



COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

In the Matter of:

ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	
CLAUSE OF BIG RIVERS ELECTRIC)	Case No.
CORPORATION FROM)	2022-00268
NOVEMBER 1, 2021 THROUGH APRIL 1, 2022)	

DIRECT TESTIMONY

OF

**VICKY L. PAYNE
MANAGER, FUELS PROCUREMENT**

ON BEHALF OF

BIG RIVERS ELECTRIC CORPORATION

**PURSUANT TO THE ORDERING PARAGRAPH NO. 9
TO THE COMMISSION'S SEPTEMBER 13, 2022 ORDER**

FILED: SEPTEMBER 30, 2022

BIG RIVERS ELECTRIC CORPORATION
AN ELECTRONIC EXAMINATION OF
THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE
OF BIG RIVERS ELECTRIC CORPORATION
FROM NOVEMBER 1, 2021 THROUGH APRIL 30, 2022
CASE NO. 2022-00268

VERIFICATION

I, Vicky L. Payne, verify, state, and affirm that 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.



Vicky L. Payne

COMMONWEALTH OF KENTUCKY)
COUNTY OF HENDERSON)

30 SUBSCRIBED AND SWORN TO before me by Vicky L. Payne on this the
day of September, 2022.



Notary Public, Kentucky State at Large

Kentucky ID Number KYNP43026

My Commission Expires 01-14-2026

**DIRECT TESTIMONY
OF
VICKY L. PAYNE**

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5 **Q. Please state your name, business address and occupation.**

6 A. My name is Vicky L. Payne, and my business address is Big Rivers Electric
7 Corporation (“Big Rivers” or “the Company”), 201 Third Street, Henderson,
8 Kentucky, 42420. I am the Manager, Fuels Procurement for Big Rivers. I
9 report to Nathaniel A. Berry, Big Rivers’ Chief Operating Officer.

10

11 **Q. Please summarize your education and professional experience.**

12 A. I hold Bachelor’s Degree in Accounting from Western Kentucky University
13 and a Master’s Degree in Business Administration from University of
14 Dayton. I have been with Big River’s Electric Corporation for 17 years and
15 worked in various departments throughout my tenure, including; budgeting
16 at the plants and at headquarters, short-term financial forecasting, risk
17 management, strategic planning, and now currently, fuels procurement.

18

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

20 A. I am responsible for Big Rivers’ procurement of solid fuel, fuel oil, flue-gas
21 desulphurization bulk reagent (limestone), powdered activated carbon for
22 mercury reduction (prior coal-fired Green Units), natural gas, and related
23 logistics associated with the delivery of the foregoing materials.

24

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

2 A. Yes. I have testified in Big Rivers' most recent six-month fuel adjustment
3 clause ("FAC") review.¹

4

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

6 A. My testimony, pursuant to Ordering Paragraph No. 9 (a) – (e) of the
7 Commission's Order on September 13, 2022, will address the following:

8 a. The reasonableness of BREC's fuel procurement practices
9 during the review period;

10 b. Coal suppliers' adherence to contract delivery schedules during
11 the review period;

12 c. BREC's efforts to ensure coal suppliers' adherence to contract
13 delivery schedules during the review period;

14 d. BREC's efforts to maintain the adequacy of its coal supplies in
15 light of any coal supplier's inability or unwillingness to make contract
16 coal deliveries; and

17 e. Any changes in coal market conditions that occurred during the
18 review period or that BREC expects to occur within the next two years
19 that have significantly affected or will significantly affect BREC's coal
20 procurement practices.

¹ *In the Matter of: An Electronic Examination of the Application of the Fuel Adjustment clause of Big Rivers Electric Corporation From May 1, 2021 through October 30, 2021.* P.S.C. Case No. 2021-00041.

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

3 A. Yes. During the course of this Review Period, Big Rivers' practices have
4 included a determined focus procuring the best price and quality blend
5 needed for unit reliability and efficiency for needed demand. Big Rivers
6 continues to review and appropriately act in the spot, mid-term, and long-
7 term fuel and logistics markets, in a concerted and planned fashion, to
8 attempt to limit its exposure to volatility in the marketplace and to ensure
9 competitive and reliable fuel supply to its generating stations. Big Rivers'
10 fuel procurement practices include interaction with various departments
11 within the Company (finance, risk management, generation planning,
12 operations, energy marketing, and material handling) to ensure that any fuel
13 supply agreements being contemplated meet the planned generation and
14 inventory goals of the Company. Solid fuel is secured after evaluation of fuel
15 quality, and of the reliability and economic competitiveness of the fuel
16 provider in light of the short- and long-term fuel needs at the generating
17 station(s). Big Rivers strives for transparency within and outside of the
18 cooperative, ensuring that its procurement practices are sound, ethical, and
19 appropriate for the intended purpose. Big Rivers engages in formal
20 competitive bid processes and follows internal controls (internal bid opening
21 processes to include multiple persons and departments, bid tabulation and
22 review by various constituencies of the Company, and internal risk

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

5
6 **Q. Please discuss the reasonableness of Big Rivers' natural gas**
7 **procurement practices during the review period.**

8 A. Big Rivers' currently has three natural gas fired generators. Two natural
9 gas operating units at the Green Station ("Green Units") and one Reid
10 Combustion Turbine ("Reid CT"). Reid CT operates as a peaking unit, and
11 for reliability needs within the MISO² system. The two Green Units are
12 offered in MISO when market pricing and demand are both met. Big Rivers
13 purchases gas on the spot market when any of its' units are called upon.
14 ACES³ procures all the gas to meet Big Rivers' needs when required. ACES
15 gas traders maintain a list of available gas supply companies so they have a
16 variety of choices if the need arises to procure gas.

17 Big Rivers purchases natural gas under a North American Energy
18 Standard Board ("NAESB") base contract and has four active NAESB
19 contracts for gas supply purchases. Big Rivers has a transmission agreement

² MISO = Midcontinent Independent System Operator, Inc. (www.misoenergy.org).

³ ACES (www.acespower.com) is a nationwide energy management company, headquartered in Carmel, Indiana, that helps its clients buy, sell, and manage energy.

1 with Texas Gas Transmission, LLC to supply the gas to Big Rivers' delivery
2 location (9464-Big Rivers - Sebree).

3 As Big Rivers gas units and the combustion turbine do not operate on
4 a daily basis, it does not warrant a firm gas contract. Big Rivers' gas
5 procurement efforts during the Review Period have been reasonable and
6 practical, and represent the least cost methodology of procuring gas for the
7 operation of both Green Units and the Reid CT.

8
9 **Q. Have Big Rivers' coal suppliers adhered to their contract delivery**
10 **schedules during the Review Period?**

11 A. Yes, the coal supply contracts are compliant with contract delivery schedules
12 that were established during the time frame of the Review Period.

13 From time-to-time, there are various impediments to delivery (mine
14 operations, river-related matters of freezing, flooding and/or drought,
15 equipment break-down, *etc.*) that cause delays. Most often, shipments are
16 rescheduled to deliver the product at a later date, via alternate mode of
17 transportation, or carried forward into the subsequent month or quarter to
18 complete delivery. Such make up of delayed tonnage is based upon the
19 contractual language of the coal supply agreement and the reason for delay
20 (*e.g.*, force majeure). All of contractual deliveries were achieved within the
21 time frame under review.

22

1 **Q. What efforts has Big Rivers made in general to help ensure coal**
2 **suppliers' adherence to contract delivery schedules during the**
3 **Review Period?**

4 A. Big Rivers' fuel department personnel review its delivery schedules with
5 suppliers, with providers of logistics services, and with Big Rivers generating
6 station contacts on a daily basis to ensure that scheduled tonnage has been
7 completed during the course of the term of the contractual agreement. In the
8 event of delay (mining, loading/unloading, and/or logistics issues), the parties
9 confer and agree upon revised schedules to ensure completion of contractual
10 tonnage amounts. Contract shipment status is reviewed weekly, monthly,
11 and quarterly to ensure contractual compliance. In the event of an extended
12 force majeure, the non-declaring party has a contractual option as to whether
13 to reschedule any shortfall tonnage. Contractual documents for coal supply
14 denote that time is of the essence in regard to coal delivery and that failure
15 to deliver is a material breach of the contractual agreement, which could
16 result in termination of the coal supply agreement. Big Rivers has not had,
17 to date, a situation where it needed to invoke contract language regarding
18 delinquent or missed shipments. In such an event, the supplier would be
19 provided notice of its material breach of non-delivery pursuant to the
20 contractual agreement and would be obligated to remedy such default or face
21 the potential termination of the agreement.

22

1 **Q. What efforts has Big Rivers made to maintain the adequacy of its**
2 **coal supplies in light of any coal supplier’s inability or unwillingness**
3 **to make coal contract deliveries?**

4 A. Big Rivers makes reasonable efforts to work with its suppliers to set delivery
5 schedules and to reschedule shipments, in a timely fashion, in the event of
6 delays. In the event of an extended delay, such as a force majeure, Big Rivers
7 would, if necessary, seek alternative spot supply to cover any shortfall due to
8 such an extended delay. Big Rivers also maintains a reasonable inventory
9 supply at each generating station as a buffer to ensure that it has adequate
10 fuel supply at all times, despite delayed or interrupted shipment deliveries.
11 When contract conditions will allow, Big Rivers may also provide notice of its
12 desire for increased tonnage within its coal supply agreements to assist
13 during shipment shortfall(s) by another of its suppliers or to utilize pricing
14 advantages.

15
16 **Q. Please describe any changes in coal market conditions that occurred**
17 **during the Review Period or that Big Rivers expects to occur within**
18 **the next two years that have significantly affected or will**
19 **significantly affect Big Rivers’ solid fuel procurement practices.**

20 A. The U.S. coal industry continues to be challenged by
21 competition from natural gas, renewable energy sources (solar, wind, *etc.*)
22 and more stringent environmental regulation. U.S. coal demand and

1 production greatly decreased during 2020 because of the global COVID-19
2 pandemic. However a sudden, significant increase in natural gas prices,
3 nearly doubling per MMBTU, resulted in more coal-fired units being called
4 upon to run. Any excess coal inventory from the pandemic quickly depleted
5 as a result of the increased gas pricing, higher coal-fired unit demand, and
6 hot summer temperatures. Coal deliveries transported on the railroads
7 faced significant challenges during summer burn due to shortage of labor and
8 engine power resources. These sudden market changes caused coal
9 inventories at mines and utilities to diminish rapidly.

10 Mining firms found themselves challenged with a sudden increase in
11 demand; and production was not aligning with this coal-fired generation
12 demand. An outage event at a supply point could quickly create pressure on
13 the marketplace for physical coal, along with additional pricing spikes. Coal
14 producers exported their product for greater revenue returns causing even
15 tighter constraints on domestic tonnage availability. Forecasts are showing
16 this to have an impact on spot and term coal availability and pricing over the
17 next 2-3 years

18 Coal pricing was steadily increasing and availability substantially
19 decreasing. The challenges are occurring within a historically smaller
20 marketplace from which utilities may source coal supply. Despite depletion,
21 closure, bankruptcy and production cuts in certain coal basins, thankfully,

1 the Illinois Basin continued production; albeit with fewer producers and on a
2 reduced scale as compared to prior years.

3 While various market pressures have created challenges in coal
4 procurement, Big Rivers will continue its due diligence actively surveying the
5 marketplace for opportunities to secure its fuel supply for short- and long-
6 term business, while ensuring prudent procurement decisions.

7 Over the Review Period, Big Rivers chose to nominate all maximum
8 tonnages available on term contracts set prior to pricing spike. In turn, Big
9 River's should be able to experience inventory increases, intentionally rising
10 above targeted 60-day coal supply levels. Big River's will continue to follow
11 fuel procurement practices. At present, Big Rivers has adequate coal supply
12 and contracts continue to be fulfilled as required.

13

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

15 A. Yes.

16