

PROGRESS ENERGY FLORIDA

DOCKET No. 050001-EI

**DIRECT TESTIMONY OF
ALBERT W. PITCHER**

August 9, 2005

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

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

4

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

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

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9 **Q. Have you previously submitted testimony in this proceeding?**

10 A. Yes. I submitted pre-filed testimony in this proceeding on March 1, 2005
11 and April 1, 2005.

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13 **Q. Have your duties and responsibilities changed since you last
14 submitted testimony in this proceeding?**

15 A. No.

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

1 A. The purpose of my testimony is to support PEF's request for approval of
2 four contracts entered into by PFC for waterborne coal transportation
3 services (WCTS) provided to PEF. I will summarize the competitive bidding
4 process that PFC conducted for each WCTS component. I also will explain
5 why the competitive bidding process and resulting contracts resulted in
6 valid market prices for each of the WCTS components, including the River
7 Barge component, the Gulf Terminal Transloading component, and the
8 Cross-Gulf Barge component.

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10 **Q. Why is PEF presenting the new WCTS contracts for the Commission's**
11 **review and approval?**

12 A. On July 20, 2004, the Commission issued Order No. PSC-04-0713-AS-EI,
13 which approved a Stipulation and Settlement in Docket No. 031057-EI,
14 which the Commission had opened to investigate PEF's benchmark for
15 waterborne coal transportation service ("WCTS") transactions with PFC.
16 The Stipulation and Settlement states that "[c]ontracts entered into by PFC
17 for WCTS provided to PEF will be subject to competitive bidding." In
18 addition, the Stipulation and Settlement states that "[e]ach such contract,
19 and the competitive bidding process from which the contract results, will be
20 presented to the Commission for review and approval or denial."

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22 PFC has conducted the competitive bidding required under the Stipulation
23 and Settlement and has entered into contracts for the components of
24 WCTS to PEF's Crystal River Plant. Accordingly, pursuant to the

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Commission's Order approving the Stipulation and Settlement, PEF filed a petition requesting approval the WCTS contracts on July 8, 2005.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibits:

- Exhibit No. ____ (AWP-5) - PFC River Barge Solicitation (This exhibit already has been filed as Exhibit A to PEF's Petition);
- Exhibit No. ____ (AWP-6) - Dry Bulk Fuel Transportation and Delivery Agreement Between PFC and AEP MEMCO, LLC (Already filed as Exhibit C to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ____ (AWP-7) - PFC Transloading Bid Solicitation (Already provided as Exhibit D to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ____ (AWP-8) - DBF Transfer and Storage Agreement between PFC and International Marine Terminals Partnership (Already filed as Exhibit E to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ____ (AWP-9) - PFC Gulf Transportation Bid Solicitation (Already filed as Exhibit F to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ____ (AWP-10) - Affreightment Contract between PFC and Dixie Fuels Limited (Already filed as Exhibit H to PEF's Petition with a Request for Confidential Classification); and

- Exhibit No. ___ (AWP-11) - Affreightment Contract between PFC and EMI-PA, Inc. (Already filed as Exhibit I to PEF's Petition with a Request for Confidential Classification).

Q. Please describe the competitive bidding process that PFC followed for the River Barge WCTS component.

A. On July 16, 2004, PFC issued a solicitation for bids for river barge coal transportation services from various origins on the Ohio, Kanawha, Big Sandy and Upper Mississippi rivers to a transloading facility in the New Orleans area. (A copy of the solicitation is provided as Exhibit No. ___ (AWP-5)). PFC sent the solicitation to six potential providers: American Commercial Barge Line, Inland Marine Service, Crouse Corporation, Ingram Barge Company ("Ingram"), AEP MEMCO, LLC ("MEMCO"), and TECO Barge Line ("TECO"). In addition, PFC notified major coal trade publications which published articles about the solicitation, including a contact person at PFC.

PFC received proposals from Ingram, MEMCO, and TECO. Based on an initial evaluation, PFC selected Ingram and MEMCO for further evaluation. By comparing the cost of the two offers using two different escalation scenarios, PFC determined that MEMCO's bid provided between approximately \$100,000 and \$800,000 in cost savings over the term of the proposed contract. Accordingly PFC awarded a contract to MEMCO for a

1 term extending from January 1, 2005, through December 31, 2007. A copy
2 of the MEMCO contract is provided as Exhibit No. ___ (AWP-6).

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4 **Q. Please describe the competitive bidding process for the Gulf Terminal**
5 **Transloading WCTS component.**

6 On June 17, 2004, PFC issued a solicitation for bids for terminal
7 transloading services in the New Orleans area of the Mississippi River. (A
8 copy of the solicitation is provided as Exhibit No. ___ (AWP-7)). PFC
9 provided the solicitation to the only three potential providers of the required
10 services: IC RailMarine Terminal ("IC"), International Marine Terminal
11 Partnership ("IMT") and TECO Bulk Terminal ("TECO"). PFC received
12 proposals from all three providers. However, the IC bid was received after
13 the response deadline and it did not satisfy the requirements of the
14 solicitation.

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16 Based on a comparative evaluation of the IMT and TECO proposals, PFC
17 determined that IMT's proposal was the most cost-effective, providing cost
18 savings between approximately \$4.4 million and \$5.5 million over the term
19 of the proposed contract. Accordingly, PFC awarded the contract to IMT
20 for a term extending from November 1, 2004, through October 31, 2007. A
21 copy of the IMT contract is provided as Exhibit No. ___ (AWP-8).

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23 **Q. Please describe the competitive bidding process for the Cross-Gulf**
24 **Barge WCTS component.**

1 A. On August 19, 2004, PFC issued a solicitation for bids for marine
2 transportation services from various origins in the New Orleans area, as
3 well as the McDuffie Island Coal Terminal in Mobile Bay, to PEF's
4 unloading dock at PEF's Crystal River Plant. (A copy of the solicitation is
5 provided as Exhibit No. __ (AWP-9)). PFC sent the solicitation to five
6 potential providers: Allied Towing Company, Dixie Carriers, Inc. ("Dixie"),
7 Express Marine, Inc., ("Express"), Moran Towing Corporation ("Moran"),
8 and TECO Ocean Shipping ("TECO"). In addition, PFC placed
9 advertisements in three major transportation publications. PFC also
10 notified major coal trade publications which published articles about the
11 solicitation, including a contact person at PFC.

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13 PFC received responsive proposals from Dixie, Express, and Ocean Dry
14 Bulk, LLC, a joint venture between TECO and Moran. Based on a
15 comparative evaluation of the cost of the three offers under three
16 escalation scenarios, PEF determined that Dixie was the least cost provider
17 and that Express was the second least cost provider.

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19 Because the current level of rail rates from the coal field to PEF's Crystal
20 River Plant is higher than waterborne rates, PEF has decided to increase
21 the amount of waterborne coal delivered to Crystal River. Accordingly, PFC
22 awarded contracts to both Dixie and Express for three year terms. (Copies
23 of Dixie and Express contracts are provided as Exhibit Nos. __ (AWP-10)
24 and __ (AWP-11), respectively). Using two vendors will provide PEF five

1 barges compared to the current four barges operated by Dixie only. In
2 addition, the two contracts provide a cost savings of between approximately
3 \$20.4 million to \$24.4 million over the term of the contracts.
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5 **Q. What action should the Commission take regarding the new WCTS**
6 **contracts?**

7 A. The Commission should approve the new WCTS contracts for cost
8 recovery through the Fuel Cost Recovery Clause. As contemplated in the
9 Commission's Order approving the Stipulation and Settlement in Docket
10 No. 031057-EI, the competitive bidding conducted by PFC resulted in valid
11 market prices for each of the WCTS components. By providing the
12 solicitations to known vendors and, where appropriate, publicizing the
13 solicitations in industry publications, PFC ensured that interested vendors
14 had reasonable notice of the solicitations. The receipt of multiple proposals
15 demonstrates competitive markets for all WCTS components. Moreover,
16 by awarding contracts to the least cost proposals, PFC has assured that
17 PEF will be provided cost-effective service for all WCTS components. For
18 these reasons the contracts represent reasonable and prudent action to
19 provide cost-effective waterborne coal transportation to PEF's Crystal River
20 Plant.
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22 **Q. Does this conclude your testimony?**

23 A. Yes, it does.