

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition on behalf of Citizens of  
the State of Florida to require  
Progress Energy Florida, Inc. to  
refund to customers \$143 million

DOCKET NO. 060658

Submitted for filing: January 16, 2007

*MHM 5/1/09*  
**DECLASSIFIED**  
*(entire document)*

**CONFIDENTIAL**  
DIRECT TESTIMONY  
OF ALBERT W. PITCHER  
ON BEHALF OF  
PROGRESS ENERGY FLORIDA

R. ALEXANDER GLENN  
JOHN BURNETT  
PROGRESS ENERGY SERVICE  
COMPANY, LLC  
P.O. Box 14042  
St. Petersburg, Florida 33733  
Telephone: (727) 820-5180  
Facsimile: (727) 820-5519

JAMES MICHAEL WALLS  
Florida Bar No. 706272  
DIANNE M. TRIPLETT  
Florida Bar No. 0872431  
CARLTON FIELDS, P.A.  
Post Office Box 3239  
Tampa, FL 33601  
Telephone: (813) 223-7000  
Telecopier: (813) 229-4133

**DECLASSIFIED**  
**CONFIDENTIAL**

DOCUMENT NUMBER-DATE

00404 JAN 16 07

FPSC-COMMISSION CLERK

**IN RE: PETITION ON BEHALF OF CITIZENS OF THE  
STATE OF FLORIDA TO REQUIRE PROGRESS ENERGY  
FLORIDA, INC. TO REFUND CUSTOMERS \$143 MILLION**

**FPSC DOCKET NO. 060658**

**DIRECT TESTIMONY OF**

**ALBERT W. PITCHER**

**I. INTRODUCTION AND QUALIFICATIONS**

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

2 A. My name is Albert W. Pitcher. My business address is: 1715 Georgia Avenue, NE,  
3 St. Petersburg, Florida 33703-4320.

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

6 A. I recently retired as Vice President of Coal Procurement for Progress Fuels  
7 Corporation (PFC). I am currently self-employed as a consultant.

8

9 **Q. Please describe your educational background and professional experience.**

10 A. I received a Bachelor of Business Administration Degree in Accounting from the  
11 University of Cincinnati in 1971. I began my professional career with Arthur  
12 Anderson and Company as a staff auditor. I was employed by Cincinnati Gas &  
13 Electric Company in various auditing and accounting functions from 1972 until 1976.  
14 I began my career with Florida Power Corporation (FPC), now known as Progress  
15 Energy Florida ("PEF" or the "Company"), as a staff auditor in the Audit Services  
16 Department in August of 1976. In 1977, I joined Electric Fuels Corporation (EFC),

1 then a wholly owned subsidiary of FPC, as Manager of Accounting. I served in this  
2 capacity and that of EFC's Controller until 1984. At that time, I became Vice  
3 President of Sales, charged with the responsibility for selling coal to utilities and  
4 industrial customers in the Eastern United States, from both EFC's affiliated mining  
5 operations and third-party resources. In September of 2002, following the change of  
6 EFC's name to PFC, I assumed the position of Vice President of Coal Procurement.  
7 In this capacity, I was responsible for the procurement and transportation of coal  
8 delivered annually to PEF's Crystal River plant site. I retired from PFC December 1,  
9 2005.

10 For ease of reference only, I will refer to both FPC and PEF as "PEF" and both  
11 EFC and PFC as "PFC," although they were clearly different legal entities.

## 12 13 **II. PURPOSE AND SUMMARY OF TESTIMONY**

14  
15 **Q. What is the purpose of your testimony?**

16 **A.** The purpose of my testimony is three-fold. First, I will explain the coal procurement  
17 process and resulting decisions during my tenure as PFC's Vice President of Coal  
18 Procurement and demonstrate that PFC and the Company acted reasonably and  
19 prudently under the circumstances that existed at the time. In doing so, I will also  
20 address the inaccurate statements of fact made about the coal procurement process and  
21 decisions under my watch by Mr. Robert Sansom in his testimony on behalf of the  
22 Office of Public Counsel and correct them. I will also further address the statements  
23 and opinions first expressed by Mr. Sansom in his affidavit in last year's fuel recovery

1 docket and now in his testimony here regarding certain contracts that resulted from the  
2 solicitations conducted by PFC on PEF's behalf in August-September 2004, again  
3 demonstrating that PFC and the Company acted reasonably and prudently under the  
4 circumstances.

5 Second, I will address Mr. Sansom's testimony regarding the synfuel  
6 purchases by the Company and the misimpression created by Mr. Sansom's testimony  
7 that the tax credits available to Progress Energy Inc. (Progress Energy) somehow  
8 drove PEF's decisions to purchase synfuel for Crystal River Units 4 and 5 (CR4 and  
9 CR5). PFC was the primary player in the synfuel industry and therefore was sought  
10 out by others who wanted to enter the synfuel market for its expertise in all aspects of  
11 the industry, from production through sales. It is hardly unusual, then, that when PEF  
12 began to look at synfuel purchases, PFC or an affiliate of PFC may be involved in  
13 some way in some of the synfuel transactions with PEF. As the Vice President of  
14 Sales for PFC during most of the years that synfuel was purchased by PEF, however, I  
15 know that synfuel was sold at a price below bituminous coal prices and was purchased  
16 by utilities and industrial customers only on a contract or spot basis when the synfuel  
17 was more economical than other bituminous coal products. Also, PEF was not the  
18 largest or even close to the largest purchaser of synfuel during this period of time. As  
19 a result, only a very small percentage of the tax credits available to Progress Energy  
20 could have been generated by synfuel sales to PEF.

21 Finally, I will address a number of other statements made by Mr. Sansom that  
22 are simply inaccurate or give a misleading impression of the coal procurement  
23 practices and decisions by PFC and PEF when I served as PFC's Vice President of

1 Coal Procurement. In sum, PFC and PEF always employed reasonable and prudent  
2 practices under the existing circumstances consistent with its policies and Commission  
3 orders.

4  
5 **Q. Are you sponsoring any exhibits with your testimony?**

6 **A.** Yes, I am sponsoring the following exhibits that were prepared by me or prepared  
7 under my supervision and control, or they represent business records prepared at or  
8 near the time of the events recorded in the records, which records it was a regular  
9 practice for me or those who worked with me to keep to perform our responsibilities:

- 10 • Exhibit No. \_\_\_\_ (AWP-1), which is PFC's coal procurement policy in  
11 effect when I assumed responsibilities for coal procurement for Crystal  
12 River;
- 13 • Exhibit No. \_\_\_\_ (AWP-2), which are PFC's evaluation sheets for the bids  
14 received in response to the July 3, 2003 Request for Proposals ("RFP") for  
15 coal for CR4 and CR5;
- 16 • Exhibit No. \_\_\_\_ (AWP-3), which is my October 2, 2003 memorandum  
17 explaining the results of the July 3, 2003 RFP and PFC's evaluation of that  
18 RFP;
- 19 • Exhibit No. \_\_\_\_ (AWP-4), which is the April 12, 2004 RFP for coal for  
20 CR4 and CR5;
- 21 • Exhibit No. \_\_\_\_ (AWP-5), which is the RFP bidder list indicating the  
22 bidders who received the April 12, 2004 RFP and whether they responded;

- 1 • Exhibit No. \_\_\_\_\_ (AWP-6), which is my June 22, 2004 memorandum  
2 explaining the April 12, 2004 RFP and PFC's evaluation of that RFP; and
- 3 • Exhibit No. \_\_\_\_\_ (AWP-7), which is the May 13, 2004 test report on the  
4 Powder River Basin (PRB) sub bituminous and bituminous coals blend at  
5 CR4 in late April 2004.

6 All of these exhibits are true and correct.

7

8 **Q. Please summarize your testimony.**

9 **A.** PFC consistently evaluated coals for CR4 and CR5 on a competitive basis during my  
10 tenure as the Vice President for Coal Procurement. All coal procurement decisions  
11 during this time period, from 2003 to 2005, were made based on competitive RFPs or  
12 spot markets for the lowest cost coal consistent with the quality specifications required  
13 for plant operations at CR4 and CR5. In each case, PFC acted reasonably and  
14 prudently in its coal procurement decisions for CR4 and CR5.

15 I evaluated PRB beginning in 2003 when it became evident that PRB coals  
16 might be economical for CR4 and CR5. In the July 2003 RFP solicitation, however,  
17 foreign bituminous coals of the same or similar high quality coals historically burned  
18 at CR4 and CR5 proved to be more economical. Because these import coals did not  
19 present the same quality issues that would impact plant handling and performance as  
20 the PRB coals, they further were the clear choice at the time for CR4 and CR5. I,  
21 nevertheless, continued to follow PRB coal prices, and when they moved up at a  
22 slower rate than domestic and foreign coals later in 2003, I sought to purchase some  
23 PRB coal for a test burn at CR4 or CR5. This is standard industry practice when it

1 comes to evaluating different coals than those historically purchased and burned at a  
2 coal plant, especially as was the case for CR4 and CR5, when the quality of the coal is  
3 important to the historical base load energy production from the plant.

4 That test burn was conducted the same month as a subsequent RFP for future  
5 coal needs at CR4 and CR5 in April 2004. Both the test burn report on the limited,  
6 single ocean-barge test of a small blend of PRB and bituminous coal in April 2004,  
7 and the results of the April 2004 RFP, where PRB coals were the most economical  
8 coals on a delivered and evaluated or busbar cost basis, indicated that the further  
9 evaluation of PRB coals was warranted to decide if the Company should shift from  
10 bituminous compliance coals to PRB coals or a blend of bituminous compliance coals  
11 and PRB coals. I understand that evaluation has been undertaken by the Company  
12 following the 2004 test burn and 2004 RFP. In the meantime, while the Company's  
13 evaluation of this type of significant coal switch was on-going, PFC continued to  
14 purchase the lowest priced, high quality bituminous coal for CR4 and CR5 available  
15 under existing market conditions.

16 PFC further purchased synfuel bituminous-based coals when they were the  
17 lowest priced coals consistent with the quality specifications for CR4 and CR5.  
18 Synfuels were always offered at or below bituminous compliance coal prices on the  
19 market because available tax credits to the synfuel producers offset losses on the  
20 production and sale of synfuel. As a result, the ratepayer benefited from such  
21 purchases. Simply put, then, I sold synfuel to PFC for CR4 and CR5 when I was told  
22 it was the lowest cost source under the current market conditions. At the same time I  
23 was selling a lot more synfuel to other utilities and industrial customers. When I did

1 not make a synfuel sale for CR4 and CR5, which did occur, I simply sold the synfuel  
2 to someone else. PEF was in no way the largest synfuel customer; it was not even  
3 close.

4  
5 **III. COAL PROCUREMENT FOR CR4 AND CR5: 2003-2005**

6  
7 **Q. When did you assume the role of coal procurement for CR4 and CR5?**

8 **A.** I became Vice President of Procurement for PFC around September 2002 but the  
9 decisions for the coal needed at the Crystal River coal units for 2002 and some of  
10 2003 had already been made. I assumed the job with the responsibility for meeting the  
11 coal requirements for CR1, CR2, CR4, and CR5 for the rest of 2003 and beyond.

12  
13 **Q. Can you explain the process that you applied when determining what to do to**  
14 **meet PEF's coal requirements for Crystal River?**

15 **A.** Yes. First, PEF provided me with the expected tons of coal that would be burned for  
16 the year for both sets of coal units, CR1 and CR2, and CR4 and CR5. CR1 and CR2  
17 burned a different type of higher sulfur coal (i.e., greater than 1.5 lbs./mmBtu SO<sub>2</sub> but  
18 less than 2.1 lbs./MMBtu) than CR4 and CR5 which burned a low sulfur coal  
19 sometimes referred to as compliance coal (i.e., 1.2 lbs/MMBtu SO<sub>2</sub> or less). Within  
20 PFC and PEF we referred to the coal for CR1 and CR2 as "A" or Alpha coal and the  
21 coal for CR4 and CR5 as "D" or Delta coal. The information on the tons of coal  
22 required for CR1 and CR2 and CR4 and CR5 was typically provided in the fall of the



1 prior year. Additionally, updates on the projected burns were provided throughout the  
2 year, generally quarterly.

3 Once I had the expected requirements for both the A and D coals, the next step  
4 was to determine the tons of A and D coal currently under contract and whether those  
5 contracts expired or had price reopeners the next year. If the contracts had price  
6 reopeners, and depending on the terms of the contract, PFC might need to issue a  
7 request for proposals (RFP) for the type of coal under the contract or initiate a review  
8 of market prices for similar coal to negotiate the price for the next or remaining  
9 contract term. Next we reviewed the projected inventory levels to determine if it was  
10 necessary to either increase or decrease them depending upon various operational  
11 considerations. The amount of coal under contract and any inventory increases or  
12 decreases were netted against the expected coal requirements for the year, providing  
13 the tons available for purchase.

14 The next step in the process was to determine whether an RFP or reliance on  
15 the spot market was appropriate given the amount of coal tons needed and the current  
16 and anticipated market conditions. As a general rule, a spot purchase was for a term  
17 of a year or less and generally involved lower amounts of tons purchased than contract  
18 purchases. Contract purchases were for a year or more and generally were for larger  
19 tonnage. PFC and the Company favored a mixture of contract and spot purchases to  
20 maintain some flexibility to respond to changes in coal market conditions. This policy  
21 has been consistently followed by the Company since CR4 and CR5 came on line in  
22 1982 and 1984, respectively, as evidenced by EFC's coal procurement policy attached  
23 as Exhibit No. \_\_\_ (AWP-1).

1 A final consideration was whether the tons of coal already under contract were  
2 being provided to Crystal River by rail or by water and by what means, rail or water,  
3 the tons available for purchase could be provided. When I assumed the  
4 responsibilities for coal procurement for Crystal River, transportation by rail was  
5 generally cheaper than water so my practice was to maximize rail shipments. This  
6 remained the case until the CSX contract expired and had to be renegotiated in 2004,  
7 after which time under the new CSX contract, rail was actually more expensive than  
8 water transportation so we began to maximize water transportation of coal to Crystal  
9 River.

10 The practice of maximizing rail deliveries when it was the most economical  
11 means of coal delivery was consistent with a prior Commission order requiring the  
12 Company to maximize rail transportation. The ability to maximize rail shipments also  
13 depended on what type of coal was needed, where the mine was located, and the  
14 capabilities of providing coal by rail or water from that location.

15  
16 **A. THE JULY 2003 SOLICITATION.**

17  
18 **Q. When did you first issue an RFP for coal for Crystal River?**

19 **A.** On July 3, 2003, I issued on PEF's behalf an RFP for A and D coal for Crystal River  
20 for one, two, and three year proposals.

21  
22 **Q. Why did PFC issue an RFP for coal for Crystal River on July 3, 2003?**

1 A. At the time, PFC had eight contracts with price reopeners and we were beginning to  
2 review the coal needs for 2004 and beyond. Under the terms of the contracts, we  
3 needed to determine the market prices for coal to re-negotiate the price and to  
4 determine if we were going to extend the contracts. Five of these contracts were for D  
5 coal and three were for A coal. Also, PFC wanted to determine if the market prices  
6 justified contracts of one, two, or three years for coals for Crystal River.

7  
8 **Q. What were the market conditions in 2003?**

9 A. The coal price market was very volatile. After the price spikes and tight supply with  
10 virtually all types of coal in 2001, as well as most other fuels, coal prices had fallen in  
11 2002 and production and coal supplies were improving. In 2003, then, it was unclear  
12 whether coal prices were going to fall to price levels that existed prior to 2001,  
13 stabilize around 2002 price levels, or again start to rise given the uncertainties  
14 surrounding future production efficiencies and supply, demand, and world economic  
15 issues.

16  
17 **Q. What were your objectives in the July 3, 2003 RFP?**

18 A. The anticipated coal burn at Crystal River in 2004 was 2.2 million tons for CR1 and  
19 CR2 and 3.9 million tons at CR4 and CR5 for a total of 6.1 million tons of coal. As I  
20 have indicated, we had eight contracts with price re-openers in 2003, five D coal and  
21 three A coal contracts, that we were contractually obligated to renegotiate. Together  
22 with those renegotiations our purchase strategy was to eventually achieve a coal  
23 supply of a 70-75% contract and 25-30% spot, if possible. Again, another objective

1 was to maximize our rail deliveries, which were 3.6 to 4.1 million tons a year under  
2 PFC's contract with CSX.

3  
4 **Q. What was the response to the July 3, 2003 RFP?**

5 **A.** We received a total of 42 bids from 21 domestic and foreign coal suppliers. With the  
6 options under some of the bids the total count of different types of bids in response to  
7 the RFP was 75 bids.

8  
9 **Q. How did you evaluate the bids?**

10 **A.** We grouped the bids by (1) all bids together, (2) CR1 and CR2 bids, (3) CR4 and CR5  
11 bids, (4) CR4 and CR5 bids segregated by rail and water, and (5) CR4 and CR5 bids  
12 segregated by domestic and foreign coals. These groupings allowed us to review the  
13 relative pricing between rail, water, domestic, foreign, CR4 and CR5, and CR1 and  
14 CR2. Within each group of bids we also divided up the bids between single or multi-  
15 year offers. We also reviewed various trade publications, regarding coal market  
16 pricing, such as United Coal, Evolution, and Henwood Energy Services, which  
17 provides prices for various qualities of coal for any given period of time, both  
18 currently and prospectively. We will do this to see if the coal prices we are offered in  
19 the bids are within a range of prices estimated for the market by the trade publications.

20 In each grouping we looked at the top several bids, thus creating a "short list"  
21 evaluation. There was no set limit on the number of bids that would be placed on a  
22 "short list," rather it depended on the total amount of coal which was required for

1 purchase based upon the projected burns, required changes in inventory levels, and  
2 contract expirations.

3 With respect to each bid, PFC evaluated it upon a delivered cost and evaluated  
4 cost basis. The delivered cost included the commodity cost (\$/ton) offered by the  
5 bidder and PFC's cost of transporting the coal to the Crystal River Plant. The  
6 evaluated cost, also called the busbar analysis cost or total cost, compares the  
7 characteristics of the coal offered in each bid against the coal specification standard  
8 for either the CR4 and CR5 units or the CR1 and CR2 units. The standard coal  
9 specification for the respective units is based on coal characteristics that provide  
10 optimal efficient plant performance. The evaluated ("busbar" or "total") cost is used  
11 because it provides a more complete picture of the bids submitted by incorporating  
12 into the bid evaluation consideration of the quality of the coal offered. Because coals  
13 have different heat input values, the delivered cost and evaluated cost are converted to  
14 dollars per mmBtu so the bids can be evaluated on an equal basis with respect to the  
15 Btu content of the coal.

16 PFC has typically ranked and purchased coal based on the lowest delivered  
17 cost but that is because historically the quality of the coal at the lowest delivered cost  
18 did not differ significantly from the quality expected under the standard specification  
19 for coal for the respective units. More recently, however, PFC is seeing more  
20 economical coal than before with quality characteristics that vary more from the  
21 standard coal specifications, particularly for CR4 and CR5, thus, providing more  
22 opportunity for the evaluated cost to have an impact on the evaluation of the bids.  
23

**DECLASSIFIED**

1 Q. What is the evaluated or busbar cost analysis?

2 A. The evaluated or busbar cost analysis is based on an Electric Power Research Institute  
3 (“EPRI”) Coal Quality Impact computer Model (“CQIM”) that assesses the  
4 performance of the coal in the boilers of CR1, CR2, CR4, and CR5. The EPRI CQIM  
5 model was developed by Black & Veatch and is recognized as an industry standard for  
6 coal procurement evaluations. The characteristics of the coal offered in the bid are  
7 inputs into the model and the outputs are the model’s assessment of the cost impacts to  
8 the Company if coal with the quality characteristics of that coal is burned in the  
9 respective units’ boilers.

10 The model assessment of the cost impacts of variations in the quality of the  
11 coal in the bid from the standard specification is a “black box” to PFC. The cost  
12 impacts were developed by Black & Veatch based on industry standard cost impacts.  
13 The coal quality characteristics considered in the model for bid evaluation purposes  
14 are the ash, BTU, sulfur, moisture, and volatile content characteristics of the coal. The  
15 evaluated cost output includes the delivered cost plus an assessment for variations  
16 from the standard specification for ash (\$0.30/1.0% above 10%), BTU (\$0.10/100 BTU  
17 above or below 12000), sulfur (based upon current SO<sub>2</sub> allowance prices) below the  
18 1.2lbs. SO<sub>2</sub> maximum allowed for CR4 and CR5 and lower SO<sub>2</sub> than the allowed  
19 1.5lbs. SO<sub>2</sub> to 2.1lbs. SO<sub>2</sub> for CR1 and CR2, moisture (\$0.10/1.0% above 8%), and  
20 volatile content (\$1.00 below 31%). Another way to look at the evaluated or busbar  
21 cost analysis is that it is a “paper” test burn of the coal in the units’ boilers.  
22

1 **Q. Have you ever rejected a bid based on a deviation from any of the specifications**  
2 **set forth in the standard coal specification for CR4 and CR5?**

3 **A.** Yes. In response to the July 3, 2003 RFP we received two bids from Alpha for  
4 compliance coal by rail to CR4 and CR5 with a 28% volatility characteristic, which  
5 was significantly below the 31% volatility specification for CR4 and CR5 coal.  
6 Volatility is an important coal characteristic because it can affect the flame stability of  
7 the units. As a result of this significant deviation from the standard volatility  
8 specification for CR4 and CR5 we eliminated the Alpha bids from further  
9 consideration. This is reflected in the evaluations sheets for the July 3, 2003 RFP in  
10 Exhibit No. \_\_\_ (AWP-2) at the page bearing bates number PEF-FUEL-004772.

11  
12 **Q. Are there any other considerations in the bid evaluation besides the delivered**  
13 **cost and evaluated cost?**

14 **A.** Yes, there are. Other important considerations include prior experience with the  
15 bidder, whether the bidder is a broker or a coal producer, and prior experience with the  
16 type of coal offered in the bid.

17 Prior experience with a bidder and whether the bidder is a broker or the actual  
18 coal supplier is important in determining whether the bidder will reliably deliver the  
19 coal offered in a timely manner and consistent with the quality of the coal offered.  
20 Such experience is also important when there are contract negotiations and  
21 renegotiations to form the basis to reliably deal with the bidder. If the prospective  
22 supplier is a broker PFC will more carefully review the offer and evaluate the broker  
23 but the bid will not be eliminated from consideration just because the offeror is a

1 broker; PFC has had very good experience with coal provided through carefully  
2 selected brokers.

3 Finally, prior experience with the type of coal offered in the bid is important to  
4 the plant operations. If there is a new supplier or a new type of coal or a coal from a  
5 new mine, the plant operators are always wary of using that coal without first  
6 conducting a test burn because of the uncertainties surrounding the effect of the coal  
7 on the efficient operation of the plant and production of electric energy. These  
8 considerations are not new to the July 2003 RFP evaluation, however, they have been  
9 a factor in the coal evaluations for decades, see Exhibit \_\_\_\_ (AWP-1).

10  
11 **Q. What were the results of your evaluation of the bids for coal for CR4 and CR5 in**  
12 **the July 3, 2003 RFP?**

13 **A.** With respect to compliance coal available by rail, we reviewed 6 single year and 4  
14 multi-year bids. The lowest single year bid was a price reopener on an existing  
15 contract with AEP so the next lowest bidder on both the single and multi-year offers  
16 was Koch Carbon at \$34.25/ton to \$34.50/ton on the single year and \$35.05/ton on the  
17 multi-year offers. When I subsequently went to negotiate with Koch Carbon  
18 requesting an offer of \$33.75/ton for 2004, however, Koch Carbon raised any number  
19 of excuses, including a problem with PFC's credit, as to why Koch Carbon could not  
20 offer that price or the coal at the prices in their bids. Koch wanted a parent guarantee  
21 which the Company does not provide to any coal supplier. The real issue here was the  
22 market was volatile and prices were moving up and they were looking for any excuse  
23 not to honor their bid. After several fruitless discussions, I determined that Koch was



1 not going to meet its bid offers and decided to remove them from our active bidders  
2 list because of their failure to stand behind their bids. Koch is a broker of coal. This  
3 is an example where the lack of experience with a bidder proved problematic and  
4 resulted in the elimination of the bidder because there was no assurance the bidder was  
5 reliable.

6 As a result, I turned to the next lowest bidder, Dominion (because the Alpha  
7 coal bids had been eliminated because of the volatility of the coal offered), and entered  
8 into a one year contract for 120,000 tons of D coal by rail. Dominion is a major utility  
9 in Virginia and has a non-regulated coal brokerage group. The coal was shipped from  
10 an existing supplier's mine and was therefore known to be an excellent quality coal  
11 from a known, reliable supplier.

12

13 **Q. Why did you call Koch Carbon and ask them for a better price?**

14 **A.** It is our typical practice to contact bidders on the "short list" and negotiate for a lower  
15 price to get the best deal we could get for the Company and the customer. This is also  
16 a standard practice in the industry so from a buyer's perspective you do not  
17 necessarily expect that the bid price offered in response to an RFP is the best that the  
18 supplier can or will do if the bidder makes the short list.

19

20 **Q. What about the remaining bids for compliance coal by water, what were the  
21 results of your evaluation of those bids?**

22 **A.** The foreign or import compliance coals evaluated better than the domestic compliance  
23 coals. This was expected because the market indications at the time suggested that

1 import compliance coal was very competitive. Guasare, a supplier of Venezuelan  
2 compliance coal, tied for the second lowest bid on a delivered cost and a nearly  
3 identical evaluated cost with Glencore, a Columbian compliance coal supplier on the  
4 single year bid and Guasare was the second lowest bidder on the multi-year bid.  
5 Because Guasare was both a current and previous supplier, had delivered excellent  
6 quality coal in the past, and was the actual producer, where Glencore was a broker of  
7 foreign coals with no previous history, we entered into discussions for a contract with  
8 Guasare. This is an example where prior experience with a supplier was a factor in the  
9 bid evaluation. We extended the single-year bid, which was lower in price to the  
10 multi-year offer, into a two-year contract with Guasare for 250,000 and 150,000 tons,  
11 respectively. We also entered into a contract based on the Guasare multi-year bid for  
12 650,000 tons for 2004 and 2005 with a price reopener for 2006. As a result, import  
13 compliance coal accounted for 43% of the water delivered coal in 2004 and 38% of  
14 the water delivered coal in 2005 to Crystal River. Our bid evaluation sheets are  
15 included in Exhibit No. \_\_\_\_ (AWP-2) and my October 2, 2003 memorandum, with  
16 exhibits, explaining the results of the July 3, 2003 RFP and our evaluation of the bids  
17 in response to that RFP is included in Exhibit No. \_\_\_\_ (AWP-3) to my testimony.

18  
19 **Q. Does Mr. Sansom agree that the import coal purchases as a result of the July 3,**  
20 **2003 RFP were economical?**

21 **A.** Yes, he does. At page 34, lines 19 to 21 of his testimony Mr. Sansom admits that we  
22 made economical purchases of imported coal for 2003 and later years “under earlier  
23 contracts, increasing our reliance on imported coal from 30% in 2003 to 48% in 2004

1 and 2005.” This is a reference to the Guasare contracts that were the result of the July  
2 3, 2003 RFP.

3 Ironically, Mr. Sansom’s argument that PFC should have been purchasing PRB  
4 coal conflicts with his statement that these import coal purchases were economical  
5 purchases. Both import coals and PRB coals are only economical for CR4 and CR5  
6 when delivered by water, and since Mr. Sansom would have PFC purchase these  
7 import coals and PRB coals in the same time period, PFC could not deliver both by  
8 water with the existing constraints on waterborne transportation to Crystal River. PFC  
9 would, under Mr. Sansom’s argument, either have to purchase less PRB coals to  
10 maintain the waterborne import coal shipments or displace the economical import  
11 coals with higher priced CAPP coal by rail. Mr. Sansom does not account for either  
12 possible impact in his testimony that I can see.

13

14 **Q. You mentioned that the import coal purchased was not the lowest import bid in**  
15 **response to the July 3, 2003 RFP. Why didn’t you buy coal from the lowest**  
16 **import bidder?**

17 **A.** The lowest import bidder on a delivered cost and an evaluated cost basis was the  
18 Drummond Columbian coal for both the single and multi-year options. However, the  
19 Drummond Columbian coal was a low Btu (11,700 Btu) and high moisture (14%) coal  
20 and the plant operators at CR4 and CR5 were concerned with a potential de-rate of the  
21 CR4 and CR5 units if they burned the Drummond coal. The plant operators wanted to  
22 test the Drummond coal before any decision was made to purchase significant tons of  
23 the Drummond coal.

1

2 **Q. What do you mean by a “de-rate” of the plant?**

3 **A.** A de-rate is a loss of load or the electric energy produced by the CR4 and CR5 units.

4 While I am not an engineer, I do know that the lower the Btu content per ton of coal

5 the less electric energy you obtain from burning that ton. Also, the higher the

6 moisture content, the more effort and heat that must be used to dry the coal to burn it

7 and if heat is being used to dry the coal it cannot be used to produce electric energy.

8 There are, of course, other characteristics about the quality of a particular coal besides

9 Btu and moisture content that can have an impact on the electrical energy output of a

10 coal unit.

11

12 **Q. Do you know why the plant operators at CR4 and CR5 were concerned about**  
13 **“de-rates?”**

14 **A.** Yes. CR4 and CR5 are base load units on the Company’s system that together  
15 account for nearly half the base load energy production on PEF’s generation system.

16 They routinely produce between 750 and 770 gross megawatts (MW) a piece even

17 though they are rated only for 665MW for each unit because the operators run them

18 very efficiently, generally in over-pressure operation, day in and day out and only

19 come off-line for maintenance. Because CR4 and CR5 are very efficient, base load

20 generators the quality of the coal burned there and the operational characteristics of

21 handling the coal for CR4 and CR5 are very important. The goal of the CR4 and CR5

22 units is to maintain the highly efficient operation of the units to generate between

23 750MW and 770MW gross on a regular basis. As a result, I had to take this

1 operational goal into account in making coal procurement decisions for CR4 and CR5.  
2 Therefore, I did not purchase the Drummond import coal without testing it first. The  
3 Drummond coal was subsequently tested successfully at the plant and we later entered  
4 into contracts with Drummond for compliance coal.

5  
6 **Q. Why did you need a test burn if the Drummond coal had evaluated the lowest on  
7 both the delivered cost and evaluated cost basis?**

8 **A.** The evaluated cost or busbar cost analysis only provides an indication of how the coal  
9 will burn in the boilers, based on the EPRI CQIM computer model. It is a useful tool  
10 to eliminate coals from consideration if, even on an evaluated basis under the CQIM  
11 cost assessment, their costs are significantly higher than the delivered cost and  
12 evaluated costs of other coals being evaluated, but the model was not intended to and  
13 cannot determine the actual cost impact of burning the coal at the plant. To make that  
14 determination, a test burn or series of test burns will be required, depending on how  
15 different the coal is from the type of coal typically burned at the plant and represented  
16 in the standard specification. The process of conducting coal test burns is not an  
17 unusual or atypical process when changes in the types of coal are being considered;  
18 rather, this process is standard practice in the industry.

19  
20 **Q. Is that why you indicated you were evaluating western coals separately for test  
21 burn purposes only in your July 2003 RFP?**

22 **A.** Yes. The reference to western coals referred to sub bituminous coal from the Powder  
23 River Basin (also called PRB coals). I knew that the CR4 and CR5 boilers were

1 designed for both bituminous and sub bituminous coal and that PFC had long included  
2 sub bituminous coal specifications in its RFPs and PRB suppliers on its RFP bidder  
3 lists so that the PRB suppliers received RFPs for coal for Crystal River. I also knew,  
4 however, that the PRB coals had not previously been burned at CR4 and CR5 and that,  
5 because of the characteristics of PRB coal, there would be a number of operational  
6 concerns with handling and burning PRB coal.

7 These PRB coal characteristics include its lower Btu content and its higher  
8 moisture content, as well as the fact that PRB is dustier than bituminous coal and  
9 susceptible to spontaneous combustion. As a result, a buyer for a plant that  
10 historically burned bituminous coal must buy more PRB tons to get the same Btu  
11 output it currently obtains from bituminous coal both because of the lower Btu content  
12 and higher moisture content of the PRB coal. The buyer must also invest in additional  
13 capital and operational and maintenance improvements just to handle the PRB coal,  
14 and must invest in maintenance improvements in the boiler as well for the PRB coal  
15 because of higher slagging and other factors. These impacts are best determined by  
16 test burns to see how the plant performs with the PRB coals.

17 Based on information available about the bituminous and sub bituminous coal  
18 markets before and at the time I prepared the July 2003 RFP, I thought that the timing  
19 might be right to consider western coals for a test burn at CR4 and CR5, if they proved  
20 to be economical in response to the 2003 solicitation.

21  
22 **Q. Did you purchase any PRB coal in response to the July 2003 RFP for test burn**  
23 **purposes?**

1 A. No, I did not. While the PRB coal evaluated well on a delivered cost basis, the PRB  
2 coal did not evaluate well on an evaluated cost basis against the import bituminous  
3 compliance coals. The clear message from the bid responses to the July 2003 RFP  
4 was that import coals were the most economical sources of coal for CR4 and CR5.  
5 With the import coals, PFC was receiving the same type of high quality, high Btu  
6 content, bituminous coal that had successfully been burned on a highly efficient and  
7 productive basis historically at CR4 and CR5, thus allowing the units to continue to  
8 produce MWs substantially above their rated capacity. If the import prices remained  
9 this competitive after the July 2003 RFP there was no reason to look to a distinctly  
10 different type of coal like the PRB coals for the CR4 and CR5 units.

11  
12 **Q. Are you aware that Mr. Sansom claims the PRB coals were the lowest price coals**  
13 **in response to the 2003 RFP and that PFC ignored them?**

14 A. Yes, but Mr. Sansom is looking only at the delivered cost numbers and ignoring the  
15 evaluated cost numbers for the PRB coals. As I have indicated, the evaluated cost  
16 numbers were important in the evaluation of the PRB coal because PRB was a new  
17 type of coal and something that the plant had no prior experience with. The operators  
18 at CR4 and CR5 had required a test burn for the Drummond coal even though it was a  
19 bituminous coal and there generally are not significant differences in the  
20 characteristics of bituminous coal. The operators, nevertheless, had no prior  
21 experience with Drummond or its coal and were concerned about the impacts on the  
22 plant of the lower Btu content and higher moisture content of the Drummond coal than  
23 the bituminous coal they were used to burning. I fully expected the plant would have

1 greater concerns when considering a switch from bituminous compliance coal to the  
2 sub bituminous compliance coals like PRB.

3

4 **Q. What about the western bituminous coal suppliers who responded to the July**  
5 **2003 RFP, why did PFC not enter into a contract with those two potential**  
6 **suppliers?**

7 **A.** PFC did not select the western bituminous coal suppliers who responded to the July  
8 2003 RFP primarily because of concerns regarding reported rail delivery problems  
9 with coal deliveries in the west. Coal market publications had included numerous  
10 reports about delays in and the failure to deliver contracted for coal due to a lack of  
11 rail capacity (cars and engineers) and rail congestion. These were significant concerns  
12 at the time, as several buyers received late, reduced, or no shipments at all of coal as a  
13 result of these problems. These problems continued to plague the western coal  
14 markets from 2003 to 2005. As a result of the non-performance by the western  
15 railroads, it was reported in the coal publications that buyers were re-entering the  
16 volatile coal market at the time to ensure they maintained sufficient inventory levels. I  
17 did not want PFC to be in the same position.

18

19 **Q. Now, turning to the domestic water bidders, did you end up making any**  
20 **compliance coal purchases from domestic suppliers as a result of the July 3, 2003**  
21 **RFP?**



1 A. No, I did not. As I have stated, the foreign compliance coals evaluated ahead of the  
2 domestic compliance coals, so we entered into negotiations and ultimately contracts  
3 with an import supplier.

4 We did, of course, evaluate the domestic compliance coals that were offered.  
5 In that evaluation, even though we received single-year compliance coal bids from  
6 domestic supplier by water, we concluded that none were competitive enough to place  
7 on a short list for further consideration. However, we did place three multi-year  
8 bidders, two bids from Infinity and one from Black Hawk for synfuel, on a short list  
9 for follow up.

10 We contacted both suppliers to determine if they could improve their bid  
11 prices. Infinity had offered their coal subject to prior sale and, when contacted,  
12 Infinity had already sold the coal. I also called Black Hawk and tried to get them to  
13 give me a better price. They rejected my attempt and noted that at the time they had  
14 not secured a coal source but, even if they had, they indicated they had better  
15 alternatives than selling the coal or synfuel to PFC at a price lower than what they had  
16 originally bid.

17 After that response I called Central Coal, which originally was not on the short  
18 list for domestic compliance coal by water because of its price, to see if Central Coal  
19 might improve its bid. Central Coal could not improve its bid price. As a result, I  
20 made no purchases of domestic coal or synfuel as a result of the July 3, 2003 RFP. I  
21 have attached the bid evaluation sheets, including the short lists, to my testimony as  
22 Exhibit No. \_\_\_\_ (AWP-2) and my memorandum summarizing the results of the bid  
23 evaluation and the coal purchases made as Exhibit No. \_\_\_\_ (AWP-3). These exhibits

1 and my notes contained in them explain the evaluation process and decisions that were  
2 made.

3  
4 **Q. Have you read what Mr. Sansom had to say about your evaluation of the  
5 domestic compliance coal bids in response to the July 3, 2003 RFP?**

6 A. Yes. Mr. Sansom, at pages 32 and 33 of his testimony, claims that the evaluation is an  
7 “example of favoritism,” a “conflict of interest,” and was “imprudent.” As his sole  
8 support he (1) asserts PFC did not act “promptly” enough to purchase the coal offered  
9 by the lowest domestic supplier, (2) refers to the call made to Blackhawk to obtain a  
10 lower bid price and the fact that Blackhawk had no coal under contract to supply at the  
11 time, (3) claims that some unknown “July-September transaction” was not  
12 consummated leading to purchases in 2004 at higher coal prices, and (4) speculates  
13 that the prior purchaser of the lowest domestic bidder (Infinity) was a “non-regulated  
14 PEF affiliate synfuel plant.”

15  
16 **Q. Are Mr. Sansom’s assertions about the July 3, 2003 RFP evaluation accurate?**

17 A. No, they are not. First, Mr. Sansom claims that I did not act “promptly” to purchase  
18 the coal offered by Infinity. Contrary to Mr. Sansom’s implication that I did not  
19 contact Infinity by his assertion that I “instead” offered to purchase synfuel from  
20 Blackhawk, I did follow up with Infinity by phone at the same time I followed up with  
21 all of the short list compliance coal suppliers by water, both foreign and domestic.  
22 These contacts took place within a couple of weeks of receiving the bids, evaluating

1           them, and creating the short lists. I did contact Infinity, I did so promptly, and I was  
2           told Infinity no longer had the coal for sale.

3           Second, Mr. Sansom claims that my contact with Blackhawk was an “example  
4           of favoritism” and a “conflict of interest.” He fails to note my contacts with other  
5           bidders to get them to improve their bid prices, including Infinity, Central Coal, and  
6           Guasare (the import supplier), none of whom are affiliated in any way with PFC. In  
7           other words, I treated Blackhawk just like I treated all other bidders on the short list.  
8           Moreover, Mr. Sansom fails to explain to the Commission that PFC did not make any  
9           purchase from Blackhawk as a result of the July 3, 2003 RFP. All he suggests is that  
10          it was somehow improper for Blackhawk to offer coal that Blackhawk had not yet  
11          procured. Coal brokers occasionally do this and there is no practical difference  
12          between this and offers made subject to prior sale to other buyers, which Mr. Sansom  
13          concedes (at page 33, lines 1-2) is an “acceptable practice.” Either way, the supplier  
14          does not have the coal to sell to the buyer. In fact, in my experience both on the sales  
15          and purchasing sides of our business, buyers will accept a bid even though the broker  
16          is “still lining up the coal.” This is even more acceptable in a market where coal is in  
17          short supply and prices are very volatile. There is, then, no “favoritism” or “conflict  
18          of interest” in treating Blackhawk the same way other short list suppliers are treated,  
19          especially when no coal was purchased from Blackhawk in response to the July 2003  
20          RFP.

21          Third, Mr. Sansom refers to some unknown, unconsummated “July-  
22          September” transaction for compliance coal by water as a result of the July 2003 RFP  
23          that he claims led to purchases in 2004 at higher prices. First, this statement ignores

1 the fact that PFC made significant compliance coal purchases by water from a foreign  
2 supplier as a result of the July 3, 2003 RFP. These import purchases are the very same  
3 purchases that Mr. Sansom admits at page 34, lines 19 to 21 of his testimony were  
4 economical purchases for 2004 and 2005. Further, Mr. Sansom is relying on nothing  
5 more than hindsight to suggest in his testimony now that further purchases as a result  
6 of the July 2003 RFP would have avoided higher prices later in 2004. At the time of  
7 the July 2003 RFP and RFP evaluation, the coal market was volatile and, unlike Mr.  
8 Sansom, we did not have the benefit of knowing what the 2004 coal prices would be.

9 Finally, Mr. Sansom asserts that "it is even possible" that the Infinity coal was  
10 bought by a "PEF affiliate synfuel plant" before PFC could purchase the coal in  
11 response to Infinity's bid in response to the July 2003 RFP. This is rank speculation  
12 on his part, I do not know who Infinity sold the coal to nor was Infinity obligated to  
13 tell me. Infinity had offered the coal subject to prior sale which meant that Infinity  
14 was free to sell the coal to anyone in the market who offered Infinity the best price for  
15 it and purchased it before we called. That includes any synfuel plant, which by the  
16 way, would have led to a lower market price for the coal because synfuel was typically  
17 sold below the market price for bituminous compliance coal. However, Mr. Sansom  
18 again misses the point that the water-borne import compliance coal bids were lower  
19 than the domestic compliance coal bids, like Infinity's, in any event, and the import  
20 coal is what PFC purchased.

21

1 Q. Was Mr. Sansom present for your phone call with Blackhawk, Infinity, or any  
2 other supplier that you called in response to the bids submitted for the July 2003  
3 RFP?

4 A. No, he was not present.  
5

6 Q. Did Mr. Sansom provide the Commission with the July 3, 2003 bid evaluation  
7 sheets and your October 2, 2003 memorandum and exhibits summarizing and  
8 explaining the bid evaluation and reasons for the purchase decisions that were  
9 made?

10 A. No, he did not, but I have done so. They are Exhibit No. \_\_\_\_ (AWP-2) and Exhibit  
11 No. \_\_\_\_ (AWP-3) to my testimony.  
12

13 Q. Is Mr. Sansom also suggesting that PFC should not have evaluated the  
14 compliance coal bids based on the means, rail or water, by which the coal would  
15 be delivered to Crystal River?

16 A. He may be, because he makes a point of saying that the bids were segregated between  
17 rail and water, and domestic water (which he calls affiliates or ex-affiliates) and  
18 import water deliveries, in the same paragraph on page 32 in which he accuses PFC of  
19 engaging in "favoritism." However, there is nothing improper in this manner of  
20 evaluating the bids for the following three reasons.

21 First, this type of evaluation of the bids must be undertaken because PFC does  
22 have two means of coal delivery, rail and water, to Crystal River and, therefore, for

1 PFC to fully evaluate all potential bid responses PFC must consider the alternative  
2 means of delivering coal to Crystal River.

3 Second, the Commission long ago recognized the propriety of the dual delivery  
4 mechanism for Crystal River, stating in Order No. 15895 that “we acknowledge the  
5 desirability of maintaining alternative transportation routes for the purpose of  
6 increasing reliability and enhancing price competition.” Any suggestion that it is  
7 improper to evaluate the bids in part based on the delivery mechanism is inconsistent  
8 with the Commission’s prior order.

9 Third, the cost of transporting coal by water to Crystal River, domestic or  
10 import, for all but one year of the period at issue in Mr. Sansom’s testimony has been  
11 set at a market proxy price approved by the Commission and all parties to the  
12 proceeding, including OPC. Regardless of whether the “affiliated” transportation  
13 costs exceeded or fell below the market to the extent one existed at all, PFC was only  
14 allowed to pass on to PEF’s customers the market proxy amount.

15 Finally, it is ironic that Mr. Sansom appears to take issue with the segregation  
16 of the bids by rail and water and the evaluation of them based on their cost of delivery  
17 according to the delivery mechanism because if there was no water delivery available  
18 to Crystal River there would be no way for Mr. Sansom to urge the consideration of  
19 PRB coals at Crystal River. The cost of delivering PRB coals to Crystal River by rail  
20 is uneconomical on a delivered cost basis. Mr. Sansom agrees because he purports to  
21 have all of the PRB coals he says PFC should have bought delivered by water barge to  
22 Crystal River.

23

1 **Q. With respect to the July 3, 2003 RFP, did you follow the same evaluation process**  
2 **and analysis for the A coal bids that you did for the D coal bids?**

3 **A. Yes.**

4  
5 **Q. Does Mr. Sansom dispute in his testimony PFC's evaluation process and analysis**  
6 **with respect to the A coal bids in response to the July 3, 2003 RFP?**

7 **A. No, he does not.**

8

9 **B. THE APRIL 2004 SOLICITATION.**

10

11 **Q. When was the next solicitation you issued for coal for Crystal River?**

12 **A. In April 2004, PFC initiated on PEF's behalf an RFP for A and D coal for Crystal**  
13 **River for one, two, and three years with delivery by rail or water. As before, the RFP**  
14 **included specifications for both bituminous and sub bituminous coal and was sent to**  
15 **all potential bidders on PFC's bidder list, including a number of PRB suppliers. PFC**  
16 **received fourteen bids for CR1 and CR 2 (A coal) and twenty-three bids for CR4 and**  
17 **CR5 (D coal). A copy of the April 12, 2004 RFP solicitation for CR4 and CR5 is**  
18 **Exhibit No. \_\_\_ (AWP-4) to my testimony. A copy of the bidder list indicating the**  
19 **bidders that received the April 12, 2004 RFP and whether they responded to the RFP**  
20 **is Exhibit No. \_\_\_ (AWP-5) to my testimony.**

21

22 **Q. Did you follow the same bid evaluation process for the April 2004 RFP that you**  
23 **did for the July 2003 RFP?**

1 A. Yes, I did, and Mr. Sansom has conceded that PFC conducted a thorough solicitation  
2 in 2004.

3  
4 **Q. What were the results of the evaluations of the bids in response to the April 2004  
5 RFP?**

6 A. PFC purchased 4.3 million tons of coal for both CR1 and CR2, and CR4 and CR5, as a  
7 result of the solicitation. The resulting contracts were for two years (2005 and 2006)  
8 and included three contracts each for suppliers of coal for CR1 and CR2 and CR4 and  
9 CR5. The coals purchased were those the plants had burned in the past and had  
10 historical experience with from both a handling and operational perspective. A copy  
11 of my memorandum with exhibits explaining the April 12, 2004 RFP and PFC's  
12 evaluation of that RFP is Exhibit No. \_\_\_ (AWP-6) to my testimony.

13  
14 **Q. Did you receive bids from PRB suppliers in response to the April 2004 RFP?**

15 A. Yes, we did, however PFC did not purchase any PRB coal, even though the prices  
16 offered by the PRB suppliers was lower than the prices offered by the bituminous  
17 compliance coal suppliers on both a delivered cost and evaluated cost basis at this  
18 time. The reason was that PEF was conducting a test burn of a small shipment of PRB  
19 coal in a 15% blend with bituminous CAPP coal in April, roughly at the same time the  
20 RFP was issued. The Company had just received the report of the results of that test  
21 burn at the time of the evaluation of the bids in response to the April 2004 solicitation.  
22 At the time, the Company had not completed its review of the test burn and the  
23 Company was not permitted to burn sub bituminous coal under the environmental



1 permit in effect at that time. The results of the April 2004 solicitation confirmed,  
2 however, that the PFC and PEF should continue to investigate the use of PRB coals at  
3 CR4 and CR5.

4  
5 **Q. Why did you purchase PRB coals for a test burn in April 2004?**

6 **A.** After the results of the July 2003 solicitation, I continued to follow the market prices  
7 reported in the coal publications or on the spot market for bituminous compliance  
8 coal, both domestic and import, and PRB coals. I noticed that bituminous coal prices  
9 were rising faster than PRB coal prices. As a result, I believed the use of PRB coal in  
10 a blend at Crystal River might prove to be economical in the future. For several  
11 months preceding the purchase of the PRB coal, I had been speaking with various  
12 suppliers of PRB coals. In most cases, because of delivery problems that I have  
13 mentioned earlier in my testimony and the suppliers resulting inability to satisfy their  
14 existing contractual commitments for PRB coals, the PRB suppliers were not able to  
15 provide PFC with a test shipment for a test burn at CR4 and CR5. However,  
16 ultimately, after numerous discussions over several months, one PRB coal supplier  
17 was willing to "make room" for one unit train for a test shipment. We purchased  
18 approximately 30,000 tons of PRB coal from Peabody for shipment by rail to the river.  
19 The coal was then transported by river barge to International Marine Terminal (IMT)  
20 and ocean barge to Crystal River. There were numerous delays in the shipment of the  
21 PRB coal by rail, due to congestion and supply requirements for other coal purchasers  
22 on the western rail lines, but I eventually received the shipment of PRB coal for an  
23 April 2004 test burn.

1

2 **Q. Was the PRB test burn at CR4 and CR5 conducted in April 2004?**

3 A. Yes, it was. Test burns at CR4 and CR5 must be conducted during the “shoulder”  
4 months, when the demand for energy placed on the system is generally lower due to  
5 the weather. The “shoulder” months generally occur in the spring and fall when the  
6 weather in Florida is more temperate. During “peak” months in the winter and  
7 summer in Florida the CR4 and CR5 units are needed at full output to meet the  
8 demands for energy. Accordingly, if we were unable to have the PRB blend test done  
9 in April in all likelihood that test would have been pushed back to the fall, in late  
10 October or November, or the next spring.

11

12 **Q. What were the results of the April 2004 test burn?**

13 A. The test results were promising although there were issues raised as a result of the test  
14 burn. After discussions with the plant operating personnel, it was determined that a  
15 target blend of 15% PRB with the remaining 85% a blend of bituminous coals, would  
16 be used. The blending occurred at IMT in New Orleans. When the test blend was  
17 shipped and used at the plant (CR4), the plant performed well at the 15% PRB blend  
18 but suffered a de-rate when it was determined a higher blend (22%) than what was  
19 planned occurred in a portion of the shipment. A copy of the test report is included  
20 with my testimony at Exhibit No. \_\_\_ (AWP-7).

21

22 **Q. Have you read Mr. Sansom’s testimony regarding the 2004 test burn?**

23 A. Yes, I have.

1

2 **Q. Do you agree with it?**

3 A. No, I do not. The test was not “botched” as Mr. Sansom asserts. The test was  
4 undertaken to see how the existing units, in this case CR4, handled a small blend of  
5 PRB and bituminous coal without any changes to the unit. In other words, the  
6 Company wanted to see not only how the unit operated with a PRB blend but also  
7 what, if any, changes were needed in the operation of the unit to accommodate PRB.

8 It is further not true that PFC or the operators of the plant did not know that the  
9 CR4 and CR5 boilers were designed to handle a blend of bituminous and sub  
10 bituminous coals. We were very much aware that the design of the boilers  
11 accommodated a blend of bituminous and sub bituminous coals and that is why we  
12 proceeded with the April 2004 test burn without first checking with environmental on  
13 the environmental permit. When we learned that the permit did not include sub  
14 bituminous coal, the Company stopped the test, and reported this to DEP. I  
15 understand the Company obtained a permit to conduct a subsequent test of a blend of  
16 PRB and bituminous coal.

17 Also, it should be remembered that the April 2004 test was a preliminary look  
18 at PRB, the test occurred only over two days, to see if the Company should pursue  
19 PRB as an option at CR4 and CR5. As a result of this test, which I reported to  
20 management at PEF, I understand that the Company continued to investigate the use  
21 of PRB at CR4 and CR5 in 2005 and 2006.

22

23 **Q. By the way, did PFC also participate in the spot market from 2002 to 2005?**

1 A. Yes. PFC had a practice of regularly participating in spot purchases when market  
2 conditions warranted such participation and PFC frequently maintained open positions  
3 when market conditions appeared favorable to do so for spot purchases.

4

5 **Q. Was PFC's participation in the spot market well known?**

6 A. Yes. I frequently told bidders and potential bidders about our interest in spot  
7 purchases when I was in charge of coal procurement for the Crystal River Plant and I  
8 was certainly aware that PFC was a participant in the spot market when I was on the  
9 sales side. Also, the purchases in the spot market are widely reported in various  
10 widely read and recognized coal publications.

11

12 **Q. Did any PRB supplier ever participate in the spot market during your tenure  
13 from 2002 to 2005?**

14 A. No. I never received any spot offers for PRB coal from any PRB supplier.

15

16 **C. SUBSEQUENT MARKET PURCHASES IN 2004**

17

18 **Q. Did you re-enter the coal market in August and September 2004 for additional  
19 coal purchases for 2005 and 2006?**

20 A. Yes, I did.

21

22 **Q. Why did you re-enter the market so soon after the April 2004 solicitation was  
23 completed?**

1 A. At the time of the completion of the April 2004 solicitation we had an open position  
2 partly due to the availability of compliance bituminous coals as a result of that  
3 solicitation and partly due to a desire to maintain some limited flexibility to respond to  
4 market conditions should they grow more favorable to purchasers. From April to  
5 September 2004, however, coal market pricing remained extremely strong, with coal  
6 commodity prices increasing from \$45 to \$50 per ton to approximately \$60 to \$70 per  
7 ton. This was indicative of a tight supply market brought about by, among other  
8 factors, continued trucking issues in both Kentucky and West Virginia and continued  
9 discussions regarding the difficulty of obtaining mining permits. Additionally, four  
10 major utilities (Tennessee Valley Authority [TVA], South Carolina Electric & Gas,  
11 South Carolina Public Service, and Constellation) had issued solicitations for coal.  
12 PFC's open position had also expanded for water deliveries of coal to CR4 and CR5.  
13 The most economical move under the existing Massey contract was to shift all of that  
14 coal from water to rail, rather than maintaining an even split as originally envisioned,  
15 because of changing economics on the delivery costs and because projected  
16 inventories at IMT in 2005 for water delivery was growing because of delayed  
17 deliveries of coal due to the 2004 hurricane season. In sum, PFC determined that  
18 additional coal was needed by water for CR4 and CR5 and PFC was now competing  
19 with a number of major utilities for a limited supply of coal in the same time frame.

20  
21 **Q. Did PFC issue a formal RFP when it re-entered the market in August and**  
22 **September 2004?**

1 A. No, it did not. PFC conducted an informal solicitation by contacting those suppliers  
2 who were known to have bituminous compliance coal supplies as a result of PFC  
3 having conducted the April 2004 formal RFP and continuing contacts in the industry.  
4 PFC contacted five potential suppliers off its April 2004 RFP bidder list (PFC's  
5 Marketing and Trading Division (PFC/M&T), Coal Marketing Company (CMC),  
6 Guasare, Drummond, and Glencore) to determine their ability to supply water-  
7 delivered coal and at what price. Only three other suppliers of waterborne coal for  
8 CR4 and CR5 (Central Coal, Infinity, and Massey) had responded to PFC's April  
9 2004 RFP and I knew from various discussions with these potential suppliers that  
10 none of them had coal available.

11 I received six bids from three reliable suppliers. After the bids were evaluated,  
12 PFC awarded contracts to the two lowest cost suppliers. PFC/M&T provided the  
13 lowest bid and was awarded a two-year contract for 480,000 tons a year. The next  
14 lowest bidder, CMC, was awarded a contract for 450,000 tons (150,000 tons in year  
15 one and 300,000 tons in year two). CMC was a supplier of Columbian compliance  
16 bituminous coal.

17  
18 **Q. Why didn't PFC issue a formal RFP solicitation in August-September 2004?**

19 A. Under the prevailing market conditions at the time issuance of a formal RFP was not  
20 practicable to ensure that PFC received the necessary quantities of coal it needed for  
21 CR4 and CR5 and that it received the necessary quantities at an economical price. As  
22 I have explained, coal prices were increasing, partly due to diminishing supplies  
23 produced in that time frame, and four major utilities had entered the market with

1 formal solicitations competing for the same limited supply of compliance bituminous  
2 coal.

3 Under these circumstances, PFC concluded the best way to secure the most  
4 inexpensive coal in the quantities needed was to quickly secure it before commitments  
5 were made to the other utilities with outstanding solicitations. While the other four  
6 utilities had entered the marketplace with their RFP's, the responses to those RFP's  
7 were not due at the time PFC initiated its informal solicitation and evaluation. PFC  
8 was able to move ahead of these formal RFP's with an informal solicitation because at  
9 the time, due to the volatility of the coal market, almost all responses to RFP's were  
10 offered "subject to prior sale," meaning as I have said previously, that the potential  
11 suppliers were able to sell their coal to other potential buyers in the market. We  
12 intended to enter the market and act quickly before the other four utilities had a chance  
13 to respond. Once PFC informed a supplier of its desire to purchase, the supplier  
14 would remove their bid from contention in the formal RFP's as a result of the "subject  
15 to prior sales" clause in their offer. As a result, in this marketplace it was truly "first  
16 come, first served."

17 If PFC had issued a formal RFP instead of conducting the informal solicitation  
18 when it did, PFC would have stood in line behind these other four utilities and all of  
19 them obviously would have completed their RFP solicitation and evaluation before  
20 PFC was able to complete another formal solicitation and evaluation. PFC, then,  
21 would have faced an even tighter supply of coal, necessarily resulting in even higher  
22 prices than it ended up paying, or no coal at all to meet its needs for CR4 and CR5.  
23 Conducting the informal solicitation for CR4 and CR5 when it did in August-

1 September 2004 was reasonable and prudent in light of the prevailing market  
2 conditions.

3  
4 **Q. How did PFC evaluate the bids received in response to the August-September  
5 2004 informal solicitation?**

6 **A.** PFC used the same methodology that it used for all coal purchases. PFC evaluated the  
7 bids based on both the delivered cost and evaluated cost to the Crystal River Plant.  
8 PFC also followed its typical practice of comparing the commodity prices of coals  
9 offered in the bids to the current market commodity prices reported in coal reports  
10 widely recognized in the industry as reliable market price indicators to ensure that the  
11 bid prices were consistent with prevailing market conditions when comparing the bids  
12 to the other bids received.

13 PFC determined that the bid prices, including the PFC bid, were within a  
14 reasonable range of market prices based on the published reports and other bids. This  
15 comparison was done because of the lack of availability of coal in the market place.  
16 The commodity price for the PFC/M&T bid (\$62/ton), was within a reasonable range  
17 of market prices reported by United Power Inc. and Henwood Energy Services, Inc.,  
18 which ranged from \$60.43/ton to \$62.96/ton. The delivered costs of the PFC bid was  
19 \$3.15/MMBtu and was within a reasonable range of market prices based upon the  
20 United Power and Henwood Energy commodity prices plus the estimated delivered  
21 cost at \$3.09/MMBtu to \$3.19/MMBtu.

22 The CMC bid was compared to the other import coal offer which was provided  
23 by Guasare. The CMC commodity price delivered into IMT was \$63.93/ton compared



1 to the Guasare commodity price of \$74.75/ton; the delivered CMC price was  
2 \$3.18/MMBtu compared to the delivered Guasare price of \$3.32/MMBtu. Based on  
3 the types of coals at issue in the informal solicitation, PFC further followed its usual  
4 practice of purchasing known coals based upon the lowest delivered cost of the coals  
5 offered. This demonstrated that the August-September 2004 solicitation resulted in  
6 valid market prices.

7  
8 **Q. Are you aware of Mr. Sansom's criticisms of the August-September 2004**  
9 **informal solicitation?**

10 **A.** Yes, I am. Mr. Sansom criticizes PFC because (1) PFC did not conduct a formal RFP  
11 solicitation; (2) PFC apparently did not contact every compliance coal supplier on its  
12 admittedly "lengthy" bidder list; (3) PFC allegedly "sole-sourced" 480,000 tons for a  
13 two-year contract to an affiliate that provided coal by water to Crystal River; (4) PFC  
14 used published trade press prices to compare the bid prices received; and (5) PFC also  
15 purchased 210,000 tons of coal for CR1 and CR2 by rail from its affiliate. Mr.  
16 Sansom also claims PFC should have purchased PRB coal and not the coal purchased  
17 from PFC/M&T.

18  
19 **Q. Do you agree with them?**

20 **A.** No, I do not. Apparently, Mr. Sansom believes that the only means of purchasing coal  
21 is through a formal RFP solicitation no matter what the market conditions are. This  
22 rigid standard is unrealistic and impractical because it denies PFC (or any procuring  
23 utility for that matter), the flexibility necessary to respond to changing market

1 conditions. By late summer and fall 2004 the coal market was highly volatile, there  
2 were several utilities seeking significant tons from an ever tightening supply,  
3 necessitating quick action by PFC to secure the necessary tons for CR4 and CR5. PFC  
4 acted reasonably and prudently under those market conditions in ensuring that it was  
5 among the “first to be served” in that market. Further, if Mr. Sansom’s rigid standard  
6 of formal solicitations prevailed today there would be no “Over the Counter Market”  
7 (OTC) for coal which is clearly not the case in our industry today.

8 Mr. Sansom focuses on the purchase contract with PFC/M&T in August-  
9 September but ignores the 450,000 tons purchased over the same two years from CMC  
10 for high quality, import compliance bituminous coal. They were both made at the  
11 same time, both provided coal by barge delivery into Crystal River, and both bid  
12 prices compared favorably to market prices based on the recognized industry indices.  
13 Notably, Mr. Sansom does not say that it is unreasonable or imprudent to compare bid  
14 prices to such indices, rather, he argues simply that they are no substitute for formal  
15 solicitations. Again, in a perfect world with perfect market conditions one could  
16 always rely on formal RFP's but the world is not always perfect and market conditions  
17 sometimes require a more flexible, rapid response to market circumstances than a  
18 formal RFP provides. Those are the circumstances that PFC faced in August-  
19 September 2004.

20 Mr. Sansom nowhere explains how the purchase of coal by rail for CR1 and  
21 CR2, which is an entirely different type of coal from that purchased for CR4 and CR5,  
22 renders the award of one of the contracts in response to the August-September 2004  
23 informal solicitation imprudent. He simply asserts it with no basis whatsoever.

1           Finally, Mr. Sansom takes issue with statements I have made about the  
2 anticipated impact if PFC issued a formal solicitation rather than conducting the  
3 informal solicitation that it undertook in August-September 2004. He claims that the  
4 trade press reports show that PEF was already in the market in August and September  
5 2004 and, therefore, implies that the participants in the market were well aware of  
6 PFC's intentions. This is misleading. The trade press reports included by Mr. Sansom  
7 as an exhibit are both incomplete and, hence, not dated. One can tell, however, from  
8 comparing the "Bids Due" entries on page 1 of 2 of Exhibit No. \_\_\_\_ (RS-25) that the  
9 entry for Progress Energy for "Crystal River" has a "Bid Due" date of "5/12/04",  
10 which was the earlier April 2004 solicitation. The second entry on that same page  
11 refers to a "Progress Energy," "system-wide" solicitation, with a "Bids Due" date of  
12 "6/30/04." This second entry is a solicitation for Progress Energy Carolinas, not for  
13 PEF at Crystal River. It is this second entry that is repeated on page 2 of 2 of Exhibit  
14 No. \_\_\_\_ (RS-25). Therefore, what Mr. Sansom has done in this exhibit is include an  
15 earlier April 2004 RFP by PFC for PEF at Crystal River and a Progress Energy  
16 Carolinas solicitation and claimed that they demonstrate that PFC would re-enter the  
17 market months later, in August-September 2004, for more coal for Crystal River. The  
18 exhibit clearly has nothing to do with the informal solicitation that PFC undertook in  
19 August-September 2004.

#### 20 21           **IV.   SYNFUEL PRODUCTION AND SALES: 1999-2002**

22  
23       **Q.   Prior to assuming the position of Vice President for Coal Procurement for PFC,**  
24       **were you employed on the sales side of PFC?**

1 A. Yes, I was, from 1984 until 2002. My job was to sell coal and later coal and synfuel  
2 to utilities and industrial customers. As a result, PEF was but one potential customer  
3 among many potential customers.

4  
5 **Q. Did you respond to RFP's for coal for the Crystal River units?**

6 A. Yes, I did. I frequently participated by providing bids in response to PEF RFP's with  
7 both coal and synfuel at various times over the years. In each case in which I  
8 participated in an RFP on behalf of PFC/M&T, I was always treated just like any other  
9 bidder. I also participated in the spot market with PEF by providing PFC on PEF's  
10 behalf offers for spot purchases. Similarly, when I assumed the position of making  
11 coal procurement decisions for PFC on PEF's behalf I treated PFC/M&T, when they  
12 participated in the RFPs or spot market, just like any other bidder.

13 PFC/M&T sold synfuel from facilities in which PFC had a small equity  
14 interest to PFC on behalf of PEF from 2000 to 2002. PEF, however, did not always  
15 purchase coal or synfuel from PFC/M&T when it was offered, either in response to an  
16 RFP or on the spot market.

17  
18 **Q. Was it unusual for EFC/PFC affiliates to have handled synfuel sales for synfuel  
19 producers in which an EFC/PFC affiliate held a minority equity participation?**

20 A. No, that should have been expected because EFC (PFC) was one of the first if not the  
21 first entity to develop a successful synfuel production process and to set up efficient  
22 production and marketing facilities. As a result, other participants in the industry  
23 sought out EFC's (PFC's) expertise in the production and marketing of synfuel.

1 EFC/PFC was the primary, dominant market participant in the production and sale of  
2 synfuel.

3  
4 **Q. What made synfuel competitive to comparable bituminous compliance coal?**

5 **A.** Synfuel had a bituminous coal base so it was offered as an alternative coal product at a  
6 price that was one to two dollars cheaper than the bituminous coal product on the  
7 market. In fact, the sales pitch for synfuel was that “it burns like coal, handles like  
8 coal, but is cheaper than coal so it will save you money.”

9  
10 **Q. Did the sale of synfuel to PFC for PEF benefit PEF’s customers?**

11 **A.** Yes, it obviously did, because the synfuel product was sold at a discount to the market  
12 price for bituminous compliance coal. So, as a result, the utility customer received a  
13 similar bituminous coal-based product at a below market price. Synfuel producers  
14 were able to sell synfuel at or below market prices because they obtained tax credits  
15 that offset losses on the production and sale of synfuel.

16  
17 **Q. Mr. Sansom creates the impression in his testimony and his exhibits that sales of  
18 synfuel to PFC for PEF’s Crystal River units were the primary source of synfuel  
19 tax credits for Progress Energy. Is that accurate?**

20 **A.** No, it is not. Since I was involved in the sale of coal and synfuel from 2000 to 2002  
21 (and coal before then) I know that PEF was one of PFC/M&T’s smallest customers of  
22 synfuel. There were a number of other major utilities, such as American Electric  
23 Power (AEP), TVA, and Louisville Gas & Electric, that purchased substantially more

1 tons of synfuel on an annual basis than PEF ever did. These larger synfuel customers  
2 had to account for the overwhelming majority of the tax credits generated from  
3 synfuel sales because it is my understanding that the tax credits followed the sales.

4  
5 **V. ADDITIONAL REBUTTAL POINTS**

6  
7 **Q. Having read Mr. Sansom's testimony, are there any additional errors that you**  
8 **see in his testimony?**

9 **A.** Yes, there are. First, Mr. Sansom argues at page 39, lines 10-16, of his testimony that  
10 the shipment of PRB coals by rail to the McDuffie terminal in Mobile, Alabama and  
11 then by Gulf barge to Crystal River was the most economic route for the shipment of  
12 PRB coals to Crystal River. Second, at pages 46 and 47 of his testimony, Mr. Sansom  
13 attempts to equate the transportation risks of moving PRB coals to the transportation  
14 risks for Eastern bituminous coals. Both of these arguments are in error, based on  
15 what little information Mr. Sansom has provided in his testimony to support them.

16  
17 **Q. What is erroneous about his argument that the shipment of PRB coals by rail to**  
18 **McDuffie and then by Gulf barge to Crystal River was the most economic means**  
19 **to deliver PRB coals to Crystal River?**

20 **A.** In support of this argument he relies on two letter proposals from rail carriers, one  
21 dated August 23, 2002 and the other dated May 8, 2003, for the delivery by rail of test  
22 shipments to the McDuffie terminal, and his unsupported conclusion that the "post-test  
23 burn" contract rail rates "usually" are not higher than the railroad's test burn rates

1 simply “because volumes are higher and the term is longer.” The latter letter was  
2 addressed to me and followed conversations that I had with the carrier. I know based  
3 on those conversations that the rail price quoted in that letter was limited to a “test”  
4 shipment as a means of encouraging PFC to look at PRB coals for the Crystal River  
5 plants in the near future. I also know from those same conversations that the actual,  
6 long-term contract price to haul PRB coal from the mine to the McDuffie terminal  
7 would have been higher. This offer was a “Blue Light Special” offered by the rail  
8 carrier. I was there, I had the conversations with the rail supplier, and I know this  
9 offer was for test shipments only and would not translate into a later, favorable  
10 contract rail price. Therefore, Mr. Sansom’s conclusion is incorrect in this instance  
11 and he offers nothing else to support his assertion that long-term contract rail rates  
12 between these two locations are “usually” lower than test burn rates. In fact, Mr.  
13 Sansom later concludes (at page 40) that it was the lack of “good data” that led him  
14 not to rely on this method of transporting PRB coals to Crystal River in his damages  
15 analysis.

16  
17 **Q. What is erroneous about Mr. Sansom’s attempts to equate the transportation**  
18 **risks of PRB coals and Eastern bituminous coals?**

19 **A.** In my experience in the coal markets, primarily in the east, the reasons for delay on  
20 the transportation of coals is highly dependent on the particular circumstances  
21 involved in each occurrence. The delays that have occurred in my experience usually  
22 could be explained by the situation of the particular supplier, the particular mine, the  
23 particular locale, or other unique circumstances. I have found it difficult to generalize

1 about such risks in the eastern coal markets much less between eastern and western  
2 coal markets. Mr. Sansom must face similar difficulties since his testimony on this  
3 point is unsupported by any analytical, scientific study that he or someone else has  
4 done to compare the transportation risks associated with PRB coals to the  
5 transportation risks associated with eastern bituminous coals.

## 6 7 VI. CONCLUSION

8  
9 **Q. Do you believe that PFC acted reasonably and prudently in the coal procurement**  
10 **decisions that were made during your tenure as the Vice President of Coal**  
11 **Procurement for PFC?**

12 **A.** Yes, I do. As I have explained in my testimony, PFC has always sought to obtain the  
13 most economical coal for the Crystal River coal units given the market conditions that  
14 PFC faced at the times these decisions had to be made between 2002 and 2005. In my  
15 view, under the circumstances present at the time these decisions were made, PFC did  
16 act reasonably and prudently.

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

19 **A.** Yes.  
20



# PORTIONS OF AWP-6

**DECLASSIFIED**

Because of the strength of the current market, we only purchased for 2005 and 2006. Our plan is to watch the market, and re-enter for both spot and contract coal during late 2004 and early 2005. I have enclosed with this memo the purchases and the economic evaluation from the RFP (See Attachment "A"), a Supply Assessment for 2005 and 2006 (See Attachment "B"), and the 2005 and 2006 scheduled purchases including their economic evaluations (See Attachment "C").

As always, we attempted to improve the economics, as compared to the prices offered, while increasing the tonnage purchased and the term offered.

### **2005-2006 PURCHASES**

#### FOREIGN WATER

**DECLASSIFIED**

Choice:

- During the latter part of March and early April, we began negotiations with Drummond for an extension of our 2004 agreement. This decision was made because all indicators pointed to the beginning of another round of price increases and supply shortages for both domestic and foreign coals. We purchased 800,000 tons for 2005 and 1 million tons for 2006 from Drummond's Mina Pribbenow mines; this is "Delta" coal. The delivered cost to Crystal River (CR) is 2.509 \$/MMBTU and 2.531 \$/MMBTU, respectively.

No additional purchases were made for foreign coal from the RFP because the prices submitted from other foreign suppliers were not competitive. Their prices ranged from 2.828 to 2.948 \$/MMBTU. These prices compared to 2.672 to 3.082 \$/MMBTU, for offers from the domestic suppliers.

Explanation:

During 2004, we began shipments of Drummond's Colombian coal. The results economically, environmentally, and operationally have been excellent. This coal, besides being very low in ash and sulfur, reduces NO<sub>x</sub> emissions by almost 25%. This purchase will assist CR in achieving their NO<sub>x</sub> goals, while providing them with a competitively priced product.

#### DOMESTIC WATER

Choices:

- We purchased "Delta" coal from two suppliers for delivery on the river system. We were offered and purchased 300,000 tons per year for 2005 and 2006 from Central Coal Company. This "Delta" coal will ship via truck to the Kanawha River and will deliver into CR at 2.672 \$/MMBTU. We also purchased 360,000 and 180,000 tons of "Delta" coal for 2005 and 2006 from Massey Energy. This coal will be rail-delivered to the Ohio River, and it will deliver into CR at 2.698 \$/MMBTU.

CONFIDENTIAL

Explanation:

- We have had previous experience with both of these suppliers and are very satisfied they will meet or exceed the specifications bid.

DOMESTIC RAIL

Choices:

**DECLASSIFIED**

- We purchased "Delta" coal from two companies and "Alpha" coal from three others. We have previous experience with three of the suppliers and have added two new companies.

"DELTA COAL"

We purchased 360,000 for 2005 and 180,000 tons for 2006 from Massey Energy. This coal will deliver into CR at \$2.693 \$/MMBTU. We also purchased 360,000 each year from Progress Fuels-Marketing and Trading. This product will deliver into CR at 2.735 \$/MMBTU.

"ALPHA COAL"

We purchased 720,000 tons for 2005 and 360,000 for 2006 from Massey Energy. This coal will deliver into CR at 2.596 \$/MMBTU. We purchased 120,000 tons for 2005 and 240,000 tons for 2006 from Sequoia Energy LLC. This coal will deliver into CR at 2.586 \$/MMBTU. Also, we purchased 240,000 tons for each year (2005 and 2006) from B&W Resources. This coal will deliver into CR at 2.608 \$/MMBTU.

Explanation:

- Massey Energy has been a consistently reliable supplier over the past 20 years. Progress Fuels-Marketing & Trading has very good quality coal and a reliable track record. Because of the shortage of coals in the Central Appalachian region, we felt it imperative to add to our base of suppliers. Both Sequoia Energy and B&W Resources will fulfill this need. Prior to contracting with them we had our field representative visit their mining operations, and we called other utility buyers to verify their performance. No problems were noted in either case.

**2004 RE-OPENERS**

We have only one contract with a re-opener during 2004. Consol Energy (Consol) has a price, quantity, and terms re-opener, which needs to be completed by November 1, 2004. We have already had several discussions with Consol regarding tonnage for next year. Current estimates are that they will have 750,000 to 1 million tons to offer. The current contract is for 1 million tons.

PROGRESS FUELS CORPORATION

Attachment A

CR Units 1,2, 4 and 5

PURCHASES from

2005-2006

RFP

CORRECTED COPY

CONFIDENTIAL  
**DECLASSIFIED**

Supplier	Coal Type	Term	Origin	(000)			Purchase Specifications								Cash Cost \$/st	Cash Cost \$/M	Evaluated Utilized Cost \$/st	Evaluated Utilized Cost \$/M
				Total Tons	2005 Tons	2006 Tons	Ash	Sulfur	Btu	Moisture	Vol	HGI	SO2	SO2				
				Min	Max													
<i>Water</i>																		
Drummond / Interocean	D (CR4&5)	1/05-12/06	FOB Mobile	1800	800	1000	5.50%	0.70%	11,700	14.00%	32.00%	43		1.20	\$59.23	2.531	\$58.80	\$2.51
Central Coal Co.	D (CR4&5)	1/05-12/06	Winifred Dock	600	300	300	12.00%	0.74%	12,300	8.00%	31.00%	42		1.20	\$65.73	2.672	\$66.24	\$2.69
Massey	D (CR4&5)	1/05-6/06	FOB Ceredo	540	360	180	13.00%	0.73%	12,100	8.00%	31.00%	42		1.20	\$65.28	2.698	\$66.24	\$2.74
<i>Rail</i>																		
Massey	D (CR4&5)	1/05-6/06	Bandmill	540	360	180	12.00%	0.73%	12,100	8.00%	31.00%	42		1.20	\$65.18	2.693	\$65.84	\$2.72
Progress Fuels	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20	\$68.38	2.735	\$68.78	\$2.75
Sequoia Energy LLC	A (CR1&2)	1/05-12/06	CSX Harlan	360	120	240	10.00%	1.34%	12,700	8.00%	31.00%	42	1.50	2.10	\$65.69	2.586	\$66.64	\$2.62
Massey	A (CR1&2)	1/05-6/06	CSX BS	1080	720	360	12.00%	1.27%	12,100	8.00%	31.00%	42	1.50	2.10	\$62.82	2.596	\$64.60	\$2.67
B&W Resources	A (CR1&2)	1/05-12/06	CSX Jellico	480	240	240	11.50%	1.25%	12,500	7.00%	32.00%	42	1.50	2.00	\$65.19	2.608	\$66.20	\$2.65
Total Tons				4320	2460	1860								SO2	\$288			

PEF-FUEL-000128

PROGRESS FUELS CORPORATION

CR Units 1,2, 4 and 5

PURCHASES from

2005-2006

RFP

Attachment A

DECLASSIFIED

Supplier	Coal Type	Term	Origin	(000)			Purchase Specifications								Cash Cost \$/st	Cash Cost \$/M	Evaluated Utilized Cost \$/st	Evaluated Utilized Cost \$/M
				Total Tons	2005 Tons	2006 Tons	Ash	Sulfur	Btu	Moisture	Vol	HGI	SO2	SO2				
<i>Water</i>																		
Drummond / Interocean	D (CR4&5)	1/05-12/06	FOB Mobile	1800	800	1000	5.50%	0.70%	11,700	14.00%	32.00%	43		1.20	\$59.23	2.531	\$58.80	\$2.51
Central Coal Co.	D (CR4&5)	1/05-12/06	Winifred Dock	600	300	300	12.00%	0.74%	12,300	8.00%	31.00%	42		1.20	\$65.73	2.672	\$66.24	\$2.69
Massey	D (CR4&5)	1/05-6/06	FOB Ceredo	540	360	180	13.00%	0.73%	12,100	8.00%	31.00%	42		1.20	\$65.28	2.698	\$66.24	\$2.74
<i>Rail</i>																		
Massey	D (CR4&5)	1/05-6/06	Bandmill	540	360	180	12.00%	0.73%	12,100	8.00%	31.00%	42		1.20	\$65.18	2.693	\$65.84	\$2.72
Progress Fuels	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20	\$68.38	2.735	\$68.78	\$2.75
CAM-KY	D (CR4&5)	1/05-12/06	Diamond May	720	360	360	12.00%	0.75%	12,500	8.00%	32.00%	43		1.20	\$68.38	2.735	\$68.78	\$2.75
Sequoia Energy LLC	A (CR1&2)	1/05-12/06	CSX Harlan	360	120	240	10.00%	1.34%	12,700	8.00%	31.00%	42	1.50	2.10	\$65.69	2.586	\$66.64	\$2.62
Massey	A (CR1&2)	1/05-6/06	CSX BS	1080	720	360	12.00%	1.27%	12,100	8.00%	31.00%	42	1.50	2.10	\$62.82	2.596	\$64.60	\$2.67
B&W Resources	A (CR1&2)	1/05-12/06	CSX Jellico	480	240	240	11.50%	1.25%	12,500	7.00%	32.00%	42	1.50	2.00	\$65.19	2.606	\$66.20	\$2.65
Total Tons				5040	2820	2220									SO2	\$288		