

EXH. RJB-6
DOCKET UE-230172
WITNESS: RONALD J. BINZ

DIRECT TESTIMONY AND EXHIBITS OF RONALD BINZ
ON BEHALF OF SIERRA CLUB

EXHIBIT RJB-6
OREGON PUBLIC UTILITY COMMISSION, DOCKET NO. UE-420
EXCERPT FROM EXHIBIT PAC/200, DIRECT TESTIMONY OF JAMES OWEN

REDACTED
Docket No. UE 420
Exhibit PAC/200
Witness: James Owen

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

PACIFICORP

REDACTED
Direct Testimony of James Owen

April 2023

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ATTACHED EXHIBITS

Highly Confidential Exhibit PAC/201—Hunter/Gentry CSA Analysis

Highly Confidential Exhibit PAC/202—Dave Johnston CSA Analysis

Highly Confidential Exhibit PAC/203—Wyodak CSA Analysis

Highly Confidential Exhibit PAC/204—Hunter/Bronco CSA Analysis

Confidential Exhibit PAC/205—CSA Contract Minimums Table

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **d/b/a Pacific Power (PacifiCorp or the Company).**

4 A. My name is James Owen. My business address is 1407 West North Temple, Suite
5 210, Salt Lake City, Utah 84116. My title is Vice President of Environmental, Fuels,
6 and Mining.

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

8 A. I have a Bachelor of Science Degree in Mining Engineering, a Master of Business
9 Administration Degree, and a Juris Doctor Degree, all from the University of Utah. I
10 joined the Utah Department of Natural Resources – Division of Oil Gas and Mining
11 in November 2008, and held positions of increasing responsibility within the agency,
12 including responsibilities for environmental permitting, enforcement of
13 environmental compliance, engineering design, oversight of mine reclamation
14 bonding, environmental program management, and legislative and policy
15 management. I joined PacifiCorp as Director of Environmental in February 2018.
16 I have assumed positions of increasing responsibility since that time and currently
17 serve as Vice President of Environmental, Fuels, and Mining. My current
18 responsibilities encompass strategic planning, stakeholder engagement, regulatory
19 support, support of major generation resource additions, direct oversight of fueling
20 strategy, management of mining operations, and direct oversight of major
21 environmental compliance projects.

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

23 A. Yes. I have provided testimony on behalf of the Company in proceedings before the

1 Public Utility Commission of Oregon (Commission) and the public utility
2 commissions in California, Idaho, Utah, and Wyoming.

3 **II. PURPOSE AND SUMMARY**

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

5 A. I explain PacifiCorp's overall approach to providing the coal supply for its coal-fired
6 generating plants, and I support the level of coal costs included in fuel expense in
7 PacifiCorp's 2024 Transition Adjustment Mechanism (TAM). To demonstrate the
8 reasonableness of these costs, my testimony:

- 9 • Provides a brief update of recent changes in the coal market and how those
10 changes impact the 2024 TAM fuel costs;
- 11 • Details new coal supply agreements (CSA) that PacifiCorp entered into
12 since the 2023 TAM, and provides highly confidential exhibits detailing
13 the new CSAs and the analysis that was undertaken to support the
14 prudence of these agreements;
- 15 • Provides an update on the Company's evaluation of the termination
16 provisions for the Huntington CSA, and explains the primary reasons
17 behind the reduction to the total-company coal costs—close to
18 \$92 million—reflected in the 2024 TAM;¹ and
- 19 • Provides updated coal pricing and background on third-party coal
20 contracts and affiliate-owned mines.

¹ Unless otherwise stated, all figures in my testimony are stated on a total-company basis.

1 **III. CHANGES IN COAL MARKET CONDITIONS**

2 **Q. What significant changes have occurred in the coal market since 2021?**

3 A. Beginning in the third quarter of 2021, market coal prices throughout the United
4 States began to increase significantly. This was caused by multiple factors, including
5 but not limited to: increased coal demand due to high domestic natural gas prices; low
6 inventories at coal mines and coal-fired power plants; increased demand abroad for
7 coal exports; international and domestic supply chain constraints; labor and material
8 shortages; and general market inflation. The coal market has experienced
9 unprecedented prices and significant fluctuation since 2021.

10 **Q. How do increases to coal prices in the market impact PacifiCorp?**

11 A. Higher prices in the coal market result in higher costs per ton for coal purchased by
12 PacifiCorp when negotiating new or amended coal supply agreements. Fixed pricing
13 and reasonable term provisions in PacifiCorp's coal supply agreements have insulated
14 the Company from significant exposure to market fluctuations. However, market
15 exposure returns when the Company is negotiating new or amended contracts, or in
16 cases where a coal supplier does not meet its coal delivery obligations and the
17 Company is forced to seek sources for replacement coal supply in the market.

18 **Q. How have increased foreign and domestic coal prices impacted PacifiCorp's coal
19 suppliers?**

20 A. Higher market prices result in coal suppliers receiving a higher price per ton for coal
21 sold by the supplier. Coal suppliers have also been impacted by international and
22 domestic supply chain constraints; labor and material shortages; and general market
23 inflation. The Company has observed that coal suppliers are at an increasing risk of

1 becoming insolvent and failing to deliver coal, particularly in cases where their
2 operating costs are increasing due to inflation and other pressures, but the coal
3 supplier is subject to fixed pricing under a coal supply agreement.

4 **Q. Are there additional factors that have impacted coal markets and coal**
5 **availability for PacifiCorp since 2021?**

6 A. Yes. The Utah coal market was significantly disrupted and depleted due to a mine fire
7 that ignited at American Consolidated Natural Resources' (ACNR) Lila Canyon mine
8 in September 2022. As a result of the fire, the Lila Canyon mine ceased operations
9 and has not resumed coal production as of the date of this filing. PacifiCorp was
10 informed in February 2023 that the extent of the damage from the mine fire is
11 significant. The Lila Canyon mine accounted for more than 25 percent of Utah's total
12 coal production in recent years and was expected to supply [REDACTED]
13 [REDACTED] In 2022, Utah coal
14 mines produced 10.7 million tons while PacifiCorp's Utah plants consumed 5.8
15 million tons. PacifiCorp's Utah plants have generally consumed more than 50 percent
16 of the coal produced in the state. The significant production shortfall due to the Lila
17 Canyon mine fire negatively affected all large coal consumers including PacifiCorp.
18 Unfortunately, this negative impact is expected to continue into the foreseeable
19 future. In addition to the mine fire, coal suppliers have experienced issues relating to
20 unfavorable geologic and mining conditions, delays and pressure relating to securing
21 federal mining leases, limited availability of trucking and railway transportation for
22 coal, long lead-times for procurement of necessary mining equipment, and limitations
23 in availability of financing.

1 **Q. Have the coal market issues you described resulted in force majeure claims by**
2 **coal suppliers and declined coal deliveries?**

3 A. Yes. Two of PacifiCorp's largest coal suppliers in Utah made force majeure claims in
4 2022 that resulted in significant delivery shortfalls of PacifiCorp's contracted coal
5 supply. These coal supply shortfalls have raised reliability concerns and have forced
6 PacifiCorp to utilize other system resources and market purchases to ensure ongoing
7 system reliability. The impact of reduced available coal supplies and higher coal
8 pricing discussed above informed both coal volumes and pricing assumptions in the
9 2024 TAM.

10 **Q. Has PacifiCorp attempted to procure alternative coal supply to offset the**
11 **impacts of the supply shortfalls in Utah?**

12 A. Yes. PacifiCorp initiated a Request for Proposals (RFP) in August 2022 to identify all
13 potential alternative coal supply sources. The RFP process resulted in two coal
14 suppliers being selected. One new contract was executed in early 2023, and
15 negotiations are taking place with the second supplier. PacifiCorp has also continued
16 working with coal suppliers that have made force majeure claims and has pursued
17 strategies to continue coal deliveries from those suppliers and minimize the impacts
18 of supply shortfall.

19 **Q. Is PacifiCorp pursuing options under the coal supply agreements in response to**
20 **coal suppliers' failure to deliver contracted coal quantities?**

21 A. Yes. In accordance with the terms of the CSAs, PacifiCorp initiated arbitration to
22 challenge the force majeure claim from one supplier. PacifiCorp continues to review