

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



PREFILED REBUTTAL TESTIMONY OF ROBERT BRAUTOVICH

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1 **BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

2 **PREFILED REBUTTAL TESTIMONY OF ROBERT BRAUTOVICH**

3 **I. INTRODUCTION**

4 **Q: Please state your name and business address.**

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

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

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

10 **Q: What are your educational background and employment history?**

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

13 **Q: Did you provide direct testimony in this proceeding?**

14 A: No. I did not.

15 **Q: Whose direct testimony are you responding to?**

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

19 **II. BNSF RAILWAY COMPANY**

20 **Q: Please describe BNSF Railway Company.**

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

1 40,000 employees. BNSF's headquarters are in Forth Worth, Texas. Although we haul more
 2 than coal, serving many of the country's utilities with coal is a major area of our business.

3 **III. THE POWDER RIVER BASIN**

4 **Q: Please describe the Powder River Basin.**

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

12 **Q: How much coal is shipped from the PRB?**

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

19 For a number of reasons, coal supply from Appalachia and the Interior coal basins has
 20 declined and the PRB has been the beneficiary of this supply substitution. From 1990 through
 21 2005, Appalachian production declined 100mm tons and Interior production declined 50mm
 22 tons, while PRB production increased by over 200mm tons (from 200mm tons to 429mm tons).

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

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

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

7 **IV. COAL DELIVERIES**

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

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

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

1 A: With the joint line¹ derailments and the program to mitigate the track ballast fouling
 2 situation beginning in May of 2005, BNSF had significant coal operating difficulties, but still
 3 managed to transport a record 259mm tons, a four million ton increase over the previous year.
 4 Operations have continued to improve and for the first four months of 2006 we transported
 5 90.6mm tons, an increase of 5.5mm tons over the same period last year. April of 2006 resulted
 6 in BNSF record loadings of 13.2mm tons on the joint line and 43.5 loads per day out of the
 7 Wyoming portion of the PRB. For the entire year, our outlook is for our coal volumes to
 8 increase about 10% over 2005.

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

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

16 In 2006, BNSF is committed to further expand coal capacity investments. We are
 17 purchasing 180 locomotives for coal capacity expansion and 1800 coal cars at a cost of \$455
 18 million. Additionally, we will spend approximately \$150 million for expansion of terminals,
 19 coal corridors, and the joint line. The Joint Line projects are to complete the triple track from
 20 Reno Junction to Mile Post 58, begin triple tracking from Reno Junction, north to Donkey Creek,
 21 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.

1 entire Joint Line to be triple track in the 2007 to 2008 timeframe. The \$600+ million to be spent
 2 for coal capacity expansion in 2006 is the most for any year since our merger in 1995, and is
 3 50% more than our previous record year spending for coal capacity spending.

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

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

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

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

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

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

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

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

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

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

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

21 **Q: Does this conclude your testimony?**

22 A: Yes, it does.