

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

| | | |
|--|---|-------------------|
| AN ELECTRONIC EXAMINATION OF THE |) | |
| APPLICATION OF THE FUEL ADJUSTMENT |) | CASE NO. |
| CLAUSE OF EAST KENTUCKY POWER |) | 2022-00264 |
| COOPERATIVE, INC. FROM NOVEMBER 1, 2021 |) | |
| THROUGH APRIL 30, 2022 |) | |

DIRECT TESTIMONY OF MARK HORN
ON BEHALF OF EAST KENTUCKY POWER COOPERATIVE, INC.

Filed: September 30, 2022

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | |
|---|------------|
| AN ELECTRONIC EXAMINATION OF THE) | |
| APPLICATION OF THE FUEL ADJUSTMENT) | CASE NO. |
| CLAUSE OF EAST KENTUCKY POWER) | 2022-00264 |
| COOPERATIVE, INC. FROM NOVEMBER 1, 2021) | |
| THROUGH APRIL 30, 2022) | |

AFFIDAVIT

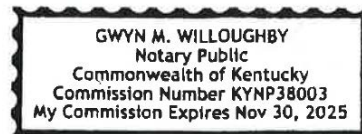
STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Mark Horn, being duly sworn, states that he has read the foregoing prepared testimony and that he would respond in the same manner to the questions if so asked upon taking the stand and that the matters and things set forth therein are true and correct, to the best of his knowledge, information and belief.

Mark Horn

Subscribed and sworn before me on this 29 day of September 2022.

Gwyn M. Willoughby
Notary Public



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

3 A. My name is Mark Horn; my business address is 4775 Lexington Road,
4 Winchester, Kentucky 40391; I am employed by EKPC as Manager, Fuel and
5 Emissions in the Power Supply Business Unit.

6 **Q. PLEASE STATE YOUR EDUCATION AND PROFESSIONAL**
7 **EXPERIENCE.**

8 A. I have a Bachelor's degree in Chemistry from Eastern Kentucky University. I
9 have worked for EKPC for the past 26 years. I was a Lab Technician at Dale
10 Power Station from September 1996 to April 2000, a Chemist at Central Lab from
11 April 2000 to November 2002, then Senior Chemist from November 2002 to
12 August 2008, and a Fuel Buyer from August 2008 to January 2014. I have been
13 in my current position since December 2013.

14 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF YOUR DUTIES AT**
15 **EKPC.**

16 A. I am responsible for procurement of EKPC's fuel and fuel-related commodities.

17 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY**
18 **PUBLIC SERVICE COMMISSION?**

19 A. Yes.

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
21 **PROCEEDING?**

1 A. The purpose of my testimony is to provide responses regarding EKPC's fuel
2 procurement practices and demonstrate reasonableness of fuel purchases as
3 needed in regards to the Fuel Adjustment Clause.

4 **Q. HAS EKPC AUDITED ANY OF ITS FUEL OR TRANSPORTATION**
5 **CONTRACTS DURING THE PERIOD UNDER REVIEW. FOR EACH**
6 **AUDITED CONTRACT:**

7 A. No contracts were audited for the period under review.

8 **Q. PLEASE EXPLAIN EKPC'S EFFORTS TO MAINTAIN THE**
9 **ADEQUACY OF ITS COAL SUPPLIES IN LIGHT OF ANY COAL**
10 **SUPPLIER'S INABILITY OR UNWILLINGNESS TO MAKE**
11 **CONTRACT COAL DELIVERIES;**

12 A. EKPC has put forth considerable effort to work diligently with coal suppliers and
13 transportation companies to maintain adequacy of coal supply and physical
14 inventory at EKPC's coal-fired generating assets. In a case where a coal supplier
15 is behind on coal deliveries, due to their claim and notice of an Event of Force
16 Majeure, EKPC and the counterparty have worked together to establish a
17 mutually agreeable delivery schedule. Additionally, EKPC has been able to
18 secure short-term incremental spot coal tons to mitigate the impacts of any coal
19 supplier shortfall of tons and an increased projected coal burn. Physical coal
20 inventories at EKPC's coal-fired generating assets are currently within the target
21 ranges as defined by Board Policy.

22 **Q. PLEASE DESCRIBE ANY CHANGES IN THE COAL MARKET**
23 **CONDITIONS THAT OCCURRED DURING THE REVIEW PERIOD OR**

1 **THAT EKPC EXPECTS TO OCCUR WITHIN THE NEXT TWO YEARS**
2 **THAT HAVE SIGNIFICANTLY AFFECTED OR WILL SIGNIFICANTLY**
3 **EFFECT EKPC’S COAL PROCUREMENT PRACTICES**

4 A. EKPC’s coal purchasing practices continue to follow established Policy, Strategy,
5 and Procedure for all of its coal generating units. Flexibility to make minor
6 modifications to the coal purchasing practices due to changes in the coal market
7 conditions, such as market volatility and near illiquidity, while maintaining
8 compliance with the detailed internal controls, is an integral part of a nimble coal
9 procurement process. EKPC’s coal procurement process is designed to provide
10 an adequate fuel resource for EKPC’s generating units that will enable EKPC to
11 continue to generate power for the lowest cost possible for its Member Systems.
12 EKPC has a ladder-type coal hedging policy for the current and future years to
13 provide price stability, where the percentage of fully-hedged coal tons step down
14 in each forward year. When spot coal was readily available at a lower price,
15 EKPC would target the lower end of the hedge range for each calendar year. This
16 approach kept fuel cost stable, but also allowed EKPC to participate in economic
17 opportunities from the spot market. With the spot coal market becoming
18 increasingly illiquid, EKPC is now targeting the upper end of the hedge range.
19 Hedging more of the projected coal needs helps to stabilize the fuel cost in
20 globally volatile spot coal market.
21 EKPC has procurement procedures for various types of spot purchases. These
22 procedures are for Traditional Spot, Emergency Spot, Economy Spot, and Test
23 Spot supply agreements that are typically executed as short-term purchase orders.

1 Historically, the most common type of spot coal purchase for EKPC has been a
2 Traditional Spot Purchase, which consists of the fair competitive bidding process
3 that is initiated with a written or verbal Request For Proposal. In this process it
4 may take weeks or even months before a coal supply agreement is fully executed.
5 This is not an issue when coal is readily available and there is considerable lead
6 time prior to the beginning of the delivery term. Currently, with time often being
7 of the essence, coal supply agreements need to be fully executed in a more timely
8 manner. With spot coal in limited supply and in high domestic and international
9 demand, a coal supply agreement may need to be fully executed within hours, or
10 the offer for coal is at risk of being retracted, resulting in the coal being sold to
11 another party. This immediate need for spot coal has led EKPC to utilize more
12 Emergency Spot Purchases and Test Spot Purchases to secure coal supply in an
13 effort to match the increased coal burn or simply to maintain physical coal
14 inventory within the target levels. EKPC continues to pursue opportunities for
15 coal supplier diversification and for longer term coal supply contracts.

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

17 A. Yes.