Docket No. 20000-384-ER-10
Witness: Cindy A. Crane

BEFORE THE WYOMING PUBLIC SERVICE COMMISSION

ROCKY MOUNTAIN POWER

REDACTED

Rebuttal Testimony of Cindy A. Crane

May 2011

Q. Are you the same Cindy A. Crane who submitted direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to:

- Rebut the testimony of Wyoming Office of Consumer Advocate (OCA) witness Ms. Denise K. Parrish regarding OCA's proposed disallowance of the Company's fuel stock;
- Rebut the testimony of Wyoming Industrial Energy Consumers (WIEC) witness Mr. Randall J. Falkenberg regarding fuel quality problems at the Bridger plant; and,
- Conceptually accept WIEC witness Mr. Mark T. Widmer's adjustment regarding removal of Bridger Coal Company fines and citations, but provide the correct calculation of the amount as a result of joint ownership that Mr. Widmer failed to include in his analysis.

Fuel Stock Adjustment

Q. Please summarize the adjustment OCA witness Ms. Parrish recommends to fuel stock.

A. Ms. Parrish proposes to limit coal inventory levels by computing the 2010 average tonnage balance based on the average of the beginning and end-of-year balances. Ms. Parrish then applies the 2010 weighted average price per ton of coal in inventory to the beginning-ending average tonnage balance on a plant-by-plant basis. Ms. Parrish derived a $27 million dollar adjustment by comparing the sum

of the individual plant balances, $179 million, to the Company's filing of $206 million.

Q. Do you agree with OCA's adjustment?

A. No, the Company disagrees with the OCA's adjustment as well as Ms. Parrish's characterization of the Company's inventory policy. Ms. Parrish, on page 36 of her testimony, states as follows:

> "I do not take issue with the Company's motivation regarding the coal inventory levels. However, the actions taken to assure fuel supply during this relatively short term period of uncertainty do not necessarily match the way that rates should be established for future periods. So, the OCA adjustment seeks to calculate a coal inventory balance for rates that is more reflective of normal times and operations."

The Company maintains that the fuel stock levels incorporated in the test period are reflective of normal times and operations.

Q. Have you compared the Company's fuel stock levels with OCA's analysis?

A. Yes. Confidential Exhibit RMP___(CAC-1R) compares the Company's test period fuel stock balances to OCA's. As reflected in the exhibit, the Company's test period results represent the average of end-of-month December 2010 and December 2011 fuel stock balances, tons and dollars, for each Company coal storage site. In OCA's analysis, Ms. Parrish averaged end-of-month tonnage levels for December 2009 and December 2010 and then applied an average unit cost based on historical coal prices to derive fuel stock dollars.

Q. How did the OCA derive an average unit cost?

A. Ms. Parrish utilized the weighted average cost of coal in inventory for calendar year 2010. The OCA's utilization of 2010 average coal prices, however, is

inconsistent with Ms. Parrish's review of coal costs with respect to the net power costs presented by Company witness Mr. Gregory N. Duvall. On page 44 of Ms. Parrish's testimony, she states:

> "Based on the national trend data I had seen relative to coal costs, a review of the coal contracts described in Ms. Crane's testimony, and the specific explanations regarding the coal increases provided by Rocky Mountain Power, I was satisfied that the increases in coal prices did not warrant any cost disallowances. I offer no adjustment to the net power costs relative to the increasing coal prices."

In this case Ms. Parrish has accepted use of 2011 coal prices for net power costs, but argues against using 2011 coal prices for valuing the coal stock.

Q. How do test period tonnage levels compare with OCA's analysis?

As reflected on Confidential Exhibit RMP___(CAC-1R), line 14, the overall difference between the Company's test period results and OCA's analysis is relatively minimal, 116,325 tons, less than a 2 percent difference. There are, however, significant differences like the Bridger plant. As reflected in Confidential Exhibit RMP___(CAC-1R), line 1, the Company's test period includes an average stockpile level of 748,957 tons; OCA adapted an average stockpile level of 671,703 tons, a difference of 77,255 tons.

Q. What is the inventory target for the Bridger plant?

A. The Company established an inventory range of 720,000 tons to 870,000 tons for its share of the Bridger plant, which equates to a 45 - 55 day inventory target.

Q. Has the inventory target for the Bridger plant changed with underground mining at Bridger Coal Company?

A. Yes. Bridger plant's stockpile is segregated into two storage areas: a ready (live)

pile and a long-term (dead) pile. The ready pile fluctuates monthly due to differences between coal deliveries and coal consumption; the long-term (dead) storage area normally remains relatively static. In recognizing the increased supply risk associated with underground mining, the Company requested and received a permit from the Wyoming Department of Air Quality in 2009, allowing the increase of the Bridger plant long-term (dead) storage from 500,000 tons to 1 million tons. When combined with the ready pile, Bridger plant's inventory capacity has expanded to 1.3 million tons.

Q. How much coal is now stored at the Bridger plant?

A. As of March 2011, PacifiCorp's share of the Bridget plant stockpile was 767,667 tons, 18,710 tons or less than 2.5 percent above the Company's average test period projection of 748,957.

Q. Does OCA's analysis reflect the increase in the Bridger plant long-term pile?

A. No. The increase in the long-term pile occurred over multiple years. Since the OCA utilized historical tonnage levels, December 2009 and 2010, OCA's analysis does not capture the full increase associated with the permit and thereby understates the Company's costs.

Q. Does the Company anticipate reducing plant inventories from current levels?

A. No. While plant inventory levels will fluctuate from month to month, the Company does not anticipate any reduction from current target ranges. As Ms. Parrish acknowledged in her testimony, there have been a number of coal mine related issues such as potential coal strikes and contract negotiations that have caused uncertainty. The Company does not expect these uncertainties to diminish

over the next few years. In addition to the ever depleting coal reserve base in Utah and Colorado, the Company faces uncertain labor negotiations with the Deer Creek mine's represented workforce, which is a significant source of the Company's fuel supply for the Utah plants.

Q. Do you agree with the average cost per ton used by OCA in determining stockpile balances for each inventory site?

A. No. As reflected in Confidential Exhibit RMP___(CAC-1R), column R, of the overall $27 million difference in coal inventory dollars, almost $24 million of the difference is due to OCA's use of historical 2010 coal costs. As I discussed in my direct testimony, the price related increase in test period coal costs is largely due to the timing of long-term coal contract reopeners, new multi-year contracts and increases under fixed price contracts. OCA's reliance on 2010 inventory costs ignores the fact that, despite the Company's best efforts to mitigate price increases, 2011 coal costs are increasing due to the factors cited above, and the OCA's recommendation severely understates the Company's inventory costs during the test period.

Q. How are test period inventory costs determined by the Company?

A. Inventory levels are tracked monthly and are determined by adding each month's forecasted coal deliveries to the prior month's inventory balance and subtracting that month's forecasted consumption at the weighted average coal price in the pile.[1] The Company's approach incorporates new contract pricing and captive

[1] The Company provided the data utilized to calculate test period fuel stock balances in response to WIEC 23.7

mine costs on a monthly basis during the 2011 test period. OCA's analysis fails to incorporate 2011 pricing altogether.

Q. Please provide an example of how OCA's methodology significantly understates inventory costs.

The largest price variance, approximately $11.2 million, as reflected in Confidential Exhibit RMP___(CAC-1R) (column R, line 7), is associated with the Hunter plant. OCA applied a 2010 inventory cost of $28.59 per ton to its Hunter plant tonnage balance compared to PacifiCorp's inventory cost of $34.36 per ton. In contrast to OCA's calculation, the Company's average inventory cost for 2011 for the Hunter plant reflects both the impact of the approximate [redacted] per ton increase in the Sufco price as of January 1, 2011, and the cost of the new West Ridge coal supply agreement with UtahAmerican Energy also effective January 1, 2011. Similarly, OCA's analysis disregards the increase in Huntington plant and prep plant costs associated with the increased Sufco price, the full impact of the July 1, contract reopener at Naughton, the increase in Bridger plant costs due to higher Black Butte costs, and the increase in Dave Johnston plant costs due to fixed price increases under multiple coal supply agreements. The result of the OCA's analysis is a significant understatement of inventory costs by approximately $24 million, as shown in Confidential Exhibit RMP___(CAC-1R), column R.

Q. Did the OCA propose any adjustment to test period coal costs for any of these contracts?

A. No, in fact Ms. Parrish agreed that PacifiCorp is taking whatever actions it can to

keep the coal prices at the most reasonable level possible.

Q. Please summarize the Company's position regarding OCA's proposed fuel stock disallowance.

A. The Company believes the Commission should reject OCA's disallowance because the OCA incorrectly computed inventory costs by using 2010 average inventory costs which are outdated and do not reflect the appropriate known and measurable adjustments to costs. The OCA did not use the projected test period costs which more accurately reflect the coal costs that the Company will pay during the period the rates from this case will be in effect.

Bridger Outage Rate

Q. Please explain WIEC's proposal related to Bridger plant outage rates.

A. WIEC's proposal to adjust Bridger plant outage rate includes several aspects. As Mr. Falkenberg states on page 7 of his testimony:

> "Adjustment 36. This adjustment addresses contractor's failure to complete outage work on time, the low quality of coal and excessive outages due to employee errors at the Bridger plant."

The Company disagrees with WIEC's adjustment. Mr. Falkenberg's issues of contractor's failure to complete outage work on time and excessive outages due to employee errors at the Bridger plant have been addressed in the testimony of Mr. Duvall.

Q. How much of WIEC's Adjustment 36, Bridger Outage Rate, relates to low quality coal?

A. Mr. Falkenberg's Adjustment 36 Bridger Outage Rate of $465,664 (total Company basis) includes $342,173 for low coal quality, $55,125 on a Wyoming allocated basis.

Q. Please explain WIEC's proposal related to low quality of coal.

A. WIEC argues that the quality of fuel at the Bridger plant has resulted in an unnecessarily high number of de-ratings at the plant. WIEC argues that additional net power costs resulting from fuel quality problems at the Bridger plant should be disallowed.

Q. Do the Bridger Coal Company and the Bridger power plant have established coal quality targets?

A. Yes. Both Bridger Coal Company and the Bridger plant have established coal quality targets for heat value, ash, sulfur, sodium, etc. Through vigorous blending, both the Bridger mine and the Bridger plant minimize quality variations that undermine optimal plant performance. Although Bridger Coal does attempt to deliver a consistent product, at times it is limited by the size and quality of the mine stockpiles and physical logistics. Bridger mine's surface operation historically delivered a consistent coal blend through mining of coal in multiple exposed seams. The development of the underground mine and the scaling back of the surface operation has resulted in increased blending requirements, greater unpredictability in coal deliveries and the potential for extended periods of high ash coal production.

Q. Has Bridger Coal quality changed with underground mining?

A. Yes, the majority of the plant's fuel quality de-ratings have been attributed to high ash content associated with the Bridger underground operation. Bridger Coal Company and the Bridger plant have established 13 percent as a maximum for ash content necessary for optimal plant performance. Prior to underground mining,

the mine consistently delivered the Bridger plant coal with a maximum of 13 percent ash. With the advent of underground mining, however, the calculated ash content has at times exceeded the 13 percent ash target.

Q. Does the Company routinely blend for ash content at its other locations where coal is produced from underground mining?

A. Yes. All of the coal produced in Utah is currently from underground mining. All of these mines, at times, produce coal that does not meet contract specifications. Coal stockpiling and blending facilities at the Hunter and Huntington plants enable the Company to mix these coals as necessary to provide the power plants with a consistent coal quality. These facilities allow the Company to efficiently and economically segregate, stockpile, and reclaim underground coal based on a particular coal quality. There is not a similar coal blending facility at the Bridger plant.

Q. Would coal costs be impacted by decreasing production from the Bridger underground operation and increasing production from the surface operation to reduce ash content?

A. Yes. Increasing surface production at the expense of the underground production would likely result in lower ash coal content, but higher fuel costs since the incremental cost of the surface operation is greater than the decremental cost of the underground operation.

Q. Does WIEC adjust average Bridger plant coal costs for the increased costs of the surface operation?

A. No, WIEC incorrectly assumes that average costs at the Bridger plant would

remain the same regardless of the Bridger underground production. WIEC inappropriately imputes an adjustment to net power cost, but ignores the reduced coal costs that result from the favorable economics associated with underground mining. Or to frame it differently, they fail to include a corresponding increase to their adjustment for increased costs of surface mine operations.

Q. Please identify the efforts the Company has made to reduce coal quality restrictions?

A. The Company has spent considerable time identifying quality parameters that result in optimized plant performance for its thermal fleet. Bridger mine and Bridger plant personnel routinely discuss coal deliveries and quality and Bridger mine deliveries are often adjusted daily. The increase in Bridger plant's long-term storage capacity and the Bridger mine's ongoing evaluation of increasing surface storage capacity are indicative of the Company's focus on pursuing economic options that maximize performance.

Q. Please summarize the Company's position regarding WIEC's adjustment to reduce net power costs by $342,173 on a system basis or $55,125 on a Wyoming allocated basis due to fuel quality restrictions at the Bridger plant.

A. The Company requests that the Commission reject WIEC's adjustment. WIEC inappropriately imputes an adjustment to net power cost and ignores the increase in coal costs that would result from increasing surface coal production and reducing underground coal production.

Bridger Coal Company Fines and Citations

Q. Please explain WIEC's proposal adjustment to Bridger Plant fuel expense.

A. WIEC proposes that expenses relating to Bridger Coal Company fines and citations be removed from fuel expense.

Q. Does the Company agree with WIEC's position?

A. Yes. The Company agrees that Bridger Coal Company fines and citations should be removed from test period expenses.

Q. Does the Company agree with WIEC's adjustment of approximately $0.46 million on a total Company basis?

A. No. The fines and citation amount used by WIEC in their adjustment represent all of Bridger Coal Company and not the Company's two-thirds interest. When the two-thirds ratio is applied to the adjustment, it results in a reduction of WIEC's adjustment from $0.46 million to $0.31 million total Company basis or from $74,091 to $49,394 on a Wyoming allocated basis.

Q. Does this conclude your rebuttal testimony?

A. Yes.