COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY POWER COMPANY FOR APPROVAL OF A CONTRACT FOR ELECTRIC SERVICE WITH AIR PRODUCT AND CHEMICALS, INC.	))))	CASE NO. 2020-00019

O R D E R

On March 11, 2020, Kentucky Power Company (Kentucky Power) filed an application requesting approval of a special contract (Special Contract) between Kentucky Power and Air Products and Chemicals, Inc. (Air Products) to prevent the potential loss of Air Products' load due to economic circumstances that could result in the closure of Air Products' facility located in Ashland, Kentucky. The terms were developed pursuant to the Commission's Order in Case No. 2017-00179 that strongly encouraged Kentucky Power to develop economic retention-focused options to retain existing customers experiencing financial hardship that supplement Kentucky Power's existing Tariff E.D.R. – Economic Development Rider.[1]

Kentucky Power responded to two rounds of discovery. There are no intervenors. This matter now stands submitted for a decision based upon the written record.

[1] Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief* (Aug. 3, 2017), Order at 4-5. Tariff E.D.R. is available for eligible new customers or eligible existing customers who are increasing their electric load.

BACKGROUND

Kentucky Power provides electric service to approximately 165,300 customers in Boyd, Breathitt, Carter, Clay, Elliott, Floyd, Greenup, Johnson, Knott, Lawrence, Leslie, Letcher, Lewis, Magoffin, Martin, Morgan, Owsley, Perry, Pike, and Rowan counties in eastern Kentucky.[2] Kentucky Power explains that its service territory and the entire region in eastern Kentucky are in a distressed financial condition with high unemployment, high poverty rates, declining population, and declining economic activity.[3]

Kentucky Power states that it has provided retail electric service to Air Products' Ashland facility since 1963.[4] According to the application, Air Products' Ashland facility, which produces industrial gases, was originally built to supply industrial gas to AK Steel for use in AK Steel's blast furnace and in the finishing process.[5] Kentucky Power explains that AK Steel purchased more than 60 percent of Air Products' gases and, with AK Steel's recent closure, Air Products is experiencing severe economic hardship.[6] Kentucky Power further explains that, upon learning that Air Products was considering closing its Ashland facility due to economic hardship, Kentucky Power met with Air Products to discuss what actions could be taken to keep the facility open and operating.[7] As a result of those discussions, Kentucky Power and Air Products negotiated the terms of the Special

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[2] Application at paragraph 3.

[3] *Id.* at paragraphs 5–9.

[4] *Id.* at paragraph 12.

[5] *Id.* at paragraph 11 and 13.

[6] *Id.* at paragraphs 13–14.

[7] *Id.* at paragraph 14; Kentucky Power's Response to Commission Staff's First Request for Information (Staff's First Request) (filed March 31, 2020), Item 2.

Contract. Kentucky Power asserts that the terms of the Special Contract provide Air Products with the flexibility necessary to continue its operations, which in turn will help stabilize the economy in Kentucky Power's service territory.[8] Kentucky Power states that Air Products represented that it would cease operations at the Ashland facility without the retention-focused rates established in the Special Contract.[9]

SPECIAL CONTRACT

The Special Contract has a seven-year term that becomes effective on the first day of the first billing month following the Commission's approval.[10] Kentucky Power and Air Products have the option of negotiating a contract extension beyond the initial seven-year contract term.[11] Kentucky Power explains that if Air Products determines that it wants to take service under Kentucky Power's existing tariffs or if the Commission approves a generally available tariff for service comparable to the service provided under the Special Contract, then the parties can modify the Special Contract.[12]

Under the terms of the Special Contract, Kentucky Power will supply energy and capacity for Air Products' entire load up to 26,900 kilowatts (kW) of metered demand for seven years with 18,500 kW designated as firm service and 8,400 kW designated as interruptible capacity that Kentucky Power may curtail for up to 60 hours during any

[8] *Id.*

[9] Kentucky Power's Response to Staff's First Request, Item 3(e).

[10] Application, Exhibit 2, Article 6.1; West Testimony, page 7, lines 12–15.

[11] Application, Exhibit 2, Article 6.3; West Testimony, page 7, lines 18–19.

[12] West Testimony, page 7, lines 3–9.

year.[13] If Kentucky Power calls for a curtailment of the interruptible capacity, Air Products has the option to not interrupt or to partially interrupt. If Air Products opts not to curtail its interruptible load, Air Products would incur a per kilowatt hour (kWh) Buy-Through charge of $0.50 per kWh for all usage above the 18,500 kW firm service capacity reservation.[14] If Air Products opts to interrupt more than the designated 8,400 kW of interruptible load, it receives a $3.68 per kW-month credit.[15]

Kentucky Power states that the contract pricing reflects an all-in cost of electricity over the seven-year term of the Special Contract.[16] The Special Contract provides for a monthly per kWh energy rate that escalates annually after year two and is subject to modification if Kentucky Power's average annual fuel rate exceeds 75 percent of the monthly energy charge.[17] The monthly energy charge is the sum of Air Products' monthly kWh usage multiplied by the monthly per kWh energy rate.[18] Air Products' monthly bill will be the sum of (1) the Tariff I.G.S. customer charge; (2) the per kWh monthly energy charge; (3) applicable Buy-Through charges; (4) applicable taxes and franchise fees; less (5) compensation for additional interruptible load that Air Products provides beyond the 8,400 kW interruptible capacity reservation.[19]

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[13] Application at paragraph 16; Direct Testimony of Brian K. West (West Testimony), page 5, line 19 through page 6, line 2; Kentucky Power's Response to Staff's First Request, Item 1.

[14] Application, Exhibit 2, Article 4.2; West Testimony, page 5, lines 19–23.

[15] Application Exhibit 2, Article 4.5.

[16] Kentucky Power's Response to Staff's First Request, Item 3(b).

[17] Application, Exhibit 2, Articles 5.1–5.2, 7.5; West Testimony, page 6, lines 14–21.

[18] *Id.*

[19] Application at paragraph 17.

Kentucky Power will allocate Air Products' payments to bill components in the following order: Tariff F.A.C. – Fuel Adjustment Clause; Tariff C.C. - Capacity Charge; Tariff P.P.A. – Purchase Power Agreement; Tariff D.R. - Big Sandy Decommissioning Rider; Tariff E.S. - Environmental Surcharge; and base rates.[20] Tariff C.C. ends in December 2022, thus, subject to resolution of the refund of over-recovery or collection of any under-recovery through December 7, 2022, there will be no capacity charge after that date.[21]

Kentucky Power asserts that the rates established in the Special Contract will cover all of the variable costs incurred to serve Air Products and will increase Air Products' contribution to fixed costs.[22] Kentucky Power further asserts that the rates established in the Special Contract will not adversely impact the rates of other customers.[23] Kentucky Power maintains that the retention of Air Products' fixed cost contribution benefits Kentucky Power's customers and avoids the loss of $3.2 million of non-fuel revenues that would be borne by Kentucky Power and its customers if Air Products ceased operations at the Ashland facility.[24]

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[20] *Id.* at paragraph 17.

[21] Kentucky Power's Response to Staff's First Request, Item 3(a); Kentucky Power's Response to Commission Staff's Second Request for Information (Staff's Second Request) (filed Apr. 3, 2020), Item 1.

[22] Application at paragraph 19 and Exhibit 3; Kentucky Power's Response to Staff's First Request, Item 3.

[23] *Id.*

[24] *Id.*

DISCUSSION AND FINDINGS

As discussed in the application, Kentucky Power requests approval of the Special Contract in order to assist the deteriorating financial position of an existing manufacturer in its service territory. The Commission is aware of the declining economic circumstances, increased unemployment, and low median household income for the residents of Kentucky Power's service territory. As stated in our Order in Case No. 2017-00179, the Commission strongly encourages Kentucky Power to develop economic development options to retain existing businesses as a supplement to Kentucky Power's Tariff E.D.R.

Having reviewed the record and being otherwise sufficiently advised, the Commission finds that the proposed Special Contract is reasonable under the particular facts presented. Kentucky Power filed credible evidence in support of its assertion that the rates established in the Special Contract will cover all of the variable costs incurred to serve Air Products, will increase Air Products' contribution to fixed costs, and will not adversely impact the rates of other customers. Additionally, Kentucky Power presented testimony that, without the rates established in the Special Contract, Air Products would cease operations at its Ashland facility, resulting in direct and indirect adverse results through the loss of $3.2 million of non-fuel revenues and the collateral impact on increased unemployment and loss of wages from the loss of manufacturing jobs.

The Special Contract is consistent with the Commission's determination in Case No. 2017-00179 that Kentucky Power should provide economic incentives to assist an ailing entity or ailing industry in recognition of Kentucky Power's stated commitment to economic development and the importance of retaining existing businesses and industries in eastern Kentucky.

For the above reasons, the Commission finds that the Special Contract is reasonable and should be approved. The Commission further finds that the Special Contract should be treated as an economic development rate under the purposes of Administrative Case No. 327.[25] The Commission further finds that, similar to reports filed pursuant to finding in Administrative Case No. 327, Kentucky Power should file annual reports by March 31 each year that detail the revenues received under the Special Contract with Air Products and the marginal costs associated with service to Air Products.

IT IS THEREFORE ORDERED that:

1. Kentucky Power's request to enter into the Special Contract between Kentucky Power and Air Products is approved.

2. By March 31 of each year, Kentucky Power shall file an annual report with the Commission detailing, for the prior calendar year, revenues received from Air Products and the marginal costs associated with serving Air Products throughout the term of the Special Contract.

3. During any rate proceedings by Kentucky Power filed subsequent to the effective date of the Special Contract with Air Products, and during a period when Kentucky Power still has an active Special Contract with Air Products, Kentucky Power shall demonstrate through detailed cost-of-service analysis that other ratepayers are not adversely affected by the Special Contract rate to Air Products.

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[25] Administrative Case No. 327, *An Investigation into the Implementation of Economic Development Rates by Electric and Gas Utilities* (Ky. PSC Sept. 24, 1990).

4. Any document filed pursuant to ordering paragraph 2 shall reference this case number and shall be retained in the post-case correspondence file.

5. Within 20 days of the date of this Order, Kentucky Power shall file with the Commission, using the Commission's electronic Tariff Filing System, its Special Contract as approved herein.

6. This case is closed and removed from the Commission's docket.

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By the Commission

ENTERED

APR 23 2020

KENTUCKY PUBLIC SERVICE COMMISSION

ATTEST:

Executive Director

*Christen M Blend
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Post Office Box 16631
Columbus, OHIO 43216

*Kentucky Power Company
855 Central Avenue, Suite 200
Ashland, KY 41101

*Honorable Mark R Overstreet
Attorney at Law
Stites & Harbison
421 West Main Street
P. O. Box 634
Frankfort, KENTUCKY 40602-0634