COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC TARIFF FILING OF BIG RIVERS ELECTRIC CORPORATION AND KENERGY CORP. TO REVISE THE LARGE INDUSTRIAL CUSTOMER STANDBY SERVICE TARIFF	**)** **)** **)** **)**	**Case No. 2023-00312**

BRIEF OF DOMTAR PAPER COMPANY, LLC

Domtar Paper Company, LLC ("Domtar") submits this Brief in support of its recommendations to the Kentucky Public Service Commission ("Commission"). As discussed in detail below, the proposed Large Industrial Customer Standby Service ("LICSS") tariff is unjust and unreasonable and should be rejected.

The proposed LICSS tariff: 1) fails to unbundle backup power and maintenance power services in direct violation of the Commission's March 3, 2022 Order in Case No. 2021-00289; 2) does not reflect the cost to Big Rivers Electric Corporation ("Big Rivers") of providing standby service; 3) contains an energy penalty (higher of cost or market) which could exceed the market-based capacity credit, potentially resulting in a standby customer paying the utility more than a customer without self-generation; 4) violates the Public Utility Regulatory Policies Act of 1978 ("PURPA"); 5) reflects a resource planning approach that unnecessarily exceeds Midcontinent Independent System Operator's ("MISO") reliability requirements; 6) harms other customers by accelerating the need for new capacity; 7) forces standby service customers to act as accredited emergency resources in MISO (which Domtar cannot do); and 8) results in a 45.5% ($6.48 million) rate increase to Domtar.

Consequently, rather than adopting the proposed LICSS tariff, the Commission should require Big Rivers to establish a standby service tariff based upon the long-standing Commission-approved Generation Support Service ("GSS") tariff used by Duke Energy Kentucky ("Duke Kentucky").[1] Duke Kentucky's GSS rate properly charges less for maintenance power during planned outages than for backup power during unplanned outages; charges the full demand rate only on the supplemental capacity which is in excess of the capacity provided by the customer's self-generation (net demand not gross demand); charges a cost-based energy rate on all energy consumed (not the higher of cost or market); and imposes a reasonable monthly standby charge based on the utility's transmission cost.

BACKGROUND

Domtar is the largest manufacturer and marketer of uncoated freesheet paper in North America and the second largest in the world based on production capacity. Domtar's Hawesville Mill, located in Hancock County, employs approximately 460 people and has an estimated regional economic impact of nearly $1.3 billion.[2] It is one of the largest and strongest economic providers for the region. Its annual production capacity is almost 600,000 tons of paper and 100,000 tons of hardwood market pulp.[3]

In 2001, Domtar constructed an onsite cogeneration facility at its Hawesville mill.[4] The UCAP rating of Domtar's cogeneration facility is 49.6 MW.[5] The full plant load is approximately 70 MW.[6] Therefore, Domtar typically requires 20.4 MW of supplemental service from Big

[1] Attached as Exhibit A.
[2] Direct Testimony of Murray R. Hewitt ("Hewitt Testimony") at 2:11-15.
[3] Hewitt Testimony at 2:15:-17.
[4] Id. at 5:9-10.
[5] Baron Surrebuttal at 10.
[6] Id.

Rivers.[7] Domtar also requires 49.6 MW of backup and maintenance service to provide power to the mill when its cogeneration facility is forced out or is down for planned maintenance.

The cogeneration facility consists of boilers fueled by tree bark, sawdust, and wood chips that the mill cannot process as well as *"black liquor"* which is a byproduct from the pulping process. Black liquor is a renewable fuel resource. Domtar's boilers use this renewable fuel to produce steam that is used in the papermaking process and to generate electricity.[8] Domtar's cogeneration system constitutes a "Qualifying Facility" ("QF") under the Public Utility Regulatory Policies Act of 1978 ("PURPA").[9]

For over twenty years, Domtar has taken standby service at its QF cogeneration facility from Big Rivers/Kenergy at Commission-approved contract rates. During the decades-long period in which Domtar has taken service under this structure, Big Rivers has had four rate cases and was able to plan its system and design its rates by fully incorporating Domtar's QF cogeneration facility into its revenue requirement.[10]

In late March 2022, Kenergy attempted to terminate this decades-long rate structure. Kenergy's decision was motivated by the Commission's approval for Big Rivers of a new Pilot LICSS tariff in Case No. 2021-00289. The Pilot LICSS tariff was created in response to Kimberly-Clark Corporation's ("Kimberly-Clark") new 14 MW natural gas cogeneration facility in Owensboro, Kentucky. However, while the Commission approved the Pilot LICSS tariff, it did so on a temporary basis only and *"for lack of a better alternative*," cautioning Big Rivers that the tariff was flawed and directing it to file for approval of a permanent LICSS tariff by September 1,

[7] Id.
[8] Hewitt Testimony at 5:12-15.
[9] Id. at 5:17-19.
[10] Case Nos. 2009-00040; 2011-00036; 2012-00535; and 2013-00199.

2023.[11] The Commission also directed that Big Rivers should not bundle the pricing for maintenance and backup service in the new LICSS filing.[12]

On January 11, 2023, Domtar filed a Complaint at the Commission explaining how moving it to the Pilot LICSS tariff would result in an unjust and unreasonable annual rate increase.[13] Domtar asked to maintain status quo pricing until the Commission established a permanent standby service tariff. On March 23, 2023, the Commission granted Domtar's request.

On September 1, 2023, Big Rivers filed its proposed permanent LICSS rate. For energy, Domtar would pay on an hourly basis the "*higher of*" cost or LMP market pricing for *"first through the meter"* energy up to 49.6 MW. Any additional energy used by the plant would be priced at the standard large industrial tariff rate. For demand, Domtar would pay the standard large industrial demand charge on its full 70 MW plant load. Domtar would receive a demand credit at the price received by Big Rivers for selling the 49.6 MW cogeneration capacity into the MISO capacity market. If the "*higher of*" energy penalty is greater than the market-based capacity credit, then a standby service customer would pay the utility more than a customer without its own generation. Finally, the proposed LICSS tariff requires a standby service customer to have its cogeneration facility accredited by MISO as a Load Modifying Resource ("LMR") for dispatch by MISO during emergencies.

[11] Order, Case No. 2021-00289 (March 3, 2022) at 25.
[12] Order, Case No. 2021-00289 (March 3, 2022) at 20.
[13] Domtar Complaint, Case No. 2023-00017 (January 11, 2023).

LEGAL STANDARD

The Federal Energy Regulatory Commission ("FERC") issued rules governing sales of backup and maintenance power to QFs under PURPA. Those rules treat backup and maintenance power as separate services. Those rules also prohibit an assumption (unless supported by factual data) that QFs will experience a forced outage during the system peak.

> ***Rates for sales of back-up and maintenance power.*** The rate for sales of back-up power or maintenance power:
>
> (1) Shall not be based upon an assumption (unless supported by factual data) that forced outages or other reductions in electric output by all qualifying facilities on an electric utility's system will occur simultaneously, or during the system peak, or both; and
>
> (2) Shall take into account the extent to which scheduled outages of the qualifying facilities can be usefully coordinated with scheduled outages of the utility's facilities.[14]

The Kentucky Commission has also adopted rules implementing the federal PURPA requirements.[15] Those rules differentiate between *"back-up power," "maintenance power,"* and *"supplementary power,"* with each defined as follows:

- ***"Back-up power"*** means *"electric energy or capacity supplied by an electric utility to replace energy ordinarily generated by a facility's own generation equipment during an* ***unscheduled outage*** *of the facility."*[16]
- ***"Maintenance power"*** means *"electric energy or capacity supplied by an electric utility during* ***scheduled outages*** *of the qualifying facility."*[17]
- ***"Supplementary power"*** means *"electric energy or capacity supplied by an electric utility, regularly used by a qualifying facility in addition to that which the facility generates itself."*[18]

807 KAR 5:054, Section 7 (7) provides that *"[u]pon request by a qualifying facility each electric utility shall provide supplementary power, back-up power, maintenance power, and interruptible power."*

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[14] 18 CFR 292.305(c).

[15] *See* 807 KAR 5:054.

[16] 807 KAR 5:054, Section 1(2).

[17] 807 KAR 5:054, Section 1(6).

[18] 807 KAR 5:054, Section 1(11).

ARGUMENT

I. BIG RIVERS' PROPOSED LICSS TARIFF IS UNJUST AND UNREASONABLE AND SHOULD BE REJECTED.

A. Standby Service Consists of Three Distinct Services.

In simple terms, standby service is provided by an electric utility to customers that can self-generate electricity to meet part of their individual power needs. Standby service includes backup, maintenance, and supplemental power.

Backup power is supplied by an electric utility to replace energy ordinarily generated by a customer's own generation during an unscheduled outage.[19] Because all electric generators have a certain probability of being out of service during some hours of the year, a self-generating customer needs backup power when forced outages occur.

Maintenance power is supplied by an electric utility during planned outages of a customer's own generation.[20] Maintenance power is provided on a scheduled basis and only during off-peak periods.

Supplemental power is the energy and capacity regularly used by a customer in addition to that which it generates[21] In this case 20.4 MW (70 MW full plant load less 49.6 MW UCAP value).[22]

Backup power, maintenance power, and supplementary power are three distinct services and must be priced as such.

[19] 807 KAR 5:054, Section 1(2).
[20] 807 KAR 5:054, Section 1(6).
[21] 807 KAR 5:054, Section 1(11).
[22] Baron Surrebuttal at 10.

B. Big Rivers' Proposed LICSS Tariff Unreasonably Bundles Backup Power And Maintenance Power In Direct Violation Of The Commission's Order And The Commission's PURPA Regulations.

As proposed, the LICSS tariff would separate standby service into only two categories – backup power and supplemental power. The tariffs would not provide separate pricing for maintenance power but instead would bundle it with backup power.

Big Rivers' failure to unbundle backup power and maintenance power directly violates the Commission's March 3, 2022 Order in Case No. 2021-00289.[23] There, the Commission expressly instructed Big Rivers to unbundle backup power and maintenance power in its permanent standby service tariff filing. Following up on the Commission's directive, in discovery Commission Staff repeatedly asked Big Rivers to provide cost support for the proposed backup power and maintenance power rates on an unbundled basis. Big Rivers repeatedly refused to do so.[24] Commission Staff again asked for such cost support at the hearing. And Big Rivers again endorsed its bundling approach, insisting that the costs of providing backup power and maintenance power were the same.[25]

In addition to directly violating the Commission's directive, Big Rivers' bundling of backup power and maintenance power is unreasonable because it fails to recognize that the cost to provide maintenance power – which is limited to off-peak periods and is scheduled in advance – is not the same as the cost to provide unscheduled backup power.[26] Both the federal PURPA rules and the Kentucky rules implementing PURPA expressly recognize this distinction.

[23] Order, Case No. 2021-00289 (March 3, 2022) at 20.
[24] Baron Ex. SJB-2 (Response to PSC DR 1-11); Baron Ex. SJB-3 (Response to PSC DR 2-1).
[25] Hearing Tr. (May 1, 2024) at 9:40:22.
[26] Baron Direct at 12:1-4.

C. The Proposed LICSS Tariff Does Not Reflect The Cost To Big Rivers Of Providing Standby Service.

Big Rivers' proposed LICSS tariff fails to establish cost-based rates for standby service. When asked by Commission Staff to provide the cost support for the proposed LICSS rates, Big Rivers responded that there are *"no quantified charges in the rate schedule for which Big Rivers can provide cost support."*[27] And when asked if Big Rivers is aware of any other utility in the country that has a standby service rate similar to the proposed LICSS tariffs, Big Rivers could not provide an example.[28] Therefore, Big Rivers' proposal is an outlier lacking quantifiable cost-based support.

Worse, the LICSS tariff's unreasonable structure could force a standby service customer to pay the utility more than a customer without its own generation. For energy, Domtar would pay the "*higher of*" cost or LMP market pricing for *"first through the meter"* energy up to 49.6 MW per hour. Any additional energy used by the plant would be priced at the standard large industrial energy rate. For demand, Domtar would pay the standard large industrial demand charge on its full 70 MW plant load. Domtar would receive a credit for Big Rivers selling the 49.6 MW cogeneration capacity into the MISO capacity market. If the "*higher of*" energy penalty is greater than the market-based capacity credit, then a standby service customer would pay the utility more than a customer without cogeneration.[29]

Domtar witness Mr. Baron quantified this effect. For the 12-month period ending September 30, 2023, the LICSS "*higher of*" energy penalty would nearly equal the capacity credit, almost eliminating the credit. In this case, Domtar would essentially pay the full standard tariff

[27] Baron Ex. SJB-4 (Response to PSC DR 1-3).

[28] Baron Ex. SJB-5 (Responses to Domtar 1-5 and 1-6).

[29] The "*penalty*" is the excess charge for market priced energy compared to the charge for energy under Big Rivers' standard tariff.

demand charge for 100% of its load without receiving any capacity benefit from its 49.6 MW cogeneration facility.

Domtar's QF has a UCAP value of 49.6 MW. At a 78.4% capacity factor,[30] this means that 93,851 MWh of Domtar's usage would have been subject to the "*higher of*" energy pricing. During the 12-month period ending September 30, 2023, the MISO market energy price exceeded the cost-based energy rate in 648 hours. This resulted in an energy penalty of $164,992. The capacity credit was $167,462. Therefore, the net capacity credit was only $2,470. A slightly higher MISO market energy price would have resulted in Domtar paying the utility more than a customer without its own generation.

That the proposed LICSS tariff opens the door to such an outcome demonstrates how far afield the tariff is from a cost-based standby service rate. The very real possibility that a customer with its own generation would pay the utility more than a customer without generation also explains why no other utility anywhere in the U.S. has a similar rate. What would be the point of investing in and maintaining self-generation (including fuel) if that would raise your utility bill? Domtar witness Mr. Baron has testified to this Commission dozens of times over many decades. He described the proposed LICSS tariff as "*one of the more egregious proposals that I have seen in 40 years.*"[31]

D. The Proposed LICSS Tariff Is Contrary To PURPA.

Big Rivers' proposed approach is also contrary to PURPA. Domtar's behind-the-meter cogeneration facility is a QF under PURPA. PURPA requires that backup and maintenance power rates *"[s]hall not be based upon an assumption (unless supported by factual data) that forced outages or other reductions in electric output by all qualifying facilities on an electric utility's*

[30] During 2021, 2022 and the first nine months of 2023, Domtar's capacity factor was 78.4%.

[31] Baron Surrebuttal at 16

system will occur simultaneously, or ***during the system peak,*** *or both…"* Contrary to this rule, a central assumption in Big Rivers' argument that a standby service customer must pay the standard demand charge on its full plant load is that behind-the-meter QF cogeneration facilities could be out of service during the system peak.

Big Rivers claims that *"[s]o long as a forced outage is possible and the customer expects Big Rivers to deliver all required power during the forced outage, the costs to Big Rivers for capacity is established whether there are scheduled, unscheduled, or no outages during a month."*[32] Big Rivers stresses that *"it is the possibility of forced outage, not probability, that is relevant when examining demand costs related to Backup Power Service."*[33]

Big Rivers' attempt to justify charging Domtar the standard large industrial demand charge on its full 70 MW plant load (rather than its 20.4 MW net load) based merely upon a "*possibility*" that its QF could be forced out during a system peak therefore violates PURPA.[34]

E. Standby Service Pricing Based On The Benefit Received By The Utility Instead Of The Utility's Cost Of Service Is Unreasonable

The fundamental problem is that Big Rivers did not design its proposed LICSS rate based upon its costs to provide standby service, but instead it is based upon the *benefit* Big Rivers receives from selling the generator's capacity into the MISO capacity market.[35] This approach turns the federal and state PURPA requirements inside out. Big Rivers claims that *"[r]egardless of Big Rivers' capacity position, Big Rivers must purchase all of the capacity needed for its Member load at the PRA price. Therefore, the* ***benefit*** *to Big Rivers from a Standby Customer's generator is*

[32] Wright Rebuttal Testimony at 7.
[33] Wright Rebuttal Testimony at 6 (emphasis in the original).
[34] Baron Surrebuttal at 8:11-23.
[35] Baron Direct at 9:8-11.

the savings Big Rivers receives by purchasing less capacity in MISO equal to the accredited capacity of the customer's generator."[36]

Big Rivers is not purchasing customer-supplied generation capacity at MISO market prices, but instead is providing standby service at cost. Nothing in the state or federal PURPA rules even remotely suggests that Big Rivers' benefit received approach is reasonable.

F. The Planning Reserve Margin Required By MISO Is Explicitly Intended To Cover Generation Forced Outages.

Big Rivers argues that its proposed LICSS tariff is reasonable since it must plan on serving Domtar's full 70 MW plant load rather than its 20.4 MW net load (taking into account the 49.6 MW UCAP capacity value of the customer's cogeneration). Big Rivers claims that it must have capacity to serve the full standby service load because no customer-owned cogeneration facility is 100% reliable and it could be forced out during critical peak hours, introducing reliability risks for the fifteen-state MISO system. "*The problem with this approach [the Domtar and Kimberly Clark recommendations] is that if we assume behind-the-meter generators will be online at the time of the greatest system need, and they are not, then our actual load will be significantly higher than our submitted load; this inconsistency notably increases reliability risks."*[37] *"As long as a behind-the-meter generator is subject to forced outages (and all are, thus necessitating standby service), Big Rivers must plan for the capacity to serve its full load irrespective of the behind-the-meter generator."*[38]

But MISO does not require utilities to plan on serving the full load of customers with behind-the-meter cogeneration.[39] MISO addresses reliability concerns by requiring that utilities carry a

[36] Berry Testimony at 5.
[37] Wright Rebuttal Testimony at 4-5.
[38] Id at 5.
[39] Baron Surrebuttal at 9:1-4.

reserve margin. Such a requirement is not unique to MISO. It is a central planning element for all utilities.

MISO's Business Practices Manual BPM-011, at page 14 (addressing resource adequacy), states that "*[t]he focus of Resource Adequacy is on the longer-term planning margins that are used to provide sufficient resources to reliably serve Load on a forward-looking basis. In the real-time operational environment, resources committed through the Resource Adequacy Requirements have a capacity obligation to be available to meet real-time customer demand and contingencies. Therefore, Planning Reserve Margins (PRMs) must be sufficient to cover:*

- *Planned maintenance*
- ***Unplanned or forced outages of generating equipment***
- *Deratings in the capability of Generation Resources and Demand Response Resources*
- *System effects due to reasonably anticipated variations in weather*
- *Load Forecast Uncertainty"*[40]

G. The Resource Planning Approach Reflected In The Proposed LICSS Tariff Unreasonably Exceeds MISO's Reliability Requirements.

The MISO peak load forecast determines Big Rivers' capacity obligation for purchases from the MISO market.[41] And since at least MISO planning year 2018-2019, the Big Rivers system peak load forecast submitted to MISO included only the net load of Domtar, reducing Big Rivers' peak load obligation for MISO planning years 2018-2019, 2019-2020, 2020-2021, 2021-2022 and 2022-2023.[42] This practice is reflected in Big Rivers' 2023 IRP filing, which includes only Domtar's net load in the peak load forecast until 2025.[43] Big Rivers' historic practice meant that it did not have

[40] Id. at 9:4-21 (emphasis added).

[41] *"A ZRC represents 1 MW-day of qualified Seasonal Accredited Capacity (SAC) from a Planning Resource for a specific Season of a Planning Year, tracked to the nearest tenth of a MW, pursuant to the applicable ZRC qualification procedures described herein."* (MISO Business Practices Manual BPM-011 at page 75).

[42] Baron Surrebuttal at 5:2-20. Because Domtar is not a member of MISO, all information regarding Domtar's behind-the-meter cogeneration facility was provided to MISO by Big Rivers.

[43] Ex. SJB-2S (2023 IRP Load Forecast).

to obtain physical capacity resources for the 49.6 MW load served by Domtar's cogeneration facility.[44]

However, Big Rivers now calls the practice of only planning to serve net load rather than full load an "*artificial*" reduction in Big Rivers' peak demand forecast.[45] Even though MISO continues to allow this practice, Big Rivers claims that it could cause reliability problems for the fifteen states within the MISO region.[46]

Big Rivers' concern about the other utilities in MISO – at the expense of Domtar and Kimberly-Clark – is unjustified. When applying the MISO peak load forecast rules as currently in effect, there is no basis to charge a standby service customer with behind-the-meter cogeneration the standard industrial demand charge on its full plant load. Nor is there such a requirement for Kentucky IRP purposes. Ratemaking in Kentucky should not voluntarily take on additional capacity planning obligations and costs not imposed on MISO's other fourteen states.

H. The Proposed LICSS Tariff Unreasonably Forces Standby Service Customers To Act As Accredited Emergency Resources in MISO, Which Domtar Cannot Do.

The LICSS proposal requires that customer generation be accredited by MISO as a Load Modifying Resource ("LMR") that can be dispatched by MISO during emergencies. As Kimberly-Clark witness Cassady explains, this proposal is untenable for Kimberly-Clark.[47] Mr. Cassady states that *"[a]ny requirement that Kimberly-Clark become an LMR in order to receive standby*

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[44] Baron Surrebuttal at 5:7-12.

[45] Wright Rebuttal Testimony at 4 and 7; Big Rivers Response to Joint Requests 3-2.

[46] Big Rivers Response to Intervenor Joint Request 3-5: "*When LSEs reduce their Peak Demand with unregistered generation, they are not giving MISO an accurate account of the load risk that exists. In that scenario, MISO, with visibility only of total forecasted Load, is deprived of relevant information and not aware that the Load could fluctuate significantly if a Behind-the-Meter-Generator experiences outages. LSEs, including Big Rivers, need to do their best to ensure that MISO has an accurate picture of the reliability risks that exist.*" Wright Rebuttal Testimony at 5-6: *"If Big Rivers (and other load-serving utilities) undertake the burden of evaluating the anticipated capacity value of specific customer behind-the-meter generation in order to minimize MISO planning year capacity purchases (all within some undefined risk tolerance and is spite of true system peak demand), the risk of shortfall is all but assured. This instability is compounded by more load-serving utilities attempting to act as their own balancing authorities, instead of allowing MISO to have a clear and accurate picture of actual system load obligations."*

[47] Surrebuttal Testimony of Steve Cassady ("Cassady Surrebuttal") at 2:2-

service effectively compels K-C to dedicate the operation of its generation facility and interrupt its manufacturing process for the electrical grid upon MISO direction."[48] This *"would jeopardize Kimberly-Clark's ability to serve its own paper products customers and could result in stranded assets at the Owensboro facility."*[49]

Big Rivers' proposal is similarly untenable for Domtar. Domtar's generator incurs outages when the paper production machinery is not being operated because the steam source for the generator is not available. Because Domtar's cogeneration facility is fueled by wood waste produced during the normal paper manufacturing process, its cogeneration stops in concert with that process. Consequently, if Domtar's manufacturing process is not operating during an emergency event, then it would have no fuel with which to serve as an LMR in MISO.

I. The Proposed LICSS Tariff Will Harm Other Customers By Accelerating The Need For New Capacity.

Changing Big Rivers' historic practice of only planning to serve the net load of customers with cogeneration would increase costs to other customers in the long term by accelerating the need for new generating capacity.[50] As shown in Big Rivers' 2023 IRP, prior to 2025, it included Domtar's net plant load in its peak demand forecast. Beginning in 2025, Big Rivers is planning to obtain generating capacity to serve Domtar's full plant load.[51] As discussed previously, MISO did not require this change.

Based on Big Rivers' 2023 IRP, the next generating unit needed to serve its load is a 635 MW natural gas combined cycle ("NGCC") that would be added to the system in June 2029. Based on data from the Energy Information Administration ("EIA") presented in its 2023 Annual Energy

[48] Cassady Surrebuttal at 4:3-5.
[49] Id. at 4:11-13.
[50] Baron Surrebuttal at 7:16-18.635
[51] Ex. SJB-2S (2023 IRP Load Forecast).

Outlook, the overnight installed cost of a 2029 NGCC is $1,396/kW.[52] For an NGCC with carbon sequestration, the estimated 2029 cost is $3,584/kW.[53]

Using this recent EIA data, the additional cost to Big Rivers' customers from ignoring the capacity benefit of the Domtar and Kimberly-Clark cogeneration facilities would range from $87.9 million to $225.7 million.[54] Therefore, Big Rivers' proposed LICSS tariff would not only harm its standby service customers but would also increase costs for its other customers.

J. The Proposed LICSS Tariff Will Result in Unreasonable Rates To Domtar.

Replacing Domtar's current contract with Big Rivers' proposed LICSS tariff would increase the cost of electric supply at the Hawesville mill by 45.5% ($6.48 million per year) based on a five-year study period from January 2018 through December of 2022.[55]

The uncoated freesheet paper market has been waning for more than a decade, declining at a rate of between 4% and 6% per year.[56] In 2023, there was a 21% decline in the freesheet paper market.[57] Over the past 10 years, an average of 1,060,000 tons of North American paper production capacity have been closed annually. That is the equivalent of one Hawesville-sized mill being closed every 7 months.[58] In September of 2023, Domtar announced the indefinite idling of 349,000 tons of pulp and paper capacity at its mill in Espanola, Canada that had previously employed 450 people.[59] Also, effective June 1, 2024 Domtar announced that its Ashdown Arkansas paper mill will be shut down.[60]

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[52] Baron Surrebuttal at 14:19-23.
[53] Id. at 14:23-15:1.
[54] Id. at 15:1-5.
[55] Hewitt Testimony at 6:1-7.
[56] Id. at 2:21-22.
[57] Id. at 2:22-23.
[58] Id. at 2:23-3:3.
[59] Id. at 3:2-5.
[60] Hewitt Testimony at 3:3-7.

Utility rate increases significantly impact the Hawesville mill's competitiveness, both domestically and internationally. In addition to competing with suppliers in the U.S., Domtar's Hawesville mill competes for business with foreign suppliers that make and import their paper from overseas.[61] The environmental and labor regulations in many of the exporting countries are well below U.S. standards, giving these imports a significant cost advantage over domestically produced paper, even when the additional shipping costs are considered. Increases in input costs, like the cost of electricity, make it just that much harder for Hawesville to compete against these foreign imports.[62]

The Hawesville mill competes not just against other paper manufacturers, but against other Domtar facilities for production rights and for the parent company's limited capital resources. The entire bundle of mill operational expenses and input costs, along with mill efficiency and location dictate each mill's per-unit production costs.[63] Domtar's allocation of capital is largely driven by these per-unit production costs. The largest components of these bundled costs are wood fiber, chemical catalysts, and energy.[64]

Each Domtar mill also has regional advantages and disadvantages. Unfortunately, one of the regional disadvantages for Hawesville is that their local *"wood basket"* is hardwood only. It takes a mixture of hardwood and softwood fiber to make commercial grades of paper. This forces Hawesville to have softwood fiber delivered from as far away as Arkansas and South Carolina.[65] Kentucky's historical price advantage on energy has always been an important offset to the higher cost of fiber supply at Hawesville.

[61] Id. at 3:9-14.
[62] Id. at 3:14-18.
[63] Hewitt Testimony at 3:22-4:2.
[64] Id. at 4:2-4.
[65] Id. at 4:5-10.

There's another important consideration that is driven by the cost of energy – the possible repurposing of the Hawesville site. There is fierce internal competition within Domtar for the limited amount of capital available to the paper fleet for improvements and technological advancements. Getting the lion's share of these discretionary funds is the difference between maintaining a top position on the Domtar roadmap or languishing as one of the next mills to be slated for closure.[66] Energy costs will weigh heavily in future decisions made by Domtar management whether to close or potentially repurpose the Hawesville site.

II. DUKE ENERGY KENTUCKY'S GENERATION SUPPORT SERVICE ("GSS') TARIFF SHOULD BE ADOPTED HERE.

The Commission should adopt the standby service pricing approach used by Duke Kentucky under its GSS tariff. Duke Kentucky's GSS is comparable to standby service tariffs offered by other MISO utilities.[67] Duke Kentucky's GSS tariff contains many characteristics that constitute a reasonable standby service rate.[68] Duke Kentucky is in PJM, not MISO. But there is nothing in the operation of MISO which would make the Duke Kentucky tariff structure inapplicable here.[69]

Under Duke Kentucky's GSS tariff, supplemental power is the amount of power normally used by the customer in excess of its self-generation. Supplemental power is priced at the utility's standard large industrial rate for both energy and capacity (including all riders). For Domtar, its supplemental load is 20.4 MW (full 70 MW plant load less the 49.6 MW UCAP value of its QF cogeneration facility).[70]

For backup power, the GSS customer pays the standard large industrial demand charge prorated by the number of days that the backup power is taken. For example, if a customer's self-

[66] Id. at 4:20-5:2.

[67] Baron Direct at 17-20.

[68] Baron Direct at 18:11-14.

[69] In questioning from Chairman Chandler, Mr. Baron explained that there is nothing in the Duke tariff structure which would makes its use by Big Rivers in MISO inappropriate. Hearing Tr. at 13:50:26.

[70] Baron Surrebuttal at 10.

generation has a forced outage for five days during the month of April, it would pay the standard demand charge times 16.67% (5/30 = 16.67%). Backup service provided by the utility for even one hour counts as an entire day.

For maintenance power during scheduled outages, the customer pays 50% of the standard large industrial demand charge prorated by the number of days that it is taken. The 50% proration reflects the fact that maintenance power must be scheduled during off-peak periods. Maintenance power taken for even a single hour counts as an entire day.

For both backup power and maintenance power, the customer pays the standard large industrial energy charge (including all riders) for energy actually consumed during scheduled or unscheduled outages.

The Duke Kentucky GSS rate requires the customer to pay a monthly standby charge for the transmission that is reserved for the customer. The transmission reservation charge would be Big Rivers' MISO network integrated transmission service ("NITS") charge. Based upon the September 2023 MISO Schedule 9 NITs rates, the charge would be $2.113/kW-month.[71] That is the cost of providing firm transmission capacity for the 49.6 MW QF. The monthly standby amount would be $104,804, or $1.26 million per year.

The rate increase from the proposed LICSS tariff would be $6.5 million per year (45.5%). The rate increase under the Duke Kentucky GSS rate would be $2.5 million per year (17.8%).[72]

While the Commission-approved Duke Kentucky GSS rate is a significant improvement over the proposed LICSS tariff, it will still result in a very large rate increase to Domtar. However, the Duke Kentucky GSS approach is based upon actual cost of service pricing principles and is consistent with applicable law.

[71] Baron Direct at 20.

[72] Baron Direct at 22:5-7, Exs. SJB-11 and SJB-12.

CONCLUSION

WHEREFORE, the Commission should reject the proposed LICSS tariff, and should require Big Rivers to implement a standby service tariff based on Duke Kentucky's GSS rate.

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COUNSEL FOR DOMTAR PAPER COMPANY, LLC

May 29, 2024

Attachment A

Duke Energy Kentucky, Inc.
1262 Cox Road
Erlanger, Kentucky 41018

RIDER GSS
GENERATION SUPPORT SERVICE

APPLICABILITY

Applicable to any general service customer having generation equipment capable of supplying all or a portion of its power requirements for other than emergency purposes and who requests supplemental, maintenance or backup power.

TYPE OF SERVICE

Service will be rendered in accordance with the specifications of the Company's applicable distribution voltage service or transmission voltage service tariff schedules.

NET MONTHLY BILL

The provisions of the applicable distribution service or transmission service tariff schedule and all applicable riders shall apply to Supplemental Power Service, Maintenance Power Service and Backup Power Service except where noted otherwise. The monthly Administrative Charge and the Monthly Reservation Charges as shown shall apply only to Maintenance Power Service and Backup Power Service.

1. Administrative Charge
   The Administrative Charge shall be $50 plus the appropriate Customer Charge.

2. Monthly Transmission and Distribution Reservation Charge

a. Rate DS - Secondary Distribution Service	$7.8593 per kW	(I)
b. Rate DT – Distribution Service	$10.3382 per kW	(I)
c. Rate DP – Primary Distribution Service	$7.8987 per kW	(I)
d. Rate TT – Transmission Service	$3.8408 per kW	(I)

3. Supplemental Power Service
   The customer shall contract with the Company for the level of demand required for Supplemental Power Service. All Supplemental Power shall be billed under the terms and charges of the Company's applicable full service tariff schedules. All power not specifically identified and contracted by the customer as Maintenance Power or Backup Power shall be deemed to be Supplemental Power.

4. Maintenance Power Service
   Requirements -
   The customer shall contract with the Company for the level of demand required for Maintenance Power. The contracted level of Maintenance Power shall be the lesser of: 1) the transmission and/or distribution capacity required to serve the contracted load; or, 2) the demonstrated capacity of the customer's generating unit(s) for which Maintenance Power is required. The customer's Maintenance Power requirements for each generating unit must be submitted to the Company at least sixty (60) days prior to the beginning of each calendar year. Within thirty (30) days of such submission, the Company shall respond to the customer either approving the Maintenance Power schedule or requesting that the customer reschedule those Maintenance Power requirements. For each generating unit, the customer may elect Maintenance Power Service for up to thirty (30) days in any twelve month period with no more than two (2) days consecutively

Issued by authority of an Order of the Kentucky Public Service Commission dated October 12, 2023 in Case No.2022-00372.

Issued: October 27, 2023
Effective: October 13, 2023
Issued by Amy B. Spiller, President /s/ Amy B. Spiller

NET MONTHLY BILL (Contd.)

during the summer billing periods of June through September and those must be during the Company's off-peak periods. The customer may request an adjustment to the previously agreed upon Maintenance Power schedule up to three weeks prior to the scheduled maintenance dates. The adjusted dates must be within one (1) week of the previously scheduled dates and result in a scheduled outage of the same seasonal and diurnal characteristics as the previously scheduled maintenance outage. The Company shall respond to the customer's request for an adjustment within one (1) week of that request. The Company may cancel a scheduled Maintenance Power period, with reason, at any time with at least seven (7) days notice to the customer prior to the beginning of a scheduled maintenance outage if conditions on the Company's electrical system warrant such a cancellation. Any scheduled Maintenance Power period cancelled by the Company shall be rescheduled subject to the mutual agreement of the Company and the customer.

Billing –

All power supplied under Maintenance Power Service shall be billed at the applicable rate contained in the Company's full service tariff schedules except for the following modifications: 1) the demand ratchet provision of the Company's full service tariff schedules shall be waived; and 2) the demand charge for Generation shall be fifty (50) percent of the applicable full service tariff Generation demand charge prorated by the number of days that Maintenance Power is taken.

5. Backup Power Service

Requirements –

The customer shall contract with the Company for the level of demand required for Backup Power. The contracted level of Backup Power shall be the lesser of: 1) the transmission and/or distribution capacity required to serve the contracted load; or, 2) the demonstrated capacity of the customer's generating unit(s) for which Backup Power is required. The customer shall notify the Company by telephone within one-hour of the beginning and end of the outage. Within 48 hours of the end of the outage, the customer shall supply written notice to the Company of the dates and times of the outage with verification that the outage had occurred.

Billing –

All Backup Power will be billed at the applicable rate contained in the Company's full service tariff schedules except for the following modifications: 1) the demand ratchet provision, if any, of the Company's full service tariff schedules is waived; and 2) the demand charge for Generation shall be the applicable full service tariff schedule Generation demand charge prorated by the number of days that Backup Power is taken. (D)

(D)

6. Monthly Reservation Charges

The Monthly Distribution Reservation Charge, Monthly Transmission Reservation Charge and the Monthly Ancillary Services Charge items shown above shall be based on the greater of the contracted demand for Maintenance Power or Backup Power.

METERING

Recording meters, as specified by the Company, shall be installed where necessary, at the customer's expense. All metering equipment shall remain the property of the Company.

DEFINITIONS

Supplemental Power Service – a service which provides distribution and/or transmission capacity to the customer as well as the energy requirements for use by a customer's facility in addition to the electric power which the customer ordinarily generates on its own.

Maintenance Power Service – a contracted service which provides distribution and/or transmission capacity as well as the energy requirements for use by the customer during scheduled outages or interruptions of the customer's own generation.

Backup Power Service – a contracted service which provides distribution and/or transmission capacity as well as the energy requirements for use by the customer to replace energy generated by the customer's own generation during an unscheduled outage or other interruption on the part of the customer's own generation.

TERMS AND CONDITIONS

The term of contract shall be for a minimum of five (5) years.

The customer shall be required to enter into a written Service Agreement with the Company which shall specify the type(s) of service required, notification procedures, scheduling, operational requirements, the amount of deviation from the contract demand to provide for unavoidable generation fluctuations resulting from normal mechanical factors and variations outside the control of the customer and the level of demand and energy required.

The customer is required to adhere to the Company's requirements and procedures for interconnection as set forth in the Company's publication, "System Protection Requirements & Guidelines for Connection & Parallel Operation of Non-Utility Generators" which is provided to customers requesting service under this rider.

The cost of any additional facilities associated with providing service under the provisions of this rider shall be borne by the customer.

Changes in contracted demand levels may be requested by the customer once each year at the contract anniversary date. This request shall be made at least thirty (30) days in advance of the contract anniversary date.

The Company may enter into special agreements with customers which may deviate from the provisions of this rider. Such agreements shall address those significant characteristics of service and cost which would influence the need for such an agreement.

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to the Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission.