BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Policies to Mitigate Potential Electricity Price Increases.	:	Docket No. M-00061957

COMMENTS OF UNITED STATES STEEL CORPORATION

United States Steel Corporation ("US Steel") files these comments concerning policies to mitigate potential electricity price increases as directed by the Public Utility Commission's ("Commission's") Order entered May 24, 2006 at this docket. These comments advocate that the Commission permit electric distribution companies providing default service to offer long term, fixed price electric supply contracts to industrial customers. US Steel submits that permitting such service is consistent with the Electricity Generation Customer Choice and Competition Act, Act of December 3, 1996, P.L. 802 No. 138, 66 Pa. C.S. §§ 2801-2812 ("Competition Act") and will mitigate potential electricity price increases for industrial customers. Permitting EDCs to provide long term, fixed price contracts for industrial customers will encourage economic development in Pennsylvania, assist in maintaining Pennsylvania employment in energy intensive industries, particularly in western Pennsylvania, and will promote legitimate competition in Pennsylvania's retail electric markets.

I. United States Steel Corporation

US Steel's Mon Valley Works ("Mon Valley") is Pennsylvania's only remaining fully integrated steel mill, consisting of a three-plant system along the Monongahela River that includes the Clairton Coke Works, Edgar Thompson steelmaking plant and

Irvin finishing facility. Mon Valley is Pennsylvania's largest industrial electric power consumer with a 137,000 volt distribution system and infrastructure connecting the plant operations. Mon Valley self-generates approximately 60 megawatts ("MW") of electric power and purchases approximately an additional 100 MW of electric power. Prior to the initiation of the POLR III rates, Mon Valley was an HVPS customer of Duquesne Light Company. More recently, Mon Valley has purchased electricity from an alternative energy supplier. The electricity prices paid by Mon Valley are among the highest in the six states where US Steel facilities are located. The current cost 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 determinations concerning industrial default service have also reduced the competitiveness of electric service in southwestern Pennsylvania. Excessive costs of electricity, and issues with its availability, reliability and economic predictability could result in large commercial and industrial customers reducing their operations or leaving Pennsylvania altogether. 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 permitting EDCs to provide long term, fixed price contracts for these customers as a form of default service under Section 2807(e)(3) of the Public Utility Code, 66 Pa. C.S. § 2807(e)(3).

II. The Commission Should Permit Long Term Fixed Price Contracts as a Form of Default Service for Large Commercial and Industrial Customers.

In Duquesne's POLR III case, the Commission directed Duquesne to implement an hourly price service as the industrial customer default service with a fixed price option available for a two-year transition period. As explained below, hourly price service frequently does not meet the requirements of large customers. To protect the competitiveness of Pennsylvania large commercial and industrial companies, the Commission should require EDCs to provide both an hourly price service and a long term fixed price service for customers whose operations require the reliability and predictability of a fixed price to compete in their product markets.

Many large commercial and industrial customers do not have the operational flexibility to efficiently use hourly priced service. Their operations may not allow them to suspend or reduce their operations to avoid spikes in hourly prices. Hourly price service can result in abrupt and arbitrary price increases. This volatility in the hourly electric prices is not acceptable to many of these customers. These customers require an electrical supply that is not only available and reliable must also be predictable in cost for these customers to efficiently operate and compete in their markets. Hourly priced service simply does not meet their requirements and is not a realistic option for these customers. So that large commercial and industrial customers will have a full range of competitive options from their default provider, EDCs should be permitted to provide fixed price service on a long term, multi-year basis. Permitting EDCs to offer long term fixed price contracts will allow and encourage EDCs to obtain long term supply contracts which should reduce price volatility and mitigate price increases over the long term.

Relying on Electric Generation Suppliers ("EGSs") to be the sole supplier of long term fixed price service is not the solution. Not permitting EDCs to provide this kind of service removes a significant competitive pressure on EGSs to provide long term, fixed price service at the lowest price. Indeed, without competition from EDCs, EGSs would be able to price these services at above market costs. Large commercial or industrial customers who require this type of service have limited options to reduce their electrical costs. Another barrier may be the EGSs' contractual requirements such as excessive credit and security requirements which may make service from these suppliers unavailable to every large commercial and industrial customer who requires it. These customers would have no alternative to the hourly priced service. The default service provided by EDCs should be an important competitive force to moderate electrical prices in every market.

III. The Competition Act Permits Default Service Providers to Provide Competitive Generation Services 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. Section 2806(h) of the Public Utility Code, 66 Pa. C.S. § 2806(h), permits the Commission to allow an EDC to implement 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. 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.

The elimination of a long term, fixed price default service is discriminatory to large commercial and industrial customers. The Competition Act requires that restructuring of the electric utility be "implemented in a manner that does not unreasonably discriminate against one customer class to the benefit of another." (Section 2804(7), 66 Pa. C.S. § 2804(7)). Not providing a long term, fixed rate option to large commercial and industrial customers results in unreasonable discrimination to this customer class. As previously explained, many of these customers do not have the operational flexibility to use hourly priced service. Not providing a long term, fixed rate option for these customers results in no useful and useable default service available to them. The absence of this service for these customers results in an unreasonable discrimination against them which violates Section 2804(7).

As noted in Commissioner Shane's statement from the May 19, 2006 Public Meeting, it is questionable public policy to make default service "ugly" or unusable for some customers simply to encourage fixed price offers from competitive EGSs. This results in a managed competition which is inconsistent with the legislative policy underlying the Competition Act. As explained in these comments, it also results in a competitive disadvantage to energy intensive end users in Pennsylvania, particularly in southwestern Pennsylvania. In implementing the Competition Act, the Commission should allow both default service providers and EGSs to be true competitive alternatives in the marketplaces. The Commission should not promote an artificial competition by limiting the services that one class of competitor can provide. EDCs should be permitted to provide long term, fixed price services to meet the requirements of large customers. EGSs are free to compete with these suppliers for the customer's business.

Open competition of this kind will benefit Pennsylvania's future electricity markets and mitigate potential price increases.

Respectfully submitted,

Daniel P. Delaney
PA Attorney I.D. 23955

Kirkpatrick & Lockhart Nicholson Graham LLP
17 North Second Street, 18th Floor
Harrisburg, PA 17101-1507
(717) 231-4500
(717) 231-4501 (Fax)
ddelaney@klng.com

Thomas M. White

United States Steel Corporation
600 Grant Street, Room 1500
Pittsburgh, PA 15219-2800
(412) 433-2929
(412) 433-2964 (Fax)
tmwhite@uss.com

Counsel for United States
Steel Corporation

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