

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF NORTH DAKOTA**

**In the Matter of the Application of)
OTTER TAIL CORPORATION, d/b/a)
Otter Tail Power Company, for an)
Advance Determination of Prudence)
for the Big Stone II Generating Plant)**

Case No. PU-06-481

DIRECT TESTIMONY

OF

ROBERT BRAUTOVICH

ASSISTANT VICE PRESIDENT COAL MARKETING WEST

BNSF RAILWAY COMPANY

DECEMBER 1, 2006

1 **BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY OF ROBERT BRAUTOVICH**

3 **Q. Please state your name and business address.**

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

6 **Q. By whom are you employed and in what capacity?**

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

9 **Q. What are your educational background and employment history?**

10 A. My educational background and work experience are described in my Biography,
11 which is attached to my testimony as Applicants' Exhibit No. _____ (RB-1).

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

13 A. I am providing testimony regarding the delivery of coal for fuel to the proposed
14 Big Stone Unit II on behalf of Montana-Dakota Utilities Co. & Otter Tail Power
15 Company, two of the Big Stone II Co-Owners.

16 **Q. Please describe BNSF Railway Company.**

17 A. BNSF Railway Company is one of the country's largest railroads with over
18 32,000 miles of routes, 6300 locomotives, and on average, 220,000 freight cars in its
19 system. It has over 40,000 employees. BNSF's headquarters are in Fort Worth, Texas.
20 Although we haul more than coal, serving many of the country's utilities with coal is a
21 major area of our business.

22 **Q. Please describe the Powder River Basin.**

23 A. The Powder River Basin (PRB) of Wyoming and Montana is the world's largest
24 single deposit of low-sulfur coal. The PRB has been the fastest growing and dominant

1 coal supply area in the United States since passage of the Clean Air Act in 1970. Ninety-
2 seven percent of PRB production moves by rail to reach markets in thirty-nine states with
3 many rail hauls well over a thousand miles (one way). More than 90% of the coal BNSF
4 hauls comes from the PRB. The combination of low mine and transportation costs has
5 resulted in PRB coal being the lowest cost delivered coal for electric generators.

6 **Q. How much coal is shipped from the PRB?**

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

14 For a number of reasons, coal supply from Appalachia and the Interior coal basins
15 has declined and the PRB has been the beneficiary of this supply substitution. From
16 1990 through 2005, Appalachian production declined 100mm tons and Interior
17 production declined 50mm tons, while PRB production increased by over 200mm tons
18 (from 200mm tons to 429mm tons). This tremendous increase in PRB production could
19 not have been accomplished without a significant rail infrastructure and logistics
20 network.

21 **Q. How has the growth in shipments of PRB coal impacted BNSF?**

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

25 **Q. What caused the recent run up in demand for PRB coal transportation?**

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

14 **Q. How has BNSF performed in light of the well-publicized operating**
15 **difficulties encountered in the PRB in 2005?**

16 A. Because of the joint line derailments resulting from an early thaw and unusually
17 heavy rainfall in the spring of 2005 and a program to mitigate the track ballast fouling
18 situation beginning in May of 2005, BNSF had significant coal operating difficulties in
19 2005. Nevertheless, BNSF still managed to transport a record 259mm tons, a four million
20 ton increase over the previous year. Operations have continued to improve and for the
21 first ten months of 2006 we transported 237.6mm tons, an increase of 22.7mm tons over
22 the same period last year. October of 2006 resulted in BNSF record loadings of 14.2mm
23 tons on the joint line, and 44.2 loads per day out of the Wyoming portion of the PRB.
24 For the entire year, our outlook is for our coal volumes to increase about 11% over 2005.

25 **Q. What is BNSF doing to increase coal deliveries and improve reliability?**

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

8 In 2006, BNSF is committed to further expand coal capacity investments. We are
9 purchasing 180 locomotives for coal capacity expansion and 1800 coal cars at a cost of
10 \$455 million. Additionally, we will spend approximately \$150 million for expansion of
11 terminals, coal corridors, and the joint line. The Joint Line projects are to complete the
12 triple track from Reno Junction to Mile Post 58, begin triple tracking from Reno
13 Junction, north to Donkey Creek, Wyoming and begin a fourth track on the Joint Line
14 over Logan Hill. Our schedule is for the entire Joint Line to be triple track in the 2007 to
15 2008 timeframe. The \$600+ million to be spent for coal capacity expansion in 2006 is
16 the most for any year since our merger in 1995, and is 50% more than our previous
17 record year spending for coal capacity spending.

18 **Q. Will the railroads be able to handle future growth?**

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

24 The Department of Energy 2006 Annual Long term Outlook forecasts the PRB to
25 grow by 215mm tons from 2005 through 2025. This is a compound annual growth rate

1 of 2% compared to a 5.3% growth rate for the PRB for the past twenty years. BNSF
2 capital and resource planning has historically been adequate to meet forecast demand and
3 growth forecasts, and we believe our planning for coal capacity expansion will certainly
4 meet future demand requirements.

5 **Q. What is BNSF doing to increase coal deliveries to the Big Stone plant?**

6 A. The Co-Owners are obligated to supply a sufficient number of railcars to deliver
7 the coal necessary to operate the plant. BNSF has recently supplied additional train sets
8 to supplement deliveries of the Co-Owners' fleet of railcars. The Co-Owners also
9 purchased coal from a mine that is considerably closer to the power plant. The shorter
10 distance between the mine and the plant resulted in the delivery of more coal with
11 existing assets. BNSF has also committed to provide locomotives to power an additional
12 trainset that the Co-Owners have procured. These specific enhancements along with the
13 massive capital outlays announced by BNSF, we believe, will adequately meet demand
14 requirements today and into the future.

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

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

23 The BNSF network spans over 32,000 miles. Many of the recently announced
24 coal fired power plant projects will be located at various points along our route structure.
25 As plans for new plant development are finalized, actual sites determined, and

1 construction work begun, BNSF will have ample time to make thoughtful changes to the
2 rail corridors involved to accommodate the growth.

3 **Q. Have the railroads been a reliable supplier in the past?**

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

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.