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October 6, 2006

VIA HAND DELIVERY

RECEIVED

OCT 06 2006

**PUBLIC SERVICE
COMMISSION**

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
P.O. Box 615
Frankfort, Kentucky 40602-0615

Re: In the Matter of Cumberland Valley Electric, Inc. versus Kentucky Utilities Company, Case No. 2006-00148

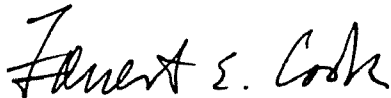
Dear Ms. O'Donnell:

Enclosed please find and accept for filing the original and ten (10) copies of the Direct Testimony and Exhibits of Richard Matda, Project Engineer, Black Mountain Resources LLC and Stillhouse Mining LLC.

This filing is made on behalf of Black Mountain Resources LLC and Stillhouse Mining LLC (granted full intervention status by September 13, 2006, Order of the Commission).

By copy of this letter, all parties listed on the attached Certificate of Service have been served.

Sincerely,



Forrest E. Cook
Attorney at Law

FEC/fc

Enclosures

cc: Parties of Record

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

2 A. My name is Richard Matda. I am employed as a project engineer for Black Mountain
3 Resources LLC (“BMR”) and Stillhouse Mining LLC (“Stillhouse LLC”). My business address
4 is 158 Central Avenue, Benham, Kentucky 40807.

5 **Q. Please provide an overview of your professional qualifications.**

6 A. I received a B.S. Degree in Mining Engineering from Virginia Tech (Blacksburg VA) in
7 1986. I worked for nine years for the Pittston Company (a diversified company with coal
8 operations) as an engineer at various locations including the corporate office. I left Pittston in
9 1995 and worked as a consulting engineer for four years. In September 1998, I came to work on
10 the Lynch property as a consultant overseeing exploration and permitting activities. In January
11 2000, I became an employee of BMR. During the time I have worked on this property, I have
12 been involved in exploration, permitting, planning, construction and management of all the
13 operations controlled by BMR.

14 **Q. Are you sponsoring any exhibits?**

15 A. Yes. I am sponsoring the following exhibits, each of which is a true and accurate
16 representation of the items shown therein:

17 Exhibit Matda-1. This exhibit is a map showing the permitted reserves associated with
18 the underground mining operations at Stillhouse Mine #2 (“Stillhouse #2”), operated by
19 Stillhouse LLC. This map also depicts the location of the mine portal.

20 Exhibit Matda-2. This exhibit shows the same items as Exhibit Matda-1, but also shows:
21 that portion of a distribution line, owned by BMR, which serves Stillhouse #2; the electric power
22 lines owned by Kentucky Utilities Company (“KU”) and Cumberland Valley Electric, Inc.

1 (“CVE”) that are closest to the Stillhouse #2 portal; and the location of the territorial boundary
2 between KU and CVE relative to the Stillhouse # 2 reserves.

3 Exhibit Matda-3. This map also depicts the permitted reserves for Stillhouse #2, and
4 reflects the present planned schedule for mining those reserves through 2011.

5 With regard to the location of utility facilities and the location of the territorial boundary
6 shown on these exhibits, the accuracy of those depictions has been verified by representatives of
7 KU and will be addressed in the testimony submitted by KU in this proceeding.

8 **Q. Have you reviewed the map being offered by KU witness Lonnie Bellar as Exhibit**
9 **LEB-1?**

10 A. Yes. In addition to depicting the territorial boundary between KU and CVE and the
11 location of utility-owned electric facilities in the area, which information KU has verified, the
12 map also accurately shows the property on which BMR has rights to conduct mining operations,
13 referred to as the U.S. Steel property, as well as the location of the BMR-owned distribution
14 network and the mining activities served by that line.

15 **Q. What is the relationship between BMR and Stillhouse LLC?**

16 A. Stillhouse LLC is a subsidiary of BMR (BMR is the sole member).

17 **Q. Is Stillhouse #2 the only mining activity in the area with which BMR is affiliated?**

18 A. No. There are presently eight (8) underground mines, one (1) surface mine and one (1)
19 coal-preparation plant actively operating in Harlan County through BMR, its subsidiary or its
20 affiliates. Other affiliated operations are also active in neighboring Letcher County.

21 **Q. How is Stillhouse #2 presently served with electricity?**

22 A. KU currently serves the mining operations at Stillhouse #2, although CVE provides
23 service to a nearby water pump. KU’s power is metered at BMR’s U.S. Steel Substation in

1 Lynch, which is located next to KU's Lynch Substation, and then delivered to Stillhouse #2 via a
2 distribution network owned by BMR. CVE's service to the water pump is provided from a tap
3 off of CVE's three-phase line just north of U.S. 119 outside of Cumberland. As referenced
4 earlier, the location of these facilities are depicted on Exhibit Matda-2 and KU exhibit LEB-1.

5 **Q. Please explain the history of the property on which BMR is conducting mining**
6 **operations in Harlan County.**

7 A. BMR's mining operations in Harlan County are on what is sometimes referred to as the
8 U.S. Steel property, a large boundary of "fee" property acquired in the early twentieth century.
9 The majority of that property, estimated to contain some 43,000 acres, was purchased in 1917 by
10 the U.S. Steel Coal and Coke Co. According to historic accounts, the town of Lynch was named
11 for Thomas Lynch, the first president of that company. It is also often said that Lynch's tipple --
12 the place coal was loaded onto rail cars -- was the largest in the world when it was built in the
13 early 1920s.

14 **Q. Please explain the history of the distribution network now owned by BMR.**

15 A. The history and development of that distribution system is co-extensive with the history
16 and development of the U.S. Steel property. Both the town of Lynch and the tipple there
17 originally obtained electricity from the same source. From the outset, the owner constructed a
18 power plant, erected utility poles, strung power lines and built substations. Although multiple
19 companies have since owned and mined the property, the contiguous boundary of quality coal
20 and the electrical distribution system are the foundation upon which all owners have relied
21 through the years. Beginning in 1931, the power plant was closed and retail electrical service
22 was purchased from KU. Electricity was thereafter delivered to the Lynch substation. The
23 existing private distribution system was used to distribute power to the U.S. Steel property. With

1 periodic upgrades, that distribution system has continued in place to the present date. It was a
2 part of the acquisition by BMR in 1998 from Arch Minerals, and it has been an essential part of
3 BMR's mining plans at all times. BMR relied on the private distribution system for its planning,
4 development and licensing of mines on the property. That distribution network is still fed by
5 KU's Lynch Substation, and presently serves eight (8) mining operations and one (1) coal-
6 preparation plant.

7 **Q. When did Stillhouse LLC begin operations at Stillhouse #2?**

8 A. Stillhouse LLC began operations at Stillhouse #2 in 2005.

9 **Q. Had mining activities previously taken place at that site?**

10 A. Yes. Arch Minerals had previously conducted underground mining in the immediate
11 vicinity and in the same reserves on the U.S. Steel property, beginning in about 1981, but had
12 ceased that activity in 1998 with coal still to be mined underground.

13 **Q. How was power supplied to those activities conducted by Arch?**

14 A. As is currently the case with Stillhouse #2, power was supplied through the distribution
15 network now owned by BMR.

16 **Q. Did BMR have to extend the distribution network in order to supply power to
17 Stillhouse #2?**

18 A. Yes. The Stillhouse #2 portal was located close to the reserves still to be mined, and thus
19 was in a different location than the points of entry used by Arch Minerals. BMR added an
20 extension of approximately 500 feet to the line as it existed when purchased from Arch.

21 **Q. Why did BMR elect to extend its distribution system to Stillhouse #2 rather than
22 taking power for those mining operations by some other means?**

1 A. Extending the existing distribution system was the most flexible and economical option
2 for us. As described above, BMR, like the predecessor companies before it, has relied on this
3 private distribution system in the planning, development and licensing of mines on the U.S. Steel
4 property

5 **Q. What impact would a decision by this Commission, awarding service to Stillhouse**
6 **#2 to CVE, have upon BMR?**

7 A. Such a decision would result in a point of delivery for our mining operations at Stillhouse
8 #2, which is different from the point of delivery we have chosen, thereby leaving approximately
9 2.75 miles of BMR's existing distribution line idle and causing a loss of the investment BMR
10 made when it purchased the distribution network in 1998. Such a result would certainly be
11 inconvenient, inefficient and uneconomical for us.

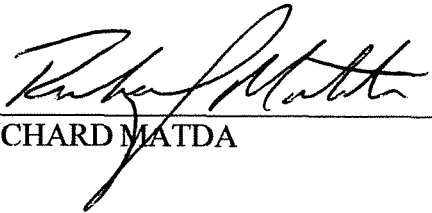
12 **Q. Does this conclude your testimony?**

13 A. Yes it does.

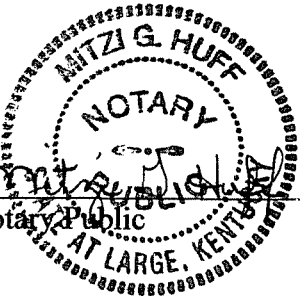
VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF HARLAN)

The undersigned, Richard Matda, being duly sworn, deposes and says he is a project engineer for Black Mountain Resources LLC and Stillhouse Mining LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.


RICHARD MATDA

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 4th day of October, 2006.


Notary Public

My Commission Expires:

10/23/07

CERTIFICATE OF SERVICE

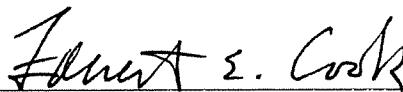
I hereby certify that a copy of the Direct Testimony of Richard Matda was served by first-class mail, postage pre-paid, upon the following, October 6, 2006:

Hon. Anthony G. Martin
PO Box 1812
Lexington, KY 40588

Hon. W. Patrick Hauser
200 Knox St.
Box 1900
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Hon. J. Gregory Cornett
Stoll Keenon Ogden PLLC
2000 PNC Plaza
500 West Jefferson Street
Louisville, KY 40202-2828

Hon. Allyson K. Sturgeon
Attorney for E.ON U.S. LLC
220 West Main Street
Louisville, KY 40202



Counsel for Black Mountain Resources LLC and
Stillhouse Mining LLC

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OF THE DATE OF FILING

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