

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

**In the Matter of:**

<b>APPLICATION OF KENTUCKY UTILITIES</b>	)	
<b>COMPANY FOR APPROVAL OF SPECIAL</b>	)	<b>CASE NO.</b>
<b>CONTRACT BETWEEN KENTUCKY UTILITIES</b>	)	<b>2023-00123</b>
<b>COMPANY AND BLUEOVAL SK, LLC</b>	)	

**DIRECT TESTIMONY OF**  
**MICHAEL E. HORNUNG**  
**MANAGER OF PRICING & TARIFFS**  
**KENTUCKY UTILITIES COMPANY**

**Filed: April 14, 2023**

1 **INTRODUCTION**

2 **Q. Please state your name, position, and business address.**

3 A. My name is Michael E. Hornung. I am a Manager of Pricing/Tariffs for LG&E and  
4 KU Services Company, which provides services to Louisville Gas and Electric  
5 Company (“LG&E”) and Kentucky Utilities Company (“KU”). My business address  
6 is 220 West Main Street, Louisville, Kentucky 40202.

7 **Q. Please describe your educational and professional background.**

8 A. I graduated from the University of Louisville in 1992 with a Bachelor of Science degree  
9 in Accounting. I have been employed by LG&E and KU Services for over 26 years,  
10 serving in various roles including energy efficiency, billing and revenue integrity, and  
11 since 2017, as Manager of Pricing/Tariffs. A complete statement of my work  
12 experience and education is contained in Appendix A.

13 **Q. What are your primary job responsibilities for LG&E and KU?**

14 A. In my current position, I am responsible for the support, development, and maintenance  
15 of all retail customer tariffed offerings. This includes, but is not limited to, the  
16 development of tariffed and programmatic rate design as well as customer special  
17 contracts.

18 **Q: Have you testified before the Kentucky Public Service Commission before?**

19 A: Yes. I submitted written testimony, responded to the Commission’s request for  
20 information and provided testimony at the public hearing within the Companies’  
21 Demand Side Management and Energy Efficiency Case Nos. 2011-00134 and 2014-  
22 00003. In addition, I have submitted written testimony and responded to the  
23 Commission’s request for information on behalf of LG&E and KU in the Pole and  
24 Structure Attachment Tariff Review, Case No. 2022-00105.

1 **Q. What is the purpose of your direct testimony?**

2 A. The purpose of my testimony is to sponsor the special contract between KU and  
3 BlueOval SK, LLC (“BlueOval SK”), explain its terms and rate structure, and  
4 demonstrate how the special contract will provide benefits and protections to its parties,  
5 to KU’s other customers, and the Commonwealth as a whole. I am also testifying in  
6 support of KU’s petition for confidential protection of certain limited aspects of its  
7 Application in this proceeding and the special contract.

8 **Q. Do you sponsor any exhibits which support your testimony?**

9 A. Yes, I am sponsoring the Special Contract between KU and BlueOval SK which is  
10 attached as Exhibit 1 to KU’s application herein.

11 **SPECIAL CONTRACT TERMS**

12 **Q. What is the term of the special contract?**

13 A. The term of the special contract is twenty (20) years from its effective date. The length  
14 of the contract term offers predictability to BlueOval SK that is very important to the  
15 project and to its operations in the future. Nevertheless, as described later in my  
16 testimony, certain key terms of the special contract are designed to be changed or may  
17 be changed by agreement of the parties over its term.

18 **Q. What is the effective date of the special contract?**

19 A. Under Sections 14.01 and 14.02 of the special contract, its terms become effective on  
20 the first day of the first month following the later of: (i) the date on which BlueOval  
21 SK begins commercial production of electric vehicle batteries at the battery park; or  
22 (ii) the date the special contract is approved by the Commission. The special contract  
23 will not become effective without the Commission’s approval.

1 **Q. When does BlueOval SK expect to begin production of electric vehicle batteries at**  
2 **the battery park?**

3 A. BlueOval SK estimates it will have construction the first of the two plants completed  
4 by November 2023, and construction of the second plant completed in September 2024.  
5 The first plant is expected to begin production in early 2025 with the second plant to  
6 begin production approximately 8 months later, at which time BlueOval SK will be  
7 operating near its contracted capacity reflected in the special contract. Under the  
8 contact terms, with these timeline assumptions, the special contract rates will become  
9 effective sometime in the first part of 2025 when commercial production at the first  
10 plant begins.

11 **Q. Why will the special contract not be effective until 2025?**

12 A. After construction of each plant is completed, BlueOval SK expects a significant ramp-  
13 up period before the plant is ready for commercial production of batteries. During this  
14 period BlueOval SK will be constructing the interior of the production facility, moving  
15 in and installing manufacturing equipment, and testing production. While BlueOval  
16 SK will need transmission-level service to the plant during the interim period, it will  
17 not need the capacity contemplated by the special contract nor will its load profile  
18 match the expected load profile once the plants are in full commercial production.  
19 Thus, BlueOval SK's energy consumption during the interim period will be more  
20 appropriate for the standard rates in the RTS tariff.

21 **Q. How will KU provide service to BlueOval SK during this interim period?**

22 A. Under a standard Rate RTS contract to be executed later this year. That contract will  
23 be effective on or before the date the Glendale Industrial Substation is energized in fall

1 2023. The tariffed rates, terms and conditions will apply to the RTS contract. The RTS  
2 contract will incorporate an escalating contract capacity as BlueOval SK's energy  
3 needs increase and the first plant nears commercial production.

4 **Q. What will be the term of the RTS contract?**

5 A. The RTS contract will be effective for a period of at least one year and will terminate  
6 on the effective date of the special contract.

7 **Q. What is the firm power commitment specified in the special contract?**

8 A. The special contract specifies the delivery of 140 MW of firm power by KU to  
9 BlueOval SK during the first year of the contract term and 260 MW of firm power each  
10 year thereafter. BlueOval SK may request adjustments to the amount of firm power by  
11 providing written notice to KU one year in advance of the proposed effective date, and  
12 all changes to firm power are subject to availability, the cost of incremental capacity,  
13 and all required regulatory approvals.

14 **Q. Please explain the rate structure provided in the special contract.**

15 A. The special contract provides for a rate structure that generally reflects KU's current  
16 tariff for the RTS rate class on file with and approved by the Commission. The rate  
17 structure is set forth in Appendix A to the special contract attached as Exhibit 1 to the  
18 Application. As provided in Section 9.03 and Appendix A to the special contract,  
19 BlueOval SK's monthly bill will consist of: (1) a basic service charge per day; (2) an  
20 energy charge per kWh; (3) a maximum load demand charge per kVA based on peak,  
21 intermediate, and base demand periods; (4) adjustments for applicable riders and  
22 mechanisms; (5) applicable charges for Excess Facilities; and (6) applicable charges or  
23 credits, if any, for future renewable energy.

1 **Q. Is a special contract necessary for KU to supply electric service for the BlueOval**  
2 **SK Battery Park project?**

3 A. Yes. BlueOval SK's load is unique and unlike the load and consumption characteristics  
4 of any customer taking service under KU's tariffed rates on file with the Commission,  
5 and therefore is not appropriate for service under any of KU's current rate schedules.  
6 The expected annual load factor of the BlueOval SK Battery Park when in full  
7 operation is between 85 and 90 percent with some monthly load factors at 95 percent.  
8 In contrast, the average annual load factor of customers in the KU RTS rate class in the  
9 12-months ending December 2022 is 48 percent. In addition, the highest annual load  
10 factor of any customer in the KU RTS rate class in the 12-months ending December  
11 2022 is 76 percent. Because the expected annual load factor of the BlueOval SK  
12 Battery Park is nearly double that of the average annual load factor of customers in the  
13 KU RTS rate class, special rates are needed.

14 **Q. How does BlueOval SK's high load factor impact demand rates?**

15 A. An average annual load factor near 90 percent means that BlueOval SK is expected to  
16 use the energy delivered to it very efficiently. That is, because of 24-hour operations  
17 and other utilization factors, BlueOval SK will use most of its contracted capacity most  
18 of the time when fully operational. Because KU must always have capacity to serve  
19 peak demand, no matter how frequently that peak occurs, a very high load factor means  
20 that the fixed costs to serve peak demand can be spread over a greater number of hours  
21 and lead to better and more efficient utilization of available capacity. This leads to  
22 lower overall costs to serve demand and is reflected in lower demand rates. While this  
23 concept is considered in KU's ratemaking and rate selection for customers, BlueOval

1 SK presents a special case because of its uniquely high energy requirements and  
2 expected average annual load factor.

3 **Q. How do the rates in the special contract differ from standard tariff rates?**

4 A. The basic service charge, energy charge, and application of adjustment clauses and  
5 riders in the special contract are the same as standard rates in the tariff for Rate Retail  
6 Transmission Service (“RTS”). The demand charge for all demand periods is modified  
7 in the special contract based on BlueOval SK’s unique load profile and its contribution  
8 to fixed costs over the 20-year term of the contract. Most other standard terms and  
9 conditions applicable to Rate RTS customers in KU’s tariff apply to BlueOval SK  
10 under the special contract terms.

11 **Q. Will the special contract rates be subject to modification in future rate  
12 proceedings before the Commission?**

13 A. Yes. Under Section 6.01 of the special contract, the basic service charge and energy  
14 charge are designed to track directly with the otherwise applicable RTS rate as those  
15 rates are set by Commission Order. KU has agreed not to seek an increase in the special  
16 contract demand rates in future rate proceedings which exceed the percentage increases  
17 authorized for the corresponding demand charges in Rate RTS. KU has also agreed  
18 that it will not propose to recover demand-related fixed costs in the special contract’s  
19 energy charge or basic service charge. These commitments are the product of extensive  
20 negotiations and KU views them as a reasonable means to give BlueOval SK some  
21 certainty about the factors that may impact demand rates during the 20-year term of the  
22 special contract.

23 **Q. Are the rates provided in the special contract reasonable?**

1 A. Yes, they are. As Stuart A. Wilson’s direct testimony describes in detail, the projected  
2 demand revenues from BlueOval SK at the negotiated rates will exceed the demand-  
3 related marginal cost to serve the project by nearly \$100 million net present value of  
4 the revenue requirement over the contract’s term. This means that even assuming no  
5 future increases to demand rates over the contract’s 20-year term, the BlueOval SK  
6 special contract will contribute close to \$100 million to fixed costs that will accrue to  
7 the benefit of all KU customers. Using a very conservative 0.5% annual increase in  
8 demand rates starting in 2028, the fixed cost contribution increases to \$108 million  
9 NPVRR over the 20-year term. The Commission has regularly approved special  
10 contracts like this one where the negotiated rates cover the marginal cost of service,  
11 make a contribution toward fixed costs, and will not adversely impact the rates of other  
12 customers.<sup>1</sup> Mr. Wilson’s analysis confirms that is the case here.

13 **Q. Does the special contract include a commitment to supply renewable energy to**  
14 **BlueOval SK?**

15 A. In Section 8.01 of the special contract, the parties have agreed to negotiate in good faith  
16 in the future a separate bilateral contract for up to 300 MW of solar generation, subject

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<sup>1</sup> See, e.g., *Electronic Application of Kentucky Power Company for Approval of a Contract for Electric Service with Air Product and Chemicals, Inc.*, Case No. 2020-00019, Order at 6 (Ky. PSC Apr. 23, 2020); *Electronic Application of Kentucky Power Company for Approval of a Contract for Electric Service with MC Mining, LLC*, Case No. 2019-00124, Order at 7 (Aug. 23, 2019) (approving a special contract after noting that “the rates paid by MC Mining under the Special Contract, even when taking into account the Monthly Economic Credits, would cover Kentucky Power’s variable costs, make a contribution towards Kentucky Power’s fixed costs, and will not adversely affect the rates paid by Kentucky Power’s other customers.”); *Filing of Special Industrial Contracts by Atmos Energy Corporation*, Case No. 2017-00035, Order at 3 (Ky. PSC Apr. 12, 2017); See also *Electronic Application of Duke Energy, Inc. for Approval of a Special Contract and for Waiver of 807 KAR 5:041, Section 6(2)(C)*, Case No. 2021-00192, Order at 8-9 (Ky. PSC March 4, 2022) (noting that “Special contracts with rates that are lower than those of tariffed rates have been approved in circumstances where the terms of the contract prevent a utility from losing significant load, which would shift fixed costs to other customers[.]”).



1 to the Commission's approval. The parties have also agreed to meet on a semi-annual  
2 basis to discuss renewable energy capacity at least until such a contract is in place.

3 **Q. In addition to the new transmission facilities referenced in the application, will**  
4 **there be other electric facilities constructed to serve BlueOval SK project?**

5 A. Yes, BlueOval SK has requested construction of certain behind the meter facilities to  
6 serve its needs at the site, including transformers, circuit breakers, and reactors. These  
7 facilities are being constructed and will be operated and maintained by KU and charged  
8 to and paid by BlueOval SK under KU's standard Excess Facilities (EF) tariff.

9 **Q. When will BlueOval SK being paying for Excess Facilities?**

10 A. KU and BlueOval SK will enter into a standard Excess Facilities contract which will  
11 be effective on or before the date the Glendale Industrial Substation is energized this  
12 fall and will run concurrently with the Rate RTS contract. The Excess Facilities  
13 contract will cover the actual costs of facilities in place and will be adjusted going  
14 forward based on actual cost until all Excess Facilities are constructed. The Excess  
15 Facilities contract will continue under the special contract once it becomes effective.

16 **Q. Are KU's other ratepayers protected in the event of a default by BlueOval SK?**

17 A. Yes. Section 9.06 of the special contract provides that KU's standard deposit and  
18 guaranty procedures will apply to BlueOval SK. Thus, KU intends to secure cash  
19 deposits, non-cash guarantees or a combination of both for the full amount permitted  
20 by KU's deposit terms and conditions and associated regulations.

21 **Q. Can other terms of the special contract be modified?**

22 A. Yes, but only under the set of circumstances provided in Sections 15.06 and 16.03 of  
23 the special contract. The contract may be modified by mutual written consent of the

1 parties or as required by law. Section 16.02 of the special contract provides that if the  
2 Commission does not approve the special contract without change or condition, then  
3 the special contract will not become effective unless the parties agree in writing.  
4 Otherwise, the parties must resubmit the special contract for approval, keeping its  
5 agreed-upon terms and conditions intact to the maximum possible extent.

6 **Q. Will LG&E be providing natural gas service to the BlueOval SK Battery Park**  
7 **project?**

8 A. Yes. LG&E will be providing natural gas service to the BlueOval SK Battery Park  
9 project, but not under a special contract. The rates for natural gas service provided to  
10 BlueOval SK will be billed in accordance with the Rate FT tariff on file with and  
11 approved by the Commission, with an accompanying transportation service agreement  
12 as required by LG&E's tariff.

13 **Q. Why isn't this special contract filed under the terms of KU's Economic**  
14 **Development Rider ("EDR")?**

15 A. While the economic benefits of this project are expected to be immense as detailed in  
16 Mr. Bevington's testimony, the reason for the special contract demand rates is  
17 BlueOval SK's unique load profile and the associated cost of service. The economic  
18 opportunity created for Kentucky as a result of the BlueOval SK Battery Park project  
19 is a product of the hard work by many stakeholders to make the project a reality but it  
20 is not the reason for the special contract rates.

21 **Q. Why should the Commission approve the special contract?**

22 The special contract rates are fair, just, and reasonable, and the contract will be  
23 beneficial to KU's other customers, residents in KU's service territory, BlueOval SK,

1 KU, and the Commonwealth as a whole. By approving the special contract as  
2 proposed, the Commission will help ensure that BlueOval SK has the long-term stable  
3 price signal it needs to proceed with the single largest economic development project  
4 in the history of Kentucky.

5 As Mr. Wilson's testimony demonstrates, the rate structure provided in the  
6 special contract will cover all marginal costs of serving the BlueOval SK Battery Park  
7 project and make a significant contribution toward KU's fixed costs over the contract  
8 term, even under the most conservative assumptions about demand rate escalation. The  
9 economic growth and development expected to follow the establishment of the  
10 BlueOval SK battery park project will also indirectly benefit KU's other customers by  
11 spreading those fixed costs over a larger number of customers and load.

12 **CONFIDENTIAL TREATMENT**

13 **Q. Is KU seeking confidential treatment of certain terms of the special contract**  
14 **attached as Exhibit 1 to the Application?**

15 A. Yes. KU is seeking confidential treatment of the negotiated demand charge rates shown  
16 in Appendix A to the special contract.

17 **Q. Why is KU seeking confidential treatment of special contract demand charge rate**  
18 **information?**

19 A. The special contract demand charge rates are the product of extensive negotiations  
20 between representatives of BlueOval SK and KU and represent a culmination of  
21 tradeoffs by both parties. These rates reflect KU's consideration of the unique energy  
22 requirements, load profile, and demand cost coverage of the BlueOval SK Battery Park  
23 project. Public disclosure of this confidential information would harm KU's ability to

1 negotiate future contracts and provide an unfair commercial advantage to KU's  
2 competitors.

3 **Q. Please describe the unfair competitive injury to KU if the confidential rate**  
4 **information is made public.**

5 A. Public disclosure of the special contract demand rates would establish a target for future  
6 negotiations with large commercial enterprises that are considering locating in KU's  
7 service territory, making it more difficult to negotiate future contracts on terms that are  
8 advantageous to KU or to KU's other customers. If this confidential rate information  
9 is made public it could also be used by competing utilities and economic development  
10 agencies to underbid KU or offer rates lower than the competing utilities might  
11 otherwise offer, resulting in missed opportunities for Kentucky's economic growth. In  
12 either case, efforts to recruit and retain investment and job growth in Kentucky would  
13 be hindered, to the detriment of KU's customers, other residents of KU's service  
14 territory, and the Commonwealth as a whole.

15 **Q. Is the confidential rate information otherwise available to KU's competitors or**  
16 **the general public?**

17 A. No. The confidential rate information is not publicly available, nor can it be reasonably  
18 discerned through lawful means. This information is made available only upon a  
19 confidential need-to-know basis that does not extend beyond those employees or  
20 representatives of KU and BlueOval SK with a legitimate business need to know and  
21 act upon the information.

**CONCLUSION**

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2 **Q. What is your recommendation for the Commission?**

3 A. I recommend approval of the special contract between KU and BlueOval SK requested  
4 in this matter, and that all information designated as confidential be treated as such as  
5 separately requested in KU's petition for confidential protection.

6 **Q. Does this conclude your testimony?**

7 A. Yes.

VERIFICATION

COMMONWEALTH OF KENTUCKY )  
 )  
COUNTY OF JEFFERSON )

The undersigned, **Michael E. Hornung**, being duly sworn, deposes and says that he is Manager of Pricing/Tariffs 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 foregoing testimony, and that 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 12<sup>th</sup> day of April, 2023.



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

Notary Public ID No. KYNP63286

(SEAL)



My Commission Expires:

January 22, 2027

## APPENDIX A

### **Michael E. Hornung**

Manager, Pricing & Tariffs  
LG&E and KU Services Company  
220 West Main Street  
Louisville, Kentucky 40202  
Telephone: (502) 627-4671

### **Professional Experience**

#### **Louisville Gas and Electric Company and Kentucky Utilities Company**

Manager, Pricing & Tariffs	Jan. 2018 – Present
Acting Director, Revenue Integrity	Jan. 2017 - July 2017
Manager, Billing Integrity	Jan. 2016 - Dec. 2016
	Jul. 2017 - Dec. 2017
Manager, Energy Efficiency Planning & Development	Aug. 2008 - Dec. 2015
Senior Rate & Regulatory Analyst	Aug. 2006 - Aug. 2008
Senior Market Policy Analyst	Feb. 2000 - Aug. 2006
Senior Financial Analyst	
Risk Management/Trading Controls	June 1999 - Feb. 2000
Senior Accountant at LG&E Energy Marketing	1997 - 1999
Venture Accountant at LG&E Power, Inc.	1996 - 1997
General Labor, LG&E Construction	Summer 1988 & 1989

### **Professional Memberships**

Electric Edison Institute (EEI)	Jan. 2018 - Present
Southeastern Electric Exchange (SEE)	Jan. 2018 - Present

### **Education**

Bachelor of Science in Business Administration – Accounting  
University of Louisville, August 1992

Strategic Business Integration: Generation & Energy Marketing, August 2009