

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

<p>Illinois Commerce Commission On Its Own Motion</p> <p>-vs-</p> <p>MidAmerican Energy Company</p> <p>Reconciliation of revenues collected under fuel adjustment charges with actual costs prudently incurred.</p>	<p>Docket No. 15-0527</p>
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**DIRECT TESTIMONY  
OF  
DAVID W. ULOZAS**

1 **Q. Please state your name and business address.**

2 A. David W. Ulozas, 7215 Navajo, Council Bluffs, Iowa 51501.

3 **Q. By whom are you employed and in what capacity?**

4 A. I am employed by MidAmerican Energy Company (“MidAmerican”) as Vice  
5 President of Generation.

6 **Q. Please describe your responsibilities as Vice President of Generation.**

7 A. I am responsible for the operations and maintenance of all of MidAmerican’s  
8 thermal generating assets as well as its electricity marketing function, which  
9 includes short-term and long-term trading and marketing for the energy supplied  
10 by MidAmerican’s generation resources, and the fuel procurement function,  
11 which consists of fuel acquisition and transportation to MidAmerican’s generation  
12 resources that it operates along with emission allowance tracking.

13 **Q. Please summarize your education and business experience.**

14 A. I graduated from Bellevue University in 2005 with a Bachelor of Science -

15 Management degree. During the course of my career, beginning in 1984, I have  
16 held numerous positions in the power industry ranging from entry level to  
17 executive and have worked for independent, investor owned and publicly owned  
18 power entities. My duties have included responsibilities for the operation,  
19 maintenance, engineering, construction, commissioning and decommissioning of  
20 numerous types of electric generators, including combustion turbines, wind  
21 turbines, hydroelectric plants, coal fired facilities, gas fired boilers and United  
22 States Navy nuclear propulsion plants. I joined MidAmerican in 2009 as General  
23 Manager of the Walter Scott, Jr. Energy Center and assumed my current position  
24 in 2010.

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

26 A. The purpose of this direct testimony is to provide information related to  
27 MidAmerican's fossil fuel procurement and coal transportation practices from the  
28 fuel adjustment clause (FAC) implementation date of January 1, 2015 through  
29 December 31, 2015.

30 **Q. What are MidAmerican's practices with respect to fuel type, particularly**  
31 **coal, natural gas and fuel oil, for electric generation?**

32 A. Coal is the lowest cost source of fuel for MidAmerican's fossil fueled generating  
33 units. Louisa Generating Station (LGS), Walter Scott, Jr. Energy Center (WSEC)  
34 Units 3 and 4, Neal Energy Center (NEC) Units 1-4 and Ottumwa Generating  
35 Station (OGS) use coal as the primary fuel source and NEC Unit 1 can also use  
36 natural gas as an alternative primary fuel. Riverside Generating Station (RGS)  
37 and WSEC Units 1 and 2 operated as coal units from January 1, 2015 until April

38 15, 2015. RGS continues to operate as a natural gas only unit while WSEC Units  
39 1 and 2 were retired from service. All of MidAmerican's coal-fueled units use  
40 either natural gas or fuel oil or both for startup and flame stabilization.  
41 MidAmerican's combustion turbine generating units can use either natural gas or  
42 fuel oil. Electriform, Sycamore and Pleasant Hill are dual-fuel generating stations  
43 while River Hills, Moline, Merle Parr and Coralville use only natural gas.  
44 Additionally, MidAmerican owns portable power module generating units that  
45 use only fuel oil. The selection of natural gas versus fuel oil is based on  
46 economics giving due consideration to operational issues such as cold weather  
47 operating difficulties with fuel oil and interruption of gas supplies during periods  
48 of peak gas system usage. Natural gas can be supplied by a variety of sources.  
49 Selection of the natural gas supply source depends on economics and availability.  
50 MidAmerican's Gas Portfolio Planning and Trading and Electric Trading  
51 departments are responsible for the determination, procurement and monitoring of  
52 MidAmerican's natural gas supply for its generating units. Fuel oil for the coal-  
53 fueled units and combustion turbines is purchased as required through spot market  
54 solicitations. Bids are evaluated and purchases made from the lowest fully  
55 evaluated cost source available. Fuel oil procurement for the portable power  
56 modules is managed under a requirements contract.

57 **Q. What are MidAmerican's practices with respect to sulfur dioxide emission**  
58 **allowances?**

59 A. MidAmerican holds allowances in sufficient quantity as required to meet the  
60 sulfur dioxide emission levels from its generating units. MidAmerican reinvests

61 proceeds received from the U.S. Environmental Protection Agency's annual  
62 allowance auction by purchasing additional allowances. Additionally,  
63 MidAmerican may occasionally sell excess allowances from previous and current  
64 years if emission levels are less than allowance quantities required for  
65 environmental compliance.

66 **Q. Who has responsibility for coal and fuel oil procurement and coal**  
67 **transportation in MidAmerican's organizational structure?**

68 A. The Director, Fuels and Emissions reports to me and has responsibility for coal  
69 and fuel oil procurement and coal transportation for wholly-owned generating  
70 units (RGS, NEC Units 1 and 2, combustion turbines and portable power  
71 modules) plus jointly-owned generating units operated by MidAmerican (LGS,  
72 WSEC Unit 3 and 4, and NEC Units 3 and 4). Personnel within Fuels and  
73 Emissions are responsible for the determination, procurement and monitoring of  
74 MidAmerican's coal and fuel oil supplies and coal transportation activities. The  
75 responsibility for coal, coal transportation and fuel oil procurement for OGS rests  
76 by contract with the operating utility, Interstate Power and Light Company (IPL).  
77 MidAmerican monitors the coal supply, coal transportation and fuel oil supply  
78 arrangements made for OGS through its participation in periodic OGS meetings  
79 with IPL, and the review of periodic reports and other communications with IPL.

80 **Q. MidAmerican includes nuclear fuel costs in its fuel adjustment clause. Who**  
81 **has responsibility for nuclear fuel procurement?**

82 A. MidAmerican is a partial owner in Quad Cities Station Units 1 and 2 (QC  
83 Station). The responsibility for nuclear fuel procurement for QC Station rests by

84 contract with the operating utility, Exelon Generation Company, LLC.

85 **Q. How are fuel specifications determined by MidAmerican?**

86 A. Fuel specifications are determined by considering the design requirements of the  
87 equipment at the generating stations, the heat content necessary to utilize the full  
88 capability of the equipment, the need to comply with pollution control  
89 regulations, and any constraints with respect to fuel handling and operational  
90 characteristics.

91 **Q. What management controls exist over the coal and fuel oil procurement and  
92 coal transportation practices for generating units operated by  
93 MidAmerican?**

94 A. MidAmerican's coal and fuel oil purchase and coal transportation decisions are  
95 reviewed and approved at the Director level or above. The status of coal  
96 transportation and fuel supplies, along with inventory projections, are routinely  
97 reported to the Director, Fuels and Emissions, the Vice President, Energy Supply  
98 Management and the President.

99 **Q. How does MidAmerican decide if additional coal supplies are needed?**

100 A. Each year MidAmerican develops a ten-year forecast of coal burn requirements.  
101 This forecast of coal requirements is used to plan our coal purchases for next year  
102 and beyond. For current year purchases, an analytical process to project a need  
103 for additional coal, and its timing, plus the impact on existing contractual  
104 commitments and inventory levels, begins with a projection of the monthly burn  
105 quantities for the current year. When the burn projections are analyzed in  
106 connection with contractual commitments and available rail transportation

107 shipping schedules, preliminary quantities of additional coal requirements are  
108 identified. These quantities are refined as part of an ongoing process during the  
109 year by replacing projected values with actual burn figures as they become  
110 available and altering projections to reflect changes in unit maintenance  
111 requirements and other events as they occur or are known. If a need for additional  
112 spot coal is determined, Fuels and Emissions personnel will prepare a  
113 recommendation for the Director, Fuels and Emissions. The Vice President,  
114 Energy Supply Management reviews the plan and discusses the information with  
115 the President, and if approved, the President provides authorization to proceed.

116 **Q. Does MidAmerican purchase coal through contracts of varying terms?**

117 A. Yes. MidAmerican attempts to secure a portfolio of coal under contracts of  
118 varying terms to meet its forecasted requirements. MidAmerican's existing  
119 portfolio can be characterized as a ladder portfolio of medium-term contracts  
120 (two to five years) and spot contracts (less than two years) with multiple  
121 producers/mines. At this time, MidAmerican does not have any long-term  
122 contracts with terms greater than five years given the significant premium  
123 demanded by producers for long-term contracts. Contracts are negotiated to  
124 provide security of supply with sufficient flexibility in the coal delivery schedules  
125 to accommodate variances to the coal requirement forecasts and to permit  
126 MidAmerican to take advantage of economical spot market opportunities.  
127 MidAmerican attempts to obtain further portfolio flexibility by negotiating  
128 flexible "swing" quantity provisions which provide for both a minimum and a  
129 maximum amount of coal to be purchased each year under a particular contract.

130 **Q. Please discuss MidAmerican's procedures for evaluating potential coal and**  
131 **fuel oil vendors.**

132 A. An ongoing program of maintaining contacts with fuel suppliers permits  
133 MidAmerican to keep aware of the industry's fuel supply status and future  
134 expectations. From these contacts, MidAmerican develops a bidder's list of  
135 suppliers who meet the following qualifications: (1) the vendor must be reputable  
136 and engaged in the business of supplying the product; (2) the vendor must have,  
137 or be able to contract for, a source of supply with adequate capacity and reserves  
138 to fill purchase commitments; (3) the vendor must be capable of supplying, or  
139 contracting to supply, a fuel that meets required specifications; (4) the vendor  
140 must have, or be able to contract for, a source of supply located so that the  
141 delivered cost of the fuel to MidAmerican's facilities would be economical; and  
142 (5) the vendor's creditworthiness must pass MidAmerican's Risk Management  
143 assessment.

144 **Q. Please describe MidAmerican's normal coal procurement process.**

145 A. When additional coal supplies are necessary, known qualified vendors are notified  
146 of MidAmerican's intent to negotiate new supply contracts. This notification is  
147 normally in the form of a bid request setting forth the fuel specifications, required  
148 quantities, contract duration, and a general description of important terms and  
149 conditions to be included in the proposal. Proposals must contain, among other  
150 things, the price, quantity, and coal quality specifications. Bids are required to be  
151 tendered to MidAmerican by a specified date. The bidders' proposals are  
152 evaluated with respect to the following criteria: (1) delivered cost per million

153 Btu; (2) coal quality characteristics and plant and operational issues; (3)  
154 demonstrated delivery capability; (4) contract terms and conditions; and (5)  
155 consideration of maintaining a diverse portfolio of suppliers and mines.  
156 MidAmerican selects the successful bidder on the basis of the lowest fully  
157 evaluated delivered cost per million Btu, unless analysis of the aforementioned  
158 criteria discloses that one or more of the criteria, other than delivered cost,  
159 materially affects the lowest bidder's proposal such that it is unacceptable to  
160 MidAmerican.

161 **Q. Would or does MidAmerican enter into coal supply arrangements other than**  
162 **under the normal process you described earlier?**

163 A. Yes. Through these contacts in the industry, Fuels and Emissions personnel, from  
164 time-to-time become aware of additional coal purchase opportunities. For  
165 example, MidAmerican is regularly contacted by brokers who are attempting to  
166 match suppliers with purchasers, normally for spot market transactions. Such  
167 opportunities are reviewed by Fuels and Emissions on a case-by-case basis when  
168 they become known. Depending upon the circumstances existing at the time  
169 when a coal purchase opportunity is presented, an evaluation, using comparable  
170 criteria to the analysis conducted by Fuels and Emissions in the normal bid  
171 evaluation process, is undertaken. MidAmerican will pursue such opportunities  
172 further if they appear economically and/or operationally advantageous.

173 **Q. What procedures are utilized by MidAmerican to monitor suppliers'**  
174 **conformance with contract specifications?**

175 A. Each unit train load of coal purchased is sampled. Quality reports received for

176 each train are compared to contracted quality specifications. In addition, portions  
177 of the samples are retained for availability to MidAmerican and for outside  
178 referee laboratory analysis in the event of a disagreement as to quality.  
179 MidAmerican contracts with independent laboratories to analyze samples from  
180 coal shipments to serve as a check on suppliers' compliance with specifications.  
181 Coal is weighed at the mines on certified scales. Quality deviations and accuracy  
182 of weights have not been a problem for MidAmerican. MidAmerican also  
183 conducts periodic audits of its suppliers' equipment and procedures (e.g.,  
184 laboratory audits, sample system inspections, sample bias testing and scale  
185 certifications). Continuous monitoring of delivery schedules alerts MidAmerican  
186 to potential shortfalls in delivery of the contract quantity. Quantity shortfalls are  
187 promptly called to the supplier's attention to assure contract compliance.

188 **Q. Are there any other activities MidAmerican is involved with in order to**  
189 **ensure reasonable fuel and transportation costs for its customers?**

190 A. Yes. MidAmerican continues to pursue a number of issues to ensure reasonable  
191 fuel costs for its customers. First, MidAmerican has been able to negotiate  
192 favorable coal transportation contracts, thereby controlling coal transportation  
193 costs. Second, MidAmerican has pursued legislative, regulatory, administrative  
194 and legal resolutions for its customers' benefit, both through its own direct  
195 involvement and through its involvement in associations such as Western Coal  
196 Traffic League. MidAmerican believes these activities, coupled with contract  
197 changes and more routine operational and administrative tasks, have provided its  
198 customers with increased value reflected as lower costs and reduced rates of cost

199 increases for fuel and associated expenses.

200 **Q. Please explain MidAmerican's 2015 fossil fuel portfolio and coal**  
201 **transportation arrangements.**

202 A. MidAmerican had coal contracts in place with Arch Coal Inc., Peabody Coal  
203 Company, Cloud Peak Energy Resources and Alpha Natural Resources. These  
204 agreements have varying terms and cover portions of MidAmerican's 2014 to  
205 2017 coal requirements system-wide. The selection of each supplier was based  
206 on the lowest fully evaluated cost of coal available at the respective times of each  
207 evaluation. MidAmerican had rail transportation agreements in place with BNSF  
208 Railway Company, Union Pacific Railroad Company, Canadian Pacific Railway  
209 and CBEC Railway.

210 **Q. Were there any significant disruptions in fuel supply or rail transportation**  
211 **during the reconciliation period?**

212 A. No significant disruptions in fuel supply or rail transportation occurred during the  
213 reconciliation period. In 2015, the western railroads recovered from the  
214 numerous weather related issues that resulted in a slowing of traffic on the  
215 railroads during 2014.

216 **Q. Were there any liquidated damages costs that MidAmerican incurred during**  
217 **the 2015 FAC period?**

218 A. No.

219 **Q. Do you have any concluding remarks?**

220 A. Yes. MidAmerican's objective in its fuel procurement practices continues to be  
221 to achieve the lowest fully evaluated cost of energy while maintaining reasonable

222 levels of flexibility and surety of quality supply to reduce risk. This is achieved  
223 by a combination of factors including, but not limited to: (1) purchase of the  
224 lowest delivered cost of coal, whether spot or longer-term, on a fully evaluated  
225 basis; (2) utilization of a portfolio of coal contracts with varying terms, quantities,  
226 suppliers, and mines; (3) aggressive administration of all contracts; (4) economic  
227 dispatch of its generating units; (5) on-going monitoring of contract, industry  
228 issues, trends, and other developments affecting the broad array of factors relating  
229 to energy production, with responsive action as appropriate; and (6) securing of  
230 competitive rates for the transportation of coal to its generating stations.

231 **Q. Is it your opinion MidAmerican has been reasonable and prudent in its fuel**  
232 **procurement?**

233 A. Yes, it is my opinion MidAmerican has been reasonable and prudent in its fuel  
234 procurement practices.

235 **Q. Does this complete your prepared direct testimony in this proceeding?**

236 A. Yes, it does.

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ILLINOIS COMMERCE COMMISSION

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MidAmerican Energy Company	)	
	)	Docket No. 15-0527
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AFFIDAVIT OF  
DAVID W. ULOZAS

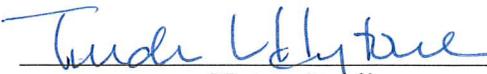
STATE OF IOWA            )  
                                  )     ss.  
COUNTY OF POLK        )

I, David W. Ulozas, being first duly sworn on oath, depose and state that I am the same David W. Ulozas identified in the foregoing Direct Testimony; that I have caused the attached Direct Testimony to be prepared and am familiar with the contents thereof; and that the foregoing Direct Testimony is true and correct to the best of my knowledge and belief as of the date of this Affidavit.

Further affiant sayeth not.

  
\_\_\_\_\_  
David W. Ulozas

Subscribed and sworn to before me,  
a Notary Public in and for said County and  
State, this 5<sup>th</sup> day of April, 2015.

  
\_\_\_\_\_  
Notary Public

