

Highly Confidential per Protective Order in Docket UE-191024
Exh. DMR-1HCT
Dockets UE-191024 *et. al.*
Witness: Dana M. Ralston

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP dba
PACIFIC POWER & LIGHT COMPANY

Respondent.

Dockets UE-191024, UE-190750,
UE-190929, UE-190981, UE-180778
(*Consolidated*)

PACIFICORP

REDACTED SUPPLEMENTAL TESTIMONY OF DANA M. RALSTON

April 2020

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **dba Pacific Power & Light Company (PacifiCorp or the Company).**

4 A. My name is Dana M. Ralston. My business address is 1407 West North Temple,
5 Suite 210, Salt Lake City, Utah 84116. My title is Senior Vice President of Thermal
6 Generation and Mining.

7 **Q. Briefly describe your education and professional experience.**

8 A. I have a Bachelor of Science Degree in Electrical Engineering from South Dakota
9 State University. I was previously Vice President of Coal Generation and Mining
10 from March 2015 to November 2017, and Vice President of Thermal Generation from
11 January 2010 to March 2015. For 29 years before that, I held a number of positions
12 of increasing responsibility within Berkshire Hathaway Energy’s generation
13 organizations, including plant manager at the Neal Energy Center generating
14 complex. In my current role, I am responsible for operating and maintaining
15 PacifiCorp’s coal- and gas-fired generation fleet, coal fuel supply, and mining.

16 **Q. Have you testified in previous regulatory proceedings?**

17 A. Yes. I have provided testimony on behalf of the Company in proceedings before the
18 Washington Utilities and Transportation Commission (Commission) and the public
19 utility commissions in Utah, Oregon, California, and Wyoming.

20 **II. PURPOSE AND SUMMARY**

21 **Q. What is the purpose of your testimony?**

22 A. The purpose of my supplemental testimony is to provide additional information on
23 the Colstrip coal supply agreement as requested by the Commission in Order 05 in

1 this docket. My testimony additionally provides information about a possible new
2 methodology for refining coal. Finally, my testimony also supports the updated fuel
3 costs consistent with the net power cost update that is being supported by Mr.
4 Michael G Wilding.

5 III. COLSTRIP COAL SUPPLY AGREEMENT

6 **Q. Please provide some background on PacifiCorp's ownership interest in the**
7 **Colstrip facility.**

8 A. PacifiCorp has a 10 percent ownership interest in Colstrip Units 3 and 4.
9 Approximately 74 megawatts (MW) of Colstrip Unit 4's capacity is currently
10 included in PacifiCorp's actual net power costs under the Washington Inter-
11 Jurisdictional Allocation Methodology (WIJAM), approximately 22 percent of
12 which—or approximately 17 MW—is allocated to serve Washington.

13 **Q. When did the Colstrip facility's previous coal supply agreement expire?**

14 A. The previous coal supply agreement for Colstrip Units 3 and 4 expired on
15 December 31, 2019. Under that cost-plus agreement, PacifiCorp and the other
16 Colstrip owners assumed a certain amount of oversight responsibility for management
17 decisions at the mine. Among these responsibilities were attendance at quarterly
18 meetings with the mine, approval for the mine operating plans, which included the
19 mine plans, operating budgets, capital budgets, personnel plans, and incentive fee
20 plans. Additionally, PacifiCorp along with the other Colstrip owners, participated in
21 the annual mine cost review audits. This agreement involved the consumption of
22 approximately 600,000 to 625,000 tons of coal per year by PacifiCorp.

1 **Q. Has a new coal supply agreement been executed?**

2 A. Yes. On December 5, 2019, PacifiCorp and four other co-owner utilities signed a
3 new coal supply agreement with Westmoreland Rosebud Mining, LLC
4 (Westmoreland). The new agreement, which took effect on January 1, 2020, involves
5 an [REDACTED] over
6 a [REDACTED] time period than the previous agreement.

7 **Q. Under this new agreement, will the coal still be sourced from the Rosebud Mine?**

8 A. Yes. Coal to be supplied under the agreement is from the Rosebud mine, which is
9 located adjacent to the plant. The Rosebud mine has numerous active mining pits in
10 different mining areas that have sufficient coal reserves to meet the fuel requirements
11 under the agreement.

12 **Q. How is coal delivered from the Rosebud Mine?**

13 A. Due to the close proximity of the Rosebud mine to the plant, all the coal produced
14 and delivered under the coal supply agreement is delivered via the mine's conveyor
15 belt connecting the mine to the plant.

16 **Q. Does this arrangement benefit customers?**

17 A. Yes. Because of this mine mouth arrangement, the transportation cost is minimal and
18 is included in the total delivered fuel price. The mine mouth arrangement allows the
19 Colstrip owners to avoid paying additional transportation cost (truck or rail) for the
20 delivery of coal from distant mine locations.

21 **Q. How does the new coal supply agreement ensure coal quality?**

22 A. The coal quality provisions of the agreement establish daily, weekly, and monthly
23 guarantees. Furthermore, the coal supply agreement has certain suspension rights for

1 “non-conforming coal” along with punitive financial penalties when specific coal
2 quality parameters are not met.

3 **Q. How is the pricing structured under the new coal supply agreement?**

4 A. Under the new agreement PacifiCorp committed to a [REDACTED] annual quantity
5 of [REDACTED] tons per year, at a base price of [REDACTED] per ton, with an option to increase the
6 quantity, up to [REDACTED] tons per year, at a significant discounted tier price of [REDACTED]
7 per ton on all tons in excess of [REDACTED] tons.

8 **Q. How does the new supply agreement minimize risk to customers?**

9 A. Under the new coal supply agreement, [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED] With an [REDACTED]
13 [REDACTED], the Company and its customers are now protected from the unknown
14 and unexpected financial risks of the mine, as well as from [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 **Q.** [REDACTED]

18 A. [REDACTED]
19 [REDACTED]
20 [REDACTED]. If PacifiCorp does not elect to extend
21 the coal supply agreement through the end of [REDACTED] (the sixth year), the Company will
22 be required to [REDACTED]. However, this amount is
23 [REDACTED] than what the other Colstrip owners would be required to pay if any of

1 those companies elects not to acquire their minimum tonnage in the [REDACTED] year of the
2 agreement. The Company negotiated [REDACTED]
3 [REDACTED].

4 **Q. Did the Colstrip owners consider any alternatives as this agreement was**
5 **negotiated?**

6 A. Yes. The Colstrip owners did receive and evaluate a proposal from [REDACTED]
7 [REDACTED], an alternative coal supplier, during the same time period that this agreement
8 was being negotiated.

9 **Q. Did these alternatives provide a better option for procuring fuel at the Colstrip**
10 **facility?**

11 A. No. The proposal received from [REDACTED] was considerably more
12 expensive when evaluated on a total delivered price basis to the Colstrip plant when
13 compared to the new agreement with Westmoreland. Not only was the delivered
14 price more expensive, but the coal supply was sourced from Wyoming's Southern
15 Powder River Basin coal mines. The Southern Powder River Basin mines are
16 approximately 400 hundred miles away from the Colstrip plant and would require a
17 multi-year rail agreement with the Burlington Northern Sante Fe (BNSF) railroad to
18 transport the coal to the plant. Furthermore, in order to receive outside coal
19 shipments, significant capital investment would have been required for a new rail
20 unloading facility and conveyor system. These facilities would have to be permitted
21 and constructed in order to receive and unload unit train coal shipments from the
22 Southern Powder River Basin. Finally, PacifiCorp did not feel confident that the
23 required unloading facility could be permitted and constructed in the aggressive time

1 line required.

2 **Q. Please explain why this new coal supply agreement presents the most prudent**
3 **option for fueling the Colstrip Units 3 & 4, and is in the best interests of**
4 **customers?**

5 A. The new agreement with Westmoreland provides the most reliable and least-cost fuel
6 supply for the plant. Coal from the Rosebud mine shall meet all the coal quality
7 specifications and parameters required for the plant. It is the only coal that the plant
8 has consumed since the plant was constructed, so it is a known supply. Coal is easily
9 transported from the mine to the plant via the mine's conveyor, which allows
10 PacifiCorp to avoid expensive and unnecessary shipping costs via rail or truck. The
11 new agreement provides for tonnage volume flexibility with a wide tonnage range
12 between minimum and maximum tonnage commitments, and a simplified pricing
13 structure.

14 The pricing structure utilizes [REDACTED] for key mine cost
15 components. With the [REDACTED] structure, PacifiCorp has effectively
16 protected customers [REDACTED]
17 [REDACTED]. This is a significant benefit when compared to the prior agreement that
18 expired in 2019, [REDACTED]
19 [REDACTED].

20 IV. REFINED COAL

21 **Q. Please provide some background on refined coal.**

22 A. Talen Energy, the plant operator, is currently exploring the potential to implement a
23 new methodology for refining the coal supply at Colstrip Units 3 and 4, in

1 negotiations with Tinnuum Group (Tinnuum).

2 **Q. Has PacifiCorp been provided with any terms or conditions about this deal?**

3 A. No. PacifiCorp has not been provided any draft or final agreements setting the terms
4 and conditions or structure of the transaction. My understanding is that any
5 transaction would not occur without the approval of all the co-owners.

6 **Q. If a new methodology for refining coal is implemented at Colstrip, will
7 PacifiCorp inform Staff?**

8 A. Yes. In the event a new methodology for refining coal is implemented at Colstrip,
9 PacifiCorp will work with Staff to ensure that any benefits are appropriately
10 communicated. Such benefits would most likely be reflected through lower coal
11 costs in the Company's net power costs.

12 V. FUEL COST UPDATE

13 **Q. What is the overall impact in this update?**

14 A. Coal fuel expense decreased by \$1.0 million on a Washington-allocated basis, from
15 \$51.8 million in the initial December filing to \$50.8 million in the current update.
16 Reduced volumes account for a \$2.2 million decrease and are partially offset by a
17 \$1.2 million coal price increase.

18 **Jim Bridger Coal Costs**

19 **Q. Please explain the coal supply arrangements for Jim Bridger Units 1-4 (Jim
20 Bridger).**

21 A. Similar to the initial filing, Jim Bridger is expected to be supplied by a combination
22 of coal supplies from Bridger Coal Company (BCC) and the Black Butte mine during
23 the rate effective period.

1 **Q. Can you please quantify the cost increase at Jim Bridger in the April update**
2 **compared to the initial filing?**

3 A. Yes. As shown in Confidential Figure 1, Jim Bridger costs increased [REDACTED] million on
4 a Washington-allocated basis.

Confidential Figure 1

Jim Bridger Plant Coal Deliveries - PacifiCorp Portion										
Supplier	2021 Test Period			2021 Test Period			Variance			WA Allocated Price
	Tons	Dollars	\$ / Ton	Tons	Dollars	\$ / Ton	Tons	Dollars	\$ / Ton	Variance
Bridger Coal Deliveries	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Black Butte Deliveries	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Jim Bridger Plant	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

5 **Q. Of the [REDACTED] million coal cost increase at Jim Bridger, how much is attributable to**
6 **BCC?**

7 A. BCC coal costs increased from [REDACTED] per ton to [REDACTED] per ton, or by [REDACTED] per ton,
8 which resulted in a Washington-allocated price variance of [REDACTED] million.

9 **Q. Please identify the primary drivers impacting April update costs at BCC.**

10 A. The April update cost increases are primarily due to decreased coal deliveries,
11 [REDACTED] million, and other miscellaneous items, [REDACTED] million.

12 **Q. Did the Black Butte coal price decrease in the April update compared to the**
13 **2021 Rate Case initial filing?**

14 A. Yes. The Black Butte coal price in the April update has decreased [REDACTED] million. This
15 decrease is reflective of updated contract indices related to the rail agreement with
16 Union Pacific Railroad.

1 **Colstrip Coal Costs**

2 **Q. Did coal prices increase at Colstrip in the April update compared to the**
3 **2021 Rate Case initial filing?**

4 A. Yes. Coal costs on a Washington-allocated basis increased by [REDACTED] million in the
5 April update compared to the initial filing.

6 **Q. Please describe the price increase associated with the Colstrip coal supply.**

7 A. Coal costs increased from [REDACTED] per ton in the initial filing to [REDACTED] per ton in the
8 April update, or by [REDACTED] per ton. The price increase is due to updated contract
9 indices and reduced Tier 2 volume.

10 **VI. CONCLUSION**

11 **Q. Please summarize your testimony.**

12 A. My testimony supports PacifiCorp's decision to enter into the Colstrip coal supply
13 agreement and supports the inclusion of those costs in this case as reasonable and
14 prudent. This new coal supply agreement provides the best value with the least risk
15 for PacifiCorp's customers. Additionally, in the event a new methodology for
16 refining coal is implemented at Colstrip, PacifiCorp commits to working with Staff to
17 ensure that any benefits are appropriately communicated and reflected where
18 applicable. Finally, my testimony updates the coal fuel expense to be included in the
19 baseline for net power costs.

20 **Q. Does this conclude your supplemental testimony?**

21 A. Yes.