

REBUTTAL TESTIMONY OF SHAWN SHULTZ
DIRECTOR, COAL LOGISTICS
DUKE ENERGY PROGRESS, LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
CAUSE NO. 38707-FAC133 BEFORE THE
INDIANA UTILITY REGULATORY COMMISSION

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Shawn Shultz, and my business address is 526 South Church Street,
3 Charlotte, NC 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Director, Coal Logistics, Duke Energy Progress, LLC, a utility
6 affiliate of Duke Energy Indiana, LLC (“Duke Energy Indiana” or “Company”).
7 In that capacity, I also provide services for Duke Energy’s other affiliate utility
8 companies, including Duke Energy Indiana, LLC.

9 **Q. ARE YOU THE SAME SHAWN SHULTZ WHO ADOPTED THE DIRECT**
10 **TESTIMONY OF MR. BRETT PHIPPS IN THIS PROCEEDING?**

11 A. Yes, I am.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to the testimony and
14 recommendations filed by Messrs. Eckert and Guerrettaz on behalf of the Indiana
15 Office of Utility Consumer Counselor (“OUCC”) and Mr. Gorman on behalf of
16 the Duke Industrial Group (“IG”). Specifically, my testimony discusses the
17 Company’s efforts to mitigate the impacts of constrained coal inventories on our

SHAWN SHULTZ

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 generating units and our customers. My testimony will also describe how these
2 constrained coal inventories are a result of coal supply delivery issues stemming
3 from labor and resources shortages across the coal supply chain. I will also
4 provide clarification on what “firm” rail transportation means in the Company’s
5 rail contracts. Additionally, my testimony will address the Company’s ability to
6 adjust coal delivery schedules between stations, along with our efforts to use
7 trucking for coal deliveries and to increase supplier diversity.

8 **Q. MR. SHULTZ, HAVE YOU READ THE TESTIMONY OF MESSRS.**
9 **ECKERT, GUERRETTAZ, AND MR. GORMAN?**

10 A. Yes, I have.

11 **Q. PLEASE PROVIDE YOUR GENERAL RESPONSE TO THE**
12 **TESTIMONIES OF MESSRS. ECKERT, GUERRETTAZ, AND GORMAN**
13 **AS IT RELATES TO THE COMPANY’S COAL SUPPLY AND ITS**
14 **EFFORTS TO MANAGE ITS COAL INVENTORIES?**

15 A. Overall, the testimonies of Messrs. Eckert, Guerrettaz and Gorman accurately
16 summarize the constrained coal market conditions that have persisted over the last
17 twelve months, including the March-May 2022 FAC 133 period. However, with
18 respect to their discussion of the Company’s coal inventory mitigation efforts, I
19 will address the following: 1) the timing of the Company’s initial coal inventory
20 constraints and its mitigation efforts to address those constraints; 2) clarification
21 of the firm delivery of coal as provided in the Company’s rail transportation

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 agreements; 3) explanation as to why the railroads are not out of compliance with
2 the Company's rail transportation agreements under the current set of
3 circumstances and why the Company has not directly filed a complaint with the
4 Surface Transportation Board ("STB"); and 4) explaining the ability of the
5 Company to adjust its shipments of coal to Gibson and Cayuga if Edwardsport
6 were running solely on natural gas. Lastly, I will also respond to their
7 recommendations relating to coal supply and coal inventory.

8 **Q. DO YOU HAVE ANY OTHER INITIAL REACTIONS?**

9 A. Yes. the Company agrees to continue to work with the OUCC during the audit
10 process to ensure that the OUCC has the information needed to reasonably
11 complete its fuel audit including as it relates to transportation and supply
12 constraints and coal procurement.

I. COAL CONSTRAINTS TIMING AND MITIGATION EFFORTS

13 **Q. MR. GORMAN TESTIFIES THAT THE COMPANY HAS**
14 **DEMONSTRATED "IMPRUDENT MANAGEMENT DECISIONS OF ITS**
15 **COAL INVENTORY." HOW DO YOU RESPOND?**

16 A. Mr. Gorman's assertions are inaccurate. Once Duke Energy Indiana identified, in
17 2021, the potential for coal constraints and experienced reduced coal inventories,
18 we began implementing measures to mitigate these constraints.

19 **Q. PLEASE EXPLAIN WHEN DUKE ENERGY INDIANA BEGAN TO BE**
20 **AFFECTED BY REDUCED COAL INVENTORIES.**

IURC CAUSE NO. 38707-FAC133
 REBUTTAL TESTIMONY OF SHAWN SHULTZ
 FILED SEPTEMBER 9, 2022

A. As discussed in Mr. Phipps' FAC 130 confidential testimony beginning on page 10, line 19, through page 11, line 16, inventory as of May 31, 2021 was approximately 2,284,307 tons or 42 days of coal supply at full load burn ("FLB"). As of August 31, 2021, coal inventories had decreased to approximately 970,858 tons or 18 days of coal supply at FLB. The changes in the Company's inventories were primarily driven by three simultaneous factors: high natural gas prices, high power prices, and significantly constrained rail deliveries. The largest impact to inventory levels was attributable to Gibson's June/July/August burn exceeding planned burn by <CONFIDENTIAL> <CONFIDENTIAL> due to rapidly increasing natural gas and power prices. For example, in June, average, around the clock, power prices rose from \$26.80 to \$31.90, which caused an increase of <CONFIDENTIAL> <CONFIDENTIAL> in Gibson's generation margin, increasing the burn from the previously forecasted <CONFIDENTIAL> <CONFIDENTIAL> tons to an actual <CONFIDENTIAL> <CONFIDENTIAL> tons. This resulted in a total loss of <CONFIDENTIAL> <CONFIDENTIAL> Full Load Burn Days ("FLBD") of inventory, which was <CONFIDENTIAL> <CONFIDENTIAL> FLBD more than anticipated. The second largest impact to inventory levels was delayed delivery of the Company's contracted coal supply over July and August, which resulted in the loss of approximately <CONFIDENTIAL> <CONFIDENTIAL> FLBD of inventory. These delays were primarily driven by COVID outbreaks impacting

1 railroad and mining resources. Lastly, the delayed availability of the Company's
 2 stockpiled coal pending the finalization of supplier White Stallion Energy's
 3 bankruptcy proceeding resulted in the loss of an additional <CONFIDENTIAL>
 4 ■<CONFIDENTIAL> FLBD of inventory. In the fall of 2021, these coal supply
 5 delivery constraints, high natural gas prices, and high power prices caused
 6 Cayuga inventory to remain flat at the Company's minimum acceptable inventory
 7 level with no opportunity to build going into the winter.

8 **Q. PLEASE EXPLAIN THE COMPANY'S INITIAL MITIGATION**
 9 **EFFORTS.**

10 A. As discussed above, the Company experienced strong coal burns driven by
 11 escalating natural gas and power prices, as well as tightened coal supplies due to
 12 external labor and resource constraints. These factors put pressure on the coal
 13 production supply chain. To continue to meet the Company's coal supply needs,
 14 the Company conducted two spot solicitations for coal supply, one in July 2021
 15 and another in August 2021, as well as a long-term solicitation in September 2021
 16 to ensure increased diversity of supply for Winter 2022 and to meet the
 17 Company's projected needs for 2022 and 2023. The spot solicitations were
 18 successful in securing supply from two additional suppliers and adding an
 19 additional delivery source with an existing supplier. The Company was also able
 20 to diversify its transportation options by including the ability to truck coal from a
 21 CSX Transportation ("CSX") only rail loadout to a Norfolk Southern ("NS") rail

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 loadout. Additionally, as a result of the September solicitation, the Company was
2 able to secure supply commitments from two additional suppliers along with
3 additional tonnage from current suppliers through 2024.

4 **Q. PLEASE EXPLAIN WHY THE ABILITY TO TRUCK COAL FROM AN**
5 **ALTERNATE LOCATION ASSISTS IN MITIGATING THE COMPANY'S**
6 **COAL INVENTORY CONCERNS.**

7 A. After White Stallion Energy declared bankruptcy in late 2020, there were only
8 three remaining key coal suppliers in the state of Indiana: Peabody COALSALES,
9 LLC, Alliance Coal, LLC, and Sunrise Coal, LLC. Peabody COALSALES, LLC
10 accounts for almost half of Indiana's coal production. The inclusion of the
11 <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL> in the
12 portfolio in response to coal supply constraints increased Duke Energy Indiana's
13 supply diversity and helps mitigate the potential risk of larger supply disruptions.
14 As coal can be shipped via rail or truck, it offers flexibility to be delivered via
15 CSX rail to Cayuga Generating Station or via NS rail to Gibson Generating
16 Station. Lastly, Sunrise coal can also be trucked directly to Gibson. Beginning in
17 September 2021, Duke Energy Indiana began utilizing the option to truck coal to
18 the NS rail loadout for delivery to Gibson.

19 **Q. PLEASE EXPLAIN THE TIMING OF THE COMPANY'S DECISION TO**
20 **BEGIN TRUCKING COAL TO CAYUGA.**

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 A. Given the lack of inventory build at Cayuga, the Company began pursuing
2 supplemental truck deliveries to Cayuga in early October 2021. Several key
3 factors influenced the timing of trucks supplementing coal deliveries to Cayuga.
4 First, and significantly, it takes approximately 460 truckloads delivered over a
5 month to equal one train at Cayuga. Second, the availability of drivers and trucks
6 in a very tight labor market was a limiting factor in the Company's efforts to
7 execute a coal trucking agreement. Ultimately, the market was so tight the
8 Company was obligated to agree to reduced limestone deliveries at Cayuga to free
9 up drivers and trucks to support the additional trucked coal deliveries. Third, an
10 adequate supply of coal was required at the mine for loading so that truck
11 loadings would not negatively impact train loadings. Finally, since it had been
12 several years since coal truck deliveries had taken place at Cayuga, both the mine
13 and the Station needed to prepare to safely load and receive truck coal deliveries.
14 After negotiating through late October and November, the trucking agreement
15 was executed on November 30, 2021, and truck deliveries began less than a week
16 later.

17 **Q. PLEASE EXPLAIN THE TIMING OF THE COMPANY'S DECISION TO**
18 **BEGIN TRUCKING COAL TO GIBSON.**

19 A. Given the continued rail delivery constraints on the NS railroad in the first quarter
20 of 2022, the Company expanded its supplemental truck deliveries to include direct
21 deliveries to Gibson starting the first week of April 2022.

1 **Q. WILL THE COMPANY CONTINUE TO UPDATE THE COMMISSION**
2 **ON ITS COAL INVENTORY IN FUTURE FAC PROCEEDINGS, AS**
3 **RECOMMENDED BY THE OUCC?**

4 A. Yes. The Company agrees to continue to update the Commission on its coal
5 inventory situation and its current year actual coal burns and coal purchases. The
6 Company's initial 2022 forecasted coal burn was filed with the Commission in
7 FAC 131 as part of its 2022-2023 Duke Energy Indiana Coal Procurement Plan.

II. FIRM DELIVERY

8 **Q. DOES THE COMPANY AGREE WITH MR. GORMAN'S ASSERTION**
9 **THAT DUKE ENERGY INDIANA'S FAILURE TO MAINTAIN**
10 **ADEQUATE COAL INVENTORY IS A DIRECT RESULT OF ITS**
11 **FAILURE TO NEGOTIATE CONTRACTS FOR FIRM DELIVERY OF**
12 **COAL?**

13 A. No, the Company does not agree. As my testimony will explain, Mr. Gorman
14 appears to have a fundamental misunderstanding of the structure of the
15 Company's rail agreements.

16 **Q. HAVE THE OUCC AND INTERVENORS BEEN ABLE TO REVIEW THE**
17 **COMPANY'S RAIL AND TRUCKING AGREEMENTS?**

18 A. Yes. The Company has provided copies of its rail and trucking agreements to all
19 parties that have executed Non-Disclosure Agreements.

1 **Q. PLEASE EXPLAIN MR. GORMAN’S FUNDAMENTAL**
2 **MISUNDERSTANDING OF THE STRUCTURE OF THE COMPANY’S**
3 **RAIL AGREEMENTS?**

4 A. Mr. Gorman appears to misunderstand what is meant by “firm transportation” in
5 the context of our rail transportation agreements. The Company has multiple
6 transportation contracts with various rail providers. These “firm” contracts
7 obligate the Company to take firm minimum volume commitments from the rail
8 provider in exchange for more favorable pricing for customers than the railroads’
9 tariff rates. This guarantees the Company has rail transportation in place at a
10 more favorable rate and the ability to transport coal from the supplier to its
11 generating stations. However, the rail agreements do not contain firm “contract
12 minimums” that obligate the rail provider to ship a minimum volume or otherwise
13 guarantee delivery performance. Ultimately, it is within the discretion of the
14 railroads to determine how to operate their systems.

III. RAIL TRANSPORTATION AGREEMENT COMPLIANCE

15 **Q. MR. ECKERT STATES THAT THE COMPANY HAS NOT TRIED TO**
16 **“ENFORCE NON-COMPLIANCE OPTIONS IN ITS RAIL**
17 **CONTRACTS”, HOW DO YOU RESPOND?**

18 A. As it pertains to the current set of circumstances, no. The Company’s rail
19 transportation agreements do not contain provisions governing non-performance
20 by the railroads. While Duke Energy Indiana actively negotiates with its rail

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 transportation providers to ensure that customers are receiving the lowest
2 reasonably possible transportation rates, the contractual terms and conditions
3 supporting those rates are standard, and it is common railroad practice to not
4 negotiate or amend these terms and conditions, especially the performance
5 language. Despite terms and conditions being standard and being captive to
6 specific rail providers, the Company, during its negotiations, regularly discusses
7 opportunities to include performance language in its rail contracts but the
8 railroads have been unwilling to negotiate on this point. It is worth noting that
9 performance language would potentially expose the Company's customers to
10 damages resulting from supply and demand factors outside the Company's
11 control. With that said, the Company actively communicates with its rail
12 providers and seeks improved performance from its rail transportation providers,
13 including asking what the Company could do to help incentivize or facilitate
14 better performance.

15 **Q. MR. ECKERT STATES THAT THE COMPANY HAS NOT "FILED A**
16 **COMPLAINT" WITH THE STB, HOW DO YOU RESPOND?**

17 A. The Company was proactively communicating with its rail transportation
18 providers for improved rail performance prior to complaints being filed with the
19 STB. While the Company did not file its own complaint with the STB, we
20 instead participated through our membership in the NCTA. Additionally, the
21 Company decided to maintain pressure on the rail providers through frequent

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 direct communications, including at the leadership level. As a member of the
2 National Coal Transportation Association (“NCTA”), the Company was a party to
3 the written submission and in person presentation documenting the rail
4 transportation service disruptions presented to the STB on behalf of its members.

5 **Q. WHAT IS THE STATUS OF THE STB PROCESS?**

6 A. The STB held hearings regarding “inconsistent and unreliable rail service” on
7 April 26 and 27, in Washington, D.C.¹ The hearings were focused on recent rail
8 service problems as well as recovery efforts of the Class I railroads. CSX
9 Transportation, Inc., Norfolk Southern Railway Company, and Union Pacific
10 Railroad Company all presented testimonies during the hearings.

11 **Q. WHAT WAS THE RESULT OF THE STB HEARINGS?**

12 A. The STB issued its decision in this matter on May 5, 2022, which included the
13 following statement: “The Board has ordered service recovery plans and progress
14 reports from the four largest U.S. rail carriers and is directing those carriers to
15 participate in biweekly conference calls to further explain efforts to correct
16 service deficiencies. The Board is also requiring all Class I rail carriers to report
17 more comprehensive and customer-centric performance metrics and employment
18 data for a six-month period.”² As a member of the NCTA and a party to their

¹ <https://www.argusmedia.com/en/news/2320157-us-regulator-plans-hearing-on-rail-services-woes#:~:text=US%20rail%20regulators%20will%20hold,involving%20several%20Class%20I%20railroad>
s.

² <https://www.stb.gov/news-communications/latest-news/pr-22-28/>

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 comments, actions from the STB will be applicable to Duke Energy Indiana.

2 Regardless of the STB process, the Company is continuing to work with its rail
3 providers to promote increased performance.

4 **Q. WILL THE COMPANY CONTINUE TO PROVIDE UPDATES ABOUT**
5 **RAIL PERFORMANCE?**

6 A. Yes. The Company will continue to provide updates regarding rail performance
7 in subsequent FAC proceedings. Additionally, the Company will continue to
8 explain its efforts to encourage rail providers to improve their performance. The
9 Company will also continue to review its rail performance along with the STB
10 required performance reporting with the OUCC during the audit process. Finally,
11 the Company agrees with Mr. Eckert's recommendation to keep the Commission
12 updated on the Company's coal transportation issues. Brett Phipps began
13 including a discussion of coal transportation trends in his FAC 131 testimony and,
14 I plan to continue doing so on a going forward basis.

IV. OPERATION OF EDWARDSPORT ON NATURAL GAS

15 **Q. MR. GORMAN TESTIFIES THAT "IF EDWARDSPORT WERE NOT**
16 **USING COAL, THEN DUKE COULD REDUCE ITS RELIANCE ON THE**
17 **COAL SUPPLY OFFER ADJUSTMENT", HOW DO YOU RESPOND?**

18 A. As explained in the rebuttal testimony of Mr. Daniel, Duke Energy Indiana is
19 continually evaluating the economics of running Edwardsport on natural gas vs.
20 syngas. Based on the total projected coal burns for Cayuga Units 1 and 2 for the

IURC CAUSE NO. 38707-FAC133
REBUTTAL TESTIMONY OF SHAWN SHULTZ
FILED SEPTEMBER 9, 2022

1 period and continued expected constrained coal deliveries, the Company
2 determined that operating Edwardsport on approximately half natural gas and half
3 gasified coal provided the flexibility to allocate deliveries of coal between
4 Edwardsport and Cayuga to help ensure Cayuga maintained reliable fuel supply.
5 While Duke Energy Indiana is unable to estimate the associated costs of
6 allocating deliveries between Edwardsport and Cayuga without making multiple
7 assumptions, it is reasonable to assume that but for the ability to include the
8 additional planned deliveries to Cayuga, the inventory at Cayuga was on track to
9 reach critically low levels of coal during this period.

V. CONCLUSION

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes, it does.

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information, and belief.

Signed: Shawn Shultz

Date: September 9, 2022