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KEN PRUITT
President of the Senate

MARCO RUBIO
Speaker of the House of Representatives

STATE OF FLORIDA
OFFICE OF PUBLIC COUNSEL

c/o THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
ROOM 812
TALLAHASSEE, FLORIDA 32399-1400
850-488-9330

EMAIL: OPC_WEBSITE@LEG.STATE.FL.US
WWW.FLORIDAOPC.GOV

Harold McLean
Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

March 6, 2007

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Re: Docket No. 060658-EI

Dear Ms. Bayo:

I am enclosing, for filing and appropriate distribution, the rebuttal testimony of the following witnesses for the Citizens of the State of Florida:

Joseph A. Barsin 02055-07
Robert S. Sansom 02050-07
David J. Putman 02051-07
Todd H. Bohrmann 02052-07
Stephen Smallwood, P.E. 02053-07
Dan Lawton 02054-07

Mr. Sansom's testimony includes one exhibit, RS-35, that contains material claimed by Progress Energy Florida Inc. to be confidential. To provide PEF with an adequate opportunity to review the exhibit and file a Notice of Intent to seek confidential status, Counsel for PEF and I agreed that we will file only the redacted version today. We will file the confidential version simultaneously with the filing of a Notice of Intent.

Thank you for your assistance.

Yours truly,

Joseph A. McGlothlin

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition on behalf of Citizens of the State of Florida to require Progress Energy Florida, Inc. to refund customers $143 million	)	DOCKET NO. 060658-EI
	)	March 6, 2007

REBUTTAL TESTIMONY OF ROBERT L. SANSOM

Harold McLean
Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400

Attorney for the Citizens
of the State of Florida

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 060658-EI

REBUTTAL TESTIMONY OF ROBERT L. SANSOM

ON BEHALF OF CITIZENS OF THE STATE OF FLORIDA

Q. Please state your name and business address.

A. My name is Robert L. Sansom. I am President of Energy Ventures Analysis, Inc. My business address is 1901 N. Moore Street, Suite 1200, Arlington, VA 22209.

Q. Did you file Direct Testimony in this case on October 19, 2005?

A. Yes.

Q. What is the purpose of your Rebuttal Testimony?

A. To reply to the testimonies filed on behalf of PEF by Witnesses Davis, Pitcher, Weintraub, Heller, Hatt, Dean, Kennedy, Felter, and Franke. I also reply to the testimony filed by Staff Witness Windham.

Q. Has any of the testimony filed by PEF caused you in any way to reduce or consider reducing the $134.5 million of overpayments (exclusive of interest) you originally estimated were incurred by PEF's ratepayers because of the imprudent 1996-2005 coal procurement policies of PEF?

A. No. If anything the overpayments are greater than I originally estimated.

Summary Points Regarding PEF Witness Heller

Q. Mr. Heller, PEF's rebuttal witness, testifies that PEF's actions saved PEF ratepayers fuel costs. Do you agree?

A. No. Mr. Heller's analysis is fundamentally flawed.

Q. Please summarize the flaws in Mr. Heller's analysis.

A. The Commission should not give Mr. Heller's analysis any weight for the following reasons:

1. He uses Mr. Hatt's flawed work as a basic input to his opinions and financial analysis and makes invalid CR 4 and CR 5 coal quality performance findings, while ignoring the engineering work of B&V, B&W, S&L and PEF's own engineers, including Dan Donochod.
2. His estimates of the cost of PRB coal delivered to CR 4 and CR 5 ignore actual bids for PRB coal received by PEF in 2003 and 2004 and PEF's evaluation thereof.
3. His analysis of barge and transloading rates ignores real bids and transactions in favor of "assumed methodologies" that give results that are inconsistent with actual transactions and bids.
4. He did not even consider the PRB rail route to CR 4 and CR 5 via Mobile, Alabama or by all rail to Crystal River; rather, he assumed so-called "Waterborne Proxy" rates via IMT would apply, when no such rates for PRB coal have been established or approved by the FPSC.
5. He assumes contractual constraints on the tonnage of PRB coal that can be delivered by water to CR 4 and CR 5 that ignore the favorable economics of moving these CAPP coal contracts from the water to the all-rail route. These facts were even recognized by PEF.
6. He buys into the myth that in the 1990's PRB bidders would not provide bids to PFC for shipment to CR 4 and CR 5 without providing any plausible explanation, and he apparently accepted PEF's erroneous view of the October 15, 1998

Kennecott letter without ever reading it. See PEF's Responses to OPC's Fifth Set of Interrogatories Nos. 48-51.

7. He assumes, p. 31 lines 1-8, PRB coal would be blended with bituminous coal at IMT, in contradiction to the capability to blend at, and the favorable economics of blending at, Crystal River.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. I am sponsoring the following exhibits:

- Rebuttal Exhibit No. ____ (RS-30) PRB Analysis Regulated Coal by PFC's Dennis Edwards which is an October Estimate of 1996 EFC Affiliate Profits.
- Rebuttal Exhibit No. ____ (RS-31), an Affiliates Profit Table.
- Rebuttal Exhibit No. ____ (RS-32): Back Calculated FOB Mine Prices from Exhibit DMD-13, p. 1.
- Rebuttal Exhibit No. ____ (RS-33): Davis/Heller Rates v. Market Rates.
- Rebuttal Exhibit No. ____ (RS-34): Transportation Miles.
- Rebuttal Exhibit No. ____ (RS-35): Bids by western railroads to ship PRB coal to Mobile and river docks. **[CONFIDENTIAL]**
- Rebuttal Exhibit No. ____ (RS-36): October 15, 1998 Kennecott letter offering PRB coal to PFC.
- Rebuttal Exhibit No. ____ (RS-37): 41 Plants East of Mississippi River Using PRB Coal in 1996.
- Rebuttal Exhibit No. ____ (RS-38): TECO data on PRB Prices.
- Rebuttal Exhibit No. ____ (RS-39): September 14, 2004 email from Mr. Pitcher Spot Barge Purchases declaring Massey coal is more economical if moved by direct rail to Crystal River.

- Rebuttal Exhibit No. ____ (RS-40): Sansom Photographs From February 22, 2007 Visit to Crystal River plant.
- Rebuttal Exhibit No. ____ (RS-41): Crystal River Coal Yard Layout.
- Rebuttal Exhibit No. ____ (RS-42): PE's notes on a 2005 conversation with Mr. Hatt.
- Rebuttal Exhibit No. ____ (RS-43): 2004 PRB Bid Quantities to PFC for 2005-2007 Coal.
- Rebuttal Exhibit No. ____ (RS-44): PRB SO_2 Emissions vs. CAPP SO_2 Emissions.
- Rebuttal Exhibit No. ____ (RS-45): Revised SO_2 Overpayments of Ratepayers by Sansom.
- Rebuttal Exhibit No. ____ (RS-46): Proposed Agenda March 2005 PFC Synfuels Meeting with Davis and Weintraub participating.
- Rebuttal Exhibit No. ____ (RS-47): Mr. Pitcher's 2001 Black Hawk Synfuels Offer to Mr. Edwards.
- Rebuttal Exhibit No. ____ (RS-48): Undated PFC Marketing and Trading "Indication of Product Availability".

Reply To Davis and Heller On So Called "Market" And "Waterborne Proxy" Rates For PRB Coal Movements

Q. Do you have any reactions to the testimony of Ms. Donna M. Davis filed by PEF on January 16, 2007 in response to your October 19, 2006 testimony on PRB delivered fuel costs?

A. Yes. In response to PEF Witness Davis, I would point out that she has offered no evidence to refute my finding that due to PEF's affiliate bias it favored CAPP coal via IMT to CR 4 and CR 5 from 1996-2002 when it was more expensive than PRB or imported coal. In fact, she offers evidence to the contrary. Prudence determinations are made on the basis of what was known or should have been known at the time procurement decisions were made. Witness Davis, who addresses PEF procurement during the Dennis Edwards era of 1996-2002, offers good 1998 evidence (DMD-14, p. 2) that Mr. Edwards believed PRB coal would be the most economical choice "by about 2000 (my guess)" via the water route to CR 4 and CR 5. She also provides a 1999 document (DMD-15, p. 1) which projects PRB will be less expensive than CAPP coal in 2003. There is no evidence in all of Mr. Edward's documents that he believed CR 4 and CR 5 could not, for technical reasons or for environmental permitting reasons, burn a 50% PRB blend. He expected PRB coal to compete with imported coal by water and displace CAPP coal via the affiliate dominated water route in that role.

Q. Provide the full text of Mr. Edward's 1998 statement.

A. The February 9, 1998 Edward's statement (at Exhibit DMD-9 p. 11) was: "In addition to these costs, I believe we should recognize that we will in all likelihood, be using Powder River Basin coals at CR 4 and CR 5 by about 2000 (my guess). Since these coals and others like South American, best move to Crystal River by water and are generally "compliance" grade, we would likely switch back to "D" water at this time in any event."

Q. Were CAPP and PRB markets the same from 1996 through 2000?

A. Yes. This is evident for 1996-2000 if one compares Mr. Heller's Exhibit JNH-2 p. 1 of 1 for PRB prices with the left most column of JNH-7 for CAPP coal prices. They were

almost unchanged for these five years. Therefore Mr. Edwards' 1998 forecast for 2000 applied to 1996-1999 as well.

Q. Then why would Mr. Edwards find PRB likely to be the best option in 2000 (in a 1998 document) and not in 1998 or in 1996.

A. There would have been no reason if the purpose of PFC's procurement had been the procurement of low cost coal supplies for the benefit of customers. But that was not PFC's purpose. PFC had another agenda. That agenda can be found in the October 1996 EFC/PFC document at DMD-13 p. 2 of 26, provided here for convenience as Rebuttal Exhibit No. ___ (RS-30). PFC had a conflict of interest. Affiliate interests favored CAPP coal, while ratepayer interests favored PRB coal. Apparently Mr. Edwards's boss, Mr. Carter, was interested in maximizing affiliate profits, even if it cost ratepayers millions of dollars per year.

Q. How does DMD-13 p. 1 or 2 of 26 show this bias?

A. It shows that PEF affiliates were making $7.04/ton in profits plus whatever profits or avoided losses applied to "DMCC" [Diamond May Coal Company] on CAPP coal via the river route.

Q. Explain how it shows this.

A. On the left side of DMD-13 1 or 2 of 26 is information that I have summarized at Rebuttal Exhibit No. ____ (RS-31).

Q. How many tons did PFC move via IMT in 1996?

A. 1,958,2000 tons according to PEF's filings at FERC.

Q. So how much were they making in 1996 on water route coal?

A. $7.04/ton times 1,958,200 tons or $13.7 million.

Q. Doesn't the right side of DMD-13 1 of 26 show PEF's affiliates could make even more (less $/ton but on more tons) moving PRB coal to CR 4 and CR 5 via Mobile?

A. In this example prepared by Mr. Edwards, it shows more profits on PRB coal, but apparently PEF realized that the PFC "Waterborne Proxy" did not apply to PRB coal via Mobile, Alabama, as the analysis for PRB coal assumes. Second, Mr. Edwards' PRB calculations include a mistaken margin of $1.20/ton (or $1.70/ton on 340,000 tons) to MEMCO which would not be recovered, as a river barge rate, on an all-rail movement to Mobile, Alabama. Nor does he deduct the $1.20/ton paid to MEMCO (apparently a "take or pay" penalty because PRB coal moving by rail to Mobile, Alabama would not use MEMCO's river barges) from the "market" or assumed waterborne proxy. Third, the calculation mistakenly assumes PEF's waterborne proxy rate for transloading at affiliate IMT would apply to transloading at McDuffie, AL, giving it another profit center. Fourth, not shown but recognized by Mr. Edwards in Rebuttal Exhibit No. ____ (RS-30) after DMCC was that PFC's coal producing affiliates were losing large amounts of money, and would lose more without EFC's captive affiliate market. Fifth and finally, the calculation assumes CAPP coal could be delivered for $1.822/MMBtu like PRB coal, but the actual PFC procurement of CAPP coal was much more expensive. So Edwards' calculations did not account for the financial damage PRB use would cause EFC's affiliate companies, and assumed, wrongly. that CAPP coal could be delivered as inexpensively as PRB coal. Regarding affiliates, PFC's coal producing affiliates, in 1996 took a $25.5 million charge against earnings, offsetting the $27.1 million PFC reported making on its transportation affiliates. See Coal Outlook, April 21, 1997 and February 3, 1997. FPC's money losing coal companies frequently obtained business from PFC,

including deliveries via the expensive water route. See Coal Week April 1, 1996 p. 1 and Coal Week, June 3, 1996.

Q. Can you simplify what is going on in these calculations?

A. Yes. Mr. Edwards, as his documents at DMD-15 in February 1999 and DMD-14 p. 2 in February 1998 as well as in this document (DMD-13), recognized PRB coal's potential at CR 4 and CR 5, delivered all-rail to Mobile and by Gulf barge to Crystal River. While his affiliate profit calculation of $7.04/ton plus DMCC's profits or reduced losses on moving CAPP coal via IMT was real, his PRB calculation was a "straw man" based on many invalid assumptions. Responding to our discovery request for accompanying documents, PEF found none. Therefore they were either destroyed or his calculations received no attention and spurred no action.

Q. What about Mr. Edwards' assumption in Exhibit DMD-13 p. 1 that in 1996 both the CAPP and PRB prices would be delivered to CR 4 and CR 5 at the same $1.822/MMBtu?

A. The assumption in DMD-13 p. 1 of a $1.822/MMBtu delivered price was realistic for PRB coal, but it was an invalid assumption for CAPP coal. See Direct Exhibit No. ____ (RS-19) where the year 2000 delivered PRB price to CR 4 and CR 5 would have been $1.81/MMBtu vs. actual CAPP coal/synfuels which was delivered for $1.95/MMBtu. This conclusion holds for 1996-1999 too as is shown in Direct Exhibit No. ____ (RS-21) which shows delivered CAPP coal prices to IMT in 2000 were the lowest of the 1996-2000 years, meaning CAPP coal in 1996 would have been more expensive relative to PRB coal. Therefore the assumed, by Mr. Edwards, delivered CAPP coal price of $1.822/MMBtu was not consistent with PEF's actual purchases of this coal.

Q. Have you shown the implicit F.O.B. mine prices in Exhibit DMD-13, p. 1?

A. Yes. They are at Rebuttal Exhibit No. ____ (RS-32).

Q. Why do you say the Waterborne Proxy would not have applied to a PRB coal movement?

A. The 9/13/93 FPSC Order PSC-93-1331-FOF-EI in Docket No. 930001-EI (p. 5) is applicable to a move from up-river docks via river barges, none of which would be involved in a PRB coal movement by rail to Mobile, Alabama.

Q. Was this Waterborne Proxy ever found to be applicable to other coal markets?

A. Yes, when EFC brought imported coal to CR 4 and CR 5 via IMT, it negotiated a specific waterborne proxy for that movement.

Q. Why couldn't PEF/PFC have achieved a "waterborne proxy" for PRB coal movements as Davis and Heller contend?

A. Ms. Davis at pp 30-33 and Mr. Heller at the bottom of p. 29 argue that a waterborne proxy could have been negotiated for or applied to PRB movements. But had PEF sought such a proxy, it would have risked losing $14 million/year, and the PSC would have realized PRB coal via Mobile could have been delivered for less than the price of CAPP coal via IMT. The FPSC would have seen that PFC was making millions of dollars per year charging non-market prices on CAPP coal via the affiliate water route that could not be charged to ratepayers had the Mobile route been used, or had the IMT route been forced to compete with the Mobile route.

Q. And PEF/PFC never approached the Commission with a PRB waterborne proxy proposal?

A. No. This makes the affiliate accounting on the right side of DMD-13, (because of the assumed delivered price equivalency of CAPP and PRB coal and because of the assumed waterborne proxy for PRB coal), a purely hypothetical exercise, while the left side of

DMD-13 represented real profits to the water transportation affiliates of FPC and fewer losses on its coal operations.

Q. Isn't PEF's key Exhibit DMD-4 which is repeated as JNH-4? Isn't this Witness Davis' basis for saying PRB coal was considered and economically rejected?

A. This is a critical PEF exhibit. Ms. Davis opines on it from p. 32 to p. 33. Mr. Heller even claims the waterborne rates in it are too low. His PRB water transportation rate estimates are even higher than DMD-4's assumed rates (see Heller pp. 29-30)

Q. What is wrong with Exhibit DMD-4?

A. It is not based on transactions, bids, or reliable market data, ignores the route via Mobile, Alabama, and assumes for the water route via IMT (New Orleans) that a PRB waterborne proxy on PEF's terms was or could be obtained.

Q. How do the "calculated" rates in DMD-4/JNH-4, a 1997 document, compare with market rates?

A. Not very well, as I show in Rebuttal Exhibit No. ____ (RS-33). In summary, only if one picks the wrong origin (Cora vs. Cook), assumes a waterborne proxy rather than market rates, assumes a mileage ratio method to adjust the assumed waterborne proxy, and ignores the effect of competition from the all-rail route to CR or the route via Mobile Alabama, does one gets a number in Mr. Heller's or Ms. Davis' range. But these are self serving assumptions and "assumed" numbers, not numbers based on market transactions, bids, or on FPSC rulings.

Q. Did Mr. Heller consider the Mobile route or the all-rail route for PRB coal?

A. No. (See Response to OPC's 5th Set of Interrogatories, Question 44.)

Q. Do you agree with Mr. Heller's FOB mine prices for PRB coal at Exhibit No. ____ JNH-6, p. 1 of 1 Column 1 and at JNH-2?

A. Yes. I checked actual transactions and they confirm Mr. Heller's PRB spot prices. For example, in February 2000 TECO, on its FPSC 423, reported a $4.55/ton FOB spot price vs. Heller's 2000 PRB spot price of $4.54. Apparently the source for his FOB mine PRB prices in JNH-2 (not identified) relies on market transactions.

Q. In your earlier testimony you said (p. 39, line 5: "I believe coal via McDuffie at Mobile would have been the most economic [route for PRB coal]." See pp 39-40. See also Direct Exhibit No. ____ (RS-20) and the map at Direct Exhibit No. ____ (RS-17). Do these newly produced PEF documents by Ms. Davis confirm your opinion?

A. Yes, I had not seen Mr. Edwards' documents (at DMD-13 and DMD-15 p. 1 of 1) which show he believed Mobile by rail was the likely route for PRB coal to the Gulf.

Q. What mileages are involved?

A. The haul distance for PRB coal from the PRB to CR4 and CR5 via Mobile, Alabama docks is <u>less</u> than the haul distance for PEF purchased CAPP coal and synfuels for CR4 and CR5 via IMT at New Orleans. See the mileages for each route at Rebuttal Exhibit No. ____ (RS-34).

Further, the IMT route involves approximately a 21 day transit time from the mine to IMT, vs. about five to six days from the PRB by rail to Mobile. Plus, the IMT route requires two transloadings and potential storage at docks, while the PRB-to-Mobile route involves only one transloading step.

Q. How does the delivered price of PRB coal via Mobile compare to Mr. Heller's estimate of the delivered PRB price via IMT?

A. The delivered price of PRB coal via Mobile was less expensive because of the affiliate dominated charges for moving PRB coal via IMT as assumed by PEF's witness Heller (compare Exhibit No. JNH-6 page 1 of 1, column (7) and with Direct Exhibit No. ___ RS-20, which uses non-affiliate pricing). My delivered PRB price via Mobile was $1.91/MMBtu. Heller's delivered PRB price via IMT (for 2003) was $2.42/MMBtu. My estimated PRB price delivered via IMT in 2003 was $1.99/MMBtu. (See Direct Exhibit No. _____ (RS-19).) I used my IMT estimate rather than my Mobile estimate to calculate overcharges. Had I used the Mobile route, the overcharges would have been greater by a significant amount.

Q. What are the underlying differences?

A. FPSC Orders do not establish water route proxy transportation rates for PRB coal, nor do I agree with (nor did the FPSC ever accept) the Heller/Davis "water proxy", mileage pro-rate method for estimating barge rates as assumed in DMD-4 and JNH-4 and supported by Heller (pp 29-30).

Q. What would be the effect of Heller's assumptions?

A. The use of Heller and DMD-4 assumptions for river route and IMT pricing make the PRB rail route to Mobile, Alabama, then by ocean barge, the most economical route for PRB coal to travel to CR4 and CR5. The TECO-to-Davant barge rate that I implicitly used by relying on TECO's PRB delivered prices to Davant for 1996-2002 is sufficient to cover both the Cook-to-IMT barge rate (established in FPSC Order PSC-04-0999-FOF-EI p.17, as $3.60/ton in 2001 and $3.75/ton in 2004) and "market" transloading costs at IMT, $1.50 to $1.80/ton. See DMD-20 Column C for "TEC" for TECO's river barge

rates which exceed the FPSC's established market rate by a wide margin. Heller "estimates" a market transloading rate at about $1.00/ton at a PRB rail to river transloading dock (Cora) for 2003 (see Exhibit ___ JNH-6, Column 3). Heller assumes, in contradiction to his own "market" transloading rate in Column 3, that PEF affiliate IMT would receive for "transloading and blending" from PEFs ratepayers six times that amount or $6.01/ton in 2003 to transload at IMT, in Column 5. Blending would not have been required at IMT. Moreover, Heller's assumed IMT rate is also in contradiction to the "market rate" IMT bid to TECO as reviewed and approved by the FPSC in Docket No. 031033-EI. Further, PEF's 2005 IMT transfer rate, which results from a market solicitation (see PEF's Confidential response to Citizen's second set of Interrogatories (No.'s 6-14) at p. 4 in Docket No. 05001-EI), shows New Orleans transloading at market pricing is a fraction of Mr. Heller's "assumed" rate.

Q. Please summarize why you believe the $/MMBtu PRB delivered prices estimated by DMD-4 and Heller are so much higher than your estimate ($2.42/MMBtu in 2003 vs. your $1.91/MMBtu in Direct Exhibit No. ____ (RS-20))?

A. PEF witnesses, Davis relying on DMD-4 and Heller, ignore the following:

1. The FPSC never approved a "waterborne proxy" for affiliate movement of PRB coal via affiliate river barges and IMT (or anywhere).
2. The fact that barge tows on the Cook to IMT haul are 35-40 barges/tow vs. 15 barges/tow on the Ohio River and the numerous locks along the Ohio River vs. a one-lock Cook Terminal to New Orleans movement, make the mileage pro-rate method inaccurate.

3. The FPSC's Order PSC-04-0999-FOF-EI establishes 2001 and 2003 Cook-to-IMT rates using market transactions. These rates contradict Heller's and Davis' numbers.

4. The role of the Mobile, Alabama route (which PEF witness Heller ignored), as the most economical route, makes it a market cap on PRB via the rail-to-Cook and water-to-IMT route. It would be very difficult for the PRB-to-Cook-to-IMT-to-CR-4/5 route of 2,640 miles to prevail in head-to-head competition with a 2,042 mile all rail to Mobile, Alabama (McDuffie), and ocean barge movement to CR 4 and CR 5. Using Mr. Heller's "assumed" affiliate numbers and Cora, instead of Cook, rail to water transloading point would insure that the all rail route to Mobile won PEF's PRB business, not PEF's "affiliates" at Heller assumed pricing. The BNSF's bids to PEF for 2002 and 2003 support this conclusion, not to mention BNSF's rail rates to the Scherer (with the NS) and Miller (an all BNSF haul) plants. (See confidential Rebuttal Exhibit No. ____ (RS-35) herewith for rail bids to PEF for PRB coal.)

Q. Do these new PFC documents or others, provided by Ms. Davis cause you to change in any way your estimate of the delivered price of PRB coal to CR 4 and CR 5 for 1996-2005?

A. No. By using the Davant (TECO) delivered price to New Orleans which incorporates an above market TECO affiliate barge rate (as confirmed by the FPSC's October 12, 2004 Order referenced above), my estimate of ratepayer overpayments is, if anything, too low. Alternatively, had I used the Mobile route for PRB coal to CR4 and CR5 instead of via New Orleans (which implicitly I do by using TECO's delivered PRB price), the overpayments by the ratepayers due to PEF's imprudence would be even higher.

Reply To Davis, Weintraub, And Heller On The Kennecott Letter And PRB Coal Availability East Of The Mississippi?

Q. PEF witness Davis (pages 36, 38, and 55) alleges PRB coal producer Kennecott in 1998 "expressly declined to make a proposal, and we received no proposals from any other subbituminous coal supplier." PEF expert witness Heller (top of p. 21) repeats these assertions. What is your response? For the Kennecott letter see Exhibit DMD-5, p. 21 of 21, attached here for convenience at Rebuttal Exhibit No. ____ (RS-36).

A. These are truly amazing assertions that conflict with the language in Kennecott's letter. Kennecott's letter at Exhibit DMD-5 offers "8400 to 9400 Btu/lb" PRB coal and Colorado coal. It says (see Exhibit DMD-5): "Our current coal portfolio is comprised of subbituminous Powder River Basin coals, with a heating value ranging from 8,400 to 9,400 Btu/lb and a Colorado coal with a heating value of 10,500 Btu." [Emphasis not in the original.]

Q. Doesn't PEF's summary bid response sheet at Exhibit DMD-5 p. 10 of 21 show alongside "Kennecott" the statement "Letter of Decline"?

A. Yes. This should have read "Letter to Decline" to provide CAPP coal. In 1998 Kennecott owned the Jacobs Ranch, Spring Creek and Codero Rojo PRB mines. It also owned 50% of a fourth PRB mine, the Decker mine. As Ms. Davis herself testifies (p. 55), TECO was able to buy spot PRB coal from Kennecott in 1998. Again, PEF was imprudent.

Q. Do you believe PRB producers would refuse to offer coal to PEF in the 1996 to 2000 period?

A. Of course not. PRB producers had excess capacity and were bidding to all interested buyers. Other utilities added over 100 million tons per year in demand, between 1996 and 2000, but that was not enough to boost prices or preclude the idling of two PRB mines, Peabody's Rawhide and Arch Coal's Coal Creek mines. Prices did not rise (see Direct Exhibit No. ____ (RS-7)). PEF just wasn't interested.

Q. **But you've testified PEF solicited for PRB coal in 1996, 1998. What is your explanation?**

A. The experienced PRB companies had been told by PEF that only CAPP coal would be purchased. However, Kennecott had just acquired PRB mines and its salesman had not figured out PEF's "exercise".

Q. Are there other instances of this?

A. Yes. PRB bidder DTE which became a big seller of PRB coal and transportation services in the east in the early 2000's offered both to PEF in response to PEF's March 2004 solicitation. Apparently this salesman and "his President" believed PEF was seriously considering buying PRB coal. The salesman contacted Mr. Pitcher as follows: "This RFP has received notice from our President and he is anxious to receive information about our bid" (see PEF-FUEL-000368-378).

Q. Did PEF buy the PRB coal bid in response to the Spring 2004 solicitation?

A. Regrettably, no. That PEF did not- and had placed itself in a position where it could not- was a very costly refusal to PEF's ratepayers.

Q. How did the other more experienced PRB bidders respond?

A. Both Arch and Peabody could offer eastern CAPP coal and PRB coal. When PEF's Dennis Edwards on May 31, 2001 notified Arch that its bid was accepted, his handwritten note to Arch was as follows: "P.S.! Central App only"! (See PEF-FUEL-004822)

Q. What about Ms. Davis assertion (p. 38 lines 11-12) "To my knowledge during the 1996 through 2002 time period we never received an offer for a spot sale of sub-bituminous coal."

A. That is either due to the fact that PEF never asked for a spot offer of PRB coal or because the PRB producers weren't wasting their time, knowing PEF only purchased CAPP coal and usually coal transported by affiliate companies, which were not economic links in moving PRB coal to Mobile, Alabama.

Q. Were the western railroads interested?

A. When asked. At Confidential Rebuttal Exhibit No. ____ (RS-35) are bids from the PRB-serving railroads and DTE, which offered railroad services and unit trains of rail cars. These bids were highly competitive.

Q. Is there any reason PEF could not have located and purchased PRB coal supply for CR 4 and CR 5?

A. No. In 1998, 141 U.S. coal-fired power plants were burning 330 million tons of PRB coal. In 1998, 101 mmt of this PRB coal was burned at plants located east of the Mississippi River.

Q. At which plants east of the Mississippi River in 1996 was PRB coal used?

A. According to FERC 423 data, in 1996 there were 41 eastern plants, most not designed for PRB coal, were burning PRB coal. A list of these plants is at Rebuttal Exhibit No. ____ (RS-37). Many of the above listed plants were increasing their percent of PRB blends in and after 1996 to capture the favorable economics of PRB coal and to meet Clean Air Act Phase I SO_2 requirements.

Q. How were the owners of these plants able to buy PRB coal when PEF could not buy it or get bids for CR 4 and CR 5?

A. They wanted to purchase PRB coal to reduce fuel cost while PEF did not want to reduce ratepayer fuel costs.

Q. Why was PEF/PFC able to obtain PRB bids in 2003 and 2004 and not 1996-2000? Was there more PRB oversupply in 2003 and 2004?

A. No. I believe Mr. Pitcher was seriously interested in PRB coal, particularly in 2004, when CAPP and imported coal prices were very high and the waterborne proxy had been reduced. Then he found out PEF had let its air permit for PRB use at CR 4 and CR 5 lapse.

Further Reply To Davis Testimony

Q. What is your response to Ms. Davis's testimony (p. 39) regarding PEF's 2001 procurement which rejected the PRB bids despite the fact they were the low bids for the two year and five year terms?

A. The PRB bids were the low bids for these periods despite the fact that the bid evaluation sheets (see Exhibit No. DMD-8 pp 1-4) show PFC evaluated the PRB bids using the "waterborne proxy" transportation cost of $29.45 per ton. As I testified earlier, there was no basis for this assumption. Had actual rail bids been obtained and utilized, the PRB bids would have been the low bids for all time periods. At that point, in 2001, PEF had not even sought a bid from the BNSF to haul coal to Mobile, Alabama. The first BNSF bid PEF received is dated August 23, 2002. (See confidential Rebuttal Exhibit No. ____ (RS-35).)

Q. Did the 2001 PRB evaluations reflect PEF's view that CR 4 and CR 5's air permit did not allow the use of PRB coal at CR 4 and CR 5 or that CR 4 and CR 5, as PEF has testified in this proceeding, could not technically burn PRB coal in a 50/50 PRB/CAPP blend?

A. No.

Q. Do you have any response to Ms. Davis extensive testimony regarding TECO's coal procurement vs. PEF's coal procurement? Please start with her statement on p. 7 criticizing your alleged statement that TECO purchased PRB coal for less than PEF purchased bituminous coal.

A. My Direct Exhibit No. ____ (RS-19) shows the data that confirm my testimony. She provides no rebuttal analysis.

Q. What about her assertion on p. 9 that PEF was aware of TECO's delivered PRB prices but believed them to be higher than TECO's other purchases.

A. This testimony demonstrates a lack of fundamental understanding of coal prices. One does not compare the delivered price of a 6.0 lbs. SO_2/MMBtu to high sulfur bituminous coal (which TECO buys for its scrubbed units at Big Bend) with 0.5 lbs. SO_2/MMBtu PRB coal (which meets CR 4 and CR 5's 1.2 lbs. SO_2/MMBtu specification) because of the differences in qualities. The appropriate comparison is the one I made at Direct Exhibit No. ____ (RS-19), which compared coals that meet the 1.2 lbs. SO_2/MMBtu specification.

Q. Ms. Davis asserts on p. 42 that PRB coal delivered to TECO was "never the cheapest, and often the most expensive, coal TECO purchased on a delivered basis to the transfer facility." What is your response.

A. I present the data she relies on in Rebuttal Exhibit No. ____ (RS-38) as it appears in her Exhibit DMD-10, for the years TECO took PRB coal.

These results show low sulfur PRB coal purchased on a spot basis was <u>less</u> expensive than all spot coal purchased by TECO at ECT for 1999-2002. From 1996-1998 it was

more expensive than the average spot purchased high sulfur coal. Again, this is not the appropriate frame of reference.

Q. Please respond to Ms. Davis' testimony from the bottom of p. 41 through p. 43, where she says PEF purchased coal for less than TECO.

A. Again, Ms. Davis is wrong. She continues to ignore the differences in coal quality I commented on above and the fact that the issue is the delivered cost of PRB coal via the water route vs. bituminous coals via the water route to Crystal River that is at issue. Further, she does not acknowledge that it was the lower cost of direct rail delivered CAPP coal to CR 4 and CR 5 that enabled PE to have lower overall coal delivered cost than TECO's. This route avoided transportation using PEF's affiliates. Most of the coal delivered to Crystal River moved by rail.

Reply To PEF's Kennedy

Q. What is your response to PEF Witness Kennedy's assertions on p. 5 about why PEF failed in 1996 to request a Title V permit that allowed it to burn subbituminous coal at CR 4 and CR 5.

A. PEF has continued to shift its "story" as to why it failed to secure a Title V permit for subbituminous coal at CR 4 and CR 5. In its response to OPC's 4th Set of Interrogatories No. 25 (a) through 25 (d), PEF offered different reasons.

Q. Did PEF originally contend it could not burn subbituminous coal because it had no permit to allow it to do so?

A. Yes. This assertion required OPC to approach the FDEP directly in order to determine that PEF's failure to maintain permission to burn PRB coal rather than any action by FDEP caused PEF to lack authority to burn PRB coal.

Q. What did PEF say?

A. In PE's November 7, 2005 Response in Opposition to OPC's Motion . . ." PE stated:

> "For exaple, Mr. Samson's [sic] opinion that PEF failed to award a contract to the "lowest bidder in the 2004 RFP process" fails to reveal that the referenced bids either offered *sub-bituminous* coal which the Crystal River units cannot burn under existing environmental permits or they involved transportation logistics that would not provide efficient and reliable delivery of the coals offered."

Q. This was not the full story was it?

A. No. Omitted was the fact that PEF chose not to maintain or acquire the air permits to burn PRB coal. In other words, PEF allowed its authority to burn a PRB/CAPP blend to lapse, then justified its failure to buy the lowest cost coal bid to an RFP by invoking the limitations of the environmental permit that it had shaped. PEF's explanation was disingenuous, and belies, the claim that PEF has been open about its procurement efforts. Further, PEF's witnesses have not alleged PRB coal could not be delivered reliably.

PEF's Reliance On Sargent & Lundy's 50/50 Comment

Q. PFC Witness Weintraub (bottom of p. 31) and PEF's expert Hatt (top of p. 51) claim Sargent & Lundy recommended against a 50/50 PRB/CAPP blend. Do you agree?

A. No. Sargent & Lundy's report addressed a 50/50 blend of ILLB/PRB, not a PRB/CAPP 50/50 blend. S&L's comment on an Illinois Basin blend is so cryptic and undocumented, it appears to have been offered as an aside. In any event, Sargent & Lundy's statement would not apply to a PRB/CAPP blend. The ash fusion characteristics of Illinois Basin coal and PRB coal make this combination a more difficult blend for a pulverized coal (PC) boiler. (CR4 and CR5 are PC boilers). By contrast, ILLB/PRB blends have been used successfully in cyclone boilers, and also in PC boilers (see my list above).

Q. Does the Sargent & Lundy statement apply to a PRB/CAPP 50/50 blend at CR4 and CR5?

A. No, and efforts by PEF to claim or imply otherwise are wrong. Mounds of evidence from almost 20 years of PRB/CAPP blends at 50/50, 70/30, 30/70, etc. demonstrate that there is no evidence a 50/50 PRB/CAPP blend would not work at CR4 and CR5.

Q. Didn't B&W design CR 4 and CR 5 for a 50/50 blend?

A. Yes. If CR4 and CR5 could not operate on a 50/50 CAPP/PRB blend, PEF would have had recourse against B&W and B&V. Given the decade of PRB and PRB/bituminous experience available to B&W when it began its CR4 and CR5 design, one can be confident B&W never would have accepted FPC's design specification if Sargent & Lundy's report could be read as PEF's witnesses read it.

Heller, Dean, And Windham's "Contractual And Physical Constraints" On Potential PRB Tons Via The Water Route

Q. Witness Heller, at the top of page 27, claims that PRB coal could not have been delivered at the tonnages you assume because of other contract commitments to move Massey contract CAPP coal via the water route. Witness Windham (bottom of p. 12) limits his imports to CR 4 and CR 5 to 1 MMTpy for the same reason. Also Mr. Dean (pp. 21-22) in his SO_2 calculations relies on Heller's contractual constraint theory. What is your response?

A. Heller (thus Dean) and Windham both ignore the fact that Massey coal was more economically delivered to CR 4 and CR 5 via rail. In fact, it was originally purchased for rail delivery. Even PFC's Al Pitcher found Massey coal was more economical by rail. He informed PE's Kyle Crake in a September 14, 2004 email (see Rebuttal Exhibit No.

____ (RS-39)) as follows: ". . . we have shifted the entire Massey Delta [CR 4/5] contract to rail delivery, because this is the most economical move for this coal. . ."

Q. What does this email reveal about PEF's new 2005-2006 affiliate contract awarded after the fall 2004 solicitation?

A. This email is further evidence of the imprudent award PFC made to its affiliate coal companies that I described at p. 49-50 of my direct testimony. Why would PFC buy coal from itself to move by the same route to CR 4 and CR 5 that it had just found uneconomic for the Massey coal? The answer: To provide another imprudent award to an affiliate.

Q. As a result of the April 2004 water route pricing settlement, didn't water transportation cost drop, and wouldn't these lower rates have made Massey more competitive by water?

A. Massey coal was never competitive by water compared with the rail route. Therefore, Mr. Pitcher's statement in September 2004 is an admission that Massey coal by the water route was even more costly to ratepayers (than via the rail route) prior to April 2004.

Q. What about Mr. Weintraub's claim at p. 24-25 that the water route unloading capacity at CR 4 and CR 5 would preclude deliveries of PRB coal by water in the tonnages you found economical?

A. This is incorrect. The PRB tonnage I assume (1996-2005) to be delivered by water to CR is well below the level of demonstrated water route unloading capability at CR. PEF represented in 2006 to FDEP that the past barge delivery capability to CR was 2.5 mmtpy. The maximum annual PRB tons delivered to CR4 and CR5 by water 1996-2005 in my analysis was 2.280 mmt.

Q. Do you agree with Staff Witness Windham that imported coal was an option?

A. Yes. Imported coal could displace PRB coal by water to CR4 and CR5 if it becomes less expensive. In the past, PRB coal to CR4 and CR5 was less expensive than imported coal; however, imported coal was less expensive than CAPP coal and synfuels delivered by the water route. See Direct Exhibit No. ____ (RS-19) page 1 of 1. I agree with STAFF Witness Windham's findings to this extent.

Mr. Heller's Reliance On Mr. Hatt

Q. What is your assessment of Mr. Heller's use of Mr. Hatt's estimates of the cost to modify CR 4 and CR 5 coal yard and boilers to burn PRB coal?

A. Mr. Heller relies on Mr. Hatt's estimates (see Heller at p. 31 lines 14-17, p. 33 lines 8-15 and JNH-5). He apparently accepted Mr. Hatt's numbers without any review or check as to their quality and consistency with the capability of CR 4 and CR 5.

Q. How do you know this?

A. In response to OPC's Fifth Set of Interrogatories No. 47, Mr. Heller claims he did not assume another pulverizer was required at CR 4 and CR 5 to burn a 50/50 blend of PRB/CAPP coal. But he uses Mr. Hatt's estimates in Exhibit JNH-5 which assume another pulverizer is necessary. (See Hatt Exhibit RH-8.) See also Hatt's handwritten notes at PEF-FUEL-007305-16.

Q. Are you saying Heller's results rest on Hatt's "back of the envelope" estimates?

A. Yes. If Hatt's estimates are invalid, Heller's results are invalid. OPC Witness Barsin addresses Hatt's results.

Q. What is your opinion of Hatt's results?

A. They ignore the engineering capability designed into the CR 4 and CR 5 boilers, ESPs, and pulverizers by B&V and B&W and they ignore the coal yard design and as-built capabilities. OPC Witnesses Barsin and Putman address these subjects in detail.

Q. When you performed your analysis: (a) What additional cost did you assume would be incurred to burn a 50/50 PRB/CAPP blend at CR 4 and CR 5? And (b) On what did you rely?

A. I assumed a cost to blend at CR 4 and CR 5 of 4 ¢/MMBtu, or about $1.2 million per year (see Direct Exhibit No. ____ (RS-27) item (9)), and that CR 4 and 5 were properly designed by B&V to burn a 50/50 PRB/CAPP blend. (See my direct testimony at p. 53 lines 6-11 and Direct Exhibits No. ____ (RS-2) through Rebuttal Exhibit ____ (RS-4).)

Q. Do you have anything to add after reviewing Mr. Hatt's and Mr. Wientraub's testimonies and visiting CR on February 22, 2007?

A. Yes. First, I believe Mr. Hatt and Wientraub ignore the engineering work of Sargent & Lundy and PEF engineers which confirm the B&V and B&W design. Both witnesses note the studies but dismiss their findings. Mr. Heller completely ignores these studies. The increased investment and extra operational measures in the coal yard required to burn PRB subbituminous coal compared with bituminous coal were well known when CR4 and CR5 were designed. These characteristics were even singled out in FPC's February 28, 1980 filing for site certification of CR4 and CR5 (see my Direct Exhibit No. ____ (RS-4), p. 11 of 11). The design of CR4 and CR5 incorporated the equipment necessary to blend PRB coal at the CR4 and CR5 site (see Florida Power Corporation System Design Specification, Volume II, Crystal River Plant Units 4 and 5 by Black & Veatch Consulting Engineers).

PEF's own studies of the repairs and upgrades required at CR4 and CR5 to utilize PRB coal recognized that the bulk of the expenditures required were to return CR4 and CR5 to its original capability. Items on PEF's Dan Donochod's list include "repair Mill inerting

system, install new crusher by pass screens, fix chute bottlenecks, fix soot blowers, etc." These repairs and upgrades were estimated to cost $8.0 million in one-time costs (see PEF-FUEL-002314) in April 2006 and $5.3 million on January 13, 2006 (PEF-FUEL-002199). Annual O&M costs were expected to increase by $420,000 per year for up to 100% PRB utilization (see PEF-FUEL-002319). See the following PEF engineering documents:

- March 2006 PEF-FUEL-001937-1948
- April 27, 2006 PEF-FUEL-002284-003506
- October 24, 2005 PEF-FUEL-002070-002101
- January 13, 2006 PEF-FUEL-002237-002306

PEF did its own engineering ("Vista") modeling that showed (12/19/05) that for a 20% PRB/CAPP blend the performance results at CR4 and CR5 would be favorable (PEF-FUEL-002153), as the May 2006 test burn confirmed.

Q. Did PEF's work find a PRB blend to be uneconomic as Mr. Heller claims?

A. No. PEF's October 24, 2005 estimate of the savings in fuel and SO2 costs of a 20% PRB blend were:

- 2007 $15.5 million
- 2008 $13.2 million
- 2009 $10.8 million
- 2010 $ 9.4 million
- Total $48.9 million (see PEF-FUEL-002047 at Direct Exhibit __ RS-12, p. 7 of 10)

Of Course, the savings would be greater with a 50% PRB blend.

The "pay back" on the estimated $7 million investment required (mostly to repair equipment at CR4 and CR5) was described as "payback < 1 yr" (see PEF-FUEL-002090). Of course PEF's investment to return CR4 and CR5 to its original capability is not a fuel cost expense and could not be charged to ratepayers. PEF has separately asserted its cost to blend synfuels was not billed to ratepayers.

Q. Were these engineering findings confirmed by your plant visit?

A. Yes. The coal yard, as designed and built, was in disrepair. Recently, I accompanied other OPC representatives on a site inspection of CR 4 and CR 5. I took photographes, which fairly depicted what I saw. My photographs, Rebuttal Exhibit No. ____ (RS-40), show the equipment to maintain proper dust controls had been cut out, stubbed off, and discarded, or was unused. Nonetheless, the basic infrastructure was intact with water for dust control and safety available throughout the system, the baghouse infrastructure for dust control at the boilers was intact, and inerting ports were visible on the pulverizers.

Q. What about Mr. Hatt's "discovery" of un-built conveyors (see Hatt testimony at the bottom of p. 28)?

A. The un-built conveyors are shown in a PEF 1980 engineering layout as dotted lines. Consequently, Mr. Hatt has not discovered un-built conveyors between transfer points 24 and 27. These "un-built" conveyors are clearly shown on CR 4 and CR 5's coal yard lay out (at Rebuttal Exhibit No. ____ (RS-41)). All are prior to CR 4 and CR 5's stacker/claimer No. 2 in the north coal yard. This means the 100% redundancy in the B&V design is not affected (see B&V coal yard manual), because the CR 4 and CR 5 units always have two reclaim methods and belts from stockpiles to the crusher building. The only role of the un-built conveyors would be to provide redundancy from the south coal yard and unloading points to the CR 4 and CR 5 north coal yard; that is, to handle

unloading contingencies, not boiler fueling contingencies. These un-built conveyors are unnecessary given the capacity of the single conveyors from TP 24 to TP 27 and the ability of south coal yard to take rail and barge coal without interruption if these conveyors are inoperable. They could fail and be repaired without interrupting coal flows to CR 4 and CR 5 or disrupting unloading.

Q. Did you find anything else that conflicted with Mr. Hatt's coal yard assessment in his testimony in this case?

A. Yes. A PEF engineer had contacted Mr. Hatt on May 3, 2005 at which time Mr. Hatt's assessment of the task of utilizing PRB coal safely was much more benign than it is in Hatt's 2007 testimony (PEF-FUEL-001762 at Rebuttal Exhibit No. ____ (RS-42)).

Q. What did Mr. Hatt say in 2005 vs. 2007?

A. According to the notes of PEF's engineer, in 2005 Mr. Hatt said the key to successful PRB use was: **Ability to clean up each day immaculate housekeeping**.

Q. Having reviewed Mr. Hatt's testimony, having obtained the Black & Veatch Coal Yard Design Specifications, having visited Crystal River, and having seen PEF's responses that admit PEF blended synfuels and bituminous coal at Crystal River, would you change anything in your testimony about blending PRB and CAPP coal at the Crystal River site?

A. These documents and my visit show I was unnecessarily conservative in my overcharges estimate when I assumed a 4 ¢/MMBtu of PRB coal blending cost, which was deducted from my estimated overpayments by PEF's ratepayers. The Crystal River coal yard was designed to blend PRB/CAPP coal at a 50/50 blend. The stacker/reclaimers, the belt scales and drives, and the coal yard control system and the conveyor capabilities were installed to blend and supply 330 tph per unit for CR 4 and CR 5.

Q. How much would this reassessment change your overcharge estimate?

A. It would increase it by $13.2 million without interest.

Q. Do you agree with Mr. Heller's use of 8910 Btu/lb. "big box" specification at p. 14 and 15 of his testimony?

A. No, and as disclosed by Mr. Heller's answer to OPC's Fifth Set of Interrogatories Question 46, this appears to be another example of Mr. Heller blindly accepting a specification or cost estimate without examining its underlying basis. His specification was not based on the B&V and B&W specifications, which apparently Mr. Heller did not examine or utilize. Mr. Heller touts B&V's involvement with CQIM (at Heller p. 20 lines 1-4), but ignores the fact and consequences of B&V's design of CR 4 and CR 5.

Q. Please explain.

A. As addressed in detail by Mr. Barsin, B&V's design of CR 4 and CR 5 renders incorrect Mr. Heller's so-called evaluated or CQIM penalties and purported de-rates resulting from the use of PRB coal in a 50/50 blend at CR 4 and CR 5 (See Heller p. 15 line 1, p. 20 lines 1-4, pp. 35 and 36, and p. 39 lines 18 to p. 40 line 3). The engineering work of PE's engineers using PE's Vista model, which is an updated CQIM model, and incorporating Sargent & Lundy's October 14, 2005 report on CR 4 and CR 5, which I summarize above, conflicts with Mr. Heller's work which relies instead on Mr. Hatt's non-engineering analysis.

Q. What is your response to Heller's use of spot PRB prices for his analysis rather than use the PRB bids received by PEF for CR 4 and CR 5 in 2003 and 2004?

A. Heller criticizes me (p. 41 lines 8-14), as does PEF's Davis, for using (for 1996-2002) TECO's delivered PRB costs because TECO purchased PRB coal on a spot basis. Yet, when Mr. Heller had PFC's 2003 and 2004 term contract PRB bids (p. 22 lines 3-11), he

does not employ them. I explained my choice to use TECO's PRB prices in my direct testimony at p. 40 lines 14-22. My reliance on TECO's transactions "came down to the availability of good data". This caused, as I noted in my testimony, my estimates of overpayments by PEF's ratepayers to be less than had I used the less costly Mobile route for PRB transportation.

Q. Were PRB FOB mine contract prices, during the period 1996-2003, materially above the spot prices TECO apparently employed?

A. Contract PRB prices FOB mine were approximately 25 cents/ton or about 5% (e.g. $4.75/ton vs. $4.50/ton) FOB mine above spot prices for 8800 Btu/lb coal. This on a ¢/MMBtu basis is 1.42 ¢/MMBtu. This adjustment to TECO's prices would not have a significant effect on my results. In any event, it is only 35% of the 4.0 ¢/MMBtu blending cost I included, but, now after receipt of the information described above on the coal yard, realize was unnecessary. Nor did I add to the overcharges the additional savings available had the PRB coal moved via Mobile. In other words, the net effect of any adjustment in these two items - including the difference between TECO's spot and contract prices - would be to increase OPC's $143 million estimate of ratepayer overpayments by about $25 million for the 1996 to 2005 period.

Q. Please summarize the PRB bids PEF received in 2003 and 2004 that Mr. Heller refuses to employ in his analysis.

A. PEF received firm economical bids for PRB coal and transportation in 2003 and in 2004 from the major PRB producers. In 2004 PEF had bids for PRB rail transportation only, allowing it to couple FOB mine bids with a low cost transportation bid including rail cars. (See 5/20/04 CR4 and CR5 evaluation sheet and supporting PRB bid documents from (at PEF-FUEL-000357-000473) Arch Coal Sales, DTE Energy, Peabody CoalSales, Triton

Coal Company, and Kennecott. See also UP and BNSF letters. Simultaneous bids from South American and CAPP bidders reflected much higher prices. The bids received in 2004 for 2005-2007 were for fixed prices for three years and offered 2 mmt in 2005, 2.2 mmt in 2006, and 2.2 mmt in 2007. The quantities bid by the four major PRB producers are shown at Rebuttal Exhibit No. ____ (RS-43).

Therefore, acting on 2004's bids would have secured PRB coal supplies for CR4 and CR5 through 2007. Mr. Heller ignores both 2003 and 2004 PRB bids, which had they been accepted would have saved PEF ratepayers tens of millions of dollars.

Ratepayer SO_2 Overpayments And Mr. Dean's Testimony

Q. Mr. Dean's testimony (p. 5 lines 18-19) claims you have overstated the SO_2 excess ratepayer cost by $2,913,513. His view is that had PRB coal been blended at CR 4 and CR 5, the ratepayer is entitled to only $15,015,204 in relief, not your $17,928,717. Do you agree?

A. No.

Q. Why?

A. Mr. Dean criticizes my use of EPA AP-42 SO_2 emission factors for CAPP coal vs. PRB coal and believes I have made calculation errors.

Q. What is your response?

A. Reliance on AP-42 is a common method. In fact PEF in its response to OPC's Interrogatory No. 26 said as follows, specifically relying on AP-42: "With subbituminous coal about 10% more fuel sulfur in ash is retained in the bottom ash and particulate because of the more alkaline nature of the coal ash." Mr. Dean at pp. 18-19 disagrees with AP-42

and its "A" quality of data rating, but offers nothing better. Spurred by his criticism, I have a specific improvement to offer in response to his criticism of AP-42.

Q. What is your improvement?

A. I have obtained data on the as burned sulfur content and SO_2 emissions at Crystal River 4/5 and Southern Company's Miller Units 1-4 which are very similar B&W units.

Q. Where did you get this data?

A. The as burned data is from PEF's and Alabama Power's reporting respectively for Crystal River 4/5 and Miller 1-4 on DOE/EIA Form 767 and the emissions data from the utilities CEMS (Continuous Emission Monitoring) data reported to U.S. EPA.

Q. What are these results?

A. They are shown at Rebuttal Exhibit No. ____ (RS-44).

Q. How do the percent removals of SO_2 shown at Rebuttal Exhibit No. ____ (RS-44) for the specific B&W boiler type installed at Crystal River compare with the estimates in U.S. EPA AP-42?

A. These actual results, which are responsive to Mr. Dean's criticisms of the dated quality of the data underlying AP-42, show a greater than 10% greater sulfur removal in ash due to PRB coal use compared with CAPP bituminous coal. On average 18.3% of subbituminous SO_2 is removed in the B&W Miller boilers versus only 6.0% in the similar B&W boilers at Crystal River 4/5 burning bituminous coal.

Q. Have you prepared an exhibit in which you re-calculate the SO_2 overpayments using this new data and accepting Mr. Dean's mathematical approach?

A. Yes. Rebuttal Exhibit No. ____ (RS-45) shows that my estimate of the SO_2 overpayments was $989,009 above what it should have been, i.e. the ratepayer overpayments for SO_2 allowances should have been $16,938,708 not my $17,928,717 or

Mr. Dean's $15,015,717. Seventy-eight percent of this $989,009 reduction in my estimate was due to my failure to take the 7.5% PRB Btu reduction in 2005 due to my adjustment for the reduced PRB rail deliveries from May-December 2005 experienced by many utilities receiving PRB coal.

Q. Did this error carry over to your calculations of the excess fuel cost estimate you made which appears at Direct Exhibit No. ____ (RS-26) and Direct Exhibit No. ____ (RS-27)?

A. No.

Damages Summary

Q. Do you continue to believe your estimate of the over payments by PEF's ratepayers as estimated by you at Direct Exhibit No. ____ (RS-26) is conservative i.e. an underestimate?

A. Yes. As I've pointed out, I included what is now an unneeded (and even if applicable, unrecoverable) 4 cents per MMBtu for blending at Crystal River. This would increase my overcharge estimate by $13.2 million without interest. I did not use PRB transportation rates via Mobile, Alabama which would have been less expensive than via New Orleans, providing another ratepayer savings of at least another $15 million without interest.

Q. Anything else?

A. Yes. Given the higher (8,800) Btu/lb PRB coal available as opposed to the B&W design PRB Btu/lb assumption of 8,125 Btu/lb, I could have increased the PRB Btu percent of the blend at Crystal River to 41.3% as opposed to 40% and still met design conditions. This would have saved ratepayers an additional $4,580,092.

Safety of PRB

Q. Do you have any comment on Mr. Hatt's testimony regarding the risks of fire and explosions at plants using PRB coal?

A. As I noted earlier, Mr. Hatt has changed his tune between 2005 and 2007. In his 2005 telephone conversation with PEF's engineer he said what I've heard for decades about the "good housekeeping" care that must be taken in PRB coal yards. I've toured the coal yards at about a dozen PRB using (some in blends) power plants and many PRB coal mines. During these visits, not only have I never been warned that I was in any way at risk (more than I was driving to the plant on public roads), I have never felt a significant risk.

Q. Do explosions occur at coal boilers?

A. Yes. In the last 10 years one occurred at a unit of KCP&L's Hawthorne Unit 5 and another at Power House #1 at Ford Motor Company's River Rouge plant. Boiler explosions can be extremely dangerous. Neither explosion was attributed to subbituminous coal. Explosions are rarely a risk in the coal yard prior to the enclosed areas of the crusher building or the boiler area itself. Fires can and do occur in coal yards, and in fact, above ground at coal mines, including bituminous coal mines.

Q. What is your response to the consideration given to these matters by PEF's nuclear safety expert Mr. Fetter and PEF's CR 3 plant manager Mr. Franke?

A. Their concerns are invalid and misplaced. The movement of PRB coal from the barge and rail unloader would not be a serious risk for the reasons I outlined above. If there is any concern it would be due to bituminous coal within the boilers at CR 1 and CR 2, which are located alongside the nuclear unit at CR 3. Neither witness even mentions this risk. If this more serious risk of a coal explosion does not merit PEF's or the NRC's

concerns, the movement of PRB coal through the coal yard to the boiler and crusher house enclosures at the far-to-the-north CR 4 and CR 5 units should be of no concern.

PFC And Synfuels

Q. After reviewing the testimonies of Davis, Pitcher, and Weintraub, do you still believe synfuels were important to your view that PFC failed to procure PRB coal for CR 4 and CR 5?

A. Yes. While in the 1990's PFC had ample affiliate incentives to ignore the benefits to ratepayers of PRB use in a blend at CR 4 and 5, even PFC coal buyer Edwards on February 9, 1998 predicted ("my guess") that by 2000 PRB "in all likelihood" would be the water route coal for CR 4 and CR 5 (see Exhibit DMD-9 p. 11 of 84). In my view the PE decision in 1999 to capitalize on synfuels tax credits put PRB coal on the back burner as a PEF/PFC priority. The value of synfuels tax credits per ton was about $24 in 2000 and this was on top of the roughly $7.00/ton price PFC's affiliates were making on CAPP coal via the water route. It was a "perfect arrangement" for shareholders. Unfortunately it cost ratepayers millions.

Q. But Weintraub (p. 25 line 15 to p. 27 line 6), Davis (p. 46 line 23 to p. 51 line 51), and Pitcher (p. 25 line 4 to p. 28 line 4) all deny synfuels played any role in PFC's failure to buy PRB coal. How do you respond? First address PEF's claims that synfuels saved PEF approximately $2/ton.

A. As I testified in my direct testimony, because PRB coal was much less expensive than "synfuels" at CR4 and CR5 for 2000-2005 (see Direct Exhibit No. ____ (RS-19), p. 1 of 1), substituting synfuels for PRB coal was very costly to ratepayers. There was no $2 per ton "savings" vs. PRB coal. Regarding even synfuels vs. bituminous coals, that

statement is wrong. Imported coals were less expensive than synfuels. PFC-bid synfuels were 2,091 miles away from CR; therefore, they carried high transportation costs. The use of synfuels entailed undisclosed blending costs and operational problems. (See, for example, DMD-9, pages 28 and 65. Note that the synfuels blend was "50/50".) Also, because of the applicable emission limit at CR4 and CR5 while blending synfuels, PFC had to use more expensive lower sulfur bituminous coal as a synfuel feed stock.

Q. What about PFC as a bituminous coal buyer for PEF? Did that role conflict with PFC's synfuels interest?

A. Yes, because PEF synfuel affiliates, like Black Hawk, as buyers of bituminous coals for synfuels plants were competing with PEF "regulated" fuel buyers, PEF was not only imprudent, it had a conflict of interest, allowing it to potentially intercept bituminous coal bids to PEF, and flip them to its synfuels plants. In its 2nd Quarter 2006 SEC Form 10-Q PE reports at page 71 its Coal Terminals and Marketing subsidiary received a $103 million payment from a coal supplier for a coal contract that was scheduled to run through 2007. This was the same term as the July 2003 bid from Panther/Infinity that Mr. Pitcher failed to secure for PE's customers following the July 2003 solicitation.

Q. Did PFC have reserves and coal production near its synfuels plants?

A. No. PFC's affiliates controlled no reserves or "owned" coal production near PE's Kanawha River synfuels plants. PFC needed to buy coal for its synfuel plants to earn tax credits and related profits, posing a direct conflict with PFC's interest as a buyer of coal on behalf of PEF.

Q. Were PE's witnesses in this case involved in these activities?

A. Yes. PEF witnesses Pitcher, Davis and Weintraub were in "revolving door" arrangements on behalf of PFC and Black Hawk as entities buying coal for synfuel plants (not

majority owned by PE affiliates), buying coal on behalf of PFC for PEF, and selling synfuels to PEF and others.

Q. Please explain their involvements.

A. At Rebuttal Exhibit No. ____ (RS-46) is a "Proposed Agenda" for a March 14, 2005 synfuels meeting involving among others PEF's Sasha Weintraub and Donna Davis, representing Black Hawk SynFuel LLC. Mr. Weintraub is PFC's witness on 2005 and 2006 coal procurement for PEF (see for example p. 2 lines 15-17 and p. 5 lines 21-23). He states on p. 6 lines 23-24 that in mid-to-late 2005 he "assumed responsibilities for coal procurement for Crystal River coal plants."

Q. PEF Witness Davis attended the same meeting. What was her PFC role?

A. Ms. Davis at pp 3 lines 22-24 and p. 4 lines 1-3 testifies she had through 2005 accounting responsibilities for both the "regulated business" and "fuels costs" and from 2004 "for the accounting of PFC's non-regulated coal activities". Having left PEF sometime in 2005, Ms. Davis became on December 1, 2005 a contract employee to PE, still involved in synfuel accounting.

Q. And Mr. Pitcher. What was his PFC role?

A. PEF files show (see Rebuttal Exhibit No. ____ (RS-47)), Mr. Pitcher, as of June 12, 2001, was a VP for Sales for Black Hawk Synfuel LLC, located in St. Petersburg Florida, bidding coal to Mr. Edwards, VP of EFC at the same location. According to Mr. Pitcher's testimony (p. 2 lines 5-9): "In September 2002, following the change of EFC's name to PFC, I assumed the position of Vice President of Coal Procurement." It appears that within a short period Mr. Pitcher went from selling synfuels as a Black Hawk employee to buying synfuels on behalf of PEF.

Q. Does the March 2005 "Agenda" at Rebuttal Exhibit No. ____ (RS-46) show New River Synfuel LLC was buying coal from entities that bid coal to PFC in response to PFC solicitations for PEF?

A. Yes. Infinity Coal Sales, was supplying Black Hawk Synfuel or New River Synfuel with bituminous coal feedstock. Infinity was the bidder in July 2003 to PFC for PEF's July 2003 coal solicitation about which I testified (pp 32-33) on direct.

Q. Do these Agenda notes confirm Mr. Pitcher's claim (p. 27 lines 15-17) that bituminous coal bidders would get more selling to PEF rather than to a synfuel plant as a feedstock?

A. No. The notes show that when Infinity supplied coal to New River/Black Hawk it received a $4/ton "spread" above the synfuels sales price. This means if the testimony of PEF's witnesses about a $2/ton differential between synfuels and bituminous coal sales prices is correct, that Infinity made $2/ton more selling coal to Black Hawk Synfuels/ New River Synfuels than to PFC for PEF.

Q. Does other evidence refute the assertion by PEF's Davis, Weintraub and Pitcher that synfuels were less expensive than bituminous coal?

A. Yes. The responses to PEF's July 2003 solicitation demonstrated that an unaffiliated non-synfuel (i.e., bituminous) bid from Infinity Coal Sales could not be matched by PEF's Black Hawk synfuel affiliate, despite PFC improperly giving Black Hawk the opportunity to match the bituminous coal bid. (Sansom testimony at p. 32, lines 1-13 and p. 31, lines 9-20. See also PEF-FUEL-004747-004763.)

Q. Mr. Pitcher goes to some length (pp 25-27) to deny any imprudence. What is your response?

A. He claims he was not imprudent to offer Black Hawk Synfuels the right to match Infinity's bituminous coal offer to PEF. I disagree. Black Hawk had no coal to offer in response to the solicitation. Fundamentally, you do not "short list" and give the opportunity to match the low bid to coal companies that have no coal to offer.

Q. How do you regard Witness Davis' testimony (pp 49-50) that "tax credits" from synfuel sales to PEF were "minimal" compared to other synfuel sales, and therefore could not have affected PFC's activities buying coal for PEF.

A. Synfuels profits to PE came from various synfuels activities, not just direct tax credits. A PE press release of June 16, 2004 on the sale in two transactions of 49.8% of its interest in Colona SynFuel Limited Partnershp LLLP stated: "These transactions will add incremental pre-tax income of $15 to $20 million per year." This statement shows PE/PFC's income could be increased with reduced ownership of synfuels machines. PE's 100% owned affiliates Black Hawk Synfuel, 10% affiliate New River Synfuel, and 100% owned Kanawha River terminals were all in the supply chain to provide bituminous coal to synfuel machines and ultimately synfuels to PEF. According to an October 15, 2004 PEC filing at FERC: "Black Hawk holds ownership in, and provides operational, supply and marketing services to New River Synfuel, LLC. Black Hawk owns 10 percent of New River Synfuel." Why were so many PE employees at the March 2005 meeting (see Rebuttal Exhibit No. ____ (RS-46)) if PE had so little at stake?

Q. Is there other evidence of the importance of synfuels to PFC/PEF?

A. Yes. The asset value of PE's docks used in moving coal to CR4 and CR5 via IMT was dependent on synfuel flows. This was proven in 2006 when a sharp rise in oil prices caused PE to reduce the value of its assets. (See PE's 2nd Qtr 2006 SEC Form 10-Q report pp. 69-71 and PE's May 22, 2006 press release.) While neither the profits of nor

the relationships among these PE synfuel entities have been disclosed, if the synfuel had not been sold to PEF from 2000-2004, the profits of these affiliates and the asset value of PE's docks would have been adversely affected.

Q. Why did PFC-shipped synfuels to PEF decline in 2004 and 2005 as described by Witness Weintraub at the bottom on p. 26?

A. The decline in synfuels shipments to IMT in 2004 and 2005 can be attributed, in part, to: (1) the April 2004 water route transportation settlement, which removed a large profit stream to PFC from its shipments to PEF via IMT, and (2) better economic access to synfuels markets closer to the Kanawha River area.

Q. Did PFC's synfuels selling entities quit marketing to PEF in 2004?

A. No. As late as August 2004 PFC's Marketing & Trading provided an "indication of product availability for 2005 and 2006" (provided in response to Citizen's Sixth POD and shown herewith as Rebuttal Exhibit No. ____ (RS-48)) and expected to ship a "synfuel product". This "indication" was not a qualified bid and should have been rejected; instead it led to a 2 year, 480,000 tons per year bituminous coal contract at a high price from an undisclosed coal source which was not a PFC producing company.

Q. Ms. Davis at the bottom of p. 50 describes a "twist arrangement" which she contends benefited ratepayers. Do you agree?

A. No. I reiterate that the assertions of Davis, Pitcher, and Weintraub that the ratepayer benefited from PFC synfuels shipped via New Orleans conflicts with the fact that PRB (and imported) coal via Mobile would have been the appropriate and more economical arrangement had PFC procured coal prudently. I have provided an analysis which, with interest, shows that PEF's ratepayers have paid at least $143 million for this imprudency.

Q. Does this complete your rebuttal testimony?

A. Yes.

DOCKET NO. 060658-EI
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of foregoing Rebuttal Testimony of Robert L. Sansom has been furnished by U.S. Mail on this 6th day of March, 2007, to the following:

James Beasley
Lee Willis
Ausley Law Firm
P.O. Box 391
Tallahassee, FL 32302

Bill Walker
Florida Power & Light Co.
215 S. Monroe St., Suite 810
Tallahassee, FL 32301-1859

Paul Lewis
Progress Energy Florida, Inc.
106 E. College Ave., Suite 800
Tallahassee, FL 32301-7740

Norman H. Horton, Jr.
Fred R. Self
Messer Law Firm
P.O. Box 1876
Tallahassee, FL 32302-1876

John T. Butler, P.A.
Florida Power & Light Company
700 Universe Boulvard
Juno Beach, FL 33408

Lisa Bennett
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

John McWhirter, Jr.
McWhirter, Reeves Law Firm
400 North Tampa St., Suite 2450
Tampa, FL 33602

R. Wade Litchfield
Florida Power & Light Co.
700 Universe Blvd.
Juno Beach, FL 33408-0420

Susan D. Ritenour
Richard McMillan
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780

Jack Shreve
Senior General Counsel
Office of the Attorney General
The Capitol – PL01
Tallahassee, FL 32399-1050

Brenda Irizarry
Tampa Electric Company
P.O. Box 111
Tampa, FL 33602-0111

Jeffery A. Stone
Russell Badders
P.O. Box 12950
Pensacola, FL 32591

Lieutenant Colonel Karen White
Captain Damund Williams
Federal Executive Agencies
139 Barnes Drive, Suite 1
Tyndall AFB, FL 32403-5319

Cheryl Martin
Florida Public Utilities Company
P.O. Box 3395
West Palm Beach, FL 33402-3395

John T. Burnett
Post Office Box 14042
St. Petersburg, FL 33733

Gary Sasso
J. Walls
D. Triplett
Carlton Fields Law Firm
P.O. Box 3239
Tampa, FL 33601-3239

Florida Retail Federation
100 E. Jefferson Street
Tallahassee, FL 32301

Michael B. Twomey
Post Office Box 5256
Tallahassee, FL 32314-5256

Robert Scheffel Wright
Young van Assenderp, P.A.
225 S. Adams St., Ste. 200
Tallahassee, FL 32301

Joseph A. McGlothlin
Associate Public Counsel

PRB ANALYSIS—REGULATED COAL

340,000 TONS IN 1997			
Eastern (12,500 Btu)		PRB (8,800 Btu)	
Tons	340,000	Tons	480,000
Delivered Cost	$1.822	Delivered Cost	$1.822
Margins:		Margins:	
DMCC	? ($28.95 f.o.b. barge)	DFL	$1.52
KCT	$ .50	MEMCO ($1.70/ton on 340,000)	1.20
MEMCO[1]	2.70	Market	3.63
IMT	.10	Total	$6.35
DFL	1.52		
Market	2.22		
Total	$7.04		
Market	$16.75 (24.25 - 7.50)	Market ($1 less than NOLA)	$11.06
Less Costs	-6.45 (River)	Less Costs	-2.20 (Mobile)
	-1.92 (IMT)		-5.23[3]
	-6.16 (DFL)[2]		$3.63
	$ 2.22		
Total Margin	$7.04 x 340,000 = $2,393,600	Total Margin	$6.35 x 480,000 = $3,048,000
			σ = $684,400
		DFL (65% No.)	+$282,000
		Net Total EFC	$966,400

[1] $7.50 rate in 1996 = $3.75 margin; $6.45 rate in 1997 = $2.70
[2] 1997 budget = 116,000 reduced rate tons. On 340,000 tons, DFL rate is—116,000 @ $3.35; 224,000 @ $7.61—340,000 @ $6.16
[3] On 480,000 tons, DFL rate is—203,000 @ $3.02; $277,000 @ $6.85—480,000 @ $5.23

EFC/DGE—10/22/96

Docket No. 060658-EI
PRB Analysis Regulated Coal
Exhibit No. ___ (RS-30)
Page 1 of 1

Affiliate Profits

Company	Abbrev.	PEF/PFC/ Affiliates Activity	Margins ($/Ton)
Diamond May Coal Co.	DMCC	PFC Coal Company	?
Kenova Coal Terminals	KCT	Coal on Docks Upper Ohio & Kanawha Rivers	$0.50
MEMCO	MEMCO	River Barge Company	$2.70
International Marine Terminal	IMT	New Orleans Coal Terminal	$0.10
Dixie Fuels Ltd.	DFL	Gulf Barges	$1.52
Add'l Profits to PFC Above Profits Directly to Affiliates			$2.22
		Total $/Ton Affiliate Profits	**$7.04**

Back Calculated FOB Mine Prices From Exhibit DMD-13, p. 1

Back calculated FOB mine prices implicit from Mr. Edward's analysis at Exhibit DMD-13, p. 1:

	CAPP	PRB	
Dlvd $/MMBtu	1.822	1.822	
Dlvd $/ton	45.55	32.07	
Transp $/ton	-16.75	-27.06	(11.06 waterborne "proxy" plus $16.00 rail)
FOB Mine $/ton	28.75	5.00	

Davis/Heller vs. Market Rates

	(1) Davis DMD-4 Rates	(2) Heller Assumed Rates via Cora	(3) Market Rates via Cook	Basis For Column (3) Market Rates
PRB Rail to River Incl Cars & Transload ($/ton)	14.00	13.58	13.16	Arms length TECO to Cook Incl Transload.
Rail Miles	1,124 miles	1,124 miles	1,240 miles	
Cora to IMT Rate ($/ton)	5.57	6.91	3.60[1]	FPSC Decision
IMT Rate	5.42	5.42	1.50-1.80	PEF 2005 Evaluation
Total	**24.99**	**25.91**	**18.26 to 18.56**	

(1) The FPSC determined that the market rate from Cook to IMT was $3.60/ton in 2001. Heller's analysis shows a barge rate from Cora of $6.91/ton in 1997. This increases by 2001 from $6.91 to $7.97 or 15%. I have not adjusted the FPSC's 2001 Cook to IMT rate downward to deflate it to 1997.

Transportation Miles

	Haul Distances (Miles)			
	Rail to Water	to IMT	To CR	Total
CAPP to CR via IMT (a)	130 (Huntington)	1,530	431	2,091
Massey Coal (b)	50 (Kanawha) 1,610	431	2,091	
PRB to McDuffie, Alabama	1,692 (Gulf)	N/A	350	2,042
PRB to Cook via IMT to CR 4/5	1,281 (Cook)	928	431	2,640

Docket No. 060658-EI
Bids by Western Railroads
CONFIDENTIAL Exhibit No. ____ (RS-35)
8 Pages

BNSF

Sunil M. Shalah

Vice President
Coal Marketing

Burlington Northern Santa Fe Railway Company

P. O. Box 961081
2650 Lou Menk Drive, 2nd Floor
Fort Worth, TX 76131-2830
Phone (817) 867-6253
Fax (817) 352-7959

August 23, 2002

Hand Delivered
Mr. Dennis Edwards
Vice President
Progress Energy
P. O. Box 15208
St. Petersburg, FL 33733

Dear Dennis:

Thank you for the opportunity to discuss test shipments of Powder River Basin and Colorado coal to Crystal River. The Burlington Northern and Santa Fe Railway Company (BNSF) and Union Pacific Railroad Company (UP) are offering to establish the following railroad joint rates on coal for your consideration to encourage the testing of western coal from the PRB and Colorado:

Origins:	1) Mines located in the Southern Powder River Basin of Wyoming 2) Energy (Twentymile Mine) and Axial (Colowyo Mine), Colorado 3) Arco (West Elk Mine), Somerset (Sanborn Creek Mine) and Converse (Bowie #2 Mine), Colorado.
Destination:	McDuffie Coal Terminal at Mobile, Alabama for furtherance to Florida Power Corporation's Crystal River generating station.
Route:	UP-Kansas City, MO-BNSF
Equipment:	Trains shall be comprised of rail carrier owned or leased equipment.
Train Size for Origin 1:	Minimum of [redacted] net tons per shipment
Train Size for Origin 2:	Minimum of [redacted] net tons per shipment
Train Size for Origin 3:	Minimum of [redacted] net tons per shipment

Loading Time: [redacted] hours

Unloading Time: [redacted] hours

Rates: [redacted] per net ton from mines located in the Southern Powder River Basin.

[redacted] per net ton from Energy and Axial, Colorado

[redacted] per net ton from Arco, Somerset and Converse, Colorado

Effectiveness and Publication: We are prepared to establish these rates within the next 30 days, in either a non-confidential common carrier rate publication or on confidential contract basis as you prefer, to remain effective for a ninety day period thereafter.

Sincerely,

cc: Mr. Bill Nock
Assistant Vice President Domestic Utilities
Union Pacific Railroad Company
1416 Dodge Street
Omaha, NE 68179

UNION PACIFIC RAILROAD COMPANY

MARKETING & SALES

1416 DODGE STREET
OMAHA, NEBRASKA 68179

February 2, 2000

Mr. Dennis Edwards
Vice President Coal Procurement
Electric Fuels Corporation
P.O. Box 15208
St. Petersburg, FL 33733

Dear Dennis,

Thank you for meeting with Jeff and I. Based on our conversation we have developed the following proposal for your consideration covering shipments of coal from the Powder River Basin of Wyoming destined to various terminal facilities for ultimate movement to Florida Power's Crystal River Plant:

I. **ORIGINS:**

Mines served by the Union Pacific located in Campbell and Converse Counties of Wyoming.

II. **UP DESTINATIONS:**

A. Cahokia Marine Services at Sauget, IL

B. Cora Dock at Cora, IL

C. Texas City, TX (including the Texas City Terminal Railroad)

III. **ULTIMATE DESTINATION:**

Applies only on coal moving beyond the UP destinations for use at the Crystal River Plant

IV. **TERM:**

Length of term is to be determined by mutual agreement.

V. **EQUIPMENT:**

UP or Customer furnished railcars

Response to question #49

VI. TRAIN SIZE:

115 car conventional trains or 135 car distributed power trains

VII. MINIMUM WEIGHT:

The aggregate minimum weight per train shall be [redacted]% of the marked capacity of the cars supplied, not to exceed any gross weight on rail restrictions.

VIII. BASE PRICE PER NET TON:

A. $[redacted] (UP Cars) or [redacted] (Customer Cars) to Cahokia Marine Services at Sauget, IL.

The price to Cahokia Marine Service includes the transfer of coal from rail cars to barges through December 31, 2000.

B. $[redacted] (UP Cars) or $[redacted] to Cora Dock at Cora, IL.

C. $[redacted] (UP Cars) or $[redacted] (Customer Cars) to Texas City, TX

Rates to Texas City are subject to confirmation of the Texas City Terminal Railroad revenue requirements.

IX. RATE ADJUSTMENTS:

The Base Price will be adjusted January 1, 2001 and each January 1 thereafter using the percentage change in the RCAF(U) or a mutually agreed to fixed escalator. In no case will the price be adjusted below the Base Price.

X. MIMIMUM VOLUME REQUIREMENT:

[redacted]% of the coal transported via any mode from Campbell and Converse Counties of Wyoming to the Crystal River Plant.

XI. LOADING FREE TIME:

[redacted] hours

XII. UNLOADING FREE TIME:

A. [redacted] hours at Cahokia Marine Services at Sauget, IL.

B. [redacted] hours at Cora Dock at Cora, IL

C. [redacted] hours at Texas City, TX

XIII. CONFIDENTIALITY:

The information contained in this proposal is confidential and shall not be disclosed without the prior consent to the Union Pacific.

XIV. EXPIRATION OF PROPOSAL:

This proposal, except for confidentiality shall expire on February 29, 2000 unless sooner accepted or extended.

Thank you, for giving us the opportunity to provide this proposal. We would like to arrange a meeting to discuss this proposal and to determine if there is any way we can assist you in switching to the SPRB for some of your requirements. Please call me at 402-271-6228 with any questions or to arrange a meeting.

Sincerely,

James B. Halper
Business Manager-Energy
Union Pacific

Progress Energy

May 19, 2003

Mr. Sami M. Shalah
Vice President, Coal Marketing
Burlington Northern Santa Fe Railway Company
Post Office Box 961051
Fort Worth, Texas 76131-2830

Dear Mr. Shalah:

As you know, Progress Fuels Corporation is considering the purchase of test shipments of western coal for Progress Energy Florida's Crystal River coal plants. Your letter of May 8, wherein you offered to establish a trainload joint rate from the Southern Powder River Basin of Wyoming to assist us to that end is most appreciated. At this time, however, no final decision has been made regarding a test shipment, but we could enter into a contract with the BNSF providing there were no minimums. I look forward to discussing this matter with you further.

On another note, in previous years the BNSF has most generously provided the wine for the Monday night banquet at the annual NCCI Summer Trade Seminar. As the 2003 Sponsorship Chairman for this year's Seminar scheduled for July 6-8, I am hoping that the BNSF will continue its generosity and once again provide sponsorship in this manner. Your consideration of this request will be appreciated.

Sami, thank you once again for your letter of May 8 and know that Progress Fuels looks forward to the possibility of doing business with the BNSF.

Sincerely,

A. W. Pitcher
Vice President, Coal Procurement

AWP/ro

Progress Fuels Corporation
Post Office Box 33701
St. Petersburg, FL 33701

BNSF

Sunil M. Shaikh

Vice President
Coal Marketing

Burlington Northern Santa Fe
Railway Company

P. O. Box 961051
2650 Lou Menk Drive, 2nd Floor
Fort Worth, TX 76131-2830
Phone (817) 867-6253
Fax (817) 352-7939

May 8, 2003

RECEIVED
MAY 14 2003

Mr. Al Pitcher
Vice President Coal Procurement
Progress Fuels Corp.
P. O. Box 15208
St. Petersburg, FL 33733

Dear Mr. Pitcher:

The Burlington Northern and Santa Fe Railway Company (BNSF) and Union Pacific Railroad Company (UP) are offering to establish the following trainload joint rates on coal for your consideration to encourage the testing of western coal from the Southern Powder River Basin of Wyoming:

Origin:	Mines located in the Southern Powder River Basin of Wyoming
Destination:	McDuffie Coal Terminal at Mobile, Alabama for furtherance to Florida Power Corporation's Crystal River generating station.
Route:	UP-Kansas City, MO-BNSF
Equipment:	Trains shall be comprised of rail carrier owned or leased equipment.
Train Size:	Minimum of [redacted] net tons per shipment
Loading Time:	[redacted] hours
Unloading Time:	[redacted] hours
Rate:	[redacted] per net ton
Maximum Volume:	A maximum of [redacted] net tons may be shipped pursuant to this offer.

Response to question #48

Confidentiality: This offer is confidential and shall not be disclosed by BNSF, UP, Progress Energy or Progress Energy's agents, affiliates, consultants or counsel without the express written consent of the other parties.

We are prepared to establish this rate within the next 30 days in a confidential contract to remain effective through December 31, 2003.

Sincerely,

(illegible)

cc: Mr. Dwain Lanier
Executive Director Fossil Fuels
Progress Energy
P. O. Box 1551, MC 8A
Raleigh, North Carolina 27602

Mr. Bill Nock
Assistant Vice President Energy - East
Union Pacific Railroad Company
1416 Dodge Street
Omaha, NE 68179

Kennecott Energy Company
505 South Gillette Avenue
Caller Box 3009
Gillette, Wyoming 82717-3009
(307) 687-6000 Fax: (307) 687-6015

IC-16976

Kennecott Energy

October 15, 1998

VIA FEDERAL EXPRESS 727.824.6673
Mr. Dennis G. Edwards
Vice President – Coal Procurement
Electric Fuels Corporation
One Progress Plaza, BT10C
St. Petersburg, FL 33701

Dear Dennis:

Kennecott Energy Company appreciates receiving your proposal dated October 1, 1998, to supply coal to Electric Fuels' Crystal River via the CSX or via the Gulf of Mexico.

Our current coal portfolio is comprised of subbituminous Powder River Basin coals, with a heating value ranging from 8,400 to 9,400 BTU/lb and a Colorado coal with a heating value of 10,600 BTU. We continue to pursue opportunities that might fit your future coal requirements and would appreciate remaining on your Bid Solicitation list.

Best regards with your current solicitation.

Sincerely,

J. Michael Kelley
Manager Sales

JRM:ksn

PEF-FUEL-005082

41 Plants East Of The Mississippi River Using PRB Coal In 1996

Plant	PRB	Other	Plant	PRB	Other
Allen, TN	UNK	WBIT/ILLB	Michigan City, MI	60%	ILLB
Alma, WI	85%	ILLB	Miller, AL	72%	SAPP
Bailly, IN	46%	ILLB	Mitchell, MI	79%	WBIT
Belle River, MI	100%	N/A	Monroe, MI	68%	CAPP
Campbell, MI	69%	CAPP	Oak Creek, WI	48%	WBIT/ILLB
Clifty Creek, IN	61%	CAPP/ILLB	Pleasant Prarie, WI	100%	N/A
Cobb, MI	72%	CAPP	Powerton, IL	100%	ILLB
Columbia, WI	100%	N/A	River Rouge, MI	48%	CAPP
Crawford, IL	100%	N/A	Rockport, IN	100%	N/A
Daniel, MS	81%	WBIT	Schahfer 14-15, IN	84%	WBIT
Dewey, WI	95%	ILLB	Scherer, GA	65%	CAPP
Edgewater, WI	100%	N/A	Shawnee, KY	UNK	UKN
Fisk, IL	100%	N/A	St. Clair, MI	89%	NAPP
Gannon, FL	20-33%	CAPP/ILLB	State Line, IN	100%	N/A
Genoa, WI	51%	ILLB	Tanners Ck 4, IN	2%	UNK
J.P. Pulliam, WI	100%	N/A	Trenton Channel, MI	40%	CAPP
Joliet, IL	100%	N/A	Watson, MS	5%	ILLB
Joppa, IL	100%	N/A	Waukegan, IL	100%	N/A
Kincaid, IL	4%	WBIT/ILLB	Weadock, MI	57%	CAPP
Lansing, MI	93%	ILLB	Weston, WI	100%	N/A
			Will County, IL	100%	N/A

TECO Data on PRB Prices

(Cents/MMBtu)

Year	ECT Contract	ECT Spot	ECT Total	ECT lbs. SO2	ECT PRB	PRB lbs. SO2
1996	169.4	132.7	148.3	3.27	142	0.48
1997	158.7	132.1	147.3	3.60	141	0.48
1998	152.9	132.6	145.5	3.58	135	0.92
1999	150.0	127.2	142.0	3.52	125	0.43
2000	152.4	125.1	144.4	3.83	122	0.50
2001	165.7	143.2	154.4	3.93	143	0.54
2002	159.2	149.0	155.4	3.69	135	0.58

Pitcher, Al (PFC)

2005 - 2006 Offers and Evaluations

From: Pitcher, Al (PFC)
Sent: Tuesday, September 14, 2004 8:49 PM
To: Crake, Kyle (Energy)
Subject: Spot Barge Purchases 2005-2006

The current coal market, both rail and barge, continues to be very strong because of lack of supply due to the trucking issues in both Kentucky and West Virginia and various environmental issues regarding permitting. There is no indication that any material decline in pricing will occur until late in 2005 or early 2006. In addition to the strong pricing, multiple utilities (TVA, South Carolina Gas & Electric, South Carolina Public Service, and Constellation) are currently in the market for large tonnage. Basically, many potential customers are chasing very few tons. TVA is seeking both rail and barge coal and this email concerns our Delta barge coal requirements for 2005 and 2006. 4-5

Based upon the above facts, it is my opinion that issuing an RFP for Delta barge coal, at this time to chase a very limited supply, is unwise. I have been calling various suppliers to determine availability for next year and I have found very few tons available and most of the companies want two year agreements (2005-2006). PFC's 2005 and 2006 open position for Delta barge delivered coal is approximately 600,000 tons and 550,000 tons respectively. These amounts are different than previously discussed because we have shifted the entire Massey Delta contract to rail delivery, because this is the most economical move for this coal, and our estimated beginning 2005 inventory at IMT will be higher due to delayed deliveries resulting from a very active hurricane season. Previous projections had Massey Delta contract split 50% rail and 50% water to balance logistics.

Based upon our 2005 and 2006 requirements, I recommend purchasing the following:

Progress Fuels Corporation-Marketing & Trading (M&T)	40,000 tons per month at a delivered price of 3.153 $/mmbtu; The term would be 1/1/2005-12/31/2006
CMC/Coal Marketing Company Ltd. (Colombian)	25,000 tons per month at a delivered price of 3.176 $/mmbtu; The term would be 1/1/2005-12/31/2006

See the attached evaluations. Three bids were considered and only one other bid was near competitive. The Guasare bid was approximately 17.5 cents/mmbtu higher, on a delivered basis, than the either the M&T or the Colombian bid.

Please note the CMC offer expires on Friday September 17. No time was given. Therefore, I am assuming the close of business.

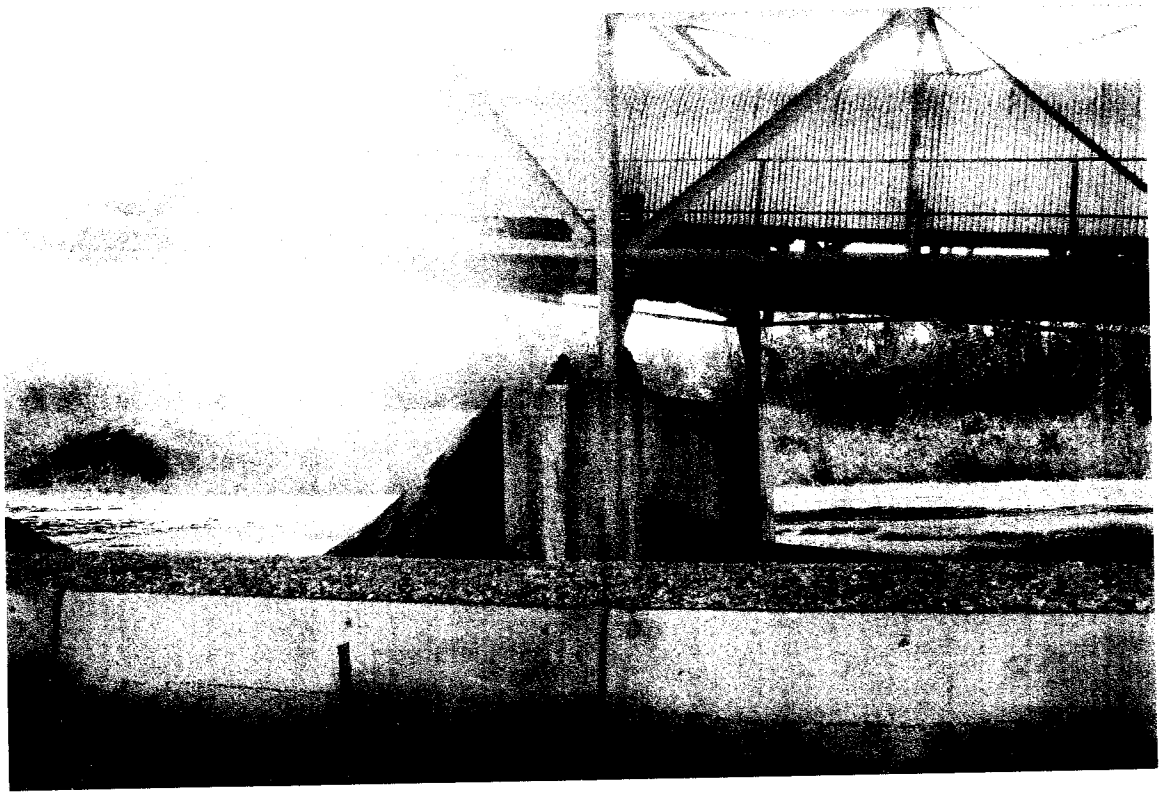
A. W. Pitcher
Vice President Coal Procurement
Progress Fuels Corporation
One Progress Plaza, ST15C
St. Petersburg, FL 33701
Phone No. 727-824-5602
Fax No. 727-824-5001
E-mail address: [redacted]

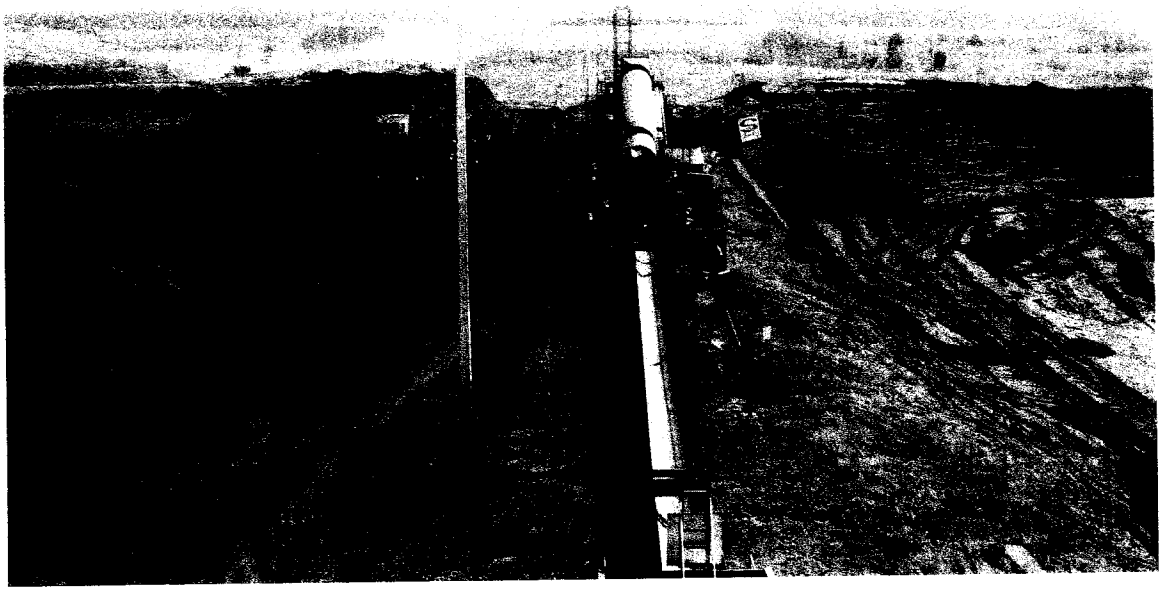
9/14/2004

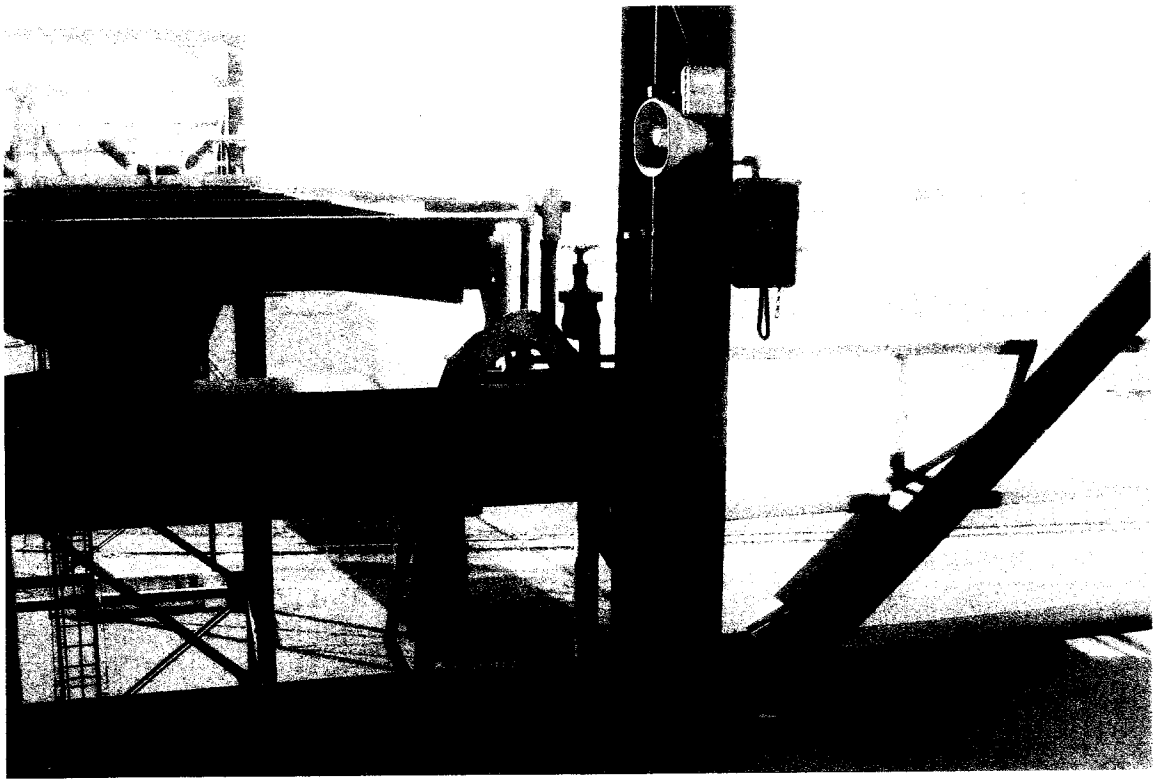
Docket No. 060658-EI
Photos of Crystal River Plant
Composite Exhibit No. ____ (RS-40)

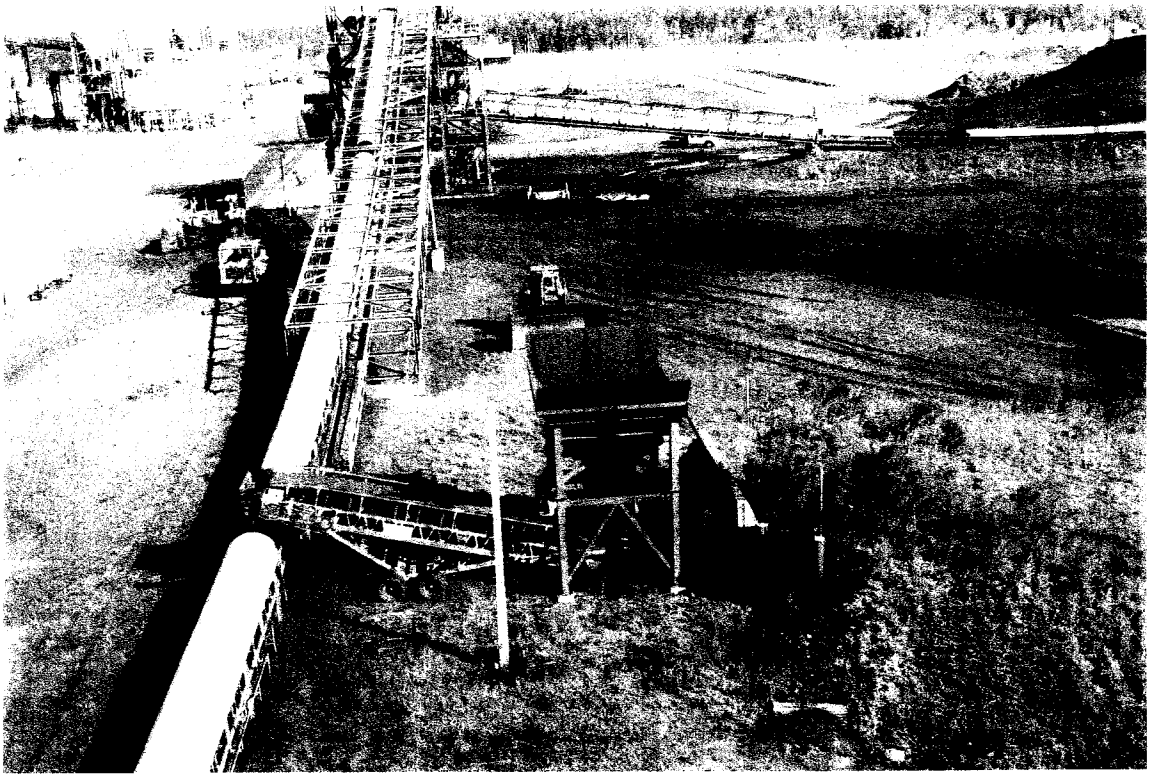
Sansom Photographs February 22, 2007 Visit To Crystal River

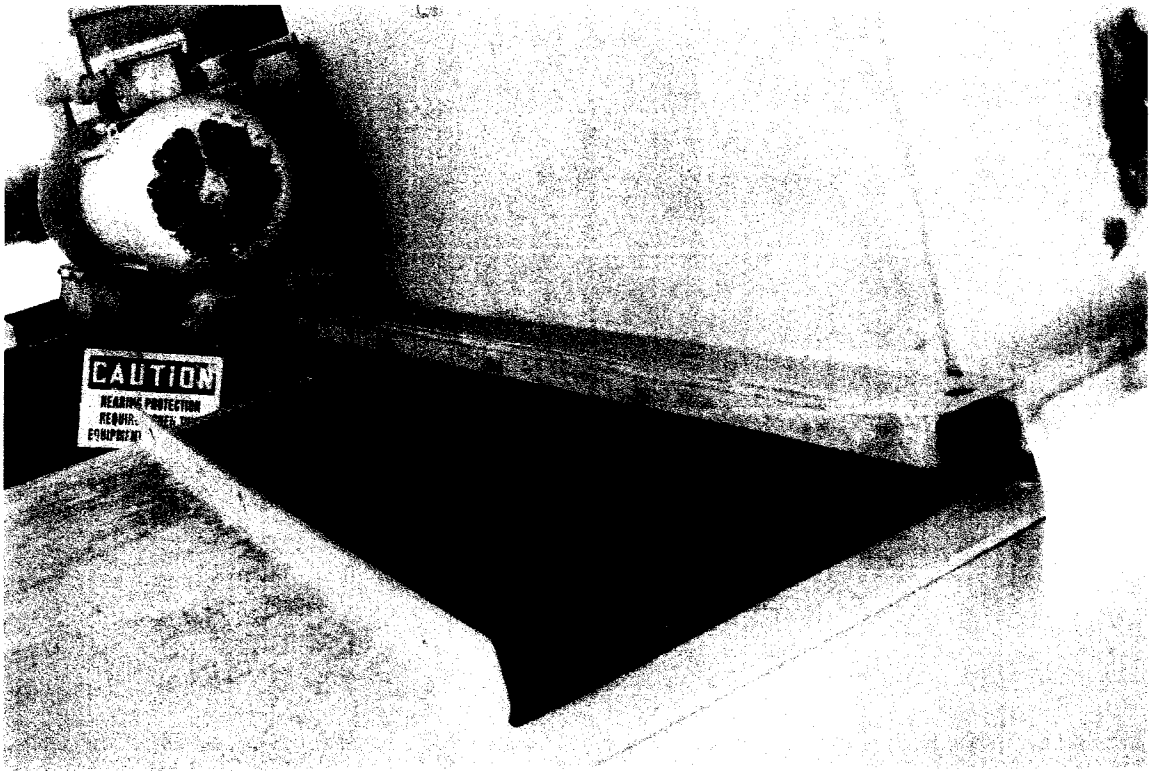
(Provided separately.)







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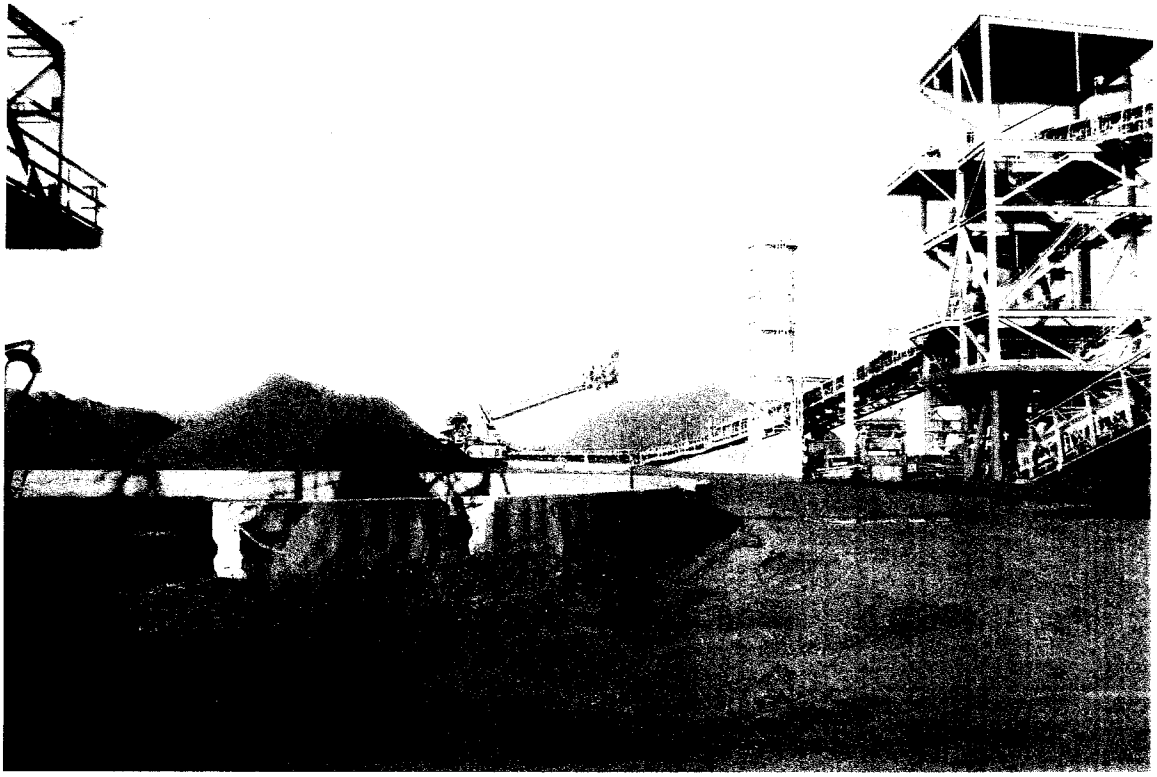

Docket No. 060658-EI
Crystal River Coal Yard Layout
Exhibit No. _____ (RS-41)
Page 1 of 1

Progress Energy's Notes Regarding Conversation - Rod Hatt – Coal Combustion, Inc. (5/3/05 telecon)

Docket No. 060658-EI
PE's Notes on Conversation - Hatt
Exhibit No. _____ (RS-42)
Page 1 of 1

DTE Energy [Notes from 4/19/05 Clearwater Coal Conference presentation by Andy Dolnzanski]

- Monroe station is like our Roxboro. Have 4 units totaling 3000 MW's.
- **Blend 3 coals at a time. (Black Thunder PRB, Low S CAPP, Mid S CAPP.)**
- Burn 8-10 MM tons/yr.
- Have on-line coal sampler to assist with quality,"At Monroe, we performance blend." Specifics: X-Ray Flouresceonce on-line coal analyzer and Digital Fuel Tracking System [ECG].

Rod Hatt – Coal Combustion, Inc. [5/3/05 telecon]

- Thinks ≤25% PRB can get away without having to do major improvements as long as daily housekeeping [washing complete fuel handling system for dust] is addressed.
- 50% PRB blend: need to watch because even though 50% PRB, PRB might comprise 80% of the dust.
- PRB is high grind (55-60), so constraint might not be so much BTU's as feeder capacity.
- If serious about PRB, suggested visited some of the PRB User's Group Plant of the Year to learn best practices. [Plant Miller in Alabama, Dominion Energy's Kincaid, etc.]
- Housekeeping: need to paint plant white and make it white again at the end of every day. Complete washdown. Over a dozen utilities have had sloppy housekeeping with PRB and paid the price with explosions.
- PRB Users Group [www.prbcoal.com] is a good resource.
- Keys to PRB:
  1. **Ability to clean up each day – immaculate housekeeping**
  2. **Fire protection is a good backup – but if do proper cleanup, don't *need to have*. Is nice to have though.**

PRB Tons Bid In 2004 For 2005-2007

Company	2005	2006	2007
Arch	500,000	500,000	500,000
Peabody	300,000	300,000	300,000
Triton	1,000,000	1,000,000	1,000,000
Kennecott	200,000	400,000	400,000
Total	**2,000,000**	**2,200,000**	**2,200,000**

Docket No. 060658-EI
Revised SO2 Overpayments
Exhibit No. ____ (RS-45)
Page 1 of 1

Revised SO2 Overpayments

	2000	2001	2002	2003	2004	2005
lbs SO2/MMBtu Water Bit.	1.12	1.11	1.12	1.03	1.04	1.02
% Removed Bit C	6.0	6.0	6.0	6.0	6.0	6.0
Bit C SO2 lbs/MMBtu	1.0528	1.0656	1.0528	0.9682	0.9776	0.9588
PRB lbs/MMBtu SO2	0.6	0.6	0.6	0.6	0.6	0.6
Removed % From PRB	18.3	18.3	18.3	18.3	18.3	18.3
PRB SO2 lbs/MMBtu	0.4902	0.4902	0.4902	0.4902	0.4902	0.4902
Difference in lbs/MMBtu	0.5626	0.5754	0.5626	0.478	0.4874	0.4686
MMBtu PRB Coal	36,617,231	35,795,905	31,753,000	32,780,835	37,980,082	31,771,004
Δ lbs SO2	20,600,854	20,596,964	17,864,238	15,669,239	18,511,492	14,887,892
Δ Tons SO2	10,300	10,298	8,932	7,835	9,255,746	7,444
$/Ton SO2	141	186	152	176	442	906
New Overpayments $	1,452,360	1,915,518	1,357,682	1,378,893	4,091,040	6,744,215
Old Overpayments $	1,497,278	1,897,541	1,410,049	1,413,510	4,106,799	7,513,540
Difference $	(44,918)	17,977	(52,367)	(34,617)	(105,759)	(769,325)
		Net Changes	**$989,009**	(78% due to 2005 PRB Btu error)		

PROPOSED AGENDA
New River Synfuel LLC
Quincy Dock -- March 14, 2005 @ 9:00 am

Participants:

- New River Synfuel LLC/Charleston Capital Corporation -- Don Dargie, Don Logan, Bob Russell, Gordon Deane
- Black Hawk Synfuel LLC -- Fred Verardi, Donna Davis, Sasha Weintraub, Brett Phipps, Butch Smith, Kenny Fletcher, Paul Armstrong (Manager of Coals & Terminals), Brian Bender (Trader, SolArc System), Dennis Taylor (Purchasing Supervisor), Christine Barcay (Accountant for New River)
- Synfuel Services, LLC -- Mark Wiley, Ralph Barbaro (Energy Ventures -- Consultant)
- Novogradac & Company LLP -- By phone if needed

Site Walk

Basic Review

1. General Review of Day's Schedule & Purpose of Meeting

2. Operations Review
   a. Total tons processed: New River tons vs. KRT; changes over time
   b. Feedstock deliveries: accounting, sources, quality, handling, tracking, accuracy -- changes over time
   c. Reagent: accounting, handling, monitoring, accuracy -- changes over time
   d. Synfuel & Coal shipments: accounting, customers, quality, handling, tracking, accuracy -- changes over time and differences in shipments
   e. Co-mingling -- SolArc system, directions to operators, accuracy of reports, periodic inventory adjustments, aerial surveys, degradation/moisture
   f. Practicality of eliminating co-mingling of feedstock -- impact on synfuel vs. coal operations

3. Payments terms:
   a. Feedstock payment invoices -- contract terms; historical practices, practical going forward
   b. Synfuel sales receipts -- contract terms, historical practices, practical going forward
   c. Marketing, O&M, Transloading, Supply Fees -- contract terms, historical practices, practical going forward
   d. Potential conflicts in interpretation/description of above
   e. Other

4. Other Contract Terms for Discussion?
   a. Guarantees
   b. Feedstock at market prices and commercially reasonable terms
   c. Record keeping
   d. Working Capital Loan

5. Synfuel-Feedstock Spread
   a. Historical for 3rd parties, changes over time; anticipated future
   b. $4 spread – genesis of program, Btu expectations, tonnage expectations, feedstock vs. synfuel sales tracking, anticipated future tonnage

Financial & Other Issues

6. $4 Infinity Commission Sales on Purchase & Sales
   a. Relation to $4 spread, if any
   b. History and quantification
   c. Anticipated future

7. $18.1 million accounting adjustments
   a. Novogradac conclusions re amount
   b. BHS procedures to ensure does not re-occur
   c. NRS procedures to review BHS procedures
   d. Interest on unbilled amounts – dollar amount, fairness

8. KRT's Proposed $3.6 MM Inventory Adjustment
   a. Genesis of claim
   b. Supporting data for claim, accuracy; comparable data for parallel coal operations
   c. Other $0.8 MM inventory adjustment item
   d. Procedures for future

9. NexGen's Claim resulting from Potential Moisture Adjustment
   a. Genesis and amount of claim
   b. Supporting data for claim, accuracy
   c. Novogradac response re appropriateness of claim
   d. GP response re appropriateness of claim
   e. Procedures for future

10. Working Capital Loan
    a. $6 MM allowed dollar amount via 1st Amendment vs. at historical and current operating level
    b. Posting of items to WC Loan – timing, obligations, tracking
    c. Implications of insufficient cash flow to fully pay down (recent $8 MM issue)
    d. Impact of synfuel collections lagging feedstock billings on interest charges and magnitude of outstanding balance
    e. Funding of WC Reserve ($600,000)

11. OTHER ITEMS NEEDING RESOLUTION?

12. Resolution
    a. Items resolved and their resolution (be specific)
    b. Items not resolved and next steps (specific steps with timetables and deadlines)

COPY

Black Hawk Synfuel LLC

One Progress Plaza, BT10C, St. Petersburg, Florida 33701
Phone No. 727/824-6692 Fax No. 727/824-6601

June 12, 2001

Mr. Dennis Edwards
Vice President, Coal Procurement
Electric Fuels Corporation
P.O. Box 15208
St. Petersburg, FL 33733

Dear Dennis:

Black Hawk Synfuel LLC (sales agent for New River Synfuel, LLC) is pleased to offer Electric Fuels Corporation Synfuel for the twelve months beginning January 1, 2002 through December 31, 2002, meeting the following specifications:

Specifications	
Moisture-maximum %	8.00
Ash-maximum %	12.00
Btu - minimum	12,100
Sulfur - maximum %	.68
Volatile - maximum %	32.0
Ash fusion	2650 Degrees F
Size	Synfuel
Tonnage per month	120,000
Price F.O.B. Barge - Quincy	$39.25
Transportation	$3.75

This product would be loaded at our Kanawha River Terminals' Quincy Dock at Mile Post 73.10 on the Kanawha River.

If successful, we reserve the right, with prior approval and applicable adjustment for transportation, to ship this product from our Sandy River Synfuel LLC at Mile Post 8.5 and Colona Synfuel LLLP at Mile Post 7.7, both located on the Big Sandy River, and Ceredo Synfuel LLC at Mile Post 314.50 on the Ohio River.

The weights and analysis at loading will govern for payment. Payments will be due upon receipt of the analysis and the invoices.

I hope you find this offer favorable, and I look forward to hearing from you.

Sincerely,

BLACK HAWK SYNFUEL, LLC

A. W. Pitcher
Vice President - Sales

AWP:lrb

cc: W.D. Carter

PFC M&T
CR 102

Indication of Product Availability

Docket No. 060658-EI
Indication of Product Availability
Exhibit No. _____ (RS-48)
Page 1 of 2

Mr. Pitcher,

Per our conversations of last week, Progress Fuels Corporation – Marketing & Trading (PFC M&T) is pleased to submit the following indication of product availability for the consideration of Progress Fuels Corporation – Regulated (PFC–R). I would appreciate the ability to follow-up with you after you have had the chance to evaluate the numbers:

First Indication

Term:	1/1/05 - 12/31/06	
Quantity:	15,000 tons/month **(subject to prior sale or commitment)***	
Quality:	Based on As Received – Monthly Weighted Averages	
	BTU --	12,000 Min.
	ASH -	13.50% Max.
	SO2 #/MMBTU -	2.00# Max. -- 1.8# Typical
Price:	$55.75/NT for Coal FOB Barge	
Location:	Originating on the Big Sandy River	

Second Indication

Term:	1/1/05 - 12/31/06	
Quantity:	15,000 tons/month **(subject to prior sale or commitment)**	
Quality:	Based on As Received – Monthly Weighted Averages	
	BTU -	12,000 Minimum
	ASH -	13.50% Maximum
	SO2 #/MM BTU-	1.20# Maximum
Price:	$59.50/NT for Coal FOB Barge	
Location:	Originating in the Marmet Pool of the Kanawha River	

These indications are based upon PFC M&T, via its operation of various Synfuel entities for other parties, being able to ship a volume as a synfuel product. Our intention would be to ship as much synfuel as possible, however, in the dynamic environment of Section 29, we must reserve the right to ship coal. We also understand current restrictions on your receipt of synfuel of a 1.2# SO2 require the product to be no greater than a 0.68% sulfur on a weighted average.

Alternate Source: PFC may elect at its sole option to ship either or both products from its facilities located at the Ceredo Dock, the Kanawha River Docks, or from the Big Sandy River Docks. Tons shipped from these facilities will be priced at an agreed to transportation differential, as part of the basic economic considerations of this package. The alternate sources will meet the parameters of the agreement between the parties.

As a general caveat, these indications are submitted subject to the party's negotiation of mutually acceptable terms and conditions, including but not limited to the inclusion of quality adjustment provisions and subsequent finalization of agreements.

I hope PFC-R finds these indications of interest. With the dynamics of today's marketplace we cannot hold these indications open more than a short period of time. We are also moving forward with other's interested in these types of product.

I appreciate your attention to this matter and if you have any questions please do not hesitate to contact me.

Joe Jefferson
Director – Coal Sales