Q. Are you the same Seth Schwartz who previously provided direct testimony in this case on behalf of PacifiCorp dba Rocky Mountain Power (PacifiCorp or the "Company")?

A. Yes.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony discusses the reasons why it is prudent for the Company to enter into a long-term coal supply agreement ("CSA") for the Huntington generating plant in conjunction with its decision to close the Deer Creek mine. I also discuss the risks of relying on short-term market purchases.

Q. Please summarize your rebuttal testimony.

A. My testimony responds to the testimonies of the Division of Public Utilities ("DPU"), the Office of Consumer Services ("OCS"), and the Sierra Club. The parties assert that the Company is taking a risk by entering into a long-term commitment with a minimum "take-or-pay" provision to purchase coal because there is a risk that operation of the plant may become uneconomic during the term of the CSA, and the Company may have to pay damages for not taking the minimum quantity of coal.[1] These parties question whether the Company adequately protected against this risk. I also respond to Sierra Club's assertion that there may be more risk under the CSA than if the Company chose to rely on the market for its coal supply.[2]

[1] Staff, Roll/ 196-244; OCS-2D, Vastag/140-173; Sierra Club, Fisher/181-369.
[2] Sierra Club, Fisher/107-110.

COAL SUPPLY OPTIONS FOR HUNTINGTON AND HUNTER

Q. Please describe the potential coal supply options for the Huntington and Hunter generating plants.

A. The Huntington and Hunter plants are located south of Price, Utah. Coal can only be delivered to the plants by truck. Prior to the closure of the Deer Creek mine, Huntington plant could also receive coal deliveries by conveyor belt. Because trucking can be expensive over longer distances, the coal supply for the Huntington and Hunter plants has always come from the local Utah coal mines operating in the Central Utah coal fields (Wasatch, Book Cliffs, and Emery coal fields), which have been mined for over 100 years. While coal could be imported from other coal areas by rail and then trucked to the plants, the transportation costs would make supply from outside of Central Utah much more expensive.

Q. Who are the producers in the Central Utah coal fields?

A. There are only four producers operating seven coal mines in Central Utah and one mine operating in Southern Utah. Historical Utah coal production from 2006 through 2014 by mine is shown in Table 1 below. The Utah coal producers are:

- Bowie Resource Partners LLC ("Bowie") (Canyon Fuel): Bowie is the largest producer, with three mines (Sufco, Skyline and Dugout Canyon) that produced 11.4 million tons in 2014;

- Murray Energy: Murray operates two mines (West Ridge and Lila Canyon) that produced 2.8 million tons in 2014. West Ridge is expected to deplete its reserves by 2016, while Lila Canyon is under development;

- PacifiCorp: The Company operated the Deer Creek mine in 2014, producing 2.1 million tons;

- Rhino Energy: Rhino operates one mine, Castle Valley, producing 1.1 million tons in 2014; and, In addition, Alton Coal operates a surface mine in Southern Utah, over 200 miles south of the power plants, producing 0.6 million tons in 2014.

Q. How much coal has historically been produced in Utah?

A. Historical Utah coal production from 2006 through 2014 by mine is shown in Table 1 below.

Table 1

Utah Coal Production by Mine (1000 tons)

Company	Mine	Type	2006	2007	2008	2009	2010	2011	2012	2013	2014
Alton Coal	Coal Hollow	S	-	-	-	-	-	403	570	741	563
America West	Horizon	U	256	233	229	194	272	370	210	-	-
Bowie/Canyon Fuel	Dugout Canyon	U	4,387	3,826	4,145	3,291	2,461	2,395	1,516	561	676
Bowie/Canyon Fuel	Skyline	U	1,647	2,533	3,120	2,718	2,805	2,948	1,894	2,729	4,170
Bowie/Canyon Fuel	Sufco	U	7,908	6,712	6,946	6,748	6,398	6,498	5,650	5,960	6,539
Consol Energy	Emery Mine	U	1,054	1,026	1,050	1,238	999	-	-	4	-
Hiawatha Coal	Bear Canyon #3	U	27	-	-	-	-	-	-	-	-
Murray Energy	Crandall Canyon	U	605	402	-	-	-	-	-	-	-
Murray Energy	So Crandall Canyon	U	759	-	-	-	-	-	-	-	-
Murray Energy	Lila Canyon	U	-	-	-	-	72	156	304	257	335
Murray Energy	Aberdeen	U	2,089	1,045	242	-	-	-	-	-	-
Murray Energy	Pinnacle	U	8	-	-	-	-	-	-	-	-
Murray Energy	West Ridge	U	3,022	4,255	3,809	3,063	3,326	3,566	2,409	2,629	2,514
Pacificorp	Deer Creek	U	3,748	3,685	3,878	3,833	2,954	3,143	3,295	2,810	2,089
Rhino Energy	Castle Valley #4	U	509	588	946	633	-	572	997	876	1,056
			26,018	**24,307**	**24,365**	**21,718**	**19,288**	**20,051**	**16,847**	**16,568**	**17,942**

Source: Mine Safety and Health Administration Form 7000-2 data, 2006-2014

Q. How much coal will the Company require to operate the Huntington and Hunter plants?

A. The Huntington and Hunter plants are expected to consume about 7.3 million tons per year, with a range 7.0 to 7.5 million tons.

Q. How will the closure of the Deer Creek mine affect the Company' coal supply options?

A. With the Deer Creek mine closed, there will only be three logical coal suppliers for the Huntington and Hunter plants: Bowie, Murray Energy, and Rhino Energy.

These mines produced 15.3 million tons in 2014 and are likely to continue producing at about that level. The Company will need to purchase almost one-half of the total production from these mines.

Q. Does the Company already purchase coal from these Utah mines?

A. Yes. The Company had contracts to purchase coal from each of these companies, even before signing the Huntington CSA.

THE NEED FOR A LONG-TERM CSA

Q. Sierra Club claims that the Company could rely upon short-term market purchases to replace the Deer Creek mine. Do you agree?

A. No. In my opinion, the Company would not be able to replace the coal supply from the Deer Creek mine exclusively with market purchases under short-term contracts at prices comparable to the CSA. The Utah coal market is a relatively illiquid market. There are few options to supply coal and few customers. The amount of coal available to purchase in the short-term or spot markets is small compared to the demand at the Huntington plant. The coal producers cannot continue to invest in extending the operations at the existing mines without coal sales contracts. If the Company attempted to meet its needs solely through market purchases it could have difficulty obtaining enough coal and would be forced to pay prices exceeding the negotiated prices in the CSA. Signing a new long-term contract to supply the Huntington plant is the only way to ensure that the coal supply will be committed and available to meet the plant’s needs.

Q. What would happen to the market price for Utah coal if the Company shut the Deer Creek mine without first entering into a new long-term contract?

A. In my view, the market price would increase significantly. The few remaining producers would see an immediate jump in demand for their limited production and would increase their prices because demand would exceed supply.

Q. Does the Huntington CSA avoid a price increase for replacing the Deer Creek coal supply?

A. Yes. By negotiating a new long-term CSA with fixed prices before closing the Deer Creek mine, the Company was able to contract for coal at current market prices and lock in these prices with modest escalation through 2029.

Q. The parties are concerned that the Company will be committed to purchase coal under the Huntington CSA that it does not need and will face "take-or-pay" damages. What terms in the CSA protect the Company from this situation?

A. First, the CSA contains a large tonnage option for the Company to vary the amount of coal that it must purchase in any calendar year. The contract is for the annual requirements for the Huntington plant, and it has a minimum annual purchase obligation ("take-or-pay") and a maximum annual supply obligation. Second, the contract also contains a broad termination provision in the event that changes in environmental regulations affect the ability of the plant to burn the minimum annual contract quantity, as discussed in the direct and rebuttal testimonies of Ms. Cindy A. Crane.

Q. Is it likely that the Company will not purchase at least the minimum "take-or-pay" contract quantity for the Huntington plant?

A. No. The "take-or-pay" minimum annual purchase obligation (2.0 million tons) is more than 20 percent below the lowest annual burn at the Huntington plant for at least the last 20 years. Thus, it is highly unlikely that the Huntington plant will burn less than the minimum annual contract quantity.

Q. In the unlikely event that the Huntington plant does not need the minimum contract quantity in any year, does that mean the Company will have to make "take-or-pay" damage payments?

A. No. In the highly unlikely event that the Huntington plant does not burn the minimum contract quantity for economic reasons, the Company has other options for taking coal. The Company can purchase the minimum quantity at Huntington and stockpile the coal to be burned in a later year when burn is higher. Also, the Company can deliver the coal to the Hunter plant, where the burn is greater than at Huntington. The Hunter plant has a wide range in its purchase obligations in its existing coal supply contracts and could reduce these purchases and burn the excess coal from Huntington. Further, the Hunter plant has no contract commitments after 2020, so the Company could burn all of the coal under the CSA at the Hunter plant after that date, even if Huntington were idled, and avoid any "take-or-pay" penalties.

Q. Does this conclude your rebuttal testimony?

A. Yes.