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.

#### 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 Fuel Resources. In my position I am responsible for the operations of Energy West 16 17 Mining Company and Bridger Coal Company as well as overall coal supply 18 acquisition and fuel management for PacifiCorp's coal plants.

- **Purpose and Summary**
- 20 **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.

29 **Q. P** 

#### Please summarize your testimony.

30 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.
- 40 **Overview of the coal supplies for the Company's coal plants**

41 Q. How does the Company plan to meet fuel supplies for its coal plants in this test
42 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.

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# 46 Q. What percentage of the Company's third-party coal contracts are fixed and 47 what percentage are indexed?

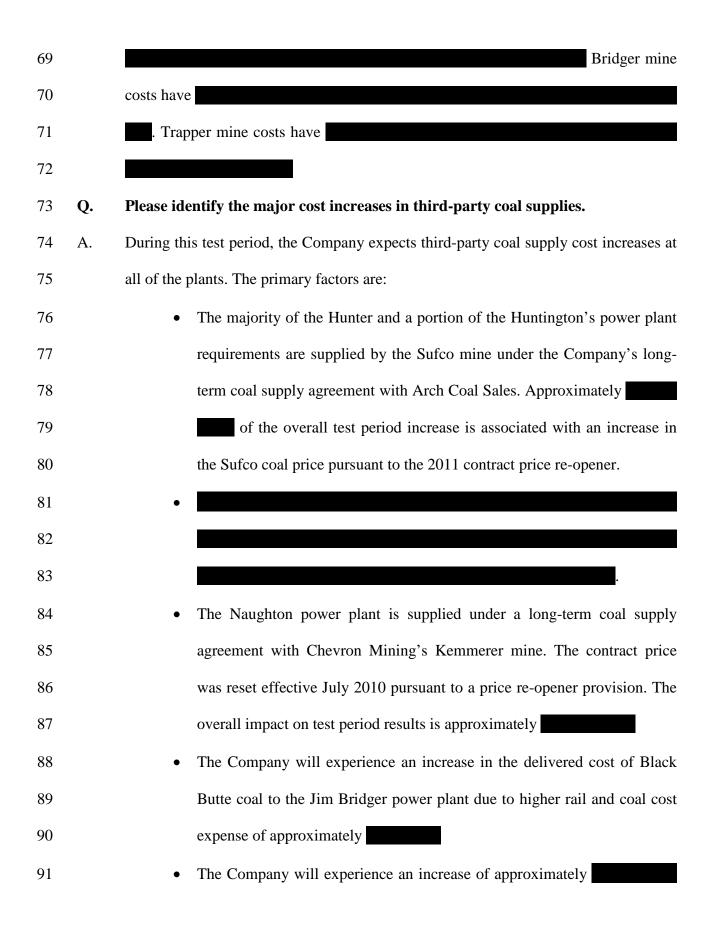
A. Approximately 33 percent of the Company's total coal requirements are supplied
 under fixed-price contracts and 34 percent of the coal supply is supplied under
 contracts that escalate or de-escalate based on changes to producer and consumer
 price indices.

52 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.

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

- 58 Q. Do coal costs in this case reflect an increase above cost levels in the July 2009 –
   59 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.
- 63 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.
- 67 Q. Please explain the increase associated with the affiliate mines.
- 68 A. Deer Creek costs have increased from



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

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

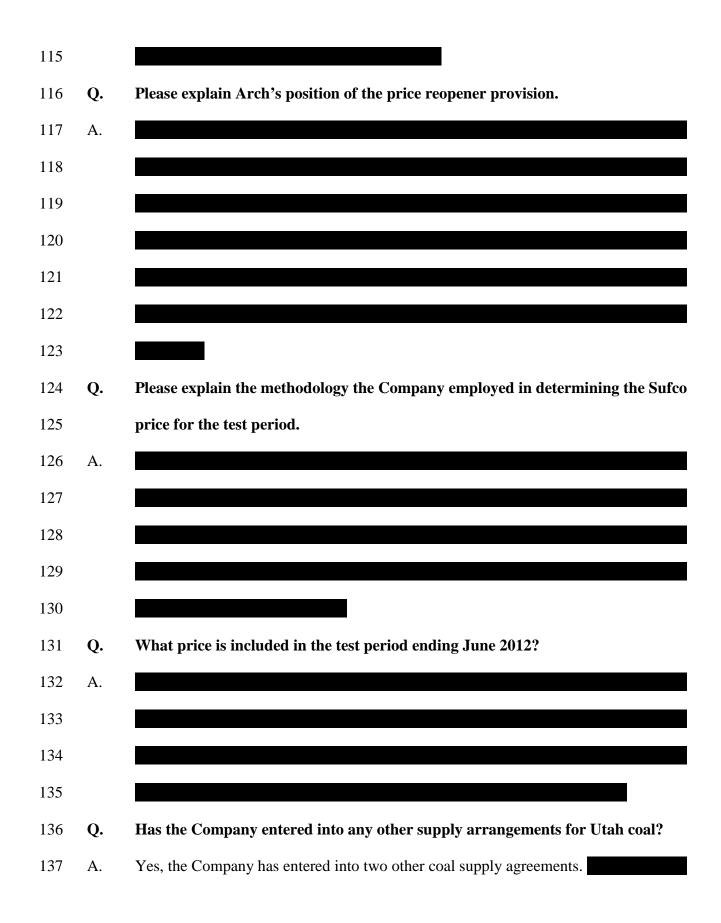
#### 101 **Coal cost increases related to contract price-reopeners**

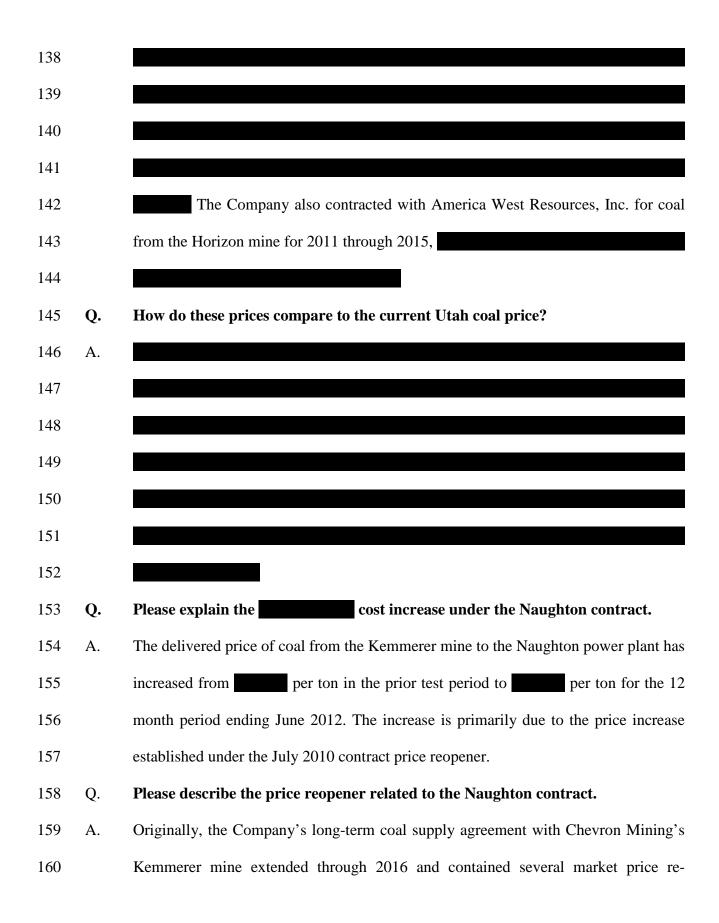
- 102 **Q** Please describe the Arch Coal Sales (Arch) contract price-reopener.
- A. The Company's long-term coal supply agreement with Arch for Sufco coal extends through 2020 and contains several price re-openers. The contract provided for a price reopener effective January 1, 2011. Pursuant to the 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.

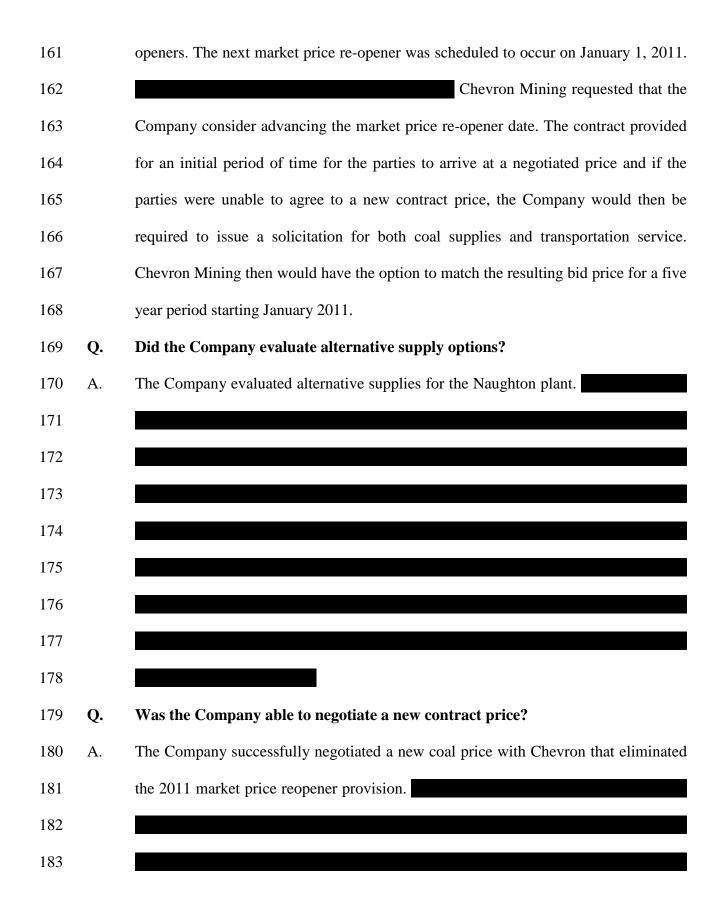
#### 110 Q. Does the contract stipulate an alternate price reset mechanism?

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

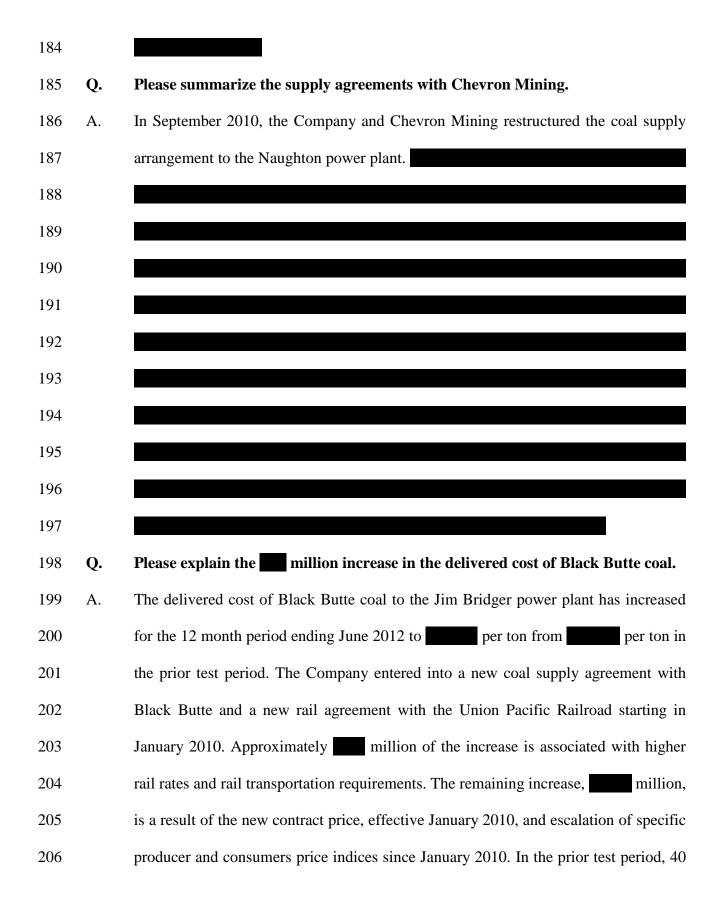








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207 percent of the Black Butte coal supply was priced under the new coal supply 208 agreement; the remaining 60 percent was priced at incremental pricing under the 209 previous coal supply agreement.

210 Q. Please explain the million increase in Dave Johnston power plant coal
211 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.

- 215
- 216
- 217

218 Please explain the million increase in Cholla power plant coal supply costs. 0. 219 In the prior test period, the Cholla plant was supplied by both Chevron Mining's A. 220 McKinley mine and Peabody's Lee Ranch/El Segundo mining complex. The 221 McKinley mine ceased production in December 2009 with the depletion of its 222 economic reserves. The plant is now solely supplied by the Lee Ranch/El Segundo 223 complex. The increase in current test period costs relate to the increased price of coal 224 from Lee Ranch/El Segundo due to escalation of contract specific producer and consumer price increases and higher rail rates, million, offset by the savings of 225 226 million associated with the termination of the McKinley coal supply agreement. 227 Please explain the million increase in Colstrip power plant coal supply costs. 0.

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

230 Operating Plan prepared by Westmoreland and approved by the Colstrip plant 231 owners. On annual basis, the Colstrip plant owners' review and approve Rosebud's 232 mine plan. Current test period costs are higher due to increases in labor and supply 233 costs and, increased current reclamation expense and in-pit inventory levels.

Please describe the reasons for the approximately **million** increase in Deer

234

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4 Coal costs related to the Company's affiliate mines

235 Q.

Creek Mine costs.

237 As noted above, Deer Creek costs are projected to increase from per ton in the A. 238 prior case to per ton for the 12 months ending June 2012. There are three 239 primary drivers for the Deer Creek cost increase: changes in ratio of continuous miner 240 to total production, increased post retirement costs and reduced coal quality. First, in 241 the prior test period, approximately 19 percent of Deer Creek's production was 242 produced by continuous miners; in the current test period approximately 26 percent of 243 the production was supplied by continuous miners. Continuous miner production is 244 more labor intensive and consumes more supplies than longwall production. Second, 245 pension and post retirement welfare costs prepared by Hewitt Associates resulted in 246 . Finally, in December 2010, Deer Creek's longwall an increase of 247 system resumed operation in the lower Hiawatha seam after reconstruction/rebuild of 248 the longwall system. In the prior test period, the longwall system operated in the 249 upper Blind Canyon seam. The projected heat content in the lower Hiawatha seam is 250 considerably less than the coal produced in the upper Blind Canyon seam, 251

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253 0. Please describe the Deer Creek Mine longwall system reconstruction investment. 254 Α. The Company's investment in reconstruction of the Deer Creek Mine longwall 255 system totals approximately \$32 million during the test period. Reconstruction of the 256 longwall system was necessary to facilitate the recovery of Deer Creek's remaining 257 longwall coal reserves. The existing longwall system was purchased and originally placed in service in 1998. After considerable testing and consultation with the 258 259 original equipment manufacturer and third party consultants, the Company concluded 260 that continued operation of the longwall system past 2010 could result in structural 261 failure of the longwall system. The project included reconstruction of 130 longwall 262 shields, face conveyor line pans, power centers and master controls, and acquisition 263 of components of the longwall handling system, face communication system, and 264 crusher haulage system. The revenue requirement impact of these investments has 265 been included in Mr. Steven R. McDougal's direct testimony.

#### 266 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.

#### 271 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 othercontracted supplies.
- **Q.** Please describe the change in Bridger Coal costs between 2010 and 2011.
- A. Bridger Coal Company costs increase from

276

277 increase is due to higher surface and underground mining costs.

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

279 A. Test period surface mine costs are impacted by inventory accounting required per 280 EITF 04-6. The current test period reflects approximately 127,000 tons of coal 281 uncovered by the draglines but not extracted from the coal seam. Due to accounting 282 pronouncement EIFT04-6, monthly production costs can be only assigned to coal 283 extracted. The increase in surface costs is partially due to the additional stripping 284 costs incurred to uncover the 127,000 tons of exposed coal. In the prior test period, 285 more coal was extracted from the coal seam than uncovered by the draglines which 286 resulted in lower surface mine costs,

287 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

290

### 291

292 <b>Q</b>	. I	Ias Bridger	Coal	Company	' staffing	requirements	changed?
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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 299 Coal will deploy a third continuous miner section which requires additional staffing. 300 The third miner is necessary to ensure timely development of longwall panels and 301 complete required underground mine construction projects.

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

- 303 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.

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

A. Bridger mine test period costs of **an and a set of a s** 

322							
323	Q.	How does the Company's Trapper mine compare to other alternatives?					
324	A.	Trapper's test period cost is per ton delivered to the Craig power plant. This					
325		delivered price is considerably less than the Company's other Colorado coal supplies.					
326		The price is over					
327							
328	Sumr	mary					
329	Q.	Please summarize the benefits of the Company's coal supply strategy.					
330	A.	Customers have significantly benefited from the Company's diversified fueling					
331		strategy. Test period costs demonstrate the benefits of the Company's affiliate mines.					
332		Although the affiliate mine supply represents approximately 33 percent of the plant					
333		supply requirements, it accounts for only 25 percent of the overall coal cost increase.					
334		Relative to the affiliate mines, third-party coal supply costs have increased primarily					
335		due to the timing of long-term coal contract reopeners.					
336	Q.	Please summarize your testimony.					
337	A.	The Company has pursued a diversified coal supply strategy, relying on fixed					
338		contracts, indexed contracts and affiliate-owned coal mines to meet the fuel needs of					
339		its coal fired power plants. While coal costs have increased significantly in this case,					
340		the company's strategy has resulted in a long-term, stable and low-cost supply of coal					
341		for its customers.					
342	Q.	Does this conclude your direct testimony?					
343	A.	Yes.					

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