

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
JEFFREY C. DIAL
ON BEHALF OF KENTUCKY POWER COMPANY

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**DIRECT TESTIMONY OF
JEFFREY C. DIAL, 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 Jeffrey C. Dial. I am employed by the American Electric Power Service
3 Corporation (“AEPSC”), a subsidiary of American Electric Power Company, Inc.
4 (“AEP”), in the regulated Commercial Operations organization as Director - Coal,
5 Transportation and Reagent Procurement. My business address is 1 Riverside
6 Plaza, Columbus, Ohio 43215.

7

8 **II. BACKGROUND**

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

10 A. I graduated from the University of Akron in 1983, with a degree in Accounting,
11 and I am a Certified Public Accountant in the State of Ohio. I have also participated
12 in various management training and development programs, including the AEP
13 Management Development Executive Education program provided by The Ohio
14 State University Fisher College of Business.

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

16 A. In February 1984, I was hired by AEPSC as an assistant auditor with the
17 responsibility for conducting operational and financial audits of the various AEPSC
18 business units and operating companies and third party entities. In 1989, I joined

1 the Contract Administration department as a Contract Analyst where I was
2 primarily responsible for the negotiation and administration of the long-term coal
3 supply agreements and fuel data reporting system for all of the AEP East Operating
4 Companies. I joined the Procurement department as a Coal Procurement Agent in
5 1995 and was responsible for the coal procurement and inventory management for
6 various AEP subsidiaries, including Kentucky Power Company (“Kentucky
7 Power” or “the Company”), Ohio Power Company, Columbus Southern Power
8 Company, and as agent for Ohio Valley Electric Company (“OVEC”) and Indiana
9 Kentucky Electric Corporation (“IKEC”). I have held various positions of
10 increasing responsibility in the Procurement department until 2009, when I moved
11 into the Transportation and Logistics section of Fuel Procurement as the Manager
12 of Marketing, Transportation and Logistics and was responsible for all of the
13 transportation and logistics functions including contract negotiations with the
14 various transportation providers and managing the day-to-day deliveries to all of
15 the AEP Power Plants. In May 2018, I was promoted to my current role as Director
16 - Coal, Transportation, and Reagents Procurement.

17 **Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS**
18 **DIRECTOR – COAL, TRANSPORTATION, AND REAGENTS**
19 **PROCUREMENT?**

20 A. I am responsible for the oversight of all coal and reagents procurement, contract
21 negotiation, and inventory management for AEP operating companies, including
22 Kentucky Power, and as an agent for OVEC and IKEC. I am also responsible for

1 the oversight of all rail, barge, truck, and transloading agreements related to coal
2 and reagents.

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

4 A. Yes. I have provided testimony on behalf of Kentucky Power affiliates before the
5 Public Service Commission of West Virginia, the Indiana Utility Regulatory
6 Commission, the Michigan Public Service Commission, and the Oklahoma
7 Corporation Commission.

8

9 **III. PURPOSE OF TESTIMONY**

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

- 12 A. The purpose of my testimony is to address the following areas:
- 13 a) Coal suppliers' adherence to contract delivery schedules during the review
14 period from November 2018 through October 2020 ("the review period");
 - 15 b) Kentucky Power's efforts to ensure coal suppliers' adherence to contractual
16 terms during the review period;
 - 17 c) Changes in market conditions that occurred during the review period or that
18 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 d) The reasonableness of Kentucky Power's fuel procurement practices during
22 the review period.

IV. CONTRACT DELIVERIES

1
2 **Q. PLEASE GENERALLY DESCRIBE KENTUCKY POWER’S EFFORTS TO**
3 **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 the overriding objective of procuring and
7 maintaining adequate coal supplies to meet current and anticipated requirements.
8 When a supplier’s performance does not meet the conditions or terms of the
9 applicable agreement, the Company informs the supplier, takes corrective action as
10 appropriate per contract terms, and directs that subsequent performance be in
11 compliance. Although the Company and the supplier often can informally reach a
12 mutually agreeable resolution, there are times when disputes regarding a supplier’s
13 non-performance cannot be satisfactorily resolved through such means. Those
14 matters are evaluated for further action, such as arbitration if provided by the
15 contract, or litigation, balanced against the need to maintain a continuing supply of
16 coal to meet Kentucky Power’s generation needs.

17 **Q. PLEASE SUMMARIZE KENTUCKY POWER’S COAL SUPPLIERS’**
18 **ADHERENCE TO LONG-TERM CONTRACT DELIVERY**
19 **SCHEDULES.**A. Kentucky Power had fifteen long-term agreements with nine

20 different suppliers for coal deliveries to the Mitchell Plant during the review period.
21 These suppliers were ACNR Coal Sales, Inc. (“ACNR” formerly Consolidation
22 Coal Company), Blackhawk Coal Sales, LLC (“Blackhawk”), Blackjewel
23 Marketing and Sales, LLC

1 (“Blackjewel”), Case Coal Sales, LLC. (“Case”), Coal Network, LLC (“Coal
 2 Network”), Contura Coal Sales, LLC (“Contura”), Ember Energy, LLC (“Ember”),
 3 SNR Appalachian Trading, LLC (“SNR App Trading”), and SNR River Ops, LLC
 4 (“SNR”). All but two of the Company’s coal suppliers (Ember and SNR Contract
 5 No. 03-00-18--007) met their obligations during the review period as evidenced by
 6 Table 1.

Table 1: Long Term Contracts

Vendor	Term	Status
ACNR ¹		
07-77-05-900	1/6/2006-12/31/2022	Amended
Blackhawk		
03-00-18-008	1/1/2019-12/31/2020	Complete
03-00-18-010	1/1/2019-12/31/2021	On Schedule
Blackjewel		
03-00-18-005	1/1/2019-12/31/2019	Complete
Case		
03-00-18-006	1/1/2019-12/31/2019	Complete
Coal Network		
03-00-17-007	1/1/2018-12/31/2019	Complete
Contura		
03-00-17-003	10/1/2017-12/31/2018	Complete
03-00-17-005	1/1/2018-12/31/2018	Complete
03-00-18-002	1/1/2019-12/31/2019	Complete
03-00-18-004	1/1/2019-12/31/2021	On Schedule
03-00-18-009	1/1/2019-12/31/2020	Complete
Ember		
03-00-17-004	1/1/2018-12/31/2019	Complete ²
SNR App Trading		
03-00-18-4M1	1/1/2019-12/31/2019	Complete ²
SNR		
03-00-17-006	1/1/2018-12/31/2018	Complete
03-00-18-007	1/1/2019-12/31/2019	Terminated

Note 1: Previously Consolidation Coal Company

Note 2: Term expired

1 **Q. PLEASE EXPAND ON YOUR STATEMENT THAT THE COMPANY'S**
2 **LONG-TERM CONTRACT COAL SUPPLIERS MET THEIR**
3 **CONTRACTUAL DELIVERY OBLIGATIONS.**

4 A. Excluding the SNR, Ember, and ACNR agreements, which I address below,
5 Kentucky Power received the contractual tonnage obligations under its coal
6 contracts.

7 **Q. PLEASE PROVIDE THE BACKGROUND OF EMBER ENERGY, LLC'S**
8 **FAILURE TO DELIVER ITS CONTRACTUAL COMMITMENT.**

9 A. As testified to in Case No. 2019-00002, Ember Purchase Order No. 03-00-17-004
10 began as a one-year agreement expiring on December 31, 2018. Early in 2018, the
11 supplier encountered production issues at the Kentucky mine that plagued the
12 supplier throughout the year. Because of the contract price and the need for coal,
13 the Company agreed to extend the agreement through 2019 so that the supplier
14 could meet its obligation under the agreement. At the end of 2019 and the end of
15 the extended contract term, Ember was still unable to meet its contractual tonnage
16 obligation. Due to the lack of need, the Company elected not to extend the
17 agreement and removed Ember from its bid list for future solicitations.

18 **Q. PLEASE EXPLAIN WHY THE SNR 03-00-18-007 COAL AGREEMENT**
19 **FAILED TO DELIVER ITS' OBLIGATION?**

20 A. The SNR 03-00-18-007 agreement began on January 1, 2019 and the supplier
21 immediately began encountering production issues. Although shipments began in
22 February 2019, it soon became apparent that the supplier was not going to meet the

1 tonnage obligation. Due to the lack of need, the Company elected to terminate the
2 agreement.

3 **Q. PLEASE PROVIDE BACKGROUND REGARDING THE ACNR COAL**
4 **SALES, INC. (“ACNR”) AGREEMENT.**

5 A. Consolidation Coal Company, a subsidiary of Murray Energy Corporation, entered
6 bankruptcy in October 2019, and emerged as American Consolidated Natural
7 Resources in September 2020. Upon emergence, Kentucky Power’s agreement
8 was assigned to American Consolidated Natural Resources’ subsidiary, ACNR
9 Coal Sales, Inc. (“ACNR”).

10 **Q. WHAT IS THE STATUS OF THE ACNR AGREEMENT FOR DELIVERY**
11 **OF HIGH SULFUR COAL TO THE MITCHELL PLANT?**

12 A. During the bankruptcy, no supply disruptions or pricing impacts occurred.
13 Kentucky Power’s annual obligation remains at five hundred thousand tons
14 (Kentucky Power’s share of the one million-ton obligation). Due to reduced
15 demand for generation in 2020, the Company elected to defer its maximum
16 allowable under the ACNR agreement of 200,000 tons (Kentucky Power’s share
17 of the 400,000 tons that could be deferred) and is currently in negotiations with
18 ACNR to reschedule these deferred tons.

1 **V. COAL PURCHASING STRATEGY**

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

5 A. Kentucky Power regularly solicits for coal using competitive Requests for
6 Proposals and layers such purchases into the portfolio of existing agreements. As
7 a part of the overall effort to ensure adequate supply at the Mitchell Plant during
8 the review period, the Company issued solicitations for coal supply agreements in
9 March and August 2019. Due to reduced generation and no need for additional
10 coal, no solicitations were issued in 2020.

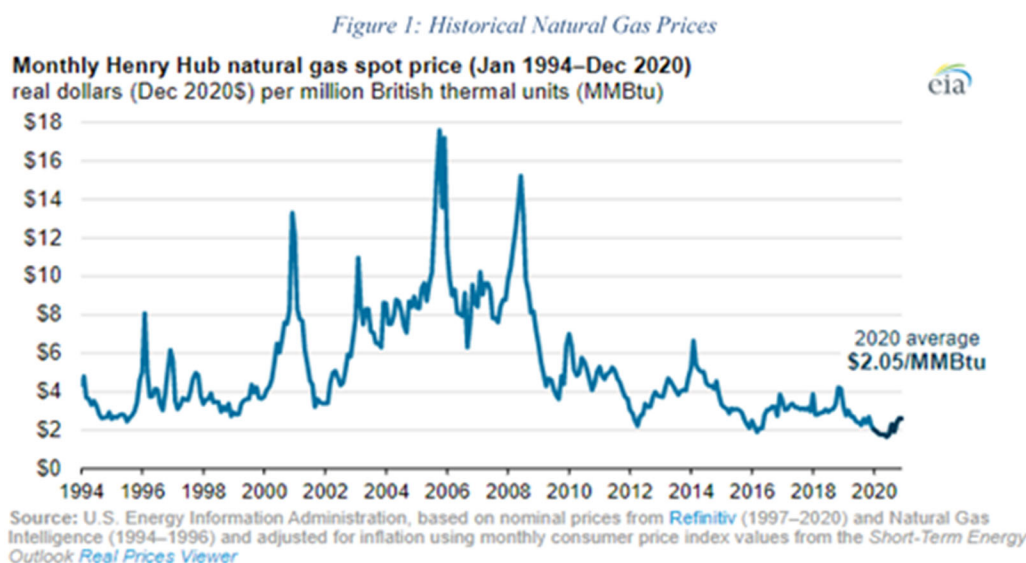
11 The 2019 solicitations allowed the Company to layer purchases with
12 varying terms (up to three years) to maintain appropriate deliveries of coal at a
13 reasonable cost.

14
15 **VI. MARKET OVERVIEW**

16 **Q. PLEASE EXPLAIN THE COAL MARKET CONDITIONS AND DEMAND**
17 **FOR COAL DURING THE REVIEW PERIOD AND THEIR EFFECT ON**
18 **THE COMPANY'S COAL PROCUREMENT PRACTICES.**

19 A. Coal consumption and exports generally were flat during the winter of 2019 to
20 2020. The mild weather followed by the economic impact of the COVID-19
21 pandemic lowered the demand for electricity. Reduced demand for power resulted
22 in the lowest natural gas prices in decades (see Figure 1: Historical Natural Gas

1 Prices) and in depressed coal prices. This required the Company to store coal and
 2 cease solicitations as stockpiles continued to build throughout 2020.



3 Because of the limited demand for coal in 2020, low-sulfur barge coal
 4 (12,000 Btu per lb. 1.67 lbs. SO₂) began 2020 with a price of \$52.50 per ton and
 5 ended the year with a price of \$50.40 per ton. The year-end price rebounded
 6 from mid-year when prices in the low-\$40s. The high-sulfur (12,500 Btu per
 7 lb. 6 lbs. SO₂) coal markets also decreased in price during 2020, from
 8 approximately \$41.65 per ton at the beginning of 2020 to approximately
 9 \$36.50 per ton by the end of 2020.

10 **Q. DOES KENTUCKY POWER ANTICIPATE CURRENT MARKET**
 11 **CONDITIONS TO CONTINUE?**

12 A. As in recent years, U.S. coal-fired generation is expected to decline further as
 13 natural gas-fired and renewable generation gain market share. The uncertainty of
 14 coal-fired generation demand, due to these market forces and the lingering effects
 15 of the COVID-19 pandemic, will continue to cause volatility in the coal market,

1 which can make purchasing decisions more difficult. The Company's coal
2 procurement strategy will continue to include layering in supply to create a
3 portfolio of agreements of varying terms and prices.

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

6 A. Yes. The Company considers a vendor's financial status, ability to deliver, and
7 past performance when evaluating whether to do business with that supplier.
8 Before a purchase is made, each operation submitting a coal proposal is evaluated
9 by both AEPSC's coal procurement team and credit team to make an assessment of
10 the operation's ability to meet the obligations of the contract. The Company
11 continues to evaluate the risk of each offer independently to ensure that any
12 purchase made will serve to enhance Kentucky Power's security of supply.

13 **VII. CONCLUSION**

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

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

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

21 A. Yes.

VERIFICATION

The undersigned, Jeffrey C. Dial, being duly sworn, deposes and says he is the Director of Coal, Transportation and Reagent Procurement for American Electric Power Service Corporation, 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.

Jeffrey C. Dial
Jeffrey C. Dial

State of Ohio)
)
County of Fairfield)

Case No. 2021-00053

Subscribed and sworn before me, a Notary Public, by Jeffrey C. Dial this 18 day of March, 2021.

Gina L. Beyer
Notary Public

My Commission Expires 7-1-2021



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