

Pennsylvania Utilities Commission

Discussion of the Mitigation of Potentially Significant Electricity Price Increases in Allegheny County and Southwestern Pennsylvania

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Written Testimony

**Dan Onorato
Allegheny County Chief Executive**

June 15, 2006





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Introduction

I applaud the Public Utilities Commission and specifically the motion of Commissioner Fitzpatrick to open a dialogue on potential significant increases in electricity prices due to the expiration of rate caps. Throughout the past several months, I have been working with the Allegheny Conference on Community Development and several of our large industrial employers, such as United States Steel Corporation and Allegheny Technologies, Inc. to address this increasingly important issue. I appreciate the opportunity to address the Commission in light of the critical economic development impact electricity pricing may have on Allegheny County and Southwestern Pennsylvania.

The Commission has asked for comments on managing price increases that have begun in certain areas of Pennsylvania as a result of the expiration of rate caps. As outlined in the following testimony, I support immediate policy action by the Commission to further refine the policies that the Commission set forth earlier in the process of electricity restructuring.

Industrial consumers in Allegheny County are experiencing both significant price increases and price instability as a result of the expiration of rate caps in Duquesne Light's distribution area. This combination of issues may pose a significant threat to some manufacturers. Many of our local employers face the complicated task of adjusting to price increases from one day to the next, and without the ability to forecast even in the short-term. This is a precarious position for these companies, which have electricity costs in some cases as much as 30% of their total operational costs.

Our large industrial employers are the backbone of the County's and region's economy, and are an important component of our current redevelopment efforts. Uncontrolled electricity pricing could lead to a devastating reduction of industrial and economic output. I have learned of the impact of dramatic price increases in Pike County, Pennsylvania and in the state of Maryland. With so many jobs at stake in Allegheny County and Southwestern Pennsylvania, the Commission's review of current deregulation policy is critical.

Because Duquesne Light, the public electric utility that has served most of Allegheny County for many years, is no longer able to offer long-term contracts to its industrial customers, and because the market has not provided a viable alternative to these customers, I believe the Commission and the County itself, is at a critical juncture. Although the competitive market may evolve on its own over the long term, industrial customers are being forced to consider all means necessary to lower electricity and operating costs. If they choose to leave Allegheny County, a region that has been built upon and sustained by industry may be devastated.



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Competing With Neighboring States

Allegheny County is able to compete on many fronts with locations in our neighboring states, such as Ohio, West Virginia and Kentucky. With a world-class airport, a legacy of hard-working and skilled tradesmen and professionals, and an affordable and vibrant lifestyle, Allegheny County is retaining many of its core industries and large companies while attracting many new companies.

Allegheny County is also a major urban county grappling with the legacy of a significant industrial downsizing. For our successful competition and growth, we have become the world's expert in reclaiming and rebuilding our industrial sites and communities. The process of reclamation and rebuilding, however, includes many additional costs. Therefore, the real expertise of our economic development team may be utilizing our available resources for both rebuilding and continuing to respond to requests for local business financing and assistance.

To maintain our competitiveness, I believe that Allegheny County must be able to maintain competitive electricity prices. While electricity pricing may not need to be the lowest among our competitors for us to attract and retain employers that are also large electricity users, we do need to be able to offer costs in a range with competitor locations. Recently, we have seen industrial retail prices in Allegheny County as much as double the rates of Kentucky, West Virginia and Ohio.¹

Potential Impact on Allegheny County

I have described to you how important industrial companies are to Allegheny County's economic development strategy. These companies are the major single sources of jobs for the County and are an essential foundation for our redevelopment efforts. I have made it a top priority to support these companies as they do business in Allegheny County. In addition to delivering a direct economic impact, any significant reduction of our industrial economic base could jeopardize the growth that we are beginning to experience.

Looking only at the category of industrial companies which are deemed to be most "energy intensive" by the US Energy Information Administration, 57,000 jobs are vulnerable to electricity price instability in Southwestern Pennsylvania.² The companies responsible for these jobs are among the Fortune 500 and some of the fastest growing

¹ "Addressing the effect of deregulation on electricity prices for industrial users", Pennsylvania Economy League of Southwestern Pennsylvania, May 31, 2006

² Pennsylvania Economy League of Southwestern Pennsylvania



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businesses. A list of companies from energy intensive industries in Allegheny County is attached.

Enhancing Electricity Restructuring Policy

I am concerned about the price increases in Pennsylvania and plant closings in nearby states that have occurred following the removal of rate caps under electricity deregulation. In Maryland in particular, nearly 600 employees of the ALCOA Eastalco smelter in Frederick lost their jobs when electricity prices rose 70%, forcing the immediate closure of the plant.³ I am encouraged, however, that Maryland, Delaware and New York have made progress toward enhancing electricity deregulation policy, and that the Commission has recognized their efforts.

In the case of large industrial consumers, the market is simply not robust and dynamic enough yet in Pennsylvania for deregulation to work. With the rate caps for some electricity distributors expiring before others, the market has not had enough time to form in Pennsylvania where rate caps have already expired. The cases of price increases in Pennsylvania, Maryland and Delaware that Commissioner Fitzpatrick mentions in his "Motion", dated May 19, 2006, have significantly impacted those communities and regions. With Allegheny County following close behind, the fate of a very large economy is at hand. The fate of our County's economy is now intertwined with these deliberations on deregulation policy. I respectfully request the Commission to act expeditiously and develop a solution.

I suggest that the Commission work with our large public electricity distributor, Duquesne Light, to allow them to be able to enter into long-term contracts with industrial consumers in a way that mutually benefits the industrial consumer, the utility, and the common good. As a public utility, Duquesne Light lacks the incentive to create excess profits in the short term, but has the expertise to negotiate contracts for reasonable rates for industrial consumers for the long-term. With long-term contracts, our industries will again have control of their electricity costs and an ability to manage their financial risks. If we allow several more years to take action, we are more likely to see our region's employers invest elsewhere because of uncertainty here. By exploring responsible alternatives to the current situation, we can achieve competition as well as price stabilization. I urge you to explore this possibility for Duquesne Light and subsequently for other distribution companies throughout the Commonwealth.

³ "Costs force ALCOA to idle Maryland smelter", Pittsburgh Post-Gazette, November 24, 2005



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Conclusion

As Chief Executive of Allegheny County, I have centered my economic development strategy on supporting and enhancing our County's many economic development assets. Most importantly, I have guided my staff and economic development team to work closely with our existing industries and businesses to help them grow within the County. Allegheny County is home to both some of the largest industrial companies, as well as some of the fastest growing. And with our legacy of industry, we have established many tiers of smaller companies who supply and provide services to these companies.

I ask the Commission to partner with my administration by allowing for fair and stable electricity prices for our industrial employers and again allow Duquesne Light to offer multi-year contracts to industrial customers. In the absence of a robust market for industrial electricity contracts, we must empower our largest public utility to serve industrial consumers competitively. We have no other means of serving them fairly.

Amid our current initiative for corporate tax reform and improving the business climate in the Commonwealth, the electricity pricing issue has gripped the attention of many business and public leaders. Although we anticipate that tax reform will increase the Commonwealth's competitiveness, we cannot risk any potential gains expected therein with losses suffered in this electricity pricing issue now.

With respect to the citizens of Allegheny County, I understand that the implementation of long-term contracts for industrial consumers will not impact pricing for residential consumption. I also recognize that if the economy deteriorates in the county and region as a result of electricity prices, our citizens may be most severely affected by the loss of jobs. I ask the Commission, therefore, to act quickly on their behalf.

I thank you again for the opportunity to participate in these important proceedings.

Dan Onorato
Allegheny County Chief Executive

LARGEST COMPANIES IN ENERGY-INTENSIVE INDUSTRIES IN ALLEGHENY COUNTY

Company	Primary SIC Description
Westinghouse Electric Co LLC	Industrial Inorganic Chemicals, NEC
Bayer Corp	Plastics, Materials & Nonvulcanizable Elastomers
United States Steel Corp	Blast Furnaces, Coke Ovens, Steel & Rolling Mills
PPG Industries Inc	Plastic Products, Paints, Varnishes
USS Division of USX Corp	Steel Foundries, NEC
Alcoa Inc	Aluminum Sheet, Plate & Foil
H J Heinz Co	Canned and Frozen Fruits, Vegetables
Spang & Co Inc	Electrometallurgical Products
General Nutrition Inc	Canned Specialties
American Beverage Corp	Canned Fruits, Vegetables & Preserves
Hussey Copper Ltd	Copper Foundries
Lanxess Corp	Industrial Organic Chemicals, NEC
Matthews International Corp	Signs & Advertising Displays
Eastman Chemical Co Inc	Gum & Wood Chemicals
US X Engineers & Consultants	Steel Foundries, NEC
Minnotte Metal Casting Corp	Nonferrous Foundries: Castings, NEC
I B P Inc Fresh Meats	Sausages & Meat Products
Nnh Inc	Grocery Stores
Giant Eagle Inc	Grocery Stores
Sunoco Inc	Cyclic-Crudes, Intermediates, Dyes & Org Pigments
Universal Stainless & Alloy	Blast Furnaces, Coke Ovens, Steel & Rolling Mills
Pittsburgh Bagel Factory Inc	Retail Bakeries
Almatis Inc	Industrial Inorganic Chemicals, NEC
Markovitz Enterprises Inc	Blast Furnaces, Coke Ovens, Steel & Rolling Mills
City of Pittsburgh	Local Trucking Without Storage
Flabeg Inc	Pressed & Blown Glassware, NEC
Gupta Permold Corp	Aluminum Foundries
Shenango Group Inc	Blast Furnaces, Coke Ovens, Steel & Rolling Mills
Turner Dairy Farms Inc	Milk
Guardian Industries Corp	Flat Glass
Thermo-Twin of Ohio Inc	Metal Doors, Sash, Frames, Molding & Trim
Daymax	Commercial Printing
Koppers Inc	Cyclic-Crudes, Intermediates, Dyes & Org Pigments
General Electric Co	Pressed & Blown Glassware, NEC
Allegheny Ludlum Corp	Blast Furnaces, Coke Ovens, Steel & Rolling Mills
Packaging Specialists LLC	Corrugated & Solid Fiber Boxes
Pitt Penn Oil Co LLC	Lubricating Oils & Greases
Interstate Brands Corp	Groceries & Related Products, NEC Wholesale
Marcegaglia USA Inc	Steel Pipe & Tubes
Mine Safety Appliances Co	Industrial Inorganic Chemicals, NEC
MSC Pet Foods	Dog & Cat Food
Schwebel Baking Co of PA Inc	Groceries & Related Products, NEC Wholesale
Vista Metals Inc	Machine Tool Accessories
Trumbull Corp	Highway & Street Construction