COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

IN THE MATTER OF

AN EXAMINATION OF THE APPLICATION	**)**
OF THE FUEL ADJUSTMENT CLAUSE OF	**)**
KENTUCKY POWER COMPANY FROM	**) CASE NO. 2012-00550**
NOVEMBER 1, 2010 THROUGH OCTOBER 31, 2012	**)**

DIRECT TESTIMONY OF

KIMBERLY K. CHILCOTE

March 1, 2013

VERIFICATION

The undersigned, Kimberly K. Chilcote, being duly sworn, deposes and says she is Manager II – Fuel Emission and Logistics for American Electric Power, that she has personal knowledge of the matters set forth in the forgoing testimony and the information contained therein is true and correct to the best of her information, knowledge and belief.

Kimberly K Chilcote

Kimberly K. Chilcote

STATE OF OHIO)

) CASE NO. 2012-00550

COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kimberly K. Chilcote, this the 1 day of March 2013.

Notary Public

NOTARIAL SEAL STATE OF OHIO

Gina L. Beyer
Notary Public, State of Ohio
My Commission Expires 07-01-2016

My Commission Expires: 7-1-2016

DIRECT TESTIMONY OF
KIMBERLY K. CHILCOTE, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2012-00550

I. INTRODUCTION

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

A. My name is Kimberly K. Chilcote. I am employed by the American Electric Power Service Corporation ("AEPSC"), a subsidiary of American Electric Power Company, Inc. ("AEP"), in the Fuel, Emissions & Logistics Group, as Manager - Coal Procurement. My business address is 155 West Nationwide Boulevard, Suite 500, Columbus, Ohio 43215.

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from the University of Dayton in 1992 with a Bachelor of Chemical Engineering Degree.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. I joined AEP in 1992 as an Assistant Chemist at the Conesville Plant and transferred to the fuels group in 2004 as a Coordinator performing quality checks of the coal purchased by the procurement department. I transferred in 2007 to the Western Procurement group and was responsible for the purchase and shipment of all of the Powder River Basin Coal for the AEP System. In 2008, I transferred to the Eastern Procurement group to purchase coal for the AEP Ohio facilities and, in 2010, accepted my current position as Manager – Coal Procurement.

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS MANAGER - COAL PROCUREMENT FOR AEP?

A. I am responsible for the procurement of coal for two of AEP's Operating Companies: Ohio Power Company ("OPCo") and Kentucky Power Company ("KPCo"). I also act as an agent for the Cardinal Operating Company and procure coal for its facility.

Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?

A. Yes. I have testified before the Kentucky Public Service Commission on behalf of KPCo in fuel review proceedings since the fall of 2010.

III. PURPOSE

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

A. As directed by the Commission, the purpose of my testimony in this proceeding is to address the following items for the review period from November 2010 through October 2012:

a) Coal suppliers' adherence to contract delivery schedules during the review period.

b) KPCo's efforts to ensure coal suppliers' adherence to contract delivery schedules during the review period.

c) KPCo's efforts to maintain the adequacy of its coal supplies in light of any coal suppliers' inability or unwillingness to make contract coal deliveries.

d) Any changes in coal market conditions that occurred during the review

e) period or that KPCo expects to occur within the next two years that have significantly affected or will significantly affect KPCo's coal procurement practices.

f) The reasonableness of KPCo's fuel procurement practices during the review period.

IV. CONTRACT DELIVERIES

Q. WOULD YOU PLEASE SUMMARIZE KPCO'S COAL SUPPLIERS' ADHERENCE TO LONG-TERM CONTRACT DELIVERY SCHEDULES DURING THE REVIEW PERIOD?

A. During the two-year review period, KPCo had ten long-term agreements with eight contract suppliers. These suppliers were: Arch Coal Sales Company, Inc. ("Arch"), Argus Energy, LLC ("Argus"), Beech Fork Processing, Inc. ("Beech Fork"), Cliffs Logan County Coal, LLC ("Cliffs"), Kentucky Fuel Corporation ("Kentucky Fuels"), Rhino Energy LLC ("Rhino"), S.M. & J., Inc. ("S.M.& J."), and Trinity Coal Marketing, LLC ("Trinity").

The following table provides pertinent data regarding KPCo's coal suppliers' adherence to contract delivery schedules during the two-year review period. The data in the table represent the full contract year of 2011 and only the portions of both years 2010 and 2012 represented in the review period.

November 1, 2010 - October 31, 2012

Vendor	Tons Delivered	Percent of Commitment	Contract Status*
Arch (formerly ICG)	630,213	105%	1
Argus	518,649	99%	1
Beech Fork (2 Agreements)	480,879	99%	1
Cliffs	413,546	98%	2
Kentucky Fuels	460,724	100%	1
Rhino	859,487	95%	2
S.M.& J.	436,890	99%	1
Trinity (2 Agreements)	318,124	99%	2

*Notes:
(1) Agreement is up-to-date and no further action is required.
(2) Action taken to address agreement, further information provided in testimony.

Q. WOULD YOU PLEASE DESCRIBE THE KPCO'S EFFORTS TO ENSURE COAL SUPPLIERS' ADHERENCE TO CONTRACT DELIVERY SCHEDULES DURING THE REVIEW PERIOD?

A. Supplier performance under coal contracts is managed in a firm, practical, and businesslike manner to achieve substantial compliance by the supplier consistent with the KPCo's overall coal procurement policy and the overriding objective of procuring and maintaining adequate coal supplies to meet current and anticipated requirements. When a supplier's performance does not meet the conditions or terms of the applicable agreement, KPCo informs the supplier, takes whatever corrective action is appropriate under the circumstances, and directs that subsequent performance be in compliance. There are times when disputes regarding a supplier's non-performance cannot be satisfactorily resolved through such means. Those matters are evaluated for further action, such as additional negotiation, arbitration if provided by the contract, or litigation, balanced against the need to maintain a continuing supply of coal to meet KPCo's generation needs. One of the most significant limitations in KPCo's ability to hold coal suppliers to the terms of their contracts is the protection afforded debtors under the bankruptcy laws. In general, KPCo's coal suppliers met their obligations during the review period.

Q. WHAT IS THE STATUS OF THE CLIFFS AGREEMENT?

A. In late 2011, KPCo determined the consumption at the Big Sandy Plant for 2012 would be reduced and actions would need to be taken to lessen commitments in order to maintain inventory. KPCo worked with Cliffs to reduce the 2012 obligation to zero tons through a quarterly buy-down of the obligation.

Q. WHAT IS THE STATUS OF THE RHINO AGREEMENT?

A. Rhino delivered 95% of the contractual obligation during the review period; KPCo was unable to receive coal during various times in the review period. The shortfall tons are scheduled to be made up during the remaining term of the agreement.

Q. WHAT IS THE STATUS OF THE TRINITY AGREEMENTS?

A. The first Trinity contract was completed in 2010. The second contract was amended in 2012 to reduce the total contract obligation. At the time of the reduction Trinity was unable to supply the obligation and KPCo did not believe Trinity would have supply available in the future. Also at that time, KPCo was seeing a reduction in consumption and believed the reduction in the obligation would help maintain inventory. Trinity delivered at 99% of its obligation during the review period, however the 2012 obligation was reduced to zero tons due to Trinity's liquidation of the remaining position.

Q. CAN YOU PROVIDE AN UPDATE ON APPALACHIAN FUELS?

A. The Appalachian Fuels contract began on January 25, 2007. KPCo received tons in 2007 and 2008, but did not receive any deliveries under this contract in 2009. The contract was terminated early on April 30, 2009 as a result of Appalachian Fuels default and money due for shipments received in 2008 was held pending settlement of the claim. Appalachian Fuels filed for bankruptcy in August of 2009, and its mining assets were acquired by another company in October of that same year. Through a settlement agreement completed in August 2012, this matter has been resolved.

V. COAL PURCHASING STRATEGY

Q. HOW DOES KPCO MAINTAIN ADEQUATE DELIVERIES OF COAL TO THE BIG SANDY GENERATING STATION, AND WHAT PLANS DOES IT HAVE FOR ADEQUATE DELIVERIES IN THE FUTURE?

A. Historically, at an appropriate time, KPCo solicits sales offers for spot and longer term purchases, and layers such purchases into the portfolio of existing agreements. As a part of the overall effort to ensure adequate supply, the company issued solicitations in February, May, and September of 2011. KPCo has been able to maintain adequate deliveries of coal to the Big Sandy generating station during the review period.

In the future, KPCo will change from how it has historically purchased coal. This change in procurement is driven by the Mercury and Air Toxics Standard (MATS) that is scheduled to take effect in the spring of 2015. Due to MATS, and to the current plan to not install additional pollution control equipment, the Big Sandy Plant will not be permitted to generate electricity using coal as a fuel source beyond the spring of 2015. The procurement strategy for KPCo will begin to move in the direction of more spot coal and eventually decrease the level of the coal inventory to zero sometime during year 2015.

Q. WERE THERE ANY CHANGES IN COAL MARKET CONDITIONS THAT OCCURRED DURING THE REVIEW PERIOD OR THAT KPCO EXPECTS TO OCCUR WITHIN THE NEXT TWO YEARS THAT HAVE SIGNIFICANTLY AFFECTED OR WILL SIGNIFICANTLY AFFECT KPCO'S COAL PROCUREMENT PRACTICES?

A. Coal prices in late 2010 began to increase slightly as utilities began to re-enter the coal markets to maintain inventory levels. In 2011, prices for coal remained fairly stable as utilities made purchases as needed. However, in late 2011 and early 2012 prices began a downward trend. The mild weather during the winter of 2012 and historically low gas prices continued to place downward pressure on the coal market.

Currently, generation requirements still remain lower than historical levels with increases seen during times of weather extremes in the summer and winter. Natural gas prices remain low compared to historical levels and electric generation from natural gas has displaced high cost, less efficient coal generation.

Coal market prices will continue to exhibit some measure of volatility due to changes in global coal demand, continued weak demand for coal by utilities, elevated coal inventory levels, and volatile natural gas prices. However, KPCo anticipates that coal market prices will continue to trend slightly upward over the next two years with occasional fluctuations both upward and downward.

KPCo's procurement practices will see a significant change with its proposed plan not to install additional pollution control equipment at the Big Sandy Plant, and with the addition of one-half of the Mitchell Plant to the KPCo portfolio. The remaining one-half of the Mitchell Plant will be an asset of Appalachian Power Company (APCo), who will be responsible for the purchasing of fuel for the entire Mitchell Plant.

Q. IS RISK ASSESSMENT AN IMPORTANT FACTOR IN KPCO'S COAL PURCHASING DECISIONS?

A. Yes. KPCo considers a vendor's financial status, ability to adhere to the delivery obligation based on ratable deliveries and past performance when evaluating its decision to do business with that supplier. Purchases from reliable vendors serve to enhance KPCo's security of supply.

VI. CONCLUSION

Q. WERE KPCO'S FUEL PROCUREMENT PRACTICES REASONABLE DURING THE REVIEW PERIOD?

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

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.