

Rocky Mountain Power
Docket No. 13-035-184
Witness: Cindy A. Crane

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

REDACTED

Rebuttal Testimony of Cindy A. Crane

Coal Costs

June 2014

1 **Q. Are you the same Cindy A. Crane who submitted direct testimony in this**
2 **proceeding on behalf of PacifiCorp dba Rocky Mountain Power (“the**
3 **Company”)?**

4 A. Yes.

5 **Purpose of Rebuttal Testimony**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to:

- 8 • Discuss the Company’s coal price projection for the Jim Bridger plant in
9 the current test period;
- 10 • Identify the errors, omissions and improper comparisons employed by
11 Sierra Club witness, Mr. Jeremy Fisher, in direct testimony;
- 12 • Refute the contention of Mr. Fisher that the Company provided a new
13 long-term forecast for coal delivered to the Jim Bridger plant;
- 14 • Rebut Mr. Fisher’s contention that a new long-term forecast is
15 significantly higher than the costs projected by the Company in the Utah
16 Docket No. 12-035-92;
- 17 • Refute Mr. Fisher’s claims that Jim Bridger plant coal prices are [REDACTED] and
18 [REDACTED] per MMBtu above the selective catalytic reduction (“SCR”) analysis
19 in 2014 and 2015;
- 20 • Rebut Mr. Fisher’s contention that the average cost of coal delivered to
21 Bridger is well above the projections provided in the Docket
22 No. 12-035-92;

- 23 • Refute Mr. Fisher’s contention that the information presented by the
24 Company in public planning forums is deeply inconsistent with the
25 Company’s own planning and internal information; and
- 26 • Refute Mr. Fisher’s suggestion that the Company either deliberately or
27 inadvertently withheld Bridger coal price information from the
28 Commission.

29 **Q. Please summarize your position.**

30 A. Contrary to Mr. Fisher’s assertion, the Company’s test period coal costs do not
31 show a significant increase relative to the SCR rebuttal analysis. Mr. Fisher’s
32 testimony rather demonstrates a willful misinterpretation of Company supplied
33 coal costs. Mr. Fisher testifies¹ that he does not object to the Company’s request
34 for an increase in fuel costs at this time “...I do not have a basis for determining if
35 the higher costs at the Bridger coal mine are prudently incurred or not.” Clearly,
36 Mr. Fisher has not demonstrated a basis for sanctions in this docket either. Rather,
37 Mr. Fisher’s Bridger Coal related testimony appears designed to re-litigate the
38 Commission’s prior approval in the Bridger SCR voluntary docket based on
39 faulty and grossly misleading analysis.

40 **Jim Bridger Plant Test Period Costs**

41 **Q. Please explain how the Jim Bridger plant will be supplied during the current**
42 **test period and how test period costs were determined.**

43 A. The Jim Bridger plant will be fueled collectively with coal from the Black
44 Butte/Kemmerer mines and Bridger Coal Company. Bridger Coal deliveries will
45 be sourced from both the surface and underground mines.

¹ See Direct Testimony of Mr. Fisher, page 18, lines 16 -17.

46 Test period costs for the Jim Bridger plant reflect Bridger Coal mine operating
47 costs supplemented with third party costs for Kemmerer and Black Butte coals.

48 **Q. What costs are included in Bridger Coal's mine operating costs?**

49 A. Test period costs for Bridger Coal are prepared in accordance with Generally
50 Accepted Accounting Principles ("GAAP") for regulated entities. GAAP
51 accounting requires the recognition of both cash and non-cash costs for the period
52 in which they occur. More specifically, the Bridger Coal Company test period
53 costs include both the cash and accrued expenditures for the period and the non-
54 cash costs of depreciation, depletion and amortization.

55 **Q. Did the Company produce a new long-term forecast for coal delivered to the**
56 **Jim Bridger plant?**

57 A. No. Contrary to Mr. Fisher's testimony², the Company did not produce a new
58 long-term forecast for coal deliveries to the Jim Bridger plant. Clearly, Mr. Fisher
59 does not understand filing requirement differences between the Company's
60 general rate proceedings and the voluntary approval docket. A long-term forecast
61 for the Jim Bridger plant would include long-term coal supplies and cost
62 projections for Bridger Coal, Black Butte, Kemmerer and any other coal supplies
63 required to support the fueling requirements of the Jim Bridger plant through a
64 determined planning horizon, not just the test period.

65 **Q. What cost projections were provided in the Company's workpapers?**

66 A. The Company's workpapers included detailed coal cost projections for the current
67 test period for Bridger Coal, Black Butte and Kemmerer coal supplies per GAAP.
68 Additionally, to support Bridger Coal Company reclamation costs contained

² See Direct Testimony of Mr. Jeremy Fisher, page 5, lines 8-9

69 within the mine's operating costs for the test period, the Company's workpapers
70 included the 2014 Business Plan for Bridger Coal Company, as prepared in
71 October 2013.

72 **Q. Are there differences between the Bridger Coal Company 2014 Business Plan**
73 **and the long-term fueling strategy utilized in the pre-approval docket for the**
74 **Jim Bridger units 3 & 4 SCR systems?**

75 A. Yes. The long-term fueling strategy utilized in the SCR analysis includes
76 expansion of the Bridger underground mine upon depletion of the current reserve
77 base, whereas the mine's business plan reflects underground mine operations
78 within the current reserve base only. While the business plan does not preclude a
79 long-term underground mine expansion; the investment decisions associated with
80 a future underground expansion are yet to be fully vetted for inclusion in the
81 business plan.

82 **Q. Were Bridger Coal operating costs utilized in the Jim Bridger plant SCR**
83 **analysis based on GAAP accounting?**

84 A. No. The SCR analysis compares the impact of future compliance scenarios and
85 their cost impacts on customers by comparing present values of revenue
86 requirements between alternative compliance options on a forward looking basis
87 and therefore excludes non-cash GAAP accounting costs such as depreciation,
88 depletion and amortization that reflect recovery past investments. Inclusion of
89 such costs would not impact the result of the SCR analysis because the same
90 values for these past investment recovery costs would be included across all
91 forward looking compliance scenarios. In the SCR analysis, the recovery of past

92 investments in Bridger mine are treated in the same manner as any other past
93 investments, such as the past investments in the Company's existing generation
94 resources.

95 **Q. Does the Company's SCR analysis capture the return on and return of future**
96 **of capital expenditures associated with the various alternative compliance**
97 **options assessed?**

98 A. Yes. The Company's SCR analysis studies are forward looking and capture the
99 return on and of the future Bridger mine capital expenditures required to support
100 the various alternatives assessed.

101 **Q. Does the Company's SCR analysis also capture long-term coal cost**
102 **projections for third-party supplemental coal supplies required by the Jim**
103 **Bridger plant?**

104 A. Yes. The Company's SCR analysis studies capture projected long-term third-party
105 supplemental coal supply costs (e.g. Black Butte).

106 **Q. Which cost streams did Mr. Fisher utilize in his comparative?**

107 A. Mr. Fisher inappropriately compared the cash operating costs for the Jim Bridger
108 plant per the SCR analysis to the 2014 Business Plan for Bridger Coal. The cash
109 operating costs per the SCR analysis excluded all non-cash costs (depreciation,
110 depletion and amortization) for past capital investments for the reasons described
111 above; the 2014 Business Plan includes all non-cash costs per GAAP. The SCR
112 analysis also included third party coal supplies like Black Butte; the 2014
113 Business Plan for Bridger Coal logically excludes third party coal costs as it
114 represents only Bridger Coal's business plan. The SCR analysis incorporated a

115 long-term coal supply strategy for the Bridger plant; the 2014 Business Plan for
116 Bridger Coal does not.

117 **Q. Is it appropriate to conclude that the Company's costs are significantly**
118 **higher than the costs projected by the Company in the Utah**
119 **Docket No. 12-035-92 based on the above comparison?**

120 A. Absolutely not. Mr. Fisher's analysis and testimony is entirely dependent upon an
121 improper cost comparison.

122 **Q. Did the Company caution the Sierra Club about the differences in cost**
123 **methodologies and mine plans for the test period?**

124 A. Yes, in two separate responses (See Response to SC 4.14 and 4.10), the Company
125 alerted the Sierra Club to the differences. The Sierra Club failed to heed the
126 Company's response on both occasions.

127 **Q. Mr. Fisher states that coal prices in 2014 and 2015 are [REDACTED] and**
128 **[REDACTED] above SCR analysis costs³. Further, Mr. Fisher states that the**
129 **cost of coal delivered to the Jim Bridger plant exceeds the coal prices**
130 **projected in the SCR analysis during the 2014-2034 period by an average of**
131 **[REDACTED] or as high as [REDACTED]⁴. Please comment.**

132 A. Mr. Fisher's analysis is encumbered with multiple flaws. The impact of excluding
133 depreciation, depletion and amortization is extremely significant. If Mr. Fisher
134 had utilized operating costs from the SCR analysis based on GAAP, rather than
135 cash operating expenses, Mr. Fisher's analysis would have reflected an increase
136 of [REDACTED] rather than [REDACTED] in 2014, an increase of [REDACTED] rather than

³ See Direct Testimony of Mr. Fisher, page 26, Footnote 2.

⁴ See Direct Testimony of Mr. Fisher, page 11, lines 3 -11.

137 [REDACTED] in 2015 and a decrease of [REDACTED] rather than an increase of
138 [REDACTED] during the 2014-2034 period.

139 **Q. What is included in test period costs for Bridger Coal depreciation, depletion**
140 **and amortization?**

141 A. Approximately [REDACTED] million is included for both Bridger Coal surface and
142 underground mines or [REDACTED]

143 **Q. Did Mr. Fisher have access to GAAP based operating cost data from the Jim**
144 **Bridger plant SCR analysis in this docket?**

145 A. Yes. In response to Sierra Club 11.1, the Company provided the workpapers
146 supporting Ms. Cindy A. Crane's Confidential Rebuttal Testimony from Docket
147 No. 12-035-92. Mr. Fisher could have easily ascertained that depreciation,
148 depletion and amortization were excluded in the development of cash operating
149 costs in the SCR analysis.

150 **Q. If Mr. Fisher were to correct his analysis for omission of depreciation,**
151 **depletion and amortization, would his analysis be any more appropriate?**

152 A. No. While inclusion of these costs would clearly undermine Mr. Fisher's
153 contention that the SCR workpapers⁵ showed significantly lower coal prices, such
154 an analysis would be grossly misleading. The Company's workpapers serve to
155 support test period costs solely – not a life-of-plant fueling strategy. Inclusion of
156 the 2014 Bridger Coal Company Business Plan was necessary to demonstrate
157 appropriate funding levels for the final reclamation trust. The Company did not
158 provide a long-term fueling strategy with information regarding future supplies of
159 third party coal or a potential underground mine expansion.

⁵ See Direct Testimony of Mr. Fisher, page 5, lines 17-19.

160 **Q. Does Mr. Fisher acknowledge that the workpapers in the current test period**
161 **did not include a long-term forecast for either Black Butte or Kemmerer coal**
162 **supplies?**

163 A. Yes, Mr. Fisher acknowledged⁶ that a long-term forecast was not provided for
164 Black Butte and Kemmerer coals. Mr. Fisher assumed that these sources would
165 have a relatively minimal impact on the Company's projected coal price over the
166 long run. Apparently, since the Company did not provide a long-term coal price
167 forecast for the Jim Bridger plant through the life of the plant similar to the SCR
168 analysis, Mr. Fisher created his own.

169 **Q. Are the projected third party coal supplies to the Jim Bridger plant**
170 **minimal?**

171 A. No, in fact Black Butte and Kemmerer will provide 25 percent of the Jim Bridger
172 plant requirements in the current test period. Additionally, the Company is
173 currently evaluating procurement of additional coals in Southwest Wyoming for
174 2015 through 2020.

175 **Q. Did Mr. Fisher acknowledge that the 2014 Business Plan for Bridger Coal**
176 **reflected Bridger Coal deliveries to decrease by more than half without the**
177 **underground mine expansion?**

178 A. No. Mr. Fisher does not mention that the 2014 Bridger Coal Business Plan data he
179 opted to utilize as a surrogate for Jim Bridger life-of-plant costs represents only
180 [REDACTED] of the Jim Bridger plant requirements starting in 2023.

⁶ See Direct Testimony of Mr. Fisher, page 10, lines 7 - 10

181 **Q. Please summarize your thoughts about Mr. Fisher's purported analysis that**
182 **the Company's coal costs for the Jim Bridger plant show a significant**
183 **increase relative to the SCR analysis.**

184 A. It appears that the Sierra Club is intent on using this general rate case proceeding
185 to re-litigate the Commission's prior approval in the Bridger SCR voluntary
186 docket based on faulty and grossly misleading analysis. Mr. Fisher's testimony
187 should be discredited.

188 **Bridger Coal Drilling Program**

189 **Q. Can you please explain Bridger Coal Company's drilling program for the**
190 **underground mine?**

191 A. Yes. As the Company responded in Sierra Club 4.9, the Company conducts a
192 robust and continuous drilling program. The drilling program allows Bridger Coal
193 personnel to determine roof stability, seam thickness, geologic faults, adverse
194 quality and appropriate longwall extraction points.

195 **Q. Has the Bridger underground mine encountered high ash coal previously?**

196 A. Yes. In previous longwall panels, the mine has encountered areas of low seam
197 thickness and elevated in-seam ash content and the mine has successfully
198 advanced through these areas by blending with lower ash coal. In this test period,
199 based on drilling in March/April 2013, Bridger Coal personnel spent several
200 months re-engineering the mine plan to bypass the 12th right longwall panel. This
201 re-engineered plan is the basis of the 2014 Bridger Coal Business Plan produced
202 in October 2013.

203 **Q. Do you expect the underground mine plan to change in the future with**
204 **additional drilling?**

205 A. Yes. The drilling program allows Bridger Coal Company personnel to refine the
206 mine plan to reflect updated coal quality information – this is inherent to
207 underground mining. While Mr. Fisher appears to suggest that the updated
208 drilling information in March/April is appropriate grounds to discredit the Jim
209 Bridger SCR analysis, such a recommendation is misplaced. The impact of the
210 drilling results can be either positive or negative. In the short run, the drilling
211 program in March/April revealed immediate ash issues resulting in the bypassing
212 of the 12th right longwall panel. However, in the long-term the same drilling
213 program in March/April identified additional areas suitable for longwall mining
214 that were not reflected in the original SCR analysis.

215 The coal pricing information supplied in the Company's Jim Bridger SCR
216 analysis represented the best information the Company possessed at that time.
217 Long-term projections at the end of the day are still projections and will
218 continuously change, up or down, with updated information – such is the nature
219 of coal mining and forecasting.

220 **Historical Coal Prices**

221 **Q. Mr. Fisher states⁷ that in reviewing historical data, as reported to the US**
222 **Energy Information Administration (EIA), the average cost of coal delivered**
223 **to the Bridger plant actually spiked in 2011 and has maintained well above**
224 **the projections provided in the Bridger SCR docket. Please respond.**

225 A. Once again, Mr. Fisher's comparison is inappropriate. First, starting in January

⁷ See Direct Testimony of Mr. Fisher, page 11, lines 8–11.

226 2011, the Company changed the basis of the costs reported to the Energy
227 Information Administration (“EIA”). Historically, the Company reported Bridger
228 Coal Company monthly operating costs (based on GAAP). Subsequent to a FERC
229 audit, PacifiCorp was required to account for these subsidiaries under the equity
230 method. Therefore beginning January 2011, the Company started reporting the
231 Bridger Coal contract price, inclusive of the return on investment, to the EIA.

232 **Q. How much of the Bridger Coal contract price is the return on investment?**

233 A. While the return on investment component gets reset periodically its remains
234 approximately [REDACTED] Coal costs for the test period as well as the Jim Bridger
235 SCR analysis, exclude any return on investment. The Company, instead, earns a
236 return on its investment in Bridger Coal Company through its inclusion in the
237 Company's ratebase.

238 **Q. Are there other flaws with Mr. Fisher’s historical comparison to the SCR**
239 **analysis besides the treatment of Bridger Coal Company return on**
240 **investment?**

241 A. Yes. The contract price reported to the EIA includes depreciation, depletion and
242 amortization. As my testimony makes abundantly clear, the cash operating costs
243 that Mr. Fisher insists on using as a comparative exclude any depreciation,
244 depletion and amortization.

245 **Summary**

246 **Q. Please summarize your testimony.**

247 A. Mr. Fisher has not presented any evidence in this proceeding to suggest that
248 sanctions are warranted. Rather what is increasingly apparent is Mr. Fisher’s

249 willingness to file contrived, inaccurate and misleading testimony to advance the
250 Sierra Club's "Beyond Coal Campaign" agenda at any cost and before any forum.

251 **Q. Does this conclude your rebuttal testimony?**

252 **A.** Yes, it does.