

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In Re: Review of Tampa Electric)
Company's 2004-2008 Waterborne)
Transportation Contract with TECO)
Transport and Associated Benchmark)

DOCKET NO. 031033-EI

FILED: May 10, 2004

COMMISSION CLERK

CSX TRANSPORTATION'S PREHEARING STATEMENT

CSX Transportation ("CSXT"), pursuant to Order No. PSC-03-1398-PCO-EI, hereby files its Prehearing Statement in this docket.

APPEARANCES

CSX Transportation is represented by the following counsel who will appear for CSXT at the prehearing conference.

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A. WITNESSES

- 1. Robert F. White

Mr. White's testimony either addresses directly or relates to Issues 1, 2, 3, 4, 6, 8, and 10.

The subject matter of Mr. White's testimony includes the history of CSXT's efforts to offer and provide cost-effective coal-by-rail transportation to TECO, including CSXT's specific offers made to TECO in October 2002 and July 2003 to provide such service. Mr. White's testimony includes descriptions of the specific offers made to TECO, including not only CSXT's offers to provide actual rail transportation services but also CSXT's proposals and offers to pay for the capital infrastructure improvements necessary to enable TECO's Big Bend and Polk Stations to receive coal by rail.

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2. Robert L. Sansom, Ph.D.

Dr. Sansom's testimony either addresses directly or relates to Issues 1, 2, 3, 4, 6, 8, and 10.

The subject matter of Dr. Sansom's testimony includes the prudence of TECO's coal transportation procurement and coal supply procurement practices, including both TECO's solicitation for coal transportation services and also TECO's coal supply procurement solicitations, in light of what TECO knew or reasonably should have known over the period from 2002 through the present. Dr. Sansom's testimony also critiques the report prepared by Sargent & Lundy regarding capital and operating costs for rail delivery facilities at Big Bend and Polk Stations, and also addresses the "benchmark" for waterborne coal transportation costs.

3. John B. Stamberg, P.E.

Mr. Stamberg's testimony either addresses directly or relates to Issues 1, 2, 3, 4, and 10.

The subject matter of Mr. Stamberg's testimony includes his independent evaluation, analyses, and opinions regarding (a) CSXT's conceptual design and capital cost estimates for rail delivery and handling infrastructure to accommodate rail delivery of coal at Big Bend and Polk Stations, (b) the capital cost and operating cost estimates prepared by Sargent & Lundy for TECO, (c) and the solid fuel blending capabilities of coal handling facilities at Big Bend Station.

B. EXHIBITS

Exhibits of Robert F. White - Mr. White's exhibits may be identified and handled as a single composite exhibit.

- Exhibit ____ (RFW-1): Resumé of Robert F. White;
- Exhibit ____ (RFW-2): CSXT's March 12, 2003 Presentation to TECO;
- Exhibit ____ (RFW-3): CSXT's May 9, 2002 Proposal Presentation to TECO;
- Exhibit ____ (RFW-4): CSXT's October 23, 2002 Proposal to TECO;
- Exhibit ____ (RFW-5): Diagram of Facilities for Big Bend 1 to

- 2 MMTPY Rail Delivery Option;
- Exhibit ____ (RFW-6): Diagram of Facilities for Big Bend 2 to 5.5 MMTPY Rail Delivery Option;
- Exhibit ____ (RFW-7): Diagram of Facilities for Polk Station Direct Rail Delivery Option;
- Exhibit ____ (RFW-8): Diagram of Facilities for Polk Shuttle Rail Delivery Option;
- Exhibit ____ (RFW-9): CSXT Letters to Joann T. Wehle; and
- Exhibit ____ (RFW-10): CSXT's July 30, 2003 Proposal to TECO.

Exhibits of Robert L. Sansom, Ph.D. - Dr. Sansom's exhibits may be identified and handled as a single composite exhibit.

- Exhibit ____ (RLS-1): Experience of Dr. Robert L. Sansom, including Expert Testimony;
- Exhibit ____ (RLS-2): Map Showing Pittsburgh 8 Mines Northern Appalachian Coal;
- Exhibit ____ (RLS-3): CSXT's October 23, 2002 Proposal to TECO;
- Exhibit ____ (RLS-4): Screening Analysis, Water vs. Rail Coal, October 2002;
- Exhibit ____ (RLS-5): Project Timelines for TECO Actions vs. TECO's Inaction;
- Exhibit ____ (RLS-6a): Evaluation of Rail vs. Water Delivery Economics for Western Kentucky Coal in 2004;
- Exhibit ____ (RLS-6b): Evaluation of Rail vs. Water Delivery Economics for Pitt 8 Coal in 2004;
- Exhibit ____ (RLS-6c): Evaluation of Rail vs. Water Delivery in 2004 for Indiana Coal (Sommerville Mine);
- Exhibit ____ (RLS-7): Water Losses and Higher Inventory Costs for Water-Transported Coal;
- Exhibit ____ (RLS-8): Eastern U.S. Utility Stockpiles, Days of

Burn, November 2003;

- Exhibit ____ (RLS-9a): Summary of TECO Overpayments in 2004;
- Exhibit ____ (RLS-9b): TECO Overpayments in 2004 - Pitt 8 Coal from Northern Appalachia; and
- Exhibit ____ (RLS-9c): TECO Overpayments on Illinois Basin Coal, 2004.

Exhibits of John B. Stamberg, P.E. - Mr. Stamberg's exhibits may be identified and handled as a single composite exhibit.

- Exhibit ____ (JBS-1): Resumé of John B. Stamberg, P.E.;
- Exhibit ____ (JBS-2): Excerpts from RS Means Heavy Construction Cost Data, 13th Edition, 1999, and RS Means Square Foot Costs, 24th Annual Edition, and Dodge Unit Cost Book, 1999;
- Exhibit ____ (JBS-3): Conveyor Estimate Based on Cubic Storage Systems Budget Quote;
- Exhibit ____ (JBS-4): Conveyor Estimate Based on FMC Budget Quote;
- Exhibit ____ (JBS-5): Conveyor Estimate Based on Continental Conveyors Budget Quote;
- Exhibit ____ (JBS-6): Rapid Discharge Pit and Conveyor - EVA Estimate;
- Exhibit ____ (JBS-7): Conceptual Diagram - Cooperative Rail Delivery System;
- Exhibit ____ (JBS-8): Overview of Rail Delivery Options to Big Bend;
- Exhibit ____ (JBS-9): Sargent & Lundy LLC, Tampa Electric Company Big Bend and Polk Generating Stations, CSX Transportation Alternate Method of Coal Delivery, SL-008160, September 18, 2003; and
- Exhibit ____ (JBS-10): Sargent & Lundy LLC, Tampa Electric Company Big Bend and Polk Generating Stations, CSX Transportation Alternate Method of Coal Delivery, SL-008160,

DRAFT September 4, 2003.

Additionally, CSXT may introduce cross-examination exhibits with regard to all witnesses of all parties in this docket.

C. STATEMENT OF BASIC POSITION

Tampa Electric's practices regarding the procurement of coal transportation services and also regarding procurement of coal supply have been and continue to be imprudent, resulting in costs far in excess of reasonable and prudent levels. If the PSC were to allow TECO to recover such costs through TECO's fuel and purchased power cost recovery charges, those charges (rates) would be unjust and unreasonable. In particular, TECO's self-dealing with its affiliate, TECO Transport, has resulted in excessive costs. As compared to the costs that TECO could have incurred, based on what TECO knew or reasonably should have known at all relevant times in its coal transportation procurement and coal supply procurement decision-making processes, TECO's costs for obtaining exclusively water-borne coal, exclusively by hiring the services of its affiliate, TECO Transport, exceed reasonable and prudent amounts by millions of dollars per year.

Moreover, TECO's refusals and failures (a) to seriously consider CSX Transportation's specific offers, beginning in October 2002, to provide coal-by-rail transportation service for TECO's Big Bend and Polk Stations, including CSXT's offers to pay for necessary coal-by-rail delivery and handling infrastructure, and (b) to negotiate in good faith with CSXT for such services in the best interests of TECO's customers, were imprudent and have resulted in TECO's incurring costs far in excess of reasonable and prudent levels. Further, TECO's request for proposals for coal transportation services, issued in 2003, was inadequate to accurately assess the market for coal transportation services.

The Commission should disallow all costs incurred by TECO in excess of the delivered costs that TECO could, based on what it knew or reasonably should have known when it was making relevant decisions, have incurred to obtain needed coal supply and coal transportation. The Commission should further require TECO to employ a fair, open bidding process for the procurement of all future coal supply and coal transportation services, and should further implement measures (including such rules promulgated pursuant to Chapter 120 as the Commission may deem necessary and appropriate) to ensure that TECO obtains the most cost-effective total delivered cost of coal supply and coal transportation services, for the benefit of TECO's customers. Finally, the Commission should review TECO's management practices surrounding

its self-dealing with its affiliate and take whatever further actions the Commission deems appropriate, including, without limitation, penalizing TECO's management and shareholders for the imprudence associated with that self-dealing.

D, E, and F. ISSUES OF FACT, LAW, AND POLICY

Issue 1 (Old 17E): Is Tampa Electric's June 27, 2003, request for proposals sufficient to determine the current market price for coal transportation?

CSXT POSITION: No.

Issue 2 (Old 17F): Are Tampa Electric's projected coal transportation costs for 2004 through 2008 under the winning bid to its June 27, 2003, request for proposals for coal transportation reasonable for cost recovery purposes?

CSXT POSITION: No.

Issue 3 (Old 17G): Should the Commission modify or eliminate the waterborne coal transportation benchmark that was established for Tampa Electric by Order No. PSC-93-0443-FOF-EI, issued March 23, 1993, in Docket No. 930001-EI?

CSXT POSITION: Yes. The Commission should eliminate the benchmark and instead use the costs of obtaining needed coal transportation service offered by competing suppliers of such service as the measure of what TECO may be allowed to recover. In this case, the maximum amount that TECO should be allowed to recover is defined by CSXT's offer to provide rail transportation of coal to Big Bend and Polk Stations.

CSX believes that the following issues, which include issues of law and mixed issues of law, fact, and all of which were raised and identified in CSXT's Petition to Intervene filed on December 16, 2003, should also be considered and decided in this

proceeding:

Issue 4: What, if any, action should the Commission take with respect to TECO's procurement practices affecting and relating to the transportation of coal to TECO's coal-fired electrical power plants?

CSXT POSITION: The Commission should require TECO to employ a fair, open bidding process for the procurement of all future coal supply and coal transportation services. The Commission should further implement measures (including such rules promulgated pursuant to Chapter 120 as the Commission may deem necessary and appropriate) to ensure that all of TECO's future coal supply and coal transportation procurement activities are fair and that such activities ensure the fullest possible participation by all potential suppliers of coal and coal transportation, in order to ensure that TECO's customers enjoy the lowest possible reasonable and prudent fuel supply costs.

Issue 5: Does the Commission have the statutory power to require TECO to conduct an open, impartial competitive procurement or bidding process for the purpose of procuring the most cost-effective coal transportation services?

CSXT POSITION: Yes. The Commission has such authority pursuant to Section 366.07, Florida Statutes.

Issue 6: If the answer to the preceding issue is affirmative, should the Commission require TECO to conduct an open, impartial competitive procurement or bidding process for the purpose of procuring the most cost-effective coal transportation services?

CSXT POSITION: Yes.

Issue 7: Does the Commission have the statutory power to require TECO to conduct an open, impartial competitive procurement or bidding process for the purpose of obtaining competitive market data that the Commission may then use to evaluate whether TECO has procured the most cost-effective coal

transportation services?

CSXT POSITION: Yes. The Commission has such authority pursuant to Section 366.07, Florida Statutes.

Issue 8: If the answer to the preceding issue is affirmative, should the Commission require TECO to conduct an open, impartial competitive procurement or bidding process for the purpose of obtaining competitive market data that the Commission may then use to evaluate whether TECO has procured the most cost-effective coal transportation services?

CSXT POSITION: Yes.

Issue 9: Does the Commission have the statutory power to require TECO to use any particular source, or combination of sources, for coal transportation services, if the Commission determines that the use of such source or sources is the most cost-effective means for TECO to obtain needed coal transportation services, or that the use of such source or sources is otherwise in the best interests of TECO's captive customers, or both?

CSXT POSITION: Yes. The Commission has such authority pursuant to Section 366.07, Florida Statutes.

Issue 10: If the answer to the preceding issue is affirmative, should the Commission require TECO to use the particular source, or the combination of particular sources, for coal transportation services, that the Commission determines to be the most cost-effective means for TECO to obtain needed coal transportation services, or that the use of such source or sources is otherwise in the best interests of TECO's captive customers, or both?

CSXT POSITION: Yes. In particular, the Commission should require TECO to install unit-train-capable rail receiving and handling facilities at Big Bend in order to take advantage of barge vs. rail inter-modal competition for the transportation of coal.

G. STIPULATED ISSUES

TECO, the Office of Public Counsel, and FIPUG stipulated regarding the issues to be addressed in this proceeding and regarding the hearing dates for this docket. CSX Transportation did not, and does not, join in, support, or acquiesce in that stipulation.

H. PENDING MOTIONS

The Document Index Listing for Docket No. 031033-EI indicates that there are numerous motions pending at this time. Specifically, CSXT has pending motions for temporary protective orders regarding confidential testimony of its witnesses, filed on March 30, 2004, and regarding discovery responses, filed on March 12 and 15, 2004.

I. PENDING REQUESTS FOR CONFIDENTIAL TREATMENT

The Document Index Listing for Docket No. 031033-EI indicates that there are numerous motions and requests for confidential treatment pending at this time. Specifically, CSXT has pending motions for temporary protective orders regarding confidential testimony of its witnesses, filed on March 30, 2004, and regarding discovery responses, filed on March 12 and 15, 2004.

J. REQUIREMENTS OF THE PROCEDURAL ORDER

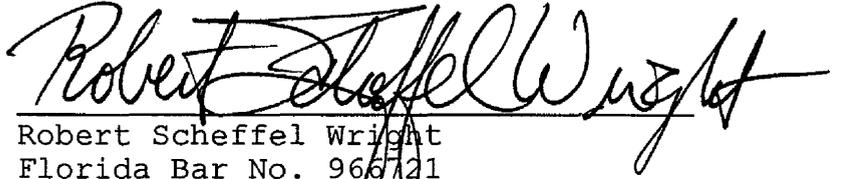
At this time, except as set forth in Section K below, CSX Transportation is not aware of any requirements of the Order Establishing Procedure with which it cannot comply.

K. OBJECTIONS TO WITNESSES' QUALIFICATIONS

At the present time, CSXT has no objections to witnesses' qualifications. However, because TECO is only producing its witnesses for depositions beginning tomorrow, May 11, 2004, CSXT specifically reserves its rights to raise and lodge such objections to the qualifications of TECO's witnesses as may be identified through those depositions.

Respectfully submitted this 10th day of May, 2004.

LANDERS & PARSONS

A handwritten signature in black ink, reading "Robert Scheffel Wright". The signature is written in a cursive style with a horizontal line underneath the name.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the original and fifteen copies of the foregoing has been filed with the Clerk's Office, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399 and that a true and correct copy of the foregoing has been served by U.S. Mail or hand delivery (*) this 10th day of May, 2004, on the following:

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