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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 Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2), Docket No. L-00040169

Default Service and Retail Electric Markets, Docket No. M-00072009
US Steel Reply Comments

Dear Secretary McNulty:

Enclosed please find an original and 15 copies of United States Steel Corporation's reply comments to the Public Utility Commission's Advance Notice of Final Rulemaking Order and Proposed Policy Statement in the above captioned matters. An electronic copy of these reply 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-188547 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
Default Service and Retail Electric Markets.	:	Docket No. M-00072009

REPLY COMMENTS OF
UNITED STATES STEEL CORPORATION.

United States Steel Corporation ("US Steel") files these consolidated reply comments in response to several of the comments filed to the Public Utility Commission's ("Commission's") Advance Notice of Final Rulemaking Order ("ANFRO") at Dkt. No. L-00040169 and to the Proposed Policy Statement at Dkt. No. M-00072009. US Steel filed initial comments in both dockets on March 2, 2007, and those comments are incorporated herein by reference.

Introduction

As Pennsylvania's largest industrial electric power consumer, US Steel is keenly interested in the Commission's implementation of the Electricity Generation Customer Choice and Competition Act, Act of December 3, 1996, P.L. 802, 66 Pa. C.S. §§ 2801-2812 ("Competition Act"), and particularly in the promulgation of fair rules for the provision of default service following the completion of electric distribution company ("EDC") transition periods. Reasonable default service regulations are a critical factor in maintaining future capital investment in Pennsylvania manufacturing facilities by large commercial and industrial businesses. As part of its responsibility to promulgate these rules, the Commission must consider the interests of these customers in establishing guidelines for default service.

The current costs of electricity in southwestern Pennsylvania presents a competitive disadvantage to US Steel and other large commercial and industrial customers located in that area. These electricity prices are significantly higher than what is available in nearby states such as Ohio and West Virginia. The Commission's prior determinations concerning industrial default service have reduced the competitiveness of default electric service in southwestern Pennsylvania. Excessive costs for electricity and issues with its availability and economic predictability could result in large commercial and industrial customers reducing their operations or leaving Pennsylvania all together. Departure of these companies would have a negative impact on Pennsylvania's economy and will ultimately lead to even higher costs of electricity as a result of lower demand. US Steel submits that future electricity price increases to large commercial and industrial customers could be mitigated by adopting default service rules that address the requirements of these customers. To the best of US Steel's knowledge, the only large commercial and industrial customers to initially comment on the Commission's policy statement and ANFRO were the Industrial Energy Consumers of Pennsylvania ("IECPA") and US Steel. US Steel requests the Commission to adopt its comments and those of IECPA in issuing its final policy statement and default service rulemaking.

US Steel does not oppose deregulated power markets or implementation of the Competition Act. US Steel supported the Competition Act with the understanding that competition would bring lower prices to the market. Deregulation of the Pennsylvania electric utility industry, however, has not yet brought the benefits to manufacturers and other large customers previously observed in the deregulation of other industries. Industrial customers in southwestern Pennsylvania face a double burden of an increased price for electricity in the Duquesne Light service territory where rate caps have been lifted earlier than elsewhere in the Commonwealth and a fluctuating price for electricity which large customers must purchase in the spot market in the absence of competitive long-term contracts. In adopting final default service regulations, the Commission should address these issues and permit default service providers ("DSPs") to compete with electric generation suppliers for purposes of establishing a true competitive market in Pennsylvania.

I. The Final Default Service Rules Must Be Consistent with the Service Requirements of the Competition Act.

US Steel files these replies in response to the comments of several electric generation suppliers and their associations.[1] All of these comments support increased retail electric competition in Pennsylvania, primarily by diminishing the competitive role of the DSP in providing default service. Although US Steel supports effective competition in the Pennsylvania retail electric markets, it disagrees that the Competition Act requires little or no participation by the DSP in the development of the competitive post-transition period retail electric market.

Section 2804(7) of the Competition Act, 66 Pa. C.S. § 2804(7) requires the Commission to implement the restructuring of the electric utility industry in a manner

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[1] National Energy Marketers Association, Constellation Energy Group Companies, Direct Energy Services, LLC, Dominion Retail, Inc., Reliant Energy, Inc., Strategic Energy, LLC and the Retail Energy Supply Association.

that does not unreasonably discriminate against one customer class to the benefit of another. In implementing electric utility restructuring, Section 2806(h) specifically authorizes the Commission to approve the offering of flexible pricing and flexible rates by DSPs, including negotiated, contract-based tariffs designed to meet the specific needs of a utility customer and to address competitive alternatives. US Steel submits that this authority in the Competition Act authorizes the Commission to allow DSPs to compete with EGSs in the Pennsylvania restructured retail electricity markets. In implementing electric deregulation in Pennsylvania, the Commission should encourage competitive alternatives in the marketplace. US Steel submits that the Competition Act permits an EDC acting as a default service provider to be a competitive alternative to EGSs in the marketplace. Contrary to the comments of the EGSs, there is nothing in the Competition Act that requires an EDC's default service to be in the nature of an uncompetitive, inconvenient and unattractive emergency last resort service.

A. DSPs Should Be Permitted to Enter into Long-Term Fixed Rate Contracts with Large Commercial or Industrial Customers as a Form of Default Service.

All of the EGS comments support the Commission's adoption of proposed Section 54.187(b) which directs the DSP to provide each default service customer with a single rate option identified as the Price to Compare ("PTC"). As stated in US Steel's initial comments, this section must be amended to permit DSPs to enter into long-term fixed or negotiated rate contracts with large commercial or industrial customers as an alternative form of default service as permitted by Section 2806(h). Completely missing from the EGS comments to the contrary is a recognition of the service needs of large commercial and industrial customers.

Proposed Section 54.187(j) requires default service rates to be adjusted on a monthly basis or more frequently, for all customer classes with a registered peak load of equal to or greater than 500 kW. DSPs should be permitted to provide both long-term fixed price service and monthly price services to meet the default service requirements of large customers. The availability of long term, fixed rate contracts solely from EGSs is not an adequate substitute. The credit or deposit requirements imposed by EGSs, or other supply agreement terms, may make this type of EGS service unavailable to large customers. Moreover, the Commission should not promote an artificial retail electric competition by limiting the services that one class of competitor can provide. A default service whose price frequently changes does not meet the requirements of large industrial and commercial customers. Most large commercial and industrial customers, such as US Steel, do not have the operational flexibility to efficiently use service with frequent price changes. US Steel's operations do not allow the company to suspend or reduce production to avoid spikes in electricity prices. All US Steel mills, including the Mon Valley Works, operate continuously 7 days a week, 24 hours a day. Large industrial customers require an electrical supply that is not only available and reliable but also predictable in cost in order for these customers to efficiently operate. Excessive volatility in electricity prices is not acceptable or competitive for large customers.

II. Large Customer Default Service Should Retain Traditional Rate Design Elements.

Section 54.187(c) 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 directs that the PTC shall not incorporate declining blocks, demand charges or similar rate elements. Most of the EDC comments have supported this change as advancing conservation or demand side management in providing default service. Again, these comments, however, fail to recognize the characteristics of large commercial or industrial customer default service.

These traditional large commercial rate design elements are a form of cost of service pricing that provide efficient price signals to large customers. As explained in the IECPA initial comments, continuing this type of pricing will encourage efficient and economic use of energy. US Steel submits that the Commission's rate design objectives of Section 54.187(c) can be met by continuing declining block pricing and demand charges in large customer rate schedules. In addition, removing these traditional large customer rate design elements results in unreasonabe discrimination against this customer class in violation of Section 2804(7). The Commission should reconsider this provision in issuing its final default service rules.

Conclusion

US Steel appreciates this opportunity to have provided these reply comments to the Public Utility Commission concerning its proposed policy statement and ANFRO. US Steel respectfully requests the Commission to include these reply comments in issuing its final policy statement and final default service regulations.

Respectfully submitted,

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