

TESTIMONY OF CHARLES F. WEST
ON BEHALF OF
INDIANA MICHIGAN POWER COMPANY
IURC CAUSE NO. 38702-FAC76

FILED
JAN 29 2016
INDIANA UTILITY
REGULATORY COMMISSION

1 Q. Please state your name, position, and business address.

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

7 Q. Please briefly state your educational background.

8 A. I graduated from Queen's University in Kingston, Ontario, Canada in 1978
9 with a degree in Mining Engineering and I later obtained my Professional
10 Engineer license in the State of Washington.

11 Q. Please briefly describe your professional background.

12 A. After graduating in 1978, I was employed in the mining industry by
13 Cleveland Cliffs Iron Company in Michigan and later by Quintette Coal
14 Company in British Columbia. I was then employed for over seven years by
15 PacifiCorp in various engineering and management positions at coal mining
16 operations in Washington state and Wyoming and at their headquarters in
17 Salt Lake City, Utah. In 1995, I accepted a position as Coal Buyer for
18 Central and Southwest Corporation (CSW), a utility holding company in
19 Dallas, Texas. I transferred to Columbus, Ohio as a Coal Buyer after CSW's
20 merger with AEP in 2000. In 2003, I joined Reliant Energy Inc. in
21 Canonsburg, PA as a Senior Fuels Specialist. In 2005, I returned to AEP as

1 a Coordinator in the Fuels, Emissions and Logistics (FEL) department. I
2 was promoted to Manager of Cook Coal Terminal (CCT) in Metropolis, IL in
3 2007 and accepted my current position in FEL in January of 2009.
4 Beginning in 2014, the FEL organization and the Commercial Operations
5 organization were consolidated to become the regulated Commercial
6 Operations organization.

7 Q. What are your primary areas of responsibility as Manager, Coal
8 Procurement for AEPSC?

9 A. I am responsible for managing coal procurement, contract oversight, and
10 inventory management activities for AEP operating companies, including
11 Indiana & Michigan Power Company (I&M), Kentucky Power Company
12 (KPCo), Southwestern Electric Power Company (SWEPCO), Public Service
13 Company of Oklahoma (PSO), and Appalachian Power Company (APCo),
14 and, as an agent for Ohio Valley Electric Corporation and Indiana Kentucky
15 Electric Corporation.

16 Q. Have you previously provided testimony to any regulatory agencies?

17 A. Yes. I have submitted testimony to the Indiana Utility Regulatory
18 Commission and the Michigan Public Service Commission on behalf of I&M,
19 the Public Utility Commission of Texas on behalf of SWEPCO, and the
20 Oklahoma Corporation Commission on behalf of PSO. I have testified
21 before the Kentucky Public Service Commission on behalf of KPCo, the
22 Public Service Commission of WV on behalf of APCo and Wheeling Power

1 Company, and the Virginia State Corporation Commission on behalf of
2 APCo.

3 Q. What is the purpose of your testimony in this proceeding?

4 A. The purpose of my testimony in this proceeding is to provide a comparison of
5 the forecasted June 2015 through November 2015 delivered coal costs to
6 actual deliveries, comment on current coal market conditions, address I&M's
7 coal delivery forecast for the period covering April 2016 through September
8 2016, and to summarize I&M's long-term coal supply agreements. In
9 addition, I will describe I&M's coal purchasing strategy.

10 Q. Please identify and describe I&M's coal generating stations.

11 A. I&M's Rockport coal generating station operated throughout the review
12 period and is projected to receive coal deliveries during the entire forecast
13 period of April 2016 through September 2016.

14 The Rockport Generating Station, located in Spencer County,
15 Indiana, consists of two 1300-megawatt coal-fired generating units. Sulfur
16 dioxide (SO₂) emissions at Rockport are limited by the New Source
17 Performance Standard to 1.2 lbs. SO₂ per Million British Thermal Unit
18 (MMBtu). Compliance with the emission limit is achieved by using a blend
19 consisting primarily of low-sulfur subbituminous coal in the steam
20 generators. The coal supply for Rockport currently uses a blend of Powder
21 River Basin (PRB) coal from Wyoming and low-sulfur bituminous coal from
22 eastern sources. In order to comply with stricter U.S. Environmental

1 Protection Agency (EPA) emissions standards, Dry Sorbent Injection (DSI)
2 technology is being used at both Rockport units. Rockport Unit 2's DSI
3 technology began operating in December 2014 and Rockport Unit 1's DSI
4 began operating in April 2015. The DSI technology is being utilized to
5 achieve compliance with the Mercury and Air Toxics Standards (MATS
6 Rule), which places stringent emissions limits on the two units at the
7 Rockport Plant for mercury, acid gases, and other hazardous air
8 pollutants. The DSI system will use sodium bicarbonate to reduce
9 emissions of acid gases, the Activated Carbon Injection system uses
10 brominated activated carbon to reduce emissions of mercury, and
11 electrostatic precipitator upgrades will ensure compliance with hazardous air
12 pollutant limits that are measured via particulate matter emission limits. Use
13 of DSI technology did not change the current coal blend at Rockport.

14 Q. How did the total actual delivered costs compare to what was forecasted for
15 Rockport?

16 A. During the reconciliation period, the overall weighted average delivered cost
17 of coal for the Rockport plant from all sources was forecasted to be
18 \$45.39/ton or 246.45 cents/MMBtu. The actual delivered cost was
19 \$42.94/ton or 235.61 cents/MMBtu. The actual weighted average delivered
20 cost of coal was approximately 5% lower than expected due to the lower
21 cost of spot coal purchases and increased deliveries of lower cost PRB coal
22 to build up PRB coal inventory levels.

1 Q. How have market conditions affected I&M's cost of purchasing coal?

2 A. During 2013, low NYMEX (New York Mercantile Exchange) and CSX¹ coal
3 pricing and reduced demand led to the closure of a significant portion of the
4 Central Appalachian (CAPP) coal production in Kentucky and West Virginia.
5 The cost of NYMEX coal for Rockport was higher in mid-2014, but the
6 NYMEX coal prices then continued to drop off until mid-2015. Prices
7 remained relatively stable through the review period.

8 PRB coal pricing in the beginning of 2014 was relatively strong because
9 of rail delivery problems and low coal plant inventories, but pricing softened
10 somewhat in the back half of 2014 and gradually dropped throughout 2015.

11 Q. Are you aware of any other factors that will impact the forecasted cost of
12 coal for I&M?

13 A. In a ruling on June 29, 2015, the U.S. Supreme Court found that the EPA did
14 not properly consider the cost of compliance when it developed its final rule
15 establishing the MATS Rule for coal and oil fired electric generating units.
16 The decision did not vacate the MATS Rule, but remanded the rule to the
17 D.C. Circuit Court for further proceedings. On December 15, 2015, the D.C.
18 Circuit Court issued an order remanding the MATS Rule to EPA without
19 vacatur. The EPA has indicated it will issue a final finding by April 15, 2016.
20 Because of stricter EPA emissions standards, all units of Tanners Creek
21 were retired in May 2015.

22 In addition to the MATS Rule, the EPA, on July 6, 2011, released the

¹ CSX is the over-the-counter (OTC) broker index for coal loaded on CSX rail.

1 Cross-State Air Pollution Rule (CSAPR). Under CSAPR, reductions in SO₂
2 and nitrogen oxide (NO_x) emissions were to begin as early as January 1,
3 2012. However, due to extensive litigation and a stay on the CSAPR rule
4 until October 23, 2014, the Clean Air Interstate Rule (CAIR) remained in
5 place through the end of 2014. Phase I of CSAPR's annual SO₂ and NO_x
6 reductions were in place as of January 1, 2015. Phase I of CSAPR's
7 seasonal ozone NO_x reductions went into effect on May 1, 2015. Phase II of
8 CSAPR is scheduled to begin in 2017. On November 16, 2015, the EPA
9 proposed reductions in ozone season (May through September) NO_x
10 allowances, to become effective in 2017 for 23 states under the CSAPR.
11 These revisions to ozone season budgets are intended to address the
12 required 2008 revisions to ozone National Ambient Air Quality Standards.
13 At this time, I&M cannot reasonably determine what effect this new proposal
14 will ultimately have, but the Company will continue to monitor this proposal
15 and any anticipated impacts when it is practical to do so. Both the MATS
16 Rule and CSAPR continue to contribute to, or impact, the price differential
17 for the ultra-low sulfur PRB (0.55 lbs. SO₂/MMBtu).

18 Q. Please provide a summary of I&M's long-term coal supply agreements and
19 their anticipated costs for the April 2016 through September 2016 forecast
20 period.

21 A. Rockport's scheduled tonnages of coal during the forecast period, from April
22 2016 through September 2016, will be supplied primarily by an agreement

1 with Peabody COALSALES, LLC, which has been in place for several years.
2 The overall forecasted weighted average delivered cost of coal for Rockport
3 from all sources during the period of April 2016 through September 2016 is
4 projected to be \$45.02/ton or 245.50 cents/MMBtu.

5 Additional coal requirements that are not already committed will be
6 purchased, as necessary, to fulfill any remaining supply requirements at
7 Rockport. Projected coal deliveries and costs for the period April 2016
8 through September 2016 were provided to Witness Heimberger for use in
9 preparing I&M's forecast.

10 Q. How were the forecasted deliveries and prices, as provided above,
11 determined for the period from April 2016 through September 2016?

12 A. The amount of coal projected to be consumed was based on a load forecast
13 covering the period from April 2016 through September 2016. Coal delivery
14 requirements were then determined by taking into account coal inventory,
15 the forecast of coal consumption, and adjustments for any contingencies
16 that would necessitate an increase or decrease in coal inventory levels.
17 Next, the sources of the coal were determined taking into account
18 environmental and boiler constraints, as well as contractual obligations and
19 existing sources of supply. The price of contract coal and committed spot
20 market purchases are based on contractual agreements. Uncommitted coal
21 needs are priced from the forecast of future coal prices or forward curve.
22 Finally, transportation costs were forecasted based on the existing railroad

1 transportation agreements and projected barging, railcar, and transloading
2 rates.

3 Q. Please describe I&M's coal purchasing strategy.

4 A. I&M's coal purchasing strategy is based on continuous market monitoring
5 and evaluation along with periodic competitive bids. I&M frequently
6 calculates the future needs for uncommitted coal, at which time coal
7 producers may be contacted and given the parameters for the amount and
8 quality of coal that is sought. From competitive bid results and/or existing
9 opportunities, if reasonable, I&M then makes its selection of the coals
10 needed to meet its requirements based primarily on price and coal quality
11 considerations.

12 Q. Is risk assessment of potential suppliers an important factor in I&M's coal
13 purchasing decisions?

14 A. Yes. The Company considers a vendor's financial status, ability to deliver
15 and past performance when evaluating its decision to do business with that
16 supplier. Purchases from reliable vendors serve to enhance I&M's supply
17 security.

18 Q. How are recent changes in the coal industry impacting coal procurement for
19 I&M?

20 A. While the coal industry seems to be in turmoil lately because of vendor
21 bankruptcies and mergers and acquisitions, I&M continues receiving coal
22 deliveries as contracted and expects to continue doing so into the future.

1 The fuel procurement team monitors all coal industry news and will continue
2 to consider a vendor's financial situation when procuring coal.

3 Q. Were there any affiliate transactions that occurred during the reconciliation
4 period of June 2015 through November 2015?

5 A. Yes, in June 2015, I&M experienced a reduction in train shipments into
6 CCT, which, in conjunction with continued normal deliveries to Rockport,
7 resulted in a drawdown of Rockport's coal inventory at CCT from 357,000
8 tons to 41,000 tons. Then, CCT had an outage on its rail unloading
9 capabilities that prevented rail shipments for several days. Together, these
10 events would likely have exhausted the remaining coal inventory at
11 Rockport. Under these circumstances, I&M had to act promptly to ensure
12 adequate coal supplies. Fortunately, there was other coal being stored at
13 CCT of similar quality, which could be loaded immediately to maintain barge
14 shipments and avert the risk of exhausting the remaining inventory at
15 Rockport. Negotiations with the seller were conducted and resulted in a
16 purchase of 27,319 tons of coal. The delivered cost of this coal was
17 approximately \$2.15/ton less than the published market cost for coal of
18 similar quality, which benefited I&M's customers over other more costly
19 supplier purchases that had the additional risk of not delivering within the
20 difficult time constraints.

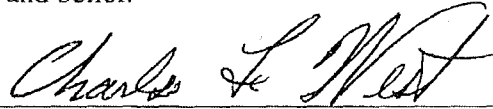
21 Q. Do you have an opinion regarding the reasonableness of I&M's coal costs?

22 A. Yes. I&M has and continues to aggressively pursue and manage its coal

- 1 supplies and transportation costs, recognizing and addressing opportunities
- 2 to provide a reliable supply of coal at the lowest reasonable cost.
- 3 Q. Does this conclude your direct testimony?
- 4 A. Yes.

VERIFICATION

I, Charles F. West, Manager, Coal Procurement of American Electric Power Service Corporation, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

A handwritten signature in cursive script that reads "Charles F. West". The signature is written in black ink and is positioned above a horizontal line.

Charles F. West

Date: Jan. 27, 2016.