

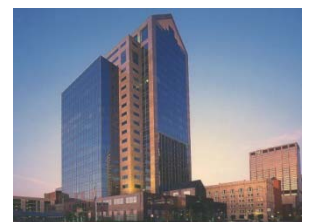


PPL companies

Fuel Procurement Strategy

**Dealing With the Interplay Between Coal
and Natural Gas**

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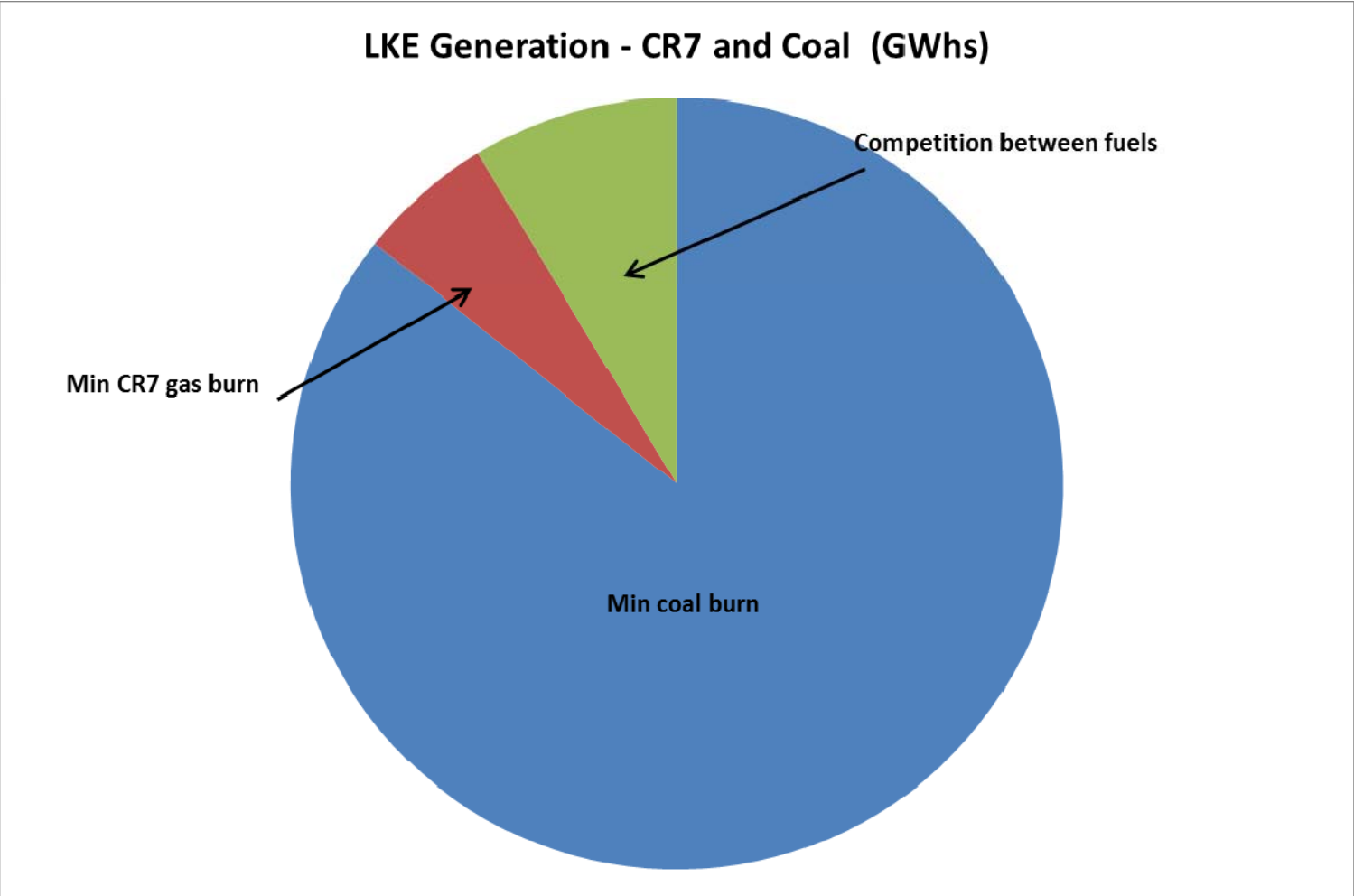
Approach driven by regulatory environment and vertically integrated utility operating outside an RTO

- Recognize that the approach to gas/coal procurement must change to address changes to the generation portfolio
 - *Base load traditionally supplied by all coal-fired generation*
 - *Simple cycle natural gas units aren't competitive with coal and only operated when coal isn't available or insufficient to cover peak demand*
 - *Combined cycle natural gas unit will operate to cover retired base load coal*
 - *CC natural gas unit expected to be competitive with coal (at forecast prices) and therefore will operate for economic reasons*
 - *Coal and natural gas procurement could no longer work independently*
- Determining the impact to fuel requirements
 - *Identifying the minimum and maximum coal requirements*
 - *Identifying the minimum and maximum gas requirements*
 - *Understanding how the burn of each fuel changes with natural gas price*

Integrated procurement strategy and process developed to address risk and unique market characteristics of coal and gas

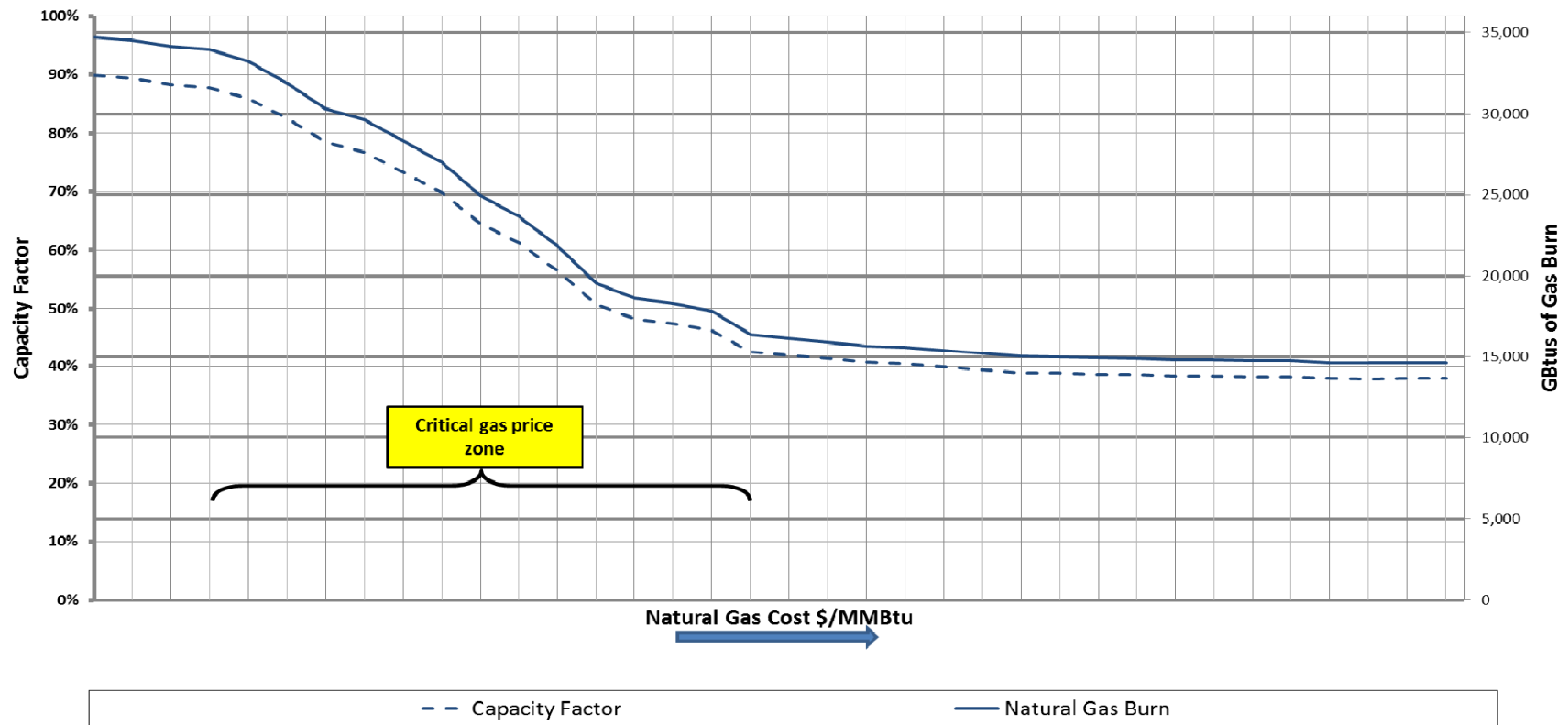
- Risk and important factors that must be considered/managed
 - *Volume exposure (over/under procured)*
 - *Price exposure*
 - *Reliability*
 - *Regulatory issues*
 - *Fuel market conditions (commodity and transport)*
- Strategy options to address new fuel dynamics
 - *Procure projected need and sell excess fuel as requirements changes*
 - *Carry additional inventory to address potential swings in coal burn*
 - *Purchase more fuel in the spot market*

Coal units and Cane Run 7 will be in direct competition for a portion of load requirements



Relative stability of coal prices means natural gas burn will be primarily driven by natural gas price volatility

CR7 Dispatch Capacity Factor and Gas Usage



Conclusions

- Solution must fit with business model and regulatory structure
- Identify the need for a change
- Identify the magnitude of the issue (range of burn)
- Identify key risks and other important factors
- Develop options