

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. 2021-00053
NOVEMBER 1, 2018 THROUGH OCTOBER)	
31, 2020)	

DIRECT TESTIMONY OF
CLINTON M. STUTLER
ON BEHALF OF KENTUCKY POWER COMPANY

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**DIRECT TESTIMONY OF
CLINTON M. STUTLER, ON BEHALF OF
KENTUCKY POWER COMPANY
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
CASE NO. 2021-00053**

I. INTRODUCTION

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

2 A. My name is Clinton M. Stutler, 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 the Natural Gas and Fuel Oil 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 Bachelor of Science in Business Administration degree, with a major in
11 Transportation & Logistics and Marketing, from The Ohio State University in
12 2002, and a Master’s degree in Business Administration from Bowling Green State
13 University in 2007.

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

15 A. I have over eighteen years of energy–industry experience in fuel procurement,
16 logistics, marketing, scheduling, and transportation. My professional background
17 began in 2002 as a Scheduler with Marathon Petroleum Company. In 2008, I joined
18 AEPSC in the Fuel, Emissions, and Logistics organization as a Coal Buyer, with

1 responsibilities for the procurement of coal for Ohio Power Company. In 2014, I
2 joined AEP Generation Resources, with responsibilities for purchasing natural gas,
3 coal, urea, and fuel oil, in addition to marketing fly ash and flue gas desulfurization
4 gypsum. In 2016, I accepted a position in the regulated Commercial Operations
5 organization as a Coal Buyer and became responsible for the procurement of coal
6 for Kentucky Power Company (“Kentucky Power” or “Company”), Appalachian
7 Power Company, and Southwestern Electric Power Company. On May 4, 2018, I
8 was promoted to my current position and became responsible for the procurement
9 and delivery of natural gas and fuel oil to AEP’s regulated generating fleet.

10 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS THE**
11 **NATURAL GAS AND FUEL OIL MANAGER?**

12 A. I am responsible for the procurement and delivery of natural gas and fuel oil to
13 AEP’s regulated generating fleet, which includes regulated power plants owned
14 and/or operated by Kentucky Power and other affiliated operating companies.

15 **Q. HAVE YOU TESTIFIED BEFORE ANY REGULATORY AGENCIES?**

16 A. Yes. I have submitted testimony and testified before the Kentucky Public Service
17 Commission on behalf of Kentucky Power. Furthermore, I have filed testimony on
18 behalf of Kentucky Power affiliates before the Public Service Commission of West
19 Virginia, before the Oklahoma Corporation Commission, before the Public Utility
20 Commission of Texas, and before the State Corporation Commission of Virginia.

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III. PURPOSE OF TESTIMONY

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

- A. The purpose of my testimony is to address the following areas:
- a) Natural Gas suppliers’ adherence to contract delivery schedules during the review period from November 2018 through October 2020 (“the review period”);
 - b) Kentucky Power’s efforts to ensure natural gas suppliers’ adherence to contract delivery schedules during the review period;
 - c) Kentucky Power’s efforts to maintain the adequacy of its natural gas supplies in light of any suppliers’ inability or unwillingness to make contract natural gas deliveries;
 - d) Any changes in natural gas 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 natural gas costs or natural gas procurement practices; and
 - e) The reasonableness of Kentucky Power’s natural gas procurement practices during the review period.

IV. CONTRACT DELIVERIES

Q. WOULD YOU PLEASE SUMMARIZE KENTUCKY POWER’S NATURAL GAS SUPPLIERS’ ADHERENCE TO CONTRACT DELIVERY SCHEDULES DURING THE REVIEW PERIOD?

1 A. Kentucky Power received all purchased natural gas supply during the review
2 period. All suppliers adhered to contract delivery schedules.

3 **Q. PLEASE SUMMARIZE KENTUCKY POWER'S NATURAL GAS**
4 **PURCHASING METHODOLOGY FOR BIG SANDY UNIT 1.**

5 A. Kentucky Power continually monitors the performance of its natural gas suppliers'
6 deliveries compared to the contracted volumes. All natural gas purchases made on
7 behalf of Big Sandy Unit 1 were spot purchases. Spot purchases normally take
8 place the day before the flow period of the agreement begins. The flow period is
9 usually one day, but can extend from two to five days if the period includes a
10 weekend or a holiday, or both. After the flow period commences, Kentucky Power
11 monitors reports made available by Columbia Gas Transmission (the interstate
12 pipeline that delivers natural gas to Big Sandy Unit 1) which display actual volumes
13 delivered to the agreed upon custody point during the most recent nomination cycle.
14 Columbia Gas Transmission provides these reports for the five nomination cycles
15 per flow day that are prescribed in its operational tariff.

16 **Q. WHAT ACTION DOES KENTUCKY POWER TAKE IF A SUPPLIER**
17 **FAILS TO DELIVER THE CONTRACTED AMOUNT OF NATURAL**
18 **GAS?**

19 A. If Kentucky Power finds any supplier has not delivered 100% of the contracted
20 volume for any of the five nomination cycles, the Company contacts the supplier
21 for information as to why the contract flow was reduced and to obtain assurance
22 that corrections will be made in the subsequent nomination cycle. This process is
23 repeated for the remaining nomination cycles if necessary. If the delivery reduction

1 is not resolved by the final nomination cycle, Kentucky Power will contact the
2 supplier and request deferred delivery of undelivered volumes for another gas day
3 (if such deferred delivery benefits Kentucky Power and its customers).

4 **Q. PLEASE DISCUSS WHAT ACTIONS KENTUCKY POWER WOULD**
5 **TAKE TO MAINTAIN THE ADEQUACY OF ITS NATURAL GAS**
6 **SUPPLIES, IF A SUPPLIER FAILED TO MAKE CONTRACT**
7 **DELIVERIES ON ANY GIVEN DAY.**

8 A. If delivery reductions occurred and the remaining supply for the day needed to be
9 supplemented, Kentucky Power would either seek new supply in the intraday
10 market, or rely on balancing services that may be available via Columbia Gas
11 Transmission pipeline. The cost of balancing services, if available, would be
12 compared to the cost of intraday supply. Balancing services, such as a loan service,
13 may not be always available. In particular, because balancing services typically
14 rely on storage owned by the pipeline, they may not be available on days of high
15 system consumption that typically occur with extreme weather.

16 **V. NATURAL GAS PROCUREMENT STRATEGY**

17 **Q. PLEASE DESCRIBE KENTUCKY POWER'S NATURAL GAS**
18 **PROCUREMENT STRATEGY.**

19 A. Due to fluctuating natural gas requirements associated with the variable operation
20 of natural gas-fired power plants such as Big Sandy Unit 1, the Company requires
21 flexibility in its natural gas supply and transportation arrangements. In order to
22 meet PJM dispatch requests, Kentucky Power needs instantaneous, hourly, and

1 daily flexibility in the delivery flow of natural gas. To meet these needs, Kentucky
2 Power relies on daily spot market natural gas purchases. The natural gas
3 arrangements Kentucky Power utilizes provide the required flexibility necessary to
4 reliably operate Big Sandy Unit 1, while minimizing overall total fuel costs.

5 AEPSC, on behalf of the Company, pursues spot market purchase
6 opportunities through a competitive bidding program. For daily market purchases,
7 the AEPSC natural gas buyer receives a forecast from AEPSC's Bid, Offer and
8 Cost Development team each morning and discusses the expected operation and
9 estimated natural gas requirement for Big Sandy Unit 1 for that day and each of the
10 subsequent six days. Then, the natural gas buyer gathers market information from
11 the various natural gas market areas and hubs accessible to the Company. The
12 buyer also obtains pricing and volume information from numerous natural gas
13 suppliers, as well as real-time natural gas market data from platforms, such as the
14 Intercontinental Exchange ("ICE"), to locate and optimize purchases in the spot
15 natural gas market.

16 Once the buyer analyzes relevant information, purchases are made for the
17 necessary spot natural gas supplies from the most economical and reliable sources
18 available at the time. The natural gas buyer then makes the necessary nominations
19 and scheduling arrangements with Columbia Gas Transmission to deliver the
20 natural gas supplies to Big Sandy Unit 1, as appropriate, and monitors deliveries
21 throughout the day. Every afternoon, the natural gas buyer reviews the units that
22 received a day-ahead award from PJM and, depending on the results, makes
23 adjustments through additional purchases or sales, as necessary.

1 If the economics associated with Big Sandy Unit 1 continue to be on the
2 margin in PJM, supply flexibility will continue to be vital for the plant. Having firm
3 transportation with Columbia Gas Transmission helps ensure that gas purchased
4 after the PJM day-ahead awards are published, can be successfully delivered to Big
5 Sandy Unit 1.

6
7 **VI. MARKET OVERVIEW**

8 **Q. PLEASE EXPLAIN THE CHANGES IN THE NATURAL GAS MARKET**
9 **THAT OCCURRED DURING THE REVIEW PERIOD THAT HAVE**
10 **SIGNIFICANTLY AFFECTED OR WILL SIGNIFICANTLY AFFECT THE**
11 **COMPANY'S NATURAL GAS PROCUREMENT PRACTICES.**

12 A. In the third week of November 2018, as the U.S. was transitioning from injection
13 season to withdrawal season, much attention was given to the fact that natural gas
14 in storage was at its lowest level dating back to 2002. However, mild winter
15 temperatures quickly moderated concerns related to gas supply. As such, January
16 and February 2019 were marked by relatively weak storage withdrawals, which
17 caused natural gas pricing to remain low. As the year progressed, the region
18 experienced a warmer-than-normal, and extended, summer season. However, with
19 continued strong production, gas storage was fully recovered from earlier in the
20 year, which caused continued downward pressure on pricing. In fact, U.S. gas
21 storage entered the 2019-2020 heating season approximately nine percent above
22 the five-year average. The first two months of 2020 were characterized by
23 relatively mild weather, which allowed natural gas storage to remain healthy. This

1 put the market at ease, as the most significant days for heating demand had passed.
2 There was a noticeable decrease in natural gas demand in March and April, when
3 many businesses suspended operation due to COVID-19. Additionally, as this was
4 a global pandemic, the lack of demand for liquefied natural gas (“LNG”) exports
5 further contributed to a domestic supply and demand imbalance. This imbalance
6 caused prices to decrease, which influenced production to come offline. During the
7 first quarter of 2020, natural gas production was about 3.5 Bcf per day lower than
8 the record peak, which occurred in November 2019. As the summer months
9 approached, natural gas production continued to decline. The U.S. natural gas rig
10 count bottomed out at 68 working rigs during the month of July 2020, which was
11 down 106 working rigs from a year earlier.

12 As the end of the 2020 summer drew near, the market became somewhat
13 apprehensive regarding the lack of natural gas production. Many were of the
14 opinion that a resurgence of export demand and normal winter weather could create
15 a rather tight market in the winter and subsequent months. In response, the
16 NYMEX forward curve started to become stronger, and surged past the \$3.00 per
17 MMBtu mark for the upcoming winter months. A mild October and November
18 2020 softened forward prices, however, as the global economy began to recover,
19 LNG demand was robust for the entire month of December.

20 **Q. DOES KENTUCKY POWER EXPECT ANY MARKET CHANGES THAT**
21 **WILL SIGNIFICANTLY AFFECT THE COMPANY’S NATURAL GAS**
22 **PROCUREMENT PRACTICES TO OCCUR WITHIN THE NEXT TWO**
23 **YEARS?**

1 A. No. There are no anticipated changes in the natural gas market expected within the
2 next two years that will significantly affect the Company's natural gas procurement
3 practices. As the demand for natural gas supply increases, so will the demand for
4 natural gas transportation capacity. Thus, having supply flexibility and firm
5 pipeline transportation will be key to successfully procuring gas for Big Sandy Unit
6 1.

7
8 **VII. CONCLUSION**

9 **Q. WERE KENTUCKY POWER'S NATURAL GAS PROCUREMENT**
10 **PRACTICES DURING THE REVIEW PERIOD REASONABLE?**

11 A. Yes. Kentucky Power procures and manages its natural gas supplies and
12 transportation costs appropriately to provide a reliable supply at the lowest
13 reasonable cost.

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

15 A. Yes.



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E-Signature Summary

E-Signature 1: Clinton Stutler (CMS)

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March 18, 2021 08:04:28 -8:00 [1ED68E5D4693] [76.181.29.15]
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I, S. Smithhisler, did witness the participants named above electronically sign this document.



