

060658-EI

# REDACTED PORTIONS OF ALBERT PITCHER DIRECT TESTIMONY

CMP \_\_\_\_\_  
COM 5  
CTR orig.  
ECR \_\_\_\_\_  
GCL 1  
OPC \_\_\_\_\_  
RCA \_\_\_\_\_  
SCR \_\_\_\_\_  
SGA \_\_\_\_\_  
SEC 1  
OTH 1 comp  
records

DOCUMENT NUMBER-DATE

00407 JAN 16 5

FEDERAL BUREAU OF INVESTIGATION

1 Q. What is the evaluated or busbar cost analysis?

2 A. The evaluated or busbar cost analysis is based on an Electric Power Research Institute  
3 (“EPRI”) Coal Quality Impact computer Model (“CQIM”) that assesses the  
4 performance of the coal in the boilers of CR1, CR2, CR4, and CR5. The EPRI CQIM  
5 model was developed by Black & Veatch and is recognized as an industry standard for  
6 coal procurement evaluations. The characteristics of the coal offered in the bid are  
7 inputs into the model and the outputs are the model’s assessment of the cost impacts to  
8 the Company if coal with the quality characteristics of that coal is burned in the  
9 respective units’ boilers.

10 The model assessment of the cost impacts of variations in the quality of the  
11 coal in the bid from the standard specification is a “black box” to PFC. The cost  
12 impacts were developed by Black & Veatch based on industry standard cost impacts.  
13 The coal quality characteristics considered in the model for bid evaluation purposes  
14 are the ash, BTU, sulfur, moisture, and volatile content characteristics of the coal. The  
15 evaluated cost output includes the delivered cost plus an assessment for variations  
16 from the standard specification for ash [REDACTED] BTU [REDACTED]  
17 [REDACTED], sulfur (based upon current SO2 allowance prices) below the  
18 1.2lbs. SO2 maximum allowed for CR4 and CR5 and lower SO2 than the allowed  
19 1.5lbs. SO2 to 2.1lbs. SO2 for CR1 and CR2, moisture [REDACTED], and  
20 volatile content [REDACTED]. Another way to look at the evaluated or busbar  
21 cost analysis is that it is a “paper” test burn of the coal in the units’ boilers.  
22

# **PORTIONS OF AWP-6**

Because of the strength of the current market, we only purchased for 2005 and 2006. Our plan is to watch the market, and re-enter for both spot and contract coal during late 2004 and early 2005. I have enclosed with this memo the purchases and the economic evaluation from the RFP (See Attachment "A"), a Supply Assessment for 2005 and 2006 (See Attachment "B"), and the 2005 and 2006 scheduled purchases including their economic evaluations (See Attachment "C").

As always, we attempted to improve the economics, as compared to the prices offered, while increasing the tonnage purchased and the term offered.

### **2005-2006 PURCHASES**

#### FOREIGN WATER

Choice:

- During the latter part of March and early April, we began negotiations with Drummond for an extension of our 2004 agreement. This decision was made because all indicators pointed to the beginning of another round of price increases and supply shortages for both domestic and foreign coals. We purchased 800,000 tons for 2005 and 1 million tons for 2006 from Drummond's Mina Pribbenow mines; this is "Delta" coal. The delivered cost to Crystal River (CR) is [REDACTED] \$/MMBTU and [REDACTED] \$/MMBTU, respectively.

No additional purchases were made for foreign coal from the RFP because the prices submitted from other foreign suppliers were not competitive. Their prices ranged from 2.828 to 2.948 \$/MMBTU. These prices compared to 2.672 to 3.082 \$/MMBTU, for offers from the domestic suppliers.

Explanation:

During 2004, we began shipments of Drummond's Colombian coal. The results economically, environmentally, and operationally have been excellent. This coal, besides being very low in ash and sulfur, reduces NO<sub>x</sub> emissions by almost 25%. This purchase will assist CR in achieving their NO<sub>x</sub> goals, while providing them with a competitively priced product.

#### DOMESTIC WATER

Choices:

- We purchased "Delta" coal from two suppliers for delivery on the river system. We were offered and purchased 300,000 tons per year for 2005 and 2006 from Central Coal Company. This "Delta" coal will ship via truck to the Kanawha River and will deliver into CR at [REDACTED] \$/MMBTU. We also purchased 360,000 and 180,000 tons of "Delta" coal for 2005 and 2006 from Massey Energy. This coal will be rail-delivered to the Ohio River, and it will deliver into CR at [REDACTED] \$/MMBTU.

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Explanation:

- We have had previous experience with both of these suppliers and are very satisfied they will meet or exceed the specifications bid.

DOMESTIC RAIL

Choices:

- We purchased "Delta" coal from two companies and "Alpha" coal from three others. We have previous experience with three of the suppliers and have added two new companies.

"DELTA COAL"

We purchased 360,000 for 2005 and 180,000 tons for 2006 from Massey Energy. This coal will deliver into CR at \$ [REDACTED] /MMBTU. We also purchased 360,000 each year from Progress Fuels-Marketing and Trading. This product will deliver into CR at [REDACTED] \$/MMBTU.

"ALPHA COAL"

We purchased 720,000 tons for 2005 and 360,000 for 2006 from Massey Energy. This coal will deliver into CR at [REDACTED] \$/MMBTU. We purchased 120,000 tons for 2005 and 240,000 tons for 2006 from Sequoia Energy LLC. This coal will deliver into CR at [REDACTED] \$/MMBTU. Also, we purchased 240,000 tons for each year (2005 and 2006) from B&W Resources. This coal will deliver into CR at [REDACTED] \$/MMBTU.

Explanation:

- Massey Energy has been a consistently reliable supplier over the past 20 years. Progress Fuels-Marketing & Trading has very good quality coal and a reliable track record. Because of the shortage of coals in the Central Appalachian region, we felt it imperative to add to our base of suppliers. Both Sequoia Energy and B&W Resources will fulfill this need. Prior to contracting with them we had our field representative visit their mining operations, and we called other utility buyers to verify their performance. No problems were noted in either case.

**2004 RE-OPENERS**

We have only one contract with a re-opener during 2004. Consol Energy (Consol) has a price, quantity, and terms re-opener, which needs to be completed by November 1, 2004. We have already had several discussions with Consol regarding tonnage for next year. Current estimates are that they will have 750,000 to 1 million tons to offer. The current contract is for 1 million tons.

PROGRESS FUELS CORPORATION

CR Units 1,2, 4 and 5

PURCHASES from

2005-2006

RFP

CORRECTED COPY

Attachment A

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														(000)		Evaluated		
Supplier	Coal Type	Term	Origin	Total Tons	2005 Tons	2006 Tons	Purchase Specifications				Min	Max	Cash Cost \$/St	Cash Cost \$/M	Utilized Cost \$/St	Utilized Cost \$/M		
							Ash	Sulfur	Btu	Moisture	Vol	HGI	SO2	SO2				
<i>Water</i>																		
Drummond / InterOcean	D (CR4&5)	1/05-12/06	FOB Mobile	1800	800	1000	5.50%	0.70%	11,700	14.00%	32.00%	43		1.20				
Central Coal Co.	D (CR4&5)	1/05-12/06	Winifred Dock	600	300	300	12.00%	0.74%	12,300	8.00%	31.00%	42		1.20				
Massey	D (CR4&5)	1/05-6/06	FOB Ceredo	540	360	180	13.00%	0.73%	12,100	8.00%	31.00%	42		1.20				
<i>Rail</i>																		
Massey	D (CR4&5)	1/05-6/06	Bandmill	540	360	180	12.00%	0.73%	12,100	8.00%	31.00%	42		1.20				
Progress Fuels	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20				
Sequoia Energy LLC	A (CR1&2)	1/05-12/06	CSX Harlan	360	120	240	10.00%	1.34%	12,700	8.00%	31.00%	42	1.50	2.10				
Massey	A (CR1&2)	1/05-6/06	CSX BS	1080	720	360	12.00%	1.27%	12,100	8.00%	31.00%	42	1.50	2.10				
B&W Resources	A (CR1&2)	1/05-12/06	CSX Jellico	480	240	240	11.50%	1.25%	12,500	7.00%	32.00%	42	1.50	2.00				
Total Tons				4320	2460	1860												

PROGRESS FUELS CORPORATION

CR Units 1, 2, 4 and 5

PURCHASES from

2005-2006

RFP

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Attachment A

Supplier	Coal Type	Term	Origin	(000)			Purchase Specifications								Min	Max	Cash Cost \$/st	Cash Cost \$/M	Evaluated Utilized Cost \$/st	Evaluated Utilized Cost \$/M
				Total Tons	2005 Tons	2006 Tons	Ash	Sulfur	Btu	Moisture	Vol	HGI	SO2	SO2						
<i>Water</i>																				
Drummond / InterOcean	D (CR4&5)	1/05-12/06	FOB Mobile	1800	800	1000	5.50%	0.70%	11,700	14.00%	32.00%	43		1.20						
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Massey	D (CR4&5)	1/05-6/06	Bandmill	540	360	180	12.00%	0.73%	12,100	8.00%	31.00%	42		1.20						
Progress Fuels	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20						
CAM-KY	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20						
Sequoia Energy LLC	A (CR1&2)	1/05-12/06	CSX Harlan	360	120	240	10.00%	1.34%	12,700	8.00%	31.00%	42	1.50	2.10						
Massey	A (CR1&2)	1/05-6/06	CSX BS	1080	720	360	12.00%	1.27%	12,100	8.00%	31.00%	42	1.50	2.10						
B&W Resources	A (CR1&2)	1/05-12/06	CSX Jennco	480	240	240	11.50%	1.25%	12,500	7.00%	32.00%	42	1.50	2.00						
Total Tons				5040	2820	2220														