



October 18, 2021

Dear Customer,

We have received inquiries on the current and future volatility of fuel costs impacting wholesale customers' invoices. The following information provides some insight to what AEP/SWEPCO is currently experiencing.

- Market Coal Costs (i.e. Powder River Basin coal) have, since the summer of 2021, increased upwards of 60% or more due to the impact of high natural gas prices causing SPP gas to coal switching from a dispatching perspective. Currently, the forecast is that this trend will last in 2022.
- Henry Hub Natural Gas which is the main index that SWEPCO's gas plants are procured with a basis differential positive or negative based on the natural gas region is presently ~\$5.60/MMBTU. The current forward market price of Henry Hub ranges from a \$5.32 to \$5.85 in the October 2021 through March 2022 period, and that will change based on market dynamics. The actual natural gas purchased for SWEPCO natural gas plants will vary based on the market prices of that day. The average Henry Hub price of October 2020 as a reference was \$2.10/MMBTU.
- Purchased Power Cost will vary based on many factors. In October 2020, market purchases in the SPP South region averaged \$31.99 per MWH for peak power prices. Because of the volatility in the market and strong natural gas prices, the present forward purchased power pricing for SPP South is \$83.25/MWH for January 2022. The actual purchased power that SWEPCO will purchase will be based on the requirement and conditions at that time.

The fuel forecast process, provided annually in January, uses the corporate control budget, which is a highly detailed, labor-intensive process. We provided a recent update that included only known increases in lignite burn, changes from the annual control budget used in the fuel forecast information provided in January of this year. We are continuing to evaluate ways to develop such additional information and provide an update for the end of 2021. There still are many unknowns in the market and many variables exist creating the current fuel and energy price volatility.

Sincerely,

*Holly S. Turner*

American Electric Power Service Corporation  
Director – Energy Marketing & Commercial Energy Management