COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY	**)**	
UTILITIES COMPANY FOR APPROVAL OF	**)**	**CASE NO. 2023-00123**
SPECIAL CONTRACT BETWEEN KENTUCKY	**)**	
UTILITIES COMPANY AND BLUEOVAL SK, LLC	**)**	

RESPONSE OF
KENTUCKY UTILITIES COMPANY
TO
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
DATED JUNE 5, 2023

FILED: JUNE 23, 2023

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **John Bevington**, being duly sworn, deposes and says that he is Director – Business and Economic Development for Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

John Bevington

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 21st day of June 2023.

Caroline J. Davison
Notary Public

Notary Public ID No. KYNP63286

My Commission Expires:

January 22, 2027

CAROLINE J. DAVISON
COMM EXPIRES 01/22/2027
NOTARY PUBLIC
ID # KYNP63286
STATE AT LARGE, KENTUCKY

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Michael E. Hornung**, being duly sworn, deposes and says that he is Manager – Pricing/Tariffs for Kentucky Utilities Company, and an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

Michael E. Hornung

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 15th day of June 2023.

Notary Public

Notary Public ID No. KYNP63286

My Commission Expires:

January 22, 2027

CAROLINE J. DAVISON
NOTARY PUBLIC
STATE AT LARGE KENTUCKY

VERIFICATION

COMMONWEALTH OF KENTUCKY)
)
COUNTY OF JEFFERSON)

The undersigned, **Stuart A. Wilson**, being duly sworn, deposes and says that he is Director – Energy Planning, Analysis & Forecasting for Kentucky Utilities Company, an employee of LG&E and KU Services Company, and that he has personal knowledge of the matters set forth in the responses for which he is identified as the witness, and the answers contained therein are true and correct to the best of his information, knowledge, and belief.

Stuart A. Wilson

Subscribed and sworn to before me, a Notary Public in and before said County and State, this 20th day of June 2023.

Caroline J. Davison
Notary Public

Notary Public ID No. KYNP63286

My Commission Expires:

January 22, 2027

CAROLINE J. DAVISON
COMM EXPIRES 01/22/2027
NOTARY PUBLIC
ID # KYNP63286
STATE AT LARGE, KENTUCKY

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Request for Information
Dated June 5, 2023

Case No. 2023-00123

Question No. 1

Responding Witness: Michael E. Hornung

Q-1. Refer to the Direct Testimony of Michael E. Hornung, (Hornung Direct Testimony), generally. Provide a sample bill for BlueOval SK, LLC (BlueOval SK) for a single month in 2026 once the special contract is in full force. Include in the response an explanation of any assumptions.

A-1. See the attached file provided in Excel format. The file is considered confidential and is being filed under seal pursuant to a Petition for Confidential Protection. KU's billing system currently is not programed yet to produce a bill presentment under the terms of the special contract. The attached spreadsheet contains the billing determinants and billing calculations for the individual projected 12 months of 2026.

Assumptions:

- Power Factor: Provided by BlueOval SK
- Demand and Energy Profile: Provided by BlueOval SK
- Excess Facilities $: Estimated cost provided by KU
- Basic Service Charge: per the Contract
- Energy Charge: per the Contract
- Demand Charges: per the Contract (Confidential)
- DSM: Assumes costumer opt-out
- FAC, OSS, ECR: Reflect historical average billing factors for the 12-months ending June 2023
- RAR: To be assessed in the future
- Franchise Fee: There is currently no Franchise Fee in the area, but this may change in the future
- Excess Facilities: Current KU tariffed rate

The entire attachment is Confidential and provided separately under seal in Excel format.

KENTUCKY UTILITIES COMPANY

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Question No. 2

Responding Witness: Michael E. Hornung / John Bevington

Q-2. Refer to the Hornung Direct Testimony, page 7, lines 13–16 and page 8, lines 1–2.

a. Confirm that the stated 300 MW refers to solar nameplate capacity.

b. To the extent that a contract for the full 300 MW of solar generation is approved and solar energy is provided to BlueOval SK, explain and provide a sample bill illustrating for both the summer and winter season how the bill might change from before the solar energy was provided. Include in the response an explanation of any assumptions.

c. Confirm that it is KU's intent that all of its other customers will be held harmless as a result of KU entering into a bilateral contract to provide solar energy to BlueOval SK. If this cannot be confirmed, explain.

d. Explain the rationale for entering into a bilateral contract for up to 300 MW when BlueOval SK's demand is only 260 MW.

A-2.

a. Confirmed.

b. During the contract negotiation, BlueOval SK expressed a desire to memorialize its intent to obtain renewable energy from KU in the future and KU's agreement to explore options to meet BlueOval SK's goals. The ability to access renewable power was an important consideration in BlueOval SK's selection of Kentucky. As reflected in Article VIII, the parties have not agreed on any specific terms on which solar generation may be provided to BlueOval SK in the future. Without such contract terms, it is not possible to forecast how a hypothetical contract or other arrangement might affect BlueOval SK's billing or what its terms might be.

c. See the response to part (b).

d. The special contract is a negotiated agreement, and the cited provision is one BlueOval SK requested. See the responses to part (b) and Question No. 7.

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Question No. 3

Responding Witness: Michael E. Hornung / John Bevington

Q-3. Refer to the Hornung Direct Testimony, page 9, lines 13–20. From the explanation, it is still not clear why the special contract was not filed under KU's Economic Development Rider (EDR). Provide a specific explanation as to why the special contract does not fit within the parameters of KU's EDR.

A-3. BlueOval SK desired a defined pricing structure and parameters for a long-term agreement. The EDR tariff does not fit this need. BlueOval SK's load characteristics and load factor are not similar to those of customers served under any existing rate schedule. It is therefore not appropriate to provide service to BlueOval SK under any existing rate schedule. The 20-year term, coupled with BlueOval SK's unique load characteristics, led to the negotiated rate design proposed in the special contract.

KU's EDR tariff is a rider designed to apply to qualifying customers served under existing rate schedules, to provide temporary and diminishing demand-charge discounts. Because BlueOval SK's load and load factor are unique and dissimilar to the consumption characteristics of customers served under any existing rate schedule, the EDR tariff is not available. Moreover, even if the rider were applicable, the limited and shorter-term benefits of the EDR tariff would not have been sufficient to attract BlueOval SK to build in Kentucky, along with its $5.8 billion investment and 5,000 direct new jobs.

The special contract in this case is in accord with the Commission's long history of approving special contracts for large customers with unique load characteristics.[1]

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[1] *See, e.g., National Southwire vs. Big Rivers Electric Corporation*, 785 S.W.2nd 503 (Ky. App. 1990); *In the Matter of: Joint Application of Kenergy Corp. and Big Rivers Electric Corporation for Approval Of Contracts and a Declaratory Order*, Case No. 2013-00221 Order (August 14, 2013); *In the Matter of: Joint Application of Kenergy Corp. and Big Rivers Electric Corporation For Approval Of Contracts and a Declaratory Order*, Case No 2013-00413 Order (January 30, 2014); *In the Matter of: East Kentucky Power Cooperative, Inc.'s Filing of a Proposed Contract With Gallatin Steel Company*, Case No. 1994-456, Order (April 14, 1995); *In the Matter of: Electronic Application of Big Rivers Electric Corporation and Meade County Rural Electric Cooperative Corporation for (1) Approval of Contracts for Electric Service with Nucor Corporation; and (2) Approval of Tariff*, Order, Case No. 2019-00365 (August 17, 2020).

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Question No. 4

Responding Witness: Stuart A. Wilson

Q-4. Refer to the Direct Testimony of Stuart A. Wilson, (Wilson Direct Testimony), Table 1, page 5. Provide all supporting calculations and documentation in Excel spreadsheet format, with all formulas, columns, and rows unprotected and fully accessible.

A-4. See attached file provided in Excel format. The requested information is considered confidential and is being filed under seal pursuant to a Petition for Confidential Protection. The BOSKDemandComparison tab compares the BOSK demand revenues to a capacity-weighted share of the costs of the Companies' proposed NGCC at Brown in the ongoing CPCN-DSM proceeding in Case No. 2022-00402.

The entire attachment is Confidential and provided separately under seal in Excel format.

KENTUCKY UTILITIES COMPANY

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Question No. 5

Responding Witness: Stuart A. Wilson

Q-5. Refer to the Wilson Direct Testimony, page 6, lines 1–4.

a. Explain if KU would propose increasing the 0.5 percent annual escalation for the net present value revenue requirements (NPVRR) if BlueOval SK's demand revenues, under the proposed special contract, drastically exceed its marginal production by 2028.

b. Explain the impact the economic environment has on KU's NPVRR.

A-5.

a. KU assumes that the text in the data request, "drastically exceed its marginal production by 2028" was intended to be "drastically exceed its marginal production *demand cost* by 2028."

The billing determinants in the BlueOval SK Special Contract will be subject to future rate increases. The zero and 0.5% annual rate escalation scenarios were developed to demonstrate that BlueOval SK's revenues will exceed its marginal costs even with conservative estimates of future rate growth. The extent to which BlueOval SK's revenues exceed its marginal costs will inure to the benefit of other customers, so a "drastic" exceedance would benefit other customers more than forecasted on page 5 of the Wilson Direct Testimony.

b. KU does not have a projection or forecast of how BlueOval SK's metered demand, and therefore its demand revenues, will correlate with changes in the economy. Generally speaking, presumably a more favorable economic environment would tend to support greater production at the BlueOval SK facility and therefore higher demand revenues. See Appendix A of the BlueOval SK special contract for the demand charge structure.

KENTUCKY UTILITIES COMPANY

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Question No. 6

Responding Witness: Michael E. Hornung

Q-6. Refer to the Application, Exhibit 1, Article VI.

a. Explain why KU proposes to limit any increases in the demand charges to the percentage increase for Rate Retail Transmission Service (RTS) demand charges, given that the stated reason for the special contract demand rates is that BlueOval SK and Rate RTS customers' load and consumption characteristics are significantly different.

b. Explain whether KU anticipates including BlueOval SK in future cost-of-service studies.

A-6.

a. This provision provides BlueOval SK with some long-term pricing parameters and structure without requiring re-negotiation of those demand rates at specified intervals throughout the 20-year term of the contract. Referencing rate RTS as a cap on demand rate increases *on a percentage basis* does not mean that BlueOval SK's load and consumption characteristics are like the characteristics of customers taking service under rate RTS. BlueOval SK's load and consumption characteristics are not like the consumption characteristics of customers taking service under rate RTS. The difference in load characteristics between BlueOval SK and customers taking service under rate RTS and the associated cost of service is reflected in the negotiated demand rates, as discussed in the response to Question No. 3. Relating future changes to BlueOval SK's demand rates by reference to future changes in rate RTS on a percentage basis will preserve the distinction between BlueOval SK's demand rates and those applicable to rate RTS customers.

b. Yes, upon Commission approval of the special contract for electric service, KU will include BlueOval SK in all subsequent cost-of-service studies.

KENTUCKY UTILITIES COMPANY

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Question No. 7

Responding Witness: Michael E. Hornung / John Bevington

Q-7. Refer to the Application, Exhibit 1, Article VIII. Explain why the renewable energy is not provided under KU's Green Tariff Option #3.

A-7. During the contract negotiation, BlueOval SK expressed a desire to memorialize its intent to obtain renewable energy from KU in the future and KU's agreement to explore options to meet BlueOval SK's goals. As reflected in Article VIII, the parties have not agreed on any specific terms on which solar generation may be provided to BlueOval SK in the future. They have agreed to meet regularly to discuss the renewable energy market and discuss renewable energy options. The options are not limited to a bilateral contract. A possible solar arrangement might involve adding solar capacity behind the customer's metering, which would necessarily involve offsetting part of BlueOval SK's metered demand. Green Tariff Option #3 is not available to special contract customers – only customers taking service under standard rate schedules TODS, TODP, RTS and FLS. Service under Green Tariff Option #3 is also capped at 250 MW name plate AC capacity in total across both LG&E and KU. BlueOval SK has requested up to 300 MW capacity, which would not be permitted under the current tariff.

KENTUCKY UTILITIES COMPANY

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Question No. 8

Responding Witness: Michael E. Hornung / John Bevington

Q-8. Refer to the Application, Exhibit 1, Article VIII, subsection 8.03. Explain why KU proposes to offset intermediate and peak demand, given the explicit denial of this provision from KU's Green Tariff Option #3 in Case No. 2020-00016.[2]

A-8. KU informed BlueOval SK of the Commission's prior order on this issue. BlueOval SK still requested to include this provision, which KU agreed to include on the express understanding that any special bilateral contract related to solar generation—which has not yet been negotiated and therefore does not exist—would be subject to the Commission's review and approval if and when it is proposed. Another possible solar arrangement might involve adding solar capacity behind the customer's metering, which would necessarily involve offsetting part of BlueOval SK's metered demand. The special contract merely obligates KU to negotiate with BlueOval SK in good faith consistent with the terms of Article VIII, and then any resulting bilateral contract would require specific Commission approval.

[2] Case No. 2020-00016, *Electronic Application of Louisville Gas and Electric Company and Kentucky Utilities Company for Approval of a Solar Power Contract and Two Renewable Power Agreements to Satisfy Customer Requests for a Renewable Energy Source Under Green Tariff Option #3* (Ky. PSC May 8, 2020). May 8, 2020 Order at 21-22 and June 18, 2020 Order at 5–15.

KENTUCKY UTILITIES COMPANY

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Question No. 9

Responding Witness: Michael E. Hornung / John Bevington / Stuart A. Wilson

Q-9. Refer to the Application, Exhibit 1, Appendix A, page 1. Explain how the proposed demand rates were determined.

A-9. The proposed demand rates were derived through negotiations with BlueOval SK and were an important consideration to attract BlueOval SK to invest in the Commonwealth of Kentucky. As discussed in Mr. Wilson's testimony, KU ensured the proposed rates will likely exceed demand-related marginal cost of service. The projected demand revenues over the 20-year contract will exceed BlueOval SK production demand-related marginal cost of service by approximately $100 million on a net present value of revenue requirements basis.

KENTUCKY UTILITIES COMPANY

Response to Commission Staff's First Request for Information
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Question No. 10

Responding Witness: Michael E. Hornung

Q-10. Refer to the Application, Exhibit 1, Appendix A, page 2. Explain why the late payment fee is 1 percent as compared to KU's standard late payment fee of 3 percent.

A-10. KU does not have a standard late payment fee of 3 percent for all customers. The Residential (RS/RTOD) and General Service (GS/AES/VFD) tariffs have a 3% late payment fee, while the Retail Transmission Service (RTS), Primary Service (PS), Time-of-Day Service (TODS/TODP), and Fluctuating Load Service (FLS) tariffs have a 1% late payment fee. The late payment fee for the BlueOval SK contract is consistent with the standard rate schedules for large industrial customers.