PROGRESS ENERGY FLORIDA

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DIRECT TESTIMONY OF ALBERT W. PITCHER

Q. Please state your name and business address.

A. My name is Albert W. Pitcher. My business address is 200 Central Avenue, St. Petersburg, Florida 33701.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Fuels Corporation (PFC) in the capacity of Vice President – Coal Procurement.

Q. What are your duties and responsibilities in this capacity?

A. As Vice President for Coal Procurement, I am responsible for the procurement of coal supplies and transportation services for delivery to the Crystal River plant site of Progress Energy Florida (Progress Energy) in order to satisfy the requirements of the site's four coal-fired generating units. My responsibilities include the delivery of waterborne coal to the plant site and conducting competitive bid solicitations to secure economic and reliable waterborne transportation services for these deliveries.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Business Administration Degree in Accounting from the University of Cincinnati in 1971. I began my professional career with

Arthur Andersen and Company as a staff auditor. I was employed by Cincinnati Gas & Electric Company in various auditing and accounting functions from 1972 until 1976. I began my career with Florida Power Corporation (FPC), the predecessor of Progress Energy, as a staff auditor in the Audit Services Department in August of 1976. In 1977, I joined Electric Fuels Corporation (EFC), then a wholly owned subsidiary of FPC, as Manager of Accounting. I served in this capacity and that of EFC's Controller until 1984. At that time I became Vice President of Sales, charged with the responsibility of selling coal to utilities and industrial customers in the Eastern United States, from both EFC's affiliated mining operations and third-party sources. Over the period from 1984 to 2002, EFC's coal sales increased from less than one million tons to over 18 million tons annually. In September of 2002, following the merger with CP&L and the change of EFC's name to Progress Fuels Corporation (PFC), I assumed my current position of Vice President of Coal Procurement. In this capacity, I am responsible for the procurement and transportation of over six million tons of coal delivered annually to Progress Energy's Crystal River plant site.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain and support the competitive bidding solicitation process for obtaining waterborne coal transportation services (WCTS) that PFC proposes to implement in 2005 based on the agreement between Staff and Progress Energy described in Mr. Portuondo's testimony. In doing so, I will also describe PFC's experience in providing WCTS to FPC and now Progress Energy and in conducting competitive bid solicitations.

Q. Please describe PFC's experience in providing WCTS to Progress Energy and its predecessor, FPC.

A. PFC has provided WCTS to FPC and Progress Energy continuously since its formation in 1976, almost 28 years ago. PFC, then EFC, was established to implement FPC's strategy aimed at securing a greater degree of control over the costs and reliability of its long-term coal supply and transportation needs than it could obtain as simply a purchaser of these services subject to the vagaries of an uncertain market. Under this strategy, EFC was to acquire business expertise and ownership leverage through capital investment in partnerships with organizations experienced in the various segments of the coal supply and transportation business, particularly those segments lacking a competitive market.

Q. How did EFC implement this strategy with respect to waterborne coal transportation?

A. At that time, the most critical implementation issues were the absence of competitive markets in two key segments of the waterborne transportation route; (1) the storage and transloading of coal from river barges to Gulf barges at the mouth of the Mississippi River, and (2) the cross-Gulf transportation of coal to the Crystal River plant site. Neither segment had facilities with sufficient capacity to handle the approximately 2 million tons of waterborne coal annually that EFC needed to deliver to the Crystal River site (the requirements of the site remaining after maximum rail deliveries). This meant that a long-term commitment would have to be made for the construction of additional facilities to increase tonnage capacity in both segments. EFC chose to make that commitment through an ownership interest in the facilities, rather than entering into long-term contracts with third-party owners of the new facilities.

With respect to the river-to-Gulf transloading segment, EFC acquired a one-third ownership interest with two other experienced partners in International Marine Terminals (IMT), which began the construction of a new transloading and storage terminal on the Mississippi River approximately 60 miles south of New Orleans. In a similar vein, EFC acquired a 65% ownership interest in a partnership with Dixie Carriers, an experienced operator of ocean-going carrier vessels, for the transportation of coal to the Crystal River plant site. Since no carrier vessels capable of navigating the site's shallow, narrow channel were available, specially designed ocean-going tug-barge units had to be constructed by the partnership, Dixie Fuels Limited (DFL).

In addition to the investment in these two major undertakings soon after its formation, EFC also acquired ownership interests in several smaller upriver terminals, where coal delivered from the mines is loaded onto river barges. Due to the limited availability of upriver terminal capacity, these investments allowed EFC to obtain priority at existing terminals and to develop additional capacity by constructing new terminals. Since sufficient capacity existed at the time in the upriver mine-to-river (or "short-haul") transportation segment and the river barge transportation segment, EFC contracted with third-party suppliers of those services. Although not a part of the original implementation strategy, much later in the early 1990s, EFC acquired ownership of MEMCO Barge Lines, Inc. (MEMCO), a major provider of river-barge transportation services for coal and other dry goods on the Ohio and Mississippi River chain.

Q. What is PFC's current strategy regarding WCTS it provides to Progress Energy?

A. With the passage of considerable time, the changes in market conditions, and the acquisition of business experience and market knowledge, PFC has divested it's ownership interest in all of the WCTS segments over the last several years, except for its interest in DFL and one of the upriver terminal operators, Kanawha River Terminals (KRT). PFC's pre-divestment WCTS contracts with MEMCO and IMT expire this year and its contract with DFL expires at the end of March 2005. Prospectively, PFC intends to secure WCTS provided to Progress Energy under a formal competitive bidding process through the issuance of Requests for Proposals (RFPs), consistent with the agreement reached by Progress Energy and Staff.

Q. What experience has PFC had with the competitive bidding process?

A. PFC has had extensive experience with competitive bid solicitations, as have I personally, as both buyers and sellers of coal and transportation services. As I indicated earlier, prior to assuming my current position I served as Vice President of Sales from 1984 to 2002, where I was responsible for the sale of over 18 million tons of coal a year through the competitive bidding process in several highly competitive markets. In addition, since shortly after its inception as EFC, PFC has been responsible for purchasing around six million tons every year for FPC and now Progress Energy through competitive bid solicitations. During that timeframe, PFC gained experience as a bidder in the coal supply market as well. For about the same period of time, PFC has had experience with the competitive bidding process for WCTS through its ownership interest in upriver terminalling, river barge transportation, river-to-Gulf barge terminalling, and cross-Gulf barge transportation. Nonetheless, in view of the heightened interest of the Commission and Staff, PFC has retained the services and expertise of Mr. Heller to assist with the task of developing the formal RFP instrument in order to be sure the task is given proper consideration.

Q. How does PFC plan to conduct the competitive bidding process for obtaining WCTS provided to Progress Energy in the future?

A. Consistent with the agreement between Staff and Progress Energy, PFC plans to use a formal competitive bidding process initiated through the issuance of an RFP for each segment of PFC's waterborne transportation route. Responses to each RFP will be evaluated by PFC in a transparent manner without bias or favor to any particular supplier. After thoroughly evaluating the pricing terms, service provisions, equipment, management and staff capabilities, and financial condition of each bid proposal submitted, PFC will determine a short list of the highest rated bidders. Individual negotiations will then be conducted with each short-listed bidder, from which PFC will select the vendor or combination of vendors that offer the best combination of low-cost, reliable, and safe services for that segment of the waterborne transportation route.

The content of the RFPs to be issued by PFC will be addressed in the testimony of Mr. Heller, along with other considerations associated with their issuance and evaluation.

Q Who will be responsible for PFC's competitive solicitation process?

A. The overall process of developing the RFPs, conducting the solicitation, evaluating the responses, and making the contract award will be conducted by a staff over which I will have primary responsibility. In addition to PFC staff, Progress Energy will play a key role, since the transportation services provided under the contracts that result from the solicitation process will be for the benefit of its customers. Representatives of Progress Energy will be involved in various aspects of the process to ensure coordination in such areas as unit availability estimates and planned outage schedules for the Crystal River coal units, transportation plans and delivery schedules, inventory levels, fuel emergency scenarios and plans, and so on. Input will also be provided by the corporate parent's legal, accounting, and credit departments at various stages of the process.

Q. How will records of the competitive bidding process be kept?

A. As specified in Progress Energy's agreement with Staff, PFC will maintain sufficient documentation to allow the Commission to fairly evaluate the bidding process, including the RFP instrument, the criteria for selection, the solicitation schedule, the evaluation and screening process, and the selection decision. Through Progress Energy, PFC will see that this documentation is made available to Staff within 45 days after the execution of any WCTS contract resulting from the bidding process, consistent with the agreement.

Q. What contract term will be specified in the WCTS RFPs issued by PFC?

A. The RFP will specify a range for the contract term to provide PFC the flexibility during the evaluation process of balancing the benefit of greater market responsiveness that PFC may receive under a shorter contract term against the benefit of more favorable economic considerations that PFC may receive under a longer-term contract. As a general rule, I anticipate PFC will solicit contracts with a term of three to five years. Contracts of this duration fit well into PFC's planning horizon. There is no necessity for contract terms to be the same for each WCTS segment and, in fact, there may be an administrative benefit if the expiration of the contracts are staggered. The primary driver of the contract term actually selected will be the overall economic benefit of the individual responses to the RFPs.

Q. For which segments of overall waterborne transportation route will PFC issue RFPs?

A. RFPs will be issued for each transportation segment in which PFC contracts for WCTS. At present these segments include river barge transportation, river-to-Gulf barge terminalling, and cross-Gulf barge transportation.

Q. When issuing RFPs for the WCTS segments, how will PFC identify potential WCTS suppliers for each of these segment?

A. To begin with, PFC intends to advertisė a notice for every RFP in widely read industry publications. For the river barge transportation sėgment, PFC will identify potential providers of river barge services based upon available lists of companies who have or could reasonably acquire the necessary dry cargo capability and provide the necessary towboats to perform the services required. The names of these operators are available from existing lists maintained by PFC, market intelligence, industry publications (e.g., the *Keystone Coal Industry Manual* and the *Sparks Barge Fleet Profile*) and PFC's general industry knowledge. Because of industry consolidation, the majority of the tonnage shipped is carried by relatively few operators.

For Gulf terminalling, PFC is very familiar with the lower river transloading terminal facilities based on its experience in the business. In the New Orleans area, there are two such facilities and one potential facility in the Mobile, Alabama area. Each of these terminals can efficiently load Gulf barges, receive Panamax-size vessels, and provide ground storage and blending services. In addition, a new marine terminal near New Orleans may have sufficient capability to handle all or part of PFC's requirements.

With respect to cross-Gulf shipping, the two largest providers are DFL and TECO Ocean Shipping. However, there are other companies that provide "blue-water" transportation services whose interest PFC will attempt to determine through advertisements for its RFPs in trade publications.

Q. How will PFC issue its RFPs to potential respondents?

A. RFPs will issued by PFC as a sealed bid solicitation in the following manner:

- Instructions will be provided to potential suppliers regarding the submission of responses to the RFP;
- A uniform date and time by which responses to the RFP must be received will be provided to all potential suppliers, with any subsequent modification applicable and provided to all such suppliers.
- PFC will include a conspicuous notice that only sealed responses received in a timely manner will be considered. However, PFC may reserve the right to waive this provision under unusual circumstances and if it is deemed by PFC to be in the best interest of Progress Energy's customers. In that case, similar opportunities would be provided to bidders still under consideration.
- All responses will be logged upon receipt and remained sealed until after the response deadline has expired.

Q. Has PFC determined a schedule for issuing its RFPs and evaluating the responses?

A. Subject to changes in market conditions, PFC expects to issue its RFPs in the order that its existing WCTS contracts expire under the following schedule: For Gulf terminalling services, by July 15, 2004; for river barge transportation services, by September 1, 2004; and for cross-Gulf barge transportation services, by November 1, 2004. Response will be due 30 days after issuance except for the cross-Gulf RFP, for which responses will be due 60 days after issuance. PFC will require a minimum of at least 30 days to evaluate responses to each of the RFPs.

This schedule for the initial set of RFPs to be issued under the new competitive bidding process will not provide 120 days between the execution and the effective date of any resulting WCTS contracts, as Progress Energy's agreement with Staff specifies, unless good cause is shown for a shorter period. In this case, there are several reasons why this 120-day period is not feasible and would not be appropriate under current market conditions even if it could be achieved. From a practical standpoint, PFC will need to initiate some action to extend, renew or replace the existing contracts because of their impending expiration. In good faith, Progress Energy and PFC have attempted to follow the agreement reach with Staff to the extent practicable, even though the agreement has not been approved by the Commission. As I noted earlier, PFC has considerable experience conducting informal competitive bid solicitations, but little recent experience with the formal RFP process for transportation services. This is the reason PFC has hired Mr. Heller for his assistance in this area. As a result, even the proposed schedule will be a challenge for this initial set of RFPs; a schedule with an additional 120 days at the end is simply not feasible. In addition, there is inherent risk in issuing RFPs well in advance of the market conditions that will exist when contracts resulting from the RFPs will be in effect. As Mr. Heller points out in his testimony, the chaotic state and high level of the current transportation market makes it particularly inappropriate to accelerate the issuance of the RFPs in question.

Q. Does this conclude your testimony?

A. Yes, it does.