352

 1 BEFORE THE

 FLORIDA PUBLIC SERVICE COMMISSION

 2

 DOCKET NO. 070703-EI

 3

 In the Matter of:

 4

 REVIEW OF COAL COSTS FOR PROGRESS

 5 ENERGY FLORIDA'S CRYSTAL RIVER

 UNITS 4 AND 5 FOR 2006 AND 2007.

 6 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_/

 7

 8

 9 VOLUME 3

 10 Pages 352 through 478

 11

 ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE

 12 A CONVENIENCE COPY ONLY AND ARE NOT

 THE OFFICIAL TRANSCRIPT OF THE HEARING,

 13 THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

 14

 PROCEEDINGS: HEARING

 15

 BEFORE: CHAIRMAN MATTHEW M. CARTER, II

 16 COMMISSIONER LISA POLAK EDGAR

 COMMISSIONER KATRINA J. McMURRIAN

 17 COMMISSIONER NANCY ARGENZIANO

 COMMISSIONER NATHAN A. SKOP

 18

 DATE: Tuesday, April 14, 2009

 19

 TIME: Commenced at 9:40 p.m.

 20

 PLACE: Betty Easley Conference Center

 21 Room 148

 4075 Esplanade Way

 22 Tallahassee, Florida

 23 REPORTED BY: LINDA BOLES, RPR, CRR

 JANE FAUROT, RPR

 24 Official FPSC Reporters

 (850) 413-6734/(850) 413-6732

 25

 APPEARANCES: (As heretofore noted.)

 FLORIDA PUBLIC SERVICE COMMISSION

 353

 1 I N D E X

 2 WITNESSES

 3

 NAME: PAGE NO.

 4

 DAVID J. PUTMAN

 5

 Cross Examination by Mr. Burnett 355

 6 Redirect Examination by Mr. McGlothlin 424

 7

 8

 9

 10

 11

 12

 13

 14

 15

 16

 17

 18

 19

 20

 21

 22

 23

 24

 25

 FLORIDA PUBLIC SERVICE COMMISSION

 354

 1 EXHIBITS

 2 NUMBER: ID. ADMTD.

 3 55 Staff's 2nd Interrogatory 380

 No. 24, Docket 090001

 4

 56 Indonesian Coal Price 386

 5

 57 Effects of Blending Sodium 447

 6 in Coal

 7 58 Sulfur Evaluation Treatment 463

 8

 9

 10

 11

 12

 13

 14

 15

 16

 17

 18

 19

 20

 21

 22

 23

 24

 25

 FLORIDA PUBLIC SERVICE COMMISSION

 355

 1 P R O C E E D I N G S

 2 (Transcript follows in sequence from

 3 Volume 2.)

 4 CHAIRMAN CARTER: Good morning. I'd like to

 5 call this hearing to order. When last we left, we were

 6 getting ready for Mr. Burnett to begin his

 7 cross-examination. Good morning, sir. You are

 8 recognized.

 9 MR. BURNETT: Thank you, sir.

 10 DAVID J. PUTMAN

 11 continues his testimony under oath from Volume 2:

 12 CROSS EXAMINATION

 13 BY MR. BURNETT:

 14 Q. Good morning, Mr. Putman.

 15 A. Good morning.

 16 Q. Mr. Putman, what's a Btu?

 17 A. It is a measure of chemical energy that can be

 18 converted into heat.

 19 Q. And you admit that Crystal River Units 4 and 5

 20 individually need at least 11,000 Btus to meet full load

 21 capacity of those plants; correct?

 22 A. That is the testimony, and the design would

 23 indicate that. Yes.

 24 Q. And you agree that if the coal that PEF buys

 25 does not meet the Btu criteria needed to obtain full

 FLORIDA PUBLIC SERVICE COMMISSION

 356

 1 load capacity, PEF has to get those Btus from somewhere

 2 else; correct?

 3 A. No, I wouldn't exactly agree with the way you

 4 phrased that. That -- the coal that's burned on an

 5 ongoing basis does require that kind of 11,000 or maybe

 6 even a little higher than that based on the testimony

 7 last time, but it requires a Btu level going into the

 8 boiler on an ongoing basis in order to maintain full

 9 load during that hourly time period. If you're

 10 questioning about -- I'm sorry. Go ahead. I won't go

 11 into that.

 12 Q. No, sir. Please finish your answer.

 13 A. I was going to say if you're talking about an

 14 annual basis, that's one thing. If you're talking about

 15 an hourly basis, that's another.

 16 Q. Well, this may be a long day, Mr. Putman.

 17 Let's turn to Page 57 of your deposition. And when I

 18 asked you the question, the same one I just read you,

 19 "And you would agree with me that if the coal that PEF

 20 buys does not meet the Btu criteria needed to obtain

 21 full load capacity, it has to get those Btus from

 22 somewhere else; right?" Your answer, "That's correct."

 23 A. Okay.

 24 Q. Did I read that correctly, sir?

 25 A. I'm sure you did. I don't, I don't have my

 FLORIDA PUBLIC SERVICE COMMISSION

 357

 1 deposition in front of me. I'm sorry. But I will

 2 accept what you read.

 3 Q. Okay. It looks like you're getting a copy

 4 now.

 5 And going on, sir, to get in my, my little

 6 example I did, to get those additional 2,000 Btus, PEF

 7 would have to buy coal; right?

 8 A. You said something about a little example.

 9 What example?

 10 Q. Yes, sir.

 11 A. I'm sorry.

 12 Q. I just said that if PEF needs 11,000 and they

 13 only have 9,000, those Btus aren't going to appear out

 14 of thin air; correct? We have to buy something to get

 15 those Btus to get in the plant; correct?

 16 A. Again, I'm really not trying to be difficult,

 17 but 11,000 Btus is a measure of a heat available in

 18 coal. If it's 11,000 Btus per pound, that's a measure

 19 of Btus in the coal. If you're talking about 11,000

 20 Btus just by themselves, I honestly don't have a

 21 reference point for what that means.

 22 Again, if you're talking about 11,000 Btus per

 23 pound of coal, that's the amount of quality of coal you

 24 need to be putting into the boiler on an ongoing, steady

 25 basis in order to generate full load. Yes. That's --

 FLORIDA PUBLIC SERVICE COMMISSION

 358

 1 and if, I mean, you can't just go buy -- if you're only

 2 putting in 9,000 Btus per pound into the boiler, you

 3 can't go buy 2,000 Btus and make that up. I mean -- I'm

 4 sorry. I'm --

 5 Q. Were you, were you finished, sir?

 6 A. Yes.

 7 Q. Okay. And I want to give you your point of

 8 reference. Let's go back to your deposition again when

 9 I asked you, Page 57, Line 16, "So, for example, if they

 10 bought just a 9,000 Btu coal and they needed 11,000,

 11 they'd have to make those Btus up somewhere; right?"

 12 Your answer, "Correct." "And those Btus, they just

 13 won't come out of thin air. You've got to buy something

 14 to get them; right?" Your answer, "Correct." Did I

 15 read that properly?

 16 A. Yes.

 17 Q. Thank you, sir.

 18 Now you remember Exhibit 2 from your

 19 deposition; correct? It looks like this. It's in the

 20 blue packet in front of you, and that was handed out to

 21 the Commission yesterday.

 22 A. Okay.

 23 Q. And at Pages 64 to 67 of your deposition we

 24 walked through this exhibit and you confirmed that my

 25 math was correct, did you not?

 FLORIDA PUBLIC SERVICE COMMISSION

 359

 1 A. Yes.

 2 Q. And you would agree with me that this is a

 3 simple illustration of the Btu topic we were just

 4 discussing; right?

 5 A. Again, I think we were both operating on the

 6 assumption, I know I was, in answering your questions

 7 that when we talked about Btus, we were talking in terms

 8 of Btus per pound. We were short-handing Btus per

 9 pound. It's the quantity -- quality of coal. And if I

 10 didn't make myself clear in the deposition, I apologize.

 11 But I, I mean, yes, Btus per pound is what I was talking

 12 about, had in mind, and I shorthanded that when I said

 13 1 Btu compared to one ton.

 14 Q. Okay. Well, Mr. Putman, you would agree with

 15 me that we agreed in your deposition that in my simple

 16 example if 1,000 times of this coal blend equals 2,000

 17 Btus and 1,000 times of this coal blend equals

 18 1,500 Btus, that if your objective is to reach 2,000

 19 Btus, if you use this blend that only has the 1,500,

 20 you're going to have to buy some more coal. Didn't we

 21 agree to that?

 22 A. Yes.

 23 Q. Okay. Now I'd also like to turn to my big

 24 blowup here of your Exhibit DJP-7. It's also in the

 25 handout materials.

 FLORIDA PUBLIC SERVICE COMMISSION

 360

 1 MR. McWHIRTER: Excuse me for interrupting,

 2 but could we identify these demonstrative exhibits in

 3 some fashion in case we need to refer to them in a

 4 subsequent pleading?

 5 MR. BURNETT: I -- this was -- the first one I

 6 showed was late-filed, I'm sorry, Exhibit 2 to Mr.

 7 Putman's deposition. And as I just said, sir, this is

 8 Exhibit 7 to his prefiled testimony.

 9 MR. McGLOTHLIN: John, is that the original or

 10 the revised 7?

 11 MR. BURNETT: Original.

 12 BY MR. BURNETT:

 13 Q. Are you with me, Mr. Putman?

 14 A. I am.

 15 Q. And much like the simple example that we just

 16 went over, we talked about in your deposition the fact

 17 that while your tons matched up in your two examples,

 18 your Btus did not. Do you remember that?

 19 A. Yes.

 20 Q. And at the end of that when we talked about it

 21 in your deposition, you agreed with me that if your

 22 objective is to make the Btus match, you would need to

 23 buy some more coal; correct?

 24 A. That would be correct.

 25 Q. You also agree with me that when we were

 FLORIDA PUBLIC SERVICE COMMISSION

 361

 1 talking about these issues in your deposition, your

 2 original position was that this Commission in Docket

 3 060658 only cared about the weight of coal coming into

 4 Crystal River and not about the Btu values that the coal

 5 would have; isn't that right?

 6 A. That was my position and I would say it is

 7 still my position.

 8 Q. I'm sorry, sir. You said it's still your

 9 position?

 10 A. Yes.

 11 Q. Well, as I asked you more questions in your

 12 deposition, you backed off that position and admitted

 13 that this Florida Public Service Commission has never

 14 said that it would be prudent or wise for PEF to ignore

 15 the Btus it needs to run Crystal River Units 4 and 5 and

 16 to just make sure a certain amount of weight arrived at

 17 the plant, didn't you?

 18 A. And I would still agree with that position

 19 too.

 20 Q. So you would admit, sir, that if I have a

 21 certain amount of tons of rock show up at Crystal River,

 22 this Commission is not going to be satisfied that I just

 23 bought a certain amount of weight of rock to run those

 24 plants; right?

 25 A. I would agree with that hypothetical.

 FLORIDA PUBLIC SERVICE COMMISSION

 362

 1 Q. Now after, after I took your deposition and

 2 after my company filed its rebuttal testimony, I think

 3 we've all acknowledged that you had filed an amendment

 4 to your testimony; correct?

 5 A. Correct.

 6 Q. And now you give two alleged total damages

 7 numbers in your amended testimony, but you're careful to

 8 admit that the lower number of $33,971,584 is based on a

 9 methodology that is consistent with the assumptions that

 10 the Commission laid -- made in the last case; correct?

 11 A. No, I'm not agreeing with that. Discussions

 12 that occurred after the depositions and other issues

 13 focused me in on the methodology needed to come up with

 14 a solution to a specific time frame, a specific set of

 15 issues in order to capture all the values in that

 16 package. That's what was needed to be presented to the

 17 Public Service Commission. And so that is why in my

 18 original case in going through all the discussions that

 19 went on in the prior case, all the discussions were

 20 about the needs of the blend, what size blend we were

 21 going to have. A lot of discussion boiled down to a

 22 20 percent, 30 percent blend and finally ended up as a

 23 20 percent blend. All that focus was on tonnage blend

 24 by weight. There was not any discussion about the need

 25 to have a total number of Btus arrive at the plant on an

 FLORIDA PUBLIC SERVICE COMMISSION

 363

 1 annual basis. It was all about the percentage by weight

 2 of the blend.

 3 So when I went through my calculation, my

 4 analysis, I very carefully pursued having a 20 percent

 5 blend based on weight. But then when I got to the

 6 Exhibit A in that order, there was a different equation,

 7 different math that was based on balancing Btus

 8 absolutely. And so that created a tension in my

 9 analysis that said what's the most important thing the

 10 Public Service Commission was focused on, was it weight

 11 or was it balancing, balancing tons or balancing Btus?

 12 When I analyzed it, did my first analysis, I

 13 said that they were after the 20 percent by weight

 14 blend. If you use an approach where you replace a high

 15 Btu ton with a lower Btu ton, the tons are tons and you

 16 end up with a by weight blend match but you don't end up

 17 with as many Btus on the barge. Absolutely. So, yes,

 18 in order to make up those Btus that do not arrive at the

 19 plant on that barge, you have to go out and buy more

 20 Btus. But if you match the Btus, you don't end up with

 21 a 20 percent blend. You end up with something less than

 22 a 20 percent blend.

 23 So my first calculation was based on the

 24 20 percent by weight. But then that left a need for

 25 coal in order to make a nice complete package, and so

 FLORIDA PUBLIC SERVICE COMMISSION

 364

 1 after much discussions I recognized the need in order to

 2 solve this particular problem to make those Btus

 3 balance. So I went in and calculated two different ways

 4 to make up those Btus. One way is you could make them

 5 up with all high-cost bituminous coal or you could get

 6 more of the blend coal, 20/80 blend. And you would end

 7 up buying more total coal either way, but you would end

 8 up with balancing the Btu needs at the plant.

 9 My original concept was that, yes, you've got

 10 to buy Btus, but those Btus can come lots of different

 11 places that make up Btus. You could buy them delivered

 12 by rail, you could buy more waterborne Btus, you could

 13 buy higher Btu coal to make up, or maybe because of

 14 changes in the needs of the plant the plant doesn't end

 15 up needing the Btus you expected to need. Maybe the

 16 units go offline more than expected, maybe economic

 17 situations change and the burn is lower so you don't end

 18 up needing to replace all those Btus.

 19 So that was my original concept and why I was

 20 comfortable balancing tons because I read that that's

 21 what the Public Service wanted, but I changed it and

 22 balanced the Btus to make a nice complete package. Long

 23 answer, but that's the history.

 24 Q. Thank you, sir. Now if we could get back to

 25 my question. My question was that in your amended

 FLORIDA PUBLIC SERVICE COMMISSION

 365

 1 testimony you have two proposed numbers; correct?

 2 A. That's correct.

 3 Q. Okay. And the first of those proposed numbers

 4 appear on Page 4 of your amended testimony; isn't that

 5 correct?

 6 A. Yes.

 7 Q. And that number is $33,971,584; correct?

 8 A. Yes.

 9 Q. Did you say yes, sir?

 10 A. Yes.

 11 Q. Okay. And on Page 4 of that same testimony at

 12 Line 21 you called this 33 million and some odd dollars

 13 number the all bituminous approach, do you not?

 14 A. Yes.

 15 Q. And then if you turn back to Page 2 of your

 16 amended testimony at Line 23, you say, "One way is to

 17 assume that they would consist of the same highest

 18 costing tons of bituminous coal actually delivered that

 19 the comparison methodology identifies as the coal that

 20 the alternative would displace. That appears to be the

 21 assumption underlying the refund made in the last case,

 22 and I have made my calculation on that basis." Correct?

 23 A. That's correct.

 24 Q. Thank you.

 25 Now using rough math in your lower number that

 FLORIDA PUBLIC SERVICE COMMISSION

 366

 1 we just talked about of approximately $33,900,000,

 2 that's about a 45 percent reduction in your alleged

 3 damages from your first testimony, isn't it?

 4 A. I did not run that percentage, but I'll trust

 5 you.

 6 Q. Well, I agree with you, lawyers shouldn't do

 7 math, should they?

 8 Assuming my math is correct, a 45 percent

 9 reduction, that's a dramatic reduction in your damages,

 10 isn't it?

 11 A. Again, that would be your term. It's a big,

 12 it's a big change.

 13 Q. Bear with me one second.

 14 Actually it's not my term, Mr. Putman. If you

 15 would turn to Page 11 of your deposition, at Line 4 I

 16 say, "And I believe you even characterize this

 17 40 percent difference as being dramatic in Lines 5 and 6

 18 of your original testimony." And your answer is,

 19 "40 percent is dramatic." Did I read that correctly?

 20 A. Yes. Okay.

 21 Q. So 45 percent would be equally dramatic,

 22 wouldn't it?

 23 A. Yes.

 24 Q. Thank you. By the way, sir, in your amended

 25 testimony are you assuming that any of the coal that PEF

 FLORIDA PUBLIC SERVICE COMMISSION

 367

 1 would buy under your theory would be blended at the

 2 Alabama State Docks near Mobile, Alabama?

 3 A. Yes.

 4 Q. And at least at the time of your deposition

 5 you didn't know whether or not PEF even has a contract

 6 that allows for blending at those docks, did you?

 7 A. I did not know, and it would not have made a

 8 difference in my assumptions.

 9 Q. Well, let me understand that. Are you saying

 10 that you're assuming that we would bring coal to a dock

 11 and blend it, but it doesn't matter to you whether we

 12 have the right to blend it or not?

 13 A. I assume that you could get a right to blend

 14 it at Alabama State Docks.

 15 Q. Well, you would agree with me that if PEF does

 16 not have that right in real life, then that would be a

 17 problem we would have to overcome and that that would be

 18 a problem in your amended testimony as well; correct?

 19 A. We're getting into the whole hypothetical

 20 issue is, I mean, you did not have the right to burn the

 21 coal in the first place. So now we're talking about the

 22 hypothetical need to have a contract to blend the coal

 23 that you couldn't burn. So all those hypotheticals make

 24 it very difficult to head down that line.

 25 But, yes, it would be something -- if you

 FLORIDA PUBLIC SERVICE COMMISSION

 368

 1 could have burned the coal, if you'd had the permit, you

 2 would have had to get a contract to blend some of that

 3 coal based on the numbers that existed in order to blend

 4 it at the state docks. Yes.

 5 Q. Okay. Well, I want to be very clear because I

 6 heard Ms. Bradley commend the Office of Public Counsel

 7 when we started about candor and admitting mistakes when

 8 they're made. And I think you even agreed with me in

 9 your deposition that if you have an error or mistake in

 10 your testimony, it's very important to go back and

 11 correct it, didn't you?

 12 A. Yes. I would agree with that today.

 13 Q. Okay. And I guess my question is if you've

 14 made an assumption in your amended testimony that

 15 assumes my company has the right to blend at the Alabama

 16 State Docks and this Commission hears evidence from

 17 another witness saying we do not have that right as a

 18 matter of contract and a matter of reality, wouldn't you

 19 agree with me that you need to go back and fix your

 20 amended testimony based on the pure reality?

 21 A. The realities -- it's a hypothetical set of

 22 circumstances about what you would do if you had

 23 actually bought the coal and you needed to blend

 24 20 percent. If you were buying coal at IMT that did not

 25 give you enough coal to blend 20 percent and you were

 FLORIDA PUBLIC SERVICE COMMISSION

 369

 1 buying other coal at Mobile and you wanted to blend at

 2 Mobile in order to get a full 20 percent blend, save the

 3 customers the most money, then, yes, you would have to

 4 get a contract under those hypothetical set of

 5 circumstances.

 6 Q. Okay. And I just want to be abundantly clear.

 7 I'm going to try it one more time. You've read

 8 Mr. Weintraub's testimony, and if he testifies that we

 9 do not have a contract to blend at that dock and you've

 10 assumed that in your analysis, don't you need to go back

 11 and correct that in your hypothetical amended testimony?

 12 A. I do not think I need to amend that in a

 13 hypothetical circumstance.

 14 Q. Okay. Well, I'd like to continue to talk to

 15 you about some other issues that you do not address in

 16 your recently amended testimony, recently filed amended

 17 testimony.

 18 You fully admit that in conducting your

 19 analysis in this case you used forecasted SO2 allowance

 20 prices for 2006 and 2007 instead of actuals, don't you?

 21 A. In following the methodology in the prior

 22 case, I use that same approach, yes.

 23 Q. Okay. And when Ms. Bennett was talking to you

 24 in your deposition about whether you had the

 25 availability to get those actuals instead of outdated

 FLORIDA PUBLIC SERVICE COMMISSION

 370

 1 projections, you stated that you did not have them, but

 2 all anyone needed to do to get them was to pull them off

 3 the Internet; right?

 4 A. That's correct.

 5 Q. And wouldn't you agree with me that if this

 6 Commission is determining whether or not to make my

 7 company pay millions of dollars in alleged damages, it

 8 should consider what things actually costed in 2006 and

 9 2007 rather than what someone projected they should cost

 10 in 2004?

 11 A. I guess I'm a little surprised that you're

 12 taking that position because it sounds like the classic

 13 definition of hindsight review, which is my

 14 understanding something utilities and I know my

 15 utilities would not have ever liked that. And that is

 16 to look back on a decision made at a point in time and

 17 decide that that decision was more right or more wrong

 18 based on the way the world turned out later.

 19 My understanding of prudency reviews are that

 20 decisions are reviewed based on the facts and

 21 circumstances known at the time the decision was made or

 22 should have been made and not to hold the decider to

 23 some set of circumstances that occurred later on,

 24 whether those circumstances turn out to be better or

 25 worse for the decision. You look at what was known at

 FLORIDA PUBLIC SERVICE COMMISSION

 371

 1 the time the decision was made. And so that's what I

 2 did. I used the information that was available at the

 3 time the decision was made to forecast the numbers.

 4 Q. Well, Mr. Putman, let me ask you this. If

 5 we're dealing with prudency in real life, shouldn't we

 6 do what Commissioner, Commissioner Skop suggested

 7 yesterday and ignore this whole paradigm and just focus

 8 on what actually happened vis-a-vis 29A that shows that

 9 my company beat all the prices of what it could actually

 10 have done with PRB coal? Shouldn't we abandon this

 11 made-up scenario altogether and just focus on reality?

 12 A. No. I think that would be a mistake for a

 13 long-term way to run this business. I agree that

 14 hindsight review is not a good thing to do. I think

 15 prudency reviews should be based on what's known at the

 16 time the decisions are made, and I think it would be a

 17 serious change of course for the Commission to focus on

 18 hindsight review decision-making.

 19 Q. Okay. Well, if you want to stick then in the

 20 made-up scenario, my question was simply shouldn't this

 21 Commission use actual prices rather than projections

 22 that were proven to be wrong by the actuals?

 23 A. I don't agree with that.

 24 Q. Okay. Continuing with the issue of SO2,

 25 you're aware that Mr. Weintraub and Mr. Heller have

 FLORIDA PUBLIC SERVICE COMMISSION

 372

 1 accused you of double-counting or double-dipping in your

 2 alleged SO2 allowance damages; correct?

 3 A. I know they accuse me of that, yes.

 4 Q. Okay. And are you further aware that the

 5 basis for their accusations are that PEF's coal

 6 evaluation process accounts for SO2 allowance costs when

 7 coals are first evaluated and ranked?

 8 A. I never became convinced of that despite a

 9 strong effort to find out how the Vista model and how

 10 their non-Vista evaluation process handles sulfur.

 11 Despite efforts to ask for Vista input sheets and output

 12 sheets, all we received were the evaluation spreadsheets

 13 that we looked at yesterday for both '06 and '07. And

 14 so it was never clear to me what, how those models

 15 handled sulfur.

 16 Q. Well, let me get this straight. It was never

 17 clear to you how the models work, but nonetheless you

 18 filed testimony alleging first $61 million and now

 19 $33 million when you clearly admit here today that even

 20 as you sit here now you don't understand how the model

 21 works?

 22 A. I don't understand how the model works. But

 23 if I run the math on what allowance values and allowance

 24 costs -- the cost of a ton of coal allowance is

 25 significantly higher than any of the adjustments made in

 FLORIDA PUBLIC SERVICE COMMISSION

 373

 1 the evaluation process.

 2 Q. Well, thanks for that. But in the, again,

 3 when I asked you in your deposition if you knew how SO2

 4 was evaluated and whether or not you had double dipped,

 5 you honestly told me that you frankly didn't know

 6 whether you had double dipped or not, didn't you?

 7 A. At that time I did not know.

 8 Q. Okay. And you didn't know when you wrote your

 9 testimony, did you?

 10 A. I did not because I did not have all the

 11 information I needed.

 12 Q. And as you sit here today, I believe we just

 13 heard you testify under oath that you still don't know.

 14 A. I don't know how the Progress Energy

 15 evaluation process handles sulfur, but I know that it

 16 does not use the evaluation, I mean the allowance price

 17 in that process.

 18 Q. Now let's continue with other issues in your

 19 testimony. You're also aware, aren't you, that

 20 Mr. Weintraub has accused you of understating the cost

 21 of coal in 2006 and 2007 because he says that there

 22 would have been a price impact of taking a three-year

 23 contract bid and cutting it down to just one year? Are

 24 you aware of that?

 25 A. I'm aware he said that, yes.

 FLORIDA PUBLIC SERVICE COMMISSION

 374

 1 Q. Okay. And you didn't disagree with me in your

 2 deposition that optionality with respect to pricing,

 3 when you can buy and how much you can buy has monetary

 4 value in the coal market, did you?

 5 A. It can have monetary value. Yes.

 6 Q. And you even recognized, did you not, that

 7 coal suppliers may hold a bid open for a few months but

 8 they will not wait around forever for someone to make up

 9 their mind because time is money to them; correct?

 10 A. That is correct.

 11 Q. And speaking of contracts, you're aware that

 12 Mr. Weintraub has also accused you of failing to account

 13 for damages that would have occurred due to

 14 underutilization provisions in PEF's barge contract had

 15 PEF bought the Indonesian coal that you suggest in 2007;

 16 correct?

 17 A. He speculated that that could create a penalty

 18 from the barge contract. Yes.

 19 Q. Okay. Well, let's talk about that, Mr.

 20 Putman. You're certainly familiar with provisions in

 21 coal barge transportation contracts that provide for

 22 penalties if a utility does not use the barge to

 23 transport a minimum amount of times, aren't you?

 24 A. I agree that there are such provisions. I did

 25 not find one in the MEMCO contract.

 FLORIDA PUBLIC SERVICE COMMISSION

 375

 1 Q. Well, let's see. You stated in your

 2 deposition that you had a copy of the barge contract but

 3 you had never even considered it or read it prior to you

 4 filing your testimony; correct?

 5 A. That is correct.

 6 Q. So at the time you filed your testimony, you

 7 didn't know one way or another; correct?

 8 A. That is correct.

 9 Q. And the reason that you didn't know one way or

 10 the other is because you said it never occurred to you

 11 that there may be such issues as impacts on contracts

 12 that PEF had; correct?

 13 A. Again, my process was to use the evaluation

 14 numbers off of the spreadsheets produced by your

 15 company, and so I did not evaluate it in more depth than

 16 that.

 17 Q. Well, let me ask you this. You just said that

 18 you didn't find such a provision in the MEMCO barge

 19 contract, but if this Commission has it and another

 20 witness points it out and there is such a provision in

 21 there even though you couldn't find it, you would agree

 22 with me that if that provision exists, you need to

 23 account for that and you need to address that in your

 24 amended testimony; correct?

 25 A. I would agree if you show it to me, then I

 FLORIDA PUBLIC SERVICE COMMISSION

 376

 1 will change my current testimony where I say it's not

 2 there. I would change that. But whether or not it

 3 would impact my evaluation, I don't really think it

 4 would.

 5 Q. Okay. So you -- if it's there, you'll agree

 6 with me that it exists and we would have had to comply

 7 with it, but you will not agree that that would have

 8 caused damages and your number needs to go down?

 9 A. Again, because I'm not convinced that under

 10 all of the circumstances any penalty would have applied

 11 if it did exist in the contract. So, I mean, you've got

 12 a couple of things that would have to happen before a

 13 penalty had to be applied, if one even exists in the

 14 contract.

 15 Q. Okay. I want to ask you some questions about

 16 the 2006 coal that you allege PEF should have bought

 17 from the two Kennecott bids that offered to supply PEF

 18 coal from Kennecott's Spring Creek Mine in Montana. And

 19 for ease of reference, I'm going to refer to that coal

 20 as Spring Creek coal when I talk about it.

 21 A. One company, one offer was pure Spring Creek

 22 coal. The second offer was a blend of Spring Creek coal

 23 and an Illinois Basin coal. So they are different.

 24 Q. Fair enough. And just for ease of reference,

 25 I'm going to refer to those as the Spring Creek coals.

 FLORIDA PUBLIC SERVICE COMMISSION

 377

 1 A. Okay.

 2 Q. Now to be clear about this, when I asked you

 3 at your deposition whether or not you knew what coal

 4 mine that coal came from, you had no idea, did you?

 5 A. That's correct.

 6 Q. In fact, you really didn't even know what

 7 state the coal in 2006, the Spring Creek coal would have

 8 come from, did you?

 9 A. I did not know where the Kennecott coal would

 10 come from. That's correct.

 11 Q. And at the time of your deposition you

 12 couldn't name one utility in the United States that had

 13 ever even burned Spring Creek coal, could you?

 14 A. I assume that's what I said. So, yes, I would

 15 agree with that.

 16 Q. Well, I don't want you to assume. Let me go

 17 ahead and read it for you. Page 30, Line 16. "So with

 18 respect to the exact coal that you were using in your

 19 analysis in 2006 from the two Kennecott bids, I just

 20 want to make sure I understand, can you tell me any

 21 utility at all in the United States that has ever burned

 22 that coal?" Your answer, "I cannot." Did I read that

 23 correctly?

 24 A. You read it correctly. And I -- at that point

 25 that is correct.

 FLORIDA PUBLIC SERVICE COMMISSION

 378

 1 Q. And you admit that in the last case, Docket

 2 060658, you cannot point to one single place where this

 3 Commission heard evidence on Spring Creek coal, can you?

 4 A. I mean, that's correct.

 5 Q. Thank you. You talk about Georgia Power's

 6 Plant Scherer in your direct testimony, I believe, at

 7 Page 4; correct?

 8 A. Of my direct testimony. Okay. Okay. Yes.

 9 Q. And Plant Scherer burns 100 percent Powder

 10 River Basin coal, doesn't it?

 11 A. That's correct.

 12 Q. But you don't know if Plant Scherer has ever

 13 burned Spring Creek coal, do you?

 14 A. I cannot sit here today and say I know that

 15 for a fact. No.

 16 Q. Are you aware that there are, that there are

 17 co-owners that own part of Plant Scherer other than

 18 Georgia Power?

 19 A. Yes. Yes.

 20 Q. Are you aware that Florida Power & Light is a

 21 co-owner of Plant Scherer?

 22 A. Yes.

 23 Q. And are you aware that in a public record that

 24 Florida Power & Light filed with this Florida Public

 25 Service Commission, FP&L stated that Plant Scherer

 FLORIDA PUBLIC SERVICE COMMISSION

 379

 1 rejected the use of Spring Creek coal because the sodium

 2 content of that coal was too high?

 3 A. I'm not aware of that.

 4 MR. BURNETT: Sir, may I approach?

 5 CHAIRMAN CARTER: You may proceed.

 6 MR. BURNETT: Thank you, sir.

 7 BY MR. BURNETT:

 8 Q. Mr. Putman, I'd like to refer you to the

 9 question there. "For each request for proposal for the

 10 coal issued in 2008 by Georgia Power Company/Southern

 11 Company Services on behalf of FP&L for its interest in

 12 Scherer Unit 4, what action was taken? Include with

 13 your response a summary of the evaluation process and

 14 how successful the proposals were selected." I want to

 15 go down -- can you read me the highlighted section

 16 there?

 17 A. It says, "The Spring Creek offer was not

 18 considered because of the high sodium content of the

 19 coal."

 20 MR. BURNETT: Mr. Chair, may I mark this as an

 21 exhibit?

 22 CHAIRMAN CARTER: Okay. I think, I believe

 23 55. Let me get my notes to be sure. Staff, can you

 24 help me out? I think it's 55, isn't it?

 25 MS. BENNETT: It is 55.

 FLORIDA PUBLIC SERVICE COMMISSION

 380

 1 CHAIRMAN CARTER: I think that will be 55.

 2 And let me get my paper together here so we can give it

 3 a short title.

 4 Recommendation on a short title, Mr. Burnett?

 5 MR. BURNETT: Yes, sir. It's staff's -- in

 6 Docket 090001, staff's second set of interrogatories

 7 number 24.

 8 (Exhibit 55 marked for identification.)

 9 CHAIRMAN CARTER: Okay. Let's try it again.

 10 MR. BURNETT: Sorry.

 11 MR. McWHIRTER: Can I ask who the sponsor of

 12 this exhibit is so we can take them on voir dire with

 13 respect to the truthfulness of the information contained

 14 in the exhibit?

 15 MR. BURNETT: Mr. Chair.

 16 CHAIRMAN CARTER: Mr. Burnett.

 17 MR. BURNETT: I'm not offering this for

 18 truthfulness or otherwise. I simply have asked this --

 19 first of all, I haven't moved it into evidence yet.

 20 I've only asked this witness questions about it. I do

 21 intend to move it in at the end though. And I could

 22 care less whether the statement is true or not at this

 23 point. I've asked the witness as to his credibility as

 24 to whether he knew this, whether he's researched this.

 25 This is what I'm offering this for.

 FLORIDA PUBLIC SERVICE COMMISSION

 381

 1 CHAIRMAN CARTER: Okay. He's using it for

 2 cross-examination. You may proceed.

 3 MR. BURNETT: Thank you, sir.

 4 BY MR. BURNETT:

 5 Q. Mr. Putman, at least at the time of your

 6 deposition you didn't know one way or another whether

 7 Spring Creek coal has high sodium or not, did you?

 8 A. No. I did know that Spring Creek coal had

 9 high sodium coal. I did not tie the Kennecott bid to

 10 Spring Creek. I admit that.

 11 Q. Okay. Now let's talk about the transportation

 12 costs for Spring Creek coal. You admitted to me in your

 13 deposition, didn't you, that the cost of transportation

 14 to get that coal from Montana to Crystal River would be

 15 higher than the actual cost to buy the coal itself,

 16 didn't you?

 17 A. Yes.

 18 Q. And despite this admission though that

 19 transportation cost is the highest element of the cost

 20 of the coal that you say PEF should have bought in 2006,

 21 you don't even know what elements make up the

 22 transportation costs that you use in your own testimony,

 23 do you?

 24 A. I've relied on the information put together by

 25 Progress Energy on their evaluation sheets in an effort

 FLORIDA PUBLIC SERVICE COMMISSION

 382

 1 to fully support their decision process and that is what

 2 I used. I did not try to second-guess their evaluation,

 3 I did not try to investigate whether their evaluation

 4 was correct. I used their evaluation.

 5 Q. I appreciate that, sir. But my question was

 6 you don't know what elements make up those

 7 transportation costs, do you?

 8 A. I did not know that at the time of the

 9 deposition.

 10 Q. And you did not know that at the time then

 11 obviously when you filed your direct testimony, did you?

 12 A. That's correct.

 13 Q. And do you know them as you sit here today?

 14 A. Yes. I've looked since then.

 15 Q. Wouldn't that have been a good idea to take a

 16 look at before you filed testimony?

 17 A. Not in the way I approached this analysis,

 18 which was to rely on Progress Energy's numbers that they

 19 put together and that they were using for their decision

 20 process at the time the decision was made.

 21 Q. Now I want to try to wrap up my discussion on

 22 Spring Creek coal. You want to -- I want to briefly

 23 talk to you about capital upgrades.

 24 You agreed with me in your deposition that if

 25 Crystal River 4 and 5 needed capital upgrades above and

 FLORIDA PUBLIC SERVICE COMMISSION

 383

 1 beyond the upgrades that this Commission considered in

 2 the last case, the cost of those upgrades should be

 3 considered in the Commission's cost-effectiveness test,

 4 didn't you?

 5 A. And that -- using the word if, yes, that was a

 6 correct statement.

 7 Q. Yet despite this agreement you didn't perform

 8 any analysis to determine whether PEF would need any

 9 additional new and incremental capital upgrades to burn

 10 the Spring Creek coal that you sponsored, did you?

 11 A. I did not because I relied on Progress

 12 Energy's evaluation process to produce the numbers that

 13 they would use in their decision making at the point

 14 they made a decision.

 15 Q. And, sir, you similarly did not perform any

 16 analysis on how the Spring Creek coal that you sponsor

 17 may impact new environmental equipment being installed

 18 at Crystal River like scrubbers, did you?

 19 A. I did not.

 20 Q. And you acknowledged in your deposition that

 21 when plants have scrubbers and burn bituminous coals

 22 like the one you suggest we should have bought,

 23 utilities like Southern Company with Plant Miller, you

 24 may have to consider adding very expensive capital

 25 additions like baghouses to deal with mercury discharge,

 FLORIDA PUBLIC SERVICE COMMISSION

 384

 1 didn't you?

 2 A. I guess I think you need to ask that question

 3 differently because you said bituminous and I think you

 4 may have meant sub-bituminous.

 5 Q. I certainly did mean sub-bituminous. Thank

 6 you.

 7 A. In terms of sub-bituminous, yes, I would agree

 8 that there may be needs for additional equipment. Yes.

 9 Q. And one of those needs may --

 10 A. May.

 11 Q. I'm sorry.

 12 A. I'm sorry, but may is the word I underlined.

 13 Q. Well, and one of those pieces of equipment as

 14 you admitted in your deposition may be a baghouse;

 15 correct?

 16 A. That's correct.

 17 Q. And you admitted to me that those can be very

 18 expensive, didn't you?

 19 A. That's correct.

 20 Q. Now turning to Indonesian coal, do you, do you

 21 dispute the fact that sometimes a coal supplier may

 22 place a bid to one party and then find a better deal

 23 somewhere else and make a sell to that better deal?

 24 A. That does happen. Yes.

 25 Q. And I think you admitted in your deposition

 FLORIDA PUBLIC SERVICE COMMISSION

 385

 1 that the United States is only what you call, quote, an

 2 occasional purchaser of Indonesian coal and that the

 3 Asian market is booming. It's a better place for

 4 Indonesia to sell their coal and only occasionally is

 5 there a competitive advantage to bringing it to the

 6 United States. You said that; correct?

 7 A. I said that. And I said that yesterday, too.

 8 Q. Now yesterday you theorized that the

 9 Indonesian coal suppliers may have sold the coal that

 10 they had bid to Progress Energy to Southern Company

 11 instead of sticking with their bid; correct?

 12 A. I saw that as a combination of circumstances

 13 that indicated that was a possibility.

 14 Q. Well, assuming your hypothetical is right, how

 15 much do you think that Southern Company paid for that

 16 coal?

 17 A. They paid, I know the coal that was bought

 18 from Indonesia that arrived at Scherer was expensive.

 19 Q. I'm sorry. Did you say you knew it was

 20 expensive?

 21 A. Yes.

 22 Q. Do you know how expensive it was?

 23 A. I saw that, but I don't directly remember the

 24 number.

 25 MR. BURNETT: Sir, may I approach?

 FLORIDA PUBLIC SERVICE COMMISSION

 386

 1 CHAIRMAN CARTER: You may approach.

 2 Mr. Burnett, are you going to need a number

 3 for this or are you just using it for cross-examination?

 4 Do you want a number for identification purposes?

 5 MR. BURNETT: Yes, sir, if I may.

 6 CHAIRMAN CARTER: This will be, Commissioners,

 7 Number 56. A short title recommendation, Mr. Burnett.

 8 Short.

 9 MR. BURNETT: Indonesian Coal Price.

 10 CHAIRMAN CARTER: Great. You may proceed.

 11 (Exhibit 56 marked for identification.)

 12 MR. BURNETT: Thank you, sir.

 13 BY MR. BURNETT:

 14 Q. Mr. Putman, I'd like to draw your attention to

 15 what's now been marked for identification as Exhibit 56.

 16 Do you see the cost in cents per MMBtu that I have

 17 highlighted there?

 18 A. I do.

 19 Q. Do those numbers look like the ones you recall

 20 seeing?

 21 A. Yes.

 22 Q. So you'd have no reason to disagree with me

 23 that those numbers are accurate?

 24 A. I have no reason to disagree.

 25 Q. Thank you. By the way, let me ask you one

 FLORIDA PUBLIC SERVICE COMMISSION

 387

 1 more question on that. These are in cents per MMBtus.

 2 Let's take the first one. What does 470 cents per MMBtu

 3 convert into for dollars per Btu?

 4 A. $4.70.

 5 Q. Thank you. Also, you can't point me to

 6 anywhere in the record in Docket 060658 where this

 7 Commission heard evidence on Indonesian coal, can you?

 8 A. About Indonesian coal or a lot of other coals,

 9 that's correct.

 10 Q. And with respect to the transportation costs

 11 for Indonesian coal, just like with Spring Creek coal at

 12 least at the time of your deposition and the time you

 13 filed testimony, you didn't know what elements make up

 14 the transportation costs that you used in your own

 15 testimony, did you?

 16 A. I relied on the information produced and put

 17 together by Progress Energy on their evaluation sheets

 18 and counted on them to have done a good job of doing

 19 that.

 20 Q. Well, just like the Spring Creek coal, you

 21 admit, don't you, that the transportation costs to get

 22 Indonesian coal to the United States will be more

 23 expensive than the cost to buy the coal itself; correct?

 24 A. I certainly would expect that, yes.

 25 Q. And just like Spring Creek coal, you didn't

 FLORIDA PUBLIC SERVICE COMMISSION

 388

 1 perform any analysis to see if there were any

 2 transportation constraints for the delivery of

 3 Indonesian coal in 2007, did you?

 4 A. I viewed Progress Energy as being in the best

 5 position to determine what costs were involved and that

 6 they needed to include in their decision-making process

 7 and that those numbers would show up on the evaluation

 8 sheet. I relied on that.

 9 Q. Well, if that reliance was misplaced and there

 10 were other steps to the process, you would agree with me

 11 that that would be important to consider those other

 12 steps, wouldn't you?

 13 A. I guess that's a hypothetical set of

 14 combinations, and I'm not comfortable with agreeing with

 15 that. No. I mean, that's sort of open-ended, and I

 16 can't agree with that being so open-ended.

 17 Q. Okay. Well, let's, let's ask about some

 18 specifics. When I asked you several questions about

 19 offloading seagoing barges at the International Marine

 20 Terminal such as the unloading rates, you didn't have

 21 any idea about that topic, did you?

 22 A. I had seen the bid and so knew the numbers

 23 that were proposed by the bid. I did not know the

 24 impacts of that on IMT or other unloading facility, how

 25 that would impact that. No.

 FLORIDA PUBLIC SERVICE COMMISSION

 389

 1 Q. Well, and let me be specific. You didn't know

 2 whether at IMT gearless import vessels must be

 3 discharged from the import vessel to a river barge and

 4 then from the barge to the ground before they could be

 5 blended. You didn't know about that, did you?

 6 A. I did not know that and did not view that as

 7 my responsibility. I view that as Progress Energy's

 8 responsibility.

 9 Q. Okay. And you didn't know that same question

 10 for the United Bulk Terminal, did you?

 11 A. Same answer.

 12 Q. And, again, you didn't know what the

 13 trans-loading contract rate for gearless Panamax vessels

 14 at IMT was, did you?

 15 A. I did not. Same answer.

 16 Q. And you weren't aware of an incident in

 17 October 2006 where a Panamax sea vessel struck the dock

 18 at IMT, did you?

 19 A. No, I'm not familiar with that.

 20 Q. And you weren't even specifically aware of

 21 what kind of vessels would be used to transport

 22 Indonesian coal, were you?

 23 A. One of them talked about being a gearless

 24 vessel.

 25 Q. But you weren't specifically aware at the time

 FLORIDA PUBLIC SERVICE COMMISSION

 390

 1 of your deposition, were you?

 2 A. I was aware that one of the bids, and I think

 3 it was PT Adaro, was offering it in gearless vessels.

 4 Q. Well, just like Spring Creek coal, let me turn

 5 to this, you agreed with me that if PEF needs capital

 6 additions to burn Indonesian coal that were not

 7 considered by the PSC in the last case, those additions

 8 should, just like Spring Creek coal, be considered in

 9 the cost-effectiveness test for Indonesian coal;

 10 correct?

 11 MR. McGLOTHLIN: I'm sorry.

 12 THE WITNESS: I'm sure you left the word "if"

 13 off of your question.

 14 MR. McGLOTHLIN: I wanted the same

 15 clarification. I didn't hear that posed as an if

 16 question.

 17 BY MR. BURNETT:

 18 Q. It's an if question.

 19 A. As an if question, then, yes, I would have

 20 agreed with that.

 21 Q. Now you would agree with me that Indonesian

 22 coal has an extremely low sulfur content; right?

 23 A. Yes.

 24 Q. And you also agree with me that some

 25 precipitators on coal units may need sulfur injection

 FLORIDA PUBLIC SERVICE COMMISSION

 391

 1 systems to deal with coals that have low coal sulfur

 2 content.

 3 A. Some precipitators might need that, yes.

 4 Q. Well, despite the fact that we agree that

 5 these coals that you're affording have low sulfur and

 6 despite the fact that we agree that some ESPs or

 7 precipitators may need sulfur injection systems, you

 8 didn't perform any analysis to determine whether PEF

 9 would need such upgrades to burn Indonesian coal, did

 10 you?

 11 A. I was aware based on the testimony in a

 12 prior case that the precipitator installed on Crystal

 13 River 4 and 5 was significantly oversized in order to

 14 allow very low sulfur coal to be used in that plant

 15 without upgrades.

 16 Q. Well, thank you, sir. But my question to you

 17 was with respect to the 2007 Indonesian coal that you

 18 used in your analysis, you didn't perform any analysis

 19 to determine whether Progress Energy Florida would need

 20 any new incremental capital additions that were not

 21 considered in the last docket to burn that coal, did

 22 you?

 23 A. I did not do an independent analysis.

 24 Q. Thank you. You also didn't research what

 25 PEF's opacity limitations are at Crystal River 4 and 5,

 FLORIDA PUBLIC SERVICE COMMISSION

 392

 1 did you?

 2 A. I did not.

 3 Q. You also didn't research what PEF's

 4 particulate matter discharge limitations are at CR4

 5 and 5, did you?

 6 A. I did not.

 7 Q. Now I want to turn to the topic of test burns,

 8 sir. You agreed with me both in the last case and in

 9 your deposition in this case that before a company

 10 switches to a new coal, it should do test burns,

 11 evaluate operational issues, recheck economics and maybe

 12 even do a second test burn; correct?

 13 A. I would agree with that.

 14 Q. And you also agree with me that the only way

 15 to know what a unit will actually do with coal is to

 16 make a real effort to test the coal to the unit's

 17 maximum capability, don't you?

 18 A. I would agree with that.

 19 Q. And you also agree me that bench marking off

 20 the experience that other utilities have with coal is an

 21 important part of the testing process; correct?

 22 A. I would agree with that.

 23 Q. And at Pages 127 to 130 of your deposition I

 24 think you give the most comprehensive description of

 25 spontaneous combustion that I've ever heard. So you

 FLORIDA PUBLIC SERVICE COMMISSION

 393

 1 would agree with me that you have to be careful with

 2 spontaneous combustion when dealing with sub-bituminous

 3 coals; correct?

 4 A. I would agree with that.

 5 Q. Now in your last deposition -- in your

 6 deposition I showed you an article about the Scherer

 7 plant and testing Indonesian coal. Do you remember

 8 that?

 9 A. I remember the article. I'm not sure -- I

 10 guess I did see it at the deposition. I think I had

 11 seen it before that.

 12 Q. Okay. It looks like this. It's in your blue

 13 packet.

 14 A. Right.

 15 Q. And you remember when I asked you the question

 16 here, when this article says that I understand that

 17 Georgia Power has already made a deal with Adaro to test

 18 Indonesian coal at the Scherer Plant during the first

 19 half of 2006, so imported coal may be in Scherer's

 20 future, you told me that you didn't know one way or

 21 another whether Scherer had performed such test;

 22 correct?

 23 MR. McWHIRTER: Mr. Chairman, can I request

 24 that this last exhibit and the one he's holding up now

 25 be given a number for identification in case we want to

 FLORIDA PUBLIC SERVICE COMMISSION

 394

 1 refer to it some other time?

 2 MR. BURNETT: I have no problem with that,

 3 sir. It is in evidence as Exhibit 2 now as part of the

 4 deposition. So it's already in as part of the

 5 composite.

 6 MR. McWHIRTER: Well, give us a reference, if

 7 you would.

 8 MR. BURNETT: It is in evidence as Exhibit 2

 9 as a deposition exhibit.

 10 MR. McWHIRTER: To whose deposition?

 11 MR. BURNETT: Mr. Putman's.

 12 MR. McWHIRTER: How about this document with

 13 the price that Georgia Power paid for --

 14 MS. HELTON: I think that's already been given

 15 Exhibit Number 56.

 16 CHAIRMAN CARTER: It is 56.

 17 MS. HELTON: And with respect to this exhibit,

 18 I think it would be helpful to still have a more

 19 specific reference so that if someone does want to refer

 20 to it. Exhibit 2 is a pretty exhaustive exhibit, I

 21 believe.

 22 MR. BURNETT: Yes, ma'am. We could look that

 23 up. It is -- I'll have Ms. Tibbits (phonetic) look that

 24 up. It's Exhibit 1 to Mr. Putman's deposition.

 25 CHAIRMAN CARTER: Ms. Helton, you're

 FLORIDA PUBLIC SERVICE COMMISSION

 395

 1 recommending that we give it a separate number for

 2 identification purposes, or what are you saying?

 3 MS. HELTON: No, sir. It was just -- I think

 4 that this had a separate deposition, deposition exhibit

 5 number, which Mr. Burnett just said was Number 1, and I

 6 think that would be more helpful to Mr. McWhirter and

 7 others who may want to refer to this in their briefs.

 8 CHAIRMAN CARTER: Okay. Are you okay with

 9 that, Mr. McWhirter?

 10 MR. McWHIRTER: Thank you. Yes, sir. And

 11 this is going to be 56 for identification?

 12 CHAIRMAN CARTER: 56. Yes, sir. 56. That is

 13 correct.

 14 You may proceed.

 15 MR. BURNETT: Thank you.

 16 BY MR. BURNETT:

 17 Q. So, Mr. Putman, again we established that

 18 Plant Scherer was a one -- is already burning

 19 100 percent sub-bituminous coal; correct?

 20 A. That's correct.

 21 Q. Yet prior to filing your testimony in this

 22 case you didn't do anything to confirm whether or

 23 not that plant that's already burning 100 percent

 24 sub-bituminous coal felt it necessary to test Indonesian

 25 coal for the first half of 2006 anyhow, did you?

 FLORIDA PUBLIC SERVICE COMMISSION

 396

 1 A. I think the answer to that is yes, but I, it

 2 was a little confusing, the question. But, no, I did

 3 not check prior to my testimony whether or not Scherer

 4 was testing Indonesian coal.

 5 Q. Thank you.

 6 A. I would like to make one comment about this.

 7 When I saw it in my deposition, it had a date, a

 8 publication date. The article was part of a whole page.

 9 Q. Okay. It --

 10 A. I just think it might be appropriate if this

 11 was a date, if there was a date on it that it was

 12 published.

 13 MR. BURNETT: Mr. Chair.

 14 THE WITNESS: Is that fair?

 15 MR. BURNETT: The date -- the full article

 16 appears again as Exhibit 1 in his deposition.

 17 CHAIRMAN CARTER: Okay. Just refer to the

 18 exhibit number. Let's proceed.

 19 MR. BURNETT: Okay. Thank you, sir.

 20 MR. McGLOTHLIN: Can we have that date for his

 21 purpose if the witness --

 22 CHAIRMAN CARTER: Just look at the deposition.

 23 You don't have the deposition?

 24 MR. McGLOTHLIN: I have the deposition.

 25 CHAIRMAN CARTER: And exhibit number?

 FLORIDA PUBLIC SERVICE COMMISSION

 397

 1 MR. McGLOTHLIN: I don't think I have the

 2 exhibit.

 3 CHAIRMAN CARTER: The complete article is in

 4 there; is that correct?

 5 MR. BURNETT: Yes, sir.

 6 May I proceed, sir?

 7 CHAIRMAN CARTER: You may proceed.

 8 MR. BURNETT: Thank you.

 9 BY MR. BURNETT:

 10 Q. Now, Mr. Putman, in your direct testimony you

 11 come to the conclusion that if PEF needed to test burn

 12 Spring Creek or Indonesian coal at all, it would only

 13 take about four days to conduct a stack test; correct?

 14 A. Correct.

 15 Q. And just like I asked you in your deposition,

 16 sir, if PEF believes you and we start burning one of

 17 these coals without a test or maybe just with a four-day

 18 test, you will not have to answer to the Florida Public

 19 Service Commission if something goes wrong at the plant

 20 like an outage or a derate, will you?

 21 A. I would not expect to have to answer to them.

 22 No.

 23 Q. And you're not willing to post any sort of

 24 bond or any kind of insurance for PEF to use to buy

 25 replacement power if we believe your testimony and

 FLORIDA PUBLIC SERVICE COMMISSION

 398

 1 something happens and there's a derate or an outage, are

 2 you?

 3 A. I would not expect to post bond.

 4 Q. Well, last few questions and I think I'm done,

 5 sir. You talked a lot yesterday about the operational

 6 capabilities of Crystal River 4 and 5, did you not?

 7 A. I did.

 8 Q. With respect to both the 2006 and 2007 coals

 9 that you assert we should have bought in this case, you

 10 have not performed an analysis as to how either one of

 11 those coals would affect pulverizer capacity, have you?

 12 A. I would say I did an analysis. I read the

 13 material about the design of the boilers again and

 14 satisfied myself that -- I mean, I knew what the design

 15 was. If that's an analysis, I did an analysis.

 16 Q. Well, sir, let's go back to Page 33 of your

 17 deposition, Line 16, when I asked you with respect to

 18 the 2006 and 2007 coals, "Have you performed any

 19 analysis with regard to how either of these coals would

 20 affect pulverizer capacity at CR4 and 5?" Your answer,

 21 "I have not." Did I read that correctly?

 22 A. Yes.

 23 Q. And you similarly have not studied how their

 24 moisture levels may impact operational performance, have

 25 you?

 FLORIDA PUBLIC SERVICE COMMISSION

 399

 1 A. Again, it's a question of timing. You -- I

 2 have done that. I may not have done it at the time I

 3 did the deposition. The way you phrased the question

 4 just then, yes, I have done an analysis. I may not have

 5 done it at the time that the deposition occurred.

 6 Q. So, sir, is it your testimony that with

 7 respect to these 2006 and 2007 poles, after you filed

 8 testimony and after your deposition you have now done an

 9 analysis on pulverizer capacities and moisture impacts?

 10 A. That's correct.

 11 Q. And where could I see that, sir?

 12 A. The analysis -- again, I preface this, it all

 13 defends on how you define analysis. I read the

 14 material, I formed a judgment in my brain, and that's

 15 where it is. That is my analysis.

 16 Q. And I'm going to go out on a limb and suggest

 17 that you can't print copy of your brain that I could

 18 review and cross you on?

 19 A. I wouldn't want you to see what's in my brain.

 20 Q. Fair enough. Well, let me try to go through

 21 these quickly, and perhaps you could just tell me yes or

 22 no if you have performed an independent analysis on

 23 these. Have you performed an analysis for self-heating

 24 temperatures of these two coals as they may impact the

 25 plants?

 FLORIDA PUBLIC SERVICE COMMISSION

 400

 1 A. At this point, yes, I have done an analysis.

 2 It is admittedly a very minor analysis, but I have done

 3 an analysis.

 4 Q. The same question on boiler efficiency.

 5 A. The same answer.

 6 Q. The same question on heat rates.

 7 A. The same answer.

 8 Q. The same question on ash levels.

 9 A. The same answer.

 10 Q. The same question on base-to-acid ratios.

 11 A. Same answer.

 12 Q. Same question to sodium levels.

 13 A. Same answer.

 14 Q. Same question to calcium levels.

 15 A. Same answer.

 16 Q. Same question to sulfur levels.

 17 A. Same answer.

 18 Q. Same question to electrostatic precipitator

 19 impacts.

 20 A. Same answer.

 21 MR. BURNETT: I have nothing further, sir.

 22 CHAIRMAN CARTER: Thank you. Commissioner

 23 Argenziano.

 24 COMMISSIONER ARGENZIANO: I will just wait

 25 until after the questions.

 FLORIDA PUBLIC SERVICE COMMISSION

 401

 1 CHAIRMAN CARTER: Okay. Commissioner Skop.

 2 We did staff yesterday, so we are going to

 3 come to the bench and then we will go back to redirect.

 4 Commissioner Skop.

 5 COMMISSIONER SKOP: Thank you, Mr. Chairman.

 6 Just one quick question to Mr. Putman following up on a

 7 cross-examination question by Mr. Burnett. I guess he

 8 had given a scenario of reality versus a hypothetical,

 9 and I think that you spoke to that. I'm trying to

 10 better understand and appreciate your testimony to the

 11 extent that I know that the Commission has already

 12 previously established the fact that CR4 and 5 units

 13 were built with the inherent capability to burn a blend

 14 of PRB coal, that the capability was lost through

 15 failure to maintain the permits, and that the Commission

 16 basically has required that the 80/20 blend be used when

 17 it's cost-effective to do so.

 18 If I understand your testimony correctly, and

 19 please correct me if I'm wrong, the hypothetical example

 20 that you are asking the Commission to adopt assumes that

 21 no matter what, no matter what other circumstances are

 22 involved, that Progress should currently be burning that

 23 80/20 blend of CAPP coal and PRB. Now, in contrast,

 24 Progress via interrogatory response to 29A has asserted

 25 that they have come up with another alternative which

 FLORIDA PUBLIC SERVICE COMMISSION

 402

 1 burns a blend of bituminous coal which they allege is

 2 more cost-effective than the hypothetical you have

 3 posited for the Commission to consider. So if I have

 4 that wrong, please correct me. But, if I don't, then I

 5 have a follow-up question for you.

 6 THE WITNESS: I guess it's all what you mean

 7 by hypothetical. I evaluated the decision that was made

 8 at the time of the 2004 decision-making when they bought

 9 coal and should have, according to the Commission's

 10 evaluation of the last case, they should have at that

 11 point had a unit that had a permit, had a unit that had

 12 tested Power River Basin coal, had a unit that had all

 13 the modifications necessarily made, and they should have

 14 been in a position in April of 2004 to buy the lowest

 15 cost coal offered to them. They did not have that

 16 capability. They were continuing to be imprudent in the

 17 terms that you all have used, and, therefore, they

 18 couldn't buy that coal.

 19 So assuming that that imprudency would

 20 continue to exist, then the question is what is the

 21 refund that's fair. But things that happened after that

 22 that they took action to do which they could do under

 23 their existing permits at the time, which includes

 24 buying other bituminous coal, blending those other

 25 bituminous coals, maybe you can argue that was

 FLORIDA PUBLIC SERVICE COMMISSION

 403

 1 mitigating the risk in some way. But the decision made

 2 in May/April of 2004 was, in my view, not a prudent

 3 decision.

 4 COMMISSIONER SKOP: Okay. And fair enough. I

 5 mean, I think that listening to what you just said there

 6 is three basic building blocks. There was the past

 7 case, which the Commission has already adjudicated;

 8 there's the current case, which basically your testimony

 9 centers on what they should have done in 2004; and then

 10 there is the forward-going basis on do they have that

 11 inherent capability.

 12 Now, the question I have for you is if we

 13 follow your analysis in 2004, and they should have,

 14 according to you, purchased the PRB coal, then I guess

 15 for 2007 they should have purchased the Indonesian coal,

 16 but what they ended up doing, to Mr. Burnett's point, in

 17 reality was something completely different that resulted

 18 in a more cost-effective alternative. So if you have

 19 two different paths -- I understand the imprudency, and,

 20 again, I think I made it really clear in my last

 21 concurring opinion that I expect them to have and

 22 restore that inherent capability to burn 80/20 when it

 23 is cost-effective to do so.

 24 But the point I'm faced with today is do I

 25 stick rigidly to your hypothetical and ignore a more

 FLORIDA PUBLIC SERVICE COMMISSION

 404

 1 cost-effective innovative alternative, or do I try to

 2 evaluate your alternative versus what Progress has

 3 offered that they have done in the instant case at a

 4 more cost-effective basis.

 5 And so I guess the question I would have to

 6 you is assuming your testimony versus what Progress

 7 alleged they actually did, if we accept your position,

 8 then what are the damages to the extent that Progress

 9 has already done it cheaper than the testimony you've

 10 offered?

 11 THE WITNESS: My response to that is, again,

 12 it is not an either/or situation. They could have

 13 bought low quality Btu bituminous coal and blended it.

 14 They could have also, if they had the right permits,

 15 bought sub-bituminous coal and blended it. They could

 16 have captured both savings. That's point number one.

 17 The second point is the comparison that is

 18 made by Progress Energy in this case so far is a

 19 comparison of the fact that their blend of bituminous

 20 and bituminous was cheaper than a blend of

 21 sub-bituminous and bituminous when the process that was

 22 described in the last case is to compare back to the

 23 most expensive coal that was actually bought and

 24 received. So it was not a comparison between two

 25 options, new options. It was to compare an option back

 FLORIDA PUBLIC SERVICE COMMISSION

 405

 1 to what was already bought and received moving through

 2 the transfers (phonetic). That is the way the analysis

 3 was described and set up. So comparing the two options

 4 to each other is instructive, but it is not the way the

 5 Commission said we should analyze their decisions.

 6 COMMISSIONER SKOP: Okay. Fair enough. I

 7 just have, I believe, one final question. You spoke to

 8 that they should have captured both savings. But if one

 9 option that they actually did in reality versus what

 10 they should have done, according to you, if one option

 11 were cheaper than the other, then why wouldn't you just

 12 go with the -- you know, not that it's right, but why

 13 wouldn't you just accept the option that provided the

 14 most overall cost savings for the consumer?

 15 THE WITNESS: Because if you can make two

 16 savings, you ought to make two savings.

 17 COMMISSIONER SKOP: But if burning a blend of

 18 bituminous coal at the end of the day is cheaper than

 19 burning a blend of 80/20, the 80/20 would yield no

 20 savings. So I'm trying to understand how you would get

 21 both savings there.

 22 THE WITNESS: I'm going back to what was

 23 bought and delivered. They could have replaced some of

 24 that bought and delivered with their blend, I mean,

 25 bituminous/bituminous, and they could have replaced some

 FLORIDA PUBLIC SERVICE COMMISSION

 406

 1 of that bought and delivered with sub-bituminous and

 2 bituminous. The ratepayers would have gained -- based

 3 on their numbers and your position, they would have made

 4 more on the bituminous and bituminous, but they would

 5 have also made savings on the sub-bituminous and

 6 bituminous. And in defending the ratepayers, they

 7 should have captured both of them.

 8 COMMISSIONER SKOP: Okay. I guess maybe I'm

 9 missing something there, because I understand exactly

 10 what you're saying, I was very supportive in the last

 11 case, but I'm not seeing those savings. So I guess the

 12 question that would arise -- because I'm looking at the

 13 data that has been presented by OPC, and I'm also

 14 looking at the data on 29A. And I guess what that is

 15 telling me is that although they may have been imprudent

 16 in 2004, they actually covered at a lower overall cost

 17 to the consumer.

 18 So I guess what I'm struggling with, if that

 19 is the case, then could the Commission find that maybe

 20 their actions dating back as far as 2004 were, indeed,

 21 imprudent, but award zero damages because they covered

 22 with a savings to consumers?

 23 THE WITNESS: I think that is a decision for

 24 the Commission to make. It sounds an awful lot like

 25 hindsight review. It says a decision was made which you

 FLORIDA PUBLIC SERVICE COMMISSION

 407

 1 all have defined as an imprudent decision in 2004

 2 because they didn't have the permit. And then you are

 3 going to now say, okay, we are going to second-guess

 4 that decision on things that happened after that. That,

 5 as ex-utility person, makes me nervous as hindsight

 6 review.

 7 COMMISSIONER SKOP: Well, speaking to that, I

 8 mean, I guess I was accused of that last time, because I

 9 basically, you know, suggested in my concurring opinion

 10 that they had lost the capability that was inherent to

 11 the units themselves and that that had been recovered --

 12 as you have stated in both of your testimonies in both

 13 dockets that that inherent capability has been paid for

 14 by the ratepayers. So I was all for you need to restore

 15 the inherent capability. But what I'm hearing now from

 16 Progress is that there is a cheaper alternative to an

 17 80/20 blend, and that cheaper alternative is at the

 18 current time and the time at question is burning a blend

 19 of bituminous coal from domestic and international. And

 20 if that's the case, then why wouldn't we go with the

 21 cheaper alternative?

 22 THE WITNESS: Then that brings back the fact

 23 that I don't really support their answer to 29A,

 24 whatever it is. They come up with a cost of the blend

 25 of sub-bituminous and bituminous which is totally out of

 FLORIDA PUBLIC SERVICE COMMISSION

 408

 1 line with the number they show on their evaluation

 2 sheet.

 3 COMMISSIONER SKOP: Okay, fine. But let me

 4 ask you that, and I'm not concerned about their

 5 evaluation sheet. I'm looking at the numbers in 29A in

 6 comparison to the evidence offered by OPC in DJP-6,

 7 which shows the evaluated cost of the coal, and also,

 8 too, in large quantity, I think there has been a data

 9 point that suggests that the delivered cost was about

 10 $2.28 in dollars per MMBtu, or 2.26, subject to check,

 11 and that price in all but, perhaps, one instance is

 12 higher than the data that Progress showed in 29A.

 13 THE WITNESS: Right. I apologize, I don't

 14 have the 29A in front of me.

 15 COMMISSIONER SKOP: Okay. I'm happy to -- you

 16 can have my copy.

 17 THE WITNESS: I'm sorry, could you --

 18 COMMISSIONER SKOP: Yes, sir. If you were to

 19 look at the column just to the right of coal supplier,

 20 it says dollar per MMBtu delivered to the terminal, and

 21 it shows, I guess, allegedly what Progress has done in

 22 lieu of the 80/20 that you have suggested. And I guess

 23 in 29A, in the response to that staff interrogatory,

 24 they are alleging that, one, it's cheaper than the

 25 equivalent price of PRB delivered to the terminal, but

 FLORIDA PUBLIC SERVICE COMMISSION

 409

 1 then I'm also relating those prices back to some of the

 2 data that has been provided in the record evidence that

 3 suggests that in all but one instance these prices are

 4 at or below what PRB could be procured for.

 5 So I guess I'm struggling to be fair, and I

 6 fully support your position to the extent that, you

 7 know, the Commission has previously established you burn

 8 80/20 when it is cost-effective to do so. But beyond

 9 that, if there is a more cost-effective option that

 10 Progress maybe has stumbled into, and it results in more

 11 savings to the consumers than burning the 80/20 blend,

 12 then how could that be deemed -- I mean, I guess how

 13 could damages arise from that? I mean, I could see that

 14 you might go back to 2004 and say their actions were

 15 imprudent, but there were no resulting damages as a

 16 result of the imprudency.

 17 THE WITNESS: Progress Energy testified to

 18 this sheet. But when I compare the bids that were

 19 available in 2004, May 2004 as evaluated, and this is on

 20 TJP Exhibit 6, Page 1 of 1, which covers the bids

 21 received for the May 2004 solicitation.

 22 COMMISSIONER SKOP: I'm with you.

 23 THE WITNESS: On the far right they show a

 24 utilized cost delivered to the plant, which means that

 25 it not only includes transportation all the way to the

 FLORIDA PUBLIC SERVICE COMMISSION

 410

 1 plant and not just to the terminal, but it also includes

 2 the cost of utilization. Those numbers that are

 3 available are in the $2 range.

 4 We offered the two Kennecott bids, which are

 5 under $2, and to me that is the comparison that ought to

 6 be made, not to these other numbers which I don't

 7 support and I don't really know where they came from of

 8 $2.34, $2.33, those kind of numbers.

 9 So I think it comes to a question of which set

 10 of numbers do you believe. Progress Energy produced

 11 both of those numbers. They produced the ones on my

 12 exhibit and they produced these other numbers. One of

 13 them clearly comes from the 2004 time period. I'm not

 14 sure where the time period is. We have all heard

 15 testimony about a market surge of Powder River Basin

 16 coal. So coal bought after May 2004 probably would have

 17 been more expensive, which I think leads to the question

 18 of whether or not they made a mistake in 2004 in not

 19 buying the coal. So, I mean, I hear what you're saying

 20 and I understand what you are going to. I think the

 21 question is was it really cheaper to buy the bituminous

 22 and bituminous blend compared to what they could have

 23 done in 2004 to create a low-cost sub-bituminous and

 24 bituminous blend.

 25 COMMISSIONER SKOP: Okay. Just one more on

 FLORIDA PUBLIC SERVICE COMMISSION

 411

 1 that final point, one more question. Assuming for the

 2 sake of discussion that for the statement you just made

 3 that it was cheaper for the bituminous/bituminous blend.

 4 Would that not be prudent to have, I guess -- let me

 5 rephrase my question. Assume it was cheaper for the

 6 bituminous/bituminous blend, and that resulted in the

 7 least-cost option. Would there be any damages even if

 8 they were imprudent as far back as 2004?

 9 MR. McGLOTHLIN: Excuse me, Commissioner, I

 10 think you may have misspoken.

 11 COMMISSIONER SKOP: Okay.

 12 MR. McGLOTHLIN: I think you meant to say

 13 sub-bituminous/bituminous blend for the purposes of the

 14 question, if I'm following you.

 15 COMMISSIONER SKOP: No, I think the reality --

 16 this all goes back to the reality versus the

 17 hypothetical. Mr. Putman is looking at 2004 and

 18 basically drawing conclusions as to what, in his

 19 professional opinion, Progress should have done with the

 20 facts known to them at that time.

 21 Now, what I think Progress has alleged -- and,

 22 Mr. Burnett, please correct me if I'm wrong -- is that

 23 they may not have done that, but they did something else

 24 in the alternative. And the alternative was a

 25 bituminous/bituminous blend of domestic and

 FLORIDA PUBLIC SERVICE COMMISSION

 412

 1 international coal, which resulted in a lower cost to

 2 the consumers than the 2004 not exercising or going down

 3 that path would have offered.

 4 So if that, indeed, is the case, then I guess

 5 my question to Mr. Putman would be, yes, they may have

 6 been imprudent dating back to 2004, but if their

 7 subsequent actions cured that imprudency and resulted in

 8 savings to the consumers, then the crux to me is what

 9 are the damages and would they be, in fact, zero?

 10 CHAIRMAN CARTER: Just a moment.

 11 Commissioner Argenziano.

 12 COMMISSIONER ARGENZIANO: Actually a question

 13 to Commissioner Skop. I think -- and this is just what

 14 I'm hearing. I'm taking a position at this time. But

 15 what I think I'm hearing Mr. Putnam say is that his

 16 opinion, with the facts that he used, and facts are not

 17 hypothetical, there is a hypothetical component in

 18 there, but the facts that he used at the time in 2004, I

 19 think what he is saying, and correct me if I'm not

 20 hearing this right, because I'm trying to figure out the

 21 argument or the debate, is that he doesn't feel -- and

 22 please correct me, Mr. Putnam. I don't want to put

 23 words in your mouth. I'm trying to get this. You are

 24 saying that the numbers that Progress used, you don't

 25 know where they came from, or they are not the numbers

 FLORIDA PUBLIC SERVICE COMMISSION

 413

 1 that you used from their evaluation sheet or the facts

 2 that were presented in the bids in 2004.

 3 THE WITNESS: That's correct.

 4 COMMISSIONER ARGENZIANO: So then how do we

 5 know? You, Commissioner Skop, need to tell me, because

 6 you are saying that Progress and Progress is saying that

 7 they realized the savings subsequently. I'm not sure I

 8 see that savings. I don't know where those numbers came

 9 from, and I'm trying to figure out where the savings

 10 came in.

 11 MR. BURNETT: Mr. Chair.

 12 COMMISSIONER SKOP: I will yield to Mr.

 13 Burnett.

 14 CHAIRMAN CARTER: Let's hear from Mr. Burnett.

 15 You want to hear from Commissioner Skop and then --

 16 COMMISSIONER ARGENZIANO: I am sitting here

 17 trying to figure out where the savings -- was it cheaper

 18 or was it not. That to me is the big question.

 19 CHAIRMAN CARTER: Commissioner Skop.

 20 COMMISSIONER SKOP: Thank you, Mr. Chairman.

 21 And I think your point is well taken. I want to refrain

 22 from debating the merits of this, but with respect to

 23 the testimony, the last docket to me was clear cut and

 24 the Commission did what it did and I took my own

 25 separate opinion. This one, again, I think it boils

 FLORIDA PUBLIC SERVICE COMMISSION

 414

 1 down to whose numbers do you believe. And if Mr. Putman

 2 is, in fact, correct as you suggested and Progress

 3 should have done something in 2004, then, fine. But if

 4 they have done something effectively in reality

 5 different and that resulted in savings over and beyond

 6 what Mr. Putman has alleged they should have done, then

 7 perhaps you could find imprudency, but I don't see any

 8 damages, and that's what I'm trying to struggle with.

 9 COMMISSIONER ARGENZIANO: Mr. Chair.

 10 CHAIRMAN CARTER: You're recognized.

 11 COMMISSIONER ARGENZIANO: My question to Mr.

 12 Putman is do you see the savings? I'm trying to find if

 13 there is a savings. Can you tell me do you see

 14 subsequent savings as Commissioner Skop has indicated,

 15 and could you pinpoint those. And then I will ask

 16 Progress the same question, because I really want to

 17 know.

 18 Did it ultimately lead -- whatever their

 19 actions were ultimately subsequently, did it lead to

 20 cheaper than what they could have got if they went --

 21 and I know that is hindsight again. How do you know

 22 that was going to come about, I guess.

 23 THE WITNESS: If I can let me try and give my

 24 opinion. I am sort of getting into things that are

 25 truly Commission decisions, but you have asked my

 FLORIDA PUBLIC SERVICE COMMISSION

 415

 1 opinion.

 2 First of all, I don't see savings compared to

 3 a decision made in 2004. As time went on and they were

 4 buying coal for a bituminous-to-bituminous blend and

 5 comparing that to what they could have been doing at

 6 that same time period, which was later than 2004, that

 7 was cheaper than they could have gone out in 2005 and

 8 2006 and bought a sub-bituminous/bituminous blend. That

 9 is a possibility, because the sub-bituminous went up.

 10 So, over time, if you were comparing them at the same

 11 point in time, it is possible that there could have been

 12 savings of using a bituminous/bituminous versus a

 13 sub-bituminous/bituminous bought at that future point.

 14 But, the other point is, and I think this is

 15 where I'm probably out of my line, but it appears to me

 16 that what is being introduced is the whole concept of

 17 mitigation of imprudency, which I'm not sure I have ever

 18 read anything about in my time in the utilities where an

 19 imprudent act occurred at one point and then it was

 20 mitigated. That's a slippery slope, because then it

 21 introduces the question of should you have mitigated and

 22 failed to mitigate and, therefore, we are going to

 23 punish you. It's all hindsight review, and as an

 24 ex-utility person, that makes me very nervous.

 25 COMMISSIONER ARGENZIANO: Thank you.

 FLORIDA PUBLIC SERVICE COMMISSION

 416

 1 And, Mr. Chair, that was my point to

 2 Commissioner Skop. If you are talking about it being

 3 hindsight, I'm not sure -- it could have had a different

 4 scenario, so I'm not sure that is the best practice to

 5 take. We are going to doing this today because two

 6 years from now something else could happen. It could

 7 have turned out the other way. So I'm not sure I

 8 understand your point.

 9 COMMISSIONER SKOP: Well, I think, and with

 10 all due respect, and I think your point is well taken,

 11 too, and I think Mr. Putman has raised an issue that,

 12 again, he's judging what Progress should have done based

 13 on 2004.

 14 Now, what Progress did in reality may have

 15 resulted in a lower cost, but I believe in Mr. Putman's

 16 mind that does not negate the imprudency dating back to

 17 2004, and I think that's the point you're trying to

 18 make. My question is -- at least from my perspective is

 19 they probably should have done what Mr. Putnam has

 20 suggested, okay, if that was, indeed, the prudent thing

 21 to do. But by them failing to do that -- and maybe they

 22 stumbled into doing something different. If that

 23 resulted in a lower overall cost, then the thing I'm

 24 struggling with is going back to Mr. Putman assuming

 25 that the Commission, based on Mr. Putman's testimony,

 FLORIDA PUBLIC SERVICE COMMISSION

 417

 1 were to render a decision ultimately based on the record

 2 evidence of imprudency, then how do you award damages on

 3 something where the end result of the reality was a

 4 lower overall cost savings. I think that is what I'm

 5 struggling with.

 6 CHAIRMAN CARTER: Commissioner.

 7 COMMISSIONER ARGENZIANO: I think I

 8 understand, it is just that it really is a dangerous

 9 slope.

 10 COMMISSIONER SKOP: I wholeheartedly agree,

 11 but then the thing is is it would be pretty easy to go

 12 in and say you should have done this, and that is based

 13 upon how the Commission deems on the record evidence and

 14 reflection in that. What's hard to do is set damages

 15 from that. If reality turned into a lower cost versus

 16 the hypothetical of looking back at what they should

 17 have done, but the overall cost savings was more in the

 18 haphazard way. I agree it is a slippery slope, but also

 19 one of the principles is if the Commission ultimately

 20 finds imprudency, the Commission has to award damages.

 21 And if actual damages are negative, then how do you

 22 award damages?

 23 COMMISSIONER ARGENZIANO: Well, let me ask you

 24 this. Let's say because the bids were in front of them

 25 there may have been cheaper opportunities at that time.

 FLORIDA PUBLIC SERVICE COMMISSION

 418

 1 I don't know if it was available. I am still trying to

 2 put all the pieces together and I still have a lot more

 3 information before I make a decision. But in your

 4 scenario let's say we said, okay, you acted imprudently

 5 maybe in '04, but you fixed it later on. What if that

 6 were to happen again and it didn't get fixed later on,

 7 and the next time it happened it cost more because of

 8 that decision. Then can you turn around and say, well,

 9 you the Public Service Commission said we fixed it and

 10 that was okay, so we tried it again. I'm not saying the

 11 company is going to do that, I'm just saying is that a

 12 good precedent to make.

 13 COMMISSIONER SKOP: I agree, you know, it's a

 14 legal concept. It is hard for me, again, if you were to

 15 look back to 2004 and say, you know what, you should

 16 have done this. But, you know, then you have to look at

 17 is it fair to -- you know, if the end result was at a

 18 less cost, so damages would be negative, then the

 19 question is what should you have done versus what, you

 20 know, what the actual harm was.

 21 But I agree with you, and that is one of the

 22 things that troubles me. And another thing that

 23 troubles me is some of these issues, these very issues

 24 were never raised in the last docket. But a lot of

 25 discussion now is focused on, you know, specific mines

 FLORIDA PUBLIC SERVICE COMMISSION

 419

 1 in Indonesia and all of that, so that is different from

 2 the last docket.

 3 But what troubles me, again, is I still firmly

 4 believe, as in the prior Commission order, when it is

 5 cost-effective to do so that an 80/20 blend should be

 6 burned, and I think that is Mr. Putman's contention

 7 based on what I have heard his testimony to be.

 8 COMMISSIONER ARGENZIANO: Well, if you

 9 remember -- Mr. Chair, if I may.

 10 CHAIRMAN CARTER: You're recognized.

 11 COMMISSIONER ARGENZIANO: I asked staff, I

 12 believe it was yesterday, about what our charge really

 13 is. And what it comes down to me is that -- and I don't

 14 know, I guess maybe you are having the question of

 15 should Progress have bought a particular type of coal or

 16 any coal as long as it was the cheapest. And, of

 17 course, we need to take into consideration the costs in

 18 doing that. Would there be retrofitting and all that

 19 kind of stuff. And I'm not sure how difficult that is

 20 since I see other companies doing that. And what I

 21 heard that this plant was built to take on different

 22 coals. So is our main goal it seems to me in

 23 determining prudency, what are we determining prudency

 24 for? Is it the prudence that you didn't use a

 25 particular -- the Powder River Basin, or was it that it

 FLORIDA PUBLIC SERVICE COMMISSION

 420

 1 was supposed to be the cheapest. And that is what you

 2 with due diligence as a company are supposed to do.

 3 That is what I'm focused on. And what I hear you saying

 4 is that you may not be focused on the cheapest, but

 5 where it is from.

 6 COMMISSIONER SKOP: No, I think we are saying

 7 a combination of the same things. I think in the prior

 8 docket the Commission clearly established the fact, as

 9 you correctly stated, these plants were built with the

 10 inherent capability to burn an 80/20 blend. You know,

 11 that capability was not maintained through the lapse of

 12 the permits. And that the Commission in its prior order

 13 found that when it was cost-effective to do so, that

 14 they should burn an 80/20 blend. When it is not

 15 cost-effective to do so, they could probably get away

 16 with doing the 100 percent CAPP coal.

 17 But what I'm struggling with, again, in 2004

 18 they probably should have done some of the things

 19 that -- you know, again, I don't want to get into the

 20 merits, but what I am hearing in the record evidence

 21 also is in 29A, you know, basically Progress has alleged

 22 that they did something different, completely different

 23 that resulted in an ultimate cost savings. And so the

 24 question is, I guess, that I had to Mr. Putman is if, in

 25 fact, they were, you know, perhaps imprudent in 2004,

 FLORIDA PUBLIC SERVICE COMMISSION

 421

 1 what would actual damages be if they did something that

 2 resulted in an overall cost savings to the consumers,

 3 even if they happened into that by mistake or what have

 4 you. But ultimately, you know, you could be imprudent

 5 but still have no damages, and I guess that is what I'm

 6 trying to get Mr. Putman to evaluate based on, you know,

 7 looking at 2004 versus what they actually did, which was

 8 Mr. Burnett's question on burning a blend of

 9 bituminous -- of domestic bituminous with international

 10 bituminous, and which in 29A they have alleged was

 11 cheaper than the PRB option.

 12 THE WITNESS: Again, my position is the

 13 concern about looking back and doing hindsight review.

 14 Maybe an example will help that is not quite as

 15 controversial. Off that 2004 bid, Progress Energy did

 16 decide to buy some bituminous coal, and they bought that

 17 based on the lowest cost bituminous coal offer. But

 18 they made a decision that in spite of the fact that they

 19 were offered coal for 2005, 2006, and 2007, they only

 20 bought coal for 2005 and 2006 because it was their view,

 21 based on the letter in the document, that they would

 22 rather hold 2007 open for future opportunities.

 23 Well, as it turns out 2007 for bituminous as

 24 well as sub-bituminous was higher than it was in 2004.

 25 So by deciding not to buy in 2007, it cost more money

 FLORIDA PUBLIC SERVICE COMMISSION

 422

 1 than that earlier decision. But I would never sit here

 2 and say you should punish Progress Energy for not buying

 3 in 2007, because in 2004 they thought that was a wise

 4 decision. But if you say we're going to look back and

 5 see what really happened, then you would look back and

 6 say you didn't buy that coal in 2007. It was cheaper;

 7 you made a mistake, we are going to punish you. That is

 8 the kind of slippery slope I would not want to, in any

 9 way, have utilities subjected to.

 10 COMMISSIONER SKOP: And I wholeheartedly

 11 agree. I mean, I'm trying to find out, you know,

 12 listening to the testimony, you know, which testimony is

 13 more credible, what numbers I should believe, and try to

 14 establish if there was, you know, in my mind,

 15 imprudency, then what are the appropriate damages to

 16 remedy that.

 17 But this one, like I say, there are many

 18 different sets of numbers being tossed around here, and

 19 I'm trying to correspond, you know, some of the

 20 witnesses have alleged they should have done certain

 21 things, and I'm looking at that with what was actually

 22 done and trying to basically integrate those two and

 23 understand what was the ultimate outcome. And if the

 24 ultimate outcome was, in fact, a cheaper option, it

 25 doesn't make it any less right, but at the end of the

 FLORIDA PUBLIC SERVICE COMMISSION

 423

 1 day by maybe mere coincidence it turned out cheaper.

 2 So, again, I'm trying to understand and give, you know,

 3 the appropriate weight to each of the respective

 4 testimonies. I do appreciate your lengthy explanation

 5 on this. Thank you.

 6 MR. BURNETT: Mr. Chair.

 7 CHAIRMAN CARTER: Mr. Burnett.

 8 MR. BURNETT: Yes, sir. We had a homework

 9 assignment from Commissioner Skop yesterday. I heard

 10 him say that he wanted to get the numbers in 29A SO2

 11 normalized, transportation normalized, as well as these

 12 numbers off GJP-6 normalized for transportation. If it

 13 helps, we have prepared that and can present it now.

 14 COMMISSIONER SKOP: I'd be happy to see that,

 15 Mr. Chair.

 16 MR. BURNETT: We could also present it with

 17 Mr. Weintraub. It's to your discretion. I just wanted

 18 to let you know that we have done that.

 19 COMMISSIONER SKOP: That would be better.

 20 CHAIRMAN CARTER: I had rather do it that way.

 21 That's not Mr. Putman's deal.

 22 MR. BURNETT: Yes, sir. Thank you.

 23 CHAIRMAN CARTER: Mr. McGlothlin, you're

 24 recognized for redirect.

 25 MR. McGLOTHLIN: Thank you.

 FLORIDA PUBLIC SERVICE COMMISSION

 424

 1 REDIRECT EXAMINATION

 2 BY MR. McGLOTHLIN:

 3 Q. And I want to begin with some questions that

 4 address this conversation on 29A. I think it's

 5 important to do. Mr. Putman, you have with you, do you

 6 not, a copy of what was originally called your DJP-6,

 7 which is the summary of the bids to the April 2004 RFP?

 8 A. I have that.

 9 Q. And is that the basis for the prices that you

 10 think the company could have bought sub-bituminous coal

 11 for delivery in 2006?

 12 A. That's correct, those are the numbers I used.

 13 Q. Now, I want to refer you to the answer in 29A.

 14 Do you see the sentence that says, "The PRB coal, if it

 15 was purchased in May 2006, was more expensive than the

 16 base coal that it was blended with"?

 17 A. I haven't found it yet.

 18 Q. The fourth line in the answer.

 19 A. Okay. Yes, I found it.

 20 Q. Does the coal that was purchased in May 2006

 21 have any relationship to the bids of the April 2004 RFP?

 22 A. No. Well, ask that again.

 23 Q. What was the PRB coal that was purchased in

 24 May 2006, do you know?

 25 A. The PRB coal that we recommended selected was

 FLORIDA PUBLIC SERVICE COMMISSION

 425

 1 Kennecott coal that would have been bought and delivered

 2 in 2006.

 3 Q. Yes. And is that the same as or different

 4 from the coal that was purchased in May 2006 and blended

 5 with base coal and actual purchase?

 6 A. No, the bituminous coal they are talking about

 7 is different than the coal shown on my Exhibit 1, Number

 8 6.

 9 Q. So the question is can you glean whether in

 10 preparing 29A did Progress Energy base its price of the

 11 delivered cost of sub-bituminous coal on your Exhibit

 12 6 or on something else?

 13 A. It must have been something else. In this

 14 sentence that you quoted the PRB coal that was purchased

 15 in May 2006, and there was no coal, sub-bituminous coal

 16 purchased -- actually purchased in May 2006.

 17 Q. Would you recall a test burn that occurred in

 18 that time frame?

 19 A. Oh, okay. Okay. Thank you. Yes, now --

 20 okay. That was purchased in 2006, the Peabody coal for

 21 test burn.

 22 Q. So in terms of comparison of the price you

 23 contend was available and should have been taken

 24 advantage of from the '04 RFP as shown on 6, and the way

 25 Progress Energy constructed 29A, can you tell us whether

 FLORIDA PUBLIC SERVICE COMMISSION

 426

 1 the company based its price on delivered PRB coal on the

 2 April 2004 RFP or on something else?

 3 A. It was not based on the 2004 RFP.

 4 Q. Okay. Now, there is a column there that says

 5 PRB transportation cost to terminal, and they range from

 6 30 to $32 and change or dollars per ton, are those equal

 7 too, less than, or more than the transportation

 8 component of the April 2004 RFP as you understand it?

 9 A. These numbers are more than the numbers used

 10 in producing DJP-6.

 11 Q. Okay. Now, with respect to the numbers shown

 12 on the summary of bids to the April '04 RFP, the

 13 evaluated utilized price, at what point in the process

 14 of evaluating bids, identifying winners, and negotiating

 15 contracts, does the utility secure transportation for

 16 those tons?

 17 A. The normal process in preparing to react to an

 18 RFP would be to look at these bids, and look at the

 19 winners of that, the lowest cost, and say, okay, these

 20 are the ones I'm going to negotiate with. Now, I need

 21 to go firm up my assumptions. They have got a bid in

 22 hand from the coal supplier. The other piece that is

 23 very important is they have got to firm up the

 24 transportation part of it. They have put a number in

 25 here that they say is what the transportation is going

 FLORIDA PUBLIC SERVICE COMMISSION

 427

 1 to be. They need to either have already an existing

 2 contract that they can move that coal under, or they

 3 need to go get a firm bid from a transportation supplier

 4 that would match up, support their evaluation.

 5 And to go off and negotiate with a coal

 6 supplier when you don't have the transportation

 7 component locked up would be dangerous. So the normal

 8 process is before you start your negotiations, very

 9 quickly, even a lot of times contemporaneously with

 10 asking for coal bids, you ask for transportation bids,

 11 you put them together, and then you know what it is you

 12 are getting ready to negotiate. You would not want to

 13 negotiate with a coal supplier, make a deal, and then go

 14 out and tie up your transportation costs.

 15 Q. You attached to your testimony, in addition to

 16 this summary of all bids, a letter reporting to

 17 management the purchases that resulted from the RFP of

 18 2004, did you not?

 19 A. That's correct.

 20 Q. Do you have that available to you?

 21 A. I do. It is Exhibit Number DJP-5.

 22 Q. Now, I draw your attention to the discussion

 23 of the purchases that were made as a result of the RFP

 24 process and also the report of the cost in dollars per

 25 MMBtu at which those purchases will be delivered to the

 FLORIDA PUBLIC SERVICE COMMISSION

 428

 1 plant site. Do you see that purchase?

 2 A. Yes.

 3 Q. When one correlates that report of what the

 4 delivered purchased price was going to be to the

 5 evaluated utilized costs shown on the DJP-6, can you

 6 ascertain whether the contract price reported including

 7 transportation is equal to, less than, or more than the

 8 evaluated cost?

 9 A. The example would be on Page 2 of 4 of that

 10 letter. Under domestic water it says that they have

 11 purchased Delta coal, which is coal for Crystal River 4

 12 and 5 from -- the first one is from Central Coal

 13 Company, and that coal would ship and deliver into

 14 Crystal River at $2.672 per million Btu. If you go back

 15 to the bid sheets and find that Central Coal is down in

 16 the Central Appalachian coals in the middle, the second

 17 one down, you will see if you go across for the cash

 18 cost, not the evaluated cost, but the cash cost is

 19 2.672, which lines up with the letter.

 20 So what they are reporting is that they were

 21 able to buy that Central Coal at the price that they had

 22 in their evaluation sheet. So obviously they bought the

 23 coal at the price it was bid and they locked up the

 24 transportation at the cost that was put into that

 25 evaluation sheet.

 FLORIDA PUBLIC SERVICE COMMISSION

 429

 1 If you look on the following page under

 2 domestic rail under Delta Coal, again, coal bought for

 3 Crystal River 4 and 5, it talks about coal bought from

 4 Massey Energy and at a delivered cost into Crystal River

 5 at 2.693. If you go back to the bid sheet you will see

 6 Massey Coal -- in this case it's the second Massey down,

 7 the Van Mill mine (phonetic). If you go across again,

 8 the cash cost is 2.693.

 9 Now, I will point out the difference between

 10 the cash cost and the evaluated cost. The evaluated

 11 cost includes the impact of operation in the boiler. It

 12 is used for decision-making. But once you decide on

 13 what you are actually going to pay to the coal supplier

 14 and transportation supplier is the cash cost. So that

 15 is what you pay. You make your decision based on the

 16 evaluated cost.

 17 Q. Based upon the examples that you gave, do I

 18 understand correctly that with respect to the purchases

 19 actually made as a result of the RFP process in 2004,

 20 the evaluated price including transportation was

 21 translated into a contract with the same price including

 22 transportation?

 23 A. That's correct.

 24 Q. In your experience, and you have had

 25 experience in terms of conducting RFPs and contracting

 FLORIDA PUBLIC SERVICE COMMISSION

 430

 1 with bidders, have you not?

 2 A. That's correct. For a period of time I

 3 managed Southern Company's procurement, and we were the

 4 largest coal buyer in the United States, and one of the

 5 top two or three in the world.

 6 Q. Would a situation in which an RFP process that

 7 led to an evaluated cost subsequently translated into a

 8 contract at the same or very nearly the same cost be

 9 typical or atypical?

 10 A. It should be typical. That's the way it ought

 11 to work.

 12 Q. Would you expect that to be true not only of

 13 the bituminous purchases that were made, but of the

 14 sub-bituminous offers that were there for the taking?

 15 A. I would expect the process to work the same.

 16 If you are going to buy something and negotiate

 17 something, you better tie up the transportation costs at

 18 the same time you are tying up the coal costs, yes.

 19 Q. Now, you have heard references to and

 20 descriptions of the transportation component of this

 21 evaluated cost referred to as forecasts and you have

 22 heard people say that your assumptions on the

 23 transportation costs were in error because they

 24 subsequently increased. Do you accept and agree with

 25 the proposition that the delivered costs shown in the

 FLORIDA PUBLIC SERVICE COMMISSION

 431

 1 summary bids was subject to significant increases in the

 2 transportation component?

 3 A. It should not be. Before it got on this

 4 sheet, somebody at Progress Energy should have

 5 determined what was available for transportation and had

 6 a good handle on that.

 7 Q. So if that process had unfolded as you say it

 8 should have unfolded, if it had taken place in exactly

 9 the same way they were converting the offers for

 10 bituminous coal into contracts at exactly the same price

 11 including transportation. In your opinion, what should

 12 the delivered cost of PRB on -- what should it be on 29A

 13 for comparison with the other transactions?

 14 A. The PRB delivered cost to terminals number?

 15 Q. Well, let me ask you this. At what point of

 16 delivery do the evaluated costs shown on your

 17 Exhibit 6 assume?

 18 A. All the way to the Crystal River plant.

 19 Q. So even if we used the evaluated costs shown

 20 for delivery to the plant, which includes more legs of

 21 the transportation than does 29A, can you tell us

 22 whether the prices bid into the 2004 RFP for

 23 sub-bituminous coal were equal to, more than, or less

 24 than the prices shown for the spot purchases and the

 25 blend purchases here?

 FLORIDA PUBLIC SERVICE COMMISSION

 432

 1 A. The prices that were available in 2004 under

 2 this inquiry are lower than the prices shown on the 29A

 3 answer, that they were -- 29A indicates a higher

 4 transportation cost and probably a higher coal cost than

 5 is shown on Exhibit 6.

 6 Q. So if 29A were modified to include that last

 7 transportation leg to the terminal, would the

 8 differential between what's shown for the bituminous

 9 purchases and the delivered cost of the evaluated cost

 10 in the RFP from '04 increase or decrease?

 11 A. They would increase on 29A.

 12 Q. In that instance would the PRB purchases be

 13 more or less attractive compared to the bituminous

 14 purchases reported on 29A?

 15 A. Would you ask that again?

 16 Q. Yes. If you fold in the additional component

 17 of transportation cost that is not shown on this sheet

 18 and compare that to the corresponding delivery costs

 19 shown in the evaluated cost from the 2004 RFP, would the

 20 sub-bituminous coal bids be more attractive or less

 21 attractive in terms of the differential between the

 22 costs?

 23 A. The 29A numbers would be less attractive

 24 compared to Exhibit 6.

 25 Q. When you say the 29A prices, are you referring

 FLORIDA PUBLIC SERVICE COMMISSION

 433

 1 to the bituminous purchases there?

 2 A. I'm really referring to both of them.

 3 Bituminous coal would be less attractive than the

 4 bituminous coal in 6. Sub-bituminous would be less

 5 attractive than the sub-bituminous on Exhibit 6.

 6 Q. I see what you're saying. All right. Now,

 7 with respect to the blending, I'll refer you to the

 8 answer in 29A, one, two, three, four, five, six, about

 9 six lines in it says in the summer of 2007, Progress

 10 Energy was offered and purchased low quality Central

 11 Appalachian coal that was a cost-effective blend coal.

 12 Do you see that?

 13 A. I do.

 14 Q. If the coal was offered in the summer of 2007,

 15 when would it have been delivered, if you know?

 16 A. I assume it would have been delivered shortly

 17 after that in a spot market kind of buy.

 18 Q. Does 29A shed any light on the volumes of the

 19 lower bituminous coal that were blended in that fashion?

 20 A. No, I do not see any tonnage numbers on here.

 21 Q. And does 29A address, in any fashion, the

 22 corresponding savings that could have been achieved in

 23 2006 with the PRB blend?

 24 A. It does not.

 25 Q. Based upon the information available to you,

 FLORIDA PUBLIC SERVICE COMMISSION

 434

 1 Mr. Putman, do you think the savings that should have

 2 been accomplished by virtue of purchases of

 3 sub-bituminous coal for delivery in the 2006 and 2007 on

 4 the one hand, and the blending of lower Btu bituminous

 5 coal with higher Btu bituminous coal that began sometime

 6 in the summer of 2007 on the other hand, are those two

 7 measures necessarily mutually exclusive?

 8 A. They are not mutually exclusive.

 9 Q. If they are not mutually exclusive, does the

 10 blending of the bituminous coals referred to in 29A do

 11 anything to cover or mitigate the savings that could

 12 have been accomplished with the purchases of the

 13 sub-bituminous coal emanating from the 2004 RFP and the

 14 opportunity presented by the Indonesian coal?

 15 A. It is my stated opinion that both of them

 16 could have existed. You could have captured the value

 17 of the blend based on 2004, and then later in 2007 when

 18 this opportunity became available, it could have been

 19 captured, too, if it was a real savings. I do not feel

 20 that it does mitigate it.

 21 Q. Yesterday you were asked some questions about

 22 the design basis coal. Preliminarily, and to set the

 23 stage for further questions, would you describe for the

 24 Commission your understanding of the significance of the

 25 design basis coal, speaking generally at this point.

 FLORIDA PUBLIC SERVICE COMMISSION

 435

 1 A. When you design a unit you have to decide what

 2 kind of coal you expect to burn in it, and you come up

 3 with a design basis coal. And the design basis coal is

 4 going to have all the characteristics of a coal that you

 5 would expect to burn and then the engineers go about

 6 designing the unit in such a way that it will

 7 successfully burn around that design basis coal.

 8 Q. And as you understand it, what is the design

 9 basis fuel for Crystal River 4 and 5?

 10 A. It was a 50/50 blend of eastern bituminous

 11 coal and western sub-bituminous coal.

 12 Q. And what is the significance of the

 13 geographical designations in the design basis coal?

 14 A. It was a shorthand for saying bituminous

 15 eastern coal and sub-bituminous coal out of the Powder

 16 River Basin area. Powder River Basin being a broad term

 17 not restricted to states.

 18 Q. As you understand the use of the design basis

 19 coal, is there any relationship between the

 20 specification of the design basis coal on the one hand

 21 and reliability of deliverability on the other?

 22 A. No. It's a coal, the expectation is that you

 23 are going to be able to get that coal to your plant.

 24 Q. Is the purpose of the design basis fuel to

 25 limit the geographical origins of the coal to be burned

 FLORIDA PUBLIC SERVICE COMMISSION

 436

 1 in the unit?

 2 A. No. The decision on a design basis coal is to

 3 sort of set some parameters for design. What will then

 4 happen is the engineering company would meet with the

 5 utility who is purchasing this and decide how broad a

 6 range around that design coal they want that plant to be

 7 built. Whether they want to build a narrow plant that

 8 can only burn one particular narrow kind of coal, or

 9 they want to broaden around that design basis midpoint

 10 so that they can burn a wider range of coal, that is a

 11 decision made between the buying utility and the

 12 engineering firm to implement that decision.

 13 Q. There were some questions and answers

 14 yesterday about the e-mail from the representative of

 15 PT Adaro describing that there was -- that firm had no

 16 coal to offer in 2007. What is the time frame of the --

 17 what is the period during which your recommendations

 18 would have effect in terms of deliveries to Crystal

 19 River 4 and 5?

 20 A. The bid was made in the February 2006 time

 21 period. The expectation would be if you were going to

 22 buy that you would put that in place, contract for that

 23 within 30 or 60 days, around that time, and deliveries

 24 would have started January 1st, 2007.

 25 Q. Do you see any relationship to the bid that

 FLORIDA PUBLIC SERVICE COMMISSION

 437

 1 was submitted in February 2006 and the statement that

 2 the same company had no coal to offer in 2007?

 3 A. I do not see that different time frame.

 4 Q. Again drawing on your experience with being

 5 involved with RFPs, bids, contracting, do you have an

 6 opinion as to what the consequences would be if an

 7 entity were to submit a bid and then it were discovered

 8 that the bid had no coal to back it up?

 9 A. It would be very damaging to the bidders, the

 10 coal company's reputation. It would make every bid

 11 thereafter suspect and would have a serious impact on

 12 that company's reputation and success.

 13 Q. Now I believe yesterday there was reference to

 14 the practice of submitting bids that are subject to

 15 prior sale. Based on your experience, is that typical

 16 or atypical in the industry?

 17 A. I'd say that was fairly typical. And I would

 18 also say that if a company makes that kind of an offer

 19 subject to prior sale and they sell it, they are very

 20 quick to inform the utility that that coal is no longer

 21 available to protect their reputation, and they would

 22 usually do that in writing.

 23 Q. You were asked some questions about the

 24 delivery risk associated with the Indonesian coal. Do

 25 you recall that question and answer?

 FLORIDA PUBLIC SERVICE COMMISSION

 438

 1 A. I do.

 2 Q. Do other coals at other geographic locations

 3 have delivery risks associated with them?

 4 A. Yes. All coals have their own sets and kinds

 5 of risk about delivery. Yes.

 6 Q. Given that each origin of coal has associated

 7 with it a delivery risk, in your experience and in your

 8 opinion what's the best way for a utility to manage

 9 those risks?

 10 A. The best way to manage risks about either both

 11 price and delivery is to have a range of options that

 12 you can call on. So if you buy coal by rail out of

 13 Central Appalachia and buy coal by barge down the

 14 Mississippi River and buy coal by oceangoing vessels

 15 from South America or Indonesia, then you've got

 16 multiple delivery paths. If one of them becomes

 17 disrupted, you can increase the other flows and mitigate

 18 your risk that way.

 19 Q. You were asked some questions about the, the

 20 graph showing, that's captioned Coal Costs/Quality

 21 Gradient, and I believe in your answer you said time is

 22 a more important consideration than quantity. Do you

 23 remember that question and answer?

 24 A. Yes, I do, and that was my response.

 25 Q. Would you elaborate on what you meant when you

 FLORIDA PUBLIC SERVICE COMMISSION

 439

 1 said that time is a more important consideration?

 2 A. The coal market is a volatile market; it goes

 3 up and down over time. And so pricing of any kind of an

 4 offer, spot coal, contract coal, is heavily dependent on

 5 what is the market expectation at the time an offer is

 6 made. Is the supplier expecting the prices to go up, do

 7 they expect them to go down? So they're trying to tie

 8 in a price now to get a higher price than when it goes

 9 down. All those expectations, everybody has got one,

 10 the supplier has got a set, the buyer has got a set, it

 11 drives the price significantly. And in a volatile

 12 market, just like buying stock in the stock market, what

 13 are your expectations? That makes a big difference

 14 about what you're going to pay.

 15 The quantity is going to be based on what the

 16 coal supplier has got on hand, issues that really are

 17 less important to everybody than the timing and market

 18 expectations.

 19 Q. Can you determine the two different periods of

 20 time that are reflected in this Coal Cost/Quantity

 21 Gradient handout?

 22 A. I can define the bottom number because as I

 23 understand it that was the PRB Peabody bid that was for

 24 the test burn. I don't know the timing or even what the

 25 top box is based on.

 FLORIDA PUBLIC SERVICE COMMISSION

 440

 1 Q. And to be clear, do you accept the Peabody,

 2 the cost of the Peabody transaction as representative of

 3 what the price the utility would have paid for

 4 deliveries in 2006?

 5 A. Bought in that month at that time that was a,

 6 a price that was available. Yes.

 7 Q. But is it the price that was available to

 8 Progress Energy had it taken advantage of the offers in

 9 the earlier RFP?

 10 A. If they had bought that same quantity coal in

 11 2004, it would have been a lower price, again, because

 12 of timing.

 13 Q. The, the graph shows a straight line

 14 connecting two points. In your experience, is there a

 15 straight line linear correlation between the data points

 16 shown on this graph?

 17 A. It is my experience that there is not a

 18 straight line correlation between quantity and price.

 19 It is too dependent -- even in the same time period it's

 20 depending on what a supplier has got, what he's got

 21 available, how many tons he's got to sell.

 22 Q. I believe Commissioner Argenziano asked you a

 23 question about the design of the unit that corresponded

 24 to the design basis fuel. Can you describe whether

 25 there is a range of design criteria that range from

 FLORIDA PUBLIC SERVICE COMMISSION

 441

 1 conservative to less conservative design principles when

 2 building a power plant corresponding to a design basis

 3 fuel?

 4 A. Yes. Again, I describe the design basis fuel

 5 as sort of the center point or a point on the design,

 6 and then the decision is to, how wide do we go around

 7 that design basis fuel. If, for example, the design

 8 basis fuel has a particular slagging and fouling

 9 characteristic -- slagging and fouling is what occurs in

 10 a boiler, can occur in a boiler to clog up the air flow

 11 passages where the hot gases flow through the boiler.

 12 If you have a lot of slagging and fouling, it begins to

 13 clog up around that and the flow becomes restricted, the

 14 unit becomes less efficient, lots of problems occur. So

 15 that's an important design characteristic.

 16 So you look at the design fuel and say, okay,

 17 this fuel has got these kind of characteristics. So you

 18 can then agree, decide to buy a unit that's built in a

 19 very narrow range around those kind of characteristics,

 20 or you can say, no, let's build one that's more

 21 conservative so that you can handle more slagging and

 22 fouling or let's buy one that's very conservative so

 23 that almost you can't slag and foul it up, it's not

 24 going to be a problem. All those cost more money.

 25 Every time you take an expanding step, it costs more

 FLORIDA PUBLIC SERVICE COMMISSION

 442

 1 money. And so that's the decision that gets made.

 2 But, yes, you start with the design fuel and

 3 you buy around that design fuel depending on do you want

 4 a Volkswagen or do you want a Lexus.

 5 Q. Now with respect to that continuum you

 6 described from less conservative to more conservative,

 7 where would Crystal River Units 4 and 5 fall in that?

 8 A. Crystal River, and I complimented the prior

 9 management, was a Lexus. It was one that was built to

 10 have a wide range of capability around that design fuel

 11 so that you didn't just have to buy that narrow design

 12 fuel. You could buy a significant range of coals that

 13 were worse and better than that design fuel.

 14 Q. Staff asked you a question about the Vista

 15 model results for 2004 and 2005. And in response you

 16 said that you have learned that, as applied, Vista

 17 apparently did not consider sodium well. Would you

 18 elaborate on what you meant by that answer?

 19 A. Sodium is a problem. Sodium is one of the

 20 causes of slagging and fouling. That's an indicator.

 21 Sodium is found in the ash of the coal. It's a small

 22 amount, but what it does is it starts to stick on the

 23 walls of the tubes and start this clogging process. And

 24 it stays in sort of a liquid kind of state. And so once

 25 it's there, it catches the next thing that comes along

 FLORIDA PUBLIC SERVICE COMMISSION

 443

 1 and it can build up over time. Plants have sub-blowers

 2 that use steam to knock that stuff off the wall and keep

 3 it clean; sort of a high-pressure cleaning process. But

 4 it is a problem.

 5 And the Spring Creek coal, not because of the

 6 state it's in but just because of geological events that

 7 occurred back in the billions of years ago, it has a

 8 high sodium content. And people buy coal who are aware

 9 of that say that that's something that you've got to

 10 really be prepared to take care of.

 11 And so it would be my expectation that the

 12 Vista model would model that characteristic. Because

 13 sodium is such a swinger of effects, if the sodium -- if

 14 the model was any good, it would say an 8 percent sodium

 15 coal is a whole lot worse than a 1 percent sodium coal.

 16 And it should have showed up; it should have caused that

 17 coal to have a higher utilization cost. And the fact

 18 that it still ended up number one in the bid process

 19 makes me suspect that it either was not run, the Vista

 20 model was not run, or less likely that the Vista model

 21 does not consider sodium.

 22 But in any case, in reality I will admit it

 23 should not have ended up number one, but it did. And in

 24 my process I did not second-guess the model. I did not

 25 second-guess the way Progress Energy ran it and the fact

 FLORIDA PUBLIC SERVICE COMMISSION

 444

 1 that it came up number one.

 2 Q. Now you've mentioned in earlier answers that

 3 Crystal River 4 and 5 were designed conservatively to

 4 accommodate slagging and fouling properties in coal. Do

 5 you recall saying that?

 6 A. Yes.

 7 Q. Is the Vista model configured in a way that

 8 reflects the individual design and architecture of the

 9 power plant that's being modeled?

 10 A. The model is intended to be customized to fit

 11 the specific design of the plant, both the physical

 12 design and their cost structure. Because what you're

 13 going to end up with is a cost of how much does it cost

 14 to burn this particular coal.

 15 So if it means that, for example, sodium is

 16 going to cause slagging and fouling and you're going to

 17 have to run the precipitator, I mean the sub-blowers

 18 more with that coal than you would with a clean coal,

 19 then that's going to add to the cost. So what you're

 20 going to end up with is more cents per million, cents

 21 per ton because of that. That's what the model is

 22 supposed to do. You're supposed to model it based on

 23 your unit.

 24 Q. If the Vista model is configured to the

 25 conservative design of 4 and 5, would the ability of

 FLORIDA PUBLIC SERVICE COMMISSION

 445

 1 the, of the units to accommodate coals that have the

 2 slagging and fouling properties be reflected in the

 3 output of that Vista run?

 4 A. Yes. And, again, the Vista run is not going

 5 to decide by itself what coal you're going to buy. What

 6 the Vista model would do is, okay, if you compare

 7 Crystal River 4 and 5 to some other less conservative

 8 unit, it's going to cost less to burn that coal in

 9 Crystal River than it is in this other one. It's still

 10 going to cost more to burn a high-sodium coal in Crystal

 11 River than a low-sodium coal, but it's not going to cost

 12 as much as other units. So it's going to take that

 13 conservatism into it. It's going to say, yes, there's a

 14 cost for burning that low-sodium -- high-sodium coal.

 15 Now you decide based on all the other factors, you the

 16 company, is it still a good thing to do.

 17 But, yes, it's going to take into account the

 18 fact that that plant was designed with wide spacing

 19 between its tubes so that it takes a longer time to

 20 bridge that over, maybe it doesn't ever get bridged

 21 over, and it can be kept clean. Yes.

 22 Q. Does the fact that the Spring Creek coal or

 23 the blend of which Spring Creek coal is a portion in the

 24 second bid for Kennecott, does the fact that that coal

 25 is going to be blended 20/80 with bituminous coal

 FLORIDA PUBLIC SERVICE COMMISSION

 446

 1 containing less sodium have an effect on the extent of

 2 any sodium impacts in Crystal River 4 and 5?

 3 A. Absolutely. Because it means that you're only

 4 putting 20 percent of the total flow of coal into that

 5 unit is the high-sodium coal. It's still going to have

 6 some impact, but it's significantly reduced by that

 7 ratio so that you can't look at just Spring Creek coal

 8 and say, ooh, this is bad, because it's -- a lot of the

 9 Btus, a lot of the flow is going to come from the

 10 bituminous coal that doesn't have the problem to combine

 11 with the sub-bituminous Spring Creek coal that does have

 12 the problem. So it reduces the problem.

 13 Q. Have you had an opportunity to calculate the

 14 effective sodium content of the 20/80 blend when Spring

 15 Creek is blended with, with bituminous coal?

 16 A. I did look at that and I did run a sheet to

 17 evaluate, show that.

 18 Q. And what does the calculation, what does that

 19 calculation show?

 20 A. I'm going to have to ask for my sheet that I

 21 ran that I hope Earl's got.

 22 CHAIRMAN CARTER: Mr. McGlothlin, would you

 23 yield for a moment, please, sir?

 24 COMMISSIONER SKOP: Mr. Chair, I probably can

 25 reserve until Mr. McGlothlin is done.

 FLORIDA PUBLIC SERVICE COMMISSION

 447

 1 CHAIRMAN CARTER: You want to wait? Okay.

 2 MR. McGLOTHLIN: I'm sorry. Was your question

 3 how much longer do I have or do I want to yield?

 4 CHAIRMAN CARTER: It's kind of hard to hear in

 5 here sometimes, isn't it?

 6 MR. McGLOTHLIN: I'm sorry.

 7 CHAIRMAN CARTER: You may proceed.

 8 MR. McGLOTHLIN: Mr. Poucher is distributing a

 9 document captioned Effects of Blending Sodium in

 10 Different Coals. May we have an exhibit number on that?

 11 CHAIRMAN CARTER: Commissioners, for the

 12 record this will be Exhibit Number 57. Exhibit Number

 13 57. We'll just say Effects of Blending Sodium in Coal

 14 or something like -- is that okay, Mr. McGlothlin? Will

 15 that work for you as a short title?

 16 MR. McGLOTHLIN: Yes, sir.

 17 (Exhibit 57 marked for identification.)

 18 COMMISSIONER SKOP: Mr. Chair.

 19 CHAIRMAN CARTER: Commissioner Skop.

 20 COMMISSIONER SKOP: Thank you, Mr. Chair.

 21 We've been going for quite some time. Would it be

 22 possible to take like a brief three-minute break or a

 23 five-minute?

 24 CHAIRMAN CARTER: Mr. McGlothlin is in his

 25 stride.

 FLORIDA PUBLIC SERVICE COMMISSION

 448

 1 (Laughter.)

 2 COMMISSIONER SKOP: Duty calls.

 3 MR. McGLOTHLIN: A break is fine.

 4 CHAIRMAN CARTER: Is that okay with you,

 5 Mr. McGlothlin?

 6 MR. McGLOTHLIN: Yes, sir. Yes, sir.

 7 CHAIRMAN CARTER: Okay. Then let's do this,

 8 Commissioners. Let's take five. We're on recess for

 9 five. We'll come back at, on the hour.

 10 (Recess taken.)

 11 We are back on record. Mr. McGlothlin, you

 12 may proceed.

 13 MR. McGLOTHLIN: Thank you.

 14 BY MR. McGLOTHLIN:

 15 Q. Mr. Putman, prior to the break we had

 16 distributed a document that's been marked Exhibit 57.

 17 Do you have it in front of you?

 18 A. I do.

 19 Q. The first page is captioned Effect of Blending

 20 Sodium in Different Coals. Would you describe for the

 21 Commissioners the information that is contained on that

 22 page?

 23 A. This is a discussion of what happens as you

 24 blend sodium. The first thing you need to know is that

 25 sodium is measured in terms of percentage in the ash,

 FLORIDA PUBLIC SERVICE COMMISSION

 449

 1 not percentage of the overall coal. First you take out

 2 the ash part of the total coal and then you divide it up

 3 on a percentage basis to the components that are in the

 4 ash, and sodium is one of those that's measured that

 5 way.

 6 So that a CAPP coal with an ash of 15 percent

 7 and a 1 percent sodium produces a relatively small

 8 amount of sodium. The sub-bituminous coal that we're

 9 talking about with a 5 percent ash and an 8 percent

 10 sodium produces a small amount of sodium. And if you

 11 follow the numbers underneath that, CAPP coal sodium for

 12 800,000 tons, and I'm making a 80/20 blend, 800,000 tons

 13 of CAPP coal with a 13 percent ash, you get 104,000 tons

 14 of ash. And if you multiply that by a .01 sodium, you

 15 get 1,040 tons of sodium. And if you combine that with

 16 a sub-bituminous coal, twenty -- 200,000 tons, again

 17 making the 80/20 blend, with a 5 percent ash, you get

 18 10,000 tons of ash. With the sodium part of that of

 19 8 percent of the ash, you get 800 tons of sodium. You

 20 blend that, you get this one million eight hundred -- I

 21 mean 1,840 tons of sodium divided by the total tons of

 22 ash, not the tons of coal but the tons of ash, and you

 23 get a 1.61 percent sodium in this blend.

 24 So, again, you start off with a high

 25 sub-bituminous Spring River kind of sodium of 8 percent,

 FLORIDA PUBLIC SERVICE COMMISSION

 450

 1 you blend it with a low-sodium CAPP coal, and you end up

 2 with a number 1.61, which is down more in the normal

 3 kind of range of what you'll see in, in other kinds of

 4 coal.

 5 CHAIRMAN CARTER: Mr. McGlothlin, would you

 6 yield for a moment?

 7 MR. McGLOTHLIN: Yes, sir.

 8 CHAIRMAN CARTER: Had you finished, Mr.

 9 Putman?

 10 THE WITNESS: Pardon?

 11 CHAIRMAN CARTER: You go ahead and finish your

 12 answer.

 13 MR. McGLOTHLIN: Have you completed your

 14 answer?

 15 THE WITNESS: Yes. That's my answer. Yes.

 16 CHAIRMAN CARTER: Okay. Would you yield for a

 17 moment?

 18 MR. McGLOTHLIN: Yes, sir.

 19 CHAIRMAN CARTER: Thank you.

 20 Commissioner Skop, you're recognized.

 21 COMMISSIONER SKOP: Thank you, Mr. Chairman.

 22 Just a quick point of clarification on the

 23 calculation that we're looking at in terms of the

 24 blending of different coals. Are we to assume that the

 25 sub-bituminous coal listed in this exhibit is the

 FLORIDA PUBLIC SERVICE COMMISSION

 451

 1 Springhill, I mean, Spring Creek coal?

 2 THE WITNESS: Yes.

 3 COMMISSIONER SKOP: All right. Thank you.

 4 CHAIRMAN CARTER: You may proceed.

 5 BY MR. McGLOTHLIN:

 6 Q. Thank you, Commissioner. That was going to be

 7 my next question.

 8 And just to follow through on that,

 9 Mr. Putman, the CAPP coal there, is that representative

 10 of the type of bituminous coal that would be blended

 11 with the Spring Creek coal at Crystal River 4 and 5?

 12 A. It's representative of CAPP coal. Yes.

 13 Q. And to be clear, the Spring Creek coal that

 14 was shown having a sodium percentage of 8 percent, on a

 15 standalone basis and for the Commissioners, what does

 16 the effect of, what does the effect of blending

 17 20/80 with the CAPP coal have on the corresponding

 18 sodium content of the blended coal?

 19 A. The blended coal comes out to be a

 20 1.61 percent of the ash is sodium.

 21 Q. Now if you know, do power plants have

 22 associated with them what would be a normal range of the

 23 sodium content that could be expected to accommodate

 24 without difficulty?

 25 A. Yes. Any power plant, once built, will have a

 FLORIDA PUBLIC SERVICE COMMISSION

 452

 1 range that it can accommodate and then it will probably

 2 have a range of preferred level of sodium. I mean,

 3 power plant operators like to have perfect coal and so

 4 they've got ones they prefer, but then the unit was

 5 designed to handle a range.

 6 Q. What would the normal range be in your

 7 experience?

 8 A. I'm not sure there's a normal range. Every

 9 plant is different, and it goes back to what were the

 10 decisions made at the time the unit was purchased.

 11 Q. Have you had occasion to compare the effective

 12 content of sodium, the 1.61 percent associated with this

 13 blend, with the corresponding sodium content of design

 14 basis fuel for Crystal River 4 and 5?

 15 A. It falls within an acceptable range of the

 16 design fuel.

 17 Q. What would you conclude from that, from that

 18 comparison?

 19 A. That this plant, Crystal River 4 and 5 were

 20 built and designed to burn a coal range that is actually

 21 bigger than this 1.61 percent. So it would -- these

 22 units were built to burn this kind of coal.

 23 Q. Mr. Putman, have you heard the term "sodium

 24 conditioning" as it relates to power plant operations?

 25 A. I have.

 FLORIDA PUBLIC SERVICE COMMISSION

 453

 1 Q. What does it mean?

 2 A. It has to do with the gas flow through the

 3 precipitator. Sodium and working with ash allows the

 4 resistivity of the ash to be more conducive to being

 5 collected in the precipitator. So whereas sodium may be

 6 a problem in the boiler, it becomes a help in the

 7 precipitator. Air flow going through the precipitator

 8 is -- the precipitator is built electrically. It

 9 creates an electric field. The ash flows because of

 10 that electric field based on its resistivity.

 11 The resistivity of a low sulfur coal makes it

 12 more difficult to collect. The resistivity of sodium

 13 added to that combines with the ash, makes the ash

 14 easier, more effective to collect.

 15 So some plants who are burning a low sulfur

 16 coal and have a small precipitator add sodium into the

 17 air flow to allow that smaller precipitator to be more

 18 effective to collect the ash flowing through the

 19 precipitator.

 20 Q. If you know, do any of the producers of coal

 21 add sodium at the mine in response to a request that it

 22 be done by utilities?

 23 A. Yes. Several of the producers in the Wyoming

 24 area that produce a low sodium and low sulfur coal offer

 25 as part of a deal that they will put some sodium into

 FLORIDA PUBLIC SERVICE COMMISSION

 454

 1 the coal as it's loaded onto railcars so that they don't

 2 have to install a sodium injection system at the plant.

 3 The coal has sodium as it flows through the boiler and

 4 through the precipitator.

 5 Q. Mr. Burnett asked you if your calculations

 6 assumed that the, whether the quantity of waterborne

 7 coal that you included encompassed those tons delivered

 8 at the Alabama State Docks. Do you recall that?

 9 A. Yes.

 10 Q. And he asked you if you were aware that

 11 Progress Energy does not currently have a contract for

 12 blending services at Alabama State Docks. Do you recall

 13 that?

 14 A. I recall that.

 15 Q. And you said the fact that the company does

 16 not currently have a contract would not alter your

 17 decision to include those tons of coal. Would you

 18 explain why that would not affect your analysis?

 19 A. The Commission last, in the last docket said

 20 that it would be a good thing to blend 20 percent coal

 21 offsite. They would not recommend or support blending

 22 onsite. They said it would be blended offsite.

 23 Practically that means that that blending

 24 needs to occur at a place where you can put the

 25 bituminous and the sub-bituminous on the ground, blend

 FLORIDA PUBLIC SERVICE COMMISSION

 455

 1 it by weight and put it back into a barge to take to the

 2 plant. You could also do that at a rail point, but

 3 there's not a practical location to do that. So that's

 4 why I focused in my analysis on waterborne coal.

 5 But, so we looked at the coal that was

 6 actually moved in tons to Crystal River in 2006, 2007

 7 and said in this hypothetical if they were to have

 8 bought coal, Powder River Basin coal with the intent to

 9 blend it with all waterborne coal, some of that

 10 sub-bituminous coal would have gone to IMT, some of it

 11 would need to go to another place where waterborne coal

 12 was being received in order to blend with that

 13 waterborne coal. That other place, especially in 2007,

 14 was at the Alabama State Docks.

 15 So if they were implementing the plan to have

 16 bought this sub-bituminous coal and to blend it, they

 17 would need to take it to where the bituminous coal was,

 18 which was at the Alabama State Docks, which would assume

 19 that they would then go and get an agreement, a contract

 20 with the State Docks to blend it just like they have a

 21 contract at IMT to blend. So that's why I assumed in my

 22 study because I am familiar with Alabama State Docks and

 23 I know they do blending services.

 24 Q. Does Alabama State Docks possess the

 25 facilities with which to blend coal for customers?

 FLORIDA PUBLIC SERVICE COMMISSION

 456

 1 A. Absolutely. They are proud of their ability

 2 to blend coal. That's what they do.

 3 Q. Do they hold themselves out as providing that

 4 service for their clients and customers?

 5 A. Yes, they do.

 6 Q. If Progress Energy had an opportunity to lower

 7 its fuel costs and lower the customers' bills

 8 accordingly by blending sub-bituminous and bituminous

 9 coals at Alabama State Docks, would they have an

 10 incentive to enter such a contract?

 11 A. Would Alabama State Docks have an incentive?

 12 Q. Would Progress Energy?

 13 A. Yes. Progress Energy would have an incentive

 14 if they were looking out for their customers, and State

 15 Docks would have an incentive to capture that business.

 16 Q. Mr. Burnett asked you some questions about the

 17 subject of the possible double-counting of SO2 credits

 18 in your calculations. Do you recall that?

 19 A. I do.

 20 Q. And you said that you are not persuaded that

 21 the evaluation exercise incorporates SO2 in the same

 22 manner as the emission allowance calculation. Do you

 23 recall that?

 24 A. I do.

 25 Q. What efforts have you made to ascertain the

 FLORIDA PUBLIC SERVICE COMMISSION

 457

 1 extent to which there is or is not double-counting in

 2 your calculation?

 3 A. I looked at the evaluation sheets for both the

 4 2006, I mean, the 2004 inquiry and for the 2006 inquiry.

 5 Those are in my exhibits: For 2004 it's DJP-6, for 2006

 6 it's DJP-8.

 7 For purposes of illustration, let's look at

 8 DJP-8 because it spells out the utilization cost. If

 9 you look at Page 1 of 2, and this again is a long

 10 spreadsheet as opposed to a paging, you have to sort of

 11 walk across the lines to get there. But if you look at

 12 just for demonstration purposes the first bid, Glencore

 13 LTD, and you were to walk all the way across that, you

 14 would come to a line on the second page called

 15 utilization cost per ton, straight ton. In this first

 16 example that is 18 cents per straight ton is the cost of

 17 utilization of this coal as determined by Progress

 18 Energy.

 19 If you go back a page, on this sheet there's

 20 a, again on that same line, an SO2 price of $1,514.

 21 This is the cost of an allowance as they viewed it to

 22 exist when they made this evaluation in February 2006.

 23 $1,514 for cost of an allowance.

 24 So now if you were to run a calculation, and I

 25 would like to pass around a sheet of paper --

 FLORIDA PUBLIC SERVICE COMMISSION

 458

 1 CHAIRMAN CARTER: One moment before you

 2 proceed further. If you would yield for a moment.

 3 COMMISSIONER SKOP: Thank you, Mr. Chairman.

 4 I'm trying to follow the witness and I'm just not seeing

 5 those numbers on the data we have. And I don't know if

 6 there's a confidential issue or what have you, but I'm

 7 trying to look at the same data and follow along. So

 8 can somebody help me out with that?

 9 MR. McGLOTHLIN: I may be able to help.

 10 BY MR. McGLOTHLIN:

 11 Q. Mr. Putman, do you have a more general

 12 illustration of the points you're making that you can

 13 provide the Commissioners?

 14 A. I do, but it's important to be able to follow

 15 that on the sheet. I will --

 16 MR. McGLOTHLIN: Okay. I don't think there's

 17 a confidentiality problem.

 18 THE WITNESS: We cleared that last time.

 19 COMMISSIONER SKOP: I guess I'm not, I'm not

 20 even seeing it on the sheet. That's the problem.

 21 THE WITNESS: You got DJP-8 out of my direct

 22 testimony?

 23 COMMISSIONER SKOP: I believe so.

 24 MS. BENNETT: Mr. Chairman.

 25 CHAIRMAN CARTER: Yes, ma'am, Ms. Bennett.

 FLORIDA PUBLIC SERVICE COMMISSION

 459

 1 MS. BENNETT: In the attachment to the

 2 testimony DJP-8 is confidential, but in yesterday's

 3 hearing Progress released the confidential information.

 4 CHAIRMAN CARTER: Do you remember that number?

 5 MS. BENNETT: And it's Exhibit 50.

 6 CHAIRMAN CARTER: 50? Okay. Thank you,

 7 Ms. Bennett. Commissioners.

 8 THE WITNESS: I apologize.

 9 CHAIRMAN CARTER: Mr. McGlothlin, you may

 10 proceed.

 11 THE WITNESS: Let me go back and make sure

 12 everybody is there. Does everybody see Glencore LTD on

 13 that? Y'all are still not seeing it.

 14 (Pause.)

 15 Is there a way I can help?

 16 CHAIRMAN CARTER: You may proceed, unless

 17 you're waiting on Mr. McGlothlin.

 18 THE WITNESS: No. I'm -- if you follow that

 19 top line across on the first --

 20 MR. McGLOTHLIN: First --

 21 CHAIRMAN CARTER: Have you got a question?

 22 MR. McGLOTHLIN: I think we were concerned

 23 that the Commissioners were not finding the specific

 24 reference.

 25 CHAIRMAN CARTER: We got it.

 FLORIDA PUBLIC SERVICE COMMISSION

 460

 1 MR. McGLOTHLIN: Everybody has it? All right.

 2 CHAIRMAN CARTER: We got it.

 3 BY MR. McGLOTHLIN:

 4 Q. Please proceed, Mr. Putman, with your

 5 explanation.

 6 A. Okay. I'll just start on the first page

 7 again. Glencore LTD, follow that top line across, on

 8 the first page you'll find an SO2 price, $1,514. That

 9 is the allowance price as assumed in the time they did

 10 this sheet.

 11 You proceed on to the second page, still on

 12 that top line, again it's a continuous wide page.

 13 You'll find towards the left-hand side a utilization

 14 cost in dollars per ton, and that is 18 cents as the

 15 utilization cost. Again, that is the output, as I

 16 understand it, from the Vista run or some other similar

 17 evaluation of the impact of the cost of that particular

 18 coal in that particular unit would cost 18 cents.

 19 Well, then I ran a calculation check and I

 20 would like to have this passed out. And in keeping with

 21 the other sheet, this one is also a wide sheet put

 22 together in sort of short notice, so I apologize.

 23 You'll have to unstaple it.

 24 All right. This is a calculation that you

 25 would go through to determine for a particular coal how

 FLORIDA PUBLIC SERVICE COMMISSION

 461

 1 many, how much you're going to have to spend in a

 2 allowance cost based on a ton of this coal being burned,

 3 assuming that there is no, that it's all, you're paying

 4 allowances for all the emissions. Not just emissions

 5 over some standard, but for all the emissions out of the

 6 stack for sulfur.

 7 And what you do is you take the quality of the

 8 coal in Btus per pound, convert that into tons, and then

 9 convert that into pounds of SO2. You multiply it by the

 10 pounds of SO2 per million Btu. We'll talk about that.

 11 Multiply that in another conversion and you multiply it

 12 by the allowance cost, which is in dollars per ton SO2,

 13 and you come out with the dollars per ton. Again, this

 14 is not my best work, but hopefully we can work our way

 15 through it.

 16 When you remove the two conversions of

 17 2,000 pounds per ton that cancel each other out, you end

 18 up with an equation that you take -- and, again, the

 19 example under that of the 12,200 Btus per pound is that

 20 same Glencore coal. If you follow that line across, you

 21 would find that that is a 12,200 Btu per pound. You

 22 multiply it by its sulfur SO2 content, which you will

 23 find on the second page, the third column, SO2 is 1.20.

 24 What that is is in terms of pounds per SO2 per million

 25 Btus. You multiply that by the allowance cost, which is

 FLORIDA PUBLIC SERVICE COMMISSION

 462

 1 $1,514, and you run all that math and you will find that

 2 the cost of burning that coal in money you would spend

 3 in allowances is $22.16. That's what it's going to cost

 4 you to burn a ton of that coal. And that's a very big

 5 number and it's a whole lot higher than the 18 cents

 6 utilization cost shown on their chart.

 7 And if you were to run those numbers and you

 8 looked down at that utilization cost chart, you'll see

 9 they're all significantly smaller than $22. But if you

 10 were to run this same equation for all those numbers,

 11 you would find that they don't match, that the cost in

 12 allowances alone is higher than the total utilization

 13 cost calculated by Progress Energy. So that said to me

 14 that the utilization cost that's shown on this sheet did

 15 not include the use of allowances based on the

 16 $1,514 that they assumed at that point.

 17 So that's what drove my assumption that the

 18 Vista model, the utilization model did not include the

 19 cost of sulfur allowances. And so that's why it was

 20 necessary to follow the procedure that was developed

 21 last case and run a comparison of the cost of allowances

 22 for the coal as purchased and as received, the base

 23 case, and compare that to the cost of the blended coal

 24 that was proposed, and you come up with a savings by

 25 using the blend on just the allowance part of it.

 FLORIDA PUBLIC SERVICE COMMISSION

 463

 1 MR. McGLOTHLIN: If I may -- first, Chairman

 2 Carter, could we have an exhibit number assigned to

 3 this?

 4 CHAIRMAN CARTER: Okay. That would put us to,

 5 that would give us Exhibit Number 58. 58. A title,

 6 Mr. McGlothlin, short one.

 7 MR. McGLOTHLIN: I'm trying -- the short is

 8 the tricky part. Treatment of sulfur in evaluation

 9 versus emission allowance cost.

 10 CHAIRMAN CARTER: How about Sulfur Evaluation

 11 Treatment, would that work with you?

 12 MR. McGLOTHLIN: I agree that's shorter.

 13 (Exhibit 58 marked for identification.)

 14 CHAIRMAN CARTER: Okay. You may proceed.

 15 MR. McGLOTHLIN: Only because that was a

 16 lengthy explanation of a mathematical exercise, I'd like

 17 to ask a couple of summarizing questions, if I could,

 18 for the record.

 19 CHAIRMAN CARTER: You may proceed.

 20 BY MR. McGLOTHLIN:

 21 Q. Mr. Putman, do I understand correctly that

 22 Exhibit 58 is a mathematical computation that's based on

 23 the information shown for the Glencore coal that is the

 24 first entry in your DJP-8?

 25 A. That is correct.

 FLORIDA PUBLIC SERVICE COMMISSION

 464

 1 Q. And you referred to a utilization cost of 18

 2 cents. Is that the credit or penalty that the

 3 evaluation process assigns to Glencore on the basis of

 4 its sulfur content?

 5 A. On the basis of all the contents of that coal

 6 as compared to the utilization to the plant design. So

 7 it's not just sulfur. It would be sodium, it would be

 8 sulfur, it would be Btu, moisture, all the contents of

 9 the coal.

 10 Q. And what is the $22.16 with which you are

 11 comparing the 18 cents?

 12 A. It is the cost only of burning that coal based

 13 on its sulfur SO2 emission and the cost of allowance.

 14 Q. If the evaluation process took into account

 15 fully the cost of emission allowances, SO2 emission

 16 allowances, what would you, what would you expect the

 17 relationship between the two values that you've

 18 identified here to be?

 19 A. It would be not quite a summation of those two

 20 numbers, but it would be close to a summation of those

 21 two numbers.

 22 Q. And what does the differential between, the

 23 differential between 18 cents on the one hand and

 24 $22.16 on the other hand tell you with respect to

 25 whether you have double counted the benefits of sodium,

 FLORIDA PUBLIC SERVICE COMMISSION

 465

 1 excuse me, of sulfur in your analysis?

 2 A. It appears that the evaluation did not include

 3 the effect of allowance costs, and therefore there was

 4 not any double-dipping done.

 5 Q. You were provided an answer to an

 6 interrogatory that FPL, in which FPL indicated it had

 7 rejected some Spring Creek coal because of high sodium

 8 content. Do you recall that document?

 9 A. I have that in front of me.

 10 Q. Does it surprise you that the Scherer

 11 operation would not be interested in the Spring Creek

 12 coal?

 13 A. What this says to me is that apparently Spring

 14 Creek was a low-cost bid because otherwise they wouldn't

 15 even comment on it, but that they elected to reject it.

 16 But Plant Scherer was not designed to burn

 17 sub-bituminous coal, so its design compared to its

 18 designed coal would be much more conservative. So it

 19 would be much more of a problem for that plant to burn a

 20 high-sodium coal because the tubes, again, would be

 21 closer together causing more of an opportunity for

 22 bridging by slagging and fouling than the Crystal River

 23 one. So it does not surprise me that Scherer would have

 24 been more inclined to reject a high-sodium coal.

 25 Q. You've spoken to the design, the difference in

 FLORIDA PUBLIC SERVICE COMMISSION

 466

 1 the designs of the plant. In response to a question

 2 from Mr. Burnett, you acknowledged that at Scherer they

 3 burn 100 percent sub-bituminous coal, do they not?

 4 A. They do.

 5 Q. Compared to the effect of the blending

 6 20/80 on the sodium content at Crystal River 4 and 5,

 7 what would the corresponding percentage of sodium be if

 8 Scherer were to burn 100 percent Spring Creek coal?

 9 A. It would be in the 8 percent range of full

 10 Spring Creek sodium.

 11 Q. And that 8 percent is compared to -- what was

 12 the effect of blended sodium content for the Crystal

 13 River 4 and 5?

 14 A. 1.6 percent.

 15 Q. Mr. Burnett asked you to agree that with

 16 respect to the Spring Creek coal the transportation

 17 costs of that particular coal would exceed the cost of

 18 the commodity. Is that unique to Spring Creek coal or

 19 is it true, applicable to other western coals as well?

 20 A. It would be true for all the Powder River

 21 Basin coal as I use that term. Moving to the southeast

 22 United States, the transportation will be a bigger

 23 component than FOB price number.

 24 Q. Mr. Burnett asked you some questions regarding

 25 the relationship between the use of the Spring Creek

 FLORIDA PUBLIC SERVICE COMMISSION

 467

 1 coal at Crystal River 4 and 5 on the one hand and the

 2 installation of the scrubbers in those units on the

 3 other. Are you aware of the status of the scrubber

 4 project at Crystal River 4 and 5?

 5 A. Only very generally. Generally.

 6 Q. With respect to whether they are operational

 7 now or when they are expected to be operational, do you

 8 have information about that?

 9 A. It's my understanding they are not operational

 10 now but under construction and have a not too distant

 11 start-up time, but I don't know the specifics.

 12 Q. So the scrubbers would be 2009 or later;

 13 correct?

 14 A. That's my understanding.

 15 Q. And for what period of time were you

 16 recommending that the utility should have purchased and

 17 delivered Spring Creek coal to Crystal River 4 and 5?

 18 A. In reality I said they should have bought it

 19 in 2005 and 2006. We're only focused on 2006 here

 20 though.

 21 Q. Would -- if they have delivered Spring Creek

 22 coal in 2005 and 2006, would that have interfered with

 23 anything the scrubbers are doing in 2009?

 24 A. No.

 25 Q. Mr. Burnett asked you some questions about the

 FLORIDA PUBLIC SERVICE COMMISSION

 468

 1 unloading rates at IMT. Do you recall those questions?

 2 A. I do.

 3 Q. What is your understanding of the value or the

 4 rate that Progress Energy contends should be applied to

 5 calculate an adjustment to your refund amount?

 6 A. How many dollars do they say should be

 7 adjusted?

 8 Q. No. What rate, what unloading rate did they

 9 use and what does it represent, if you know? Tons per

 10 hour is what I'm talking about.

 11 A. I'm not sure. The number 12,000 tons per day

 12 is the number that sort of is in my head.

 13 Q. If that is the maximum that's guaranteed by

 14 the terminal, does that necessarily mean that's all they

 15 can do?

 16 A. No. You normally would guarantee something

 17 that you are absolutely certain you can do that would

 18 have some upside opportunity.

 19 Q. You were asked about the low sulfur content of

 20 the Indonesian coal. If you know, what is the sulfur

 21 content of the Indonesian coals that were offered by

 22 Adaro and Kideco?

 23 A. One of them was one percent and the other one

 24 was one and a half percent sulfur.

 25 Q. And would they be blended 20/80 with the

 FLORIDA PUBLIC SERVICE COMMISSION

 469

 1 bituminous coal?

 2 A. Yes, as required by the Commission.

 3 Q. Would the blending of the Indonesian coal

 4 containing the low sulfur content, would the bituminous

 5 have an effect on the overall average of the sulfur

 6 content?

 7 A. Yes. If you blend the coal, you get a

 8 different blended average.

 9 Q. And have you calculated what the blended --

 10 what the sulfur content of the blended coal would be?

 11 A. Yes, I have, and that's attached to the

 12 earlier handout.

 13 Q. Tell the Commissioners what you did in that

 14 regard.

 15 A. This is Page 2 of -- I'm not sure what the

 16 number of that was. It was the same sodium blending a

 17 minute ago.

 18 CHAIRMAN CARTER: Exhibit 58, the one you told

 19 us to take apart.

 20 THE WITNESS: No. Fifty-eight has got a cover

 21 sheet.

 22 CHAIRMAN CARTER: Okay. Got it.

 23 THE WITNESS: It says cross-examination

 24 exhibit and then it has got two pages under that.

 25 CHAIRMAN CARTER: That is not 58.

 FLORIDA PUBLIC SERVICE COMMISSION

 470

 1 MS. BENNETT: It's 57.

 2 CHAIRMAN CARTER: Okay.

 3 THE WITNESS: Now we are looking at Page 1 of

 4 that. It says effect of blending sulfur in different

 5 coals. All right. This is, again -- here sulfur is

 6 measured in percentage of the total weight of the coal.

 7 Remember, sodium was total weight of the ash. This is

 8 the total weight of the coal. We are, again, trying to

 9 build an 80/20 blend of sub-bituminous coal using

 10 800,000 tons and 200,000 tons.

 11 I looked at two cases. Case 1 has a CAPP coal

 12 sulfur of .74 and a sub-bituminous coal of .32. This

 13 would be more in line with a Spring Creek coal from the

 14 sulfur standpoint, and you would blend that and you will

 15 end up with tons of sulfur for the CAPP coal of

 16 5,920 tons of sulfur blended with the sub-bituminous

 17 coal of 640,000 -- 640 tons of coal, and so the blend of

 18 that 1 million tons is .66 percent sulfur.

 19 Case 2 is more a sub-bituminous Indonesian

 20 coal still blending with that CAPP coal of .74 percent,

 21 but now the sub-bituminous coal is .1. You blend that.

 22 And, again, this time for the sub-bituminous coal you

 23 only produce 200 tons of sulfur. You add that, divide

 24 that by the 1 million tons of coal and you get a blend

 25 of .61 percent sulfur.

 FLORIDA PUBLIC SERVICE COMMISSION

 471

 1 Q. To be clear, Mr. Putman, in each of these

 2 scenarios have you chosen values for the CAPP coal that

 3 would be representative of the bituminous coal with

 4 which the sub-bituminous coal would be blended at

 5 Crystal River 4 and 5?

 6 A. Yes.

 7 Q. For Case 1, have you chosen a sulfur value

 8 that would be typical of Powder River Basin coals that

 9 would be blended 20/80?

 10 A. Yes. Of Powder River Basin coal, yes.

 11 Q. And in Case 2, have you included the sulfur

 12 content that was specified by the producers of the

 13 Indonesian coal that bid into the 2006 RFP?

 14 A. For one of the bids, yes. One of them was .1

 15 and the other was .15, yes.

 16 Q. And what is the effective blended content of

 17 sulfur with the more typical PRB coal as blended?

 18 A. .66 percent.

 19 Q. And what is the corresponding effective

 20 blended content of sulfur when CAPP coal is mixed with

 21 the Indonesian at 20/80?

 22 A. .61 percent.

 23 Q. Now, as I understand it, the concern with

 24 respect to the very low sulfur content of the Indonesian

 25 coal is that it could be too low and, therefore, could

 FLORIDA PUBLIC SERVICE COMMISSION

 472

 1 have a deleterious impact on the operation of the

 2 precipitator, is that correct?

 3 A. That's correct.

 4 Q. Are you familiar with the range of sulfur

 5 content that the precipitators installed at Crystal

 6 River 4 and 5 can accommodate?

 7 A. Again, they designed the precipitators in a

 8 conservative manner. They built a large box, a large

 9 box means that air flow has more time to pass through

 10 the precipitator, more time to be exposed to the

 11 electrostatic field, more time for ash to be collected.

 12 So that was the design. As I sit here, I don't know the

 13 exact number of the range for sulfur, but it was a wide

 14 range from a very low to a higher sulfur coal.

 15 Q. Would the values .66 and .61 fall within the

 16 range, to your knowledge?

 17 A. Yes.

 18 Q. Now, one asks what is the ash --

 19 A. Actually, I now have a piece of information.

 20 Q. Okay.

 21 A. Looking at the designed fuel, the designed

 22 fuel for the blend was a sulfur of .49 percent. So this

 23 coal at .61 and .66 hundredths is a higher sulfur than

 24 this was designed to handle. Again, the problem is if

 25 you go lower than the design then you would have some

 FLORIDA PUBLIC SERVICE COMMISSION

 473

 1 problems. If you were above that, then the precipitator

 2 will perform adequately.

 3 Q. What is the ash content of the Indonesian

 4 coals that were offered?

 5 A. Extremely low. The ash for the PT Adaro was

 6 1.2 percent, for the Kideco, PT Kideco it was 3 percent.

 7 Q. And what would be corresponding more typical

 8 ash content of either the CAPP coal or a typical PRB

 9 coal?

 10 A. A typical PRB is going to be around 5 to 6

 11 percent, a CAPP coal is going to be in the 8 to

 12 12 percent range.

 13 Q. What is the significance, if any, of the far

 14 lower ash content of the Indonesian coal for performance

 15 in the boiler and the performance of the precipitator?

 16 A. Lower ash is extremely valuable in a coal. We

 17 talked about that sodium is a measure of percent of the

 18 ash. So if you start with a smaller quantity of ash,

 19 even if you have the same percent, it's going to be less

 20 sodium to stick on the walls of the tubes and cause

 21 problems. So lower ash removes all the bad stuff that's

 22 in coal, and so it is very valuable. You don't have to

 23 collect it in the precipitator, because that is what

 24 precipitators do is collect the ash. There is a lot

 25 less to be collected. You have to dispose of ash. You

 FLORIDA PUBLIC SERVICE COMMISSION

 474

 1 have got to build a pond to put it in. Lots of costs

 2 involved with dealing with ash, so less is extremely

 3 valuable.

 4 Q. You were shown a document which I believe was

 5 in the nature of a news article or a press article to

 6 the effect that the Scherer unit plan to test some

 7 Indonesian coal. Do you recall seeing that?

 8 A. Yes, I have it in front of me.

 9 Q. And you inquired as to the publication date.

 10 What is the significance of that?

 11 A. Again, timing is everything. It has to do

 12 with when they were going to be trying to buy coal, when

 13 they were going to try to test coal, and put it into a

 14 perspective of this case. And to my understanding it

 15 was August of 2005.

 16 Q. Does the idea that Scherer would test the

 17 Indonesian coal surprise you?

 18 A. No, it doesn't. Again, it's a reaction to a

 19 problem in the market. We have heard about delivery

 20 problems out of the Powder River Basin in 2005 that ran

 21 over into 2006. And because of that, domestic delivery

 22 risk, risks exists everywhere, it was necessary for

 23 Plant Scherer to either run out of coal or to buy a coal

 24 similar to what they were used to burning. The other

 25 choice is they could have gone back to bituminous coal.

 FLORIDA PUBLIC SERVICE COMMISSION

 475

 1 They liked burning the sub-bituminous coal, so they went

 2 out and bought a relatively short-term period

 3 sub-bituminous coal that they were familiar with and

 4 they burned it. They did pay a premium for that, but

 5 they paid the premium as opposed to running out of coal.

 6 So if you're hungry, you'll pay a price.

 7 Q. You mentioned that this publication date was

 8 August 2005, is that correct?

 9 A. That's correct.

 10 Q. And what was the time of the -- timing of the

 11 disruptions in the deliveries from the west?

 12 A. Similar. Most of 2005, and had some impact in

 13 2006.

 14 Q. And when did Scherer begin to burn the

 15 Indonesian coal, if you know?

 16 A. My review of the 4/23 data says in January of

 17 2006 is when they began receiving it.

 18 Q. Based upon the publication date of that

 19 article and the date when they began to burn the

 20 Indonesian coal, what do you infer about the time

 21 required to test the Indonesian coal at Scherer before

 22 beginning to burn it?

 23 A. A relatively short time period to go from

 24 apparently leaking to the public that they were looking

 25 at it to when they actually had it received and burning

 FLORIDA PUBLIC SERVICE COMMISSION

 476

 1 it, a relatively short time. It doesn't say anything

 2 about how long a particular test burn took in days once

 3 they had coal there.

 4 Q. What is the relationship, if any, between the

 5 disruptions in deliveries they were experiencing from

 6 western coals, on the one hand, and the price they paid

 7 that Mr. Burnett showed you on the other hand?

 8 A. Well, the sheet he handed out, which I don't

 9 disagree with, they were spending four or five dollars

 10 per million Btu when their normal price would be more

 11 like $2 per million Btu.

 12 Q. The fact that they paid that in 2006, does

 13 that obviate, in your opinion, the legitimacy of the

 14 lower bid that was submitted to Progress Energy in

 15 February of 2006?

 16 A. What it says to me is that there was a great

 17 opportunity for a low price buy in February 2006 that

 18 did not exist -- I mean, February -- yes, February 2006

 19 that didn't exist later on.

 20 Q. Mr. Burnett asked you some questions about

 21 particular aspects of the equipment at Crystal River 4

 22 and 5, and asked you if you had done an analysis, and

 23 you said that you had performed some analysis after your

 24 deposition. With respect to the analysis that you

 25 performed, what documents did you review for that

 FLORIDA PUBLIC SERVICE COMMISSION

 477

 1 purpose?

 2 A. I looked at some B&W design information, a

 3 summary of the design of the plant.

 4 MR. McGLOTHLIN: I'd like to distribute that

 5 to the Commissioners at this point.

 6 CHAIRMAN CARTER: By the way, Mr. McGlothlin,

 7 we are fast coming upon the hour that we were going to

 8 be taking a break for lunch. How much more do you have

 9 to cover there?

 10 MR. McGLOTHLIN: I'm nearing the end.

 11 Probably another ten minutes, fifteen at the most.

 12 CHAIRMAN CARTER: Well, then we are not going

 13 to be able to accommodate that before lunch. This seems

 14 like a good enough breaking point, and we'll come back

 15 at 2:00. But, before we go, I just wanted to admonish

 16 everyone that we will finish today. We don't have

 17 another day on the calendar. So let's be prepared

 18 and -- you know, let's be prepared to do it. We are

 19 going to get it done today.

 20 So with that, Commissioners, we will come back

 21 at 2:00 o'clock.

 22 (Lunch recess.)

 23

 24

 25

 FLORIDA PUBLIC SERVICE COMMISSION

 478

 1

 STATE OF FLORIDA )

 2

 : CERTIFICATE OF REPORTERS

 3

 COUNTY OF LEON )

 4

 5

 6 WE, JANE FAUROT, RPR, and LINDA BOLES, RPR, CRR,

 Official Commission Reporters, do hereby certify that

 7 the foregoing proceeding was heard at the time and place

 herein stated.

 8

 IT IS FURTHER CERTIFIED that we stenographically

 9 reported the said proceedings; that the same has been

 transcribed under our direct supervision; and that this

 10 transcript constitutes a true transcription of our notes

 of said proceedings.

 11

 WE FURTHER CERTIFY that we are not a relative,

 12 employee, attorney or counsel of any of the parties, nor

 are we a relative or employee of any of the parties'

 13 attorneys or counsel connected with the action, nor are

 we financially interested in the action.

 14

 15 DATED THIS 29th day of April, 2009.

 16

 17 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

 JANE FAUROT, RPR LINDA BOLES, RPR, CRR

 18 Commission Reporter Commission Reporter

 (850) 413-6732 (850) 413-6734

 19