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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	CASE NO. PAC-E-10-07
MOUNTAIN POWER FOR)	
APPROVAL OF CHANGES TO ITS)	Direct Testimony of Cindy A. Crane
ELECTRIC SERVICE SCHEDULES)	Redacted
AND A PRICE INCREASE OF \$27.7)	
MILLION, OR APPROXIMATELY)	
13.7 PERCENT)	

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-10-07

May 2010

1 Q. Please state your name, business address and present position with PacifiCorp
2 (“Company”).

3 A. My name is Cindy A. Crane. My business address is 1407 West North Temple, Suite
4 310, Salt Lake City, Utah 84116. My position is Vice President, Interwest Mining
5 Company and Fuel Resources for PacifiCorp Energy.

6 **Qualifications**

7 Q. Briefly describe your business experience.

8 A. I joined PacifiCorp in 1990 and have held positions of increasing responsibility,
9 including Director of Business Systems Integration, Managing Director of Business
10 Planning and Strategic Analysis and Vice President of Strategy and Division
11 Services. My responsibilities have included the management and development of
12 PacifiCorp’s ten-year business plan, assessing individual business strategies for
13 PacifiCorp Energy, managing the construction of the Company’s Wyoming wind
14 plants and assessing the feasibility of a nuclear power plant. In March 2009, I was
15 appointed to my present position as Vice President of Interwest Mining Company and
16 Fuel Resources. In my position, I am responsible for the operations of Energy West
17 Mining Company and Bridger Coal Company (“BCC”) as well as overall coal supply
18 acquisition and fuel management for PacifiCorp’s coal plants.

19 **Purpose and Summary**

20 Q. What is the purpose of your testimony?

21 A. I explain the Company’s overall approach to providing the coal supply for the
22 Company’s coal plants.

1 **Q. Please summarize your testimony.**

2 A. My testimony:

- 3 • Explains the coal cost increases reflected in the filing and describes the primary
4 reasons for the increases;
- 5 • Provides background on the third-party coal contract revisions that are driving
6 increases in coal costs in this case;
- 7 • Reviews the increase in the Company's affiliate mine coal costs and compares
8 them to other supply alternatives; and
- 9 • Demonstrates that customers benefit from the Company's diversified coal supply
10 strategy.

11 **Overview of the Coal Supplies for the Company's Coal Plants**

12 **Q. How does the Company plan to meet fuel supplies for its coal plants in 2010?**

13 A. The Company employs a diversified coal supply strategy. For 2010, the Company
14 will meet approximately 71 percent of its fuel requirements from third party, multi-
15 year contracts and the remaining 29 percent will be supplied with coal from the
16 Company's affiliate mines.

17 **Q. What percentage of the Company's third party purchase coal contracts are fixed
18 and what percentage are indexed?**

19 A. The percentage split is roughly 50/50. For 2010, approximately 37 percent of the
20 Company's third party purchase coal supply will be priced under fixed-price contracts
21 and 34 percent will be priced under contracts that escalate/de-escalate based on
22 changes to producer and consumer price indices.

1 Q. **Please identify the affiliate mines which supply Company coal plants.**

2 A. Coal production from the Company's Bridger mine is dedicated to the Jim Bridger
3 plant. Energy West's Deer Creek mine supplies a portion of the coal requirements for
4 the Carbon, Hunter and Huntington plants and the Trapper mine is dedicated to the
5 Craig plant.

6 **Coal Cost Increases in 2010**

7 Q. **Do coal costs in the 2010 GRC reflect an increase from 2008?**

8 A. Yes. On a system wide basis, the price related increase is approximately \$104
9 million. The Company's coal costs have increased from an average of \$23.84 per ton
10 in 2008 to an average cost of \$27.95 per ton in 2010, an increase of \$4.11 per ton
11 over the two-year period. This reflects increases in purchased coal under both fixed
12 and escalating contracts and increases in costs at the affiliate mines. These coal costs
13 are an input in the Company's GRID model used to produce normalized net power
14 costs as described in Dr. Hui Shu's testimony.

15 Q. **What are the primary factors causing this increase in coal costs?**

16 A. Overall, there are five primary factors contributing to the cost increase:

- 17 • Execution of a new coal supply and rail agreements for coal deliveries
18 from the Black Butte Mine for the Bridger Plant;
- 19 • Higher operating costs at BCC;
- 20 • A price increase pursuant to a contract price reopener provision with
21 Chevron Mining for the supply of coal from the Kemmerer Mine to the
22 Naughton Plant;
- 23 • Fixed contract price escalation under the coal supply agreements with

1 Arch Coal Sales for the Utah Plants; and

- 2 • Higher operating costs at the Deer Creek mine.

3 **Coal Costs Related to the Bridger Plant**

4 **Q. Please describe the new coal supply agreement with the Black Butte Mine for the**
5 **Bridger Plant.**

6 A. The Company obtains approximately a third of the coal necessary to fuel the Bridger
7 Plant from Kiewit Mining's Black Butte Mine. This coal comes from a mine similar
8 to the Bridger surface mine in design and geology. The new agreement replaces an
9 existing agreement that expired in December 2009. The 2010 weighted average
10 Black Butte mine price of [REDACTED] per ton is approximately [REDACTED] percent higher than the
11 2008 coal price of [REDACTED] per ton. Included in the 2010 price is carryover tonnage
12 from the prior contract. Absent the carryover tonnage, the 2010 coal price would be
13 [REDACTED] per ton, over [REDACTED] percent higher than the 2008 Black Butte coal price.

14 **Q. How do the rail transportation costs for Black Butte deliveries compare to 2008?**

15 A. Transportation costs have increased similarly to the coal price. Transportation costs
16 have increased from [REDACTED] per ton in 2008 to [REDACTED] per ton in 2010, an increase of
17 approximately [REDACTED] percent.

18 **Q. What is the overall impact of the new Black Butte coal supply and rail**
19 **agreements in 2010?**

20 A. Approximately [REDACTED] million of the overall cost increase between 2008 and 2010 is
21 associated with deliveries of Black Butte coal to the Bridger Plant.

22 **Q. How has the Bridger mine changed in recent years?**

23 A. BCC is now an integrated mine complex with both surface and underground mining.

1 For many years, BCC was able to extract coal at the surface mine through its dragline
2 operations and low-cost highwall mining. Now, the surface operation is the swing
3 coal supply for the Bridger Plant. The majority of the Bridger Plant requirements are
4 supplied by BCC underground operation. With the underground mine operating at
5 full production capacity, the surface operation provides the operational flexibility and
6 capacity necessary to assure a reliable and continuous fuel source for the Plant.

7 **Q. Are the BCC surface and underground separate operations?**

8 A. No. Both operations share common assets such as conveyors, scrapers, dozers, light
9 duty vehicles, maintenance shops, administrative buildings, etc. Mine administration
10 personnel including purchasing, planning, engineering, environmental services,
11 information technology, safety, human resources, administration services,
12 government relations and surveying support both operations.

13 **Q. Please explain blending of surface and underground coals at the Bridger mine?**

14 A. The surface operation provides the operational flexibility and reliability for the
15 Bridger Plant. All coal, surface and underground, has an assigned coal quality. Mine
16 plans are developed on a monthly basis to ensure that the delivered coal product to
17 the Bridger Plant meets specific coal quality criteria. On a daily basis, surface
18 operation and deliveries are adjusted to meet specification. Blending is critical since
19 the underground operations are limited to a single coal seam. Without the surface
20 operation, BCC could not deliver a product that could meet the Jim Bridger Plant's
21 quality targets.

1 **Q. Please provide an overview of cost increases at the Bridger Mine reflected in this**
2 **filing.**

3 A. Bridger Mine costs are increasing from [REDACTED] per ton in 2008 to [REDACTED] per ton in
4 2010 or, an overall increase of [REDACTED] million. The overall increase in 2010 costs
5 reflects higher production taxes as well as increases in royalties, depreciation and
6 amortization expense. Additionally, in 2008, almost half of the surface coal was
7 produced utilizing low-cost highwall mining. Highwall mining has ceased at the
8 mine because those areas of the surface pits suitable for highwall mining have now
9 been depleted.

10 **Q. Please compare Bridger mine costs relative to other supply options.**

11 A. Bridger mine costs remain considerably less than any available market alternative.
12 Though Kiewit Mining has [REDACTED] tons of uncommitted Black Butte production
13 capacity through 2014, this amount is insufficient to replace the coal supply from the
14 Bridger mine. In any event, the delivered cost of this uncommitted tonnage to the Jim
15 Bridger Plant is approximately [REDACTED] per ton in 2010, almost [REDACTED] per ton higher than
16 BCC costs in the test period. The projected delivered cost of Powder River Basin
17 ("PRB") coal in 2010 is over [REDACTED] per ton, [REDACTED] per ton higher than BCC costs in the test
18 period without even considering the costs of capital modifications required for the
19 Bridger Plant to burn PRB coals.

20 **Naughton Plant Coal Price Increase**

21 **Q. Please describe the price reopener related to the Naughton contract.**

22 A. The Company's long-term coal supply agreement with Chevron Mining's Kemmerer
23 mine extends through 2016 and contains several price re-openers. The next price re-

1 opener was scheduled to occur on January 1, 2011. However, due to [REDACTED]
2 [REDACTED], Chevron Mining requested that the Company advance the price re-
3 opener date to January 1, 2010. The Company agreed to advance the re-opener date
4 provided there is an overall cost reduction over the remaining term.

5 **Q. Has the Company evaluated supply alternatives for the Naughton Plant?**

6 **A.** Yes. The Company has evaluated alternative supplies. [REDACTED]

7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 [REDACTED] Including transportation costs, the
14 Company estimates the average cost to replace the coal supplied by the Kemmerer
15 Mine would be in excess of [REDACTED] per ton.

16 **Q. Please explain what price is reflected in the 2010 GRC for the Naughton Plant.**

17 **A.** After months of negotiations, the parties have conceptually agreed to a new contract
18 price of [REDACTED] per ton, with an effective date of January 1, 2010. While this price
19 represents an increase of [REDACTED] per ton over the 2008 test period costs or [REDACTED] million
20 on a system-wide basis, the new contract price would provide significant savings for
21 Company ratepayers through the remainder of the current term relative to the
22 Company's other supply options. Additionally, the agreement would allow the
23 Company to extend the coal supply with Chevron Mining for the Naughton Plant

1 through 2021.

2 Coal Costs Related to the Utah Plants

3 **Q. How do coal costs for the Utah plants compare to 2008?**

4 A. Coal prices for the Utah plants are projected to increase by approximately [REDACTED] million
5 due to increases in costs under the Company's coal supply agreements with Arch
6 CoalSales as well as increased Deer Creek mine production costs.

7 **Q. Please describe the increase under the long-term agreement with Arch.**

8 A. The Company has three multi-year coal supply agreements with Arch CoalSales
9 Company. In 1998, the Company entered into a long-term coal supply agreement
10 with Arch for up to 4.5 million tons of primarily Sufco mine coal through 2020. This
11 contract supplies the majority of the fueling requirements for the Utah coal plants. A
12 2007 price reopener established fixed annual price increases for 2008, 2009 and 2010.
13 The price of coal has increased by [REDACTED] per ton between 2008 and 2010 or [REDACTED]
14 million. Additionally, the Company entered into three-year supply agreements with
15 Arch for Dugout and Skyline coals as part of the Electric Lake settlement. These
16 agreements provide for a fixed price increase of [REDACTED] per ton between 2008 and
17 2010 or [REDACTED] million.

18 **Q. What is the overall cost increase under the coal supply agreements with Arch
19 CoalSales Company?**

20 A. Approximately [REDACTED] million of the overall price increase for the Utah plants is tied to
21 fixed price increases under the Arch agreements.

22 **Q. Please explain the increases in Deer Creek Mine costs between 2008 and 2010.**

23 A. The Deer Creek Mine is located in Utah. Deer Creek Mine costs are projected to

1 increase to [REDACTED] per ton from the 2008 price of [REDACTED] per ton, an increase of
2 approximately [REDACTED] million. While labor costs and major overhaul expense have
3 increased since 2010, a reduction in longwall production during the last half of 2010
4 is the principal driver of the cost increase.

5 **Q. Please explain why longwall production is reduced in 2010?**

6 A. The current longwall system was purchased and placed in service in August 1998
7 with an expected ten-year life. The longwall system is being reconstructed during the
8 last half of 2010 while the mine transitions from the upper Blind Canyon seam to the
9 lower Hiawatha seam. Based on a risk assessment of the existing longwall equipment
10 by Joy Mining, the longwall system rebuild is necessary to facilitate the recovery of
11 the remaining longwall reserves in the Deer Creek mine. To maximize mine
12 production, the rebuild is scheduled to coincide with the lengthy move to the lower
13 coal seam.

14 **Q. How do Deer Creek Mine costs compare to Utah market alternatives?**

15 A. Even with the cost increase in 2010, the Deer Creek mine is considerably less
16 expensive than any market alternative and remains the least-cost supply for the Utah
17 plants. Deer Creek Mine costs are considerably less than our market alternatives.
18 According to Argus Coal Daily, spot prices for Utah coal have ranged from [REDACTED] per
19 ton to [REDACTED] per ton during 2010. Similarly, Platts' Coal Outlook reflects Utah spot
20 coal prices hovering near [REDACTED] per ton. Based on discussions with other coal
21 producers, Deer Creek-equivalent quality coal is being transacted for approximately
22 \$50 per ton for a multi-year arrangement.

1 **Q. Please summarize the benefits of the Company's coal supply strategy to Idaho**
2 **customers.**

3 **A. The Company has pursued a diversified coal supply strategy, relying on fixed**
4 **contracts, indexed contracts and affiliate-owned coal mines to meet the fuel needs of**
5 **its coal plants. This strategy has resulted in a long-term, stable and low-cost supply**
6 **of coal. In particular, the operating cost for each of the affiliate mines remains**
7 **considerably less than market alternatives. While mine production costs will**
8 **typically fluctuate more than contract prices in a given year, the Company's affiliate**
9 **mines are superior to other supply options and consistently provide benefits to**
10 **customers.**

11 **Q. Does this conclude your direct testimony?**

12 **A. Yes.**