

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter Of:

AN ELECTRONIC EXAMINATION OF THE )  
APPLICATION OF THE FUEL ADJUSTMENT )  
CLAUSE OF KENTUCKY POWER COMPANY ) Case No. 2023-00008  
FROM NOVEMBER 1, 2020 THROUGH )  
OCOTOBER 31, 2022 )

**DIRECT TESTIMONY OF**  
**KIMBERLY K. CHILCOTE**  
**ON BEHALF OF KENTUCKY POWER COMPANY**

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**I. INTRODUCTION**

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

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

**II. BACKGROUND**

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

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

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

10 A. I joined AEP in 1992 as an Assistant Chemist at Columbus Southern Power Company’s  
11 (“CSP”) Conesville Plant. In 2004, I transferred to the fuels group as a Coordinator and  
12 was primarily responsible for assessing and reviewing the coal qualities of the coal  
13 purchased by the procurement department. In 2007, I transferred to the Fuel Procurement  
14 group and was responsible for the purchase and shipment of all of the Powder River  
15 Basin Coal for the AEP System power plants. In 2008, I became responsible for  
16 purchasing coal for CSP and Ohio Power Company, which merged to become AEP Ohio.  
17 In 2010, I was promoted to Manager of Coal Procurement for AEP Ohio and Kentucky  
18 Power Company. In 2014, I joined AEP Generation Resources with responsibilities for

1 purchasing coal, natural gas and consumables for AEP's unregulated plants. In 2020, I  
2 accepted a position in the regulated Commercial Operations organization in the coal and  
3 reagents transportation team. I was promoted to my current position as Coal Procurement  
4 Manager in May of 2021.

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

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

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
10 **AGENCIES?**

11 A. Yes. I have previously provided written testimony and testified at hearings before the  
12 Public Service Commission of Kentucky on behalf of Kentucky Power in its fuel  
13 adjustment clause review proceedings and before the West Virginia Public Service  
14 Commission on behalf of Appalachian Power Company. I have also filed testimony  
15 before the Public Service Commission of Kentucky on behalf of Kentucky Power, the  
16 Public Service Commission of West Virginia and the Virginia S.C.C. both on behalf of  
17 Appalachian Power Company.

### **III. PURPOSE TO TESTIMONY**

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

19 A. The purpose of my testimony is to address the following areas:

- 20 a) Changes in market conditions that occurred from November 2020 through  
21 October 2022 ("the Review Period") or that the Company expects to occur within

- 1           the next two years that have significantly affected or will significantly affect  
2           Kentucky Power’s coal costs or coal procurement practices;
- 3           b) Kentucky Power’s efforts to ensure coal suppliers’ adherence to contractual terms  
4           during the Review Period;
- 5           c) Coal suppliers’ adherence to contract delivery schedules during the Review  
6           Period;
- 7           d) Kentucky Power’s efforts to maintain the adequacy of its coal supplies in light of  
8           any coal supplier’s inability or unwillingness to make contract coal deliveries;  
9           and
- 10          e) The reasonableness of Kentucky Power’s fuel procurement practices during the  
11          Review Period.

#### IV. MARKET OVERVIEW

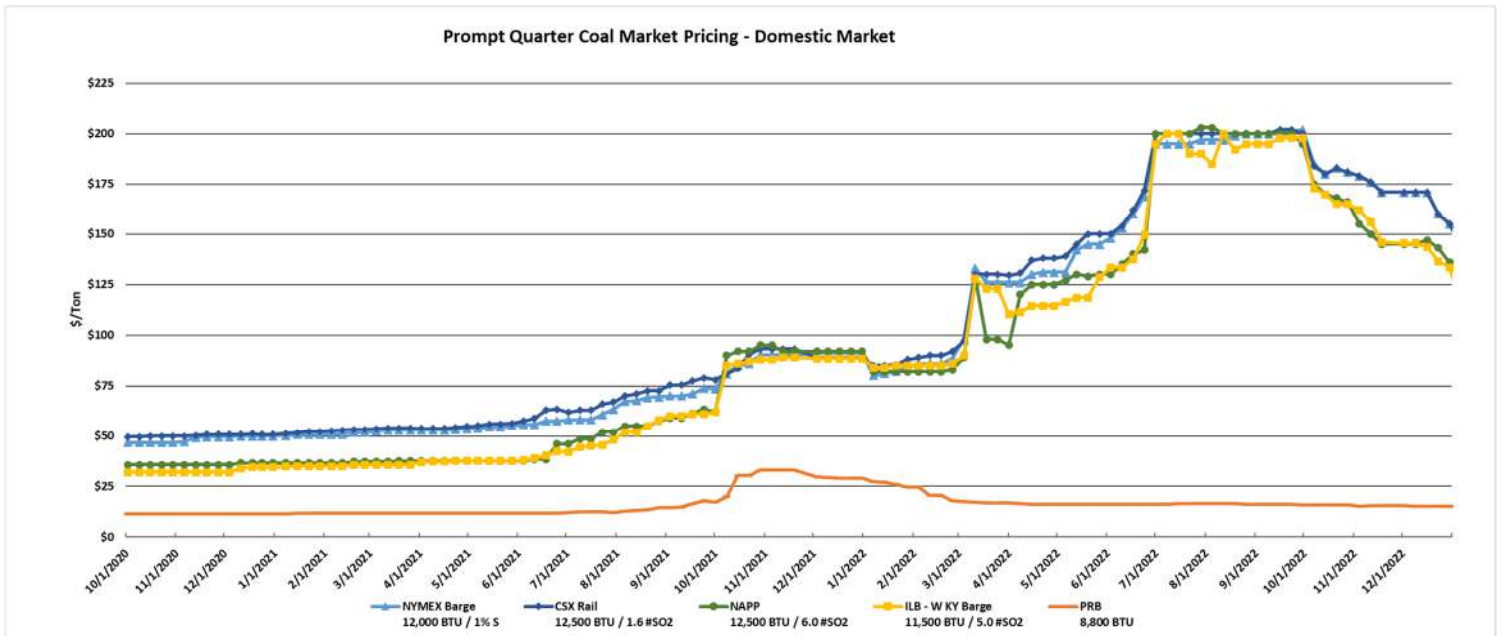
##### 12 **Q. PLEASE DESCRIBE THE COAL MARKET FROM 2020 THROUGH PRESENT.**

- 13 A.       Calendar year 2020 saw an unprecedented loss of demand for electricity due primarily  
14       to the COVID-19 global pandemic. This crisis, when combined with historically low  
15       natural gas prices, created an environment of exceptionally weak power prices. As a  
16       result, the demand for U.S. coal generation decreased by approximately 20% in 2020 as  
17       compared to 2019 (EIA Fossil Fuels for Electricity Generation).<sup>1</sup> As the country, and  
18       the world, opened back up in 2021, the price of natural gas rose and the demand for  
19       coal recovered.

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<sup>1</sup> EIA Total Electric Power Industry Summary Statistics, 2020 and 2019;  
[https://www.eia.gov/electricity/monthly/epm\\_table\\_grapher.php?t=epmt\\_es1a](https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_es1a)

1 In the first 5 months of 2021 coal generation was approximately 35% higher  
 2 compared to the previous year. Beginning in the latter half of 2021 unprecedented  
 3 volatility was seen in the coal market, and this volatility continued through 2022. The  
 4 increase in coal demand was primarily due to increases in natural gas prices, making  
 5 coal the lower cost option to generate electricity. This increase in demand for coal for  
 6 power production, along with stronger demand in the export market and the lingering  
 7 effects of COVID-19, caused uncommitted supplies to significantly tighten from all  
 8 coal basins in the second half of 2021. As shown on the graph below, the coal markets  
 9 from mid-2020 through 2022 have undergone an unprecedented price increase and  
 10 subsequent decline in all of the coal basins.



12 Coal prices began 2022 at elevated levels and continued to increase through  
 13 September 2022 reaching all-time highs due to lack of availability in the market. The  
 14 Company was forced to purchase coal during this period at higher than historical prices

1 due to market conditions. At the end of 2022 prices began to decline and most suppliers  
2 indicated that they were fully subscribed for 2023.

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

5 A. The uncertainty of coal-fired generation demand is expected to continue. With the recent  
6 volatility in the gas market, domestic and global demand for coal, and the addition of  
7 renewables into the market, the forecasted consumption and actual consumption of coal  
8 are volatile and the ability to be flexible in purchasing coal is necessity. All of these  
9 market dynamics will continue to impart volatility into the coal market, which can make  
10 purchasing decisions more difficult. The Company's coal procurement strategy will  
11 continue to include continually monitoring the market for changes or shifts, issuing and  
12 evaluating RFPs, reviewing unsolicited offers when received, and layering in supply to  
13 create a portfolio of agreements of varying terms and prices.

V. **CONTRACT PERFORMANCE**

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

17 A. Supplier performance under coal contracts is managed in a firm, practical, and  
18 businesslike manner to achieve the overriding objective of procuring and maintaining  
19 adequate coal supplies to meet current and anticipated requirements. Kentucky Power  
20 reviews supplier performance at the conclusion of each month, and when a supplier's  
21 performance does not meet the conditions or terms of the applicable agreement, the  
22 Company informs the supplier, takes corrective action as appropriate per contract terms,

1 and directs that subsequent performance be in compliance. Although the Company and  
2 the supplier often can informally reach a mutually agreeable resolution, there are times  
3 when disputes regarding a supplier's non-performance cannot be satisfactorily resolved  
4 through such means. Those matters are evaluated for further action, such as arbitration,  
5 litigation, settlement, or termination if provided by the contract, balanced against the  
6 need to maintain a continuing supply of coal to meet Kentucky Power's generation needs.

7 **Q. PLEASE SUMMARIZE KENTUCKY POWER'S COAL SUPPLIERS'**  
8 **ADHERENCE TO LONG-TERM CONTRACT DELIVERY SCHEDULES.**

9 A. Kentucky Power had eight long-term agreements with five different suppliers for coal  
10 deliveries to the Mitchell Plant during the Review Period. These suppliers were Alpha  
11 Metallurgical Coal Sales, LLC (f/k/a Contura Coal Sales, LLC, "Alpha"), ACNR Coal  
12 Sales, Inc. ("ACNR"), BMM INC. ("Bamm"), Blackhawk Coal Sales, LLC  
13 ("Blackhawk") and Case Coal Sales, LLC ("Case"). Kentucky Power received the  
14 contractual tonnage obligation under all of its long-term agreements during the Review  
15 Period with the exception of the ACNR agreement. The ACNR agreement was extended  
16 through 2024 to allow for the delivery of that missed volume. The details of the long-  
17 term agreements are contained in Table 1.



Table 1 - Long Term Agreements

Supplier	Agreement Number	Term	Status
Alpha	03-00-18-009	01/01/2019 - 12/31/2020	Completed
	03-00-21-9M2	01/01/2022 - 12/31/2023	On Schedule
ACNR	07-77-05-900	01/06/2006 - 12/31/2024	Amended
Bamm	03-00-21-003	01/01/2022 - 12/31/2024	Amended, On Schedule
Blackhawk	03-00-18-008	01/01/2019 - 12/31/2020	Completed
	03-00-18-010	01/01/2019 - 12/31-2021	Completed
	03-00-21-9M1	01/01/2022 - 12/31/2023	On Schedule
Case	03-00-21-002	02/01/2022 - 12/31/2023	Amended, On Schedule

1

2 **Q. DID THE SHORT TERM (SPOT) SUPPLIERS MEET THEIR DELIVERIES**  
3 **DURING THE REVIEW PERIOD?**

4 A. No. Several spot suppliers did not meet the deliveries during the Review Period.  
5 However, Kentucky Power continually worked with those spot suppliers to reach  
6 agreement on a modified delivery schedule of shipments to meet the contractual  
7 obligation, or it resolved the shortfall through other contractual solutions.

8 **Q. PLEASE DESCRIBE THE STEPS THE COMPANY TOOK IN CONNECTION**  
9 **WITH NON-PERFORMING SPOT SUPPLIERS DURING THE REVIEW**  
10 **PERIOD?**

11 A. The Company worked with several non-performing spot suppliers to assure the delivery  
12 of its agreements, and the details of each are below.

- 13 • Alpha delivered 74% of contract volume under the 03-00-22-9M2 agreement in  
14 2022. The parties agreed that the remaining tons would be delivered in 2023 and  
15 all such tons have since been delivered and the agreement completed.

- 1           • Bamm was only able to deliver a small portion of the contract volume under the  
2           03-00-21-003 agreement in 2022 due to multiple supplier issues with the mine  
3           that was supplying the coal. The Company worked with Bamm and extended the  
4           agreement through 2024 to allow for the delivery of the total obligation. Bamm  
5           has delivered tons in 2023 and is on track to meet the 2023 obligation. This  
6           agreement is now classified by the Company as a long-term agreement.
- 7           • Carbon Partners delivered 95% of contract volume under the 03-00-22-004  
8           agreement in 2022 and completed the obligation in 2023.
- 9           • Case had difficulty delivering its contract volume under the 03-00-21-002  
10          agreement in 2022 and had delivered only 41% by the end of the year due to  
11          supply issues with the mine. The parties worked together and agreed to extend  
12          the agreement through 2023 to allow for the delivery of the obligation. Case has  
13          delivered tons in 2023 and should meet the 2023 obligation by the end of the year.  
14          This agreement is now classified by the Company as a long term agreement.
- 15          • Javelin Global Commodities could not meet its obligations under the agreement  
16          and the parties financially settled the agreement under the terms of the contract.  
17          Javelin made that settlement payment to the Company in July 2022.
- 18          • RFI Resources, LLC delivered 20% of contract volume under the 03-00-22-001  
19          agreement in 2022, and has not made any additional deliveries since June 2022  
20          due to a force majeure event at the mine that supplies coal under the agreement.  
21          Due to the extended term of the force majeure, and the decline in market pricing  
22          making this agreement price being greater than the market, the Company elected  
23          to terminate the agreement.

1 The Company will continue to work with spot suppliers as needed to obtain the  
2 contracted coal. If the suppliers fail meet the obligations the Company will follow the  
3 provisions in the supply agreements to resolve the shortfall volumes.

4 **Q. CONSIDERING THE ABOVE DISCUSSIONS, HAS KENTUCKY POWER**  
5 **BEEN ABLE TO MAINTAIN COAL SUPPLIES DURING THE REVIEW**  
6 **PERIOD?**

7 A. During the Review Period and with the above noted contract modifications to both the  
8 long term and spot agreements, the Company received the coal it contracted for. .  
9 However, during the Review Period demand for coal-fired electricity dramatically  
10 increased due to changes in the gas market making electricity generated from coal the  
11 lowest cost option. Kentucky Power sought additional coal in the market to meet its  
12 needs, however limited supply was available in late 2021 and into 2022. Kentucky Power  
13 purchased coal that was available in the market through the RFP process to meet these  
14 demands but could only purchase a limited amount of coal at the time and had to  
15 undertake other actions to maintain supply as discussed by Company Witness Vaughan.  
16 Kentucky Power continues to work with suppliers to have the contracted volumes  
17 delivered and in instances where this is not possible will take advantage of the remedies  
18 provided for in the coal supply agreements.

## VI. COAL PURCHASING STRATEGY

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

1 A. Coal delivery requirements are determined by taking into account existing coal  
2 inventory, forecasted coal consumption, and adjustments for contingencies related to  
3 planned as well as unplanned outages to maintain adequate coal inventory levels.

4 The strategy for actual coal procurement is not static; rather, it is based on  
5 periodic updates of the forecast and continuous market monitoring and evaluation, which  
6 help to determine when to issue RFPs or to make prompt purchases from the market if  
7 required and available. RFPs specify the quality and logistical parameters sought for  
8 Kentucky Power. From qualifying offers, the Company makes its selection of the coal  
9 needed to meet its requirements, based on the lowest reasonable delivered cost, including  
10 the consideration of price, coal quality, ability to deliver, past performance, and the  
11 financial status of suppliers. Kentucky Power layers such new purchases into the  
12 portfolio of existing agreements.

13 Additionally, the Company evaluates unsolicited offers and monitors coal  
14 markets for availability. The Company evaluates unsolicited offers against published  
15 market prices and recent solicitation results to ensure reliable supplies of coal at  
16 reasonable prices.

17 Lastly, the Company relies on the physical inventory to be used during periods  
18 of high consumption and to minimize supply disruptions. Supply disruptions can be  
19 caused by events such as power plant outages, inclement weather, river levels, mine  
20 production challenges and outages, and shortages of equipment and labor.

21 As a part of the overall effort to ensure adequate supply at the Mitchell Plant  
22 during the Review Period, the Company issued four solicitations for coal supply,  
23 including zero in 2020, two in 2021 and two in 2022. The Company purchased both high

1 sulfur (“NAPP”) coal and low sulfur (“CAPP”) coal during the Review Period, which  
2 allowed the Company to layer in purchases with varying terms to maintain appropriate  
3 deliveries of coal at a reasonable cost. During this Review Period the Company received  
4 one unsolicited offer in February 2022 for CAPP coal and executed an agreement based  
5 on the offer.

6 The Company also reviews the target inventory levels for the Mitchell Plant  
7 annually as part of its procurement practices. The Company recognizes that during the  
8 year the inventory will fluctuate below and above the target levels due to deliveries,  
9 outages, and other factors. The Company establishes the target levels as guidance to  
10 maintain and assure a reliable supply. Considering each of those factors, and the  
11 sustained volatility in the market, the Company increased the target inventory level for  
12 the Mitchell Plant as part of its last annual target inventory review. The Company  
13 increased its high sulfur inventory target from 15 to 35 days of full load burn. The  
14 Company increased its low sulfur inventory target level from 30 to 35 days of full load  
15 burn.

## **VII. CONCLUSION**

16 **Q. WERE THE COMPANY’S PROCUREMENT PRACTICES REASONABLE**  
17 **DURING THE REVIEW PERIOD?**

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

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

22 A. Yes.



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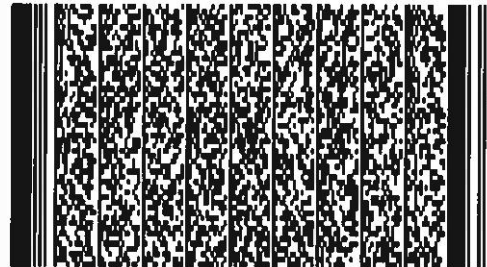
#### E-Signature Summary

**E-Signature 1: Kimberly Chilcote (KKC)**

October 04, 2023 07:09:13 -8:00 [3FA41F28638D] [167.239.221.107]  
 kkchilcote@aep.com (Principal) (Personally Known)

**E-Signature Notary: Marilyn Michelle Caldwell (MMC)**

October 04, 2023 07:09:13 -8:00 [E061569500B5] [167.239.221.107]  
 mmcaldwel@aep.com  
 I, Marilyn Michele Caldwell, dd 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 testimony and the information contained therein is true and correct to the best of her information, knowledge, and belief after reasonable inquiry.

Kimberly Chilcote  
Signed on 2023.10.04 07:09:13 -0500

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 October 4, 2023.

Notary Public

*Marilyn Michelle Caldwell*

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

Notarial act performed by audio-visual communication

My Commission Expires May 5, 2027

Notary ID Number KYNP71841

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