

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

IN THE MATTER OF: ELECTRONIC :
APPLICATION OF KENTUCKY UTILITIES : **Case No. 2016-00370**
COMPANY FOR AN ADJUSTMENT OF ITS :
ELECTRIC RATES AND FOR CERTIFICATES OF :
PUBLIC CONVENIENCE AND NECESSITY :

**DIRECT TESTIMONY OF MARK WATSON
ON BEHALF OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3 A. My name is Mark Watson. I am the Vice-President of Operations for Alliance Coal, LLC
4 (“Alliance”). My business address is 1146 Monarch St., Suite 350, Lexington, KY
5 40513.

6
7 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL AND EDUCATIONAL
8 BACKGROUND.**

9 A. I have over 22 years of underground coal mining experience and have held positions in
10 production, maintenance, engineering, and management in my career with Alliance. I
11 hold both a Bachelor of Science degree and Masters of Science degree in Electrical
12 Engineering from the University of Kentucky.

1 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

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

15

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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

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

21 **A.** Alliance’s affiliated operations have 17 accounts on the Kentucky Utilities system, four
22 of which are taking service under the CSR tariff.

1 **Q. WHAT PORTION OF ALLIANCE’S OPERATIONS IS CURTAILABLE?**

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

13
14 **Q. HOW LONG HAS ALLIANCE TAKEN SERVICE UNDER THE CSR?**

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

1 **Q. HAS ALLIANCE ALTERED ITS OPERATIONS IN RELIANCE ON THE CSR?**

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

15
16 **Q. HOW WOULD KU'S PROPOSAL TO CUT THE CSR CREDIT IN HALF**
17 **IMPACT ALLIANCE?**

18 A. KU's proposal, if approved, would increase Alliance's electrical cost by 16.75%, which
19 we estimate to be over \$2.8 million in added annual operating expense. The proposed
20 change to the KU CSR program represents approximately half of this cost increase, or
21 8.45%. Increasing operating cost by this magnitude will make it even more difficult for
22 Alliance operations to compete in the domestic coal markets with producers from Illinois
23 and Indiana, who are not burdened with the Kentucky coal severance tax.

1 **Q. PLEASE DESCRIBE THE CURRENT STATE OF THE COAL INDUSTRY IN**
2 **KENTUCKY.**

3 A. In 2008, the Kentucky coal industry employed 17,670 persons and produced 121.2
4 million tons of coal. Since that time, the coal industry has been in a steep decline. In
5 2016, the end-of-year employment was 6,250 and total production was 42.4 million tons
6 of coal. From 2008 to 2016, Kentucky lost 65% of a signature industry, which has led to
7 economic crisis in the Eastern Coal Fields Region and is impacting the overall economic
8 wellbeing of the entire Commonwealth. In the last year alone, coal production in
9 Kentucky dropped by 30.7%, a reduction of 19 million tons. In the U.S., over the past
10 five years, the number of active coal mines declined by 35% and the number of coal
11 miners employed declined by 43%. Only the lowest cost coal mines are able to compete
12 in the current market environment.

13
14 Moreover, mines located in Illinois, West Virginia and Pennsylvania have access to
15 curtailable power rates through the MISO and PJM power markets. Reducing the CSR
16 credit hinders Alliance's ability to compete in the domestic and export coal markets,
17 particularly by comparison to mines located outside of the Commonwealth of Kentucky.

18
19 **Q. ARE OTHER UTILITIES TAKING AFFIRMATIVE STEPS TO PRESERVE**
20 **THE COAL INDUSTRY IN KENTUCKY?**

21 A. Yes. Kentucky Power Company recently asked the Commission to modify two of its
22 existing rate mechanisms (its interruptible tariff and economic development tariff) and to
23 establish a new tariff to encourage coal extraction and processing customers to reopen

1 closed facilities or to establish new operations in its service territory.¹ Kentucky Power's
2 request shows that interruptible rates can be an important tool in helping to preserve and
3 grow coal jobs in the Commonwealth.

4
5 **Q. DID KU DISCUSS ITS PROPOSAL TO DRASTICALLY CUT THE CSR WITH**
6 **ALLIANCE PRIOR TO FILING THIS RATE CASE?**

7 A. No.

8
9 **Q. IS ALLIANCE GENERALLY SATISFIED WITH KU'S SERVICE QUALITY?**

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

19
20 KU has also provided us with excellent customer service. KU is a large company and as
21 a customer that is always expanding and moving, we require communication with
22 multiple groups inside KU. Whether we are planning for the future, scheduling an

¹ KPSC Case No. 2017-00099.

1 outage, or need help tracking down a system fault, KU has been there to support our
2 needs.

3
4 **Q. DO YOU HAVE A RECOMMENDATION AS TO THE PROPER LEVEL OF**
5 **THE CSR CREDIT?**

6 A. No. I am relying on the recommendation set forth in the testimony of KIUC witness
7 Goins.

8
9 **Q. IS ALLIANCE WILLING TO JOIN A POST-RATE CASE WORKING GROUP**
10 **TO HELP KU RESOLVE ANY ISSUES SURROUNDING THE CURRENT CSR?**

11 A. Yes. Alliance would gladly participate in the post-rate case working group process
12 described in KIUC witness Goins' testimony. Rather than limiting the service options
13 available to customers in Kentucky, it is worthwhile to attempt to preserve and improve
14 the current CSR program, which allows customers such as Alliance to choose a level of
15 utility service that fits their needs.

16
17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

18 A. Yes.

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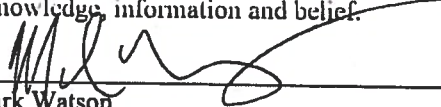
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COMPANY FOR AN ADJUSTMENT) CASE NO.
OF BASE RATES) 2016-00370

AFFIDAVIT


STATE OF KENTUCKY)
COUNTY OF FAYETTE)

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 #558123

My Commission Expires: June 30, 2020