

**ORIGINAL**



Your Touchstone Energy® Cooperative 

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**In the Matter of:**

<b>ELECTRONIC EXAMINATION OF THE</b>	)	
<b>APPLICATION OF THE FUEL ADJUSTMENT</b>	)	
<b>CLAUSE OF BIG RIVERS ELECTRIC</b>	)	<b>Case No.</b>
<b>CORPORATION FROM</b>	)	<b>2019-00007</b>
<b>NOVEMBER 1, 2016 THROUGH OCTOBER 31, 2018</b>	)	

**DIRECT TESTIMONY**

**OF**

**MARK W. McADAMS  
DIRECTOR, FUELS PROCUREMENT**

**ON BEHALF OF**

**BIG RIVERS ELECTRIC CORPORATION**

**FILED: February 25, 2019**

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**Q. Please summarize your duties at Big Rivers.**

A. I am responsible for Big Rivers’ procurement of solid fuel, fuel oil, flue-gas desulphurization bulk reagent (lime and limestone), powdered activated carbon for mercury reduction, natural gas (as of February 1, 2019), and related logistics associated with the delivery of the foregoing materials

**Q. Have you previously testified before this Commission?**

A. Yes. During my tenure with LG&E, I testified in LG&E’s fuel reviews. During my time at Big Rivers, I have testified in Big Rivers’ six-month and two-year fuel adjustment clause (“FAC”) reviews since 2009.

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to describe Big Rivers’ procurement practices for solid fuel and fuel oil as they relate to the FAC for the period from November 1, 2016, through October 31, 2018 (the “Review Period”).

**Q. Have Big Rivers’ coal suppliers adhered to their contract delivery schedules during the Review Period?**

A. Yes, the majority of coal supply contracts are compliant with contract delivery schedules that were established during the time frame of the Review Period. During the Review Period, Big Rivers received a force majeure notice

1 from Sun Energy in regard to their Hilsmeier #1 mine. Big Rivers utilized  
2 inventory while working with Sun Energy to determine when its mining  
3 operations might resume. The parties executed an Amendment in regard to  
4 the term and tonnage so that coal production would resume following the  
5 force majeure event, with Sun Energy providing the total tonnage at pricing  
6 prescribed in the original Coal Supply Agreement.

7 From time-to-time, there are various impediments to delivery (mine  
8 operations, river-related matters of freezing, flooding and/or drought,  
9 equipment break-down, *etc.*) that cause delays. Most often, shipments are  
10 rescheduled to deliver the product at a later date, via alternate mode of  
11 transportation, or carried forward into the subsequent month or quarter to  
12 complete delivery. Such make up of delayed tonnage is based upon the  
13 contractual language of the coal supply agreement and the reason for delay  
14 (*e.g.*, force majeure). All (100%) of contractual deliveries were achieved in  
15 2017 and 2018, except as Amended with Sun Energy and described above.

16  
17 **Q. What efforts has Big Rivers made in general to help ensure coal**  
18 **suppliers' adherence to contract delivery schedules during the**  
19 **Review Period?**

20 A. Big River's fuel department personnel reviews its delivery schedules with  
21 suppliers and its generating station contacts on a daily basis to ensure that  
22 scheduled tonnage has been completed during the course of the term of the

1 contractual agreement. In the event of delay (mining and/or logistics issues),  
2 the parties confer and agree upon revised schedules to ensure completion of  
3 contractual tonnage amounts. In the event of an extended force majeure, the  
4 non-declaring party has a contractual option as to whether to reschedule any  
5 shortfall tonnage. Contractual documents for coal supply denote that time is  
6 of the essence in regard to coal delivery and that failure to deliver is a  
7 material breach of the contractual agreement which could result in  
8 termination of the coal supply agreement. Big Rivers has not had, to date, a  
9 situation where it needed to invoke contract language regarding delinquent  
10 or missed shipments. In such an event, the supplier would be provided notice  
11 of its material breach of non-delivery pursuant to the contractual agreement  
12 and would be obligated to remedy such default or face the potential  
13 termination of the agreement.

14  
15 **Q. What efforts has Big Rivers made to maintain the adequacy of its**  
16 **coal supplies in light of any coal supplier's inability or unwillingness**  
17 **to make coal contract deliveries?**

18 A. Big Rivers makes reasonable efforts to work with its suppliers to set delivery  
19 schedules and to reschedule shipments, in a timely fashion, in the event of  
20 delays. In the event of an extended delay, such as a force majeure, Big Rivers  
21 would and has sought alternative spot supply to cover any shortfall due to  
22 such extended delay(s). Big Rivers also maintains a reasonable inventory

1 supply at each generating station as a buffer to ensure that it has adequate  
2 fuel supply at all times, despite delayed or interrupted shipment deliveries.  
3 When contract conditions will allow, Big Rivers also seeks optional tonnage  
4 within its coal supply agreements to assist during shipment shortfalls.

5  
6 **Q. Please describe any changes in coal market conditions that occurred**  
7 **during the Review Period or that Big Rivers expects to occur within**  
8 **the next two years that have significantly affected or will**  
9 **significantly affect Big Rivers' solid fuel procurement practices.**

10 A. The U.S. coal industry will continue to be challenged by competition from  
11 natural gas, renewable energy sources (solar, wind, *etc.*) and more stringent  
12 environmental regulation. During the window of this Review Period, several  
13 coal companies have sold portions of their business, exited the business or  
14 have declared bankruptcy (*e.g.*, Armstrong Coal, Westmoreland Coal).  
15 Industry participants are finding themselves challenged in regard to  
16 obtaining financing for capital for maintenance of existing operations,  
17 expansion, or initiating new projects. Additional announcements regarding  
18 the retirement of coal-fired utility generation is occurring month-to-month,  
19 which will have an impact on sales and production. It is likely that overall  
20 U.S. coal production will stabilize and balance itself over 2019 and 2020.  
21 Despite depletion and some production cuts in certain basins, the Illinois  
22 Basin is anticipated to continue production and perhaps even slightly

1 increase its output, particularly through the export market, which may cause  
2 coal pricing to fluctuate depending upon export demand over the next two  
3 years. Recent excess inventory situations appear to have been remedied and  
4 production more closely follows coal-fired generation demand. An extended  
5 outage event at a very large supply point, could quickly create pressure on  
6 the marketplace for the physical coal, along with short-term pricing until  
7 such an event could be resolved. Some coal producers have taken steps to  
8 reduce excess production and delay or forego intended expansion of either  
9 existing or new mining reserves. This may have an impact on spot coal  
10 availability and pricing.

11 Over the Review Period, Big Rivers reduced inventory and was not  
12 procuring larger volumes of coal. In the near term, Big River's fuel  
13 procurement practices have reengaged, with fuel procurement occurring  
14 particularly for 2019. At present, adequate coal supply has been offered via  
15 solicitations, and term contacts of one, three, and five years have been  
16 executed. The potential change of all of these various market pressures will  
17 almost certainly bring about challenges in the coal producing sector. Coal  
18 companies have elected to merge/consolidate or sell assets, creating a smaller  
19 marketplace from which utilities may source coal supply. Big Rivers will  
20 continue its due diligence to actively survey the marketplace for  
21 opportunities to secure its fuel supply for short- and long-term business,  
22 weighing these market forces while ensuring prudent procurement decisions.

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**Q. Have Big Rivers’ fuel procurement purchases and practices for solid fuel during the Review Period been reasonable?**

A. Yes. During the course of this Review Period, Big Rivers’ practices have included a determined focus on the reduction of inventory, and upon opportunity use of spot and/or lower cost petroleum coke. Big Rivers continues to review and appropriately act in the spot, mid-term, and long-term fuel and logistics market, in a concerted and planned fashion, to attempt to limit its exposure to volatility in the marketplace and to ensure competitive and reliable fuel supply to its generating stations. Big Rivers’ fuel procurement practices include interaction with various departments within the Company (finance, risk management, generation planning, operations, energy marketing, and material handling) to ensure that any fuel supply agreements being established meet the planned generation and inventory goals of the Company. Solid fuel is secured after evaluation of quality, reliability, and competitiveness of the provider. Big Rivers strives for transparency within and outside of the cooperative, ensuring that its procurement practices are sound, ethical, and appropriate for the intended purpose. Big Rivers engages in formal competitive bid processes and internal controls (internal bid opening processes to include multiple persons and departments, bid tabulation and review by various constituencies of the Company, and internal risk management evaluation) to ensure

1 transparency, accountability, and appropriate officer and management level  
2 approval for procurement action. Big Rivers' fuel procurement costs are  
3 competitive as compared to the fuel benchmarking performed amongst  
4 Kentucky utilities.

5

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

7 **A. Yes.**

**BIG RIVERS ELECTRIC CORPORATION**

**ELECTRONIC EXAMINATION OF THE APPLICATION OF THE FUEL  
ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION  
FROM NOVEMBER 1, 2016 THROUGH OCTOBER 31, 2018  
CASE NO. 2019-00007**

**VERIFICATION**

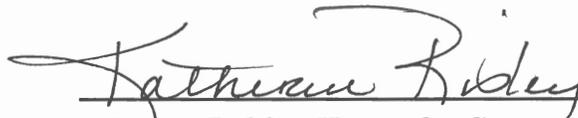
I, Mark W. McAdams, verify, state, and affirm that I prepared or supervised the preparation of the Direct Testimony filed with this Verification, and that Direct Testimony is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry



Mark W. McAdams

COMMONWEALTH OF KENTUCKY )  
COUNTY OF HENDERSON )

25<sup>th</sup> SUBSCRIBED AND SWORN TO before me by Mark W. McAdams on this the  
day of February, 2019.



Notary Public, Kentucky State at Large

My Commission Expires

October 31, 2020