

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

**In the Matter of:**

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

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

**DIRECT TESTIMONY OF**  
**MIKE DOTSON**  
**MANAGER – LG&E / KU FUELS**  
**LG&E AND KU SERVICES COMPANY**

**Filed: February 20, 2015**

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

2 A. My name is Mike Dotson. I am the Manager of LG&E/KU Fuels for LG&E and KU  
3 Services Company, which provides services to LG&E and KU Energy, LLC. My  
4 business address is 220 West Main Street, Louisville, Kentucky 40202. A statement  
5 of my education and work experience is attached to this testimony as Appendix A.

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

7 A. I am submitting this testimony in response to the Order entered in this proceeding by  
8 the Commission on February 5, 2015 (“Order”), directing KU to file written direct  
9 testimony on a number of issues relating to fuel procurement during the two-year  
10 period ended October 31, 2014 (“Review Period”).

11 **Q. Please comment generally on the reasonableness of KU’s fuel procurement  
12 practices during the Review Period.**

13 A. KU’s coal procurement practices are sufficiently flexible to allow the Company to  
14 respond effectively to changes in market conditions. Although KU typically issues  
15 formal, sealed-bid solicitations to meet its coal consumption and inventory needs,  
16 under its written fuel procurement policy, it may solicit offers through more informal  
17 means, or may respond to unsolicited offers to the extent prices and terms and  
18 conditions of such offers are competitive with existing market conditions. These  
19 practices, by which KU is able to make optimal use of the market, are memorialized  
20 in KU’s written fuel procurement policies and procedures. As noted in response to  
21 the Commission’s Order, Item No. 31, the fuel procurement policies and procedures  
22 were last changed effective March 1, 2013 and were provided to the Commission in  
23 response to Question No. 31 in Case No. 2012-00552.

1           During the 2-Year Review Period, KU conducted six (6) written coal supply  
2           solicitations in the competitive marketplace. The solicitations and associated bid  
3           tabulation sheets have been filed in each of the prior 6 month review periods. The  
4           information for the last six-month period ended October 31, 2014, is contained in the  
5           response to the Commission’s Order, Item No. 25(a) and (b). In addition, each  
6           vendor from whom KU purchased coal during the six-month period ended October  
7           31, 2014, and the quantities and nature of each purchase (including whether such  
8           purchase was a spot or contract purchase), are identified in response to the  
9           Commission’s Order, Item No. 27.

10 **Q. Did KU comply with these fuel procurement policies during the Review Period?**

11 A. Yes.

12 **Q. Please describe the coal suppliers’ adherence to contract delivery schedules**  
13 **during the Review Period.**

14 A. Generally, performance compared to contract has been very good for KU’s suppliers.  
15 A few of our suppliers experienced operational and/or transportation issues that  
16 interrupted deliveries but delivery schedules were adjusted and contract volumes will  
17 ultimately be delivered. A list of all of KU’s long-term fuel contracts is contained in  
18 the response to the Commission’s Order, Item No. 15 (a) – (k).

19           With the slowdown in the U. S coal market and export demand it has been a  
20 difficult time for coal producers: weak demand, tightening federal regulations, highly  
21 competitive natural gas prices and adequate consumer stockpiles resulting from mild  
22 weather have forced many producers to cut supply. With these conditions coal  
23 suppliers have sufficient supply to make deliveries under their contracts.

1 **Q. What were KU's efforts to ensure the coal suppliers' adherence to contract**  
2 **delivery schedules during the Review Period?**

3 A. KU regularly communicates with its vendors to identify any potential problems in  
4 meeting agreed-upon delivery schedules. KU works with its suppliers on an ongoing  
5 basis to accommodate genuine production/delivery problems and reach mutually  
6 agreeable resolutions. This includes mine visits by KU representatives, working with  
7 suppliers on allowing deliveries from alternate sources or utilizing alternate  
8 transportation options.

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

12 **Q. Please describe KU's efforts to maintain the adequacy of its coal supplies in light**  
13 **of any coal supplier's inability or unwillingness to make contract coal deliveries.**

14 A. KU works with its suppliers on an ongoing basis to ensure deliveries of contracted  
15 amounts of coal. Should suppliers have problems, KU will work with its suppliers on  
16 allowing deliveries from alternate sources, and switching modes of transportation  
17 when available.

18 As previously noted with the slowdown in the U. S. coal market and export  
19 market we have seen a number of producers cutting back production and closing  
20 mines. The Central Appalachian Region experienced the majority of the mine  
21 closures. The region is experiencing thinning coal seams, federal regulations, and  
22 permitting delays resulting in rising production cost. As a result, the Central

1 Appalachian region is losing more production and market share as buyers switch to  
2 lower cost Illinois Basin coal.

3 The Illinois Basin coal demand will continue to grow over the next several  
4 years. Its relatively inexpensive and abundant reserves, favorable location and the  
5 continued construction of scrubbers in the East will increase the demand for this type  
6 of coal.

7 The majority of the coal KU uses is supplied from the Illinois Basin.

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

10 **Q. Were there any changes in coal market conditions that occurred during the**  
11 **Review Period, or that KU expects to occur within the next 2 years that have**  
12 **significantly affected or will significantly affect the Company's coal procurement**  
13 **practices?**

14 A. As noted above, it continues to be a difficult time for the U.S. coal industry. The coal  
15 market has recently undergone significant changes due to ever-tightening federal  
16 regulations and the growing availability of natural gas at very reasonable prices. As a  
17 result, one major issue will be "right sizing" supply as coal demand shrinks. The  
18 issue of right sizing coal supply is anticipated to continue through 2016 as coal units  
19 are retired in response to the Mercury and Air Toxics Standards.

20 The following quotes from the U.S. Energy Information Administration's  
21 ("EIA") *Short -Term Energy Outlook*, released January 13, 2015 discuss the changes  
22 expected in the coal market over the next couple of years:

23 U. S. Coal supply "EIA estimates that coal production for 2014  
24 was 994 MMst, 1% (10 MMst) higher than in 2013. EIA expects

1 that annual production will decline in both 2015 and 2016, to 984  
2 MMst and 977 MMst, respectively.”

3  
4 U. S. Coal Consumption “Electric power sector coal consumption  
5 was largely unchanged in 2014. Power sector coal consumption is  
6 projected to increase by 0.3% in 2015, despite a 0.8% increase in  
7 electricity demand, as comparative natural gas prices decline and  
8 retirements of coal power plants rise in response to the  
9 implementation of the [Mercury and Air Toxics Standards](#). The full  
10 effect of the coal plant retirements is felt in 2016, as projected  
11 electric power sector coal consumption declines by 1.4%.”  
12

13 Although these changes can affect KU’s bargaining power with suppliers,  
14 they did not alter, nor are they expected to alter, the Company’s coal procurement  
15 practices. KU’s fuel procurement practices allow the Company to respond effectively  
16 to changes in market conditions.

17 **Q. Were KU’s costs of fuel for the Review Period reasonable?**

18 A. Yes. The prices KU is paying for coal is very comparable to other utilities in the  
19 region as identified in response to the Commission’s Order, Item No. 18. KU  
20 continues to follow the same sound coal procurement practices previously reviewed  
21 by the Commission. The schedule indicates that demand and prices in the coal market  
22 impacted all utilities and that the prices KU is paying for fuel are reasonable based on  
23 market conditions.

24 **Q. Were KU’s fuel purchases and practices during the Review Period reasonable?**

25 A. Yes. In my opinion, KU’s fuel purchases and practices were reasonable during the  
26 Review Period.


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

28 A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 ) SS:  
COUNTY OF JEFFERSON )

The undersigned, **Mike Dotson**, being duly sworn, deposes and says that he is the Manager, LG&E / KU Fuels, LG&E and KU Services Company, 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 information, knowledge and belief.

  
\_\_\_\_\_  
**MIKE DOTSON**

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20<sup>th</sup> day of February 2015.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:  
**JUDY SCHOOLER**  
**Notary Public, State at Large, KY**  
**My commission expires July 11, 2018**  
**Notary ID # 512743**

## Appendix A

### Mike Dotson

Manager, LG&E/KU Fuels  
LG&E and KU Services Company  
220 West Main Street  
Louisville, Kentucky 40202  
(502) 627-2322

#### Education

Master of Business Administration Xavier University, Cincinnati, Ohio	1984
Bachelor of Business Administration University of Kentucky, Lexington, Kentucky	1973

#### Experience

LG&E and KU Services Company	
Manager, LG&E/KU Fuels	July 1998 - Present
Big Rivers Electric Company	
Vice President of Fuels & Environmental Affairs	Jan 1996 – July 1998
Vice President of Fuels	Jan 1994 – Dec 1995
Manager of Fuels	May 1993 – Dec 1993
Kentucky Utilities Company	
Manager of Fuel Procurement	Sep 1991 – May 1993
Fuel Contract Administrator	July 1986 – Sept. 1991
Diamond Shamrock Coal Company	Feb. 1984 – July 1986
Island Creek Coal Company	March 1980 – Feb.1984
Kentucky American Water Company	Sept. 1978–March 1980
GTE Sylvania	Sept. 1976 – Sept. 1978
K-Mart Corp.	Jan. 1975 – Sept. 1976