

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

Application of Kentucky Utilities Company for an	:	
Adjustment of Its Electric Rates and for Certificates of	:	<b>Case No. 2016-00370</b>
Public Convenience and Necessity.	:	
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Application of Louisville Gas & Electric Company for	:	
an Adjustment of Its Electric and Gas Rates and for	:	<b>Case No. 2016-00371</b>
Certificates of Public Convenience and Necessity.	:	

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**POST-HEARING BRIEF OF  
KENTUCKY INDUSTRIAL UTILITY CUSTOMERS, INC.**

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Kentucky Industrial Utility Customers, Inc. (“KIUC”) submits this Brief in support of its recommendations to the Kentucky Public Service Commission (“Commission”). The members of KIUC who are participating in this proceeding are: AAK, USA K2, LLC, Air Liquide Industrial U.S. LP, Alliance Coal, LLC, Carbide Industries LLC, Cemex, Corning Incorporated, Clopay Plastic Products Co., Inc., Dow Corning Corporation, Ford Motor Company, Ingevity, Lexmark International, Inc., North American Stainless, The Chemours Company, and Toyota Motor Manufacturing, Kentucky, Inc. These companies purchase electricity from Kentucky Utilities Company and Louisville Gas & Electric Company (collectively, “KU-LG&E” or “Companies”).

**ARGUMENT**

**I. The Commission Should Approve the Settlement.**

On April 19, 2017, KU-LG&E filed a Stipulation and Recommendation in the above-captioned proceedings (“Stipulation”) signed by the Companies, Association of Community Ministries, Inc., Attorney General of the Commonwealth of Kentucky, by and through its Office of Rate Intervention, Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc., United States Department of Defense and All Other Federal Executive Agencies, Kentucky League of Cities, The Kroger Company, Kentucky

School Boards Association, Lexington-Fayette Urban County Government, Louisville/Jefferson County Metro Government, Metropolitan Housing Coalition, Sierra Club, Alice Howell, Carl Vogel and Amy Waters, JBS Swift & Co., Wal-Mart Stores East, LP and Sam's East, Inc., and KIUC. On May 1, 2017, KU-LG&E filed a Second Stipulation and Recommendation ("Second Stipulation") signed by the Companies, BellSouth Telecommunications, LLC d/b/a AT&T Kentucky, and Kentucky Cable Telecommunications Association. Both the Stipulation and the Second Stipulation (collectively, the "Settlement") are the products of a serious and lengthy bargaining process and reflect a reasonable resolution of these proceedings to which all parties can unanimously agree.

**A. The Overall Settlement Package Is Reasonable And Benefits Kentucky Customers.**

The Settlement is far superior to KU-LG&E's litigation position and provides multiple benefits to customers in the Companies' service territory. The largest benefit stems from the Settlement provisions reducing KU's revenue requirement increase to \$54.9 million (53%) of its requested amount of \$103.1 million, and reducing LG&E's electric revenue requirement increase to \$59.4 million (63%) of its requested amount of \$94.1 million.<sup>1</sup> This includes the Companies' agreement to a 9.75% return on equity rather than their proposed 10.23%, which reduces the Companies' proposed electric rate increase by \$15.3 million for KU and \$10.1 million for LG&E.<sup>2</sup>

Within the Settlement, the Companies also agree to withdraw their requests for certificates of public convenience and necessity and cost recovery for the proposed full deployment of Advanced Metering Systems ("AMS") - a proposal that was highly unpopular with customer representatives.<sup>3</sup> Withdrawal of the Companies' AMS proposal reduces KU's rate increase by \$6.3 million and LG&E's electric rate increase by \$5.2 million.<sup>4</sup> Additionally, by revising KU-LG&E's depreciation rates as agreed upon in the Settlement, the proposed KU rate increase is reduced by \$14.7 million and the proposed LG&E increase is reduced by \$10.1 million. The revised

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<sup>1</sup> Stipulation at 8.

<sup>2</sup> Id. at 8.

<sup>3</sup> Id. at 5; Direct Testimony and Exhibits of Lane Kollen (March 3, 2017) at 6:12-12:1; Direct Testimony of Paul Alvarez (March 3, 2017).

<sup>4</sup> Stipulation at 5.

depreciation rates also impact the Companies' current Environmental Cost Recovery ("ECR") rates, leading to a \$19.1 million decrease in the KU ECR rate and a \$16.8 million decrease in the LG&E ECR rate.<sup>5</sup> Moreover, the inclusion of KU's refined coal project revenues from the Ghent Generating Station, updates to the five-year average for uncollectible debt expense, agreement to use an eight-year average of generator outage expenses, and adjustment to reflect differences between past projected and historical capital amounts for construction work in progress benefit customers as well by significantly reducing the Companies' proposed electric rate increases.

Beyond the overall electric revenue requirement reductions, the Settlement sets forth the Companies' agreement to a much smaller increase in their electric Basic Service Charge than proposed, which is responsive to the concerns of several parties to these proceedings.<sup>6</sup> And it achieves a suitable resolution on the LG&E gas and pole attachment tariff issues raised by multiple parties.<sup>7</sup> Further, the Settlement outlines several other benefits to specific groups:

- withdrawal of the Companies' proposal to bifurcate residential and general service electric energy charges;<sup>8</sup>
- a voluntary sports field lighting pilot rate;<sup>9</sup>
- KU-LG&E's commitment to file a study concerning the impacts of 100% base demand ratchets for rate Time of Day Secondary in the Companies next base rate cases;<sup>10</sup>
- a 60-minute exemption from setting billing demand for Time of Day Primary customers with their own generation immediately following a utility system fault;<sup>11</sup>
- an optional pilot rate for schools;<sup>12</sup>
- KU-LG&E's commitment to apply for a two-year extension of the School Energy Managers Program;<sup>13</sup>

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<sup>5</sup> Id. at 8; Stipulation Testimony of Kent W. Blake (April 24, 2017) at 9:8-10:8.

<sup>6</sup> Stipulation at 11; Direct Testimony of Glenn A. Watkins on behalf of the Office of the Attorney General at 51:22-64:31; Direct Testimony of Jonathan Wallach on behalf of Sierra Club, Alice Howell, and Carl Vogel (March 3, 2017) at 4:4-16:4; Direct Testimony of Malcolm J. Ratchford on behalf of Community Action Council for Lexington-Fayette, Bourbon, Harrison, and Nicholas Counties, Inc. at 12:13-13:12.

<sup>7</sup> Stipulation at 8-10; Second Stipulation at 4-5.

<sup>8</sup> Stipulation at 15.

<sup>9</sup> Id. at 14.

<sup>10</sup> Id. at 15.

<sup>11</sup> Id. at 15.

<sup>12</sup> Id. at 15-16.

<sup>13</sup> Id. at 16-17.

- KU-LG&E's commitment to file a lead-lag study in the Companies next base rate cases;<sup>14</sup>
- KU-LG&E's commitment to fund a study concerning economical deployment of electric bus infrastructure in the Louisville and Lexington areas;<sup>15</sup>
- establishment of a collaborative to discuss issues related to LED street lighting;<sup>16</sup>
- An increase in KU's monthly residential charge for the Home Energy Assistance ("HEA") program through June 30, 2021 and continuance of LG&E's HEA charge through the effective date of rates set in the next base rate cases;<sup>17</sup> and
- \$1.45 million of shareholder funds per year for low-income customers through June 30, 2021.<sup>18</sup>

Hence, for multiple parties, the Settlement provides a favorable outcome that may be superior to the outcome that would have resulted from fully litigating these proceedings.

**B. The Settlement Provisions Modifying The Companies' Curtailable Service Rider Allow For Greater Reliability At Lower Cost.**

Under the Settlement, several changes are made to the Companies' Curtailable Service Rider ("CSR") in order to improve reliability. A two-tier CSR structure is established under which eligible customers can choose to receive a rate credit 50% lower than current levels if they comply with tariff terms and conditions very similar to the current CSR tariff requirements. Alternatively, eligible customers who wish to receive a higher rate credit (\$6.00 per KVA-month for primary customers and \$5.90/kVa-month for transmission customers) would be required to subject themselves to more stringent requirements. Specifically, the Companies could request physical curtailment of those customers when more than 10 of the Companies' primary combustion turbines (with capacity greater than 100 MW ) are being dispatched, irrespective of whether the Companies are making off-system sales, or pay to buy-through the requested curtailment. If the Companies make a physical curtailment request, the participating CSR customer would have 10 minutes to determine whether to curtail or to buy-through the curtailment. If the customer did not or could not buy-through, they would have a total of 40 minutes to

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<sup>14</sup> Stipulation at 17.

<sup>15</sup> Id. at 17.

<sup>16</sup> Id. at 17.

<sup>17</sup> Stipulation at 17-18.

<sup>18</sup> Stipulation at 18.

physically curtail. And the Companies could request such physical curtailments up to 20 times per calendar year for up to 100 hours.

The reduced constraints for physical curtailments and shorter notice times effective under this second-tier CSR option (Option B) are tougher on CSR customers than the requirements set forth in the current CSR tariff, but are intended to provide greater reliability for the KU-LG&E system. Nevertheless, the second-tier CSR credit would be \$0.50 lower for both primary and transmission customers than the current credit. Consequently, if the portions of the Settlement addressing the CSR are approved as written, other customers funding the CSR credits would be receiving greater reliability at a lower cost than under current circumstances. Moreover, the proposed level of the CSR credits set forth in the Settlement is solidly within the range of reasonableness. A review of the interruptible rate credits offered by several utilities with service areas reasonably close to KU-LG&E reveals that those utilities offer interruptible credits ranging from \$3.68/kW to \$8.61/kW.<sup>19</sup> Indeed, the Companies' own BIP cost allocation methodology indicates that CSR credits of \$9.11/kW-month and \$9.44/kW-month are justified for transmission and primary customers of the combined companies, respectively.<sup>20</sup>

Establishment of the two-tiered CSR credit as set forth in the Settlement is not only reasonable, but critical for economic development efforts in the KU-LG&E service territory. By agreeing to purchase a "different, lower quality product" (i.e. interruptible capacity) through the CSR, large industrial manufacturers provide multiple benefits to the system. As KIUC witness Dr. Goins explained:

*In general, interruptible load enables a supplier to maximize the value of existing capacity resources and to avoid acquiring new capacity resources. Utilities can also use interruptible load, if permitted, for high-value off-system sales or to mitigate high incremental fuel costs paid by firm customers. Interruptible load creates environmental benefits by helping suppliers avoid the impacts of constructing and operating fossil generation, expands the range of resources available to meet contingencies, and can substitute, in certain cases, for spinning and operating reserves. Interruptible load can even be used to mitigate wholesale price volatility and curb potential market power problems. In addition, the availability of cost-based interruptible service options helps states promote economic development and the retention of manufacturing jobs.<sup>21</sup>*

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<sup>19</sup> Direct Testimony of Dennis W. Goins, Ph.D. on behalf of Kentucky Industrial Utility Customers, Inc. (March 3, 2017) ("Goins Testimony") at 14:4-10.

<sup>20</sup> Id. at Ex. DWG-3.

<sup>21</sup> Id. at 8:22-9:9.

In exchange for providing those important benefits and curtailing their operations on short notice, manufacturers receive a CSR credit that helps them control production costs and maintain or improve their competitive position in national and global markets. And manufacturers are dependent upon such interruptible load programs and credits. Unlike commercial customers, who typically compete solely on a local basis, large manufacturers face both national and international competition. As Dr. Goins testified, manufacturers *“need reasonable and fairly priced interruptible rate portions that provide mutual benefits to them, their suppliers, and firm customers.”*<sup>22</sup>

Several KIUC witnesses representing large industrial customers in KU-LG&E’s service territory explained the adverse impacts on their businesses of a substantial reduction or loss of the CSR credits.

Mary Jean Riley, Vice President-Finance & Administration & Treasurer of North American Stainless (“NAS”), described how a significant rate increase to her company stemming from major CSR reductions would hinder its ability to compete with steel manufacturers in countries like China who receive subsidies and with domestic competitors in Alabama who receive below-market electric rates.<sup>23</sup> In addition, NAS routinely provides value to other customers by responding to KU’s curtailment calls under the Fluctuating Load Service tariff, physically interrupting its operations 43 times in 2015 and 26 times in 2016.<sup>24</sup>

Similarly, Michael Simons, General Manager of Carbide Industries LLC’s Louisville Calcium Carbide manufacturing facility (“Carbide”), testified that the reduction of the CSR credit initially proposed by the Companies alone would increase Carbide’s electric power cost by 9%.<sup>25</sup> This would undermine Carbide’s ability to participate in the highly competitive yet declining calcium carbide market, which includes competitors from China, South America, and South Africa that can take advantage of the large gap in exchange rates between the

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<sup>22</sup> Id. at 10:8-10.

<sup>23</sup> Direct Testimony of Mary Jean Riley on behalf of Kentucky Industrial Utility Customers, Inc. (March 3, 2017) (“Riley Testimony”) at 6:6-15.

<sup>24</sup> Riley Testimony at 4:5-6.

<sup>25</sup> Direct Testimony of Michael Simons on behalf of Kentucky Industrial Utility Customers, Inc. (March 3, 2017) (“Simons Testimony”) at 3:22-23.

U.S. dollar and their national currencies.<sup>26</sup> Significant rate increase could also result in some part of Carbide's Kentucky facility production moving to the company's Oklahoma operations.<sup>27</sup>

Finally, Mark Watson, Vice-President of Operations for Alliance Coal, LLC ("Alliance"), explained how cutting the CSR credit in half would increase Alliance's electrical cost by 8.45%,<sup>28</sup> undercutting its ability to compete in Kentucky's signature industry, which already suffered substantial declines (e.g. 65% from 2008 to 2016).<sup>29</sup>

In his February 8, 2017 State of the Commonwealth speech, Governor Bevin said that the policy of his Administration is to develop and attract manufacturing jobs in Kentucky. Specifically, Governor Bevin affirmed that it is his vision "*that Kentucky becomes the hub of excellence for engineering and manufacturing in America.*"<sup>30</sup> The Settlement provisions retaining the modified CSR help to facilitate this vision by bolstering the competitiveness of large manufactures in the Commonwealth.

## **II. If the Commission Modifies The Revenue Requirement Or Cost Allocation Proposed In The Settlement, Any Changes Should Be Used To Decrease Rates For The Residential And Large Industrial Rate Classes.**

While KIUC believes that the full Settlement package is reasonable and should be approved without modification, it is possible that the Commission may alter either the revenue requirement or cost allocation set forth in the Settlement. If the Commission does so in a manner that necessitates decreasing the rates otherwise proposed for the various rate classes, then the Commission should use any incremental revenue decreases to lower the proposed rates for the residential and large industrial (Time of Day Primary, Retail Transmission Service, and Fluctuating Load Service) rate classes. Specifically, 50% of any incremental revenue decreases

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<sup>26</sup> Simons Testimony at 4:4-9.

<sup>27</sup> Simons Testimony at 4:13-20.

<sup>28</sup> Direct Testimony of Mark Watson on behalf of Kentucky Industrial Utility Customers, Inc. (March 3, 2017) ("Watson Testimony") at 4:19-21.

<sup>29</sup> Watson Testimony at 5:1-12.

<sup>30</sup> Riley Testimony at 6:17-20 (citing State of the Commonwealth Address of Governor Matt Bevin (February 8, 2017), available at <https://www.ket.org/episode/KSOTC%20002901/>; Stipulation Testimony of Robert M. Conroy (April 24, 2017) at 6:18-7:1 (the modified CSR credits "*are consistent with Gov. Bevin's emphasis on making Kentucky a leader in manufacturing.*").

should be used to lower the otherwise applicable residential rates and the other 50% should be used to lower the otherwise applicable rates for the large industrial rate classes.

It is reasonable to use half of any incremental revenue decreases to offset the otherwise applicable increase to residential customers because those customers are scheduled to pay above-average rate increases under the Settlement. And with respect to the large industrial customers, lowering their otherwise applicable rate increases would bolster economic development in Kentucky. The Commonwealth benefits when large manufacturers in Kentucky are prosperous. Indeed, for every direct manufacturing job in Kentucky, there are 2.6 indirect jobs created.<sup>31</sup> Mitigating potential rate impacts on large electric-intensive manufacturers in Kentucky is also important given the vulnerability of those manufacturers to rate increases. A recent report by the Kentucky Energy and Environment Cabinet described how Kentucky has “*the most electricity-intensive economy in the United States.*” The report also emphasized the importance of low electric rates to the Commonwealth’s economy:

*Kentucky’s electricity-intensive manufacturing economy is threatened by increasing electricity prices. While the price of electricity is only one of several factors influencing industrial location decisions, Kentucky’s historically low and stable electricity prices have fostered the most electricity-intensive economy in the United States. In the twenty-first century, the bulwark of the Kentucky economy is clearly manufactured goods—the Commonwealth’s single largest source of economic activity.*<sup>32</sup>

The report concluded that:

*Given a 25% forecasted increase in the real price of electricity in Kentucky between 2011 and 2025, this study estimates the Commonwealth will likely lose, or fail to create, approximately 30,000 full-time jobs in the long-term. Manufacturing establishments were found to be most responsive to changes in electricity prices and can be expected to permanently shed 17,500 full-time jobs.*<sup>33</sup>

Accordingly, given their sensitivity to rate increases and their positive impacts on Kentucky’s economy, it is reasonable to use half of any incremental revenue decreases to mitigate rate impacts on large electric-intensive manufacturers in the Commonwealth.

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<sup>31</sup> KIUC Response to Kentucky Utilities Company and Louisville Gas and Electric Company’s Initial Request for Information, Response No. 3 at 5.

<sup>32</sup> KIUC Response to Kentucky Utilities Company and Louisville Gas and Electric Company’s Initial Request for Information, Response No. 3 at 6 (citing *The Vulnerability of Kentucky’s Manufacturing Economy to Increasing Electricity Prices* (October 2012), available at

<http://energy.ky.gov/Programs/Documents/Vulnerability%20of%20Kentucky%27s%20Manufacturing%20Economy.pdf>.

<sup>33</sup> Id. at 5-6.



## CONCLUSION

**WHEREFORE**, the Commission should approve the proposed Settlement without modification. However, should the Commission alter the Settlement, the Commission should direct that any incremental revenue reductions be used to decrease rates for the residential and large industrial rate classes on a 50/50 basis.

Respectfully submitted,



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