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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS ON BEHALF OF AK STEEL CORPORATION

Pursuant to an Investigation Order issued on May 24, 2006 in the within docket, AK Steel Corporation (AK Steel) submits the following brief comments.

Background

AK steel owns and operates steel manufacturing and processing plants in Indiana, Kentucky, Ohio and Pennsylvania. Two of AK Steel's plants are in states where electric generation remains regulated (Indiana and Kentucky), and two are in states that are in a transition period between regulated and unregulated environments (Ohio and Pennsylvania). AK Steel's operation in Pennsylvania is located in the City of Butler (Butler Works) and manufactures stainless and electrical steels. The Butler Works, for many years, has been either the largest or second largest customer of West Penn Power d/b/a Allegheny Power Company (AP).

The Commission Goal of Price Mitigation

The Commission Order in this docket indicates that it is investigating the possibility of mitigating the cost shock that almost certainly will hit Pennsylvania electric consumers with the advent of the complete deregulation of generation on or about 2010. Indeed, several Commissioners have already hinted at possible devices to accomplish this. One option mentioned was the possibility of gradually raising retail prices prior to the expiration of the rate caps and setting aside the additional money collected, plus interest, and using it to reduce the magnitude of retail price increases when the caps expire.

These comments have two prime goals. The first is to urge the Commission to expand the goals and scope of this Commission's investigation to embrace, not just the mitigation of the rate shocks that will surely hit Pennsylvania consumers at the advent of complete deregulation, but methods and devices to totally avoid the economic catastrophe that will strike the Commonwealth, and is already hitting neighboring states, with the onset of market-only power pricing.

The second message which AK Steel hopes to convey to the Commission is that the idea of mitigating the shock of market pricing by raising prices even earlier is not a sound one.

A Wider Deeper, Investigation With All Options Considered.

It is difficult not to sound like Chicken Little when describing the probable impact of market rates on Pennsylvania large energy users at the termination of the capped-rate period for the utilities. By almost universal consensus (energy marketers being the only real dissenters), the increases likely to be inflicted on Pennsylvania ratepayers will be devastating. AK Steel's forecast, based upon power pricing in nearby states (e.g., Maryland), that are already in the throes of the energy market, indicate that increases to existing rates could range from 50 to 70 percent. Since energy is a prime ingredient in the manufacture of steel, the question arises whether steel can really be manufactured at a profit in Pennsylvania at those rates. This question is all the more pregnant because lower cost energy alternatives to Pennsylvania abound. Kentucky, West Virginia and Indiana offer industries the increasingly valuable option of low, relatively fixed rates, keyed not to volatile natural gas driven prices, but to the costs of running base-load coal-fired units. There, the Commission still exercises its time-honored duty to assure that rates are just and reasonable, and that utilities receive a reasonable, and only a reasonable, rate of return on their generation investments. The value of such an environment, not even yet fully appreciated, will soar as the harsh reality of a dysfunctional market dawns on Pennsylvania consumers. To Pennsylvania industry, it means a powerful incentive to relocate plants, or at least work from plants, in Pennsylvania to these still regulated states, and a disincentive to expand and locate new plants here. In the long run, if not in the short as well, responsible company planners will factor in the cost of power in Pennsylvania to their strategies. They would be totally remiss in their duties otherwise. Pennsylvania and Pennsylvanians, not just industry, will suffer. The Commission and probably the Legislature, at the Commission's urging, must do something. The thing(s) that they do must be radical and immediate. Mitigation, the minor alleviation of the pain, particularly by some gradual, rather than sudden increase in suffering, will not answer. Why should industries suffer increases at all if shifting operations to regulated, low-cost states avoids rate shock altogether?

AK Steel urgently encourages the Commission to expand and enlarge this investigation. Ideas from interested parties must be received, debated, discussed and sold to the Commission and probably to the Legislature. If this investigation is to consist merely of a round of hurriedly written comments, a half-days hearing and a final Commission Order, it is doomed to failure. In Ohio, which has by no means resolved the problems of the imminent demise of capped prices, so called "rate stability plans" have been adopted and implemented which have at least delayed the onset of total market prices past 2005 to at least 2008. The process of gaining broad agreement to put these temporary stop-gap measures took at least two years. While these have done their job, better, more permanent answers, are now being sought there. Pennsylvania faces even more difficult problems since, unlike Ohio, all Pennsylvania utilities have divested their generation assets to other, often affiliated corporations. If it is to avoid, or even just postpone, the looming crises, the Commission and probably the Legislature must begin now, in earnest, and with the purpose, of literally saving the Pennsylvania economy.

<u>"Gradualism" Is Not The Answer</u>

AK Steel particularly urges the Commission to reject the concept of raising capped rates earlier, even if it intends to use the revenue windfall to ease market rates later. Certainly, from an industrial point of view, no benefit is gained by starting the pain earlier. Industrials will not thank the Commission for drilling holes in the boat, so they can get used to drowning. The Commission should not set as its goal gradually acclimating Pennsylvanians to ruinous rates, but of saving them from them.

Conclusion

AK Steel urges the PPUC to expand the scope of this proceeding to include all ideas to avoid the onset of the open electric market in Pennsylvania and to return to a regime of utility regulation or ownership that keys the cost of power to the cost of producing power and away from a failed market characterized by wildly volatile prices and windfall profits.

AK Steel urges the PPUC to reject a proposal to mitigate the "rate shock" by starting the shock earlier. The capped rates now in place should stay in place for as long as possible.

Respectfully submitted,

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