BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of Aligning Electric Distribution Utility Rate Structure With Ohio's Public Policies to Promote Competition, Energy Efficiency, and Distributed Generation	))))	Case No. 10-3126-EL-UNC

COMMENTS OF NUCOR STEEL MARION, INC.

Nucor Steel Marion, Inc. ("Nucor") welcomes the opportunity to comment on ways to align distribution utilities' rate structures with Ohio's public policy objectives. Nucor is a large industrial, interruptible customer of Ohio Edison Company. Nucor recycles scrap steel by using electric arc furnaces to melt scrap and produce new steel. The production process is energy intensive and Nucor consumes millions of dollars worth of electricity each year. Reliable and cost-effective electric service is critical to Nucor's ability to compete in the national and international steel markets. Nucor has long advocated rate designs that send proper price signals to customers, recognize class cost differences, and encourage efficient use of energy. We recommend that the Commission use this proceeding to explore rate designs that will provide the greatest potential benefits under Ohio's current regulatory framework, but that the Commission refrain from adopting any "one-size-fits-all" rate design in this proceeding.

From the discussion in the December 29, 2010 entry establishing this proceeding ("Entry") and the questions attached at the end, it appears that the Commission is focused on

the distribution component of rates.[1] The rate design issues raised in the Entry, however, are pertinent to other components of utility rates, such as generation and transmission, and it is in this broader context that Nucor offers its comments. Nevertheless, if the Commission's intent is to address these rate design questions only in the context of distribution rates, then Nucor requests that the Commission clarify that this is the case in its next entry in this proceeding.

In these comments, Nucor responds to some, but not all, of the questions the Commission posed in Appendix A of the Entry. These comments are limited to electric utilities, and Nucor takes no position on these issues as they pertain to gas utilities at this time.

Question 3: If the Commission adopts a decoupling rate design, which rate design should it use: SPV, decoupling adjustment, lost revenue recovery adjustment, or some combination of these?

A. The Commission should not adopt "one-size-fits-all" rate design prescriptions in this proceeding

Question 3 implies that the Commission is considering adopting one of three rate designs, or some combination of these three. Nucor strongly recommends that the Commission not use this proceeding to adopt a one-size-fits-all cost recovery mechanism that would be applied to all electric utilities on a uniform basis. Doing this would unnecessarily bind the Commission's hands.

A particular rate design might not work well in all cases and circumstances. The rate designs discussed in the Entry are not universally accepted or admired, and they might have unforeseen consequences if they are adopted in a generic proceeding. For example, rates that

[1] For example, on the first page of the Entry, the Commission explains that under current distribution utility rates, "customers pay a customer charge while the remaining distribution revenue requirement is recovered through a volumetric rate." Similarly, questions 1, 4, and 6 of Appendix A specifically reference "electric distribution rates," and several items in Appendix B refer to "distribution-related" revenues or charges.

include "decoupling" mechanisms that use after-the-fact rate adjustments to eliminate or reduce a variance between a utility's revenue recovery and its authorized revenue recovery could actually wind up reducing or eliminating the cost savings a customer would see by reducing its energy consumption, thereby weakening the customer's incentive to conserve energy. Further, decoupling and lost revenue recovery mechanisms, while theoretically reducing the throughput incentive, could also have the effect of making utilities less conscious of the need to control costs. It is also worth noting that while the Commission has approved lost revenue recovery mechanisms for the seven electric utilities operating in Ohio, the Commission has done so largely in the context of settlements, where the benefits of the lost revenue recovery mechanisms for the utilities presumably were balanced against benefits provided to customers through other provisions of the settlements.[2]

Rather than adopting a particular rate design in this proceeding, the Commission should use the proceeding as an opportunity to generate and develop ideas on rate design from interested stakeholders that the Commission can later apply in actual rate cases. In short, the Commission should use this proceeding as a brainstorming session, and should make clear that it will continue to evaluate rate design issues on a case-by-case basis.

Finally, the Commission should not limit its inquiry to straight fixed variable rate design, decoupling adjustments, or a lost revenue recovery adjustment. As discussed below, there are other rate designs that would achieve the Commission's main objective in this proceeding of encouraging rate structures that "would better align utility performance with Ohio's desired

[2] Entry at 3-4.

public policy outcomes."[3] All rate designs that could help the Commission achieve this objective should be on the table for consideration and discussion in this proceeding.

B. Certain core principles should underlie the Commission's rate design determinations

The Commission should retain flexibility in rate design, but certain core principles should serve as the starting point. To begin with, rate design should seek to properly align cost causation, cost allocation, and cost recovery. At a basic level, this means that fixed distribution, transmission, and generation costs should be allocated to customer classes based on demand, and recovered from customers within those classes through customer charges or demand charges. Variable costs, such as fuel and variable O&M, should typically be recovered through energy charges. As the Commission properly recognizes in the Entry, recovering fixed costs through volumetric charges generally sends improper price signals, does not recognize the differences in cost causation among the various customer classes, and in particular would result in over-recovery of costs from customer classes and customers with high kwh usage.

Of course, the Commission must also recognize that proper rate design is both an art and a science, and that other factors and considerations must be taken into account in coming up with the proper rate design. Some of these other considerations include "gradualism," avoidance of rate shock, and encouragement of economic development. These considerations must be taken into account on a case-by-case basis, which is another reason why the Commission should avoid trying to adopt a specific rate design in this proceeding that would be applied on a uniform basis across all utilities.

[3] *Id.* at 5.

Rate design must also be consistent with, and should actively help to advance, Ohio's policy goals as specified in Section 4928.02 of the Revised Code. Such policy goals include: ensuring "the availability to consumers of adequate, reliable, safe, efficient, nondiscriminatory, and reasonably priced retail electric service," encouraging "innovation and market access for cost-effective supply- and demand-side retail electric service including, but not limited to, demand-side management, time-differentiated pricing, and implementation of advanced metering infrastructure," and facilitating Ohio's "effectiveness in the global economy." These policy goals should not be viewed as being merely aspirational – instead, they should be viewed as an affirmative call by the Ohio Legislature for the Commission to develop and adopt innovative rate designs that will encourage the efficient use of the electric system, provide value to customers, and make Ohio an attractive state in which to do business.

C. Existing rate designs that advance the Commission's goals should be retained and improved

The Commission already has at its disposal well-established rate designs that eliminate, or at least reduce, the throughput incentive. For example, a customer charge is an effective rate mechanism for recovering fixed costs that do not vary based upon customer energy usage. Under a customer charge approach, fixed costs are first allocated among customer classes in a manner that reflects the cost responsibility of the class (for example, costs can be allocated to customer classes based on the contribution of the class to peak demand, or based on the number of customers within the class), then a fixed customer charge is applied to all customers within the class.

While customer charges are used by Ohio utilities today, in the Entry the Commission seems to be contemplating expanding the use of customer charges to recover fixed distribution

costs under what is referred to as a straight fixed variable or "SFV" rate design.[4] Nucor is generally supportive of expanding the use of customer charges to recover fixed distribution, transmission, or generation costs. Customer charges are also ideal to recover costs of energy efficiency and peak demand reduction programs, particularly when the costs of such programs do not vary based on the customer's individual energy usage. The use of a customer charge to recover fixed costs would eliminate the variability in the recovery of fixed costs, which would all but ensure that the utility would recover the costs that the charges are intended to recover. At the same time, a fixed customer charge would all but eliminate the throughput incentive, and would eliminate the risk of over-recovery from customers with high kwh usage within a class – a risk that the Commission recognizes as an obvious and less than ideal side-effect of using volumetric charges to recover fixed costs.[5]

Aside from the customer charge, there are other approved rate designs that better reflect the differences in cost causation among customer classes, and that mitigate the inherent unfairness of recovering fixed costs through pure volumetric rates. Tellingly, such rate designs for generation have been approved even in cases where the utility acquires the generation product at wholesale from the market on a per kwh basis. For example, in FirstEnergy's recently-approved ESP, the Commission approved a rate mechanism that allocates generation capacity costs among customer classes as a preliminary cost allocation/rate design step.[6] Although these costs are converted to per kwh charges for inclusion in FirstEnergy's Rider GEN,

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[4] *See* Entry at 1-2.

[5] *Id.* at 1.

[6] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 10-388-EL-SSO, Opinion and Order at 9 (August 25, 2010) ("2010 FirstEnergy ESP Order").

the allocation step results in capacity charges that are differentiated by class, which better reflects cost causation and ensures fairer cost recovery for these fixed generation capacity costs than if such costs were simply included in volumetric rates that are essentially uniform across all customer classes. FirstEnergy's ESP rates recover transmission costs in a similar manner. These allocation approaches are small steps in the right direction toward recognizing ultimate cost causation in rates.

Finally, the Commission should continue to support innovative rate designs that align cost recovery and cost-causation, send more granular price signals, and advance the Commission's policy goals of encouraging conservation and a more efficient use of the electric system. Time-of-use rates are one example. The cost of generating electricity varies based on the season, and based on the time-of-day. In Ohio, the cost of producing electricity is typically higher in the summer than it is in the winter. Similarly, costs vary based on the time of day – in the summer costs are generally higher in the on-peak hours of the day than in the off-peak hours. Rates that charge the customer the same price for electricity in every hour provide no price signals to customers. By contrast, well-designed time-of-use rates reflect seasonal and daily cost variations, and provide price signals for customers to curtail their usage when the cost of producing electricity is high.

The Commission has stated that time-of-day rates "recognize that some customers have a higher proportion of usage in lower-cost, off-peak periods," and has determined that such rates advance the state's policy objectives as set forth in Section 4928.02 of the Revised Code,

and should be included in standard service offer rate designs.[7] The Commission approved time-of-day, critical peak pricing rates, and real-time pricing rates for FirstEnergy in 2010.[8] The Commission should continue to encourage time-of-use rates and should continue to explore how the rates can be made more effective. For example, if time-of-day rates do not appear to be achieving the desired degree of load shift from on-peak to off-peak periods in certain circumstances, it may be that the spread between the on-peak and off-peak price is not significant enough to send customers the proper price signal to reduce their consumption during on-peak periods. In such a case, the utility could increase the on-peak price, and correspondingly lower the off-peak price, to provide a stronger price signal.

The Commission should also continue to encourage and support strong interruptible rates. Interruptible rates provide a myriad of benefits, including the avoidance or mitigation of generation and transmission capacity costs, avoidance or mitigation of reserve costs, energy cost avoidance benefits, reliability benefits, and economic development benefits.[9] The Commission has recognized that interruptible rates advance Ohio's policy objectives, and should be included as a component of utility standard service offers.[10] Further, it is clear that

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[7] *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of a Market Rate Offer to Conduct a Competitive Bidding Process for Standard Service Offer Electric Generation Supply, Accounting Modifications Associated with Reconciliation Mechanism, and Tariffs for Generation Service*, Case No. 08-936-EL-SSO, Opinion and Order at 24 (November 25, 2008) ("2008 FirstEnergy MRO Order.").

[8] *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of an Experimental Critical Peak Pricing Rider, a Revised Generation Service Rider Which Includes a Time-Of-Day Option, and an Experimental Real Time Pricing Rider*, Case No. 09-541-EL-ATA, Finding and Order (January 20, 2010).

[9] *See* 2010 FirstEnergy ESP Order at 31.

[10] *See* 2008 FirstEnergy MRO Order at 24.

interruptible load is the most straightforward and effective way for utilities to achieve their statutory peak demand reduction benchmarks.[11]

In order to maintain the current level of interruptible load and to attract more interruptible customers, in designing interruptible rates, the Commission should establish a credit based on the utility's long-range avoided cost of peaking generation capacity. This should be the case even if the utility is acquiring capacity from wholesale capacity markets, such as the PJM RPM. Capacity markets produce short-run, volatile prices. Basing interruptible credits on these prices would provide no certainty for interruptible customers, since the credits likely would vary year by year. Volatile, short-term credits likely would be intolerable for many interruptible customers, who are typically large manufacturers who must have reasonable certainty about what their energy costs will be several years out so they can plan their operations. Basing interruptible credits on the long-run avoided costs of a peaking generator, in contrast, would provide a stable credit for interruptible customers that would more accurately reflect the value the interruptible customer is providing, and would encourage the retention of existing interruptible load, and the participation of new interruptible customers.[12]

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[11] *See In the Matter of the Adoption of Rules for Alternative and Renewable Energy Technology, Resources, and Climate Regulations, and Review of Chapters 4901:5-1, 4901:5-3, 4901:5-5, and 4901:5-7 of the Ohio Administrative Code, Pursuant to Amended Substitute Senate Bill No. 221*, Case No. 08-888-EL-ORD, Entry on Rehearing at 4 (October 15, 2009) (recognizing that interruptible load can count to meeting peak demand reduction benchmarks regardless of whether the load is actually interrupted).

[12] For a detailed discussion of interruptible rate design, see *In the Matter of the Application of Ohio Edison Company, the Cleveland Electric Illuminating Company, and The Toledo Edison Company for Approval of a Market Rate Offer to Conduct a Competitive Bidding Process for Standard Service Offer Electric Generation Supply, Accounting Modifications Associated with Reconciliation Mechanism, and Tariffs for Generation Service*, Case No. 09-906-EL-SSO, Direct Testimony of Dr. Dennis W. Goins at 11-34 (December 4, 2009).

Question 4: If the Commission adopts a decoupling rate design in electric distribution rates: (a) Should that rate design be applied only to residential rate classes? What other rate classes should be considered?

As demonstrated by the discussion above, we believe that the Commission's efforts to move from a pure volumetric rate design to rate designs that better reflect cost causation and send better price signals should not be limited to the residential classes. Nor should such efforts be limited to distribution rates. There are fixed costs associated with all of the key elements of electricity production and delivery, and rates should be properly designed to recover these costs from all types of customers.

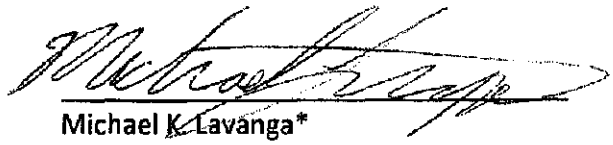
Question 6: If the Commission determines that a decoupling rate design should be implemented to eliminate or mitigate the throughput incentive in electric distribution rates: (a) When should this change occur (i.e., in what types of actions before the Commission should this change be implemented)?

The best place to consider changes to rate design should be in specific utility rate cases, including standard service offer applications (be they ESPs or MROs), and distribution rate cases. The circumstances in each rate case will differ, and the Commission should retain the flexibility to approve rate designs in each case that are appropriate for the unique circumstances of each case. Nucor reiterates that the Commission should not adopt any rate design changes that would be applied to all utilities on a uniform basis in this generic proceeding.

III. CONCLUSION

Nucor respectfully requests the Commission to consider the comments and recommendations contained herein as the Commission continues its examination of utility rate structure in this proceeding.

Respectfully submitted,



Michael K. Lavanga*
PHV #1014-2011
E-Mail: mkl@bbrslaw.com
Counsel of Record
Brickfield, Burchette, Ritts & Stone, P.C.
1025 Thomas Jefferson Street, N.W.
8th Floor, West Tower
Washington, D.C. 20007
(202) 342-0800 (Main Number)
(202) 342-0807 (Facsimile)
* Pending admission *pro hac vice*

Attorney for Nucor Steel Marion, Inc.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing *Comments of Nucor Steel Marion, Inc.* was served this 11th day of February, 2011 upon the following via electronic mail and U.S. regular mail, postage prepaid:

Mandy Willey
Attorney Examiner
The Public Utilities Commission of Ohio
180 E. Broad Street
Columbus, Ohio 43215
Email: mandy.willey@puc.state.oh.us

David F. Boehm
Michael L. Kurtz
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
Email: dboehm@BKLlawfirm.com
Email: mkurtz@BKLlawfirm.com

William T. Reisinger
Nolan Moser
Trent A. Dougherty
Elizabeth Camille Yancey
Ohio Environmental Council
1207 Grandview Avenue, Suite 201
Columbus, Ohio 43212-3449
Email: will@theoec.org
Email: Nolan@theoec.org
Email: trent@theoec.org
Email: Camille@theoec.org

Henry W. Eckhart
Sierra Club
50 West Broad Street, #2117
Columbus, Ohio 43215
Email: henryeckhart@aol.com

Christopher J. Allwein
Office of the Ohio Consumers' Counsel
10 West Broad Street, Suite 1800
Columbus, Ohio 43215
Email; allwein@occ.state.oh.us

Samuel C. Randazzo
Joseph E. Oliker
Frank P. Darr
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, Ohio 43215
Email: sam@mwncmh.com
Email: joliker@mwncmh.com
Email: fdarr@mwncmh.com

Joseph P. Meissner
The Legal Aid Society of Cleveland
1223 West 6th Street
Cleveland, Ohio 44113
Email: jpmeissn@lasclev.org

John W. Bentine
Mark S. Yurick
Chester Willcox & Saxbe LLP
65 E. State Street, Suite 1000
Columbus, Ohio 43215
Email: jbentine@cwslaw.com
Email: myurick@cwslaw.com

/s/ Michael K. Lavanga
Michael K. Lavanga
/mkl per e-mail