Exhibit No.___(CAC-1CT)
Docket UE-130043
Witness: Cindy A. Crane

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PACIFICORP d/b/a Pacific Power & Light Company Respondent.	Docket UE-130043

PACIFICORP

REDACTED REBUTTAL TESTIMONY OF CINDY A. CRANE

August 2, 2013

Q. Please state your name, business address, and present position with PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or 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.

Q. Briefly describe your educational background and 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 PacifiCorp'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 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-fired generating plants.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. In my rebuttal testimony, I describe the updated cost changes for the Company's coal and transportation agreements included in this case. In addition, I respond to the testimony of Mr. Michael C. Deen on behalf of Boise White Paper, LLC (Boise) proposing an adjustment related to the cost of fuel supplied to the Jim Bridger coal-fired generating plant (Bridger plant) from the Bridger Coal Company (BCC).

Q. Please summarize your testimony regarding changes to Company coal and transportation costs included in the Company's updated net power cost (NPC) study.

A. Coal costs decreased by approximately $2.0 million on a west-control-area basis; reduced volumes account for approximately $2.2 million decrease and higher coal costs account for a $0.2 million increase.

My testimony updates the Colstrip generating plant costs to reflect Western Energy's 2014 Annual Operating Plan (AOP) and an update of coal and transportation contract costs to reflect actual and projected changes in contract indices.

Q. Please summarize your testimony responding to Boise's BCC adjustment.

A. My testimony demonstrates that the costs of fuel to the Bridger plant from BCC are reasonable and prudent. Boise claims that the coal supply should be re-priced under the lower of cost or market affiliated interest standard.[1] My testimony shows that this standard is inapplicable and explains the Commission's long-standing policy requiring cost-of-service-based pricing for coal from BCC. I discuss the reasonableness of the cost increases in BCC-supplied coal in 2014 and demonstrate the absence of lower-cost fuel supply options to the Bridger plant. I also point out several errors and omissions in Boise's proposed adjustment.

[1] Exhibit No.___(MCD-1CT) at pages 21-22.

COAL AND TRANSPORTATION COSTS UPDATE

Q. Please identify the primary changes in coal costs in the updated NPC study.

A. The changes in coal costs reflect:

- Updated Colstrip plant costs to reflect Western Energy's 2014 AOP decreased costs by approximately [redacted]; and
- Updated Black Butte contract costs to reflect actual pricing as of July 2013 and projected changes in contract indices that increase Bridger plant costs by approximately [redacted].

Q. Please explain the coal supply arrangements for the Colstrip plant.

A. The Colstrip mine is supplied by Western Energy's Rosebud mine. Calendar year 2014 costs are developed based on Western Energy's 2014 AOP for the Rosebud mine. I based the Colstrip coal costs in my direct testimony on the 2013 AOP. Western Energy provided the Colstrip plant owners with the 2014 AOP in June 2013. Updating 2014 coal costs to reflect the new AOP decreases costs by approximately [redacted].

Q. Please describe the [redacted] increase associated with the Black Butte contract.

A. The Black Butte contract is based on contract-specific consumer and producer price indices. A Black Butte Free-on-Board (F.O.B.) mine price of [redacted] per ton was assumed in the Company's direct testimony; the update reflects a Black Butte F.O.B. mine price of [redacted] per ton, an increase of [redacted]. Transportation costs from the Black Butte mine to the Bridger plant decreased from [redacted] per ton in the Company's direct testimony to [redacted] per ton in the update. Delivered to the Jim

Bridger plant, the price of Black Butte coal has increased from [redacted] per ton to [redacted] per ton, an increase of [redacted] per ton. Approximately [redacted] per ton of the increase relates to actual contract escalation and the remaining [redacted] per ton relates to projected changes in contract indices.

BOISE'S ADJUSTMENT FOR BCC SUPPLY

Q. Please describe BCC.

A. BCC is a joint venture that mines coal at the Bridger coal mine for delivery to the adjacent Bridger plant. PacifiCorp (through its wholly-owned subsidiary Pacific Minerals, Inc.) owns a two-thirds interest in BCC, and Idaho Power Company (through its wholly-owned subsidiary Idaho Energy Resources Co.) owns a one-third interest. PacifiCorp and Idaho Power Company have the same ownership percentages in the Bridger plant. BCC began supplying coal to the Bridger plant in 1974.

Q. Please describe Boise's BCC adjustment.

A. Boise proposes an adjustment reducing the Company's Washington-allocated NPC by $5.1 million. Boise calculates this adjustment by first adding the rate base return on PacifiCorp's investment (ROI) in the Bridger mine from the current general rate case to the production costs of coal supply from BCC included in the case. Then Boise compares the cost of BCC coal plus ROI to the cost of coal under the Company's contract with the Black Butte mine, adjusted for the heat content of the coal. Boise concludes that BCC coal is higher cost than Black Butte coal and, under the lower of cost or market price standard, proposes re-pricing BCC coal at the current contract price for Black Butte coal, calculated on a million British thermal unit (MMBtu) basis.

STANDARD FOR COST RECOVERY OF COAL SUPPLIED FROM BCC

Q. What is the Commission's standard for cost recovery for BCC-supplied fuel to Bridger?

A. My understanding is that the standard for cost recovery of Bridger fuel is the same as the standard for recovery of any other element of the Company's NPC, which is whether the cost is objectively reasonable. This is the same standard that Boise applies to the evaluation of the Black Butte contract. Because of the customer protections included in the Company's relationship with BCC, there is no reason to treat BCC coal any different.

Q. What is the basis for Boise's claim that the BCC coal should be re-priced at the lower of cost or market?

A. Boise points to a commitment (Washington Commitment 12) made by the Company as part of the MidAmerican Energy Holdings Company (MEHC) acquisition of PacifiCorp. Boise claims that this commitment requires the Company to price BCC coal at the lower of cost or market price.

Q. Has the Commission set a cost-based transfer price as a part of approving coal supply arrangements from BCC to the Bridger plant?

A. Yes. Consistent with the Commission's pricing methodologies extending back to at least the 1980s, the Commission has allowed PacifiCorp to purchase coal from BCC at the actual, prudent costs of production, plus a return component on the investment in the Bridger mine limited to PacifiCorp's current authorized rate of return (ROR).[2]

[2] *See, e.g., Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.*, Cause No. U-86-02, 78 P.U.R.4th 84 (Sept. 19, 1986).

Under this approach, if BCC earns a margin over PacifiCorp's authorized ROR, it must credit this margin back to PacifiCorp through a reduced transfer price.

Q. Has the Commission taken additional steps to ensure that customers' interests are protected in PacifiCorp's coal supply agreements with affiliate mining companies?

A. Yes. The Commission consolidated BCC with PacifiCorp's regulated operations for regulatory purposes. Because BCC's results are merged with and made a part of PacifiCorp's for ratemaking, there is no possibility of cross-subsidization.

Q. Has the Commission ever relied upon Washington Commitment 12 to set the transfer price for Bridger coal supply from BCC?

A. Not to my knowledge. For several decades, the Commission has applied a cost-based approach instead of Washington Commitment 12 in approving the transfer price.

Q. What is the purpose of the lower of cost or market standard set forth in Washington Commitment 12?

A. The purpose is to prevent abuse of affiliate transactions and thereby protect customers from inappropriately cross-subsidizing affiliates.[3] In the case of BCC coal, however, there is no risk of cross-subsidization because of the unique regulatory treatment that consolidates BCC with PacifiCorp for ratemaking purposes. In this way, BCC is not treated as an affiliate at all; it is treated as if PacifiCorp itself were mining the coal. Therefore, the evaluation of the coal prices from BCC should be consistent with the

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[3] *Re Joint Application of MidAmerican Energy Holdings Company and PacifiCorp*, Docket UE-051090, Transcript Vol. III., pages 167-169 (Feb. 9, 2006).

evaluation of all other PacifiCorp costs (coal or otherwise) and be included in rates if the costs are reasonable and prudent.

REASONABLENESS OF BCC FUEL SUPPLY COSTS

Q. How does the Company plan to supply coal for its Bridger plant in 2014?

A. For 2014, BCC will provide almost two-thirds of the Bridger plant's coal requirements at [redacted] per ton. The remaining one-third of the coal will be supplied from the Black Butte contract at [redacted] per ton, reflecting the recent cost increases to that contract.

Q. In Mr. Gregory N. Duvall's direct testimony, he explains the main drivers of the BCC cost increase in this case.[4] Has any party challenged the reasonableness of these increases?

A. No. Mr. Duvall testified that these increases resulted from BCC updating its final reclamation plan to ensure that sufficient funds exist in the trust to support the required reclamation activities.

Q. Is the Company's approach to supplying fuel to the Bridger plant reasonable?

A. Yes. For decades, BCC has provided a low-cost, reliable source of fuel for the Bridger plant. PacifiCorp has also relied on a third-party contract with the Black Butte mine to ensure a diversified fuel supply for the Bridger plant. In some years, BCC's production costs are lower than the third-party supply from Black Butte, and in other years, BCC's production costs are higher. On balance and over the long term, PacifiCorp's diversified approach has produced a reasonably priced, stable coal supply to the Bridger plant.

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[4] Exhibit No.___(GND-1CT) at pages 13-14.

Q. Are there lower-priced fuel supply options than BCC available to the Bridger plant in 2014?

A. No. BCC will supply approximately [redacted] million tons of coal to the Bridger plant in 2014. In addition to BCC, there are three other mines in Southwest Wyoming: Black Butte, Kemmerer, and Haystack. As outlined below, there is not enough production capacity in 2014 among the three mines to replace BCC. In addition, the estimated cost of alternative supplies demonstrates the reasonableness of BCC's costs.

Q. Please explain the availability of additional coal supply from the Black Butte mine in 2014.

A. PacifiCorp understands that the Black Butte mine may have approximately [redacted] million tons of excess production capacity in 2014, less than [redacted] percent of the Bridger's plant 2014 production target.

Q. Please explain the availability and costs of additional coal supply from the Kemmerer mine in 2014.

A. The Kemmerer mine currently supplies PacifiCorp's Naughton plant. PacifiCorp understands that the Kemmerer mine has approximately [redacted] million tons of excess coal available in 2014, at a price of [redacted] per ton F.O.B. truck at the Kemmerer mine. As reflected in Confidential Exhibit No.___(CAC-2C), including delivery costs to the Bridger plant, the price of this coal would be [redacted] per MMBtu, exceeding BCC's cost of [redacted] per MMBtu (or the cost of [redacted] per MMBtu reflecting the ROI on the Bridger mine).

Q. Please explain the availability and costs of additional coal supply from the Haystack mine in 2014.

A. Kiewit Mining started construction of the Haystack mine in early 2012. The mine was expected to open in late 2013 and produce up to 1.5 million tons of coal annually. Due to a lack of demand, however, Kiewit Mining closed the mine in April 2013. The mine is set to restart operations in early 2014.

Based upon the Haystack contract price of [redacted] per ton, F.O.B. truck at the Haystack mine, the delivered price to the Bridger plant of Haystack coal would be [redacted] per MMBtu, exceeding BCC's cost of [redacted] per MMBtu (or the cost of [redacted] per MMBtu reflecting the ROI on the Bridger mine).

Q. Is the Company reviewing how to ensure the long-term continuation of reliable supplies of low-cost, optimum quality fuel to the Bridger plant?

A. Yes. Looking ahead, the Company is reviewing how to respond to the expiration of the Black Butte contract in 2015, working to optimize production of both the surface and underground operations at BCC, and reviewing how the expected gas conversion of Naughton Unit 3 in December 2014 will impact the Kemmerer coal supply agreement. As the Company works through each of these issues, its primary goal will be to ensure the continuation of low-cost, reliable fuel supply to the Bridger plant.

ADDITIONAL GROUNDS FOR REJECTING BOISE'S ADJUSTMENT

Q. Are there other threshold issues associated with Boise's proposed application of the lower of cost or market standard in this case?

A. Yes. The first step of Boise's adjustment is to add the Company's ROI on the Bridger mine from this case to the BCC production costs included in NPC. As demonstrated in Confidential Exhibit No.___(CAC-2C), Boise's calculation is based upon an ROI that is overstated because it omits the impact of deferred taxes. Including the deferred taxes reduces Boise's adjustment by approximately [redacted] million to [redacted] million on a Washington-allocated basis and from [redacted] per MMBtu to [redacted] per MMBtu.

Q. Washington Commitment 12 applies the lower of cost or market standard "if a readily identifiable market for the goods . . . exists." In the case of coal to supply the Bridger plant, is there a market that would allow the Company to replace BCC coal with alternative coal?

A. No. Boise applies the Black Butte contract as source of the "market rate" even though the contract is several years old and the Black Butte mine has insufficient excess capacity to actually supply the Bridger plant in 2014. Therefore, even if the Commission were to apply a lower of cost or market standard for determining the price of BCC coal, Boise has not demonstrated that alternative coal would be available at the Black Butte contract price. Boise inappropriately applies the standard by suggesting an alternate supplier without available supplies.

Q. Does this conclude your rebuttal testimony?

A. Yes.