COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter Of:

AN EXAMINATION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY POWER COMPANY FROM NOVEMBER 1, 2012 THROUGH OCTOBER 31, 2014	)))))	Case No. 2014-00450

DIRECT TESTIMONY OF

KELLY D. PEARCE

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, Kelly D. Pearce, being duly sworn, deposes and says he is the Director Contract and Analysis for American Electric Power, that he 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 his information, knowledge and belief

Kelly D. Pearce

Kelly D. Pearce

STATE OF OHIO)
) Case No. 2014-00450
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kelly D. Pearce, this the 20th day of February, 2015.

Amanda E Owen

Notary Public

My Commission Expires: Never

STATE OF OHIO

DIRECT TESTIMONY OF
KELLY D PEARCE ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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DIRECT TESTIMONY OF
KELLY D. PEARCE ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kelly D. Pearce, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by the American Electric Power Service Corporation (AEPSC) as Director of Contracts and Analysis. AEPSC supplies engineering, financing, accounting, and planning and advisory services to the electric operating companies of the American Electric Power System, one of which is Kentucky Power Company ("Kentucky Power" or "Company").

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science degree in Mechanical Engineering from Oklahoma State University in 1984. I received Master of Science and Doctor of Philosophy degrees in Nuclear Engineering from the University of Michigan in 1986 and 1991 respectively. I received a Master of Science in Industrial Administration degree from Carnegie Mellon University in 1994.

From 1986 to 1988 I worked for a subsidiary of Olin Corporation. From 1991 to 1996 I worked for the United States Department of Energy within the Office of Fossil Energy.

My responsibilities included serving as a Contracting Officer's Representative in the oversight and administration of government-funded research of advanced generation and environmental remediation technologies and projects. I also supported strategic studies for deployment and commercialization of these technologies as well as administration and support of Government research and development solicitations. I was promoted twice during this time.

In 1996 I joined AEPSC as a Rate Consultant I in Regulatory Services. In 2001, I was promoted to Senior Regulatory Consultant. My responsibilities included preparation of class cost of service studies and rate design for AEP operating companies and the preparation of special contracts and regulated pricing for retail customers. In 2003 I transferred to Commercial Operations as Manager of Cost Recovery Analysis. In 2007 I was promoted to Director of Commercial Analysis. During this period, I was responsible for analyzing the financial impacts of Commercial Operations-related activities. I also supported settlement of AEP's generation pooling agreements among the operating companies. In 2010 I transferred to Regulatory Services in my current position.

I am a registered Professional Engineer in Ohio and West Virginia.

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES.

A. My group is responsible for performing financial and other analyses concerning AEP's generation resources and load obligations, settlement support for AEP's operating companies, including that associated with certain affiliate agreements and the PJM regional transmission organization, and regulatory support in areas that relate to commercial operations. In addition, my group is responsible for AEP's wholesale formula rate agreements.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION ("COMMISSION")?

A. Yes. I testified before this Commission in Case Number 2014-00225. My testimony in that proceeding was on behalf of the Company. In addition, I have, participated from time-to-time in informal conferences, particularly with respect to the AEP Pool, PJM and market settlement issues, with the Commission Staff and representatives of the Intervenors.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN ANY OTHER REGULATORY PROCEEDINGS?

A. Yes. I have testified before the Public Utilities Commission of Ohio, the Virginia State Corporation Commission and the Indiana Utility Regulatory Commission. I have also submitted testimony to the Federal Energy Regulatory Commission. My testimony in all of these proceedings was on behalf of operating companies that are affiliates of Kentucky Power.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide and support information requested by the Commission in this case in its Order dated February 5, 2015. This information includes (a) changes in the wholesale electric power market and their impact on power procurement practices, and (b) the amount of no load costs related to the Mitchell Generating Station that were included in the Fuel Adjustment Clause ("FAC") for the period May 1, 2014 through October 31, 2014. Related to the last item, I will also provide information on how much customers have benefitted from the Mitchell Generating Station during the period in which the Company has owned fifty percent of the Mitchell Generating Station.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes, I am sponsoring the following exhibit:

Exhibit KDP-1 – FAC Customer Benefits due to Mitchell Ownership

III. WHOLESALE ELECTRIC POWER MARKET

Q. HAVE THERE BEEN ANY CHANGES IN THE WHOLESALE ELECTRIC POWER MARKET THAT OCCURRED DURING THE REVIEW PERIOD THAT HAVE SIGNIFICANTLY AFFECTED KENTUCKY POWER'S ELECTRIC POWER PROCUREMENT PRACTICES?

A. The most significant changes that affected the Company's power procurement practices during the two-year historic period ending October 2014 that relate to the Company's FAC are those that were described by the Company in the prior examination of the application of the FAC in Case Number 2012-00550. Namely, the termination of the AEP Interconnection Agreement or "Pool" as of December 31, 2013 and the transfer of a fifty-percent ownership interest in the Mitchell generating facility.

Q. HOW HAVE THOSE CHANGES AFFECTED THE COMPANY'S POWER PROCUREMENT PRACTICES DURING THE REVIEW PERIOD?

A. The termination of the Pool Agreement has resulted in each of the AEP East Operating Companies, including Kentucky Power, being on a "stand alone" basis in PJM. This means that the Company now individually buys power as needed for its load. These sales generally come from the PJM market. When the Pool was in effect, Kentucky Power could purchase power for its load from the other East Operating Companies as such power was available. As a result of this change, and more so due to the impending retirement of Big Sandy Unit 2, the Company has obtained fifty-percent ownership in the Mitchell generating station. As a result, Kentucky Power can now self-generate additional power, which reduces the need for power purchases.

Q. ARE THERE ANY OTHER CHANGES YOU EXPECT IN THE NEXT TWO YEARS THAT WILL SIGNIFICANTLY AFFECT KENTUCKY POWER'S ELECTRIC POWER PROCUREMENT PRACTICES?

A. Kentucky Power will be purchasing more power from the PJM market as needed to service its load once Big Sandy Unit 2 retires no later than May of this year and is no longer available to supplement the Company's other generations to provide energy as called upon. There will also be more purchases when Big Sandy Unit 1 shuts down as expected in November of this year until it restarts as a natural gas unit, which is currently expected to be no later than June of 2016.

IV. MITCHELL NO LOAD COST

Q. PLEASE DEFINE NO LOAD COSTS.

A. No load costs are those fuels costs that are not associated with any incremental generation, but are required to maintain an operating unit online.

Q. HOW DOES KENTUCKY POWER ALLOCATE FUEL COSTS TO OFF-SYSTEM SALES?

A. Kentucky Power allocates fuel costs to off-system sales using an after-the-fact cost reconstruction process. As part of this reconstruction process, the Company stacks from highest to lowest the incremental costs of each megawatt-hour ("MWh") produced for any hour in which an off-system sale is made. The incremental costs above the unit minimums (the generating level below which the unit can no longer stably operate) are then assigned "top-down" (i.e., the most expensive first, followed by the next most expensive, and so on) to off-system sales until the highest incremental costs MWhs across all of Kentucky Power's operating units have been assigned to off-system sales. Through this method, off-system sales are assigned the fuel costs that would not have been incurred but for those sales. The residual fuel costs remain with native load customers. Among the residual costs remaining with native load customers are what are referred to as "no load costs." This is appropriate because the Company-owned units are first and foremost available to serve native load.

Q. DO YOU HAVE ANY RECOMMENDATIONS REGARDING THE MITCHELL NO LOAD COSTS FOR THE SIX-MONTH PERIOD ENDING OCTOBER 31, 2014?

A. Yes. While the Commission was perfectly clear in the January 22, 2015 Order in Case No. 2014-00225 that all Mitchell no load costs must be excluded from the Company's FAC during the period January 1, 2014 through the retirement of Big Sandy Unit 2, it's my understanding that the review period in that case was for the six month period ending April 30, 2014. As such, I respectfully recommend that the Commission permit the inclusion of Mitchell no load costs at least for the subsequent six-month period ending October 31, 2014.

Q. WHAT IS THE BASIS FOR YOUR RECOMMENDATION?

A. To disallow all Mitchell no load fuel costs from the FAC seems to imply one of two results: (1) either such fuel costs were imprudently incurred or (2) more of such fuel costs should have been allocated to Off-System Sales ("OSS") rather than internal load. Regarding the first issue, there is no evidence that such costs were or are imprudently incurred and more fundamentally, for the sixth-month period ending October 31, 2014, all Mitchell fuel costs were prudently and appropriately incurred.

Regarding the second issue, the Company allocates some portion of each generating unit to internal load in each hour that a unit is on-line. However, the reverse is not true. There can be and usually are hours in which every single MWh of a given unit may be assigned to internal load if that unit is more economic than MWhs from other, more expensive resources that are assigned to OSS or if the Company is deficit in an hour and no resources are assigned to OSS. In these hours, despite one hundred percent of the energy output of a given Mitchell unit being used to serve native load, the portion of the Mitchell fuel cost associated with no load is currently being disallowed. In these hours it is exclusively the native load customers, not OSS, which are creating and causing these fuel costs. By extension, it is also difficult to envision that even in hours in which only a very small portion of the Mitchell output is allocated to OSS, that such OSS should bear all of the no load costs.

Q. WERE THERE ANY SUCH HOURS DURING THE SIX-MONTH PERIOD ENDING OCTOBER 31, 2014?

A. Yes. There were 400 hours that one hundred percent of either Mitchell Unit 1, Mitchell Unit 2 or both Mitchell units were economically assigned to native load, and yet the no load fuel costs incurred during those hours, as well as all of the no load fuel costs that made the units available for the hours prior to and leading up to those times of a one-hundred percent internal load commitment, have been excluded from the FAC calculations based on the January 22, 2015 Order in Case No. 2014-00225.

Q. HOW MUCH OF THE OUTPUT OF MITCHELL WAS ASSIGNED TO INTERNAL LOAD DURING 2014?

A. Just over sixty-five percent, or approximately two-thirds, of the entire Mitchell MWh output was used to serve internal load customers during calendar 2014.

Q. WHAT HAS BEEN THE CUSTOMER FAC BENEFIT OF THE COMPANY OWNING THE MITCHELL GENERATING ASSET?

A. The customer benefit of Mitchell ownership for 2014 is shown in Exhibit KDP-1. This provides the impacts for the period based on actual data and settlement calculations. As can be seen by these results, Mitchell has provided a ***net*** FAC benefit to customers of approximately $6.9 million through the twelve months of 2014.

Q. HOW WAS THIS DETERMINATION PERFORMED?

A. To be as precise as possible in reconstructing what would have occurred had the Company not owned Mitchell in 2014, the Company has determined the impacts by re-running its Power Tracker settlement system with Mitchell removed. This system assigns resources to off system sales and the residual remains with internal load. This calculation represents a complete hourly picture of the impacts without Mitchell, including not only the "day ahead" position of the Company based on the daily load forecast submitted to PJM, but also the "real time" settlement in the PJM market. As such, it provides the highest level of precision that can be reasonably achieved to determine the actual impacts of Mitchell ownership.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE $9.9 MILLION IN CUSTOMER BENEFITS FOR THE JANUARY – APRIL 2014 PERIOD DESCRIBED IN CASE NO. 2014-00225 AND THE $8.7 MILLION BENEFIT FOR THE SAME PERIOD PRESENTED IN EXHIBIT KDP-1.

A. The approximately $9.9 million in customer benefits described in Case No. 2014-00225 was an estimate based on the fuel costs the Company's customers would have incurred had the

Mitchell Transfer not taken place.[1] This estimate was prepared as a rebuttal to intervenor testimony in Case No. 2014-00225 and, due to time constraints, utilized spreadsheet formulas with the PJM day ahead load forecasts as the basis for quantifying the avoided costs enjoyed by customers as a result of the Mitchell Transfer.

In order to more accurately quantify the customer benefits for this case, the Company was able to refine its prior estimate by re-running its Power Tracker settlement system as previously described and provides the highest level of precision that can reasonably be achieved to determine the actual FAC benefits to customers during 2014 due to Mitchell ownership.

While the refined methodology shows that customer benefits were less than previously estimated during the first four months of 2014, those benefits still equaled $8.7 million. For the entirety of 2014, the customers saw a benefit of nearly $7 million from the Company's ownership of Mitchell during the overlap period.

Q. DOES THE 2014 NET BENEFIT OF $6.9 MILLION INCLUDE THE MITCHELL NO LOAD COSTS?

A. Yes it does. As can be seen in Exhibit KDP-1, the additional Mitchell fuel costs borne by internal load customers, if the no load costs are included, is approximately $82.8million. Against this cost, internal load customers received benefits that include avoided fuel cost from the Big Sandy units, avoided fuel costs from the Rockport units, and avoided costs of purchases for internal load. These avoided costs benefits totaled $89.8 million which

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[1] *See* Rebuttal Testimony of Kelly D. Pearce in Case No. 2014-00225 at 20, Exhibit KDP-5 in Case No. 2014-00225, and the Transcript of the Hearing in Case No. 2014-00225 at 194-95, 197.

exceeds the Mitchell costs by $6.9 million, which is the resulting benefit *including the Mitchell no load costs*.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Kentucky Power Company Internal Load Fuel Cost
Impact of Mitchell Ownership (including no load fuel costs)
Decrease / (Increase) of Expense in Millions of Dollars

Impacts of Owning Mitchell	2014 January - April	2014 May - October	2014 November - December	Total
1) Benefits of owning Mitchell - Includes avoided fuel costs for internal load at Big Sandy and Rockport and avoided PJM energy purchases for internal load.	$38.5	$33.4	$17.9	**$89.8**
2) Mitchell Fuel Cost - ***Includes no load fuel cost*** and incremental fuel costs allocated to internal load.*	($29.8)	($38.9)	($14.2)	**($82.8)**
3) Net Internal Load Customer Benefit / (Costs)	**$8.7**	**($5.6)**	**$3.8**	**$6.9**

*Line 2 includes Mitchell no load cost of approximately $31 million for 2014.

Note: Differences in sums are due to rounding.

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DIRECT TESTIMONY OF

JOHN A ROGNESS

ON BEHALF OF KENTUCKY POWER COMPANY

VERIFICATION

The undersigned, John A Rogness III, being duly sworn, deposes and says he is the Director Regulatory Services for Kentucky Power Company that he 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 his information, knowledge and belief

John A Rogness III

COMMONWEALTH OF KENTUCKY)
) Case No. 2014-00450
COUNTY OF FRANKLIN)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by John A Rogness III, this the 24th day of February 2015.

Judy K Rosquist 481393
Notary Public

My Commission Expires: January 23, 2017

DIRECT TESTIMONY OF
JOHN A ROGNESS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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DIRECT TESTIMONY OF
JOHN A ROGNESS, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

I. INTRODUCTION

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

A: My name is John A. Rogness. My position is Director, Regulatory Services for Kentucky Power Company (Kentucky Power, KPCo or Company). My business address is 101 A Enterprise Drive, Frankfort, Kentucky 40602.

II. BACKGROUND

Q: PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A: I received a Bachelor of Science in Economics from the University of Chattanooga in 1980, a Master of Science in Economics from Vanderbilt University in 1984 and a Ph.D. in Economics from the University of Kentucky in 1991.

In January 1990, I began working in the Kentucky Office of Financial Management and Economic Analysis. From July 1991 – September 1998, I served as an Economist with the Kentucky Public Service Commission (KPSC). From September 1998 – July 2010 I served as Manager of the Management Audit Branch at the KPSC. From August 2010 – September 2012 I served as the Director of the Financial Analysis Division at the KPSC. From October 2012 – March 2014, I served as the Director, Energy Generation, Transmission and Distribution at the Department for Energy Development and Independence in

Kentucky's Energy and Environment Cabinet. On March 17, 2014, I began my duties as Director of Regulatory Services for Kentucky Power Company.

Q: WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR, REGULATORY SERVICES?

A: As Director of Kentucky Power's Regulatory Services, I am responsible for the rate and regulatory matters of Kentucky Power. This includes the preparation of and coordination of the Company's testimony and exhibits in rate cases and any other formal filings before this Commission. In addition, I am responsible for assuring the proper application of the Company's rates and tariffs in all classifications of business.

Q: HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A: Yes. I filed testimony and testified in the previous six month fuel proceeding, Case No. 2014-00225. I also filed testimony in the Economic Development Rider proceeding, Case No. 2014-00336 and in the Company's base rate filing, Case No. 2014-00396.

III. PURPOSE OF YOUR TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. I am supporting the Company's decision to request a change to the base fuel rate that is built into base rates. I will also address the inclusion of no load costs in the determination of the base fuel rate. Finally, I will respond to the Commission's question regarding PJM codes included in the calculation of the FAC.

IV. BASE FUEL RATE

Q. WHAT BASE FUEL AMOUNT IS BEING PROPOSED BY THE COMPANY?

A. As demonstrated in the Company's February 25, 2015 response to the Commission's data request Item Nos. 1, 2, 3, and 4, the Company is proposing to reduce the base fuel amount from the current 2.84 cents per kWh to 2.725 cents per kWh.. This is the first change in the FAC base requested by the Company since the current base fuel cost rate was approved by the Commission in Case No. 2008-00518.

Q. HOW DID THE COMPANY DETERMINE THERE WAS A NEED TO REDUCE THE BASE FUEL AMOUNT?

A. The Company examined both historic and projected fuel costs. Because of the fundamental transformation of the generation resources available to Kentucky Power with (a) the December 31, 2013 termination of the AEP East Interconnection Agreement; (b) the transfer of the 50% undivided interest in the Mitchell generating station to the Company: (c) the retirement of Big Sandy Unit 2 in May 2015; and (d) the beginning of the conversion of the 278 MW Big Sandy Unit 1 to a 268 MW natural gas fired unit in late 2015, Kentucky Power focused its review on the Company's forecasted cost of fuel for calendar years 2015 and 2016.

Q. WHAT ARE THE COMPANY'S PROJECTED 2015 AND 2016 PROJECTED FUEL COSTS?

A. The Company's projected fuel costs for the calendar years 2015 and 2016 are 2.615 cents per kWh and 2.658 cents per kWh, respectively. As shown in Table 1 below, the average of the two annual forecasts of 2.637 cents per kWh is 0.203 cents per kWh below the current base fuel rate.

Year of Projection	Projected Fuel Cost	Projected kWh Sales	Projected Fuel Cost in cents/kWh	Fuel Cost in Current Base Rates in cents/kWh	Difference in Fuel Cost in cents/kWh
2015	$177,659,632	6,794,955,000	**2.615**	2.840	(0.225)
2016	$180,932,441	6,805,974,000	**2.658**	2.840	(0.182)
Average			**2.637**	2.840	(0.203)

The fuel projections reflect the retirement of Big Sandy Unit 2 in 2015 and Big Sandy Unit 1 conversion to natural gas in 2016.

Q. HOW DO THESE PROJECTED COSTS COMPARE WITH THE COMPANY'S HISTORICAL FUEL COSTS DURING THE TWO-YEAR REVIEW PERIOD?

A. The Company forecasts lower fuel costs than those experienced during the review period. During that two year period, as shown in Table 2 below, the fuel costs ranged from a low of 2.068 cents per kWh in November 2012 to a high of 4.031 cents per kWh in January 2014.

TABLE 2

Month & Year	Monthly fuel rate in cents per kWh	cents per kWh above (or below) base fuel rate
November 2012	2.068	(0.772)
December 2012	2.912	0.072
January 2013	3.001	0.161
February 2013	3.119	0.279
March 2013	3.251	0.411
April 2013	3.252	0.412
May 2013	2.781	(0.059)
June 2013	2.881	0.041
July 2013	2.856	0.016
August 2013	2.886	0.046
September 2013	2.645	(0.195)
October 2013	2.730	(0.110)
November 2013	2.801	(0.039)
December 2013	2.401	(0.439)
January 2014	4.031	1.191
February 2014	3.518	0.741
March 2014	**3.756**	0.916
April 2014	3.709	0.869
May 2014	3.416	0.576
June 2014	3.744	0.904
July 2014	3.562	0.722
August 2014	3.606	0.766
September 2014	3.075	0.235
October 2014	2.725	(0.115)
Two Year Average	**3.116**	**0.276**

The average fuel cost during the two year review period was 3.116 cents per kWh, or 0.479 cents per kWh higher than the projected average fuel cost for calendar years 2015 and 2016.

Q. WHY IS THE COMPANY RECOMMENDING A NEW BASE FUEL RATE?

A. A new base fuel rate is required by the four fundamental changes in the Company's generation resources beginning January 1, 2014 and continuing through 2016 that I mention above, as well as the potential for lower future coal prices described by Company Witness West at pages 8- 9 of his testimony.

Q. WHAT FUEL BASE RATE IS THE COMPANY RECOMMENDING AND WHY DID THE COMPANY SELECT THAT AMOUNT?

A. The Company is recommending the Commission establish a base fuel rate of 2.725 cents per kWh. It represents the October 2014 average fuel cost. During the 24 month review period, October 2014 was the month with fuel cost (2.725 cents per kWh) with the smallest differential, without exceeding the projected fuel costs shown in Table 1. Table 3 calculates the difference between the Company's proposed base fuel rate and the projected rates for 2015 and 2016. For both years, the October 2014 actual rate the Company is recommending be adopted as the new base fuel rate is only slightly greater than the projected rates:

TABLE 3

Year of Projection	Projected Fuel Cost	Projected kWh Sales	Projected Fuel Cost in cents/kWh	Proposed Fuel Cost in Base Rates in cents/kWh	Difference in Fuel Cost in cents/kWh
2015	$177,659,632	6,794,955,000	**2.615**	2.725	(0.110)
2016	$180,932,441	6,805,974,000	**2.658**	2.725	(0.067)
Average			**2.637**	2.725	(0.088)

The next lowest monthly historical fuel cost during the review period is 2.401 cents per kWh in December 2013. Not only is it approximately 18-months removed in time from the expected effective date of the new base amount, these costs were incurred by the Company immediately prior to the fundamental transformation of the Company's generation resources.

Second, October 2014 is the month during the two-year review period closest in time to the beginning of time the new FAC base rate is expected to become effective.

V. NO LOAD COSTS

Q. HAVE NO LOAD COSTS ASSOCIATED WITH THE MITCHELL GENERATION UNITS BEEN INCLUDED IN BOTH THE HISTORICAL FUEL COST DATA AND THE FUEL COST PROJECTIONS? IF SO, EXPLAIN WHY.

A. Yes. No load costs associated with the Mitchell generating units have been included in both the historical and projected fuel costs. The period during which the Company's ownership of a 50% undivided interest in the Mitchell units overlaps with the operation of Big Sandy Unit 2 prior to its shutdown is approximately 17 months and includes portions of both the review period and the next two year period. There are 10 months in the historical period and 7 months in the subsequent two year period. No load costs are present in the 14 months of data prior to January 2014 and the 16 months of data subsequent to June 2015. For the purposes of this analysis, keeping no load costs in both the historical two year review period and the projected two year review period provides a consistent basis on which to compare fuel costs over time.

Q. EXPLAIN WHETHER THE INCLUSION OF NO LOAD COSTS IN THE SETTING OF THE BASE FUEL RATE VIOLATES THE COMMISSION'S ORDER IN CASE NO. 2014-00225.

A. Paragraph 5 of the Commission's order in Case No. 2014-00225 prohibits Kentucky Power from collecting Mitchell "no load costs" through the conclusion of the Overlap Period, May 31, 2015. The Company expects the new base fuel rates to be established in this case will become effective sometime after that date. Thus the inclusion for consistency of comparison purposes of no load costs in setting the base fuel rate has no effect on the Company's ability to comply with the Commission's order. The base fuel rate is simply an estimated fuel cost benchmark. Over the next two year period, the Company will continue to either refund over collections or bill under collections of fuel costs on a monthly basis. The Company's refunds of no load costs to customers that have been ordered by the Commission in Case No. 2014-00225 will proceed, subject to the Company's current appeal, regardless of the base fuel rate.

VI. PJM CODE CHARGES AND CREDITS

Q. PLEASE EXPLAIN WHICH PJM CHARGES AND CREDITS ARE INCLUDED IN THE FAC.

A. PJM costs are billed to the Company using PJM billing line items ("BLI") rather than codes. Beginning January 1, 2014 with the dissolution of the AEP Interconnection Agreement, PJM began assigning costs directly to the Company. These costs are then allocated between off system sales obligations and internal load requirements. PJM BLI costs are recorded on the Company's books by FERC account numbers. PJM BLI 1200 and 1205 relate to spot market energy purchase amounts allocated to internal load and are recorded in FERC account 555. PJM BLI 1220, 1225, 1420, 2220 and 2420 relate to marginal line losses and credit. Until recently, these costs had been recorded in accounts 4470207 and 4470208. As stated above, the Company is now recording these costs in accounts 5550326 and 5550327. Marginal line losses and credits are eligible for billing and recovery through the FAC in accordance with the Commission's Order dated June 12, 2008 in Case No. 2007-00522.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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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. 2014-00450
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 24 day of February 2015.

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
CHARLES F WEST ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY

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**DIRECT TESTIMONY OF
CHARLES F. WEST, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

I. INTRODUCTION

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

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

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.

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

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. After graduation in 1978, I was employed in the mining industry by Cleveland Cliffs Iron Company in Michigan and later by Quintette Coal Company in British Columbia. I then spent over seven years employed by PacifiCorp in various engineering and management positions at coal mining operations in Washington state and Wyoming and at their headquarters in Salt Lake City, Utah. In 1995, I accepted a position as Coal Buyer for Central and Southwest Corporation (CSW), a utility holding company in Dallas, Texas. I transferred to Columbus, Ohio as a

Coal Buyer after CSW's merger with AEP in 2000. In 2003 I joined Reliant Energy Inc. in Canonsburg, PA as a Senior Fuels Specialist. In 2005 I returned to AEP as a Coordinator in the Fuels, Emissions and Logistics (FEL) department. I was promoted to Manager of Cook Coal Terminal in Metropolis, IL in 2007 and accepted my current position in January of 2009. Beginning in 2014, the FEL organization and the Commercial Operations organization were consolidated to become the regulated Commercial Operations organization.

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

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

Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?

A. Yes. I have testified before the Kentucky Public Service Commission on behalf of Kentucky Power, and the Public Service Commission of West Virginia and the Virginia State Corporation Commission on behalf of APCo. I have also submitted testimony to the Indiana Utility Regulatory Commission and the Michigan Public Service Commission on behalf of I&M, the Public Utility

Commission of Texas on behalf of SWEPCO, and the Oklahoma Corporation Commission on behalf of PSO.

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 areas for the review period from November 2012 through October 2014 (" the review period"):

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

b) Kentucky Power's efforts to ensure coal suppliers' adherence to contract delivery schedules during the review period;

c) Kentucky Power'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 period or that the Company expects to occur within the next two years that have significantly affected or will significantly affect Kentucky Power's coal procurement practices; and

e) The reasonableness of Kentucky Power's fuel procurement practices during the review period.

IV. CONTRACT DELIVERIES

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

A. During the two-year review period, Kentucky Power had six long-term agreements with six different contract suppliers at the Big Sandy Plant. These suppliers were Arch Coal Sales Company, Inc. ("Arch"), Argus Energy, LLC ("Argus"), Beech Fork Processing, Inc. ("Beech Fork"), Rhino Energy LLC ("Rhino"), S.M. & J., Inc. ("S.M.& J."), and Southern Coal Sales Corporation ("Southern"). With the exception of Southern, discussed below, the Company's coal suppliers generally met their obligations during the review period.

The following table provides pertinent data that illustrates the Big Sandy coal suppliers' adherence to contract delivery schedules during the two-year review period at the Big Sandy Plant. The data in the table represents the full contract year of 2013 and only the portions of 2012 and 2014 that are represented in the review period.

Big Sandy Plant
Long Term Commitments
November 1, 2012-October 31, 2014

Vendor	Tons Delivered	Percent of Commitment	Contract Status*
Arch	22,842	95%	1
Argus	59,726	75%	1
Beech Fork	195,721	99%	2
Rhino	599,653	113%	3
S.M.&J.	283,886	101%	4
Southern	663,237	72%	5

***Notes:**
(1) Agreement expired on December 31, 2012. Obligation met in full over the life of the agreement.
(2) Agreement expired on February 28, 2014. Obligation met in full over the life of the agreement.
(3) Agreement expired on June 30, 2014. Obligation met in full over the life of the agreement.
(4) Agreement expired on March 31, 2014. Obligation met in full over the life of the agreement.
(5) Action taken to address adherence to agreement, further information provided in testimony.

The Mitchell Plant had only one long-term agreement with Ohio Valley Resources, Inc. ("OVRI") during the review period.[1]

Mitchell Plant
Long Term Commitments
January 1, 2014-October 31, 2014

Vendor	Tons Delivered	Percent of Commitment	Contract Status*
Ohio Valley Resources	1,407,368	84%	1

Notes:
(1) Action taken to address agreement, further information provided in testimony.

Q. PLEASE EXPLAIN WHY THE TABLE ABOVE INDICATES THAT ALTHOUGH ARGUS ONLY DELIVERED 75% OF THE SCHEDULED COAL TO BIG SANDY DURING THE REVIEW PERIOD IT MET ITS CONTRACTUAL OBLIGATION OVER THE LIFE OF THE CONTRACT.

[1] For purposes of this fuel reconciliation, contracts pertinent to the Mitchell station were only considered from January 1, 2014 following the transfer of an undivided 50% interest in the plant to Kentucky Power.

A. The Argus long-term commitment ended at month end of December of 2012. The table above indicating Kentucky Power received 75% of scheduled deliveries from Argus reflects only the November and December deliveries of 2012. Notwithstanding the "shortfall" for this two-month period, Argus' earlier deliveries during the entire contract period enabled it to meet its overall contractual commitment.

Q. WHAT IS THE STATUS OF THE SOUTHERN AGREEMENT AT BIG SANDY PLANT?

A. Southern delivered approximately 72% of the contractual obligation during the review period. While Kentucky Power provided opportunities for Southern to make-up tons during the life of the agreement, Southern failed to do so prior to the contract's expiration on December 31, 2014.

Q. WHAT IS THE STATUS OF THE OVRI AGREEMENT AT MITCHELL?

A. OVRI delivered approximately 84% of its contractual obligation during the period of January 1, 2014 through October 31, 2014. However, Kentucky Power did not have an immediate need for the coal at the time, and it was mutually agreed to carry over the shortfall (approximately 387,000 tons) into 2015.

Q. WOULD YOU PLEASE DESCRIBE KENTUCKY POWER'S EFFORTS TO ENSURE COAL SUPPLIERS ADHERE 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 Kentucky Power'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, the Company informs the supplier, takes corrective action as appropriate under the circumstances, and directs that subsequent performance be in compliance. In addition, as was the case with Mitchell OVRI Agreement, it sometimes is in both parties' interest to shift tons to later delivery periods.

Q. ARE THESE INFORMAL MEANS OF RESOLUTION ALWAYS SUCCESSFUL?

A. Although the Company and the supplier oftentimes can informally reach a mutually agreeable resolution, 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 Kentucky Power's generation needs. One of the most significant limitations in the Company's ability to hold coal suppliers to the terms of their contracts is the protection afforded debtors under the bankruptcy laws.

V. COAL PURCHASING STRATEGY

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

A. Historically, Kentucky Power 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 at Mitchell Plant, the company issued solicitations in March, August, and October in 2014. The Company issued solicitations for coal at the Big Sandy generating station only in April and June of 2014.

The Company has changed its procurement strategy from how it has historically purchased coal for Big Sandy plant. The procurement strategy for Kentucky Power included more spot coal purchases during the review period to gradually decrease the level of the coal inventory to zero with the retirement of Big Sandy Unit 2 in May of 2015 and the conversion of the 278 MW Big Sandy Unit 1 to a 268 MW natural gas fired unit in late 2015. The conversion was approved by the Commission on August 1, 2014. Kentucky Power has been mindful of the delicate balance of ensuring a reliable supply of coal at Big Sandy, while working to ultimately have no remaining coal inventory given the considerations listed above. Despite these additional considerations, Kentucky Power has been able to maintain adequate deliveries of coal to both generating stations during the review period.

Q. WERE THERE ANY CHANGES IN COAL MARKET CONDITIONS THAT OCCURRED DURING THE REVIEW PERIOD OR THAT KENTUCKY POWER EXPECTS TO OCCUR WITHIN THE NEXT TWO YEARS THAT HAVE SIGNIFICANTLY AFFECTED OR WILL

SIGNIFICANTLY AFFECT THE COMPANY'S COAL PROCUREMENT PRACTICES?

A. During 2013, low NYMEX and CSX[2] coal pricing and reduced demand led to the closure of a significant portion of the Central Appalachian ("CAPP") coal production in Kentucky and West Virginia. The Polar Vortex events in the first quarter of 2014 led to unprecedented natural gas prices in the northeast United States setting record high power prices in PJM. This led to a temporary increase in coal prices during the first half of 2014. The cooler summer weather reduced power demand, which led to lower gas pricing and lower coal prices in the back half of 2014. The market for Eastern bituminous coal at the end of 2014 saw a much lower demand and lower pricing than has been the case for several years. This has allowed Kentucky Power to take advantage of market opportunities and has supported a procurement strategy of more short-term spot purchases to fill open positions.

The EPA's Mercury and Air Toxic Standards Rule, set to take effect at the end of May 2015, may have an impact on the cost of coal for Kentucky Power as electric generating unit retirements will decrease demand in some coal markets (mainly CAPP) and may result in further production declines, potentially depressing the price of coal.

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

A. Yes. Kentucky Power considers a vendor's financial status and ability to adhere to the delivery obligation based on past performance when evaluating its decision

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

to do business with that supplier. Purchases from reliable vendors serve to enhance the Company's security of supply.

VI. CONCLUSION

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

A. Yes. Kentucky Power'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.