PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2004

DIRECT TESTIMONY OF ALBERT W. PITCHER

March 1, 2005

Q. Please state your name and business address.

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

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

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

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

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

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Business Administration Degree in Accounting from the University of Cincinnati in 1971. I began my professional career with Arthur Andersen and Company as a staff auditor. I was employed by Cincinnati Gas & Electric Company in various auditing and accounting functions from 1972 until 1976. I began my career with Florida Power Corporation (FPC), the predecessor of Progress Energy, as a staff auditor in the Audit Services Department in August of 1976. In 1977, I joined Electric Fuels Corporation (EFC), then a wholly owned subsidiary of FPC, as Manager of Accounting. I served in this capacity and that of EFC's Controller until 1984. At that time I became Vice President of Sales, charged with the responsibility of selling coal to utilities and industrial customers in the Eastern United States, from both EFC's affiliated mining operations and third-party sources. Over the period from 1984 to 2002, EFC's coal sales increased from less than one million tons to over 18 million tons annually. In September of 2002, following the merger with CP&L and the change of EFC's name to Progress Fuels Corporation (PFC), I assumed my current position of Vice President of Coal Procurement. In this capacity, I am responsible for the procurement and transportation of over six million tons of coal delivered annually to Progress Energy's Crystal River plant site.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the additional costs that Progress Energy incurred for replacement coal purchases and the chartering of two ocean-going coal barges as a result of the storm events of the 2004 hurricane season.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have prepared Exhibit No. __ (AWP-1), a chart showing average coal inventories at Progress Energy's Crystal River plant site from August 2 through September 24, 2004, Exhibit No. ___ (AWP-2), which provides a breakdown of the incremental costs of spot coal purchases, and Exhibit No. __ (AWP-3), a table showing the calculation of incremental costs of additional coal barges that PFC chartered as a result of the 2004 storms.

Q. Please summarize your testimony.

A. Progress Energy's coal inventory was significantly impacted by the cumulative effects of Tropical Storms Bonnie and Matthew and Hurricanes Charley, Frances, Ivan and Jeanne. To varying degrees, the storms disrupted waterborne and rail coal deliveries to Progress Energy's Crystal River plant site. The resulting inventory losses caused Progress Energy to implement coal conservation measures, including non-economic dispatch. Additionally, in order to replenish depleted coal inventories, Progress

Energy purchased replacement coal on the spot market. The actual incremental cost of these replacement purchases was $2,056,954, as compared to our original 2004 projection of $3,274,290. Progress Energy incurred additional costs for chartering two ocean-going coal barges needed to expedite transportation of replacement coal so that coal inventories could be replenished as soon as practicable. As discussed in Mr. Portuondo's testimony, Progress Energy is limiting recovery of the costs of the additional ocean-going barges to the 2004 waterborne transportation rate established in the Stipulation and Settlement in Docket No. 031057-EI. Although the Company incurred an additional $1,305,140 in incremental barge costs above the settlement rate, the Company is absorbing those additional costs.

Q. Please describe Progress Energy's coal inventories prior to Tropical Storm Bonnie in August 2004.

A. During the first six months of 2004, our rail supplier was experiencing significant operational problems which significantly impacted rail deliveries to Progress Energy, as well as other utilities and industrial operations in the Southeast. During this period, Progress Energy only received 76 percent of its CSX nominations. As a result, just prior to Tropical Storm Bonnie in August 2004, the average coal inventory for the Crystal River coal units was 31 days of supply. Although the inventory was in the low range experienced over the last several years, it was well within a safe operating

range based upon previous history. In order to increase inventory levels, we were in the process of maximizing waterborne transportation, while at the same time continuing to place corporate pressure on the rail supplier to improve performance. Those measures were underway when Tropical Storm Bonnie hit the Gulf of Mexico, followed closely by four major hurricanes and yet another tropical storm.

Q. How did the storm events during the 2004 hurricane season affect coal deliveries to Progress Energy's Crystal River Plant?

A. The unprecedented sequence and severity of the 2004 storms significantly impacted coal deliveries throughout the Southeast. From August 8th through August 15th, Tropical Storm Bonnie and Hurricane Charley disrupted coal barge traffic in the Gulf of Mexico, resulting in the disruption of one coal shipment to the Crystal River plant. Hurricanes Frances and Ivan again disrupted coal barge traffic from September 1st through the 24th, resulting in the disruption of eight shipments to the Crystal River plant. Hurricane Ivan also disrupted seven rail deliveries to Crystal River from September 16th through the 22nd. Finally, in October 2004, another barge shipment to Crystal River was disrupted due to Tropical Storm Matthew.

Q. What impact did the storm-related disruptions have on Progress Energy's coal inventory?

A. The ten disrupted barge shipments resulted in a coal inventory reduction of 165,000 tons; and the disrupted rail deliveries resulted in an additional inventory loss of 70,000 tons. The effects of these losses were experienced over an extended period. As shown on Exhibit No. __ (AWP-1), coal inventory levels fluctuated somewhat throughout the period, but the overall trend was increasingly downward particularly after September 1, 2004, due to Hurricanes Frances and Ivan.

Q. How did Progress Energy respond to the disruption in coal deliveries?

A Given the critical importance of the base-loaded Crystal River coal units, Progress Energy made it a priority to replenish and preserve its coal resources as the impact of the storms became apparent. Shortly after Tropical Storm Bonnie, PFC began purchasing coal on the spot market to replace disrupted shipments. As shown on Exhibit No. __ (AWP-1), deliveries generally rebounded in the second half of August, but disruptions occurred again in September with the approach of Hurricanes Frances and Ivan. By September 20, 2004, the average coal inventory for all units at Crystal River site fell below 20 days of supply. As a result, Progress Energy began implementing coal conservation measures, including non-economic dispatch oil and gas-fired units.

Throughout this period, PFC made replacement spot purchases when coal was available and capable of being transported to the Crystal River site. Overall, the Company purchased approximately 170,000 tons of

spot coal to help replace the 235,000 tons lost as a result of the barge and rail deliveries disrupted by the storms. PFC also chartered an additional two coal barges to expedite delivery of replacement coal to the Crystal River plant site. As a result of these efforts, by November 1, 2004, coal inventories had reached 27 days of supply, allowing the Company to safely take the Crystal River units off coal conservation mode. On November 15, 2004, PFC chartered another barge to ensure that replacement coal could be delivered in a timely manner so that inventories could be increased to more acceptable levels.

Q. How did you determine the incremental costs of the spot coal purchases attributable to the 2004 Storms?

A. As shown in Exhibit No. ___ (AWP-2), the Company made four spot purchases of coal as a result of the 2004 storms. To determine the incremental costs of these purchases, we first determined the incremental coal price ($/ton) for each purchase by subtracting an estimated purchase price, based upon the Generation Fuel Forecast (GFF), from the actual spot purchase price. We then multiplied the incremental coal price by the number of tons of coal purchased to determine the incremental cost of each spot purchase. Finally, we added the incremental cost of each spot purchase to calculate the total incremental cost of $ $2,056,954. This is the same methodology we used to preliminarily calculate our original 2004 re-projection of $3,274,290.

Q. Why did PFC charter the additional coal barges?

A. The cumulative effect of the 2004 storms greatly impacted transportation in the Gulf of Mexico and throughout the southeastern United States for several months. During the same period, Progress Energy needed to expeditiously transport replacement coal to the Crystal River site so the base-loaded Crystal River coal units could be taken off conservation mode as soon as practicable. Faced with a large amount of coal to transport in a short period of time, on October 15, 2004, PFC chartered a coal barge from Ocean Dry Bulk to provide additional cross-Gulf transportation capacity during this critical time period. At the time, the Ocean Dry Bulk barge was the only one available. On November 15, 2004, PFC placed another chartered barge from Ocean Dry Bulk in service to help expedite the delivery of replacement coal so that inventory levels could be restored to more acceptable levels as soon as practicable.

It should be noted that, for safety reasons, the additional barges were not loaded to full capacity to ensure safe passage to the Crystal River plant site. Under normal circumstances, PFC uses Dixie barges which are specifically designed for delivery to Crystal River. The Dixie barges have an average capacity of 16,500 tons. By comparison, the chartered barges carried an average capacity of 13,589 tons.

Q. How did you determine the incremental cost of the additional barges?

A. As shown on Exhibit No.___ (AWP-3), the incremental cross-Gulf barge cost due to the hurricanes was calculated as follows:

(1) We derived the total cost per trip by multiplying the daily charter rate by the number of days per trip. This amount was then added to fuel costs incurred per trip for running and docking to derive the total cost per trip;

(2) We then divided the total cost per trip by the average tons per barge to determine a total cost per ton rate;

(3) Next, we calculated the incremental cost of the barges by subtracting the total cost per ton rate for the barges by the waterborne transportation rate established for 2004 in the Stipulation and Settlement in Docket No. 031057-EI.

(4) The incremental cost of the barges was multiplied by the number of tons of replacement coal delivered by the barges to derive the incremental cross-Gulf barge costs due to the hurricanes of $1,305,140. As noted above, Progress Energy is not seeking recovery of these incremental barge costs. Instead, the Company is limiting recovery to the 2004 waterborne transportation rate established in the Stipulation and Settlement in Docket No. 031057-EI.

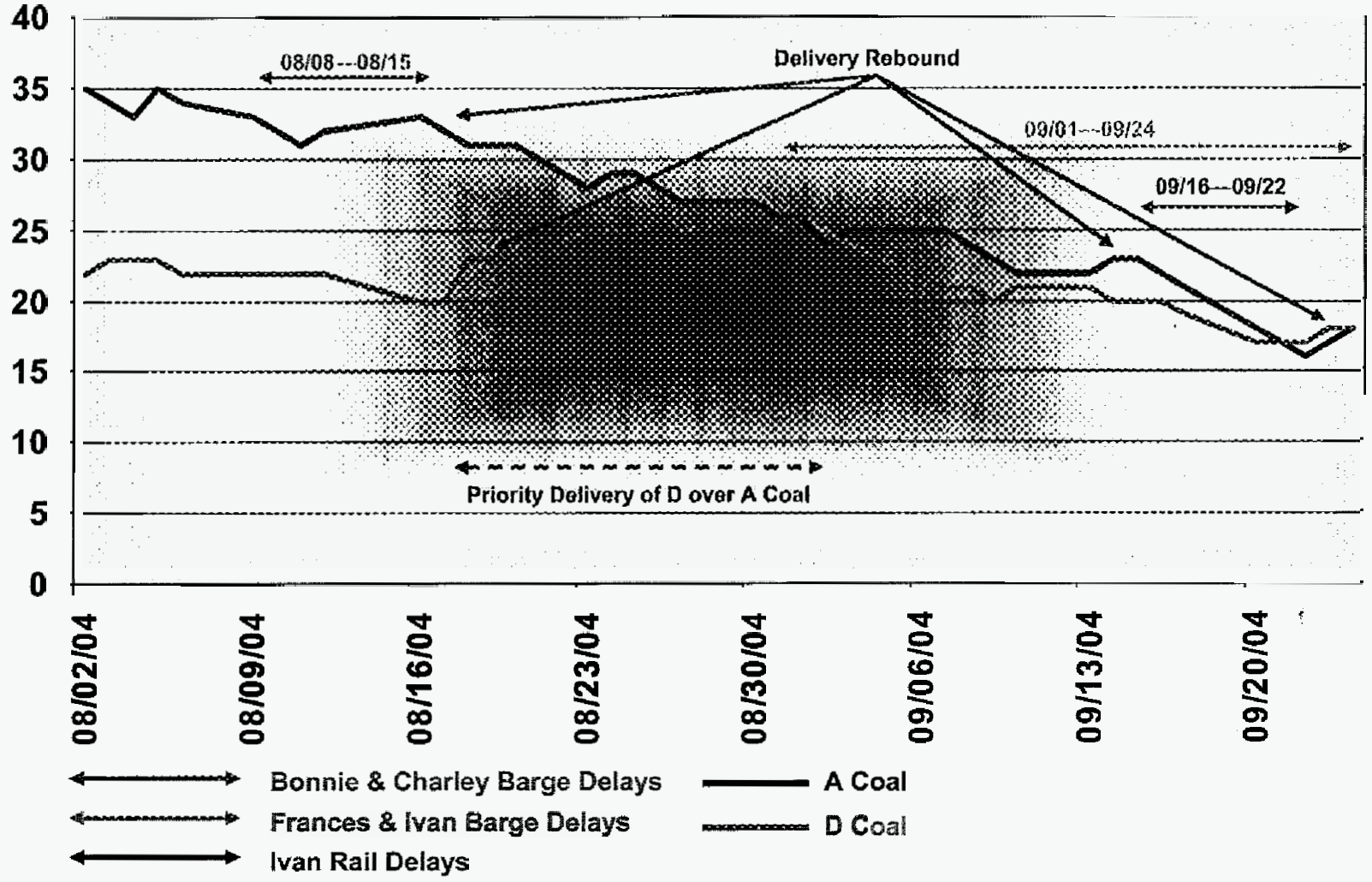
Q. How does the final cost of the barges compare to Progress Energy's original 2004 projection?

A. Progress Energy's original projection of the incremental costs of the barges attributable to the storms was $613,686, as compared to the actual costs discussed above of $1,305,140. The difference is primarily attributable to the fact that our original estimates of the length of the barge trips was based on our experience with the Dixie barges that PFC normally uses for trans-Gulf barge shipments. As it turned out, the Ocean Dry Bulk barges were not as maneuverable as the Dixie barges, which were designed specifically to deliver coal to the Crystal River plant site. Due to this lack of maneuverability and weather delays, the Ocean Dry Bulk barge trips lasted almost twice as long as we had projected. As a result, the cost per ton of coal delivered was significantly higher than we had projected.

Q. Does this conclude your testimony?

A. Yes, it does.

Storm Impacted Coal Inventories



INCREMENTAL COAL COSTS DUE TO 2004 STORMS

		Tons	$/Ton	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04	Total 2004
(1) CAM-Kentucky	CR1&2	27,188	28.99				$788,188		$788,188
(2) Emerald	CR1&2	31,846	26.60					**$423,557**	**423,557**
(3) Drummond	CR4&5	74,612	31.45					**782,185**	**782,185**
(4) PFC	CR4&5	28,778	1.63			**$46,909**			**46,909**
PFC	CR4&5	9,261	1.74				16,115		16,115
		171,687		$0	$0	$46,909	$804,303	$1,205,742	$2,056,954

PFC bills PEF each month based on an estimate, then trues-up to actual costs in the following month. Therefore, any incremental costs incurred by PFC are billed to PEF on a one month lag. The schedule above assumes the costs are expensed to burn in the month following the recognition of purchase dollars, which occurs in the month following shipment to CR. Simply stated, coal burn costs are recognized two months after the coal is shipped to CR.

(1) Three additional spot trains (10k tons) received into CR 1&2 at the end of September @ [redacted] **ton (delivered).** Estimated contract price with other suppliers based on Generation Fuel Forecast (GFF) is [redacted] ton (delivered). Difference = $28.99/ton.

(2) Two barges (32k tons) @ [redacted] ton (delivered). Shipped one barge (16k tons) to CR 1&2 on 10/23; second barge (16k tons) shipped between end of October and mid-November. Since we normally do not purchase "A" coal by barge, we compared to GFF rate of [redacted] **Difference is** [redacted] - [redacted] **= $26.60/ton.**

(3) One foreign ship (75k tons) @ [redacted] /ton (delivered) purchased right after Hurricane Ivan (9/13) to be shipped to CR 4/5 as blend in October and November. **Existing contract with this supplier is** [redacted] /ton FOB Dixie Barge at Mobile. Therefore the incremental cost is [redacted] - [redacted] **=$31.45/ton.**

(4) Four trains to CR 4/5 @ [redacted] /ton (August) and [redacted] /ton (September) delivered; three trains (30k tons) received in August and one train (10k) tons in September. Since we did not have current purchase order for **"D" coal from PFC, the** incremental cost is the difference between [redacted] and the GFF rate of [redacted] **= $1.63/ton** in August and the difference between [redacted] and the GFF rate of [redacted] **= $1.74/ton** in September.

Docket No. 050001-EI
Direct Testimony of Albert W. Pitcher
Exhibit No. __ (AWP-3)
Incremental Cross-Gulf Barge Storm Costs

INCREMENTAL CROSS-GULF BARGE COSTS DUE TO 2004 STORMS

1	Ocean Dry Bulk barge cost/trip [redacted] per day x 13.67 days per round trip)	[redacted]
2	Average fuel cost/trip	32,136
3	Total cost per trip	[redacted]
4	Divide by capacity tons per barge	13,589
5	Total cost per ton	[redacted]
6	Less 2004 waterborne settlement rate	
7	Incremental cost of Ocean Dry Bulk barges	[redacted]
8	Multiply by tons of coal made up by Ocean Dry Bulk barges ([redacted] trips x 13.589.25 tons)*	
9	Total incremental cross-Gulf barge costs due to 2004 storms	$1,305,140
10		
11	By Month:	

	Oct. 04	Nov. 04	Dec. 04	Total
12				
13	Incremental cost of Ocean Dry Bulk barges (per line 7 above)	[redacted]		
14	Multiply by tons of coal made up by Ocean Dry Bulk Barges			
15	Total incremental cross-Gulf barge costs due to 2004 storms	$151,206	$657,781	$496,154	$1,305,140
16				

17 * Note:
18 [redacted] trips at 13,589.25 tons/trip = [redacted] tons. These shipments partially replaced coal that was not shipped due to the hurricanes
19 Fifth barge started 10/17/04; sixth barge started approximately 11/12/04
20 October has [redacted] trip on the fifth barge at [redacted] tons.
21 November has [redacted] trips on the fifth barge at [redacted] tons per trip and [redacted] trip on the sixth barge at [redacted] tons
22 The December total represents difference between total [redacted] tons of replacement coal and the amounts shipped in October and November