

Kentucky Power Company
KPSC Case No. 2019-00002
Commission Staff's Second Set of Data Requests
Order Dated March 11, 2019

DATA REQUEST

KPSC 2_1

Refer to the response to Commission Staff's First Request for Information (Staff's First Request), Item 2, Attachment 1.

- a. Describe how often long-term coal contracts result in a shortfall.
- b. Explain how these shortfalls affect coal procurement for Kentucky Power.

RESPONSE

a. It is fairly common that long-term contract deliveries do not meet ratable or agreed upon schedules due to various factors that impact the production, loading, or transportation of the coal and that ultimately result in a delivery shortfall. These factors include high water, low water, inclement weather, lock maintenance, mining issues, or other force majeure events. Due to Kentucky Power's portfolio of suppliers, this rarely causes an issue with having inadequate coal supply and any coal tons not delivered are typically addressed following the original term of the contract.

b. Based on the portfolio of agreements that exist, as well as the utilization of the physical coal inventory pile for Kentucky Power, supplier shortfalls do not require any work beyond the normal procurement tasks. These tasks include working with each supplier, at least monthly, to modify the delivery schedule to account for any under- or over-shipments from the prior month.

Witness: Amy E. Jeffries

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DATA REQUEST

KPSC 2_2 Refer to the response to Staff's First Request, Item 3, page 1 of 2. Explain why the actual inventory days' supply has fallen below the target level for the last six months of the period under review.

RESPONSE

Mitchell's high sulfur coal inventory was below target levels due to several factors. First, a planned coal feeder maintenance outage at Mitchell plant required the inventory to be low. Additionally, the mine serving Mitchell had a planned long wall move as well as a roof fall that impacted ratable deliveries and contributed to reduced inventories of high sulfur coal. As of March 19, 2019, the high sulfur coal inventory was 16 days, as compared to a target of 15 days.

Several low sulfur suppliers had production issues causing delayed shipments and lower than anticipated inventory levels during the last six months of the review period. The target inventory levels are set at a level that will help protect Kentucky Power when supply and/or delivery issues arise. As of March 19, 2019, the low-sulfur coal inventory reached 33 days of inventory, as compared to a target of 30 days.

Witness: Amy E. Jeffries

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DATA REQUEST

KPSC 2_3

Refer to the response to Staff's First Request, Item 4, Attachment 3.
Explain how Kentucky Power handled the lack of responses for coal deliveries for the November 1, 2018-March 31, 2019 requested period.

RESPONSE

Although no suppliers responded to the requested delivery term of November 1, 2018 through March 31, 2019, four suppliers responded to the requested delivery term of January 1, 2019 through December 31, 2019. Of those four, three were selected for delivery, which when combined with the remaining 2018 deliveries and the existing coal inventory, provided sufficient coal supply for the period.

Witness: Amy E. Jeffries

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DATA REQUEST

KPSC 2_4 Refer to the response to Staff's First Request, Item 9. Provide details on when Kentucky Power last audited any of its fuel or transportation contracts.

RESPONSE

Kentucky Power last audited a fuel or transportation contract in February, 2009. Two long-term coal contracts were audited.

The reason for the reduced number of audits is due to having shorter tenured, fixed price arrangements with the suppliers. Historically, long-term coal contracts used index-based pricing mechanisms requiring the need for more frequent auditing, which reviewed the applicable indices and the corresponding calculations to derive the contract price.

Witness: Clinton M. Stutler
 Amy E. Jeffries

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KPSC 2_5

Refer to the response to Staff's First Request, Item 21 . Explain if Kentucky Power has any future plans to utilize the rail as a form of coal delivery following the required amount of maintenance needed.

RESPONSE

Due to the high cost associated with rail coal transportation, Kentucky Power does not currently have plans to utilize rail delivery at the Mitchell generating station. The Company periodically examines the opportunity for rail deliveries to the Mitchell generating station.

Witness: Amy E. Jeffries

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DATA REQUEST

KPSC 2_6

Refer to the Direct Testimony of Raine Wohnhas, page 5, Table 1, Fuel Rate Comparison.

a. Refer to the February 2018 Final Cost in column 2. Confirm that \$14,803, 119 is the correct amount.

b. Refer also to Kentucky Power's Form B filings for the January 2018 expense month,1 page 5 of 5, final fuel cost schedule. Explain why the grand total fuel cost of \$12,414,155 listed for line F was not used.

c. Refer to the May 2018 Final Cost in column 2. Confirm that \$13,965,876 is the correct amount.

d. Refer also to Kentucky Power's Form B filings for the June 2018 expense month,2 page 5 of 5, final fuel cost schedule. Explain why the grand total fuel cost of \$12,425,877 listed for line F was not used.

RESPONSE

a - b. \$14,803,119 is incorrect. The correct amount is \$12,414,155.

In compiling the table the Company erroneously used the amount on page 2 of 5 of the Estimated Fuel Cost Schedule on the monthly FAC filing rather than the amount on page 5 of 5, the Final Fuel Cost Schedule.

c - d. \$13,965,876 is incorrect. The correct amount should be \$12,425,877.

In compiling the table the Company erroneously used the amount on page 2 of 5 of the Estimated Fuel Cost Schedule on the monthly FAC filing rather than the amount on page 5 of 5, the Final Fuel Cost Schedule.

A step in the review process was skipped which led to the errors. The review process has been discussed at length with the regulatory group to re-emphasize the importance of accuracy and to ensure that all steps are completed prior to submission. Kentucky Power corrected the above errors and reviewed its analysis. Please see KPCO_R_KPSC_2_6_attachment_1.pdf for modifications to pages 5, 6 and 7 of Company Witness Wohnhas' direct testimony reflecting the corrections, including revised Table 1 on page 5. Changes are indicated in **bold text**.

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Kentucky Power further amended Table 1 included on page 5 of Company Witness Wohnhas' revised testimony to modify the value shown for January 2018 for the Final Cost (column 2) to reflect the effect of the Commission's January 18, 2018 order reclassifying certain PJM Billing Line Items ("BLI") as a fuel cost (F) recoverable through Kentucky Power's fuel adjustment clause. The amended value of \$26,606,396 reflects the value of the Company's "Grand Total Fuel Costs" for January 2018 if the Commission's January 2018 order had been effective January 1, 2018.¹ Because Table 1's purpose is to assist with the determination of the Company's base fuel rate going forward, Kentucky Power believes the use of the amended value of \$26,606,396 is more representative of what the cost of fuel will be in the future and thus is more appropriate for use in the table.

The revised values for the two months (out of the 24 months of the review period) do not affect the Company's recommendation that base fuel be increased from 2.725 cents per kWh to 2.851 cents per kWh. The suggested increase remains consistent with and is supported by the revised data. The corrected values reduced the two-year average monthly fuel rate from 2.884 cents per kWh to 2.849 cents per kWh or by approximately 1.2 percent. Coupled with the unchanged forecast for 2019-2020 fuel prices, Kentucky Power concluded that the April 2017 rate of 2.851 cents per kWh remains the correct base fuel rate.

Witness: Ranie K. Wohnhas

¹ Kentucky Power filed with the Commission on March 21, 2018 two page 5 of 5 sheets of its Standard Monthly Fuel Adjustment Clause filing for the Month ended January 2018. The first reflected the Company's "Grand Total Fuel Costs" for January 2018 without the additional PJM BLIs the Commission designated in its January 18, 2018 order for recovery through the fuel adjustment clause. The second reflects the value of the Company's "Grand Total Fuel Costs" for January 2018 if the Commission's January 2018 order had been effective January 1, 2018.

Table 1					
Fuel Rate Comparison					
Month & Year	Final Cost	Total Sales kWh	Monthly Fuel Rate in Cents per kWh (C2) / (C3)	Base Fuel Rate Cents per kWh	Cents per kWh (Below) or Above Base Fuel Rate (C4) - (C5)
1	2	3	4	5	6
November 2016	13,648,375	465,829,000	2.930	2.725	0.205
December 2016	16,435,523	571,200,000	2.877	2.725	0.152
January 2017	15,460,187	548,930,000	2.816	2.725	0.091
February 2017	12,905,555	461,262,000	2.798	2.725	0.073
March 2017	13,605,255	498,010,000	2.732	2.725	0.007
April 2017	11,814,526	414,368,000	2.851	2.725	0.126
May 2017	9,330,071	426,798,000	2.186	2.725	(0.539)
June 2017	11,985,080	449,586,000	2.666	2.725	(0.059)
July 2017	14,842,832	498,506,000	2.977	2.725	0.252
August 2017	13,107,553	477,094,000	2.747	2.725	0.022
September 2017	11,549,078	417,090,000	2.769	2.725	0.044
October 2017	11,259,881	422,652,000	2.664	2.725	(0.061)
November 2017	11,376,889	474,769,000	2.396	2.725	(0.329)
December 2017	15,958,442	582,926,000	2.738	2.725	0.013
January 2018	26,606,396	666,166,000	3.994	2.725	1.269
February 2018	12,414,155	473,769,000	2.620	2.725	(0.105)
March 2018	16,585,877	515,732,000	3.216	2.725	0.491
April 2018	15,574,952	438,038,000	3.556	2.725	0.831
May 2018	12,425,877	464,278,000	2.676	2.725	(0.049)
June 2018	14,841,932	473,917,000	3.132	2.725	0.407
July 2018	14,752,788	502,560,000	2.936	2.725	0.211
August 2018	14,532,144	496,364,000	2.928	2.725	0.203
September 2018	13,683,640	457,153,000	2.993	2.725	0.268
October 2018	12,353,689	445,306,000	2.774	2.725	0.049
Two Year Average			2.874		0.149

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The average fuel cost for the two-year review period was **2.874** cents per kWh, which is **0.149** cents greater than the current base fuel rate. During the two-year review period, the cost of fuel fluctuated between a high of **3.994** cents per kWh (**January 2018**) to a low of 2.186 cents per kWh (May 2017). This represents fluctuations as high as **47%** above the current rate to as low as 20% below the current rate. Significant fluctuations such as those experienced during the two-year review period increase the monthly volatility in a customer's bill and create uncertainty when customers are trying to budget for their month's expenses.

1 **Q. WHAT ARE THE COMPANY’S 2019 AND 2020 PROJECTED FUEL**
 2 **COSTS?**

3 A. The Company’s projected fuel costs for calendar years 2019 and 2020 are 2.809
 4 cents per kWh and 2.872 cents per kWh, respectively. As reflected in Table 2
 5 below, 2019 and 2020 fuel cost projections are approximately 3.1% to 5.4% more,
 6 respectively, than the current base fuel rate of 2.725 cents per kWh.

Table 2					
Fuel Cost and Sales Projections					
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
2019	\$174,134,560	6,199,610,000	2.80880	2.725	0.08380
2020	\$177,700,560	6,187,819,000	2.87178	2.725	0.14678
Average			2.84029	2.725	0.11529

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8 **Q. HOW DO THESE PROJECTED COSTS COMPARE WITH THE**
 9 **COMPANY’S HISTORICAL FUEL COSTS DURING THE TWO-YEAR**
 10 **REVIEW PERIOD?**

11 A. The Company’s average forecasted fuel cost for 2019 and 2020 is 2.840 cents per
 12 kWh, or **0.034** cents per kWh (**1.2%**) less than the **2.874** cents per kWh average
 13 fuel cost during the review period.

14 **Q. HOW DOES THE COMPANY’S FORECASTED AVERAGE FUEL COST**
 15 **FOR 2019 COMPARE TO ITS FORECASTED AVERAGE FUEL COST**
 16 **FOR 2020?**

1 A. The Company's forecast indicates that average annual fuel costs for 2019 and
2 2020, although less than the average fuel cost during the two-year review period,
3 will increase in 2020 as compared to 2019.

4 **Q. WHY DID THE COMPANY CHOOSE APRIL 2017 AS THE MONTH TO**
5 **REPRESENT THE BASE FUEL COSTS?**

6 A. April 2017 was the month with the approximate median (**14** of 24 months) fuel
7 cost during the review period. It also was the review period month that most
8 closely approximated the midpoint (2.84029 cents per kWh) of projected fuel
9 costs for 2019 and 2020. Finally, there were no forced outages during the month
10 of April 2017.

11 **Q. IS IT REASONABLE TO LEAVE THE CURRENT BASE FUEL RATE OF**
12 **2.725 CENTS PER KWH UNCHANGED IN LIGHT OF THE COMPANY'S**
13 **FUEL COSTS DURING THE REVIEW PERIOD AND PROJECTED**
14 **FUEL COSTS FOR 2019 AND 2020?**

15 A. No. The current base fuel rate is **0.149** cents per kWh (**5.5%**) less than the
16 average fuel cost during the 24-month review period. It is also 0.115 cents per
17 kWh (4.2%) less than the forecasted 2019-2020 average cost of fuel. Maintaining
18 the current base fuel rate of 2.725 cents per kWh would likely result, as was the
19 case for 2018, in customers seeing a fuel adjustment charge each month of 2019
20 and 2020.

21 **Q. IS THE PROPOSED BASE FUEL RATE OF 2.851 CENTS PER KWH**
22 **REASONABLE?**

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DATA REQUEST

KPSC 2_7

For the period under review, describe how often the severance tax on Kentucky coal affects Kentucky Power's decision to purchase coal mined in Kentucky.

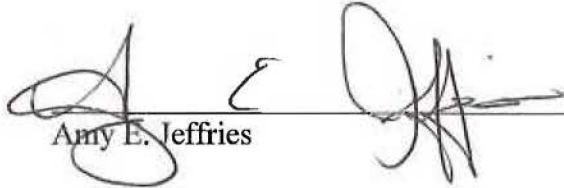
RESPONSE

Kentucky Power cannot determine whether the severance tax on Kentucky coal affected its decision to purchase coal mined in Kentucky. Fuel purchases are made based on the lowest reasonable delivered cost to the plant. Severance taxes are bundled into the offer price provided by the seller and are not transparent.

Witness: Amy E. Jeffries

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 15 day of March, 2019.


Notary Public

My Commission Expires 7-1-2021



Gina L. Beyer
Notary Public, State of Ohio
My Commission Expires 07-01-2021

VERIFICATION

The undersigned, Clinton M. Stutler, being duly sworn, deposes and says he is the Natural Gas & Fuel Oil 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.



Clinton M. Stutler

State of Ohio)
)
County of Franklin)

Case No. 2019-00002

Subscribed and sworn before me, a Notary Public, by Clinton M. Stutler this
14 day of March, 2019.



Notary Public

My Commission Expires 7-1-2021



Gina L. Beyer
Notary Public, State of Ohio
My Commission Expires 07-01-2021

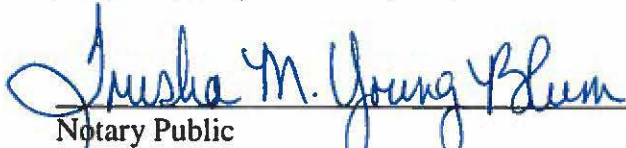
VERIFICATION

The undersigned, Ranie K. Wohnhas, being duly sworn, deposes and says he is the Managing Director of Regulatory & Finance for Kentucky 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.


Ranie K. Wohnhas

Commonwealth of Kentucky)
)
County of Boyd) Case No. 2019-00002

Subscribed and sworn before me, a Notary Public, by Ranie K. Wohnhas this 18 day of March, 2019.


Notary Public

My Commission Expires 3-18-19

