
RE: IN THE MATTER OF ADVICE LETTER NO. 1672-ELECTRIC FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 7-ELECTRIC TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE JULY 18, 2014.

NOTICE TO THE PARTIES

OF LESLIE GLUSTROM:

BUYERS BEWARE—US COAL INDUSTRY CRATERING—FAST!!

Leslie Glustrom, an Xcel electric customer, submits this Notice to the Parties in the above captioned docket related to the June 17, 2014 application of Public Service Company of Colorado (“PSCo” or “Xcel” or “the Company”) for a rate increase of \$137.7 million annually and to institute other riders and rate adjustment mechanisms. One of the primary drivers of the rate case is Xcel’s expenditures of hundreds of millions of dollars on old coal plants.

Ms. Glustrom implores the parties and the Commission to take a hard look at what is going on in the US coal industry and then ask whether the hundreds of millions of dollars that

Xcel is spending on old coal plants in this docket are actually investments—

or just expenditures.

SPENDING MONEY ON A COAL PLANT WITHOUT A SUPPLY OF COAL IS NOT

AN INVESTMENT—IT IS JUST AN EXPENDITURE ON A

SOON-TO-BE STRANDED ASSET.

XCEL’S EXPENDITURES ON OLD COAL PLANTS SHOULD NOT BE APPROVED.

Ms. Glustrom had intended to submit detailed comments at the time of Statement of Positions, but recent unprecedented developments in the US coal industry have very serious implications for the expenditures under consideration in this rate case as well as for the economy of the United States and so she is submitting this filing now in an effort to inform the Commission and the parties before they move forward with either a Settlement Agreement or an adjudicated hearing in this docket.

I. SUMMARY

In short, the top US coal companies have “cratered” in recent months with developments in recent weeks being truly astounding. The US coal company is “bleeding” red ink in an extremely serious way and their stock prices and market capitalizations have plummeted while this docket has been proceeding. The signs of a failing US coal industry have been apparent for the last several years, but it now appears highly unlikely that the US coal industry will be able to provide adequate amounts of coal to US coal plants in the coming decades—including to Xcel’s Colorado coal plants that Xcel is spending hundreds of millions of dollars on.

The parties and the Commission are implored to take a hard look at what is going on with the US coal industry, to review the expenditures on old coal plants detailed in “MRF-1” attached to the Direct Testimony of Xcel witness Mark Fox and then recognize that these expenditures should not be approved and to the extent they have already been made or committed, then the return on these expenditures should be 0% because they aren’t investments, they are just expenditures on what are very likely to become stranded assets in the not-too-distant future.

II. XCEL IS MAKING LARGE EXPENDITURES ON OLD COAL PLANTS

Xcel's expenditures that is seeking to add to rate base and earn "return of and return on" investment in this rate case are outlined in "MRF-1" attached to the Direct Testimony of Xcel witness Mark Fox in this 14AL-0660E docket. Attachment 1 is a reproduction of MRF-1 with expenditures on Xcel's largest coal plants (Comanche, Pawnee and Hayden) detailed in separate spreadsheets.

It can be seen that Xcel's expenditures include large expenditures on old coal plants as summarized in Table 1 below.

Table 1
Xcel's 2014-2015 Expenditures on Their Largest Coal Plants¹

Xcel's Colorado Coal Plant (Location)	2014-2015 Expenditures as Shown in MRF-1
Pawnee (Brush, Colorado)	\$341.53 million
Hayden (Hayden, Colorado)	\$64.17 million
Comanche (Pueblo, Colorado)	\$43.99 million

III. XCEL'S COAL PLANTS RECEIVE MOST OF THEIR COAL FROM THE TOP 4 US COAL COMPANIES

Coal deliveries to Xcel's Colorado coal plants can be tracked in the Energy Information Administration ("EIA") 923 database.² Reviewing data for 2014 shows Xcel's largest coal plants receiving coal from mines owned by the largest US coal companies as shown in Table 2 below.

¹ See Glustrom Attachment-1. Data from MRF-1 attached to Xcel witness Mark Fox Direct Testimony.

² The EIA 923 database which can be used to track fuel deliveries to all US power plants is found at <http://www.eia.gov/electricity/data/eia923/>. In the spreadsheet, refer to sheet 5 for coal supply and cost information.

Table 2
Coal Companies Supplying Xcel's Colorado Coal Plants³

Xcel's Colorado Coal Plant (Location)	Coal Mines Supplying The Coal Plant (Owner of the Coal Mine)
Pawnee Coal Plant (Brush, Colorado)	Buckskin Mine (Kiewit Mining Co.) Eagle Butte Mine (Alpha Natural Resources)
Hayden Coal Plant (Hayden, Colorado)	Foidel Creek (Peabody Energy)
Comanche Coal Plant (Pueblo, Colorado)	Antelope (Cloud Peak) Belle Ayr (Alpha Natural Resources) Black Thunder (Arch Coal)

The top four US coal companies are shown in Table 3 below.

Table 3
Top Four US Coal Companies⁴

Rank	Name	2012 Production	Mines Supplying Xcel's Colorado Coal Plants
#1	Peabody Energy ("BTU")	192 million tons	Foidel Creek, North Antelope Rochelle
#2	Arch Coal Inc ("ACT")	137 million tons	Black Thunder
#3	Alpha Natural Resources ("ANR")	104 million tons	Belle Ayr, Eagle Butte
#4	Cloud Peak ("CLD")	91 million tons	Antelope

³ See Glustrom Attachment-2—Data from EIA 923 database. October 2014 is the latest month for which public data is available. In some months, Xcel has not entered the correct name of the company owning the coal mine, particularly for deliveries to the Comanche plants in Pueblo. The ownership of the mines can be confirmed on the companies' websites or in Table 9 of the Annual Coal Report available from <http://www.eia.gov/coal/annual/>

⁴ Information on the top four US coal companies taken from Table 9 of the 2012 EIA Annual Coal Report available from <http://www.eia.gov/coal/annual/>. 2012 is the most recent Annual Coal Report available at the time of writing. The 2013 Annual Coal Report is expected to be released in mid-January 2015. In 2012, the top four US coal companies produced over 50% of US coal as detailed in Table 9 of the 2012 Annual Coal Report.

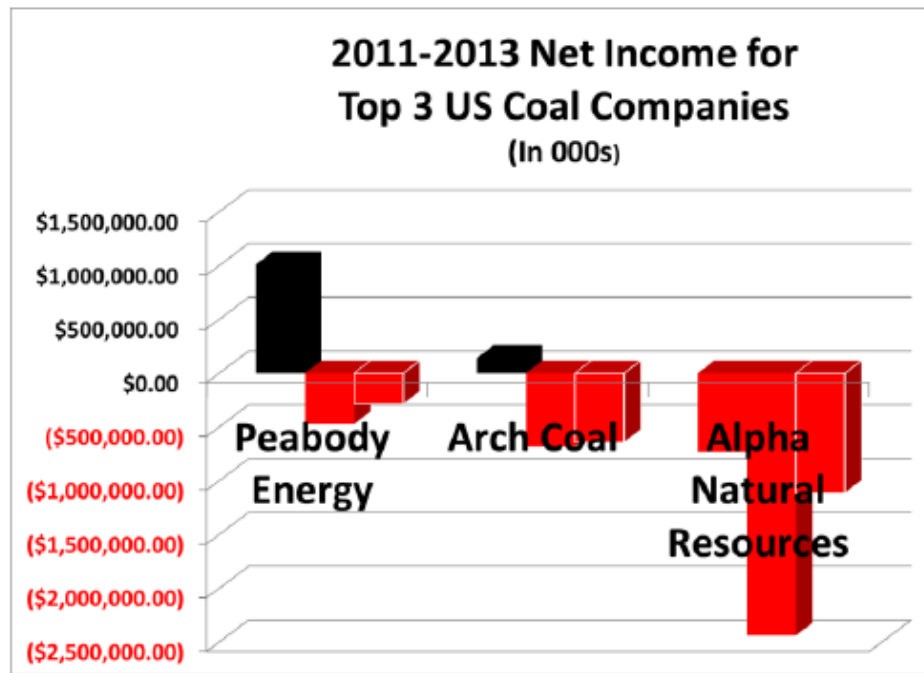
IV. TOP FOUR US COAL COMPANIES ARE IN DIRE FINANCIAL CONDITION

A quick look on any financial website will confirm that the top four US coal companies are in serious financial trouble as many of the companies report large negative earnings and return on equity.

As shown in Figure 1 below, the top 3 US coal companies are reporting hundreds of millions of dollars of losses (and sometimes in excess of \$1 billion) in recent years. The reasons for the current financial distress of the US coal industry are discussed in detail in Attachment 3 and the references included in that report.

Figure 1⁵

2011-2013 Net Income for Top 3 US Coal Companies



Source: Coal Company Annual 10-K Reports

⁵ Net income from the 2013 10-K reports of the respective companies. See page 43 for Peabody, page 57 for Arch Coal, and page 58 for Alpha Natural Resources.

Another indication of the serious financial condition of the top 4 US coal companies is seen in the graphs in Figures 2-5 of their stock prices over the last year. It can be seen that the top four US coal companies have lost 50-80% of their share value—and this comes on top of large losses experienced through 2012 and 2013.

Figure 2
Peabody Stock Price for Past Year
Jan 2014-Jan 2015⁶



⁶ Chart from www.reuters.com

Figure 3
Arch Coal Stock Price for Last Year⁷



Figure 4
Stock Price for Alpha Natural Resources for the Last Year
January 2014-January 2015⁸



⁷ Chart from www.reuters.com

⁸ Chart from www.reuters.com

Figure 5
Stock Price of Cloud Peak for the Last Year
January 2014-January 2015⁹



The graphs of stock prices above are for the companies that are providing most of the coal to Xcel's Colorado coal plants and it isn't clear how much longer they will be able to operate given the large losses they are reporting and dire financial situation they are currently in.

What has happened to the market value of the top US coal companies over the last year has shocked even veteran coal industry watchers, including me!

In addition to the reporting large losses and losing 50-80% of their already weakened stock value, as detailed in Attachment 3, the US coal industry is facing billions of dollars of debt starting at the end of this decade and they have already refinanced their debts and are paying 7-9% interest. It is unlikely that companies that are this financially weak will be able to refinance the debt that is looming.

⁹ Chart from www.reuters.com

Coal mining is a very capital intensive industry. Without strong balance sheets it isn't clear how US coal companies will finance the investments needed in draglines, trucks, shovels, crushers and the other equipment needed to get coal out of the ground and delivered to US coal plants.

The implications for the US economy are huge. Without strong balance sheets, it will be difficult for the top US coal companies to continue mining coal for very much longer. If coal companies can't make a profit mining coal, it isn't clear who will be mining coal in the coming years and decades. Why mine coal if you can't do it at a profit???

It is essential that utilities and regulators come to understand what is happening with the US coal industry and start to plan accordingly for keeping our country powered in this century. The coal plants are currently key to maintaining proper power flows in the grid. Without a supply of coal, the stability of the grid could be threatened. This is a situation that requires immediate review and quick action to ensure that our electrical supplies remain stable as we go through this transition.

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V. CONCLUSION

The most important thing is that everyone who cares about the stability of the US electrical grid and the future of the US economy take a hard look at the status of the US coal industry and begin to make plans to get the US repowered as quickly as possible.

Time is much shorter than most utilities and regulators seem to understand.

It is not at all clear, for example that heavily coal-dependent states like Colorado can assume that the coal will continue to show up at Colorado coal plants in the 2020s and beyond. Coal supply constraints could even begin to show up before the 2020s depending on the outcome of a number of financial variables.

With respect to this 14AL-0660E docket, the Colorado Commission, the Commission staff, the Office of Consumer Counsel and the other parties should take a hard look at the expenditures on old coal plants detailed in MRF-1 and recognize that these expenditures are likely to become stranded assets given the dire straits that the US coal industry is in.

Any Settlement Agreement or Commission Decision in this docket should include a consideration of who should bear the risk of paying off the expenditures that Xcel is making if they should become stranded assets before reaching the end of their expected lives.

Respectfully submitted this 12th day of January 2015,

/s/Leslie Glustrom

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*[Given the press of other commitments, Ms. Glustrom has had to write this filing very quickly.
Please forgive any errors of grammar or roughness of writing.]*

CERTIFICATE OF SERVICE

14AL-0660E

I hereby certify that on this 12th day of January 2015, the foregoing “**NOTICE TO THE PARTIES OF LESLIE GLUSTROM: BUYERS BEWARE—US COAL INDUSTRY CRATERING—FAST!!**” was e-filed with the Public Utilities Commission of the State of Colorado and a courtesy copy was electronically served on the parties to this docket.