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 November 1, 2021 Through April 30, 2022	))))	Case No. 2022-00263

DIRECT TESTIMONY OF

KIMBERLY K. CHILCOTE

ON BEHALF OF KENTUCKY POWER COMPANY

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I. INTRODUCTION

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

A. My name is Kimberly K. Chilcote. I am employed by American Electric Power Service Corporation ("AEPSC"), a subsidiary of American Electric Power Company, Inc. ("AEP"), in the regulated Commercial Operations organization as Coal Procurement Manager. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

II. BACKGROUND

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from the University of Dayton in 1992 with a Bachelor of Chemical Engineering Degree.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

A. I joined AEP in 1992 as an Assistant Chemist at Columbus Southern Power Company's ("CSP") Conesville Plant. In 2004, I transferred to the fuels group as a Coordinator and was primarily responsible for assessing and reviewing the coal qualities of the coal purchased by the procurement department. In 2007, I transferred to the Fuel Procurement group and was responsible for the purchase and shipment of all of the Powder River Basin Coal for the AEP System power plants. In 2008, I became responsible for purchasing coal for CSP and Ohio Power Company, which merged to become AEP Ohio. In 2010, I was promoted to Manager of Coal Procurement for AEP Ohio and Kentucky Power Company. In 2014, I joined AEP Generation Resources with responsibilities for purchasing coal, natural gas and consumables for AEP's unregulated plants. In 2020, I accepted a position in the regulated Commercial Operations organization in the coal and reagents transportation team. I was promoted to my current position as Coal Procurement Manager in May of 2021.

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS COAL PROCUREMENT MANAGER FOR AEPSC?

A. I am responsible for managing coal procurement, contract oversight, and inventory management activities for several AEP operating companies, including Kentucky Power.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY AGENCIES?

A. Yes. I filed testimony before the Virginia S.C.C. on behalf of Appalachian Power Company. I have also previously testified before the Public Service Commission of Kentucky on behalf of Kentucky Power in its fuel adjustment clause review proceedings.

Q. ARE YOU SPONSORING ANY EXHIBITS?

A. Yes. I am sponsoring Exhibit KKC-1 – Prompt Quarter Market Coal Pricing – Domestic Market.

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) Kentucky Power's overall coal purchasing strategy;

b) Changes in 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 coal costs or coal procurement practices;

c) Kentucky Power's efforts to ensure coal suppliers' adherence to contractual terms during the review period;

d) Coal suppliers' adherence to contract delivery schedules during the review period from November 2021 through April 2022 ("the review period");

e) Kentucky Power's efforts to maintain the adequacy of its coal supplies in light of any coal supplier's inability or unwillingness to make contract coal deliveries; and

f) The reasonableness of Kentucky Power's fuel procurement practices during the review period.

IV. <u>COAL PURCHASING STRATEGY</u>

Q. HOW DOES KENTUCKY POWER MAINTAIN ADEQUATE DELIVERIES OF COAL?

A. Kentucky Power regularly solicits for coal using competitive Requests for Proposals ("RFP") and layers such purchases into the portfolio of existing agreements. As a part of the overall effort to ensure adequate supply at the Mitchell Plant during the review period, the Company issued a solicitation for coal supply in April 2022. The Company purchased both high sulfur ("NAPP") coal and low sulfur ("CAPP") coal from the April RFP, which allowed the Company to layer purchases with varying terms to maintain appropriate deliveries of coal at a reasonable cost. Prior to the review period, the Company issued RFPs in both May and September 2021 and as a result was able to contract for CAPP coal in years 2022 through 2026. After the review period, the Company issued an RFP in September 2022 and will evaluate the RFP when the bids are received. Additionally, the

Company also evaluates unsolicited offers when received as part of its purchasing strategy. During this review period the Company received one unsolicited offer in February 2022 for CAPP coal and executed an agreement based on the offer.

Q. PLEASE DESCRIBE THE AMOUNTS OF COAL, AND WHEN IT IS SCHEDULED TO BE DELIVERED, AS A RESULT OF THE CONTRACTS ENTERED INTO IN RESPONSE TO THE APRIL RFP AND UNSOLICITED OFFER.

A. As a result of the contracts entered into for CAPP coal in response to the April RFP, the Company purchased 55,000 tons to be delivered in 2022, 180,000 tons to be delivered in 2023 and 150,000 tons to be delivered in 2025. There were no CAPP coal tons available for purchase in 2024 from the April RFP. Additionally, as a result of the April RFP the Company is negotiating a NAPP coal supply agreement with a new supplier to Kentucky Power. Once executed the agreement will provide for 500,000 tons to be delivered in 2023 and 300,000 tons to be delivered in each year 2024 and 2025. As a result of the contract entered into in response to the unsolicited offer, the Company purchased 60,000 tons of CAPP coal to be delivered in 2022.

V. MARKET OVERVIEW

Q. HOW HAS THE DECLINE IN THE NUMBER OF COAL MINES IN THE UNITED STATES IMPACTED THE MARKET?

A. Data compiled by the U.S. Energy Information Administration ("EIA") shows that the number of producing coal mines in the United States continues to decline. The most recent data is from 2020 and shows 551 producing mines in the U.S. This is a decline of 18% since 2019 and a decline of 62% since the high in 2008. The decline in mines reflects the reduced investment in the coal industry in the U.S, the increased use of natural gas for electricity production, and the resultant lower demand for coal for electricity production. In addition, the remaining mines have reduced production to the mirror demand of the market in recent years. However, adding mining capacity requires capital, skilled workers, and equipment. Each of these are in short supply and typically lag behind changes in demand for coal. This decline in the number of producing mines over the years has caused the total tons of coal mined between 2008 and 2020 to decline by 46%. All of these factors have had an impact on the coal market and can be seen when demand for coal increases like it did in the back half of 2021.

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

A. Coal prices were generally flat during the first half of 2021; domestic and global coal prices increased rapidly in the second half of 2021 as demand increased significantly. The increase in coal demand was primarily due to increases in natural gas prices, making coal the lower cost option to generate electricity. This increase in demand for coal for power production, along with stronger demand in the export market and the lingering effects of COVID-19, caused uncommitted supplies to significantly tighten from all coal basins in the second half of 2021 and thus far in 2022, resulting in sharply higher coal prices. The supply of coal is projected to be constrained throughout the remainder of 2022 and into 2023.

As shown in Exhibit KKC-1, a comparison of prices for the coal markets from the beginning of 2021 through the first half of 2022 demonstrates the drastic price increases in all of the basins. Coal specifications are generally defined through heat content in British Thermal Units (Btu) and sulfur content defined as sulfur dioxide (SO_2) per pound of coal. Low-sulfur CAPP barge coal (12,000 Btu per lb., 1.67 lbs. SO_2) began 2021 with a price of $51.30 per ton and is currently at a price of $200.00 per ton. High-sulfur NAPP coal (12,500 Btu per lb., 6 lbs. SO_2) markets also increased during the same period from $36.50 per ton to $200.00 per ton. Illinois Basin (ILB) coal (11,500 Btu per lb., 5.00 lbs. SO_2) increased from $34.50_per ton to $110.50 per ton, and Powder River Basin (PRB) coal (8,800 Btu per lb., .80 lbs. SO_2), increased from $11.60 per ton to $16.80 per ton over the same period. High demand and limited coal availability in the remainder of 2022 and 2023 are projected to keep coal prices at elevated levels (see Exhibit KKC-1).

Q. HAS THE COAL EXPORT MARKET ALSO AFFECTED THE COMPANY'S ABILITY TO PROCURE COAL IN 2022 AND GOING FORWARD?

A. Yes. With high natural gas prices in Europe, U.S. coal became economic for European utilities, which led to an increase in the demand for U.S. coal and coal suppliers in the U.S. began dedicating portions of their production to the export markets. Export coal prices rapidly increased from approximately $100.00 per ton in June 2021 to over $200.00 per ton by the end of September 2021, representing a 100% increase in price in three months. More recently, export coal prices have been as high as $450.00 per ton and averaged approximately $280.00 per ton for the first six months of 2022. This demand for export coal will continue to strain the domestic coal supply.

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

A. Yes. The uncertainty of coal-fired generation demand, due to the aforementioned market forces and the demand for export coal, will continue to strain the coal market, which can make purchasing decisions more difficult. The Company's coal procurement strategy will continue to include continually monitoring the market for changes or shifts, issuing and evaluating RFPs, reviewing unsolicited offers when received, and layering in supply to create a portfolio of agreements of varying terms and prices.

Q. DOES KENTUCKY POWER ANTICIPATE COAL PRICES TO REMAIN AROUND THE SAME LEVELS OR HIGHER IN THE FUTURE?

A. It is anticipated that coal prices will remain generally high through about 2024, though prices may decline slightly from the uncommonly high current levels. However, it is extremely unlikely that we will see coal prices decrease to the low levels we have seen in the last several years of approximately \$60 per ton for CAPP coal and \$45 per ton for NAPP coal.

VI. <u>CONTRACT PERFORMANCE</u>

Q. PLEASE GENERALLY DESCRIBE KENTUCKY POWER'S EFFORTS TO ENSURE THAT ITS COAL SUPPLIERS ADHERE TO CONTRACT DELIVERY SCHEDULES DURING THE REVIEW PERIOD.

A. Supplier performance under coal contracts is managed in a firm, practical, and businesslike manner to achieve the overriding objective of procuring and maintaining adequate coal supplies to meet current and anticipated requirements. Kentucky Power reviews supplier performance at the conclusion of each month, and when a supplier's performance does not meet the conditions or terms of the applicable agreement, the Company informs the supplier, takes corrective action as appropriate per contract terms, and directs that subsequent performance be in compliance. Although the Company and the supplier often can informally reach a mutually agreeable resolution, there are times when disputes regarding a supplier's non-performance cannot be satisfactorily resolved through such means. Those matters are evaluated for further action, such as arbitration, litigation, settlement, or termination if provided by the contract, balanced against the need to maintain a continuing supply of coal to meet Kentucky Power's generation needs.

Q. DID ALL SUPPLIERS MEET THEIR RATABLE DELIVERIES DURING THE REVIEW PERIOD?

A. No. Several suppliers did not meet the ratable deliveries during the review period. However, Kentucky Power continually worked with suppliers to reach agreement on modified delivery schedule of shipments in order to meet the contractual obligation over the entire term of the agreement. These solutions may include non-ratable shipments.[1] Non-ratable shipments benefit both Kentucky Power and its suppliers by allowing both parties to adjust schedules to allow for reduced shipments when either party may have an outage, and to increase shipments when more coal is available and needed.

Q. PLEASE DISCUSS THOSE SITUATIONS WHERE THE COMPANY ACCEPTED NON-RATABLE DELIVERIES AND CONTINUES TO WORK WITH SUPPLIERS.

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[1] Non-ratable is any monthly volume that is not equal to the contractual volume divided by the number of months that volume is associated with. Therefore, the quantity received in a period may be greater or less than the ratable requirement. This allows the seller's shipment volumes to vary from month to month. Each month the actual volume of coal received is checked against the schedule and any tons not delivered are added to subsequent months to ensure the annual volume is reached.

A. American Consolidated Natural Resources ("ACNR") delivered 93% of the ratable volume during the review period. ACNR has not provide the Company with details regarding the reasons that it was unable to meet the ratable volume, despite the Company's request for the same. Nonetheless, in an effort to secure much-needed tons of coal, the Company worked with ACNR each month to deliver the volume needed at the Mitchell Plant and to meet the obligations under the agreement. As of August 2022 it is estimated that approximately 200,000 tons will be carried into 2023 from the 2022 contractual obligation due to ACNR's inability to deliver those tons in 2022.

Case Coal Sales, LLC ("Case")[2] delivered 68% of the ratable volume during the review period and continues to deliver tons under the agreement but not up to the ratable volumes. Case is a coal broker and purchases coal from a producer to supply the contractual volume. The producer Case had contracted with for the supply became unable to produce tons under contract to the Company for the contracted price due to the surge in market prices for supplies. Rather than terminating the agreement and losing the opportunity to receive any further tons of coal from Case, the Company agreed to add a fuel surcharge[3] to the agreement in order to assist with the cost of production and ensure the Company would receive coal from Case at a time when it is much needed. Case also is working with the mining company to improve its performance and has suggested extending the term of the agreement to allow for delivery of the contracted volume over an extended period. At this time Kentucky Power continues to work with Case to modify the term of the agreement and continues to receive shipments under the agreement.

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[2] Kentucky Power considers this agreement to be a spot purchase. Kentucky Power defines a spot purchase as an agreement with a term of one year or less.

[3] The fuel surcharge changes every month and is based on diesel fuel market prices. To date, the agreed-upon fuel surcharge has averaged $7.68 over the course of five months since it was implemented.

RFI Resources, LLC ("RFI")[4] delivered 90% of the ratable volume during the review period, but it has not made any deliveries since June 2022 due to a force majeure event at the mine that supplies coal under the agreement. Through June 2022, RFI had delivered 94% of the ratable volume. The Company was notified of the force majeure event in July 2022. The Company requested additional information on the status of the force majeure in August and September 2022, and further inquired whether RFI would be able to meet its obligations under the agreement, but no information has been provided to the Company as of September 2022. The Company believed there may still be the opportunity to receive some tons of coal prior to the end of 2022 and has not yet terminated the contract in an effort to secure any amount of much-needed coal at a low contract price. If necessary, the Company will pursue further actions as permitted by the agreement which may include termination or settlement.

The Company will continue to work with the suppliers noted above to obtain the contracted coal. If the suppliers fail meet the obligations the Company will follow the provisions in the supply agreements to resolve the shortfall volumes.

Q. DID KENTUCKY POWER TAKE OTHER STEPS IN CONNECTION WITH OTHER NON-PERFORMING SUPPLIERS DURING THE REVIEW PERIOD?

A. Yes. BAMM INC. ("BAMM") delivered only 63% of the ratable volume during the review period. BAMM has continued not to meet its performance obligations under its agreement, and the Company has notified BAMM of this failure. In August 2022 a formal notice letter was sent to BAMM stating that the Company would seek damages at the end of 2022 for all volumes not delivered during the term in accordance with the contract terms.

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[4] Kentucky Power considers this agreement to be a spot purchase. *See* note 2.

The Company also financially settled with Javelin Global Commodities, which could no longer meet its tonnage obligation under the agreement. A payment was made to the Company in July 2022 to settle the agreement, which will benefit the customers as a credit to fuel costs.

Q. WERE THERE ANY SUPPLIERS WHO DID NOT MEET THEIR OBLIGATIONS DURING THE REVIEW PERIOD BUT SINCE HAVE IMPROVED PERFORMANCE?

A. Yes. The Company entered into three supply agreements with Alpha Metallurgical Coal Sales, LLC ("Alpha"): 03-00-19-9M1, 03-00-21-9M2, 03-00-19-9M3[5]. Alpha delivered 100% of the ratable volume under agreements 03-00-19-9M1 and 03-00-21-9M2 during the review period but delivered only 67% of the ratable volume under the 03-00-19-9M3 agreement during the review period. However, in March 2022 through August 2022, Alpha delivered 117% of the ratable volume under the 03-00-19-9M3 agreement.

Moreover, Alpha delivered 100% of the ratable volume required by the three agreements as a whole during the review period and is scheduled to deliver 100% of the ratable volume required by the three agreements as a whole by the end of 2022.

Q. DESPITE THE ABOVE DISCUSSIONS, HAS KENTUCKY POWER BEEN ABLE TO MAINTAIN ADEQUATE COAL SUPPLIES DURING THE REVIEW PERIOD?

A. Yes. During the review period a total of 96% of the coal that the Company had contracted for was delivered. Kentucky Power continues to work with suppliers to have the contracted volumes delivered and in instances where this is not possible will follow the remedies

[5] Kentucky Power considers this agreement to be a spot purchase. *See* note 2.

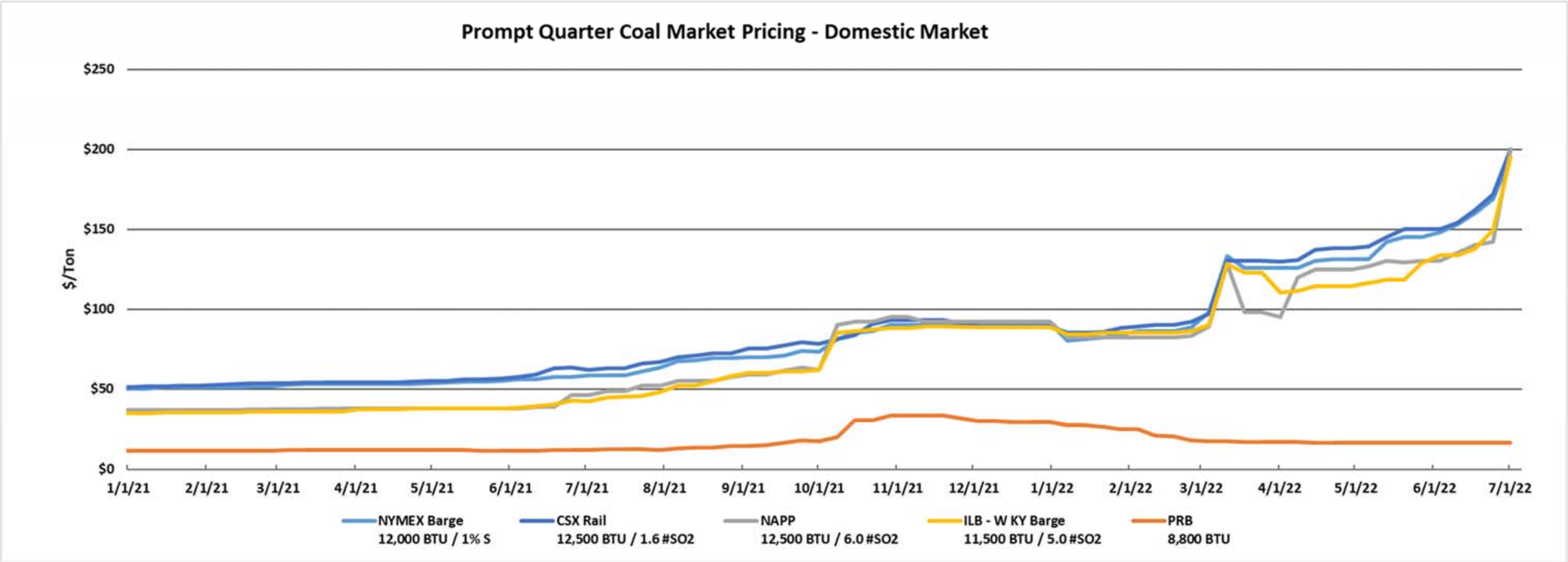
provided for in the coal supply agreements. Kentucky Power has continued to monitor the market and during the review period the Company issued an RFP for both CAPP and NAPP coal. As a result of the April 2022 RFP Kentucky Power was able to contract for CAPP coal in years 2022 through 2024 and NAPP coal in years 2023 and 2025. The Company also has continued to talk with coal suppliers and as a result executed agreements from several unsolicited offers after the review period for additional CAPP and NAPP coal for the Mitchell Plant.

VII. CONCLUSION

Q. WERE THE COMPANY'S PROCUREMENT PRACTICES REASONABLE DURING THE REVIEW PERIOD?

A. Yes. Especially given coal market conditions, the Company has procured and managed both its coal supply and transportation costs appropriately during the review period to provide reliable supply at the lowest reasonable costs.

Figure: Per Argus-McCloskey



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DocVerify ID:	CF4A8C9F-C3EA-41B7-AB54-BB5FE5D5D7AC
Created:	September 28, 2022 06:18:44 -8:00
Pages:	1
Remote Notary:	Yes / State: KY

E-Signature Summary

E-Signature 1: Kimberly K. Chilcote (KKC)
September 28, 2022 11:36:33 -8:00 [CFF31D52520A] [167.239.221.104]
kkchilcote@aep.com (Principal) (Personally Known)

E-Signature Notary: Jennifer Young (JAY)
September 28, 2022 11:36:33 -8:00 [449D76306BA0] [167.239.221.107]
jayoung1@aep.com
I, Jennifer Young, did witness the participants named above electronically sign this document.

VERIFICATION

The undersigned, Kimberly K. Chilcote, being duly sworn, deposes and says she is the Coal Procurement Manager for American Electric Power Service Corporation, that she has personal knowledge of the matters set forth in the foregoing testimony and the information contained therein is true and correct to the best of her information, knowledge, and belief.

Kimberly K. Chilcote
CFF31D62520A
Signed on 2022/09/28 11:36:33 -8:00

Kimberly K. Chilcote

Commonwealth of Kentucky)
) Case No. 2022-00263
County of Boyd)

Subscribed and sworn before me, a Notary Public, by Kimberly K. Chilcote this 28th day of September, 2022.

449D76306BA0
Signed on 2022/09/28 11:36:33 -8:00

Notary Public

JENNIFER A. YOUNG
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP31964
My Commission Expires Jun 21, 2025
Notary Stamp 2022/09/28 11:36:33 PST 449D76306BA0

Notarial act performed by audio-visual communication

My Commission Expires_____06/21/2025___________

Notary ID Number: ______KYNP31964____________