



John A. Beaver
President, USW Local 9423
P.O. Box 448
Lewisport KY 42351

February 25, 2013

Dr. James Sills
P.O. Box 24
Henderson KY 42419-0024

Dear Dr. Sills,

I regret that you and I have not been formally introduced and that this correspondence must serve that purpose for the immediate moment. My name is John Beaver. I have been a life-long resident of Hancock County and a Big Rivers / Kenergy ratepayer. I have been employed by Century Aluminum of Kentucky, GP since 1995, and have worked in the Safety and Health Department for approximately seven years. I am serving my second term as the Local Union President representing the Collective Bargaining Unit at the Hawesville smelter.

If you would be so kind to give me a few minutes of your time, I would like to convey some concerns of mine regarding the Century and Alcan notification and resulting rate case presented to the Public Service Commission.

First of all, it appears to me, from what I have read in the media, that the primary focus of Big Rivers and the member cooperatives is the resulting rate increase(s) and a philosophical difference / problem with subsidizing power to the smelters. The dynamics and true nature of the entire issue is much deeper than increased rates and any philosophical difference. If the parties continue to view this issue without consideration to the entire scope, permitting insight to the rate increases and philosophical differences alone; then, in my opinion, we all lose. This truly is a case where the better of two evils must be identified, and the parties execute a plan that best serves everyone. If the parties continue to focus on rate increases and this philosophical difference, then many other problems remain unaddressed. This is not a time to neglect the forest for the sake of one tree. There is an entire gambit of issues that the ratepayers will ultimately face, including:

1. **Increased electric rates**

On Tuesday, January 15, 2013, Big Rivers, as a result of the notice of termination received from Century Aluminum, filed a rate case with the Kentucky Public Service Commission seeking an overall rate increase of \$ 74.5 million. According to a fact sheet published by Kenergy, if the PSC approves this rate increase, it will result in a 21.4 % increase to residential

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customers and 16.6 % - 20.9 % rate increase for large industrial customers depending on their transmission level. Based on statements from Marty Littrel made to the Hancock County Clarion on February 7, 2013, Big Rivers expects the rate increase to climb to \$ 104 million because of the recent Alcan termination notice. I will be the first to admit that I do not possess a PhD in accounting or business, but it appears to be good ole' fashion common sense that if Big Rivers and the smelters negotiated a reduced rate, then the smelters would remain on the Big Rivers system, and Big Rivers would only be exposed to the difference between the reduced rate and \$ 104 million, necessitating a much lesser rate increase for the remaining Big Rivers customers.

2. **Credit Rating**

It also stands to reason, based on information gleaned from Big Rivers petition to the PSC, that Big Rivers may face a downgrade in credit if the smelters were to purchase power outside of the Big Rivers system. Based on statements made by Marty Littrel in the February 7, 2013 edition of the Hancock County Clarion, the smelters represent 70 % of Big Rivers sales, with a net sale of \$ 360 million per year. My concern here is, without that sales revenue, what is the impact to Big Rivers credit rating? If there is a negative impact to the credit rating, will Big Rivers have the ability to borrow money in time of operational need, and what will be the cost in additional interest that would be passed on to the ratepayers? In my opinion, this must be a huge consideration taken into account by the Big Rivers board of directors in light of the current indebtedness of Big Rivers, currently \$ 700 million.

3. **Increase in State and Local Taxes**

Based on a study completed by Paul A. Coomes, PhD, the Century Hawesville smelter accounts for "21 % of all private sector wages and salaries earned in Hancock County, and directly accounts for about 19 % of the total county's occupational taxes collected". Rio Tinto Alcan "accounts for over 5 % of private sector wages and salaries in Henderson County, and over 2 % of all property and utility taxes collected for public schools and county government". Directly, Century Aluminum, Alcan, and its employees pay approximately \$ 7.3 million in taxes to state government and \$ 1.5 million in local taxes. Directly and indirectly, state and local government will experience a revenue loss of over \$ 12 million if the two smelters were to close.

4. **Increase in School Taxes**

The Century smelter also accounts for 6 % of all property taxes collected to support the Hancock County School system.

5. Impact of Closure on Other Business

The impact on the remaining businesses, aluminum and other private sectors will also be enormous. This impact will certainly deflate the already stressed economy, resulting in indirect job losses. Based on the study completed by Mr. Coomes, for every smelter job, another 2.921 jobs in the region are created. Mr. Coomes estimates that there will be 4,700 job losses in total if the smelters were to close.

Big Rivers must not look too far to see the impact on business if the smelters were to close. Based on statements made by Kenergy in a February 15, 2013 document, Big Rivers is executing the following measures to reduce costs:

- a. "Deferral of more than \$ 19.5 million in plant maintenance expense in 2012."
- b. "Refinanced \$ 442 million in debt."
- c. "Deferral of filling vacant jobs."
- d. "Decreased company vehicle inventory and related expenses."
- e. "Big Rivers continues to consider the option of idling or selling one of its power plants."

Southwire Rod and Cable is another good example of this. If the Hawesville smelter were to close, Southwire may be forced to move its operations to a location that better suits its business needs. This would result in net loss of an additional \$ 12 million in payroll, and an additional \$ 1.4 million in tax revenue to local and state governments.

According to an article in the Courier Press on February 13, 2013, the rate increases if the smelters close could negatively impact Tyson Foods by the tune of \$ 600,000 annually. Tyson employees approximately 1,500 people residing in 17 counties in western Kentucky, Indiana and Illinois. Approximately 26 % of those employees reside in Henderson and account for \$ 13 million in payroll. This may certainly have a cascading effect on the economy of Henderson, hitting farmers and growers bottom line. Growers are paid \$ 26 million annually for raising chickens, and farmers in Henderson were paid \$ 33 million last year for corn and soybeans.

In Hancock County, according to Younger Associates, businesses in Hancock County will suffer losses over \$ 71.3 million in consumer spending over an annual basis if the Hawesville smelter would close. This will have a lasting impact on the survivability of small businesses in the county.

Direct and indirect loss to the economy of the region is estimated to be over \$ 176 million annually.

6. **Direct Job Losses**

Mr. Coomes estimates that 1,200 jobs will vanish if the two smelters close. The regional economy will be depressed with a total loss of over \$ 116 million annually in direct wages paid by the two smelters.

7. **Strain on Social Services**

The loss of 4,700 direct and indirect jobs will place those who would otherwise be employed on the social safety net, including an already over encumbered unemployment system. I wonder, how will the state of Kentucky and the remaining tax payers burden this strain on the system?

8. **Depressed Regional Economy**

I do not currently hold a degree in business or economics, but I am a firm believer in common sense and the beliefs of Henry Ford regarding pay and income. His theory was that if employees, the consumer, could not afford his product, then he would indefinitely place himself out of business. You see, the economy is based on making a product or service, and selling that product or service. If no one, is making the product or service, then obviously that product or service cannot be sold. If a product or service does not exist, then obviously the jobs do not exist either, limiting the consumer's ability to purchase other products or services because of limited income. Based on the regional statistics and estimates provided above, I am curious to whether the regional economy will recover from such disaster?

I hope that this letter removes any blinders that may exist, and plots a new course of action. This course of action must be one that is in the best interest of everyone, even if we feel as if we must choose the better of the two evils.

If everyone wishes to ignore the many facets of this dilemma, then we will all certainly reap what you sow. As you can plainly see, there is more to consider here than just an increase in electric rates or any misplaced philosophical difference in respect to subsidizing business. If negotiations between the smelters and Big Rivers continue its current course, I'm sure that all the ratepayers, especially those that can afford your product, will be gratified in the fact that they are not subsidizing business, and will have tremendous pleasure in the fact that they won.

As far as I am concerned, it is not about winning or losing, but doing what is best for my lifelong, fellow citizens of this great county, protecting the legacy of generations

before me, and protecting the future of the generations that follow. I hope and pray that everyone can set aside their differences and do what is right for the citizens of this county, region, and state.

I would like to extend my appreciation in advance for your time and assistance with this matter.

Respectfully,

John A. Beaver
President, USW Local 9423

CC:

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Lee Bearden	Senator Perry B. Clark
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