

**Testimony Of Richard Kalmas, ArcelorMittal, USA**  
**Before the Pennsylvania Senate Consumer Protection Committee**

**April 13<sup>th</sup>, 2010**

Thank you for the opportunity to appear before the Committee to share our experience with electricity markets in and around Pennsylvania. My name is Richard Kalmas and I am the Electricity Sourcing Manager for ArcelorMittal USA. ArcelorMittal USA is a part of the world's largest steel company. ArcelorMittal's operations in the Commonwealth of Pennsylvania date back almost 200 years. ArcelorMittal operates what were once various independent steelmakers such as Bethlehem Steel, Pennsylvania Steel Technologies and Lukens Steel. The very first steel mill in America designed to make steel rather than a converted iron forge is ArcelorMittal's Steelton facility which still operates just down the river from here. We employ directly or indirectly over 10,000 Pennsylvanians between our three operating steel mills in Steelton, Coatesville and Conshohocken, and at our Koppers coke works in Monessen.

ArcelorMittal competes in global markets and our Pennsylvania facilities are in direct competition with mills in various states and other countries. Our electric arc furnaces in Coatesville and Steelton recycle old scrap steel into new steel for various applications. They are two of the largest single electricity users in the entire Commonwealth and each furnace consumes more electricity than the entire population of a mid-sized city like Lancaster. ArcelorMittal is the second largest consumer of electricity in Pennsylvania after only the Commonwealth itself across all the various government buildings, prisons, universities etc. As such competitively priced reliable electricity is critical to the continued operation of our Pennsylvania mills.

As de-regulated electricity prices have impacted our operations at Steelton we have seen electricity prices increase almost 100%. While we are still protected at Coatesville and

Conshohocken until next year when PECO's rate caps expire, we expect to see significant rate increases. These increases make it difficult for our Pennsylvania mills to compete against other ArcelorMittal mills and competitor mills in different states, some still regulated and in other countries.

I have attached a chart showing the discrepancy between average electricity prices in regulated vs. deregulated states. It is not a pretty picture for Pennsylvania. The problems with electricity markets are at the wholesale level which is regulated by the Federal Energy Regulatory Commission. It will take some time to fix them. In the interim, there is something that Pennsylvania can do to ease the burden of un-competitive wholesale electricity markets on Pennsylvania consumers.

When Pennsylvania restructured the electricity supply industry it was expected that retail prices would fall due to competition. As part of the restructuring Pennsylvania utilities were authorized to recover the costs of power plants that they had built under the regulated framework if those costs were "stranded" and unrecoverable due to the lower electricity prices that competition was expected to bring about. Prices never fell as expected, so therefore the expected stranded costs were never stranded and Pennsylvania's utilities have probably collected billions of dollars in stranded costs that were never stranded. The PUC has the authority to revisit the original stranded cost estimates and reconcile the forecasted stranded costs against the actually stranded costs. Where "unstranded" costs have been collected as stranded, refunds should be required to all customers. This refund would at least partially offset the higher electricity prices all Pennsylvania consumers are paying or will be paying shortly. The PUC has never revisited the original stranded cost estimates in light of the fact that actual PJM market prices have greatly exceeded the forecasts used in 1997 and 1998 to estimate the likely stranded costs. The PUC has a long history and broad authority to revisit estimates that are used to set retail rates to consumers and to revise or reconcile actual costs vs. estimates when those estimates affect retail rates to consumers.

Such a refund is also fair considering that one of the main reasons that prices have been so much higher than expected in 1997 is that Pennsylvania utilities and their cohorts in PJM have continuously lobbied and worked in PJM and at FERC for market rules and mechanisms that reduce competition and raise prices to consumers. Some Pennsylvania utilities are even now leading an effort within PJM to make certain that individual consumers, state consumer advocates and state utility Commissions have even less of a voice within PJM's rule making processes so that they can more freely raise prices. The PUC should not hold on to outdated stranded cost estimates when those estimates have proven so inaccurate in large part due to the efforts of the utilities to raise market prices and eliminate competition. Thank you for your concern and for the opportunity to appear here today.

