

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: :
 : **Case No. 2012-00221**
Application Of Kentucky Utilities Company For An :
Adjustment Of Its Electric Rates :
 :

DIRECT TESTIMONY OF MARY JEAN RILEY
ON BEHALF OF
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.
AND NORTH AMERICAN STAINLESS

I. INTRODUCTION AND QUALIFICATIONS

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

A. My name is Mary Jean Riley. I am the Vice President - Finance & Administration & Treasurer of North American Stainless (“NAS”). My business address is 6870 Highway 42 East Ghent, KY 41045.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I graduated from the University of Louisville with a Bachelors of Science in Business Administration and have been a Certified Public Accountant for over 20 years.

1 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

2 **A.** I am appearing on behalf of NAS. Founded in 1990, NAS has undertaken several phases
3 of expansion to become the only fully integrated stainless steel producer in the U.S. NAS
4 employs about 1300 people at its Carol County facility. These are high-paying, family
5 supporting jobs.

6
7 NAS is a member of Kentucky Industrial Utilities Customers, Inc. ("KIUC") and is
8 served under the Curtailable Service Rider CSR10 by Kentucky Utilities Company
9 ("KU").

10

11 **Q. WHAT ATTRACTED NAS TO CAROL COUNTY KENTUCKY?**

12 **A.** NAS built its state-of-the-art production facility on 1400 acres in Carroll County for
13 several reasons. The facility is ideally located near a major interstate highway and with
14 direct access to the Ohio River. Kentucky's traditionally low electric prices were another
15 major factor in selecting the Carroll County location.

16

17 **Q. WHAT PORTION OF NAS'S LOAD IS CURTAILABLE?**

18 **A.** NAS operates two, 100 MW Electric Arc Furnaces at its Carroll County facility. These
19 Furnaces are ideal for providing KU with a large block of capacity during system
20 emergencies because they can be quickly and safely shut down. The current CSR10 tariff
21 provides that NAS's curtailable load can be shut down on only 10 minutes notice.

22

23 **Q. WHAT DID KU PROPOSE WITH RESPECT TO THE CURTAILABLE CREDIT
24 IN ITS LAST RATE CASE (CASE NO. 2009-00548)?**

25 **A.** KU's proposed a \$5.20/kVa charge for all curtailable customers. In a Stipulation filed
26 with the Commission on June 8, 2010, KU agreed that curtailable service customers
27 could choose between a 10 minute and a 30 minute notice provision. Primary voltage
28 customers, such as NAS, that are able to interrupt service on 10 minutes notice receive a

1 \$5.50/kVa curtailable credit and primary voltage customers that are able to interrupt
2 service on 30 minutes notice receive a \$4.40/kVa curtailable credit. The Stipulation
3 provided that the Company may request to physically curtail a CSR customer up to 100
4 hours per year without a buy-through option during “system reliability events.” The
5 Stipulation provided for 275 hours per year in which KU can call on the CSR customer to
6 interrupt service for non-system reliability events. The customer has the option of either
7 curtailing service, or “buying-through” at an above-tariff “Automatic Buy-Through
8 Price.” KU also agreed to an arrangement in which the utility, with the customer’s
9 consent, can remotely shut off a CSR customer’s power during a system reliability event
10 so that the customer is not at risk of violating the non-compliance penalties associated
11 with the CSR tariff. The Commission approved the Stipulation on June 30, 2010.
12

13 **Q. WHAT IS KU’S PROPOSAL REGARDING THE CURTAILABLE SERVICE**
14 **CREDIT IN THIS PROCEEDING?**

15 A. Only about 2 years after entering the above-mentioned Stipulation with its curtailable
16 customers, KU is now proposing to reduce the curtailable credit for CSR10 primary
17 voltage customers by about half (from \$ 5.50/kVa to \$2.80/kVa). When combined with
18 the base rate increases proposed by KU, the proposed reduction in the CSR credit would
19 result in an approximately 19.8% rate increase to NAS.
20

21 **Q. IS KU PROPOSING OTHER CHANGES TO THE CURTAILABLE SERVICE**
22 **RIDER?**

23 A. Yes, the current CSR tariff allows KU to curtail service to CSR customers up to 100
24 hours per year without a customer buy-through option only during emergencies. KU
25 proposes to do-away with the emergency provision and allow KU to curtail 100 hours of
26 service each year for any reason, without a customer buy-through option.
27

28 **Q. HOW WOULD KU’S PROPOSED CHANGES TO THE CURTAILABLE**
29 **TARIFF IMPACT NAS?**
30

1 A. In addition to the obvious hardship that would be imposed by a 19.8% rate increase to
2 NAS, the proposed changes to the provisions increasing from zero (0) to 100 the
3 permissible hours of unconditional physical curtailment would result in an abrupt change
4 to NAS's operations and would be extremely detrimental to NAS's business plan.

5
6 KU's proposal would eliminate the provision that allows KU to curtail service only for
7 "system reliability events" up to 100 hours per year and replace it with a provision that
8 would allow KU to curtail service for any reason, without a customer buy-through option,
9 would greatly weaken NAS's ability to plan its Arc Furnace operations. NAS
10 understands that it will sometime be called on to interrupt its operations in an emergency
11 or when the system is overly constrained, etc., but it is not reasonable for KU to interrupt
12 NAS's operations for an economic opportunity for KU or for other non-reliability reasons
13 without giving NAS the opportunity to maintain its operations via a buy-through option.
14 KU already enjoys the ability to collect higher buy-through revenue from curtailable
15 customers for 275 hours per year; if the buy-through price is prohibitively expensive,
16 those hours would be lost to NAS. Permitting the addition of another 100 hours of
17 physical curtailment during which NAS would have no buy through option represents lost
18 productive hours for NAS.

19
20 One purpose of curtailable service is to avoid the cost of peaking capacity and to provide
21 the system relief when there is an emergency or constraint. It serves no legitimate
22 purpose to allow KU to interrupt a customer for any reason that it sees fit. It will only
23 weaken NAS's ability to compete in the highly competitive stainless steel market and
24 thereby weaken the Kentucky economy.

25
26 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

27 **A. Yes.**

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: Case No. 2012-002221
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:

AFFIDAVIT OF MARY JEAN RILEY

STATE OF KENTUCKY)
) SS:
COUNTY OF CARROLL)

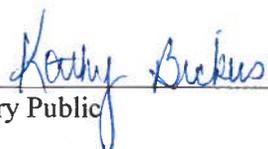
Mary Jean Riley being first duly sworn deposes and states that:

1. She is Vice President – Finance & Administration and Treasurer of North American Stainless;
2. She is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Mary Jean Riley;"
3. Said testimony was prepared by her and under her direction and supervision;
4. If inquiries were made as to the facts in said testimony she would respond as therein set forth; and
5. The aforesaid testimony is true and correct to the best of her knowledge, information and belief.



Mary Jean Riley

Subscribed and sworn to or affirmed before me this 24th day of September, 2012, by Mary Jean Riley.



Notary Public