

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	
KENTUCKY UTILITIES COMPANY FROM)	CASE NO.
NOVEMBER 1, 2012 THROUGH OCTOBER 31,)	2014-00452
2014)	

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	
KENTUCKY UTILITIES COMPANY FROM)	CASE NO.
NOVEMBER 1, 2013 THROUGH APRIL 30, 2014)	2014-00227

DIRECT TESTIMONY OF
CHARLES R. SCHRAM
DIRECTOR – ENERGY PLANNING, ANALYSIS & FORECASTING
LG&E AND KU SERVICES COMPANY

Filed: February 20, 2015

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

2 A. My name is Charles R. Schram. My position is Director – Energy Planning,
3 Analysis, and Forecasting for LG&E and KU Services Company, which provides
4 services to Louisville Gas and Electric Company (“LG&E”) and Kentucky
5 Utilities Company (“KU” or “the Company”) (collectively “the Companies”).
6 My business address is 220 West Main Street, Louisville, Kentucky 40202. A
7 complete statement of my education and work experience is attached to this
8 testimony as Appendix A.

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

10 A. I am submitting this testimony in accordance with the Order entered in this
11 proceeding by the Commission on February 5, 2015 (“Order”), directing KU to
12 file written direct testimony to address changes in the wholesale electric power
13 market that significantly affected, or will significantly affect, KU’s electric power
14 procurement practices.

15 **Q. What changes have occurred in the wholesale electric power market during**
16 **the period November 1, 2012 through October 31, 2014 that have**
17 **significantly affected KU’s electric power procurement practices?**

18 A. KU’s electric power procurement practices were not significantly affected by any
19 changes in the wholesale electric power market during this period.

20 **Q. How have prices developed in the wholesale power market during the period**
21 **November 1, 2012 through October 31, 2014 and how did that affect KU’s**
22 **purchases of economy power?**

1 A. The average electric power price during the period November 1, 2012 through
2 October 31, 2014 was \$43.71/MWh, compared to \$39.75/MWh during the
3 previous 2-year period (November 1, 2010 through October 31, 2012).¹ These
4 higher prices were driven largely by higher natural gas prices, which averaged
5 \$4.00/MMBtu during the period November 1, 2012 through October 31, 2014,
6 compared to \$3.41/MMBtu during the previous 2-year period.² Higher market
7 prices typically result in fewer market purchases as it is more cost effective to
8 meet native load demand with the Company's resources without relying on higher
9 cost market purchases. Economy purchases for the two year period of November
10 1, 2012 through October 31, 2014 were approximately 68% lower than the
11 previous two year period.

12 Relatively low natural gas prices and a low economic growth rate continue
13 to result in relatively weak wholesale power prices. KU continues to look for
14 opportunities to purchase hourly power from the wholesale market when the cost
15 is lower than its own resources and when import of this power is supported by
16 adequate transmission availability and other operational parameters.

17 **Q. What changes does KU expect to occur in the wholesale power market within**
18 **the next two years that may significantly affect KU's electric power**
19 **procurement practices?**

20 A. KU does not expect changes in the wholesale power market in the next two years
21 that would significantly affect KU's power procurement practices. Natural gas
22 continues to set marginal electricity prices in the region. On-shore shale gas

¹ Based on average monthly around-the-clock prices for PJM West Hub.

² Based on average monthly prices for Henry Hub.

1 supplies are expected to continue to be a growing part of the U.S. gas supply.
2 Consistent with my testimony in the prior 2-year FAC review, most forecasters
3 continue to believe that gas prices will avoid sustained periods of volatility given
4 the demonstrated responsiveness of new shale gas supplies.

5 Regardless of the development of wholesale markets, electric transmission
6 constraints and congestion may at times limit the Company's ability to import
7 power from the wholesale market to serve native load, highlighting the continuing
8 importance of the Company's ability to serve its customers with its own supply
9 side resources to ensure security of supply.

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

11 A. Yes.

Appendix A

Charles R. Schram

Director – Energy Planning, Analysis & Forecasting
LG&E and KU Services Company
220 West Main Street
Louisville, Kentucky 40202
(502) 627-3250

Professional Experience

LG&E and KU

Director, Energy Planning, Analysis & Forecasting	May 2008 – Present
Manager, Transmission Protection & Substations	2006 – 2008
Manager, Business Development	2005 – 2006
Manager, Strategic Planning	2001 – 2005
Manager, Distribution System Planning & Eng.	2000 – 2001
Manager, Electric Metering	1997 – 2000
Information Technology Analyst	1995 – 1997

U.S. Department of Defense – Naval Ordnance Station

Manager, Software Integration	1993 – 1995
Electronics Engineer	1984 – 1993

Education

Master of Business Administration
University of Louisville, 1995
Bachelor of Science – Electrical Engineering
University of Louisville, 1984
E.ON Academy General Management Program: 2002-2003
Center for Creative Leadership, Leadership Development Program: 1998