

PROGRESS ENERGY FLORIDA
DOCKET No. 040001-EI

SUPPLEMENTAL
DIRECT TESTIMONY OF
DONNA M. DAVIS

1 **Q. Please state your name and business address.**

2 A. My name is Donna M. Davis. My business address is P.O. Box 1551,
3 Raleigh, North Carolina 27602.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Progress Fuels Corporation (PFC) in the capacity of
7 Controller, Coal Accounting and Regulatory Services.

8
9 **Q. What are the duties and responsibilities of your position with PFC?**

10 A. As Controller of Coal Accounting and Regulatory Services, my duties
11 include responsibility for the books and records of PFC's "regulated"
12 business, *i.e.*, the procurement and delivery of coal to the Crystal River
13 plant site of Progress Energy Florida (Progress Energy or the Company) to
14 supply the requirements of its four coal-fired generating units located at the
15 site. This responsibility includes managing the accounting functions related
16 to the costs of waterborne coal transportation services provided to Progress
17 Energy and the Commission's market proxy pricing mechanism for these
18 services, which I participated in developing for presentation to the
19 Commission in 1993. My duties also include supervising the preparation of
20 the Commission's monthly Form 423-2 regarding coal purchases and
21 transportation for Progress Energy.

DOCUMENT NUMBER-DATE

11811 NOV-23

FPSC-COMMISSION CLERK

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to address the issue recently raised by the
3 Office of Public Counsel (OPC) regarding whether adjustments made by
4 PFC to remove transloading costs from foreign coal purchases are
5 consistent with the Commission's 1994 order establishing a market proxy
6 pricing mechanism for waterborne transportation of foreign coal by PFC to
7 Progress Energy's Crystal River plant.

8

9 **Q. Please describe the market price proxy established by the**
10 **Commission for waterborne transportation of foreign coal.**

11 A. In 1993 the Commission approved a market price proxy for waterborne
12 transportation of coal by PFC from mines in the Appalachian region to
13 Progress Energy's Crystal River plant. (Order No. PSC-93-1331-FOF-EI,
14 issued September 13, 1993 in Docket No. 930001-EI) The market proxy
15 price was intended to cover PFC's costs for five segments of the overall
16 waterborne transportation route: Upriver transportation from mine to river
17 terminal; upriver terminal storage and loading on river barges; river-barge
18 transportation down the Ohio and Mississippi Rivers; Gulf terminal storage
19 and transloading from river barges to ocean-going barges; and cross-Gulf
20 transportation to the Crystal River plant.

21 At that time PFC had not purchased coal from foreign sources for
22 several years. Shortly thereafter, however, when the opportunity to again
23 purchase foreign coal arose, it became apparent that the domestic coal
24 market proxy required modification in order for it to be properly applied to
25 the transportation of foreign coal. This was because foreign coal is typically

1 purchased at the Gulf terminal, which means that its delivery to Crystal
2 River involves only the last two segments of the waterborne transportation
3 route for domestic coal; Gulf terminal storage and transloading, and cross-
4 Gulf transportation. Since these two segments constituted 50.2 percent of
5 the total waterborne transportation costs used by the Commission to
6 establish the market price proxy for domestic coal in 1993, the Commission
7 used this percentage of the domestic market proxy (less the fee for
8 governmental impositions) to establish the market price proxy for
9 waterborne transportation of foreign coal. (Order No. PSC-94-0390-FOF-
10 EI, issued April 4, 1994 in Docket No. 940001-EI.) For example, if the
11 domestic market price proxy is \$25.00, including a governmental
12 impositions fee of 20 cents, the market proxy for foreign coal would be
13 $(\$25.00 - \$0.20) \times 50.2\%$, or \$12.45. This method of determining the
14 market proxy for foreign coal was in effect continuously from 1994 through
15 2003, when the Commission terminated both the domestic and foreign coal
16 market price proxies.

17
18 **Q. What are the circumstances that led to OPC's issue now before the**
19 **Commission?**

20 A. As I understand OPC's issue, it involves the occasional situation where
21 foreign coal has already been delivered to, and is in ground storage at, the
22 Gulf terminal, which is then purchased by PFC, FOB the Dixie Fuels Limited
23 (DFL) vessels. This means that the seller has incurred transloading costs
24 to deliver the coal aboard the DFL vessels, in contrast to the normal
25 situation where PFC takes title to foreign coal purchases before the coal

1 has been unloaded to the Gulf terminal, *i.e.*, before the seller has incurred
2 any transloading costs. For these occasional purchases made on a FOB
3 DFL vessel basis, it is reasonable to assume that at least a portion of the
4 seller's transloading costs are included in the commodity price of the coal.

5
6 **Q. How does PFC treat these transloading costs that have been included**
7 **in the commodity price of foreign coal?**

8 A. PFC adjusts the commodity price to remove the seller's transloading costs
9 in order to arrive at an adjusted commodity price equivalent to the more
10 typical foreign coal purchases that are made before transloading takes
11 place. Since the transloading rate charged to the seller by the terminal is
12 proprietary and unavailable publicly, PFC uses the rate it is charged for
13 comparable transloading services by the terminal to adjust the commodity
14 price of these on-the-ground foreign coal purchases. PFC then charges
15 Progress Energy the lower, adjusted commodity price plus the foreign coal
16 market price proxy when the coal has been delivered to Crystal River.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of Progress Energy's Motion for Leave to File Supplemental Testimony and the Supplemental Direct Testimony of Donna M. Davis proffered therewith has been furnished to the following individuals by electronic mail* and regular U.S. Mail the 2nd day of November, 2004.

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

Norman H. Horton, Jr., Esquire
Messer Caparello & Self
P. O. Box 1876
Tallahassee, FL 32302

John W. McWhirter, Jr., Esquire
McWhirter Reeves McGlothlin Davidson
Kaufman & Arnold, P.A.
400 North Tampa Street
Suite 2450
Tampa, FL 33601

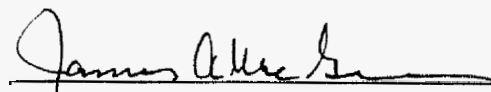
Vicki Gordon Kaufman, Esquire*
McWhirter Reeves McGlothlin Davidson
Kaufman & Arnold, P.A.
117 South Gadsden Street
Tallahassee, FL 32301

John T. Butler, Esquire
Steel Hector & Davis
200 S. Biscayne Blvd., Suite 4000
Miami, Florida 33131

Lee L. Willis, Esquire
James D. Beasley, Esquire
Ausley & McMullen
P.O. Box 391
Tallahassee, FL 32302

Jeffrey A. Stone, Esquire
Russell A. Badders, Esquire
Beggs & Lane
P. O. Box 12950
Pensacola, FL 32576-2950

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


Attorney