Q. Please state your name, business address and present position with PacifiCorp, dba Rocky Mountain Power ("Company").

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

Qualifications

Q. Briefly describe your business experience.

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

Purpose and Summary

Q. What is the purpose of your testimony?

A. I explain the Company's overall approach to providing the coal supply for the Company's coal plants and support the level of coal costs included in fuel expense in this case. I will further explain that third party costs have significantly increased.

Several of the Company's very favorably priced long-term coal purchase agreements either terminated and were replaced with new agreements at prevailing market prices or contained market reopener provisions that allowed reset of the contract price. As these contracts expire they must be renegotiated and replaced at prices reflective of the current market.

Q. Please summarize your testimony.

A. My testimony:

- Explains the coal cost increases reflected in the Utah general rate case for the 12 month period ending June 2012 and describes the primary reasons for the increases;
- Provides background on the third-party coal contract revisions that are driving the majority of the increase in coal costs in this case;
- Reviews the Company's affiliate mine coal costs and compares them to other supply alternatives; and
- Demonstrates that customers benefit from the Company's diversified coal supply strategy.

Overview of the coal supplies for the Company's coal plants

Q. How does the Company plan to meet fuel supplies for its coal plants in this test period?

A. The Company employs a diversified coal supply strategy. The Company will meet approximately 67 percent of its fuel requirements from third-party multi-year contracts and 33 percent with coal from the Company's affiliate mines.

Q. What percentage of the Company's third-party coal contracts are fixed and what percentage are indexed?

A. Approximately 33 percent of the Company's total coal requirements are supplied under fixed-price contracts and 34 percent of the coal supply is supplied under contracts that escalate or de-escalate based on changes to producer and consumer price indices.

Q. Please identify which Company coal plants are supplied by the affiliate mines.

A. Coal production from the Company's Bridger mine is dedicated to the Jim Bridger power plant. The Deer Creek mine supplies a portion of the coal requirements for the Hunter and Huntington power plants and the Trapper mine is dedicated to the Craig power plant.

Coal cost increases in the July 2011 – June 2012 Utah General Rate Case

Q. Do coal costs in this case reflect an increase above cost levels in the July 2009 – June 2010 general rate case?

A. Yes. Coal costs have increased by approximately $140 million on a total Company basis. Average coal costs have increased from $25.06 per ton in the prior rate case to $30.88 per ton in for the test period ending June 2012, an increase of $5.82 per ton.

Q. What are the primary drivers of the cost increases in this case?

A. Approximately $35 million of the increase is associated with the affiliate mines; the remainder of the increase, $105 million, is associated with third party coal purchases and transportation costs.

Q. Please explain the increase associated with the affiliate mines.

A. Deer Creek costs have increased from [redacted]

[redacted] Bridger mine costs have [redacted]. Trapper mine costs have [redacted]

Q. Please identify the major cost increases in third-party coal supplies.

A. During this test period, the Company expects third-party coal supply cost increases at all of the plants. The primary factors are:

- The majority of the Hunter and a portion of the Huntington's power plant requirements are supplied by the Sufco mine under the Company's long-term coal supply agreement with Arch Coal Sales. Approximately [redacted] of the overall test period increase is associated with an increase in the Sufco coal price pursuant to the 2011 contract price re-opener.
- [redacted].
- The Naughton power plant is supplied under a long-term coal supply agreement with Chevron Mining's Kemmerer mine. The contract price was reset effective July 2010 pursuant to a price re-opener provision. The overall impact on test period results is approximately [redacted]
- The Company will experience an increase in the delivered cost of Black Butte coal to the Jim Bridger power plant due to higher rail and coal cost expense of approximately [redacted]
- The Company will experience an increase of approximately [redacted]

in Dave Johnston power plant costs as a result of fixed price increases under three multi-year coal supply agreements, higher rail rates and higher spot coal prices.

- The Company will experience an increase of approximately [redacted] in Cholla power plant costs as a result of escalation of contract indices under the long-term coal supply agreement with Peabody.
- The Company will experience an increase of approximately [redacted] in Colstrip power plant costs as a result of increased operating costs under the long-term coal supply agreement with Westmoreland's Rosebud mine.

Coal cost increases related to contract price-reopeners

Q Please describe the Arch Coal Sales (Arch) contract price-reopener.

A. The Company's long-term coal supply agreement with Arch for Sufco coal extends through 2020 and contains several price re-openers. The contract provided for a price reopener effective January 1, 2011. Pursuant to the contract, the Company and Arch exchanged estimates of the prevailing market price for Sufco coal for 2011. The differential between the two estimates exceeded the five percent threshold. If the estimates were within five percent of each other, the 2011 price would be set to the average of the two estimates.

Q. Does the contract stipulate an alternate price reset mechanism?

A. Yes. The 2011 contract price would be determined pursuant to a three factor formula. [redacted]

[redacted]

Q. Please explain Arch's position of the price reopener provision.

A. [redacted]

Q. Please explain the methodology the Company employed in determining the Sufco price for the test period.

A. [redacted]

Q. What price is included in the test period ending June 2012?

A. [redacted]

Q. Has the Company entered into any other supply arrangements for Utah coal?

A. Yes, the Company has entered into two other coal supply agreements. [redacted]

[redacted] The Company also contracted with America West Resources, Inc. for coal from the Horizon mine for 2011 through 2015, [redacted]

Q. How do these prices compare to the current Utah coal price?

A. [redacted]

Q. Please explain the [redacted] cost increase under the Naughton contract.

A. The delivered price of coal from the Kemmerer mine to the Naughton power plant has increased from [redacted] per ton in the prior test period to [redacted] per ton for the 12 month period ending June 2012. The increase is primarily due to the price increase established under the July 2010 contract price reopener.

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

A. Originally, the Company's long-term coal supply agreement with Chevron Mining's Kemmerer mine extended through 2016 and contained several market price reopeners. The next market price re-opener was scheduled to occur on January 1, 2011. [redacted] Chevron Mining requested that the Company consider advancing the market price re-opener date. The contract provided for an initial period of time for the parties to arrive at a negotiated price and if the parties were unable to agree to a new contract price, the Company would then be required to issue a solicitation for both coal supplies and transportation service. Chevron Mining then would have the option to match the resulting bid price for a five year period starting January 2011.

Q. Did the Company evaluate alternative supply options?

A. The Company evaluated alternative supplies for the Naughton plant. [redacted]

Q. Was the Company able to negotiate a new contract price?

A. The Company successfully negotiated a new coal price with Chevron that eliminated the 2011 market price reopener provision. [redacted]

[redacted]

Q. Please summarize the supply agreements with Chevron Mining.

A. In September 2010, the Company and Chevron Mining restructured the coal supply arrangement to the Naughton power plant. [redacted]

Q. Please explain the [redacted] million increase in the delivered cost of Black Butte coal.

A. The delivered cost of Black Butte coal to the Jim Bridger power plant has increased for the 12 month period ending June 2012 to [redacted] per ton from [redacted] per ton in the prior test period. The Company entered into a new coal supply agreement with Black Butte and a new rail agreement with the Union Pacific Railroad starting in January 2010. Approximately [redacted] million of the increase is associated with higher rail rates and rail transportation requirements. The remaining increase, [redacted] million, is a result of the new contract price, effective January 2010, and escalation of specific producer and consumers price indices since January 2010. In the prior test period, 40 percent of the Black Butte coal supply was priced under the new coal supply agreement; the remaining 60 percent was priced at incremental pricing under the previous coal supply agreement.

Q. Please explain the [redacted] million increase in Dave Johnston power plant coal supply costs.

A. In the spring of 2009, the Company released a solicitation for Powder River Basin coal supplies for the Dave Johnston power plant. The Company sought replacement coal supplies for contracts terminating in 2009 and 2010. [redacted]

Q. Please explain the [redacted] million increase in Cholla power plant coal supply costs.

A. In the prior test period, the Cholla plant was supplied by both Chevron Mining's McKinley mine and Peabody's Lee Ranch/El Segundo mining complex. The McKinley mine ceased production in December 2009 with the depletion of its economic reserves. The plant is now solely supplied by the Lee Ranch/El Segundo complex. The increase in current test period costs relate to the increased price of coal from Lee Ranch/El Segundo due to escalation of contract specific producer and consumer price increases and higher rail rates, [redacted] million, offset by the savings of [redacted] million associated with the termination of the McKinley coal supply agreement.

Q. Please explain the [redacted] million increase in Colstrip power plant coal supply costs.

A. The Colstrip plant is supplied under a long-term coal supply agreement with Westmoreland's Rosebud mine. Test period coal costs are per the approved Annual

Operating Plan prepared by Westmoreland and approved by the Colstrip plant owners. On annual basis, the Colstrip plant owners' review and approve Rosebud's mine plan. Current test period costs are higher due to increases in labor and supply costs and, increased current reclamation expense and in-pit inventory levels.

Coal costs related to the Company's affiliate mines

Q. Please describe the reasons for the approximately [redacted] million increase in Deer Creek Mine costs.

A. As noted above, Deer Creek costs are projected to increase from [redacted] per ton in the prior case to [redacted] per ton for the 12 months ending June 2012. There are three primary drivers for the Deer Creek cost increase: changes in ratio of continuous miner to total production, increased post retirement costs and reduced coal quality. First, in the prior test period, approximately 19 percent of Deer Creek's production was produced by continuous miners; in the current test period approximately 26 percent of the production was supplied by continuous miners. Continuous miner production is more labor intensive and consumes more supplies than longwall production. Second, pension and post retirement welfare costs prepared by Hewitt Associates resulted in an increase of [redacted]. Finally, in December 2010, Deer Creek's longwall system resumed operation in the lower Hiawatha seam after reconstruction/rebuild of the longwall system. In the prior test period, the longwall system operated in the upper Blind Canyon seam. The projected heat content in the lower Hiawatha seam is considerably less than the coal produced in the upper Blind Canyon seam, [redacted]

Q. Please describe the Deer Creek Mine longwall system reconstruction investment.

A. The Company's investment in reconstruction of the Deer Creek Mine longwall system totals approximately $32 million during the test period. Reconstruction of the longwall system was necessary to facilitate the recovery of Deer Creek's remaining longwall coal reserves. The existing longwall system was purchased and originally placed in service in 1998. After considerable testing and consultation with the original equipment manufacturer and third party consultants, the Company concluded that continued operation of the longwall system past 2010 could result in structural failure of the longwall system. The project included reconstruction of 130 longwall shields, face conveyor line pans, power centers and master controls, and acquisition of components of the longwall handling system, face communication system, and crusher haulage system. The revenue requirement impact of these investments has been included in Mr. Steven R. McDougal's direct testimony.

Q. What is the basis for justification of this investment?

A. Almost half of the coal requirements for the Company's Utah coal plants are supplied by the Deer Creek mine. Ratepayers will benefit from the continued supply of coal from the Deer Creek mine and avoid the costs associated with purchase of higher cost coals.

Q. How do Deer Creek mine costs compare to the Company's other Utah supplies.

A. Deer Creek test period mine costs are considerably lower than the Company's other contracted supplies.

Q. Please describe the change in Bridger Coal costs between 2010 and 2011.

A. Bridger Coal Company costs increase from [redacted]

[redacted] The increase is due to higher surface and underground mining costs.

Q. What are the principal factors affecting the surface mine?

A. Test period surface mine costs are impacted by inventory accounting required per EITF 04-6. The current test period reflects approximately 127,000 tons of coal uncovered by the draglines but not extracted from the coal seam. Due to accounting pronouncement EIFT04-6, monthly production costs can be only assigned to coal extracted. The increase in surface costs is partially due to the additional stripping costs incurred to uncover the 127,000 tons of exposed coal. In the prior test period, more coal was extracted from the coal seam than uncovered by the draglines which resulted in lower surface mine costs,

Q. Have Bridger Coal taxes and royalties increased from the prior test period?

A. Yes, both the surface and underground operation are subject to increased production taxes and royalty payments due to [redacted]

Q. Has Bridger Coal Company staffing requirements changed?

Yes, between the mine’s workforce and contractors, staffing requirements have increased with mine development, conveying and blending requirements. Improving coal conveying reliability and equipment maintenance availability are critical to maximizing coal production and minimizing costs. With enhanced coal handling capabilities, the longwall system can continue to operate even during periods of high ash coal production which could otherwise limit production. In July 2011, Bridger

Coal will deploy a third continuous miner section which requires additional staffing. The third miner is necessary to ensure timely development of longwall panels and complete required underground mine construction projects.

Q. What other drivers are causing Bridger mine costs to increase?

A. Other contributing factors include:

- Increases in labor costs due to increases in wages and benefits,
- Commodity cost increases such as diesel fuel and electricity,
- Higher operating and maintenance costs for underground mining equipment,
- Increases in depreciation, depletion and amortization expense associated with additional mine infrastructure, and
- Increased contribution for final reclamation activities. The first six months of the prior test period, July 2009 through December 2009, did not reflect a contribution to the BCC final reclamation trust. The trust fund is utilized to perform final reclamation and monitoring activities required under the Surface Mine Control and Reclamation Act.

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

A. Bridger mine test period costs of [redacted] remain considerably less than any available market alternative. While Kiewit Mining currently has [redacted] tons of uncommitted Black Butte production capacity in 2011, the delivered cost of this uncommitted tonnage to the Jim Bridger power plant is approximately [redacted] in 2011. Similarly, any Kemmerer coal that becomes available, as part of the Naughton contract amendment, is [redacted]

[redacted]

Q. How does the Company's Trapper mine compare to other alternatives?

A. Trapper's test period cost is [redacted] per ton delivered to the Craig power plant. This delivered price is considerably less than the Company's other Colorado coal supplies. The price is over [redacted].

Summary

Q. **Please summarize the benefits of the Company's coal supply strategy.**

A. Customers have significantly benefited from the Company's diversified fueling strategy. Test period costs demonstrate the benefits of the Company's affiliate mines. Although the affiliate mine supply represents approximately 33 percent of the plant supply requirements, it accounts for only 25 percent of the overall coal cost increase. Relative to the affiliate mines, third-party coal supply costs have increased primarily due to the timing of long-term coal contract reopeners.

Q. Please summarize your testimony.

A. The Company has pursued a diversified coal supply strategy, relying on fixed contracts, indexed contracts and affiliate-owned coal mines to meet the fuel needs of its coal fired power plants. While coal costs have increased significantly in this case, the company's strategy has resulted in a long-term, stable and low-cost supply of coal for its customers.

Q. Does this conclude your direct testimony?

A. Yes.