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PSC Approves Renewable Power Agreements Between LG&E/KU and Two Corporate Customers—Toyota and Dow

FRANKFORT KY (May 8, 2020)—The Public Service Commission (PSC) today approved in part an application filed jointly by Louisville Gas and Electric Company (LG&E) and Kentucky Utilities Company (KU) to enter into renewable power agreements (RPA) to provide solar power to Toyota Motor Manufacturing, Kentucky, Inc. (Toyota) and Dow Silicones Corporation (Dow).

In the January 23, 2020, application, LG&E/KU requested approval of a 20-year power purchase agreement (PPA) to purchase the energy from the 100 megawatt (MW) solar generation facility that Rhudes Creek Solar, LLC (Rhudes Creek Solar), will construct in Hardin County, Kentucky. Rhudes Creek Solar is a wholly owned subsidiary of ibV Energy Partners.

The PPA with Rhudes Creek Solar and the RPAs with Toyota and Dow were entered into under LG&E/KU's Green Tariff Option #3, which was approved in the utilities' most recent rate cases. Among its provisions, the Green Tariff allows LG&E/KU to meet large corporations' request for new renewable energy—energy from generation that would not have been constructed absent the sustainability goals of the corporation. Without the PPA with Rhudes Creek, LG&E/KU do not have the renewable generation resources to meet the sustainability goals of Toyota and Dow.

As reiterated in the Order, the PSC agrees that renewable energy resources should be available to help corporations meet sustainability goals as an economic development tool for the Commonwealth, as long as special contracts entered into between a utility and a corporate customer do not increase costs for the utility's non-participating customers. The PSC ordered changes to the proposed RPAs to ensure there will not be a cost shift to other customers of LG&E/KU, including provisions that Toyota and Dow continue to pay for legacy assets.

Per the RPAs, Toyota will purchase 50 percent and Dow 25 percent of the energy produced by the solar generation facility. The remaining 25 percent of energy will be allocated to LG&E/KU's existing customers. Thus, LG&E/KU will be provided the opportunity to propose that the costs of the energy minus any revenue from the sale of renewable energy credits (RECs) of the 25 percent portion be passed through LG&E/KU's Fuel Adjustment Clause (FAC).

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The Order directs LG&E/KU to document fuel cost savings and REC revenues in monthly FAC filings to ensure the energy from the PPA is cost-beneficial. In addition, over the long-term, the PSC will review fuel and energy purchases in general rate cases and FAC proceedings.

The Order directs that in its next rate proceeding, KU (the utility Toyota and Dow take service from) must demonstrate that no re-allocation of costs has occurred or will occur as a result of the RPAs. This demonstration will be a continuing requirement for all rate cases as long as the Green Tariff Option #3 and the special contracts approved under it are in effect.

The PSC also approved proposed amendments to the Green Tariff, allowing for an increase from a system cumulative of 50 MW to 125 MW each for LG&E and KU in future RPAs. The PSC has directed LG&E and KU to add terms to the Green Tariff Option #3 to establish clear guidelines and standards of review for future RPAs. These guidelines are intended to provide regulatory certainty for corporate customers.

The Attorney General, by and through the Office of Rate Intervention, was the only intervenor in this case. No hearing was conducted. An informal conference was conducted on March 10, 2020, to discuss the applicable legal standard of review for the PPA. Details of the standard of review are provided in the Order.

Today's Order and other case records are available at psc.ky.gov. The case number is 2020-00016.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,100 gas, water, sewer, electric and telecommunication utilities operating in Kentucky.

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