

Kentucky Power Company  
KPSC Case No. 2019-00124  
Commission Staff's First Set of Data Requests  
Dated June 12, 2019

**DATA REQUEST**

KPSC 1\_1                      Refer to the Application, paragraph 9, regarding the statement that MC Mining, LLC's (MC Mining) existing Pike County operation's current mined reserves are projected to be depleted in 2020. Refer also to the Direct Testimony of Ranie K. Wohnhas (Wohnhas Testimony), pages 5-6 and 14-15, regarding the current operations of Excel Mine No. 4 and details of Excel Mine No. 5. Explain whether this means that MC Mining will cease operations in Pike County in 2020 if the Commission does not approve the Contract for Electric Service Between Kentucky Power Company and MC Mining, LLC (Special Contract) that allows Excel Mine No. 5 to open.

**RESPONSE**

Only M C Mining can speak for its plans but as a result of the contract negotiations it is Kentucky Power's understanding:

As part of evaluating the investment in the development of the Excel Mine No. 5, M C Mining met with Kentucky Power on November 16, 2017 to begin discussing electrical service to the new operation and its ability to participate in the CS-Coal tariff. These discussions led to the successful negotiation of the Special Contract. Kentucky Power's understanding is that the discussions helped M C Mining to justify further investment in the region with the potential for a contract that would enable a more favorable market position when selling the coal and a favorable price in the interim to help offset the upfront costs with preparing the new site.

The Excel Mine No. 4 is scheduled to complete mining operations in August 2020. The development plan for the Excel Mine No. 5 was designed to provide a seamless transition providing employment for 211 workers. In order to meet that schedule, M C Mining was required to begin development activity for the Excel Mine No. 5 in December 2018 prior to the Commission's approval of the Special Contract. However, M C Mining included the economic benefit of the Special Contract in its decision to commit \$45 to \$50 million for the development of the Excel Mine No. 5.

M C Mining's development of the Excel Mine No. 5 is well underway with completion and the beginning of production scheduled for mid-year 2020. If the Commission does not approve the Special Contract, Kentucky Power expects M C Mining will complete the project. However, without the economic benefit of the Special Contract the Excel Mine No. 5 will experience higher electrical costs resulting in a higher risk of the mine closing in the future.

Witness: Ranie K. Wohnhas

**DATA REQUEST**

KPSC 1\_2

Refer to the Application, Exhibit 2, pages 26-30 of 30 (Addendum 2).

a. All else being equal, confirm that MC Mining will receive the economic development credit after the mine begins commercial operations and through the 14-year period of the special contract.

b. Paragraphs I-VIII of Addendum 2 describe an economic development credit that has a purpose of providing an incentive to MC Mining to open a new coal mining operation, to preserve existing jobs, and to create new jobs. However, paragraph IX describes a quid pro quo situation where Kentucky Power is providing an economic development credit to MC Mining in return for assistance from MC Mining to Kentucky Power in its effort to promote economic development, including efforts to promote an aerospace and defense corridor in central Appalachia. Further, if MC Mining decides not to assist Kentucky Power in its economic development efforts, it must cancel the Addendum and forego the economic development credit.

(1) Explain the apparent differences in interpretation.

(2) Explain in detail and with specificity what MC Mining actions Kentucky Power deems necessary for the fulfillment of Article IX and how Kentucky Power will verify such actions by MC Mining.

(3) Refer to paragraph VIII of Addendum 2 regarding the repayment of credits upon MC Mining suspending development of Excel Mine No. 5. Explain why the repayment calculation only factors the amount of the credit received by MC Mining during the Delivery Year in which the suspension occurs. Further, explain why the repayment calculation is capped by, or netted against the amount of investment spent by MC Mining during the Delivery Year in which the suspension occurs.

**RESPONSE**

a. The Company cannot confirm this statement. The economic development credit will be applied beginning the first billing month following the Commission's approval of the Special Contract. See Article 7.1, Contract for Electric Service between Kentucky Power Company and M C Mining, LLC ("Special Contract"); Article I, Addendum 2 to Contract ("Addendum 2"). Kentucky Power anticipates that the first billing month following approval will occur prior to the January 1, 2021 date provided in Article VII of Addendum 2 for the beginning of commercial operations of Excel Mine No. 5. The economic development credit will be applied monthly over an approximate 14-year period, but in no event will the economic development credit be paid after May 31, 2033. See Article III, Addendum 2.

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b. (1) There is no inconsistency or “difference in interpretation” between Articles I through VIII and Article IX of Addendum 2. Each relates to separate but complementary consideration to be paid by M C Mining in return for the Monthly Economic Development Credits under the agreement. The first eight articles deal with M C Mining’s commitment to invest \$40-\$50 million dollars in developing its new Excel Mine No. 5, located at Varney, Right Fork of Brushy Road, in Pike County, Kentucky. The new mine is expected to begin operations as the currently-mined reserves are exhausted and will permit the transition of the jobs from the existing operation. It also will allow the continued operation of the existing coal processing plant. Both constitute an expansion of load under Tariff C.S.-Coal.

Article IX of the Special Contract, in turn, represents the additional, but in no way inconsistent, consideration to be paid by M C Mining in return for the Monthly Economic Development Credits. It is meant to further benefit Kentucky Power customers through broadening support for increased jobs creation (of any type) in the region. The direct investment by M C Mining and the consequent continuation of jobs and offset to the anticipated load loss in the absence of the new Excel Mine No. 5, on the one hand, and M C Mining’s assistance to, and support of, Kentucky Power’s broader non-coal related economic development efforts represent two fingers in the same glove. Both are intended to “grow the denominator” by preserving and expanding jobs and load in the entire region.

b. (2) There is not a prescribed checklist of actions required to be taken by M C Mining. The fourteen-year term of the agreement and the need for flexibility and creativity in economic development make such a checklist counterproductive. The intent of this provision is to enlist the efforts of a major existing employer in the Company’s service territory, as well as its ultimate corporate parent, which is the second largest coal producer in the eastern United States, in recruiting new and expanded businesses to the area.

The agreement expressly envisions cooperative efforts between Kentucky Power and M C Mining (and its parent) to bring further economic development to eastern Kentucky. The Company will engage M C Mining as necessary to interact with new potential customers looking to locate in eastern Kentucky. The verification of M C Mining’s fulfillment of Article IX of the addendum will be its participation when asked by Kentucky Power to interact with a potential new customer.

b. (3) Article VIII of Addendum 2 is a negotiated term and represents a balancing of the interests of Kentucky Power and M C Mining. The repayment obligation provides an incentive for M C Mining to invest in the development of Excel Mine No. 5 by requiring a repayment of the Monthly Economic Development Credits in the event development of the mine is suspended. A further incentive to the timely development of Excel Mine No. 5 is the suspension of the Monthly Economic Development Credits under Article VII in the event the mine is not placed into commercial operation by January 1, 2021.

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Balanced against these provisions is the limitation of the repayment obligation to the net amount of the credits received in the Delivery Year development of the mine is suspended. This provision, along with the netting of Monthly Economic Development Credits against the amount invested by M C Mining in the Delivery Year development, although limiting the amount of any repayment "penalty," nevertheless are consistent with the purpose of the credit as provided in Article VI of Addendum 2:

The Customer will apply the Monthly Economic Development Credits it receives as a result of this Addendum *in a manner to allow the investment of the capital needed now for the new mining operation to open*. Therefore, the savings will begin immediately as outlined in this Addendum *as a means to seed and secure the investment needed to open the new operations and to build the additional infrastructure*.

(emphasis supplied). That is, the purpose of the credit is to spur investment and concomitant development. Where investment is made and development undertaken in a Delivery Year the credit has served its purpose. Moreover, because the Monthly Economic Development Credits are suspended if the mine does not achieve commercial operation by January 1, 2021, the concession by Kentucky Power limiting the clawback to the Delivery Year in which development is suspended would be triggered, if at all, only if development is suspended in 2020.

Witness: Ranie K. Wohnhas

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**DATA REQUEST**

- KPSC 1\_3                      Refer to the Direct Testimony of Ranie K. Wohnhas {Wohnhas Testimony) pages 8-9.
- a. Explain whether the \$45 million-\$50 million capital investment will be incurred prior to the new mine beginning commercial operation.
  - b. Assuming no interruptions, provide the anticipated monthly economic development credit payments and the mine's monthly anticipated energy usage through January 1, 2021.
  - c. Assuming no interruptions, on average what is the expected monthly energy usage for a mining operation like the Excel Mine No. 5.

**RESPONSE**

- a. Yes, the \$45 to \$50 million capital investment will be incurred prior to the new mine beginning commercial operation.
- b. The requested information is provided in the table below:

Bill Month (Usage Month)	Expected kWh	Economic Development Credit	Expected kW
08/2019 (July)			
09/2019 (August)			
10/2019 (September)			
11/2019 (October)			
12/2019 (November)			
01/2020 (December 19')			
02/2020 (January)			
03/2020 (February)			
04/2020 (March)			
05/2020 (April)			
06/2020 (May)			
07/2020 (June)			
08/2020 (July)			
09/2020 (August)			
10/2020 (September)			
11/2020 (October)			
12/2020 (November)			
01/2021 (December 20')			
Total			

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- c. The Excel Mine No. 5 is expected to consume on average [REDACTED] kWh per month. The additional load, as compared to the existing Excel Mine No. 4, is for the operation of the overland conveyor that will be used to transport the coal production to the preparation and loading facilities.

Witness: Ranie K. Wohnhas

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**DATA REQUEST**

KPSC 1\_4

Refer to Wohnhas Testimony, page 8, lines 20-22 and page 9, lines 1-2. Indicate whether Kentucky Power prepared an analysis showing that the Special Contract, as modified by the Monthly Economic Development Credit, covers Kentucky Power's variable costs, makes a contribution to its fixed costs, and will not adversely affect the rates paid by Kentucky Power's other customers. If so, provide a copy of that analysis. If not, explain how Kentucky Power knows that the Special Contract, as modified by the Monthly Economic Development Credit, covers Kentucky Power's variable costs, makes a contribution to its fixed costs, and will not adversely affect the rates paid by Kentucky Power's other customers.

**RESPONSE**

Please refer to KPCO\_R\_KPSC\_1\_4\_ConfidentialAttachment1 for the requested analysis based on a recent 12 month period for the Excel Mine No. 4, which the Company has been advised has a similar usage pattern to the proposed Excel Mine No. 5. The IGS standard tariff billing net of the CS-IRP and Economic Development Credits covers the Company's variable costs of production and contributes to fixed cost collection.

Witness: Ranie K. Wohnhas

THIS ATTACHMENT HAS BEEN REDACTED IN ITS ENTIRETY



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KPSC 1\_5                      Explain whether Kentucky Power considered or negotiated a credit repayment obligation should MC Mining decide to discontinue operations of Excel Mine No. 5 subsequent to engaging in commercial operations but any time prior to the expiration of 14-year term of the Special Contract. If no, explain why this was not considered or negotiated.

**RESPONSE**

No. The purpose of the Monthly Economic Development Credits is to provide a means to seed and secure the investment needed to open the new operations and to build the additional infrastructure. Once Excel Mine No. 5 is placed into commercial operation, M C Mining will have fulfilled its obligations. Further, the credits are available to M C Mining only so long as, and only to the extent, the mine is operating.

Witness: Ranie K. Wohnhas

