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August 23, 2005

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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: Implementation of the Alternative Energy Portfolio Standards Act of 2004
Docket No. M-00051865

Dear Secretary McNulty:

Enclosed for filing please find an original and fifteen (15) copies of the Comments of United States Steel Corporation to the Public Utility Commission's June 24, 2005 Tentative Order in the above captioned matter.

Copies of these Comments have also been provided to the Commission Staff for posting on the Commission's web site.

Very truly yours,

D.P. Delaney

Daniel P. Delaney

DPD/cem
Enclosures

cc: Carrie Beale (electronic copy)
Calvin Birge (electronic copy)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Implementation of the Alternative Energy Portfolio Standards Act of 2004: Standards for the Participation of Demand Side Management Resources.	:	Docket No. M-00051865

COMMENTS OF UNITED STATES STEEL CORPORATION
TO THE JUNE 24, 2005 TENTATIVE ORDER.

United States Steel Corporation ("US Steel") files these comments to the Public Utility Commission's ("Commission's") June 24, 2005 Tentative Order on Energy Efficiency ("EE") and Demand Side Management ("DSM") standards for implementation of Pennsylvania's Alternative Energy Portfolio Standards Act ("Portfolio Act"), 73 P.S. §§ 1648.1-1648.8. US Steel has participated as a member of the Alternative Energy Portfolio Standards Working Group ("AESWG") and has previously filed comments in response to the Commission Staff's proposals. US Steel commends the Commission and its Staff on the determinations contained in the Tentative Order which accurately track the Portfolio Act requirements and the AEPSWG participants' comments.

US Steel has an interest in the Commission's treatment of DSM practices involving (1) load management or demand response practices or strategies that shift electric load from periods of high demand to periods of low demand and (2) the use of industrial by-product technologies consisting of the use of a by-product from an industrial process, including the reuse of energy from exhaust gases or other manufacturing by-products, that are used in the direct production of electricity at a customer's facility. (Sections 2(12)(ii) and (iii), 73 P.S. §§ 1648.2(12)(ii) and (iii)). US Steel's comments are directed to the Commission's implementation of these portions of the demand side management definition contained in Section 2 of the Portfolio Act. As explained in its initial comments filed as a member of the AEPSWG, US Steel's Mon Valley Works is one of the largest consumers of energy in Pennsylvania and model energy conservation and recycling initiatives are currently employed at that site. US Steel's prior comments filed with the AEPSWG are incorporated herein by reference.

I. Guidelines for Metered and Custom DSM/EE Measures.

US Steel supports the general guidelines for qualification and availability of alternative energy credits for custom or metered measures described on pages 6-8 of the Tentative Order. These guidelines were adopted in part from US Steel's comments in the AEPSWG process and are consistent with the spirit and purpose of the Portfolio Act. US Steel has the following limited comments on these guidelines.

1. Customers Implementing DSM Measures at Their Own Expense Should Own all Alternative Energy Credits and Other Environmental Attributes Arising from Those Measures.

Guideline No. 1 identifies the entities that are eligible to apply for alternative energy credits. Although US Steel does not object to the current wording of this guideline, it should be more specific in terms of providing general guidance on ownership of the alternative energy credits in circumstances where the retail customer has borne the expense of installing and maintaining the DSM measures, including on-site generation. The Commission should determine that the customer owns all alternative energy credits and other environmental attributes arising from on-site generation using industrial by-products. In most cases, the customer constructs, operates and maintains the on-site generation. The customer should own the rights to all alternative energy credits and be able to sell them on the open market to a system aggregator or an EDC or EGS unless the customer has made other arrangements for the disposition of the credits.

2. The Guidelines Correctly Specify That Metered or Custom Measures May Use or Incorporate Equipment Installed Prior to the Effective Date of the Portfolio Act.

Guideline 3 states, inter alia, that a metered or custom measure identified in an application may use or incorporate equipment installed prior to the effective date of Act 213. US Steel submits that this is an accurate interpretation of the Portfolio Act which should be retained in any regulations ultimately issued by the Commission on DSM metered or custom measures. US Steel and IECPA[1] advanced this concept in their initial comments as members of the AEPSWG. This modification is supported by the Portfolio Act's definitions and is sound public policy which should be reflected in the Commission's Portfolio Act regulations. Section 2 of the Portfolio Act defines alternative energy sources to include existing and new sources for the production of electricity by demand side management consisting of the management of customer consumption of electricity or the demand for electricity, or through the customer's direct production of electricity at its facility using industrial by-product technologies consisting of the use of a by-product from an industrial process, including the reuse of energy from exhaust gases (Section 2(12)(ii) and (iii)). Since the definition specifically includes existing and new sources for the production of electricity or the management of its consumption, all

[1] Industrial Energy Consumers of Pennsylvania.

electricity produced or conserved at a customer's site using these methods should qualify for alternative energy credits under the Act.

As explained in its initial comments filed with the AEPSWG, US Steel has invested significant amounts of capital in its Mon Valley Works to install and maintain on-site generation facilities that utilize coke oven and blast furnace gases as fuel. It is both reasonable and consistent with the Act and its purposes to recognize all of the electricity produced on-site by these facilities and not require a theoretical calculation of incremental production over a calculated baseline figure reflecting historic energy production. Most, if not all, industrial customers separately meter their on-site generation such that actual production figures are readily available. Theoretical calculations of incremental generation over a baseline figure are unnecessary and inconsistent with the Act's requirements.

II. Depreciation.

Depreciation is discussed on pages 8-9 of the Tentative Order. US Steel believes that the Commission has correctly interpreted the Portfolio Act's provisions and supports the determinations contained in this portion of the Tentative Order. Section 3(e)(11) of the Portfolio Act, 73 P.S. § 1648.3(e)(11), requires the Commission to develop a depreciation schedule for alternative energy credits created through demand side management, energy efficiency and load management technologies. US Steel agrees that in implementing this direction, the Commission should adopt flexible depreciation standards that reflect the different components of the Act's demand side management definition. The Tentative Order appropriately recognized that when a DSM measure is metered, no depreciation factor is required because the meter will measure any decline in the performance of the equipment; therefore eliminating the need to estimate a depreciation factor (p. 9). In adopting final Portfolio Act regulations, the Commission should exercise some flexibility in developing depreciation standards for alternative energy credits produced through demand side management since not all of the technologies involve the use of depreciating assets.

III. Use of Base Line Calculations.

The Commission's Tentative Order discusses the possible use of base line calculations to quantify the effects of demand side management on pages 9-11 of the Tentative Order. US Steel supports the Commission's determinations that for purposes of evaluating on-site generation, base line calculations that only recognize subsequent incremental on-site production must be avoided (p.10). Such an approach is consistent with the Portfolio Act's direction to recognize existing sources for the production or conservation of electricity and is also fair and equitable to customers who have acted early and responsibly to implement energy conservation and energy recycling initiatives at their facilities. US Steel agrees that it is reasonable and consistent with the Portfolio Act to recognize all of the electricity produced on-site by these facilities and not require a theoretical calculation to determine energy production. Although the use of a base line calculation may be appropriate in evaluating some DSM measures, US Steel submits the Commission should exercise some flexibility in using base line calculations to evaluate conservation measures included in the Portfolio Act's DSM definition.

Section 2 of the Portfolio Act defines demand side management to include the management of customer consumption of electricity or the demand for electricity through the implementation of management practices or other strategies used by industrial customers that shift electric load from periods of higher demand to periods of lower demand (Section 2(12)(ii)). Industrial customers that participate in an RTO or EDC load response program or who voluntarily shift load to non-peak periods should qualify for alternative energy credits. As explained in US Steel's initial comments filed with the AEPSWG, Mon Valley has voluntarily scheduled its production to non-peak periods for several years. Mon Valley's shifting of production to non-peak periods has benefited its electrical supplier by avoiding the purchase of high priced electricity in peak periods and benefited the environment by reducing emissions from electrical generation in peak periods. Industrial customers participating in RTO or EDC programs or who voluntarily shift load to non-peak periods should be compensated for these benefits. The industrial customer's compliance with the RTO or EDC program or its voluntary load shifting management practices or strategies should be reported to the alternative energy credits program Administrator who should be required to award the credits directly to the customer. The customer should own the rights to all alternative energy credits and other environmental attributes and may sell them on the open market to an aggregator or an EDC or EGS unless the customer has made other arrangements for the disposition of the credits.

When the customer is voluntarily shifting load to non-peak periods (as US Steel has done at Mon Valley for several years), it is not clear how a base line calculation would equitably calculate the alternative energy credits that should be awarded for this DSM measure. Under those circumstances, flexibility in using base line calculations to evaluate these types of conservation measures must be employed to avoid under-valuing the conservative effects of the customer's voluntary actions. US Steel submits that in these circumstances, the Commission's regulations should permit the customer to propose an evaluation methodology to the Administrator which equitably quantifies the alternative energy credits the load shifting would qualify for.

Conclusion

US Steel supports the determinations contained in the Commission's Tentative Order and requests that they be included in any regulations issued by the Commission to implement the DSM/EE provisions of the Portfolio Act. In drafting these regulations or rules, US Steel respectfully requests the Commission to consider and include the comments contained in this document. US Steel appreciates the opportunity to have provided these comments and also to have participated in the AEPSWG. The Commission Staff is to be commended for its diligence in promptly designing a reasonable implementation of the complex Portfolio Act provisions on DSM and EE.

Respectfully submitted,

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