



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 NOVEMBER 1, 2020) 2023-00013
THROUGH OCTOBER 31, 2022)**

DIRECT TESTIMONY

OF

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

ON BEHALF OF

BIG RIVERS ELECTRIC CORPORATION

**PURSUANT TO ORDERING PARAGRAPH NO. 4
OF THE COMMISSION'S SEPTEMBER 6, 2023, ORDER**

FILED: SEPTEMBER 22, 2023

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**DIRECT TESTIMONY
OF
VICKY L. PAYNE**

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”), 710 W 2nd Street, Owensboro,
8 Kentucky, 42301. 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 Rivers Electric Corporation for 18 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 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), natural gas, and related logistics
22 associated with the delivery of the foregoing materials.

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

2 A. Yes. I testified in Case No. 2021-00041,¹ before this Commission.

3

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

5 A. My testimony, pursuant to Ordering Paragraph No. 4 (a) – (e), (g), and (k) of
6 the Commission’s Order on September 6, 2023, will address the following:

7 (a) The reasonableness of BREC’s fuel procurement practices
8 during the review period.

9 (b) Coal suppliers’ adherence to contract delivery schedules during
10 the review period.

11 (c) BREC’s efforts to ensure coal suppliers’ adherence to contract
12 delivery schedules during the review period.

13 (d) BREC’s efforts to maintain the adequacy of its coal supplies in
14 light of any coal supplier’s inability or unwillingness to make contract
15 coal deliveries.

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

20 (g) Actions taken by BREC to mitigate fuel costs for its customers.

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 (k) How coal consumption is recorded for a unit that is in reserve
2 shutdown.

3

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

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

1 in formal competitive bid processes and follows internal controls (internal bid
2 opening processes to include multiple persons and departments, bid
3 tabulation and review by various constituencies of the Company, and
4 internal risk management evaluation) to ensure transparency,
5 accountability, and appropriate officer and management level approval for
6 procurement action. Big Rivers' fuel procurement costs are competitive as
7 compared to the fuel benchmarking performed amongst Kentucky utilities.

8
9 **Q. Please discuss the reasonableness of Big Rivers' natural gas
10 procurement practices during the review period.**

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

² MISO = Midcontinent Independent System Operator, Inc..

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

1 Big Rivers purchases natural gas under a North American Energy
2 Standard Board (“NAESB”) base contract and has four active NAESB
3 contracts for gas supply purchases. Big Rivers has a transmission agreement
4 with Texas Gas Transmission, LLC to supply the gas to Big Rivers’ delivery
5 location (9464-Big Rivers - Sebree).

6 As Big Rivers gas units and the combustion turbine do not operate on
7 a daily basis, a firm gas contract is not warranted at this time. Big Rivers’
8 gas procurement efforts during the Review Period have been reasonable and
9 practical, and represent the least cost methodology of procuring gas for the
10 operation of both Green Units and the Reid CT.

11
12 **Q. Have Big Rivers’ coal suppliers adhered to their contract delivery**
13 **schedules during the Review Period?**

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

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

1 (e.g., force majeure). All of contractual deliveries were achieved within the
2 time frame under review.

3

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

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

1 contractual agreement and would be obligated to remedy such default or face
2 the potential termination of the agreement.

3

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

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

18

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

1 A. The U.S. coal industry continues to be challenged by competition from
2 natural gas, renewable energy sources (solar, wind, *etc.*) and more stringent
3 environmental regulation. U.S. coal demand and production greatly
4 decreased during 2020 because of the global COVID-19 pandemic. However
5 a sudden, significant increase in natural gas prices, nearly doubling per
6 MMBTU, resulted in more coal-fired units being called upon to run. Any
7 excess coal inventory from the pandemic quickly depleted as a result of the
8 increased gas pricing, higher coal-fired unit demand, and hot summer
9 temperatures. Coal deliveries transported on the railroads faced significant
10 challenges during summer burn due to shortage of labor and engine power
11 resources. These sudden market changes caused coal inventories at mines
12 and utilities to diminish rapidly.

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

21 These challenges are occurring within a historically smaller
22 marketplace from which utilities may source coal supply. Despite depletion,

1 closure, bankruptcy and production cuts in certain coal basins, thankfully,
2 the Illinois Basin continued production, albeit with fewer producers and on a
3 reduced scale as compared to prior years.

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

8 Over the Review Period, Big Rivers chose to nominate all maximum
9 tonnages available on term contracts whose contract pricing was set prior to
10 the spike in coal prices. In turn, Big Rivers should be able to experience
11 inventory increases, intentionally rising above targeted 60-day coal supply
12 levels. At present, Big Rivers has adequate coal supply and contracts
13 continue to be fulfilled as required.

14
15 **Q. Please discuss actions taken by Big Rivers to mitigate fuel related**
16 **costs for its customers.**

17 A. Big Rivers is nominating all maximum tonnage on coal contracts to utilize
18 lower coal prices. Market prices for coal have been on a slight drop but are
19 still much higher than the term contracts in place. The gas units run when
20 economical to do so, which is based on the volatility of gas prices. Big
21 Rivers constantly monitors market prices for all fuel related commodities.
22 Big Rivers takes full advantage of lower fuel pricing when available. Big

1 Rivers remains in close contact and maintains great relationships amongst
2 fuel suppliers.

3

4 **Q. Please explain how coal consumption is recorded for a unit that is**
5 **in reserve shutdown;**

6 A. Big Rivers does not record any coal consumption when a unit is in reserve
7 shutdown, except in the event an annual inventory true-up occurs during a
8 reserve shutdown. Auditors require annual inventory evaluations
9 conducted for tonnage on the ground compared to tonnage on the books. If
10 a true up was deemed necessary, there is potential for a write up or write
11 down to be recorded in conjunction to a reserve shutdown.

12

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

14 A. Yes.

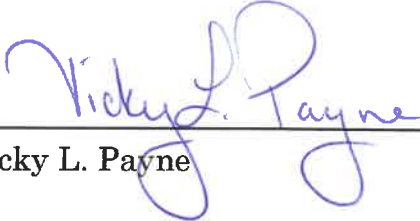
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BIG RIVERS ELECTRIC CORPORATION

**AN ELECTRONIC EXAMINATION OF THE APPLICATION OF THE FUEL
ADJUSTMENT CLAUSE OF BIG RIVERS ELECTRIC CORPORATION
FROM NOVEMBER 1, 2020 THROUGH OCTOBER 31, 2022
CASE NO. 2023-00013**

VERIFICATION


I, Vicky L. Payne, 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.



Vicky L. Payne

COMMONWEALTH OF KENTUCKY)
COUNTY OF DAVIESS)

SUBSCRIBED AND SWORN TO before me by Vicky L. Payne. on this the
21 day of September, 2023.



Notary Public, Kentucky State at Large
Kentucky ID Number KYNP43026
My Commission Expires 1-14-2026