SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CASE NO. EL05-022

IN THE MATTER OF THE APPLICATION BY OTTER TAIL POWER COMPANY ON BEHALF OF THE BIG STONE II CO-OWNERS FOR AN ENERGY CONVERSION FACILITY SITING PERMIT FOR THE CONSTRUCTION OF THE BIG STONE II PROJECT

PREFILED REBUTTAL TESTIMONY

OF

ROBERT BRAUTOVICH

ASSISTANT VICE PRESIDENT, COAL MARKETING WEST

BNSF RAILWAY COMPANY

JUNE 9, 2006

3101

PREFILED REBUTTAL TESTIMONY OF ROBERT BRAUTOVICH

TABLE OF CONTENTS

BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

PREFILED REBUTTAL TESTIMONY OF ROBERT BRAUTOVICH

I. INTRODUCTION

Q: Please state your name and business address.

A: My name is Robert Brautovich. My business address is 2650 Lou Menk Drive, Fort Worth, Texas 76131-2830.

Q: By whom are you employed and in what capacity?

A: I am employed by the BNSF Railway Company as the Assistant Vice President Coal Marketing West.

Q: What are your educational background and employment history?

A: My educational background and work experience are described in my Biography, which is attached to my testimony as Applicants' Exhibit 35A.

Q: Did you provide direct testimony in this proceeding?

A: No. I did not.

Q: Whose direct testimony are you responding to?

A: I am responding to the direct testimony of Dr. Olesya Denney, and to the general concerns raised by the South Dakota Public Utilities Commission regarding delivery of coal to the proposed Big Stone Unit II.

II. BNSF RAILWAY COMPANY

Q: Please describe BNSF Railway Company.

A: BNSF Railway Company is one of the country's largest railroads with over 32,000 miles of routes, 6,300 locomotives, and on average, 220,000 freight cars in its system. It has over

40,000 employees. BNSF's headquarters are in Forth Worth, Texas. Although we haul more than coal, serving many of the country's utilities with coal is a major area of our business.

III. THE POWDER RIVER BASIN

Q: Please describe the Powder River Basin.

A: The Powder River Basin (PRB) of Wyoming and Montana is the world's largest single deposit of low-sulfur coal. The PRB has been the fastest growing and dominant coal supply area in the United States since passage of the Clean Air Act in 1970. Ninety-seven percent of PRB production moves by rail to reach markets in thirty-nine states with many rail hauls well over a thousand miles (one way). More than 90% of the coal BNSF hauls comes from the PRB. The combination of low mine and transportation costs has resulted in PRB coal being the lowest cost delivered coal for electric generators.

Q: How much coal is shipped from the PRB?

A: Prior to 1970, PRB production was less than 5mm tons annually and by 2005 PRB production set a record 429mm tons. In over half of those years, PRB production increased by at least 10mm tons year over year. In the fifteen years since the 1990 Clean Air Act Amendments, annual production increases of 10mm tons have occurred ten times, and in seven of those years PRB production has increased by at least 20mm tons. This is powerful testimony to the consistent, reliable delivery capability of rail transportation from the PRB.

For a number of reasons, coal supply from Appalachia and the Interior coal basins has declined and the PRB has been the beneficiary of this supply substitution. From 1990 through 2005, Appalachian production declined 100mm tons and Interior production declined 50mm tons, while PRB production increased by over 200mm tons (from 200mm tons to 429mm tons).

This tremendous increase in PRB production could not have been accomplished without a significant rail infrastructure and logistics network.

Q: How has the growth in shipments of PRB coal impacted BNSF?

A: Since the merger that created BNSF in 1995, our coal volumes have increased 80 million tons. In two of those years, the volume increased by twenty million tons from one year to the next, and we are anticipating a twenty million ton increase this year.

IV. COAL DELIVERIES

Q: What caused the recent run up in demand for PRB coal?

A: The confluence of several factors resulted in the recent unprecedented demand for PRB coal. First, over the past few years the price of natural gas has skyrocketed, making gas-fired generation less competitive and sparking increased demand for coal. During the 1990's and into the first half of this decade, virtually no coal-fired capacity was built and the utility industry was sending a clear signal that gas was the fuel of choice to satisfy their future generating needs. Over 200,000 MW of gas-fired capacity was developed during this time frame. Second, utilities became accustomed to the nations' railroads having excess delivery capability and adjusted coal inventories downward providing little room for recovery in the event of supply disruptions. Third, demand for all modes of transportation is on the rise. For U.S. freight railroads, year over year quarterly carload traffic has risen in nine of the past ten full quarters. U.S. railroads are hauling more freight than ever before and have been challenged to satisfy increases across all commodity sectors.

Q: How has BNSF performed in light of the well-publicized operating difficulties encountered in the PRB in 2005?

A: With the joint line[1] derailments and the program to mitigate the track ballast fouling situation beginning in May of 2005, BNSF had significant coal operating difficulties, but still managed to transport a record 259mm tons, a four million ton increase over the previous year. Operations have continued to improve and for the first four months of 2006 we transported 90.6mm tons, an increase of 5.5mm tons over the same period last year. April of 2006 resulted in BNSF record loadings of 13.2mm tons on the joint line and 43.5 loads per day out of the Wyoming portion of the PRB. For the entire year, our outlook is for our coal volumes to increase about 10% over 2005.

Q: What is BNSF doing to increase coal deliveries and improve reliability?

A: Increased coal capacity spending was undertaken in 2005 and this is continuing at an accelerated pace during 2006. In 2005, BNSF added 90 locomotives and 1200 coal cars at a cost of $235 million. Additionally, $16 million was spent on the Joint Line, $32 million on the various coal corridors, and $29 million at coal terminals. In 2005, the Joint Line triple track was completed from Walker to Shawnee, Wyoming (14 miles) and work was begun on a triple track from Reno Junction to Mile Post 58 (18 additional miles of triple track).

In 2006, BNSF is committed to further expand coal capacity investments. We are purchasing 180 locomotives for coal capacity expansion and 1800 coal cars at a cost of $455 million. Additionally, we will spend approximately $150 million for expansion of terminals, coal corridors, and the joint line. The Joint Line projects are to complete the triple track from Reno Junction to Mile Post 58, begin triple tracking from Reno Junction, north to Donkey Creek, Wyoming and begin a fourth track on the Joint Line over Logan Hill. Our schedule is for the

[1] The Joint Line is a rail line between Shawnee (Mile Post 117.7) and West Caballo (Mile Post 14.9) junctions in the Wyoming PRB which is jointly owned and operated by BNSF and Union Pacific. Many large surface coal mines are located along this line.

entire Joint Line to be triple track in the 2007 to 2008 timeframe. The $600+ million to be spent for coal capacity expansion in 2006 is the most for any year since our merger in 1995, and is 50% more than our previous record year spending for coal capacity spending.

Q: Will the railroads be able to handle future growth?

A: CANAC, a consulting firm specializing in railroad capacity planning and engineering, is currently completing its analysis of the PRB rail and mine operations to sustain annual production of 500 million tons on the joint line and 100+ million tons on the Campbell Subdivision north of Donkey Creek. As additional capital is put in place, this will add capacity of approximately 200 million tons annually from the PRB.

The Department of Energy 2006 Annual Long Term Outlook forecasts the PRB to grow by 215mm tons from 2005 through 2025. This is a compound annual growth rate of 2% compared to a 5.3% growth rate for the PRB for the past twenty years. BNSF capital and resource planning has historically been adequate to meet forecast demand and growth forecasts, and we believe our planning for coal capacity expansion will certainly meet future demand requirements.

Q: What is BNSF doing to increase coal deliveries to the Big Stone plant?

A: Otter Tail is obligated to supply a sufficient number of railcars to deliver the coal necessary to operate the plant. BNSF has recently supplied additional trainsets to supplement deliveries of the Otter Tail fleet of railcars. Otter Tail also purchased coal from a mine that is considerably closer to the power plant. The shorter distance between the mine and the plant resulted in the delivery of more coal with the existing assets. BNSF has also committed to provide locomotives to power an additional trainset that Otter Tail has procured. These specific

enhancements along with the massive capital outlays announced by BNSF, we believe, will adequately meet demand requirements today and into the future.

Q: What will be required to deliver additional coal supplies if a new unit is constructed on the Big Stone site?

A: As described earlier, massive amounts of capital are being invested in rail infrastructure around the mines of the PRB. Additional investment in track and terminals across the BNSF network will serve to eliminate pinch points, improve system velocity and add capacity where it's needed. The introduction of the most technologically advanced motive power, aggressive hiring plans and new railcars sets are all occurring today and we have more planned for the future.

The BNSF network spans over 32,000 miles. Many of the recently announced coal fired power plant projects will be located at various points along our route structure. As plans for new plant development are finalized, actual sites determined, and construction work begun, BNSF will have ample time to make thoughtful changes to the rail corridors involved to accommodate the growth.

Q: Have the railroads been a reliable supplier in the past?

A: Yes, since the Big Stone plant was constructed in 1975, the facility never experienced any serious difficulty obtaining adequate coal supplies from the railroads. To infer some systemic long-term deficiency in rail performance from recent events is, we believe, unwarranted given the solid record of reliability for over 30 years.

Q: Does this conclude your testimony?

A: Yes, it does.

RAILWAY

Robert A. Brautovich

Assistant Vice President - Coal Marketing

Bob began his career with BNSF in 1992 and was appointed to his current position in March of 2001. He is responsible for coal transportation marketing and sales in the western U.S., Canada, Mexico and the Pacific Rim.

Previously, Bob spent a number of years in the Middle East and South America supporting construction projects in the oil and petrochemical industries, several years as an equity partner in an International Trading Company and was involved in coal and rail transportation procurement for a domestic electric utility.

Bob received a Bachelor's degree from Villanova University and an MBA from the University of Houston.