BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 031033-EI

In the Matter of

REVIEW OF TAMPA ELECTRIC COMPANY'S 2004-2008 WATERBORNE TRANSPORTATION CONTRACT WITH TECO TRANSPORT AND ASSOCIATED BENCHMARK.

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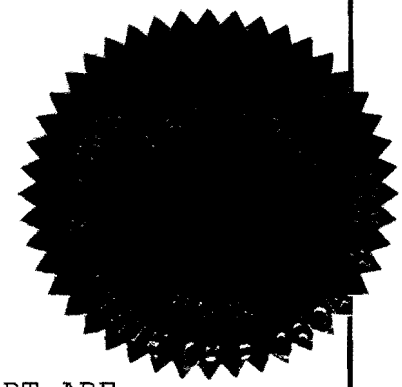

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VOLUME 6

Pages 651 through 780

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN BRAULIO L. BAEZ COMMISSIONER J. TERRY DEASON COMMISSIONER LILA A. JABER COMMISSIONER RUDOLPH "RUDY" BRADLEY COMMISSIONER CHARLES M. DAVIDSON
DATE:	Friday, May 28, 2004
TIME:	Commenced at 9:00 a.m. Concluded at 6:15 p.m.
PLACE:	Betty Easley Conference Center Hearing Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Official FPSC Reporter (850) 413-6732
APPEARANCE:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
95	TECO's response to Staff Fifth Request, #38	665	705
96	TECO Transportation Market Price Application, 1992 through 2000	673	705
97	Composite Exhibit - Doctor Hochstein	691	705
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P R O C E E D I N G S

(Transcript follows in sequence from Volume 5.)

JOANN T. WEHLE

continues his testimony under oath from Volume 5:

CONTINUED CROSS EXAMINATION

BY MR. KEATING:

Q In Mr. Dibner's models is it your understanding that the rate he calculated is based on the 5.5 million tons required in the RFP?

A It is. And I remember that he got questioned about that yesterday. And although I don't recall exactly what he said, but I do believe that that number could possibly go up if the tons were different. Actually I don't recall what his answer was, so I shouldn't say.

Q In any event, the RFP and the market rate analysis conducted by Mr. Dibner were based on a maximum throughput of 5.5 million tons, correct?

A We felt like that that actually could occur. Again, that is deliveries, not necessarily burns. And they don't necessarily always match up exactly.

Q Even though your Ten-Year Site Plan provides for something around 4.9 to 5 million tons, it projects that for the next five years?

A Right. It is within the realm. The 5.5 we felt would be on the high side.

Q If the rate was calculated based on 4.9 to 5 million tons under Mr. Dibner's model, as a mathematical consequence of his model, wouldn't it be a lower rate?

A I don't remember. You would have to ask Mr. Dibner that.

Q Is it Tampa Electric's position that TECO Transport and CSX Transportation are two competitors which comprise the market for transporting Tampa Electric's coal from its source to Tampa?

A No. There are other carriers that can do components of the business besides CSX, and I think Mr. Dibner discussed that yesterday.

Q Do you believe that CSX Transportation is a viable substitute for TECO Transport to transport coal for Tampa Electric?

A I believe that they could do our business if we were talking regardless of cost. Certainly they could do the business if we were to somehow have rail unloading facilities at Big Bend Station or potentially Polk Power Station.

Q You think they may be a viable substitute, but Tampa Electric did not send CSX initially an RFP?

A No, we did not. However, we did provide them one and they did respond.

Q And Tampa Electric didn't forward the rate it was offered by CSX to TECO Transport to meet or beat, did it?

A It was not the lowest cost alternative.

Q The lowest cost alternative was Mr. Dibner's proposed market rate?

A Mr. Dibner's proposed market rate including the bona fide terminal bid.

Q I believe in your deposition you indicated that your staff reviewed Mr. Dibner's report for mathematical errors and obvious area such as, for example, misidentifying the name of a TECO Transport vessel, is that correct?

A I think what I said was we reviewed it for mathematical accuracy, if he had characterized the bid appropriately, but I had no insight into how he developed his model. That is exactly why we hired him as an expert because he has got that kind of expertise. Nor did I know or was able to comment on any of the additional research that he did outside of his model for the inputs into his model.

Q And so you or your staff did not review -- or let me ask you differently. Did you review Mr. Dibner's report with respect to taking a look at any of the assumptions or judgments that he made?

A I believe that we reviewed it based on our knowledge of either the TECO Transport fleet, what we knew our current contract rates were and whether the new rates were reasonable or not. We asked questions, we tried to understand and would provide him comments if he could say something in a more

simpler way, or explain different things to us. But the insight that he has certainly is from his vast experience in the maritime business.

Q So the judgments he made to derive his market prices weren't questioned by Tampa Electric?

A I'm not sure I would be in a position to question things that I don't have knowledge of. And so while we tried to gain an understanding of what he did, he was in the best position to provide his expertise in areas that we did not have.

Q Are you familiar with the exhibit, I believe to Mr. Majoros' testimony, in this proceeding that shows TECO Transport's backhaul activities from the Port of Tampa?

A I think I have already said I have not reviewed Mr. Majoros' testimony or his exhibits.

Q I apologize if I missed that.

A That's okay.

Q I believe Mr. Majoros' testimony indicates that that data was publicly available from the Port of Tampa. Are you aware of whether the Port of Tampa keeps that data?

A I am not aware.

Q But if it was publicly available, it would have been publicly available to Tampa Electric, as well?

A That's correct.

Q Were you aware of that data when you or your staff

reviewed Mr. Dibner's report?

A I was not aware that that data was available, no.

Q So I guess if you were not aware of that data, it goes without saying that you did not utilize that data to attempt to negotiate a lower rate than that produced by Mr. Dibner's report for ocean service?

A By using that data?

Q Correct.

A No. Again, and I know Mr. Dibner talked at length about this yesterday, he did not include backhaul in his model, which we have determined is the appropriate way to look at it. When you are actually using a market-based model, it would be like comparing apples to oranges to include something that is really cost-based.

Q Did Tampa Electric make that determination, though, upon review of Mr. Dibner's model before it provided TECO Transport the rate produced by his model to meet or beat?

A We knew that backhaul was not in the model, so before we produced that, those rates to meet or beat.

Q Was TECO Energy's 2002 annual report available to you or your staff to make an educated assumption about TECO Transport's cost of capital when you reviewed Mr. Dibner's model?

A It was -- I mean, I could have accessed it.

Q If you lower the cost of capital in Mr. Dibner's

ocean barge model, would you agree that the average value that he characterizes as market price decreases?

A I don't know that. I haven't done that calculation.

Q When you reviewed Mr. Dibner's report, or your staff, were you aware that TECO Transport's preference trade activity was a seasonal activity conducted on a spot basis?

A I know it is a seasonal activity, I don't know how often they renew those contracts. I do know they are one of the largest Jones Act carriers, though, in the United States; and so, therefore, I would assume that they would be called upon by the U.S. Government to continue to participate in the preference trade on a regular basis.

Q If you were to remove the effects of the preference trade activity from Mr. Dibner's report or his model, that model would calculate a lower average rate for the ocean barge service, isn't that correct?

A Again, I don't know the answer to that.

Q Did you understand at the time that the rate that you offered to TECO Transport to meet or beat was based in part on, or impacted by this preference trade assumption in Mr. Dibner's report?

A Yes, I do know that there was some inclusion of preference trade in his model.

Q So even though the preference trades were seasonal and spot in nature, you did not question the inclusion of those

in his model for a service that is long-term and firm?

A I know that TECO Transport routinely participates in the preference trade. And as Mr. Dibner has characterized it, it would have been an opportunity cost, you know, continuing to do TECO Transport business, and that is how he tried to factor it in to his model.

Q Okay.

A To come up with a market rate. I don't think any other business would look at it any differently.

Q Okay. Was the answer to the question yes or no?

A Repeat the question, please.

Q I'm going to try. Unfortunately, it's not one that I had written down. At the time that Tampa Electric offered TECO Transport a rate to meet or beat based on Mr. Dibner's report, was it your understanding that Mr. Dibner's market rate was based in part on these preference trade activities that are spot and seasonal in nature, and I guess my question now that I recall was why did you not question that assumption in his model since the service that is being modeled is firm year-round service?

A Again, I think I answered your question by saying that I know that TECO Transport has participated in the preference trade year after year. I believe that it is something that is going to be available to them given their size and given their fleet as being one of the largest, if not

the largest Jones Act carrier.

Q Do you know how many of TECO Transport's vessels can participate in the preference trades?

A I do not.

Q Do you know how many have?

A I do not.

Q Does Tampa Electric's new contract with TECO Transport -- and this may or may not be confidential, so if it is, please stop me -- does it require Tampa Electric to take any minimum volumes?

A To take minimum volumes?

Q Yes.

A Yes.

Q By signing a five-year contract with TECO Transport requires Tampa Electric to take minimum volumes, would you agree that Tampa Electric has, at least to some extent, limited its coal procurement options primarily to sources and regions where TECO Transport operates?

A No. If the coal is priced appropriately, I can actually procure coal from all up and down the river system getting it to the river and analyzing on a delivered basis.

Q But if by doing so you reduce the volume that is being shipped by TECO Transport below the minimum volume amount, will you pay an additional charge?

A I still need to buy coal for my generating stations,

and the minimums are low enough to ensure that I will at least -- procure at least that much every single year. So that is sort of out of the realm of possibility.

Q But at least for the amount that you are required to take a minimum volume for, you are limited in the areas that you can procure coal from to the extent that you have to pay a charge to TECO Transport for failing to use the minimum requirements?

A I would have the same obligation on the railroad. In fact, the railroad's obligation in their bid solicitation was even more restricted than that. They told me -- well, I don't know if that is confidential information, but on Attachment A it specifically states exactly what I have to do to reach my minimums every single year. So I actually have more flexibility under the barge agreement with TECO Transport than I would have under the rail agreement. So, I don't think it limits me at all. Our boiler design is Illinois basin fuel; there are a variety of coal mines, and if you look at our 423s, I don't buy from just one supplier. I buy from a variety of suppliers. So it is really limitless.

Q In your discussion with Mr. Twomey, you discussed a test burn report for, I believe, some Columbian coal.

A Right.

Q I believe you indicated or agreed with Mr. Twomey that that report concluded that Big Bend 4 could burn up to 60

percent of the particular Columbian coal tested and up to 30 percent could be burned in Units 1 through 3, is that correct?

A That's correct.

Q Now, does Tampa Electric also burn some Venezuelan coal at its Polk facility?

A Yes, that is the whole -- the coal that we talked about over here as part of our blend of fuel.

Q Your concern with using more South American coal, I believe, was the higher ash fusion temperatures?

A And the price.

Q Is the ash fusion temperature for Venezuelan coal generally less than for Columbian coal?

A You know, it's just going to depend on the mine and the region. It can vary, but I can say -- and Mr. Murrell can probably talk some to this as well -- that for the most part you are going to encounter more high ash fusion temperature coals in South America than you are lower, and we require the lower at Big Bend Station.

Q And I am going to try not to repeat anything Mr. Twomey asked you. I do have a few questions that relate to some of his questions.

A Okay.

Q I believe you indicated in response to his questions that Tampa Electric receives pet coke directly at Big Bend that does not go through Davant?

A That's correct.

Q Is it cheaper for Tampa Electric, is the rate that Tampa Electric pays to ship pet coke directly to Big Bend rather than taking it to Davant and shipping across the Gulf -- I think I have stated that -- I screwed up that question. Excuse me, let me start over again.

Is it cheaper to ship the pet coke directly to Big Bend rather than take it to Davant and then ship it across the Gulf to Big Bend?

A Yes.

Q If the foreign coal, domestic coal, and pet coke that you use at Polk could be blended at a Tampa facility for a price comparable to that of blending at Davant, would you agree that the fuel could be brought directly to Tampa and trucked to Polk at a lower cost rather than having the fuel taken to Davant for blending and shipment across the Gulf?

A And we have not looked at that possibility. If that were true, yes, it could actually be cheaper, but I have not done that analysis.

Q Before issuing its RFP, did Tampa Electric investigate whether any terminal at the Tampa Port Authority would have the necessary capability or permits to receive coal and pet coke by Panamax vessel or other type of vessel for the period covered by the RFP?

A We did. And I believe we have responded to this in

interrogatories, and I don't have them in front of me. At the time we issued our RFP, to our knowledge those facilities were either under construction or were not permitted to actually store all of our needs, or actually have blending capabilities, and we needed to procure the coal and have those facilities available to us for January 1, 2004.

Q Were you aware of whether any of those facilities would have been permitted and capable of doing any of the business for you prior to January 2004?

A We were under the impression that their permits were being requested, but I didn't know what the time frame was for them to receive those, get all of their requirements done at the time of the RFP and our decision.

MR. KEATING: I'm going to have handed to you another exhibit. This is Tampa Electric's Response to Staff's Fifth Request for Production of Documents. In particular, Document Request Number 38. This is a confidential document. For those who have a big red folder to keep those things in, if you would like to put it there for administrative ease. If I could have that marked for identification.

CHAIRMAN BAEZ: Mark it as Confidential Exhibit 95. That would be TECO's response to Staff's Fifth Request Number 38.

(Exhibit 95 marked for identification.)

BY MR. KEATING:

Q Ms. Wehle, are you familiar with this document?

A I have not seen -- and this is not confidential, right?

Q I believe this is a confidential document. What the request asked for -- just for some background, is for Tampa Electric to provide all documents that it had received from -- well, if I read the request, it may give away some of the information.

A Okay. Yes. So, this is a confidential document. I don't recall seeing Bate stamped Page 7, but I do -- if I can look through the rest of it, I do remember at least seeing the other pages beginning on Bates stamped Page 8.

Q Okay. Is it correct that this document reflects a bid provided in response to a recent Tampa Electric coal supply RFP?

A That's correct.

Q Would you agree that this bid is for shipment of foreign coal to be delivered directly to Tampa?

A Yes.

Q Doesn't this indicate that foreign coal can be delivered directly to Tampa?

A Yes, but when we evaluated this particular bid it was not our least-cost alternative.

Q If you could turn to Bates stamped Page 16 of the exhibit, and look at the table at the top of that page, there

are in the first two lines two prices quoted?

A Yes.

Q What is the reason for the difference between the two prices that are quoted?

A The difference in what I can assume is the second quote did not include all the transportation necessary to get it to Big Bend Station. The top one did, so I believe that is the difference on the pricing.

Q To take the fuel directly to Big Bend Station it would have to be shipped on a handy-sized vessel?

A That's correct.

Q And the second quote, shipment to the Port of Tampa, do you know if that would have been using a handy-sized vessel or a Panamax-sized vessels?

A You know, I don't recall if it said. I'm assuming that maybe it would be the same type vessel.

Q Okay. In case it is not clear on the record already, just to make it clear, a handy-sized vessel is a smaller vessel than a Panamax vessel, is that correct?

A Yes. I'm sorry, I thought you were stating that as a fact.

Q I wanted you to testify to it instead of me. And the Big Bend facility at this time can take up to a handy-sized vessel, but not a Panamax-sized vessel, correct?

A That's correct.

Q The Port of Tampa can take a Panamax-sized vessel?

A I don't know their capabilities.

Q Typically, Tampa Electric's contracts for foreign coal are priced based on delivery to the TECO bulk terminal in Davant, Louisiana, is that correct?

A Correct.

Q And then that coal is shipped to Tampa, correct?

A It is blended in order to make the blend for Polk Power Station and then shipped to Tampa.

Q So if there were blending capability in Tampa and it didn't cost any more than blending in Davant, compared to direct delivery of foreign coal to Tampa, would shipping via Louisiana to Tampa add some additional expense to the transportation costs?

A It would.

Q Just so you know, I just have a few more questions.

Ms. Wehle, if you could turn to Document 7, and I believe that is the last page of the exhibit to your rebuttal testimony.

A Okay.

Q I have an exhibit here that I'm not going to pass out because the data that is shown in the exhibit, at least for the years 1992 through 2000, I presume is the same data that is shown in this table, because it purports to show the difference between the benchmark price and the actual rate that Tampa

Electric paid. And for purposes of my questions they are based on just the years 1992 through 2001 that are shown here.

Is it correct that this document, Document 7 to your exhibits to your rebuttal testimony, shows the difference between Tampa Electric's actual transportation costs per ton paid to TECO Transport versus the benchmark calculated per Order 20298?

A That's correct.

Q And is it your testimony that the benchmark was originally set up as a sanity check of sorts?

A It was set up as a sanity check and a cap.

Q As opposed to an indication of what the market rate should be for service provided by TECO Transport?

A That's correct.

Q And, again, this question is just going to refer to the years 1992 through 2000. Would you agree, subject to check, that the year with the smallest difference between the actual and benchmark price is 1993, with a difference of $4.91?

A I have a chart here, I don't know that I know it is exactly $4.91. It looks to me like it could be in that range.

Q If it's helpful and makes the record more clear, I can go ahead and hand out this exhibit. I think that would probably be a good idea and won't add too much in terms of time to my questions.

And this exhibit consists of Tampa Electric's

response to Staff's Third Set of Interrogatories in the 2002 fuel docket when staff had originally raised an issue concerning the benchmark. And this document is not confidential, because I believe it only goes through 2000.

A I quickly looked through the document you handed me, and it appears that that is the lowest difference year.

Q And, again, that was for the year 1993, and the difference between the actual price and the benchmark price was $4.91?

A Yes.

Q For that year, assuming that Tampa Electric moved roughly the same tonnages of coal via TECO Transport as it intends to move this year pursuant to its Ten-Year Site Plan, which I believe that amount was roughly $5 million.

A Five million tons.

Q I'm sorry, 5 million tons. Thank you. Is it correct that if we multiply the difference shown for 1993, that $4.91, by 5 million tons, that the benchmark provided roughly a $24 million range of reasonableness above the rate that I assume Tampa Electric deemed to be a market rate at the time?

A You are talking about rates that were established in 1993 versus today.

Q Right.

A I don't know that we can do that calculation and it provide any reasonableness. I mean --

Q I'm just asking -- for purposes of my question, assume that Tampa Electric in 1993 was moving 5 million tons via TECO Transport. Given the company's system requirements that you are aware of now compared to then, does that sound like a fair amount?

A The $24 million?

Q I'm sorry, the 5 million tons. Is that, do you believe, a fair estimate or a conservative estimate of the tonnage that Tampa Electric would have been shipping via TECO Transport in 1993?

A That is what we expect to ship this year. It shows us exactly what we shipped in '93. Maybe I don't understand your question.

Q What I'm asking is if you take the difference from 1993 of $4.91 between the benchmark and actuals, if you multiply that by the tonnage regardless of whether it was 5 million or not for 1993, you would come up with an annual amount?

A Yes, you would.

Q Assuming that tonnage was 5 million, that annual amount is going to be roughly $24 million, correct?

A That's correct.

Q If you could look through these exhibits, and I believe you will find that the difference in 1998 represents the largest difference between the actual price and the

benchmark for the years 1992 through 2000?

A Okay.

Q And that difference was $9.61, correct?

A Correct.

Q Again, if you multiply that difference by the tonnage that was moved by TECO Transport for that year, you would come up again with a range -- you would come up with, I guess, a range of reasonableness, so to speak, provided by the benchmark?

A Correct.

Q Again, assuming that amount is 5 million tons, and whether it is or not is obviously going to be reflected in something other than this exhibit, that would give you roughly a $47 million range of reasonableness?

A That's correct.

Q So for the years 1992 through 2000, the benchmark that was supposed to serve as at least a sanity check allowed a cushion of anywhere from -- assuming the 5 million tons, again, as the amount that was moved by TECO Transport -- 24 to $47 million for a range of reasonableness, correct?

A That was the gap for those years. And what that showed is that the rates charged by TECO Transport were great for the ratepayer.

Q But doesn't it also show that the benchmark's use as a sanity check is not a real sane sanity check on market rates?

A Well, I don't know that for sure, and why we show this chart is when the 1988 benchmark was established, there was a gap that is about the same size as the gap that currently existed for the most recent year in 2002. We are saying it is relatively the same as it was as its inception date.

Q And you would agree then, obviously, it varies by year, but that there has been a gap every year?

A Yes, there has.

Q And it is not -- it hasn't necessarily followed a trend up or down since the benchmark was established, it has gone up and down?

A Yes, but I believe that you can probably find trends between the two lines.

CHAIRMAN BAEZ: Mr. Keating, you need this marked?

MR. KEATING: Yes, thank you.

CHAIRMAN BAEZ: Show it marked as 96, and that is TECO Transportation market price application, 1992 through 2000.

(Exhibit 96 marked for identification.)

BY MR. KEATING:

Q Ms. Wehle, if you could turn to Page 13 of your direct testimony in this docket. If you could read the question that starts on Page 8 and then your response through Line 14, through the sentence that ends on Line 14?

A Did you say Page 8 or Page 13?

Q I'm sorry. Page 13, the question that begins at Line 8 through Line 10, and then if you could read your answer beginning on Line 12 and ending on the sentence that ends at Line 14.

A "Question: Is Tampa Electric required to issue an RFP for waterborne transportation services prior to executing a new contract with its affiliate?

"Answer: No. Tampa Electric is not required to issue an RFP. The RFP is an information gathering tool that provides market price data."

Q So you have stated there that the RFP is an information gathering tool that provides market price data. Given that public statement, do you expect anybody other than TECO Transport to bid at the conclusion of the current contract under the current benchmark as it currently exists?

A Well, certainly I think that they would bid if -- yes, I do believe that they would continue to bid.

Q If they know that the RFP is nothing more than an information gathering tool, and that Tampa Electric has for the last 40 years done business with TECO Transport, can we expect anybody to bid now that there is clearly a public statement that this is an information gathering tool?

A It was a public statement in the order, so I don't know that this actually outs any kind of new information to the marketplace.

Q In response to your most recent RFP you received two bids and then two rail bids, correct, for a total of four bids?

A That's correct.

Q Okay. Has Tampa Electric thought about how, as a regulatory matter, the Commission can effectively fulfill its role under the market-based approach to cost-recovery that exists now for this contract if no market data can be gleaned through the bids, through bids in response to an RFP?

A I believe that the order allows a market proxy to be developed as another mechanism to understand market pricing.

Q That allows for a market proxy to be developed?

A Yes.

Q Has Tampa Electric thought about how a proxy could be developed other than the current rail benchmark?

A Mr. Dibner's proxy is another. Mr. Dibner's model, excuse me, is another market proxy.

Q So if at the end of the current contract Tampa Electric goes out for bid again and receives zero, or one, or two bids, and we can't glean enough market data from that to establish a market rate, the Commission will be in the position of relying on an expert's market rate analysis instead of actual bids from the market to determine what a market rate is?

A Yes, and that is what it actually says would be the process in the order.

MR. KEATING: Thank you. That's all the questions I

have.

THE WITNESS: Thank you.

CHAIRMAN BAEZ: Commissioners.

COMMISSIONER DEASON: I have just a few questions.

THE WITNESS: Sure.

COMMISSIONER DEASON: I would like to concentrate just for a moment on the terminal portion of the contract. And I obviously don't want you to divulge any confidential information, but I want you to contrast that segment of the new contract with the old contract. And I believe that the old contract had certain pricing provisions that are different, so if you can explain that I would appreciate it.

THE WITNESS: They do. Or they did, excuse me. The old contract had two different rates associated with it. One was a barge-to-ground rate, and then a storage component with it. And the other was what we entitled a direct transfer, which means that you would take the coal directly out of a river barge and actually place it into a vessel. And so there were two different charges there.

What we did on the new contract is we looked at what -- again, I'm trying to keep confidential information confidential -- what the terminal bid was and what they said that they felt like they could do as a percentage of the direct transfer and the -- to ground storage and then back out into a vessel. They had proposed that they could do that in a 50/50

blend component. And so that is how it was structured versus the other type of arrangement. This would then allow the terminal to conduct their business however they absolutely have to, but knowing that they would only get that 50/50 blend rate from Tampa Electric.

COMMISSIONER DEASON: The rate in the new contract is an amount per ton regardless of the amount of tons that are directly transferred or the amount of tons that are transferred to the ground?

THE WITNESS: That's right. And in our history it has varied over time as far as that percentage of what goes to ground and what goes direct into a vessel. At best it has been 50/50. A lot more at times has gone to ground, which we would have incurred a higher rate overall, if you will, on a total per ton basis. And, therefore, we are saying -- the terminal said that they felt like that they could actually do that in a 50/50 arrangement, and so, therefore, that is what we passed on under the right of first refusal.

COMMISSIONER DEASON: What considerations dictate whether a transfer will be direct or will be to the ground?

THE WITNESS: Okay. There are several different considerations that you would have to look at. Whether that particular coal is needed in Tampa, whether there is a vessel waiting for it to be transloaded into, whether there is enough of that commodity, of that particular coal to fill one hold of

a vessel. And so as you can see, it is a lot more difficult to direct transfer than it is to actually physically go to ground and then deal with it at a later time.

COMMISSIONER DEASON: Well, do blending requirements have any bearing upon whether --

(Simultaneous conversation.)

THE WITNESS: Absolutely.

COMMISSIONER DEASON: A blending requirement is considered?

THE WITNESS: Yes, absolutely. I apologize.

COMMISSIONER DEASON: Under the new contract the rate that you pay will be an amount regardless of the amount of tons that are directly transferred or transferred to the ground?

THE WITNESS: That's correct. And, again, our experience has been that at best those activities over time have been at a 50/50 rate. Typically, more goes to ground than direct transferred. Because, as I described, the difficulty of having all those arrangements made and having the vessel waiting just there for you, the time to have the appropriate number of river barges unloaded, maybe some shifting that needs to occur, and those type of things. Most of the time -- more than 50 percent of the time, typically, you will go to ground.

COMMISSIONER DEASON: If you did more blending at Big Bend, would the amount of transfer required to the ground be minimized?

THE WITNESS: We do all of our blending at Big Bend for Big Bend. So the blending that really takes place at Davant is really for our Polk Power Station, which is, again, just a minor part of the total blending that is done.

COMMISSIONER DEASON: So the largest portion of the terminal cost is not the requirements of blending, it is the requirement of just transferring from river-going barges to ocean-going barges?

THE WITNESS: That's correct. But I think you asked me the question would blending play a role in that, and it would, but to a much lesser degree.

COMMISSIONER DEASON: Who makes the decision whether a given barge, incoming barge is to be directly transferred or be transferred to the ground?

THE WITNESS: It is done in concert between my group as well as the folks in Davant to understand exactly where inventories are located and what our needs are. But ultimately we make the decision whether something is of a need that needs to get to Tampa quicker than, say, it could actually go to ground or not.

COMMISSIONER DEASON: So Tampa Electric makes those decisions as opposed to TECO Transport?

THE WITNESS: Yes.

COMMISSIONER DEASON: Thank you.

CHAIRMAN BAEZ: Do you have a question, Commissioner

Jaber?

COMMISSIONER JABER: Thank you, Mr. Chairman.

Ms. Wehle, let me go back and try to perhaps oversimplify what your position is. Last night and today throughout the day I heard the underlying theme which was you sought the coal transportation service in the manner in which you did because of the order, the settlement, your waterborne contract, the existing contract, is that correct?

THE WITNESS: Yes.

COMMISSIONER JABER: Okay. Now, I want to explore with you what should happen prospectively.

THE WITNESS: Okay.

COMMISSIONER JABER: And these questions go to your professional opinion based on your experiences in this hearing and what led up to this hearing. Setting aside the Commission's order for purposes of this question, and setting aside the waterborne contract for purposes of this question, help me understand what you would do differently if you could do it all over again.

THE WITNESS: Possibly find another job.

COMMISSIONER JABER: I didn't say that.

CHAIRMAN BAEZ: The witness is under oath, I don't know.

THE WITNESS: Oh, my goodness.

COMMISSIONER JABER: And the witness does not need a

break. I'm not asking in jest, and I know it is probably a question you had not thought about, but I'm asking you to. What would you do differently based on what your experiences have been and if you could set aside the contract and the order?

THE WITNESS: Wow. That is huge, though, because what we did was govern so many of our actions. Do you understand?

COMMISSIONER JABER: I'm like Mr. Twomey; you can't ask us a question. Let me see if I can help you out. Let's break it down a little bit. Would you include a right of first refusal in a contract?

THE WITNESS: Setting aside the contract? I think that TECO Transport is entitled to a right of first refusal for the years of service with the company.

COMMISSIONER JABER: Remember, you need to set that aside. We are going to set that aside. Based on what you know today --

THE WITNESS: Uh-huh.

COMMISSIONER JABER: -- would you include a right of first refusal?

THE WITNESS: And I'm not trying to be evasive, Commissioner Jaber, I really haven't thought about it. I would have to potentially understand all of the other components. Rights of first refusal are fairly common in the industry, so I

would not see that that is -- again, and I think I have said this in my deposition, it is not really a taboo.

COMMISSIONER JABER: Okay. Well, let's go with that. These are in an effort to explore what prospective action --

THE WITNESS: I believe a right of first refusal is a very fair component.

COMMISSIONER JABER: Well, let's assume a right of first refusal is included in a contract. Would you disclose the right of first refusal if you could go back and do it all over again?

THE WITNESS: No, because I think that that really plays into the hands of possibly the assumptions in the marketplace. I believe it would really shut down people from possibly bidding at all, regardless of the fact that they might speculate that there is one that exists. I don't disclose it with other contracts that I have.

COMMISSIONER JABER: And I'm not even going to ask you what other contracts you have where you don't disclose it. We heard a lot of testimony about what was included in the RFP as opposed to the bid that you later received from CSX. If you could go back and do it all over again, would you issue an RFP?

THE WITNESS: Yes.

COMMISSIONER JABER: Would you go back and ask potential bidders to sharpen their pencils if you could go back and do it all over again?

THE WITNESS: Again, remember that I only had one really true bona fide waterborne bid, and I knew what that rate was prior to that, and so I felt very comfortable -- are we setting aside --

COMMISSIONER JABER: Yes.

THE WITNESS: When we go out and do a solicitation in the marketplace, there is really two ways that it can be done. One is people know that your best offer is what is going to get considered, and that is the way we do it at Tampa Electric. Secondly, there is another way to do it, and you say, okay, there is going to be a short list and there is going to be a second round possibly. And in that case people might give an indication of what their price might be or a realm within. It might be inflated.

People know that the first situation that I described is how we do business. Have I ever gone back to a supplier and asked them to possibly look at their rate? Absolutely. I have gone back and, you know, said, okay, you want to start a little bit later; well, you know, maybe we can talk about taking a nickel a ton off, or those kinds of things, or can you get a better quality for me for that same price. We absolutely aggressively try and pursue those opportunities.

What I have gone -- and if I am understanding your question right would I have gone back to the terminal? I don't think that I would have, because I know what that cost

structure is. And as I described to Commissioner Deason already, it was a very fair rate. And given the fact that it was a flat rate over five years, and knowing what we have paid in the past, there was not much room to move.

The other thing I didn't bring up was their import rate that they provided was lower than what we had been paying with TECO Transport before. So, you know, we already knew that we were going to be saving money there.

COMMISSIONER JABER: Okay. Now, if you could, you said you would go back and you would do an RFP.

THE WITNESS: Yes.

COMMISSIONER JABER: What would you include in that RFP, what information would you include?

THE WITNESS: You know, we have had a lot of discussion about our preference for an integrated supplier. We do prefer an integrated supplier; it is not a lie. I'm not going to lie to the marketplace and say that that is not something that we would be looking for. Perhaps we could have made it stronger, saying how we would consider segments, or encourage segments better. That might have worked to potentially bring more bids into the fray. But it's true, I mean, people know that we have developed this system over time, and that it has worked for us.

COMMISSIONER JABER: If you issued an RFP and you included language with regard to the right of first refusal,

would benchmarks and Mr. Dibner's study be unnecessary?

THE WITNESS: And I included information about the right of first refusal?

COMMISSIONER JABER: Yes.

THE WITNESS: It would all be dependent on whether I got enough responses to feel confident that those are market indications. Again, after we received the responses, we really didn't feel like we had enough information for the river or the ocean component, and that is when we really had Mr. Dibner develop the model.

COMMISSIONER JABER: So it might be that if you had enough -- in your determination, enough bids, you may not need the model or the benchmark studies.

THE WITNESS: That is correct.

COMMISSIONER JABER: Okay. I'm going to switch gears on you a little bit.

THE WITNESS: Yes.

COMMISSIONER JABER: You also testified, I think it started last night about the -- you didn't send the RFP to CSX because you didn't have rail connections that would accommodate rail transport anyway.

THE WITNESS: That is correct.

COMMISSIONER JABER: Rail connections, are they constructed at the utility's expense or the rail provider's expense?

THE WITNESS: In the particular proposal that we had gotten from CSX --

COMMISSIONER JABER: Yes.

THE WITNESS: -- they would have provided a portion of capital funding. And Ms. Guletsky will tell you whenever she finally gets up here that the capital funding that was going to be provided by CSXT would nowhere near compensate us for the capital that would have to be outlaid. And so, therefore, it would have been -- it would have been a sharing potentially. We could have gone back to the railroad and asked them to pay for all of it, but I think that would have eventually ended up reflecting in the rates going substantial higher.

COMMISSIONER JABER: And would you agree with me that that would be useful information in an RFP?

THE WITNESS: The capital costs?

COMMISSIONER JABER: Well, that a rail connection would need to be constructed and what your estimate of the cost would be.

THE WITNESS: Yes, and that is why we analyzed it once we actually did get the RFP.

COMMISSIONER JABER: But let me go back so that the record is clear, because I interrupted you and I apologize for that. You agree with me that that would be useful information for inclusion in an RFP?

THE WITNESS: Yes, I do.

COMMISSIONER JABER: Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Thank you.

Mr. Willis, before we go to redirect, assuming you have any, I wanted to take that break before it is too late. And what I would like is for the parties to give me some kind of status on Mr. Majoros, on any cross that you will have for Mr. Majoros. How much time we actually have and whatever your particular witnesses' issues are coming this afternoon, later this afternoon. If we are not too late, maybe we can handle some of those. We will be back in ten.

(Recess.)

CHAIRMAN BAEZ: We will go back on the record.

Quickly, staff, did you get to consult with them on the status of witnesses and so on?

MR. KEATING: I'm sorry, the status of --

CHAIRMAN BAEZ: Of their witnesses and what agreements might have been --

MR. KEATING: It is my understanding that what we are going to try to do this afternoon is, or what we are going to do this afternoon is --

CHAIRMAN BAEZ: Positive thinking, Mr. Keating. I like that.

MR. KEATING: -- get through Public Counsel and FIPUG's witnesses Majoros and Wells. I'm not sure what the

date was that was agreed that may have been discussed. We will come back, but I think the remaining witnesses can be back, but --

CHAIRMAN BAEZ: I just wanted to make sure that you were in on this, because this is what we are going to do. The first thing that we are going to do is we are going to excuse a series of witnesses, and those would be Witness White, Sansom, Stamberg, Hochstein, Murrell, and Guletsky.

COMMISSIONER BRADLEY: Repeat that again.

CHAIRMAN BAEZ: That would be from Witness White on down, sir.

MR. FONS: Mr. Chairman, if I may. If we could get on Doctor Hochstein under what we had agreed to --

CHAIRMAN BAEZ: Oh, I'm sorry. You're absolutely right. So all of those names I mentioned, but Doctor Hochstein, you are excused. And before you go, we are going to finish today at the time I said, and we are going to reconvene on June 10th. So June 10th, mark your calendars. Be there or be square. And then as to Doctor Hochstein, we need to get him on. Go ahead.

MR. WILLIS: We can stipulate his testimony and his deposition in and let him go so he can make his plane.

CHAIRMAN BAEZ: All right. Mr. Hochstein has been sworn. Do we need to get him on the stand? No, it doesn't seem so.

MR. WILLIS: You do not have to.

CHAIRMAN BAEZ: Let the record reflect that the direct testimony of Doctor Hochstein is entered into the record as though read. And, Mr. Twomey, there are other things that we need to introduce?

MR. TWOMEY: Yes, sir. And Mr. Fons has a listing of them, but I think off the top of my head in addition to his testimony, his deposition in lieu of cross-examination, there was his most recent publication that has been supplied to TECO, they want it to be accepted in evidence as an exhibit.

CHAIRMAN BAEZ: Correct.

MR. TWOMEY: As well as his -- I think there were 12 or more late-filed exhibits to his deposition which the company wants in, which is agreeable. And lastly a listing, a separate exhibit that lists his publications. Is that it, Mr. Fons?

MR. FONS: Yes, that is correct.

CHAIRMAN BAEZ: Let me make sure that I've got it. I've got Doctor Hochstein's deposition in lieu of cross-examination, we have his -- you said 12 late-filed exhibits?

MR. TWOMEY: However many there were.

CHAIRMAN BAEZ: However many. The balance of his late-filed exhibits --

MR. TWOMEY: Late-filed exhibits to his deposition.

CHAIRMAN BAEZ: -- to his deposition, his list of

publications, and as I recall there was one -- there was one other item, Mr. Fons.

MR. TWOMEY: His most recent book.

CHAIRMAN BAEZ: His most recent book. Whose title shall remain nameless?

MR. FONS: It is called Domestic Water Transport Comparative Review, USA and Western Europe.

CHAIRMAN BAEZ: Sounds like a winner. Doctor Hochstein's latest book is entered, also entered into the record. I guess that frees him up. Thank you, Doctor.

MR. TWOMEY: Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Have I missed anything, gentlemen? We were talking pretty fast there. All right. That takes care of Doctor Hochstein. The other witnesses that have been excused, I remind you again, June 10th.

(REPORTER NOTE: For the convenience of the record, Doctor Hochstein's prefiled testimony will be inserted into the record at the conclusion of Witness Wehle's testimony.)

CHAIRMAN BAEZ: We are left with the balance of Ms. Wehle's, I guess it is redirect at this point, and we are left with Witnesses Majoros and Wells, H.G. Wells. Now, if that isn't proper for a thing like this, I don't know what is.

MR. VANDIVER: The War of the Worlds, sir.

CHAIRMAN BAEZ: That's right.

MR. KEATING: Mr. Chairman.

CHAIRMAN BAEZ: Go ahead, Mr. Keating. I'm sorry. I'm getting it from all sides here.

MR. KEATING: If you want to give an exhibit number to the stipulated documents for Mr. Hochstein.

CHAIRMAN BAEZ: The stipulated documents can be entered as a Composite 97. And that would be late-filed exhibits to the deposition, the deposition in lieu of cross, a list of publications, and the doctor's latest book, the title of which escapes me now, but I know is on the record. Very well. We can get back on the witness now.

(Exhibit 97 marked for identification.)

CHAIRMAN BAEZ: Redirect.

MR. BEASLEY: Yes, sir.

REDIRECT EXAMINATION

BY MR. BEASLEY:

Q Ms. Wehle, Mr. Wright handed you a brochure concerning Big Bend Station, do you recall that?

A Yes, I do.

Q You don't have to look at it right now. He gave it to you, but didn't ask any questions about it, so I wanted to know if you knew of the date of that brochure?

A I believe it said on the back that it was generated in 1990.

Q Do you know whether there have been any changes in the infrastructure, facilities or equipment, roads, rails, any

other significant aspects of Big Bend Station in the 14 years since that brochure was procured?

A I know that there have been some changes. The ones that I know of specifically were scrubbers added to Big Bend Units 1 through 3, and a desalinization plant that was constructed. I'm not sure if it was on the Big Bend property, and I believe some trackage removed, rail trackage removed because of that construction.

Q Mr. Wright asked you a number of questions about comparing prices of the CSXT bid with pricing in the TECO Transport contract. Do you recall that?

A Yes.

Q Besides considering the price differences, did you also consider any and compare any reliability of service differences?

A Yes. We know what the reliability of the TECO Transport fleet is having had that experience over time. Of late -- and I actually included some articles as Document Number 3 to my rebuttal testimony, an exhibit of several different articles concerning the reliability of CSXT recently.

Q What is the gist of those articles?

A Well, basically, the articles go on to say that there is a variety of different issues, but in a nutshell, CSX has not been keeping up with the demand on their system, and there have been some very unhappy customers of theirs who have been

talking with the media. In fact, Morgan Stanley, the first exhibit, has information here. And I specifically read out of here CSX's operational struggles continue to worsen in the quarter. They just haven't been able to keep up with their customer demand and so, therefore, they have been falling short of their delivery schedules.

Q Your company has from time to time contracted for services from CSXT and other rail providers, has it not?

A Yes.

Q How recently with CSXT?

A I believe the last time was in 2002.

Q And what experience did you have as regards reliability and service in general?

A And this is not unusual for our experience with CSXT, and I think I even allude to it in my testimony, we routinely had billing issues with them where we were either duplicately billed or overbilled. Routinely had missing cars from trains that might show up -- you know, sometimes one, two, sometimes as many as ten that might not show up at the station until a week later. Pretty much those types of issues as far as service levels.

Q Ms. Wehle, did you attend the recent eastern fuel buyers conference conducted in Orlando, Florida earlier this month?

A I did.

Q Was there any presentation made in that conference regarding eastern United States rail deliveries?

A Yes, there was.

Q Who made the presentation?

A Mr. Mike Sullivan, a vice-president with CSXT.

Q Can you briefly summarize the nature of his presentation?

A Mr. Sullivan had recognized the different customer complaints and the different issues associated with the fact that they haven't kept up with demand. Recognized that, tried to explain what the issues were, and then said that they are working on it.

Q Have you been asked to attend any upcoming meetings regarding rail deliveries?

A Yes, I was contacted both by Lakeland Electric and Seminole Electric. They routinely get together in the state to discuss coal issues. This particular meeting that is going to happen in July, we were asked to attend, and the topic of discussion is going to be the rail reliability issues that are facing the marketplace right now. The reason why we were asked to attend, even though we don't have rail capability currently, is those utilities are very concerned about how low their stockpile levels could possibly get this summer, given the high burn season, and they want to know what their alternatives may be by sort of partnering with other utilities to possibly, in

an emergency situation, understand where coal stockpile levels are across the state.

Q Mr. Twomey asked you some questions about foreign coal to Davant versus bringing that coal into Big Bend. Do you know for the most part what kind of vessels the South American coal is delivered in?

A Typically, it is -- well, it can be either Panamax or handy-size.

Q Is there a predominance, or a mix, or do you know?

A A lot of time it is Panamax vessels.

Q Can those vessels berth up at Big Bend Station?

A Panamax vessels cannot berth at Big Bend Station.

Q On the 423 charts for Gulf Power Company that the staff furnished you, and it has been marked Exhibit 92, I don't know if you have that handy or not.

A It's in this stack. I think I have a copy.

Q Okay. If you could look on Page 4 of 19 there. And as a predicate to that, let me just ask you generally, do you have an intimate knowledge about Gulf Power Company, its coal-fired plants, its waterborne coal transportation needs and costs and details relating to those matters?

A No, I don't have an intimate knowledge of that.

Q Okay. Could there be significant factors that distinguish Gulf Power's waterborne coal transportation needs and costs from those of Tampa Electric Company that you are not

aware of and aren't reflected in this document?

A Yes, there could be.

Q Okay. In looking at this document, it appears that the transportation charges shown in Column H are in dollars per ton, is that correct?

A That's correct.

Q And it is not in cents per ton mile?

A No, it is not.

Q There are mileage differences between Crist Station -- from New Orleans to, say, Crist Station and from Davant to Tampa, Big Bend Station?

A Yes.

Q Looking at the $5.17 per ton charge there on Line 8 on Page 4 of 19, do you know what that might equate to if you took the number of miles from Davant, Louisiana, and expanded it above the 233 miles there shown for that movement, do you know what the price might be if you just used the same $5.17 per 233 miles and converted it into a charge for the total distance from Davant to Tampa?

A I think it would double, around about double at least.

Q Okay. So that would make the charge from Davant to Tampa approximately $12.93 to compare apples-to-apples mileage-wise with that $5.17 amount, is that correct?

A That sounds about right.

Q Okay. Were you in the room yesterday when Mr. Dibner testified?

A I tried to stay in the room as much as possible. For the most part, yes.

Q Did you hear him mention something about the difference between river barge costs and ocean vessel costs?

A Yes.

Q This document that was handed to you, the Form 423, it refers to RB under the transportation mode for that particular movement that staff inquired about, is that correct?

A I'm sorry, state your question again.

Q Okay. On that same page we were looking at, the Emerald International movement under Column E, the RB, do you know what that stands for?

A River barge.

Q Did you hear Mr. Dibner talk about the size of river barges versus ocean vessels, the horsepower involved, the lower horsepower, the cheaper operating costs, fewer team members on the vessels?

A Yes.

Q Does that differentiate that type of movement from an ocean movement?

A Absolutely.

Q Do you know if river barges can be delivered to Tampa's Big Bend Station from Davant, Louisiana?

A No, they cannot.

Q Why is that?

A They cannot traverse the rough seas out in the ocean.

Q So they are restricted to the inland --

A They are restricted to the inland intercoastal waterways.

Q And even if they could, you wouldn't do it at double the price, the $12 and something versus the $5.17, would you?

A No.

MR. BEASLEY: Thank you. That's all we have. I would like to move Ms. Wehle's --

MR. WRIGHT: Recross.

MR. BEASLEY: I'm sorry?

MR. WRIGHT: I have recross.

CHAIRMAN BAEZ: I'm sorry?

MR. WRIGHT: I have follow-up questions on questions that Mr. Beasley asked.

CHAIRMAN BAEZ: And which questions would those be?

MR. WRIGHT: They would be regarding the brochure that I introduced, CSX's reliability, Mr. Sullivan's presentation, and the meeting that she referred to.

CHAIRMAN BAEZ: Mr. Wright, at least as to the brochure, because I guess you have perplexed me at this point, but I think at least as to the brochure, didn't you have a chance to ask questions on the brochure when you introduced it?

MR. WRIGHT: Yes, I did.

CHAIRMAN BAEZ: I mean, we cannot --

MR. WRIGHT: Mr. Beasley asked questions about whether there were any changes. I have one follow-up question regarding other possible changes on that issue.

CHAIRMAN BAEZ: As to the others?

MR. WRIGHT: As to the service issue that Ms. Wehle has raised and discussed, which really is beyond the scope of my cross-examination of her in any event --

CHAIRMAN BAEZ: I think I remember you asking specific cross questions as to whatever outrageous allegations concerning your clients', you know, service problems, so I'm not going to allow that recross. He asked some proper redirect questions --

MR. WRIGHT: I don't believe I asked anything; I believe she volunteered in response to a question about CSX.

CHAIRMAN BAEZ: I remember a string of questions to that effect, Mr. Wright. And go on, what was the third one?

MR. WRIGHT: The third one was the presentation.

CHAIRMAN BAEZ: Which presentation?

MR. WRIGHT: The presentation at the Eastern Fuel Buyers Conference that she mentioned in response to a question, which I know I did not cover in my cross. I want to show her the presentation and introduce it.

And the last one relates to the meeting that she

mentioned that is coming up this summer, which I believe -- I am informed she has mischaracterized, and I want to ask her some follow-up questions about that.

CHAIRMAN BAEZ: How many follow-up questions are we talking about?

MR. WRIGHT: On that subject --

CHAIRMAN BAEZ: Because I am going to allow you, but it is a real tight leash.

MR. WRIGHT: I appreciate it.

CHAIRMAN BAEZ: And practically anytime opposing counsel opens his mouth to object it is going to get sustained so you better make them really, really good and really, really quick.

MR. WRIGHT: I shall.

CHAIRMAN BAEZ: Okay.

MR. WRIGHT: Thank you.

CHAIRMAN BAEZ: Go on. You have one question on the brochure?

MR. WRIGHT: Yes, sir.

CHAIRMAN BAEZ: And whatever brief follow-up questions on those presentations that they brought up.

RECROSS EXAMINATION

BY MR. WRIGHT:

Q Ms. Wehle, Mr. Beasley asked you whether there had been any changes in the configuration of Big Bend Station since

1990 when the brochure was published. My question for you is simply had there been any significant changes in the coal yard configuration since that time of which you are aware?

A I can't answer that. I'm not aware, to answer that question.

MR. WRIGHT: Mr. Chairman, Mr. LaVia is distributing copies of what I aver to you is the presentation given by Mr. Sullivan at the Eastern Fuel Buyers conference. This was furnished earlier this week on time to Tampa Electric in discovery in response to a discovery request. And I would ask that this be marked.

CHAIRMAN BAEZ: And that was Mr. Sullivan's presentation?

MR. WRIGHT: Yes, sir. You could call it Sullivan ESPC presentation or whatever you want.

CHAIRMAN BAEZ: We will call it CSXT presentation by Sullivan. That will be Exhibit 98.

(Exhibit 98 marked for identification.)

MR. WRIGHT: Thank you.

BY MR. WRIGHT:

Q Ms. Wehle, do you recognize this as the PowerPoint presentation, to the best of your recollection, that was given by Mr. Sullivan?

A Yes.

Q Thank you. Move on to the meeting. I believe you

said that there is a meeting coming up this summer. Did you also make reference to an earlier meeting, perhaps in March of this year?

A No, I did not.

Q Did you make reference to any earlier meeting of this group that you assert as meeting this summer?

A What I said was this group routinely meets on a variety of issues. This particular meeting is being called to discuss the CSXT reliability issue and possibly others, but I know that for sure.

Q Who called this meeting?

A I was contacted by Lakeland and then received a follow up e-mail from Seminole Electric.

Q And where is this meeting being held?

A I believe it is in Gainesville. The last I heard that was where the final site was going to be.

Q Have you received a written agenda for this meeting?

A No, I have not.

Q Are you aware whether private cars and car maintenance is on the agenda for the meeting?

A I do not know that.

Q So as of now you don't know whether the sole subject of this meeting is private cars, or maintenance, or anything else. You don't have a written agenda, do you?

A I know I was contacted and asked to attend to discuss

reliability issues, as I had mentioned before, and how coal stockpiles are going to be impacted across the state. That is why I was contacted.

Q But you don't have a written agenda. At this point this is your relation of a conversation from someone else, correct?

A That is exactly what was told to me and why I was asked to attend.

Q Who, if you recall, from Lakeland invited you?

A Jim Aug (phonetic).

Q Jim Aug?

A Yes.

Q Does Mr. Aug work for Lakeland Utilities?

A He works as a consultant for Lakeland Utilities in the fuels area.

MR. WRIGHT: Thank you. That's all.

MR. BEASLEY: Thank you.

Mr. Chairman, I would like to move Exhibits 6 and 7 into evidence.

CHAIRMAN BAEZ: Without objection, show Exhibits 6 and 7 moved into the record.

(Exhibits 6 and 7 previously admitted into the record.)

CHAIRMAN BAEZ: And now I have -- Mr. Vandiver, I've got you for Exhibits 75, 76 and 77.

MR. VANDIVER: Yes, sir. I would like to move for admission of those exhibits, please, sir.

CHAIRMAN BAEZ: Without objection, show them admitted.

MR. VANDIVER: Thank you, Mr. Chairman.

(Exhibits 75 through 77 admitted into the record.)

CHAIRMAN BAEZ: Ms. Kaufman, I have you at 78 and 79.

MS. KAUFMAN: That's correct, Mr. Chairman.

CHAIRMAN BAEZ: Without objection, show those admitted.

(Exhibit 78 and 79 admitted into the record.)

MR. TWOMEY: Mr. Chairman, 97 I think upon receipt.

CHAIRMAN BAEZ: I'm sorry?

MR. TWOMEY: 97 upon receipt.

CHAIRMAN BAEZ: 97 was admitted upon receipt, yes, and also -- hang on, Mr. Twomey, I will get to you. Let me just get through Mr. Wright. I'm going down the list here. Mr. Wright, I have you at 80, 81, 82, 3, 4, 5, 6, 7, 88, 89, 90, 91, and 98.

MR. WRIGHT: Yes, sir, and I move those subject to any proper objection to Late-filed 85 and 87.

CHAIRMAN BAEZ: And I was going to mention the late-fileds are admitted subject to proper objections once filed.

(Exhibits 80 through 91 and 98 admitted into the

record.)

CHAIRMAN BAEZ: Staff, I have you at 92 through 96.

MR. KEATING: Staff would move those exhibits.

CHAIRMAN BAEZ: Show them admitted.

(Exhibits 92 through 96 admitted into the record.)

CHAIRMAN BAEZ: Mr. Twomey, you have Composite 97 moved in subject to submission?

MR. TWOMEY: Yes, sir, that is correct.

CHAIRMAN BAEZ: All right. Ms. Wehle, thank you.

MR. WRIGHT: Mr. Chairman, I apologize I just wanted to confirm that you did admit all the exhibits that I moved subject to the late-fileds.

CHAIRMAN BAEZ: I'm showing 80 through 91 and 97.

MR. WRIGHT: And 98.

CHAIRMAN BAEZ: I'm sorry, 98.

MR. WRIGHT: Thank you. I just didn't you hear say the words they are admitted, and I just wanted to make sure that it is clear in the record.

CHAIRMAN BAEZ: They are admitted.

MR. WRIGHT: Thank you, sir.

(Exhibit 97 received into the record.)

(The transcript continues in sequence with Volume 7.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DR. ANATOLY HOCHSTEIN

Q. Please state your name and business address.

A. My name is Dr. Anatoly Hochstein. My business address is 1601 North Kent St., Suite 912, Arlington, Va. 22209.

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

A. I am employed by National Ports and Waterways Institute, University of New Orleans as the Institute Director and Professor.

Q. Please describe your educational background and business experience.

A. I earned a Masters Degree with honors in hydraulic engineering in 1955 from St. Petersburg University and a Ph.D. in economics in 1963, from Moscow University, both in Russia. Since my graduation I have devoted my professional life to the water transportation industry and have participated in the development of practically all major waterway and port systems around the world.

Since coming to the U.S. in 1973 I joined consulting company CACI, which at that time was engaged by the U.S. Army Corps of Engineers to develop an Inland

Navigation System Analysis (INSA) program. For this program I designed a so-called Flotilla model to calculate the costs of barge operations. This model, although significantly modified by now, still is being utilized by U.S. Coast Guard as a principle analytical tool for inland waterway planning. In 1977 I joined Louis Berger Group, one of the largest international consulting companies with headquarters in East Orange, N.J. and three years later became Vice President in charge of water transportation programs. Among the many projects I directed in that period are a large-scale program, "U.S. National Waterway Study," prepared for the U.S. Congress, participation as an expert witness in litigation regarding the construction of the Tennessee-Tombigbee Waterway, Structural and Non-Structural methods to increase navigation capacity and a long list of ports and waterways projects in South America and Asia.

In 1982 I was recruited to become Director and Distinguished Chair Professor of the newly established Ports and Waterways Institute at Louisiana State University. Concurrently, I retain my position as a Vice President with Louis Berger Group. During my tenure as the first and current director of the Institute it has developed into the largest University based research center of maritime and intermodal research. In recognition of the Institute's role it was designated by the Federal Maritime Administration as the National Institute. Among the programs completed under my direction just within the last year are: a Market assessment for expansion of the Panama Canal; a Master Plan for the Yangshan (Shanghai) port, the World's largest port construction project ($15 billion); a Louisiana

Statewide Intermodal Plan and; an Evaluation of Shipping costs and Pricing in the Gulf of Mexico. The latter two research programs specifically included the assessment of markets for coal and other bulk commodities, existing terminal capacities and detailed information on shipping costs in the Gulf of Mexico. Shipping costs were analyzed based on actual records for a variety of origin/destinations and vessel types in the Gulf and to/from the Lower Mississippi and ports of Houston and Tampa.

I have authored or contributed to 5 books and published more than 60 articles in professional and scientific journals dealing with a broad range of water transportation issues. My latest book titled "Domestic Water Transportation-Comparative Review" is currently in print.

Q. On whose behalf are you offering this testimony?

A. On behalf of Catherine L. Claypool, Helen Fisher, William Page, Edward A. Wilson, Sue E. Strohm, Mary Jane Williamson, Betty J. Wise, Carlos Lissabet and Lesly A. Diaz , a group of residential customers of Tampa Electric represented in this case by attorney Michael B. Twomey.

Q. What is the purpose of your testimony?

A. I was retained to address the issues the Commission deferred from last year's fuel adjustment proceeding to this separate docket. The issues, 17E, 17F and 17G, are

listed in Order No. PSC-03-1359-PCO-EI, which established this docket. They ask the following questions, which I address in my testimony:

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

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

Issue 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?

The purpose of my testimony is to address each of the questions presented above and report the conclusions I have reached.

Q. Do you have a brief summary of the conclusions you reached on the questions before the Commission here?

A. Yes, I do. First, I believe the Commission should reject the current benchmark for gauging the reasonableness of Tampa Electric's waterborne transportation costs. As I explain more fully below, using the rate per ton mile for coal transported to Florida municipal electric boilers from Appalachian fields is not a reliable means for gauging the reasonableness of the rates Tampa Electric

currently pays for shipping coal by water from various Midwestern coal fields. Coal from the Midwest fields can only rationally be transported to Tampa Electric's Big Bend station by water. Thus, the reasonableness of the waterborne rates paid should properly be measured by comparing them to other, comparable waterborne rates, not by applying the rail rate per ton mile to the rail distance from the Midwestern fields to Big Bend. An analogous situation would be to question the reasonableness of Publix supermarket's ground transportation rates for shipping dry dog food by comparison to overnight air express rates. The ground rates, whether reasonable or not in their own right, would always compare favorably to the air rates. A reasonable test of Publix's rates would be by comparison to "market-based" ground rates for the same distances, if such a market existed. Consequently, the Commission should eliminate the current benchmark.

When there is a "market" for a given good or service, the most accurate way to assess the market price is by seeking competitive bids. To be successful, however, the bidding process must be fair, open and reasonable. I have concluded that Tampa Electric's 2003 RFP contained so many industry non-standard and otherwise restrictive conditions as to (1) unnecessarily limit the number of bid responses, with the result (2) that the contract was necessarily directed to Tampa Electric's affiliated company, which, in any case, had an undisclosed right of first refusal. As a consequence of this greatly flawed RFP, neither Tampa Electric nor this Commission has the benefit of true market rates for the river and terminal

components by which to measure the reasonableness of Tampa Electric's current charges. In short, the June 27, 2003 RFP is not sufficient to determine the current market price for Tampa Electric's coal transportation.

I have concluded that there are clearly markets for the river transportation leg and the port terminal services. Whether there is a market for the Gulf or coastal transportation leg is questionable, but that question rests, in part, on how much foreign coal will be taken and whether the transportation is limited only from the Mississippi Delta area to Big Bend or whether vessels from foreign ports are considered. Rather than struggle with analyzing the reasonableness of the rates paid by Tampa Electric by comparison to those resulting from outdated benchmarks or complicated and confusing models, I recommend that the Commission direct Tampa Electric to reissue its RFP for coal transportation services in a form that is fair and reasonable, consistent with industry standards and likely to obtain the largest number of competent responses. The RFP must also clearly state potential bid respondents will win the contract if they have the lowest qualified bid. A new RFP should result in actual and useable market prices for at least the inland waterway and port terminal components and, perhaps, the coastal leg as well.

As to the last question, I am confident that the rates Tampa Electric proposes for fuel adjustment cost recovery as a result of awarding the coal transportation contract to TECO Transport are not reasonable. I reach this conclusion after

reviewing and rejecting the supportive findings of Tampa Electric witness Dibner, while countering his rates with lower rates provided by my modeling methodology. Importantly, I note that the confidential Tampa Electric shipping rates compare very unfavorably with the rates TECO Transport is earning in the open market, particularly from its contract with JEA. In the event the Commission does not require a new RFP, or does not get responsive market rates from a new RFP, I conclude that cost-plus pricing, especially for the coastal leg, may be the best way for the Commission to ensure that Tampa Electric's customers pay fair and reasonable coal transportation rates.

Lastly, I observe that some of the high cost shipments of import coals from Davant to Big Bend could be eliminated entirely if Tampa Electric took cost-effective steps to receive the imported coal directly at Big Bend without taking it to Davant first.

Research Methodology

Q. What actions did you take in analyzing the issues before the Commission in this docket and in the preparation of your testimony?

A. A primary source of information I relied on was the Commission's orders in this docket and in earlier fuel adjustment dockets relating to the pricing of coal and coal transportation services. Additionally, I used the extensive discovery

responses provided by the parties as well as other documents Mr. Twomey obtained through a public records request. My colleague at the National Ports and Waterways Institute and collaborator in investigating these issues, Dr. Asaf Ashar, made field visits to Big Bend and the adjacent Kinder-Morgan dry bulk terminal in the Port of Tampa. Dr. Ashar and I also conducted numerous telephone and face-to-face interviews with knowledgeable individuals from the following agencies: U.S. Department of Energy Information Administration, U.S. Army Corps of Engineers, U.S. Department of Transportation Maritime Administration, U.S. Agency for International Development; Port Authorities including Port of Tampa and Port of Mobile; and carriers, brokers and one other electric utility, including JEA, formerly the Jacksonville Electric Authority, Moran Towing, Ingram Barges, ACBL, APEX Marine, Marcon International, and the Mississippi Valley Trade and Transportation Council. We also reviewed several industry publications, including Simpson Spenser Young Energy Venture Analysis, TransCoal, US Coal Review, Western Coal Advisory, Coal Transportation Report, local media (St. Petersburg Times) and other documents issued by various companies involved in coal transportation.

Background on Tampa Electric's RFP process

Q. How do you understand that Tampa Electric went about conducting its 2003 RFP and was the result sufficient for this Commission to use the RFP to determine the current market price for coal transportation?

A. In July 2003, Tampa Electric prepared a Request for Proposals ("RFP") for waterborne deliveries of coal from Midwest suppliers to its Big Bend Station for the period January 1, 2004 through December 31, 2008. The delivery process, or the transportation chain, included 3 legs or components: inland waterways leg, port terminal services and coastal shipping leg. Bids were to be submitted for either the entire 3-leg process, or for each leg separately. Tampa Electric hired a consultant, Dibner Maritime Associates ("DMA"), to assist in the solicitation process. The RFP was sent to 24 vendors and was also published in several industry newspapers. TECO Transport, which like Tampa Electric, is a subsidiary of TECO Energy, Inc., did not participate in the bidding process and did not submit a proposal. However, TECO Transport's expiring contract with Tampa Electric included a contractual provision giving it the right of first refusal, or the ability to "meet or beat" the lowest bid resulting from a solicitation, which would be defined as the "market price." If no qualified bids were obtained, TECO Transport would have to "meet or beat" a "calculated" market price. The calculation of the market price was to be accomplished by DMA through its proprietary pricing model.

The "meet or beat" option would be available to TECO Transport even in cases where an outside vendor was granted a contract for one or more transport legs. There would be a periodic, presumably annual, review of the contractor's performance, after which TECO Transport could still meet or beat this

contractor's rates and take over the provision of transport services for the remainder of the contract. The "meet or beat" provision in the Tampa Electric/TECO Transport contract was not disclosed in the RFP or otherwise revealed, and, at least in one case that I am aware of, was affirmatively denied to potential RFP respondents, at least to the extent that respondents were told that the selection was "wide-open."

The RFP was also reported to be distributed to railroads, although a CSX consultant has denied this. In any event, the rail proposals were not considered because Tampa Electric reasoned that the present Midwest coal mines supplying it were located too far from railheads, coupled with the fact that the Big Bend station has no rail handling facilities. Nevertheless, a theoretical rail cost was calculated based on historical rates and adjusted to the present situation using a special formula. The rail transport option and its calculated rate do not directly affect the water transport options and I do not address the rail issue in my testimony, except to conclude that the current rail-based benchmark should be eliminated.

Tampa Electric received only 2 proposals for waterborne transportation services in response to its RFP: (1) from [redacted] for the inland river leg; and (2) from [redacted] for the port transfer services. No proposals for either the coastal leg or the entire integrated, 3-leg transportation route were received.

Q. How did Tampa Electric evaluate the proposals it received?

A. [redacted] proposal was rejected, based on a claim that the bidder, operating under the protection of Chapter 11, was unreliable and therefore should be disqualified. Since [redacted] proposal was considered disqualified and there were no other inland waterway bids, Tampa Electric used DMA's calculation for determining the market rate for the inland leg. [redacted] proposal for port transfer was considered qualified and the rates in its proposal were determined to be the market price for that service. Since no proposal for the coastal leg was obtained, the market rate for this leg was also based on a DMA calculation. Altogether, the final market rate assumed by Tampa Electric for the entire 3-leg transportation route was based on a single, actual proposal for the port terminal component, and 2 theoretical cost calculations by DMA for the inland and coastal legs. TECO Transport was allowed to "meet or beat" both the single, actual RFP bid and the calculated rates. Consequently, TECO Transport was awarded the contract for the entire 3-leg transportation route for the entire 5-year period from 2004 through 2008.

Q. Did Tampa Electric claim that the resulting transportation rates were "fair and reasonable" for cost recovery from its customers?

A. Yes, it did. Tampa Electric stated that the resulting overall waterborne transportation rates, which are treated as confidential in this case, to be paid to TECO Transport were lower than the rates arrived at by use of the rail-based

benchmark first approved by this Commission in 1988 and then reaffirmed in 1993, which Tampa Electric said necessarily made them appropriate for recovery now.

Rail Benchmark A Flawed Method To Gauge Reasonableness Of Waterborne Rates

Q. Please explain why you believe the current benchmark using rail rates for coal shipped to Florida municipal electric utilities from the Appalachians is an ineffective and inefficient means for gauging the reasonableness of the waterborne rates in question here.

A. I understand the threshold issue in this case is whether the Commission should 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. This benchmark was reaffirmed in 1993, but was originally adopted by the Commission in Order No. 20298, issued in Docket No. 870001-EI-A on November 10, 1988. According to these orders, Tampa Electric's coal transportation benchmark price is the average of the two lowest comparable publicly available rail rates for coal to other utilities in Florida. That average rail rate, stated in cents/ton-mile is then multiplied by the average rail miles from all coal sources to Tampa Electric's power plants to yield a price per ton of transportation, or the "benchmark price."

Q. Did the original 1988 order actually endorse the benchmark price described above?

A. No. While the Commission accepted the parties' stipulation agreeing to the benchmark price, the order actually had a discussion of the relative merits of cost-of-service versus market pricing that I believe is relevant to the current situation.

After recognizing that cost-of-service pricing required specialized knowledge, was complex, expensive and time consuming, the Commission made the following conclusions:

> Considering the many advantages offered by a market pricing system, we, as a policy matter, shall require its adoption for all affiliated fuel transactions for which comparable market prices may be found or constructed.
>
> In concluding, we note the following caveats: (1) from the record in this case, we are convinced that market prices can be established for the affiliated coals; (2) market prices for the transportation-related services should be established if possible, but if not, methodologies for reasonably allocating costs should be suggested; and (3) cost-of-service methodologies should be avoided, if possible.

As can be seen, the Commission concluded market prices for the transportation-related services should be established, if possible, but absent the use of market prices, cost allocation methodologies should be used if it was reasonable to do so. Furthermore, cost-of-service methodologies were to be avoided, if possible, but were not prohibited. These conclusions, however, were effectively superseded by the Commission's acceptance of a settlement agreement adopting the rail

"benchmark price." However, if the benchmark is rejected by the Commission in this proceeding, I see the following hierarchy resulting from the 1988 investigation: (1) use of actual market prices, if they exist; (2) prices based upon the allocation of costs, but only if it is reasonable to do so; and (3) cost-of-service pricing if the first two methods aren't available.

Q. What do you see as the chief flaw in the rail benchmark price methodology?

A. Consistent with the Commission's conclusions in the 1988 case, I believe market prices for the transportation-related services should have been determined, when possible, rather than merely applying rail transportation rates from Appalachian coal fields to Florida municipal electric utilities as a proxy for waterborne transportation from Midwestern coal fields to Tampa Electric's Big Bend plant. The municipal rail rates are for the transportation of Appalachian coal that could only reasonably be transported by rail and those rates may be considered high because there is no water alternative. On the other hand, water transportation of bulk cargo, when available, is almost always less expensive than rail, so transportation of Midwestern coal, that is easily accessible by the Ohio and Mississippi River systems, by rail is not economically sound. The current benchmark price "tests" the reasonableness of the necessarily lower cost waterborne transportation by assuming the only alternative, or competition, to Tampa Electric's affiliated waterborne system is the transportation of the Midwestern coal by rail to Big Bend. I believe the preferable measure of the

reasonableness of Tampa Electric's waterborne rates would be to determine actual market prices for comparable waterborne transportation services as suggested by the 1988 order, if, in fact, actual markets exist for each transportation leg or service component.

Q. How do you propose that market prices for the waterborne route could be determined?

A. Typically, as is the case with virtually all goods and services, "market prices" should be determined by a competitive bidding process. Tampa Electric did engage in a 2003 RFP process, apparently at the insistence of the Commission staff, but the RFP was so technically flawed by the inclusion of non-standard requirements that the results should not be relied upon for protecting Tampa Electric's customers from unreasonable and excessive coal transportation charges.

Q. What criticisms do you have of Tampa Electric's 2003 RFP process?

A. I have quite a few, which I will discuss below. First, however, most of my objections to the RFP result from the inclusion of mandatory requirements of the RFP being "non-standard" in the industry, which, in turn, dictate higher bid rates than are warranted.

The term "standard" as I use it here relates to requirements that are commonly used in industry freight contracts, agreements and/or bids to describe relationships between cargo owners, ship owners (carriers) and ports. Hence, "non-standard" is defined here as outside the standard industry practices, or simply uncommon.

Q. Did you find the Range of Volume required in the 2003 RFP a standard and reasonable requirement?

A. No, the range was much wider than common in long-term freight contracts. Contracting in markets for transportation services is typically conducted either on the basis of spot or long-term contracts. Prudent buyers attempt to cover their basic needs through long-term contracts, while covering their uncertain needs with spot contracts. The practice of splitting procurement contracts between long-term and spot purchases is already used by Tampa Electric for coal imports. The imported coal is to provide for the balance of demand, and therefore is only purchased on the spot market.

Tampa Electric's RFP range between the high and the low volumes was for the inland segment 54%, the terminal segment 54% and the ocean segment 38%. With the consent decree, the range was even wider: "TE may deliver 2 million tons to Big Bend in 2008 – or it may be 5.5 million tons" according to witness Dibner at page 6 of his testimony. In light of the option to purchase coal and transportation services on the spot market and the availability of several sources,

normally a buyer would not attempt to cover such a wide range of volumes by a single long-term contract. Instead, a more prudent buyer would first split the volume into 2 segments, the certain and the uncertain. Then, the buyer would use a long-term contract for the first segment and spot contracts for the second.

The RFP's requirement for such a wide range of demand necessarily results in unnecessary costs for providers because it would force them to keep large reserves of capacity idle. Therefore, these providers would require higher freight and handling rates in their proposals.

Q. Do you believe the Demurrage Requirement in the RFP was an industry standard requirement and reasonable?

A. No. Ports usually do not compensate ship owners for demurrage caused by their inability to accommodate ships arriving outside of the agreed upon schedule. The common requirement of ports in freight contracts is a minimum guaranteed productivity or handling rate measured in tons/day. Normally shippers, and sometimes ship agents, contact the port to coordinate a ship's arrival time and working schedule. If a vessel arrives outside of the agreed time window and handling is delayed, shippers pay demurrage to ship owners. Ports cannot cover the risk of a ship waiting due to late or early arrival, due to weather problems,

congestion in other ports, etc. The ports can be liable only in the case they do not deliver minimum productivity, which is a rare occurrence.

Again, I believe this non-standard requirement would result in higher costs to the port and necessarily higher rates quoted to Tampa Electric in responses to the RFP.

Q. Was the Storage Volume Requirement in the 2003 RFP a standard requirement and reasonable?

A. No, this requirement was highly unusual and may have adversely impacted potential bidders.

The RFP required that 1.4 million tons be maintained in storage for a total annual volume to be transported ranging from 3,250,000 to 5,000,000 tons. Assuming an average annual volume of 4,125,000 tons, the storage requirement is equal to about 124 days of consumption. Such a storage reserve is much larger than the 30 to 45 days common in the industry, and may result in higher storage costs for the port.

This peculiar RFP requirement seems to be intended to severely restrict the capabilities of potential bidders who serve other port terminal customers. Only one terminal [redacted] was capable

of providing storage space close to that specified by the RFP. [redacted] stated storage capacity is 1.35 million tons. In fact, even [redacted] which was the only bidder for the port transfer service, was formally not qualified to participate in the bidding process because its declared storage capacity is 1.35 million tons, as compared to the RFP's requirement for 1.4 million tons.

It is interesting to note, however, that using its 1.35 million-ton storage capacity, [redacted] handles 9 to 10 million tons annually, or more than twice that required by Tampa Electric's RFP. The requirement for 1.4 million tons therefore seems to be both uncommon and unnecessary, and should lead to substantial increases in port costs that would be reflected in RFP responses.

Q. Was the RFP Requirement for Eight, Separate Storage Piles a standard requirement and reasonable?

A. No, in my opinion it was highly unusual. Normally, coal terminals have only 3 to 4 piles.

Coal is usually stored in separate piles according to its main specifications: BTU, sulfur and ash contents, moisture, etc. Through blending, the power station attempts to optimize the effectiveness per BTU subject to the EPA's constraints regarding emission gases. In most cases, blending involves coal from 2 or 3 sources, each stored in a separate pile. For example, one would expect a coal-

fired power plant similar to Big Bend to blend Western, Eastern and foreign coal, sometimes also with pet coke. Hence, coal terminals would normally need to have 3-5 separate piles, not 8. The requirement for 8 separate piles seems both uncommon and unnecessary; and would necessarily increase the port costs and drive RFP responses higher.

Q. Was the RFP Requirement of Payment Schedule a standard arrangement and reasonable?

A. No. Payment to ports for the handling services of a vessel are commonly paid at the end of the services being provided to the vessel.

The Tampa Electric RFP requires that the payment for the handling services at the Mississippi port will only be made after discharge of the coal in Big Bend. Given the inventory requirement discussed earlier, inventory at the port could reach 124 days, which, in certain cases, could mean the port would have to wait that period to be paid. This unusual requirement results in higher financial costs to the port and a necessarily higher charge to Tampa Electric.

Q. Was the RFP Requirement for Weight Measurement a standard requirement and reasonable?

A. No. Weight measurement in ports is commonly done either at the discharging / loading belt or, sometimes, at the vessel, using a draft survey.

The Tampa Electric RFP requires that the basis for payment would be the weight measured upon discharge in Big Bend. Weight measurement for discharging vessels is usually done at the ship unloader and for loading vessels at the ship loader. Sometimes, when scales are not available, the measurement is based on the vessel's draft. The RFP's unusual requirement could result in greater uncertainty regarding payment for the port, which, in turn, could result in a higher financial cost and a respectively higher charge to Tampa Electric. This, too, would result in higher quoted rates in response to the RFP.

Q. The Tampa Electric RFP included a Cargo Loss Requirement. Do you consider that requirement to be an industry standard and reasonable?

A. No. Ports usually do not bear financial responsibility for cargo loss due to natural events.

Cargo loss is directly related to the size of the inventory in tons and the length of storage time measured in days. That is, the higher the volume of coal stored in the port and the longer the time it is stored, the higher the expected loss. As described above, both the volumes and storage times required in the RFP are unusually high, which could lead to higher cargo losses. Hence, this requirement would increase the uncertainty regarding the financial obligations of the port, which, in turn, should result in a higher financial cost and a respectively higher charge to Tampa Electric.

Q. Do you consider the "No-Cost Expedition of Shipment" in the RFP a standard requirement and reasonable?

A. No. Furthermore, this requirement seems to be unclear and open to a number of interpretations.

The RFP states: "TE will reserve the right to expedite solid fuel shipment at no additional cost. . . ." First, it is not clear how much expedition is required and what the penalties are for non-performance. Second, all U.S. carriers have: (a) limited fleets of dry bulk barges and ships; and (b) most of these fleets have long-term employment contracts. How could Tampa Electric expect these carriers to provide expedited transportation? Likewise, if the carriers had to set aside idle vessels for the event of expedition, it would involve additional costs, again resulting in higher rates being quoted to Tampa Electric.

Q. Were there other problems with the way Tampa Electric structured its RFP so that fewer responses could be anticipated?

A. Yes, there were quite a few more structural problems with the RFP. For example, there were no U.S. Flag vessels with the capability and capacity of responding to the full requirements of the RFP and Tampa Electric either knew this or should have been aware this was the case.

The only 2 carriers, except for TECO Transport, that have fleets of coastal barges are Dixie Fuels and Moran Towing. However, the fleets of both companies consists of a limited number of relatively small coastal barges. Hence, their overall capacity was too small to handle the entire volume as defined in the RFP. For example, if Dixie Fuels decided to devote its entire fleet of 4 x 17,000 dwt vessels, with speeds of 5 to 6 knots to Tampa Electric, it could only deliver somewhere between 20 to 25% of the total volume defined in the RFP. Moran Towing's barges have dimensions similar to Dixie Fuels' and there are a limited number of units. Hence, neither of these carriers was technically capable of responding to the RFP. This fact was clearly recognized by witness Dibner, who stated that no proposals for the coastal leg were obtained due to ". . . the extremely limited number of barges that are of sufficient size to compete with TECOT."

The lack of suitable vessels for the coastal trade is also reflected in the Jacksonville Electric Authority (JEA) testimony (Rob Johns, Sept 2002). JEA uses TECO Transport barges to bring pet coke from coastal refineries because: "They are the only option. Dixie barges are about half as big.... Dixie is not interested...." The lack of availability of vessels for coastal trades comparable with TECO Transport's can be partially explained by the fact that except for Tampa Electric, the potential employment for such large-capacity, dry bulk barges is limited. Reportedly for the last 40 years, Tampa Electric has only employed TECO Transport (TBO, July 17, 2003).

The market situation whereby only TECO Transport could respond fully to the RFP is well recognized in the industry and must be also known to Tampa Electric and its consultant, DMA. If this was the case, one could raise the question what was the point in issuing the RFP for the coastal leg? Tampa Electric obviously knew that there would be no competitive bidders for the integrated system of delivery or for the coastal leg!

Q. Were there other coastal carriers that could match TECO Transport's rates?

A. No. Due to a combination of scale economies and large fixed costs, the cost of maritime transport is inversely related to vessel size, usually measured in Dead Weight Tonnage or dwt. For example, the size of Dixie Fuels barges is about 50% of those of TECO Transport (17,000 vs. 35,000 dwt). Accordingly, their operating costs are expected to be higher than TECO Transport's by about 30%.

Q. Were There Any Unemployed US Flag Vessels available for the coastal leg?

A. Not for any practical purposes. Also, Even if other carriers had the technical capacity to handle the RFP volume or part of it, they would not be able to pursue this contract due to their prior commitments. For example, the entire Dixie Fuel's fleet has been employed for many years by Progress Energy, moving about 2 million tons annually from New Orleans to Crystal River. Progress Energy is a

half owner of this fleet and its service is essential to its operations. Therefore, Tampa Electric had no basis to reasonably expect that Dixie Fuels would renege on their obligation to Progress Energy and shift significant capacity to Tampa Electric's contract.

The same employment situation existed with Moran Towing, with most of its fleet under long-term contracts mainly carrying coal and grain. Even some of the single-vessel carriers had long-term obligations, such as Matson's integrated tug/barge ("ITB") which was employed on a long-term basis, bringing sugar from Hawaii to the West Coast.

The fact that the U.S. comparable fleet was mostly under long-term commitments and, therefore, unavailable for the RFP, was also recognized by witness Dibner, who stated: "The fleet of ships and barges in the Jones Act fleet is highly utilized and does not have idle, large barges available to serve such a large market as TE's transportation needs."

This raises, again, the same question of the validity of the entire bidding process for the coastal leg. Put differently, what was point of Tampa Electric's solicitation for the coastal leg from carriers knowing that:

(a) No carrier had sufficient technical capacity to handle the required RFP volume;

(b) Even if they had the technical capacity, due to the smaller size of their barges, no carrier could reasonably offer rates equal to or lower than TECO Transport; and

(c) Even if they had the technical capacity, due to prior commitments, no carrier had significant capacity available.

Q. Do you have an opinion on whether the RFP's Requirement for "All or Nothing" excluded potential bidders?

A. Yes, I believe this provision excluded smaller carriers that could handle a portion of the total volume and at a lower cost.

It has already been argued that no single carrier had a fleet that could handle the entire RFP volume at rates competitive with TECO Transport's. Still, as witness Dibner indicated, there were several U.S. flag carriers with 1 or 2 vessels of sufficient size that could transport a portion of the total volume as defined by the RFP, if they were allowed to bid for partial volumes. For example, GATX/AmShip with a 39,000 dwt barge and International Shipholding with a 36,000 dwt ship could, at least in theory, successfully have bid for about 1 million tons annually, possibly generating substantial savings for Tampa Electric and its customers.

Q. Did barge companies operating on inland waterways have the capacity to meet the "All or nothing" requirement of that leg?

A. Yes. The inland barge market, unlike the coastal market, has several large operators and the market is very competitive. Given a fair and open RFP there should have been numerous qualified responses.

In addition to [redacted] at least 5 other companies had fleets of open hopper barges and towboats equal to or greater than TECO Transport's. The largest of these companies, Ingram, specializes in coal transportation and has a fleet of jumbo barges more than 4 times larger than TECO Transport's.

Q. If a number of barge companies had sufficient capacity to meet the RFP's inland waterway requirements, why do you believe only one of them responded?

A. I believe the structure of the RFP made it clear to the industry that the chances for selection was very low, if at all possible.

In addition to the other RFP problems addressed, none of even the largest inland barge companies could provide for integrated transportation, meaning including the port terminal services and coastal shipping, which the RFP defined as being preferred. In addition, the smaller companies could not meet the "all or nothing" requirement of the RFP. When we questioned representatives of Ingram as to

why they did not respond to the RFP, the response was simple, "why bother." Even though TECO Transport's right of first refusal was not stated in the RFP, the relations between Tampa Electric and TECO Transport were well known in the industry and competing companies assumed that they had no chance of winning the bid.

Q. Do you believe additional responses from inland waterways barge companies would have resulted in lower bidding prices?

A. Yes, mainly because these companies would have considered backhaul cargoes in calculating the fronthaul rates submitted to Tampa Electric.

In accordance with statistics provided by the U.S. Army Corps of Engineers Waterborne Statistic Center, backhaul for dry bulk in the Mississippi waterway system is about 30% in tonnage and in number of barges for upstream from Baton Rouge/New Orleans to a variety of destinations on the Mississippi and the Ohio rivers, as compared to the fronthaul of the coal in this case. As far as we know it, the DMA model, used for the calculation of inland barge costs, does not include any backhaul. For non-dedicated tows, and [redacted] backhaul may provide the ability to lower bidding rates.

Some smaller carriers in the inland system may have advantages in certain segments of the system due to ownership of docks or contracts with other cargoes

providing backhaul options. The RFP requirement for bidding on all of the inland points eliminated the possibility of regional specialization.

The proposal by one of the largest barge company, [redacted] was rejected because the company operated under the protection of Chapter 11 and therefore was rated by Tampa Electric as unreliable. It is true that pursuant to the provision of a law, [redacted] id restructure and/or terminate certain pre-petition freight contracts. However, after the date of its filing, [redacted] has not modified, restructured or terminated any freight contracts entered into after the date of that initial filing. Accordingly, [redacted] insists that it offered a bona fide proposal.

The [redacted] proposal, although rejected, provides an illustration for potential savings. While the weighted average of [redacted] rates was about 5% lower than the DMA model rate, there were several segments whereby the differences reached 8.7%, as recognized by witness Dibner at page 36 of his testimony, and others where there was no difference. A savings of 8.7% on the rate of $[redacted] would amount to [redacted] ton, or $[redacted] year for 1 million tons. It is quite possible that a better response to the RFP, by inland barge companies, may have led to even lower rates.

Q. Do you have an opinion on whether the Preference Given to Combined Inland-Port-Coastal Proposals Requirement thwarted potential single segment bidders?

A. Yes, because none of the potential bidders could provide the entire 3-leg service.

The RFP stated that Tampa Electric preferred proposals for integrated waterborne transportation services, which means that a single operator will assume the entire 3-leg transport system. Tampa Electric was aware of the fact that none of the potential bidders could provide an integrated service on its own. Moreover, even if several companies wanted to join forces, there would be no candidate for the coastal leg, especially with the requirement to accommodate the entire volume. Joint bidding for a 5-year contract would require the establishment of an additional managing and coordinating organization. This would increase efforts and costs even at the proposal stage. With a general and well-based understanding in the industry that the results of this solicitation would be predetermined, the complexity of joint proposals, obviously, further thwarted single bidders' desires to respond.

Q. According to Tampa Electric witness Wehle, Tampa Electric's previous contract with TECO Transport included a "right of first refusal" or "meet or beat" provision. Was this an industry standard or to be expected by potential respondents to the RFP?

A. No. Moreover, since the RFP did not specify TECO had this option, the bidding process probably misled the participants, who should have been able to assume that the RFP process guaranteed equal chances for them and TECO Transport. Also, Tampa Electric divulging bid results to TECO Transport could involve a breach of commercial confidentiality.

A standard solicitation process includes potential participants, all of whom should have a reasonable chances of winning. Accordingly, the Tampa Electric bidding process should have included TECO Transport and required that it submit a sealed proposal along with the other respondents.

If potential bidders knew of TECO Transport's "meet or beat" option, some, or all, would likely view the entire bidding process as biased toward TECO Transport and a wasted effort on their part. Moreover, one bidder stated during our interview that if he had known about the first-refusal clause, he would not have participated since, in this case, the bidding process was only designed to divulge proprietary information of his operations to TECO Transport.

Q. What results do you think the non-standard RFP requirements had on TECO Transport actual costs of performance? the overall RFP responses and the contract award?

A. The unusual requirements may have had a theoretical, but not a practical, impact on TECO Transport's contract with Tampa Electric, since both are subsidiaries of TECO Energy.

The RFP's requirements, as previously discussed, necessarily thwarted potential competitors and created additional and unnecessary costs for them, but not for TECO Transport, which did not have to bid. TECO Transport and Tampa Electric are affiliated companies. Both are wholly-owned subsidiaries of TECO Energy. Hence, when one affiliate charges the other for unusual services, these

surcharges, for all practical purposes, are essentially transfer payments. If Tampa Electric collects a penalty from TECO Transport because it failed to comply with a contract requirement, the fine paid to Tampa Electric remains within the same overall organization, TECO Energy.

Another inherent advantage TECO Transport had due to its affiliation with Tampa Electric was the possibility of better coordination and, especially, reducing costs following actions taken specifically for this purpose by Tampa Electric. For example, it can be illustrated by impact of the requirement for 1.4 million tons of ground storage and 8 separate piles. For non-TECO Transport terminals, such as [redacted] assigning storage space and conveyance equipment for 8 piles imposes considerable constrains on their ability to accommodate other customers, irrespective of whether or not this requirement would actually be enforced with TECO Transport. In the case of TECO Transport, it is reasonable to expect that if Tampa Electric found that having 8 piles in TECO Transport's own transfer terminal resulted in a loss of revenues from other customers, Tampa Electric would likely modify its storage requirements. Put differently, the guiding principle in coordinating the activities of 2 subsidiaries of the same holding company would be to assess overall total costs and revenues, in order to maximize the overall profit.

Q. In light of your conclusion that the current benchmark is inappropriate and should be replaced by actual market prices obtained through competitive bidding, what

changes would you make to Tampa Electric' 2003 RFP so that it would obtain the necessary market prices?

A. First, it is important to recognize that requesting costly responses to a long-term contract of this type merely to find a bid that an affiliate company can undercut is not only unfair to prospective bidders with the result that otherwise competent vendors will not bid, but that it also does not necessarily lead to the lowest price.

Q. Why is the right of first refusal detrimental to the process and unfair to prospective bidders?

A. The unfairness to bidders ultimately is detrimental to the overall process. The preparation of a bid is not an inexpensive exercise. If potential bidders believe that their bids will merely be used as a foundation for the affiliate company to either meet their bid or undercut them marginally on price, they will see no percentage in wasting their time and money on a response. There can be no right of first refusal in a fair and open RFP because it necessarily and correctly will cause potential bidders to avoid participating.

Q. Why does the right of first refusal also likely preclude the lowest possible market price being revealed?

A. The short answer is that TECO Transport, if it were required to fairly compete in the bidding process, might fear the loss of the contract, really sharpen its pencil and submit a bid that is not only lower than that necessary to be the lowest outside bid, but substantially lower. It is short-sighted and incorrect to suggest that merely meeting the otherwise lowest bid will result in Tampa Electric, and its customers, receiving the lowest cost bid. Forcing a fair and open RFP process without resort to a right of first refusal by TECO Transport would cure both the problems I've discussed. For example, TECO Transport's terminal operation might have bid substantially lower than the [redacted]id if it knew that it would not have a right of first refusal and would lose the business if its bid was too high. The single most important act the Commission could take in ensuring a fair and open RFP and the maximum number of responses would be to require Tampa Electric to announce that TECO Transport would not be able to exercise any right of first refusal; that TECO Transport would have to submit sealed bids like all other respondents; and, lastly, that the Commission would ensure that a third party judge would ensure that the contracts were awarded to the lowest qualified bidder.

Q. Do you believe it makes sense at this point for the Commission to give up on finding true market prices for the three components of Tampa Electric's waterborne transportation system and then merely resort to the rail-based benchmark or DMA's calculated market rates to test the reasonableness of the rates the utility is paying TECO Transport?

A. No, I do not believe that either of these alternatives is appropriate at this time. Rather, if there are actual markets for any of these three transportation legs or components, then the Commission should test the rates Tampa Electric is paying its affiliate by requiring it to properly seek competitive bids for the services through the issuance of a new, but fair and open RFP.

Q. Aside from requiring that the lowest qualified bidder would win the contract, how would you go about modifying the RFP to ensure that it would be fair?

A. I would require Tampa Electric to remove all of the non-standard provisions I have testified to already so that more potential bidders could submit lower overall bids without having to worry about factoring in higher costs and higher risks through higher than otherwise required bids.

Q. Do you believe that there are sufficient qualified vendors for all three components legs to support the determination of actual market prices through the RFP process?

A. I believe that there are clearly enough vendors on the inland waterways to support the finding of a true market price based upon a fair and open RFP. Additionally, I believe that there are likely a sufficient number of terminals to result in a true market price being established through the RFP process, especially if the onerous non-industry standard conditions related to excessive inventories, number of coal

piles, damages, payment conditions and the like are removed from the new RFP. If nothing else, the terminal bidding might be exclusively between TECO Transport and [redacted] which could be sufficient to produce a market price assuming legitimate bids by both parties. Clearly the coastal route from Devant to Big Bend will present the biggest challenge given my recognition that there are not many vessels of the proper size free to take the necessary volumes. One possibility could be to require Tampa Electric to remove the all or nothing provision for this leg so that the smaller, single vessels I testified to could bid for a portion of the requirement. Removal of this very restrictive provision would also greatly facilitate better response from inland waterway and port operators.

Q. If there are inadequate RFP responses to establish a true market price for the coastal leg would you be willing to resort to either the rail-based benchmark or DMA's calculated market price?

A. No. I've already testified to why I think the rail-based benchmark is inappropriate and will shortly state why I think DMA's calculated market prices are overstated and inappropriate. Absent the ability to determine a true market based rate through the RFP process for the coastal leg, I would recommend that the Commission return to the cost-plus methodology used prior to the change in 1988. Such a methodology would treat the coastal vessels like an extension of the monopoly electric plant, would have a relatively low "rate base" since all of the

vessels are so old and presumably largely depreciated, plus it is a methodology that Order No. 20298 recognized as having value where the other methods fail.

Q. If the Commission was to reject requiring the issuance of a new RFP, how would you propose that it determine "reasonable costs" for each transportation element?

A. Where there is convincing evidence that an actual competitive market exists for one or more of the legs or components, I believe it would be inexplicable for the Commission to allow Tampa Electric to force the Commission and utility customers to guess as to the reasonableness of prices when the market can accomplish the task with precision.

Q. Assuming no responsive coastal leg RFP responses, what methodology would you advocate for the Commission to determine reasonableness in light of the relationship between Tampa Electric and TECO Transport?

A. I would advocate the return to cost-of-service, or essentially rate base regulation, by opening the books of TECO Transport's fleet permanently serving Tampa Electric and would treat them like an extension of the Big Bend plant. I would advocate this methodology not only for the coastal transportation leg, but for the other two components as well if the RFP is not rebid and if true market rates for those services are not revealed.

TECO Transport has been the winner of all Tampa Electric coal transport contracts for serving Big Bend and Polk in the last 40 years. Likewise, several of TECO Transport's barges have been serving, almost exclusively, Tampa Electric. Put differently, the same barges have been deployed on the route between TECO Transport's Davant, LA terminal and Big Bend for a long time. In fact, these barges have become an integrated part of the power production process, almost like the conveyors in the yard that connect the vessels to the coal piles, and the piles to the boilers. My previous discussion also demonstrates that TECO Transportation barges are likely the only reasonable way for Tampa Electric to transport coal between Davant, LA and Tampa in the future. I will also submit below, that it is also demonstrated that Tampa Electric's contract is virtually the only employment for TECO Transport's barges. These views also assume that Tampa Electric will not seek alternative coal supply options in the future, as I discuss later.

In light of the existing relationship between the two TECO Energy affiliates, the current system of an orchestrated bidding process and a theoretical calculation of a "market rates" for nonexistent markets is simply pointless. However, the fair price for TECO Transport services can be established if the rates that TECO Transport charges Tampa Electric are based on actual costs, based on TECO Transport's "books." Such a cost plus methodology could eliminate the perennial claims that TECO Energy has been artificially shifting costs between its regulated and unregulated affiliates at the expense of Tampa Electric's ratepayers. While it

is true, as recognized by the 1988 Commission order, that cost-of-service regulation is complicated and requires specialized knowledge, undertaking this type of review for Tampa Electric's waterborne transportation system would not be all that difficult and the shipping volumes and the expense to Tampa Electric's customers would appear to warrant the effort.

ALTERNATIVE CALCULATION OF "MARKET RATE"

Q. After Tampa Electric rejected the lone bid proposal for inland waterway services and found it had none for the coastal leg, DMA's expert witness Dibner calculated "market rates" using his proprietary model, which rates were then used to support the reasonableness of the rates paid do TECO Transport. Do you accept DMA's and witness Dibner's methodology for calculating "Market Rates" as being reasonable for ratemaking purposes?

A. No, I do not.

Witness Dibner, at page 63 of his testimony, calculated the market price, or rate, for coastal shipping by assuming it would be the average between operational costs, replacement based costs, and potential earnings in preference trades. The market price relates to the daily time-charter equivalent. Later, witness Dibner develops a cost model, which was not provided in his filed testimony, in which the daily rate is translated into voyage costs, or a cost per ton for the Davant, LA – Tampa, FL roundtrip.

Witness Dibner's methodology apparently assumes that replacement cost, or the cost based on construction of a new TECO Transport fleet and other similar dry bulk vessels, approximates the supply side, while the potential earnings approximates the demand side for this fleet. In a well functioning market, the market price, or rate, is determined by the intersection of the demand and supply curves, as in the classical quantity/price panel of Marshal's model. Since, as also observed by witness Dibner, there is no such market for ocean-going barges, he assumes that the market price will be settled at the mid-point between the calculated replacement cost and potential earnings. It should be noted, however, that no values for replacement costs and no indication of a possible source for these costs are provided in witness Dibner's report.

Q. Is replacement costs accurately defined by witness Dibner?

A. No. Defining replacement cost for TECO Transport's barges is very difficult.

In a well functioning market, there is a little interest in the replacement cost, since market price is determined by the interaction of supply and demand. Moreover, the cost that determines price is always the "opportunity cost" and not a theoretical replacement cost. Still, the replacement cost, which is also defined as the recoverable cost, could provide an indication of the minimum and maximum rates. Its variable, or avoidable, component, which is usually the voyage cost, as I

describe below, could serve as the minimum short-term rate, below which the vessel owner would be better off laying up his vessel. The entire cost, including both the fixed and variable components, could serve as the maximum, long-term rate, since if the market rate is higher than that, additional capacity, as in new vessels, would be introduced. Unfortunately, there is a wide margin between these two boundaries of the market price and their usefulness for the "calculated market rate" is, therefore, limited.

There are also many other problems in defining the replacement cost, especially in the case of TECO Transport. TECO Transport's fleet is old. The tug/barge combinations have a unique design and dimensions. To my best knowledge, and as also indicated in witness Dibner's report, no vessels of similar design and capacity have been built in the U.S. in recent years. Still, if witness Dibner would like to use replacement costs, the process of obtaining information on these costs would be quite arduous. One common way for obtaining replacement cost is by sending the design documents to several shipyards for estimates. This would be a long and expensive process due to the unusual shape of the deep notch tug/barge configuration of TECO Transport's fleet. There is no indication in witness Dibner's report that such a process was undertaken.

Moreover, it is quite unlikely to expect that any U.S. ship owner would build a similar type of barges any time in the future. The market for the coastal trades is dwindling, especially due to the trend by East Coast utilities to substitute import

coal for domestic coal and the overall reduction in the demand for coal transport following the extensive conversion to gas, including Tampa Electric's power plant at Gannon. The decline in demand is also recognized by witness Dibner at page 54 of his testimony, where he characterizes the market for new tug/barge combinations as "declining and uncertain." Alternative employment opportunities in the preference trades is limited and favors the faster and more seaworthy ships. Additionally, market rates in preference trades are dictated by old-vintage, "historical" vessels, with fully depreciated costs, resulting in rates far too low for new ships and/or tug/barge combinations to compete.

Q. Did you find any relationship between witness Dibner's model's costs and Tampa Electric's actual operating and capital Costs?

A. No, witness Dibner's cost model is purely theoretical.

Previously, it was argued that replacement cost is difficult to define due to the absence of available information, because no such vessels have been constructed in recent years, or are contemplated in the near future. The only possibility for defining actual replacement cost is to obtain historical cost data from TECO Transport's books. There is no indication that witness Dibner used this source.

Witness Dibner, in Appendix C to his testimony at page 5, lists 5 separate sources for obtaining cost data for TECO Transport's barges: (a) Depreciated replacement

value; (b) Earning Potential; (c) Actual investments in "reconstruction" of vessels; (d) Acquisition cost; and (e) Sale and leaseback terms of 4 barges and 3 tugs. There is no indication in witness Dibner's testimony that any of these sources was used. Depreciated cost directly relates to replacement cost. The problems in obtaining reliable replacement costs were already discussed above. Earnings potential does not relate to actual cash costs but to opportunity cost and will be discussed below. Hence, one would expect at least to see, in witness Dibner's data, or elsewhere, data on acquisition and sale costs (d) & (e). Witness Dibner's report, however, has no information relative to the acquisition and sale costs, although the report states: "All aspects of this analysis were performed based on publicly available information" (DMA II, p. 77). The only information provided on fixed costs is that it constitutes [redacted] in the first analysis (DMA-I, p. 65), and [redacted] in the second one (DMA-II, p.65). Likewise, not only is that input not provided, the calculation method and the way these costs are incorporated are unclear. It is also noteworthy that the listing of 5 sources for costs is a misconception, since they relate to both the demand, or opportunity cost, and the supply side, or production cost.

Q. Is there another methodology you could use to for comparison purposes to establish a market rate based on replacement costs?

A. Yes, For instance U.S. Flag dry bulk ships of the similar 35,000 dwt capacity can be used for a purpose of comparison. In such case I have calculated that the required freight rate would be $5.12/ton

Q. How do you arrive at this rate?

A. Witness Dibner indicates that the freight rate for a new tug/barge combination would be $[redacted]per ton. But since witness Dibner has provided no cost information, there is no way to verify these cost figures. As noted earlier, no information on replacement and operating costs of TECO barges is provided by witness Dibner. I also noted that since these barges are of a unique design and dimensions, the only way to obtain such replacement costs is by soliciting quotations from shipyards, a lengthy and costly process that has not been undertaken.

Some indication for the replacement-based costs can be obtained from developing a simple cost model based on the U.S. Army Corps of Engineers guidelines for dry bulk ships. Before reverting to the results, it should be emphasized that U.S.

Army Corps of Engineers cost data are related to self-propelled ships, which have different characteristics than TECO Transport's tug/barge combination.

The U.S. Army Corps of Engineers,' as well as witness Dibner's analysis at page 65 of his testimony, breaks down ships' costs into three components:

Capital Costs – commonly calculated based on depreciation of initial and additional investments in capital equipment (the ship itself) over the economic (useful) lifetime, less salvage (terminal) value;

Operating Costs – for crew, stores, supply, maintenance and administration; and

Voyage Costs – for fuel, both at sea and port, pilotage and tuggage.

Additionally, the voyage costs includes harbor and channel dues as well as ship-related port costs such as dockage, line handling, etc. Accordingly, the definition of "required freight rate" refers to the rate needed for recovering the entire capital, operating and voyage costs. The time charter equivalent of the "replacement cost" would be roughly equal to the summation of the capital and operating costs. In our case, as recognized by witness Dibner, voyage cost excludes the port cost in New Orleans, which is part of the transfer cost segment, while in Tampa these voyage costs also exclude the port cost at the Big Bend facility.

The cost model I have used calculates comparable vessel costs to those defined in the bid documents. The main assumptions are:

- Vessels are dedicated to sailing roundtrips between New Orleans and Tampa, a distance of 465 nm at service speed equal to 90% of their design speed;

- Port time, including some delays, is between 3 and 4 days for both ends, depending on ship size;

- Vessels are fully loaded ; and

- Vessels have no backhaul cargo.

Exhibit___ (AH-1) presents the results of the calculation for 6 ships of sizes between 25,000 and 80,000 dwt. As seen in this table, in the case of 35,000 dwt, the required freight rate is $5.12/ton. This rate is based on replacement cost, recovering all fixed and variable costs, and by ships that presumably are more expensive to operate than barges. This rate is much lower than witness Dibner's calculated rate of $[redacted]ton.

Q. Witness Dibner's testimony also addresses the alternative employment opportunities for TECO Transport's barges presently serving Big Bend. What is your view on the alternative employment opportunities for these vessels?

A. I believe these alternatives are very limited. TECO Transport's barges could mostly be employed in coastal and preference trades, but markets for both are quite small.

TECO Ocean Shipping, which is part of TECO Transport, is the largest U.S. Flag carrier of this type with a fleet of 12 vessels, including 9 oceangoing tug/barge units and 3 self-propelled ships. The 9 oceangoing barges include 7 defined by witness Dibner as "core" and 2 defined as "inactive in class." TECO Transport barges have been almost exclusively employed by Tampa Electric for the last 40 years. TECO Transport barges may lose their employment with Tampa Electric if the utility were to decide that Big Bend Station, like other Florida utilities, would be better off receiving domestic coal by rail and foreign coal by direct shipping to Tampa. In such a case, TECO Ocean barges would have to seek alternative employment. The "core" TECO Transport barges could pursue 2 types of Jones Act employment options:

Preference Trades – mainly grain shipped under the PL-480 Food for Peace program; project cargo financed by the Export-Import Bank; or grain supplied under special bilateral agreements; and

Coastal Trades -- mainly coke from Texas refineries and domestic coal to East Coast utilities; import coal from coal terminals to East Coast utilities; and local movements of limestone, phosphates and fertilizers.

Both of the above options would provide very limited employment for TECO Transport barges. An indication for the lack of such alternative employment is the fact that TECO Transport, according to witness Dibner at page 59 of his testimony, already has 2 barges, the Louisa Kirkpatrick, 19,200 dwt, and the Diana Ludwig, 22,900 dwt, defined as "inactive." Apparently, neither barge could find remunerative employment.

Q. If the Commission finds it necessary to calculate the coastal transportation rates on a cost-plus methodology, should backhaul opportunities be considered in calculating the approved rates?

A. Yes. Ship owners usually consider both front and backhaul legs in determining freight rates.

The common practice of ship owners, and any transportation service provider for that matter, is to incorporate all revenue generating possibilities in calculating their required rates. This practice is also described in the response of Bruce Richards of Moran Towing, who responded to us when asked about how they figure out rates: "The backhaul situation also makes a difference in cost."

Exhibit ___ (AH-2) presents a sample of voyages of TECO Transport vessels during September 2003, as initially provided to the Office of Public Counsel by the Port of Tampa. As seen in this table, all TECO Transport vessels in all voyages left Tampa fully loaded, mainly with phosphate and rock. No information was provided on the backhaul rates. In a well-functioning market, the rate for each leg is a function of the price elasticity of the delivered cargo, which is unknown in our case. For the purpose of illustration, equal elasticity can be assumed here, since both cargoes are (a) of low value, and (b) have the same theoretical alternative transport option via rail. In this case, both should be charged equal freight rates. This, in turn, could result in a considerable reduction in the rate for coal, of about 30%.

Of course, the inclusion of backhaul revenues would be consistent with the rate base treatment of these vessels on a cost-plus pricing methodology in which all expenses and all revenues would be considered.

Q. What is the size and regularity of the preference trade market?

A. The preference trade is small, especially for dry bulk cargos where TECO Transport vessels can be employed. Witness Dibner, at page 54 of his testimony, estimated the size of this market, most of which is the export of U.S. grain, as 2 to 4 million tons per year. The wide range suggests that the market is also highly variable. Due to the nature of the cargo, the market is also highly seasonal.

Q. Are there other limitations on the employment possibilities of TECO Transport tug/barge combinations in the preference trades?

A. Yes. Only integrated tug/barge ("ITB") combinations are allowed by the Maritime Administration to serve cross-ocean trades. The non-integrated tug/barge combinations can serve only short-sea trades, typically to Caribbean/Central America countries.

The tug/barge combinations are generally divided into pull or towed systems and push systems. In the push systems, the connection between the tug and the barge can either be articulated or rigid, as with integrated systems. According to TECO Transport publications, of their 7 barges, 2 are articulated, using the Artubar system (the Maria Flood and the Pat Cantrell) and 1 is integrated, using the Bludworth system (the Doris Guenther). However, TECO Transport publications, as well as U.S. AID, defined these 3 barges as "integrated."

If TECO Transport lost its contract with Tampa Electric, only 3 of its 7 barges could fully participate in the preference trades. The rest, or the majority, would be confined to the shorter and less lucrative trade routes. This limited employment possibility is also documented by witness Dibner, who showed at page 59 of his testimony, that only 2 TECO Transport barges actually took part in preference trades in the past.

Q. Are TECO Transport's ITBs fully competitive with ships in the preference trades?

A. No, TECO Transport's ITBs are inherently inferior to ships. If TECO Transport's 3 ITB units have to compete in the market for the preference trades, they will compete with self-propelled vessels, or ships, which presently handle most of this trade. In fact, as documented by witness Dibner at page59 of his testimony, the competition will also include the 2 ships owned by TECO Transport.

TECO Transport's ITB units would have difficulty in competing against ships in cross-ocean trades mainly because of their considerably lower speed. According to U.S. AID, an ITBs' typical sailing speed is about 9 to 10 knots, compared with 12 to 14 knots for the ships. Hence, the ITBs' travel times would be 30 to 50% longer than the ships. The slower speeds could disqualify ITBs from bidding on shipments in cases where there is a requirement for short delivery times and, especially, for emergency shipments. Also, ITBs have lower seaworthiness than ships, which could be problematic during wintertime. Because of their inferior characteristics, ITBs will have to resort to lower freight rates than ships.

In this respect it should be mentioned that the entire concept of ITBs are as a "regulation beater," a way to circumvent the U.S. Coast Guard (USCG) manning requirements. Although the barge and tug of ITBs are integrated, USCG recognizes ITBs as dual mode, allowing a crew size much smaller than ships of

the same capacity. ITBs have higher construction costs and inferior performance relative to ships with the same capacity. Generally, the tug/barge combination is designed for short distances and operations, whereby the tug is detached from the barge, which is not the case with Tampa Electric barges.

Q. Are spot-based rates for the preference trades comparable to long-term contracts?

A. No, usually spot rates are higher since the vessel is not provided with full-time employment.

Witness Dibner claims that the alternative employment of TECO Transport's vessels currently serving Tampa Electric is in the preference trades. Hence, their demand-based opportunity costs, or potential earnings, are what they can earn in these trades. Witness Dibner, however, acknowledges that the employment in preference trades is "seasonal ... and varies in activity each year." The preference market is entirely spot, whereby freight is purchased for a single, one-way voyage, and not necessarily matched with the full capacity of a particular ship. In addition, the voyage may have restrictions regarding dates and ports of loading/discharge; there are often problems in cargo availability; and there are seldom backhaul opportunities. Ship owners participating in these trades take into consideration these risk factors and demand rates commensurate to compensate them for the time that their vessels could be without remunerative employment.

For example, in July 1997, TECO Transport's Judy Litrico was reported docking at the port of Nampo near Pyongyang in North Korea, with a cargo of 24,953 metric tons of donated cereals. After it completed off-loading 16,953 tons, it sailed to Chongjin to deliver the remaining 8,000 tons. It is hard to see any commercial cargo moving back from North Korea to the U.S. although some backhaul freight may be generated for part of the return voyage. Likewise, even the front haul has a partially empty leg, between the two Asian ports.

Ship owners, in bidding on a single voyage like that of Judy Litrico, would require much higher rates than for the Tampa Electric contract. Unlike the single voyage contract of Judy Litrico, the Tampa Electric coal contract is for 5-years of continuous employment, involves a short all-U.S. route, and provides for an almost 100% backhaul option.

The difference between the Tampa Electric contract and the alternative employment in preference trade is also recognized by witness Dibner at page 17 of Tampa Electric interrogatory response No. 8: "Sharp differences between spot rates and long-term contract rates exist. Spot rates reflect short-term cash flow maximization under a wide range of returns on assets. In the worst of times, these rates provide minimal and sometimes negative returns on assets, sometimes in desperate attempts to avoid laying off personnel and de-activating equipment."

Exhibit ____ (AH-3) presents a sample of time charter equivalent rates of TECO Transport barges and ships, compared with those based on U.S. Army Corps of Engineers data for the same size US-flag and foreign-flag ships. As seen in this table, TECO Transport ATBs barges' daily earnings from employment in the preference trades were $17,208, while TECO Transport ships' earned $21,732. The difference in earnings stems from the better qualifications of ships to handle the preference trades. U.S. Army Corps of Engineers replacement, or full recovery, costs for US-flag ships is $27,333, with an operating cost of $13,990. The Corps has no separate data for barges. TECO Transport's ATBs' earnings in the preference trades are substantially below the full daily cost of 35,000-dwt US-flag dry bulk ships , but above their operating, or variable, cost. The general conclusion from this comparison is in line with my earlier observation that replacement-based costs could only be used as an upper bound (maximum).

Q. Could TECO Transport barges find alternative employment in U.S. coastal trades?

A. Such employment, if any, would be very limited for these vessels. According to witness Dibner at page 64 of his testimony, while [redacted] barges are required to ship 5.5 million tons annually to Big Bend, 7 barges have to be assigned to this contract. Assuming that the Tampa Electric contract is not available for TECO Transport barges, some of them would be looking for alternative employment in the coastal trades. The 7 core barges have a total capacity of 211,849 dwt. According to witness Dibner's calculations at page 58

of his testimony, the market, which is served by a total fleet capacity of 805,975 dwt, is well balanced, which means demand is roughly equal to supply. The elimination of Tampa Electric's contract would be the equivalent of reducing employment opportunities by 211,849 dwt, which, when compared to the remaining 594,126 dwt, would result in a large overcapacity of 35.6% (211,849 / 594,126). An overcapacity of this magnitude is likely to result in a sharp decline in rates.

Moreover, it is unclear whether the current backhauls of TECO Transport, which are mainly phosphates, would still be relevant if the coal is not providing the fronthaul. It appears that the backhaul tonnage is roughly equal to the fronthaul in volume. Let assume that and that current rates for the backhaul is abou[redacted]of the fronthaul rate of abou[redacted]on, or $5/ton. If coal is not available for the fronthaul, phosphates may have to bear the entire roundtrip cost o[redacted]on in order to generate for TECOT the same revenues. Increasing the transport cost of phosphates to[redacted]on may price out the use of TECO Transport vessels or any US-flag vessels to move Tampa-based fertilizers to the Lower Mississippi points. This, in turn, will further reduce the coastal market.

Additionally, TECO Transport's ITBs have some limitations relative to several coastal trades. For example, they are too big to serve Crystal River and the majority of other coastal movements that usually involve smaller shipment and/or

ports. Likewise, many coastal trades are propriety by nature and are not open for outside vessels, as was also observed by witness Dibner.

In summary, it appears that the 7 TECO Transport barges would have very limited employment possibilities in both the preference and domestic trades. Facing limited employment possibilities, these barges should be willing to accept any rate above their variable, or operating costs. This rate, as calculated in Exhibit ___ (AH-1) for U.S.-flag dry bulk ships of similar capacity, is $2.82/ton (0.38 + 0.04 + 2.40).

Q. Did witness Dibner use comparable rate information on coastal services being provided by TECO Transport for other electric utilities?

A. No he did not, although some comparable cost or rate information was available.

Witness Dibner did not attempt to review and analyze data on the employment of TECO Transport barges with other Florida utilities, particularly JEA. For example, JEA used TECO Transport barges to bring pet coke and coal from Texas and Lower Mississippi refineries to its North Side Generating Station in Jacksonville. The Doris Guenther, an integrated tug/barge with 25,000 dwt provided the first shipment. JEA has its own dock with a depth alongside of 38 ft. The rates reportedly paid by JEA to TECO Transport were $9/ton for Texas and $8/ton for Lower Mississippi cargos. The distances to JEA from these origin

ports is twice as long as compared to the voyages TECO Transport makes to Big Bend. This difference in distance is particularly instructive when you compare the relative rates TECO Transport charges Tampa Electric and its customers, which is a confidential number in these hearings to what the open market apparently allows it to charge unaffiliated utilities.

Exhibit ___(AH- 4) presents the theoretical cost calculation for this route using U.S. Army Corps of Engineers data for the New Orleans to Jacksonville route, which is 1,063 nautical miles versus 493 nautical miles for the New Orleans to Tampa route. As seen in this figure, the full recovery, or replacement, rate for the longer Jacksonville route would be $11.59 for a 25,000 dwt ship, assuming no backhaul.

For the route Davant, LA to Jacksonville, TECO Transport's reported rate was below the calculated full recovery rate [redacted]vs. 11.59), although there was no backhaul cargo. For the route to Tampa, where TECO Transport had backhaul cargo, it charged above the calculated rate, o[redacted]versus $5.12 per tons. This difference presumably reflects the fact that on the Tampa route TECO Transport does not face competition.

Q. What do you calculate TECO Transport's freight rates would be based on its barges' earnings in the preference trades?

A. Assuming TECO Transport rates are based on its past earnings in the preference trades, its required freight rate for the Davant, LA to Tampa, FL route would be $3.67/ton without backhaul and $2.30/ton with backhaul.

According to witness Dibner, TECO Transport uses a core of 7 ships for Tampa Electric's contract, of which 5 are fully dedicated. TECO Transport's fleet includes 3 barges which are considered as integrated, or ITBs, providing them with potential employment in both the long and short preference trades. The rest of the fleet are non-ITBs, which limits their potential employment to the short preference trades. The short trades are already highly competitive because of competition from Moran barges and other, smaller operators. Another potential U.S. employment, in the coastal trades, is both limited and also highly competitive. Altogether, U.S. employment either in the preference or coastal trades could only provide TECO Transport with partial utilization.

Losing the Tampa Electric contract, TECO Transport would face 2 options for barges that cannot find employment in the US trades: (1) keep unemployed barges idle and save on operating costs; or (2) employ them in foreign trades. In the second option, TECO Transport would be competing with foreign-flag ships, most probably in the market for carrying import coal to coastal utilities. For example, TECO Transport could bid on the shipping of South American coal to either the Kinder-Morgan or the Drummond terminals in Tampa for Lakeland

Electric. Reportedly, Lakeland Electric intends to bring up to 1,000,000 tons of imported coal through Tampa annually.

Exhibit ___ (AH-5) provides a comparative calculation of required freight rates for the Davant, LA to Tampa, FL route for 4 types of vessels and employments: (1) US ship with no backhaul; (2) foreign ship with no backhaul; (c) TECO Transport barge with no backhaul; and (d) TECO Transport barge with backhaul. The data for U.S. and foreign ships, both of 35,000 dwt, are based on U.S. Army Corps of Engineers references. Since no cost data are provided for TECO Transport barges, their daily cost is assumed to be equal to the time-charter equivalent earning in the preference trade, as calculated by witness Dibner and presented in Figure 3, or $[redacted]day. TECO Transport barges' daily costs are further broken down to capital and operating costs. The operating cost is assumed at 35% of a U.S. ship of the same tonnage, to reflect the fact that the barge crew size is 8 versus 30 for the ship. The assumed ratio is higher than the crew ratio (8 / 30 = 26.6%) to also reflect the higher proportion of enlisted members in the smaller barge crew. The speed is estimated at about 90% of the design speed of 11 knots. As seen in Figure 5, if TECO Transport barges are able to command daily earning similar to those in the preference trades, their required freight rate would be $3.67/ton without backhauls and $2.30/ton with backhauls.

Q. What do you calculate TECO Transport's freight rates would be based on foreign competition?

A. If TECO Transport has to compete with foreign ships on foreign to US routes , I calculate the equivalent freight rate that TECO Transport could command at is $2.15/ton.

As I already noted, the employment opportunities in U.S. preference and domestic trades are limited. TECO Transport may have to deploy its barges in foreign trades such as the importation of coal. Exhibit ____ (AH-5) presents the equivalent required freight rate that TECO Transport could expect in this case. As seen in this table, this rate would be $2.15/ton. This rate is still above TECO Transport's operating costs as calculated in AH-5 at $1.27/ton (0.96 + 0.04 + 0.27). Earning such a low rate would be a better alternative for TECO Transport than laying up its barges. As a reminder, it should be noted that witness Dibner calculated the required freight rates at $[redacted]on.

ALTERNATIVE OPTIONS FOR COAL SUPPLY AND RESPECTIVE COST SAVINGS

Q. Do you believe Tampa Electric has made a reasonable effort to diversify its fuel sources and transportation options? If so, do you believe that failure has a cost in both the underlying coal and coal transportation costs Tampa Electric's customers are expected to pay?

A. No. Unlike other utilities, Tampa Electric's Big Bend station has been using almost exclusively domestic coal and coke for fuel and exclusively used TECO Transport barges for transportation of this fuel.

Diversification of supply is a risk reduction strategy practiced by almost all industrial corporations. In the case of coal supply, the diversification should include both the supply sources, including coal mines and oil refineries, and transport means, especially since transportation of coal accounts for almost 50% of the delivered cost. Hence, a prudent supply strategy for Tampa Electric should be to develop: (1) additional sources of coal, such as imports; and (2) additional transportation options for both the domestic coal, such as a rail option, and imported coal, such as through direct delivery to Tampa Bay.

Tampa Electric, instead, has chose to rely on one mode of transportation and a single transportation provider, namely TECO Transport. This practice seems to me to be neither reliable nor cost effective. In contrast, other utilities use several sources of coal and transportation options. It is difficult to find an explanation for Tampa Electric's practice other than the fact that Tampa Electric and TECO Transport are affiliated companies.

Q. To what extent does Tampa Electric use imported coal at its Big Bend Station?

A. Tampa Electric's use of imported coal at Big Bend is very limited, especially in contrast to other Florida utilities.

As I stated earlier, there has been a trend by U.S. utilities to divert their coal deliveries from domestic to international sources, especially following the development of large coal mines in Venezuela and Colombia. This shift came especially at the expense of the Mississippi route, as documented by witness Dibner, who stated at page 52 of his testimony, "in recent years, eastbound coal movements from the Mississippi River to utility plants east of New Orleans have virtually ceased." Imported coal has also been widely used by East Coast utilities as a complementary source to domestic coal, which is delivered by rail, reaching about 25 million tons per year in recent years.

The main source for imported coal has been Colombia. Recently, Drummond stated its intention of investing $1 billion to increase its current Colombian exports from 12.8 to 20 million tons over 5 years (source: CoalTrans, March/April 2003).

Exhibit ___ (AH-9) presents coal shipments for several Florida utilities in 2003, based on the data from the Federal Energy Regulatory Commission. As seen in this Exhibit, Tampa Electric's 2003 data on coal deliveries includes 4.34 million tons of domestic coal versus 0.34 million tons of imports, or only 7.2% of the total. By contrast, as reported in AH-6, deliveries for Gulf Power's , headquartered in Pensacola, included 2.17 million tons, all of which were imports

(100%); Jacksonville Electric 1.32 million tons domestic and 1.98 million tons imports (60%).

It is also interesting to note that the average price of domestic coal at $38.37/ton and $1.58/mBTU was almost equal to that of $39.51/ton and $1.53/mBTU for imports. Both prices relate to the transfer terminal in Davant, LA. This means that Tampa Electric may receive coal at Big Bend at the same price as at Davant, LA. Thus, direct delivery of imported coal to Tampa could save the voyage along the Gulf Coast, resulting in savings of more than $[redacted]/ton.

The apparent irrational practice of Tampa Electric with regards to direct delivery of foreign coal to Tampa seems to stem from the desire to employ TECO Transport's inland barges, terminal and oceangoing barges. This, in turn, corresponds well with the limited alternative employment options of TECO Transport's companies if they did not have Tampa Electric's business, as discussed earlier.

Q. Does Big Bend have "sufficient" storage capacity to take imported coal directly and thereby avoid the unnecessary trip to Davant and back?

A. Yes. Big Bend's apparent storage capacity of 866,000 tons is equal to 77 days of consumption, or well beyond the 30 to 60 days, which is the common practice in the industry.

One reason given by Tampa Electric for avoiding imports, especially direct delivery by Handysize ships directly to Big Bend, was the lack of storage space there. Hence, presumably, all shipments to Big Bend should be first sent to Davant, LA terminal, which could provide "much needed storage, helps with quality control issues and allows for custom coal blending."

According to documentation in Docket 030001-E1, Big Bend station has a 20-acre yard, with storage capacity of 866,000 tons. Assuming that for 2004 the total projected tonnage is 4,100,000 tons, the average daily consumption at Big Bend would be about 11,200 tons (4,100,000 / 365), and the on-site storage would be equivalent to 77 days (866,000/11,200). In contrast, the RFP stipulates a storage requirement of 1.4 million tons for the transfer terminal, based on 120 days.

The U.S. Department of Energy Information Administration (EIA) publication in the "US Coal Supply and Demand: 2002 Review" indicates that Electric Power Plants have consumed 981.9 million tons while having an average stock of 143.0 million tons, or the equivalent of about 50 days. In the latest monthly statistics, September 2003, consumption was 84 million tons and inventory 123 million tons, or roughly equal to 45 days of consumption. These inventory figures were also confirmed in our discussions with the industry and with EIA staff, proving that utilities usually hold inventory for 30 to 60 days of consumption. This inventory relates to the entire supply of coal for U.S. utilities, either from domestic or foreign sources.

Presumably, the uncertainty of supply is greater with foreign coal, hence utilities relying mainly on this source should keep larger inventories or at least try to assure their supply through long-term contracting. In reality, most foreign coal is bought on the spot market. This is also the case with Tampa Electric, which does not have a long-term contract for purchases and transportation of foreign coal, with both being purchased on the spot market. This indicates that foreign coal is perceived as readily available and reliable.

Another example, illustrating the unusual nature of the 120-day storage requirement by Tampa Electric, is the response to discovery questions Docket 030001-E1, by Gulf Power, whereby a representative states the Smith power plant carries inventory equal to 35 days of consumption (130,000 tons), while the Crist plant carries 22 days of consumption in inventory (240,000 tons).

Q. If Tampa Electric needed to expand its storage capability at its Big Bend Station in order to take advantage of both coal and transportation cost savings, how could it?

A. It could do so by either converting slag ponds within the existing yard, or by developing an additional coal yard across the adjacent road.

In response to a question from my colleague Dr. Ashar about creating a larger coal storage and blending site at Big Bend, Tampa Electric's representative told

him: "We have not conducted a study of that nature.... we said in the past that Big Bend does have the capability of blending for its own needs..." but, presumably not for Polk Station. Polk requires intensive blending of about two-thirds of its coal originating on the river. Also, "... Polk Station is not permitted to store coal on the ground. It is only permitted to store coal in the two silos that currently exist." (Florida Public Service Commission Docket 030001-E1 of October 20, 2003 , p. 107). It seems that Tampa Electric admits that Big Bend's capability is sufficient and that the problem is with serving the needs of Polk Station .

Still, it seems that, if needed, the storage capability at Big Bend could be substantially expanded. Based on a site visit by my colleague Asaf Ashar and a review of Big Bend's layout, it seems that there are two principal expansion options for the coal handling there:

(a) Inside the Peninsula – By conversion of the slag ponds into coal piles and adding an additional row of storage piles to the existing 3, which may result in about an additional 390,000 tons; and

(b) Outside the Peninsula – Across Wyandotta Road or in the adjacent peninsula, nearby Tampa Electric's present storage of gypsum, whereby Tampa Electric has vast land reserves.

The estimate of the capacity of the added yard in the first option is based on the assumption that it would have capacity similar to that of the south yard, which is estimated in Docket No. 03000-E1 at 390,000 tons.

Q. Do you believe Big Bend's facilities could provide for on-site blending?

A. Yes, as was evident during Dr. Ashar's tour of Big Bend, as well as shown in the reviewed documents. The plant was actually performing blending for its own fuel as well as for the Polk Station.

The blending capability is also described in Docket 030001-E1, indicating that Big Bend station has 3 yards: (a) the north yard with 2 piles; (b) the middle yard with 2 piles; and (c) the south yard with 3 piles, or altogether 7 piles. The Docket also mentions that "Big Bend Station mixes different types of coal and pet coke in 5 blending bins. . . ." The Big Bend dock is served by 2 separate ship unloaders and 2 separate conveyors, connecting the shore equipment to the storage yard. The yard is served by several stackers and reclaimers that have the capability to perform blending. A schematic illustration of the blending process in Big Bend is also provided in this docket.

The performance of blending in Big Bend is also documented in Docket No. 03000-E1, in Interrogatory No. 70, which states: "Big Bend Station blends the pet coke with coal prior to burning it." This is also evidenced by the fact that a

considerable volume of coke is brought by TECO Transport vessels from Texas directly to Big Bend, bypassing the Davant, LA terminal.

Q. Have you attempted to calculate what savings Tampa Electric might realize by taking direct delivery of foreign coal at Big Bend's existing terminal using foreign Handysize ships?

A. Yes. I believe direct delivery of foreign coal to Big Bend could generate savings of about [redacted]ton in the case of Colombian imports.

I just discussed how I believe Big Bend can handle the direct shipment of coal in terms of storage space and blending capability. According to Docket No. 030001-E1, Interrogatory No. 72, the dimensions of the largest vessel that can be handled in Big Bend are 650 x 100 x 34 ft. Accordingly, Big Bend can handle Handysize bulkers with 30 - 35,000 dwt, similar to the current size of TECO Transport barges, which range 550 – 650 x 75 – 85 x 32 – 35 ft. The option of handling Handysize vessels at Big Bend was also extensively assessed in U.S. Army Corps of Engineers and Tampa Electric studies.

Exhibit __ (AH- 6) illustrates the various transport options to Big Bend. Exhibit ___ (AH-7) presents a comparative calculation of the required freight rates by foreign flag ships of various sizes from Colombia to New Orleans and Tampa. The present transport cost, using transfer in Davant, LA are:

- Colombia to Davant, LA by Panamax of 60,000 dwt	$3.37/ton
- Transfer from Panamax to TECOT Barge	[redacted]ton
- Davant, LA to Big Bend by TECOT Barge	[redacted]ton
Total	[redacted]ton
- Colombia to Tampa, Fl by Handysize of 35,000 dwt	$4.45/ton
- Transportation savings	[redacted]on

Similar savings would be generated if the foreign source of coal is Venezuela. This means, that if Tampa Electric intends to import 1 million tons, annual savings on transportation will amount to [redacted]million. It should be noted that Colombian coal is either equivalent to or better than domestic coal, with a high caloric value (11,700 – 12,000 BTU) and low sulfur (0.4 – 0.7%).

A confirmation for the transportation savings of direct imports from foreign ports by Panamax through a New Orleans terminal is provided by the documents of: (a) Tampa Electric, 2001, stating that "When Tampa Electric receives offshore coal, they receive it at their Louisiana transfer station, which increases the cost by about [redacted]on relative to the Muni cost" (offshore means foreign; Muni stands for municipal); and (b) Florida Power Corporation in 2001 stating "...when FPC receives offshore coal, they receive it at their Louisiana transfer station, which increases the cost by about $10/ton relative to utilities that receive coal directly".

Q. What are the present options for direct import by Panamax vessels to Port Tampa's terminals?

A. There are 2 possible options, using either a Tampa deep-water shore terminal or a deep-water midstream terminal, along with transfer to Big Bend by inland barges.

Presently, there is one terminal in Tampa belonging to Drummond that can handle Panamax vessels. In the near future, it is reported that another terminal with such capability will be added by Kinder Morgan. Both terminals are about 12 miles away from Big Bend. These operations could either involve grounding the coal at these terminals or direct transfer to river barges of 1,500 dwt capacity. Another option is to use trucks or trains for the transport between terminals. The possibility of using the two terminals was also mentioned in Florida Public Service Commission Docket 030001-E1 of October 20, 2003. (p. 115), but no study was conducted to assess its feasibility. Also, based on our interviews with Kinder Morgan, it was reported that Tampa Electric knew about this terminal's intention to deepen the access channel to allow for handling Panamax vessels.

Additionally, midstream transfer from Panamax vessels to inland barges can take place anywhere in the channel or alongside one of the terminals. Midstream transfer is usually less expensive than terminal transfer. TECO Transport's terminal has already been involved in extensive midstream operations in New Orleans.

Q. What savings do you believe Tampa Electric could realize from the direct import of coal to Big Bend Terminal using foreign Panamax vessels?

A. The calculation is similar to the one above, except for the cost of Panamax for the Colombia to Tampa, FL leg at $3.07/ton. The savings would amount to [redacted] ton [redacted] - 3.07).

Again, confirmation for the transportation savings of direct imports of foreign ports by Panamax vessels through a New Orleans terminal is provided by the documentation of: (a) Tampa Electric, 2001, stating that "When Tampa Electric receives offshore coal, they receive it at their Louisiana transfer station, which increases the cost by about [redacted] on relative to the Muni cost" (offshore means foreign; Muni stands for municipal); and (b) Florida Power Corporation in 2001 provides stating "...when FPC receives offshore coal, they receive it at their Louisiana transfer station, which increases the cost by about $10/ton relative to utilities that receive coal directly".

Q. Is improving Big Bend to directly handle Panamax vessels possible, and, if so, is it an economically feasible project?

A. Yes, I believe it would be both possible and economically feasible. According to the U.S. Army Corps of Engineers, the total Tampa Electric investment would be about $12.68 million. I have calculated that the annual volume of direct delivery required to recover this level of investment is [redacted] tons.

The possibility of improving Big Bend to handle Panamax has been extensively analyzed by Tampa Electric, the Port of Tampa and the U.S. Army Corps of

Engineers and certainly is not a "new" concept. There are numerous documents produced by these parties assessing the feasibility of this project. The latest document available and quoted here is a memorandum by Beth Green of Tampa Electric included in the discovery materials provided in this case.

The necessary improvements include the deepening of the access channel, the turning basin and the berth alongside the Big Bend dock. Most of the deepening costs would be covered by the U.S. Army Corps of Engineers and only about 25% by local users, among them the Port of Tampa, Cargill and Tampa Electric. The maintenance of the future channel would be fully covered by the U.S. Army Corps of Engineers, which, in turn, will save the maintenance cost of the existing channel currently paid by Tampa Electric. The deeper channel and handling of larger ships will require Tampa Electric's rehabilitation of the present dock structure and either rehabilitation of the existing ship unloaders or purchase of new ones. Exhibit ___ (AH-8) presents the summary analysis of the proposed project, based on U.S. Army Corps of Engineers information. As seen in this chart, the total Tampa Electric investment would amount to $12.68 million, or the annualized equivalent of $1.17 million. Tampa Electric savings, as already calculated, would amount to [redacted]on. Hence, the breakeven volume, which would justify this project would be as little[redacted]tons of imported coal per year. Tampa Electric has stated that it expects to use about 1 million tons per year of imports. Moreover, if Tampa Electric practices a different and more justified,

in our opinion, supply policy it could increase its imports similar to other Florida utilities resulting in even more significant savings.

Q. What is the latest update regarding the deepening of Big Bend Channel Project?

A. We have been advised that the U.S. Army Corps of Engineers and Port of Tampa are actively pursuing this project

According to our interview with Tim Murphy, U.S. Army Corps of Engineers project manager, and Steven Fidler, Director of Operations of the Tampa Port Authority, this project will definitely be implemented. The project was halted in 1997 due to a moratorium imposed on U.S. Army Corps of Engineers projects, but was allowed to proceed in October 2002.

The Port of Tampa, which is the local sponsor, is committed to this project because the channel also serves the Port's own terminal at Port Redex. The port expects active participation from Cargill, which purchased the IMC terminal, another terminal served by this channel. Moreover, the Port intends to pursue the project even if Tampa Electric refuses to participate in it. In this case, deepening of the channel will be extended all the way to Big Bend, except for the last stretch into the Tampa Electric's terminal.

Q. Do you have a conclusion on the reasonableness of Tampa Electric's current coal transportation charges?

A. Yes. For the several reasons I have testified to above, I conclude that Tampa Electric's current charges being passed on to its customers are not reasonable. There is a wide range of feasible options for Tampa Electric to significantly reduce transportation costs. Assuming 4 million tons of annual coal consumption, at a minimum, with even the existing pattern of waterborne delivery, total savings may come close to $[redacted]5.12) on the coastal leg alone if there is a more reasonable proxy calculation for the market rates; if the entire pattern of transportation is modified in favor of direct delivery of foreign coal, the savings may be as high as [redacted]

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter Services, FPSC Division of Commission Clerk and Administrative Services, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 2nd day of June, 2004.

JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6732