

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of:

Electronic Application Of Kentucky Power Company)
For: (1) Authority Pursuant To KRS 278.218 To Sell Up)
To 400,000 Tons Of Coal Scheduled For Delivery To The) Case No. 2017-00446
Mitchell Generating Station In 2018; And (2) For All)
Other Required Approvals And Relief)

APPLICATION

Kentucky Power Company moves the Public Service Commission of Kentucky pursuant to KRS 278.218 for an Order: (1) authorizing the Company to sell through an independent broker to unaffiliated third-parties up to 200,000 tons (the Company’s share of the maximum of 400,000 tons to be sold) of high-sulfur Northern Appalachian (“NAPP”) coal scheduled for delivery in 2018 to the Company’s Mitchell generating station; and (2) granting all other required relief or approvals. In support thereof Kentucky Power states:

Applicant

1. Kentucky Power is a corporation organized on July 21, 1919 under the laws of the Commonwealth of Kentucky. The Company currently is in good standing in Kentucky.¹

2. The post office address of Kentucky Power is 855 Central Avenue, Suite 200, Ashland, Kentucky 41101.² The Company’s electronic mail address is kentucky_regulatory_services@aep.com.

¹ A certified copy of the Company’s Articles of Incorporation and all amendments thereto was attached to the Joint Application in *In the Matter Of: The Joint Application Of Kentucky Power Company, American Electric Power Company, Inc. And Central And South West Corporation Regarding A Proposed Merger*, P.S.C. Case No. 99-149. The Company’s November 22, 2017 Certificate of Existence is filed as EXHIBIT 1 of this Application.

² Kentucky Power’s Regulatory Services office is located at 101A Enterprise Drive, P.O. Box 5190, Frankfort, Kentucky 40602-5190.

3. Kentucky Power is engaged in the generation, purchase, transmission, distribution and sale of electric power. Kentucky Power serves approximately 168,000 customers in the following 20 counties of eastern Kentucky: Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan. Kentucky Power also supplies electric power at wholesale to other utilities and municipalities in Kentucky for resale. Kentucky Power is a utility as that term is defined in KRS 278.010(3)(a).

4. Kentucky Power is a wholly-owned subsidiary of American Electric Power Company, Inc. (“AEP”). The AEP System is a multi-state public utility holding company system that provides electric service to customers in parts of eleven states: Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia, and West Virginia.

5. Kentucky Power owns a fifty-percent undivided interest in the Mitchell generating station located near Moundsville, West Virginia. The remaining fifty-percent undivided interest in the Mitchell generating station is owned by Wheeling Power Company. Wheeling Power also is a wholly-owned subsidiary of AEP and is an affiliate of Kentucky Power.

Background

6. The Mitchell generating station is operated by Kentucky Power. Kentucky Power contracts for the delivery of both high-sulfur NAPP coal and low-sulfur Central Appalachian (“CAPP”) coal for use at the Mitchell station.

7. The Company currently purchases CAPP coal using spot contracts. The CAPP coal may be mined in Kentucky or West Virginia and is delivered to the station by means of barges.

8. The NAPP coal consumed at the Mitchell generating station is purchased from Consolidation Coal Company by means of a long-term contract (“Consol Contract”) with a term ending in 2022. The NAPP coal is produced from a West Virginia mine adjoining the Mitchell generating station and delivered to the station by means of a conveyor belt system.

9. Kentucky Power is obligated under the Consol Contract amendments,³ as filed with the Commission, to purchase 666,500 tons of NAPP coal in 2017 plus 196,710.5 tons carried over from 2016 to 2017; 666,500 tons in 2018; and 500,000 tons each year during the period 2019-2022. The reduced tonnages in 2017-2022 were achieved as a result of the Company’s negotiations with the Consolidation Coal Company.

10. The Mitchell generating station target level for NAPP coal is a 15 full-burn day supply. Kentucky Power’s NAPP coal inventory at the Mitchell generating station, as of November 17, 2017, was 50 days, or 35 days above target. Kentucky Power anticipates that its NAPP coal inventory at the Mitchell generating station will remain substantially above target in 2018 and possibly into 2019.

11. Kentucky Power from time-to-time is approached by independent coal brokers seeking to purchase NAPP coal for sale to third-parties. Kentucky Power is unaware of the identity of the purchaser until an agreement is reached through the broker and documentation is prepared for the sale. Notwithstanding this fact, because representatives of American Electric

³ The total plant contract obligation is twice the amounts listed (Kentucky Power’s share) in paragraph 9. Wheeling Power is obligated to take the remaining 50% share under the contract. All subsequent references to NAPP contract tonnages are limited to Kentucky Power’s share.

Power Service Corporation, Coal Procurement, also purchase coal for the Company's affiliates, the Company is aware that the broker is not seeking coal for sale to a Company affiliate.

12. In the event Kentucky Power offers to sell coal through an independent broker, it would become contractually obligated immediately upon acceptance by the purchaser of Kentucky Power's offer. The acceptance of the Company's offer results in the instantaneous transfer of title (ownership) to the coal to a third-party at the F.O.B. barge loading point. Upon Kentucky Power taking title to the coal upon its delivery – even if for only an instant – the coal could be characterized as an asset of Kentucky Power and thus subject to the requirements of KRS 278.218.

13. KRS 278.218 provides in pertinent part:

No person shall acquire or transfer ownership of or control, or the right to control, any assets that are owned by a utility as defined under KRS 278.010(3)(a) without prior approval of the commission, if the assets have an original book value of one million dollars (\$1,000,000) or more and:

(a) The assets are to be transferred by the utility for reasons other than obsolescence....

The coal is not being transferred because of obsolescence. The coal to be sold would otherwise have been delivered to the Mitchell plant, added to the existing coal inventory, and then utilized to generate electricity. Given the Consol Contract price, NAPP market index price, and the volume of NAPP coal expected for sale, Kentucky Power estimates that any single sale of NAPP coal by the Company likely would exceed the \$1,000,000 threshold requiring approval under KRS 278.218.

The Proposed Sales

14. To enable Kentucky Power to prudently manage its NAPP coal supply to its established coal inventory targets, the Company proposes to offer through independent brokers a

portion of its currently contracted-for but unneeded NAPP coal for sale to non-affiliated third-party purchasers.

15. Kentucky Power proposes to respond to such solicitations and make such sales only upon the following terms:

(a) The Company would sell its coal only at a price (net of any brokerage charges) greater than its 2018 weighted average cost of NAPP coal under the Consol Contract. The 2018 weighted average cost is currently estimated to be \$43.926 per ton (which is contingent on actual 2017 contract shortfall);

(b) The Company will sell the coal only if the sales price exceeds the market index price as published in the then most-recent publication of Argus Coal Daily: Weekly Price Bulletin;

(c) The Company is seeking authority to sell up to and including 200,000 tons of NAPP coal under the Consol Contract;

(d) Sales will not be made to a Company affiliate as the term is defined at KRS 278.010(18); and

(e) The NAPP coal to be offered for sale otherwise is scheduled for delivery under the Consol Contract during 2018.

The Requested Authority

16. The timing of solicitations from independent brokers, and the requirement that the Company immediately be able to fulfill its obligation under any resulting agreement if its offer is to be accepted, means that there is insufficient time for the Company to seek Commission approval under KRS 278.218 prior to responding each time it receives a solicitation from an independent broker.

17. Kentucky Power seeks prospective authority from the Commission by this application to offer the Consol Contract NAPP coal for sale under the terms described in paragraph 15 above. The requested authority, if granted, would expire December 31, 2018.

18. Kentucky Power proposes to file a written report of the terms of any sale of Consol Contract NAPP coal pursuant to the requested authority within 15 business days from the date the agreement is executed by the Company and the applicable counterparty. The filing would be made in the post-case correspondence file associated with this proceeding.

19. KRS 278.218(2) provides that “[t]he commission shall grant its approval if the transaction is for a proper purpose and is consistent with the public interest.” The proposed sales satisfy both requirements of KRS 278.218(2).

20. The proposed sales are for a proper purpose. Kentucky Power proposes to make the sales to prudently manage its Mitchell generating station NAPP coal inventory supply to AEP Fuel Supply Task Group’s target levels. The sales will not be made to a Company affiliate and thus do not implicate the terms or policies of the affiliate transactions statutes of Chapter 278 of the Kentucky Revised Statutes.

21. The proposed sales are consistent with the public interest. In addition to allowing the Company to prudently manage coal inventory levels, the sales will be made at a price⁴ in excess of both the 2018 average cost of NAPP coal under the Consol Contract and the market index price. The Company’s customers will benefit because the sale would be made only if there is a gain, and any gains on the sales will be netted against the Consol Contract price and thereby reduce the average weighted cost of coal on a going forward basis.

⁴ In determining whether to accept an offer the Company will calculate the sale price net of the broker’s fees, if any.

Wherefore, Kentucky Power Company respectfully requests that the Commission issue an Order:

(a) Authorizing Kentucky Power under KRS 278.218 to sell during calendar year 2018 upon the terms and conditions described in paragraph 15 above up to 200,000 tons of NAPP coal it is contractually obligated to take under the Consol Contract; and

(b) Granting Kentucky Power such other relief as may be appropriate.

Respectfully submitted,



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COUNSEL FOR KENTUCKY POWER
COMPANY

EXHIBIT 1

Commonwealth of Kentucky
Alison Lundergan Grimes, Secretary of State

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Certificate of Existence

Authentication number: 196229
Visit <https://app.sos.ky.gov/ftshow/certvalidate.aspx> to authenticate this certificate.

I, Alison Lundergan Grimes, Secretary of State of the Commonwealth of Kentucky, do hereby certify that according to the records in the Office of the Secretary of State,

KENTUCKY POWER COMPANY

is a corporation duly incorporated and existing under KRS Chapter 14A and KRS Chapter 271B, whose date of incorporation is July 21, 1919 and whose period of duration is perpetual.

I further certify that all fees and penalties owed to the Secretary of State have been paid; that Articles of Dissolution have not been filed; and that the most recent annual report required by KRS 14A.6-010 has been delivered to the Secretary of State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my Official Seal at Frankfort, Kentucky, this 22nd day of November, 2017, in the 226th year of the Commonwealth.



Alison Lundergan Grimes
Alison Lundergan Grimes
Secretary of State
Commonwealth of Kentucky
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