



17 North Second Street  
12th Floor  
Harrisburg, PA 17101-1601  
717-731-1970 Main  
717-731-1985 Main Fax  
www.postschell.com

---

Andrew S. Tubbs

atubbs@postschell.com  
717-612-6057 Direct  
717-731-1985 Direct Fax  
File #: 145610

June 18, 2012

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

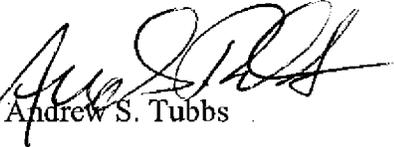
**RE: Petition of PECO Energy Company for Approval of Its Default Service Program**  
**Docket No. P-2012-2283641**

Dear Secretary Chiavetta:

Enclosed is the Main Brief of PPL EnergyPlus, LLC in the above-referenced proceeding.

Copies have been provided to the persons in the manner indicated on the Certificate of Service.

Respectfully Submitted,



Andrew S. Tubbs

AST/skr

Enclosures

cc: Certificate of Service  
Honorable Dennis J. Buckley

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing **Main Brief of PPL EnergyPlus, LLC** has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

### VIA E-MAIL & FIRST CLASS MAIL

Christy M. Appleby, Esquire  
Candis A. Tunilo, Esquire  
Office of Consumer Advocate  
555 Walnut Street  
Forum Place, 5th Floor  
Harrisburg, PA 17101-1923

Elizabeth Rose Triscari, Esquire  
Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101

Carrie B. Wright, Esquire  
Pennsylvania Public Utility Commission  
Bureau of Investigation & Enforcement  
400 North Street, 2nd Floor West  
P.O. Box 3265  
Harrisburg, PA 17105-3265

Divesh Gupta, Esquire  
Constellation Energy Group, Inc.  
100 Constellation Way, Suite 500C  
Baltimore, MD 21202  
*Constellation NewEnergy, Inc.*  
*Constellation Energy Commodities Group, Inc.*

Brian J. Knipe, Esquire  
Buchanan Ingersoll & Rooney, PC  
17 North 2nd Street, 15<sup>th</sup> Floor  
Harrisburg, PA 17101  
*FirstEnergy Solutions Corp.*

Amy M. Klodowski, Esquire  
800 Cabin Drive  
Greensburg, PA 15601  
*FirstEnergy Solutions Corp.*

Jeffrey J. Norton, Esquire  
Eckert Seamans Cherin & Mellott, LLC  
213 Market Street, 8th Floor  
Harrisburg, PA 17101  
*Green Mountain Energy Company*

Charles E. Thomas, III, Esquire  
Thomas, Long, Niesen & Kennard  
212 Locust Street, Suite 500  
PO Box 9500  
Harrisburg, PA 17108-9500  
*Nobel Americas Energy Solutions LLC*

Patrick M. Cicero, Esquire  
Harry S. Geller, Esquire  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
*Coalition for Affordable Utility Services  
And Energy Efficiency in Pennsylvania*

Tori Giesler, Esquire  
FirstEnergy Service Company  
2800 Pottsville Pike  
PO Box 16001  
Reading, PA 19612-6001  
*Metropolitan Edison Company  
Pennsylvania Electric Company  
Pennsylvania Power Company  
West Penn Power Company*

Thu B. Tran, Esquire  
Robert W. Ballenger, Esquire  
George D. Gould, Esquire  
Community Legal Services, Inc.  
1424 Chestnut Street  
Philadelphia, PA 19102-2505  
*Tenant Union Representative Network  
Action Alliance of Senior Citizens of Greater  
Philadelphia*

Daniel Clearfield, Esquire  
Edward Lanza, Esquire  
Deanne M. O'Dell, Esquire  
Eckert Seamans Cherin & Mellott, LLC  
213 Market Street, 8th Floor  
Harrisburg, PA 17101  
*Direct Energy Services, LLC  
Retail Energy Supply Association*

Charis Mincavage, Esquire  
Adeolu A. Bakare, Esquire  
McNees Wallace & Nurick  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
*PAIEUG*

Thomas McCann Mullooly, Esquire  
Trevor D. Stiles, Esquire  
Foley & Lardner  
777 E. Wisconsin Avenue, Suite 3800  
Milwaukee, WI 53202-5367  
*Exelon Generation Company, LLC*  
*Exelon Energy Company*

Todd S. Stewart, Esquire  
Hawke, McKeon & Sniscak LLP  
100 N. 10th Street  
PO Box 1778  
Harrisburg, PA 17101  
*Dominion Retail, Inc.*  
*Interstate Gas Supply, Inc.*

Scott H. DeBroff, Esquire  
Alicia R. Duke, Esquire  
Rhoads & Sinon LLP  
One South Market Square  
12th Floor  
PO Box 1146  
Harrisburg, PA 17108-1146  
*Washington Gas Energy Services*

Melanie J. Elatieh, Esquire  
Associate Counsel  
UGI Corporation  
460 North Gulph Road  
King of Prussia, PA 19406  
*UGI Energy Services, Inc.*

Stephen L. Huntoon, Esquire  
NextEra Energy Resources, LLC  
801 Pennsylvania Avenue, N.W., Suite 220  
Washington, DC 20001  
*NextEra Energy Services Pennsylvania, LLC*  
*NextEra Energy Power Marketing, LLC*

Anthony E. Gay, Esquire  
Jeanne J. Dworetzky, Esquire  
PECO Energy Company  
2301 Market Street, S23-1  
Philadelphia, PA 19103  
*PECO Energy Company*

Thomas P. Gadsden, Esquire  
Kenneth M. Kulak, Esquire  
Brooke E. Leach, Esquire  
Morgan Lewis & Bockius, LLP  
1701 Market Street  
Philadelphia, PA 19103-2921  
*PECO Energy Company*

Date: June 18, 2012

  
Andrew S. Tubbs

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PECO Energy Company for                   :  
Approval of Its Default Service Program            :   Docket No. P-2012-2283641

**MAIN BRIEF OF  
PPL ENERGYPLUS, LLC**

Andrew S. Tubbs (ID #80310)  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: [atubbs@postschell.com](mailto:atubbs@postschell.com)

Of Counsel:

Post & Schell, P.C.

Date: June 18, 2012

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## **I. INTRODUCTION AND PROCEDURAL HISTORY**

On January 13, 2012, PECO Energy Company (“PECO”) filed a Petition for Approval of its Default Service Program (“DSP Petition”). In its DSP Petition, PECO proposes to establish the terms and conditions under which PECO will procure default service supply, provide default service to non-shopping customers, and recover all costs on a full and current basis for the period from June 1, 2013 through May 31, 2015.

The Office of Consumer Advocate (“OCA”) and the Office of Small Business Advocate (“OSBA”) filed Answers to the DSP Petition. The OCA and OSBA also filed Notices to Intervene. In addition, the Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Investigations and Enforcement filed a Notice of Appearance.

On February 14, 2012, PPL EnergyPlus, LLC (“PPL EnergyPlus”) filed its Notice of Intervention. In addition, Petitions to Intervene have also been filed by Constellation NewEnergy, Inc. and Constellation Energy Commodities Group, Inc., FirstEnergy Solutions Corp. (“FES”), Retail Energy Supply Association (“RESA”), Green Mountain Energy Company (“Green Mountain”), Noble Americas Energy Solutions LLC, ChoosePAWind.com (“ChoosePAWind”), Coalition of Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company, Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia, Direct Energy Services, Philadelphia Area Industrial Energy Users Group (“PAIEUG”), Exelon Generation Company LLC and Exelon Energy Company, Dominion Retail, Inc. d/b/a Dominion Energy Solutions and Interstate Gas Supply, Inc. (“Dominion/IGS”), Washington Gas Energy Services, Inc., UGI Energy Services, NextEra Energy Services Pennsylvania, LLC and NextEra Energy Power Marketing, LLC.

An Initial Prehearing Conference was held on March 13, 2012 before the Honorable Dennis J. Buckley (the "ALJ"). The Parties agreed to a procedural schedule at the Initial Prehearing Conference, which was adopted in the ALJ's Second Prehearing Order dated March 19, 2012. Pursuant thereto, the Parties undertook formal and informal discovery and submitted testimony in support of their respective positions. Direct testimony was served by PECO, OCA, OSBA, Green Mountain, ChoosePAWind, RESA, FES, CAUSE-PA and PPL EnergyPlus. PECO also filed supplemental direct testimony. Rebuttal testimony was served by PECO, OCA, OSBA, RESA, PAIEUG, FES, Dominion, and CAUSE-PA. Surrebuttal testimony was served by PECO, FES, CAUSE-PA and PPL EnergyPlus.

An evidentiary hearing was held on May 21, 2012, at which the Parties moved their respective testimonies and exhibits into the record. Certain Parties' witnesses were cross-examined and presented rejoinder testimony. Pursuant to the Second Pre-hearing Order and Sections 5.501 and 5.502 of the Commission's regulations, 52 Pa. Code §§ 5.501, 5.205, PPL EnergyPlus herein submits this Main Brief in support of its proposal relative to Generation Deactivation charges.

### **III. RATE DESIGN AND COST RECOVERY**

#### **A. SUMMARY OF PPL ENERGYPLUS' POSITION**

PECO's second Default Service Program ("DSP II") will establish the terms and conditions of the competitive retail electric market in PECO's service territory for the period of June 1, 2013 through May 31, 2015. In order to improve the competitive market in the PECO service territory, PPL EnergyPlus proposes that PECO recover the non-market based ("NMB") costs associated with all PJM Interconnection ("PJM") Generation Deactivation charges in PECO's certificated service territory through a Non-Market Based Rider ("NMB Rider"). PJM Generation Deactivation charges are potentially significant charges that are unknown and cannot

be predicted or hedged by electric generation suppliers (“EGSs”). Therefore, PECO as the default service provider, should be responsible for recovering the costs of these charges from all customers through NMB Rider. The recovery of Generation Deactivation charges through a competitively neutral NMB Rider will benefit customers by reducing the risk and uncertainty associated with these charges for wholesale and retail suppliers. Specifically, because Generation Deactivation charges are unknown and cannot be hedged, suppliers currently forecast these costs and apply the forecasted costs to all customer classes to which they provide fixed price offers. By establishing the NMB Rider, PECO will recover these charges from all customers via a competitively neutral non-bypassable charge. This will allow wholesale suppliers and EGSs to avoid placing unnecessary charges or unnecessary premiums on customers and eliminate an area that currently results in customer confusion.

PPL EnergyPlus takes no position on the other issues identified for briefing in this proceeding. PPL EnergyPlus does reserve the right to respond on any issues raised by the other parties in their main briefs.

### **C. EDC RECOVERY OF ADDITIONAL PJM CHARGES**

#### **1. PJM GENERATION DEACTIVATION CHARGES**

##### **a. PJM Generation Deactivation Charges are Administratively Set, Transmission Related Charges That Cannot Be Predicted or Hedged**

Generators located in the PJM are required to provide at least ninety (90) days notice prior to deactivating a generation unit. PPL EnergyPlus Statement No. 1, p. 2. Upon receipt of a generator’s intent to deactivate, PJM completes a study of its transmission system to determine whether the deactivation of the generation unit could adversely affect system reliability. *Id.* If PJM determines that deactivating a unit poses a system reliability concern, PJM notifies the generation owner and provides an estimate for the period of time it will take to construct any

transmission system upgrades to resolve the identified system reliability concerns. *Id.* At this point, the generator has two options: (1) elect to proceed with deactivating the generation unit; or (2) elect to receive compensation for costs to continue to operate the unit beyond its planned deactivation date pending the completion of transmission upgrades need to maintain transmission system reliability. *Id.* If a generator elects to continue to operate the unit, pending the completion of the needed transmission upgrades, the generator is compensated for the costs associated with operating the plant. PPL EnergyPlus Statement No. 1, p. 3.

To compensate those generators that elect to defer deactivation pending completion of the required reliability upgrades, PJM collects revenues by imposing a Generation Deactivation charge on certain entities. Specifically, load serving entities within the transmission system zone that benefit from the transmission system upgrades required to resolve the system reliability concerns caused by the proposed generation unit deactivation are allocated a proportional share of Generation Deactivation charges determined by PJM. PPL EnergyPlus Statement No. 1, p. 3. PJM determines the zonal percentage cost allocator for the Generation Deactivation charges based on each lost serving entities' Network Service Peak Load contribution. *Id.*

It is clear that PJM Generation Deactivation charges are not market-based but instead are administratively set transmission-related charges to address transmission system reliability problems caused by generation unit deactivation. These charges are unknown and cannot be predicted. Indeed, the potential for significant Generation Deactivation charges is a real concern for market participants in Pennsylvania. Currently PJM is analyzing the potential reliability impact at least 8,000 MW of announced deactivations. PPL EnergyPlus Statement No. 1, p. 4. In addition, the rapid development of abundant and inexpensive domestic natural gas resources, such as Marcellus Shale natural gas, has resulted in the market price of natural gas reaching

record lows. It is anticipated that the development of the natural gas market, together with pending environmental regulations, will accelerate the retirement of older, inefficient generating units. *Id.*

Despite the real potential for significant PJM Generation Deactivation charges in the future, these charges are not market risks that can be predicted or hedged by wholesale and retail suppliers. PPL EnergyPlus Statement No. 1, p. 4. Indeed, it is only when the Generation Deactivation charges appear on the wholesale supplier's and EGS's monthly PJM settlement statement that the suppliers become aware of the magnitude of the charges. PPL EnergyPlus Statement No. 1, p. 6. Although wholesale and retail suppliers are accustomed to and are in the best position to assess and handle true market risks, such as commodity price risks. Generation Deactivation charges cannot be predicted as wholesale and retail suppliers have no way to determine the number of generators that will elect to be compensated and to defer deactivating their generation unit. Therefore, wholesale and retail suppliers are unable to predict the potential magnitude of Generation Deactivation charges in the future and, consequently, are unable to hedge these charges. PPL EnergyPlus Statement No. 1, p. 4.

The uncertainty associated with the potential magnitude of PJM's Generation Deactivation charges directly impacts Pennsylvania's retail electric market. As explained by PPL EnergyPlus witness Alessandrini, to address the uncertainty associated with these charges, wholesale suppliers must include a risk factor or premium in their bids. PPL EnergyPlus Statement No. 1, p. 5. Similarly, EGSs, depending on the terms of their contract offers, may need to include premiums in their competitive offers to retail customers. *Id.*

For these reasons, PPL EnergyPlus proposes that the responsibility for the recovery of PJM Generation Deactivation Charges be assigned to PECO through the NMB Rider.

**2. THE NMB RIDER IS AN APPROPRIATE MECHANISM FOR PECO TO RECOVER PJM GENERATION DEACTIVATION CHARGES FROM ALL CUSTOMERS**

As discussed above, PJM Generation Deactivation charges are non market-based charges and are allocated and assessed through a PJM administrative process intended to preserve transmission system reliability. These charges are unknown costs and cannot be predicted or hedged by wholesale or retail suppliers. Because these potentially substantial charges are so uncertain and cannot be hedged, PJM Generation Deactivation charges can significantly increase the risks to wholesale and retail suppliers. This, in turn, results in higher and less transparent prices for consumers via adding of a risk factor or premium to competitive bids or offers. PPL EnergyPlus Statement No. 1, p. 6. The approval of the proposed NMB Rider for PECO to recover PJM Deactivation charges will address these problems and improve the competitive market in PECO's Service territory.

PPL EnergyPlus proposes that PECO recover all costs associated with PJM Generation Deactivation charges in its certificated service territory through the NMB Rider. PPL EnergyPlus Statement No. 1, p. 4. It is appropriate for PECO to recover the costs associated with transmission system upgrades that will benefit PECO's service territory. *Id.* Further, as explained above, PJM Generation Deactivation charges are unknown costs and cannot be predicated or hedged by wholesale or retail electric suppliers. Currently EGSs forecast these costs and apply such forecasted costs to all customer classes to which they provide fixed price offers. PPL EnergyPlus Statement No. 1-SR, p. 2. Instead of having customers incur forecasted costs that may not actually occur, by assigning the recovery of these charges to PECO, EGSs will no longer be required to place unnecessary charges or unnecessary premiums on customers. *Id.* In addition, for customers where the Generation Deactivation charges are recovered by EGSs as a pass through, the process results in confusion amongst customers when their supply price

changes and frustration with their EGS – for a charge that is not within the control of the EGS and is not a supply charge but a charge for system reliability. PPL EnergyPlus Statement No. 1-SR, p. 3.

Therefore, if Generation Deactivation charges are shifted from suppliers to PECO through an NMB Rider, it will reduce market risks, reduce market prices, make these costs more transparent to consumers and mitigate the potential for customer confusion. In short, competitive markets and all stakeholders would benefit by having PECO recover all the Generation Deactivation charges in its service territory.

**3. REQUIRING PECO TO RECOVER ALL GENERATION DEACTIVATION CHARGES WILL BENEFIT THE COMPETITIVE MARKET**

Although assigning PECO the responsibility to recover all Generation Deactivation charges will improve the competitive retail electric market in PECO's service territory, certain parties raised concerns with the proposal to collect these charges via the NMB Rider. Specifically, OSBA witness Kalcic agrees that "reducing the risk premiums that suppliers require due to uncertainty over the level of non-market based charges is a reasonable goal." OSBA Statement No. 2 at 4. However, Mr. Kalcic recommended a delay in implementing the NMB Rider, "[u]nless the level of Generation Deactivation charges collected within PECO's transmission zone is de minimus." *Id.* at 5. In addition, PAIEUG's witness Haines opposes the NMB Rider because the proposal departs from the existing process and due to the potential impacts of the NMB Rider on those customers that are currently being served by an EGS and whose contract extends into PECO's DSP II. PAIEUG Statement No. 1, pp. 4-6. PECO witness McCawley raised similar concerns to those identified by the PAIEUG witness. As addressed below, PPL EnergyPlus has successfully responded to all the concerns raised by these parties.

Consistent with OSBA witness Kalcic's recommendation, as proposed by PPL EnergyPlus, the NMB Rider would not become effective until June 1, 2013. PPL EnergyPlus Statement No. 1-SR at 5. Therefore, the potential impact on existing customer contracts is limited to those customers that have entered into agreements that extend beyond May 31, 2013. *Id.* Moreover, as explained by PPL EnergyPlus witness Alessandrini, now is an excellent time to make this pro-competitive market enhancement. PPL EnergyPlus Statement No. 1-SR, p. 7. The Generation Deactivation charges in the PECO zone were expected to end by May 2012. PPL EnergyPlus Statement No. 1-SR at 7; See LGA Exhibit 1. Therefore, after May 2012 there will be no need for EGSs to collect additional PJM Generation Deactivation charges from their retail customers. In addition, if approved in this proceeding, EGSs could immediately begin to make competitive retail offers without consideration of these charges.

The fact that some customers have entered into contracts that extend beyond PECO's DSP I, is not a reason to reject the NMB Rider for PECO's DSP II. Indeed, the fact that some sophisticated industrial and commercial customers entered into contracts extending into DSP II should not be the impediment to adopting an otherwise sound policy position on recovery of NMB charges. Moreover, there is sufficient time for the customer, their supplier and PECO to work through appropriate revisions to their agreements before June 1, 2013. For those customers that do have contracts that straddle DSP I and DSP II, the manner to address the transition to the NMB Rider is either presently addressed in existing contracts or can be addressed between the EGS and customer prior to June 1, 2013.

To the extent that a customer's existing contract with an EGS provides for a pass-through of transmission charges, beginning on June 1, 2013 the customer's EGS would simply cease charging the customer for PJM Generation Deactivation charges. As explained by PPL

EnergyPlus witness Alessandrini, once PECO assumes responsibility for the recovery of all Generation Deactivation charges, the EGS would simply zero out this charge on the customer's bill once PECO assumes responsibility for recovery of these charges. PPL EnergyPlus Statement No. 1-SR, p. 6. Where a customer has entered into an "all-in" fixed-price contract with an EGS, the customer and the EGS could re-negotiate the terms of their agreement to address the impact of NMB Rider on the remaining term of their contract or the supplier could credit the customer's invoice with the Generation Deactivation charges. *Id.* There is ample time for these discussions to occur and for EGSs and their customers to resolve these issues. Moreover, as strong customer relations are crucial to EGSs, if the NMB Rider is approved, it is in the best interest of EGSs to closely work with PECO and their customers to ensure a smooth transition to the NMB Rider.

Contrary to the assertions of PAIEUG, EGSs cannot entirely avoid the risk of the uncertainty of unforeseeable transmission charges via a pass-through mechanism in their retail contracts. PAIEUG Statement No. 1, p. 7. PJM's Generation Deactivation charges are non-market based charges that are unknown costs and cannot be predicted or hedged by EGSs. However, these charges can come and go and increase or decrease based on proposed unit retirements and reliability needs. PPL EnergyPlus Statement No. 1-SR, pp. 7-8. The costs to customers, the potential premiums charged to all customer classes and the risks to suppliers are not necessary. As a policy matter it is more natural to have them paid by PECO and billed to customers under the proposed NMB Rider.

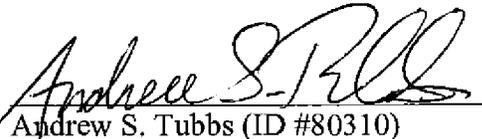
By adopting PPL EnergyPlus' proposal, large customers such as PAIEUG members can negotiate either fixed price contracts or variable price contracts with EGSs without having to worry about risk premiums, reopeners, price change provisions or variable price changes due to non-market based charges. *Id.* The proposed NMB Rider would properly assign the collection

responsibility associated with transmission and reliability based costs to PECO. By assigning this responsibility to PECO, EGSs will no longer need to place these unnecessary charges and premiums on their customers. Indeed, EGSs would be able to make offers based on their cost of supply.

**VI. CONCLUSION**

WHEREFORE, PPL EnergyPlus, LLC respectfully requests that Administrative Law Judge Dennis J. Buckely and the Pennsylvania Public Utility Commission approve PPL EnergyPlus, LLC's proposal to assign PECO Energy Company with the responsibility of recovering non-market based PJM Generation Deactivation in its certificated service territory through a Non Market-Based Rider.

Respectfully submitted,



Andrew S. Tubbs (ID #80310)  
Post & Schell, P.C.  
17 North Second Street  
12<sup>th</sup> Floor  
Harrisburg, PA 17101-1601  
Phone: 717-731-1970  
Fax: 717-731-1985  
E-mail: [atubbs@postschell.com](mailto:atubbs@postschell.com)

Jesse A. Dillon (ID #47580)  
PPL Services Corporation  
Two North Ninth Street  
Allentown, PA 18101-1179  
Phone: 610-774-5013  
Fax: 610-774-6726  
E-mail: [jadillon@pplweb.com](mailto:jadillon@pplweb.com)

Of Counsel:

Post Schell, P.C.  
Date: June 18, 2012

Attorneys for PPL EnergyPlus, LLC