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Via E-FILE

June 20, 2019

Public Utilities Commission of Ohio
PUCO Docketing
180 E. Broad Street, 10th Floor
Columbus, Ohio 43215

In re: Case No. 19-0950-EL-AEC

Dear Sir/Madam:

Please find attached the COMMENTS OF NORTH STAR BLUESCOPE STEEL for filing in the above-referenced matter.

Please place this document of file.

Respectfully yours,

Michael L. Kurtz, Esq.
Jody Kyler Cohn, Esq.
BOEHM, KURTZ & LOWRY

MLKkew
Attachment

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of North Star BlueScope Steel for Approval of a Reasonable Arrangement	: :	Case No. 19-950-EL-AEC

COMMENTS OF NORTH STAR BLUESCOPE STEEL

Pursuant to the Public Utilities Commission of Ohio's ("Commission") June 5, 2019 Finding and Order ("Order") in the above-captioned proceeding, North Star BlueScope Steel ("North Star") submits its Comments on both the already-approved and the proposed terms and conditions of its reasonable arrangement.

North Star greatly appreciates the Commission's decision to establish several important terms and conditions of the arrangement on an expedited basis, which will help inform North Star's decision-making with respect to the contemplated \$600 to \$700 million facility expansion. Those terms and conditions are reasonable, may benefit North Star, and do not result in any delta revenue. Removing North Star's current and expanded load from the R.C. 4928.64 compliance baseline would certainly be a benefit if Ohio's renewable portfolio standard ("RPS") remains effective, although the currently-pending version of H.B. 6 would also eliminate those RPS costs. Allowing North Star to purchase transmission for its current and expanded load might also be beneficial, but not necessarily since any benefit to North Star is dependent upon successfully reducing its Network Service Peak Load ("NSPL") at the time of the ATSI Zone transmission peak. Without a low NSPL relative to standard billing demand, shopping for transmission can be more expensive than purchasing transmission from Toledo Edison ("TE"). Importantly, however, while potentially beneficial, those pre-approved terms are not sufficient to ensure that North Star's Australia-based management will undertake the substantial capital investment needed to expand its operations in Delta, Ohio.

Consequently, the remainder of these Comments is dedicated to supporting the fundamental term of the proposed reasonable arrangement yet to be approved by Commission – a seven-year rate credit not exceeding \$28 million in exchange for subjecting most of the North Star expanded load to interruption by either TE or PJM Interconnection, LLC ("PJM"). As discussed below, approval of the requested credit would greatly improve the chances that North Star will proceed with the contemplated facility expansion, producing over \$1 billion of gross domestic product ("GDP") benefit for Ohio during the seven-year term of the reasonable arrangement (including 700 direct and indirect jobs), and an additional $169 million of GDP benefits annually for as long as the expanded facility operates (ideally, decades into the future).

I. The Commission Should Not Adopt A *"Zero Tolerance"* Policy On Delta Revenue In This Proceeding.

While the Commission may be understandably averse to approving any delta revenue associated with reasonable arrangements, establishment of a strict *"zero tolerance"* policy for delta revenue in this proceeding would be a drastic and abrupt departure from Commission precedent, contrary to the Commission's broad ratemaking authority under R.C. 4905.31, and inconsistent with Ohio's policy directive set forth under R.C. 4928.02(N) to *"facilitate the state's effectiveness in the global economy."*

The Commission has a long-standing policy of approving reasonable arrangement rate incentives for entities that provide economic benefits to the State, including incentives that create delta revenue.[1] Accordingly, a finding in this case that no delta revenue is appropriate despite the substantial economic benefits that would result from North Star's proposed reasonable arrangement would represent a stark departure from well-established precedent. Moreover, such a finding would send a negative message to steelmakers in Ohio. Steelmaking is one the most energy-intensive industries. Almost all new or expanding electric arc furnace ("EAF") steel facilities anywhere in the U.S. receive some type of discounted electric rate. In-state steelmakers need electric power rates that will allow them to compete with both national and international competitors whose rates are being discounted.

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[1] *In the Matter of the Application of PRO-TEC Coating Company, LLC for Approval of a Reasonable Arrangement with Ohio Power Company*, Case No. 19-124-EL-AEC, Finding and Order (February 27, 2019); *In the Matter of the Application of AK Steel Corporation for Approval of a Reasonable Arrangement with Duke Energy Ohio, Inc.*, Case No. 18-450-EL-AEC, Opinion and Order (June 28, 2018); *In the Matter of the Application of Acero Junction, Inc. and Ohio Power Company for Approval of a Reasonable Arrangement*, Case No. 17-2132-EL-AEC, Opinion and Order (May 2, 2018); *In the Matter of the Application for Establishment of a Reasonable Arrangement Between Presrite Corporation and the Cleveland Electric Illuminating Company*, Case No. 17-1981-EL-AEC, Opinion and Order (March 14, 2018); *In the Matter of the Joint Application of Vadata, Inc. and Ohio Power Company for Approval of a Unique Economic Development Arrangement for Ohio Data Center Campuses*, Case No. 17-1827-EL-AEC, Opinion and Order (January 10, 2018); *In the Matter of the Application of Nature Fresh Farms for Approval of a Reasonable Arrangement,* Case No. 16-1664-EL-AEC, Opinion and Order (September 29, 2016); *In the Matter of the Application for Approval of an Amendment to a Contract for Electric Service between Ohio Power Company and Eramet Marietta, Inc.*, Case No. 09-516-EL-AEC, Opinion and Order (October 14, 2015); *In the Matter of the Application of Warren Steel Holdings, LLC for Approval of a Unique Arrangement for its Trumbull County, Ohio, Facility,* Case No. 14-1009-EL-AEC, Opinion and Order (July 23, 2014); *In the Matter of the Application of Republic Steel for Approval of a Reasonable Arrangement for Republic Steel's Lorain Ohio Facility,* Case No. 13-1913-EL-AEC, Opinion and Order (March 19, 2014); *In the Matter of the Application for Establishment of a Reasonable Arrangement between ASHTA Chemicals Incorporated and the Cleveland Electric Illuminating* Company, Case No. 12-1494-EL-AEC, Opinion and Order (January 8, 2014); In *the Matter of the Application of Ormet Primary Aluminum Corporation for Approval of a Unique Arrangement with Ohio Power company and Columbus Southern Power Company*, Case No. 09-119-EL-AEC, Opinion and Order (October 2, 2013); *In the Matter of the Application for Approval of a Contract for Electric Service Between Columbus Southern Power Company and Solsil, Inc.*, Case No. 08-883-EL-AEC *et al.*, Second Finding and Order (April 5, 2011).

Without such a rate, the ability of North Star to invest in Ohio is in doubt. Hence, this is not the right proceeding in which to adopt a strict *"zero tolerance"* policy on delta revenue.

R.C. 4905.31 expressly grants the Commission authority to approve a wide variety of reasonable arrangement rate structures, including any *"financial device that may be practicable or advantageous to the parties interested."* The Commission therefore has considerable discretion in crafting reasonable arrangements, including reasonable arrangements resulting in delta revenue. Further, the General Assembly expressly directed the Commission to facilitate economic growth in Ohio under R.C. 4928.02(N). Accordingly, it would be unreasonable and contrary to state policy for the Commission to unnecessarily bind its hands with respect to reasonable arrangement structures that could be adopted under R.C. 4905.31. While the Commission may seek to implement a more judicious policy with respect to reasonable arrangements, the Commission should not undermine its ability to advance Ohio's economic development policy objectives by severely restricting its ability to approve reasonable arrangements that may result in delta revenue.

II. The Benefits To Other Customers Resulting From The Contemplated Facility Expansion Substantially Outweigh The Costs Associated With The Requested Interruptible Rate Credit.

As the Commission describes in great detail in its Order, completion of the contemplated facility expansion would result in substantial benefits to other customers and to the State of Ohio, including 91 permanent direct jobs earning $11.7 million in compensation, 700 direct and indirect jobs, $49 million in annual labor income, $6.6 million in additional state and local tax revenues, and $169 million in annual GDP.[2] The construction process alone is expected to create 340 jobs with nearly $20 million in annual labor income for the regional economy over a two-year period.[3] Additionally, North Star's expansion is sized to allow for future development at its site. North Star's existing operations already helped facilitate the development of new companies in the region, such as Worthington Industries. By expanding, North Star may help attract additional companies, particularly those related to steel processing, to the Toledo, Ohio region.

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[2] Order at 7.
[3] Id.

In order to produce these substantial economic benefits, however, North Star's management would need to approve investment of approximately $600 to $700 million of corporate capital that could otherwise be invested in one of North Star's sister companies worldwide. BlueScope Steel maintains a global footprint with numerous business units ranging from integrated steel mills to advanced building services. All of those business units must compete for limited capital and must return a minimum internal rate-of-return. Consequently, if the proposed interruptible rate credit is not approved, BlueScope Steel may determine that it is more economic to invest the substantial capital associated with the contemplated Ohio facility expansion elsewhere within the corporate structure.

North Star is also under pressure from the investment community to eliminate the contemplated Ohio facility expansion altogether, either to undertake a share buyback instead or to avoid investing substantial capital in an expansion in the midst of an increasingly saturated hot rolled coil market for steelmakers in the United States. For instance, JP Morgan recently argued that a share buyback would create greater shareholder value than investing in the North Star expansion in Ohio, stating *"JP Morgan thinks BlueScope could redeem itself if it undertook a share buyback instead of expanding its North Star operations. Putting $1 billion into a buyback would generate net present value (NPV) of around $400 million given the differential between BlueScope's current share price and the broker's valuation of the stock. In contrast, pumping the cash into expanding North Star would yield a NPVB of around $141 million (based on North Star's cash flow)."*[4]

Further, analysts are predicting that the hot rolled coil market in the U.S may be moving toward an over-capacity situation. Both the Tax Cuts and Jobs Act of 2017 and the steel tariffs have opened a limited window of opportunity for investment by steelmakers looking to expand their existing operations. But this limited window may close soon. A recent analysis from Credit Suisse found that *"[a]s trade and tariff issues sweep across North America, BlueScope Steel's (BSL) FY19 guidance is under increasing pressure. US hot rolled coil (HRC) prices have softened following the removal of tariffs on Canadian and Mexican steel. At the other end of the production chain, iron ore prices have surged. Additionally, the reduction in tariffs on Turkish imported scrap, another input for the company's NorthStar plant, is likely to mean scrap prices rise ... Moreover, around 15mt of new US steel*

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[4]https://www.msn.com/en-us/money/markets/this-asx-200-stock-could-excite-investors-with-a-capital-return-this-year/ar-AAC1lBm.

capacity is expected to come on line by 2022, almost entirely from EAF (electric arc furnace) producers and affecting mostly flat steel products. The re-start of around 2.5 mtpa of previously idled capacity in a 27 mtpa market has put it into surplus and the price for HRC has slumped accordingly. Hence, Credit Suisse believes that a collapse of HRC pricing is inevitable, and will actually be required in order to force the closure of high-cost capacity."[5] Accordingly, given that the limited window of opportunity for expansion may be closing soon, North Star's management could simply choose not to undertake the risk associated with a substantial capital investment in Ohio.

Additionally, the current trend among North Star's competitors is to invest in the growing market in the Southern portion of the United States. For example, Steel Dynamics recently announced plans to build a new $1.8 billion electric arc furnace steel facility in the Southwest.[6] More recently, Nucor announced plans to build a new $1.35 billion EAF steel plant in Kentucky.[7] And Big River Steel announced that it intends to expand its steel production facility in Osceola, Arkansas.[8] Based upon experience and industry knowledge, all of these plants will receive some form of electric rate incentive. Hence, it may not make sense for a highly energy-intensive customer like North Star to proceed with the contemplated expansion in the absence of an electric rate that allows it to compete with its rivals.

Consequently, in order to strengthen the internal case for proceeding with the contemplated facility expansion in Ohio, North Star requests that this Commission approve an interruptible rate credit no greater than $28 million over a seven-year period. The cost of the requested credit (averaging $4 million annually) is a fraction of the arrangement's expected benefits, including the $169 million annual GDP benefit to Ohio (totaling over $1 billion in GDP benefit by the end of the arrangement and continuing well beyond the arrangement term). Moreover, in exchange for receiving the requested rate credit, North Star agrees to subject most of the Expanded Facility's load to emergency interruptions by TE or PJM, providing reliability benefits to other customers in addition to the substantial economic development benefits listed above. Accordingly, while North Star's request may result in some delta revenue, the costs associated with the arrangement are more than justifiable and would be undertaken in

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[5] https://www.fnarena.com/index.php/2019/05/28/bluescope-steel-squeezed-as-us-tariffs-lifted/.
[6] https://www.nwitimes.com/business/lake-newsletter/steel-dynamics-plans-to-build-billion-mill-stoking-overcapacity-fears/article_084cf1b0-d721-5443-a1e6-bf02b36ceb14.html.
[7] https://www.nasdaq.com/article/nucor-to-build-135-billion-steel-plate-mill-in-kentucky-cm1121964.
[8] https://markets.businessinsider.com/news/stocks/big-river-steel-closes-on-487-million-of-thirty-year-debt-financing-and-290-million-of-equity-financing-1028249353.

furtherance of Ohio's State policy, which directs the Commission to facilitate the State's effectiveness in the global economy.[9]

III. Potential PJM Demand Response Revenues Alone May Be Insufficient To Compel North Star's Management To Undertake The Contemplated Facility Expansion.

With or without the reasonable arrangement, North Star fully intends to maximize all potential revenue from the PJM demand response market. But that PJM demand response revenue by itself is insufficient to ensure that the expansion will be approved. North Star carefully manages its PJM Peak Load Contribution ("PLC") in order to reduce its capacity costs. But PJM bases the amount of demand response that can be bid into its program on an individual entity's PLC. Thus, if North Star effectively manages it PLC by reducing its load during the five highest PJM summer peak hours, then North Star will have relatively little demand response product to sell into PJM and therefore little additional revenue to offset its costs of operation. Conversely, the interruptible rate credit methodology being proposed in this reasonable arrangement is not impacted by North Star's PLC management. That methodology is based upon the same methodology approved in AEP Ohio's most recent ESP,[10] as well as the reasonable arrangements approved for JSW Steel and AK Steel.[11] That methodology bases the level of the interruptible credit on the customer's retail billing demand (not PLC) minus its firm baseline, times 70% of the PJM RPM capacity cost. FirstEnergy's currently-effective ELR interruptible program is likewise based on the customer's retail billing demand, not PLC. In sum, North Star will fully utilize the PJM demand response market, but that may not be enough to get this project over the finish line.

IV. North Star's Proposed Reasonable Arrangement Is Exactly The Type Of Arrangement Envisioned Under R.C. 4905.31.

North Star's proposed arrangement will result in exactly the kind of new economic growth that R.C. 4905.31 was meant to encourage. And the Ohio House of Representatives recently echoed this sentiment, including

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[9] R.C. 4928.02(N).

[10] *In the Matter of the Application of Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan,* Case No. 16-1852-EL-SSO.

[11] *In the Matter of the Application of AK Steel Corporation for Approval of a Reasonable Arrangement with Duke Energy Ohio, Inc.*, Case No. 18-450-EL-AEC, Opinion and Order (June 28, 2018); *In the Matter of the Application of Acero Junction, Inc. and Ohio Power Company for Approval of a Reasonable Arrangement*, Case No. 17-2132-EL-AEC, Opinion and Order (May 2, 2018).

language in House Bill 6 that directs the Commission to *"minimize electric rates to the maximum amount possible on trade-exposed industrial manufacturers"* when ruling on reasonable arrangement applications under R.C. 4905.31.[12] By granting the requested interruptible credit, the Commission would significantly improve the chances that North Star will proceed with the contemplated facility expansion, producing substantial economic benefits to Ohio (potentially for decades) that may otherwise be lost. North Star has provided considerable evidence demonstrating that these benefits would indeed be produced; most importantly, a detailed economic impact study developed using IMPLAN, the same modeling software used by Commission Staff. Moreover, the proposed reasonable arrangement includes both jobs and capital investment commitments to which North Star must abide throughout the term of the arrangement. North Star is therefore offering to provide great value to the State of Ohio in exchange for the requested interruptible credit. And if for some reason, North Star received Commission approval of the requested interruptible credit, but did not proceed with the contemplated expansion, then there will be no harm to other customers since the approved arrangement would be considered moot. Regardless, approval of North Star's request would send a strong message to the investment community that the Commission intends to encourage economic growth in Ohio.

V. North Star's Proposal Satisfies The Commission's Seven-Factor Test For Reasonable Arrangements.

The Order already neatly lays out the case for how North Star's proposed reasonable arrangement satisfies most of the Commission's seven criteria for such arrangements.[13] But it also seeks additional assurances from North Star, which North Star will now provide.

First, the Order requires North Star to commit to maintain its current *"corporate partner"* status with the University of Toledo, Owens Community College, and Northwest State Community College (Craft Training Program) and to consider expanding support for these training programs. North Star hereby commits to do so.

Second, the Order notes that the Application did not expressly state that the charges paid under the proposed arrangement would cover TE's incremental costs-of-service and contribute to the payment of fixed costs. North Star already contributes to TE's fixed costs and will continue to do so through at least May 31, 2024 by allowing

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[12] House Bill 6 (as passed by the Ohio House of Representatives), ln. 620-625.
[13] Order at 5-8.

FirstEnergy to retain the revenue associated with bidding its existing interruptible load into the PJM markets. Additionally, even if the existing TE ELR credit expires in May of 2024, North Star would contribute to both TE's incremental costs-of-service as well as the utility's fixed transmission and distribution costs through the expected 2029 end date of the proposed arrangement and beyond. Transmission costs alone on the 295 MW existing plus expanded operations are forecasted to be millions of dollars more than the proposed interruptible credit.

Third, the Order questions whether North Star's expanded operations will continue without the benefits of a reasonable arrangement after the expiration of the seven-year term of the proposed arrangement. Given the considerable capital investment associated with the contemplated facility expansion, the current expectation is that if North Star proceeds with the expansion, then North Star's expanded facility would continue to operate well beyond the 2029 end date of the arrangement. The owners of North Star would not invest $600 million to $700 million in the existing Ohio operations if they did not expect to operate for 20-30 years. Accordingly, for an average of $4 million for seven years, Ohio customers may get an ongoing annual GDP benefit of $169 million for decades.

VI. The Commission Should Consider An Additional Quantitative Factor In Its Analysis Of North Star's Proposed Arrangement – Whether Any Requested Delta Revenue Is Less Than 2.5 Percent Of The GDP Benefit Associated With The Contemplated Project.

North Star's requested interruptible credit of $28 million over seven years was calculated based upon PJM capacity pricing assumptions. But North Star's total requested credit can also be viewed in the context of the GDP benefit that the proposed reasonable arrangement is expected to provide to Ohio, totaling $1.183 billion over seven years. Using that GDP benefit number as a basis for determining the reasonableness of any proposed delta revenue is appropriate since GDP represents the most comprehensive measure of the new wealth that would be brought to Ohio as a result of the contemplated facility expansion, accounting for new wages and employee benefits, tax revenue, purchases from Ohio vendors, household spending, etc. Here, North Star's proposed interruptible credit is less than 2.5 percent of its expected GPD benefit to Ohio over the seven-year term of the arrangement ($29.575 million). And if the expanded facility continues to operate beyond the proposed term of the arrangement, then Ohio will reap additional GDP benefits of $169 million annually throughout its operation. The level of the requested credit is thus far outweighed by the substantial GDP benefit to Ohio associated with the contemplated facility expansion. This is a good deal for Ohio, which helps explain the broad support the project has received.

CONCLUSION

WHEREFORE, for the foregoing reasons, North Star urges the Commission to find that the proposed reasonable arrangement, as modified by the Commission's Order, is just and reasonable and to promptly act to approve the arrangement as discussed above.

Respectfully submitted,

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June 20, 2019

CERTIFICATE OF SERVICE

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 20th day of June, 2019 to the following:

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