COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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

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

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.
A. My name is Michael Simons. I am General Manager of Carbide Industries LLC's Louisville Calcium Carbide manufacturing facility ("Carbide Industries"). My business address is 4400 Bells Lane, Louisville, Kentucky 40211.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.
A. I have over 35 years of collective experience operating and managing submerged electric arc furnaces and as a logistical, plant and commercial manager. I have been the general manager for calcium carbide operations for Carbide Industries for 8 years.
ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

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

WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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

WHAT PORTION OF CARBIDE INDUSTRIES’ LOAD IS CURTAILABLE?

A.  Carbide Industries operates a submerged electric arc furnace with an engineering limit in excess of 50 megawatts. Its average operating load for 2016 was scheduled for 30 megawatts, minus scheduled maintenance and unscheduled shutdowns. This arc furnace takes serve on Rate RTS and is subject to interruptions per the CSR Rider. Our arc
furnace can safely shed 30 MW of load on five minute’s notice and is thus ideally suited to provide emergency capacity to the LG&E and KU system. The electric arc furnace does not need firm electric service. We can operate it profitably with an occasional interruption in exchange for a reasonably-priced CSR credit that recognizes the value of the reserve capacity provided by lower-quality, non-firm service.

Q. HOW HAS THE HISTORICALLY LOW COST OF ELECTRIC POWER IN KENTUCKY INFLUENCED CARBIDE INDUSTRIES’ INVESTMENT DECISIONS IN THE PAST?
A. Carbide Industries made the decision in 2014, due to favorable conditions in Kentucky, to consolidate the production of calcium carbide by ceasing the production and processing of calcium carbide at our facility in Oklahoma and moving that production to our Louisville, KY operation.

Q. WOULD CARBIDE BE AT A COMPETITIVE DISADVANTAGE IN ITS INDUSTRY IF THE COMMISSION ALLOWED LG&E TO REDUCE THE CSR CREDIT BY HALF?
A. Yes. Electric power is classified as a raw material for the production of calcium carbide due to the energy intensive nature of calcium carbide production in a submerged electric arc furnace. Electric power cost represents approximately 1/3 of the cost of raw materials used to produce calcium carbide. The CSR credit is applied against our total cost for electric power. The proposed reduction of the CSR credit alone would increase our electric power cost by 9%. Combined with the general rate increase that LG&E has
proposed for the RTS rate schedule our electric power cost would increase by 18%. We view this as a very large rate increase, especially compared to LG&E' proposed system average rate increase of 8.5%.

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

Q. COULD AN 18 PERCENT RATE INCREASE IMPACT INVESTMENT DECISIONS AT CARBIDE INDUSTRIES' LOUISVILLE FACILITY?
A. Yes. Training and employee welfare will continue to remain a high priority for Carbide Industries with or without the CSR., However profitability will be negatively affected possibly resulting in reduced operations spending and reduced investment in new projects. With continued increases in the cost for electric power, Carbide Industries may also have to evaluate the feasibility of resuming operations in Oklahoma and moving some part of that production back to Oklahoma.
Q. KIUC WITNESS DENNIS GOINS RECOMMENDS A POST-RATE CASE WORKING GROUP OF INTERESTED STAKEHOLDERS TO ADDRESS THE CONCERNS THE COMPANIES HAVE RAISED REGARDING CSR. WOULD CARBIDE BE WILLING TO PARTICIPATE?

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

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes
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CASE NO. 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

Subscribed and sworn to or affirmed before me this 30th day of March, 2017.

Notary Public