THE FLORIDA PUBLIC SERVICE COMMISSION STAFF**

Tampa Electric files this its Answers to Interrogatories (Nos. 25, 28, 30, 35, 36, 37, and 38) propounded and served on February 17, 2004, by Florida Public Service Commission Staff.

This docketed notice of intent was filed with Confidential Document No. 0318304. The document has been placed in confidential storage pending timely receipt of a request for confidentiality.

declas 11-26-05

**DECLASSIFIED
CONFIDENTIAL**

DOCUMENT NUMBER-DATE

03183 MAR-4 8

FPSC-COMMISSION CLERK

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 25
PAGE 1 OF 1
FILED: MARCH 3, 2004**

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- 25.** Has Tampa Electric analyzed the cost effectiveness of contracting for the delivery of foreign coal from a ship with an adequate draft to approach, dock, and unload coal at Tampa Electric's generating stations?
- A.** Yes. A proposal received in response to Tampa Electric's most recent coal solicitation offered to deliver foreign coal to Tampa. Tampa Electric evaluated the proposal and compared it to the cost of domestic coals, **which reaffirmed the cost-effectiveness of domestic coal and transportation over foreign coal delivered to Tampa.**

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 28
PAGE 1 OF 1
FILED: MARCH 3, 2004**

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28. On page 4 of 5 of Tampa Electric's Bid Solicitation WB-2004, Tampa Electric requires any qualifying terminal to maintain adequate storage for a maximum of 1.4 million tons. Please explain the reasons for this minimum amount. Show calculations, if applicable.
- A. Tampa Electric calculated the terminal storage needs that would be required in the event the company had to react to conditions or events that would prevent or significantly delay Tampa Electric's ability to receive coal shipments, such as a prolonged mining strike or a national "Level Red" terror alert. The table below illustrates the calculation that Tampa Electric used to determine the 1.4 million ton maximum storage requirement that was included in the RFP.

Terminal Capacity Needs	
120 Day inventory	
Summer burn	
Big Bend	15,000
Polk	<u>2,200</u>
	17,200
Max Burn	17,200
<u>Days</u>	<u>120</u>
120 days burn	2,064,000
120 days burn	2,064,000
 Minimum Tampa Inventory (15 Days)	
Max Burn	17,200
<u>Days</u>	<u>15</u>
15 days burn	258,000
Average river in transit tons	200,000
Average Gulf in transit tons	30,000
120 days burn	2,064,000
Less:	
Minimum Tampa Inventory (15 Days)	258,000
Average river in transit tons	200,000
Average Gulf in transit tons	<u>30,000</u>
Inventory Requirement At Davant	1,576,000

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 30
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30. For 2001 through 2003, please provide the number of tons of domestic coal and synfuel burned at Tampa Electric's Polk Station by supplier and river terminal location.

A. The requested information is provided in the table below.

Tons of Coal Burned at Polk Station¹		
Supplier	River Terminal	Tons
2001		
American Coal Sales Company	Powhatan	26,161
Black Beauty Coal Company	Evansville	111,612
Peabody CoalSales Company	Patriot	238,922
RAG Cumberland Resources, LP	Alicia	62,663
2002		
Black Beauty Coal Company	Evansville	93,512
Old Ben Coal Company	Cora	18,347
2003		
Black Beauty Coal Company	Evansville	6,217
American Coal Company	Maple Creek	77,965
Peabody CoalSales Company	Patriot	45,409

¹ There was no synfuel burned at Polk Station in 2001, 2002, or 2003. Polk Station is not currently permitted to burn synfuel.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 35
PAGE 1 OF 1
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35. What cost of capital was embedded in the contract price for coal delivery between Tampa Electric Company and TECO Transport in the contract that expired on December 31, 2003? For purposes of this response, identify the capital structure ratios, cost rates, and weighted average cost of capital.
- A. Tampa Electric's and Mr. Dibner's understanding of the capital-related portions of the analysis utilized in setting market rates for the contract that expired on December 31, 2003 are described below.

Inland River Model

The model used an all-in barge hire rate of \$50 per day, which included insurance, maintenance and repair and bareboat capital.

Ocean Model

The cost of capital used in the model was based on the marginal costs of new equipment to meet the demand to transport more than seven million tons of coal on a steady basis, without expected declines in volume. This resulted in an average cost of capital of 11 percent for non-TECO barges and 10 percent for TECO barges. These return assumptions were determined by market expectations for a large volume of steady business for the duration of the contract term.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 36
PAGE 1 OF 1
FILED: MARCH 3, 2004**

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- 36.** What cost of capital is embedded in the current contract price for coal delivery between Tampa Electric Company and TECO Transport? For purposes of this response, identify the capital structure ratios, cost rates, and weighted average cost of capital.
- A.** The current contract prices are determined by market prices. The responses to Interrogatory Nos. 37 and 38 describe in greater detail the capital items included in the market models.

Inland River Model

Rather than a specific cost of capital, the model used an all-in barge hire rate of **\$50** per day, which included insurance, maintenance and repair and bareboat capital. Of the total **\$50** per day rate, **\$33** is the estimated capital expense. These amounts are shown in cells B34 through C35 of the "MAIN" sheet in the inland river model, which has been available at the annex to the Ausley & McMullen office in Tallahassee since January 14, 2004. The model also used all-in towboat hire rates that are specific to the river traveled and are shown in cells B27 through C31 of the "MAIN" sheet.

Ocean Model

The cost of capital used in the model is shown in cells B15 through F19 of the "MAIN" sheet in the ocean model, which has been available at the annex to the Ausley & McMullen office in Tallahassee since January 14, 2004. The average cost of capital is **12** percent. The return assumption was determined by market expectations to provide transportation services with greater risk than was the case for the previous contract, with a lower volume of business and the potential for significant declines in the volume transported during the contract period.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 37
PAGE 1 OF 1
FILED: MARCH 3, 2004**

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- 37.** Please identify the financial inputs used in the "inland river barge model" discussed on page 30 of witness Brent Dibner's testimony. For purposes of this response, please identify the specific cost of capital, capital structure ratios, cost rate for equity, and cost rate for debt assumed in the model.
- A.** The inland river model is driven off a market barge rate rather than cost of capital. The bareboat barge and towboat rates can be used to estimate the implicit value of a barge. As documented on page 75 of Mr. Dibner's report, the fixed capital cost of the average open hopper barge was set at \$33 per day. On an annualized basis, this would generate approximately \$11,715 per year based on 355 operating days per barge-year. These funds essentially constitute EBITDA, earnings before interest, taxes, and depreciation and amortization. Assuming a blended cost of capital of 50% debt at 8% interest (5.2% after tax cost assuming 35% marginal tax rate) and 50% equity at 15% equity return, the blended cost of capital would be roughly 10.1%. A \$20,000 scrap value is assumed. Using these assumptions, on a 12 year-old hopper barge with a 25-year life, and a 13-year remaining life, has a present value of the barge's cash flow at \$11,715 per year would result in a barge value of approximately \$88,500. This is below depreciated replacement cost and very modest, considering that an open hopper barge halfway through its life would be worth roughly half of \$225,000 or about \$112,500. The assumptions for towboat capital costs are also shown on page 75 of Mr. Dibner's report. By way of example, an 8,400 hp towboat that would cost \$9 million to build today, was assessed at \$49 per hour, or about \$417,000 per year. Assuming a 40-year life, and a 25-year old boat, the same basic assumptions lead to a modest valuation of about \$3.2mm, or about 36% of new construction cost.

**TAMPA ELECTRIC COMPANY
DOCKET NO. 031033-EI
STAFF'S SECOND SET OF INTERROGATORIES
INTERROGATORY NO. 38
PAGE 1 OF 1
FILED: MARCH 3, 2004**

CONFIDENTIAL

- 38.** Please identify the financial inputs used in the "ocean coal transportation model" discussed on page 31 of witness Brent Dibner's testimony. For purposes of this response, identify the specific cost of capital, capital structure ratios, cost rate for equity, and cost rate for debt assumed in the model.
- A.** To the extent that cost of capital earnings were applied, they are set forth in cells B15 through F19 of the "MAIN" sheet in the ocean model. The average cost of capital is **12 percent, based on 50 percent debt and 50 percent equity financing, 18 percent equity target return, and eight percent pre-tax debt rate.** The above-listed assumptions are appropriate for the types of independent operators that would likely bid on the waterborne transportation business, with the risks inherent in that business given the potential decline in volume that could occur with a Consent Decree trigger and the carrier's exposure to operational and technical risks, including the risks of substitute chartering and standby capacity which are not reflected in the model's cost estimates. The equity return is at the low end of target equity returns for maritime investors. The debt return is at the low end of the high-yield/junk debt that is prevalent in the US-flag Jones Act fleet, particularly for older vessels that must be refinanced. The tax shield effects on interest payments were incorporated by the reduction of interest costs by the Federal tax rate at **35 percent.**