

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:**

**AN EXAMINATION OF THE APPLICATION )  
OF THE FUEL ADJUSTMENT CLAUSE OF )  
LOUISVILLE GAS AND ELECTRIC )  
COMPANY FROM NOVEMBER 1, 2014 )  
THROUGH OCTOBER 31, 2016 )**

**CASE NO. 2017-00004**

**DIRECT TESTIMONY OF  
DELBERT BILLITER  
MANAGER – FUELS RISK MANAGEMENT  
LG&E AND KU SERVICES COMPANY**

**Filed: February 20, 2017**

1 **Q. Please state your name, position and business address.**

2 A. My name is Delbert Billiter. I am the Manager, Fuels Risk Management for LG&E  
3 and KU Services Company, which provides services to Louisville Gas and Electric  
4 Company (“LG&E”) or (“the Company”) and Kentucky Utilities Company (“KU”)  
5 collectively (“the Companies”). My business address is 220 West Main Street,  
6 Louisville, Kentucky 40202. A statement of my education and work experience is  
7 attached to this testimony as Appendix A.

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

9 A. I am submitting this testimony in response to the Order entered in this proceeding by  
10 the Commission on February 6, 2017 (“Order”), directing LG&E to file written direct  
11 testimony on a number of issues relating to fuel procurement during the two-year  
12 period ended October 31, 2016 (“Review Period”).

13 **Q. Please comment generally on the reasonableness of LG&E’s fuel procurement  
14 practices during the Review Period.**

15 A. LG&E’s coal procurement practices are sufficiently flexible to allow the Company to  
16 respond effectively to changes in market conditions. Although LG&E typically  
17 issues formal, sealed-bid solicitations to meet its coal consumption and inventory  
18 needs, under its written fuel procurement policy, it may solicit offers through more  
19 informal means, or may respond to unsolicited offers to the extent prices and terms  
20 and conditions of such offers are competitive with existing market conditions. These  
21 practices, by which LG&E is able to make optimal use of the market, are  
22 memorialized in LG&E’s written fuel procurement policies and procedures. As noted  
23 in response to the Commission’s Order, Item No. 32, the fuel procurement policies

1 and procedures were last changed effective August 1, 2015 and were provided to the  
2 Commission in response to Question No. 15 in Case No. 2016-00004.

3 During the Two-Year Review Period, LG&E conducted four (4) written and  
4 one (1) oral coal supply solicitations in the competitive marketplace. The  
5 solicitations and associated bid tabulation sheets have been filed in each of the prior  
6 six-month review periods. The information for the last six-month period ended  
7 October 31, 2016, is contained in the response to the Commission's Order, Item No.  
8 25(a) and (b). In addition, each vendor from whom LG&E purchased coal during the  
9 six-month period ended October 31, 2016, and the quantities and nature of each  
10 purchase (including whether such purchase was a spot or contract purchase), are  
11 identified in response to the Commission's Order, Item No. 27.

12 **Q. Did LG&E comply with these fuel procurement policies during the Review**  
13 **Period?**

14 A. Yes.

15 **Q. Please describe the coal suppliers' adherence to contract delivery schedules**  
16 **during the Review Period.**

17 A. Generally, performance compared to contract has been very good for LG&E's  
18 suppliers. Some suppliers have experienced operational and/or transportation issues  
19 that interrupted deliveries but delivery schedules were adjusted and contract volumes  
20 were or will be delivered. A summary of all of LG&E's long-term fuel contracts is  
21 contained in the response to the Commission's Order, Item No. 15 (a) – (k).

22

1 **Q. What were LG&E’s efforts to ensure the coal suppliers’ adherence to contract**  
2 **delivery schedules during the Review Period?**

3 A. LG&E regularly communicates with its vendors to identify any potential problems in  
4 meeting agreed-upon delivery schedules. This includes daily correspondence  
5 between logistics personnel and periodic on-site mine visits by LG&E  
6 representatives. When suppliers experience issues meeting the delivery schedule,  
7 LG&E works with suppliers to explore options to meet the contract requirement.  
8 These options include adjusting future schedule quantity, allowing deliveries from  
9 alternate sources, and/or utilizing alternative transportation options.

10 LG&E continues to work with its suppliers on deliveries and make-up of force  
11 majeure events. This has proven to be an effective strategy over time that results in  
12 reasonably priced coal being delivered to our generation stations.

13 **Q. Please describe LG&E’s efforts to maintain the adequacy of its coal supplies in**  
14 **light of any coal supplier’s inability or unwillingness to make contract coal**  
15 **deliveries.**

16 A. If, after making efforts to mitigate a supplier’s inability to make contract deliveries,  
17 as described above, a supplier is unable to make contract deliveries or if a supplier is  
18 unwilling to make contract deliveries, LG&E could, as necessary, solicit the coal  
19 market to purchase additional coal to offset the delivery deficits. LG&E could also  
20 utilize its on-site inventory to address delivery deficits. In addition, LG&E would  
21 exercise its contractual rights to address any delivery deficits with the supplier.

22 To mitigate delivery issues with any one supplier, LG&E maintains, when  
23 operational possible and economically practical, a diversity of suppliers. This

1 diversity assists in maintaining an adequate supply by limiting the impact of a  
2 delivery shortfall from an individual supplier.

3 These efforts, coupled with ongoing procurement pursuant to the Company's  
4 policies, produced adequate coal supplies through the end of the Review Period.

5 **Q. Were there any changes in coal market conditions that occurred during the**  
6 **Review Period, or that LG&E expects to occur within the next two years that**  
7 **have significantly affected or will significantly affect the Company's coal**  
8 **procurement practices?**

9 A. The coal market has experienced and continues to undergo substantial changes.  
10 Although these changes can affect LG&E's bargaining power with suppliers, they did  
11 not alter, nor are they expected to alter, the Company's coal procurement practices.  
12 LG&E's fuel procurement practices allow the Company to respond effectively to  
13 changes in market conditions.

14 The market conditions in the U.S. coal industry continue to be very difficult.  
15 The coal market has undergone significant changes due to ever-tightening federal  
16 regulations and the growing availability of natural gas at very reasonable prices and  
17 in significant volumes. U.S. coal production has declined from over a billion tons in  
18 2012 to 739 million tons in 2016 as the industry continues "right size" to meet lower  
19 demand. Coal production is expected to rebound slightly in 2017 as the demand for  
20 coal increases marginally in the electric power sector. This change however is not  
21 expected to continue for the long term.

22 The U.S. Energy Information Administration's ("EIA") *Short -Term Energy*  
23 *Outlook*, released January 10, 2017 effectively confirms the 2016 drop in production

1 and the changes expected in the coal market over the next couple of years in the  
2 following:

3 U. S. Coal Supply “EIA estimates that coal production declined by  
4 158 million short tons (MMst) (18%) in 2016, to 739 MMst, which  
5 would be the lowest level of coal produced since 1978. The  
6 decline in coal production in 2016 would be the largest annual  
7 decline in terms of both tons and percentage based on data going  
8 back to 1949. In 2017, growth in coal-fired electricity generation  
9 is expected to lead to an increase of 51 MMst (7%) in total U. S.  
10 coal production, with the majority of the increase coming from the  
11 Western and Interior regions. Total coal production in 2018 is  
12 expected to increase only slightly, with coal production growth in  
13 the Western region mostly offset by declines in the Interior region  
14 and Appalachia region.”

15  
16 U. S. Coal Consumption “Coal consumption in the electric power  
17 sector, which accounts for more than 90% of total U. S. coal  
18 consumption is estimated to have declined by 60 MMst (8%) in  
19 2016. The decline is a result of competition with low-priced  
20 natural gas and the relatively mild temperatures in the first half of  
21 2016 that reduced overall electricity demand. Coal consumption in  
22 the electric power sector is forecast to increase by 41 MMst (6%)  
23 in 2017, mostly because of rising natural gas prices and increasing  
24 electricity generation. However, a reverse of these trends in 2018  
25 is expected to lead to an 11 MMst (1%) decline in power sector  
26 coal consumption.”  
27

28 **Q. Were LG&E’s costs of fuel for the Review Period reasonable?**

29 A. Yes. The prices LG&E is paying for coal is very comparable to other utilities in the  
30 region as identified in response to the Commission’s Order, Item No. 18. LG&E  
31 continues to follow the same sound coal procurement practices previously reviewed  
32 by the Commission. The schedule indicates that demand and prices in the coal market  
33 impacted all utilities and that the prices LG&E is paying for fuel are reasonable based  
34 on market conditions.

1 Q. **Were LG&E's fuel purchases and practices during the Review Period**  
2 **reasonable?**

3 A. Yes. In my opinion, LG&E's fuel purchases and practices were reasonable during the  
4 Review Period.

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

6 A. Yes.





## Appendix A

### **Delbert Billiter**

Manager, Fuels Risk Management  
LG&E and KU Energy LLC  
220 W. Main Street  
Louisville, KY 40202  
Telephone: (502) 627-4668

### **Work Experience**

#### **LG&E and KU**

Manager, Fuels Risk Management	2011 – Present
Manager, Fuels Technical Services	2005 – 2011
Lead Mining Engineer	1996 – 2005

#### **Arch Coal**

Manager, Engineering and Preparation	1995 – 1996
Various engineering positions in IL, KY and WV	1988 – 1995

### **Education**

Bachelor of Science – Mining Engineering  
University of Kentucky, 1988

### **Professional**

Registered Professional Engineer in KY