

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF: ELECTRONIC APPLICATION OF :
LOUISVILLE GAS & ELECTRIC COMPANY FOR AN : **Case No. 2016-00371**
ADJUSTMENT OF ITS ELECTRIC RATES AND FOR :
CERTIFICATES OF PUBLIC CONVENIENCE AND :
NECESSITY :

DIRECT TESTIMONY OF
MICHAEL SIMONS
ON BEHALF OF KENTUCKY INDUSTRIAL UTILITY CUSTOMERS

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.**

3 A. My name is Michael Simons. I am General Manager of Carbide Industries LLC's
4 Louisville Calcium Carbide manufacturing facility ("Carbide Industries"). My business
5 address is 4400 Bells Lane, Louisville, Kentucky 40211.

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

9 A. I have over 35 years of collective experience operating and managing submerged electric
10 arc furnaces and as a logistical, plant and commercial manager. I have been the general
11 manager for calcium carbide operations for Carbide Industries for 8 years.

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

2 A. I am appearing on behalf of Kentucky Industrial Utility Customers (“KIUC”). Carbide
3 Industries and/or its predecessor Carbide Graphite has been a member of KIUC since
4 1994. Carbide Industries is the only manufacturer of calcium carbide in the United
5 States. We produce calcium carbide for the fuel gas, chemical and steel/foundry
6 industries at our Louisville facility. Carbide Industries also manufactures acetylene from
7 calcium carbide for the chemical industry as an intermediate for downstream specialty
8 products at our Calvert City, KY facility. Carbide Industries has approximately 120
9 employees at our Louisville facility and 25 employees at our Calvert City, KY facility.

10

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. Carbide Industries has participated in the Curtailable Service Rider (“CSR”) program
14 since its formation in 2002. Our predecessor company (Carbide Graphite) participated in
15 the CSR program for many years prior to that. My Testimony addresses the impact of
16 LG&E’s proposal to cut the CSR credits in half; from \$6.40 per kVA of curtailable
17 billing demand to \$3.20 per kVA for transmission voltage customers.

18

19 **Q. WHAT PORTION OF CARBIDE INDUSTRIES’ LOAD IS CURTAILABLE?**

20 A. Carbide Industries operates a submerged electric arc furnace with an engineering limit in
21 excess of 50 megawatts. Its average operating load for 2016 was scheduled for 30
22 megawatts, minus scheduled maintenance and unscheduled shutdowns. This arc furnace
23 takes serve on Rate RTS and is subject to interruptions per the CSR Rider. Our arc

1 furnace can safely shed 30 MW of load on five minute's notice and is thus ideally suited
2 to provide emergency capacity to the LG&E and KU system. The electric arc furnace
3 does not need firm electric service. We can operate it profitably with an occasional
4 interruption in exchange for a reasonably-priced CSR credit that recognizes the value of
5 the reserve capacity provided by lower-quality, non-firm service.

6
7 **Q. HOW HAS THE HISTORICALLY LOW COST OF ELECTRIC POWER IN**
8 **KENTUCKY INFLUENCED CARBIDE INDUSTRIES' INVESTMENT**
9 **DECISIONS IN THE PAST?**

10 A. Carbide Industries made the decision in 2014, due to favorable conditions in Kentucky, to
11 consolidate the production of calcium carbide by ceasing the production and processing
12 of calcium carbide at our facility in Oklahoma and moving that production to our
13 Louisville, KY operation.

14
15 **Q. WOULD CARBIDE BE AT A COMPETITIVE DISADVANTAGE IN ITS**
16 **INDUSTRY IF THE COMMISSION ALLOWED LG&E TO REDUCE THE CSR**
17 **CREDIT BY HALF?**

18 A. Yes. Electric power is classified as a raw material for the production of calcium carbide
19 due to the energy intensive nature of calcium carbide production in a submerged electric
20 arc furnace. Electric power cost represents approximately 1/3 of the cost of raw materials
21 used to produce calcium carbide. The CSR credit is applied against our total cost for
22 electric power. The proposed reduction of the CSR credit alone would increase our
23 electric power cost by 9%. Combined with the general rate increase that LG&E has

1 proposed for the RTS rate schedule our electric power cost would increase by 18%. We
2 view this as a very large rate increase, especially compared to LG&E' proposed system
3 average rate increase of 8.5%.

4 Carbide Industries participates in a highly competitive market with declining market
5 prices as a result of pressure from calcium carbide imports, chemical acetylene, as well as
6 substitute products for calcium carbide from competing manufacturers. We face
7 competition from China, South America and South Africa producers each of which are
8 able to take advantage of the large gap in exchange rates between the U.S. dollar and
9 their national currencies. As a result, the ability for Carbide Industries to pass this
10 additional cost through to the customer in our current business climate is almost non-
11 existent.

12
13 **Q. COULD AN 18 PERCENT RATE INCREASE IMPACT INVESTMENT**
14 **DECISIONS AT CARBIDE INDUSTRIES' LOUISVILLE FACILITY?**

15 A. Yes. Training and employee welfare will continue to remain a high priority for Carbide
16 Industries with or without the CSR., However profitability will be negatively affected
17 possibly resulting in reduced operations spending and reduced investment in new
18 projects. With continued increases in the cost for electric power, Carbide Industries may
19 also have to evaluate the feasibility of resuming operations in Oklahoma and moving
20 some part of that production back to Oklahoma.

1 **Q. KIUC WITNESS DENNIS GOINS RECOMMENDS A POST-RATE CASE**
2 **WORKING GROUP OF INTERESTED STAKEHOLDERS TO ADDRESS THE**
3 **CONCERNS THE COMPANIES HAVE RAISED REGARDING CSR. WOULD**
4 **CARBIDE BE WILLING TO PARTICIPATE?**

5 **A.** Yes, Carbide would appreciate the opportunity to explore CSR related issues and
6 concerns with the LG&E and other interested parties.

7

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes

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COMPANY FOR AN ADJUSTMENT OF ITS ELECTRIC) CASE NO.
AND GAS RATES) 2016-00371

AFFIDAVIT

STATE OF Kentucky)
COUNTY OF Jefferson)

Michael Simons, being duly sworn, deposes and states: that the attached is his sworn testimony and that the statements contained are true and correct to the best of his knowledge, information and belief.

Michael Simons
Michael Simons

Subscribed and sworn to or affirmed before me
this 1st day of March, 2017.

[Signature]
Notary Public