INTRODUCTION

Q. Please state your name, business address and present position with PacifiCorp d/b/a Rocky Mountain Power (the "Company").

A. My name is Cindy A. Crane. My business address is 201 South Main Street, Suite 2300, Salt Lake City, Utah 84111. My position is President and Chief Executive Officer ("CEO"), Rocky Mountain Power.

QUALIFICATIONS

Q. Briefly describe your professional 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 the Company's 10-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 Vice President of Interwest Mining Company and Fuel Resources. In this position, I was responsible for the operations of Energy West Mining Company ("Energy West") and Bridger Coal Company, as well as overall coal supply acquisition and fuel management for the Company's coal-fueled generating plants. On November 1, 2014, I was appointed as President and CEO of Rocky Mountain Power.

PURPOSE AND SUMMARY

Q. What is the purpose of your testimony?

A. My testimony supports the Company's application ("Application") for approval of the transaction to close the Deer Creek Mine, which consists of four major components: (1) the Company will permanently close the Deer Creek Mine and incur direct closure costs ("Closure"); (2) Energy West will withdraw from the United Mine Workers of America ("UMWA") 1974 Pension Trust ("1974 Pension Trust") and incur a withdrawal liability; (3) the Company will sell certain mining assets ("Mining Assets"); and (4) the Company will execute a replacement coal supply agreement ("CSA") for the Huntington power plant and an amended CSA for the Hunter power plant. In addition, Energy West has settled its retiree medical obligation related to Energy West union participants ("Retiree Medical Obligation"). Together, the components of the closure and settlement of the Retiree Medical Obligation constitute the transaction to close the Deer Creek Mine ("Transaction").

Q. Please summarize your testimony.

A. My testimony explains why the Transaction to close the Deer Creek Mine is prudent and in the public interest. I outline the factors that led to the Company's decision to close the Deer Creek Mine, and sponsor the Company's present value revenue requirement analysis demonstrating that the closure of the Deer Creek Mine, as structured in the Transaction, provides significant benefits to customers.

Q. Does the Transaction require Commission approval by a specific date?

A. Yes. The sale of the Mining Assets and the CSAs are contingent upon regulatory approval and the close of the Transaction on or before May 31, 2015.

Q. Please explain how your testimony is organized.

A. First, I briefly describe the Deer Creek Mine and the other Mining Assets; and I explain how these assets are currently utilized to supply the Hunter and Huntington power plants.

Second, I provide an overview of the Transaction, including the four main elements: (1) the permanent closure of the Deer Creek Mine; (2) the withdrawal from the 1974 Pension Trust and transfer of the Retiree Medical Obligations to the UMWA; (3) the sale of the Mining Assets; and (4) the CSAs.

Third, I describe the main reasons for the Transaction.

Finally, my testimony demonstrates how customers will benefit from the Transaction. This demonstration includes a description of the studies performed, the assumptions in those studies, and results of those studies.

Q. Please introduce the other witnesses testifying in support of the Application.

A. The Application is also supported by the following testimony:

- Douglas K. Stuver, Senior Vice President and Chief Financial Officer of PacifiCorp, provides testimony on the regulatory and accounting treatment of the Transaction. Mr. Stuver further explains the financial impacts of Energy West's withdrawal from the 1974 Pension Trust and settlement of the Retiree Medical Obligation.
- Seth Schwartz, President of Energy Ventures Analysis, Inc., provides testimony explaining how the Transaction significantly mitigates Energy West's liability under the 1974 Pension Trust. Mr. Schwartz also supplies current and projected Utah coal market data, which supports the decision to close the Deer Creek Mine and the prudence of the Company's Huntington CSA and amended Hunter CSA.

CURRENT USE OF DEER CREEK MINE AND OTHER MINING ASSETS

Q. Please describe the Deer Creek Mine.

A. The Deer Creek Mine is located in Emery County, Utah. The Deer Creek Mine is operated by Energy West, a wholly-owned subsidiary of the Company. The Company acquired a majority of the lands and coal leases that make up the East Mountain coal reserve complex from Peabody Coal Company in 1977. Since the acquisition, the East Mountain coal reserves/resources have been supplemented with adjacent coal leases acquired over the past 35 years to extend mine life. Together, the original lands and leases in addition to the adjacent leases have been successfully mined for 37 years.

The East Mountain Logical Mining Unit ("LMU") has included production from the Deer Creek Mine, the Cottonwood Mine and the Des-Bee-Dove Mine. The Deer Creek Mine is the only one of the three mines located within the East Mountain LMU boundaries that is currently operating. The reserves in the Cottonwood Mine were depleted and the mine closed in 1994. Full reclamation of the facilities at the Cottonwood Mine began in 2014 and should be completed in 2016. The reserves in the Des-Bee-Dove Mine were depleted and the mine closed in 1986. The Des-Bee-Dove Mine has been completely sealed and fully reclaimed in accordance with its approved mine permit.

Q. Which Company power plants are currently supplied by the Deer Creek Mine?

A. The Deer Creek Mine supplies the Huntington and Hunter power plants. The Huntington power plant currently consumes on average 2.8 to 2.9 million tons of coal annually. The Deer Creek Mine was expected to meet nearly the entire supply obligation for the Huntington power plant until the depletion of the Deer Creek coal reserves in or around the year 2019. After depletion, the Company planned to procure the Huntington power plant's supply needs from third parties. Some of the Deer Creek Mine coal is also used to supply the Hunter power plant.

Q. How is coal supplied to the Hunter power plant?

A. Bowie Resource Partners, LLC ("Bowie"), the Company's counter-party in the sale of the Mining Assets and CSA components of the Transaction, supplies coal to the Hunter power plant under a long-term coal supply agreement that went into effect in 1999 and expires in 2020. Bowie supplies coal to the Hunter power plant primarily from its Sufco Mine, located in Sevier County, Utah. The coal supply for the Hunter power plant is supplemented with other coal supplies (including coal from Deer Creek and Murray Energy's West Ridge Mine) based on varying coal qualities, as well as economic supply opportunities. Prior to consumption, a large percentage of the Hunter power plant coal supply is blended at the Company's coal preparation plant ("Preparation Plant"), which is located south of and adjacent to the Hunter power plant.

Q. Please provide background information on Bowie.

A. Bowie is one of the nation's largest western bituminous coal producers. Bowie has a diverse portfolio of four mining operations in Utah and Colorado that annually produce an aggregate of up to 14 million tons of high-BTU, low-sulfur bituminous coal per year. Its mines are some of the safest, most productive and longest, continuously-operating mines in the western United States. It has three longwall mining operations: Bowie Mine, Skyline Mine and Sufco Mine. It also has one room-and-pillar operation, the Dugout Canyon Mine. Bowie has a significant reserve base and the ability to expand its production base via organic growth and bolt-on reserve acquisitions. Bowie has been recognized for its environmental stewardship and has a strong track record for a reduction of safety violations and lost-time safety incident rates.

In 2013, Bowie acquired the Arch Coal Sales Company's ("Arch") Utah mines.

Bowie's acquisition of Arch's Utah mines included Canyon Fuels Company LLC ("Canyon Fuels"), which manages the Utah mining operations directly. This has resulted in continuity of management and made the ownership change invisible to the Company. The Company has a long-standing relationship with Canyon Fuels, which has provided the Company with reliable and economic coal supply for its Utah coal-fueled plants since 1999. Canyon Fuels is well regarded for its prudent and cost-efficient mining.

Q. Please identify the other Mining Assets PacifiCorp plans to sell to Bowie in the Transaction.

A. The Mining Assets consist of the Preparation Plant and related assets[1] located in Emery County, Utah; the central warehouse facility and related assets[2] located in Emery County, Utah ("Central Warehouse"); and the Trail Mountain Mine and related assets[3] located in Emery County, Utah ("Trail Mountain Mine"). In addition, the Transaction includes the assets of Fossil Rock Fuels LLC, a wholly-owned subsidiary of the Company ("Fossil Rock").

---

[1] The Company's assets related to and near the Preparation Plant include real property located in Emery County, Utah, together with: (a) buildings, fixtures, and other improvements thereon, including the Preparation Plant; (b) right, title and interest in and to adjacent streets, easements, and rights-of-way; (c) certain personal property located on the real property, and (d) other rights and interests appurtenant to the real property, improvements, and personal property (collectively with the real property, the "Preparation Plant").

[2] Those assets include real property located in Emery County, Utah, together with: (a) right, title and interest in and to adjacent streets, easements, and rights-of-way; (b) buildings, fixtures, and other improvements on the real property, including the central shop and warehouse facilities; (c) certain personal property located on the real property; and (d) other rights and interests appurtenant to the real property, improvements, and/or personal property (collectively with the real property, the "Central Warehouse").

[3] In addition to holding the Trail Mountain Coal Leases, defined below, the Company owns real property adjacent to the coal leases, together with the following assets: (a) all right, title and interest in and to appurtenant easements and rights-of-way; (b) any improvements and infrastructure located on the Trail Mountain Coal Leases or the real property; (c) certain personal property located on the real property; (d) all data, files, reports, information and records related to the Trail Mountain Coal Leases; and (e) any other rights and interests appurtenant to the Trail Mountain coal leases or the real property, and any improvements or infrastructure located thereon (collectively with the Trail Mountain coal leases and the real property the "Trail Mountain Mine").

Q. Please describe how the Company currently utilizes the Preparation Plant.

A. To achieve coal quality specifications, the Preparation Plant blends coal for the Hunter power plant which, as noted above, is primarily supplied by Bowie and supplemented with supply from Murray Energy's West Ridge Mine and the Company's Deer Creek Mine. For purposes of determining the fuel costs at the Hunter power plant, the blending costs of the Preparation Plant are in addition to the delivered third-party supply costs.

Q. Please describe how the Company currently utilizes the Central Warehouse.

A. The Central Warehouse facility is located near Castle Dale, Utah. The warehouse is used to store equipment and supply inventories for the Company's nearby facilities, including the Preparation Plant and the Deer Creek Mine.

Q. Please describe the Trail Mountain Mine.

A. In September 1992, the Company purchased the Trail Mountain Mine, acquiring United States coal leases UTU-49332, UTU-64375 and UTU-082996 located in Emery County, Utah ("Trail Mountain Coal Leases"), along with all existing surface facilities and underground support systems from Mountain Coal Company.

At the time, the acquisition of the Trail Mountain reserves provided certain strategic advantages to the Company. The Trail Mountain Coal Leases are adjacent to the Cottonwood Mine, which was already owned and operated by the Company. The close proximity allowed ready access to the Cottonwood Mine facilities for processing coal extracted from Trail Mountain and had the potential to extend the life of the Cottonwood facilities. While coal mining operations at the Cottonwood Mine ceased in 1994, until the closure of the Trail Mountain Mine in 2001, the Company continued to use the Cottonwood Mine facilities to transport coal, via an underground conveyor within the

Cottonwood Mine, from the Trail Mountain Mine to the Cottonwood Mine loadout facilities.

The Company began coal production at the Trail Mountain Mine with continuous mining in 1994, but ceased mining operations in 2001 due to the depletion of existing reserves, the long lead time to acquire adjacent reserves, and the availability of competitively priced external coal. Although closed in 2001, the Trail Mountain Mine has not been reclaimed or remediated.

Q. Please describe Fossil Rock and how the Company currently utilizes Fossil Rock.

A. In 2011, the Company formed an affiliate, Fossil Rock. Fossil Rock is a Delaware limited liability company and a wholly-owned, direct subsidiary of the Company. Fossil Rock was formed for the purpose of holding and administering Utah state coal leases ML-51191-OBA and ML-51192-OBA located in Emery County, Utah (the "Fossil Rock Coal Leases").

The Company acquired the Fossil Rock Coal Leases in 2011 for $20,020,000 as part of a settlement of litigation the Company brought against Arch. The Company also assumed the remaining lease payments in the amount of $5,000,000. The purchase price was equivalent to Arch's original bid and obligations when it acquired the two leases from the Utah State Institutional Trust Lands Administration.

While the Company has undertaken exploration activities on the coal reserves, the Company has not commenced any mining operations within these leases.

THE TRANSACTION

Q. Please summarize the major elements of the proposed Transaction.

A. As noted above, the Transaction involves closure of the Deer Creek Mine and the resulting withdrawal from the 1974 Pension Trust and transfer of the Retiree Medical Obligation. In addition, it includes two components with Bowie: the sale of the Mining Assets and the execution and implementation of the Huntington CSA and Hunter CSA amendment.

The Company will close the Deer Creek Mine in 2015, before the full depletion of the coal reserves. There are two main reasons for the early closure: (1) escalating mining costs and pension liabilities; and (2) declining volume and quality of coal reserves. These factors have combined to make continued operation of the Deer Creek Mine uneconomic. I provide a more detailed description of the reasons why the Company is recommending closure of the Deer Creek Mine in my testimony below.

In connection with the Deer Creek Mine Closure, the Company was able to make advantageous sales of some of its remaining Mining Assets to Bowie. With the closure of the Deer Creek Mine, it is also necessary to replace the deteriorating coal supply; therefore, the Company executed a CSA with Bowie to replace the Deer Creek Mine coal currently being supplied to the Huntington and Hunter power plants. The sale of the Mining Assets to Bowie is described in more detail in my testimony below.

The Deer Creek Mine coal supply to the Huntington power plant is being replaced with a long-term, third-party coal supply agreement with Bowie ("Huntington CSA"). The term of the Huntington CSA is through December 31, 2029. Due to the Utah coal market conditions at this time, the Company was able to secure a favorable long-term contract to replace the Deer Creek Mine coal supply. In addition, the Company is amending a long-term coal supply agreement with Bowie for the Hunter power plant ("Hunter CSA"). The delivered fuel prices under the CSA are projected to be lower than the estimated costs to continue mining at Deer Creek and operating the Preparation Plant. Mr. Schwartz provides additional detail on the economic analysis of the coal contracts relative to long-term coal forecasts in his testimony.

Q. Please describe the proposed sale of the Preparation Plant Assets.

A. On December 12, 2014, the Company and Bowie entered into the Asset Purchase and Sale Agreement for the Preparation Plant ("Preparation Plant APA"), attached to my testimony as Confidential Exhibit RMP___(CAC-1).

Under the Preparation Plant APA, the Company agrees to sell and Bowie agrees to purchase the Preparation Plant Assets for [redacted]. In addition, Bowie agrees to pay the Company at closing the value of the Company's working capital assets (consisting primarily of parts and supplies inventories) used in connection with the Preparation Plant Assets. The value of the working capital assets will be determined no less than ten days prior to the Transaction closing date, and shall not exceed $[redacted]. Bowie also agrees to assume and discharge certain liabilities, including all reclamation and all asset retirement obligations with respect to the Preparation Plant Assets and all environmental remediation obligations.

As a result of the sale to Bowie, the Company will avoid the operating cost of blending coal for the Hunter power plant (a levelized savings of approximately $[redacted] per year), and will benefit from reduced inventory costs (a levelized savings of approximately $[redacted] per year).

Q. Please describe the sale of the Company's Central Warehouse Property.

A. On December 12, 2014, the Company and Bowie entered into the Asset Purchase and

Sale Agreement (Central Warehouse Property) (the “Central Warehouse APA”), attached to my testimony as Confidential Exhibit RMP___(CAC-2).

Under the Central Warehouse APA, there is no stated monetary consideration for the transfer of the Central Warehouse Property from the Company to Bowie. As consideration for the transfer, Bowie agrees to assume and discharge certain liabilities, including all asset retirement obligations with respect to the Central Warehouse Property and all environmental remediation obligations.

Q. Please describe the proposed sale of Trail Mountain Mine Assets.

A. On December 12, 2014, the Company and Bowie entered into the Asset Purchase and Sale Agreement (“Trail Mountain Assets”) (the “Trail Mountain APA”), attached to my testimony as Confidential Exhibit RMP___(CAC-3).

Under the Trail Mountain APA, there is no stated monetary consideration for the transfer of the Trail Mountain Assets from the Company to Bowie. As consideration for the transfer, Bowie agrees to assume and discharge certain liabilities, including all mine reclamation and asset retirement obligations with respect to the Trail Mountain Assets, the obligation to replace Trail Mountain’s reclamation bonds and/or performance bonds related to the Trail Mountain Assets, and all environmental remediation obligations.

Q. Please describe the sale of Fossil Rock Fuels, LLC.

A. On December 12, 2014, Fossil Rock and Bowie entered into the Asset Purchase and Sale Agreement (“Fossil Rock Assets”) (“Fossil Rock APA”), attached to my testimony as Confidential Exhibit RMP___(CAC-4).

Under the Fossil Rock APA, Fossil Rock agrees to sell and Bowie agrees to purchase the Fossil Rock Assets for $[redacted]. Bowie also grants a [redacted] overriding royalty to the Company on all coal produced from the Fossil Rock Coal Leases. In its conservative analysis of the benefits of the Transaction, however, the Company has not included this potential royalty revenue.

In addition, Bowie agrees to assume and discharge certain liabilities, including: (a) all mine reclamation and asset retirement obligations with respect to the Fossil Rock Assets, whether arising before or after the closing date, including the obligation to replace Fossil Rock's reclamation bonds related to the Fossil Rock Coal Leases; (b) the post-closing obligations of Fossil Rock under the Fossil Rock Coal Leases or equipment leases that arise after the closing date; and (c) all obligations and liabilities under Fossil Rock's existing permits and applications for permits appurtenant or related to the Fossil Rock Coal Leases arising after the closing date.

Because Fossil Rock's book value is approximately $[redacted], there is no gain on the sale of Fossil Rock. In addition, Bowie agrees to pay Fossil Rock for any advance royalty payments due and paid by Fossil Rock prior to the Transaction close date.

Q. Are there any contractual conditions precedent to the closing of the asset purchase agreements ("APAs")?

A. Yes. The Preparation Plant APA, the Central Warehouse APA, the Trail Mountain APA, and the Fossil Rock APA are each contractually conditioned on obtaining all necessary regulatory approvals and closing of the Transaction by May 31, 2015.

Q. Please describe the Huntington CSA in more detail.

A. Under the Huntington CSA, Bowie agrees to supply all of the coal requirements for the Huntington power plant from the Transaction close date to December 31, 2029, according to certain quality specifications. In 2015, Bowie agrees to supply [redacted] tons of coal. For the remainder of the term, Bowie agrees to supply a minimum of [redacted] tons and a maximum of [redacted] tons per year. The price for coal supply is a fixed, delivered price, with capped [redacted]. Over the term of the Huntington CSA, the price per ton escalates in steps from $[redacted] to $[redacted] for the first [redacted] tons delivered in any contract year, with a reduction in price of $[redacted] per ton for delivery in excess of [redacted] tons during each contract year.

The Huntington CSA is a "take or pay" agreement, where PacifiCorp has the obligation to take or pay for a minimum of [redacted] tons of coal annually, subject to a "Legacy Contract" provision allowing for a reduction of the minimum take amount to account for existing third-party coal supplies through 2020.

All of the coal supplied must meet certain coal quality specifications, such as size and moisture, ash and sulfur content, as well as Btu content, and several of these specifications are subject to price penalties. The Huntington CSA permits the Company to maintain all existing third-party supplies for the plant through 2020.

The Huntington CSA is conditioned on obtaining all necessary regulatory approvals and closing of the Transaction by May 31, 2015.

The terms of the Huntington CSA are favorable, and the delivered fuel prices are projected to be lower than the estimated operating costs for the Deer Creek Mine until depletion in 2019 and projected market pricing through 2029.

The Huntington CSA is attached to my testimony as Confidential Exhibit RMP___(CAC-5).

Q. Does the Huntington CSA include protections for the Company and its customers with respect to existing or new environmental regulations?

A. Yes. The Huntington CSA contains a broad termination right in favor of the Company in the event existing or new environmental obligations adversely affect the Company's ability to burn coal at the Huntington power plant.

Q. Please describe the Hunter CSA.

A. In 1999, PacifiCorp and Canyon Fuels entered into a coal supply agreement for the Hunter power plant. That agreement is the primary supplier of coal to the Hunter power plant. The current term of the agreement extends through December 31, 2020. As noted above, Bowie acquired Arch's Utah mines in 2013 and took assignment of that agreement.

Coal for the Hunter power plant is supplemented by other coal supplies, including from the Deer Creek Mine, based on varying coal qualities and economic supply opportunities.

In connection with the execution of the Huntington CSA and the transfer of the Preparation Plant Assets, PacifiCorp and Bowie have agreed to amend the existing coal supply agreement for the Hunter power plant.

Currently the Preparation Plant is operated by Energy West under an operating agreement with the Company, the owner of the assets. The Preparation Plant expense to blend incoming coal to meet the coal specification requirements for the Hunter power plant is charged to the plant's consumed fuel costs. Following the close of the Transaction, Bowie will acquire title to the Preparation Plant Assets, along with the obligation to undertake all required stockpiling and blending for the Hunter power plant coal specification requirements. As a result of the change in ownership and operation, the Hunter CSA amendment changes the point of delivery and duration at which coal quality is measured and annual coal nomination dates. There is no adjustment to the Bowie delivered coal pricing as a result of the Hunter CSA amendment.

The Hunter CSA is attached to my testimony as Confidential Exhibit RMP___(CAC-6).

REASONS FOR THE TRANSACTION

Q. Why did the Company decide to close the Deer Creek Mine and enter into the Transaction?

A. There are two primary reasons the Company is recommending closure of the Deer Creek Mine at this time. First, Energy West is facing increasing liabilities at the Deer Creek Mine related to mining costs and obligations, including health care, but most significantly, escalating pension obligations. Second, Energy West's coal reserves are scheduled to be depleted by 2019 and the Deer Creek Mine faces lower quality and volume of reserves which impacts the mine's production costs going forward. At the same time, the coal market in Utah has changed, market supplies are more available, and the advantages of owning coal mining assets in Utah have lessened.

In connection with the Deer Creek Mine Closure, the Company was able to make advantageous sales of some of its remaining Mining Assets to Bowie. With the closure of the Deer Creek Mine, it is also necessary to replace the deteriorating quality of its coal supply; therefore, the Company executed the CSA with Bowie to replace the Deer Creek Mine coal currently being supplied to the Huntington power plant.

Q. Please elaborate on the Company's decision to close the Deer Creek Mine based on increasing mining costs and pension liabilities.

A. The Deer Creek Mine is operated by Energy West. Energy West has a long-term labor relationship with the UMWA. Certain elements of labor costs have increased, especially pension liabilities. For the past several years, Energy West has been in a labor dispute with the UMWA over costs and liability escalations, including the threat of collapse of the 1974 Pension Plan and the huge potential cost increases to Energy West.

Q. Did Energy West and the UMWA recently reach a settlement of their protracted labor dispute?

A. Yes. On October 31, 2014, Energy West and the UMWA reached an agreement to resolve all outstanding disputes. The settlement is comprised of several Memoranda of Understanding and a 2014 Wage Agreement.

Q. Did the labor settlement resolve the escalation of mining costs and pension liabilities at the Deer Creek Mine?

A. No. As addressed below, while the settlement addressed outstanding disputes, it does not contain the escalating mining costs in a manner that would allow continued mining at the Deer Creek mine, whether mined by Energy West or another party.

Q. Please explain the increase in health care costs for active employees.

A. Under the collective bargaining agreement with UMWA, Energy West is responsible for effectively 100 percent of the health care costs for active workers, with employees paying only a very minimal co-payment and with no premium cost sharing. As a result, in 2013, Energy West paid $[redacted]/month versus $[redacted]/month cost for other Company union workforce. In addition, with the implementation of new health care laws, the health care costs are potentially subject to an excise tax annually, starting in 2018. Energy West was unable to achieve any cost containment associated with health care for active workers in the recent labor settlement.

Q. Was Energy West able to negotiate some mitigation of its health care liability for retired employees under the recent labor settlement?

A. Yes. Energy West successfully transferred its Retiree Medical Obligation associated with Energy West union participants to the UMWA. As a result of this settlement, Energy West is required to transfer $150 million from its plan's trust to the UMWA's trust in exchange for UMWA assuming the Retiree Medical Obligation. [redacted]. This effectively exempts Energy West from any further obligations associated with retiree medical benefits for the Energy West union employees and retirees and creates a benefit for customers in the form of reduced future expense. The accounting impacts associated with this transfer are addressed in the testimony of Mr. Stuver.

Q. Please explain Energy West's increasing pension liability.

A. Energy West contributes to the 1974 Pension Trust. Contributions to this pension plan are based on the terms of the National Collective Bargaining Agreement between the UMWA and the Bituminous Coal Operators' Association ("BCOA"). In multi-employer pension plans, assets are pooled such that contributions by one employer may be used to provide benefits to employees of other participating employers and plan assets cannot revert back to employers. If an employer ceases participation in the plan, the employer may be obligated to pay a withdrawal liability based on the participants' unfunded, vested benefits in the plan. If a mass withdrawal of participating employers occurs, the unfunded obligations of the plan may be borne by the remaining participating employers, including any employers that have withdrawn within the prior three years. Furthermore, to the extent a participating employer defaults on its obligation to the plan, the remaining employers may be allocated a share of the defaulting employer's obligation for unfunded vested benefits.

Under the terms of the 1974 Pension Trust, when mining operations cease, Energy West will be subject to a withdrawal liability. The testimony of Mr. Schwartz provides additional details regarding the 1974 Pension Trust and the potential liabilities under the Trust. In summary, Mr. Schwartz explains that the 1974 Pension Trust is seriously underfunded, a circumstance that is likely to get worse in the coming years given the risk of bankruptcies of other participants, and that Energy West's withdrawal liability is anticipated to increase substantially between now and 2019.

Q. How has Energy West responded to information about the underfunding levels of the 1974 Pension Trust and the risks of bankruptcy for other participants?

A. After learning of the serious underfunding in 2010, Energy West requested information about its withdrawal liability from the trust administrators. The withdrawal liability was determined to be $85.9 million for the plan year ending June 30, 2010. Energy West has obtained its withdrawal liability amounts annually since then and the amount has grown to $125.6 million, if a withdrawal occurred between June 30, 2013 and July 1, 2014. This is a 46.5 percent increase over four years, or an average of 11.63 percent annually. Given an average increase of 11.63 percent per year withdrawal liability, together with the 1974 Pension Trust's seriously underfunded status and the third-party bankruptcy risk discussed in Mr. Schwartz' testimony, Energy West is very concerned about the potential size of the withdrawal liability if the mine is not closed until late 2019.

Q. How has Energy West addressed its growing liability under the 1974 Pension Trust?

A. Energy West has assessed its options to withdraw from the 1974 Pension Trust now and fund the resulting withdrawal obligation. The only options available to Energy West for withdrawal are cessation of contributions or declaration of bankruptcy. Cessation is triggered when there are no UMWA worker hours. Declaration of bankruptcy is not a feasible option. In either event, Energy West has two payment options when the liability arises, annual payments or a lump sum payment of the obligation, is described in greater detail in the testimony of Mr. Stuver.

Q. Why didn't Energy West withdraw from the 1974 Pension Trust before its proposal to do so now?

A. After the 1974 Pension Trust was classified as seriously endangered, the UMWA and the BCOA initiated national agreement negotiations. Because benefit and contribution levels are set through the national agreement negotiations between the UMWA and the BCOA, and early negotiations had been initiated, Energy West expected that pension liability issues would be addressed in the new agreement.

At that time, the quality and volume of coal from the Deer Creek Mine had not yet begun its decline. In addition, Energy West was in protracted negotiations with Arch over coal supply to the Hunter power plant, including litigation that had been filed for an anticipatory breach by Arch of the contract. The advantages to the Company of maintaining its captive coal supply from the Deer Creek Mine, including stable supply at reasonable costs, reduced exposure to market prices and leverage in negotiating other coal contracts, had not begun to materially diminish.

By mid-2011, the Company had settled its coal supply negotiations with Arch. The UMWA and BCOA entered into a new national agreement with an effective date of July 1, 2011, but it did not address the pension issues. In response, the Company began analyzing its options, ultimately resulting in a multi-pronged strategy, which included, among other things, pursuit of a mine sale and a labor strategy for UMWA and Energy West contract negotiations, to allow Energy West to withdraw from the 1974 Pension Trust.

Q. Please describe how the Company explored the sale of the Deer Creek Mine.

A. Before deciding to close the Deer Creek Mine, the Company reviewed its opportunities to exit its coal mining operations at Deer Creek through a sale. The Company reached out to several parties beginning in 2012. After assessing expressions of interest from some parties, the Company determined that pursuing such options would not be in the best interest of its customers. All parties that expressed interest required Energy West to retain retiree medical liabilities, as well as retain or backstop the pension liability; therefore, these proposed sale options would not achieve the Company's goal of capping the liabilities. None of the sales options were viable and cost-effective for customers.

Q. Did Energy West discuss the option of closing the mine with the union?

A. Yes. Through the labor dispute process, Energy West conveyed to the union on numerous occasions, both in writing and in person, that the Company was pursuing all options available, including sale or closure of the Deer Creek Mine and contracting out the Preparation Plant. Energy West engaged in full collective bargaining over these issues.

Q. Does the settlement with the union allow Energy West to withdraw from the 1974 Pension Trust?

A. Yes, but only if the mine is sold or closed.

Q. Has the Company been able to sell the mine?

A. No, not on terms that are economic for customers.

Q. Given the Deer Creek Mine scheduled closure in 2019, did the Company consider having Energy West continue to operate the mine until the scheduled closure?

A. Yes, as outlined below, the Company compared closure of the mine to keeping the mine operating through its reserve depletion in 2019. The Company's economic analysis demonstrates that closure is more cost-effective for customers.

Q. The second reason you provided in support of the Deer Creek Mine Closure related to lower quality and volume of reserves. Why are quality and production decreasing at the Deer Creek Mine?

A. As Energy West's development advanced within the Northern Mill Fork lease, it has encountered significant volumes of high ash and high sulfur coal in several of the planned panels. Additionally, Energy West pursued coal lease expansions through a lease modification process, but drilling programs have now highlighted coal quality concerns with elevated ash.

Q. How has Energy West responded to mining of high ash and/or sulfur content coal?

A. During periods of high ash and sulfur coal production, the longwall system must be operated on a single ten-hour shift instead of two ten-hour shifts. The mine's annual production is therefore reduced significantly during these periods, resulting in increased overall production costs.

Q. Why is the Deer Creek longwall system limited to a single shift during the high ash and sulfur production periods?

A. Deer Creek's coal is consumed by the Hunter and Huntington power plants. Both plants share a maximum ash target of <15 percent. Accordingly, high ash coal requires processing or transporting to be usable in the Company's coal-fueled plants. All of Deer Creek's production is initially delivered to the Huntington power plant via an overland conveyor. Once delivered to the Huntington power plant stockpile, Deer Creek coal can either be diverted to the Carbon power plant, the Hunter power plant or the Preparation Plant via two truck loadouts or remain at the Huntington power plant. The Huntington power plant can typically transfer, on average, 7,000 tons of Deer Creek coal a day between the two loadouts. With Deer Creek's ash content approaching 20 percent, on average, during several months, the majority of the coal will need to be transferred to either the Hunter power plant or the Preparation Plant and subsequently blended with lower ash coals to meet plant quality specifications.

Q. How much coal is produced by the Deer Creek longwall in a single shift?

A. The longwall system will typically produce 8,500 tons per shift per day. Operating the longwall system more than one shift per day during periods of elevated ash will exceed the physical transfer capability of the truck loadouts and will quickly cause the Huntington stockpile to reach capacity and force the mine to be idled.

Q. Can Deer Creek avoid mining these high sulfur and ash areas?

A. No. Not without significantly impacting Deer Creek's production volumes and costs. As discussed later in my testimony, the Company considered the costs of continued operation of the Deer Creek Mine in assessing the benefits of Closure.

Q. How does the closure of the Deer Creek Mine relate to sale of the Mining Assets included in the Transaction?

A. Many of the changing economic conditions affecting the Deer Creek Mine also affect the Company's other owned coal-supply assets in Utah. In addition, the closure of the mine made the sale of the Mining Assets logical from a business standpoint. As such, the Company negotiated for the sale of the Mining Assets as part of the Transaction.

Q. Specifically, why are the Mining Assets included in the Transaction?

A. First, once the Deer Creek Mine is closed and the CSAs go into effect, the burden of stockpiling and blending coal at current levels to achieve compatible coal blends for the power plants is shifted almost entirely to Bowie. Accordingly, the Company no longer needs the Preparation Plant and the Central Warehouse to ensure fuel supply to its plants.

Second, with respect to Fossil Rock and the Trail Mountain Mine, the new and existing CSAs provide the Hunter and Huntington power plants' with an appropriate volume and quality coal supply at a reasonable cost. Given the competitive third-party supply option, and for all of the reasons stated above, there is no longer any reason to maintain these coal-related assets.

Q. The final component of the Transaction relates to the new Huntington CSA and the amended Hunter CSA. Why are the CSAs included in the proposed Transaction?

A. The Huntington and Hunter power plants have a useful life beyond the date of the expected closure of the Deer Creek Mine. The CSAs assure that a long-term coal supply is available to fuel the Hunter and Huntington power plants. In addition, current conditions in the coal market indicate that this is a favorable time to secure a long-term supply. Mr. Schwartz provides additional analysis of this issue in his testimony.

Q. Can you briefly explain how the Company currently recovers fuel costs for the Huntington and Hunter power plants in rates?

A. Yes. The Company recovers the costs to fuel the Huntington and Hunter power plants as a component of the Company's net power costs, and it earns a return on the investments in the Deer Creek Mine and the Mining Assets.

Q. How does the Company propose to reflect fuel costs for these plants in rates after the Deer Creek Mine closes?

A. After the Deer Creek Mine closure and sale of the Mining Assets, the Company will incur costs to fuel these plants through the Huntington and Hunter CSAs. At the same time, the Company proposes to continue to recover the unamortized investment in the mine and related assets through net power costs at current depreciation rates until rates are next reset.

Therefore, the Company proposes to defer as part of net power costs the difference between (a) amounts currently reflected in rates for investment associated with the Deer Creek Mine, Mining Assets and the costs to fuel the Huntington and Hunter power plants, and (b) the costs of continued amortization of the unrecovered investment plus CSA costs. The Company proposes that the amount be deferred through the power cost adjustment mechanisms in each state without application of any existing sharing bands and be subject to a return set at the Company's allowed rate of return.

Q. How will the Company compute this differential?

A. To determine the amount of the incremental fueling cost differential, the Company proposes to multiply the total MMBtu consumed for the two plants included in base net power costs times the difference between the weighted-average cost per MMBtu (consumed) included in the base net power costs for the Huntington and Hunter power plants and the actual weighted-average cost per MMBtu (consumed) during the deferral period. The actual weighted-average cost per MMBtu during the deferral period will be determined based on the methodology used to set current rates.

Q. Does the Company propose to cease the deferral once rates are reset?

A. Yes. When base net power costs are reset in the Company's next general rate case, the Company proposes that base rates to fuel the Huntington and Hunter power plants be reset to reflect the CSAs and then-current forecast of costs to fuel the plants. The Company proposes to include in rate base any unrecovered investment at that time, to be amortized over a period approved by the Commission and earn a return at the Company's authorized rate of return.

ANALYSIS OF THE BENEFITS OF THE TRANSACTION

Q. Can you summarize the major benefits of the proposed Transaction?

A. Yes. The early closure of the Deer Creek Mine is a prudent decision that will limit the Company's liability under the 1974 Pension Trust compared to a much higher expected liability if the mine remains open until 2019. Moreover, closing the mine now avoids other increasing mining costs, such as health care costs that are disproportionately high to the rest of the union labor force at the Company. Further, the CSAs are beneficial to customers compared to the ongoing costs of operating the mine, especially in light of the declining quality of the reserves in the mine, which requires single-shift mining, stockpiling and blending of high ash/sulfur Deer Creek production. Sale of the Mining Assets maximizes their value for customers and effectuates the shifting of the costs of inventory and blending to Bowie. The Fossil Rock sale, while a neutral book transaction, has the potential for future revenue upside based on royalties. In the event the royalty comes to fruition in the future, the Company would pass the benefits (net of tax) onto customers to the extent it is made whole on any Transaction losses.

Q. Why is it in the customers' best interest to close the Deer Creek Mine, sell the Mining Assets and enter into the CSAs?

A. The Company's financial analysis, described below in my testimony, demonstrates the purchase of coal supplies for the Huntington and Hunter power plants pursuant to the CSAs is a lower cost option compared to continuing to invest in and operate and maintain the Deer Creek Mine and other Mining Assets.

Q. Will there be a gain or profit on the Closure and sale components of the Transaction?

A. No. The closure of the Deer Creek Mine will result in an undepreciated asset due to the shortened life of the mine. The sales of the Preparation Plant, the Central Warehouse and the Trail Mountain Mine assets also result in a loss compared to book value (although this will be more than offset over time by the avoided cost benefits that will stem from the elimination of the Preparation Plant operating costs). In addition, the Company has incurred and will incur a variety of costs to effectuate the Closure and the Transaction. Mr. Stuver identifies these costs and discusses the accounting effects of the Transaction in his testimony.

Q. Please summarize the revenue requirement impacts of the Transaction.

A. The Company's analysis clearly demonstrates a substantial level of benefits to be received by customers from the proposed Closure and Transaction. As discussed in detail below, the net present value of the revenue requirement associated with the Closure and

Transaction is lower than the net present value of the revenue requirement associated with continuing to operate the Deer Creek Mine and other Mining Assets and not entering into the Coal Supply Agreements. In addition, the Closure and Transaction provide greater certainty of benefits to customers since keeping the Deer Creek Mine open exposes customers to significant risks of additional cost increases in the future, particularly due to the inability to mitigate additional exposure associated with the 1974 Pension Trust withdrawal. As a result, the proposed Transaction is prudent and in the public interest.

Q. Please describe the studies prepared to analyze the financial impacts of the Transaction.

A. The Company analyzed three specific cases: (1) keep the Deer Creek Mine open and continue to operate it until reserve depletion in 2019, retain all other coal-related assets, and do not enter into long-term coal supply agreements until Deer Creek's depletion (the "Keep Case"), (2) close the Deer Creek Mine now, sell the Mining Assets and enter into the CSAs now (the "Transaction Case"); and (3) close the Deer Creek Mine now and replace the supply with market purchases (the "Market Case").

Three present value revenue requirement differential scenarios were analyzed: (1) the Keep Case vs the Transaction Case, (2) the Keep Case vs the Market Case, and (3) the Market Case vs the Transaction Case. This analysis compares the net present value of the revenue requirement for the three scenarios through 2029 (the term of the Huntington CSA), through 2036 (the current depreciable life for the Huntington power plant), and through 2042 (the current depreciable life for the Hunter power plant).

Q. Please describe the components of the Keep, Transaction and Market Cases.

A. The Company meets the coal requirements of its power plants through a portfolio of supplies. The Deer Creek Mine supply, while primarily supplying the Huntington power plant, is also taken to the Company's Hunter power plant and the Preparation Plant. Additionally, the Company takes supply from its third-party contracts to all of its Utah plants and therefore no specific contract is currently dedicated to a specific plant. This is necessary to achieve an optimal coal blend at each plant. As such, the Cases have been prepared on a total Utah coal fueling basis. Within the three Cases, the Company has open coal supply positions that are assumed to be filled based on market-based pricing information. The timing and volumes of these open positions differ between the Cases due to the Transaction Case's inclusion of the Huntington CSA for the Huntington power plant and the differing Deer Creek Mine closure dates in the Keep and Market Cases. All three Cases involve a closure of the Deer Creek Mine and a triggering of a withdrawal liability from the 1974 Pension Trust, just at different times: two in 2015 and the other in 2019.

Q. Please describe the major assumptions used to prepare the various scenarios.

A. All three Cases assume a triggering of the UMWA pension withdrawal obligation and annual annuity payments for the unfunded liability from the time of withdrawal. Each case also assumes the annuity payments are in revenue requirement calculations through the analysis period with a calculation of the present value of installment payments in perpetuity in the final year of the analysis. The withdrawal liability annual payments are based on the alternative Seriously Endangered Funding Improvement Plan contribution schedule. More information for the calculation of this liability is included in Mr.

Schwartz's testimony. The Keep Case assumes health care costs for the UMWA workers at the current health plan costs plus eight percent (8%) cost escalation levels.

The Transaction and Market Cases assume the Company receives full recovery for the unrecovered investment in the Deer Creek Mine assets (property, plant and equipment). For the Keep Case, there is no unrecovered investment for Deer Creek assets (property, plant and equipment) as they are fully depreciated at the time of mine closure.

The Transaction Case reflects the transfer of the Retiree Medical Obligation to the UMWA demonstrating a benefit to customers as compared to the Keep and Market Cases [redacted]. The Transaction Case also reflects a regulatory asset for the relatively minor estimated settlement loss.

All three Cases assume that the Company fully recovers all mine closure costs and assume that replacement coal for any open coal position for the Huntington and Hunter power plants is purchased from the market based on market pricing forecasts from Energy Ventures Analysis ("EVA").

A listing of major assumptions for each case is shown in Confidential Exhibit RMP___(CAC-7). Assumptions used in the development of the market price forecasts are also shown in Confidential Exhibit RMP___(CAC-7).

Q. Are there any other important considerations when evaluating the results of the Keep Case?

A. Yes. The Company's analysis has not incorporated all of the significant cost exposures and uncertainties related to continued ownership and operation of the Deer Creek Mine and Mining Assets. These potential exposures include items such as additional reclamation costs, increased Mine, Safety and Health Administration ("MSHA") regulations or geologic impacts which could be determined through the mine's continued development of panels and exploration drilling, such as rock spars, faults etc. Although the EVA market price forecasts are based on a 1 percent sulfur content level, the Company has not incorporated additional plant scrubbing costs in its analysis in conjunction with the EVA market pricing used for supply post the Deer Creek 2019 closure in the Keep Case. Finally, as described in greater detail in the testimony of Mr. Schwartz, the withdrawal liability associated with the 1974 Pension Trust could be far greater than the amount assumed in the studies, particularly if there are any coal operator bankruptcies affecting participating employers. As such, the Keep Case is conservative for comparison purposes.

Q. Does the analysis clearly demonstrate that customers are better off under the Transaction Case?

A. Yes. The Transaction Case clearly shows a substantial level of revenue requirement reductions for customers if the Deer Creek Mine is closed early, the 1974 Pension Trust withdrawal is concurrently triggered, Mining Assets are sold to Bowie and the Company enters into the CSAs relative to the Keep Case. In addition, the sale of the Mining Assets and mine's early closure provide greater certainty of benefits to customers, since keeping the resources exposes customers to significant risks of additional cost increases in the future. Based on the Company's analysis, it is clear that the Transaction is in the public interest, beneficial to customers, and a prudent course of action for the Company to pursue.

Q. Please summarize the results of the Company's three scenarios.

A. Provided in Confidential Exhibit RMP___(CAC-7), is a summary of the results of the Company's: (1) Keep Case vs Transaction Case, (2) Market Case vs Transaction Case and (3) Keep Case vs Market Case. The Company's analysis for all three analysis periods, 2029, 2036 and 2042, shows that customers are better off in the Transaction Case with between $[redacted] and $[redacted] in net present value revenue requirement reductions compared to the Keep or Market Cases. The Company's Keep Case vs Market Case only produces between $[redacted] and $[redacted] in revenue requirement reduction benefit, therefore demonstrating even further that the Transaction Case is in the best interest of customers. These results are before any incremental net benefits due to Fossil Rock royalties.

Q. Please summarize your testimony.

A. An early closure of the Deer Creek Mine, the resulting 1974 Pension Trust withdrawal, the transfer of the Retiree Medical Obligation to the UMWA, the sale of the Mining Assets and the execution of the CSAs with Bowie provide significant benefits to customers while eliminating both operating and financial risks relative to the continued operations of the Deer Creek Mine until its depletion in 2019. For the reasons stated in my testimony, I request the Commission approve the Application.

Q. Does this conclude your direct testimony?

A. Yes, it does.