PACIFICORP ENERGY
A DIVISION OF PACIFICORP

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Office of Natural Resources Revenue
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VIA FEDERAL EXPRESS

Hayla Hurst
Regulatory Specialist
Office of Natural Resources Revenue
P.O. Box 25165, MS 61013C
Denver, Colorado 80225

Dear Ms. Hurst:

PacifiCorp Energy submits the attached document relative to Comments on the Office of Natural Resources Revenue Advanced Notice of Proposed Rulemaking on Federal and Indian Coal Valuation – RIN 1012-AA00.

Sincerely,

Jeff Potter
PacifiCorp Energy

Attachment

Background: PacifiCorp is a vertically integrated electric power company in the northwestern United States. PacifiCorp Energy, a subsidiary of PacifiCorp, operates coal plants in Utah and Wyoming and owns a share of two coal plants in Colorado, one in Arizona and one in Montana. PacifiCorp also owns and operates several captive coal mines located at, or within close proximity to some of its generation plants. In Wyoming, PacifiCorp Minerals Inc., a wholly owned subsidiary of PacifiCorp, operates and has a majority interest in Bridger Coal Company which is adjacent to the Jim Bridger plant. PacifiCorp also owns the Deer Creek mine in Utah, which is adjacent to the Huntington plant and has a partial interest in the Trapper mine in Colorado, which is adjacent to the Craig plant.

PacifiCorp Comments on the Office of Natural Resources Revenue Advanced Notice of Proposed Rulemaking on Federal and Indian Coal Valuation

A. Alternative Valuation Methods – The ONRR seeks input on possible alternatives to gross proceeds including the use of published index prices and a valuation based on a dollars- per-energy content unit such as dollars-per-million British thermal units dollars per ton.

The actual gross proceeds of an individual sales transaction seems to clearly be the best determinant of coal valuation at a given point in time. The use of indices for valuation purposes poses several problems. First, published indices are not available in several coal producing regions in the country. Second, the applicability of published coal indices, when available, are limited to coal of "similar" quality and sold at that point of time. Within a given production basin, there may be significant differences amongst the coal properties with respect to heat content, ash, sulfur, etc. which could require multiple adjustments to an index. Third, contemporary indices may not be representative of actual sales prices where the vast majority of coal is sold under long-term supply agreements. Although coal indexes, in theory, should be a reflection of actual sales transactions, in some coal producing regions, very few coal sales are made at the published index pricing itself. Due to minimal market liquidity, published coal indices are often based on a publisher's interpretation of market trends rather than a survey of actual transactions.

Published coal indexes reflect contemporary prices, short term in nature, and do not fairly account for coal contracted under long-term coal agreements. Long term coal contracts are often entered into to provide a guaranteed coal price for coal companies that will enable the company to make substantial capital investments to develop mine properties and leases. Many of these coal prices are subject to periodic adjustments for inflation and other fluctuating coal cost components. Use of a published index price does not take into account these price considerations.

B. Non-Arm's Length or No Contract Situations – The ONRR suggests that the current benchmarks used for non-arm's length transactions are difficult to use in practice.

We disagree. The Company, through agreement with the Minerals Management Service, utilizes the current benchmarks as an alternative valuation for coal supplied to the Company's coal plants. The use of a published index price, if available, is not representative of the Company's long-term investments and production costs. The ONRR benchmark includes a captive methodology that properly values the cost to produce the coal plus a return on capital investment. The Company believes that this valuation method reflects the value of the coal, particularly for a vertically integrated utility. Regulated utilities can only recover from its ratepayers revenues in line with these costs.

C. Transportation and Washing Allowances – The ONRR is exploring potential changes to washing and transportation allowances that would streamline industry reporting and ONRR auditing processes.

The Company maintains that these costs are necessary to place coal into marketable condition and should continue to be deductions from the coal value. As more stringent environmental restrictions are placed on the coal industry these types of costs should continue to be recognized as reductions in the coal value. Additionally, current regulations are not contemporary with all of the current industry practices required to place coal into marketable conditions. Coal blending is often used in addition or as a replacement of for coal washing. Similar to coal washing facilities, a deduction should be granted for coal blending facilities.

In conclusion, the Company believes that the ONRR should grandfather the valuation provisions under existing non-arm's length settlement agreements and should not attempt to negate the terms of previous valuation settlements with ONRR's proposed changes in valuation.