

Kentucky Electric Steel

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20 January 2010

Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, KY 40602-0615

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PUBLIC SERVICE
COMMISSION

Dear Messrs. Armstrong, Gardner and Borders:

We respectfully request that this motion be considered to be a request for leave to intervene in Case No. 2009-00459, the proposed rate increase for Kentucky Power Company.

We represent Kentucky Electric Steel Company ("KES"), a mini-mill steel producer that relies upon electric power to produce steel in eastern Kentucky. We operate the only electricity-powered steelmaking facility east of Interstate 75 in the Commonwealth. Our steel is rolled into product that is shipped to customers in all of the continental United States and to both Canada and Mexico. We employ approximately 150 folks from the surrounding area, most of whom are members of United Steelworkers Local 7054.

KES is one of the largest recyclers in the Commonwealth as approximately 98% of our 100,000 annual tons of steel production is sourced in steel scrap. We have the capacity for even greater production but have always been constrained due to the high cost of electricity from our sole provider, Kentucky Power Company. We have, since starting operation in 2004, only melted steel at nights or on the weekends so as to minimize our power costs as electricity is the sole means for melting and our "minimized" electric bill generally exceeds \$400,000 per month. If we made steel during weekdays, which would enable our employees to have more normal lives, our power bill would easily be 30-50% higher. This would put us at a significant competitive disadvantage with other steel producers, both foreign and domestic.

And now Kentucky Power is seeking a rate increase that would, if enacted, increase our average monthly bill by an estimated 18%.

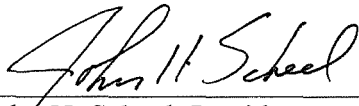
We believe that, generally, free-market capitalism provides a check and balance on prices through the concept of **price elasticity**. That is to say, that if a particular elastic good or service (such as steel) increases in price, demand will fall and, thus, keep a balance. There are, however, certain goods and services which are price inelastic because they are "necessities". Water, food and electric power are general examples. Because of their general need, prices can be raised with little demand impact, especially if little or no

competition exists. That, we believe, is the reason for groups such as yours; to look out for the public good in situations that involve price inelastic commodities, specifically utilities.


Please understand, we do not begrudge Kentucky Power a profit; that is a reward of every successful business. However, the tariffs that have been established already contain mechanisms to recover cost increases associated with rising prices of raw materials, environmental charges and even system sales (this one ensures additional revenue in the event of lower demand!). The application for the rate increase references company increases in costs for specialized safety equipment, computers and systems for data collection, training programs, service vehicles and fuel, radio equipment, power tools, employee wages and benefits and lost revenue. All such costs have increased for our steel business in the past year, yet our selling price is 20% lower than a year ago because it happens to be driven by the free market. Thus, we must become more efficient, more innovative and more productive to offset costs. We cannot and do not rely on price increases to do our jobs as stewards of the business. We cannot imagine that you want to treat the price-inelastic entities under your stewardship any differently.

If you believe that Kentucky Power Company is absolutely doing everything within its abilities to minimize cost and operate an efficient business then, by all means, consider a rate hike as a last resort to stave off a business failure. If, however, you believe as we do, that the challenged human mind and spirit can usually achieve beyond initial expectation, then please reconsider the requested rate hike which will have generally negative impacts on homeowners, businesses and everyone that cannot simply pass on the increased cost to someone else.


Respectfully submitted,



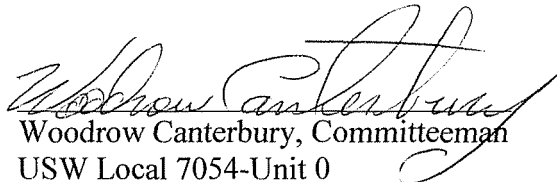
John H. Scheel, President
Kentucky Electric Steel



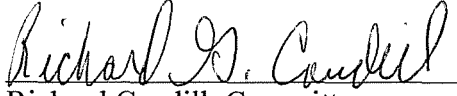
Steve Carroll, President
USW Local 7054-Unit 0



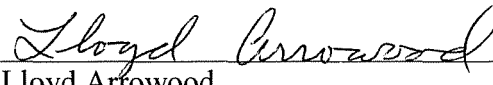
Harry Chaffin, Vice President
USW Local 7054-Unit 0



Woodrow Canterbury, Committeeman
USW Local 7054-Unit 0



Richard Caudill, Committeeman
USW Local 7054-Unit 0



Lloyd Arfowood
USW Local 7054-Unit 0