

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter Of:

ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	
CLAUSE OF KENTUCKY POWER COMPANY)	CASE NO. 2017-00001
FROM NOVEMBER 1, 2014 THROUGH)	
OCTOBER 31, 2016)	

DIRECT TESTIMONY OF
CHARLES F. WEST
ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Charles F. West, being duly sworn, deposes and says he is the Manager, Coal Procurement, for American Electric Power, that he has personal knowledge of the matters set forth in the forgoing testimony and that the information contained therein is true and correct to the best of his information, knowledge and belief



Charles F. West

STATE OF OHIO

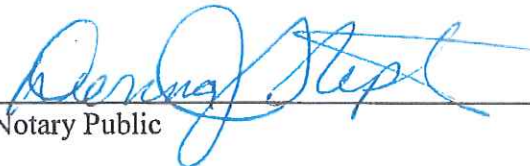
)

) Case No. 2017-00001

COUNTY OF FRANKLIN

)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Charles F. West, this the 20th day of February 2017.



Notary Public

My Commission Expires: January 4, 2019



Donna J. Stephens
Notary Public, State of Ohio
My Commission Expires 01-04-2019

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**DIRECT TESTIMONY OF
CHARLES F. WEST, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2017-00001**

I. INTRODUCTION

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

2 A. My name is Charles F. West. I am employed by the American Electric Power
3 Service Corporation (“AEPSC”), a subsidiary of American Electric Power
4 Company, Inc. (“AEP”), in the regulated Commercial Operations organization as
5 Manager, Coal Procurement. My business address is 1 Riverside Plaza,
6 Columbus, Ohio 43215.

II. BACKGROUND

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I graduated from Queen’s University in Kingston, Ontario, Canada in 1978 with a
9 degree in Mining Engineering and I later obtained my Professional Engineer
10 license in the State of Washington.

11 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

12 A. After graduation in 1978, I was employed in the mining industry by Cleveland
13 Cliffs Iron Company in Michigan and later by Quintette Coal Company in British
14 Columbia. I then spent over seven years employed by PacifiCorp in various
15 engineering and management positions at coal mining operations in Washington
16 state and Wyoming and at their headquarters in Salt Lake City, Utah. In 1995, I

1 accepted a position as Coal Buyer for Central and Southwest Corporation (CSW),
2 a utility holding company in Dallas, Texas. I transferred to Columbus, Ohio as a
3 Coal Buyer after CSW's merger with AEP in 2000. In 2003 I joined Reliant
4 Energy Inc. in Canonsburg, PA as a Senior Fuels Specialist. In 2005 I returned to
5 AEP as a Coordinator in the Fuels, Emissions and Logistics department. I was
6 promoted to Manager of Cook Coal Terminal in Metropolis, IL in 2007 and
7 accepted my current position in January of 2009. Beginning in 2014, the Fuels,
8 Emissions and Logistics department and the Commercial Operations organization
9 were consolidated to become the regulated Commercial Operations organization.

10 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS**
11 **MANAGER, COAL PROCUREMENT FOR AEP?**

12 A. I am responsible for managing coal procurement, contract oversight activities, and
13 managing inventory for AEP operating companies, Kentucky Power Company
14 ("Kentucky Power" or the "Company"), Appalachian Power Company ("APCo"),
15 Indiana & Michigan Power Company ("I&M"), Southwestern Electric Power
16 Company ("SWEPCO"), Public Service Company of Oklahoma ("PSO"), and, as
17 an agent for, Ohio Valley Electric Corporation and Indiana-Kentucky Electric
18 Corporation.

19 **Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?**

20 A. Yes. I have testified before the Kentucky Public Service Commission on multiple
21 occasions on behalf of Kentucky Power, and the Public Service Commission of
22 West Virginia and the Virginia State Corporation Commission on behalf of
23 APCo. I have also submitted testimony to the Indiana Utility Regulatory

1 Commission and the Michigan Public Service Commission on behalf of I&M, the
2 Public Utility Commission of Texas on behalf of SWEPCO, and the Oklahoma
3 Corporation Commission on behalf of PSO.

III. PURPOSE

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. The purpose of my testimony is to address the following areas for the review
7 period from November 2014 through October 2016 (“the review period”):

- 8 a) Coal suppliers’ adherence to contract delivery schedules during the review
9 period;
- 10 b) Kentucky Power’s efforts to ensure coal suppliers’ adherence to contract
11 delivery schedules during the review period;
- 12 c) Kentucky Power’s efforts to maintain the adequacy of its coal supplies in
13 light of any coal suppliers’ inability or unwillingness to make contract
14 coal deliveries;
- 15 d) Any changes in market conditions that occurred during the review period
16 or that the Company expects to occur within the next two years that have
17 significantly affected or will significantly affect Kentucky Power’s coal
18 costs or coal procurement practices; and
- 19 e) The reasonableness of Kentucky Power’s fuel procurement practices
20 during the review period.

IV. CONTRACT DELIVERIES

1 **Q. WOULD YOU PLEASE SUMMARIZE KENTUCKY POWER’S COAL**
2 **SUPPLIERS’ ADHERENCE TO LONG-TERM CONTRACT DELIVERY**
3 **SCHEDULES DURING THE REVIEW PERIOD?**

4 A. The Big Sandy Plant had one long-term agreement during the review period. The
5 counterparty was Southern Coal Sales Corporation (“Southern”). The term of the
6 agreement was January 1, 2013 through December 2014.

**Big Sandy Plant
Long Term Commitments
November 1, 2014 - October 30, 2016**

Vendor	Tons Delivered During Review Period	Percent of Commitment During Review Period	Contract Status*
Southern Coal Sales Corporation	39,768	4%	1

*** Contract Status:**

(1) Action taken to address shortfall. Further information provided below in testimony.

7 Kentucky Power had ten long-term agreements during the review period
8 with six different contract suppliers at the Mitchell Plant. These suppliers were
9 Alpha Coal Sales Co., LLC (“Alpha”), Consolidation Coal Company
10 (“Consolidation Coal”), Koch Carbon, LLC (“Koch”), Maple Coal Co. (“Maple”),
11 Noble Americas Corp. (“Noble”), and Patriot Coal Sales, LLC (“Patriot”). The
12 Company’s coal suppliers generally met their obligations during the review
13 period.

14 The following table illustrates the Mitchell coal suppliers’ general
15 adherence to contract delivery schedules during the two-year review period. The

1 data in the table represents the partial contract year of 2014 through October
2 2016.

**Mitchell Plant
Long Term Commitments
November 1, 2014 - October 30, 2016**

Vendor		Tons Delivered During Review Period	Percent of Commitment During Review Period	Contract Status*
Alpha				
	Contract 1	413,966	103%	1
	Contract 2	473,759	95%	2
	Contract 3	250,088	100%	2
	Contract 4	201,689	40%	3
	Contract 5	252,613	105%	1
Consolidation Coal	Contract 1	2,142,061	54%	4
Koch	Contract 1	182,276	98%	1
Maple	Contract 1	32,877	18%	5
Noble	Contract 1	157,705	66%	2
Patriot	Contract 1	67,317	28%	5

***Contract
Status:**

- (1) Agreement expired on December 31, 2015.
- (2) Agreement expired on December 31, 2016.
- (3) Agreement expires on December 31, 2017.
- (4) Agreement expired on December 31, 2021. Tons Delivered represents 54% of the Commitment during the Review Period.
- (5) Agreement expired on December 31, 2014. All commitments have been met by the suppliers.

3 **Q. PLEASE EXPLAIN WHY THE TABLE FOR THE BIG SANDY PLANT**
4 **INDICATES THAT SOUTHERN DELIVERED ONLY 4% OF ITS**
5 **CONTRACTUAL COMMITMENT TO THE BIG SANDY PLANT**
6 **DURING THAT PORTION OF THE CONTRACT TERM FALLING IN**
7 **THE REVIEW PERIOD?**

8 **A.** The Southern long term commitment began January 1, 2013 and ended December
9 31, 2014. During the review period, Sothern delivered 4% of its contractual

1 obligation; however, during the 24-month contract period, Southern delivered
2 approximately 70% of its contractual obligation. While Kentucky Power provided
3 opportunities for Southern to make-up the contractual shortfall during the term of
4 the agreement, Southern failed to do so prior to the contract's expiration on
5 December 31, 2014. After reviewing supplier performance and coal market
6 pricing and availability, Kentucky Power elected to allow the contract to expire
7 on December 31, 2014.

8 **Q. PLEASE EXPLAIN WHY THE TABLE FOR THE MITCHELL PLANT**
9 **INDICATES THAT ALTHOUGH MAPLE AND PATRIOT ONLY**
10 **DELIVERED 18% AND 28%, RESPECTIVELY, OF THE SCHEDULED**
11 **COAL TO MITCHELL DURING THE REVIEW PERIOD, THEY MET**
12 **THEIR CONTRACTUAL OBLIGATIONS OVER THE LIFE OF THE**
13 **CONTRACTS.**

14 A. The Maple and Patriot long-term commitments ended December 31, 2014. The
15 table above indicating Kentucky Power received 18% and 28% of scheduled
16 deliveries from Maple and Patriot, respectively, reflects only the November and
17 December deliveries of 2014. Maple and Patriot's earlier deliveries, throughout
18 the entire contract period, enabled each to meet its contractual commitments.

19 **Q. WHAT IS THE STATUS OF THE CONSOLIDATION COAL**
20 **AGREEMENT AT MITCHELL?**

21 A. Consolidation Coal delivered approximately 60% of its contractual obligation
22 during the period of November 1, 2014 through October 31, 2016. Low PJM

1 power prices and reduced plant availability led to a contract shortfall of 747,000
2 tons at the end of 2015.

3 **Q. WAS THE MITCHELL PLANT PROJECTED TO BURN ALL OF THE**
4 **CONSOLIDATION COAL TONS IN 2016?**

5 A. No. Lower forecasted PJM power prices indicated a reduced demand for
6 generation at Mitchell. As a result the Company concluded it would be unable
7 consume its contracted tonnage in 2016.

8 **Q. WHAT DID KENTUCKY POWER DO TO REMEDY THE PROJECTED**
9 **CONTRACT SHORTFALL IN 2016?**

10 A. The Company addressed the shortfall through a contractual price re-opener and a
11 subsequent buy-down of 800,000 tons in 2016. Doing so allowed Kentucky
12 Power to address the shortfall at essentially no cost to the customer. A more
13 detailed explanation of the transaction is provided by the Company's response to
14 PHDR-4 in Case No. 2016-00230.

15 **Q. WOULD YOU PLEASE DESCRIBE KENTUCKY POWER'S EFFORTS**
16 **TO ENSURE COAL SUPPLIERS ADHERE TO CONTRACT DELIVERY**
17 **SCHEDULES DURING THE REVIEW PERIOD?**

18 A. Supplier performance under coal contracts is managed in a firm, practical, and
19 businesslike manner to achieve substantial compliance by the supplier consistent
20 with Kentucky Power's overall coal procurement policy and the overriding
21 objective of procuring and maintaining adequate coal supplies to meet current and
22 anticipated requirements. When a supplier's performance does not meet the
23 conditions or terms of the applicable agreement, the Company informs the

1 supplier, takes corrective action as appropriate under the circumstances, and
2 directs that subsequent performance be in compliance. In addition, as was the
3 case with Consolidation Coal Agreement, it sometimes is in both parties' interest
4 to shift tons to later delivery periods if possible, or to negotiate a settlement to
5 ensure the rate payer is not harmed.

6 **Q. ARE THESE INFORMAL MEANS OF RESOLUTION ALWAYS**
7 **SUCCESSFUL?**

8 A. Although the Company and the supplier often can informally reach a mutually
9 agreeable resolution, there are times when disputes regarding a supplier's non-
10 performance cannot be satisfactorily resolved through such means. Those matters
11 are evaluated for further action, such as additional negotiation, arbitration if
12 provided by the contract, or litigation, balanced against the need to maintain a
13 continuing supply of coal to meet Kentucky Power's generation needs.

V. **COAL PURCHASING STRATEGY**

14 **Q. HOW DOES KENTUCKY POWER MAINTAIN ADEQUATE**
15 **DELIVERIES OF COAL AND WHAT PLANS DOES IT HAVE FOR**
16 **ADEQUATE DELIVERIES IN THE FUTURE?**

17 A. Historically, Kentucky Power solicited sales offers for spot and longer term
18 purchases, and layered such purchases into the portfolio of existing agreements.
19 As a part of the overall effort to ensure adequate supply at the Mitchell Plant, the
20 company issued solicitations for short-term supply agreements in June and
21 December 2015.

1 For Big Sandy, the Company only issued one solicitation for coal during
2 the review period. This was due to the fact that that Big Sandy Unit 1 was
3 converted to natural gas and Big Sandy Unit 2 was retired during the review
4 period. This single solicitation, made in December 2014, yielded four short-term
5 agreements with four separate suppliers for the first quarter of 2015.

6 Increased volatility in demand for coal generation along with uncertainty
7 in the coal market forced the Company to modify the procurement strategy for
8 Kentucky Power to include more short-term coal purchases to maintain
9 appropriate deliveries of coal at a reasonable cost during the review period.

VI. MARKET OVERVIEW

10 **Q. PLEASE EXPLAIN THE UNCERTAINTY IN THE COAL MARKET AND**
11 **INCREASED VOLATILITY IN DEMAND FOR COAL FIRED**
12 **GENERATION THAT OCCURRED DURING THE REVIEW PERIOD OR**
13 **THAT KENTUCKY POWER EXPECTS TO OCCUR WITHIN THE NEXT**
14 **TWO YEARS THAT HAVE SIGNIFICANTLY AFFECTED OR WILL**
15 **SIGNIFICANTLY AFFECT THE COMPANY'S COAL PROCUREMENT**
16 **PRACTICES?**

17 A. Reduced demand with respect to the NYMEX and CSX¹ coal led to the closure of
18 a significant portion of the Central Appalachian ("CAPP") coal production in
19 Kentucky and West Virginia during 2014 and 2015. The cooler than anticipated
20 summer of 2015 and warmer than anticipated winter of 2015/2016 resulted in
21 depressed natural gas prices and low demand for coal fired generation. A recovery
22 in coal burn in the second half of 2016 was a result of a warmer than average

¹ CSX is the over-the-counter ("OTC") broker index for coal loaded on CSX rail.

1 summer followed by a cooler than anticipated year end. This 2016 recovery in
2 coal burn led to an increase in the price of CAPP and Northern Appalachian high
3 sulfur coals but the increase was capped by the continued relatively low natural
4 gas pricing. In the future, we expect coal pricing in the eastern market will
5 increase when natural gas prices allow a coal price increase or when the export
6 market picks up to the point that demand exceeds available supply. This market
7 volatility makes purchasing decisions more difficult because both price and
8 availability become important considerations, yet demand for coal fired
9 generation continues to be uncertain.

10 **Q. WHAT IS THE STATUS OF THE MERCURY & AIR TOXICS**
11 **STANDARDS (MATS) AND THE CROSS-STATE AIR POLLUTION**
12 **RULE (CSAPR) REGULATIONS, AND WHAT IMPACT ARE THEY**
13 **EXPECTED TO HAVE ON COST OF COAL FOR KENTUCKY POWER?**

14 A. After significant litigation, on June 13, 2016, the Supreme Court denied a
15 multiple-state request, led by the state of Michigan, to reconsider whether MATS
16 should remain in effect while the authority of the EPA to issue the regulation is
17 considered. Therefore, even if the court ultimately concludes that the EPA does
18 not have the authority, MATS impact on coal-fired generation has occurred. The
19 consequent closures and investments made to address MATS are effectively non-
20 reversible.

21 Additionally, on September 7, 2016, the EPA issued a final rule updating the
22 Cross State Air Pollution Rule (“CSAPR”) to address the 2008 Ozone National
23 Ambient Air Quality Standard (“NAAQS”). This final rule significantly reduced

1 the ozone season NO_x budgets for many of the states covered by the CSAPR. It
2 is effective starting with the 2017 ozone season (May 1, 2017). These changes to
3 CSAPR will require coal-fired plants in states covered by CSAPR to hold greater
4 numbers of allowances and could decrease demand for coal-fired generation.

5 **Q. IS RISK ASSESSMENT AN IMPORTANT FACTOR IN KENTUCKY**
6 **POWER'S COAL PURCHASING DECISIONS?**

7 A. Yes. The Company considers a vendor's financial status, ability to deliver, and
8 past performance when evaluating its decision to do business with that supplier.
9 Before a purchase is made, each operation submitting a coal proposal is evaluated
10 by the coal procurement team to make an assessment of the operation's ability to
11 meet the obligations of the contract. Regardless of the poor financial condition of
12 the industry, the Company's suppliers continue to meet their contractual
13 obligations. With this in mind, the Company continues to evaluate the risk of each
14 offer independently to ensure that any purchase made will serve to enhance
15 Kentucky Power's security of supply.

VII. CONCLUSION

16 **Q. WERE KENTUCKY POWER'S FUEL PROCUREMENT PRACTICES**
17 **REASONABLE DURING THE REVIEW PERIOD?**

18 A. Yes. Kentucky Power's coal purchases were fair and reasonable during the
19 review period. The Company worked to obtain the lowest reasonable delivered
20 cost over a period of years consistent with its obligation to provide adequate and
21 reliable service to its customers, while meeting environmental standards.

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes.