

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-06-482

Direct Testimony
of
Robert Brautovich

1 Q. Please state your name and business address.

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

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

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

7 Q. What are your educational background and employment history?

8 A. My educational background and work experience are described in
9 my Biography, which is attached to my testimony as Exhibit No. ____ (RAB-
10 1).

11 Q. What is the purpose of your testimony?

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

15 Q. Please describe BNSF Railway Company.

16 A. BNSF Railway Company is one of the country's largest railroads
17 with over 32,000 miles of routes, 6,300 locomotives, and on average,
18 220,000 freight cars in its system. It has over 40,000 employees. BNSF's
19 headquarters are in Fort Worth, Texas. Although we haul more than coal,

1 serving many of the country's utilities with coal is a major area of our
2 business.

3 Q. Please describe the Powder River Basin.

4 A. The Powder River Basin (PRB) of Wyoming and Montana is the
5 world's largest single deposit of low-sulfur coal. The PRB has been the
6 fastest growing and dominant coal supply area in the United States since
7 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
9 rail hauls well over a thousand miles (one way). More than 90 percent of
10 the coal BNSF hauls comes from the PRB. The combination of low mine
11 and transportation costs has resulted in PRB coal being the lowest cost
12 delivered coal for electric generators.

13 Q. How much coal is shipped from the PRB?

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

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

1 tons to 429mm tons). This tremendous increase in PRB production could
2 not have been accomplished without a significant rail infrastructure and
3 logistics network.

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

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

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

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

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

1 A. Because of the joint line derailments resulting from an early thaw
2 and unusually heavy rainfall in the spring of 2005 and a program to
3 mitigate the track ballast fouling situation beginning in May of 2005, BNSF
4 had significant coal operating difficulties in 2005. Nevertheless BNSF still
5 managed to transport a record 259mm tons, a four million ton increase
6 over the previous year. Operations have continued to improve and for the
7 first ten months of 2006 we transported 237.6mm tons, an increase of
8 22.7mm tons over the same period last year. October of 2006 resulted in
9 BNSF record loadings of 14.2mm tons on the joint line, and 44.2 loads per
10 day out of the Wyoming portion of the PRB. For the entire year, our
11 outlook is for our coal volumes to increase about 11percent over 2005.

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

13 A. Increased coal capacity spending was undertaken in 2005 and this
14 has continued at an accelerated pace during 2006. In 2005, BNSF added
15 90 locomotives and 1,200 coal cars at a cost of \$235 million. Additionally,
16 \$16 million was spent on the Joint Line, \$32 million on the various coal
17 corridors, and \$29 million at coal terminals. In 2005, the Joint Line triple
18 track was completed from Walker to Shawnee, Wyoming (14 miles) and
19 work was begun on a triple track from Reno Junction to Mile Post 58 (18
20 additional miles of triple track).

21 In 2006, BNSF is committed to further expand coal capacity
22 investments. We are purchasing 180 locomotives for coal capacity
23 expansion and 1,800 coal cars at a cost of \$455 million. Additionally, we
24 will spend approximately \$150 million for expansion of terminals, coal
25 corridors, and the joint line. The Joint Line projects are to complete the
26 triple track from Reno Junction to Mile Post 58, begin triple tracking from

1 Reno Junction, north to Donkey Creek, Wyoming and begin a fourth track
2 on the Joint Line over Logan Hill. Our schedule is for the entire Joint Line
3 to be triple track in the 2007 to 2008 timeframe. The \$600+ million to be
4 spent for coal capacity expansion in 2006 is the most for any year since
5 our merger in 1995, and is 50 percent more than our previous record year
6 spending for coal capacity spending.

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

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

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

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

22 A. The Co-Owners are obligated to supply a sufficient number of
23 railcars to deliver the coal necessary to operate the plant. BNSF has
24 recently supplied additional train sets to supplement deliveries of the Co-
25 Owners' fleet of railcars. The Co-Owners also purchased coal from a
26 mine that is considerably closer to the power plant. The shorter distance

1 between the mine and the plant resulted in the delivery of more coal with
2 existing assets. BNSF has also committed to provide locomotives to
3 power an additional trainset that the Co-Owners have procured. These
4 specific enhancements along with the massive capital outlays announced
5 by BNSF, we believe, will adequately meet demand requirements today
6 and into the future.


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

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

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

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

23 A. Yes, since the Big Stone plant was constructed in 1975, the facility
24 never experienced any serious difficulty obtaining adequate coal supplies
25 from the railroads. To infer some systemic long-term deficiency in rail
26 performance from recent events, is, we believe, unwarranted given the



1 solid record of reliability for over 30 years.

2 Q. Does this conclude your testimony?

3 A. Yes, it does.



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.