I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Mark Watson. I am the Vice-President of Operations for Alliance Coal, LLC ("Alliance"). My business address is 1146 Monarch St., Suite 350, Lexington, KY 40513.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL BACKGROUND.

A. I have over 22 years of underground coal mining experience and have held positions in production, maintenance, engineering, and management in my career with Alliance. I hold both a Bachelor of Science degree and Masters of Science degree in Electrical Engineering from the University of Kentucky.
Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am appearing on behalf of Kentucky Industrial Utilities Customers, Inc. ("KIUC"). Alliance is a member of KIUC. Alliance is a diversified producer and marketer of coal to major United States utilities and industrial users. Alliance is currently the largest coal producer in the Commonwealth of Kentucky and is the second largest coal producer in the eastern United States. In 2016, the affiliated operations of Alliance in Kentucky, Illinois, Indiana and West Virginia produced 35.2 million tons of coal from underground mining methods. Alliance’s Kentucky subsidiaries produced 17.7 million tons in 2016, representing 42% of the total Kentucky production of 42.4 million tons. Alliance and its subsidiaries have 3,316 employees, with 1,801 working within our Kentucky operations. Alliance’s five mining complexes located in the Western Kentucky coalfield are served by Kentucky Utilities Company ("KU"). These Alliance operations purchased and consumed 0.32 million megawatt hours of the 6.6 million megawatt hours of KU’s 2016 Industrial electricity account sales, representing 4.85% of total sales.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

I will explain how KU’s proposal to cut the Curtailable Service Rider ("CSR") credit from $6.40 per kVa of curtailable billing demand to $3.20 per kVa for transmission voltage customers would adversely impact Alliance.

Q. HOW MANY ACCOUNTS DOES ALLIANCE HAVE ON THE KU SYSTEM?

A. Alliance’s affiliated operations have 17 accounts on the Kentucky Utilities system, four of which are taking service under the CSR tariff.
Q. WHAT PORTION OF ALLIANCE’S OPERATIONS IS CURTAILABLE?

A. Certain parts of our active mining operations in Western KY, including River View Coal, LLC (“River View”), Warrior Coal, LLC (“Warrior”), Webster County Coal, LLC (“Webster”), Sebree Mining, LLC (“Sebree”) and Hopkins County Coal, LLC (“Hopkins”) are able to curtail service. Sebree and Hopkins are presently idle due to recent market weakness. While all of the Alliance operations are able to curtail service, the KU CSR program only has the capacity to allow the River View complex, Warrior complex, and the Webster surface coal processing facilities to participate. At the operations participating in the KU CSR program, a certain amount of base load is defined as non-curtailable. This allows proper ventilation of each mine and for limited maintenance work to continue, on an uninterrupted basis, in the event of any curtailable event.

Q. HOW LONG HAS ALLIANCE TAKEN SERVICE UNDER THE CSR?

A. Alliance and its affiliated operations have been taking service under the CSR since August 2016. Prior to making the commitment to enroll in the program, Alliance management researched the KU CSR program and its history to determine its costs and benefits to Alliance. We determined the KU CSR program would be a benefit to Alliance and directed the eligible operations to include the CSR electrical rate structure tariff, in its current form, in their financial plans and operating budgets. Alliance uses these financial projections to make long-term coal sales commitments, hiring, and capital investment decisions, all of which are critical to the success of our business.
HAS ALLIANCE ALTERED ITS OPERATIONS IN RELIANCE ON THE CSR?

Yes. A significant amount of training was required for each site to be able to properly coordinate and handle an unplanned full production shutdown. A dedicated employee has been assigned the responsibility of managing the requirements of each CSR contract. On top of a new role being created by the implementation of CSR, Alliance also had to invest in equipment and controls to handle receiving an event notification. KU was willing to call one number for each meter point, and thus, Alliance had to invest in a phone system to help deliver the call to multiple management members. It takes a large coordinated effort for Alliance to reduce load at each site. We are currently in the process of installing additional equipment at each meter point so that we have accurate real-time monitoring of our electrical usage via meter pulse agreements. Due to the importance of not only responding, but ensuring we are responding at the proper level, we felt having real-time monitoring was essential. Interfacing this data with our current control and data acquisition system was a large investment of time and money.

HOW WOULD KU’S PROPOSAL TO CUT THE CSR CREDIT IN HALF IMPACT ALLIANCE?

KU’s proposal, if approved, would increase Alliance’s electrical cost by 16.75%, which we estimate to be over $2.8 million in added annual operating expense. The proposed change to the KU CSR program represents approximately half of this cost increase, or 8.45%. Increasing operating cost by this magnitude will make it even more difficult for Alliance operations to compete in the domestic coal markets with producers from Illinois and Indiana, who are not burdened with the Kentucky coal severance tax.

Mark Watson
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Q. PLEASE DESCRIBE THE CURRENT STATE OF THE COAL INDUSTRY IN KENTUCKY.

A. In 2008, the Kentucky coal industry employed 17,670 persons and produced 121.2 million tons of coal. Since that time, the coal industry has been in a steep decline. In 2016, the end-of-year employment was 6,250 and total production was 42.4 million tons of coal. From 2008 to 2016, Kentucky lost 65% of a signature industry, which has led to economic crisis in the Eastern Coal Fields Region and is impacting the overall economic wellbeing of the entire Commonwealth. In the last year alone, coal production in Kentucky dropped by 30.7%, a reduction of 19 million tons. In the U.S., over the past five years, the number of active coal mines declined by 35% and the number of coal miners employed declined by 43%. Only the lowest cost coal mines are able to compete in the current market environment.

Moreover, mines located in Illinois, West Virginia and Pennsylvania have access to curtailable power rates through the MISO and PJM power markets. Reducing the CSR credit hinders Alliance’s ability to compete in the domestic and export coal markets, particularly by comparison to mines located outside of the Commonwealth of Kentucky.

Q. ARE OTHER UTILITIES TAKING AFFIRMATIVE STEPS TO PRESERVE THE COAL INDUSTRY IN KENTUCKY?

A. Yes. Kentucky Power Company recently asked the Commission to modify two of its existing rate mechanisms (its interruptible tariff and economic development tariff) and to establish a new tariff to encourage coal extraction and processing customers to reopen.
closed facilities or to establish new operations in its service territory.\(^1\) Kentucky Power's request shows that interruptible rates can be an important tool in helping to preserve and grow coal jobs in the Commonwealth.

Q. **DID KU DISCUSS ITS PROPOSAL TO DRASTICALLY CUT THE CSR WITH ALLIANCE PRIOR TO FILING THIS RATE CASE?**

A. No.

Q. **IS ALLIANCE GENERALLY SATISFIED WITH KU'S SERVICE QUALITY?**

A. Yes. KU has served mining operations affiliated with Alliance for over 50 years. Over the past five decades, the relationship between KU and Alliance has been excellent. Alliance has the unique opportunity to work with many different power suppliers (meter points in seven different states within the US). Without question, the system reliability that we have received from KU ranks at the top of our provider list. Outages are unavoidable, especially when you have as many meter points as we do, and KU has gone above and beyond in terms of power restoration. After-hour calls are always answered and normally within an hour we are in touch with the team leader for that specific area (regardless of it being a transmission or distribution line issue).

KU has also provided us with excellent customer service. KU is a large company and as a customer that is always expanding and moving, we require communication with multiple groups inside KU. Whether we are planning for the future, scheduling an

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\(^1\) KPSC Case No. 2017-00099.
outage, or need help tracking down a system fault, KU has been there to support our needs.

Q. DO YOU HAVE A RECOMMENDATION AS TO THE PROPER LEVEL OF THE CSR CREDIT?
A. No. I am relying on the recommendation set forth in the testimony of KIUC witness Goins.

Q. IS ALLIANCE WILLING TO JOIN A POST-RATE CASE WORKING GROUP TO HELP KU RESOLVE ANY ISSUES SURROUNDING THE CURRENT CSR?
A. Yes. Alliance would gladly participate in the post-rate case working group process described in KIUC witness Goins' testimony. Rather than limiting the service options available to customers in Kentucky, it is worthwhile to attempt to preserve and improve the current CSR program, which allows customers such as Alliance to choose a level of utility service that fits their needs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?
A. Yes.
COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES

) ) CASE NO. 2016-00370

AFFIDAVIT

STATE OF KENTUCKY )
COUNTY OF FAUETTE )

Mark Watson, being duly sworn, deposes and states: that the attached is his sworn testimony and that the
statements contained are true and correct to the best of his knowledge, information and belief.

Mark Watson

Subscribed and sworn to or affirmed before me
this 2nd day of March, 2017.

Notary Public

My Commission Expires: June 30, 2020

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