BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

REVIEW OF TAMPA ELECTRIC COMPANY'S 2004-2008 WATERBORNE TRANSPORTATION CONTRACT WITH TECO TRANSPORT AND ASSOCIATED BENCHMARK.

DOCKET NO. 031033-EI

_____/

ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE
A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 9

Pages 1019 through 1162

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON

DATE: Thursday, June 10, 2004

TIME: Commenced at 9:30 a.m.
Concluded at 9:17 p.m.

PLACE: Betty Easley Conference Center
Hearing Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Chief, Bureau of Reporting
(850) 413-6732

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

NAME:	PAGE NO.
ROBERT L. SANSOM	
Direct Testimony by Mr. Wright	1023
Prefiled Direct Testimony Inserted	1028
Cross Examination by Mr. Vandiver	1081
Cross Examination by Mr. Twomey	1088
Cross Examination by Ms. Rodan	1120
Cross Examination by Mr. Fons	1130
Redirect Examination by Mr. Wright	1152

EXHIBITS

NUMBER:		ID.	ADMTD.
29 through 41			1161
105	TECO approved waterborne Transportation Benchmarks 1994-2001	1081	----

P R O C E E D I N G S

(Transcript follows in sequence from Volume 8.)

CHAIRMAN BAEZ: My apologies. We took that extra time we had and a little more.

We are on our next witness, Mr. Sansom.

Mr. Sansom, you have been sworn, haven't you?

THE WITNESS: Yes, sir.

CHAIRMAN BAEZ: Okay. Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. Before we go to Dr. Sansom, right before the end of Mr. White's cross there was some questioning about the vendors, and we said we would get copies made of the vendor list. During the break we have done that?

CHAIRMAN BAEZ: And I must confess, I'm at a loss as to how you would use it when the witness already entered the list into the record. I don't know if the Commissioners need to see the list or anything. I would look to you all, but it has been entered into the record.

MR. WRIGHT: It was fine with me. I thought you had mentioned that we would get copies during the break, and so we did. But I think we are okay.

CHAIRMAN BAEZ: No harm, no foul. Okay.

MR. WRIGHT: Thank you very much.

CHAIRMAN BAEZ: Thank you very much. Go ahead with your witness.

MR. WRIGHT: CSX Transportation would call Dr. Robert Sansom.

ROBERT L. SANSOM, Ph.D.

was called as a witness on behalf of CSX Transportation, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. WRIGHT:

Q Good afternoon, Dr. Sansom.

A Good afternoon.

Q Would you please state your name and business address for the record?

A Robert L. Sansom, S-A-N-S-O-M, 1901 North Moore Street, Arlington, Virginia.

Q And are you the same Robert L. Sansom who prepared and caused to be filed in this case direct testimony consisting of 48 pages?

A Yes.

Q Thank you. Do you have any changes or corrections to make to your testimony before we proceed?

A Yes.

Q Would you please go over those as quickly as possible?

A Yes.

Q Thank you.

A On Page 27, the top paragraph should be deleted.

This is a result of information from Mr. Duff's deposition

And then if you go to 29, and look at Table 3 --

MR. FONS: Excuse me. When you say the top paragraph should be deleted, do you mean the question and answer beginning on Line 1 and ending on 6 should be deleted?

THE WITNESS: That's correct.

CHAIRMAN BAEZ: Thank you for that clarification.

A And then on Table 3, if you go down in the nonconfidential portion you will see the word Illinois Fuel. That row should be deleted, that is, it is no longer in effect; and, therefore, the number that is confidential on the right is no longer applicable. And, therefore, the numbers that sum that number and others needs to be reduced by the amount of that deletion.

And if you go to Exhibit RLS-9C, which is the last exhibit, and you see this is a confidential exhibit, but what I'm going to say is not confidential. You go to the bottom half the table, it says, "Replacement coal by rail," and you look at the third column over which is headed, "FOB dock," that should be, "FOB rail." So delete "dock" and put "rail" in.

And one more very quick one on RLS-6A, exhibit. In Footnote 8, the number which appears at single digit dollar number per ton, should be doubled. And that's it.

Q If I could ask you to look at Page 35, Line 12 and see whether there needs to be a change made there?

A All right. The question, and I don't think this is -- it is not confidential, is if you are talking about a one way move, it is three and a half days. The cycle is seven days. So I think the best way to -- that seven should change to three and a half.

Q Thank you. And would you also please look at your Exhibit RLS-9A?

A Oh, yes.

Q Under the row heading 3. I thought you had identified a typographical error there?

A In Subparagraph 3, you see where the number 1,00,000, that should be a million. There was a zero that dropped out there.

Q Thank you. And with those changes and corrections to your testimony, we will cover the exhibits in a moment, is this your sworn testimony today?

A Yes.

MR. WRIGHT: Thank you. Mr. Chairman, I would request that with the changes noted to Dr. Sansom's testimony that that testimony be entered into the record as though read.

CHAIRMAN BAEZ: Show the testimony without objection of Robert L. Sansom entered into the record as though read. And also note for the record that his Exhibits RLS-1 through RLS-9C have been marked as Exhibits 30 through 41.

MR. WRIGHT: Mr. Chairman I do believe it is 29

through 41.

CHAIRMAN BAEZ: You're right. I had it marked off, Exhibits 29 through 41. Thank you.

MR. WRIGHT: Thank you.

CHAIRMAN BAEZ: Go ahead, Mr. Wright.

(Exhibits 29 through 41 previously marked for identification.)

(REPORTER NOTE: Page 1027 inadvertently blank.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: REVIEW OF TAMPA ELECTRIC COMPANY'S WATERBORNE TRANSPORTATION CONTRACT WITH TECO TRANSPORT AND ASSOCIATED BENCHMARK, PSC DOCKET NO. 031033-EI

DIRECT TESTIMONY OF ROBERT L. SANSOM, Ph.D.

Q. Please state your name, employer, position, and business address.

A. My name is Robert L. Sansom. I am President of Energy Ventures Analysis, Inc. ("EVA"), 1901 North Moore Street, Suite 1200, Arlington, Virginia, 22209.

Q. Summarize your background and work experience.

A. For 29 years I have consulted with fuel buyers and producers on fuel and transport matters. I have participated in fuel procurement prudency audits for state public utility commissions, utilities, and intervenors. My company monitors fuel markets closely and forecasts fuel prices. I appear as an expert witness in administrative and courtroom litigation, including arbitrations, in cases involving issues relating to fuel supply, fuel transportation agreements, and related matters. Before my consulting career, I served as a White House fellow in National Security Affairs and on the staff of the National Security Council under Secretary Kissinger, and in the U.S. Environmental Protection Agency.

Q. Please summarize your educational background.

A. I received a Bachelor of Science degree from the United States Air Force Academy in 1964, a Master's degree in Economics from Georgetown University in 1965, a Bachelor of Philosophy degree in Economics from Oxford University in 1968, and a Doctor of

Philosophy degree in Economics from Oxford University in 1969. I was a Fulbright Scholar and a Rhodes Scholar. My resumé is provided as Exhibit _____(RLS-1).

PURPOSE OF TESTIMONY

Q. Please state the purpose of your testimony.

A. I am testifying on behalf of CSX Transportation ("CSXT"), an intervenor in this proceeding. The primary purpose of my testimony is to assess the prudency of TECO's June 27, 2003 solicitation for coal transportation services, including the substance and scope of that solicitation, its timing, the methods of evaluation, the relationship of this transportation procurement process to TECO's fuel supply procurements for the Big Bend and Polk Stations, and consequently the prudency of TECO's affiliate contract executed in October 2003 governing shipments exclusively by the water transportation route for five years beginning January 1, 2004 through 2008. In connection with my evaluation of TECO's procurement processes, I also provide a critique of the study prepared by Sargent & Lundy for TECO in August and September of 2003 regarding the cost of installing rail delivery infrastructure at Big Bend and Polk Stations.

I also address the appropriateness, as a matter of regulatory policy and practice, of the coal transportation "benchmark."

Q. Have you previously testified before the Florida Public Service Commission?

A. Yes. I submitted testimony before the Florida Public Service Commission ("Commission" or "PSC") in Docket No. 860001-EI-G Phase I and II in 1988 and 1989.

Q. Have you previously testified before other regulatory authorities and courts?

A. Yes. I have testified before the Public Service Commissions of Delaware, Georgia, and Wisconsin, before the Federal Energy Regulatory Commission ("FERC"), before the Surface Transportation Board, before state courts in Florida, Texas, and Oklahoma, and before federal courts in Wyoming, Indiana, Ohio, Wisconsin, Utah, Texas, New Mexico, Colorado, and the District of Columbia.

Q. Are you sponsoring any exhibits to your direct testimony?

A. Yes. I am sponsoring the following exhibits:

Exhibit ___ (RLS-1): Experience of Dr. Robert L. Sansom, including Expert Testimony;

Exhibit ___ (RLS-2): Map Showing Pittsburgh 8 Mines Northern Appalachian Coal;

Exhibit ___ (RLS-3): CSXT's October 23, 2002 Proposal to TECO;

Exhibit ___ (RLS-4): Screening Analysis, Water vs. Rail Coal, October 2002;

Exhibit ____(RLS-5): Project Timelines for TECO Actions vs. TECO's Inaction;

Exhibit ____(RLS-6a): Evaluation of Rail vs. Water Delivery Economics for Western Kentucky Coal in 2004;

Exhibit ____(RLS-6b): Evaluation of Rail vs. Water Delivery Economics for Pitt 8 Coal in 2004;

Exhibit ____(RLS-6c): Evaluation of Rail vs. Water Delivery in 2004 for Indiana Coal (Sommerville Mine);

Exhibit ____(RLS-7): Water Losses and Higher Inventory Costs for Water-Transported Coal;

Exhibit ____(RLS-8): Eastern U.S. Utility Stockpiles, Days of Burn, November 2003;

Exhibit ____(RLS-9a): Summary of TECO Overpayments in 2004;

Exhibit ____(RLS-9b): TECO Overpayments in 2004 – Pitt 8 Coal from Northern Appalachia; and

Exhibit ____(RLS-9c): TECO Overpayments on Illinois Basin Coal, 2004.

SUMMARY OF TESTIMONY

Q. Please summarize your findings regarding TECO's solid fuel transportation solicitation.

A. I found TECO's solicitation imprudent in the following respects:

1. TECO failed to prepare for and solicit alternative modes of transportation, i.e., rail and water, in a timely and thorough manner. TECO should have solicited, but did not solicit, rail and water transportation bids. TECO also should have thoroughly evaluated both modes in order to evaluate moving some tonnage by each mode in order to develop sustained inter-modal competition, rather than by adopting and implementing its "all or nothing" preference to favor its water transportation affiliate, TECO Transport. Accordingly, TECO's June 2003 Request for Proposals for coal transportation services was not sufficient to determine the current market price for those services.
2. TECO failed to take seriously CSXT's interest in providing rail transportation to Big Bend and Polk about which TECO was informed by CSXT in two meetings in May 2002. In October 2002, CSXT offered TECO firm rail transportation rates that, when combined with least-cost rail-origin coals, would have resulted in TECO's realizing much lower delivered coal costs than TECO actually obtained by choosing waterborne deliveries via its affiliate, TECO Transport; CSXT's offers even included paying for the installation of rail receiving facilities at both Big Bend and Polk. It was imprudent in the extreme that TECO, having received a preliminary, conceptual

proposal from CSXT in May 2002, and having firm CSXT bids in hand by October 2002, and further knowing that the existing TECO affiliate barge contract expired at the end of 2003, did not prepare for and solicit well before June 27, 2003 for rail transportation services to Big Bend in competition with the water transportation alternative.

3. TECO failed to give serious consideration to CSXT's engineering proposal of October 23, 2002, to provide relevant drawings and information, and to facilitate a CSXT bid and a thorough TECO engineering evaluation of rail upgrades of Big Bend.

4. Notwithstanding TECO's dismissal of CSXT's 2002 interest and bid, and TECO's failure to solicit a bid from CSXT in response to TECO's June 27, 2003 Request for Proposals ("RFP"), CSXT learned independently of the RFP and timely submitted proposals to TECO on July 30, 2003. Following receipt of CSXT's bids/proposals, TECO on August 27, 2003, engaged Sargent & Lundy (S&L) to undertake a three-week study of the cost of rail facilities at Big Bend and Polk dated September 18, 2003. S&L's study is not a reliable basis for estimating the cost of such facilities, was not a result of a dialogue with CSXT to understand CSXT's estimate, did not take account of available least cost construction options at Big Bend, and did not consider the possible use of available facilities from the Gannon site, freed up by the closure of the Gannon coal-fired plant and already in TECO's rate base. In fact, it appears that the Sargent & Lundy study was designed to enable TECO to avoid considering CSXT's rail transportation bids rather than to provide an objective analysis of the feasibility of CSXT's proposals.

5. TECO failed to solicit coal transportation from all feasible coal supply basins by all feasible modes of transportation. In particular, TECO failed to solicit rail or barge coal from Northern Appalachia ("NAPP") and rail origin coal from the Illinois Basin. TECO's solicitation by its terms was limited to Midwestern coal, even though Northern Appalachia coal, specifically including Pittsburgh Seam 8, or "Pitt 8" coal, was a proven fuel for use at Big Bend and Polk.
6. TECO failed to synchronize the procurement of coal supplies with the procurement of coal transportation services. It is a well-established practice in the utility industry, as well as a basic prudency requirement, that coal supply and coal transportation solicitations and contracts must be coordinated so that a utility is not left with a transportation obligation that is not coupled with (when considered together) an economical coal supply source, or conversely, a coal supply source that is not coupled with (when considered together) an economical transportation method.
7. TECO failed to properly evaluate the rail versus water transportation option in an evaluation of the most economical combination of coal supplies and coal transportation by rail or barge and incorporate the "all in" cost of delivered coal via each alternative, including the in-transit losses of Btu's, higher inventory requirements, and the adverse bus bar effects of moving coal by the water transportation mode.

Q. Please summarize your testimony with regard to the "benchmark."

A. The benchmark is at best outdated and totally inappropriate for use in determining what TECO should be allowed to recover from its customers for coal transportation services

provided by an affiliate. Where, as here, the utility – i.e., TECO – has a firm bid in hand from a viable supplier – here, one of the largest railroad companies in the United States – that bid should establish the "price to beat" and the cap on the amount of coal transportation costs that the Commission should even consider allowing TECO to recover from its captive customers.

Q. Please summarize your testimony with regard to the Sargent & Lundy study.

A. The Sargent & Lundy study (Sargent & Lundy LLC, Tampa Electric Company Big Bend and Polk Generating Stations, CSX Transportation Alternate Method of Coal Delivery, SL-008160, September 18, 2003) was prepared in a very short time frame and apparently failed to include many obvious steps that such analyses should include, such as – and this is not an exhaustive list -- evaluating permit conditions, obtaining relevant information regarding CSXT's estimates, which the Sargent & Lundy study purports to displace, and obtaining vendor quotes from suppliers of major equipment items. I found it incredible, and even somewhat humorous, that [redacted] of the [redacted] cost items identified in the Sargent & Lundy report were multiples of [redacted] In short, I believe that this Sargent & Lundy study was prepared hurriedly, with a predetermined outcome in mind, and that it is worthless.

Q. Does your testimony address TECO's evaluation of alternative methods or vendors of waterborne transportation?

A. No. However, the fact that I am not evaluating alternative methods of water transportation to TECO's sole reliance on its affiliate water carrier is done for economy of testimony (as I understand that others are addressing this subject). The absence of specific testimony

regarding waterborne transportation alternatives may not be construed to imply any view on my part that TECO's affiliate represents a cost-effective choice for any fuel transportation, even if there may be some coal sources that are economic choices for TECO when transported by water.

Q. What are the consequences of these imprudent acts of TECO in the procurement of coal transportation services?

A. As I demonstrate in detail later in my testimony, these imprudent acts will, if allowed by the Commission, impose additional costs on TECO's ratepayers of approximately [redacted] on 2-3 million tons per year ("MMTPY") which puts the annual cost in the range of [redacted] per year. My estimate for 2004, the start up year for rail deliveries, is [redacted] on 1.249 MMTPY or [redacted] Effective management of rail vs. water transportation competition would also have reduced the rate for water borne transportation as well. Had this reduction been [redacted] a reasonable estimate in my opinion, TECO's ratepayers, assuming 2.5 MMTPY were competitive by water, would have saved [redacted] per year. Lower water route costs in turn reduce the "savings" of rail movements on a dollar for dollar basis (because then the difference between the rail transportation cost and the water transportation cost is reduced)—so if water transport costs had been driven down by [redacted] the ratepayers would benefit from reduced water route costs **and** reduced rail transportation costs, but these amounts would not be additive. Accordingly, since TECO did nothing to effectively manage competition between rail and barge transportation services, TECO's imprudent acts will cost TECO's ratepayers about [redacted] per year in 2004 and [redacted] in 2005. Accordingly, TECO's costs for coal transportation are not reasonable for cost recovery purposes.

Q. Do you have any recommendations as to what the Commission should do in this case?

A. Yes. The Commission should, at an absolute minimum, disallow recovery by TECO of the difference in costs between what TECO proposes to pay its affiliate barge company, TECO Transport, and the amount for which TECO could have procured the necessary coal transportation from CSXT. At a minimum, my estimates indicate that the Commission should disallow approximately [redacted] in cost recovery for 2004, [redacted] in 2005, and more than that in the years 2006 through 2008. The Commission should also take the most stringent steps available under Florida law to prevent TECO from further abusing its customers by overpaying its affiliate; if the Commission has the power, it should mandate fair, open, transparent, Commission-supervised procurement processes for all future TECO coal procurement and coal transportation procurement activities. Additionally, TECO's actions have been so imprudent in this case that I believe that the Commission should consider imposing whatever additional penalties it has available under its governing authority on TECO's shareholders and management.

TECO'S IMPRUDENT FUEL AND TRANSPORTATION FRAMEWORK

Q. Please describe the prudency analysis that you conducted of TECO's coal transportation procurement processes and decisions and of TECO's coal supply procurement processes and decisions.

A. First, I reviewed the least-cost coal supply regions that TECO should have considered and evaluated, and which, by virtue of their least-cost status, would have been expected to be the supply regions chosen by a prudent utility in a prudent, unbiased solicitation in 2003. I identified how other utilities in similar circumstances to TECO regularly rely on and solicit both rail and water transportation from these supply regions. Second, I examined the time

line of CSXT's efforts to interest TECO in rail-delivered coal, which for a prudent buyer facing the 2003 expiration of the TECO water delivery contract would have triggered a solicitation by April 1, 2003 at the latest. Third, I examined how coal from each of these regions is most efficiently moved to Big Bend and Polk given the CSXT rail transportation bid and the TECO Transport (TECO's water transportation affiliate company) bids. Fourth, I evaluated TECO's analysis of the delivered cost of rail versus waterborne coal deliveries prepared in the Fall of 2003; my evaluation shows that TECO's analysis is flawed and contains gross errors. Fifth, I examined TECO's pending procurement decision based on its December 2003 solicitation for 850,000 tons for 10 years, 2005-2014. Lastly, I analyzed TECO's procurement alternatives and the damages to TECO's ratepayers caused by TECO's imprudent behavior.

Q. What is your assessment of TECO's fuel procurement and fuel transportation procurement practices and overall approach?

A. It is fundamentally flawed. Any utility in TECO's position that can draw fuel from multiple coal sources and transport fuel by various modes should exploit all available -- here, both water and rail -- modes by pursuing bids from alternative transportation providers. No one mode should be given "all" the business. Such a bi-modal transportation approach would insure that TECO's ratepayers benefit from competitive transportation markets and are able to draw on the most economical coal supply regions.

Q. Was TECO's June 2003 Request for Proposals sufficient to determine the current market price for coal transportation services?

A. No. Both the RFP and TECO's evaluations of the bids received from CSXT were biased and flawed.

Least Cost Coal Supply Regions For TECO

Q. What are TECO's coal supply requirements for Big Bend and Polk?

A. TECO requires about [redacted] tons per year (TPY) of coal, excluding about [redacted] TPY of petroleum coke, for its Big Bend and Polk Stations. Most of this coal is high-sulfur coal except for about [redacted] TPY of low-sulfur coal for blending down high-sulfur petroleum coke consumed at Polk to a 6 lbs. SO2/MMBtu level for all Polk fuels.

Q. What are the supply sources and regions that can meet these requirements?

A. TECO requires about [redacted] MMTPY of high-sulfur coal and [redacted] TPY of low-sulfur coal. The high-sulfur coal could come from the Illinois Basin or Northern Appalachia ("NAPP"). Pittsburgh Seam 8, or "Pitt 8" coal is a typical NAPP coal. South America or Central Appalachia or the Powder River Basin could supply the low sulfur coal.

Q. Provide details on NAPP and Illinois Basin coal supplies.

A. These are two of the largest coal basins in the United States. In 2003, 93.2 million tons ("MMT") was produced in the Illinois Basin, down from about 140 MMT in 1990. The 2003 production was the second lowest Illinois Basin production year on record. Production from Northern Appalachia in 2003 was 127 MMT. About 75 MMT of this amount was Pitt 8 coal.

Q. How do these regions compete?

A. Most NAPP and Illinois Basin coals are high-sulfur in content. The Clean Air Act Amendments of 1990 effective January 1, 2000 shrunk the market for these coals from a broad range of power plants to plants like Big Bend that are equipped with flue gas desulfurization ("FGD") systems, generally known as "scrubbers," and plants like Polk Station that are equipped with gasifiers. NAPP and Illinois Basin coals compete with each other at FGD-equipped units. .

Q. What are the likely low cost coal supply sources for TECO by rail and barge?

A. Since TECO has not taken rail coal at Big Bend, it has favored Illinois Basin coal delivered by its water transport affiliate. TECO has taken Illinois Basin coal by barge from mines that originate coal by rail. These mines include Zeigler and Galatia in Illinois, Lodestar (just purchased by Peabody) and Dotiki in West Kentucky, and the Sommerville mine in Indiana. TECO has also taken Pitt 8 coal by barge from mines that originate by rail, Maple Creek in Pennsylvania, and Powhatan #6 in Ohio.

Q. What have been the production and pricing trends for the Illinois Basin and Northern Appalachian coals?

A. These markets were generally depressed through the summer of 2003.

Q. Of what significance is that fact in this case?

A. This is significant because, if TECO had conducted a rail origin coal supply solicitation in the first half of 2003, as a prudent approach in conjunction with a rail/water transportation solicitation, it would have found a buyer's market.

Q. How do other utilities comparatively situated to TECO in terms of alternatives buy coal from these regions?

A. They buy coal from rail and barge origins. Unlike TECO, they do not put less expensive rail origin coal on barges. Examples of such other utilities include Louisville Gas & Electric Company ("LG&E"), the Tennessee Valley Authority ("TVA"), and Seminole Electric Cooperative, Inc. ("Seminole"), a Florida generation-and-transmission cooperative.

Q. What is LG&E's situation and approach?

A. LG&E has a rail/barge-served unit at Mill Creek, a rail-served Cane Run unit, and a barge-served Trimble County plant. LG&E's procurement practices for its Mill Creek unit are cost-effective as confirmed by a recent procurement audit for the Kentucky PUC. See Final Report Focused Management Audit of The Fuel Procurement Functions of Kentucky Utilities Company and Louisville Gas and Electric Company, by The Liberty Group, February 23, 2004, at III-20 (concerning rail/barge competition), and at II-3 (concerning fuel supply and transportation diversity). LG&E's 2002 and 2003 procurements demonstrate low-cost rail vs. barge acquisitions of coal as LG&E's rail carrier (the Paducah and Louisville Railroad, or "PAL") competes with barge origin coal, from different mines because least cost rail and barge origin mines usually differ.

Q. What is TVA's situation and approach?

A. TVA's plant most comparable to Big Bend is the FGD-equipped Widows Creek 7&8 which takes both rail and barge coal. Again, TVA in 2003 took rail coal from the Dotiki and Warrior mines and barge coal from barge accessible mines like Camp (WKY) and Sugar Camp (IL). Like LG&E but unlike TECO, TVA at Widows Creek does not take Dotiki/Warrior coal by barge. TECO did so in 2002 and 2003 in an effort to move coal via its affiliate, even though rail coal transportation would have been less expensive. These movements were very costly for TECO's ratepayers, but were very profitable to TECO's affiliate.

Q. What is Seminole's situation and approach?

A. Seminole has a rail-served plant at Palatka, Florida. In 2002 and 2003 Dotiki coal delivered by rail cost Seminole's members less than Dotiki coal delivered by barge to Big Bend. This is shown in the table below and demonstrates that CSXT's service to Palatka, which does not enjoy rail/barge competition, is more efficient and cost-effective by a wide margin for Seminole's members than TECO's water route to Big Bend is to TECO's ratepayers.

Table 1.
West Kentucky Coal to Big Bend and Palatka $/Ton (¢/MMBtu)

	2002	2003
Seminole Dotiki		
• Contract	$44.08 (180)	$41.93 (170)
• Spot	$40.55 (165)	$39.26 (161)
Big Bend Dotiki	[redacted]	[redacted]

1. [redacted] to ECT (Electro-Coal Terminal, also known as Davant) plus [redacted] ECT to Big Bend for a total of [redacted] to Big Bend according to the September 2002 FPSC Form 423.
2. [redacted] to ECT plus [redacted] ECT to Big Bend for a total of [redacted] per ton delivered to Big Bend.

Q. Are you saying TECO's ratepayers paid in 2002 and 2003 around [redacted] more for the Western Kentucky rail origin coal than Seminole's ratepayers paid?

A. Yes. This is due to TECO's bias in favor of paying more to its affiliate to move coal inefficiently by the water route when the same coal can be more efficiently delivered by rail.

Q. Does Seminole also buy Pitt 8 coal?

A. Yes, Seminole also buys Pitt 8 coal, which is delivered to Seminole's Palatka units by CSXT rail.

Q. Can you assess how much TECO pays for Pitt 8 coal by barge versus what Seminole pays for rail deliveries?

A. Yes. The results follow:

Table 2.
Pitt 8 Coal to Big Bend and Seminole $/Ton (¢/MMBtu)

	2002	2003
Seminole	$40.89 (157)	$41.81 (160)
Big Bend[1]	N/A	[redacted]

1. [redacted] FOB barge plus [redacted] barge to ECT, plus [redacted] ECT to Big Bend for a total of [redacted] according to TECO's September 2003 FPSC Form 423 data for 4.65% sulfur coal.

Q. Are you saying that TECO paid in 2003 about [redacted] per ton <u>more</u> to move Pitt 8 coal to Big Bend than Seminole pays to move the same coal?

A. Yes.

Q. What, if anything, is noteworthy about this?

A. This is noteworthy because it demonstrates substantial cost savings via rail, even though Seminole is captive to the CSXT rail system and Big Bend could have rail/water competition.

Q. Should this have been known to TECO? If so, what should TECO have done with this knowledge?

A. Yes. Seminole had taken Pitt 8 coal in prior years and TECO, the only party privy to TECO's "secret" data, was in a position to compare its data to Seminole's public data as reported to the FERC. Acting prudently, in the best interests of its ratepayers, TECO should have used this knowledge to solicit a coal-by-rail transportation proposal from CSXT and then evaluated that proposal against the prices proposed by its affiliate, TECO Transport. At the very least, this would have been expected to produce significant downward pressure on the prices charged by TECO Transport, which would have accrued to the benefit of TECO's customers, albeit to the detriment of TECO's parent and its shareholders.

Q. Where are the mines that produce Pitt 8 coal?

A. My Exhibit ____ (RLS-2) shows these mines, many of which are served by the CSXT railroad.

Q. What would a prudent utility have done in 2003?

A. With CSXT's October 23, 2002 bid in hand, TECO's prudent path would have been to undertake, immediately, the engineering studies to upgrade Big Bend's rail facilities to receive coal and conduct a vigorous rail vs. water competition for transport services to Big Bend.

Q. Did TECO do this?

A. No.

Q. What was the FOB mine price in the NAPP Pitt 8 market from April to July 2003?

A. According to the trade press this price was $21 to $24.00/ton through early August 2003. See Coal Daily, August 4, 2003 at 5 and July 7, 2003 at 5. These prices were generally available, subject to reasonable escalation factors, for long-term contracts – at least five years in length – that were entered into with suppliers in this time period.

Q. Why is this relevant?

A. This is relevant because a prudent procurement process, by TECO or by any other utility, would have solicited bids for high-sulfur NAPP Pitt 8 coal via rail or barge in the first half of 2003. Such a prudent utility would have expected to thereby get the best available deal on an all-in delivered cost of coal.

Q. What was the FOB mine price in the Illinois Basin market from April to July 2003?

A. Illinois Basin high-sulfur coal was in oversupply in the first half of 2003, creating a buyer's market. In West Kentucky, Lodestar shut its Baker mine and Pyro coal preparation plant. Alliance closed its Hopkins County coal operations. Alliance Resource Partners' president stated: "Although our sales for the first quarter of 2003 have been strong, we have not been able to secure any meaningful new commitments for the balance of the year for our operations in the Illinois Basin. Unfortunately, without new sales commitments for this region, we will have to reduce production." See Platts, Coal Trader, April 4, 2003 at 3. Alliance has Illinois Basin coal mines in West Kentucky, Indiana, and Illinois.

Q. How much Illinois Basin coal moves by barge and by rail?

A. Most Illinois Basin coal moves initially by rail, although this varies by state. State of Illinois data, see Illinois Department of Natural Resources, 2002 Statistical Annual Report, for example, show that of the 33.4 MMT mined in Illinois in 2002, 20.3 MMT originally moved by rail and 13.1 MMT initially moved by truck, some of which was trucked to barge and rail loadouts. Overall for the three Illinois Basin states, rail-origin mines originate more tons than barge-origin mines.

CSXT's Efforts to Bid and TECO's Rejection of CSXT (May 2002-June 2003)

Q. How would you characterize CSXT's attempts to provide coal-by-rail transportation services to TECO?

A. Having reviewed numerous CSXT documents, including CSXT's presentation outline from May 2002, its written proposal to TECO from October 2002, its July 2003 proposal in response to TECO's RFP process, and various related documents and correspondence, I would characterize CSXT as a "determined bidder" in its efforts to provide rail transportation services to TECO.

Q. **How would you characterize TECO's behavior toward CSXT in response to CSXT's efforts?**

A. Having reviewed many documents furnished in discovery in this proceeding, I would characterize TECO's behavior toward CSXT as biased, as intended to discourage CSXT's efforts, and as intended to ensure that TECO gave all of its coal transportation business to its affiliate, without any regard to the best interests of its customers. The following specific

testimony highlights the shortcomings of TECO's actions, considered from the point of view of a public utility commission interested in protecting the captive customers' interests and pocketbooks.

Q. Did TECO conduct any preliminary analysis after it received CSXT's October 2002 bid to determine if the rail option was viable?

A. No. TECO's documents reveal no such analysis. Yet CSXT's bid in October 2002 is one of the most important documents in this proceeding. For convenience it is attached as Exhibit ____(RLS-3) to my testimony.

Q. If such an analysis had been conducted, what would it have shown?

A. I have prepared such a preliminary analysis, which is presented as Exhibit ____(RLS-4). This Exhibit shows that rail delivery to Big Bend had the potential to save [redacted] per ton on West Kentucky coal and [redacted] per ton on Pitt 8 coal. Given that CSXT was willing to pay for the reasonable rail infrastructure construction costs at Big Bend in addition to saving TECO [redacted] in transport cost, TECO's only prudent course was to seek a CSXT bid and evaluate the rail option carefully. My Exhibit ____(RLS-5) presents a time line showing the various steps that would have been encompassed in a prudent TECO approach.

Q. What should TECO have done?

A. With CSXT's offer in hand, TECO should have begun and completed conceptual engineering studies from November 2002 through March 2003 and selected a rail engineering solution for Big Bend. That solution should then have been engineered to the point that a rail

construction bid package was prepared by July 1, 2003. At the same time this engineering work was being completed, TECO should have solicited for rail and water transportation services on April 1, 2003. These milestones are shown in Exhibit ____(RLS-5).

Q. When would the rail facilities have been constructed?

A. From August 2003 to March 2004.

Q. According to your Exhibit ____(RLS-5), when would the first rail coal have been unloaded at Big Bend?

A. In April 2004.

Q. If TECO did not follow a prudent solicitation path to develop and take advantage of rail capability for its Big Bend and Polk Stations, what did TECO do?

A. TECO stalled and sought to exclude CSXT's rail bid. Beginning in October 2002, TECO asked CSXT to modify the character of CSXT's letter offer so that TECO could claim that it had not asked CSXT for the proposal. Then, even though CSXT extended the acceptance term of its offer to January 31, 2003, TECO failed to launch rail delivery engineering studies. On March 21, 2003, after over four months of inaction by TECO despite the concerted efforts of CSXT to initiate negotiations, CSXT finally obtained another meeting with TECO. Three more months of TECO inaction followed the March 21 meeting, as noted in CSXT's Mr. Bullock's June 13, 2003 letter to Ms. Wehle. Then TECO failed to solicit CSXT in its June 27, 2003 solicitation. This adds up to seven months of TECO inaction on the rail option after having received a very attractive and cost-effective offer for coal transportation

services. Based on trade press reports about TECO's solicitation, CSXT wrote TECO on July 16, 2003, asking to bid and finally received a bid package on July 21, 2003, due July 30, 2003.

Q. Is there an irony here?

A. Indeed there is. TECO, having refused to respond to CSXT's October 2002 bid and having failed to solicit a 2003 CSXT bid, claimed in testimony before this Commission that its bid package, which had been criticized by this Commission's staff, was so good it resulted in two unsolicited rail bids, both by CSXT! See Joann T. Wehle's October 30, 2003 testimony at 12.

CSXT's Bid

Q. Please review CSXT's bid and the coal sources with rail access.

A. CSXT's bid was comprehensive. TECO's solicitation was for water route transport. CSXT bid to provide rail transportation. TECO's bid sought only Midwestern coal. CSXT provided rates for Midwestern and NAPP (Pitt 8) coal mines. CSXT provided bids for a comprehensive list of mine origins based on a study of TECO's coal purchases. CSXT offered two different volume options, one for [redacted] and the other for [redacted]. CSXT arranged inter-line hauls with the Union Pacific, Illinois Central (now owned by Canadian National), and Indiana Southern Railroad to ensure that all TECO coal origins were covered. As I've already noted, much of TECO's water route coal starts at the mine in a rail car, which transports the coal to a river dock.

Q. What was CSXT's pricing?

A. CSXT bid about [redacted] per ton for a single line haul and [redacted] per ton or less for two line hauls. CSXT also offered a significant -- [redacted] – volume discount on all coal volumes above 1 MMTPY that CSXT delivered from CSXT rail-direct mines. CSXT also bid to rail coal to Polk directly or from Big Bend to Polk by a shuttle train. A fuel surcharge of about [redacted] applies under current oil prices.

Q. Was CSXT willing to fund construction at Big Bend?

A. Yes. CSX was willing to fund up to [redacted] in improvements for the [redacted] option, including [redacted] for transloading facilities at Big Bend to accommodate coal deliveries to Polk and [redacted] at Polk to receive shuttle trains from Big Bend and remove approximately 25,000 truck trips per year from the roadways of Hillsborough and Polk Counties. According to CSXT's [redacted] bid, the [redacted] tonnage level did not need to be reached until 2005 for TECO and its customers to benefit from the pricing thereunder.

Q. Why would CSXT pay for rail facilities at Big Bend?

A. CSXT was willing to pay for rail delivery facilities at Big Bend to accommodate TECO's tenuous financial situation, given that TECO had indicated that it did not have sufficient capital funds available to pay for the needed capital infrastructure itself, and because CSXT viewed this offer as a prudent business decision on its part in light of the business opportunity that it would thereby create for CSXT. It is very rare for a utility to ask a railroad or transportation vendor to pay for facilities to be built at the power plant. I cannot recall a

similar circumstance to what has occurred here. Apparently CSXT was told that TECO had no money to fund rail delivery upgrades even if the ratepayers benefited. It is quite remarkable that TECO claims it cannot afford to undertake cost-effective solutions for the ratepayers at the same time TECO recovers from its ratepayers a return on rate base to pay for debt and equity.

Analysis of CSXT's Bid Moving Least-Cost Rail-Origin Coals

Q. Have you prepared, using CSXT's bid and FOB rail and barge prices a comparison of TECO's alternatives in mid-2003?

A. Yes. My Exhibits _____ through ____ (RLS-6a, 6b, and 6c) show such an analysis.

Q. What does your Exhibit ____(RLS-6a) show?

A. My Exhibit ____(RLS-6a) shows that, even for barge accessible coal, such as coal from the Dekoven mine, TECO could have saved money in 2004 by transporting such coals by rail. More significantly, however, for least-cost rail origins in West Kentucky, TECO could have saved at least [redacted] per ton if it had moved coal under CSXT's rail bid. If the extra costs of water route losses and inventory carrying costs are added (see subsequent section of this testimony), rail movement from West Kentucky would have saved TECO and TECO's customers [redacted] per ton.

Q. What about Pitt 8 coals?

A. As I show in Exhibit ____(RLS-6b), movement of Pitt 8 coal by rail would have saved TECO [redacted] to [redacted] per ton had CSXT origin coal been solicited. If the losses and

increased inventory requirements of the water route are added in, the savings are [redacted] to [redacted] per ton.

Q. What about Indiana coal?

A. Exhibit ____(RLW-6c) shows that the savings for rail coal from Indiana versus water route transport via TECO's affiliate would be [redacted] to [redacted] per ton depending on whether the losses and inefficiency of the water route are added.

Q. You're saying TECO's ratepayers are paying millions of dollars each year for more costly water route transport?

A. Yes. TECO's ratepayers are overpaying by a minimum of [redacted] or [redacted] per year, assuming that 2.5 MMTPY are moved by rail. The overpayments could be as much as $7.00/ton or [redacted] per year. However, if TECO had undertaken to cultivate and encourage bona fide rail vs. barge competition, that competition would have reduced water delivered coal costs, even for those coals that were or are truly more economically delivered by water. This would have saved TECO's ratepayers even more money, although the results are not additive. If more than 2.5 million tons per year were to be moved by rail, the savings realized for TECO's customers would be even greater.

TECO's Evaluations

Q. Did TECO evaluate the CSXT July 2003 rail bid versus the award it made to its water transportation affiliate?

A. It appears that TECO did perform some analysis of CSXT's rail bid, but it is not at all clear when TECO did such analysis or who did it. But TECO's witness Wehle, in Document No. 2 of her October 2003 testimony, re-submitted in January 2004, presents such an analysis.

Q. Is Ms. Wehle's analysis correct?

A. No. She takes as TECO's water route transportation cost the cost of affiliate transport from the barge delivery point to Big Bend not the total transportation cost from the mine to Big Bend which I present in RLS Exhibits ____-____(RLS-6a, 6b, and 6c). She has not done a correct or complete analysis of the total transportation cost of coal moved by the water route. Her analysis ignores about $3.00 to $5.00/ton in transportation cost incurred to get TECO's coal to a dock. A correct analysis must start at the mine because mines bid coal FOB rail, barge, or truck at the mine; therefore, loading trains at the mine avoids the haul cost to the barge and a river dock transloading fee. Ms. Wehle ignores this, which is a fatal mistake.

Q. Do TECO's documents reveal any other TECO evaluation?

A. Yes. In response to the Florida Industrial Power Users Group's ("FIPUG") 1st request for production of documents, TECO supplied undated documents stamped as pages 275 to 279.

Q. What did TECO's fall 2003 analysis show?

A. The unidentified analyst (any credible evaluation should be initialed) assumes that to move coal by rail, TECO's coal purchased from Dodge Hill in West Kentucky and Illinois Fuels in Southern Illinois would move as usual to the same docks, then the coal would be transported by barge to the GRT terminal on the Tennessee-Cumberland Rivers, then the coal would be transloaded to rail at GRT, and then, finally, the coal would be transported on the CSXT rail system to Big Bend.

Q. What's wrong with TECO's analysis?

A. The analysis in these pages is, to put it mildly, biased and clearly erroneous. TECO contracts for FOB barge coal, but it could just as well contract on an FOB mine basis with a distinct rail or truck haul and dock transloading charge. This would give TECO the option of directing the coal to a rail loadout. Of course TECO does not want to do this because it doesn't want to expose all of its transportation cost to regulatory examination. The oldest TECO contract, [redacted] A prudent utility would instead truck Dekoven coal to a rail loadout near Wheatcroft, Kentucky (a 13 mile distance) and load directly on rail as I show in Exhibit RLS-6a. This would avoid a truck to barge transportation charge, a transloading charge, a barge to GRT charge, and a GRT transloading charge. Instead, Dekoven coal would bear a 13-mile truck and a rail tipple charge to load on rail near Wheatcroft.

Q. What about coal supplied by Illinois Fuels?

A. This coal is a by-barge origin coal that is trucked some distance to the Ohio River. Until the coal contract expires at the end of 2004, it should move by water until it can be evaluated against other coal-supply-and-transportation options and, if indicated, replaced by less expensive rail-originated coal or continued, if it were demonstrated to remain an economical by-water-route coal.

Q. What about Galatia coal?

A. This same TECO analysis assumes that [redacted] tons of Galatia coal are purchased in 2004 for Big Bend. Yet [redacted] which was for Gannon, when Gannon closed. A document produced by TECO in response to the same FIPUG Document Request cited above, projects that [redacted] tons of Galatia coal are to be purchased by TECO in 2004 and this is [redacted] tons too much. TECO's response to OPC's Second Set of Interrogatories No. 25 has only [redacted] tons of (apparently) Galatia coal moving to the Cook terminal. Apparently the balance of Galatia coal had been shifted to American Coal's Powhatan No. 6 origin via the NS railroad to an upper Ohio River terminal. What TECO should have done in early 2003 was to terminate Galatia altogether for 2004 and solicit Pitt 8 coal by rail origin and all-rail transport to Big Bend. TECO should not have bought Galatia coal in 2004 when it could have purchased less expensive rail-origin coal in a Second Quarter 2003 solicitation.

Q. What is your opinion regarding this fall 2003 analysis by TECO?

A. It appears to be, like Wehle's, an ex-post rationalization and is also erroneous. Moreover, no TECO documents show any evaluation either in late 2002 or in the first half of 2003 based on CSXT's October 2002 bid, nor any evaluation after CSXT's July 30, 2003 bid before the decision to contract with TECO's affiliate and move all Big Bend/Polk coal by the water route.

TECO's Coal Contract Flexibility To Bid Rail Origin Coal

Q. What contractual flexibility did TECO have to take rail coal in 2004?

A. TECO's 2004 coal burn for Big Bend and Polk is projected to be [redacted] Without petroleum coke, the coal burn is about [redacted] As of December 31, 2003, TECO had 639,274 tons in inventory (shown as a 47 day inventory). TECO always has a large amount of coal in transit. TECO's response to OPC's 1st POD request (p. 778) shows TECO keeps [redacted] tons afloat in river barges, [redacted] tons in ocean barges, and up to [redacted] at Electro-Coal Terminal (ECT). To simplify, I assume TECO buys [redacted] of coal in 2004.

Q. What are TECO's contractual commitments for 2004?

A. [redacted] TECO has the following commitments for 2004:

Table 3.
TECO 2004 Coal Commitments

	Tons
Zeigler	[redacted]
[redacted]	[redacted]
Peabody Patriot	[redacted]
Dodge Hill	[redacted]
Dodge Hill Put	[redacted]
	[redacted]

Although I have not seen TECO's contract correspondence, from the documents that I have been able to review, including portions of selected coal contracts, it appears likely that TECO could have solicited and purchased 1.0 to 1.5 MMT of rail origin coal in 2004 but for its newly executed water transport contract which requires that [redacted] MMTPY move in TECO ocean barges and its failure to terminate the [redacted] contract and solicit rail origin coal prior to August 1, 2003. **TECO's response to Interrogatory No. 25 to the Office of Public Counsel's 2nd Set of Interrogatories states that as of February 2, 2004, TECO had** [redacted] tons of uncommitted coal in 2004.

Q. If TECO had followed the path identified in your prudent time line, how much coal could TECO have obtained from rail-origin mines and transported by rail to its plants? What effect would this have had on TECO's ratepayers?

A. If TECO had followed the prudent course of action outlined in my time line, Exhibit ____(RLS-5), it could have obtained and transported a minimum of 1.0 to 1.5 MMT of coal

by rail in 2004, and a minimum of 2.0 MMT by rail in 2005. This would have saved TECO ratepayers [redacted] million in 2004 and at least twice that amount in 2005 and in succeeding years.

TECO's December 2003 Solicitation Threatens To Lock TECO Into More Uneconomical Coal And Reveals Cost-Effective Rail-Origin Bids

Q. Please describe TECO's December 2003 coal supply solicitation.

A. In December 2003, TECO solicited for 850,000 TPY of coal, on an FOB barge basis, for the years 2005 through 2014.

Q. Why did TECO solicit for more coal via the water route?

A. Absent additional discovery I can only give a limited response, but I believe this solicitation appears to be designed to further foreclose rail-origin coals from TECO's supply portfolio in order to further enhance TECO Transport's position as TECO's sole supplier of coal transportation services.

Q. What has been revealed?

A. TECO in December 2003 asked for water borne bids for 850,000 TPY for 2005 to 2014. Apparently these bids are intended to meet the terms of the [redacted] on 850,000 tons of high sulfur coal to follow the 12/31/04 expiration of its long term coal supply agreement with TECO.

Q. What are the terms of [redacted]

A. They are complex, but [redacted]

Q. In your opinion, could TECO select a rail origin bid as its least-cost bid and [redacted]

A. Yes. [redacted]

Q. Did TECO solicit coal-by-rail bids in its December 2003 solicitation?

A. No. TECO's December 2004 solicitation seeks only bids FOB barge.

Q. When are [redacted]

A. April 1, 2004.

Q. Does TECO have another solicitation outstanding?

A. Yes. TECO solicited in November 2003 for 500,000 tons in 2004.

Q. What did the responses to TECO's 2005-2014 bids reveal?

A. TECO received a bid from [redacted] FOB CSXT in Indiana. The bid was [redacted] per ton FOB rail.

Q. Evaluate this coal on a delivered price basis to Big Bend via rail and via the water route.

A. First TECO's evaluation (at Bates #35 in TECO's response to Staff's First Request for POD No. 13 filed March 3, 2004) follows:

Table 4.
Delivered Cost of [redacted] Indiana Coal As Analyzed By TECO ($/Ton)

	[redacted]
F.O.B. Mine Bid	
Rail or Truck Rate to River	
Loaded @ Dock	
River Barge	
ECT and Ocean Barge	
Total	
Delivered to Big Bend	

Q. Now evaluate this Indiana coal delivered to Big Bend by CSXT rail.

A. The results follow:

Table 5.
Delivered Cost of [redacted] Indiana Coal by CSXT Rail ($/Ton)

	[redacted] ($/Ton)
F.O.B. Mine Bid	
Rail Rate From CSX Bid	
Fuel Surcharge	
Total	
Delivered to Bid Bend	

Q. How much less expensive by rail?

A. For these supply-and-transportation options, the by-rail option is [redacted] per ton less expensive than the by-barge option, not including the additional costs resulting from handling and

moisture losses incurred with waterborne transport, and not including the additional carrying costs associated with longer transit times.

Q. Did TECO disqualify [redacted] bid?

A. Yes. [redacted] bid was disqualified as a by-rail bid.

Q. What is the significance of this? What impacts is it likely to have on TECO's customers?

A. This is significant because TECO has again failed to solicit by-rail coal. Had it done so, some of its by-barge bidders would have likely been less expensive than [redacted] had they bid FOB rail. One of these by-barge bidders that could load by-rail is [redacted] mine in Indiana. Another is [redacted] mine(s) in West Kentucky.

Q. Do these recent solicitations indicate any other imprudent practices on TECO's part?

A. Yes. Particularly considered in light of TECO's other actions with regard to favoring its barge-company affiliate, these solicitations highlight the fact that TECO does not synchronize its coal supply procurement and coal transportation procurement actions, leading to temporal mis-matches between coal supply contracts and coal transportation contracts. This leaves TECO in the position of claiming that it has to continue barge-origin coal supplies because it has another X years to run on its barge contract and also claiming that it has to continue its barge contract with its affiliate because it has another Y years to run on its coal supply contracts for barge-origin coals.

Q. Is this sort of non-synchronized coal supply and coal transportation procurement typical in the electric utility industry?

A. No. It is virtually unheard of, because it is obviously imprudent and contrary to the best interests of utility customers.

LOSSES AND INEFFICIENCIES OF WATER-TRANSPORTED COAL

Q. Have you investigated the losses of Btus due to the multiple handling of coal that moves to New Orleans by barge?

A. Yes.

Q. Why do these losses occur?

A. Because coal is handled multiple times on the water route and subject to heavy rainfall on the river and at ECT (Davant) near New Orleans Coal is loaded in a truck or rail car and moved to a river dock where it is put in a pile, then loaded on to barges. At ECT it is unloaded, stored and re-loaded. Each time coal is "handled," i.e., unloaded from one vessel or rail car to another, some coal is lost due to incomplete trans-loading and some is lost as dust. Additionally, coal absorbs some moisture when it is exposed to rain or other humid conditions, resulting in less Btu per net ton. In studies by Ashland Coal and Southern Company, Ashland quantified the losses on coal via New Orleans as 300 Btu/lb or 2 to 2.5%. Southern Company uses 1% for coal not transloaded but barged direct. Therefore, these studies are consistent with a 2% Btu loss for coal that is transloaded for barge shipment.

Q. At New Orleans, are there other costs associated with this moisture?

A. Yes, the additional moisture consumes Btu's when the coal is combusted at Big Bend. Southern Company estimated the additional cost at 25 cents/ton.

Q. Are other extra costs associated with the water route?

A. Yes. Rail and barge served U.S. utilities carry inventories of 45 to 60 days. TECO maintains a [redacted] inventory when coal at ECT, in transit on the river and in transit by ocean barge is considered. (See TECO's response to OPC's 1st Request for POD, Bates #778.)

Q. Don't rail-served utilities have coal in transit too?

A. Yes, but typically for only 3-1/2 days, not 44 days.

Q. Do you have an exhibit that summarizes the additional costs of water route transportation and provides the back up documents?

A. Yes. This information is presented in my Exhibit ____(RLS-7).

Q. What is your estimate of the higher cost of waterborne coal movements to Big Bend vs. by-rail movements?

A. My estimate is an added $2.00 per ton, composed of about half for water route Btu losses and related combustion costs and half for the extra inventory required to maintain water deliveries in the manner that TECO's affiliate operates.

DAMAGES TO TECO'S RATEPAYERS

Q. Taking all of the foregoing cost factors into account, have you prepared an estimate of the damages, in terms of excess costs, that TECO's captive customers are suffering and will suffer as a result of TECO's imprudent practices?

A. Yes. I estimate TECO's excess fuel cost as follows. With a rail system operating as of April 1, 2004, capable of receiving coal at a 2.5 MMTPY rate, I estimate that TECO could have received 1.243 MMTPY of coal delivered by rail in 2004. I assume that this coal was purchased in the first half of 2003 when TECO, acting prudently, should have solicited for coal by rail and by water. For 2005, coal-by-rail receipts would be 2.5 MMTPY.

For 2004, TECO could have purchased 700,000 tons from a CSXT Pitt 8 coal origin, 429,291 tons from a West Kentucky supplier such as Alliance mines; and 120,000 tons from Indiana and/or Illinois mines (Solar Sources at CSXT's Wheatland origin, Black Beauty at Sommerville via the ISRR/CSXT haul bid by CSXT, or Alliance's Pattiki mine in Illinois on the CSXT).

The barge-delivered coal backed out (see TECO's 2/2/04 response to OPC's 2nd set of interrogatories No. 25) by these purchases would be:

[redacted]

[redacted] of uncommitted coal (assumed to come [redacted] from Powhatan #6 and [redacted] from W. Kentucky)

[redacted] of Powhatan #6 coal (already planned)

[redacted] of Indiana coal (already planned)

1,243,000 tons

The following table summarizes the savings from this 2004 rail/water procurement strategy.

Table 6.
SUMMARY - ESTIMATED TECO OVER-PAYMENTS IN 2004

(1) Pitt 8 Coal 700,000 tons (see Exhibit 9b)

TECO Water Route Cost	$[redacted]
By CSXT Rail Cost	$[redacted]
Total Pitt 8 Savings	$[redacted]
Per Ton Savings	$[redacted]

(2) Illinois Basin 549,291 tons (see Exhibit 9c)

TECO Water Route Cost	$[redacted]
By CSXT Rail Cost	$[redacted]
Total Ill. Basin Savings	$[redacted]
Per Ton Savings	$[redacted]

(3) CSXT Rail Discount Savings

[redacted]/ton times ([redacted] or $[redacted]

(4) Total 2004 Rail Route Savings $[redacted]
Total $/Ton Savings $[redacted]

BIG BEND'S CAPABILITY TO STORE AND BLEND COAL FOR BIG BEND & POLK STATIONS

Q. Do you have experience assessing and testifying on utility coal yard operations, blending and coal handling?

A. Yes. I have reviewed coal yard and blending operations at many power plants and have testified on rail and barge receiving, coal blending, coal yard handling and reclaim costs and on utility inventory policies in administrative and courtroom litigation in numerous jurisdictions. Power plants that I have examined in this regard include: Powerton (IL), Bailley (IL), Michigan City (IL), Mitchell (IL), Belle River (MI), St. Clair (MI), King (MN), Fayette (TX), Limestone (TX), Crystal River (FL), Scherer (GA), St. John's Power Park

(FL), Cedar Bay (FL), Jeffrey (KS), Centralia (WA), Independence (AR), White Bluff (AR), Jim Bridger (WY), and Dave Johnston (WY).

Q. Have you visited Big Bend Station?

A. No. Time did not permit me to visit Big Bend, but John Stamberg, P.E., Vice President of EVA, visited Big Bend and he has reviewed with me, using photographs and layout drawings, Big Bend's coal handling facilities, and rail and barge facilities.

Q. Briefly describe these facilities.

A. Big Bend receives about [redacted] by barge. Big Bend has two stacker reclaimers, advanced blending and silo storage facilities, a coal yard capable of storing 60 days of inventory for Big Bend/Polk, and at one time had a rail receiving facility to receive limestone for FGD operations. Big Bend has an air permit for a coal/rail load out to transport coal to Polk. Presently Polk coal is loaded in trucks at Big Bend for transport to Polk.

Q. What coal inventories has TECO maintained at Big Bend in the past?

A. Until December 1998, TECO reported its inventories at Big Bend to the U.S. Energy Information Administration ("EIA") on EIA Form 759. For many months in the 1990-1998 period stocks at Big Bend exceeded 600,000 tons. In November 1998, Big Bend inventories rose to 721,344 tons and in December 1998, EIA reported TECO has reported its Big Bend inventory as 919,882 tons. The highest inventory ever reported at Big Bend was 1,041,730 tons in April 1999.

Q. How many tons were stored at Big Bend on January 31, 2004?

A. 600,000 tons.

Q. What are the average high burn rates at Big Bend?

A. The monthly burns for June/July/August 1996, 1997, and 1998 for Big Bend averaged 430,000 tons per month.

Q. What is the maximum burn rate for Polk Station?

A. TECO reports that Polk's maximum monthly burn is 66,000 tons and that 5,000 tons is stored on site.

Q. What are typical eastern U.S. utility inventories?

A. Usually 45 to 60 days. I have provided public data on eastern utility inventories in average days of burn at Exhibit ____(RLS-8).

Q. Would having rail and barge delivery capability reduce the risk of supply disruptions?

A. Yes.

Q. What would be the fuel storage (coal and pet coke) requirement at Big Bend for Big Bend and Polk inventories, assuming that 45 days of inventory is the target?

A. 736,500 tons.

Q. What about 60 days?

A. 982,000 tons.

Q. Is the Big Bend site capable of storing 736,500 tons or 45 days of Big Bend and Polk burn?

A. Yes. This has been demonstrated.

Q. Could it store 60 days of burn or 982,000 tons?

A. Yes. The site has stored 1,041,730 tons. Storing 982,000 tons should not present a problem, especially since all four Big Bend units can burn the same fuel, which was not the case before Big Bend 1&2 had FGDs installed in 1999.

Q. Does TECO have sufficient blending capability at Big Bend to handle the blending requirements for Big Bend and Polk Stations?

A. Yes. My partner John Stamberg addresses in detail Big Bend's blending capabilities in his testimony. At Big Bend, silos and belts to the truck (or rail) load out to Polk are capable of blending pet coke and coal for Polk.

Q. How much coal is ECT expected to blend in 2004?

A. According to TECO, ECT will be blending only [redacted] of total TECO throughput in 2004. See response to Public Counsel's Interrogatory No. 24, February 2, 2004.

Q. Does TECO use ECT for coal storage?

A. Yes, but the storage is not necessary to make Big Bend reliable or to achieve 45-60 days of storage at Big Bend. It is obvious the storage is not at Big Bend and is no more accessible than the Illinois Basin or Appalachian coal mines that could be accessible to Big Bend by CSXT rail.

Q. Why have it?

A. Storage at ECT is for barge transloading. It is maintained for the convenience of TECO's affiliate. Storage of fuel at ECT should be viewed as an extra cost of water route transportation.

Q. What conclusions do you draw concerning TECO's coal storage and blending capabilities?

A. The foregoing discussion demonstrates that TECO has ample storage capacity at Big Bend and ample blending capability at Big Bend to handle all of its requirements for both generating plants. Accordingly, TECO does not need ECT (Davant) for any of these purposes.

SARGENT & LUNDY STUDY

Q. Have you reviewed the Sargent and Lundy ("S&L") study?

A. Yes. I reviewed the study dated September 18, 2003 and a draft dated September 6, 2003.

Q. What is your assessment of the study?

A. It was prepared hastily and does not appear to benefit from knowledge of the site or site visits directed to estimating the cost of upgrading Big Bend's rail facilities. S&L's engagement for this task began August 27, 2003 and S&L's first draft is dated September 6, 2003. It does not examine the potential transfer and use at Big Bend of the idled Gannon rail unloading equipment. Nor did it consider the obvious option of upgrading for coal unloading the existing rail facilities installed to receive limestone.

Q. Is there any evidence that S&L obtained vendor quotes?

A. No.

Q. Did TECO or S&L contact CSXT or request any information from CSXT in an effort to understand CSXT's estimates?

A. No.

Q. Have you in the past worked with engineers to estimate the cost of construction of conveyors and other materials handling equipment?

A. Yes.

Q. How is this done?

A. In my experience, the client asks the engineer to review the site, obtain as-built drawings of existing facilities, examine soil conditions, prepare a conceptual plan, obtain preliminary vendor quotations for large items, and obtain unit cost estimates, e.g., for concrete in dollars

per cubic yard, steel in cents per pound or other appropriate units, and for labor in dollars per hour for each type of employee needed for the job.

Q. What else would an engineer do in arriving at such an estimate?

A. The engineer will typically go to documents that have "factored" unit prices for the region (here, Florida) where the project is located. The engineers should, and typically do, visit or contact environmental permitting authorities and local government construction permitting authorities to determine regulatory requirements.

Q. Did S&L do this?

A. I have seen no evidence they did. The e-mail record does show that S&L obtained tax, insurance, and salary information from TECO.

Q. Did you notice anything else peculiar about S&L's cost estimates?

A. Yes. I noticed that [redacted] of the [redacted] cost items identified and estimated in S&L's study were multiples of [redacted] The probability of actual, engineering-based estimates exhibiting such an arithmetic relationship is so very, very small as to be considered impossible. Thus, this casts further doubt on the accuracy of the S&L study and the legitimacy of S&L's methodology, whatever it was.

Q. Would you give any weight to S&L's estimate?

A. No. A reliable engineering estimate for the type of facilities at issue here must be built from the ground up because there are existing facilities, a prior rail unloading point, and other

physical features that must be taken into account in preparing any estimate of the costs to install new or upgraded rail delivery infrastructure. A reliable engineering estimate should also incorporate vendor quotes for the key items and be transparent with regard to unit costs and loading factors. S&L's estimate does not meet these tests.

Q. Did you ask Mr. Stamberg to visit Big Bend and Polk and the Hillsborough County permitting authorities?

A. Yes. He made three visits to the Tampa area as part of his assignment. His visits included not only "drive-by" or "outside-the-fence" inspections of TECO's Big Bend, Polk, and Gannon (Bayside) Generating Stations, but also "inside-the-fence" inspections of all three of these power plants. His visits also included review of the permitting records for both the Big Bend and Gannon Stations.

Q. Did he meet with CSXT's personnel who prepared CSXT's estimate?

A. Yes. Mr. Stamberg met with Mr. White and Mr. Schumann, the two individuals who had primary responsibility for developing CSXT's cost estimates for the capital improvements needed to accommodate rail delivery, handling, and trans-loading facilities for serving Big Bend and Polk.

Q. Did you review Mr. Stamberg's estimates?

A. Yes. I found Mr. Stamberg's estimates to be reasonably thorough and complete.

Q. Did you review the permit information and TECO's engineering information requested by CSXT?

A. Yes.

Q. Do Mr. Stamberg's analysis and estimates satisfy the criteria that you articulated above regarding the characteristics of a sound engineering estimate for coal receiving and handling installations?

A. Yes. Accordingly, it is my opinion that his analyses are far more reliable and credible than anything that is contained in the Sargent & Lundy report.

THE TRANSPORTATION BENCHMARK

Q. Are you familiar with the Commission's transportation benchmark established in 1988?

A. Yes. And I reviewed TECO's benchmark calculations attached as Document 1 to Ms. Wehle's September 12, 2003 testimony.

Q. What is your assessment of the benchmark?

A. It has no analytical value, and therefore no policy value or regulatory validity.

Q. Why?

A. I contacted the Commission staff and sought the underlying data from the four utilities surveyed. I was told that the back-up data from Lakeland is not publicly available. Lakeland is one of the two "low cost" respondents for 2002. The other low cost data point was Gainesville. Gainesville's volume was 728,847 tons which, even if the data were good,

which cannot be determined without an audit of invoices and Gainesville's rail contract, would tell me little about a potential 2.0-5.0 MMTPY rate to Big Bend.

Q. What else did you discover?

A. The back-up data for the St. John's River Power Park rail cents-per-ton-mile submittal given to me by staff shows under a bold double blocked heading: "Non-Discounted Contract Rail Rates – 2002". That caveat is sufficient to reject the SJRPP data as not representing SJRPP's actual rail rate.

Q. What about Ms. Wehle's calculation?

A. In the first instance, I note that because the underlying data is bad, which I've shown above, her calculation is invalid. I also note that she employed an average haul distance of 1,146 miles, testifying this is the rail haul distance "from all Tampa Electric waterborne coal supplies to plants". With no back-up, this statement is difficult to evaluate, and as I testify to at length in this testimony, the most economical rail origin will usually not be the most economical barge origin (not that TECO necessarily buys from the most economical barge origin).

Q. Did you calculate the rail mileage from an economical rail origin to TECO's Big Bend plant?

A. Yes. My calculation showed the rail mileage from Big Bend to the Webster County and Hopkins County West Kentucky load outs, which are used by LG&E and TVA and which are also available to TECO, was 961 miles.

Q. What is the percentage difference between your 961 miles and Ms. Wehle's 1,146 miles?

A. By her method of calculation on mileage alone, her rate is overstated by (1,146 – 961 = 185) divided by 961, or 19.3% if her result seeks to represent to the Commission what TECO would pay for coal transportation from a rail transportation efficient coal mine to Big Bend.

Q. Is mileage the whole story?

A. No. I've testified earlier that high-sulfur Pitt 8 coal is a likely economical rail source coal for Big Bend. It is over 1,100 miles by rail to these mines, but because CSXT offers lower rates per ton mile for transportation from Northern Appalachia and because Pitt 8 coal has a higher Btu/lb value, Pitt 8 coal, depending on market conditions, could be the preferred rail source for TECO, just as it often is for Seminole.

Q. Do you have any other problems with the benchmark?

A. Yes. If you have a bona fide rail bid as TECO did in October 2002, that should be the "benchmark" not some calculation using inaccurate data from an invalid origin.

CONCLUSIONS AND RECOMMENDATIONS

Q. Please summarize the major conclusions of your testimony.

A. TECO's coal procurement and coal transportation procurement practices were and are imprudent. TECO's efforts to suppress and avoid rail vs. barge competition, both for coal supply and for coal transportation, are costing TECO's customers millions of dollars per year. As explained in my testimony, TECO's projected costs for coal transportation under its contract with TECO Transport are unreasonable and imprudent. Even generously evaluating

TECO's behavior in light of what the Commission now knows that TECO knew in the **fall of 2002**, the Commission must recognize that TECO's behavior has been imprudent and that TECO's actions are costing and will cost TECO's ratepayers far more than they should. Accordingly, the Commission should disallow, at a minimum, for cost recovery purposes, the difference between the cost of rail-origin-and-delivered coal and barge-origin-and-delivered coal on 1.5 MM tons for 2004, which I estimate to be approximately [redacted] and the corresponding amount on 2.0 MM tons for 2005, which I estimate to be approximately [redacted] and even more, probably on the order of 3.0 MM tons, for 2006 through 2008.

Additionally, the Commission should take all actions within its power to ensure that TECO's customers are not further abused and harmed by these imprudent practices by TECO. If the Commission has the power, it should mandate fair, open, transparent, Commission-supervised procurement processes for all future TECO coal procurement and coal transportation procurement activities. If not, it should seek the power from the Florida Legislature; other state utility commissions have and exercise this power.

Additionally, TECO's actions have been so imprudent in this case that I believe that the Commission should consider imposing whatever additional penalties it has available under its governing authority on TECO's shareholders and management.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BY MR. WRIGHT:

Q Dr. Sansom, have you prepared a summary of your testimony?

A Yes.

Q Would you please deliver it to the Commission at this time?

A Yes. You may recall that Senator Baker's statement in Watergate when he said, "What did they know and when did they know it?" Well, this is a prudency issue versus imprudency. And for our purposes here I think we should add, not only what did they know and when did they know it, but what did they do about it?

Let's starts with the when. Clearly, the time is October 2002 to March 2003, bracketed on the one hand by the CSX offer of October 2002 and the timing of a prudent solicitation to cover the replacement or potential replacement of the TECO Transport contract that was scheduled to expire at the end of 2003. And, in my opinion, given the complexity and the scale of that solicitation, it should have occurred no later than June 1st of 2003 to allow the proper analysis of the bids and the consideration of rail versus barge origin coal.

Now, the first what is what did TECO know? And the answer is that they knew by October of 2002 that the CSX bid offered them a chance to establish intermodal competition at the Big Bend station; to obtain at CSX's expense a unit train

unloading facility at Big Bend and to receive coal for transportation savings potentially as much as $7 a ton. And you can do the math, on $5 million -- on 5 million tons a year, that is $35 million a year. And I'm advocating not giving all the business to the low-cost bidder in this case, so it would have been some lesser amount of tonnage, like two and a half million multiplied by seven, and these are not confidential numbers. So this is a huge opportunity to minimize fuel costs to the ratepayers.

All right. The second issue is what did they do about it? And the answer is nothing. They were offered the opportunity, but TECO was, quote, too busy, according to them. And in my experience in prudency evaluations, if you say you are too busy, that is a prima facie imprudency. And you heard the testimony this morning of Mr. White trying to negotiate. It was like one-hand clapping. You can't take advantage of the markets unless you engage the bidders.

I found TECO's actions were imprudent in the following respects: Failure to solicit all low-cost supply regions and transportation modes. In particular, they solicited only Midwestern coal, by the water route only, not Pitt 8 coal. Big Bend has flue gas desulfurization capability. The ratepayers have paid for that. That entitles those ratepayers to the opportunity to burn in those units low cost high sulfur coal. There is two primary areas with billions of

tons of reserves in the United States. It's the Illinois basin and Northern Appalachia, not central Appalachia. So this was an opportunity to tap the Northern Appalachia Pitt 8 reserves, and it was an opportunity to tap intermodal competition and CSX rail as the potential low-cost server to deliver fuel to the Big Bend station.

I have done a damage calculation, and it is in Exhibit 9A, B and C that we were looking at earlier. And as I have said, we are talking about over $7 a ton. I can't give you the number in an open forum, but it is in Exhibit 9A, B and C. And in my opinion this is the appropriate rail cap on TECO affiliate charges. TECO Transport should not be allowed to charge more than the cap that would be, that results from my calculation in Exhibit 9A, B, and C.

And I did a complete evaluation. The ratepayer buys electricity; the ratepayer buys Btus per kilowatt hour; the ratepayer buys not tons, but Btus. And a proper evaluation by a properly executed procurement is to evaluate the delivered fuel cost on a cents per MMBtu basis, adjusted for bus bar effects, and that is what I do in my Exhibit 9A, B and C.

Another advantage of intermodal competition is it improves the reliability, and it would reduce in half the currently allowed 91 million in inventory costs in the rate base for TECO electric. They currently keep 900,000 tons typically on the ground at Davant, which does not -- which if

you allowed intermodal competition at Big Bend, based on the experience of all the utilities in Florida, you could eliminate this amount of coal from the rate base. That would eliminate approximately $45 million from the rate base. And, of course, you know the carrying charges on that would be somewhere around four and a half million dollars a year, or another dollar a ton, which I incorporate in my calculations in Exhibit 9A, B and C.

A couple of other conclusions. In my opinion, Sargent and Lundy's 48 million-dollar estimate -- I think that number is not confidential, the total number -- to upgrade Big Bend's rail unloading facilities is wrong, because it does reflect vendor bids. Big Bend's construction criteria, as demonstrated by facilities in place on Big Bend's site as constructed in the 1990s, namely the specific facilities to bring the residual from the Polk gasifier into the Big Bend station and the facilities built at the time to handle the receipt and loading of Polk coal.

I think that the Sargent and Lundy's estimate was not done in the prudence period. It is a made for litigation result. If they had done an analysis in the prudency period, which I consider to be October 2002 through June 1st, 2003, it would have been evidence that they seriously considered and seriously addressed the construction cost of rail unit train unloading facilities at Big Bend. And, of course, more

evidence of that would have been some record of a dialogue with Mr. White and the other people at CSX.

My final conclusion is that the benchmark should be abolished by this Commission. It is really not a serious call at all. If you look at the CSX bid, the benchmark is some 44 percent above the actual rail bid to move coal. So this is supposed to be a rail benchmark, and it is not even close. And I can discuss this in nonconfidential terms because the declassified FPSC 423s show in 2000 and 2001 that CSX delivered rail coal to Gannon for $16.35 a ton in CSX cars. And if you compare that to the benchmark in those years, I think you will be astonished at the result.

And the rest of my testimony, why the benchmark is inadequate, is based on data that cannot be audited; it is based on data that excludes volume discounts; it is based on data that miscalculates the allowed charge for rail car ownership; and it is based on data that is not public and not reviewable. And it is also based on mileage calculations that are arbitrary, done by TECO themselves.

That concludes my summary.

Q Thank you, Dr. Sansom.

MR. WRIGHT: Dr. Sansom is tendered for cross examination.

CHAIRMAN BAEZ: Mr. Vandiver.

MR. VANDIVER: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. VANDIVER:

Q Dr. Sansom, at Page 45, Line 17, you state that the benchmark has no policy or regulatory validity, is that correct?

A You said 45.

Q Yes, sir, Line 17.

A I'm just trying to catch up to you.

Q Sure thing.

A Yes, that is my testimony.

MR. VANDIVER: Mr. Chairman, I would like to have Mr. Poucher pass out an exhibit at this time.

CHAIRMAN BAEZ: Mr. Poucher. Mr. Poucher, you gave me two. Are they the same?

MR. VANDIVER: Can you I get a number for this, please, Mr. Chairman?

CHAIRMAN BAEZ: Show the document entitled TECO Approved Waterborne Transportation Benchmarks 1994 through 2001 as Exhibit 105.

MR. VANDIVER: 105, thank you, sir.

CHAIRMAN BAEZ: 105.

(Exhibit 105 marked for identification.)

BY MR. VANDIVER:

Q Dr. Sansom, this has been labeled Exhibit 105. And the third column over is the benchmark, and I believe that is

the benchmark you referred to in your testimony, is it not, sir?

A Yes.

Q And that is a public number, is it not, sir?

A That is correct.

Q And just so we can all be clear, this is all public data, is it not, sir?

A That is correct.

Q All right. Now, that third column there, and the fourth column, it is labeled at the top actual, that rail cost and the waterborne cost in the years shown, those would normally be confidential numbers, would they not?

A That's correct.

Q All right, sir. And in our benchmark comparison years those confidential numbers are compared to the public numbers, are they not, sir, for the benchmark comparison purposes?

A In this table?

Q Yes, sir.

A Yes. In other words, the now public, previously confidential, data in the second -- in the columns to the right is compared with always public benchmark data.

Q All right, sir. And I want to, just so we can all get oriented on this chart, you have Footnote 3 down there, and it says include estimated cost to get coal from mine on to the

river barge. How did you calculate that, sir?

MR. FONS: Excuse me. I'm perplexed here. Is this an exhibit that this witness has prepared? I thought OPC was handing it out, and he is now asking him how he prepared it. Does this mean that this is more than friendly cross-examination, that the Office was Public Counsel is actually using a document that was prepared by this witness who is a witness for CSXT?

MR. VANDIVER: This is a probative document that I'm asking the witness about, Mr. Fons.

MR. FONS: I'm objecting --

CHAIRMAN BAEZ: Hold on. Hold on. Hold on. This way. I know sometimes I don't look like I'm here, but I am.

Mr. Fons restate the basis of your objection. And, Mr. Vandiver, you will have a chance to respond.

MR. FONS: In the examination of this witness, Mr. Vandiver asked the witness, how did you calculate your Footnote 3. Now, this witness has been handed this document apparently for the first time by Mr. Vandiver, and he is now asking the witness how he calculated it. Is this the witness' exhibit?

CHAIRMAN BAEZ: First of all, I would put the question to you. I mean, I did hear you say, "How did you calculate." So where are these numbers coming from? And let's try to establish the origin of it, and then we will get to the

rest of it, of the discussion. Mr. Vandiver, go ahead.

MR. VANDIVER: Okay. This is not a document that was prepared by the Office of Public Counsel. This is a document that has been given to me. I don't know the origin of this document. However, I believe this document to be very probative of the benchmark. I believe I have a right to use this document in cross-examination as I see fit.

CHAIRMAN BAEZ: You don't know the origin of the document?

MR. VANDIVER: No, I don't. But I believe I have a right to use any probative document as I see fit to question the witness. I believe it to be a very probative document, and that I can ask the witness questions as I see fit.

CHAIRMAN BAEZ: I know that you have said that a couple of times, but I am still trying to get over the fact that we are introducing a document that doesn't have a history, or we don't know where it came from.

MR. VANDIVER: And I'm trying ascertain the truth of this document from this witness.

CHAIRMAN BAEZ: Mr. Vandiver, I'm not going to allow you to use this document. This document is -- some of the information on this document may be available publicly and that might be a way to get around this, but I am not sure that this document is the proper way to do it.

MR. VANDIVER: I think everything on this document is

public. I think it is from FERC 423 forms.

CHAIRMAN BAEZ: Then can you represent it as -- and I tend to think that we got off on the wrong foot with this document. I think we should have established the foundation for this document from the beginning.

So in light -- since the representations are being made, Mr. Fons, that this is information that is coming from nonconfidential information contained or readily accessible as a public record on the 423s, I think we are going to let Mr. Vandiver establish the foundation for this document.

But I've got to tell you, Mr. Vandiver, I'm really -- you know, unless you can do a good job of it, I think there are other ways to get to this information?

MR. VANDIVER: I think we can get there.

BY MR. VANDIVER:

Q All right, sir. How was the information in Footnote 3 derived, sir?

A It was derived from the now public FPSC Forms 423.

MR. FONS: Mr. Chairman, I'll renew my objection now.

CHAIRMAN BAEZ: Yeah.

MR. FONS: It appears that this document was prepared by this witness, and in that situation that is a sandbag exhibit. I'm going to object to it.

CHAIRMAN BAEZ: Who prepared this document?

THE WITNESS: I prepared it.

CHAIRMAN BAEZ: You prepared it?

THE WITNESS: Well -- yes.

CHAIRMAN BAEZ: It's out. Okay. Move on, Mr. Vandiver.

MR. VANDIVER: All right, sir.

BY MR. VANDIVER:

Q Do you believe it is appropriate to compare the public benchmark to proprietary rail waterborne costs?

A Yes. I mean, it would be one way of determining beyond the inherent inaccuracies of the data that the benchmark relies on, which I address in my testimony on Pages 45 through 47. Another way of showing the benchmark's lack of validity is to compare it to -- proprietary data is your word as opposed to confidential data -- but to compare it to actual data that reveal the rail rates and waterborne transportation rates to which the benchmark is supposed to be related, but isn't.

Q Do you believe the benchmark has served the public interest?

A Well, I was asked a question in my deposition about the benchmark by Mr. Beasley, and at that time I had only looked at the one year that I had addressed in my testimony, which was 2002, and I was highly confident that the data was useless that I saw from Ms. Wehle on the benchmark. I have since gone back and looked at the other years and reached the same conclusion. To the extent this Commission has relied on

it, it has not served the ratepayers and it is a misleading indicator.

Q On Page 45, Line 23, you reference Gainesville Utilities as a data point, is that correct?

A Yes.

Q Is it fair to compare a 700,000-ton movement to a four million-ton movement?

A Certainly, you wouldn't expect the same rail rate to be applicable to a less than a million ton movement versus one over two to three million tons.

Q Why is that?

A Because an integral part of transportation rates are volume discounts. And, obviously, if you are moving a lot of tonnage, as the proposal made to TECO in this case shows, there is a substantial discount available at the higher volume levels. And that was the discount that I included in my calculations in Exhibit 9A, B and C. So, no, to compare a small volume receiver of coal in that rate, even if everything else was done correctly, and I'm not saying here it was, would give you a misleading result for a higher volume movement.

MR. VANDIVER: That is all the questions I have. Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Thank you, Mr. Vandiver.

Ms. Kaufman. Oh, I'm sorry. Ms. Kaufman, you don't have any questions?

MS. KAUFMAN: I'm sorry, Mr. Chairman. I do not have any questions.

CHAIRMAN BAEZ: Good. I didn't see the signal.

Mr. Twomey.

MR. TWOMEY: Yes, Mr. Chairman. Thank you.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Are you the same Bob Sansom I crass-examined in the Occidental case in the mid-'80s?

A Yes. Well, 19 -- 1988. Some things you don't forget.

Q I thought you looked familiar.

A I take that as a compliment.

Q I want to start --

A I had a lot more hair then.

Q I want to start at the end of where we left off with the apparently now deceased Exhibit 105 by not referring to it, Dr. Sansom, but you do, in fact, at Page 45 of your testimony malign the benchmark's worth in judging the relevance or the prudence of reasonableness of what TECO's customers are forced to pay for transportation, the waterborne transportation, right?

A Yes. I wouldn't use the word "malign". But you did, and I will accept it.

Q Okay. Do you buy -- I would ask your counsel to give

you a copy of Exhibit 101 which is still a good exhibit, I think. And I would ask you to turn to the third to the last page from the end, which shows the -- it's the FPSC Form 423-2(B) for Tampa Electric Company for the month of May 2000. Now, you know what the current benchmark is, is that correct?

A This --

Q No, I'm not asking you with reference to this one, but you know what the benchmark is?

A For 2000, the year we are looking at.

Q Yes, sir. Do you know what that is?

A Yes. It's 26.23.

Q 26.23. And so at least in theory, anything under that is an acceptable price for TECO's customers to have to pay through the fuel adjustment clause for the transportation of coal provided by Tampa Electric Company's affiliate, TECO Transport, right?

A That, as I understand it, is the concept of the benchmark.

Q Okay. And you have read Ms. Wehle's testimony and examined her exhibits, is that correct?

A Yes.

Q Okay. In fact, she makes clear in her testimony, doesn't she, that TECO's actual rates that they pay are always below the benchmark, right?

A Yes. But, of course, she has a very serious flaw in

her data. When she uses the TECO Transport rate, she does not include all the transportation for the water move in her number, which is an absolutely fatal flaw. It is like your kid came home from school and said he made straight As. And you said, "Well, how did you do in Spanish?" And he said, "I got an F. Oh, I made straight As all the other ones."

Q Well, what is the Spanish grade here? What is left out in her analysis?

A Well, she fails to tell the Commission that an important transportation component of moving the coal from the mine is moving it from the mine to the barge. So she is comparing apples and oranges, even if the benchmark were correct, which you are looking at a document that shows that it isn't.

Q Now, the actual numbers, if you recall, isn't it correct that the numbers used in Ms. Wehle's favorable comparison of the benchmark to what TECO charges its customers is confidential, is it not?

A The TECO Transport component of the transportation cost that TECO charges its customer for waterborne coal is confidential for the period 2000 -- for the last two years, but it is not in earlier years.

Q Okay. Now, going back to the third to the last page of Exhibit 101, you have just testified a moment ago what the benchmark was for the year 2002, and I think it was $26.23, you

said?

A That was 2000, the year 2000.

Q I'm sorry, I meant to say 2000. Yes.

Now, we know now from the declassified data that TECO's rail charges that it paid to CSX, I guess it was, for coal delivered to Gannon was $16 per ton, right?

A That is what it shows on the page we are referring to, which is the 423-2(B) under the line rail charges to Gannon.

Q And yet the benchmark would suggest to us that anything under $26.23 is an okay deal for the consumers, isn't that correct, as you understand what the benchmark is?

A Yes.

Q Now, Dr. Sansom, isn't it clear that, in your estimation, that what TECO knew that it was paying CSX to pay for a shipment of coal per ton to Gannon was clearly a superior indication of what the reasonable market-based rate should be as opposed to the benchmark?

MR. FONS: Mr. Chairman, I have to object. This is friendly cross-examination, and that's the most leading question.

MR. TWOMEY: I will withdraw it.

CHAIRMAN BAEZ: Well, wait a second. Mr. Fons, friendly or not, it is still cross. So I would allow you to object to the editorializing, that is one thing, but that he

can lead a witness to some extent has to be. Okay. Let's save some of the argument over that.

MR. TWOMEY: Yes, sir.

BY MR. TWOMEY:

Q Well, Dr. Sansom, isn't this $16 rate that TECO charged -- paid CSX in 2002 for coal shipped to Gannon versus the benchmark illustrative of the point you were making at Page 45 your testimony, that the benchmark is flawed and is not reliable?

A Right. Your question said 2002. Again, it is 2000.

Q I'm sorry. I don't know why my tongue does that.

A The answer is the difference is $10.23 a ton in the year 2000, which would suggest that the benchmark is not even close.

Q Okay. And if you would turn to -- let's see, the last page of Exhibit 101. Again, that shows, does it not, shipments to Gannon Station?

A Yes.

Q For the year -- month of May, year 2001?

A That is correct.

Q Okay. And what is the comparable number for the unit rail total transportation charges at Column P?

A The now declassified number is $16.35 a ton.

Q Okay. And, again, if you are aware, how does that compare to the benchmark for that year?

A The benchmark in that year was $23.87 a ton.

Q I want to start at the beginning of your testimony, Dr. Sansom, and read or ask you some questions that I have made on your testimony.

Page 10, Line 15, in responding to a question that asked your assessment of the TECO fuel procurement and fuel transportation practices, you start out saying it is fundamentally flawed, correct?

A Yes.

Q And you go on to say that no one mode should be given, quote, unquote, all the business, correct?

A That's correct.

Q And you say that a bimodal transportation approach would ensure that TECO's ratepayers benefit from competitive transportation markets and are able to draw on the most economical coal supply regions, correct?

A Yes.

Q Now, I want to ask you first about the competitive aspect of that, Dr. Sansom. Are you aware of other electric utilities experienced in the state of Florida that would support your assertion that there are competitive benefits to be had from a bimodal approach?

A Yes, I am aware of others in Florida and others in the east and throughout the country. But the other ones in Florida would be JEA and Florida Progress, Florida Power, which

is now Progress Energy Florida, if I've got it right.

Q And to the extent that you know, how have they benefitted from those -- the advantage of having both waterborne and rail transported coal.

A They compete each mode against the other. Both of them want the volume, and they make them negotiate and work hard for whatever volumes they get.

Q Now, aside from the benefits of competition, the price advantages of competition if that is what you are saying, what other advantages are there, if any, for a utility, especially in Florida, that would have a bimodal approach.

A You have increased reliability and reduced inventory costs.

Q Okay. Why is there more reliability?

A By definition, if you have got a different way of -- I mean, if you are only water-dependent, you are subject to disruptions on the water route, low water levels, hurricanes, lock maintenance. If you are singly dependent upon the railroad you are subject to disruptions if there is -- if there are difficulties on the rail route. By definition, and a matter of statistics, if you have got two options, you have got lower risk of disruption; therefore, you can carry lower inventories.

Q Okay. Well, how could it affect the inventory?

A In this case, it could cut the rate base inventory

from 91 million to 45 million, just like that. In fact, it would be even -- even if you wanted to use Sargent and Lundy's utterly highly inflated estimate of the rail -- unit rail unloading facilities, the ratepayer could have it for nothing by simply reducing the inventory allowed -- TECO's allowed inventory in the rate base. And if TECO wanted to invest in the facilities as opposed to CSX, and I can't see why they would, given that CSX is willing to do it, it would be a freebie to have intermodal competition in the lower 20 to $30 million in savings that I'm talking about.

Q Okay. On the next page, 11?

A And let me explain how I arrived at that. I actually looked at the inventories of these other Florida utilities and compared them to the inventories carried by TECO at Big Bend. And these other utilities have carried inventories that are comparable to what Big Bend alone carries, without accounting for the inventory carried at Davant, and they haven't suffered disruptions. Therefore, by definition they -- and particularly I looked at it both ways, the intermodal guys, JEA and Crystal River on the one hand, and then I looked at it in terms of the single rail served utilities in Florida on the other.

Q Is that supported in your testimony and exhibits?

A I have prepared exhibits, but that issue wasn't addressed in -- it is addressed in my inventory only in the sense that I calculate in Exhibit 9A, B and C the savings of

reducing inventory by having intermodal competition to Big Bend.

Q Okay. On Page 11, Dr. Sansom, the heading you have at Line 5 is, "Least-Cost Coal Supply Regions for TECO." And I want to you ask you in connection with that, in your estimation, does Tampa Electric Company have a least-cost coal purchasing strategy that you can ascertain?

A No, it doesn't. In fact, I question, given the testimony of Ms. Wehle, TECO doesn't have a commitment to competition or to making markets work to reduce the cost to the ratepayers.

Q Well, let me ask you this. It is your understanding, is it not, that, and hasn't the evidence in this case shown thus far, that all of the waterborne transportation is provided -- and handling is provided by TECO affiliates, correct?

A Yes

Q Now, do you have an opinion on whether -- the fact that the waterborne transportation is carried and provided completely by TECO affiliate companies, do you have an opinion on whether that, in fact, impedes its ability or willingness to adopt a least-cost fuel strategy?

A It appears that it does. It appears to be the explanation for their refusal to negotiate with willing and able competitors, including Ingram Barge Company and CSX.

Q Now, because wouldn't it be true, Dr. Sansom, that necessarily every dollar that Tampa Electric Company gave, assuming that they had a fixed burn, annual burn of coal, assuming that as a given, doesn't it necessarily follow that every dollar that Tampa Electric Company gives for coal transportation to CSX or any other unaffiliated transportation carrier must take dollars out of its affiliated company, TECO Transport?

A Yes.

Q Now, at Page 12 of your testimony, starting at Line 10, you answer the question about likely low cost coal supply sources for by TECO by rail and barge. Now, as I understand your testimony, one part of it is, is that, and correct me if I'm wrong, but one part of it is, is that TECO has purchased coal that might logically be carried by water when it otherwise could have taken rail-mine originated coal, and that there is some costs to the customers from that, is that correct?

A Yes. And I give two examples and do the calculations in detail for two examples. One is the Pitt 8 coal, which I was alerted to by the fact that Seminole, a CSX captive utility south of Jacksonville, takes Pitt 8 coal to a scrubbed unit just like Big Bend is a scrubbed unit. And they are able to deliver that coal much less expensively than TECO Transport delivers that same quality coal, in fact, a little lower quality coal to the Big Bend Station. And that calculation is

on Page 15. And the Pitt 8 mines that I am talking about that are served in a single line haul by CSX are on my Exhibit 2.

But the same thing also happens in West Kentucky, which is an Illinois Basin coal, which is not quite as high a Btu; therefore, it carry quite the rail rate that a Pitt 8 coal can carry. And that calculation is on Page 14. And when -- it was actually true that they were buying Dotiki coal, which is west of Madisonville, Kentucky on the CSX railroad, and they were taking that coal to the river at Mount Vernon, paying CSX a rail component, loading it on a terminal, which happens to be also owned by Alliance, which owns Dotiki, and taking it by the TECO Transport mode all the way to Big Bend. And that is the price you see that is confidential on Page 14 in the Big Bend Dotiki line.

And then I looked at what Seminole was doing, captive to CSX, doesn't even have the benefit of intermodal, and they were getting the same coal from the same mine and paying almost double digit dollars per ton less delivered than TECO was paying.

Q Okay, sir. Now, the -- is it Dotiki?

A Yes.

Q Now, as I understand it, and I want you to tell me if I'm right, going back to Page 12, Line 11, you make the statement TECO has taken Illinois Basin coal by barge from mines that originate coal by rail. That's correct, right?

A They have done it from Galatia; they have done it from Zeigler; they have done it from Dotiki, and they have done it from others that could move it more economically by rail.

Q So if I understand, it is your testimony that not only have they purchased coal that might rationally be taken by water, when they otherwise could have purchased rail originated coal, but in these examples, they have taken coal that logically should have gone only by rail, moved it to the water, with the result that they get to use the affiliated companies methodologies?

A That is correct.

Q Okay. Now, I want to ask you on Page 14 --

MR. TWOMEY: Mr. Chairman, Commissioners, I'm working from the unredacted document. I don't know if you all have it or not. I hope you do, so you can see the numbers. And the -- Dr. Sansom, not that this has worked in the past, but I want to caution you not to blurt out any confidential numbers, okay? But I want to look at the -- on Page 14 at Table 1, and see if I can understand the significance of what you are suggesting. The unconfidential, the nonclassified information, which is obtained from Seminole, shows there both their contract and spot delivered costs -- are they delivered costs for 2002 and 2003?

A Yes. And that comes from the federal FERC Form 423.

Q Okay. Now, do we know, for example, for contracts,

Dotiki for Seminole, Dr. Sansom, from the year 2002 to 2003, the delivered price per ton is going down, right, over $2 per ton?

A Yes.

Q Do we know whether that is attributable to the contract price of the coal, or the transportation, or both?

A We don't know. We don't know. But I think it was due to the reopener of the FOB mine contract for coal, not the rail rate.

Q Now, we can't disclose the -- we can't disclose yet, maybe in 24 months or whatever the period is, we could talk about these numbers, but we can't talk about them now. But you have got Big Bend Dotiki, and we have the year 2002 and 2003, correct?

A Yes.

Q And for whatever reason, the figure in 2003 is larger than 2002, correct?

A Yes, that is probably fuel escalation.

Q As contrasted to -- the Seminole numbers went down, TECO's went up for some reason, correct?

A Yes.

Q And do you know why that went up?

A I think the reason TECO's went up was in part due to fuel price escalation affecting the rates on the river movement and on the ocean movement. And at that time there was a fuel

escalator, I think, in the Davant contract.

Q But, the sum and substance, if I understand it correctly, of your text of your testimony is that, one, Seminole is captive to the railroad and doesn't have the benefit of a waterborne carrier, correct?

A It doesn't have the benefit of intermodal competition.

Q They mined coal from the same mine, correct?

A Yes.

Q We can't talk about the difference, which you have calculated, but there is a difference there that everyone in the room can see. And you are saying in this particular example, if I understand you correctly, that this is due in part because TECO has elected to carry that coal to the river, transport it on TECO Transport, when it otherwise could have just done straight rail, is that correct?

A Yes. This is about a 965-mile direct rail movement; whereas, it must go by rail to the river, and another 1200 miles down the river and 474 miles across the Gulf.

Q Now, on Page 15?

COMMISSIONER DEASON: Mr. Twomey, are you leaving this particular table?

MR. TWOMEY: Yes, sir.

COMMISSIONER DEASON: May I ask a question?

MR. TWOMEY: Yes, sir, of course.

COMMISSIONER DEASON: The numbers that are shown in Table 1, do we know how much of those numbers are comprised by commodity costs and how much is transportation.

THE WITNESS: The confidential TECO number we do know. We do not know that from the FERC Form 423 data for Seminole.

COMMISSIONER DEASON: Does Seminole, do you know if Seminole's -- or do you have an opinion as to whether Seminole has a more attractive commodity price for that particular coal in comparison to TECO's. Do they buy more? Do they have more volume discounts? Do you have any idea what the situation may be?

THE WITNESS: For the FOB mine price for Dotiki coal to Seminole? Well, that is why I put in both the contract and spot, because I wanted to be sure I covered both possibilities, that they could have a contract. Obviously, if you look at that, the spot price is less than the contract price. And typically a spot movement is a purchase of around 12 months or less, in some cases 18 months or less.

The Dotiki contract was a three-year contract. So I was trying to make sure that I didn't -- I mean, I've got myself bracketed there with a long-term contract. I know that the Dotiki contract to Seminole is a long-term contract with periodic price reopeners. The spot movement I have just described, and I've just told you the term of the Dotiki TECO

contract.

COMMISSIONER DEASON: Well, I guess what I'm trying to ascertain, and maybe you can help me, is that what we really want to compare for purposes of this investigation is the transportation cost to determine if one is higher than the other and for what reason it may be. But what I see here is a comparison of total cost. Can you help me? What am I supposed to ascertain from this particular table?

THE WITNESS: Okay. I think I understand your question, sir, but I want to caution that the ratepayers pay for delivered coal costs, not transportation as a separate commodity. And to diminimize the delivered costs --

COMMISSIONER DEASON: Just a second, Doctor. I understand that. Just answer my question, please. I understand what the ratepayers have to pay, and they have to pay for everything. My question is we are trying to understand the relevant transportation costs, one mode versus another, one mine versus another, one utility versus another. And I am trying to get that. What I am seeing are total numbers which includes commodity and transportation, so help me -- what am I supposed to ascertain from this table?

THE WITNESS: You can find the FOB barge Dotiki price in the confidential FPSC 423s. And that is -- but that does not give you the FOB mine price, because they purchase the coal FOB barge rather than FOB mine. I can give you my opinion. I

think I know what those prices were, but I want to be responsive, and I don't think that is what you are asking me.

COMMISSIONER DEASON: Thank you.

CHAIRMAN BAEZ: Commissioner Bradley.

COMMISSIONER BRADLEY: Yes, sir. Thank you, Mr. Chairman.

Mr. Sansom, I don't know if you have been here throughout the entire hearing, but along the same line as Commissioner Deason, what I have been wrestling with, and I have listened intently to many, well not many, but several presenters make the statement that benchmarking is not an accurate method of determining the true cost of transportation, but that a competitive bid is.

And I have been trying to, in my mind, reconcile what the differences would be in terms of -- the mechanical differences would be between benchmarking and putting together a competitive bid. Is that something you can help me with?

THE WITNESS: Yes, sir. Let me try to help you. I think the intent, if I may say this without being corrected by the Commission, of the benchmark was to capture what the market price of transportation was that was received by these other largely municipal receivers of rail coal in Florida was. But that data is not available to the Commission, you don't regulate those utilities, and you are not getting a good data response in this phone call inquiry to these utilities.

Because they are sending back data that has caveats in bold blocked letters that says it doesn't include the volume discount, and then you have got to look at the volume number. Then you don't know the distance.

So, it is a flawed set of -- it's a house of cards, because each component of the information is not disclosed. And then it is further abused by a mileage adjustment done by Tampa. So it is just not a reliable set of data. Whereas, if you have the number we looked at, which is not confidential, of an actual rail rate paid by Tampa to Gannon of $16 and $16.35, that is a real number. That is what a competitor put his assets at risk and took the contract risk to deliver that commodity to Tampa Electric for. And that is not what you are getting through the benchmark data. And I explained that on Pages 45, 46 and 47.

COMMISSIONER BRADLEY: Then what are some of the specifics that a competitor would include in a competitive bid? What would the prices be for a competitive bid? What is it called?

THE WITNESS: Well, in the business of prudent coal procurements, which you solicit the market against a specified amount of transportation services you want over a specified period with specified tonnages. And, obviously, in this business when you have intermodal opportunity, as you have here, and you try to preserve for the buyer some tonnage

flexibility so you can move tonnage to one mode to the other, depending on the best price, but you want to preserve the capability of both modes to perform.

So you conduct a solicitation, you get the bids. And unlike what Ms. Wehle said, which I thought is not anything I've ever heard before, you then take the bids and rack them up on a delivered price per MMBtu basis. And then you start at the top and bring maybe the top one or two in for hard negotiations, which didn't occur with CSX, to see what give there is in their position, how strong their position is on escalation and on these details and even ask them if their per ton base rate is negotiable.

And then depending upon the spread, you might have ten bids, and you have got two of them, and if there is a big spread between the lowest two and the other eight, then you don't have to go back to the other. Ms. Wehle tried to make you think you had to go back to all ten; and, therefore that meant you didn't a good bid in the first place. Well, I've advised a lot of utilities, and that is not the reality.

The low bidder then comes in, and you have hard negotiations with that low bidder, and then try to strike a deal. And if he doesn't come off his number, but he is still the low bidder, then you strike a deal with his number. Then you argue over the escalation, you argue over the service issues that Mr. Deason raised. You argue over the other

aspects to pin down the interest of the buyer

COMMISSIONER BRADLEY: Okay. One other question. In your expert opinion, is the low bid always the best bid?

THE WITNESS: No.

COMMISSIONER BRADLEY: When is that not the case?

THE WITNESS: Well, it depends upon the reliability and the assets behind the performance, and the record of performance, and the service commitments you can obtain. So the low bid is not necessarily the best bid. But let me give you an example of, let's say, you are a buyer of rail transportation services; and just to take it out of this context, you have got two railroads serving.

Let's say you are a western buyer and you've got the Union Pacific and the Burlington Northern Santa Fe. Well, in that case it is usually the case that the low bid is the best bid because they both have substantial assets. If you look at the terms of contract both are willing to execute, and I have seen several hundred of them, they're pretty close. Although, if, for example, one of them wouldn't give you the service commitment that the other one would give you, then you might flip over to the other one and pay a little higher price for a better service commitment. So that is the way you have to look at it.

COMMISSIONER BRADLEY: And one final question. Are there any instances where the high bid might be the best bid?

THE WITNESS: Not in the business of coal and transportation services. Because if you look at the solicitations, they are capable suppliers across the price range of the bids. In other words, in this case they didn't even get a bid from Ingram. Ingram is a very capable barge company on the river. I once saw a case where Ingram put barge coal into a utility in eight weeks, and there wasn't even unloading facilities at that utility. So we also had to arrange to get the unloading facilities in in eight weeks.

So I'm just saying in this business there are several very capable vendors, so it wouldn't be likely the high bidder would be the one you'd go with. It would be very unlikely.

COMMISSIONER BRADLEY: So, using that example, and I think I heard you correctly, if a bidder has the ownership of capital assets, they might be able to bid at a lower rate than a company who does not have all of the capital assets that are necessary for them to be competitive with the company that owns most of its assets, transportation assets?

THE WITNESS: That is true. Except in the transportation business it is a capital intensive business. Most of the vendors have good balance sheets. There is one bankrupt barge company that has been addressed here that is ACBL, and we all know about that. But they are still moving coal even in a bankruptcy, Tacagia (phonetic), and performing So they have substantial fixed assets so there is not -- I

think you are describing a situation where you have a new entrant that doesn't have the assets and wants to get into the business. That is tough to do when you have got already well-financed players, multiple players. And, clearly, we don't have new entrants in the railroad business.

CHAIRMAN BAEZ: Dr. Sansom, I'm going to remind you you made a couple of references there that may have been to confidential informational, although you characterized it as everybody knows it. Well, maybe everybody in here knows it, but if you can be very careful about the information that you give out.

THE WITNESS: Could you help me, Commissioner?

CHAIRMAN BAEZ: Well, for instance, I think it was the two shipping companies that were either involved or not involved. Those happened to be --

THE WITNESS: I don't think that is confidential. know that directly, not from confidential sources.

CHAIRMAN BAEZ: Well, at least let us maintain the illusion, then.

THE WITNESS: Okay.

CHAIRMAN BAEZ: Okay. Thank you.

Mr. Twomey, I believe you were still --

MR. TWOMEY: Yes, sir. Thank you.

BY MR. TWOMEY:

Q Dr. Sansom, I want to ask you -- I was making some

notes while the Commissioners were asking you questions, Commissioner Bradley was asking you about the benchmark, and I wanted to follow up on something that he provoked a good question on, I think.

This is one of your points in your testimony, that we have actual cost data, we have actual prices paid by TECO to CSX for the coal transportation to Gannon as opposed to a bid, correct? We know what those prices were now?

A Right. So in that case we have an executed contract, demonstrated performance, and actual now public price that we can compare looking back to the benchmark.

Q Correct. What your testimony is, your position is is that the actual -- the actual cost of transportation of coal to Gannon by rail is a better indication of what transportation to Big Bend should be than a constructed model, a benchmark, is that correct?

A That's correct. That's ten miles down the road.

Q Okay. Now, looking at the differences, could the distance, the difference in the distance between the rail mileage from the West Kentucky coal you have on Page 14 and from the Dotiki mine, the difference in the rail mileage from Dotiki to Palatka and Dotiki to Gannon, could that distance in terms of rail charges account for the dollar difference shown on that exhibit?

A No.

Q Could it account for any appreciable amount of the dollar difference shown, which is a confidential number? I don't want you to broach any confidentiality.

A No, I won't broach confidentiality, but let's say hypothetical, that it is -- for every 100-mile difference at 1.5 cents a ton mile that would be $1.50. So, as you can see, the difference is much greater than that.

Q Okay. It's not the distance?

A No.

Q Okay. Now, Commissioner Deason's observation notwithstanding, looking at the table, Table 1 on Page 14, wouldn't you conclude that Seminole, whose data is reported and must be reported publicly, has obtained a better deal for its customers on the delivered price of coal than has TECO whose transportation and price data is confidential?

A That's correct.

Q Now, with respect to Commissioner Deason's question, if I understand it correctly, I want to follow up just briefly because of the excellent point he raises. We could look at the -- we could look at the current and confidential FPSC Form 423s and find out what the break out is between TECO's coal costs and the coal delivery cost, the transportation cost, correct?

A Not in this case, because they have -- they give you the price FOB charge, but they don't give you the price FOB

Dotiki in the rail car.

Q All right. So you are missing the length, the part that you have said -- okay.

A That is the Spanish grade.

Q Do you know, Dr. Sansom, whether the breakdown of information between -- Commissioner Deason was asking about that. Is the breakdown between Seminole's coal price and the transportation is available publicly?

A No, it isn't.

Q Okay.

A The reason I said I thought I could shed some light on it, I am familiar with the market price of spot coal FOB mine in West Kentucky in the period that is here, but I can't get that information from Seminole.

Q Okay. On Page 15, going back to Table 2 just for a minute, that illustrates the difference between what TECO pays for the same coal?

A Yes.

Q Versus what Seminole pays?

A Yes.

Q Page 24 of your testimony. Now, at Line 8, you answer the question that is designed to calculate, I guess, the millions of dollars TECO ratepayers have to pay too much for using 100 percent water transportation, correct?

A I calculate a Delta there that is one of the Deltas

is redacted and the other one isn't. And then you can take whatever tonnage you want to put on the rail for intermodal competition and multiply that number times the tonnage, and you get what I would call my first-cut estimate. My final estimate is in Exhibit 9A, B and C.

Q Right. And it is not confidential, but at Line 9 you talk about what those Deltas or difference would be assuming 2.5 million tons per year moved by rail, correct?

A Right.

Q Now, again, notwithstanding your criticism, if that amount of coal was being carried by rail, it couldn't be carried by TECO Transport as well. That is obvious, is it not?

A Yes. It is called a zero sum game.

Q Okay. Now, Page 27, there are a number of redactions that are confidential information on that page as well, but I'm trying to see if we can talk about -- on my copy, anyway, it is not a criticism -- I mean, it's not redacted, but at 17, Line 17, you say what TECO should have done in early 2003 was to terminate -- is it pronounced Galatia?

A Yes.

Q Altogether for 2004 and solicit Pitt 8 coal by rail origin and all-rail transport to Big Bend. So, there, if you can state it without violating any confidentiality, have you calculated what that difference costs TECO's customers?

A Yes, that is in Exhibit 9A, B and C. And let me

explain for the Commission what I was trying to do there. I was assuming if a prudent buyer wanted to establish intermodal competition and bring rail coal in in competition with barge coal, that you would have reached for the most economical rail coal to get that in at the lowest delivered cost and maintain the most economical barge delivered coal over on the barge side.

And so I had to create the head room to bring that tonnage in. So I looked at the portfolio of contracts they had, and I looked at what their commitments were in '04 and '05. And I would hasten to point out in '05 this problem vanishes because the contracts expire, so I really had to create the head room in '04. And then I looked and saw that there was this Gannon contract.

At that time I didn't know that the Illinois fuel contract that we made the redaction about earlier in my testimony had been terminated for non-performance, that creates enough head room. So I probably don't have to go through this Galatia analysis. But I looked at the Galatia contract and found certain provisions that were available to Ms. Wehle to implement based upon conditions I don't think I should go in here, but related to the consent decree on Gannon and certain provisions of the contract that gave TECO certain rights and the decision made before August of '02 to close Gannon 5 in order to flange up to the gasifier -- the combined cycle unit,

not the gasifier, the combined cycle.

And that gave the contractual opportunity that if, having properly evaluated all the options, this was the most economical to flip to rail, then this one should have been terminated and they could have found a low-cost rail origin.

Now, knowing what Mr. Duff said in his deposition, I don't think this would even be necessary. Because they did another solicitation in early '03 and made another commitment, which was imprudent to make given the October '02 CSX proposal, which should have made them on red alert to create the space for rail origin economic coal delivered to Big Bend in competition with waterborne coal.

Q So the sum of those two are that, if I understand you correctly, is that they stayed with coals that dictated waterborne transportation as opposed to either terminating early, if they could contractually, and then taking advantage of the other one that was out and going with the rail-based transportation?

A Right. It is even worst than that. They took the Galatia coal, which originates on the IC in Illinois, which was bought for Gannon. Gannon shuts. They allow that vendor to originate the coal way up the Ohio, 900 miles up the Ohio. Actually, it's 800 miles up the Ohio; and, therefore, they have to barge it 800 miles down the Ohio, 900 miles down the Mississippi, 474 miles across the Gulf; whereas, that coal

could have been solicited at a lower price FOB rail on the CSX. And I give you all of those numbers in 9A, B, and C of what that increased cost is now being borne by the ratepayers versus the opportunity that they had.

Q Not 9A, B and C are all confidential, is that correct?

A Yes.

Q I'm not going to risk going into that. I wanted to ask you some questions, though, about the table, Table 4 on Page 32. Do you have that?

A Yes.

Q Now, the mine shown on page -- Table 4 is redacted, correct?

A That's correct.

Q Okay.

MR. TWOMEY: I apologize, Mr. Chairman, I had to ask because I had used yellow marking myself in making some notes.

BY MR. TWOMEY:

Q Now, if I understand that, Dr. Sansom, these two tables show in part the mine-to-river cost you accuse Ms. Wehle of ignoring, is that correct?

A Yes. I was able to extract this data from the information provided by TECO.

Q And if we looked on Table 4, without talking about the dollar amount, that would be the line, the second line rail

or truck rate to the river, is that correct?

A Yes.

Q Approximate?

A Yes.

Q Okay. Now, these two tables, although confidential, show the total dollar cost difference between waterborne versus rail for that coal, is that correct?

A Yes.

Q Okay. And I started to ask you, it is not insignificant, but whatever it is, is there, correct?

A Yes.

Q And you mentioned the Btu value, or you have the Btu value per -- and why have you done that?

A Well, it is like if you ordered a load of wood from a guy in a pickup truck, and you have got to pay so much a ton to bring the wood in, and one guy is offering you pine and the other guy is offering you oak, and he offers the same price per ton, well, you're going to take the oak, because it's got more Btus. And that Pittsburgh seam is the oak, and the Illinois coal is the pine.

Q And, consequently, as well, so if you are shipping oak in a pickup truck, and you wanted to get heat value for your home, you would want -- and the pickup cost, the transportation cost was the same for oak or pine, you would want to ship oak, right?

A You want the Pitt 8, oak.

COMMISSIONER DEASON: Would you rather split oak wood or pine wood? I'm just kidding.

THE WITNESS: I do it all the time. I would rather split the oak any day, particularly red oak. You have something down here called live Oak, which I understand you don't want to get close to.

MR. TWOMEY: One second, Mr. Chairman. I think I'm done.

BY MR. TWOMEY:

Q I think one last question on your last page, Dr. Sansom, and there is confidential information on that page as well, so I need to caution you and I to be careful. What is not confidential is your discussion or suggestion that TECO could ramp up transportation, the amount of transportation it could carry by rail from a 1.5 million in 2004, if I understand this correctly, to 2 million in 2005, and then something on the order of 3 million, pardon me, 2006 or thereafter.

Again, aside from the economic advantage, why would they be able to increase their total tonnage those amounts over that number of years?

A Well, the first reason that the tonnage is lower in 2004 is that in the time line that I constructed, which I think would be a prudent time line given the October '02 proposal, is the rail facilities wouldn't be in place at Big Bend until

April 1 of '04. If they had moved with dispatch when they got the bid in October of '02 to move through the scenario to determine the most economical way to upgrade the rail facilities for unit trains to do the conveyor purchase and to solicit the construction services.

So the capability is there to move the two and a half million tons at an annual rate, but we don't have all the year in 2004 if we only start on April 1st, so that is why the tonnages are lower. Beyond that I think it is a matter of head-to-head competition, but I am reminded here that another utility at Crystal River has taken the split to about 70/30 or 67/33 in favor the rail proportion and that is because, this is public, that the rail rate is lower.

Q Well, lastly, isn't it also true, if you know, that Progress Energy's ownership interest in the waterborne system has decline over the years.

A I'm aware of that.

MR. TWOMEY: That is all I've got, Mr. Chairman. Thank you.

CHAIRMAN BAEZ: Thank you, Mr. Twomey.

MR. WRIGHT: Mr. Chairman, I apologize, but I would like to ask that we take a break.

CHAIRMAN BAEZ: I was just going ask Mr. Keating if he had much longer, because we would break right after staff questions

MS. RODAN: We just have a few questions.

CHAIRMAN BAEZ: There is that word again, a few.

MR. WRIGHT: That will be fine with me, Mr. Chairman. Thank you.

CHAIRMAN BAEZ: We will be taking a break after staff finishes their questions.

MR. WRIGHT: Thank you, sir.

CROSS EXAMINATION

BY MS. RODAN:

Q Dr. Sansom, in your testimony, you discussed Tampa Electric's coal supply requirements and the sources for that supply. Do you know approximately how many mines with CSXT direct rail service supply low ash fusion temperature coal?

A Well, first of all, the Illinois Basin mines are generally all low ash fusion coals, and the Pitt 8 coals are low ash fusion to the extent that they have been successfully burned in wet bottom boilers. Keep in mind Unit 4 is a dry bottom boiler, and Units 1, 2 and 3 are wet bottom boilers.

So all the coal I am talking about is suitable for use at Big Bend. And the answer to the question of how many mines, is your question single-line CSX or interline, and let me just answer it both ways to facilitate the process. You are talking probably on the order of 20 mines CSX direct, ten each in the Illinois Basin and Northern Ap, and in terms of the interline hauls like Galatia and Zeigler you probably can

triple that number.

Q Thank you. Do you believe a coal-burning utility would have any difficulty in contracting for one million tons of low ash fusion temperature coal per year at the mines with CSXT direct rail service?

A No.

Q Upon what do you base your opinion?

A The capacity of those mines, let me name a few of them, we have talked about Dotiki, we can talk about Pattiki. We can talk about the mine -- Cardinal Warrior mine, the Hopkins County Mine, the formerly Lodestar mines now to be Peabody mines, and then the Black Beauty mines in Indiana. And I am also talking about -- was your question just Illinois Basin?

Q Overall. It's overall?

A Then I am talking about the mines which I show in my exhibit -- excuse me a minute. If you look at my Exhibit 2, you see the mines that are on the Pitt 8 mines that are available there.

MS. RODAN: That is all the questions, I have. Thank you.

CHAIRMAN BAEZ: Thank you, staff. We are going to break for ten minutes.

(Brief recess.)

CHAIRMAN BAEZ: We will go back on the record.

Commissioners, do you have any questions? I know Commissioner Jaber -- I know Commissioner Jaber you had questions.

COMMISSIONER JABER: I have questions.

CHAIRMAN BAEZ: Okay.

COMMISSIONER JABER: Dr. Sansom --

CHAIRMAN BAEZ: Commissioner Davidson, leave Commissioner Jaber alone.

COMMISSIONER JABER: On Page 48 of -- I'm using the confidential version, Dr. Sansom, but it is not going to matter. I'm not asking a question related to the numbers at all. You make reference on Page 48 to how you believe the Commission should mandate a fair, open, transparent bidding process if we have the authority to do so. And my question to you is could you elaborate on what you would consider a fair, open, transparent procurement process.

A Yes. First of all, it's going to be difficult for Tampa to do it, because I think they have a tarnished reputation in the marketplace, and people are going to be skeptical that they are really serious about bids, as the last solicitation demonstrated. But I think that, first of all, you have to get rid of the right of first refusals. You have to give tonnage flexibility. In other words, people shouldn't be mandated to bid the entire tonnage. And you heard from Mr. White this morning what that made CSX do. **If they want to**

bid entire tonnage, fine, but they have got to look at splitting the modes and giving tonnage to both modes.

You have to solicit both the Pitt 8 coal and the Illinois Basin coal by rail and water. And, obviously, you have got to consider imported coal as a serious probability -- possibility. And then I think -- so what you would do would be to, say, offer a bid for one to two and a half million tons on the rail route and one to two and a half million tons on the water route, and with no right of first refusal. And then once you get the bids in, and then you divide the water route into the three segments that we have talked about, and you remove the what I -- I realize it wasn't an inhibition, because IMT as well as Davant could store and blend the coal. But I think the integrated aspect of that solicitation and the bias in favor of an integrated water route should be removed, in addition to the right of first refusal. Those are some of the elements.

And I think you need an outside referee or somebody to manage the process, because I doubt that Tampa has the ability to aggressively capture the competitive juices that the market is going to offer bona fide -- in response to a bona fide RFP.

COMMISSIONER JABER: Dr. Sansom, I see that you make reference to whether we even have the authority to pursue looking at the bidding process on a going-forward basis and how it should be conducted, so I don't really --

A It is outside my area of expertise. I guess I'm more familiar with the sledge hammer of disallowance. You know, it's is up to them. They signed the contract. An imprudency is usually borne by the shareholders, and disallowances is the other way to proceed. So I can't address the authority.

COMMISSIONER JABER: Yeah. And I don't have the specific question to you on that point, but, Mr. Chairman, I will use it as a segue to you as prehearing officer, chairman, and perhaps our legal staff. I've got a question on procedure in this case. And it seems like this is the appropriate time to bring it up.

Throughout the prehearing order and the positions of the parties throughout various places in the testimony people make reference to what exactly our authority is in this proceeding. And my question to you collectively is do you -- there are no legal issues articulated in the prehearing order Did you envision or have discussions with the parties to brief various issues -- and just to give you an example, Mr. Keating, on Page 8, this may be the company's position. Yes, it is the company's position, Page 8, they make the statement, "The Commission has no authority to be abrogate an existing valid contract between Tampa Electric and TECO Transport." They go on to say that it is their position that we don't have authority to require Tampa Electric to rebid. There is a reference on Page 9 to what authority we have.

And the question keeps coming up. And I would want some sort of mechanism that allows us to understand and address what our authority is over these issues, over a bidding process going forward, and authority over whether we can abrogate a contract that has been executed already.

MR. KEATING: I believe in discussions at the prehearing conference, and I'm relying on my review of the transcript, because I was not at the prehearing conference, CSX had raised some specific legal issues in that regard, and the resolution was that they could address those issues under the three substantive issues that were identified in the case. And I would expect that the parties are going to address these legal issues in their briefs and addressing the substantive issues as well.

COMMISSIONER JABER: Mr. Chairman, do you think we should do something more definitive? Because I understand that they can, but I think I'm suggesting that we need to.

CHAIRMAN BAEZ: And there was discussion of that at the prehearing. My take on it, just to clarify where my thinking was on it, was that since this was, in some respect, or in every respect it is a spin-off item. And this came from the context of a fuel hearing. And it seemed to me that it was most appropriate to continue -- I mean, the fact that you spin-off an item for further review, it was my reasoning that it carried with it whatever remedies and whatever resolutions

are available under the fuel hearing.

And while that is subject to interpretation, I suppose to many, it may not dispense with the question, but if ultimately it is a prudency review, it seemed to me that we already had the remedies available to us in terms of disallowance, or not disallowing the recovery of all or a portion of whatever costs are being proposed.

COMMISSIONER JABER: I understand and do not disagree with what you are saying as it relates to cost-recovery. I think there are pieces of the testimony and allegations made in the case that go beyond cost-recovery. I mean, the allegation is that we might not have the authority to abrogate a contract. Now, that is subject to interpretation on how you define abrogation of a contract.

There is also an allegation in various parts of the testimony that we might not have authority to address the bidding process for coal transportation. Those are questions I don't have answers to. And maybe at the end of the day we reach the point where costs are disallowed or allowed, but it seems like we should put those legal issues to bed.

CHAIRMAN BAEZ: And, again, my decision was -- and at the same time, based on our conversation here, even I could arrive at a different assessment. But, you know, I would be curious to see what the rest of the Commissioners think. My thinking at the time, speaking as the prehearing officer, was

that because we had -- and, again, it was my interpretation at the time of what the remedies or what the relief was available to us in the context in which this docket was spun out. And while I don't necessarily -- while I don't disagree at all that perhaps the question of, you know, what authority to abrogate or what authority to even, you know, evaluate or sit in judgment of any bid process or a bid process of this character might be, I didn't necessarily see those questions before us in order to fulfill what our responsibilities were that we spun off, that being cost-recovery over, you know, an evaluation of a contract.

And it seemed to me at the time that, you know, whatever cases as to the inadequacy of the bid process only flows to say, well, is it cost-recovery -- is it prudent to allow cost-recovery or not? And, again, I would welcome whatever the rest of the Commissioners, since we have already engaged in this, you know, whatever the rest of the Commissioners may think, if you wanted to discuss it, whether --

COMMISSIONER JABER: I would. It's been nagging at me. I almost said something the second day of the hearing. And I thought, well, let me wait and hear the rest of the testimony. And it's come up again today, so I think -- I'm not necessarily wed to identifying a specific issue as long as we have enough information at the end of the day to help us reach

back into the law, whether it be case law or statute. So I am very eager to hear if the other Commissioners have thought about this or want to think about it.

CHAIRMAN BAEZ: We have somehow identified a breaking point, albeit maybe not -- I don't when is a good time. Commissioner Deason, have you got some thoughts, or Commissioner Davidson or Bradley, as well? I would welcome your thoughts.

COMMISSIONER DEASON: I can share some initial thoughts, but it would be very preliminary at this point. But, in my opinion, it is clear that the burden is upon TECO to justify the prudency of their costs. The Commission has employed a certain mechanism, which was the benchmark. That very mechanism has come into question as to its adequacy or its appropriateness and whether it has outlived its usefulness. But that doesn't mean that the burden still doesn't rest with TECO.

Mr. Chairman, as you indicated, this is a spin-off from the fuel adjustment docket, and it is clear that we do have the authority to either allow or disallow costs that are borne by ratepayers. And it seems to me that we have that at our disposal. If there are to be other remedies proposed, which I suppose one would be a rebidding type process, to me it is incumbent upon whoever is proposing that to demonstrate that that is something that is permissible. Not only that it is the

appropriate thing to do from a policy standpoint, but that it is permissible under whatever statutory authority we have in that regard. I think it can be addressed within the confines of the issues, myself.

COMMISSIONER JABER: Okay.

COMMISSIONER DEASON: That is just the way -- that's just the way in preparing for this hearing and reviewing the prehearing order and the testimony, that is just the kind of frame of mine I put myself in in going forward with this case.

But I am open to suggestions. And I would love to hear from other Commissioners, if their particular viewpoint is one way or another.

CHAIRMAN BAEZ: And, Commissioner Jaber, just to supplement my comments before, I think, you know, touching off of what Mr. Keating had said, that is, in fact, what the conversation was. And so there is at least some implication that whatever -- I'm sorry, Commissioner Bradley -- and there is at least some implication that the three issues are broad enough to encompass even those kind of discussions, should a party want to include it.

And I will tell you this, I don't know what remedies are available even under a fuel hearing. At least in my time here, I don't think that has ever been a question that has been before us, at least not squarely where, for lack of a better phrase, you know, you have a choice of remedies if that be the

case. So, I mean, maybe a discussion of that is appropriate as to what the limitations are in that context. But, in a way, just to re-enforce what I had said before, I think whatever the answer to that is in the context of a fuel hearing is what should carry over. That would be opinion. Now, what the right answer to that is, I don't know.

COMMISSIONER JABER: No, that's very helpful, actually. I appreciate your comments and Commissioner Deason's comments. I think the parties -- the discussion we just had puts the parties on notice that I might be looking for some backing to the statements that have been made, whether it is the company's position in the prehearing statements or, Mr. Wright, various places in your witnesses' testimonies.

When you write your brief, I will be looking for statutory and case law references that support the statements that are made. I think that is sufficient. I'm very comfortable with that. I appreciate it, Mr. Chairman.

CHAIRMAN BAEZ: Okay. Commissioners, any other questions at this point? Okay.

And I guess, Mr. Fons, we are on to your cross.

MR. FONS: Yes. Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. FONS:

Q Dr. Sansom, my name is John Fons, and I'm representing Tampa Electric. Good afternoon.

A Good afternoon.

Q Are you the president of Energy Venture Analysis, Inc.?

A Yes.

Q And have you been its only president?

A Yes.

Q Does your firm primarily review and analyze data and information produced by others on fuel and transport matters for purposes of advising clients as to appropriate courses of action?

A No, I wouldn't say that is primarily what we do.

Q What do you do primarily?

A I guess the thing that bothered me about the way you characterized it was primarily -- analyze data primarily produced by others. We do our own price forecasting, our own analysis from the bottoms up, so to speak, on both fuel and FOB mine prices, and natural gas, and oil, as well as transportation. So, I mean, the way you stated it is -- and then we also involve ourselves in advising clients on both bidders bidding on procurements and utilities conducting procurements.

Q But isn't the --

A And we help in the negotiation of both fuel supply and fuel transportation contracts.

Q And that is the extent of your firm's services to the

public?

A No. We also provide engineering services, particularly related to coal suitability, coal handling and environmental compliance in the utility sector. And we do -- we have done a lot of work for EPRI on the engineering cost estimates of various facets of coal-fired utility plants and -- so I wouldn't accept your characterization.

Q Has your firm ever designed or acted as the engineer of record for the design and construction of any fossil fuel burning power plant?

A No.

Q Prior to 1980, you were the president of Energy and Environmental Analysis, Inc. Was that firm engaged in the same type activities as your current firm?

A Generally, yes, with a little more emphasis on work for the Department of Energy and the U.S. Environmental Protection Agency.

Q Am I correct that Energy and Environment Analysis did not provide any services involving the engineering or design of fossil fuel burning power plants?

A I think you changed the question there a little. I have been involved in the -- could you restate the question?

Q Yes. Am I correct that Energy and Environmental Analysis, your predecessor firm, did not provide any services involving the engineering or design of fossil fuel burning

power plants?

A The key word there is involving. I mean, I have advised people like, for example, this isn't confidential, DuPont on the question of whether they should go with an FBC unit or a conventional pulverized coal unit and a scrubber. There is certainly engineering aspects of that. I was involved, as an engineering matter, in the determination that the flue gas desulfurization unit was as feasible technology.

So the word there "involved," changes the nature of my answer from your earlier one. We certainly do not do design work, and we are not engineers of record in the aspects of coal-fired generators.

Q And that was true also of Energy and Environmental Analysis, Inc., you were not holding yourselves out or did not act as a designer or engineer of record for the design and construction of any fossil fuel burning power plants?

A That's correct.

Q Upon completion of your formal education, Dr. Sansom, have you ever worked in the private sector for anyone other than the two firms for which you have been president?

A That's an interesting question. I'm the owner of a mining operation and the managing general partner of a vermiculite mining operation, part owner. I think that might meet your test.

Q Well, Dr. Sansom, you don't list that particular

ownership in your curriculum vitae, do you?

A No.

Q Dr. Sansom, you do in your curriculum vitae indicate that you testify quite a bit, isn't that correct?

A The exhibits speak for itself, whether you want to call it quite a bit. I guess you can see on Exhibit 1 that a couple of times a year I testify, probably, on average.

Q Some years more than others, isn't that correct?

A Correct.

Q Would you dispute my characterization, Dr. Sansom, that you are a professional witness?

A If your definition of a professional witness is one who comes in from out of state by jet plane, that is probably me, yes.

Q That will suffice. Do you consider yourself as having an expertise in the area of fuel matters, most especially coal fuel matters?

A Yes.

Q With regard to the transportation of coal, do you consider yourself as having a level of expertise in those matters?

A Yes.

Q With respect to the transportation of coal, would your expertise lie more with the transport of coal by rail than by water?

A I have been involved in both. But since more coal moves my rail, and my involvement has been more by rail, but I have also been somewhat involved on the barge side.

Q What empirical studies have you performed with regard to the waterborne transportation of coal?

A We periodically do price estimates of the cost of moving -- of moving fuel by barge. The word "empirical" is the word that strikes me in your question. That is a little bit ambiguous, but I consider it to be quantitative analysis when you assess barge rates for market transactions, which Mr. Dibner didn't do. He did a cost-based analysis, which isn't a market analysis.

Q Have you ever done a cost-based analysis of the waterborne transportation of any commodity?

A I think that was the distinction I was trying to make. If a client asks us, "What is the price of moving it by water," we look at transactions as the evidence of the market, not a cost-based analysis.

Q So your answer is no?

A So the answer is that we would not consider a cost-based analysis to be a market analysis. It is a cost-plus analysis. When we look at barge rates, we look at what people are bidding and offering to carry commodities for by water. And it is well-known in a capital intensive industry that you can have periods of excess supply when the owners of the assets

aren't recovering a full return on their capital.

MR. FONS: Mr. Chairman, I'm sorry --

CHAIRMAN BAEZ: I got you, Mr. Fons. Dr. Sansom, you have every opportunity to elaborate on your answer. If you could just start yes or no. Thank you.

BY MR. FONS:

Q I believe, Dr. Sansom, that you are familiar with Dr. Hochstein's testimony in this proceeding?

A I would not want to say that I am familiar with it. I breezed through it, and Mr. Beasley asked me a question about it at deposition. I have not studied it, and I have not read it, other than thumbing through it in a manner of probably less than two minutes.

Q And I believe in your deposition with Mr. Beasley, you acknowledged that you had read the following statement from Page 5 of Dr. Hochstein's direct testimony. And that statements is: "Coal from the Midwest fields can only rationally be transported to Tampa Electric's Big Bend Station by water." Do you recall when you were asked about that?

A I recall that, and I recall my response. And it was a little bit -- in substance it was correct, in tone it was not. And I apologized later to Mr. Hochstein.

Q Well, weren't your exact words, "I read that statement, and I thought he was incredibly stupid"?

A That was my reaction, yes.

Q And do you recall what your answer was to the next question in your deposition by Mr. Beasley regarding Dr. Hochstein's testimony, and that is: "Do you or disagree with his further statement that water transportation of bulk cargo, when available, is almost always less expensive than rail?"

MR. WRIGHT: Mr. Chairman, may I have a moment to hand Dr. Sansom his deposition transcript?

CHAIRMAN BAEZ: Yes.

MR. WRIGHT: Thank you.

CHAIRMAN BAEZ: You can go ahead and show him his transcript.

THE WITNESS: Could you read that again?

BY MR. FONS:

Q Yes. Let's go to Page 88 of the deposition.

A I think I do recall that, and I --

Q Do you have it, Doctor?

A Yes.

Q And at the bottom of the Page 88, beginning at Line 21, you were asked: 'Do you agree or disagree with his further statement that water transportation of bulk cargo, when available, is almost always less expensive than rail?" Do you remember that question being asked?

A Yes.

Q And your answer was?

A "That was another dumb statement."

Q Okay. And didn't you also disagree with Dr. Hochstein's statement that the transportation of Midwestern coal that is easily accessible by the Ohio and Mississippi River systems by rail is not economically sound?

A Could you read that back?

Q Yes. On Page 89 of the deposition, you were asked: "Did you also read his statement," meaning Dr. Hochstein, "that transportation of Midwestern coal that is easily accessible by the Ohio and Mississippi River systems by rail is not economically sound?"

A Yes. I remember that, and my answer was that I didn't agree with it.

Q All right.

A And I would be glad to elaborate on that if you want to give me the opportunity.

Q Well, wouldn't you agree, then, that you and Dr. Hochstein have diametrically opposed opinions on the economic efficiency of waterborne delivery of coal to Tampa Electric's Big Bend and Polk Power Stations versus rail delivery?

A I can only comment on the statements that I addressed here. The totality of his position, I have not addressed. But, obviously, if he thinks the only way of moving Midwestern coal to Big Bend is by water, then he and I have a fundamental

disagreement. And if he also thinks that always it is more economical to move by water than rail, then we have a fundamental disagreement, and so do the markets.

Q Doctor, let's talk about your experience with CSXT on whose behalf you are testifying here. When were you first approached by CSXT to present testimony in this proceeding?

A I addressed that in my deposition. It was last fall sometime. I recall it would be the fall of 2003, late fall.

Q Had you ever performed previous work for CSXT regarding CSXT's dealings with Tampa Electric?

A No.

Q Were you in any way involved with the preparation or presentation of the CSXT proposals made to Tampa Electric in October 2002 or July of 2003?

A No.

Q Am I correct that neither you nor anyone in your firm provided any input or review of either of the CSXT proposals prior to their submission to Tampa Electric?

A I can't speak for my other partners. I can only speak for myself.

Q But you did not provide any input?

A That's correct.

Q And would you expect that your partners would have provided input without you knowing about that?

A Yes.

Q Have you spoken to any of your partners about that possibility?

A Not about that specific possibility, but one of my partners does work with CSXT, and that certainly is a possibility.

Q Were you asked by CSXT to review the Tampa Electric request for proposal or bid prior to CSXT providing a response to that RFP?

A No.

Q So you can't tell us what factors were considered by CSXT in formulating the per ton price of coal transported proposed by CSXT to Tampa Electric, can you?

A Not specifically, that is correct.

Q Do you know whether the price per ton of coal transported was an initial price and that the price was subject to an escalation over time?

A Yes, that's true.

Q In your experience, if a contract price is subject to a mechanism for escalating that price, won't the price, in fact, escalate over time?

A It will change in accordance with the indices that are specified. It can go up or down.

Q Would you agree that there has been a upward movement in the price escalation mechanism known as the rail cost adjustment factor?

MR. WRIGHT: Mr. Chairman, may I ask that the question be clarified with regard to a time period?

BY MR. FONS:

Q Well, let's look at Page 90 of your deposition.

A Is there a question?

Q I am trying to find the location in the deposition. Would you agree with me that the upward movement in the price escalation mechanism known as the rail cost adjustment factor in the last year has been because of high oil prices?

A Given that approximately nine percent of our RCAF-U is made up of a fuel component, that I would except that that was true, and I notice that RCAF-U which declined in 2002 probably because fuel prices went down, went up in 2003 probably because in part fuel prices went up.

Q Was that the RCAF or RCAF-U.

A Well, it would be the RCAF unadjusted is what I'm addressing. The RCAF is usually -- well, there are two RCAFs. There's RCAF adjusted and unadjusted. And in this proposal CSX proposed the escalation by RCAF unadjusted effective April 2004, in other words, from that point forward. And the RCAF adjusted reflects a productivity adjustment; whereas, the RCAF unadjusted is really based on factor prices, unit prices.

Q Wouldn't you agree, Dr. Sansom, that in analyzing a bid proposal response, the recipient of the proposal would be wise to consider the relevance of the initial bid price over

the life of the contract and not rely solely on the initial offered price?

A In evaluating bids for a term contract you always consider both the initial price and the escalation.

Q If Tampa Electric decided to have some of its coal transported by rail rather than by water, would it have any choice in which railroad would deliver the coal to Tampa Electric's Big Bend and Polk Power Stations?

A No.

Q So the only rail carrier with which Tampa Electric can rely on to deliver coal to its power plants in Florida is CSXT, isn't that correct?

A That's correct.

Q And wouldn't you concede, then, that CSXT has as monopoly on the delivery of coal by rail to Tampa Electric's Big Bend and Polk Power Stations?

A No, because it is subject to intermodal competition. And under the provision of the Surface Transportation Board, if a delivered destination is subject to intermodal competition, it is not -- it is not considered captive and is not subject to stand-alone pricing regulation.

Q But as far as delivery by rail?

A It is the only rail delivery.

Q Okay. So if Tampa Electric was unhappy with the CSXT rail delivery, Tampa Electric could not turn to another

railroad to get delivery of coal to Tampa Electric's Big Bend and Polk Power Stations, isn't that correct?

A That's correct. It couldn't turn to another railroad.

Q Beside Tampa Electric, what other coal-fired power plant owners in Florida have intermodal delivery access?

MR. WRIGHT: Object to the form. I'm not sure it's been established that Tampa Electric has intermodal delivery access.

BY MR. FONS:

Q Well, let ask it this way: Besides Tampa Electric, what other coal-fired power plant owners in Florida have the ability for waterborne delivery of domestic coal?

A Crystal River and the Power Park.

Q And doesn't the waterborne delivery of domestic coal to Florida's coal-fired power plants provide a competitive alternative to the rail delivery of domestic coal, especially Midwestern coal?

A Could you restate that? I just want to make sure I got it right.

Q Doesn't the waterborne delivery of domestic coal to Florida's coal-fired power plants provide a competitive alternative to the rail delivery of domestic coal, especially Midwestern coal?

A I would amend that, especially to -- especially

Midwestern and imported coal.

Q I'm sorry, I didn't hear you.

A I would add imported as well as Midwestern, because the -- JEA, for example, takes a lot of imported coal. So the water mode does give you the ability to look at imported coal.

MR. FONS: Mr. Chairman, could I please, again, ask the witness to answer yes or no? That was a yes or no question.

CHAIRMAN BAEZ: The witness will answer yes or no. And you can elaborate again, Doctor, I'm not trying to cut down your answer.

THE WITNESS: I thought I was being brief, but I will try harder.

BY MR. FONS:

Q By the same token, Doctor, is it your opinion that the prices charged by CSXT for the rail delivery of domestic coal to Florida's coal-fired power plant owners provide a market price against which waterborne carriers of domestic coal must compete to retain the transportation business?

A I'm having a little difficulty with the way the question was phrased. And I know you want a yes or no answer, but I don't think you distinguish between rail-served Florida power plants and intermodal power plants. So for intermodal power plants, yes, there would be the -- I think the answer is yes.

Q But only in the instance of intermodal?

A Well, again, I am losing your question. But I thought the question was whether the rail and the water competed, and they could only compete where there is intermodal competition.

Q I think my question was with regard to rail delivery. Doesn't it act as a competitive balance to waterborne delivery?

A Not for utilities that aren't able to bring in waterborne coal.

Q Did the CSXT rail bids act as a competitive balance to the purchase of waterborne coal for Tampa Electric's Gannon Station?

A No.

Q But there was intermodal competition, wasn't there?

A I think the only reason that -- there was intermodal competition? No, I don't think there was real intermodal competition at Gannon.

Q But Gannon was --

A Because intermodal competition wasn't sought by the fuel buyers for Tampa Electric. The only -- if I may explain, the only reason that CSX ever got in there was Gatliff coal was very difficult to move by barge. And Gatliff was another affiliate, and they moved that by rail.

Q In the 1990s was Gatliff an affiliate of Tampa Electric?

A For part of the '90s, yes.

Q But not the latter '90s, was it?

A For the last, in looking at the data in the public Form 423s, I think the Gatliff is Premiere Elkhorn (phonetic), and we looked at some data this morning, I think as late as 2000 that they were moving affiliate -- TECO affiliate coal by rail into Gannon.

Q Would you agree, subject to check, Dr. Sansom that Tampa Electric severed its affiliation with Gatliff and any coal company prior to the year 2000?

A Can I look at something here? I mean, TECO still has a coal company. It is not called Gatliff. There is a TECO coal company, and that coal company still exists, and I saw movements --

Q Would you accept, subject to check, that Tampa Electric does not make any purchases from Gatliff?

A You have to specify a time.

Q In the year prior to 2000?

A Obviously, subject to check, the facts will be what the facts are. Premiere Elkhorn, I saw some shipments that were pretty recent, maybe they were '99 and not 2000.

Q Do you know whether there were any coal purchases from an affiliate by Tampa Electric subsequent to the year 2000?

A There may not be. I would have to look at the data.

Q I believe, Dr. Sansom, that you are familiar with this Commission's Order Number 20298 issued on November 10, 1988, are you not?

A No.

Q You are not familiar with the Commission's order establishing the rail benchmark that you have mentioned in your testimony?

A I am familiar with the rail benchmark and how it works. If it was established -- now, I'm not an expert in the Commission's orders. If was established in that order, then obviously --

Q Would you --

A -- that must be the basis for the benchmark that I am familiar with, but I didn't -- I don't relate it to a specific order.

Q And is that benchmark to serve as a market price proxy?

A That is my understanding, yes.

Q Would you agree then that a market test is the most effective means of ensuring ratepayers are not charged more than the appropriate cost for fuel and fuel-related services?

THE WITNESS: Your Honor, I know your stipulation, but that is a loaded question and can't be answered yes or no.

A The answer is a bona fide market indicator might be, but one that is not bona fide does not meet that test.

Q Well, didn't you file testimony in the Occidental Chemical Corporation case back in 1986?

A Yes.

Q And in that testimony, didn't you state, and I quote: "A market test is the most effective means of ensuring ratepayers are not charged more than the appropriate cost for fuel and fuel-related services"?

A I sure did.

Q And would you further agree that the advantages of a market test are that a market-based test allows the utility to comply with existing policy and ensures only just and reasonable costs are paid by ratepayers?

A I believe that.

Q And would you agree that the market test provides an appropriate cost comparison, so that the utility has the incentive to obtain the lowest cost fuel and related services?

A A bona fide market test does that, yes.

Q And in your testimony in the Occidental case, you don't use the word, "bona fide," do you?

A Well, I wouldn't think it would be necessary. Most people know what a market test is. It is something that is achieved through a competitive solicitation.

Q And would you also agree that the market test protects against the self-dealing opportunities inherent in affiliate relationships?

A Yes. A market test that meets my standards or the standards of a competitive solicitation would do that.

Q And would you also agree that once established, the market test relieves the Commission and staff of the burden of constantly evaluating each cost component in the affiliate procurement chain?

A Yes.

Q Now, if goods or services supplied by a utility affiliate are priced based on a cost-plus basis, are there incentives there for the affiliate to operate efficiently in your view?

A If you have an affiliate relationship that has a cost-plus contract?

Q Yes, sir.

A It is very difficult to have the right incentives in such an arrangement.

Q Well, are incentives present when the affiliate supplies goods or services, and they are priced on the basis of a market test?

A Could you restate that?

Q Well, are the incentives present when the affiliate supplies goods or services and they're based on the basis a -- I'm sorry, and they're priced on the basis of a market test?

A A valid market test, yes, that creates the incentives a low cost service. I assume that is what you mean.

Q So you would agree, wouldn't you, that given the choice between using a market test or a cost-plus test, this Commission and consumers would be better served using a market test in judging the Tampa Electric/TECO Transport affiliate relationship?

A Yes.

Q Earlier you were asked by Mr. Twomey some questions concerning the shipment of coal to Gainesville and the use of Gainesville as one of the municipal electrics in the development of the cost benchmark, isn't that correct?

A Yes.

Q And I believe you indicated that it would be improper to use Gainesville because it would not indicate the kind of discounts that would be available?

A I said that for a higher volume it would not be the best evidence of what the market would do.

Q Now, the discounts that you -- are there discounts available to suppliers? I'm sorry, to shippers for the delivery of coal?

A Generally, a volume is a valuable thing to have for a carrier. And they give discounts because they have committed heavy capital in a unit train operation that they will give sizeable discounts for higher volumes.

Q Are you familiar with the discounts that are set forth in the CSXT proposals to Tampa Electric?

A Yes.

Q And aren't those discounts available only on coal that is purchased on an original or an origin mine basis?

A I think you mean to say on a CSX origin.

Q Yes, CSX origin.

A Basically, you have an interline possibility and a single line haul. Discounts are on the single line haul.

Q But they are not available on -- they're only available on the single line?

A Right. They are not available on the interline hauls.

MR. FONS: I have no further questions.

CHAIRMAN BAEZ: Thank you. And I am looking at exhibits. We don't have any.

COMMISSIONER DEASON: What about redirect?

CHAIRMAN BAEZ: Well, we need to move Mr. Sansom's exhibits.

MR. WRIGHT: Yes.

CHAIRMAN BAEZ: And we have redirect, too.

Go ahead, Mr. Wright.

THE WITNESS: Could we take a quick break?

MR. WRIGHT: Thank you, Mr. Chairman. The witness has requested that we take a quick break. Would that be satisfactory?

CHAIRMAN BAEZ: Well, it is coming off of your

redirect, so five minutes.

MR. WRIGHT: Thank you.

(Brief recess.)

CHAIRMAN BAEZ: We can go back on the record.

Mr. Wright, you have redirect.

MR. WRIGHT: Yes, sir, Mr. Chairman, and thank you

REDIRECT EXAMINATION

BY MR. WRIGHT:

Q Dr. Sansom, I am going to try to restate a question that I believe Commissioner Deason asked to you regarding the -- some information. I think it is on Page 14 of your testimony, relating to your Table 1. The question that I believe Commissioner Deason was attempting to ask you is, as I heard it, is the following: Is it possible that Seminole Electric is paying enough less for the commodity cost of its Dotiki coal that that difference in commodity cost would account for the entire observed difference between the Seminole Dotiki costs reported in your table, which are not confidential, and the Big Bend Dotiki costs, which are. Do you have an opinion on that, and if so, please tell us.

A I don't think it is possible, but I think a significant portion of the difference could be explained by it, and I would estimate that at somewhere around -- I've got to be careful here. We are talking about -- I guess since the redacted number is the Big Bend number, I would say as much as

$4 a ton could be due to that -- out of that, as much as, more like 3 to $4 a ton out of the difference, which I can't give, because it would be confidential. It would give away the other confidential number.

Q And what is the basis for your statement that that difference would be, could be as much as 3 to $4 a ton?

A The fact that my recollection is that this TECO, Seminole, the TECO Dotiki contract was secured in -- somewhere in the peak of the market in 2000 -- late 2000, early 2001. And you would expect that to be -- so that would be the basis for my opinion. And see, what I try to do is this was a stepping stone to my Exhibit 9 analysis, and I control for all of those factors and do the analysis the way I think Commissioner Deason wanted to see it in Exhibit 9A, B and C, where I clearly show the FOB mine price as well the transportation costs.

Q Thank you. You were asked a number of questions both by Mr. Twomey and by Mr. Fons concerning the benchmark. I have a few follow-up questions regarding that. What do you understand the benchmark to attempt to measure?

A It attempts, apparently, to measure the rail transportation costs of moving coal to the Big Bend station in this case by working from a submitted cents per ton mile cost from other recipients of rail coal in Florida, and scaling that up to the mileage applicable to a movement to the Big Bend

station and then adding on a rail charge, a railcar cost component. Those are the basic steps. But the problem is the first step is rotten because the data isn't any good. And then the second step, the milage adjustment is done in error by TECO. And then the third step, which is the railcar adder is wrong, too. So, I mean, it is flawed in all of those respects.

Q If, as you just described it, it is to measure -- is intended to measure the cost for delivery by rail from the mine to Big Bend, is it even comparable to the waterborne transport costs as reported by Tampa Electric?

A No, because they leave out a component of the transportation. Every time Ms. Wehle puts up a chart she has got the TECO Transport cost, but she never includes the cost to get it from the mine to the barge loading point.

Q Is that Spanish grade?

A That is the Spanish grade.

Q What would you do, if anything, to correct for that?

A Well, you have to estimate or get the bidder to bid FOB mine, which they will do. In a solicitation most utilities would solicit at FOB mine and then show the component to get it to the river as a separate component. And, in fact, TVA asked the bidders to bid both ways, and then they can flip it from one mode to the other, because many of these mines are relatively fungible between the two modes. Some of them are very efficient barge and some of them are very efficient rail.

But there is a large proportion of the total universe of potential mines that are fungible between the two. And if you specify that as a separate component, I would add that in response to your question earlier, then you, the buyer, are in the position to say, well, if I couple that FOB mine price with this rail rate, I get this result delivered to Big Bend. And if I couple this FOB mine price plus the price to get it to the river, plus the TECO Transport charges or whoever is bidding, then I get that comparison.

Q Along those lines, regarding the cost to get the coal from the mine to the river, I note that you give an estimate at Page 25, Line 14 of your testimony. I have a couple of questions regarding that. First, what is the basis for that estimated range? It is not confidential.

A Yes, I spent lot of time on estimating the truck and rail costs to get coal to the river. And it turns out that that pretty much brackets it. There are some that are a little less expensive and -- for example, I was able finally to figure out how much it costs to get the Galatia coal to Cook, and that is $4.10, which fits right into that range, and that is not confidential, because it comes from a declassified FPSC 423.

Q Thank you. Mr. Fons asked you some questions regarding whether it is economically efficient to move coal by rail or by water from the Midwestern coal fields to Tampa. I have some follow-up questions on that subject for you. First

off, how would you measure efficiency of a transportation by water or rail move?

A Well, the fundamental way of measuring -- of measuring efficiency is by the delivered price and, if appropriate, dividing out the transportation component dollars are what incorporate all the measures of efficiency. There are separate measures of energy efficiency, for example. But it is the price that reflects productivity and all the factor costs.

Q Describe what you mean by energy efficiency in that context, please?

A Well, a big issue in this -- in these rates, both rail and water is the energy required to move the ton of coal from the coal fields to the Big Bend site. And it turns out that -- actually, Mr. Beasley asked me this question in deposition, and I said that barge is more efficient on a ton-mile basis but not a trip basis. It turns out I was wrong. Rail is more efficient on a ton-mile basis than moving coal on the Mississippi. And, in fact, it takes considerably more gallons of No. 2 oil to move a barge down the Mississippi and back up on its complete cycle than it does to move the rail from West Kentucky to Tampa. And it is interesting, the barge movement to Davant from the FOB barge point is the same mileage as the rail movement from the mine all the way to Big Bend. Yet the fuel component in the river barge rate is greater than the fuel component in the rail rate. And the gallons consumed

per ton of coal are greater in the river barge component, not this 950-something-mile comparison, than in the rail component.

Q And just could you tell us briefly what the basis for the statements you just made are?

A Well, I looked at it two ways.

Q Without revealing any confidential information, which may be implicated here.

A If you look at the fuel component of the river barge rate in the old and new TECO Transport contracts, and compare that -- I told you and this is public, the RCAF number is -- 10 percent of RCAF is fuel. So that tells you what component of the rail rate is fuel. And, hypothetically, we have a public rail rate here to Gannon of $16. So that means $1.60 of that would be the fuel component. It turns out -- I queried CSX on this, this is not confidential, that basically it takes 15,000 gallons of No. 2 oil to get a round-trip train trip to Dotiki. And I can't give you the number, because it is confidential, from Mr. Dibner's study, but it is significantly more than that for just the river component. And then if you add in the fuel component in the ocean, you have got a much more energy-intensive move on the water route versus the rail route.

Q I have a follow-up question for you regarding the $4.10 number that you mentioned in response to a previous question. That was the cost to get from a mine, and I think you said Galatia coal?

A Yes.

Q From the mine to the river. Did that include the terminaling cost as well as the actual transportation cost or did it only include the transportation cost?

A The terminaling cost to get it on the barge?

Q Onto the barge, yes, sir.

A It included both.

Q Thank you. Just clarifying. Mr. Fons asked you a question to the effect of whether given that CSXT is the only railroad company that is presently capable of serving Big Bend, isn't CSXT a monopoly with regard to being -- with regard to rail transportation service. Do you recall that question?

A Yes, and I recall you pointing out that CSXT cannot presently deliver coal to the Big Bend station by unit train.

Q My question for you is given what you know about this case, is TECO Transport effectively a monopoly with respect to the waterborne transportation?

A Yes.

Q Mr. Fons asked you some questions regarding escalation, and I have a few follow-up questions for you about that. You, I believe, are privy to all confidential information in this case, correct?

A Certainly a lot. There may be a level of classification that I am not allowed to see.

Q Again, asking you to be careful not to reveal

confidential information, are you familiar with the -- do you know whether there is an escalation factor applicable to the fuel component of the barge rates?

A Yes.

Q Do you know whether there is an escalation factor applicable to the variable cost component of the barge rates?

A Yes.

Q And you know what those indexes are, although I believe those are confidential?

A Yes.

Q Okay. To your knowledge, to the extent you know, how comparable are those to the RCAF index in actual numeric value over time?

A Well, the two indexes that operate on the nonfuel component of the two barge legs of the TECO Transport contract are very similar in behavior to RCAF unadjusted in terms of their historical performance. And then the fuel indexes are basically measuring the same thing, but the fuel intensity of the barge movement is greater than the fuel intensity of the rail movement. And the way the escalator works is a little different.

Q To the extent you know, what, if any, difference would the fuel intensity that you just referred to have on the impact of a given increase in overall oil market prices on the barge rate as compared to the rail rate?

A It would have a bigger impact on the barge rate.

Q To be clear, does your answer mean that if the price of, generally speaking, oil products were to double, the impact on the barge rate would be greater than the impact of implementing a fuel surcharge under CSXT's tariff fuel surcharge provision?

A That is correct.

Q You were asked a number of questions by Mr. Fons regarding the benchmark and its role as a market price proxy. I am sure you recall those questions, do you not?

A Yes.

Q Do you consider Tampa Electric Company's 2003 solicitation RFP process to have provided a bona fide market test?

A No

Q Do you consider the benchmark to provide a bona fide market test?

A No.

Q Do you have an opinion regarding the best measure of a market test that would be available to the Public Service Commission in this proceeding?

A The best measure of a market test for the affiliate barge cost would be the bid and the CSX bid.

MR. WRIGHT: Thank you. If I could have just one moment, Mr. Chairman.

Thank you for your indulgence, Mr. Chairman. I have no further redirect. And if it is appropriate, I'll move Exhibits 29 through 41.

CHAIRMAN BAEZ: Without objection show Exhibits 29 through 41 admitted into the record, and I am showing no other exhibits.

(Exhibits 29 through 41 admitted into evidence.)

CHAIRMAN BAEZ: Dr. Sansom, thank you very much for your testimony.

THE WITNESS: Thank you, sir.

(Transcript follows in sequence in Volume 10.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 15th day of June, 2004.

JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6732