

**CONTRACT FOR  
OPERATING RESERVE INTERRUPTIBLE ELECTRIC SERVICE  
BETWEEN KENTUCKY POWER COMPANY d/b/a  
AMERICAN ELECTRIC POWER AND  
KENTUCKY ELECTRIC STEEL, INC.**

**RECEIVED**  
JUL 30 1997  
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THIS CONTRACT, made and entered into July 29, 1997, by and between the **KENTUCKY POWER COMPANY d/b/a AMERICAN ELECTRIC POWER**, a Kentucky corporation (the **Company**), and **KENTUCKY ELECTRIC STEEL, INC.**, a Delaware corporation (the **Customer**),

**WITNESSETH:**

**WHEREAS**, the Company is a corporation organized and existing under the laws of the State of Kentucky with its principal place of business at Ashland, Kentucky, and owns and operates facilities for the generation, transmission and distribution of electric power and energy in the State of Kentucky and is a member of the integrated American Electric Power (AEP) System; and

**WHEREAS**, the Customer is a corporation chartered and existing under the laws of the State of Delaware with its principal place of business in Ashland, Kentucky; and

**WHEREAS**, in recognition of the need for the efficient use of existing utility generation and transmission facilities, the Company and the Customer agree to implement an innovative interruptible rate design; and

**WHEREAS**, the service the Company is to provide the Customer pursuant to this Contract will provide benefits to the Company, the Company's ratepayers, and the State of Kentucky; and

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PURSUANT TO 807 KAR 5.011.  
SECTION 9 (1)

NOW THEREFORE, in consideration of the promises and the mutual covenants herein contained, and subject to the terms and conditions herein contained, the Parties hereby agree as follows:

## ARTICLE 1

### DEFINITIONS

1.1 Whenever used herein, the following terms shall have the respective meanings set forth below, unless a different meaning is plainly required by the context:

A. "Commission" shall mean the Commonwealth of Kentucky Public Service Commission, the regulatory agency having jurisdiction over the retail electric service of the Company in Kentucky, including the electric service covered by this Contract, or any successor thereto.

B. "Contract" shall mean this Contract for Electric Service between the Company and the Customer, as the same may, from time to time, be amended. Said Contract is set forth in its entirety herein.

C. "ECAR" shall mean the reliability council (or its successors) established pursuant to the East Central Area Reliability Coordination Agreement which establishes rules, procedures, guidelines and criteria for maintenance of reliability of the interconnected electric system for the region in which AEP operates. ECAR is a member of the North American Electric Reliability Council.

D. "Parties" shall mean the Company and the Customer.

E. "Party" shall mean either the Company or the Customer.

F. "Tariff C.I.P.-T.O.D." shall mean the Company's Commercial and Industrial Power Tariff, or any successor thereto, approved by the Commission.

G. "Tariff Q.P." shall mean the Company's Quantity Power Tariff, or any successor thereto, approved by the Commission.

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BY: Storano Bull  
SECRETARY OF THE COMMISSION

H. "P.S.C. ELECTRIC No. 7" shall mean the Schedule of Tariffs, Terms and Conditions of Service Governing Sale of Electricity of Kentucky Power Company, or any successor thereto, approved by the Commission.

I. "Area Control Error" shall mean the instantaneous difference between actual and scheduled interchange of power taking into account the effects of frequency bias.

J. "Customer Communications System" shall mean the computerized system allowing the exchange of information between the Company and Customer.

1.2 Unless the context plainly indicates otherwise, words importing the singular number shall be deemed to include the plural number (and vice versa); terms such as "hereof," "herein," "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Contract rather than any particular part of the same. Certain other definitions, as required, appear in subsequent parts of this Contract.

## ARTICLE 2

### OPERATING RESERVE SERVICE

2.1 Subject to the terms and conditions specified herein, the Company agrees to furnish to the Customer, during the term of this Contract, and the Customer agrees to take and pay for, all of the electric energy that shall be purchased by the Customer for consumption in the premises located at Coalton, U.S. 60, Boyd County, Kentucky. Except as otherwise provided in this Contract, such electric energy shall be provided in accordance with the Company's Operating Reserve interruptible service offering.

2.2 In the event that the Customer elects to install self-generation, then any necessary changes in the terms and conditions of this Contract shall be specified in an Addendum to this Contract.

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BY: Stephan D. Bell  
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**ARTICLE 3**

**DELIVERY POINT**

3.1 The Delivery Point for electric power and energy delivered hereunder shall be the connection to the Customer's dead-ends located on the Customer's structure in the Customer's 138 KV substation, from the Company's metering station served by pole #C-KES-51.

3.2 The Customer shall own, operate and maintain all necessary substation and appurtenances thereto for receiving and purchasing all electric energy at the Delivery Point designated herein.

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**ARTICLE 4**

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**DELIVERY**

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4.1 The electric energy delivered hereunder shall be three-phase ~~alternating current~~ having a frequency of approximately 60 cycles per second at approximately 138,000 volts and shall be delivered at the Delivery Point specified in Article 3.1. The said electric energy shall be delivered at reasonably close maintenance to constant potential and frequency and it shall be measured by a meter or meters owned and installed by the Company and located at the Company's metering station served by pole #C-KES-51.

BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

**ARTICLE 5**

**CAPACITY RESERVATION**

5.1 The Capacity Reservation contracted for by the Customer is hereby fixed at 48,000 KW. The Customer's Maximum Demand shall not exceed the Capacity Reservation except by mutual agreement of the Parties.

5.2 The Company shall not be required to supply capacity in excess of that contracted for except under such terms and conditions as are mutually agreeable to the Parties. If in the absence of such agreement the Customer's demand exceeds the Capacity Reservation, the

Company may promptly notify the Customer to reduce demand and may interrupt the service if such reduction is not accomplished.

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**ARTICLE 6**

**INTERRUPTIBILITY OF SERVICE**

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6.1 The Company, as a member of ECAR, must maintain certain reserves. Under certain criteria established by ECAR, members can satisfy operating reserve requirements by having contracts which allow the members to interrupt customers' load. The Company represents that use of the procedures described below will qualify the Customer to be utilized as a component of the Company's operating reserve. Though the Company agrees to use its best efforts to continue ECAR's recognition of the procedures which qualify the Customer to be utilized by the Company as a component of the Company's operating reserve, if at any time ECAR should declare these procedures to be inadequate to qualify the Customer to be utilized by the Company as a component of operating reserve, the Parties shall renegotiate the terms of this Operating Reserve Contract to the extent necessary to qualify the Customer to continue to be used as a component of the Company's operating reserve, if possible. If the Parties are unable to reach agreement during renegotiation of the terms of this Operating Reserve Contract to qualify the Customer to continue to be used as a component of the Company's operating reserve, the Customer may terminate this Contract and transfer to firm or other interruptible service.

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*Stephen D. Bell*  
SECRETARY OF THE COMMISSION

The Company reserves the right to interrupt service to the Customer at any time that an AEP unit trips or that AEP is responsible to share reserves with ECAR companies, and in these instances, in the sole judgement of the Company, AEP's operating reserves, as specified by ECAR, exclusive of those reserves provided by the Customer and other operating reserve IRP customers, are not sufficient to restore AEP's area control error to zero within a ten-minute period. When interrupted by the Company in order to restore the area control error to zero

within a ten-minute period, the Company will restore service to the Customer within thirty minutes.

6.2 The Company will endeavor to provide the Customer as much advance notice as possible of interruptions of service as described in Articles 6.1. However, the Customer shall not interrupt service within five minutes if so requested.

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6.3 All telemetering and communications equipment within the Customer's premises required for interruptible service shall be paid for and owned by the Customer.

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BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

6.4 If the Customer fails to interrupt load as requested by the Company, the maximum uninterrupted demand shall be billed at a rate equal to three times the Tariff C.I.P.-T.O.D. Transmission Service Minimum Demand Charge for that billing month. The uninterrupted demand shall be the difference between the maximum instantaneous demand recorded during each interruption period and the designated firm service capacity reservation as specified in Article 7. For the purposes of this Contract, instantaneous demand shall be defined as the one-minute integrated peak demand in KW. The maximum uninterrupted demand as billed under this provision shall not exceed the greater of (a) the Monthly Billing Demand as defined in Article 9.1 and (b) the Capacity Reservation as defined in Article 5.1, less the Firm Service Demand as designated in Article 7.1.

6.5 The Customer's computerized load control system is designed to automatically respond in a timely manner to the Company's requests for interruption. In the event that the Customer's computerized load control system fails, causing the Customer to fail to interrupt load as requested by the Company for operating reserve purposes, the Company agrees to waive any billings related to uninterrupted demand as described in Article 6.4 provided the Customer thereafter agrees to take and is implementing corrective action according to mutually agreeable specifications provided by the Company. The Customer agrees to immediately interrupt load upon discovery of any such equipment failure and notify the Company in writing. Such

notification shall be provided within five working days and shall specify the cause of the failure, the duration of the failure and the corrective actions taken to avoid such failures in the future. In such instances, if ECAR imposes an economic penalty upon the Company for failure to restore area control error to zero within a ten-minute period, the Customer shall reimburse the Company for any such penalties incurred due to the Customer's failure to interrupt, but any such reimbursement shall be in lieu of any penalty under Article 6.4 and shall not exceed the amount the Customer would have been billed pursuant to Article 6.4 hereof.

6.6 No responsibility or liability of any kind shall attach to the Company for, or on account of, any loss or damage caused by or resulting from any interruption or curtailment of service under Articles 5 or 6.

## ARTICLE 7

### DESIGNATION OF FIRM SERVICE

7.1 The Customer designates 7,500 KW of the Capacity Reservation fixed in Article 4.1 as firm electric service not subject to interruption as provided in Article 6 which shall be billed in accordance with the provisions of the Company's Tariff Q.P. The Customer may change the level of designated firm service, if available, by providing at least thirty days' written notice to the Company before the billing month in which the change is to be effectuated.

7.2 If at any time, the Customer designates a firm service demand in excess of 7,500 KW, then such firm service shall be billed in accordance with the provisions of Tariff C.I.P.-T.O.D.

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## ARTICLE 8

### DETERMINATION OF MONTHLY BILLING ENERGY

8.1 Monthly Billing Energy shall be measured as the total KWH registered by an energy meter during the month.

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SECRETARY OF THE COMMISSION

## ARTICLE 9

### DETERMINATION OF MONTHLY BILLING DEMAND

9.1 The Monthly Billing Demand in KW shall be taken each month as the single highest fifteen-minute integrated peak in KW as registered during the month by a demand meter. The Monthly Billing Demand shall not be less than sixty percent of the Customer's Capacity Reservation specified in Article 5.1, nor less than 5,000 KW.

## ARTICLE 10

### DETERMINATION OF MONTHLY REACTIVE BILLING DEMAND

10.1 The reactive demand in KVAR shall be taken each month as the single highest fifteen-minute integrated peak in KVAR as registered during the month by a demand meter. The Monthly Reactive Billing Demand shall be computed in accordance with Tariff C.I.P.-T.O.D.

## ARTICLE 11

### RATES

11.1 The Customer agrees to pay for all interruptible electric service supplied hereunder in accordance with the following provisions:

A. The Monthly Service Charge shall be equal to the Tariff C.I.P.-T.O.D. Transmission Service Monthly Service Charge.

B. The Energy Charge shall be equal to the Tariff C.I.P.-T.O.D. Transmission Service Energy Charge.

C. The Demand Charge shall be equal to the Tariff C.I.P.-T.O.D. Transmission Service Minimum Demand Charge as adjusted using the procedure specified in Appendix I (which is incorporated herein by reference).

D. The Reactive Demand Charge shall be equal to the Tariff C.I.P.-T.O.D. Transmission Service Reactive Demand Charge.

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- E. Bills computed according to the rates set forth herein will be increased or decreased by a Fuel Adjustment Factor per KWH calculated in compliance with the Fuel Adjustment Clause contained in Sheet Nos. 5-1 and 5-2 of P.S.C. ELECTRIC No. 7, as approved by the Commission.
- F. Bills computed according to the rates set forth herein will be increased or decreased by a System Sales Factor per KWH calculated in compliance with the System Sales Clause contained in Sheet Nos. 19-1 and 19-2 of P.S.C. ELECTRIC No. 7, as approved by the Commission.
- G. Bills computed according to the rates set forth herein will be increased or decreased by an Environmental Surcharge Adjustment based on a percent of revenue in compliance with the Environmental Surcharge contained in Sheet Nos. 23-1 and 23-2 of P.S.C. ELECTRIC No. 7, as approved by the Commission.
- H. Charges pursuant to this Contract shall also be subject to adjustment in accordance with any additional adjustment clauses applicable to Tariff C.I.P.-T.-O.D. which may be approved by the Commission in the future.

11.2 The Company will adjust the Rates contained in Article 11.1 to reflect changes to the Tariff C.I.P.-T.O.D. Transmission Service Monthly Service, Energy, Minimum Demand, Reactive Demand, Fuel Adjustment Factor, System Sales Factor and Environmental Surcharge Adjustment Charges, as approved by the Commission.

**ARTICLE 12**

**DETERMINATION OF MONTHLY BILL**

- 12.1 The Monthly Bill shall be the sum of the following:
  - A. The Monthly Service Charge;
  - B. The product of the Monthly Billing Energy and the Energy Charge;

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- C. The product of the Monthly Billing Demand less the Firm Service Capacity Reservation, and the Demand Charge;
- D. The product of the Monthly Reactive Billing Demand and the Reactive Demand Charge;
- E. Charges for Firm Service as specified in Article 7;
- F. Charges under the Fuel Adjustment Clause, charges under the System Sales Clause, charges under the Environmental Surcharge and any additional adjustment clauses which may be approved by the Commission in the future;
- G. Any charges specified in Article 6.4 resulting from the failure of the Customer to interrupt load when requested by the Company; and
- H. Any applicable taxes.

12.2 The minimum monthly charge for interruptible service under this Contract shall be equal to the sum of the Service Charge and the Demand Charge multiplied by the Monthly Billing Demand.

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**ARTICLE 13**

**AUG 29 1997**

**DELAYED PAYMENT CHARGE**

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SECTION 9 (1)

13.1 Bills computed under this Contract are net if the account is paid to the firm within fifteen days of the date of the bill. On accounts not so paid, an additional charge of five percent of the unpaid balance will be made.

BY: Stephen O. Butler  
SECRETARY OF THE COMMISSION

**ARTICLE 14**

**EFFECTIVE DATE AND TERM OF CONTRACT**

14.1 The effective date of this Contract shall be the later of August 1, 1997, or approval by the Commission.

14.2 The initial term of this Contract shall be for one year. This Contract shall remain in effect thereafter until the Customer shall give at least one-year's written notice to the

Company of its intention to discontinue service under this Contract. However, unless otherwise agreed to by the Parties, this Contract shall terminate upon the later of the fifth anniversary from the effective date or any date on which it becomes possible for retail customers of the Company to purchase electrical energy off-system and the Company is required to use its transmission and distribution system to deliver such energy to those customers. The initial term shall commence on the effective date of this Contract as established under Article 14.1.

## ARTICLE 15

### SERVICE CONDITIONS

15.1 To the extent not specifically modified by this Contract, the Company's Terms and Conditions of Service, as regularly filed with the Commission, are incorporated herein by reference and made a part hereof. The Customer acknowledges receipt of the currently approved Terms and Conditions of Service. In the event of a conflict between the provisions of this Contract and the provisions of the Company's Terms and Conditions of Service, the provisions of this Contract shall control.

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## ARTICLE 16

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### REGULATORY AUTHORITIES

PURSUANT TO 807 KAR 5.011,  
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16.1 The Parties hereto recognize that this Contract is subject to the jurisdiction of the Commission, and is also subject to such lawful action as any regulatory authority having jurisdiction shall take hereafter with respect thereto. The performance of any obligation of either Party hereto shall be subject to the receipt from time to time as required of such authorizations, approvals or actions of regulatory authorities having jurisdiction as shall be required by law.

BY: Stephan D. Bane  
SECRETARY OF THE COMMISSION

16.2 The Company and the Customer agree that this Contract reflects the steps required to insure adequate service to the Customer and that the Company will file this Contract for approval by the Commission. This Contract is expressly conditioned upon approval by the Commission of this Contract without change or condition. In the event that the Commission

does not so find or approve, then this Contract shall not become effective, unless the Parties agree otherwise in writing, it being the intent of the Parties that such findings and approval, without change or condition, are prerequisite to the validity of this Contract.

16.3 The Parties agree to use their best efforts to seek and obtain the prompt approval of this Contract by the Commission and not seek withdrawal of the current Tariff I.R.P. until this Contract is approved by the Commission. Further, the Parties agree not to seek in any subsequent Commission proceeding an order that would modify or terminate this Contract.

16.4 The Parties expressly agree and understand that the Commission has jurisdiction over the rates and charges contained herein.

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**ARTICLE 17**

**GENERAL**

PURSUANT TO 807 KAR 5.011,  
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BY: Stephan D. Bell  
SECRETARY OF THE COMMISSION

17.1 Any waiver at any time of any rights as to any default or other breach of this Contract hereunder shall not be deemed a waiver as to any subsequent default or matter. Any delay, short of the statutory period of limitation, in asserting or enforcing any right hereunder shall not be deemed a waiver of such right.

17.2 In the event that any of the provisions, or portions thereof, of this Contract are held to be unenforceable or invalid by any court of competent jurisdiction, the validity and enforceability of the remaining provisions, or portions thereof, shall not be affected thereby.

17.3 All terms and stipulations made or agreed to regarding the subject matter of this Contract are completely expressed and merged in this Contract, and no previous promises, representations or agreements made by the Company's or the Customer's officers or agents shall be binding on either Party unless contained herein. Upon mutual agreement of the Parties, the Customer may also receive service from the Company pursuant to one or more of the Company's interruptible power products for which the Customer is eligible.

17.4 The rights and remedies granted under this Contract shall not be exclusive rights and remedies but shall be in addition to all other rights and remedies available at law or in equity.

17.5 The validity and meaning of this Contract shall be governed by the laws of the State of Kentucky.

## ARTICLE 18

### ASSIGNMENT

18.1 This Contract shall inure to the benefit of and be binding upon the successors and assigns of the Parties.

18.2 This Contract shall not be assigned by either Party without the written consent of the other Party. Such consent shall not be unreasonably withheld.

18.3 Any assignment by one Party to this Contract shall not relieve that Party of its financial obligation hereunder unless the other Party to this Contract so consents in writing. Such consent shall not be unreasonably withheld.

IN WITNESS WHEREOF, the Parties hereto have caused this Contract to be duly executed the day and year first above written.

KENTUCKY POWER COMPANY ~~public~~ SERVICE COMMISSION  
AMERICAN ELECTRIC POWER OF KENTUCKY  
EFFECTIVE

By Timothy C. Mosher AUG 29 1997

Title KENTUCKY STATE PRESIDENT PURSUANT TO 807 KAR 5:011,  
SECTION 9 (1)

BY: Stephan Bee  
SECRETARY OF THE COMMISSION

KENTUCKY ELECTRIC STEEL, INC.

By Charles L. Harshbarger

Title Chairman and President

## APPENDIX I

### Calculation of Operating Reserve Interruptible Demand Charge

The Demand Charge used in the determination of the monthly bill (Article 12) of this Contract shall be equal to the Tariff C.I.P.-T.O.D. Transmission Service Minimum Demand Charge adjusted as follows:<sup>1</sup>

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1. The Tariff C.I.P.-T.O.D. Transmission Service Minimum Demand Charge of \$8.32/KW shall be divided into Production and Other components as follows:

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FUNCTIONAL LEVELS (1)	FUNCTIONAL FACTORS (%) (2)	C.I.P.-T.O.D. TRANS. MINIMUM DEMAND CHARGE (\$/KW) (3)	FUNCTIONAL COMPONENTS (\$/KW) (4)=(2)*(3)
Production	77.3%	8.32	6.43
Other	22.7%	8.32	1.89
<b>TOTAL</b>			<b>8.32</b>

The Functional Factors used for any subsequent adjustment to the Tariff C.I.P.-T.O.D. Minimum Demand Charge will be based upon the compliance class cost-of-service study most recently filed with the Commission as part of a general rate filing made by the Company.

2. The Production Component will be reduced by a factor of 25% to yield the Demand Charge as follows:

DESCRIPTION (1)	C.I.P.-T.O.D. TRANS. MINIMUM DEMAND CHARGE (\$/KW) (2)	PRODUCTION REDUCTION FACTOR (%) (3)	PRODUCTION COMPONENT REDUCTION (\$/KW) (4)=(2)*(3)	ADJUSTED DEMAND CHARGE (\$/KW) (5)=(2)-(4)
Production	6.43	25%	1.61	4.82
Other	1.89			1.89
<b>TOTAL</b>				<b>6.71</b>

<sup>1</sup>For illustrative purposes, the current Tariff C.I.P.-T.O.D. Transmission Service Minimum Demand Charge of \$8.32/KW is used to derive the Demand Charge in this Appendix.