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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: Rulemaking Re: Electric Distribution Companies' Obligation to Serve Retail Customer at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2).
Docket No. L-00040169

Dear Secretary McNulty:

Enclosed please find an original and 15 copies of United States Steel Corporation's comments to the Commission's Advance Notice of Final Rulemaking 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-187415 v1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Rulemaking Re: Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2).	:	Docket No. L-00040169

COMMENTS OF UNITED STATES STEEL CORPORATION TO ADVANCE NOTICE OF FINAL RULEMAKING ORDER.

United States Steel Corporation files these comments to the Advance Notice of Final Rulemaking Order entered at this docket on February 9, 2007. US Steel has also filed comments to the Public Utility Commission's ("Commission's") proposed policy statement docketed at M-00072009, and those comments are incorporated into this filing by reference.

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 electricity. 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 electric 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

§ 54.185 Default Service Programs and Periods of Service.

1. Section 54.185(b) Customer Notice of Default Service Plan.

Since a default service plan can have a significant effect on the DSP's customers, the Commission should amend this section and provide a notice requirement and procedure for customer notice. The Commission should add additional language to Section 54.185(b) to require that all customers of the DSP, including shopping distribution customers, should receive notice of a default service program filing by bill insert and public notice should be provided by newspaper publication and the publication of a Pennsylvania Bulletin notice. The notice should include instructions for customer intervention or filing a complaint in the case. The Commission could use as a guide the notice provisions for general rate increases under Section 1308(d) which are contained in Section 53.45 of the Commission's regulations, 52 Pa. Code § 53.45. The Default Service proceedings are important proceedings of which customers must receive adequate notice.

2. Section 54.185(d)(7) Disclosure of Customer Contracts.

This section requires the DSP to include a schedule in its filing identifying all generation contacts of greater than two years in effect between DSP and retail customers in that service territory. The schedule must include the load size and end date of the contracts. Most large customers, including US Steel, consider information concerning its load size and pricing to be proprietary information which can be disclosed only by consent. The Commission should again examine whether this schedule is absolutely necessary in light of customer concerns about disclosure of this commercially sensitive information. If the Commission concludes that the schedule is required, this requirement should be amended to either (i) make this schedule a proprietary document filed by the DSP only with the Commission and available to other parties only upon the issuance of an appropriate protective order, or (ii) this information could be provided on an aggregate basis which does not identify individual customer service requirements.

§ 54.186 Default Service Procurement and Implementation Plans.

US Steel has the following comments on this section.

1. Section 54.186(b)(4) DSP Procurement Plan Requirements.

This section permits the DSP to acquire all electric generation supply either through a competitive bid solicitation process, spot market energy purchases or a combination of both. This section should be amended to permit the DSP to exercise discretion to enter into prudent and reasonable long-term supply contracts. Although over-reliance on long-term contracts can be problematic in some circumstances, the use of a long-term contract in a balanced supply portfolio could result in price stability for default service customers. This section should be amended to emphasize the overall goal of a balanced default supply procurement at the most reasonable cost and permit the DSP to enter into prudent long-term supply contracts at its discretion.

§ 54.187 Default Service Rate Design and the Recovery of Reasonable Costs.

US Steel has the following comments on this section.

1. Section 54.187(b) Price to Compare ("PTC") as the Single Rate Option.

This section directs the DSP to provide each default service customer with a single rate option, identified as the PTC. This section must be amended to permit DSPs to enter into long-term negotiated rate contracts with large commercial or industrial customers. 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." 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 these 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. The study 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 default service 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 final default service regulations, the Commission should adopt this approach and permit DSPs to negotiate long-term fixed rate contracts with large customers.

2. Section 54.187(c) PTC Service Rate Design.

This section provides that the PTC shall not decline with the increase in kWh of electricity used by a default service customer in a billing period. This section provides that the PTC shall not incorporate declining blocks, demand charges or similar rate elements. This section should be 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 include traditional large customer rate design elements in a default service plan. As permitted by Section 2806(h), DSPs should have the flexibility in their default service to meet the specific needs of large commercial and industrial customers and to address competitive alternatives. A large customer default rate that does not incorporate traditional rate design elements such as declining block pricing and demand charges will discourage large customers from using default service. Requiring DSPs to provide an unattractive and non-competitive default service for purposes of establishing a managed competition is poor public policy and should be avoided by the Commission. Discouraging large customers from receiving default service may well increase the costs of service to all default customers. The Commission should revise this section to include traditional large customer rate design elements.

3. Section 54.187(j) Monthly Adjustment of Large Customer Default Service Rates.

This section proposes that default service rates 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 effectively compete in its product markets. If interim price adjustments are necessary, they should be done on a less frequent basis with notice to the customers.

Conclusion

US Steel appreciates this opportunity to have provided these comments to the Public Utility Commission concerning the default service regulations. US Steel respectfully requests the Commission to adopt these comments in issuing its final default service regulations.

Respectfully submitted,

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