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Via Hand Delivery

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Bldg., 2nd Floor
400 North Street
Harrisburg, PA 17120

Re: Default Service and Retail Electric Markets.
Docket No. M-00072009

Dear Secretary McNulty:

Enclosed please find an original and 15 copies of United States Steel Corporation's comments to the Commission's Proposed Policy Statement Order entered February 9, 2007 in the above captioned matter. An electronic copy of these comments has also been provided to the Law Bureau.

Very truly yours,

Daniel P. Delaney
PA Attorney I.D. 23955
Counsel for US Steel Corporation

DPD/cem
Enclosures

cc: Shane M. Rooney, Esquire (w/Enclosures)

HA-187414 v1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Default Service and Retail Electric Markets.	:	Docket No. M-00072009

COMMENTS OF UNITED STATES STEEL CORPORATION TO PROPOSED POLICY STATEMENT.

United States Steel Corporation files these comments in response to the Public Utility Commission ("Commission") Order entered at this docket on February 9, 2007. These comments address the proposed policy statement on Default Service and Retail Electric Markets.

United States Steel Corporation

United States Steel Corporation ("US Steel") is the largest steel producer in the United States. US Steel's headquarters are located in Pittsburgh and its Pennsylvania operations include the Mon Valley Works which consists of a three-plant system along the Monongahela River in Allegheny County, and finishing facilities in Fairless Hills, Bucks County. The Mon Valley Works is Pennsylvania's only remaining fully integrated steel mill. US Steel also owns and operates other facilities in Pennsylvania.[1] US Steel has approximately 5,000 employees in Pennsylvania.

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[1] US Steel operates a research and technology center and two railroads, the Union Railroad and the McKeesport Connecting, in Allegheny County. The Company also owns the Keystone Industrial Port Complex in Fairless Hills, Bucks County which was recently selected by Gamesa Corp. as its Pennsylvania wind energy manufacturing location.

The Mon Valley Works is Pennsylvania's largest industrial electric power consumer. Mon Valley currently self-generates a portion of its electric requirements and purchases electric power. Mon Valley has received state and local recognition for its environmental performance and its industry leading energy conservation practices. The Mon Valley Works has been issued an interim qualification as a Tier II alternative energy system under Act 213 by the Commission and the Pennsylvania Department of Environmental Protection in January 2006. Mon Valley was historically a customer of Duquesne Light Company and now purchases electricity from an alternative energy supplier. The current electricity prices paid by Mon Valley are among the highest in the six states where US Steel operates. The current cost of electricity in southwestern Pennsylvania presents a significant competitive disadvantage to Mon Valley Works, compared to other steel manufacturers operating in other states. US Steel has experienced significant increases in its electricity costs over the last three to four years and expects that trend to continue.

The Commission's default service regulations provide an important opportunity for the Commission to confront the problems faced by large commercial and industrial customers by excessive electricity costs. Reasonable default service regulations will provide Default Service Providers ("DSPs") with guidance on prudent and reasonable energy procurement methods and facilitate reasonably priced default service. Default service which is unreasonably expensive and non-competitive will discourage future capital investment in Pennsylvania manufacturing facilities by large commercial and industrial businesses. Expensive electricity costs will result in these customers reducing their operations and ultimately relocating from Pennsylvania. US Steel respectfully requests the Commission to incorporate these comments both in its proposed policy statement and in its final default service regulations.

Comments

§ 69.1805 Electric Generation Supply Procurement.

US Steel concurs in the Commission's direction that DSP's should pursue a portfolio approach in procuring default supply. A variety of supply sources and arrangements should permit a DSP to mitigate price increases in the wholesale market. The policy statement and the default service regulations, however, should permit a DSP some discretion to exercise a procurement strategy designed to produce the least expensive default supply portfolio. Specifically, the DSP should be permitted to exercise discretion to enter into prudent and reasonable long-term supply contracts. Although over-reliance on long-term contracts has had unfortunate results in prior default supply procurements such as in the case of Pike County Light & Power Company, the use of a long-term contract in a balanced supply portfolio could result in price stability for default service customers. The policy statement and default service regulations should emphasize the overall goal of a balanced default supply procurement at the most reasonable cost and permit the DSP's significant discretion in accomplishing that goal.

1. Section 69.185(1)-(3) Default Service procurement by Customer Class.

Section 69.185(1)-(3) directs the DSP to procure default supply by customer class. US Steel does not object to this proposal but believes that it should be subject to the DSP's reasonable discretion. Individual DSPs have the most knowledge and experience concerning the service requirements of its customer classes. If the DSP believes that procurement by customer class will not result in the least cost default supply procurement, it should be free to propose a different procurement methodology. The relative size and composition of the DSP's default customer classes could adversely affect the cost of the customer class procurement. The DSP should be permitted an opportunity to evaluate these considerations and propose an alternative methodology as appropriate.

2. Section 69.185(3) Service to Non-Residential Customers with Greater than 500 kW in Maximum Registered Peak Load.

This paragraph should be amended to <u>require</u> the DSP to provide a fixed price service option for large commercial and industrial customers. As explained in more detail in the comments to Section 69.1810, an hourly or monthly priced large customer default service is not predictable in cost and will prevent these customers from operating efficiently and competing effectively in their markets. The Commission should require DSPs to provide a long-term fixed price option for these customers as part of their default service plan.

§ 69.1809 Interim Price Adjustments and Cost Reconciliation.

1. Section 69.1809(a) Monthly PTC Adjustments for Large Customers.

This section proposes that the Price to Compare ("PTC") will be adjusted as frequently as every month for large business customers. The Commission should reconsider proposing such frequent PTC adjustments for this customer class. Monthly changes in the PTC introduces a price volatility which is frequently not acceptable for large customers. Monthly changes in the PTC will not permit a large customer to accurately project its energy costs which could adversely affect the customer's ability to operate efficiently and compete effectively in its product markets. If interim price adjustments are necessary, they should be done on a less frequent basis with notice to the customers.

2. **Section 69.1809(c) Interim Reconciliations with a 5% Divergence in Revenue and Expenses.**

Subsection (c) permits a DSP to propose an interim reconciliation when current monthly revenues have diverged from the current monthly costs, plus any cumulative over/under recoveries, by greater than 5% since the last rate adjustment. An interim reconciliation can have significant impacts on industrial customers and should be accompanied by notice and disclosure of supporting information by the DSP. The Commission has promulgated detailed procedural requirements for a Section 1307 natural gas utility to implement an interim rate recalculation and reconciliation of gas costs in Section 53.64(i)(5) of its regulations, 52 Pa. Code § 53.64(i)(5). These regulations require the filing of a tariff and notice to specified parties and customers with the filing of supporting information. The Commission should require similar procedures in permitting DSP quarterly reconciliations and price adjustments.

§ 69.1810 Retail Rate Design.

This section provides that the PTC shall not incorporate declining blocks, demand charges or similar rate elements and that a particular customer class's PTC may be converted to a time of use design if the Commission finds it to be in the public interest. This section should be reconsidered and revised to permit DSPs to offer large customer service options that incorporate traditional large customer rate design elements such as declining block pricing and demand charges. The Electricity Customer Choice and Competition Act specifically authorizes the Commission to continue traditional large customer retail rate design elements in post-transition period

DSP service. Section 2806(h) of the Public Utility Code, 66 Pa. C.S. § 2806(h), provides the Commission with authority "to approve flexible pricing and flexible rates including negotiated, contract-based tariffs designed to meet the specific needs of a utility customer and to address competitive alternatives." This section clearly authorizes the Commission to continue declining block pricing and demand charges in the large customer PTCs.

This section must also be amended to permit DSPs to enter into long-term negotiated rate contracts with large commercial or industrial customers. Specifically, the Commission should permit DSPs to offer long-term, fixed price electrical supply contracts at negotiated rates to large commercial and industrial customers as a form of default service. Hourly priced service is frequently not a realistic option for large commercial and industrial customers. In order for customers to have a full range of competitive options from their default provider, DSPs should be permitted to provide fixed price service on a long-term multi-year basis. Permitting DSPs to offer these contracts will allow and encourage these DSPs to obtain long-term supply contracts which should reduce price volatility and mitigate price increases over the long term. For competitive reasons, electric generation suppliers ("EGSs") should not be the sole supplier of long-term fixed price service in the competitive markets. Not permitting DSPs to provide similar service and price structure removes a significant competitive pressure from EGSs to be competitive over the long-term. Without competition from DSPs, the EGSs would be able to price these services at above market costs. In addition, EGS contractual requirements, such as excessive credit and security requirements, may make service from these suppliers unavailable to every large industrial or commercial customer that requires it. A DSP's ability to provide a long-term fixed price contract for large commercial and industrial customers would be an important competitive force to moderate electric prices in every Pennsylvania market.

In a recently issued comprehensive study, the Carnegie Mellon Electricity Industry Center has recommended that POLR providers be permitted to enter into default service contracts with its customers that are of a mutually acceptable length. See Apt, Blumsack and Lave, Competitive Energy Options for Pennsylvania, Carnegie Mellon Electricity Industry Center (dated January 11, 2007). This study was commissioned by the Team Pennsylvania Foundation which requested the Carnegie Mellon Electricity Industry Center to undertake a study of the electric power sector options available to the Commonwealth to ensure that Pennsylvania has a competitive business environment. The study was conducted from October 13, 2006 to January 11, 2007 and contains several recommendations concerning provider of last resort ("POLR") or default service. One recommendation is to allow POLR or default providers to sign long-term sales contracts with customers. (¶ 4.4, p. 84-5). The study notes that by permitting long-term contracts, the contracts may provide the certainty required for construction of new generation by suppliers, the flexibility to lock in prices at a time of the customer's choice, and price stability for customers who value low price volatility. The study further notes that permitting POLR providers to sign long-term sales contracts with their customers may allow rate reductions, due to the high creditworthiness of POLR providers and the consequent low risk premiums applied by suppliers in their bids to provide default supply. This independent study by industry experts provides an adequate basis for the Commission to amend its policy statement and default regulations to permit DSPs to provide long-term fixed price contracts to customers.

The Rendell Administration has taken a similar position concerning the positive effects of permitting DSPs to enter into long-term fixed price contracts with large customers. In the Energy Independence Strategy recently announced by Governor Rendell, one of the proposals is to encourage DSPs to enter into long-term contracts with large customers for any term and rate that the parties can negotiate, provided that it does not result in cross subsidization by other customer classes. In issuing its policy statement and default service regulations, the Commission should adopt this approach and permit DSPs to negotiate long-term fixed rate contracts with large customers.

§ 69.1812 Information and Data Access.

This section promotes common standards and processes for the access of customer information including customer rate schedule and profile information, historical billing data and real-time metered data. For large commercial and industrial customers, this type of data is considered confidential and proprietary and generally not revealed without provisions for confidentiality. The Commission should be very careful in designing procedures for access to this type of sensitive customer information. Any new procedures initiated by a DSP to reveal this information to market participants should be first provided to customers with an opportunity to comment before implementation. Under no circumstances should a DSP procedure be adopted that permits customer information and billing data to be provided to any party without the customer's express written authorization.

Conclusion

US Steel appreciates this opportunity to have provided these comments to the Public Utility Commission concerning its proposed policy statement. US Steel respectfully requests the Commission to adopt these comments in issuing its final policy statement.

Respectfully submitted,

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