

RPM

A LARGE INDUSTRIAL VIEW

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What is the capacity market – *for us*

- The way to guarantee that there will be enough generation available to meet the anticipated future load – ***WE WON'T HAVE TO SHUT DOWN BECAUSE OF A LACK OF POWER***
- A tool that can be used to reduce our electricity costs – ***It MAY be cheaper to curtail during emergencies than to pay for full capacity***
- REALLY COMPLICATED!!! – ***There are a lot of factors that go into the economic decision and that crystal ball gets real cloudy four years out.***

We really have a different view than supply

- We bought the insurance, but PLEASE DON'T CALL!! – Curtailments explode our fixed costs, destroy customer service, reek havoc with quality and really complicate scheduling.
- We appreciate the price break, but more calls don't mean more revenue – One short curtailment is just an inconvenience, all ten for the maximum duration could put us out of business.

The Enigma of RPM for a Large DR

- We have the fire power to make it work
 - Sparrows Point has 180 MW of load and 150 MW of BTM Generation
- We have to commit to a firm reduction 3 years out
 - We don't know what our business plan is that far out
 - We don't know what our load will be that far out
 - We don't know if it will be economic to curtail that far out
- The capacity is costed 4 years out, but valued real-time
 - It is impossible to predict the operations that will be impacted when called
 - If we control our PLC in the interim years – we have to buy capacity to replace our reductions

Long Term Planning and Short Term Control Trip Over Each Other

- PJM Forecasts my load 4 years out and determines the capacity requirement
 - My PLC and actual load in the delivery year may have nothing to do with what we know today
 - Because of the uncertainty of the Incremental Auctions, I am forced to bid into the BRA

PJM's forecast and my commitment may not reflect the actual metrics of the real-time event

Long Term Planning and Short Term Control Trip Over Each Other

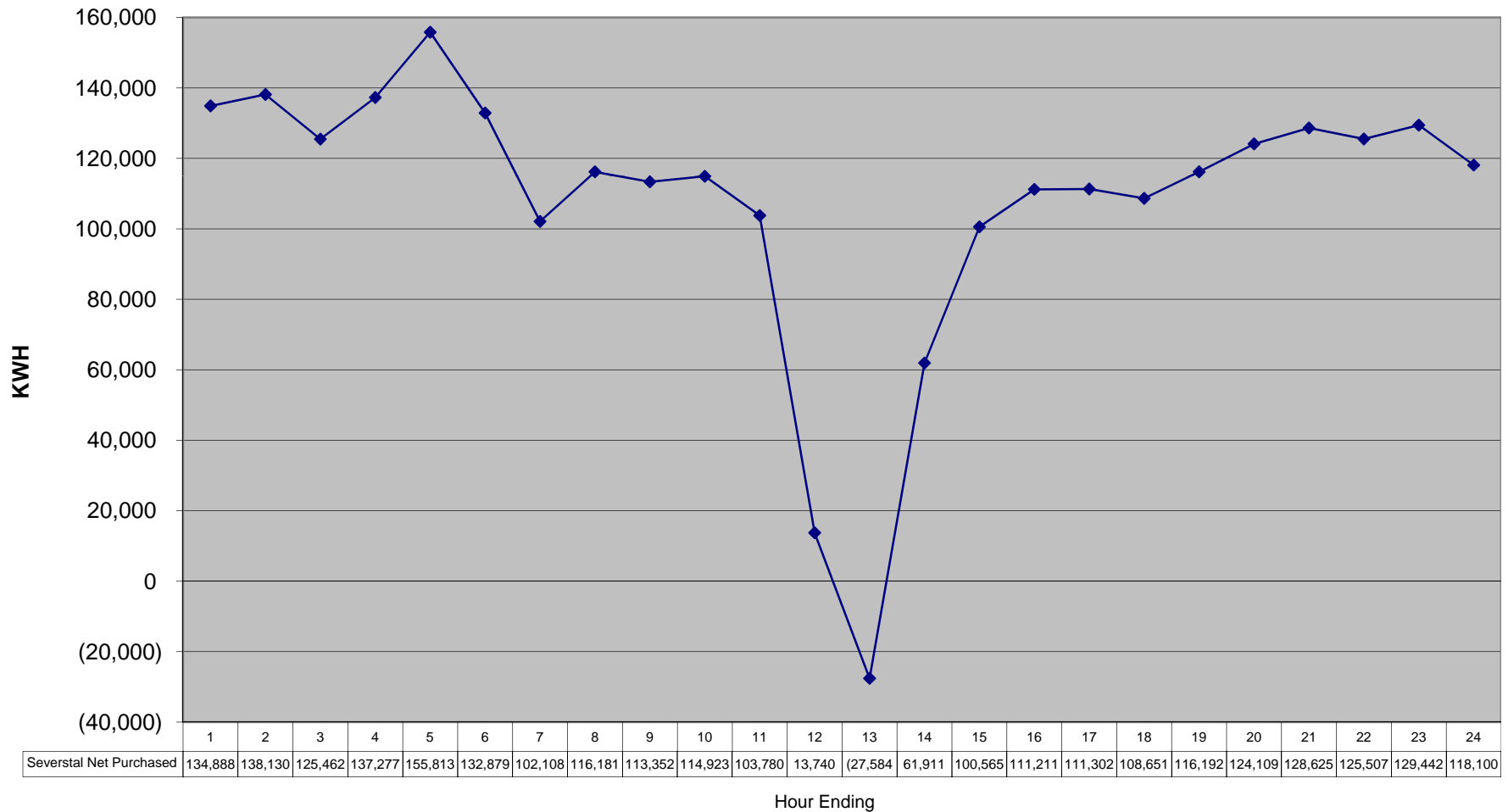
- PJM needs to know the quantity of the response when called
 - CSP's can forecast their response
 - DR can be broken into smaller "blocks"
- Neither of these are reflected in the market
 - Payment is based on a three year old commitment
 - Correcting mechanisms don't exist
- We are not as "Reliable" as we could/should be

ACTUAL EXAMPLE

- Sparrows Point Steel Mill
 - 230 MW peak load
 - 175 MW normal load
 - 150 MW BTM generation
 - 2009/2010 PLC 140 MW
 - ILR – FSL 0 MW

RESULTS OF ILR TEST

Severstal Sparrows Point Net Purchased ILR Test Data July 14, 2009



NET RESULTS

- PLC – 140 MW
- Actual reduction – 160 MW
- 27 MW better than the FSL commitment

***I am be capable of more real-time impact
on reliability – and it cannot be currently reflected
in the market***

BOTTOM LINE FOR A LARGE END USER

- We will participate – we don't have a choice. At \$150/MWD in SWMAC we cannot afford to pay maximum capacity charges and stay competitive with other mills in different areas.
- We will be very good at it – we are reliable and have better attributes than generation.
- We will keep fighting to make the system work better, and starting with one that is designed for the supply side, just makes it harder and more complicated.
- BUT, we'll do it --- **we don't have a choice**