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. 2017-00003**
NOVEMBER 1, 2014 THROUGH OCTOBER	**)**	
31, 2016	**)**	

DIRECT TESTIMONY OF
DELBERT BILLITER
MANAGER – FUELS RISK MANAGEMENT
LG&E AND KU SERVICES COMPANY

Filed: February 20, 2017

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

A. My name is Delbert Billiter. I am the Manager, Fuels Risk Management for LG&E and KU Services Company, which provides services to Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU" or "the Company") (collectively "the Companies"). My business address is 220 West Main Street, Louisville, Kentucky 40202. A statement of my education and work experience is attached to this testimony as Appendix A.

Q. What is the purpose of your testimony?

A. I am submitting this testimony in response to the Order entered in this proceeding by the Commission on February 6, 2017 ("Order"), directing KU to file written direct testimony on a number of issues relating to fuel procurement during the two-year period ended October 31, 2016 ("Review Period").

Q. Please comment generally on the reasonableness of KU's fuel procurement practices during the Review Period.

A. KU's coal procurement practices are sufficiently flexible to allow the Company to respond effectively to changes in market conditions. Although KU typically issues formal, sealed-bid solicitations to meet its coal consumption and inventory needs, under its written fuel procurement policy, it may solicit offers through more informal means, or may respond to unsolicited offers to the extent prices and terms and conditions of such offers are competitive with existing market conditions. These practices, by which KU is able to make optimal use of the market, are memorialized in KU's written fuel procurement policies and procedures. As noted in response to the Commission's Order, Item No. 32, the fuel procurement policies and procedures were last changed effective August 1, 2015 and were provided to the Commission in response to Question No. 15 in Case No. 2016-00003.

During the Two-Year Review Period, KU conducted five (5) written and one (1) oral coal supply solicitations in the competitive marketplace. The solicitations and associated bid tabulation sheets have been filed in each of the prior six-month review periods. The information for the last six-month period ended October 31, 2016, is contained in the response to the Commission's Order, Item No. 25(a) and (b). In addition, each vendor from whom KU purchased coal during the six-month period ended October 31, 2016, and the quantities and nature of each purchase (including whether such purchase was a spot or contract purchase), are identified in response to the Commission's Order, Item No. 27.

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

A. Yes.

Q. Please describe the coal suppliers' adherence to contract delivery schedules during the Review Period.

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

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

A. KU regularly communicates with its vendors to identify any potential problems in meeting agreed-upon delivery schedules. This includes daily correspondence between logistics personnel and periodic on-site mine visits by KU representatives. When suppliers experience issues meeting the delivery schedule, KU works with suppliers to explore options to meet the contract requirement. These options include adjusting future schedule quantity, allowing deliveries from alternate sources, and/or utilizing alternative transportation options.

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

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

A. If, after making efforts to mitigate a supplier's inability to make contract deliveries, as described above, a supplier is unable to make contract deliveries or if a supplier is unwilling to make contract deliveries, KU could, as necessary, solicit the coal market to purchase additional coal to offset the delivery deficits. KU could also utilize its on-site inventory to address delivery deficits. In addition, KU would exercise its contractual rights to address any delivery deficits with the supplier.

To mitigate delivery issues with any one supplier, KU maintains, when operational possible and economically practical, a diversity of suppliers. This diversity assists in maintaining an adequate supply by limiting the impact of a delivery shortfall from an individual supplier.

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

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

A. The coal market has experienced and continues to undergo substantial changes. Although these changes can affect KU's bargaining power with suppliers, they did not alter, nor are they expected to alter, the Company's coal procurement practices. KU's fuel procurement practices allow the Company to respond effectively to changes in market conditions.

The market conditions in the U.S. coal industry continue to be very difficult. The coal market has undergone significant changes due to ever-tightening federal regulations and the growing availability of natural gas at very reasonable prices and in significant volumes. U.S. coal production has declined from over a billion tons in 2012 to 739 million tons in 2016 as the industry continues to "right size" to meet lower demand. Coal production is expected to rebound slightly in 2017 as the demand for coal increases marginally in the electric power sector. This change however is not expected to continue for the long term.

The U.S. Energy Information Administration's ("EIA") *Short –Term Energy Outlook*, released January 10, 2017 effectively confirms the 2016 drop in production and the changes expected in the coal market over the next couple of years in the following:

> U. S. Coal Supply "EIA estimates that coal production declined by 158 million short tons (MMst) (18%) in 2016, to 739 MMst, which would be the lowest level of coal produced since 1978. The decline in coal production in 2016 would be the largest annual decline in terms of both tons and percentage based on data going back to 1949. In 2017, growth in coal-fired electricity generation is expected to lead to an increase of 51 MMst (7%) in total U. S. coal production, with the majority of the increase coming from the Western and Interior regions. Total coal production in 2018 is expected to increase only slightly, with coal production growth in the Western region mostly offset by declines in the Interior region and Appalachia region."

> U. S. Coal Consumption "Coal consumption in the electric power sector, which accounts for more than 90% of total U. S. coal consumption is estimated to have declined by 60 MMst (8%) in 2016. The decline is a result of competition with low-priced natural gas and the relatively mild temperatures in the first half of 2016 that reduced overall electricity demand. Coal consumption in the electric power sector is forecast to increase by 41 MMst (6%) in 2017, mostly because of rising natural gas prices and increasing electricity generation. However, a reverse of these trends in 2018 is expected to lead to an 11 MMst (1%) decline in power sector coal consumption."

Q. Were KU's costs of fuel for the Review Period reasonable?

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

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

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

Q. Does this conclude your testimony?

A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY)
) SS:
COUNTY OF JEFFERSON)

The undersigned, Delbert Billiter, being duly sworn, deposes and says that he is the Manager, Fuels Risk Management, 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.

DELBERT BILLITER

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 17th day of February 2017.

Notary Public

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

Appendix A

Delbert Billiter
Manager, Fuels Risk Management
LG&E and KU Energy LLC
220 W. Main Street
Louisville, KY 40202
Telephone: (502) 627-4668

Work Experience

LG&E and KU

Manager, Fuels Risk Management	2011 – Present
Manager, Fuels Technical Services	2005 – 2011
Lead Mining Engineer	1996 – 2005

Arch Coal

Manager, Engineering and Preparation	1995 – 1996
Various engineering positions in IL, KY and WV	1988 – 1995

Education

Bachelor of Science – Mining Engineering
University of Kentucky, 1988

Professional

Registered Professional Engineer in KY