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 COMPANY FROM NOVEMBER 1, 2018 TO OCTOBER 31, 2020	)))))	**CASE NO. 2021-00056**

**RESPONSE OF
LOUISVILLE GAS AND ELECTRIC COMPANY
TO
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION
DATED APRIL 5, 2021**

FILED: APRIL 16, 2021

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Delbert Billiter,** being duly sworn, deposes and says that he is Manager - LG&E and KU Fuels for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Delbert Billiter
Delbert Billiter

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 9th day of April 2021.

Judy Schooler
Notary Public

Notary Public ID No. 603967

My Commission Expires:

July 11, 2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Charles R. Schram**, being duly sworn, deposes and says that he is Director – Power Supply for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Charles R Schram

Charles R. Schram

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 8th day of April 2021.

Judy Schooler

Notary Public

Notary Public ID No. **603967**

My Commission Expires:

July 11, 2022

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Stuart A. Wilson**, being duly sworn, deposes and says that he is Director, Energy Planning, Analysis & Forecasting for LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge and belief.

Stuart A. Wilson

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 8th day of April 2021.

Notary Public

Notary Public ID No. 603967

My Commission Expires:

July 11, 2022

LOUISVILLE GAS AND ELECTRIC COMPANY

Response to Commission Staff's Second Request for Information
Dated April 5, 2021

Case No. 2021-00056

Question No. 1

Responding Witness: Delbert Billiter

Q-1. Refer to the Direct Testimony of Delbert Billiter, page 2, line 23, and page 3, lines 1–4. Provide an update on how LG&E is working with White Stallion Energy and Eagle River Coal regarding contract deliveries and whether LG&E expects the companies to complete their contract obligations and when LG&E would expect to terminate the contracts.

A-1. Eagle River Coal, LLC (Eagle River) has been a long-term supplier to LG&E and KU. In a transaction in early 2017, White Stallion Energy, LLC (White Stallion) acquired a majority interest in Eagle River. Because of the ownership structure, the most recent contract (J19002) was executed as a joint agreement with both White Stallion and Eagle River. During 2020, the two companies experienced operational and financial issues that impacted production. LG&E and KU negotiated an amendment with White Stallion and Eagle River in September 2020 (filed with the Commission in October 2020) to reduce shipments to approximately 20k tons per month from August 2020 through May 2021 and shift these approximately 350k reduced tons to 2024. This would allow Eagle River sufficient time to receive a permit for and develop a new area with better mining conditions. However, financial difficulties continued, and White Stallion filed Chapter 11 bankruptcy in late 2020 and Eagle River filed Chapter 11 bankruptcy in early 2021.

White Stallion and Eagle River generally remain in the preliminary stages of the bankruptcy process and have idled all operations while they evaluate options. LG&E and KU have not received any shipments on contract J19002 since the operations were idled in December 2020. LG&E and KU are actively monitoring the bankruptcy proceedings. The debtors have not yet indicated whether they plan to seek to assume and cure, reject and/or take other actions with respect to contract J19002. Once a proposed reorganization plan or asset sale is filed with the Court, LG&E and KU will evaluate how it impacts contract J19002, our rights thereunder and under bankruptcy law, and develop a strategy to best move forward. It is difficult at this time to determine if contract obligations will be completed. However, LG&E and KU are prepared to enter the market or use other existing contracts to replace coal not delivered under this contract as the need arises.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 2

Responding Witness: Charles R. Schram

Q-2. Refer to the Direct Testimony of Charles R. Schram, page 3, lines 14–19.

a. For the natural gas units that are only served by a single natural gas pipeline, explain what is meant by "appropriate amounts of firm natural gas transportation capacity" and whether the amount of pipeline capacity is sufficient to serve each affected unit when the unit would be needed or expected to run.

b. Explain whether natural gas transportation for the units that are served by more than one natural gas pipeline is procured on a firm or spot basis. If on a spot basis, explain which units are affected and the rationale for not purchasing firm pipeline capacity.

A-2.

a. Firm transportation services, including daily and hourly volumes, pipeline storage provisions, and imbalance provisions are used as a portfolio to support reliable fuel supplies for gas fired units. These services ensure that each affected unit can be supplied with the required volume of natural gas to run when called upon to reliably meet customers' energy demands.

b. E.W. Brown units 5-11 (simple cycle combustion turbines) have access to both the Texas Eastern and Tennessee interstate pipelines. Firm transportation is purchased along with the natural gas commodity on the spot market when these peaking units are needed. The Companies' experience has been that firm delivered gas (the gas commodity plus the transportation) on these pipelines has been readily available for purchase on the spot market under a wide range of weather conditions. Furthermore, the access to two pipelines has reasonably mitigated the risk of pipeline interruptions resulting from potential operational flow orders ("OFO"), or constraints, on one of the pipelines. The Companies would reevaluate the need for firm transportation services at E.W. Brown if market conditions, including the availability of firm delivered gas on the spot market, change.

Fuel supply reliability for E.W. Brown combustion turbines is also supported by dual fuel capability and limited pipeline storage. E.W. Brown units 8-11, representing about 50 percent of the site's combustion turbine capacity, can also operate on fuel oil stored on site. In addition, the pressurization of the Companies' gas pipeline at E.W. Brown serves as a means of limited storage (also known as "line pack") that is capable of supplying one of the units for approximately eight hours in the event that temporary gas supply constraints on the interstate pipeline(s) require mitigation.

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Question No. 3

Responding Witness: Stuart A. Wilson / Charles R. Schram

Q-3. Refer to the Direct Testimony of Stuart A. Wilson, page 2, lines 17–21. Provide recent examples of when LG&E would have purchased power at favorable prices, but was unable to do so due to transmission constraints and congestion.

A-3. The Companies continuously monitor the energy markets for opportunities to purchase energy at favorable prices when there is available transmission capacity to do so. Such purchases are non-firm and can therefore be cut from delivery at any time.

Recent examples of conditions in which prices and system conditions were favorable for purchasing power but transmission limitations constrained or precluded purchases occurred in the following time periods.

- On April 8, 2021 between midnight and 5 a.m. EST, market and system conditions were favorable for the Companies to purchase 300 MW of energy each hour for $8/MWh. However, for the first hour (hour ending 1 a.m.), there was no available transmission capacity on the Companies' transmission system to accommodate the energy purchase. Therefore, the Companies were unable to purchase this favorably priced energy in this hour. In the subsequent hours, (hours ending 2 a.m. through 5 a.m.), transmission capacity became available to accommodate the purchase.

- On July 2, 2020, between midnight and 9 a.m. EST, market and system conditions, including available transmission capacity, allowed the Companies to purchase between 100 and 200 MW of energy each hour at prices between $7 and $17/MWh. However, in subsequent hours, starting in hour ending 10 a.m., transmission capacity was curtailed such that the Companies were unable to purchase this favorably priced energy for the remainder of the day.

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Question No. 4

Responding Witness: Delbert Billiter

Q-4. Refer to LG&E's response to the Commission Staff's First Request for Information (Staff's First Request), Item 2.

a. Explain whether ACNR Coal Sales, Inc. is the same company as Eagle River Coal, and if not, explain why Eagle River Coal is not listed in the table and the reasons for ACNR Coal Sales is behind in its contractual obligations.

b. Explain the difference between the tables on pages 1 and 2.

A-4.

a. ACNR Coal Sales is not affiliated with Eagle River Coal. However, White Stallion Energy (listed last in the table) is the majority owner of Eagle River Coal and contract J19002 is a joint contract with White Stallion Energy and Eagle River Coal. The shipments listed under White Stallion Energy would also represent Eagle River Coal.

As a result of the Murray Energy bankruptcy, the contracts with Western Kentucky Consolidated Resources and The American Coal Company (both Murray Energy owned companies) were transferred to the new company ACNR Coal Sales, Inc. in September 2020. As of October 2020, the combined tonnage shipped under each of these contracts was near or above the ratable amounts.

b. Page 1 of the attachment shows only the actual quantity received by LG&E under each contract, and Page 2 shows the actual combined quantity received by KU and LG&E under each contract. Since nearly all contracts are joint contracts between KU and LG&E, we felt it important to show a combined quantity for each contract.

LOUISVILLE GAS AND ELECTRIC COMPANY

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Question No. 5

Responding Witness: Delbert Billiter

Q-5. Refer to LG&E's response to the Staff's First Request, Item 10. Explain whether LG&E would continue to do business with the owners of coal companies that have proven unreliable in meeting contract obligations and whether LG&E's due diligence screens out these companies.

A-5. During the due diligence process for a new contract LG&E uses past experience with the supplier, industry knowledge, information gathered during the RFQ process and information obtained during site visits to determine a supplier's ability to perform. If during this evaluation, LG&E determines that the risk of nonperformance is too high and LG&E has other valid competitive coal offers, then LG&E would not do business with the supplier. LG&E also evaluates other risk in the contract portfolio, such as concentration of supply with one supplier or in one region and transportation risk, when making its purchasing decisions. Because of recent conditions in the coal industry, failures have been difficult, if not impossible, to predict. The failure of White Stallion Energy and Eagle River Coal was a result of coal market conditions and impacts of the global pandemic. Eagle River Coal delivered 100% of the tonnage under their previous contracts and were at 86% of J19002 contract ratable at the start of the pandemic.

In general, market conditions have created an unfavorable environment for coal suppliers and reduced LG&E's coal supplier base. These events are making risk management of the coal supply portfolio more difficult.