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August 17, 2004

Mr. Michael S. Haff
Division of Economic Regulation
State of Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Dear Mr. Haff:

Attached is the response to your supplemental data request for the City of Tallahassee's 2004 Ten Year Site Plan. If you have any questions, please e-mail me at childsv@talgov.com or call me at 891-3122.

Sincerely,

Venus Childs
Planning Engineer

Attachments
cc: GSB

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Planning

1. Illustrate what Tallahassee's generation expansion plan would be as a result of sensitivities to the base case demand and fuel price forecasts. Include the present worth revenue requirements of each sensitivity.

   The City of Tallahassee ("City") did not perform demand and fuel price sensitivities to evaluate their respective impacts on the generation expansion plan reported in the City's 2004 Ten-Year Site Plan (TYSP). However, an analysis was performed to investigate the likelihood of the various risk scenarios and analyze their combined effects by Black & Veatch Consultants as part of the Integrated Resource Planning (IRP) Study completed for the City in the summer of 2002. This analysis will be repeated during the conduct of the City's 2004 IRP Study.

   The make-up of the plan selected in the 2002 IRP Study is similar to that reported in the City's TYSPs for 2002-2004. The results of the risk analysis regarding the plan selected in the 2002 IRP Study provides some insight to that of the expansion plan depicted in the City's 2002-2004 TYSPs. All contain the addition of "quick start" peaking capability followed by additional combined cycle (CC) capability. As the City's analyses have been updated with new information the planned capacity and mix of peaking and CC capability reflected in the 2002-2004 TYSPs has varied from that depicted in the 2002 IRP. Since publishing the 2004 TYSP, the City has made a decision to at least postpone its pursuit of the central station and distributed internal combustion (IC) engines due to persistent concerns related to their emissions and operational flexibility. Instead the City has opted to construct a second GE LM6000 at its Hopkins Plant to replace the formerly planned ICs at Hopkins and Substation 12.

   The risk analysis conducted in the IRP Study was described in the City's response to the FPSC's request for data to supplement the City's 2002 TYSP filing and in Section 14 of the IRP Study, copies of which have been provided to FPSC staff. The impacts on the present worth of revenue requirements (PWRR) of key market (market clearing price (MCP), fuel, and competition) and system risks (transmission capacity and load growth) were analyzed individually and in combination. Based on these analyses, the factors that were determined to contribute most significantly to the City's risks/ opportunities are MCP and transmission capacity. In combination the potential impacts of these two factors are considerably greater than when each factor is considered independently. Changes to long-term fuel prices and load were evaluated as less critical.

   The City is currently limited with regard to its choices of fuels. In consideration of this limitation, the City believes that long-term natural gas and fuel oil prices will continue to be evaluated as less critical factors affecting its risks and opportunities even in light of the increase in current and projected natural gas and oil prices since the completion of the IRP Study. The City has continued to refine its energy risk management strategy in an effort to provide hedges, both physical and financial, against volatility in the markets for natural gas and fuel oils and to expand the diversity of its fuel supply portfolio.

   The most viable means to increased fuel/power supply diversity for the City is through improvements to the City's transmission import capability. Increased import transfer capability translates directly into greater opportunities for the City in the wholesale electric power market. The importance of increased transmission import capability and thus greater market access was evidenced by the aforementioned results of the risk analysis performed in the IRP Study.

   The City is currently pursuing increased market access on several different fronts.

- The "quick start" peaking resources included in the City's generation expansion plan will allow for the displacement of the amount of import transfer capability currently reserved to help offset the City's worst single contingency (loss of largest generating unit).
- The City continues to work with its neighboring electric systems Progress Energy Florida and Southern Company to develop transmission operating procedures and plans for physical transmission additions and improvements.
- The City is involved as a stakeholder in discussions with and the development efforts of the sponsors of the proposed GridFlorida RTO.

In light of the current uncertainty relating to transmission investments connected to, but outside of the City's system, the results of the City's resource planning studies favor local generation alternatives as the means not only to satisfy future power supply requirements but to free up transmission import capability to allow for the diversification of fuel/power supply resources.

2. Fixed/variable costs of natural gas transportation

	Fixed natural transportation costs[1] ($)				Variable natural transportation costs[2]		
	FTS-1	FTS-2	FTS-2		Commodity ($/MMBtu)		Fuel[3]
Year	Phase II	Phase III	Phase V	Total	FTS-1	FTS-2	(%)
2004	7,460,434	5,697,203	787,192	13,944,830	0.0431	0.0214	2.5
2005	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2006	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2007	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2008	7,460,434	5,697,203	787,192	13,944,830	0.0431	0.0214	2.5
2009	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2010	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2011	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5
2012	7,460,434	5,697,203	787,192	13,944,830	0.0431	0.0214	2.5
2013	7,444,322	5,676,336	786,387	13,907,045	0.0431	0.0214	2.5

1 - Natural gas transportation capacity costs. Not included in price forecasts in Attachment A of City's 2004 TYSP.

2 - Commodity and fuel costs included in banded natural gas price forecast provided in Attachment A of City's 2004 TYSP.

3 - Fuel cost effected by reducing scheduled wellhead volumes by 2.5% for pipeline use/compression to establish delivered volumes. Actual cost dependent upon scheduled wellhead volume/price.

Fuel Forecasting

3. Identify different assumptions used between City's and EIA 2004 AEO's fuel price forecasts.

The City of Tallahassee relies primarily on the NYMEX to forecast fuel prices. The NYMEX is the industry standard benchmark for fuel pricing, forecasting and contract indexing. Whenever the City receives price quotes for fuels, our suppliers back their positions in the financial markets (NYMEX) to lock in their cost and secure their margins. For that reason, all of the bonafide bids the City receives for fuel supply mirror the NYMEX. Indexing to the NYMEX is very transparent for both buyers and sellers and provides a central clearing house for most transactions. Because all of the bids Tallahassee receives for fuel supply are based on the NYMEX we believe this is the most accurate indicator of future fuel costs. Based on a review of the EIA report they do not appear to use NYMEX for any of their analysis instead relying on their own independent research with emphasis on usage forecasts, production growth, imports, technological advances, reserve projections and various macroeconomic indicators. The difference in forecasting methods typically results in an EIA forecast below the NYMEX. To illustrate this difference, the EIA report identified in your question and published in January 2004, had an average wellhead price of $3.90 for 2004-2008, while the NYMEX prices taken from the same month have an average wellhead price of $5.11. This same basic difference between and EIA forecast and the City's forecast apply to all fuels.