

Kentucky Power Company
KPSC Case No. 2023-00008
Commission Staff's Post Hearing Third Set of Data Requests
Dated August 1, 2024
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DATA REQUEST

**KPSC
PHDR_3_1** During the time that Kentucky Power implemented its coal conservation strategy from October 2021 to October 2022, provide the following in Excel spreadsheet format with all formulas, rows, columns, and cells unprotected and fully accessible:

- a. The hourly energy purchased (MW's);
- b. The locational marginal price at each hour;
- c. The hourly bids for the Mitchell 1 and 2 units broken out by cost and coal adder;
- d. Hourly generation hours for the Mitchell station for each month; and
- e. All variable Mitchell station related costs collected through the FAC, by month, associated with purchasing energy.

RESPONSE

Kentucky Power does not object to providing the information requested but provides this important, real-world context for the information. Kentucky Power's coal procurement practices during the review period were prudent and the Company's coal conservation offer strategy benefitted customers. These conclusions were supported by the following unrefuted facts presented in the Company's testimony, responses to data requests, briefing, and the February 13, 2024 hearing in this matter:

- In Spring 2021, the impacts of the COVID-19 pandemic remained widespread.
- At that time, Kentucky Power evaluated its forecast demand for coal-fired generation, existing coal stockpile levels, and the physical limit for coal storage and determined that its contracted coal supply was sufficient for Summer and Fall 2021 based on projected demand.
- In May 2021, Kentucky Power issued an RFP for coal to supply the Mitchell plant beyond the Summer and Fall 2021 period.
- In late Summer and Fall 2021, the impacts of the COVID-19 pandemic began to ease and economic activity began to increase.
- The increase in economic activity led to corresponding increases in electricity demand and natural gas prices.
- The increase in natural gas prices led to an increase in the demand for coal-fired generation.
- In September 2021, Kentucky Power issued an RFP for additional coal to meet the increase in demand for coal-fired generation beyond what was prudently forecasted earlier in the year.

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- Kentucky Power did not receive any offers for the sale of coal in response to its September 2021 RFP for coal to be delivered in 2021.
- In response to the lack of bids from the September 2021 RFP, Kentucky Power reached out to contacts in the coal industry, including through the West Virginia Coal Association, to identify any source of coal available for delivery in the near term. No additional sources of coal were available.
- Due to unforeseeable circumstances beyond Kentucky Power's control, there was insufficient coal available in the market during this period to meet the increase in demand for coal-fired generation.
- In order to maximize benefits to customers in light of the inability of the coal supply market to meet demand for coal-fired generation, the Company implemented its coal conservation offer strategy to optimize the finite amount of coal available to it and enable the Mitchell units to be available to operate at higher levels at times of highest power prices. This resulted in lower FAC costs than would have resulted otherwise.
- To implement the coal conservation offer strategy, Kentucky Power included a price adder in its daily market-based offer to PJM.
- Through the use of the adder, Kentucky Power was able to operate the Mitchell facility at its economic minimum output levels when wholesale market prices were lower and then be called on to operate at higher output levels when wholesale market energy prices were highest. This strategy made the best use of Kentucky Power's generating asset for its customers, in light of the coal industry's inability to produce coal at sufficient levels to meet demand.
- Based on information available at the time, the Company determined that without implementing the coal conservation offer strategy, the Mitchell units would have fallen below the ten-day supply requirement implemented by PJM, been forced into emergency reserve status, and been unable to provide any benefit to the Company's customers. One of the reasons for this determination is that it was clear at the time that falling below the ten-day supply requirement would have exposed Kentucky Power customers to the risk of higher costs during foreseeable times of higher wholesale market prices. In practice, the coal conservation offer strategy mitigated the risk to customers of using the available coal less efficiently, which would have exposed customers to the risk of higher overall prices.
- Although hindsight is not an appropriate way of evaluating the prudence of the Company's decision, it is worth noting that implementation of the Company's coal conservation offer strategy directly avoided 234 unit forced outage days at the Mitchell Plant (117 forced outage days per unit) which helped to preserve the capacity ratings of the Mitchell plant and help ensure system reliability by actively managing finite coal supplies.

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It would be unlawful and unreasonable to use the information provided in this response as a basis to disallow some portion of the amount recovered by the Company through this FAC during this period. Such an action would be in direct contravention of the undisputed evidence in the record of this proceeding, would ignore the actual market conditions experienced during the review period, and hold the Company to a standard requiring it to have extraordinary and impossible prescience.

Moreover, use of the information provided in this response as a basis to disallow some portion of the amount recovered by the Company through this FAC would establish a standard of recovery that ignores real-world commodity market conditions, penalizes the Company for optimizing the use of its generation resources for customers' benefit, and likely would have a chilling effect on the Company's ability to invest in baseload fossil fuel generation. At the very least, it would make it significantly more difficult for the Company in the future to optimize the operation of its generation fleet, due to cost recovery practices that are incompatible with the realities of the fuel and energy markets. It would also impair the Company's ability to attract capital to invest in its generation fleet (*i.e.* increasing the borrowing costs for the Company to the detriment of customers).

Another practical impact of the Commission's disallowance of costs based on the existence of the coal conservation offer strategy would be to inappropriately require the Company to make imprudent and uneconomic decisions, to customers' detriment, solely for the sake of running its fossil fuel generation whenever possible. Arbitrarily denying cost recovery as a result of the Company's successful efforts to optimize the use of its generation resources for the benefit of customers would have a material negative impact on the Company's credit metrics and its ability to earn its authorized rate of return, which in turn risks increasing the borrowing costs for the Company to the detriment of customers.

The prudence of the Company's actions in providing safe, efficient and reliable service to its customers must be evaluated in the context of what was reasonable at the time the actions were taken. Under that standard, the Company's coal procurement efforts and its implementation of its coal conservation offer strategy during the review period were reasonable and prudent.

With this important context, the Company responds as follows:

- a. Please refer to column 21 of KPCO_R_KPSC_PHDR_3_1_ConfidentialAttachment1 for hourly purchases from the PJM spot market to serve the Company's internal load.
- b. Please refer to column 20 of KPCO_R_KPSC_PHDR_3_1_ConfidentialAttachment1 for the day ahead hourly LMP at the Mitchell Plant's pricing point.

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c. Please refer to columns 4, 5, 6, 12, 13, and 14 for the hourly market and cost-based offers, and the adder amount in market offer in excess of cost-based offer if applicable. The Company has also included the hourly commitment status and net available capacity for the two Mitchell units to illustrate when the units were available for economic dispatch purposes during the period in question. This information is necessary to properly interpreting and understanding the evidence provided in response to the Commission's request. The Commission must take this information into account when reviewing the evidence provided. The Commission should not arbitrarily consider only certain portions of the information provided in this response.

d. Please refer to columns 10 and 18 on
KPCO_R_KPSC_PHDR_3_1_ConfidentialAttachment1.

e. The information requested cannot be reliably calculated because the vast majority of the Company's fuel costs are recovered through base rates. The fuel adjustment clause only recovers or credits above or below this basing point. Additionally, the possibility of off system sales further makes such calculation unreliable because off system sales margins credited through the Company's system sales clause would further distort any such calculation.

Witness: Tanner S. Wolfram

Witness: Alex E. Vaughan

Witness: Kimberly K. Chilicote

KPCO_R_KPSC_PHDR_3_1_ConfidentialAttachment1 has been redacted in its entirety.

VERIFICATION

The undersigned, Tanner S. Wolfram, being duly sworn, deposes and says he is the Director of Regulatory Services 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.

Tanner S. Wolfram

Tanner S. Wolfram

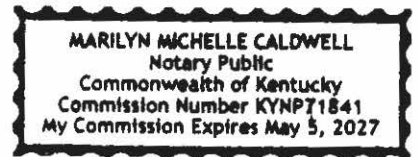
Commonwealth of Kentucky)
) Case No. 2023-00008
County of Boyd)

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Tanner S. Wolfram, on August 15, 2024.

Marilyn Michelle Caldwell
Notary Public

My Commission Expires May 5, 2027

Notary ID Number KYNP71841





Vaughan Discovery Verification Form.doc

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E-Signature 1: Alex Vaughan (AEV)

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 aevaughan@aep.com (Principal) (Personally Known)

E-Signature Notary: Marilyn Michelle Caldwell (MMC)

August 16, 2024 06:50:36 -8:00 [ACD4566C2648] [167.239.221.102]
 mmcaldwell@aep.com

I, Marilyn Michelle Caldwell, did witness the participants named above electronically sign this document.



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VERIFICATION

The undersigned, Alex E. Vaughan, being duly sworn, deposes and says he is the Managing Director Regulated Pricing – Generation and Fuel Strategy 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.

Alex Vaughan

Alex E. Vaughan

Commonwealth of Kentucky)
)
County of Boyd)

Case No. 2023-00008

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Alex E. Vaughan, on August 16, 2024.

Marilyn Caldwell

MARILYN MICHELLE CALDWELL
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP71841
My Commission Expires May 05, 2027

Notary Public

Notarial act performed by audio-visual communication

My Commission Expires May 5, 2027

Notary ID Number KYNP71841

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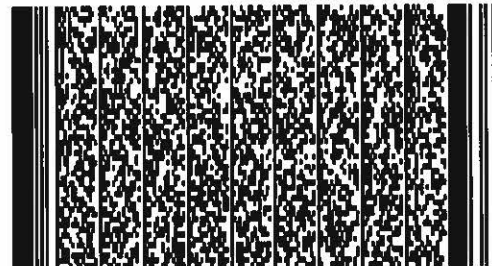
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E-Signature Summary

E-Signature 1: Kimberly Chilcote (KKC)
 August 15, 2024 10:06:34 -8:00 [0B744974EF55] [12.111.104.2]
 kkchilcote@aep.com (Principal) (Personally Known)

E-Signature Notary: Marilyn Michelle Caldwell (MMC)
 August 15, 2024 10:06:34 -8:00 [8FC2221578DA] [167.239.221.102]
 mmcaldwell@aep.com
 I, Marilyn Michelle Caldwell, did witness the participants named above electronically sign this document.



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VERIFICATION

The undersigned, Kimberly K. Chilcote, being duly sworn, deposes and says she is a Coal Procurement Manager for American Electric Power Service Corporation, that she 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 her information, knowledge, and belief.

Kimberly Chilcote

Kimberly K. Chilcote

Commonwealth of Kentucky)
County of Boyd)

Case No. 2023-00008

Subscribed and sworn to before me, a Notary Public in and before said County and State, by Kimberly K. Chilcote, on August 15, 2024.

Marilyn Michelle Caldwell

Notary Public

MARILYN MICHELLE CALDWELL
ONLINE NOTARY PUBLIC
STATE AT LARGE KENTUCKY
Commission # KYNP71841
My Commission Expires May 05, 2027

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