

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)	CASE NO.
COMPANY FROM NOVEMBER 1, 2012)	2014-00453
THROUGH OCTOBER 31, 2014)	

AN EXAMINATION OF THE APPLICATION OF)	
THE FUEL ADJUSTMENT CLAUSE OF)	
LOUISVILLE GAS AND ELECTRIC COMPANY)	CASE NO.
FROM NOVEMBER 1, 2013 THROUGH)	2014-00228
APRIL 30, 2014)	

DIRECT TESTIMONY OF
MIKE DOTSON
MANAGER – LG&E / LG&E 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 LG&E 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 LG&E’s fuel procurement
12 practices during the Review Period.**

13 A. LG&E’s coal procurement practices are sufficiently flexible to allow the Company to
14 respond effectively to changes in market conditions. Although LG&E typically
15 issues formal, sealed-bid solicitations to meet its coal consumption and inventory
16 needs, under its written fuel procurement policy, it may solicit offers through more
17 informal means, or may respond to unsolicited offers to the extent prices and terms
18 and conditions of such offers are competitive with existing market conditions. These
19 practices, by which LG&E is able to make optimal use of the market, are
20 memorialized in LG&E’s written fuel procurement policies and procedures. As noted
21 in response to the Commission’s Order, Item No. 31, the fuel procurement policies
22 and procedures were last changed effective March 1, 2013 and were provided to the
23 Commission in response to Question No. 31 in Case No. 2012-00553.

1 During the 2-Year Review Period, LG&E conducted four (4) written coal
2 supply solicitations in the competitive marketplace. The solicitations and associated
3 bid 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 LG&E 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 LG&E comply with these fuel procurement policies during the Review**
11 **Period?**

12 A. Yes.

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

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

20 With the slowdown in the U. S. coal market and export demand it has been a
21 difficult time for coal producers: weak demand, tightening federal regulations, highly
22 competitive natural gas prices and adequate consumer stockpiles resulting from mild

1 weather have forced many producers to cut supply. With these conditions coal
2 supplies have sufficient supply to make deliveries under their contracts.

3 **Q. What were LG&E's efforts to ensure the coal suppliers' adherence to contract**
4 **delivery schedules during the Review Period?**

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

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

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

17 A. LG&E works with its suppliers on an ongoing basis to ensure deliveries of contracted
18 amounts of coal. Should suppliers have problems, LG&E will worked with its
19 suppliers on allowing deliveries from alternate sources, and switching modes of
20 transportation when available.

21 As previously noted with the slowdown in the U. S. coal market and export
22 market we have seen a number of producers cutting back production and closing
23 mines. The Central Appalachian Region experienced the majority of the mine

1 closures. The region is experiencing thinning coal seams, federal regulations, and
2 permitting delays resulting in rising production cost. As a result, the Central
3 Appalachian Region is losing more production and market share as buyers switch to
4 lower cost Illinois Basin coal.

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

9 The majority of the coal LG&E uses is supplied from the Illinois Basin.

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

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

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

1 The following quotes from the U.S. Energy Information Administration’s
2 (“EIA”) *Short –Term Energy Outlook*, released January 13, 2015 discuss the changes
3 expected in the coal market over the next couple of years:

4 U. S. Coal supply “EIA estimates that coal production for 2014
5 was 994 MMst, 1% (10 MMst) higher than in 2013. EIA expects
6 that annual production will decline in both 2015 and 2016, to 984
7 MMst and 977 MMst, respectively.”
8

9 U. S. Coal Consumption “Electric power sector coal consumption
10 was largely unchanged in 2014. Power sector coal consumption is
11 projected to increase by 0.3% in 2015, despite a 0.8% increase in
12 electricity demand, as comparative natural gas prices decline and
13 retirements of coal power plants rise in response to the
14 implementation of the [Mercury and Air Toxics Standards](#). The full
15 effect of the coal plant retirements is felt in 2016, as projected
16 electric power sector coal consumption declines by 1.4%.”
17

18 Although these changes can affect LG&E’s bargaining power with suppliers,
19 they did not alter, nor are they expected to alter, the Company’s coal procurement
20 practices. LG&E’s fuel procurement practices allow the Company to respond
21 effectively to changes in market conditions.

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

23 A. Yes. The prices LG&E is paying for coal is very comparable to other utilities in the
24 region as identified in response to the Commission’s Order No. 18. LG&E continues
25 to follow the same sound coal procurement practices previously reviewed by the
26 Commission. The schedule indicates that demand and prices in the coal market
27 impacted all utilities and the prices LG&E is paying for fuel are reasonable based on
28 market conditions.

29 **Q. Were LG&E’s fuel purchases and practices during the Review Period**
30 **reasonable?**

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


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

4 A. Yes.

VERIFICATION

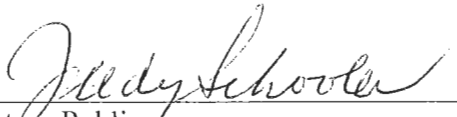
COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

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 20th 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 Vice President of Fuels Manager of Fuels	Jan 1996 – July 1998 Jan 1994 – Dec 1995 May 1993 – Dec 1993
Kentucky Utilities Company Manager of Fuel Procurement Fuel Contract Administrator	Sep 1991 – May 1993 July 1986 – Sept. 1991
Diamond Shamrock Coal Company Island Creek Coal Company Kentucky American Water Company GTE Sylvania K-Mart Corp.	Feb. 1984 – July 1986 March 1980 – Feb. 1984 Sept. 1978–March 1980 Sept. 1976 – Sept. 1978 Jan. 1975 – Sept. 1976