

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) Case No. 2019-00002
NOVEMBER 1, 2016 THROUGH OCTOBER)
31, 2018)

DIRECT TESTIMONY OF
AMY E. JEFFRIES
ON BEHALF OF KENTUCKY POWER COMPANY

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**DIRECT TESTIMONY OF
AMY E. JEFFRIES, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2019-00002**

I. INTRODUCTION

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

2 A. My name is Amy E. Jeffries, and I am employed by 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 Coal Procurement Manager. My business address is 1 Riverside Plaza,
6 Columbus, Ohio 43215.

7

8 **II. BACKGROUND**

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

10 A. I earned a Master of Business Administration from The Ohio State University in
11 2000 and a Bachelor of Science in Business Administration with a major in
12 Procurement and Materials Management from Bowling Green State University in
13 1993.

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

15 A. My professional background in energy began in 1998 as an Account Manager at
16 Clinton Energy Management Services, a natural gas marketing company. In
17 2000, I joined AEP in a rotational program before obtaining the role of Fuel
18 Procurement Coordinator with responsibilities for the procurement of coal for a

1 number of AEP's coal-fired power plants. I transferred to the role of Energy
2 Trader in 2004, with responsibilities for optimizing AEP's emission allowance
3 credits and renewable energy credits. In 2010, I was promoted to Manager –
4 Structuring, in which I provided analytical support for the Fuel, Emissions and
5 Logistics (“FEL”) group. In January 2014, with the consolidation of the FEL
6 organization and the Commercial Operations organization to become the
7 Regulated Commercial Operations organization, I was promoted to Manager
8 Natural Gas Procurement. I was promoted to my current position on May 4,
9 2018.

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, and
13 inventory management activities for the following AEP operating companies:
14 Kentucky Power Company (“Kentucky Power” or “Company”), Appalachian
15 Power Company (“APCo”), Wheeling Power Company (“WPCo”), Indiana &
16 Michigan Power Company (“I&M”), Public Service Company of Oklahoma
17 (“PSO”), Southwestern Electric Power Company (“SWEPCO”), and, as an agent
18 for, Ohio Valley Electric Corporation and Indiana Kentucky Electric 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. I have also testified before the Public
22 Service Commission of West Virginia on behalf of APCo, and the Oklahoma
23 Corporation Commission on behalf of PSO. Additionally, I have submitted

1 written testimony to the Virginia State Corporation Commission on behalf of
2 APCo, as well as the Louisiana Public Service Commission and the Public Utility
3 Commission of Texas on behalf of SWEPCO.

4
5 **III. PURPOSE**

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

8 A. The purpose of my testimony is to address the following areas for the review
9 period from November 2016 through October 2018 (“the review period”):

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

1 **IV. CONTRACT DELIVERIES**

2 **Q. PLEASE GENERALLY DESCRIBE KENTUCKY POWER’S EFFORTS**
3 **TO ENSURE THAT ITS COAL SUPPLIERS ADHERE TO CONTRACT**
4 **DELIVERY SCHEDULES DURING THE REVIEW PERIOD?**

5 A. Supplier performance under coal contracts is managed in a firm, practical, and
6 businesslike manner to achieve substantial compliance by the supplier consistent
7 with Kentucky Power’s overall coal procurement policy and the overriding
8 objective of procuring and maintaining adequate coal supplies to meet current and
9 anticipated requirements. When a supplier’s performance does not meet the
10 conditions or terms of the applicable agreement, the Company informs the
11 supplier, takes corrective action as appropriate per contract terms, and directs that
12 subsequent performance be in compliance.

13 **Q. ARE THESE INFORMAL MEANS OF RESOLUTION ALWAYS**
14 **SUCCESSFUL?**

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

21 **Q. MOVING TO THE SUPPLIERS’ PERFORMANCE DURING THE**
22 **REVIEW PERIOD, PLEASE SUMMARIZE KENTUCKY POWER’S**

1 **COAL SUPPLIERS’ ADHERENCE TO LONG-TERM CONTRACT**
 2 **DELIVERY SCHEDULES.**

3 A. Kentucky Power had thirteen long-term agreements with seven different suppliers
 4 for coal deliveries to the Mitchell Plant during the review period. These suppliers
 5 were Alpha Coal Sales Co., LLC (“Alpha”), Consolidation Coal Company
 6 (“Consolidation Coal”), Coal Network, LLC (“Coal Network”), Ember Energy,
 7 LLC (“Ember”), Noble Americas Corp. (“Noble”), Seminole Coal Resources
 8 (“Seminole”), and SNR River Ops, LLC (“SNR”). The Company’s coal suppliers
 9 generally met their obligations during the review period as evidenced by Table 1

Table 1: Long Term Contracts

Vendor	Term	Percent Delivered of Total Contractual Commitment Through December 31, 2018
Alpha		
03-00-14-032	1/1/2016-12/31/2016	100%
03-00-15-004	7/1/2016-12/31/2017	100%
03-00-16-002	1/1/2017-12/31/2017	100%
03-00-16-004	1/1/2017-12/31/2017	100%
03-00-17-003	1/1/2018-12/31/2018	100%
03-00-17-005	1/1/2018-12/31/2018	96%
Consolidation Coal		
07-77-05-900	1/6/2006-12/31/2022	100%
Coal Network		
03-00-17-007	1/1/2018-3/31/2019	95%
Ember		
03-00-16-003	1/1/2017-3/31/2018	100%
03-00-17-004	1/1/2018-6/30/2019	18%
Noble		
03-00-15-003	1/1/2016-12/31/2016	100%
Seminole		
03-00-16-007	1/1/2017-4/30/2018	100%
SNR		
03-00-17-006	1/1/2018-12/31/2018	98%

Note 1: The CONSOL contract is regularly amended to include shortfall tonnage from the prior year, therefore maintaining contractual requirements.

1 below:

2 **Q. WHAT IS THE STATUS OF THE CONSOLIDATION COAL**
3 **AGREEMENT FOR DELIVERY OF HIGH SULFUR COAL TO THE**
4 **MITCHELL PLANT?**

5 A. With the execution of Amendment 2017-3 in September 2017, Kentucky Power's
6 annual obligation of one million tons was reduced to five hundred thousand tons
7 (Kentucky Power's share of the original two-million-ton obligation) beginning in
8 2019. As part of the Company's efforts to manage its coal supply, Kentucky
9 Power took further steps to reduce its obligations under the agreement in 2018. In
10 June 2018, following Commission approval, the Company entered into an
11 agreement to sell 200,000 tons (Kentucky Power's share of the total 400,000 ton
12 sale) to Trafigura Trading LLC. This sale provided a net gain to Kentucky Power
13 customers while offsetting a portion of the volume commitment to the Mitchell
14 Plant under the Consolidation Coal agreement.

15 **Q. DID TRAFIGURA TAKE DELIVERY OF THE FULL CONTRACTUAL**
16 **TONNAGE?**

17 A. No. The original term of this agreement was through December 31, 2018.
18 Kentucky Power and Trafigura agreed to extend the delivery period through
19 February 28, 2019. Subsequently, Kentucky Power agreed to terminate the
20 agreement without Trafigura taking the final 37,478 tons (the Company's share of
21 the total 74,936 tons not taken by Trafigura). In doing so, this allowed Kentucky
22 Power to take the 37,478 tons in 2020, for which the Company currently shows a
23 need for the tonnage, at the current contract price. In sum, both the sale of the

1 162,522 tons to Trafigura (of the Kentucky Power portion totaling 200,00 tons),
2 and its amendment to move 37,478 tons out to 2020, benefitted Kentucky Power's
3 customers.

4 **Q. PLEASE EXPAND ON YOUR STATEMENT THAT THE COMPANY'S**
5 **LONG-TERM CONTRACT COAL SUPPLIERS GENERALLY MET**
6 **THEIR CONTRACTUAL DELIVERY OBLIGATIONS.**

7 A. Excluding the Ember agreement, which I address below, Kentucky Power
8 received 99 percent of the contract amounts under the remaining agreements.
9 Even when the Ember agreement is included, the Company received 98 percent of
10 its total review period contract deliveries of coal.

11 **Q. PLEASE PROVIDE THE BACKGROUND TO EMBER ENERGY, LLC'S**
12 **DELIVERY OF ONLY 18% OF ITS CONTRACTUAL COMMITMENT**
13 **UNDER ONE OF ITS AGREEMENTS.**

14 A. Ember Purchase Order #03-00-17-004 began as a one-year agreement expiring on
15 December 31, 2018. The agreement called for the production of coal from mines
16 located in Magoffin County, Kentucky. Because of unforeseen mining and
17 adverse weather conditions encountered by Ember throughout 2018, the supplier
18 was unable to meet its ratable obligation under the agreement. Kentucky Power
19 elected to extend the contract through June 30, 2019 because the contract price
20 was substantially less than the market price for similar coal acquired during 2018.

21 **Q. DOES THE COMPANY EXPECT EMBER ENERGY, LLC TO FULFILL**
22 **ITS OBLIGATIONS UNDER THE CONTRACT DURING THE**
23 **AMENDED TERM OF THE AGREEMENT?**

1 A. It is uncertain that Ember will be able to supply its remaining contractual
2 commitment (Kentucky Power's portion of approximately 50,000 tons) within the
3 remaining contract period. The Company notified Ember in October 2018 of the
4 shortfall and requested a new delivery schedule. The six month extension of the
5 agreement to June 30, 2019 described above resulted from the notice and
6 subsequent negotiations. Although Ember continues to ship tons under the
7 agreement, the volumes shipped are very small relative to the amount required by
8 the agreement. Beginning in January 2019, Kentucky Power invoked its rights
9 under Section 11 of the agreement and issued an invoice for monthly shortfall
10 tons. Subsequent to the invoice being sent, Ember issued a Force Majeure letter
11 stating that due to unforeseen mining and adverse weather conditions it would not
12 be able to meet the contractual obligation under the current term of the agreement.
13 The parties are currently in negotiations to determine the next steps relative to the
14 contractual obligation.

15 **Q. WHAT DOES SECTION 11 OF THE AGREEMENT PROVIDE AND**
16 **WHAT IS THE EFFECT OF A MONTHLY INVOICE FOR SHORTFALL**
17 **TONS?**

18 A. Section 11 of the agreement, Quantity Shortfall Damages, explicitly states the
19 rights of the Company and the supplier with respect to either the failure of the
20 Company to accept the quantity of coal delivered by the supplier; or the failure of
21 the supplier to deliver all or any part of the quantity of coal as specified in the
22 agreement.

1 Kentucky Power began issuing invoices as noted above to recover costs
2 relative to the contract tons multiplied by the current difference in the supplier
3 price per ton subtracted from the replacement coal having a similar quality. As
4 noted in the previous section, the parties are negotiating the next steps relative to
5 the contractual obligation.

6

7

V. COAL PURCHASING STRATEGY

8 **Q. HOW DOES KENTUCKY POWER MAINTAIN ADEQUATE**
9 **DELIVERIES OF LOW-SULFUR COAL AND WHAT PLANS DOES IT**
10 **HAVE FOR ADEQUATE DELIVERIES IN THE FUTURE?**

11 A. Historically, Kentucky Power regularly solicited sales offers for spot and longer
12 term purchases of low-sulfur coal, and layered such purchases into the portfolio of
13 existing agreements. As a part of the overall effort to ensure adequate supply at
14 the Mitchell Plant during the review period, the company issued solicitations for
15 supply agreements in November 2016; February, June, August, and November of
16 2017; and again in April, August, and October of 2018.

17 Through the above-mentioned solicitations, the Company layered in
18 purchases with varying terms (up to three years) to maintain appropriate
19 deliveries of coal at a reasonable cost.

20

1 **VI. MARKET OVERVIEW**

2 **Q. PLEASE EXPLAIN THE COAL MARKET CONDITIONS AND**
3 **DEMAND FOR COAL DURING THE REVIEW PERIOD AND THEIR**
4 **EFFECT ON THE COMPANY'S COAL PROCUREMENT PRACTICES?**

5 A. The relatively low price of natural gas put downward price pressure on both barge
6 and rail served steam coal during most of the review period. However, during the
7 summer of 2018, hot weather and strong power prices increased the demand for
8 coal by U.S. power generators. At the same time, demand for U.S. coal overseas
9 was also very strong. This increased demand drove eastern coal prices higher
10 during the last half of 2018 than earlier in the review period.

11 **Q. DOES KENTUCKY POWER ANTICIPATE A MARKED CHANGE IN**
12 **THESE CONDITIONS IN THE FUTURE?**

13 A. In the future, U.S. coal-fired generation is expected to decline further as natural
14 gas-fired and renewable generation gain market share. The uncertainty of coal
15 demand in the near term will continue to cause volatility in the coal market which
16 can make purchasing decisions more difficult because both price and availability
17 become important considerations. The Company's coal procurement strategy will
18 continue to include layering in supply to create a portfolio of agreements of
19 varying terms and prices that increase the committed position over time.

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

22 A. Yes. The Company considers a vendor's financial status, ability to deliver, and
23 past performance when evaluating its decision to do business with that supplier.

1 Before a purchase is made, each operation submitting a coal proposal is evaluated
2 by both AEPSC's coal procurement team and credit team to make an assessment
3 of the operation's ability to meet the obligations of the contract. The Company
4 continues to evaluate the risk of each offer independently to ensure that any
5 purchase made will serve to enhance Kentucky Power's security of supply.

6 **VII. CONCLUSION**

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


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

14 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

15 A. Yes.

VERIFICATION

The undersigned, Amy E. Jeffries, being duly sworn, deposes and says she is the Coal Procurement Manager for American Electric Power, that he has personal knowledge of the matters set forth in the foregoing responses and the information contained therein is true and correct to the best of his information, knowledge, and belief.



Amy E. Jeffries

State of Ohio)
)
County of Franklin) Case No. 2019-00002

Subscribed and sworn before me, a Notary Public, by Amy E. Jeffries this
20th day of February, 2019.



Notary Public
My Commission Expires 07-19-2020



Jennifer M. Thacker
Notary Public, State of Ohio
My Commission Expires 07-19-2020