

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

IN THE MATTER OF: ELECTRONIC APPLICATION OF :  
KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT : **Case No. 2016-00370**  
OF ITS ELECTRIC RATES AND FOR CERTIFICATES OF :  
PUBLIC CONVENIENCE AND NECESSITY :

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**DIRECT TESTIMONY OF**  
**MARY JEAN RILEY**  
**ON BEHALF OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS**

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**I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is Mary Jean Riley. I am the Vice President - Finance & Administration &  
4 Treasurer of North American Stainless ("NAS"). My business address is 6870 Highway  
5 42 East Ghent, KY 41045.

6  
7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
8 **BACKGROUND.**

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

11  
12 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

1 A. I am appearing on behalf of Kentucky Industrial Utility Customers (“KIUC”). NAS is a  
2 member of KIUC. Founded in 1990, NAS has undertaken several phases of expansion to  
3 become the only fully integrated stainless steel producer in the U.S. NAS directly  
4 employs about 1,425 people at its Ghent, Kentucky facility in Carroll County, and over  
5 500 contractors are indirectly employed on an ongoing basis there. These are high-  
6 paying, family supporting jobs that contribute multiples of their direct salary to the  
7 economy of the Commonwealth.

8  
9 NAS is served under the Curtailable Service Rider (“CSR”) by Kentucky Utilities  
10 Company (“KU”).

11

12 **Q. WHAT ATTRACTED NAS TO CARROLL COUNTY KENTUCKY?**

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

17

18 **Q. DOES NAS HAVE A CLOSE WORKING RELATIONSHIP WITH KU AS KU’S**  
19 **LARGEST MANUFACTURING CUSTOMER?**

20 A. Yes, our engineers have worked closely with KU on several occasions both assisting in  
21 scheduling shutdowns for KU reliability improvements in Ghent as well as providing  
22 mutual assistance in times of need. Over the past several years, communication channels  
23 have improved between NAS and KU for each side to better understand the operation of

1 NAS and thus allowing for better control of the grid. Recently KU management has  
2 toured NAS, and NAS representatives have toured several utility facilities including the  
3 KU/LG&E operations center in Simpsonville. Both sides have reached out in order to  
4 improve communication, specifically during reliability events where we need to be in  
5 direct communication with the operations center.

6  
7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. My Testimony addresses how KU's proposal to cut the CSR credits in half will impact  
9 the competitive position of non-firm manufacturing customers like NAS. NAS operates  
10 two electric arc furnaces in KU's service territory. These furnaces are ideal for providing  
11 KU with a large block of capacity during system emergencies because they can be  
12 quickly and safely shut down freeing KU to serve firm load.

13  
14 I am not an expert in curtailable service economics and pricing. KIUC witness Dennis  
15 Goins addresses the economics and pricing of curtailable service in his Direct Testimony  
16 and I defer to Mr. Goins on those issues.

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

19 A. NAS operates two, 100 MW Electric Arc Furnaces at its Carroll County facility. The  
20 current CSR tariff provides that NAS' curtailable load can be shut down on 60 minutes  
21 notice.

1 NAS' electric arc furnaces are also served on KU's Fluctuating Load Service ("FLS")  
2 tariff. The FLS tariff allows KU to physically interrupt NAS' FLS load up to 20 times  
3 per month for up to 10 minutes at a time, which temporarily stops NAS' steelmaking  
4 activity. The FLS tariff requires KU to notify NAS 5 minutes prior to such an  
5 interruption of service. KU routinely calls on NAS to physically interrupt its FLS load  
6 per the terms of that tariff. NAS was interrupted 43 times in 2015 and 26 times in 2016.  
7

8 **Q. DOES NAS NEED FIRM ELECTRIC SERVICE IN ORDER TO**  
9 **SUCCESSFULLY OPERATE ITS ELECTRIC ARC FURNACES?**

10 A. No, electric arc furnaces use an immense amount of electric power, however they can  
11 quickly and safely be shut down when the utility needs additional capacity. Therefore,  
12 we don't need firm service for our two electric arc furnaces and from a competitive  
13 standpoint, we cannot pay for firm service for our arc furnaces. All or nearly all of the  
14 electric arc furnaces operating in the United States today provide reserve capacity to the  
15 grid through a curtailable service provision similar to KU's CSR. In fact, I am not aware  
16 of a single electric arc furnace operating in the United States today that does not take  
17 non-firm service in exchange for a curtailable service credit. This is the industry  
18 standard. Any steel producer operating an electric arc furnace either without a curtailable  
19 credit or with an insufficient curtailable credit would be at a distinct competitive  
20 disadvantage.

21  
22 For the remainder of NAS' load, (that is the portion of NAS' electric service that is not  
23 serving the two electric arc furnaces) NAS needs firm service and is willing to pay the

1 higher price for firm service. But it is critical that KU continue to offer non-firm service  
2 for NAS' arc furnaces and to fairly discount this lower quality service through a CSR  
3 credit that recognizes the system benefits provided by interruptible customers.  
4

5 **Q. WHAT IS KU'S PROPOSAL REGARDING CURTAILABLE SERVICE IN THIS**  
6 **PROCEEDING?**

7 A. KU is proposing to drastically scale back the benefits of the CSR by cutting customer  
8 credits roughly in half; from \$6.40 per kVA of curtailable billing demand to \$3.20 per  
9 kVA for transmission voltage customers.  
10

11 **Q. HOW WOULD THE PROPOSED REDUCTION IN THE CSR CREDIT IMPACT**  
12 **NAS' TOTAL POWER BILL FROM KU?**

13 A. It is important to recognize that a decrease in the CSR credit is a rate increase to  
14 interruptible customers because a reduction in the CSR credit has the direct effect of  
15 raising NAS' total power bill. Coupled with KU's proposed general rate increase to the  
16 RTS and FLS rates on which NAS takes service, cutting the CSR credit in half amounts  
17 to a total rate increase of 22.8% or \$11.6 million per year for NAS. KU's proposed  
18 22.8% rate increase for NAS is more than 3.5 times higher than KU's proposed 6.4%  
19 average rate increase for customers across the KU system.  
20

21 **Q. DID KU PROVIDE NAS WITH ANY NOTICE THAT THEY INTENDED TO**  
22 **PROPOSE TO CUT THE CSR CREDIT IN HALF?**

1 A. No, NAS was first informed that KU would seek this reduction in the CSR credit when  
2 we reviewed KU's rate case filing. It is highly unusual for any of our vendors to seek  
3 such a dramatic increase in the price of the raw materials that NAS uses in its production  
4 process without first consulting the customer.

5  
6 **Q. HOW WOULD THE IMPOSITION OF A 22.8 PERCENT ELECTRIC SERVICE**  
7 **INCREASE IMPACT NAS' ABILITY TO COMPETE IN THE**  
8 **INTERNATIONAL STAINLESS STEEL MARKET?**

9 A. NAS competes in a world-wide market to sell stainless steel. NAS' competitors include  
10 countries like China, which heavily subsidizes its manufacturing industries with  
11 substantial incentives including cheap electrical power. Closer to home, one of NAS's  
12 competitors in Alabama enjoys a substantially below-market electric rate as part of its  
13 incentive package to locate there. Allowing KU to increase NAS' total electric bill by  
14 22.8% would reduce NAS' ability to compete against these and other stainless steel  
15 manufacturers, who enjoy substantial support from their electrical utilities.

16  
17 In his February 8, 2017 State of the Commonwealth speech, Governor Bevin stated that it  
18 is the policy of his Administration to develop and attract manufacturing jobs in Kentucky.  
19 Governor Bevin stated that it his vision "*that Kentucky becomes the hub of excellence for*  
20 *engineering and manufacturing in America.*"<sup>1</sup> KU's proposal to halve the CSR credit and  
21 impose a rate increase on large manufacturing customers several times greater than the  
22 system average undercuts this policy.

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<sup>1</sup> State of the Commonwealth Address of Governor Matt Bevin (February 8, 2017).  
<http://governor.ky.gov/Pages/2017SOTC.aspx>

1  
2 **Q. KIUC WITNESS DENNIS GOINS RECCOMENDS A POST-RATE CASE**  
3 **WORKING GROUP OF INTERESTED STAKEHOLDERS TO ADDRESS THE**  
4 **CONCERNS THE COMPANIES HAVE RAISED REGARDING CSR. WHAT**  
5 **SPECIFIC ISSUES WOULD NAS RAISE IN THIS WORKING GROUP?**

6 **A.** For customers on FLS, the short-term physical curtailments authorized under the tariff (5  
7 minute notice, 10 minute duration, up to 20 physical curtailments per month) and the  
8 long-term physical curtailments authorized under CSR (60 minute notice, up to 14 hours  
9 per calendar day, 100 hours of physical curtailment per year) should be looked at as a  
10 package. From NAS' perspective, KU's proposal to cut the CSR credit in half without  
11 changing the provisions surrounding the FLS short-term physical interruptions would  
12 unreasonably disrupt the economics of the two interruptible services that NAS provides  
13 to the KU/LG&E system. This is the type of issue that is best addressed through a post-  
14 rate case working group.

15  
16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes

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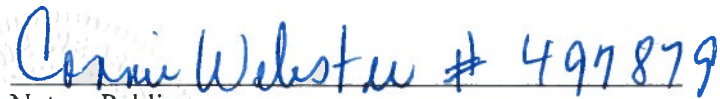
AFFIDAVIT

STATE OF KENTUCKY )  
COUNTY OF CARROLL )

Mary Jean Riley, being duly sworn, deposes and states: that the attached is her sworn testimony and that the statements contained are true and correct to the best of her knowledge, information and belief.

  
\_\_\_\_\_  
Mary Jean Riley

Subscribed and sworn to or affirmed before me  
this 14 day of March, 2017.

  
\_\_\_\_\_  
Notary Public

