COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of: ELECTRONIC TARIFF OF KENTUCKY UTILTIES COMPANY OF AN AMENDMENT TO A SPECIAL CONTRACT WITH NORTH AMERICAN STAINLESS, INC.	: : : : :	CASE NO. 2020-00090

COMMENTS OF NORTH AMERICAN STAINLESS, INC.
IN SUPPORT OF SPECIAL CONTRACT

Pursuant to the Kentucky Public Service Commission's "(Commission") May 26, 2020 Order, North American Stainless, Inc. ("NAS") submits its Comments in Support of the Special Contract between Kentucky Utilities Company ("KU") and NAS.

BACKGROUND AND APPLICABLE REGULATIONS

NAS is KU's largest customer, accounting for greater than 7% of KU's total energy consumption. Accordingly, the Fuel Adjustment Charge ("FAC") for NAS can vary by hundreds of thousands of dollars from one month to the next. NAS has long believed that a revenue-neutral, levelized FAC would help it manage its costs and cash flow more efficiently than the more volatile FAC that is currently billed per Kentucky's FAC regulation. That Regulation (807 KAR 5:056), requires each utility to charge or credit customers the difference between the actual cost of fuel and the baseline fuel cost that is incorporated in base rates on a monthly basis.

In an effort to help NAS operate more efficiently, KU worked with NAS to craft a Special Contract that provides more price certainty while ensuring that NAS pays the same total charges under the FAC than it would under its current, monthly-variable FAC. On March 9, 2020, KU submitted an Amendment to Contract for Electric Service ("Special Contract") between the utility and NAS that generally provides that

KU will bill NAS an FAC using an annual average fixed fuel factor rather than a monthly FAC rate based upon the most recent actual monthly cost and sales as provided for in the FAC Regulation. Special contracts between a utility and a customer are allowed under 807 Ky. Admin. Regs. 5:011, Section 13 which states that a utility and a customer can enter into a special contract "*that establishes rates, charges, or conditions of service not contained in its tariff*." As KU states in its filing, the Special Contract would afford NAS the opportunity to more effectively budget its energy costs, while ensuring that NAS pays the same total cost for fuel as it would under the standard FAC billing factor determined in KU's monthly Form A filing.

COMMENTS

There Is Good Cause For The Commission To Approve The Special Contract Because It Provides Benefits To NAS At No Expense To KU's Other Customers.

As stated above, Kentucky's FAC Regulation requires each utility to charge or credit customers the difference between the actual cost of fuel and the baseline fuel cost that is incorporated in base rates. The FAC factor changes monthly to reflect the fuel costs incurred two months earlier. In some months the FAC is a charge and in other months it is a credit. Kentucky's monthly-adjusted FAC is different than the more levelized fuel recovery methods used by neighboring states such as West Virginia and Virginia. West Virginia's Expanded Net Energy Cost, and Virginia's fuel factor[1] are typically adjusted and "trued-up" annually so that customers will receive the same fuel charge on their bill for a 12-month period.

There are pros and cons to making month-to-month adjustments to the FAC. The benefits of a monthly variable FAC are that it limits regulatory lag by prescribing a mechanism by which fluctuations in fuel prices, which are a significant and volatile cost in electric generation, may be reflected in customers' bills in a timely manner, subject to Commission oversight, without a more burdensome general rate adjustment proceeding.

[1] Virginia Code § 56-249.6

From NAS's perspective, the drawback of a monthly-adjusted FAC is that customers are not safeguarded from the disruptive volatility of fuel costs. This is particularly problematic for energy-intensive manufacturers like NAS, for whom power costs are a very large expense. For energy-intensive manufacturers, electricity costs are among the most expensive cost items in their budget. As KU's largest customer, the FAC charge for NAS can vary by hundreds of thousands of dollars. So large, unpredictable fluctuations in power costs can cause difficult budgeting and cash-flow problems that are not experienced by manufacturers in states, like West Virginia and Virginia, that make less frequent adjustments to their fuel recovery mechanisms.

Kentucky's FAC structure also causes problems for NAS due to its unpredictability. There is little consistency to the cost or credit from month-to-month and no way for a customer to predict its next FAC charge. The 60-day delay in the time that fuel costs are incurred by the utility and FAC charges are levied on customers prevents customers from attributing fuel costs to production realities. This makes it difficult to analyze power usage in a meaningful way because there is no matching of production usage with FAC costs. As a result, NAS needs to keep cash on hand that may or may not be necessary to pay electric bills. This is an inefficient use of capital. A revenue-neutral, levelized FAC charge would allow NAS to budget more accurately in order to invest capital into maintaining and growing its businesses rather than keeping cash in reserve.

The Special Contract between KU and NAS provides a levelized FAC factor (called the NAS FAC/OSS Factor, or "NFOF"). The NFOF will be recalculated annually based on a comparison of the NFOF to the actual Form A FAC and OSS Factors. Any under- or over-collection of actual FAC and OSS charges from the previous 12-month period will be credited or charged to NAS evenly over the next 12-month period.[2] So while NAS will gain some price-certainty with regard to its FAC under the Special

[2] Amendment to Contracts for Electric Service (March 9, 2020), Para. 4.

Contract, it will not be charged any less in FAC costs in a 12-month period. This ensures that KU's other customers are not harmed by the Special Contract.

NAS appreciates that KU is willing to work with NAS in order to craft a levelized FAC concept that will allow NAS to improve its operations and business planning. Approval of the Special Contract is in the public interest because it will contribute to the continued success of NAS's Kentucky operations while ensuring that NAS pays the same total cost for fuel as it would under the standard FAC billing factor determined in KU's monthly Form A filing.

WHEREFORE, NAS respectfully requests that the Commission approve the Special Contract between KU and NAS.

Respectfully submitted,

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