



JAMES A. MCGEE  
ASSOCIATE GENERAL COUNSEL  
PROGRESS ENERGY SERVICE COMPANY, LLC

April 12, 2004

VIA OVERNIGHT DELIVERY

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

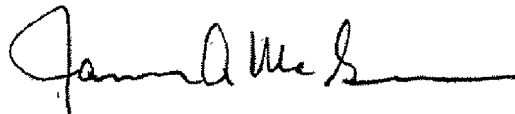
Re: Docket No. 031057-EI; **Notice of Intent  
to Request Confidential Classification.**

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc. are an original and seven copies of its Notice of Intent to Request Confidential Classification. Also enclosed is a sealed envelope containing the document subject to the Notice, with the confidential information highlighted. **This document should be held as Confidential Information in accordance with Rule 25-22.006, F.A.C.** A public copy of the document in which the confidential information has been redacted is attached to each filed copy of the Notice.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. A 3½ inch diskette containing the above-referenced Notice in Word format is also enclosed. Thank you for your assistance in this matter.

Very truly yours,



James A. McGee

JAM/scc  
Enclosures

cc: Parties of record

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DOCUMENT NUMBER-DATE

04471 APR 13 3

FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Review of Progress Energy  
Florida's benchmark for Waterborne  
Transportation Transactions with  
Progress Fuels.

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Docket No. 031057-EI

Submitted for filing:  
April 13, 2004

**NOTICE OF INTENT TO REQUEST  
CONFIDENTIAL CLASSIFICATION**

Progress Energy Florida, Inc. (Progress Energy or the Company), pursuant to pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., hereby files this notice of its intent to request Confidential Classification of the highlighted portions of its response to the Staff audit report of Progress Energy's 2003 waterborne transportation costs (the Response) contained in the sealed envelope enclosed with this Notice. The audit report, Audit Control No. 04-082-2-1, was filed by Staff on April 1, 2004 as a confidential document and was designated DN 04160-04. A copy of a public version of the Response, with the confidential information redacted, is attached to each filed copy of this Notice. Accordingly, Progress Energy hereby submits the following:

1. A separate, sealed envelope containing one copy of the Response, with the information for which Progress Energy intends to request confidential classification highlighted. **This information should be accorded confidential treatment pending the filing of Progress Energy's request and a decision thereon by the Commission.**

2. As an attachment to each copy of this Notice, a copy of the Response with the information for which Progress Energy intends to request confidential classification redacted.

Respectfully submitted,



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Attorney for  
PROGRESS ENERGY FLORIDA, INC.

**PROGRESS ENERGY FLORIDA**

**DOCKET NO. 031057-EI**

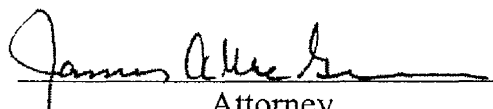
**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals by regular U.S. Mail this 12<sup>th</sup> day of April, 2004.

Wm. Cochran Keating, IV, Esquire  
Office of the General Counsel  
Economic Regulation Section  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Robert Vandiver, Esquire  
Office of the Public Counsel  
c/o The Florida Legislature  
111 West Madison St., Room 812  
Tallahassee, FL 32399-1400

Vicki Gordon Kaufman, Esquire  
117 S. Gadsden Street  
Tallahassee, FL 32301

  
Attorney

**Progress Energy Florida's Response to  
Staff's Waterborne Transportation Audit Report**  
(twelve months ended December 31, 2003)

Response to Disclosure No. 1

Under the "Auditor Opinion" paragraph at the conclusion of Disclosure No. 1, the audit report states:

"We determined the average cost of waterborne transportation for Progress Fuels Corporation [PFC] for 2003 was \$16.52 per ton based on company records."

As explained below, the audit report's calculation of this average cost is erroneous. When correctly calculated, PFC's average contractual cost for 2003 is \$ [REDACTED] per ton. As is also explained below, PFC incurred non-contractual costs in 2003 of \$ [REDACTED] per ton, for total 2003 waterborne transportation costs of \$ [REDACTED] per ton.

The audit report's calculation is wrong because it simply divided PFC's total 2003 waterborne transportation costs by the tonnage of coal purchased by PFC in 2003. This ignored the fact that these costs were actually incurred in distinct waterborne transportation segments (upriver, river barge, Gulf terminal and cross-Gulf) in which the tonnage varies significantly from segment to segment. For this reason, the only way PFC's costs can be accurately expressed on a per ton basis is to perform the calculation for each segment separately, and then total the unit costs of each segment. The problem with the audit report's calculation can be seen by reference to the table included with the report as Attachment A, which shows the proper calculation of PFC's 2003 contractual costs on a segment-by-segment basis. The same table is also attached to this response, with one additional column on the far right to illustrate the flaw in the audit report's calculation.

The audit report's cost of \$16.52 per ton was calculated by dividing PFC's total costs on Attachment A of \$ [REDACTED] by [REDACTED]

[REDACTED] As can be seen in the right-hand column added to Attachment A, the audit report's [REDACTED] seriously distorted the cost per ton calculated for these segments and, as a result, the total cost per ton for PFC's overall waterborne transportation system.

In addition, PFC's contractual costs of \$ [REDACTED] per ton do not include other significant non-contractual costs incurred by PFC for the cross-Gulf segment, such as a utility return on barge investment and major maintenance capital costs and expenses. When these non-contractual costs of \$ [REDACTED] per ton are added to PFC's contractual costs, total 2003 waterborne transportation costs are \$ [REDACTED] per ton, rather than the audit report's erroneously calculated \$16.52 figure.

<sup>1</sup> The slight difference of just over 10,000 tons is due to the net effect of purchases made near the end of 2002 that were received at the Gulf terminal in early 2003, and purchases made near the end of 2003 that were received at the Gulf terminal in early 2004.

<sup>2</sup> The "Upriver" tonnage shown on Attachment A includes only FOB Mine purchases, which require short-haul transportation and storage and/or transloading at the upriver terminal. Attachment A's "River Barge" tonnage includes most FOB Mine purchases (except those in upriver storage at the end of 2003) and all FOB Barge purchases, but none of the foreign purchases included in the total tonnage figure used in the audit report's calculation. The "Cross-Gulf" tonnage on Attachment A reflects all shipments from the Gulf terminal to Crystal River, which includes both 2003 purchases and pre-2003 purchases shipped from the Gulf terminal's inventory.

## Response to Disclosure No. 2

Several points in audit Disclosure No. 2, which addresses the commodity price of PFC's coal purchases in 2003, require clarification if they are to be properly understood.

First, the opening paragraph in the Statement of Fact states that coal commodity prices for 2003 purchases

“ranged from \$ [REDACTED] per ton for coal from Alliance Coal Sales Corp. (MC Mining), a non affiliate, to \$ [REDACTED] per ton for synfuel from Riverside Synfuel LLC, an affiliated company.”

As a point of clarification, while Riverside Synfuel is, in fact, an affiliated company, it's capacity in this particular purchase was only as an agent for RC Synfuel, a non-affiliated company which actually manufactured and supplied the synfuel purchased by PFC. With respect to the audit report's comparison between the price of this purchase and the lowest price of any PFC purchase in 2003, it is important to note that the contract for the Alliance purchase was executed in March, 2001, when market prices were significantly lower than they were when the contract for the synfuel purchase was executed two year later, in March, 2003. At the time the synfuel contract was signed, the price was fully competitive with then-current market prices and \$2 lower than the price of comparable coal.

The next paragraph states: “The contracts reviewed for waterborne transported fuel were FOB dock [*i.e.*, barge].” In point of fact, the auditor was provided with a contract between PFC and Massey Coal Sales Company for the purchase of a significant quantity of coal, which clearly stated that the price was FOB mine. The majority of the coal purchased under this contract was sold and repurchased by PFC at an FOB barge price after conversion to synfuel, with upriver transportation costs from the mine included in the commodity purchase price. However, these upriver costs were excluded from the commodity price charged to PEF, so that the synfuel was effectively repurchased on an FOB mine basis at a price that was \$2 per ton less than the original Massey purchase.

Finally, the concluding “Auditor Opinion” paragraph states:

“The average delivered price, including transportation, to PEF in 2003 was \$58.06 per ton for coal and \$70.10 per ton for synfuel.”

While the statement is true on its face, it presents an apples-to-oranges comparison. The price of \$58.06 is the average of all 2003 coal deliveries to the Crystal River plant site; both compliance and non-compliance coal, delivered by both water and rail. Compliance coal is more costly than non-compliance coal, and waterborne deliveries in 2003 were more costly than rail deliveries. Synfuel is both compliance coal and was delivered entirely by water. For this reason alone, it was a mathematical certainty that the delivered price of synfuel would be greater than the average delivered price of all coal, as would be the case with any other compliance coal delivered by water. In addition, the audit report's price comparison does not account for differences between the vintage of the contracts under which the synfuel deliveries were purchased and the average vintage of the contracts under which all deliveries were purchased. Of the total 5.5 million tons of coal delivered to Crystal River in 2003, synfuel accounted for only just over 400,000 tons. All of this synfuel was purchased under more recent contracts entered into when the market price of coal was relatively high, such as the Riverside and Massey contracts discussed above. Nonetheless, these synfuel contracts were based on then-current market conditions and were priced at \$2 per ton below the price of comparable coal.

**Progress Energy Florida  
 Response to FPSC Waterborne Coal Transportation System Audit Report - Disclosure No. 1  
 Docket No. 031057**

**Progress Fuels Weighted Average Contractual Cost per Ton  
 Coal Shipped by Water from Mine to Crystal River**

	2003		Audit
	Tons	Dollars	Calculation \$/Ton*
Contract Rate	21,127.31		
Contract Rate	164,480.41		
Contract Rate	20,222.45		
Contract Rate	301,819.51		
Contract Rate	166,349.72		
<b>1) TOTAL UPRIVER</b>	<b>673,999.40</b>		<b>2.60</b>
Contract Rate	1,092,150.69		
Contract Rate	20,222.45		
Demurrage			
<b>2) TOTAL RIVER BARGE</b>	<b>1,112,373.14</b>		<b>5.79</b>
Contract Rate - Direct	816,849.33		
Contract Rate - Storage	332,216.55		
Contract Rate - Foreign	146,317.94		
Contract Rate	131,174.48		
Contract Rate - Foreign	250,536.88		
Port Fees			
Line Handling			
Dockage			
<b>3) TOTAL GULF TERMINAL</b>	<b>1,677,095.18</b>		<b>1.97</b>
Contract Rate	2,080,494.84		
Demurrage			
Port Fees			
Insurance/Labor			
Customs			
<b>4) TOTAL CROSS-GULF</b>	<b>2,080,494.84</b>		<b>6.05</b>
Dixie Rebel	2,080,494.85		
<b>5) TOTAL OTHER</b>	<b>2,080,494.85</b>		<b>0.11</b>
<b>TOTAL CONTRACTUAL COSTS</b>			<b>\$16.52</b>

\* Costs divided by tons, per audit calculation