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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR ) CASE NO. IPC-E-10-12  
AUTHORITY TO IMPLEMENT POWER COST )  
ADJUSTMENT ("PCA") RATES FOR )  
ELECTRIC SERVICE FROM JUNE 1, )  
2010, THROUGH MAY 31, 2011. )  
\_\_\_\_\_ )

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

TOM HARVEY

**REDACTED VERSION**

1 Q. Please state your name and business address.

2 A. My name is Tom Harvey. My business address  
3 is 1221 West Idaho Street, Boise, Idaho.

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

6 A. I am employed by Idaho Power Company ("Idaho  
7 Power" or "Company") as Manager-Joint Projects.

8 Q. Please describe your educational background.

9 A. I have a Bachelor of Business  
10 Administration-Business Management degree from Boise State  
11 University.

12 Q. Please describe your business experience  
13 with Idaho Power.

14 A. I have been the Manager-Joint Projects for  
15 five months. In this position I supervise Idaho Power's  
16 interests in the Jim Bridger, North Valmy, and Boardman  
17 coal-fired power plants. I also manage Idaho Power's  
18 interests in the Bridger Coal Company ("BCC") and coal  
19 supply acquisition/fuel management. I am a member of the  
20 Bridger Coal Management Committee which is comprised of two  
21 Idaho Power and two PacifiCorp employees. This committee  
22 directs Bridger Coal on both short and long-term strategy  
23 issues, reviews current operations, and approves all  
24 capital and O & M expenditures. With respect to the Jim

1 Bridger plant ("Bridger Plant" or "Plant") I work with  
2 PacifiCorp to develop and implement the fueling strategy  
3 and oversee Idaho's minority share of the overall  
4 operations of the Plant. Prior to my appointment to my  
5 current position, I served as Idaho Power's Fuels  
6 Management Coordinator from 1985 to 2009. In this position  
7 I was responsible for coal supply acquisition/fuel  
8 management for Idaho Power's interest in the coal-fired  
9 power plants and Bridger Coal Company. Prior to 1985, I  
10 worked in Idaho Power's power supply and plant accounting  
11 departments. Beginning with the Fuels Management  
12 Coordinator position, I have worked closely with PacifiCorp  
13 to coordinate fuel deliveries and coal purchase strategy.

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to provide  
16 information regarding the reasonableness of the Company's  
17 coal supply expense for the Bridger Plant.

18 Q. Why does the Company feel it is necessary to  
19 address Bridger coal costs in detail in this proceeding?

20 A. In Order No. 31042 issued in Case No. IPC-E-  
21 10-01, the Commission directed the Company to support its  
22 proposed adjustment to Bridger coal costs in this docket.

1 Q. Have Idaho Power's costs for supplying coal  
2 to fuel its portions of the Bridger Plant changed since  
3 2008?

4 A. Yes. As stated in Mr. Scott Wright's  
5 testimony for this case, the Bridger coal expense approved  
6 in the 2008 base level Net Power Supply Expense ("NPSE")  
7 was \$82.1 million, while the 2010 base level NPSE is \$106.9  
8 million, an increase of \$24.8 million. Wright, DI, pg 10,  
9 lines 4 through 6.

10 Q. What are some of the reasons that the price  
11 of coal for the Bridger Plant has increased?

12 A. Coal cost to the Bridger Plant has increased  
13 due to the execution of a new coal supply agreement with  
14 the Black Butte Mine ("Black Butte"), as well as higher  
15 operating costs at the Jim Bridger Mine ("Mine" or "Bridger  
16 Mine"). Bridger Mine costs have increased primarily due  
17 to:

18 1. Increases in labor costs due to  
19 workforce size, wage, and benefit increases;

20 2. Commodity cost escalation for  
21 explosives, diesel fuel, electricity, and operational  
22 supplies;

23 3. Maintenance cost increases for mining  
24 equipment rebuilds, component exchanges, etc.;

1                   4.    Increases in depreciation, depletion,  
2 and amortization expense;

3                   5.    Decreased usage of highwall mining at  
4 the surface mine; and

5                   6.    Increases in final reclamation costs.

6            Q.       Has the cost of fuel for the Bridger Plant  
7 been examined recently in any other dockets?

8            A.       Yes.  As I stated previously, the question  
9 of the prudence of the Company's Bridger fuel expense was  
10 addressed in Case No. IPC-E-10-01.  In both Case No. UE  
11 214, the Company's Annual Power Cost Update ("APCU") case  
12 in Oregon, and Case No. IPC-E-10-01, the Establishment of  
13 2010 Net Base Level Power Supply Expenses in Idaho, parties  
14 to those proceedings questioned the cost associated with  
15 the coal purchased through the Company's affiliate, Idaho  
16 Energy Resources Company ("IERCO") used to supply the  
17 Bridger Plant.  In Case No. IPC-E-10-01 before this  
18 Commission, the Company filed Reply Comments, with three  
19 attachments, addressing Bridger coal costs.  The first  
20 attachment was a "white paper" which was provided to the  
21 parties to Case No. IPC-E-10-01 in discovery.  Attachment  
22 Nos. 2 and 3 are the reply testimony and exhibits of both  
23 myself and Greg Said which were filed with the Oregon  
24 Public Utility Commission ("OPUC") for Oregon's APCU case.

1 The three attachments provide an in-depth analysis of the  
2 reasons why the OPUC Staff's recommendation (which was  
3 adopted as the Industrial Customers of Idaho Power's  
4 ("ICIP") recommendation in Case No. IPC-E-10-01) for a  
5 downward adjustment in Bridger fuel costs is neither  
6 logical, fair, nor in Idaho Power's customers' best  
7 interest.

8 Q. Could you give a brief overview of how the  
9 Bridger Plant is supplied with coal?

10 A. Yes. Idaho Power and PacifiCorp co-own the  
11 Bridger Plant and its associated mining operation, the  
12 Bridger Coal Company. The Plant is operated primarily on  
13 coal from the BCC's surface and underground mining  
14 operations. Supplemental coal is purchased from the nearby  
15 Black Butte Mine, which is operated by Kiewit Mining. The  
16 Bridger Plant was designed and constructed as a "mine-  
17 mouth" plant, which means it is physically located next to  
18 the coal mine that supplies the majority of its coal. This  
19 arrangement ensures that the Plant has access to a  
20 continuous and reliable supply of coal. Coal is delivered  
21 to the Plant from the BCC mine by use of a large conveyor  
22 belt system that transports and delivers coal directly from  
23 the mining operation into the Plant. This type of mine-  
24 mouth plant operation has several advantages over an









1 on that analysis, the decremental cost of the surface coal  
2 at BCC is [REDACTED] per ton. In order to ensure a  
3 conservative estimate, the Company rounded this cost up to  
4 [REDACTED] per ton. The decremental cost analysis estimates  
5 that BCC would save approximately [REDACTED] for every ton of  
6 surface coal not mined. That sum would therefore be  
7 available to purchase replacement coal.

8 Q. Can the Bridger Plant purchase additional  
9 coal from Black Butte?

10 A. No. Black Butte has very little additional  
11 coal that it can commit to sell to the Bridger Plant. The  
12 vast majority of Black Butte's production is already  
13 committed to be sold under the Bridger Plant's current  
14 contract, with most of the remainder committed to the North  
15 Valmy Power Plant, which is co-owned by Idaho Power and  
16 NVEnergy. In fact, in 2008, the Black Butte mine had no  
17 excess production capacity at all. [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED] By way of comparison, BCC

24 projects surface production of approximately [REDACTED] and [REDACTED]

1 million tons for 2010 and 2011, respectively. Clearly,  
2 Black Butte simply does not have enough volume available to  
3 replace the BCC surface production.

4           Moreover, with respect to the Black Butte coal that  
5 *might* be available, there is no evidence that it could be  
6 obtained at the same price as under the existing contract.  
7 On the contrary, the price quoted by Kiewit Mining for that  
8 uncommitted production was substantially higher than the  
9 price paid by Bridger under the existing Black Butte  
10 contract. Kiewit Mining quoted an F.O.B. (free on board)  
11 mine price of [REDACTED] per ton, with an adjustor for changes  
12 in diesel fuel costs, for volumes, such as the above  
13 referenced [REDACTED] annual tons, in excess of the new  
14 contract. This price does not include the price of  
15 shipping the coal from the Black Butte Mine to the Bridger  
16 Plant, estimated to be [REDACTED] per ton.

17           Q.           How does the price for additional volumes  
18 from Black Butte, if they were available, compare with the  
19 decremental cost of replacing BCC surface coal with those  
20 volumes?

21           A.           Since Black Butte coal will cost at least  
22 [REDACTED] per ton at the Plant, and the decremental cost of  
23 ceasing BCC surface coal is [REDACTED] per ton, it is readily

1 apparent that substituting more Black Butte coal (if it  
2 were available) would be more expensive for customers.

3 Q. Did the Company consider any other sources  
4 of coal besides Black Butte?

5 A. Black Butte is the only possible available  
6 source in the Green River Basin, the region of Wyoming  
7 where the Bridger Plant is located.

8 The Company also investigated the possibility of  
9 buying coal from the Power River Basin ("PRB") in eastern  
10 Wyoming, approximately 566 miles from the Plant. Idaho  
11 Power confirmed that the estimated cost to ship coal from  
12 the PRB to the Bridger Plant is around [REDACTED] per ton,  
13 which is double the estimated [REDACTED] per ton cost of the  
14 coal itself. In total, the per ton cost of PRB coal,  
15 including transportation, is likely to be at least [REDACTED]  
16 per ton F.O.B. plant *without* adding in the additional costs  
17 that would be incurred for freeze protection and dust  
18 suppression. Assuming that significant volumes of PRB coal  
19 could be obtained and shipped to the Plant, use of coal  
20 from the mines in the PRB would require significant capital  
21 investment in the Plant because of the different quality  
22 and make-up of the coal compared to the blend of BCC and  
23 Black Butte coal the Plant currently burns. These issues  
24 with the Powder River Basin coal make it uneconomical to

1 consider coal from that region as a possible fuel source  
2 for the Plant.

3 Q. Is the fact that BCC is owned one-third by  
4 an Idaho Power affiliate, IERCO, of concern in this case?

5 A. No, for two reasons. First, the coal costs  
6 included in the present case represent the least cost  
7 resource for Idaho Power's customers. The cost of coal  
8 from BCC is lower than the alternative market price.  
9 Second, the affiliate's (IERCO's) operations are merged  
10 with Idaho Power's for ratemaking purposes, eliminating the  
11 possibility of any cross-subsidization, or overcharging of  
12 customers, in those transactions.

13 In the final analysis, the Company has carefully  
14 considered all of the alternatives for providing fuel to  
15 the Bridger Plant and has arrived at and implemented an  
16 overall fuel acquisition strategy that provides the lowest  
17 cost for customers.

18 Q. Does this conclude your testimony?

19 A. Yes.